BUSINESS OPPORTUNITIES FOR STIMA SACCO SOCIETY LIMITED IN A NEW REGULATORY ENVIRONMENT

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DECLARATION

STUDENT'S DECLARATION

This is to declare that this research project is my original work and has not been presented to any other University or Institution of Higher Learning for examination.

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DECLARATION BY SUPERVISOR

This is to declare that this project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

My study is dedicated to my beloved wife Mrs. Jane Nyambura Kimani, who gave me love, encouragement, wise counsel, moral and financial support. My beloved children, Thoenes Mbui Kimani, Perssey Mbote Kimani and Olive Njeri Kimani who stood by me and prayed for me tirelessly during my absence from home to do my studies and to research for this project. Special dedication also goes to my parents Mr. Gerald Mbui Kimani and Naomi Nyambura Mbui who have continuously encouraged me to further my studies.

Thank you and God bless you abundantly.

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ABSTRACT

Savings and Credit Cooperatives (SACCOs) in Kenya are for the first time operating in a regulated environment after the enactment of SACCO Societies Act, 2008 and the SACCO Societies Regulations, 2010. The new law establishes an independent Authority Known as the SACCO Societies Regulatory Authority (SASRA), which has powers to license, regulate and supervise SACCOs, carry out regular inspections, control their ownership and governance practices and manage a Deposit Guarantee Fund among other responsibilities.

This study was aimed at establishing the challenges that the new regulatory environment posed to Stima SACCO Society Limited and the strategic business opportunities that it had created. The strategies that the SACCO could use to exploit the business opportunities and overcome the challenges posed by both its external and internal environments were established. The research was conducted through a case study design where the researcher used structured interview to guide as primary data collection instrument. Data collected was qualitative and was analyzed by content analysis, to establish the challenges and business.

The study concludes that the new regulatory environment provided more structured and clear guidelines on the operations of Stima SACCO. The new environment was also found to be more focused on the safety of the members' funds hence creating more customer confidence and more dynamic and enabling environment for business growth of the SACCO. The new environment further creates various business opportunities, albeit the challenges that it poses to the SACCO.

The study recommends that Stima SACCO should turn its challenges into opportunities and exploit the opportunities to survive in this unfamiliar regulatory environment, hence register an unprecedented business growth. In doing so the SACCO needs to review its by-laws to serve a wider market including the micro-finance market, merge with like-minded SACCOs, benchmark with other financial institutions and review its business model to become a more inclusive and market driven financial intermediary.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Strategic responses are the decisions that are made by a firm in order to align the firm to environmental changes. Pearce and Robinson (1988) argued that strategic responses are a set of decisions and actions that result into formulation and implementation of plans designed to achieve a firm's objectives. In achieving the firm's objectives, management is faced with a complex and changing environment which impacts heavily on the firm. To ensure continued survival, management has to come up with a game plan in response to environmental changes which is the firm's strategy.

Byars (1991) differentiated the strategic responses from operational responses. According to him operational responses are concerned with efficiency of operations while strategic responses affect several areas of operation. They require top management decisions and large amounts of money, are future-oriented, affect long-term prosperity of the firm and most importantly are dependent on the environment. Therefore each firm adopts strategies that match its environment and that are supported by the firm's internal capability.

Johnson and Scholes (1997) defined 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 to meet the needs of markets and to fulfill stakeholder expectations. This, they argued, involves matching of an organization's activities to the environment in which it operates. In addition, they argued that strategy can also be seen as building on or stretching an organization's resources and competences to create opportunities or capitalize on them. This idea, they argued, does not just imply ensuring resources are available or can be availed to take advantage of new opportunities in the environment but it means identifying existing resources and competences which might be a basis for creating new opportunities in the market place.

1.1.1 The Concept of Business Environment

No business exists and operates in a vacuum, but as a part and parcel of the environment in which it finds itself. Efficient and effective marketing strategy is a function of the marketing manager's ability to understand the environment in which the business operates. The marketing environment consists of a set of factors or forces that operate or influence a company's performance in its chosen target market.

Jain (1981) defined the marketing environment to include all those factors that may affect the organization directly or indirectly in any perceptible way. Marketing environmental factors affects the organization by the way of input and the organizations also affect the environment by output. The relationship between the organization and the marketing environment is often referred to as "inseparable". The organization and its environment are constantly in a state of homeostasis.

The marketing environment consists of those forces or elements that impact on the company's capability to operate effectively in its target market. The marketing environment is divided into two major components which include internal and external environments. The internal environment is concerned with the controllable variables. Controllable variables are categorized into two groups, the strategy variables and unmarketable variables. The external environment is concerned with the uncontrollable variables. These variables are called uncontrollable because the marketing manager cannot directly control any of the elements. The marketing manager is left with the option of adapting to the environment by prompt observation, analysis and forecasting of these environmental factors. The external environment can further be divided into two components, the micro environment and the macro environment.

Kotler (1999) argued that for a business unit to earn profit its ability to monitor key external macro-environmental forces and significant micro-environmental actors is paramount. He further argued that for a firm to fill strategic gaps within the company, there are three options available. The first is to identify opportunities to achieve further growth within the company's current business, second is to identify opportunities to build or acquire businesses that are related to the company's current businesses and finally is to identify opportunities to add attractive businesses that are unrelated to the current businesses.

