

**STRATEGIC RESPONSES TO CHANGES IN THE EXTERNAL
ENVIRONMENT BY MWALIMU NATIONAL CO-OPERATIVE SAVINGS
AND CREDIT SOCIETY LIMITED IN KENYA**

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DECLARATION

This research project is my original work and has not been submitted for the award of degree in any other university or institution for any other purpose.

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This research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

To my family for encouraging me throughout.

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My gratitude goes to the Almighty God. It is by His Grace that I was able to complete this project.

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ABSTRACT

This study sought to establish strategic responses to changes in the external environment by Mwalimu National Co-operative Savings & Credit Society Limited in Kenya. The researcher was driven to undertake the study to find out how the Sacco has survived in a fast changing environment due to decline in loan demand and declined share capital. The research used a case study design. Primary data was collected by use of interview guide while secondary data was collected from the Sacco's financial statements and official memos. The data collected was then analyzed using content analysis which enabled the researcher to categorise the phrases and statements from respondents to describe the logical structure and pattern of expression which helped to ascertain an association to the statement or phrases. The study found out that major changes in the external environment facing the Sacco were competition in a liberalized economy and introduction of e-commerce, limited amount of credit a member could qualify for hence members sought for alternative financing source to get more credit and the mushrooming of other teachers saccos in the counties with the intention of 'being associated' with Mwalimu National Sacco. The study found in dealing with these challenges the sacco should; review the loaning condition, buy off members' loans with other commercial financial institutions, establish a marketing department and advertise in the vernacular radio stations.

ABBREVIATIONS/ACRONYMNS

ADM	:	Annual Delegates Meeting
BBF	:	Burial Benevolent Fund
Member	:	Customer of Mwalimu National Savings & Credit Society Limited
Sacco	:	Savings and Credit Co-operative Society
SASRA	:	Sacco Societies Regulatory Authority
KUSCCO	:	Kenya Union of Savings and Credit Co-operatives

CHAPTER 1:

INTRODUCTION

1.1 Background to the study

The business environment is rapidly changing, making it imperative for organizations to continually adapt their activities to changes in the environment in order to succeed. To survive in a dynamic environment their strategies need to focus on their customers and deal with the emerging environmental challenges Charles and Dan(1978). They further observed that for organizations to be effective and hence successful, they should respond appropriately to changes that occur in their respective environments. Changes in the environment in which organizations operate have implications which manifest in either opportunities or threats, opportunities present an avenue for improving organization. A good understanding of the two dimensions is desirable if an organization is to remain relevant and competitive in order to ensure success in business.

Organizations therefore face constant demands for changes to keep up with these challenges, the management must use effective change management with each new initiative that may make the organization experience a fundamental shift in its operations. This way the organization develops competency by responding to customer's demand and becoming more innovative in their ways of approaching the changing environment. Organizations are currently faced with the challenge of how to cope with the dynamic environment given the constraints and threats experienced by the organizations. Whether because of economic, technological, or social factors, organizations are faced with a period of rapid and unprecedented changes Burnes (2000). An organization's interaction

with the external environmental factors is important for its survival. Every organization changes in time to stay effectively related to its changing relevant environment. According to Feibleman and Friend (1970), the environment in which every organization is involved never lets the organization alone. The external environment forces the organization to make changes, or it will disintegrate. An organization's interaction with the external environmental factors is important for its survival.

1.1.1 Concept of Strategy

John, (1990) viewed strategy as an area of management which is concerned with the general direction and long-term policy of an organization as distinct from short-term tactics and day-to-day operations. Hence the strategy of an organization may be defined as its long-term objectives and the general means by which it intends to achieve them. Johnson & Scholes (2002) further argue that strategy is a unifying part of a decision that helps in identifying purposes, goals, objectives and priorities of the organization. Strategy also helps the organization create competitive advantage as the organization needs to be aware of what the competitors do to effectively compete. Strategy helps in defining the obligations of the organization to its stakeholders as well as defining its specific business in terms of geographic scope. The success of any organization therefore depends on how new strategies are crafted to enable countering of challenges that are thrown by the environment. According to Howard and Peter (2004), it is through strategic management that a firm will be able to position and relate itself to the environment to ensure its continued success and also secure itself from surprises brought

about by the changing environment. The strategy of an organization involves matching its corporate objectives and its available resources.

