

**STRATEGIC RESPONSES TO CHANGES IN THE EXTERNAL
ENVIRONMENT BY THE MATATU SUBSECTOR WITHIN
NAIROBI CENTRAL BUSINESS DISTRICT**

BY:

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DECLARATION

I declare that this is my original work and has never been presented in any other university or examination body.

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DEDICATION

I dedicate this work to my husband Frank Namara and our son Nathan Mugisha for their constant nurturing and whose undivided support gave me strength to carry on in the course of this project.

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ABBREVIATIONS/ ACRONYMS

SACCOS	Savings and Credit Co-operatives
TLB	Transport Licensing Board
SWOT	Strengths, Weaknesses, Opportunities and Threats
PESTEL	Political, Economic, Social, Technological, Ecological and Legal
CEO	Chief Executive Officer
GOK	Government of Kenya
CBD	Central Business District

ABSTRACT

The objective of this study was to determine the strategic responses adopted by Matatu operators to changes in the external environment. The study also seeks to identify the external environmental challenges faced by the Matatu operators within the Nairobi Central Business District. The study sought to find out therefore how the Matatu operators counter the threats in their external environment by means of appropriate strategic responses.

Using the descriptive survey design 57 Matatu Saccos were targeted for the study. A structured questionnaire was administered to the Sacco managers through face to face interviews. Out of the targeted Matatu Saccos 45 responded which represents a 78% response rate. The response rate was mainly affected by limited time respondents had for the face to face interviews. The questionnaire was structured in three parts. Part A was used to gather information on the Saccos profiles, Part B was to obtain data on the extent to which Matatu operators have adopted strategic responses to the dynamic environment and Part C was to obtain data on the impact of the industry environment on the Matatu operators. The data collected was analyzed for completeness and validity and the findings analyzed by using descriptive statistics.

The study found out that Matatu Saccos just like other players are affected to a varying degree by both micro and macro turbulent environment. The legal, economic and technological environments in descending order of importance were found rank highest. In determining the extent to which Matatu operators have adopted strategic responses to counter the changes in the external environment the study found out that the operators through the Saccos have formulated response strategies for the macro turbulent environment and that seeking additional transport routes, unique customer service, carrying out other business related to the transport business, providing services at lowest possible price are the four leading strategies. The other strategic responses adopted included developing organizational brand, developing services according to the needs of customers and developing different service quality levels that suit customers pockets.

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

One of the most important concepts developed and has proven to be useful to management in this diverse environment is strategy. For organizations to remain successful and competitive they come up and use different strategies depending on the type of environment they operate in, because strategy helps in the daily operations of a business or industry. The essence of strategy is to build a posture that is so strong (and potentially flexible) in selective ways that the organization can achieve its goals despite the unforeseeable ways external forces may actually interact when the time comes (Mintzberg and Quinn, 1991).

Organizations need to analyze their external environment in order to make sense of the volatile world in which they operate, such that appropriate management and business decisions can be taken (Capon, 2008). One of the ways through which this analysis is done is by considering political, economic, socio-cultural and technological factors influencing an organization. According to Kitoto (2005), all organizations lend themselves to the external environment which is highly dynamic and continually presents opportunities and challenges. Organizations being environment dependent have to constantly adopt activities and internal configurations to reflect the new external realities and failure to do this may put future success of an organization in jeopardy (Aosa, 1998).

A unique feature in Kenya's transport sector has been the rapid expansion of the Matatu, a small scale means of transport. The Matatu plays a significant role in the movement of people, goods and services in Kenya. Ogonda (1992) notes that since 1973 when Matatu's were given a presidential decree to operate, they have grown to compete and complement the public bus

transport companies in towns and rural areas in medium- and long-distance passenger transport. Matatu are the most common form of public transport in Nairobi. Matatus are privately owned minibuses the most popular form of local transport and generally seat fourteen to twenty four.

1.1.1 Strategic responses

The environment in which organization exists in is very dynamic and in order for organizations to be successful in this environment which has brought about many challenges and opportunities, it is important for organizations to come up with ways of dealing with them. One of the most important concepts developed and has proven to be useful to management in this diverse environment is strategy. For organizations to remain successful and competitive they come up and use different strategies depending on the type of environment they operate in.

Strategic response involves changes in the firm's strategic behaviors' to assure success in transforming future environment (Ansoff and MacDonnell, 1990). Pearce and Robinson (1997) saw strategic responses as a set of decisions and actions that result in formalization and implementation of plans designed to achieve a firm's objectives. Thus strategic responses are a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as a part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies for utilizing the resources of a firm to best support its long term competitive strategy.

Aosa (1998) argued that strategy is creating a fit between the external characteristics and internal conditions of an organization to solve a strategic problem. Strategic problem is a mismatch between the internal characteristics of a firm and changes in the external environment, thus there is always a need to formulate a set of actions and decisions that match these challenges.

Organizations have found themselves in a position where they not only have to address changes in the external environment but actually anticipate them. Ansoff and MacDonnell (1990), describe a market environment where no organization can hope to stay afloat if it fails to come up with proper strategic responses. The essence of strategy is to build a posture that is so strong (and potentially flexible) in selective ways that the organization can achieve its goals despite the unforeseeable ways external forces may actually interact when the time comes (Mintzberg and Quinn, 1991). To ensure survival and success firms need to be able to manage threats and exploit opportunities. This requires the formulation of strategies that constantly match capabilities to environmental requirements.

1.1.2 The External Environment

The environment is such a dominant influence that most organizations are unable to influence it; all they can do is keep costs down, learn to be as good as possible at forecasting changes in the environment and respond as rapidly as possible to such changes (Johnson and Scholes, 1997). The external environment influences business operations and every business should be managed in such a way that it has some strategic responses. Ansoff (1988) argues that business firms whose behaviors are unplanned and unguided do not survive for long except in a monopolistic and subsidizing environment.

According to Ansoff and McDonnell (1990), organizations are environment dependent and environment serving. They take an assortment of inputs from the environment, transform the inputs to finished products and services, and deliver the outputs back to the environment. Ross (1996) posits that the firm has to learn to adopt and reorient itself to the changing environment. He postulates that when a discontinuity begins to affect a firm in a turbulent environment, its

impact typically remains hidden within the normal fluctuations in performance.

