STRATEGIC RESPONSES ADOPTED BY SACCOS TO THE CHANGING OPERATION ENVIRONMENT IN THE KENYAN FINANCIAL SECTOR. A CASE OF NAIROBI BASED SACCOS WITH FRONT OFFICE SERVICE ACTIVITY

BY

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MAY 2012
DECLARATION

Declaration by the Candidate
I declare that this project is my original work and has not been submitted to any other University for award of Master Degree in Business Administration.

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Signature ___________________________ Date __25/05/2012__________________

F. K. Bett
Chairman
DEDICATION

Special thanks to my spouse, Mungai and children, Antony and Millicent for understanding even when time seemed taken up by my project proposal than spending time with them.
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I wish to take this opportunity to sincerely thank the following persons who offered invaluable support during this period when I was researching for the project proposal.

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Special thanks to my Provincial Cooperative Officer Mrs. Njeru, my District Cooperative Officers Mr. Patrick Lumumba, Dolphin Aremo and Mrs. Hellen Njuguna for their support throughout my study.

Thanks also go to my loving mother Emelda, my husband Peter and children Antony and Millicent for their prayers encouragement and for giving me an opportunity to pursue my studies to this level. I give special thanks to God for good health and strength accorded to me during my study.
ABSTRACT

The alignment between strategy and environment lies at the centre of strategic management. Organizations face turbulence and stiff competition in their external environment. Hence, they need to be conscious of the changes in the environment in which they operate and respond to various factors in the environment in order to remain relevant. Businesses are facing stiff competition today and they are going to curb this by continuously scanning the environment and delivering the greatest value to customers with the view that as the operating environment changes, a more pronounced transformation of the business landscape lies ahead. The purpose of the study was to investigate the strategic response adopted by SACCOS to the changing operating environment in the Kenyan financial sector. The literature covered is on strategy, organizations and their external environment, factors influencing the strategic responses and strategic responses to dynamic environment. The study used descriptive survey. The researcher examined a sample of staff drawn from the population of 273 managers in Nairobi Based SACCOS with front office service activities. A sample of 30% from within each group was taken using stratified random sampling. This generated a sample of 82 respondents for this study. The study used both primary and secondary data. It used primary data collected using questionnaires to carry out the study. After collecting data responses from the questionnaires, the researcher analysed the quantitative data using descriptive statistics by applying the Statistical Package for Social Sciences (SPSS. 17.0) and presented through percentages, means, standard deviations and frequencies. The information was displayed by use of tables, graphs and in prose form. The study concludes that the Saccos use restructuring strategies most in responding to the changing operating environment most followed by Differentiation strategies, then diversification strategies while monitoring and evaluation strategies are the least used. The study recommends that the management should look for alternative sources of funding in order to overcome the challenges of finance related to restructuring strategy, economic recession and liquidity and solvency. The Saccos should also seek for ways of keeping overheads lower than others by use of knowledge from past experience. The Saccos should be focused in achieving the goals of growth and development that are important for the company such as survival in market, market diversification/differentiation, product development, market development, profitability and growth (gain in market share).
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### List of acronyms and abbreviations

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<thead>
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<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>CEO</td>
<td>Chief Executive Officer.</td>
</tr>
<tr>
<td>FOSA</td>
<td>Front office Service Activity</td>
</tr>
<tr>
<td>RBT</td>
<td>Resource based Theory</td>
</tr>
<tr>
<td>SACCOS</td>
<td>Savings and Credit Co-operative Society</td>
</tr>
<tr>
<td>SASRA</td>
<td>Sacco Society Regulatory Authority</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for Social Science</td>
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<td>WOCCU</td>
<td>World council of Credit Union</td>
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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

A business external environment can be considered as those factors and conditions that are beyond the direct control and influence of a business. These factors depend on the complexity and dynamism of the environment. According to Pearce and Robinson (1991), strategic responses are the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a firm's objectives. It's thus a reaction to what is happening in the organization's environment. According to Chepkwony, (2001), when businesses see their environment as turbulent, complex and competitive, they respond to align with the environment.

Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies (Pearce and Robinson, 2005). Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler, 2000). Aosa (1982) noted that industries are responding to customer's demand by becoming more innovative in their new ways of approaching the changed environment. They adopt strategies such as improved customer services, credit facility, post-paid cards and provision of convenience goods and services. Rapid technological change has created a new business environment where innovation has become a top competitive strategy. 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 come up with proper strategic responses.

1.1.1 Concept of Strategy

Strategy refers to the machinery of the resources and activities of an organization to the environment in which it operates. According to Ansoff and McDonnell (1990), it is through Strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought about by the changing environment. He further argues that this can be done by firstly, positioning of the firm through strategy and capability planning in its rightful competitiveness, and secondly, use of real time response through issue management and thirdly, Systematic management of resistance during strategic implementation.
Strategy development is a multidimensional process that involves rational analysis and intuition, experience and emotion. A strategy serves as a vehicle for achieving consistency in decision making across different departments and individuals (Kazmi 2002). For strategy to provide coordination there is need for the strategy process to act as a communication mechanism within the firm. Such a role is increasingly recognized in the strategic planning processes of companies.

1.1.2 Strategic Responses

Strategic responses are concerned with decisions and actions meant to achieve business objectives and purpose. Three areas of a company strategy are important in identifying the responses of a firm to its environmental challenges. These include objective setting, the vision and mission of the company, strategic, competitive strategy where after considerations of the firm’s competitive strengths and weaknesses vis-à-vis competition and customer needs, the company establishes a position of competitive advantage (Lowes et. al., 1994).

Pearce and Robinson (2005), says that there is need to adopt new strategies that match the challenges from the environment. Ansoff and McDonnell (1990) asserts that the management system used by a firm is a determining component of the firm’s responsiveness to environment changes because it determines the way that management perceives the environment, diagnosis their impact on the firm, decides what to do and implements the decisions.

1.1.3 Organizational Environment

The environment in which organizations operate is constantly changing with different factors influencing the organizations. Since the turn of the millennium, the general business environment has become more volatile, unpredictable and very competitive. Coping with the increasingly competitive environment has called on firms to rethink their marketing strategies (Pearce and Robinson, 2005). A firm’s competitive environment comprises of the following set of factors; threat of new entrants, suppliers, buyers, product substitutes and the intensity of rivalry among competitors that directly influences a firm and its competitive actions and responses. In total, the interactions among these five factors determine an industry’s profit potential.

Environment has been characterized as complex, dynamic, multi-facet and having far reaching impact (Kazmi 2002). As a result, of these characteristics, the environment is composed of
various factors, events, conditions and influence which interact with each other to create an entirely new set of influences leading to constant environmental change in its shape and character.

To survive in a dynamic and highly competitive business environment, different organizations have had to engage various strategies to survive. One such strategy is the corporate turnaround strategy. The starting point is identification of the root cause or causes of the crisis. Turnaround strategies are used when a business worth resuming goes into corporate crisis (Pearce and Robinson, 2005).

The alignment between strategy and environment lies at the centre of strategic management. They have to be conscious of the changes in the environment in which they operate and respond to various factors in the environment in order to remain relevant. Organizations are faced with turbulence and stiff competition in their external environment (Kotler, 2000). Correct alignment helps a firm maximize the economic benefits from resources, improve the effectiveness of operations, and boost the fulfillment of its strategic goals (Hill and Jones, 2001). These interdependencies are crucial and consequently strategic decisions should always involve some assessment of their impact on other companies, and their likely reaction. The competitive environment is affected by market structure and profitability; the intensity of competitive rivalry and the degree of differentiation; market growth; the stage in the life of the products or services in question and the frequency of new product launches; capital intensity; and economies of scale (Johnson and Scholes, 2002).

1.1.4 Savings and Credit Co-operative Societies (SACCOs)

A SACCO is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically controlled enterprise. The members have equal rights to take part democratically in the management and administration of the company of which they share the duties and the advantages proportionally with the transactions of each member regardless of their deposit amount or the number of shares they own. All active members form the general body which elects the Board of Directors who appoint its paid employees to run the cooperative. The primary cooperatives strategies include inculcation of saving habit, finding better ways and means to
establish small and micro enterprises so as to create employment and income for the members (Tummala and Burchett, 1999, pp.223-25).

The fundamental objective of a SACCO is to maximize the benefit which the members can obtain from their commercial transactions with the cooperative. They try to obtain maximum individual benefit through particular commercial transactions which they carry out. Thus SACCOs promote by mutual aid the economic and social welfare of its members by granting loans to cover their economic needs, supporting the spirit of initiative in agricultural or industrial work and careful use of the saving produced locally. It is a financial institution under the cooperative form which operates in the financial system as a legal entity in which individuals save their money and borrow loans in order to invest in various activities (WOCCU, August 2005 Online).

The basic structure of SACCOs is what differentiates them from banks in that they are user-owned financial intermediaries. Members typically have a common bond based on geographic area, employer, community, industry or other affiliation such as Mwalimu SACCO, Kenya bankers SACCO, Kenya Bus Services SACCO, Kenya Planters Cooperative Society, Kenya Creameries Cooperative, Matatu SACCO Association, Cooperative Insurance Company, Mugama Farmers Co-operative Union Ltd, KENATCO Taxis Multipurpose Cooperative Society Ltd, among others.

1.2 Statement of the Problem

With the increasing competition that companies are facing today, rewards will accrue to those who can read precisely what consumers want by continuously scanning the environment and delivering the greatest value to customers with the view that as the operating environment changes, a more pronounced transformation of the business landscape lies ahead (Ansoff, 1990). Therefore, strategy is vital to the adaptation of the changing business environment. According to the Mose (2007) implementation of structural adjustment programme and subsequent market liberalization opened the Kenyan market, leaving businesses at the mercy of market forces. As a result, businesses faced increased competition and registered low profits and even losses.
iii. To what extent do Saccos use differentiation strategies in responding to the changing external environment?

iv. What are monitoring and evaluation used by Saccos to respond to the changing external environment?

1.5 Significance of the Study

The findings of this research will contribute to provide vital information to facilitate the management of Nairobi based Saccos with FOSA in designing appropriate methods and strategies geared towards business sustainability. Thus the findings are thus expected to help them identify gaps in their strategic responses and enable them to better respond to environmental changes. The findings of the study will be beneficial to other players in the financial sector since they will be also be enlightened on how the business responds to changes in the environment.

The study will also contribute to the body of knowledge to researchers and scholars who will undertake further studies in a related field. The researcher will gain useful skill and experience that will aid in carrying out future research.