Ansoff and McDonell (1990) assert that organizations are environment serving. They interact with the environment in such a way that they get inputs from the environment, process them and give back to the environment in the form of goods and services. The external environment consists of factors beyond the control of the organization that influences its choice of direction and action, organizational structure and internal processes. The remote environment comprises factors that originate beyond, and usually irrespective of, any single firm's operating situation; economic, social, political, technological and ecological factors Pearce & Robinson(2005). The environment presents organizations with opportunities, threats and constraints but rarely does a single firm exert any meaningful reciprocal influence. To survive in a dynamic environment their strategies need to focus on their customers and deal with emerging environmental challenges Charles & Dan(1978). One of the most critical aspects of organizational stability and long-term survivability is constant analysis of internal and external forces that affect organizations in either a positive or negative way. An insightful diagnosis of a company's external and internal environment is a prerequisite for managers to succeed in crafting a strategy that is an excellent fit with the organization's situation, is capable of building competitive advantage and holds good prospect for boosting company performance the three criteria of a winning strategy Thomson & Strickland(2008).

1.1.2 External Environment

According to Pearce and Robinson (2007) the external environment of a firm are the conditions and forces that define its strategic options and its competitive situation. External environment consist of three interactive segments which are remote, industry and operating environment. The remote environment consists of factors that are beyond the firm's control which includes economic, social, political, technological and ecological. These factors provide an organization with opportunities, threat and constraints. Operating environment consists of factors that give an organization success through positioning, composition of its customers, its reputation and where to attract its best employees. The environment where organization operates in is constantly changing with different factors influencing the organization. The general business environment is ever becoming more volatile, unpredictable and very competitive. All these changes in the external environment affecting the firm are in varying degrees.

The external environment of an organization is all those conditions and forces that affect its strategic options and determines its competitive situation. Organizations therefore, have to continuously change to keep pace with the fast changing environment Porter (1988). Johnson and Scholes (2002) further note that in an ever-changing global economy, organizations must find ways of operating by developing new competences as the old advantage and competences gained is quickly eroded owing to environmental changes. Many companies fail to see change as an opportunity, they resist change until its too late. Firms have however, developed strategies to counter react the impact of the external environment forces. These includes high cost of maintaining quality services,

cost of maintaining skilled labor, increased competition, government policies and regulation and inflation rates. Koberg and Ungson (1987) Organizations must cope with and manage uncertainty to be effective. Uncertainty means that decision makers do not have sufficient information about environmental factors, and they have a difficult time predicting external changes. Uncertainty increases the risk of failure for organizational responses and makes it difficult to compute costs and probabilities associated with decision alternatives.

1.1.3 Strategic responses

A strategic response is a set of decisions and actions that result in the formulation and implementation of plans designed to achieve an organization's objectives. It is thus a reaction to what is happening in the environment of the organization (Pearce and Robinson, 2005). Strategic response affects the long-term direction of an organization, requires large amounts of resources and is difficult to reverse. According to Burnes(1996), the firm has to learn, adopt and reorient itself to the changing environment. Most importantly, when a discontinuity begins to affect a firm in a turbulent environment, faced with variety of pressures of new challenges brought about by globalization and trade liberation, its impact, typically remains hidden within the normal fluctuations in performance. Ansoff and McDonnel, (1990) note that strategic responses involve changes to organization's strategic behavior to assume success in transforming future environment. Strategy is a bridge between the firm's resources and the opportunities and risks the firm faces in the environment. It incorporates the competitive moves and approaches to deliver the best performance and satisfaction to all stakeholders. The choice of the responses depends on the speed with which a particular

threat or opportunity develops in the environment. Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining competitive edge.