1.1.3. The Public Transport Industry in Kenya

A unique feature in Kenya's transport sector has been the rapid expansion of the Matatu, a small scale means of transport. The Matatu plays a significant role in the movement of people, goods and services in Kenya. Ogonda (1992) notes that since 1973 when Matatu's were given a presidential decree to operate, they have grown to compete and complement the public bus transport companies in towns and rural areas in medium- and long-distance passenger transport. The word Matatu is derived from the Kikuyu term *mang'otore matatu* which means thirty cents, the then standard charge for every trip made (Aduwo, 1990). The Matatu means of transport provides work indirectly and directly to institutions and individuals. Indirectly, it offers work to vehicle assemblers, insurance companies, garages and petrol stations. Directly, it offers work to drivers, conductors and stage workers. Thus, the Matatu contributes to employment-creation and income generation in Kenya.

The public transport industry, especially the Matatu subsector is exposed to a multiplicity of environmental factors which include political, economic, legal and social in their daily operations. The famous 'michuki rules' passed in 2004, required all Matatu's to be fitted with safety belts, speed governors and to be painted with a yellow stripe. In addition the Matatu drivers and conductors were required to put on uniform. At first this caused a furore amongst Matatu operators but they were pressured by government and public to make changes. Most Matatu operators have been forced to quit the business as a direct result of these factors while others who stayed on have had to re- strategize in order to remain competitive. Emery and Trist (1998) have argued that players exposed to changes in the environment cope with this by falling back on

or developing and institutionalizing a set of shared values that introduce coherent behavior in an otherwise unmanageable business environment.

1.1.4 The Matatu Subsector

Matatu's are the most common form of public transport in Nairobi. They are privately owned minibuses and the most popular form of local transport generally seating fourteen to twenty four. The Matatu's destination is imprinted on the side of the vehicle, and Matatu's plying specific routes have specific numbers. Matatu's are easily distinguishable by their paint schemes, as owner's paint their Matatu's with various colourful decorations such as their favourite football team or hip hop artiste. Presently, the organizational framework is largely based on route-based Matatu associations that demand goodwill from new entrants. There is a proliferation of such associations. Route-based associations keep on springing up, either as new ones or as breakaways from old ones. Stage and route matatu workers have also organised themselves into labour groups (Khayesi, 1997).

Matatu's have in the past years faced considerable competition from buses, which are increasingly common in the city. The three bus companies operating the city routes are the traditional Kenya bus service (KBS) and newer private operators Citi hoppa and Double M. the Citi hoppa buses are distinguished by their green livery, the Double m buses are painted purple while the KBS buses are painted blue.

1.2 Research Problem

Starling (1998) and Strickland (1987) contend that organizations must not try to develop optimal strategies for a static environment but seek opportunities in dynamic environment. They identified economic, technological, social and political factors that must be addressed by the management of a business as crucial in analyzing the external environment. Ansoff and McDonnell (1990) state that successful environment serving organizations are open systems whose survival depends on their ability to secure rewards from its environment which replenishes the resources consumed in the conversion process and also ensures social legitimacy.

The Matatu subsector in the public transport industry in Nairobi has and is still facing various challenges. The famous 'michuki rules' introduced in 2004, directly affected Matatu operations; bans imposed by organizations such as Nema (National Environmental Management Authority) in an effort to reduce noise pollution also affects the Matatu operations, who are often shouting in a bid to get commuters. Maranga (1989) notes that Matatu operation costs are quite high. Illegal cartels that extort money from the Matatu operators affect the profitability of this business. The existence of strong interest groups in Matatu means of transport partly explains the regular violence and conflicts that occur in the industry (Muune 1998).

There are a number of studies that have been carried out to determine how different organizations have responded to changes in the environment, for instance Kandie (2001) study focused on the strategic responses to changing competitive environment, a case of Telkom Kenya Ltd, while Kiptugen (2003) surveyed responses to the environment in the service industry focusing on Kenya Commercial Bank. On the other hand Migunde (2003) focused on Kenya Broadcasting Corporation. Mulema (2004) carried out his research on the Teachers Service Commission and Gathuru (2010) focused his study on the AAR Credit Services ltd.

Although researches have been done on strategic responses in various industries, the results obtained cannot be applied to any other industry due to contextual differences, in addition none of these studies focused on the Matatu subsector in the public transport industry which is very dynamic in nature and lacks a formalized structure of management. It is evident that organizations adopt strategies that ensure their survival in an environment that is dynamic. This study will therefore seek to establish the strategic responses adapted by Matatu operators in response to changes in the external environment and to identify the external environmental challenges faced. The study will be guided by the following questions; what strategic responses have Matatu operators adopted to ensure their survival in a dynamic environment? What are the external environmental challenges facing Matatu operators?

1.3 Research objectives

The objectives of this study are

- I. To identify the external environmental challenges facing Matatu operators within Nairobi central business district.
- II. To establish the strategic responses adapted by Matatu operators in response to changes in the external environment.

1.4 Value of study

The research project will seek to add on the already existing literature on strategic responses to changes in the external environment by organizations. It will clearly bring out strategies that the Matatu owners have adopted to penetrate and succeed in a highly turbulent environment. It would be interesting to find out to what extent Matatu owners apply strategy in an industry that is prone to changes and is highly competitive.

The study will benefit Matatu owners on how to be more proactive and anticipate environmental changes through a better understanding of strategic responses in the Matatu subsector which will go a long way in creating a competitive position and effectively running their operations. In addition the study will be useful to investors particularly interested in the Matatu Subsector of the transport industry in identifying the external environmental challenges likely to be encountered in this area of business.

The entrepreneurs will find the report very significant in understanding the dynamics of changes in the external environment in the industry. This will assist them in planning on strategies to adopt to steer their businesses to success. On the other hand the academic fraternity will find the research important in helping them understand one of the fastest growing sectors of the economy. In effect it will open up research and study opportunities in areas not adequately covered by the research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents literature on what practitioners and scholars have presented on the concept of strategy, the organization and the environment, the strategic responses that organizations especially in the public transport sector are pursuing to deal with the changes in the external environment.