Ansoff (1987) proposed a useful framework for detecting new intensive growth opportunities called a product/market expansion grid. The company first considers whether it could gain more market share with its current products in their current markets, then considers whether it can find or develop new markets for its current products. It will also consider whether it can develop new products of potential interest to its current market and finally the company reviews opportunities to develop new products for new markets.

In response to the new SACCO Regulations that are prescribing tough financial requirements to be fulfilled by all deposit taking SACCOs like Stima, it is anticipated that the SACCO may apply Ansoff's Product/market expansion grid to develop strategies that will propel the Society not only to meet the minimum regulatory requirements, but to take advantage of the new environment to grow the business.

1.1.2 The SACCO Industry in Kenya

Cooperatives are member-owned, democratic businesses that support grassroots economic and social development through increased access to resources and profits for members. Low-income, vulnerable, disenfranchised, or conflict-affected communities often do not have access to the resources necessary to improve their own livelihoods. Cooperatives provide a mechanism for a group of individuals to pool their limited assets and improve their economic circumstances. In turn, local economies benefit from the ripple effect of these financial gains. The Savings and Credit Cooperatives are formed with the aim of encouraging thrift among its members by affording them an opportunity for accumulating savings, thereby creating a source of funds for credit to the members at fair and reasonable interest rates. For a Savings and Credit Cooperatives to attract and retain members it must design savings products that provide them the convenience and return they seek. This means that, savings products must satisfy the needs and service demand of members. Individual members save with the cooperative for various purposes that are not necessarily credit-driven.

The purpose, for which low income earners save, is not the same as the purpose for which high income earners sacrifice returns in exchange for complete access to their funds whenever they need them. The high income earners and wealthier savers prefer to sacrifice liquidity in exchange for higher returns on savings. Savings products should be built by tailoring them to meet the demands of individual members considering the purpose for which they save. Some of the reasons include education fees, mortgage, health, domestic, household, retirement, investment etc.

WOCCU statistics show that as at 31st December 2005, there were 3000 active SACCO Societies with a membership of about 3 million. The share capital and deposits stood at 120 billion while loans outstanding were Kshs.90 billion. SACCOs have been successful in providing affordable financial services to Kenyans in all types of markets and examples include salaried workers, JuaKali artisans, transport service provider, agricultural and community based SACCOs. SACCOs are therefore found in virtually all sectors of the Kenyan economy and are therefore playing an important role in the financial services sector as non-bank financial institutions.

SACCOs in Kenya are for the first time operating in a regulated environment. The new SACCO Societies Act was assented to by the President in December 2008 followed by the SACCO Societies Regulations, 2010 issued by the Minister for Cooperative Development and Marketing on 18th June 2010.The salient features of the SACCO Act include establishment of an independent Authority Known as the SACCO Societies Regulatory Authority (SASRA), which has the powers to license, regulate and supervise SACCOs, carry out inspections of SACCOs, control ownership and Corporate Governance of SACCOs and manage a Deposit Guarantee Fund for SACCOs among others responsibilities.

The challenges facing the SACCO sub-sector that necessitated the drafting of the new law were poor corporate governance, low outreach and product diversity, unfavourable image, weak supervision and regulation and lack of performance standards. The enactment of a separate SACCO Act with appropriate Regulatory mechanism will have the benefits which include availability of a specialized regulatory agency with appropriate skills and powers of examination, regulation and enforcement, enhancement of savings mobilization and diversification of members and products. Other benefits include promoting transparency and accountability in the SACCO movement, enhancement of corporate governance, instilling public confidence, trust and the right image of the sector, incorporation of prudential standards and specialization in financial intermediation of first choice for the members.

1.1.3 Stima SACCO Society Limited

Stima SACCO was registered in the year 1974 to facilitate savings and provide credit to employees of the then East Africa Power and Lighting Company, now Kenya Power & Lightning Company (KPLC) Limited. Currently, the SACCO serves the employees of KPLC, Kenya Electricity Generating (KenGen) Company Limited, Rural Electrification Authority (REA), Geothermal Development Corporation (GDC), Kenya Electricity Transmission Company and the retired staff of the above organizations.

According to the Stima SACCO Strategic Plan 2010-2014, the SACCO managed to reach its peak in membership in 1990 with 9,759 members and since then it dropped to 6,575 in 2004. Though some efforts have been put in place to widen catchment institutions and market the SACCO to young employees within these institutions, the growth has been very slow yielding a cumulative growth of 12.5% over four years to reach 7,398 members 2008. The deposits have shown remarkable cumulative growth of 83% from Kshs 1.9 billion in 2004 to Kshs 3.485 billion by end 2008. The loan portfolio to members more than doubled over the period from Kshs 1.8 billion in 2004 to Kshs 3.9 billion in 2008. The total assets also grew by more than 100% from Kshs 2.1 billion to Kshs 4.6 billion in 2008. The main source of finance was members' deposits and by end of 2008, deposits funded 89% of the total assets and another 10% coming from institutional capital.