For an organization to remain truly competitive over time as the environment changes, Susan and Arnoud (1991) argues that it has to learn, adapt and reorient itself to the changing environment. Further that this process must be deliberate and coordinated, leading to gradual or radical system realignments between the environment and a firm's strategic orientation that results in improvement in performance and effectiveness. Successful organizations must continually scan their environment in order to identify future economic, competitive, technological and political discontinuities, which could affect its operations Ansoff and McDonnell(1990). In every industry, successful organizations continuously reassess competitive factors which will bring future success. Whenever historical strategies do not match the future success factors, the organization develops new strategies or leaves the industry.

1.1.4 Savings and Credit Co-operative Societies in Kenya

A savings and credit co-operative society (Sacco) is a type of co-operative whose objective is to pool savings for the customers referred to as members and in turn provide them with credit facilities. Other objectives of a Sacco are to encourage thrift amongst the members and also on the proper management of money and investments practices. Whereas in urban areas salary and wage earners have formed urban credit and savings society, in rural areas, farmers have formed rural credit and savings society. There are also traders, transport, jua kali and community based credit savings and credit society.

Traditional Co-operative and Savings Societies have existed since time immemorial. Amongst the Kenyan Communities, these Co-operatives took different forms. The Kikuyu Community had *Ngwatio*, a form of group work in which members of the group assisted each other in turns, during farm cultivation and construction of traditional dwelling huts. The Luo Community had group work called *Saga* in which members of the group ploughed or harvested individual shamba of their members in turns. Similar groups that existed among the Kisii were called, *Risaga* while the Kalenjin Community had *Kokweti*. While membership to these groups was voluntary, their main objective was to enhance community cohesion and elimination of poverty Mutura (2006).

Co-operative principles are the guidelines and ground rules for all cooperative organizations. In the absence of these principles, no lasting cooperative system is possible. Kenya Union of Savings and Credit Co-operatives Limited (KUSCCO Ltd) is the umbrella body for all credit and savings society in Kenya. Its key roles are mainly advocacy and representation of all credit and savings society in Kenya. The main principles of cooperation according to KUSCCO website (www.kuscco.com) are: voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and participation.

The Sacco Societies Regulatory Authority (SASRA) is a Semi-Autonomous Government Agency under the Ministry of Industrialization then Ministry of Co-operative, Development and Marketing. It is a creation of the Sacco Societies Act 2008 and was inaugurated in 2009 charged with the prime responsibility to licence and supervise

Deposit Taking Sacco Societies in Kenya. The establishment of SASRA falls within the Government of Kenya's reform process in the financial sector which has the dual objectives of protecting the interests of Sacco members and ensuring that there is confidence in the public towards the Sacco sector and spurring Kenya's economic growth through the mobilization of domestic savings (SASRA website).

1.1.4.1 Mwalimu National Co-operative Savings and Credit Society Limited in Kenya

Mwalimu National Co-operative Savings and Credit Society Limited (Mwalimu National Sacco) was rebranded in 2010. It was formerly known as Mwalimu Co-operative Savings and Credit Society Limited (Mwalimu Sacco) founded and registered in the year 1974 under the Co-operative Societies Act. (Cap 490 reviewed in 2004) as a Sacco Society. Its main areas of services provision include; the mobilization of savings, the provision of credit and welfare facilities to its members. The membership is drawn mainly from the employees of the Teachers' Service Commission (TSC), public secondary school institutions with a minority from public primary school institutions and employees of the Sacco but the latter are barred (by the Sacco by-laws) from participating or holding any elective posts. The core business of the Sacco is to mobilize savings and grant credit to members at a determined interest rate. The major source of revenue for the Sacco is interest paid on the credit.