2.2 The concept of strategy

According to Pearce and Robinson (1988), strategic responses are a set of decisions and actions that result into formulation and implementation of plans designed to achieve a firm's objectives. Byars (1991) differentiated strategic responses from operational responses by observing that while operational responses are concerned with efficiency of operations, strategic responses affect several areas of operations, require top management decisions and large amounts of resources, are future oriented, affect long-term prosperity of the firm and most importantly are dependent on the environment. Strategic responses are thus the strategies adopted by organizations in response to changes in the environment conditions. Faced with the increasingly complex environment, a firm needs to develop strategic responses (Johnson et al, 2005)

Aosa (1992) defines strategy as creating a fit between the external characteristics and the internal conditions of an organization to solve a strategic problem. He asserts that a strategic problem is a mismatch between internal characteristics of an organization and its external environment. The match is only achieved by developing an organization's core capabilities related to the external environment well enough to allow for exploitation of opportunities in the external environment and minimization of threats. The essence of strategy is to build a posture that is so strong (and

potentially flexible) in selective ways that the organization can achieve its goals despite the unforeseeable ways external forces may actually interact when the time comes (Mintzberg and Quinn, 1991).

Mintzberg et al (1998) viewed strategy from five interrelated definitions. They viewed strategy as a plan, ploy, pattern, position and perspective. Strategy as a plan specifies a deliberate consciously intended course of action that is designed in advance of the action it governs. Strategy as a ploy is a specific maneuver intended to outwit competitors. As a pattern, strategy emerges from a stream of actions, visualized only after the events it governs and is developed in the absence of intentions and without pre-conception, which they termed as emergent strategy. As a position, strategy is a means of locating an organization in the environment and indicates how the organization will develop a sustainable competitive advantage. As a perspective, strategy gives an organization an identity and reveals the way an organization perceives the outside world. They further argued that no one definition should be considered as alternatives or complementary.

According to Pearce and Robinson (1991), the characteristics of strategic management decisions vary with the level of strategic activity considered. At the corporate level, decisions are conceptual, value- oriented and less concrete. They involve profit potential, cost, and risk and involve longer time horizons and greater need for flexibility. They are far-reaching, futuristic, innovative and pervasive in nature. Functional level strategies involve action- oriented operational issues and lead to implementation of some part of the overall strategy. They are relatively short range and involve periodic planning, low risk and moderate costs. Business level strategies bridge the corporate and functional strategies and are less risky and costly than corporate strategies but more costly and risky than functional ones.

Johnson and Scholes (1997) found that strategy exists at different levels in the organizations which include corporate level, business level and operating level. They argue that at the corporate level, strategies are about the overall purpose and scope of the organization. This involves how the organization is to be run in structural and financial terms and how resources are to be allocated. At the business level, strategy is about how to compensate successfully in a particular market. At this level, strategies should be related to a strategic business unit (SBU) which they define as a unit within the overall organization for which there is an external market for goods or services distinct from another SBU. At the operating level, strategies are concerned with how the component parts of the organization are combined to achieve overall strategic direction. According to Pearce and Robinson (1991), businesses that engage in only one activity, may have the corporate and business levels rolled up into one level and therefore they have two levels only, that is the corporate level and functional level.

2.3 Strategic responses

Organizations have found themselves in a position where they not only address environmental changes but actually anticipate them. Liberalization and globalization have opened up markets to environmental forces. Coping with an increasingly competitive environment has compelled firms to rethink their marketing strategies (Pearce and Robinson, 2005). The days when firms could simply wait for clients to beat a path to their doors are long gone. Organizations must realize that their services and products, regardless of how good they are, simply do not sell themselves (Kotler 2000)

According to Ansoff and McDonnell (1990), strategic responses involve changes in the firm's strategic behavior to assure success in transforming future environment. Pearce and Robinson (1997) defined strategic responses as the set of decisions and actions that result in the

formalization and implementation of plans designed to achieve a firm's objectives. Therefore it is a reaction to what is happening in the economic environment of organizations. Porter (1998), views operational responses as part of a planning process that coordinates operational goals with those of the larger organization. Hence operational issues are mostly concerned with certain broad policies for utilizing the resources of a firm to best support its long term competitive strategy.

2.3.1 Growth strategies

Ansoff's growth strategy matrix was first published in the Harvard Business review in 1957 and remains a popular tool for analyzing growth. It is a strategic grid that can help firm's identify their future strategic direction, and is often used when firms are planning for growth. Ansoff's matrix categorizes four separate strategies, but importantly also emphasizes the degree of risk of each approach. By considering growth via existing products and new products, and in existing markets and new markets, four possible product-market combinations from Ansoff's matrix present four main strategic choices- Market penetration, Market development, Product development and Diversification.

2.3.2 Market Penetration Strategy

Lancaster (1988) stated that market penetration is a strategy of expanding sales based on existing products in existing markets. This is the strategy of penetrating more deeply into the same market. Essentially the same good or service is being promoted / pushed harder onto the same target customer group. This strategy is reliant on the fact that there is some untapped potential to increase sales in the same market. This may mean that customers can be persuaded to buy the product more regularly, switch from a competitor, or encourage customers in the target market who may not yet have started to buy the product to do so. In this cell, the products remain

unchanged and no new customer segments are pursued. Instead the company repositions the brand, launches new promotions or otherwise tries to gain market share and accordingly, increase revenue (Kotler, 2000)

Johnson and Scholes (2002) argue that this strategy is the least risky since it leverages many of the firm's existing resources and capabilities. In a growing market, simply maintaining market share will result in growth, and there may exist opportunities to increase market share if competitors reach capacity limits. This strategy also probably requires the least amount of finance for expansion, although resources may need to be channeled into promotional campaigns to appeal to and then persuade customers.

2.3.3 Market Development Strategy

According to Pearce and Robinson (2001), market development consists of marketing present products to customers in related areas. These customers could present untapped verticals, virgin geographic or other new opportunities. The company targets new geographic areas, domestically and internationally, identifying potential new customer groups, seeking additional distribution channels and developing new locations both domestic and abroad.