1.6 Scope of the Study

The study was conducted at the Nairobi based Saccos operating front office services. There are 219 Saccos with FOSA in Kenya. In Nairobi, we have Twenty three. The total licensed is ninety six countrywide. This is based on the assumption that the research findings in Nairobi can be related to other areas of Kenya and also due to the fact that most of the Saccos headquarters are located within the region. The information was gathered from Saccos top management team of the Saccos (CEOs). This is from the understanding that this team is the architect of all the policies that the Saccos employ.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the related literature on the subject under study presented by various researchers, scholars, analysts and authors. The specific areas covered here are strategy, organizations and their external environment, factors influencing the strategic responses and strategic responses to dynamic environment.

2.2 Co-operative Sector

The Co-operative 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 and betterment of their lives. However, women have not benefited from the Co-operative sector a portion comparable to their male counterparts (Ouma 1980).

A Co-operative may be defined as 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 risks and benefits of the undertaking. (History of Co-operative Movements according to Ouma (1980). Another definition is that a Co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations though jointly owned and democratically controlled enterprise (Llo, 1993).

An ILO recommendation 127 (1966) also defines it as an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which the members actively participate. There is such Co-operative s in Kenya, therefore this research will investigate women empowerment, the case of Marafiki SACCO.

In Kenya Co-operative movement can be traced way back since 1908 at Lumbwa. This was first established by the European farmers and formed a Co-operative production and marketing. Those organized by Africans were not founded until in the 1930's and their development was slow due to lack of support by the Colonial Government.
The colonial Government neither supported nor encouraged the formation of co-operatives by Africans. (History of the co-operative movement according to Ouma (1980). Until a report was submitted by Mr. W; K. H. Campbell (1932) to the colonial office to convince them of the efforts to encourage and support of co-operative organizations. Mr. Campbell recommended among other things the appointment of a Registrar of cooperative societies and also enactment of a new co-operative societies ordinance. The Co-operative societies (Registration) (Amendments) ordinance No. 38 of 1945 (Cap 287) was passed. Following this was the establishment and creation of the department of Co-operative Development in 1946 in Kenya. The registrar was then appointed and was given a small member of staff to help him organize and supervise co-operative societies. (History of co-operative movement according to Sylvester Ouma (1980)

2.2.1 The Nordic Project

The Nordic Project played a very crucial role in the development of Co-operatives in Kenya. It was a joint technical aid programme involving the Nordic countries namely Sweden, Denmark, Finland, Iceland and Norway. The project not only sent to Kenya the largest number of experts, but also its extensive contribution to Co-operative development in this country. It is through the assistance of the project that the Cooperative college of Kenya, which costed 15 million was built and out of this contribution Kenya just contributed one quarter only. The advisers who were specialized in different fields, including management and planning, education and training, bookkeeping and accounts, rural credit and savings, formulated and initiated schemes and programmes for better management and efficient running of Co-operative s for the benefit of the members. Such programmes included for example, the introduction of the Co-operative production credit scheme. It was a scheme that enabled farmers to obtain credit for their farm requirements and productions. Co-operative accounting system. Was another example. A new system of standardized accounting was introduced by the Nordic experts; audit was based on integration of various activities.

Since 1970 various members' transaction (MT) systems had been constructed for most crops that are MT - Coffee, MT - Diary and they had been implemented successfully almost by all Co-operatives societies throughout the country. The Co-operative production credit scheme had expanded to rural credit savings schemes. Through this, banking sectors had been opened nearly
in all district Co-operative unions. These schemes enabled members to receive payments and
deductions made through their accounts at the bank. It made possible for members to save some
of the money and leave it in the bank (Ouma, 1980)

2.2.2 Background to the formation of the Kenya union of savings and credit co-operatives
(Kuscco) Ltd

Following the introduction of Savings and Credit Societies in the 60’s, the SACCO Leaders felt
there was need to have an Association catering for the group welfare of all Societies. This led to
the formation of two Chapters at Provincial level as pilot namely the Mombasa Chapter and later
on the Nairobi Chapter. While the Mombasa Chapter was fairly successful, the Nairobi Chapter
found itself unable to fulfill its objectives due to lack of support from the Societies. To address
this, a special committee was set up in 1971 where a recommendation was made to form a
National Association to cater for all Savings and Credit Societies in the Country instead of the
Nairobi Chapter.

KUSCCO was registered to advocate for a level environment in which SACCOs can do business.
The organization’s Mission is “Empowerment of SACCOs through Advocacy and provision of
Vision is “to be the leading National Co-operative Organization for SACCOs in Kenya”.

The key objectives of Kuscco are to provide advocacy, lobby, advice and protect members
against adverse legislation and/or restrictions, to act as a the principal local and international
representative and mouth-piece of all SACCOs, to promote the organization and development of
viable SACCOs, to disseminate information concerning SACCOs and co-ordinate their operating
methods and practices and foster Education and Training of members, officials, and employees,
to promote among SACCOs and their officials, employees and members a common code of
ethics based on Co-operative principles.
The Union has five Regional offices and nine branches countrywide. These are: Nairobi Region-Nairobi, Western Region-Kisumu, Kisii, Kakamega branches, Rift Valley Region-Nakuru, Eldoret Kericho branches, Coast Region-Mombasa, Malindi branches, Mount Kenya Region-Embu, Meru, Nyeri, Thika, Athi River branches.

As a national organization, the supreme authority of the Union is vested in the delegates elected at the Provincial level. Currently there are 160 delegates drawn from the whole country.

The Union has a Board of fifteen directors within which a National Chairman and Vice-Chairman are elected by the Board. The Managing Director manages the daily affairs of the Union with the support of the Management team.

KUSCCO is affiliated to the Co-operative Alliance of Kenya (CAK), the African Confederation Credit Association (AFRACA). KUSCCO also represents Kenya at the World Council of Credit Unions (WOCCU) Group of 10 (G10) which comprises of the ten largest credit movements in the world.

In order for KUSCCO Ltd to remain financially independent and able to support the organization’s core mandate of advocacy, six business units independent of each other have been formed as outlined below.

The Central Finance Fund

This is an inter-lending facility for SACCOs affiliated to KUSCCO. Through this department, funds are mobilized within the SACCO movement and lent to SACCOs at a modest rate.

Risk Management services

This department provides covers to members and staff of its SACCOs in the event of Death, Total and Permanent Disability and Retirement on Medical Grounds. The programme covers loans to members, committee members’ risks, funeral expenses and member savings.

Education and Training Services

Through this department Sacco’s officials, staff and members are educated on governance issues, financial management, human resources, taxation, compliance, SACCO legislation among others. The department also organizes Local, Regional and International study tours for SACCO leaders to promote networking and information sharing.
Kuscco housing fund

KUSCCO Housing Fund provides an affordable mortgage facility aimed at helping SACCO members to realize their dreams of owning houses.

Consultancy and Compliance Services

This department works closely with SACCOs on all consultancy and compliance related issues. It provides well researched and informed advice through tailor made education programs. The concept of FOSA was first introduced to SACCOs in Kenya by KUSCCO and to date the product has revolutionized the SACCO movement in the country.

Corporate Affairs and Marketing Department

This department handles Corporate Communications and coordinates the marketing activities of the Union. The department publishes the SACCO Star Magazine on a quarterly basis as a medium of creating awareness and as an extension of advocacy.

2.2.3 Notable achievements by Kuscco through advocacy

SACCO Legislation; KUSCCO was instrumental in the push for a SACCO Specific Law which led to the enactment of the SACCO Societies Act, 2008. The implementation of this Act has seen the formation of the SACCO Societies Regulatory Authority (SASRA) - a body to regulate and supervise deposit taking SACCOs- and the gazettement of the SACCO Societies (Deposit-Taking SACCO Business) Regulations, 2010. The new law has created a framework for improved supervision, regulation and compliance with international prudential standards by SACCOs which has boosted investor confidence and greatly improved governance and management practices.

Agency Banking; The National Budget and the Finance Bill 2009 proposed to allow Banks under the Banking Act Cap 488 to contract SACCOs to offer banking business and financial services on their behalf that is to sell bank products and services as Bank agencies and to act as distribution channels for banks and delivery outlets for bank products and services. KUSCCO successfully lobbied for inclusion of an amendment to the Banking Act stipulating that banks

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should seek prior approval from the SACCO Societies Regulatory Authority before approaching SACCOs. The intention is to have experts from the Authority help SACCOs in interpreting the contracts so that they can fully understand their obligations, risks and benefits under the Agency Banking arrangement to help them make informed decisions.

contest the payment of trade licenses by SACCOs and succeeded in having Nairobi and Mombasa SACCOs exempted from paying these fees. This was based on the argument that SACCOs are not trade entities per se as they exist to serve their members and thus are not under obligation to pay trade license fees. KUSCCO continues to engage the Ministry of Local Government in a bid to seek exemptions for SACCOs in other parts of the country.

2.2.4 Origin of Fosas-Front Office Service Activity

Nearly in all the districts, there used to be District Co-operative Unions drawing their membership from the primary societies (Marketing and produce), which operated within their borders. These district based co-operative unions were involved, on behalf of their members, in a wide range of activities; marketing, provision of consumer items and a limited range of financial services. Beginning in the late 60’s, the financial services especially were organized around what was then popularly known as the Union Banking Sections (UBS) where members opened accounts in which was credited proceeds from the sale of their produce. By the end of the 70’s there were approximately sixties UBS’s.

Despite serving as a conduit for channeling proceeds to the members, the Union Banking Sections were not quite ideal for the volume of cash that was being handled. Due to security reasons for instance, members would withdraw all their produce proceeds in the UBSs resulting into financial stress to the UBS’s. Matters were to take a dramatic turn when certain ‘rogue’ UBS’s converted members savings into capital. This precipitated the forced transformation of the ‘rogue’ UBS’s into rural SACCOs in the ‘80’s as a means to stem the problems and cultivate the members’ confidence in the system. Afterwards, the other UBS’s deliberately transformed into SACCOs and in the attempt to consolidate the achievements, certain measures were put in place, the most important of which was the development of a Rural Banking Manual in 1991, which provided the framework for the establishing and running of the rural SACCOs. The
manual actually turned out to be an important milestone in the development of the rural banking system as it addressed most of the important issues that were of concern to the members that is security of the premises and members’ funds.

Subsequent rural SACCO’s formed post the transformation of the UBS’s as indicated above have tended to be formed along specific trades such as tea, coffee, sugar, dairy farmers and curio makers in a locality/region forming and registering their own SACCOs. Although initially formed along such specific trades, virtually all the rural SACCOs now operate like open bond associations and enjoys wide support and from a cross-section of Kenyans both from the rural and urban places. Today there are quite a consider number of rural SACCOs, some of which are very much gigantic, having over 100,000 in terms of membership.