The supreme policy formulation organ of the Sacco is the Annual Delegates Meeting (ADM) through a delegates system. The Sacco has forty branches distributed all over the

country with each branch having between five to ten delegates. These delegates are elected by members of the Sacco in the respective branch on an annual basis based on rotation terms. The total number of delegates for the Sacco is three hundred and twenty. The Sacco has a schedule of marketing days for all the forty branches on an annual basis when officials/staff of the Sacco meet with existing or potential members of a branch to sensitize them on current happenings at the Sacco. Mwalimu National Sacco is governed by Board Members who comprise of a Chairman, Vice Chairman, Treasurer, Secretary and three Members. There is also a Supervisory Committee comprising of a Chairman, Secretary with one Member, the main task of the Supervisory Committee is to independently supervise the operations of the Sacco and give a quarterly report to the Board and on an annual basis consolidate a report of the four quarters for presentation during the ADM. Members of both the Board and the Supervisory Committee are elected by delegates during the ADM but one must have initially been elected as a delegate in the respective branch then vie for a post in either committee. Duration to serve in either committee is a two term comprising of three years each term.

Like any other organization, Mwalimu National Sacco is operating in a dynamic competitive environment. The core business of the Sacco is to issue credit to its members under certain conditions and expect repayment of the credit and interest charged on a monthly basis.

1.2 Research Problem

The environment from time to time brings threats from all the forces as indicated by Porter (1998). Ansoff (1965) asserts that when a firm fails to respond to a threat, the losses that results continue to accumulate. The strategic response process is initiated once the rational trigger point is reached. This is the point at which accumulated data shows that there is serious decline in performance which cannot be reversed and that special counter measures are required. With the increasing competition that companies are facing today, rewards will accrue to those who can read precisely what consumers want by continuously scanning the environment and delivering the greatest value to customers with the view that as the operating environment changes, a more pronounced transformation of the business landscape lies ahead Ansoff & McDonell (1990).

Based on a circular (October, 2008) from Directorate of Personnel Management (DPM) ‘a third rule’, employers are instructed to ensure that total deductions do not fall below a third of an employees’ basic salary. This condition limits the amount of credit a member could qualify for which in turn push members to seek for other financing alternatives where they can qualify for a higher amount. Since the mid1990s, Mwalimu National Sacco recognized the challenge of competition in a liberalized economy and introduction of e-commerce. Commercial banks and other financial institutions began to offer personal loans to salaried employees. The banks have aggressive marketing campaigns selling their personal loan products. They target teachers because of their large numbers. The banks do not observe the ‘a third rule’ by virtue of ensuring that the teacher’s salary

is processed through them. They offer higher amounts than what the Sacco offers and the banks could even buy off the loans which the teachers had with the Sacco. These affects Mwalimu National Sacco since most teachers retained their membership but without a loan while contributing shares at the bare minimum yet the Sacco generates income on interest from loans.

The Sacco is spread throughout the country and it is known for its efficiency in provision of service. Other teachers' Saccos have mushroomed in the various counties branding themselves for example 'Mwalimu Kisii Sacco' and so forth in the different counties with the intention of 'being associated' with Mwalimu National Sacco. These other 'Saccos' confuse teachers who comprise a big percentage of Mwalimu National Sacco membership with the name 'Mwalimu Kisii Sacco and so forth' and teachers easily fall prey assuming that they have joined Mwalimu National Sacco only to realize much later that, that is not the case when they receive poor services. This confusion taints the image of Mwalimu National Sacco.

A previous research on strategic responses by Mwalimu Sacco Society Limited to challenges of competition was undertaken by Waweru (2009). His findings were development of various loan products, technological changes, implementation of a five year strategic plan, implementation of ISO 9001:2008, buying off of the members' loans from other financial institutions, aggressive marketing strategies, performance contracting and development of customer service charter. Mutura (2006) researched on

factors influencing the effectiveness of guarantorship in loan recovery on Mwalimu Sacco Society Limited and revealed that financial institutions offered diverse financial products at competitive rates some of which were not being offered by Saccos. There are research gaps to be filled from studies conducted on the Sacco hence the research statement to investigate and answer the following research question; How has Mwalimu National Sacco responded to changes in the external environment?