Doyle (1994) advanced that market development strategy consists of marketing present products, often with only cosmetic modifications to customers in related market areas by adding different channels of distribution or by changing the content of advertising or the promotional media. Several specific approaches are: opening additional geographic markets, attracting other market segments (developing product versions to appeal other segments, entering other channels of distribution and advertising on other media)

Market development involves the firm moving into new segments of the same market, or even into entirely new markets. Therefore, there is a greater degree of risk, as the firm does not have the same understanding, knowledge and experience of the new segment/ market. This suggests to some extent, that the firm is more vulnerable to making inappropriate judgment that could damage profitability. The firm therefore needs to decide whether it is worthwhile targeting new markets. What the firm needs to consider is the ability to distribute to new geographical locations (towns, regions or countries), utilization of unused distribution channels, reasons why some consumers are not using the product and the different applications for the product that will attract new markets (Blackpool, 2002).

2.3.4 Product Development Strategy

According to Pearce and Robinson (2001), this strategy involves marketing new products to existing customers. The company grows by innovating, gradually replacing old products with new ones; the firm develops potential new products based on customer wants and needs through new product technologies and developing different products product quality levels. This strategy maybe appropriate if the firm's strengths are related to its specific customer's rather than to the specific product itself. In this situation, it can leverage its strength's by developing a new product targeted to its existing customer's. Similar to the case of new market development, new product development carries more risk than simply attempting to increase market share (Gultinan and Madden, 1997). Egan and Thomas (1998) stated that loyal customers are return customers and therefore are very valuable to business. Many could be very receptive to new products produced by the business. The firm could investigate the ability to add new features to the product, possibility of expanding the product line and possibility of creating a new version. According to these authors growth can come through developing new products for existing markets.

2.3.5 Diversification Strategy

Johnson and Scholes (2002) define diversification as a strategy which takes the organization away from its current market or product or competencies. Adapting this strategy entails the greatest risk; here the company markets new products to new customers. There are two types of diversification; related and unrelated. In related diversification, the company enters a related market or industry. In unrelated diversification, the company enters a market or industry in which it has no relevant experience. Strategy in diversification growth is to identify opportunities that would add attractive businesses that are unrelated to the company's current business and the pursuit or the acquisition of additional brands to broaden product offering. Gultinan and Madden (1997) add that diversification strategy involves the development of new products for new markets and consequently the most risky of the four options.

According to Doyle (1994), it is the most risky of the four growth strategies since it requires both product and market development and may be outside the core competencies of the firm. Infact this quadrant of the matrix has been referred to by some people as the "suicide cell". However diversification may be a reasonable choice if the high risk is compensated by the chance of a high rate of return. Other advantages of diversification include the potential to gain a foothold in an attractive industry and reduction of overall business portfolio risk. Whether or not the firm promotes this strategy will depend on the situation of the market, the business cash reserves and the skills of staff to take on new product lines. Kotler (2000) states that diversification growth makes sense when good opportunities can be found outside the present. A good opportunity is one in which the industry is highly attractive and the company has the mix of business strengths to be successful.

2.4 Generic Competitive Strategies

The best strategy for an organization is ultimately a unique construction, which reflects its particular circumstances. Porter (1990) has presented three internally consistent generic strategies, which can be used singly or in a combination to create a strong position in the long run. The three strategies are; overall cost leadership, differentiation and focus. The three generic strategies are alternative approaches to dealing with competitive markets.

2.4.1 Overall Cost Leadership

The strategy of overall cost leadership is achieved through a set of functional policies aimed at this basic objective. Cost leadership requires the construction of efficient-scale facilities and a vigorous pursuit of cost reductions in areas such as research and development, service and marketing. A great deal of managerial attention is necessary in order to achieve cost efficiency. A low-cost position provides substantial entry barriers in terms of cost advantages or scale economies. A low-cost position defends the organization against powerful buyers. A strategy of overall cost leadership is an appropriate choice in markets where the price level is relatively low defined by the public sector funding bodies or due to hard competition in the market. Low cost position often requires favorable access to input (Kettunen, 1999).

2.4.2. Differentiation Strategy

The differentiation strategy is achieved by creating something perceived as being unique in the market. An organization may differentiate itself within several dimensions. Differentiation can be achieved by brand image, technology, customer service or other dimensions. The differentiation strategy does not allow ignoring costs, rather they are not the primary strategic target. Differentiation is a viable strategy for earning above-average returns, because it creates a defensible position for coping with competitive forces. Differentiation yields higher margins,

since brand-loyal buyers lack comparable alternatives and are thereby less price sensitive. The resulting customer loyalty and uniqueness provide entry barriers for the competitors, because the organization is better positioned against substitutes than its competitors. Differentiation requires a perception of exclusivity (Kettunen, 1999).

2.4.3 Focus Strategy

The strategy of focusing on a particular customer group or segment of the product line may take several forms. The focus can be on a geographic market, an occupational group, at organizational level or a type of education. The functional policy is developed to serve a particular target very well. It is assumed that it is possible to serve the narrow strategic target more efficiently or effectively than other organizations which are operating more broadly. Even though the focus strategy does not aim to achieve low costs or differentiation, it does achieve one or both of these positions. As a result of the focus strategy the organization achieves lower costs, because of low-cost production or its distribution system. Alternatively, the organization is better able to meet the specialized needs of the particular customer. The focus strategy implies limitations on the over-all market share achievable, because it involves a trade-off between profitability and sales volume. The focus strategy may mean reducing the customers list to the main leading customers or chains. The focus strategy approaches the concept of collaboration. Cardno (1990) defines collaboration as a term employed to express partnership, co-operation, agreement and consent, working in combination to accomplish institutional objectives. A close collaboration with one specific customer is an extreme form of focus strategy (Kettunen, 1999).

Kotler (2003) explains that in the case where the company targets the whole market, the targeting is referred to as extensive. The company has to design an offering and image to occupy a distinct place in the mind of the target market. This is referred to as product or service positioning. The

result of positioning is the successful creation of a customer-focused value proposition that explains why the target market should buy the service (Barkowitz et al., 2003; Johansson, 2002). The positioning strategy that would give a company such advantage requires adequate market research (Middleton, 1998; Craven, 1991).