The reasonably large number of viable and thriving rural SACCOs has led to much focused attention at the sub sectors’ activities; the role it plays in savings mobilizations, the challenges it faces and the opportunities it offers especially in the area of poverty alleviation in the rural areas. Hence the realization, that the rural SACCO fraternity occupies a unique position that could very well provide the most practical approach or vehicle for a sustainable rural development and the empowerment of the rural masses directly involved in rural economic activities e.g. agriculture.

2.2.5 The need for Front Office Services – Sacco Savings Accounts (SASA) Programme.

The main focus of any SACCO society in Kenya and hopefully, world over, is the mobilization of savings, the availability of credit and the general improvement of the living standards of its members. In pursuit of these goals, every SACCO society in their by-laws have stated clearly that their objectives among other things are: “To promote thrift among its members by affording an opportunity for accumulating their savings and, in so doing create a source of funds from which loans can be availed to them exclusively for provident and productive purposes at fair and reasonable rates in interest, thereby enabling them to use and control their money for mutual benefit.

Structural Adjustment Programme (SAP) introduced since 1981 through IMF/WB recommendations the liberalization of the economy since early 1990s have exerted a lot of pressure on most business organizations. SACCOs included. For instance, as a result of the
changes, medical and education costs have escalated over the last two decades, not to mention the cost of foodstuff, rent, transport and other basic survival needs. Majority of those adversely affected are lower and middle income earners who traditionally have been the majority of the SACCO members.

**Major Effects**

(a) **Positive**

Increased business competition as a result of opening up of markets. This to some extent increased the number of providers of goods and services particularly trade commodities e.g. imports due to relaxation and/or withdrawal of import controls. Prices have gone down e.g. 'mitumba' clothes, etc.

Consumers have a wide choice of goods and services to choose from. Scarcity of basic commodities is no longer anything to worry many consumers.

(b) **Negative**

Inflation trends have been on the increase negatively reducing the standards of living due to increased cost of living.

Unemployment as a result of companies closing down and thus declaring employees redundant. This has been caused by decline in demand for locally manufactured goods in favour of cheaper imports.

Poor medical care. The originally government funded medical services are now costly beyond the reach of most Kenyans.

Increased illiteracy levels due to the ever increasing cost of education which initially was supported by the government.

Increased poverty levels. The government poverty eradication plan is made to address this.

**Direct impact on Saccos.**

High loan demand unmatched by availability of loan funds.

Reduced member confidence as a result of poor services e.g. loans backlog.
Low dividend rates caused by a reduced profitability margins.
Loss of SACCO membership due to withdrawal and death (caused by poor Medicare). This has negatively affected the SACCOs capital base.
Delayed remittance by equally affected employers. This has adversely affected members' services.
Inadequate capital for SACCOs to expand their products and service

2.3 Theoretical Orientation

According to Porter (1997) strategy is about competition and the means by which an organization tries to gain a competitive advantage. He has described a category scheme consisting of three general types of strategies that are commonly used by businesses. The three generic strategies are as follows: strategic scope and strategic strength. Strategic scope is a demand-side dimension and looks at the size and composition of the market to be targeted. Strategic strength is a supply-side dimension and looks at the strength or core competency of the firm. In addition, he identified two competencies that he felt were most important: product differentiation and product cost (efficiency).

Johnson and Scoles (2002), view strategy as the direction and scope of an organization over the long-term which achieves advantage for the organization through its configuration of resources within a changing environment and fulfill stakeholders expectations. Boseman and Phatak (1989) argue that if a firm wants to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, of competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength.

Strategy development is a multidimensional process that must involve rational analysis and intuition, experience, and emotion. But, whether strategy formulation is formal or informal, whether strategies are deliberate or emergent, there can be little doubt as to the importance of systematic analysis as a vital input into the strategy process. Without analysis, the process of strategy formulation, particularly at the senior management level, is likely to be chaotic with no basis for comparing and evaluating alternatives. Moreover, critical decisions become susceptible
to the whims and preferences of individual managers, to contemporary fads, and to wishful thinking Henry, (1978).

2.3.1 Institutional Theory

Neo-institutional theory, which possesses strong sociological origins, bases its arguments on the notion that organizations are socially rewarded by legitimacy, resources, and survival based on their acceptance of coercive, normative, and mimetic institutional pressures (DiMaggio & Powell, 1991). This implies the transference of contextual values, ceremonies, and symbols onto the structures, strategies, and practices of an organization, thereby generating isomorphism (Zucker, 1987). Organizations are posited to passively succumb to institutional coercive and normative pressures in order to obtain the social support of stakeholders (for example, adhering to regulations designed for environmental protection or requirements demanded by professional associations).

In contexts where institutional and competitive pressures exert strong influences, the strategic decisions of managers result both in conformity to institutional pressures, which leads to isomorphism and legitimacy, and in differentiation, which, following the resource-based view of the firm, can increase the possibility of creating a competitive advantage through heterogeneity in resources and capabilities. Although both alternatives have an effect on performance and the creation and maintenance of dominant market positions, little attention has been paid to the analysis of the effects of conformity on firm performance and competitive advantage. Conformity reduces differentiation but, at the same time, reduces risks associated with the loss of legitimacy and helps in resource acquisition. The fact that both points of view – differentiation and conformity – contribute to better understanding of the process of creating competitive advantages, thus integrating strategic and institutional views, reflects an intriguing contradiction: “In markets with strong institutional and competitive pressures, both the differentiation and conformity propositions should be important” (Deep house, 1999, p. 15. Based on this contradiction, some authors, such as Stew and Epstein, 200), have demonstrated that the acceptance of institutional requirements can be perceived as a means for being competitive.
The management of change has played a key role in neo-institutional theory. Traditionally, change has been a controversial issue because the old institutionalism of Selznick did not include ideas of change and adaptation; instead, inertia and persistence were emphasized (Kraatz & Moore, 2002). Institutionalism was criticized mainly because it neglected the managerial role and assumed, therefore the passivity of organizations and determinism of the institutional context (Bada et al., 2004). In this line, Sucker (1983) expresses that “the institutional environment limits an organization, determining its internal structure, its growth and fall, and often, its survival.” DiMaggio & Powell (1991) describe institutional environments as “those which need conformity and acceptance, a fact that makes the organizations turn into ‘iron cages,’ prisoners of the institutional isomorphism,” suggesting that “the actors, making rational decisions, construct around themselves an environment that constrains their ability to change further in later years” (DiMaggio and Powell, 1991b, p. 148).

2.3.2 Resource Based Theory (RBT)

 Competence approaches to strategy making have received increasing attention in recent times for example (Hamel & Parallax, 1994) complementing rather than replacing Porter’s (1980, 1985) industry and hence market-based approaches. Yet competences, capabilities and the resources which underlie them are not new concepts. Economics research from Penrose’s (1959) pioneering theory of the growth of the firm, to evolutionary economic theory (Nelson & Winter, 1982) and the dynamic capabilities work of Tierce et al. (1997) have all focused on the importance of a firm’s tangible and intangible resources as a basis for sustainable, competitive advantage. Indeed, it is increasingly believed, in the economics and strategy literatures, that if firms are to achieve a sustainable advantage a resource and competence-sensitive strategy process or substantial ongoing good fortune (Barney, 1986) is required.

According to the RBT, firms are bundles of resources (Werner felt, 1984). Firm resources include all inputs that allow the firm to work and to implement its strategies (Olavarrieta, 1996). Firm resources can be tangible or intangible (Hall, 1992) and they may have been developed inside the firm or acquired in the market. Different classifications of resources have been offered in the literature (Grant, 1991). These are summarized in the following three categories: Input
factors: are generic resources that can be acquired in the market. Logistics-related input factors include raw factors (e.g. forklift trucks, warehouse racking, packaging materials, and inventory) and raw skills (e.g. loading skills, driving skills, picking skills, computer-operating skills). When transformed or applied, input factors become part of the firm’s assets or capabilities, contributing directly to the outputs of the firm.

Assets: are stocks of available factors that are owned or controlled by the firm (Amity & Shoemaker, 1993). Assets can only be generated through a process of accumulation, consisting of a path of “flows” or investments over time. Assets can be tangible or intangible, but have the characteristic of being “visible” resources (Bogart, 1994). Examples of assets are capital equipment, patents, brand names, articulated and codified knowledge, etc. (Schulze, 1994). Examples of logistics-related assets are warehouses, plant, fleets, railroad systems, satellite-based trucking communication technologies and EDI computerized networks. Capabilities: are complex bundles of individual skills, assets and accumulated knowledge exercised through organizational processes that enable firms to co-ordinate activities and make use of their resources (Amity & Shoemakers, 1993; Day, 1994; Schulze, 1994). Two prominent examples of logistics capabilities are Wal-Mart’s distribution system (Stalk, 1992) and Hewlett-Packard’s postponement dexterity (Feitzinger & Lee, 1997). Other examples are: the ability to work in teams; the ability to manage supplier relationships; technological abilities; new product development; service delivery; and order fulfillment.

Probably the key postulate of the RBT is that differences in resources are causally related to differences in product or service attributes and thus to competitive advantages and differences in performance (Schulze, 1994). Strategic resources are those firm-specific resources that are valuable, scarce and imperfectly imitable, that generate rents (Barney, 1991) and endow a company with competitive advantage.

Resources are considered valuable when they enable a firm to conceive of or implement strategies that improve performance, exploit market opportunities or neutralize impending threats (Barney, 1991; 1995). They provide a disproportionate contribution (relative to their cost) to customer perceived value (Day, 1994).
2.3.3 Agency Theory

Extant corporate governance research has largely relied on a single theoretical perspective – agency theory. More recently, however, scholars noted that the one-sided use of the agency perspective in corporate governance research is inappropriate for explaining or conceptualizing boards' strategy roles. Similarly, McNulty and Pettigrew (1996) argued that “little has been said by agency theorists about strategy as a means of control over managers”. More generally, board involvement in strategy has been judged a complex, multidimensional organizational phenomenon that cannot adequately be captured within a single theoretical perspective (Fiegener, 2005).

As of today, relatively little is known empirically and theoretically about the nature and ideal form, frequency, scope and effectiveness of board involvement in strategy implementation (Fiegener, 2005). In line with its control function, we suggest that the board's role in strategy implementation should be to ensure that the intended corporate strategy is in fact realized. Even though this conceptualization seems fairly obvious from an agency perspective, it is essential because it introduces an important distinction between a firm's intended and realized strategy into the debate on the board's role in strategy. Extant studies on the role of boards in strategic decision-making have largely ignored the emergent nature of strategy and its implications for board involvement (Stiles, 2001).