1.3 Research Objectives

The study was guided by the following objectives:

- i. To determine strategies which Mwalimu National Sacco has adopted to respond to changes in the external environment;
- ii. To determine the challenges encountered in adoption of these strategies.

1.4 Value of the Study

A policy is a set of principles, rules, and guidelines formulated or adopted by an organization to reach its long-term goals and typically published in a booklet or other form that is widely accessible. This study will enable Mwalimu National Sacco policy makers obtain knowledge to enable them draft and implement policies that will enable the Sacco to respond to any changes in the external environment.

The findings of this study will be useful to management and staff of Mwalimu National Sacco by providing insights on how the organization can adapt and respond to turbulence in external environment. The organization will adopt strategies that will give it strategic

advantage as compared to its competitors and or also change strategic responses which may not be effective.

This study will expand the existing body of knowledge in changes to the external environment to stakeholders of Mwalimu National Sacco and other Saccos by providing insights into strategic responses to external environment. The findings of the study will be particularly useful to the academics and researchers working on the concept of strategic responses to change in the external environment as they will have additional secondary data. It will also contribute to existing scholars and a guide to further research on strategic responses to changes in external environment. It will be a basis for benchmarking with other institutions

CHAPTER 2:

LITERATURE REVIEW

2.1 Introduction

A literature review is an account of what has been published on a topic by accredited scholars and researchers to convey what knowledge and ideas have been established on a topic, and what their strengths and weaknesses are. This chapter covers theoretical foundations of the study, concept of strategy, strategy and environment, strategic responses, strategy implementation and challenges of strategy implementation.

2.2 Theoretical foundations of the study

Every organization wants to grow their business but it is often difficult to determine the best way forward. Ansoff's Matrix assists organizations to analyse the potential for growth strategies. An organization that operates in an expanding market can grow through market penetration. However, an organization in a mature, stable market may choose to grow either through market development or product development depending on its internal strengths. If neither of these offers sufficient potential, an organization may consider diversification to achieve further growth. He outlines four distinct strategies; Market penetration is the easiest way to grow in an expanding market. However, it becomes more difficult as the market matures and competition increases; Market development is a riskier strategy and is most appropriate where the core competence of the business is the product or service; Developing new products for an existing market is also more risky than market penetration. It is often most appropriate where the strength of

the business lies in its relationship with customers; Diversification is the riskiest strategy since it involves two unknowns: new products with unknown development problems and new markets with unknown characteristics. But it can offer the best potential for growth. Ansoff (1965).

SWOT analysis is a strategic management tool that evaluates environmental business factors. SWOT stands for strengths, weaknesses, opportunities and threats. SWOT analysis can help management make strategic decisions on what direction to take a business or how to improve existing business functions. It is particularly helpful in matching market opportunities with a business's resources and capacities. Strengths are internal environmental measure. It looks within an organization at its resources and capabilities. It differentiates an organization's business and gives it an advantage over competition. Weaknesses are also an internal measure that looks at an organization's resources and capabilities. With weaknesses, an organization will observe its strategic disadvantages against competitors. Opportunities and threats are external environmental measures. They look at factors in the market in which an organization operates. Opportunities and threats are typically beyond an organization's control. Opportunities could include new technology, favorable political conditions, a new market or market gaps. Threats could be tightening regulations, new competition, substitute products or shifting consumer preferences. After conducting a SWOT analysis, an organization is able to create strategies to take advantage of opportunities using its strengths, overcome weaknesses to pursue opportunities. An organization can use strengths to stave off external threats and strategize to protect its weaknesses from threats. Porter (1998).

2.2.1 Concept of strategy

According to Ansoff and McDonnell(1990), a strategy is a set of decision making rules for guidance of organizational behavior. The definition of strategy has evolved through time. Strategy is the unique and sustainable ways by which organizations create value as a competitive advantage. However, for a strategy to succeed, a thorough evaluation and analysis of the direction to follow is required by the managers. Johnson and Scholes (2005) believed that strategy is about direction and scope of an organization over a long term competitive advantage.