The Strategic Plan shows that Stima SACCO remained profitable over the period with cumulative profits rising from Kshs 46 million in 2004 to over Kshs 200 million in 2008. Since the introduction of Front Office Service Activity (FOSA), gross income continued to grow at an increasing rate of 16%, 24% and 29% in 2006, 2007 and 2008 respectively. However, expenses grew at higher rate in 2008 posing a big challenge to the SACCO and slowing the rate of growth in net profit. Stima's new vision is to become a stable, growing and leading SACCO in Kenya providing all financial needs of its members. This implies that Stima must attract more members and customers beyond the employer-based bond, offer both quality and variety financial products and services and must operate with commercial orientation.

Stima's core values are to create financial value for members' investments through continued profitability, create value for its customers through diversity of products and services and quality delivery and for employees through challenging opportunities and competitive remuneration. Stima will achieve this by remaining technologically focused, maintaining management effectiveness, networking with other financial service providers and diversifying products to meet varied demands of target groups. Stima has an operational strategic plan 2010-2014 whose goals are aligning the SACCO leadership and governance with the SACCO Act and future challenges, aligning management systems and structures with the Act and market challenges, aligning organizational structures to efficient service delivery, streamlining member/ customer management processes for effective service delivery, improving the SACCO's financial performance under competitive financial environment and aligning information, human and organizational capital to improve performance

The plan stipulates that among the things the SACCO is forced to rethink about is its future business. Its growth in membership has almost stagnated and most of the members are aging. The enactment of the SACCO Societies Act and its regulations affects the way the business will be done. There is growing competition from commercial banks and microfinance deposit taking institutions. The technology in information systems and business processes are changing too fast. All these challenges have forced Stima to think of reengineering its operations and business model. This will involve changing by-laws to cede more powers to management to make operational decisions, re-define its target market, new product development and refinement of existing ones and developing customer focused marketing programs and customer care services. The SACCO’s assets are projected to grow substantially from 4.6 billion in 2008 to 9.1 billion by end of 2014. More than 80% will be loan portfolio whose value is estimated to be 7.2 billion. 81% of the total funding will come from deposits, 8% from institutional capital and shares, and the balances from other creditors especially interest payables. Annual incomes will grow to over one (1) billion and net profits will grow to 173 million. Return on Assets (ROA) will improve to 2% and operation self-sufficiency (OSS) to 161%.

1.2 Statement of the Problem

All organizations, regardless of the nature of their business, are always in constant interaction with the environment. The organizations depend on the environment for their continued existence. This means that an organization operates as an open system. Organizations exist in a turbulent environments and it varies from one industry to another. According to Mintzberg (1998), the environments do not change on any regular or orderly basis. The challenge therefore is to monitor the key external macro environmental forces that affect its ability to make profits. According to Kotler (1997), once a company scans its environment and identifies the opportunities and threats posed by the external environment, the company has to further analyzed those opportunities. Opportunities can be classified according to their attractiveness and their success probability. The company’s success probability depends on whether its business strengths not only match the key success requirements for operating in the target market but also exceed those of competitors. The best-performing company will be the one that can generate the greatest customer value and sustain it over time.

Globally, the degree of formal legislation and regulation for SACCOs varies widely. In some countries, SACCOs are subject to extensive legislation outlining their scope, function and powers and should operate in a highly regulated environment. Yet in most countries, legislation and regulations have not been developed specifically for SACCOs, or if legislation and/or regulations do exist, they are often weak and ineffective. These deficiencies are concerning because the lack of enabling regulations affects the safety and soundness of SACCOs. If SACCOs are to grow and to provide quality member products and services, adequate regulation is imperative.

The World Council of Credit Unions, Inc (WOCCU) has developed the Regulation Content Guide (Guide). This Guide is based on regulations from numerous countries, experience and documented best practices. It also incorporates many of the prudential ratios in WOCCU's International Credit Union Principles for Safety and Soundness and builds upon them into a robust regulatory framework. To the best knowledge of the Guide's developers, this is the first of its kind to be developed and distributed for credit union specific regulations. It has been WOCCU's experience that countries planning to develop and update credit union specific legislation benefit from having access to a universal guide that serve as a model from which to develop a country's specific legislation. The Guide is designed to serve as a companion piece to WOCCU's Model Law for SACCOs. The Guide is divided into six main sections namely the prudential and operational regulations, administrative regulations, enforcement regulations, general accounting and audit regulations, deposit insurance, and consumer protection regulations and each main section is further divided into a series of regulations.

It was against this background that during the time of the amendments that culminated into the Co-operative Societies (Amendment) Act 2004, there were already strong indications that the Cooperative Societies Act was inadequate to regulate Savings and Credit Cooperative Societies that were already doing deposit taking business. In December 2003, the Minister for Co-operative Development and Marketing appointed a Task Force with instructions of coming up with a Savings and Credit Co-operative (SACCO) Society Regulatory Bill. This is what culminated into the SACCO Societies Act and Regulations that were operationalized by the Minister for Cooperative Development and Marketing through the Kenya gazette on 25th June 2010.