2.4 Organizations and their External Environment

As Ansoff and McDonnell (1990) argued, business firms are in a constant two way interaction with the environment. They receive an assortment of resources from the environment and after a transformation, deliver them back to the environment in the form of goods and services. What is released back can only be consumed by the organization if it fits the environment requirements and needs (Porter, 1997). Pearce and Robinson (2005) define an organization’s external environment as all those factors beyond the control of the firm that influence its choice of direction, action, organizational structure and internal processes. Organizations exist in a complex commercial, economic, legal, demographic, technological, political, cultural and social environment. This environment is not static but is under constant change which affects the
organizations that operates within it. These environmental changes are more complex to some organizations than others and for survival an organization must maintain a strategic fit with its environment. A sustainable competitive advantage is achieved when there is a strategic fit between the external and internal environment.

2.4.1 Environmental Economic Factors

Pearce and Robinson (2005) state that economic factors concern the nature and direction of the economy in which a firm operates. Some of the economic factors on both national and international level that managers must consider include general availability of credit, the level of disposable income, the propensity of people to spend, interest rates, inflation rates, and trends in the growth of the gross national product. A firm must therefore include these factors in its strategy formulation.

Kombo (1997) found that as a result of the ongoing economic reforms, firms in the motor industry adjusted their variables substantially so as to survive in a competitive environment. The firms in this industry introduced new technologies of product development, differentiated their products, segmented and targeted their customers more and improved customer services. They also made significant changes to marketing mix variables of promotion, price and distribution in response to competition.

2.4.2 Social Factors

The social factors that affect a firm involves the beliefs, values attitudes, opinions and lifestyles of persons in the firms external environment, as developed from cultural, ecological, demographic, religious, educational, and ethnic conditioning, Pearce and Robinson (2007). As social attitudes changes so too does the demand of various types of products (Smith, 2003). Like other forces in the external environment, social factors are dynamic with constant change resulting from efforts of individuals to satisfy their desires and needs by controlling and adapting to environmental factors. For managers, informed judgment of the impact of changes in social; cultural factors are paramount.
2.4.3 Political Factors

Pearce and Robinson (2005) reckon that the direction and stability of political factors are major consideration for managers on formulating company strategy. Political factors define the legal and regulatory parameters within which firms must operate. Political constraints are placed on firm’s fair trade decisions antitrust laws, tax programmes, minimum wage legislation, pollution and pricing policies and administrative regulations. Some are meant to protect the firm and they include patents laws, government subsidies etc.

Steel and Webster (1992) found out that small enterprises in Ghana adapted to the competitive environment as a result of Structural Adjustment Programmes (SAPs), by altering their product mixes. This enabled these firms to compete with imports.

2.4.4 Technological Factors

Kazmi (2002) observed that a technological breakthrough can have a sudden and dramatic effect on firm’s environment. It may spawn new markets and products or significantly shorten the anticipated life of a manufacturing facility. Hence for a firm to stay successful, it must strive to understand both the existing technological advances that can affect its products and services also the ability to forecast future technological advances helps alert strategic managers to both impending challenges and promising opportunities.

2.4.5 Ecological Factors

Pearce and Robinson (2005), define the ecology as the relationship among human beings and other living things and the air soil, and water that support them. Specific concerns in this area include global warming, loss of habitat, and biodiversity as well as air, water, and pollution. Firms are increasingly being called upon to pay attention to this by protecting the environment. Pearce and Robinson also observed that despite clean up efforts the job of protecting the stakeholders is entrusted on the organizations. Hence any effort to attain success through competitive advantage must be full aware of all the external environment factors and their impact on the day to day operations of the business.
2.5 Factors Influencing the Strategic Responses

Numerous factors, both internal and external to an organization affect how it responds to environmental factors affecting it including information and communication technology, culture change and organizational structure.

2.5.1 Information and Communication Technology

The computer and development in financial services are the most important aspects of information and communication technology that have transformed the business environment and process. According to Porter (1997) technological change especially information technology, is amongst the most important forces that can alter the rules of competition. The computer has enabled the automation of many processes in business organizations which has led to dramatic improvements in productivity and reduction in costs while telecommunications have dramatically improved the speed with which information is transmitted thus facilitating speedy decision making.

2.5.2 Culture Change

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

2.5.3 Organizational Structure

Stewart and Champion (2007) define organizational culture as the established pattern of relationships outlining communication control and authority patterns with regard to the number of levels in the structure of the organization often. Today and tomorrow, organization structure reflects an external focus, flexible interaction, interdependency and a bottom up approach (Pearce and Robinson 2005).
One of the strategic responses to environmental turbulence is restructuring at the heart of restructuring is the notion, that some activities, within the business value chain are more critical to the success of the business strategy than others. O’Brien (1999) argued that successful strategies could only be implemented through an organizational structure that links peoples’ abilities and skills to the mission of the enterprise.

2.6 Strategic Responses to Competitive Environment

2.6.1 Restructuring

In the 1990’s, many companies have acknowledged the critical importance of being customer oriented, customers pay attention to their services, and responsiveness of employers (Kotler, 2000). Hamael and Prahalad (1994) noted that restructuring and re-engineering – while both are legitimate and important tasks, they have more to do with sharing today’s business than with building tomorrow’s industry. According to Aarker (1989), long-term success involves creating, managing and exploiting assets and skills that competitors find difficult to match or counter. This involves identifying relevant skills and assets by observing successful and unsuccessful firms, key customer motivations, large value added items, and mobility barriers, selecting those skills and assets that will provide an advantage over competitors, will be relevant and appropriate for the future, and will be feasible, sustainable and appropriate for the future, and develop and maintain those of competitors. He further observed that there are three basic ways to compete, namely, on the basis of delivery, quality and price.

According to Hill and Jones (2001), argue that focus strategy concentrates on serving particular market niche, which can be defined geographically, type of customer or by segment of the product line. It differs from the first two because it is directed towards serving the needs of a limited customer group or a segment. According to Johnson and Scholes (2002) “Business unit strategy is about how to compete successfully in particular markets”.

According to Johnson and Scholes (2002), operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people. Companies adopt strategies directed at improving, the
effectiveness of basic operations within the company, such as production, marketing, materials management, research and development, and human resources.

According to Johnson and Scholes (2002), operational strategies are concerned with how parts of an organization deliver effectively the corporate and business level strategies in terms of resources, process and people. Even though strategies may be focused on a given function, as often as not they embrace two or more functions and require close co-operation among functions to attain companywide efficiency, quality innovation, and customer responsiveness goals.

The company's corporate strategy should help in the process of establishing a distinctive competence and competitive advantage at the business level. There is a very important link between corporate-level and business level. According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of owners or major stakeholders and add value to different parts of the enterprise.

2.6.2 Diversification Strategies

Diversification strategy is the process of entering new business markets with new products. Such efforts may be undertaken either through acquisitions or through extension of the company's existing capabilities and resources (Smith, 2003). Diversification is meant to be the riskiest of the four strategies to pursue for a firm. According to him, diversification is a form of growth marketing strategy for a company. It seeks to increase profitability through greater sales volume obtained from new products and new markets. Diversification can occur either at the business unit or at the corporate level. At the business unit level, it is most likely to expand into a new segment of an industry in which the business is already in. At the corporate level, it is generally entering a promising business outside of the scope of the existing business unit (Ansoff 1998). According to Johnson and Scholes (2002), corporate level responses is the first level of strategy at the top of the organization, which is concerned with the overall purpose and scope of the organization to meet the expectations of owners or major stakeholders and add value to different parts of the enterprise.
Diversification makes sense when good opportunities can be found outside the present business. Kotler (2000) states that a good opportunity is one in which the industry is highly attractive and the company has the mix of business strengths to be successful, Fred (1997) observed. Three types of diversification are possible. The company could seek new products that have technological and/or marketing synergies with existing product lines even though the new products themselves may appeal to a different group of customers. Further, the company might search for new product that could appeal to its current customers even though the new products are technologically correlated to its current product line (horizontal diversification). Finally, the company might seek new businesses that have no relationships to the company’s current technology, products or markets (Conglomerate diversification) Strategic responses to a changing competitive environment therefore entail substantial changes to organization long term behaviour. This adaptation may be gradual or revolutionary depending on the nature and circumstances facing the organization.

In case of concentric diversification strategy, the technology used in the industry remains the same, while the marketing plan changes to a significant extent. This strategy requires technological similarities between the two business ventures (Ramirez 1995). Technical knowledge turns out to be an advantage when it comes of concentric diversification strategy.

This means that there is a technological similarity between the industries, which means that the firm is able to leverage its technical know-how to gain some advantage. For example, a company that manufactures industrial adhesives might decide to diversify into adhesives to be sold via retailers. The technology would be the same but the marketing effort would need to change. It also seems to increase its market share to launch a new product which helps the particular company to earn profit.

On the other hand, according to Lins and Servaes (2002), horizontal integration occurs when a firm enters a new business (either related or unrelated) at the same stage of production as its current operations. The company adds new products or services that are technologically or commercially unrelated (but not always) to current products, but which may appeal to current customers. In a competitive environment, this form of diversification is desirable if the present
customers are loyal to the current products and if the new products have a good quality and are well promoted and priced (Lins and Servaes, 2002). Moreover, the new products are marketed to the same economic environment as the existing products, which may lead to rigidity and instability. In other words, this strategy tends to increase the firm's dependence on certain market segments.

The resource-based view of the firm (RBV) views the ability of a firm to extend the scope of its products or services enabling it to enter new markets as being dependent on its possession of superior resources (Miller, 2004). According to RBV, a firm's possession of valuable, rare, inimitable, and difficult-to-imitate resources such as competencies or know-how is the fundamental determinant of a firm's ability to pursue economies of scope (Barney, 1986; Penrose, 1959; Rumelt, 1984; Wernerfelt, 1984). As Hoskisson and Hitt (1990) indicate, although firms have primarily diversified through mergers and acquisitions, firms may also increase the scope of their product offerings through internal development. However, unlike diversification through mergers and acquisitions, firms diversifying through internal development will be primarily doing so in highly related product markets. Hoskisson and Hitt (1990) contend that deployment of surplus resources is one of the prime motives of diversification. They distinguish tangible resources—such as financial, plant, and equipment from intangible resources—such as skills and know-how. They argue that whereas tangible resources are relatively inflexible, intangible resources are potentially more flexible for diversification through internal development.

2.6.3 Differentiation Strategy

Differentiation strategy is one of porter's key business strategies. When using this strategy, a company focuses its efforts on providing a unique product or service. Since the product is unique, this strategy provides high customer loyalty (Porter, 1998).