2.5 Organization and the Environment.

All organizations are environment dependent. They are in constant interaction with the environment and depend on it for continued survival. Organizations operate as open systems, this means that they take an assortment of resources from the environment, add value and the deliver them back to the environment. According to Pearce and Robinson (1997), in order for organizations to achieve their goals and objectives it is necessary for them to adjust to their environment. According to Johnson, et al (2005), an organization exists in the contest of a complex political, economic, social, technological, environmental and legal world. The environment does not always accommodate the interests of the firm. Burnes (2000) argued that there is considerable support for the view that the pace of change is accelerating as never before and organizations have to chart their way through an increasingly complex environment. Kanter (1989) likens organizations to elephants that need to learn how to dance as nimbly and speedily as mice, if they are to survive in an increasingly competitive and rapidly changing world.

Ansoff and McDonnell (1990) explained the changes in the environment in terms of turbulence. Environmental turbulence is a combine measure of changeability and predictability of a firm's environment. Changeability consists of the complexity of the firm's environment and the relative novelty of the successive challenges the firm encounters in the environment. Predictability

consists of the rapidity of the change which is the rate of the speed with which environmental challenges evolve compared to the speed of the firm's response and visibility of the future which assesses the adequacy and timeliness of information about the future. They categorized environmental turbulence in five levels namely repetitive, expanding, changing, discontinuous and surprising.

In advancing the strategic success hypothesis, Ansoff and McDonnell (1990) introduced what they term as a firm's strategic aggressiveness, this they described as the degree of continuity from the past of the firm's new products, competitive environments and marketing strategies and timeliness in introducing the new products appearing on the market. Timeliness range from reactive, anticipatory, innovative and creative. Discontinuity ranges from no change, incremental change, discontinuous and creative change. The strategic success hypothesis prescribes that for a firm to succeed, its strategies must match the environment and further that its internal capability must match the strategies. The strategic success hypothesis states that a firm's potential is optimum when the aggressiveness of the firm's strategic behavior matches the turbulence of its environment, the responsiveness of the firm's capability matches the aggressiveness of its strategy and components of the firm's capability are supportive of each other. If these are not matching, a strategy- capability gap results.

Pearce and Robinson (1991) argued that for strategy to succeed three ingredients must be in place. The strategy must be consistent with the competitive environment conditions, the strategy must place a realistic demand on the firm's internal resources and capabilities and the strategy must be carefully executed. They suggested that internal analysis is therefore very crucial in order to succeed however difficult and challenging it is. Despite the different approaches by the authors, the basic idea is that an organization has to respond to changes in the environment. This

is because the environment it operates in, dictates the responses the organization puts in place to guide managerial decision making. The environment by extension also dictates the capabilities the organization needs to support chosen strategies.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter consists of the research methodology used in the study. This includes the research design, data collection method, research instruments and data analysis. This chapter will finally look at the data analysis technique that was applied. Both primary and secondary data were collected and used in the analysis.

3.2 Research Design

The study was conducted through a descriptive survey design. According to Glass & Hopkins (1984) a descriptive research involves gathering data that describes events and then organizes, tabulates, depicts and describes the data collection. Bordens & Abbott (1988) defines a survey as an attempt to collect data from members of a population with respect to one or more variables. The descriptive survey design was chosen because the objective of the study is to describe, explain and validate generalizable findings about the strategic response adopted by Matatu operators within the Nairobi Business District.

3.3 Population of the Study

The population of interest was all Matatu operators identified as managers of Matatu Saccos (Savings and Credit Co-operatives), are members of Matatu owners Association (MOA) and operate within Nairobi Central Business District (CBD). There were 57 registered Matatu Saccos operating within Nairobi CBD as at 31st March 2012 as per list (Appendix i) from the Ministry of Cooperative Development and Marketing, with a total of 57 managers. Due to the small size of the total population, a census was carried out on these Saccos.

3.4 Data Collection

The nature of data to be collected was both quantitative and qualitative. A questionnaire will be used to obtain important information about the population. According to Sproul (1998), a self administered questionnaire is the only way to elicit self report on people's opinion, attitudes, beliefs and values. The questionnaire will have likert scale questions; these will be semi structured in nature.

The questionnaire was administered to the respondents by the researcher through face to face interviews. The respondents were the Matatu Sacco managers, who are the Chief Executive Officers (CEOs) of the Saccos and are charged with the role of strategy formulation. Face to face interviews were deemed appropriate because they give the researcher an opportunity to interact with the respondent and get an optimal response rate while allowing for review of the questionnaire for completeness in responses at the end of each session.

3.5 Data Analysis

Data cleaning was undertaken to ensure that all questions were filled and done so correctly. It also included consistency check to ensure that instructions are followed especially for routing questions.

Since the nature of the study was descriptive in nature, the researcher proposed to use descriptive statistics. Data in part A was analysed using frequencies and percentages to summarize the demographic profiles of the respondents. Data in part B and C was analysed using mean scores, standard deviations, frequencies and percentages to outline the various strategies adopted by Matatu operators to environmental changes.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings. The chapter focused on data analysis, interpretation and presentation. The researcher made use of frequency tables and percentages to present data. The researcher targeted managers of 57 Sacco's and out of these 45 responded representing a 78% response rate, of these 15 (33%) were chairmen, 10 (23%) were vice-chairmen, 5(11%) were treasurers, 5(11%) were secretaries, 5(11%) were vice secretaries and 5(11%) were committee members. It is evident that majority of the interviewed respondents were Chairmen of Saccos.