The SACCO Societies Act and Regulations have been well received by some cooperative leaders from some sections of the SACCO sub-sector whereas some leaders view the new law as coming to stifle the growth of the sector. SACCO directors, staff and members who are not prepared for the new legal dispensation are up in arms while others are working day and night to comply while taking advantage of the new environment to review their strategic plans and to position their institutions for growth. SACCOs can now benchmark their products and services to those offered by other players in the financial services sector like commercial banks and Micro-finance institutions while still maintaining their identity of "not for profit but for service" institutions.

The dominant idea was that deposit-taking SACCOs have to respond to changes in the environment. This study addressed the following two questions. What challenges has the new regulatory environment posed to Stima SACCO Society Limited? What strategic business opportunities has the new regulatory environment created for Stima SACCO Society Limited?

1.3 Objectives of the Study

The objectives of the study were:-

1. to establish the challenges that the new regulatory environment posed to Stima SACCO Society Limited; and
2. to establish the strategic business opportunities that new SACCO regulatory environment has created for the Stima SACCO Society Limited.

1.4 Importance of the Study

This study benefits a number of interest groups starting with the management of Stima SACCO Society Limited, which was be able to develop strategic marketing strategies to exploit the business opportunities that had been created by the new SACCO regulatory environment. The findings are also useful to the leadership in developing compliance strategies for the SACCO regulations. The study also benefits managers of other firms in the SACCO industry by learning from the Stima SACCO case on how they can positively respond to the challenges created by the new regulatory environment.

Business partners, service providers and suppliers of Stima SACCO benefit from this study by knowing the strategic direction of the Society. This aids them in improving their relations with the Society. The Kenya Union of Savings and Credit Cooperatives

(KUSCCO) as the lobby group for the industry also benefits from this study by establishing some of the challenges and business opportunities created by the new SACCO regulations that can benefit SACCOs in Kenya.

The academic fraternity benefit from the study since it is a foundation upon which other related and replicated studies can be based on. The study also aids SACCO Societies Regulatory Authority as the regulatory body in establishing some of the challenges that affect the SACCO industry in Kenya under the new legal dispensation. The government benefits through increased taxes since increase in volume of business leads to increased revenue hence higher taxes.

CHAPTER TWO

LITERATURE REVIEW

2.1 The concept of Strategic Management

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, risk, and involve longer time horizons and greater need for flexibility. They are a 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.

Ansoff and McDonnell (1990) argued that strategy has various characteristics. The first process of strategy results in no immediate action rather it sets the general direction in which the firm's position will grow and develop, secondly, strategy involves a search process whose role is to focus on areas defined by the strategy and uncover possibilities inconsistent with it and filter them out, third, strategy is irrelevant where the historical dynamics of a firm can get it where it wants to go, fourth strategy is different from objectives in that objectives are the ends the firm seeks to achieve and strategy is the means to these ends. Lastly, strategy and objectives are interchangeable at different points in time and at different levels in the firm.

According to Johnson and Scholes (1997), strategic decisions are concerned with and affect the long-term direction of a firm. They are also aimed at achieving advantage for the firm and are conceived as the search for effective positioning of the firm. They argued that such decisions are likely to be concerned with the scope of an organization's activities i.e. what it should be like and what it should be about. Next, strategy involves matching the firm's activities to the environment it operates i.e.

strategic fit. However strategy can also be building on stretching the resources and competences to create opportunities. Strategies may require major resources and are likely to affect operational decisions. Lastly they argued that strategies are affected by the environmental forces, resource availability and the values and expectations of those who have power in and around the organization.

2.2 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 then 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 context of a complex political, economic, social, technological, environmental and legal world. The environment does not always accommodate the interests of the firm. Burnes (2004) 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.

Despite the different approaches by the above authors, the dominant 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. Ansoff and McDonnell (1990) explained the changes in the environment in terms of what they referred to as turbulence. Environmental turbulence is a combined measure of the changeability and predictability of a firm's environment. They described changeability to consist 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.

At level 1, firms do not change their products and services unless forced by a threat to their survival since the environment is stable and repetitive. At level 2, the environment changes slowly and incrementally and firms succeed by adapting reactively to change. Decisions are based on experience and they do not change their products or services unless there is threat from the competition. At level 3, the environment changes incrementally but fast. To succeed firms seek to progressively improve their products and services in anticipation of changing customer needs. Level 4 becomes very difficult because the firm has to be ready to abandon its historical position and be driven by its perception of new opportunities that will exist in the environment. The firm has to continuously scan the environment to identify future discontinuities and only stays in industries which are profitable and exits industries in a timely manner before they become unprofitable. At level 5, the only way to succeed is by remaining a leader in developing products and services using cutting edge innovation and technology. According to them strategic management becomes vital to a firm's success and even continued survival at levels 4 and 5.

In advancing the strategic success hypothesis, Ansoff and McDonnell (1990) introduced what they termed as a firm's strategic aggressiveness. This they described by 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 ranges 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 performance 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.