Pearce and Robinson (2007) contend that strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute. Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows the organization to capture the market share.
Differentiation strategy is an approach under which a firm aims to develop and market unique products for different customer segments. Differentiation strategy is one of Porter's key business strategies. When using this strategy, a company focuses its efforts on providing a unique product or service. Since the product is unique, this strategy provides high customer loyalty (Porter, 1998). Pearce and Robinson (2005) contend that strategies dependent on differentiation are designed to appeal to customers with a special sensitivity for a particular product attribute. Product differentiation fulfills a customer need and involves tailoring the product or service to the customer. This allows the organization to capture the market share.

Differentiation strategy aims to build up competitive advantage by offering unique products which are characterized by valuable features, such as quality, innovation, and customer service. Differentiation can be based on the product itself, the delivery system, and a broad range of other factors. With these differentiation features, firms provide additional values to customers which will reward them with a premium price.

2.6.4 Monitoring and Evaluation

Monitoring is the systematic collection and analysis of information as a project progresses. It is aimed at improving the efficiency and effectiveness of a project or organization. It is based on targets set and activities planned during the planning phases of work (Chepkwony, 2001). It helps to keep the work on track, and can let management know when things are going wrong. If done properly, it is an invaluable tool for good management, and it provides a useful base for evaluation. It enables the company to determine whether the resources the company has available are sufficient and are being well used, whether the capacity you have is sufficient and appropriate, and whether the company has are doing what the management planned to do (Kazmi 2002).

Evaluation is the comparison of actual project impacts against the agreed strategic plans. It looks at what the company set out to do, at what the company have accomplished, and how it accomplished it (Pearce and Robinson, 2005). It can be formative (taking place during the life of a project or organization, with the intention of improving the strategy or way of functioning of
the project or organization). It can also be summative (drawing learning from a completed project or an organization that is no longer functioning).

Through monitoring and evaluation, the company can: Review progress; Identify problems in planning and/or implementation; Make adjustments so that it is more likely to “make a difference” (Kotler, 2000). Monitoring and evaluation (M&E) of development activities provides government officials, development managers, and civil society with better means for learning from past experience, improving service delivery, planning and allocating resources, and demonstrating results as part of accountability to key stakeholders.

Monitoring and evaluation should be part of the company planning process. It is very difficult to go back and set up monitoring and evaluation systems once things have begun to happen. The company needs to begin gathering information about performance and in relation to targets from the word go (Hill and Jones, 2001). The first information gathering should, in fact, take place when the company does its needs assessment. This will give the management the information it need against which to assess improvements over time.

SACCOs with FOSA are operating under prudential requirements hinged on capital adequacy and the protection of members’ savings. The Sacco Societies Regulatory Authority(SASRA) require Saccos to hold a minimum core capital of not less than ten(10) per cent of total assets and a minimum institutional capital of not less than eight(8) per cent of total assets. It is on this basis that SACCOs have moved to align themselves with the Sacco Societies Act (2008) and the Sacco Societies (Deposit-Taking Sacco Business) Regulations (2010).

SACCO Act (2008) and Regulations (2010) prescribe written policies such as credit policy, saving policy, business plan, Investment policy, Disaster preparedness plan, and Information preservation policy.

**Prudential standards**

Among the quality products and services that KUSCCO has put in place to help the SACCOs, in their endeavor to enhance the service delivery for the members, in the PEARLS – MS.
Historical background

The end of cold war marked the beginning of dominance of world affairs by a single global super power, the U.S.A. The USA thus dominated both sovereign states and multilateral world institutions like IMF, World Bank, UN etc. The domination was political, ideological, Social and Economic.

In political front, they instated on democratic governance, while in ideology, they advocated for freedom and liberty. In economic front, they advocated market driven economy and capitalism. This sort of conditionality came to be loosely referred to as the Structural Adjustment Programme (SAPS). It is important to note that the SAPS had existed from as early as 1950s but they only became intense after the end of the cold war. The impact of the SAPS had many governments and policy bodies to come up with action plans to mitigate the effects of SAPS.

In the co-operative sector, the world council of credit union, together with other local and international stake holders came up with standard of prudential management which was meant to mitigate the effects of the SAPS in the movement.

Some key highlights of the standard are as follows:-

Protection

The standard attempts to put in place systems which would supplement the traditional methods of loans protection i.e. guarantorship method. In essence, the system seeks to safeguard the books of account against effects of inflated loan portfolio by proposing a proper handling of non-performing loans.

Effective Financial Structure

This standard puts strong emphasis on the need for the SACCO to generate enough revenue to finance its operations and give an attractive return to savers. The standard also seeks a cautious approach to the philosophical approach to SACCO management.
Asset Quality

In order to identify and evaluate the relevance of the overall Asset Portfolio, the contents are examined separately. Standards have been set that are in conformity with other international standard. Emphasis is placed on earning assets while non-earning assets are kept to a minimum.

Rate of Return

The various investments are examined separately to check their overall contribution to the SACCO. This helps to strengthen the weak areas.

Liquidity

This standard recognizes the importance of liquidity and consequence of improper management of liquidity risk. It sets guidelines that would be used by the SACCO to ensure that at any one time, there is enough liquid assets to meet the current liabilities of the SACCO.

Signs of growth

Key growth parameters are examined and the necessary structures put in place to support growth in a rapid growth scenario. The standard seeks to give a new approach to the traditional belief that growth is always desirable.

The role of KUSCCO

KUSCCO in collaboration with the Ministry of Cooperative Department & Marketing has positioned herself to effectively implement this concept in the SACCO movement. The modalities to be used in the implementation could be as follows:

1. To make a preliminary examination of the audited accounts for the last three years with a view to determine the general trend of performance of some key indicators. At this stage also, we will attempt to adopt some PEARLS – MS accounting nomenclature from the SACCOs accounts.

2. Recompiling both the balance sheet and the income and expenditure accounts into the PEARLS-MS format.
3. Installing the latest version of PEARLS-MS Software into your computer systems.

4. Feeding the Balance sheet and income and expenditure account figures into the PEARLS Software.

5. Generating the PEARLS ratios.

6. Training key staff on the implementation of the procedures from 1 – 5.

7. Advising the committee on the implication of the results generated in (5) above.

8. Continuously monitoring and evaluating the performance of the SACCO.

The cost of implementation would vary depending on among other things the size of the SACCO, the diversity etc. KUSCCO may at the discretion of the management refund any cost incurred by the cooperative officers in the marketing of this very vital concept to the movement.

2.7 Conceptual Framework

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructuring strategies</td>
<td>Changing external environment</td>
</tr>
<tr>
<td>Diversification strategies</td>
<td></td>
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<tr>
<td>Differentiation strategies</td>
<td></td>
</tr>
<tr>
<td>Monitoring and Evaluation strategies</td>
<td></td>
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</tbody>
</table>

Source: Researcher (2012)
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter is a blueprint of the methodology that was used by the researcher to find answers to the research question. In this chapter the research methodology is presented in the following order, research design, data collection methods and finally the data analysis.

3.2 Research Design

The research design is a blueprint for conducting the research that specifies the procedures necessary to obtain the information needed to structure and solve the research problems (Cooper and Schindler, 2003). Research designs are also known as research strategies (Coldwell & Herbst, 2004). This study used descriptive survey. A descriptive study attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction, (Cooper and Schindler, 2006). In this case, the research problem is investigating the strategic responses adopted by Saccos in the changing external environment.

3.3 Study Population

A population is also known as a “universe” refers to all the items in the field of inquiry (Kumar, 2008). In terms more direct to this research, a population can be defined as the entire group of individuals having a common characteristic (Mugenda & Mugenda, 2003). The target population also refers to the population to which the researcher makes inferences to; this population should theoretically be countable, observable and exist within a specific time frame. The units of the target population must also be specified (Groves, Fowler, Couper, Lepkowski, Singer, & Tourangeau, 2009). Target population in statistics is the specific population about which information is desired. The target population of this study was the management staff working at the 23 Nairobi based Saccos with FOSA. The study focused on the section and particularly on staff who are directly dealing with the day to day strategic management since they are the ones conversant with the adoption of strategic responses by Saccos with FOSA to the changing external environment. So the researcher examined a sample of staff drawn from the population of
273 management staff working in Nairobi based Saccos with FOSA. The population characteristic was as summarized in table 3.1 below.

**Table 3.1: Target Population**

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>23</td>
<td>8.4</td>
</tr>
<tr>
<td>Middle level management</td>
<td>61</td>
<td>22.3</td>
</tr>
<tr>
<td>Low level management</td>
<td>189</td>
<td>69.2</td>
</tr>
<tr>
<td>Total</td>
<td>273</td>
<td>100.0</td>
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</tbody>
</table>

### 3.4 Sample Design and Procedure

Mugenda & Mugenda (2003) defines sampling as the process of selecting a number of individuals for a study in such a way that the individual selected is representative of the larger group from which they are selected. It is the process of selecting a sufficient number of elements from the population, so that the study of the sample and an understanding of its properties or characteristics would make it possible for one to generalize such properties or characteristics to the population elements.

From the above population of two hundred and seventy three management staff working at Nairobi based Saccos with FOSA, a sample of 30% from within each group was taken using stratified random sampling which will give each item in the population an equal probability chance of being selected. According to Chandran (2004), stratified proportionate random sampling technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratification aims to reduce standard error by providing some control over variance. This generated a sample of 82 respondents for this study. Stratified random sampling technique is used when population of interest is not homogeneous and can be subdivided into groups or strata.
to obtain a representative sample. The characteristic of the sample size is given in table 3.2 below.

Table 3.2: Sample Size

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Sample Ratio</th>
<th>Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top management</td>
<td>23</td>
<td>0.3</td>
<td>7</td>
</tr>
<tr>
<td>Middle level management</td>
<td>61</td>
<td>0.3</td>
<td>18</td>
</tr>
<tr>
<td>Low level management</td>
<td>189</td>
<td>0.3</td>
<td>57</td>
</tr>
<tr>
<td>Total</td>
<td>273</td>
<td>0.3</td>
<td>82</td>
</tr>
</tbody>
</table>

3.5 Data Collection

The study used both primary and secondary data. The study used primary data collected using questionnaires to carry out the study. The questionnaires included structured questions. Questionnaires are a series of written questions on a topic about which the respondents’ opinions are sought (Mugenda & Mugenda, 2003). The questionnaire was structured to include both closed, open-ended and matrix questions to allow variety. The structured questions are normally close ended with alternatives from which the respondent is expected to choose the most appropriate answer (Mugenda & Mugenda, 2003). The main advantage of this type of questions is that they are easy to analyse and require a lower investment in terms of time and money. Unstructured questions are open-ended and present the respondent with the opportunity to provide their own answers. These types of questions are easy to formulate and allow the respondent to present their feelings on the subject matter enabling a greater depth of response (Mugenda & Mugenda, 2003).