4.2 Demographic Characteristics of Saccos

Section A of the questionnaire sought to obtain data of the general nature of all registered Matatu Saccos within Nairobi CBD to help the researcher understand the respondent's background, the size and scope of services offered. Respondents were asked how long their respective Saccos have been in operation. The results are shown in Table 4.1

Table 4.1: Duration of Operation

Years of operation	Frequency	Percent
Less than 1 year	8	17
1-3 years	25	55
4-5 years	2	4
6-10 years	10	23
Total	45	100

As indicated in Table 4.1 majority of the Saccos have operated between 1 to 3years (55 %,) less than 1year (17%), 4-5 years (4%) and 6-10 years (23%). The findings that most Saccos have been in operation for a relatively short period could be attributed to the fact that the requirement to form Matatu Saccos only came into effect in January 2011. The Saccos that were found to have operated between 6-10 years are those that were formed before the current requirement of registering Matatu Saccos and were mainly formed for purposes of controlling particular routes and indeed were named after the routes they serviced.

The study also sought to establish the number of branches held by each Sacco, the results are shown in Table 4.2

Table 4.2: Number of Branches

	Frequency	Percent	Cumulative %
Less than 1	0	0	0
1-3	5	11	11
4-5	5	11	22
6-10	25	55	77
Over 10	10	23	100
Total	45	100	

Analysis of the data as shown in Table 4.2 indicated that 55% of the Matatu Saccos studied have between 6-10 branches, 11% have between 1-3 branches, 22% have between 4-5 branches, and 23% have over 10 branches 23%. The findings that majority of the Saccos have between 6-10

branches could be attributed to the fact that most Saccos have expanded in size after being in operation for close to 2years now thus the need to have more than one branch.

4.3 Strategies used by Matatu Subsector

The researcher sought to find out how different strategies are used by the Matatu operators. The findings are presented below.

4.3.1 Market Development Growth Strategy

The study sought to investigate the extent to which the Matatu subsector uses market development growth strategy, the results are shown in Table 4.3 below.

Table 4.3: Market Development Growth Strategy Response

Variable Indicator	Frequency	Percent	Cumulative %
Target a new customer segment	15	33	33
Seek additional transport routes	25	56	89
Open new geographical branches nationally	2	4	93
Open new geographical branches regionally	3	7	100
Total		100	

The findings shown on Table 4.3 suggests that the most important indicator was seeking additional transport routes (56%), followed by targeting a new customer segment (33%), this seemed to suggest that most respondents thought that the new routes would bring in fresh

customers not previously targeted. Opening new geographic routes nationally and regionally scored 4% and 7% respectively. This seems to suggest that the two did not carry a lot of weight according to the respondents.

4.3.2 Diversification Growth Strategy

The respondents were asked to indicate on a scale of 1-5 how they applied diversification as a strategy to counter the challenges in the external environment. This was done by use of the Likert scale with (5) measuring very large extent, (4) measuring large extent, (3) measuring moderate extent, (2) measuring small extent and (1) measuring no extent. Table 4.4 shows the responses,

Table 4.4: Diversification Strategy Response

Variable Indicator	Mean	Std.Deviation
Carrying out another business related to current transport business	4.32	0.92
Carrying out another business unrelated to the current transport business	2.56	1.24

The findings shown on Table 4.4 suggest that the most important indicator was carrying out another business related to current transport business with a mean score of 4.32 higher than the midpoint (3) of the likert scale and carrying out business unrelated to the current transport business was rated low since it represented a mean score less than the midpoint (3) of the likert

scale (2.56). This may be attributed to the manner in which matatus diversify their services to offering their vehicles for hire.

4.3.3 Cost leadership generic strategic response

The study sought to establish the extent to which Matatu operators adopted cost leadership as a strategy to counter the challenges in the external environment. A five point Likert scale was used to interpret the respondent’s responses. Table 4.5 shows the responses,

Table 4.5: Cost leadership Generic strategic response

Variable Indicator	Mean	Std.Deviation
Provide services at lowest possible costs	4.32	0.92
Provide services at lowest possible price	4.27	0.72
Develop organizational cost efficiency	3.87	1.59
Develop efficient scale facilities	4.32	0.92

Table 4.5 shows that all the indicators of Cost Leadership were rated highly with providing services at lowest possible costs (M=4.32) being the highest and develop organizational cost efficiency (M=3.87) being the lowest. These findings are probably attributed to cost leadership Strategies being aimed at outdoing competition and were therefore based on what is perceived as competition.

4.3.4 Focus Generic Strategy

The respondents were asked to indicate the extent to which Focus generic strategy was adopted in order to remain relevant in the transport business. This was done by use of the Likert scale with (5) measuring very large extent, (4) measuring large extent, (3) measuring moderate extent, (2) measuring small extent and (1) measuring no extent. The results are shown in Table 4.6

Table 4.6: Focus Generic Strategic Response

Variable	Mean	Std. Deviation
Target a specific geographic market	2.55	0.172
Target a specific sector in the economy	2.25	0.187
Concentrate on the main leading customers	2.15	0.191
Open new geographical branches	2.05	0.932

Results shown on Table 4.6 shows that all the indicators are rated low with opening new geographical branches being the lowest at a mean score of 2.05, this may be indication that transport services are offered to all who are willing to pay. The scores on standard deviation were less than one implying no significant variation in the responses.

4.3.5 Differentiation Generic Strategy

The respondents were asked to indicate the extent to which differentiation generic strategy was adopted in order to remain competitive in the transport business. This was done by use of the Likert scale with (5) measuring very large extent, (4) measuring large extent, (3) measuring

moderate extent, (2) measuring small extent and (1) measuring no extent. The results are shown in Table 4.7

Table 4.7: Differentiation Generic Strategic Response

Variable	Mean	Std.deviation
Develop services targeted to existing customers	4.52	0.92
Develop unique customer service levels	4.87	0.95
Develop services according to the needs of the customers	4.80	1.59
Develop organizational brand image to create uniqueness	4.70	0.45
Develop different service quality levels that suit customers pockets	4.67	1.35

The results as shown in Table 4.7 indicates that developing unique customer service levels was the most important indicator followed by developing services according to the needs of customers. Branding had a mean score of (4.70) while developing different service levels that suit customer's pockets had a mean score of (4.67). Developing services that target existing customers had the least mean score of (4.52).

In addition the findings suggest that differentiation strategies mainly focused on customer satisfaction and provision of superior service. The respondents considered branding to carry more weight than cost strategy. This seems to suggest that the respondents when answering this question had the branding of matatus in mind and did not limit themselves to branding of their Saccos.