Strategy in the corporate context as the pattern of decisions in a company that determines and reveals its objectives, purpose or goals, produces the principles, policies and plans for achieving these goals and define the range of business the company is to pursue, the kind of economic and human organizations it is or intends to be. Porter (1998) described strategy with three different formulations capturing the holistic nature of the organization, which are corporate level, business unit level and functional/departmental level strategies. Corporate level strategy covers the identification and selection of the market where the company should compete and the portfolio development of the firm. Business unit level strategy focuses on the development and maintenance of the competitive advantage of the goods and services offered by the organization. Functional level is more localized and shorter-horizon strategies deal with how each functional area and unit will carry out its functional activities to be effective and maximize resource productivity.

2.2.2 Strategy and environment

To be successful over time, an organization must be in tune with its external environment. Pearce and Robinson (1991) show in their model that the external environment consists of two interactive and interrelated segments which are the operating environment and remote environment. The operating environment consists of competitors, customers, creditors, labor markets and suppliers that is the immediate business environment while the remote environment consists of the economic, political, social and technological aspects which are further a field. The operating environment is easily controllable by the firm. Customer relationships can be cultivated and a successful supply chain can be cultivated. They further postulate that the remote environment consists of forces that originate beyond the firm's operating environment and are therefore much harder to manipulate or handle. Economic forces influence inflation rates, unemployment rates, foreign exchange rates and disposable income for instance which the firm must contend with. Politico-legal considerations may influence laws governing firms and dictate specific ways of running organizations through labor laws, taxation among others.

Ansoff and McDonnell (1990) point out that the success of every organization is determined by the match between its strategic responsiveness and strategic aggressiveness and how these are matched to environmental turbulence. This is because each level of environmental turbulence has different characteristics, requires different strategies and requires different firm capabilities. Therefore, each level of environmental

turbulence requires a matching strategy and the strategy has to be matched by appropriate organizational capability for survival, growth and development. For an organization to remain vibrant and successful in the long run, it must make impact assessment of the external environment, especially such relevant groups as customers, competitors, consumers, suppliers, creditors and the government and how they impact on its operations success is dependent on productivity, customer satisfaction and competitor strength. Critical success factors are crucial to an organization because they take into consideration fundamental changes in the environment. According to (Aaker, 1992) effective strategy may enable a business to influence the environment in its favour and even defend itself against competition. There is need to understand a competitor strengths and weaknesses in the market.

2.2.3 Strategic responses

Strategic response is the set of decisions and actions that result in the formalization and implementation of plans designed to achieve a firm's objectives (Pearce and Robinson, 2005). It involves various activities including structuring an organization to achieve successful performance, enabling success through the way in which the separate resources of people, information, finance and technology support strategy and managing change (Johnson & Scholes 2005). It encompasses a deliberate search for a plan of action that will develop a business's competitive advantage and compound it. The process involves predictions and forecasts on challenges and opportunities that an organization is likely to encounter in the external environment. According to Porter, (1985), a firm can gain competitive advantage if it is able to create value for its buyers, and competitive

strategy aims to establish a profitable and sustainable position against the forces that determine sector competition. Whereas enabling success is important, the extent to which new strategies are built on given resources and competence strengths of an organization is also crucial.

Ansoff and Mcdonnel, (1990) note that strategic responses involve changes to organization's strategic behavior to assume success in transforming future environment. Strategy is a bridge between the firm's resources and the opportunities and risks the firm faces in the environment. It incorporates the competitive moves and approaches to deliver the best performance and satisfaction to all stakeholders. The choice of the responses depends on the speed with which a particular threat or opportunity develops in the environment. Well developed and targeted strategic responses are formidable weapons for a firm in acquiring and sustaining competitive edge.