Matrix questions were also utilized. This type of questions presented the respondent with a range of questions against which they are expected to respond based on a predetermined rating scale.
The most commonly used is the Likert scale. These types of scales are used to measure perceptions, attitudes, values and behaviour (Cooper & Schindler, 2007). These types of questions are popular with the respondents and researchers as they are easy to fill in, economical and provide easy comparability. The instruments were administered through drop and pick method to respondents who were top, middle and low level managers in the Saccos. The study collected secondary data from the published reports which include periodicals, journals and internet.

3.6. Pretesting the Questionnaires

According to Cooper & Schindler (2007), pretesting questionnaires helps the researcher find ways to increase participants interest; helps in discovering question content, wording and sequencing problems before the actual study and also helps in exploring ways of improving overall quality of study.

According to Somekh, and Cathy (2005) validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which is employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Mugenda and Mugenda (1999) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field. To establish the validity of the research instrument the researcher sought opinions of experts in the field of study especially the lecturers in the department of management science. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity.

According to Walliman, Nicholas (2001), reliability refers to the consistency of measurement and is frequently assessed using the test–retest reliability method. Reliability was increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. The researcher selected a pilot group of 15 individuals from the target population to test the reliability of the research instrument. The pilot data was not included in the actual study.
3.7 Data Analysis and Reporting

According to Kombo and Tromp (2006, p.11) data analysis refers to “examining what has been collected in a survey or experiment and making deductions and inferences. It involves uncovering underlying structures, extracting important variables, detecting any anomalies and testing underlying assumptions.” Data processing and analysis included data preparation, editing, coding, classification and analysis. This involved a sequence of operations to check and code forms, transfer the tabulation on computer files, check for errors and make an exploratory analysis (mutai, 2001). Data preparation involved editing of and validation of the data collected. This is aimed at identifying incorrect entries; entries entered in the wrong places and missing entries. Data coding facilitated proper data categorization. Emory (1985, p.319) posits “data categorizations should ensure appropriateness, exhaustiveness, mutual exclusivity and have a single dimension or the use of one concept”. The returned questionnaires were checked for consistency, cleaned, and the useful ones coded and analysed using the Statistical Package for Social Scientists (SPSS) computer software.

After collecting data responses from the questionnaire, the researcher analysed the quantitative data using descriptive statistics by applying the statistical Package for Social Science (SPSS V.17.0) and presented through percentages, means, standard deviations and frequencies. The use of structured questionnaires enabled the researcher to quantify quantitative data using the size, frequency distribution, and association of variables in the study population and answers to questions that could be counted and expressed numerically. The qualitative data was coded thematically and then analyzed statistically. Content analysis was used for data that is qualitative nature or aspect of the data collected from the open ended questions and the focus group discussions. The information was displayed by use of tables, graphs and in prose-form.

In addition, a multivariate regression model was applied. Multiple regressions is a flexible method of data analysis that may be appropriate whenever quantitative variables (the dependent) is to be examined in relationship to any other factors (expressed as independent or predictor variable). Relationships may be non-linear, independent variables may be quantitative or qualitative and one can examine the effects of a single variable or multiple variables with or without the effects of other variables taken into account, (Coben, Cohen, West and Aiken, 2003).
CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter presents a detailed analysis of the data collected and the research findings there-to on the strategic responses adopted by Saccos to the changing operating environment in the Kenyan financial sector.

4.1.1 Response Rate

The study targeted a sample of 82 respondents of which 67 filled and returned their questionnaire making a 81.7% response rate. This response rate was good and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. The study also collected secondary data on the subject matter from the data at Saccos records and internet.

![Response Rate Chart]

Figure 4.1: Response Rate

4.2 Results of respondent’s characteristics
The respondents were asked to indicate their, Age, Gender, & Level of Education. The findings are discussed below.

Figure 4.2: Gender of the respondents

The findings in figure 4.2 show the gender of the respondents. From the findings, the study established that the majority of respondents were male as shown by 77.4% while females were 22.6% of the respondents.
Figure 4.3: Age bracket of the respondents

On the age of the respondents, the study found that the majority of the respondents were between 45 - 50 years (41.9%), 25.8% were aged between 41 - 44 years, 16.1% were aged 35 - 40 years, 9.7% were aged over- 51 years while 6.5% of the respondents were aged between 31 - 34 years. This shows that majority of the management staff are middle aged.

Figure 4.4: Highest education level of the Respondents
The study also sought to establish the respondents' highest level of education. According to the findings, the majority of respondents had a postgraduate degree as shown by 58.1% of the respondents, 35.5% had a Bachelors' degree as their highest level of education while 6.5% of the respondents had a diploma/certificate. This implies that majority of the respondents had at least a first degree and could give relevant information on the subject matter.

4.3 Restructuring Strategic Responses

![Image of a pie chart showing the adoption of restructuring strategies.](image)

**Figure 4.5: Whether the Sacco adopt restructuring strategies**

On whether the Saccos adopt restructuring strategies, 65.7% of the respondents said that the Saccos adopt restructuring strategies while 34.3% of the respondents differed with this.

![Image of a pie chart showing the extent of using restructuring strategic responses.](image)

**Figure 4.6: Extent that the Sacco use restructuring strategic responses in the changing external environment**
The respondents were requested to indicate the extent that the Sacco use restructuring strategic responses in the changing external environment. From the findings, majority of the respondents (41.3%) indicated that Sacco use restructuring strategic responses in the changing external environment to a great extent, 26.1% said to a moderate extent, 21.7% said to a very great extent while 10.9% of the respondents said that Sacco use restructuring strategic responses in the changing external environment to a little extent.

Table 4.3: Extent that restructuring strategies involve various factors in responding to the changing external environment

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication</td>
<td>2.11</td>
<td>.88</td>
</tr>
<tr>
<td>Control patterns</td>
<td>2.39</td>
<td>1.11</td>
</tr>
<tr>
<td>Authority patterns</td>
<td>2.50</td>
<td>1.005</td>
</tr>
<tr>
<td>Business process</td>
<td>3.11</td>
<td>1.08</td>
</tr>
</tbody>
</table>

The study sought to find out the extent that the strategic responses involve various factors in responding to the changing external environment. From the study findings, the factors used to a great extent in responding to the changing external environment were communication and control patterns shown by a mean score of 2.11 and 2.39 while authority patterns and business process are used to a moderate extent as shown by a mean score of 2.50 and 3.11 respectively.
4.4 Diversification Strategies

The study also sought whether the Sacco adopt diversification strategies. From the findings, 76.1% of the respondents said that the Sacco adopt diversification strategies while 23.9% said they don't.

**Figure 4.8: Extent that the Saccos use diversification strategies in responding to the changing external environment**
According to the data findings, majority of the respondents (43.5%) indicated that Saccos use diversification strategies in responding to the changing external environment to a great extent, 28.3% said to a moderate extent, 21.7% said to a very great extent, 4.3% said to a little extent while 2.2% of the respondents said that it uses them to no extent.

**Table 4.4: Extent that the respondents agree with statements regarding the diversification strategy as used by organizations in responding to the changing external environment**

<table>
<thead>
<tr>
<th>Diversification strategies</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The industry is highly attractive to allow for diversification</td>
<td>2.40</td>
<td>1.09</td>
</tr>
<tr>
<td>The company has introduced new products and services in the market</td>
<td>2.11</td>
<td>1.16</td>
</tr>
<tr>
<td>The organization has technological and/or marketing strategies in line with existing products</td>
<td>2.15</td>
<td>1.07</td>
</tr>
</tbody>
</table>

The respondents were also requested to indicate their extent of agreement with various statements regarding diversification strategy as used by organizations in responding to the changing external environment. According to the responses given, majority of the respondents were in agreement that the company has introduced new products and services in the market as shown by a mean score of 2.11, the organization has technological and/or marketing strategies in line with existing products shown by a mean score of 2.15 and the industry is highly attractive to allow for diversification shown by a mean score of 2.40.
On whether the Saccos adopt differentiation strategies, 80.6% of the respondents reported that Saccos adopt differentiation strategies while 19.4% differed with this.

Figure 4.9: Whether the Saccos adopt differentiation strategies

On whether the Saccos adopt differentiation strategies, 80.6% of the respondents reported that Saccos adopt differentiation strategies while 19.4% differed with this.

Figure 4.10: Extent that the Sacco apply differentiation strategies as a competitive strategy
To the question on the extent that the Saccos apply differentiation strategies as a competitive strategy, the data findings shows that 71.7% of the respondents thought that Saccos apply differentiation strategies as a competitive strategy to a great extent 17.4% said to a moderate extent, 6.5% said to a very great extent while 4.3% of the respondents said to a little extent.

Table 4.5: Rating of the level of application of various differentiation strategies in the Saccos

<table>
<thead>
<tr>
<th>Differentiation strategy</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>1.51</td>
<td>.83</td>
</tr>
<tr>
<td>Price</td>
<td>2.43</td>
<td>.88</td>
</tr>
<tr>
<td>Innovation</td>
<td>1.49</td>
<td>1.15</td>
</tr>
<tr>
<td>Market</td>
<td>1.76</td>
<td>1.03</td>
</tr>
</tbody>
</table>

The study also sought to establish the level of application of various differentiation strategies in the Saccos. From the study, majority of the respondents felt that the differentiation strategies applied in the Saccos to a great extent include product, innovation, market and price strategies as shown by a mean score of 1.49, 1.51, 1.76 and 2.43.

4.6 Monitoring and Evaluation

Figure 4.11: Whether the Sacco adopt monitoring and evaluation strategies
On whether the Sacco adopt monitoring and evaluation strategies, 58.2% of the respondents said that the Saccos adopt monitoring and evaluation strategies while 41.8% differed with this.

Figure 4.12: Extent that the Sacco use monitoring and evaluation strategic responses in the changing external environment

To the question on the extent that the Saccos use monitoring and evaluation strategic responses in the changing external environment, the findings shows that 39.1% of the respondents indicated that Saccos use monitoring and evaluation strategic responses in the changing external environment to a moderate extent, 34.8% said to a great extent, 19.6% said to a very great extent while 6.5% of the respondents said to a little extent.