4.4 Impact of Macro Environment

This section of the study was aimed at determining the impact of macro dynamic environmental factors on the Matatu subsector. This was done by administering questionnaire to the respondents based on the likert scale with (5) measuring very large extent, (4) measuring large extent, (3) measuring moderate extent, (2) measuring small extent and (1) measuring no extent. The results are shown in Table 4.8

Table 4.8: Impact of Macro Environment

Variable Indicator	Mean	Std.deviation
Political	2.50	0.92
Economic	4.60	0.95
Social Cultural	2.20	1.59
Technological	2.90	0.45
Environmental	2.90	1.35
Legal	4.87	0.95

The results indicated on Table 4.8 shows that the variable that ranked highest was legal with a mean score of (4.87), followed by economic conditions at a mean score of (4.60), Technology and environment at a mean score of (2.90) each while political at a mean score of (2.50) and social cultural at a mean score of (2.20) were considered to have the least effect. The ranking of legal environment as the highest is likely to have been influenced by the requirement by GOK for Matatus to form Saccos as a condition for issuance of operating license.

Ranking of the economic environment as the number two impact is likely to be attributed to the inflation rate which stood at 18.31% in the month of Jan 2012 and has been fluctuating between 18.31% - 5.42% in the months following weakening the local currency, thus eroding the purchasing power as per Central Bank of Kenya (<http://www.centralbank.go.ke> retrieved on Oct 2012). The technology and environmental forces have had negative impact due to rapid advancements in these environments and to keep abreast of such changes and increased demands. Political and social cultural environments have also had their impact on the Matatu subsector due to the dynamic nature of these environments.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter outlines the summary and conclusions from the research findings, highlights the limitation of the study as they relate to the objective of the study and includes suggestions for further research in the area of strategic responses by Matatu operators.

5.2 Summary of key Findings

The objectives of this study were to identify the strategic responses adopted by the Matatu subsector of the transport industry to changes in the external environment and to identify the environmental challenges facing the Matatu subsector of the transport industry. A descriptive survey design was used for this study and data collected by use of questionnaires administered to Matatu Sacco managers of all the 57 Matatu Saccos in Nairobi as at 31st march 2012. Descriptive data were used to organize, analyze and summarize the findings using mean scores, frequencies, percentages and standard deviation. The results were then displayed in form of tables.

The results of the study reveal that the Matatu operators just like other players operating in a dynamic environment have not escaped the impact of environmental turbulence. The highest impact was established to be from the legal environment due to the introduction of new regulations and requirements to be met before issuance of operating license. Economic forces which ranked second was attributed to the fluctuating inflation rates of between 18.31%- 5.42% at the time the study was carried out. The technology and environmental forces were found to impact negatively in the Matatu subsector due to rapid advancements in these environments and the need to keep abreast of such changes and demands. Political and social cultural environments

have also had their impact on these Saccos which require response strategies in order to survive and thrive.

The combined impact of all these forces have forced the Matatu subsector to revise the way they have traditionally conducted business and adopt strategic responses for both internal and external environments. Results on the use of market development strategy revealed that the Matatu subsector mainly pursue seeking additional transport routes strategy. Findings on the extent to which Matatu subsector has adopted diversification growth strategy revealed that the Matatu subsector does carry out business that is related to the current transport business. Results on the extent to which the Matatu subsector has adopted cost leadership and generic strategies revealed that Matatu operators aim to provide their services at lowest possible price in order to keep ahead of the competition.

Findings on the extent to which the Matatu subsector adopted focus generic strategy showed that the transport services do not necessarily target any consumer group and is basically for everybody who is willing to pay. Results on the extent to which the Matatu subsector has applied differentiation generic strategy revealed that the most important indicators were customer service, quality service and organizational branding.

5.3 Conclusion

Findings from this study have confirmed the observation by (Johnson et al 2005) that all companies operate in a dynamic and turbulent environment where external forces beyond their control are at play. Macro and micro turbulent environment has impacted negatively on the Matatu subsector in various degrees. The findings have also established that strategic responses

to the dynamic environment have been formulated by the Matatu Subsector to ensure that they survive and thrive in the market place.

5.4 Limitations of the Study

Out of the 57 respondents targeted 45 responded giving a response rate of 78%. Statistically this is acceptable but the researcher would have wished for a higher response rate which would enrich the findings. A higher response rate would have been possible if the researcher had more time with the respondents during the interviews as some of them cited heavy workloads. This forced the researcher to make several trips to and from the Sacco offices in order to get hold of the respondents. This had cost and time implications to the respondent.

5.5 Recommendations

The researcher recommends that the government formulate policies and regulations which will enable these Matatu operators to become professional transport firms working collaboratively instead of being in competition with each other. In addition the government should put in place a system that will allow the Matatu operators to purchase higher capacity vehicles and slowly phase out the fourteen seater ones. This will increase their scale of operations and help them realise more returns.

5.5.1 Recommendations with Implication on Policy, Practice and Theory

The researcher recommends that the government formulate policies and regulations which will enable these Matatu operators to become professional transport firms working collaboratively instead of being in competition with each other. The researcher is of the opinion that Taxation of Matatu operators income would do more good than harm due to the large numbers of investors who have shown interest in this sector.

The government through the Central Bank of Kenya should issue clear guidelines on the code of conduct of the executive committees and also closely monitor financial activities of these Matatu Saccos to ensure checks and balances are in place and working. Issues of corporate governance also need to be introduced. The Ministry of Co-operative Development and Marketing on its part needs to allow these Saccos flexibility in the by laws relating to longer loan repayments. This will ease the loan burden on members who take substantial loan amounts and also enable them adapt to changing financial circumstances.

The findings of the research revealed that application of Information and Communication Technology (ICT) as a strategic response by Matatu Operators was very low. The researcher thinks that the application of ICT by these operators may help them serve their members faster, more efficiently and also cut down costs. Such technology will enable these operators meet expectations of serious investors who expect regular information which is timely and accurate and thud attract them to invest. The pace of doing business in the world today cannot be achieved without utilizing modern technology and constantly improving the standard operating procedures.