2.3 Strategic Marketing

According to Johnson and Scholes (1988) the essence of developing a marketing strategy for a company is to ensure that the company’s capabilities are matched to the competitive market environment in which it operates, not just for today but into the foreseeable future. For a commercial organization this means ensuring that the resources and capabilities match the needs and requirements of the markets in which it operates. For a non-commercial organization it means achieving a fit between its abilities to serve and the requirements of the publics or causes it is seeking to serve. At the heart of the strategy lies a need to assess critically both the organization’s resource profile (often referred to as strengths and weaknesses) and the environment it faces (its opportunities and threats). Strategic planning therefore attempts to answer three basic questions: what the business is doing, what is happening in the environment, and what should the business be doing. A marketing orientation must permeate the whole of an organization, but strategic marketing is just one of several functional plans that feed into the overall strategic plan of a company.

Marketing strategy should be set in the context of overall corporate strategy. Once the overall direction of the organization has been decided, with appropriate input from all relevant stakeholders, the marketing strategy will need to be aligned to ensure that direction is achieved. According to Hooley, Piercy and Nicoulaud (2009) in increasingly demanding, crowded and competitive markets there is no substitute for being market oriented. This does not, however, imply over-sophisticated marketing operations and elaborate marketing departments. Staying close to the customer, understanding his or her needs and requirements and marshalling the firm's resources, assets and capabilities to deliver superior value is what counts.

Hooley, Piercy and Nicoulaud (2009), refers to the 1997 Academy of Marketing Science conference when two leading marketing thinkers (Jag Sheth and David Cravens) spoke of the trends in strategic development that they believe has to be confronted. They challenged the conventional marketing thinking along the lines of global positioning, the master brand, the integrated enterprise and end-user focus, best-in-class processes, mass customization and breakthrough technology. They further argued that the strategy paradigms of the last twenty years are increasingly inadequate as we enter a new era of "market based strategy". They predicted markets shape business strategy, networks of interlinked products markets, the move from functions to processes, strategic alliances and the balanced scorecard.

2.4 Ansoff's Product/Market Expansion Grid

The business analyst Igor Ansoff outlined some important strategies for business growth. He identified four key approaches to growing a business. The Ansoff Growth matrix is a tool that helps businesses decide their product and market growth strategy. Ansoff's product/market growth matrix suggests that a business' attempts to grow depend on whether it markets new or existing products in new or existing markets.

Table 1: Ansoff's Product/Market Expansion Grid

	Existing products	**New products**
Existing Markets	**Market Penetration**	**Product Development**
New Markets	**Market Development**	**Diversification**

The output from the Ansoff product/market matrix is a series of suggested growth strategies that set the direction for the business strategy. These are described below:

Market penetration

Market penetration is the name given to a growth strategy where the business focuses on selling existing products into existing markets. Market penetration seeks to achieve four main objectives; first the focus of the business is to maintain or increase the market share of current products through pricing strategies, advertising, sales promotion and perhaps more resources dedicated to personal selling. Secondly the firm secures dominance of growth markets and thirdly the business has to restructure a mature market by driving out competitors through aggressive promotional campaign, supported by a pricing strategy designed to make the market unattractive for competitors. Lastly the firm has to focus on increasing usage by existing customers; for example by introducing loyalty schemes. A market penetration marketing strategy is very much about “business as usual”. The business is focusing on markets and products it knows well. It is likely to have good information on competitors and on customer needs.

Market development

Market development is the name given to a growth strategy where the business seeks to sell its existing products into new markets. There are many possible ways of approaching this strategy, including new geographical markets, new product dimensions or packaging, new distribution channels, different pricing policies to attract different customers or creating new market segments.

Product development

Product development is the name given to a growth strategy where a business aims to introduce new products into existing markets. This strategy may require the development of new competencies and requires the business to develop modified products which can appeal to existing markets.

Diversification

Diversification is growth strategy where a business markets new products in new markets. This is an inherently more risk strategy because the business is moving into markets in which it has little or no experience. For a business to adopt a diversification strategy, therefore, it must have a clear idea about what it expects to gain from the strategy and an honest assessment of the risks.

In responding to the challenges posed by the new SACCO regulatory environment Stima SACCO will not only have to establish strategic business opportunities created by the new environment but will have to develop strategies that will exploit these opportunities. According to the five levels of environmental turbulence identified by Ansoff and McDonnell (1990) for Stima SACCO to survive, it has to operate at Levels 4 and 5, abandoning its historical position and embracing new opportunities that exist in the new environment. The SACCO will also have to strive to become a market leader by developing products and services using cutting edge innovation and technology.

Stima SACCO has to develop a commercial orientation by aligning its internal capabilities to the needs and requirements of the markets it operates in. According to Johnson and Scholes (1988) the essence of developing a marketing strategy for a company is to ensure that the company's capabilities are matched to the competitive market environment in which it operates, not just for today but into the foreseeable future. In applying the business strategy of product/market expansion grid Stima SACCO can employ market penetration and/or development strategies, product development and diversification strategies. The SACCO may decide to penetrate the market by selling its existing products in its existing markets and increasing its market share. The SACCO may also develop new markets for its existing products or may develop new products for the existing markets. The SACCO may also adopt a growth strategy where it develops new products for new markets although this strategy must be adopted with a lot of caution due to the inherent risks associated with it.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

This was a case study of Stima SACCO Society Limited. Kothari (1990) described a case study as a careful and complete examination of a social unit, institution, family, cultural group or an entire community. A case study, he argued, embraces depth rather than breadth of a study. The study, therefore, involved an in-depth exploration of the challenges and strategic business opportunities that the new regulatory environment had created for Stima SACCO Society Limited. The research approach allowed for an in-depth understanding of Stima SACCO Society Limited and could not be generalized for any other SACCOs or the industry. Various studies had been carried out to determine how different organizations had responded to changes in the environment. Kiptugen (2003) did a study on the strategic responses to changing competitive environment, a case of Kenya Commercial Bank, Mulema (2004) carried out a study of responses to the environment in the service industry focusing on the Teachers Service Commission. Kandie (2001) focused his study on Telkom Kenya Limited. Migunde (2003) carried out his research on the Kenya Broadcasting Corporation and Mwanthi (2003) studied the British American Tobacco Kenya Limited.