Table 4.6: Extent that monitoring and evaluation strategies involve various factors in responding to the changing external environment

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of management plans</td>
<td>2.04</td>
<td>1.03</td>
</tr>
<tr>
<td>Regular tracking of implementation through planning and reporting schedules</td>
<td>2.18</td>
<td>1.02</td>
</tr>
</tbody>
</table>
On the extent that monitoring and evaluation strategies involve various factors in responding to the changing external environment, the respondents indicated that the monitoring and evaluation strategies used to a great extent in responding to the changing external environment include evaluations and reviews of projects as shown by a mean score of 1.57, review progress as shown by a mean score of 1.82, review of management plans as shown by a mean score of 2.04, make adjustments so that the management is more likely to “make a difference” as shown by a mean score of 2.08, assessing management success as shown by a mean score of 2.12, regular tracking of implementation through planning and reporting schedules as shown by a mean score of 2.18, and long-term monitoring of environmental and socioeconomic parameters as shown by a mean score of 2.34 while identifying problems in planning and/or implementation is used to a moderate extent as shown by a mean score of 3.04.

4.7 Regression Analysis

A multiple regression analysis was conducted in this study so as to test relationship between variables (independent) and changing operating environment in the Kenyan financial sector. The research used statistical package for social sciences (SPSS V 17.0) to code, enter and compute the measurements of the multiple regressions.
4.7.1 Model Summary

Table 4.7: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.8735</td>
<td>0.7630</td>
<td>0.6952</td>
<td>0.9331</td>
</tr>
</tbody>
</table>

Source: Research, 2012

The four independent variables that were studied explain only 69.5% of the implementation of changing operating environment as represented by the Adjusted $R^2$. This therefore means that other strategies not studied in this research contribute 30.5% of the responses to changing operating environment. Therefore, further research should be conducted to investigate the other strategies (30.5%) that adopted by Saccos to the changing operating environment in the Kenyan financial sector.

4.7.2 ANOVA

Table 4.8: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>11.337</td>
<td>3</td>
<td>3.415</td>
<td>4.947</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>20.271</td>
<td>64</td>
<td>1.173</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>33.423</td>
<td>67</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research, 2012

The significance value is 0.019 which is less that 0.05 thus the model is statistically significance in predicting how the various strategic responses are adopted by Saccos to the changing operating environment in the Kenyan financial sector. The $F$ critical at 5% level of significance was 2.83. Since $F$ calculated is greater than the $F$ critical (value = 4.947), this shows that the overall model was significant.
4.7.3 Coefficient of Determination

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (changing external environment) that is explained by all the independent variables (restructuring strategies, diversification strategies, differentiation strategies and monitoring and evaluation strategies).

Table 4.9: Coefficient of Determination

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.389</td>
<td>0.328</td>
</tr>
<tr>
<td>Restructuring strategies</td>
<td>0.638</td>
<td>0.193</td>
</tr>
<tr>
<td>Diversification strategies</td>
<td>0.611</td>
<td>0.179</td>
</tr>
<tr>
<td>Differentiation strategies</td>
<td>0.629</td>
<td>0.563</td>
</tr>
<tr>
<td>Monitoring and Evaluation strategies</td>
<td>0.547</td>
<td>0.252</td>
</tr>
</tbody>
</table>

Source: Research, 2012

As per the SPSS generated table above, the equation \( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \) becomes:

\[
Y = 1.389 + 0.638X_1 + 0.611X_2 + 0.629X_3 + 0.547X_4
\]

The regression equation above shows that taking all strategies into account (restructuring strategies, diversification strategies, differentiation strategies and monitoring and evaluation strategies) constant at zero, responses to the changing operating environment in the Kenyan...
financial sector will be 1.389. The findings presented also shows that taking all other independent variables at zero, a unit increase in restructuring strategies will lead to a 0.638 increase in responses to the changing operating environment; a unit increase in diversification strategies will lead to a 0.611 increase in responses to the changing operating environment; a unit increase in differentiation strategies will lead to a 0.629 increase in responses to the changing operating environment; while a unit increase in monitoring and evaluation strategies will lead to a 0.547 increase in responses to the changing operating environment. This infers that the Saccos use restructuring strategies most in responding to the changing operating environment most followed by Differentiation strategies, then diversification strategies while monitoring and evaluation strategies are the least used. At 5% level of significance and 95% level of confidence, restructuring strategies had a 0.024 level of significance; diversification strategies showed a 0.028 level of significance, differentiation strategies had a 0.015 level of significance and monitoring and evaluation strategies showed a 0.034 level of significance; hence the most significant factor is restructuring strategies.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were focused on addressing the objective of the study.

5.2 Summary of Findings

This study revealed that that the Saccos adopt restructuring strategies. It was deduced that Saccos use restructuring strategic responses in the changing external environment to a great extent. The factors used to a great extent in responding to the changing external environment were communication and control patterns while authority patterns and business process are used to a moderate extent.

The study further established that the Saccos adopt diversification strategies. It is clear that Saccos use diversification strategies in responding to the changing external environment to a great extent. The study further established that that the Saccos have introduced new products and services in the market, they have technological and/or marketing strategies in line with existing products and the industry is highly attractive to allow for diversification.

It was clear that that Saccos apply differentiation strategies as a competitive strategy to a great extent. The differentiation strategies applied in the Saccos to a great extent include product, innovation, market and price strategies.

The study found that Saccos use monitoring and evaluation strategic responses in the changing external environment to a moderate extent. The study deduced that the monitoring and evaluation strategies used to a great extent in responding to the changing external environment include evaluations and reviews of projects, review progress, review of management plans, making adjustments so that the management is more likely to “make a difference”, assessing
management success, regular tracking of implementation through planning and reporting schedules and long-term monitoring of environmental and socioeconomic parameters.

The four independent variables that were studied explain only 69.5% of the implementation of changing operating environment as represented by the Adjusted $R^2$. The findings presented also shows that taking all other independent variables at zero, a unit increase in restructuring strategies will lead to a 0.638 increase in responses to the changing operating environment; a unit increase in diversification strategies will lead to a 0.611 increase in responses to the changing operating environment; a unit increase in differentiation strategies will lead to a 0.629 increase in responses to the changing operating environment while a unit increase in monitoring and evaluation strategies will lead to a 0.547 increase in responses to the changing operating environment. This infers that the Saccos use restructuring strategies most in responding to the changing operating environment most followed by Differentiation strategies, then diversification strategies while monitoring and evaluation strategies are the least used. At 5% level of significance and 95% level of confidence, restructuring strategies had a 0.024 level of significance; diversification strategies showed a 0.028 level of significance, differentiation strategies had a 0.015 level of significance and monitoring and evaluation strategies showed a 0.034 level of significance; hence the most significant factor is restructuring strategies.

5.3 Conclusion

From the findings, the study concludes that Saccos use restructuring strategic responses in the changing external environment to a great extent. The factors used to a great extent in responding to the changing external environment were communication and control patterns.

The study further deduced that Saccos use diversification strategies in responding to the changing external environment in that they have introduced new products and services in the market, they have technological and/or marketing strategies in line with existing products and the industry is highly attractive to allow for diversification.

The study also concludes that Saccos apply differentiation strategies such as product, innovation, market and price strategies as a competitive strategy to a great extent. However, Saccos use monitoring and evaluation strategic responses in the changing external environment to a
moderate extent through evaluations and reviews of projects, review progress and review of management plans.

The study finally concludes that the Saccos use restructuring strategies most in responding to the changing operating environment most followed by Differentiation strategies, then diversification strategies while monitoring and evaluation strategies are the least used.

5.4 Recommendations

From the study findings and conclusions, the study recommends that the management should look for alternative sources of funding in order to overcome the challenges of finance related to restructuring strategy, economic recession and liquidity and solvency. The Saccos should also seek for ways of keeping overheads lower than others by use of knowledge from past experience.

The Saccos should be focused in achieving the goals of growth and development that are important for the company such as survival in market, market diversification/differentiation, product development, market development, profitability and growth (gain in market share). In order to enhance its competitiveness in the market, the company management should be vigilant in order to ensure alignment of strategy with the operating environment.

5.5 Areas of Further Research

The study recommends that further research should be done on the effect of the strategic responses to the changing external environment by Saccos on the performance. Further study should also be done on the strategic responses to the changing external environment by other financial institutions so as to allow for generalization of result since each has a different strategic approach and economic footing.
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APPENDICES

Appendix I: Introduction Letter

The Head of Human Resource Department

P.O Box

Nairobi.

Dear Sir/Madam,

RE: REQUEST TO COLLECT DATA FOR MBA RESEARCH PROJECT

I am a student at the Kenyatta University pursuing a Masters of Business Administration program. Pursuant to the pre-requisite course work, I would like to conduct a research project on strategic responses adopted by Saccos with FOSA to the changing operation environment in the Kenyan financial sector. The focus of my research will be the Nairobi based Saccos with Front Office Service Activity and will involve use of questionnaires administered to members of the management team that is Chief Executive Officer.

I kindly seek your authority to conduct the research at Nairobi based Saccos with FOSA through questionnaires and use of relevant documents. I have enclosed an introductory letter from the University. Your assistance is highly valued. Thank you in advance.

Yours faithfully,

Rosaline W Mwithiga
Appendix II: Questionnaire

1) Gender: Male [ ] Female [ ]

2) Your age bracket (Tick whichever appropriate)
   - 18 - 24 Years [ ]
   - 25 - 30 Years [ ]
   - 31 - 34 years [ ]
   - 35 - 40 years [ ]
   - 41 - 44 years [ ]
   - 45 - 50 years [ ]
   - Over- 51 years [ ]
   - 50 - 60 years [ ]

3) What is your education level? (Tick as applicable)
   - Primary [ ]
   - Secondary [ ]
   - Diploma/certificate [ ]
   - Bachelors’ degree [ ]

Restructuring Strategic Responses

4) Does your Sacco adopt restructuring strategies? Yes [ ] No [ ]

5) To what extent does the Sacco use restructuring strategic responses in the changing external environment?
   - To a very great extent [ ]
   - To a great extent [ ]
   - To a moderate extent [ ]
   - To a little extent [ ]
   - To no extent [ ]

6) To what extent do the restructuring strategies involve the following factors in responding to the changing external environment? Use a scale of 1 to 5 where 1 is to a great extent and 5 to no extent.