As a result of these findings, the researcher recommends that the democratically elected officials of each Matatu Sacco should embrace the role of organizing Matatu owners of 14 seater Matatus into groups that can purchase higher capacity vehicles. This will help position themselves in a strong and organized industry seen as a necessary component to a larger more comprehensive transport system. The researcher considers mergers and alliances of Saccos as one way of positioning these saccos to be a force to reckon within any case the current trend globally is for companies and co-operatives to merge and intergrate in order to enjoy economies of scale. Like is the case in logistics companies where they form strategic alliances, there could be mutual

benefits to be gained by Saccos working in strategic alliances. Co-operation among co-operatives is one of the principles contained in Co-operative Act (1998) and therefore strategic alliances will be supporting this principle.

5.5.2 Suggestions for Further Research

This study was aimed at finding the response strategies adopted by Matatu operators in response to the changes in the external environment. There is need for further research work to be done on other areas relating to strategic management. The researcher therefore recommends that further research be conducted on strategy formulation and implementation processes adopted by Matatu operators in the transport industry.

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APPENDICES

Appendix I: Letter of Introduction

DATE.....

TO: The Respondent

Dear Sir/ Madam,

RE: REQUEST FOR YOUR PARTICIPATION IN MY RESEARCH WORK

I am a post graduate student undertaking a Master of Business Administration Degree at the School of Business, University of Nairobi. In order to fulfil the Degree requirements, I am currently conducting a research project on Strategic Responses to changes in External environment by Matatu subsector within Nairobi central Business District.

Your organization has been chosen to participate in this research and I would highly appreciate if you would kindly spare some of your precious time to complete the attached questionnaire.

The information sought from you will be treated with outmost confidence and the results of this study will be used for academic purposes only. Your name and that of the organization will not be mentioned in the report.

Thanking you in advance.

Yours faithfully,

MUGONDO ANN WAMBUI

MBA Student

DR JUSTUS MUNYOKI

Project Supervisor

Appendix II: Questionnaire

STRATEGIC RESPONSES TO CHANGES IN THE EXTERNAL ENVIRONMENT BY THE MATATU SUBSECTOR WITHIN NAIROBI CBD

PART A. GENERAL INFORMATION

Please tick or fill as appropriate

1. Name.....(optional)
2. Sacco.....(optional)
3. Job Title.....(optional)

Sacco Characteristics

4. How long has your Sacco operated?

Less than 1 Year []

1- 3 Years []

4- 5 Years []

6-10 Years []

5. How many branches does your sacco have?

Less than 1 Branch []

1-3 Branches []

4-5 Branches []

6-10 Branches []

Above 10 Branches

PARTB: MATATU BUSINESS STRATEGIES

In determining the extent to which your business uses the main strategies please indicate the extent to which each of the specific strategies is important to your business on a scale of 1-5

5- Very large extent

4-Large extent

3. Moderate extent

2-Small extent

1-No extent

Main strategy	Specific strategy	1	2	3	4	5
1.Market development	Target a new customer segment.					
	Seek additional transport routes					
2.Diversification	Carrying out another business related to current transport business					
	Carrying out another business unrelated to current transport business					

3. Cost leadership	Provide services at the lowest possible cost					
	Provide services at the lowest possible price					
4. Focus	Target a specific geographic market					
	Target a specific sector in the economy					
	Concentrate on main leading customers					
5. Differentiation	Develop services targeted to existing customers					
	Develop unique customer service levels					
	Develop services according to customer needs					
	Develop organization brand image to create uniqueness					
	Develop different service quality levels that suit customers pocket					

PART C: EXTERNAL ENVIROMENT CHANGES

1. In determining the extent to which your business has been affected by external environment changes, please indicate the extent to which each of the following has affected your business on a scale of 1-5

5- Very large extent

4-Large extent

3-Moderate extent

2-Small extent

1-No extent

External environment change	1	2	3	4	5
Political					
Economic					
Social					
Technological					
Ecological					
Legal					

2. List any other changes that might be a challenge to you

.....

.....

.....

.....

.....

.....

Thank you.

Appendix III: List of Matatu Saccos within Nairobi CBD as at 31st March 2012

1. Serian Sacco
2. Nasamki sacco
3. Githurai 45 Travellers sacco
4. 2 NK Sacco
5. Meru Nissan Operators Sacco Ltd
6. Karibangi Matatu Owners Sacco
7. Eastleigh Route Sacco
8. Outer Circle Sacco
9. Luxury Shuttle Sacco
10. Kawas Sacco
11. Nazigi Sacco
12. MTK Travellers Sacco
13. Neno Sacco
14. Travellers Choice Sacco
15. Jonsaga Travellers Ltd
16. Runa Sacco
17. Nakagi Travellers Sacco
18. Double M Commuter Services
19. Nanaisio Shuttle
20. Nyeri Shuttle
21. Kangemi Matatu Owners Sacco
22. Utawala Matatu Owners Sacco
23. Chania Travellers Sacco
24. 12C Transporters Sacco

25. Nairobi Meru Investment Co.
26. Indima-Nje Sacco
27. New Classic Travellers Sacco
28. Highrise kibera Sacco
29. Lopha Sacco
30. St. Mary's transport
31. 2 KW Sacco
32. Orokise Sacco
33. Kileton sacco
34. Sakaka Travellers sacco
35. Star Bus
36. Ebassana Sacco
37. Kitengela Minibus Sacco
38. Manatwa Sacco
39. Kacose Sacco
40. Forward Travellers Sacco
41. Kimisa Sacco
42. City Travellers Sacco
43. MNK Sacco
44. Compliant MOA Sacco
45. Maoka Travellers Sacco
46. Nakam Sacco
47. Mololine Shuttle
48. Luxury Shuttle
49. Prestige Shuttle
50. Kibera Matatu Ownres sacco

51. Kimou Sacco
52. Ganaki Multi purpose Sacco
53. Jestimat Travellers Sacco
54. Hamza LungaLunga Sacco
55. Lucky Baba Dogo Travellers
56. Nawaku Sacco
57. Ukakina Matatu Owners Sacco

Source: Ministry Of Co-operative Development and Marketing (March 2012)