3.2 Data Collection

The researcher used structured interview guide as primary data collection instrument. The interview guide was designed to give a brief introduction of the environmental changes targeted. The interview guide was having both close-ended and open-ended questions. The interview guide was administered through personal interviews with five managers and five non-managers drawn from various departments of Stima SACCO. The managers included the Chief Executive Officer, Finance Manager, Banking Manager, Credit Manager and the Internal Audit Manager. Personal interviews are advocated by Parasulaman (1986) as having the potential to yield the highest quality and quantity of data compared to other methods because supplementary information can be collected in the course of the interview. The researcher used structured interview guide as primary data collection instrument.

3.3 Data Analysis

Data collected from the study was qualitative data. The data was checked and edited for completeness and consistency. A content analysis was performed on the data to allow for an in-depth understanding of issues in the case. Nachmias and Nachmias (1996) defined content analysis as a technique for making inferences by systematically and objectively identifying specified characteristics of messages and using the same approach to relate to trends. By performing a content analysis, a clear understanding of the effects of the new regulatory framework and the resultant business opportunities as perceived by the respondents' were obtained. Some of these were quantified using key words or phrases that gave a general description of the basic concepts in this research. This approach had been used successfully by other researchers for previous similar studies like Muse (2006), Kathuku (2005) and Mulema (2004).

CHAPTER FOUR

DATA FINDINGS AND ANALYSIS

4.1 Introduction

This chapter presents the findings of the study and the analysis of the data collected from questionnaire which was distributed to Chief Executive Officer, Finance Manager, Banking Manager, Credit Manager, Internal Audit Manager and five non-management staff drawn from different departments of Stima SACCO Society Limited. According to the data found, all five managers and five non-managers projected in the previous chapter to be interviewed were interviewed which makes a response rate of 100 %. This commendable response rate was achieved after the researcher made frantic effort at booking appointments with the interviewees despite their tight schedules and making phone calls to remind them of the interview. There was total co-operation during the interviews.

4.2 General Information

The study, in an effort to establish the interviewees' competence and conversance with matters regarding Stima SACCO Society Limited in regard to strategic business opportunities created by the new regulatory environment, asked a question on their highest level of education. According to the interviewees' responses most of them had a university degree while others had master's degree. Their professional qualifications ranged from accountancy and auditing, co-operative management, marketing and public relations. Further on was the question on the years that the interviewees had worked for the organisation (Stima SACCO Society Limited). According to the interviewees' responses, three of them had worked for the organisation for below one year while the rest had worked for periods between three to twenty two years. The interviewees' responses hence were well balanced because managers and non-managers do not always see things the same way and the fact that some were newly employed and others had served the organizations for a long time. This diversity gave a variety of ideas which the SACCO can exploit to its advantage.

4.3 Challenges

Asked to describe the regulatory environment in which the organization was operating in, the respondents said that the new SACCO Act had significantly changed the business environment for SACCOs and that the regulations were now more focused on the safety of members funds. The regulations gave guidance on how the SACCO business is supposed to be conducted through clear operational guidelines and prescription of various policies. The interviewees described the new regulatory environment as more dynamic, more enabling for business growth and that it had created more customer confidence on Stima SACCO through improved public image of the SACCO movement in general. The new regulatory environment was also described as 'more structured and firm' and one that was opening up more business opportunities to the organization due to its clear operational guidelines.

On the question of the challenges that the new regulatory environment had posed to Stima SACCO, the respondents identified several challenges. 80% of those interviewed identified capital adequacy as a major challenge posed by the regulatory environment followed by the high cost of compliance, human resource capacity to comply and enhancement of corporate governance at 30% each. Those that were identified by 20% of the respondents were stringent liquidity requirements, organization structure to facilitate compliance and loss of control by the current membership due to the imminence of an expanded common bond. Other challenges perceived by the respondents as posed by the new regulatory environment were fear of the unknown, tough disclosure requirements, members' resistance to change, balancing compliance with political interests, stringent reporting requirements and new product development.

The respondents identified the following as the possible strategies to overcome the challenges posed by the new regulatory environment to Stima SACCO. 70% of the respondents said that training was an important tool in overcoming the challenges posed by the new regulatory environment. They suggested that training at various levels of the organization namely the staff and management, Board of Directors, delegates and the general membership. 30% of those interviewed said that development of good operational policies and product innovation and diversification are also important strategies in dealing with the challenges. Those mitigating strategies that were identified by 20% of the respondents were expanding the Society's target market, retention of profits, aggressive savings mobilization, establishing mechanisms for continuous compliance and customization of the operating software to comply with regulatory reporting requirements. The respondents also identified such other strategies for overcoming the challenges as aggressive marketing of products and services, changing the Society's business model to become a more inclusive financial intermediary that is also market driven, entering into strategic partnerships and reviewing governance structures. Others were injection of new capital, close liaison with relevant government agencies and allocation of adequate budget for compliance requirements.