<table>
<thead>
<tr>
<th>Factors</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communication</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Control patterns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Authority patterns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business process</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
DIVERSIFICATION STRATEGIES

7) Does your Sacco adopt diversification strategies? Yes [ ] No [ ]

8) To what extent does the Sacco use diversification strategies in responding to the changing external environment?
   - To a very great extent [ ]
   - To a great extent [ ]
   - To a moderate extent [ ]
   - To a little extent [ ]
   - To no extent [ ]

9) To what extent do you agree with the following statements regarding the diversification strategy as used by organizations in responding to the changing external environment? Use a scale of 1 to 5 where 1 is to a very great extent and 5 is to no extent

<table>
<thead>
<tr>
<th>Diversification strategies</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>The industry is highly attractive to allow for diversification</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The company has introduced new products and services in the market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The organization has technological and/or marketing strategies in line with existing products</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other, (Specify........................................................................................................)</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

DIFFERENTIATION STRATEGIES

10) Does your Sacco adopt differentiation strategies? Yes [ ] No [ ]

11) To what extent does the Sacco apply differentiation strategies as a competitive strategy?
   - To a very great extent [ ]
   - To a great extent [ ]
   - To a moderate extent [ ]
   - To a little extent [ ]
   - To no extent [ ]
Rate the level of application of the following differentiation strategies in your company.

<table>
<thead>
<tr>
<th>Differentiation strategy</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others, (Specify...</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**MONITORING AND EVALUATION**

12) Does your Sacco adopt monitoring and evaluation strategies? Yes [ ] No [ ]

13) To what extent does the Sacco use monitoring and evaluation strategic responses in the changing external environment?

- To a very great extent [ ] To a great extent [ ]
- To a moderate extent [ ] To a little extent [ ]
- To no extent [ ]

14) To what extent do the monitoring and evaluation strategies involve the following factors in responding to the changing external environment? Use a scale of 1 to 5 where 1 is to a great extent and 5 to no extent.

<table>
<thead>
<tr>
<th>Factors</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of management plans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regular tracking of implementation through planning and reporting schedules (see sheet C5);</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term monitoring of environmental and socioeconomic parameters</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessing management success</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluations and reviews of projects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review progress</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identify problems in planning and/or implementation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Make adjustments so that the management is more likely to “make a difference”</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Appendix III: Budget Schedule

**Research Budget**

<table>
<thead>
<tr>
<th>ITEM</th>
<th>COST (KShs)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1 Proposal Development</strong></td>
<td></td>
</tr>
<tr>
<td>a) Printed 38 pages @ Kshs. 30</td>
<td>1,140.00/-</td>
</tr>
<tr>
<td>b) Reproduction 6 copies @ Kshs. 80</td>
<td>4,800.00/-</td>
</tr>
<tr>
<td>c) Binding 6 copies @ Kshs. 50</td>
<td>300.00/-</td>
</tr>
<tr>
<td>d) Traveling Expenses</td>
<td>4,000.00/-</td>
</tr>
<tr>
<td>e) Subsistence</td>
<td>4,000.00/-</td>
</tr>
<tr>
<td>f) Miscellaneous expenses</td>
<td>3,000.00/-</td>
</tr>
<tr>
<td><strong>2 Data Collection</strong></td>
<td></td>
</tr>
<tr>
<td>a) Data collection</td>
<td>3,000.00/-</td>
</tr>
<tr>
<td>b) Books and reading material</td>
<td>5,000.00/-</td>
</tr>
<tr>
<td>c) Data analysis and computer runtime</td>
<td>5,000.00/-</td>
</tr>
<tr>
<td>d) Printing 70 pages @ Kshs. 30</td>
<td>2,100.00/-</td>
</tr>
<tr>
<td>e) Reproduction 6 copies @ Kshs. 40</td>
<td>8,400.00/-</td>
</tr>
<tr>
<td>f) Binding 5 copies @ Kshs. 1,000/-</td>
<td>5,000.00/-</td>
</tr>
<tr>
<td><strong>3 Others</strong></td>
<td></td>
</tr>
<tr>
<td>a) Miscellaneous expenses</td>
<td>4,000.00/-</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td>49,800.00/-</td>
</tr>
</tbody>
</table>
Appendix IV: Time Plan

Time Frame:

Start – Finish Duration

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
<th>Number of weeks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Data collection</td>
<td>1 2 3 4 5 -6</td>
</tr>
<tr>
<td>2</td>
<td>Data analysis</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Result writing</td>
<td>6 7 8 9 10 11</td>
</tr>
<tr>
<td>4</td>
<td>Report writing</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Compilation and presentation</td>
<td></td>
</tr>
</tbody>
</table>
Appendix V: Deposit-Taking Sacco Societies Licensed By the Sacco Societies Regulatory Authority

1. Stima Sacco Society Ltd
2. Baringo Teachers Sacco Society Ltd
3. Tai Sacco Society Ltd
4. U.N. Sacco Society Ltd
5. South Imenti Tea Growers Sacco Society Ltd
6. Kenya Highlands Sacco Society Ltd
7. Bandari Sacco Society Ltd
8. Gusii Mwalimu Sacco Society Ltd
9. Wakenya Pamoja Sacco Society Ltd
10. Meru South Farmers Sacco Society Ltd
11. Kilifi Teachers Sacco Society Ltd
12. Kitui Teachers Sacco Society Ltd
13. Ndege Chai Sacco Society Ltd
14. Tenhos Sacco Society Ltd
15. Nyamira Tea Farmers Sacco Society Ltd
16. Nyeri Teachers Sacco Society Ltd
17. Kakamega Teachers Sacco Society Ltd
18. Kite Sacco Society Ltd
19. Kipsigis Teachers Sacco Society Ltd
20. Mombasa Teachers Sacco Society Ltd
21. Borabu Sacco Society Ltd
22. Chai Sacco Society Ltd
23. Mombasa Port Sacco Society Ltd
24. Muramati Sacco Society Ltd
25. Bingwa Sacco Society Ltd
26. Kmfrí Sacco Society Ltd
27. Nakuru Teachers Sacco Society Ltd
28. Nacico Sacco Society Ltd
<table>
<thead>
<tr>
<th></th>
<th>Name of Sacco Society Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>Baringo Farmers Sacco Society Ltd</td>
</tr>
<tr>
<td>30</td>
<td>Nandi Hekima Sacco Society Ltd</td>
</tr>
<tr>
<td>31</td>
<td>Murang'a Teachers Society Ltd</td>
</tr>
<tr>
<td>32</td>
<td>Mwito Sacco Society Ltd</td>
</tr>
<tr>
<td>33</td>
<td>Muhigia Sacco Society Ltd</td>
</tr>
<tr>
<td>34</td>
<td>Irianyi Tea Sacco Society Ltd</td>
</tr>
<tr>
<td>35</td>
<td>Tharaka Nithi Teachers Sacco Society Ltd</td>
</tr>
<tr>
<td>36</td>
<td>Daina Sacco Society Ltd</td>
</tr>
<tr>
<td>37</td>
<td>Comoco Sacco Society Ltd</td>
</tr>
<tr>
<td>38</td>
<td>Taifa Sacco Society Ltd</td>
</tr>
<tr>
<td>39</td>
<td>Fariji Sacco Society Ltd</td>
</tr>
<tr>
<td>40</td>
<td>Diocese Of Meru Sacco Society Ltd</td>
</tr>
<tr>
<td>41</td>
<td>Wakulima Dairy Sacco Society Ltd</td>
</tr>
<tr>
<td>42</td>
<td>Universal Traders Sacco Society Ltd</td>
</tr>
<tr>
<td>43</td>
<td>Wananchi Sacco Society Ltd</td>
</tr>
<tr>
<td>44</td>
<td>Baraka Sacco Society Ltd</td>
</tr>
<tr>
<td>45</td>
<td>Mwalimu National Sacco Society Ltd</td>
</tr>
<tr>
<td>46</td>
<td>Chepsol Sacco Society Ltd</td>
</tr>
<tr>
<td>47</td>
<td>Wanandege Sacco Society Ltd</td>
</tr>
<tr>
<td>48</td>
<td>Kenya Police Staff Sacco Society Ltd</td>
</tr>
<tr>
<td>49</td>
<td>K-Unity Sacco Society Ltd</td>
</tr>
<tr>
<td>50</td>
<td>Biashara Sacco Society Ltd</td>
</tr>
<tr>
<td>51</td>
<td>Nation Staff Sacco Society Ltd</td>
</tr>
<tr>
<td>52</td>
<td>Orthodox Development Sacco Society Ltd</td>
</tr>
<tr>
<td>53</td>
<td>Kuria Teachers Sacco Society Ltd</td>
</tr>
<tr>
<td>54</td>
<td>Konoin Sacco Society Ltd</td>
</tr>
<tr>
<td>55</td>
<td>Kiambaa Dairy Rural Sacco Society Ltd</td>
</tr>
<tr>
<td>56</td>
<td>Simba Chai Sacco Society Ltd</td>
</tr>
<tr>
<td>57</td>
<td>Githunguri Dairy &amp; Community Sacco Society Ltd</td>
</tr>
<tr>
<td>58</td>
<td>Kingdom Sacco Society Ltd</td>
</tr>
</tbody>
</table>
59. Sot Tea Growers Sacco Society Ltd
60. Nyandarua Teachers Sacco Society Ltd
61. Metropolitan Teachers Sacco Society Ltd
62. Keiyo Teachers Sacco Society Ltd
63. Mumias Outgrowers Sacco Society Ltd
64. Afya Sacco Society Ltd
65. Embu Teachers Sacco Society Ltd
66. Harambee Sacco Society Ltd
67. Jamii Sacco Society Ltd
68. Wareng Teachers Sacco Society Ltd
69. Bureti Sacco Society Ltd
70. Sheria Sacco Society Ltd
71. Kenya Canners Sacco Society Ltd
72. Asili Sacco Society Ltd
73. Safaricom Sacco Society Ltd
74. Mathira Farmers Sacco Society Ltd
75. Magadi Sacco Society Ltd
76. Nithi Tea Growers Sacco Society Ltd
77. Kenpipe Sacco Society Ltd
78. Maua Methodist Hospital Sacco Ltd
79. Bungoma Teachers Sacco Society Ltd
80. Siaya Teachers Sacco Society Ltd
81. Narok Teachers Sacco Society Ltd
82. Trans-Nzoia Teachers Sacco Society Ltd
83. Chemelil Sacco Society Ltd
84. Murata Sacco Society Ltd
85. Airports Sacco Society Ltd
86. Ndosha Sacco Society Ltd
87. Siraji Sacco Society Ltd
88. Chuna Sacco Society Ltd
89. Meru Mwalimu Sacco Society Ltd
90. Ukulima Sacco Society Ltd
91. Wana-Anga Sacco Society Ltd
92. Nyambene Arimi Sacco Society Ltd
93. Naku Sacco Society Ltd
94. Waumini Sacco Society Ltd
95. Thika District Teachers Sacco Society Ltd
96. Meru North Farmers Sacco Society Ltd