4.4 Strategic Business Opportunities

The respondents identified various business opportunities created by the new regulatory environment. The opportunity identified by the majority of the interviewees was the SACCO's ability to serve other markets beyond its conventional target market. This was mentioned by 60% of those interviewed. 40% of the interviewees felt that the SACCO's image was bound to improve due to the presence of the SACCO regulator and this was a major opportunity for the organization to exploit. Two opportunities identified by 30% of the respondents were the ability to attract more savings due to improved customer confidence in the industry and development of new products and services. Ability to attract business clients into the Society, opportunity to raise more capital and merge with other SACCOs were opportunities identified by 20% of the interviewees. Those identified by 10% of the respondents were enhanced lending capacity, strategic alliances and partnerships and offering products and services usually associated with the Micro-finance industry.

The respondents went further to suggest ways that Stima SACCO could employ to exploit the identified business opportunities. Those strategies suggested by 30% of the respondents were rebranding and repositioning the Society as a market driven financial intermediary and spreading its wings to serve a wider catchment area. 20% of the respondents suggested that the Society should optimize on the opportunity to lend more, sell more shares and develop more products and services targeting both existing and new markets. Other suggested strategies were offering efficient operations, merging with other SACCOs and changing the Society's business model. The respondents also talked about benchmarking the SACCO with the other players within the wider financial services industry, mobilizing more deposits, conducting regular market research, embracing strategic alliances and partnerships, retaining more profits and embracing the best governance practices.

A number of internal challenges that could deter Stima SACCO from exploiting identified business opportunities were lack of adequate policies and procedures, poor corporate culture, conflict of interest by some leaders, ineffective organization structure, inefficient business operations and processes, inadequate utilization of technology and resistance to change by staff, management, Board of directors and general membership. Other challenges were inadequate skills and human resource capacity, low liquidity levels and capitalization, poor corporate governance and public image and loan delinquency and default.

The suggested ways to address the internal weaknesses that could hamper the Society from exploiting the available business opportunities for growth were a paradigm shift by the Society leadership, staff and the general membership to accommodate the desired change, striving to comply with the regulations, improved communication at all levels of the Society and establishing a lean and efficient organization structure. Others included conducting process reengineering, aggressive members' sensitization about the changes in the regulatory environment, proper change management, review of policies and procedures, capacity building of the leadership and staff, business planning and training at all levels, improved governance structures and financial education.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of key data findings, conclusion drawn from the findings highlighted and recommendation made there-to. The conclusions and recommendations drawn were in quest of answering the research question or achieving the research objective which was to establish the challenges and strategic businesses opportunities for Stima SACCO Society limited in a new regulatory environment.

5.2 Discussions

The study revealed a number of business opportunities created by the new SACCO regulatory environment to Stima SACCO despite the number of challenges that the new environment posed to the SACCO. The researcher found out that the new regulatory environment was well received because it provided a more structured and clear guidelines on the operations of the SACCO. The new environment was also found to be more focused on the safety of the members' funds hence creating more customer confidence. It was also described as more dynamic and enabling for business growth of Stima SACCO.

The study revealed a number of challenges facing Stima SACCO as a result of the new regulatory environment with capital adequacy being identified as the major challenge followed by the high cost of compliance, human resource capacity to comply and enhancement of corporate governance. The other challenges were stringent liquidity requirements, an effective organization structure to facilitate compliance and loss of control by the current membership due to the imminence of an expanded common bond. Also identified were fear of the unknown, tough disclosure requirements, members' resistance to change, balancing compliance with political interests, stringent reporting requirements and challenges associated with development of new products.

Albeit the many challenges, the study found out that there were many strategies the Stima SACCO could employ in a bid to overcome the challenges associated with the new regulatory environment. Training at all levels of the Society was identified as an important tool in overcoming the challenges posed by the new regulatory environment. Other suggested strategies that would adequately deal with the challenges were development of good operational policies, product innovation and diversification. The respondents also identified mitigating strategies as expanding the Society’s target market, retention of profits, aggressive savings mobilization, establishing mechanisms for continuous compliance and customization of the operating business software to comply with the regulatory reporting requirements. Also identified as strategies to overcome the challenges were aggressive marketing of products and services, changing the Society’s business model to a financial intermediary that is more inclusive and market driven, entering into strategic partnerships and reviewing governance structures. Others were injection of new capital, close liaison with relevant government agencies and allocation of adequate budget for compliance requirements.

On the business opportunities created by the new regulatory environment the study revealed a number of opportunities that Stima SACCO could exploit. The biggest opportunity that Stima SACCO had at its disposal was the growth of its client base through spreading of its wings to serve other customers outside its conventional markets. The presence of a regulator had created an enhanced public image for the SACCO industry hence for Stima SACCO. Ability to attract more savings due to improved customer confidence in the industry and the opportunity develop new products and services for the existing and new markets were also identified. The SACCO has also an opportunity to attract business clients, raise more capital and to merger with other SACCOs. Other opportunities included enhanced lending capacity, strategic alliances and partnerships and invading the Micro-finance industry.

In exploiting the identified opportunities, the study revealed that Stima SACCO could employ a number of strategies. Rebranding and repositioning of the SACCO was top on the list followed by spreading its wings to serve a wider catchment area. The Society could also optimize on its opportunities to lend, sell more shares and develop more products and services targeting both existing and new markets. Other suggested strategies were offering efficient operations, merging with other SACCOs and changing the Society's business model. The respondents also talked of benchmarking the SACCO with the other players within the wider financial services industry, mobilizing more deposits, conducting regular market research, embracing strategic alliances and partnerships, retaining more profits and improving governance standards.

There were however internal challenges that the study revealed, which could impede exploitation of the identified opportunities by Stima SACCO. These impediments were lack of adequate policies and procedures, poor corporate culture, conflict of interest by some leaders, ineffective organization structure, inefficient business operations and processes and inadequate utilization of technology. Others were resistance to change by staff, management, Board or directors and general membership, inadequate skills and human resource capacity, low liquidity levels and capitalization, poor corporate governance and image and loan delinquency and default.

The suggested ways to address the internal weaknesses that could hamper the Society from exploiting available business opportunities for growth were a paradigm shift by the Society leadership, staff and the general membership to accommodate the desired change, striving to comply with the regulations, improved communication at all levels of the Society and establishment of a lean and efficient organization structure. Others included conducting process reengineering and review of procedures, aggressive members' sensitization about the changes, proper change management, review and development of relevant policies, capacity building of the leadership and staff, business planning at all levels, improved governance structures, conducting training at all levels and financial education for members.

5.3 Conclusions

The study concludes that the new regulatory environment provided more structured and clear guidelines on the operations of Stima SACCO. The new environment was also found to be more focused on the safety of the members' funds hence creating more customer confidence, more dynamic and enabling environment for business growth of the SACCO. The new environment further creates various business opportunities, albeit the challenges that it poses to the SACCO. Among the opportunities identified by majority of the respondents were the ability to grow the Society's client base through spreading its wings beyond its conventional market, enhanced public image due to the presence of the regulator, opportunity to serve the business community and to aggressively mobilize savings and sell more shares. The SACCO also has the opportunity to merge with other SACCOs, develop more products and services for existing and new markets and serve the micro-finance market.

The study further concludes that the SACCO could employ various strategies to survive in the new regulatory environment. Such strategies include rebranding and repositioning itself, benchmarking with other players in the industry, embracing strategic alliances and partnerships and changing its business model to become a financial intermediary that is more inclusive and market driven. To overcome its internal weaknesses that may pose a threat to exploitation its opportunities, the SACCO should conduct training at all levels of the organization, build human resource capacities, perform process reengineering and review and develop operational policies and procedures to improve efficiency of operations.

5.4 Recommendations

The study recommends that Stima SACCO should turn its challenges into opportunities and exploit the opportunities to survive in this unfamiliar regulatory environment, hence register an unprecedented business growth. In doing so the SACCO needs to review its by-laws to widen its target market, merge with like-minded SACCOs, benchmark with other financial institutions, change its business model to become a more inclusive and market driven financial intermediary and serve the micro-finance market.

5.5 Areas for Further Study

The researcher recommends that a study be done on Stima SACCO to establish whether the SACCO has adopted the recommended strategies and how they have impacted on the performance of the SACCO. This study can be replicated on other SACCOs in the SACCO industry to establish the challenges other SACCOs face and the opportunities that are available to them under the new regulatory environment. This would give a clear understanding of the industry as a whole.

The researcher further recommends that a similar study be done on micro-finance institutions that are operating under a new micro-finance law for purposes of benchmarking. Other areas of study that the researcher recommends are researching on the effects of the current SACCO business model vis-à-vis a more market driven model and the aspects of the micro-finance industry that the SACCO could adopt in strengthening its business model.

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APPENDIX I: INTERVIEW GUIDE

GENERAL INFORMATION

Please indicate your name ………………………………….. (optional)

Please indicate your gender ……………………………………………..

Please indicate your age …………………………………………………

What position do you hold in Stima SACCO..

How long have you worked for Stima SACCO ………………………….

What is the highest level of your education that you have attained………

……………………………………………………………………………….

What is your professional training………………………………………..

CHALLENGES POSED BY LEGAL FACTORS TO STIMA SACCO

What is your description of the regulatory environment in which Stima SACCO is operating?

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What challenges does the new regulatory environment pose to Stima SACCO? ……………..………………………………………………………………………

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What strategies can Stima SACCO use overcome the challenges posed by the new regulatory environment? ……………………………………………………………….

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STRATEGIC BUSINESS OPPORTUNITIES

What business opportunities have been created by the new SACCO regulatory environment?

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How can the SACCO exploit the business opportunities created by the new regulatory environment?

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What are the internal challenges that can deter Stima SACCO from exploiting the identified business opportunities?

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How can the internal challenges identified above be addressed?

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