2.2.4 Strategy implementation

Once strategies have been agreed upon, the next step is implementation; this is where most failures occur. It is common for strategic plans to be drawn up annually, and to have no impact on the organization as a whole. This powerful phenomenon is becoming a requirement to effectively compete in today's global market place Charles & Gareth, (2008). Implementing strategies successfully is vital for any organization, either public or private. Without implementation, even the most superior strategy is useless. The strategy is formulated and then it is implemented. Implementing would thus be perceived as being about allocating resources and changing organizational structure. However,

transforming strategies into action is a far more complex and difficult task. Successful strategy implementation involves empowering others to act on doing all the things that need to be done to put strategy in place and execute it proficiently. Implementation is the process of causing the firm to behave in accordance with the purposes, guidelines and strategies set out in the strategic plan. Control evaluates the organization's performance and determines the needed adjustments in planning and implementation. Strategy implementation revolves around ensuring that strategies are working in practice. Hunger and Wheelen, (1995) are of the view that implementation of strategy is the process by which management translates strategies and policies into action through the development of program budgets and procedures. The purpose is to complete the transition from strategic planning to strategic management by incorporating strategies throughout the relevant system.

2.2.5 Challenges of strategy implementation

Organizations seem to have difficulties in implementing their strategies, however, researchers have revealed a number of problems in strategy implementation; for example weak management roles in implementation, a lack of communication, lacking a commitment to the strategy, unawareness or misunderstanding of the strategy, unaligned organizational systems and resources, poor coordination and sharing of responsibilities, inadequate capabilities, competing activities, and uncontrollable environmental facts (Beer and Eisenstat, 2000). Reed and Buckley (1988) discuss problems associated with strategy implementation identifying four key areas for discussion. They acknowledge the challenge and the need for a clear fit between strategy and structure and claim the debate

about which comes first is irrelevant providing there is congruence in the context of the operating environment. They warn that, although budgeting systems are a powerful tool for communication, they have limited use in the implementation of strategies as they are dominated by monetary based measures and due to their size and the game playing associated budget setting 'it is possible for the planning intent of any resource redistribution to be ignored'. Another problem is when management style is not appropriate for the strategy being implemented, they cite the example of the 'entrepreneurial risk taker may be an ideal candidate for a strategy involving growth, but may be wholly inappropriate for retrenchment'. Goal setting and controls are also recognized as problematic, identifying coordinated targets at various levels in the organization is difficult and the need for control is heightened as uncertainty and change may provide a volatile environment, a point supported by Tavakoli and Perks (2001).

CHAPTER 3:

RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the research design and methodology of study. It outlines the research design, data collection techniques that were used and the procedure for data analysis.

3.2 Research design

The research design was a case study. A case study is a descriptive, exploratory analysis of a person, group or event. An explanatory case study is used to explore causation in order to find underlying principles. Case studies may be prospective or retrospective. Further it is analyses of persons, events, decisions, periods, projects, policies, institutions, or other systems that are studied holistically by one or more methods. The case that is the subject of the inquiry will be an instance of a class of phenomena that provides an analytical frame within which the study is conducted and which the case illuminates and explicates.

According to Young (1960), case study is a comprehensive study of a social unit, be it that unit is a person, a social institution or a community. It is essentially an intensive investigation of a particular unit under consideration. This research design enabled the researcher to carry out in-depth investigation and had a greater understanding of the strategic responses to changes in the external environment at Mwalimu National Sacco.

3.3 Data collection methods

The researcher interviewed twenty respondents ten were members who had visited the Sacco premises for services selected randomly and the other ten were middle level staff. The latter were identified due to perceived neutrality in their opinion that they would not favour the management thus indicate credit response all through nor be biased against the management and indicate negative responses. The staff were selected from departments that interacted with members on a day to day basis as well as staff in lower level cadre hence rich grass root information. The research instruments for the study were an interview guide. An interview guide assists the interviewer to know what to ask about, in what sequence, how to pose questions, and how to pose follow-ups. Open-ended interview guide on strategic responses to external environment by Mwalimu National Sacco were covered. The researcher sought for permission from the management of Mwalimu National Sacco to carry out the study.

Secondary data used was obtained from the Sacco's financial statements, official memos and the Sacco's performance ratio were used to determine strategic responses to external environment.

3.3 Data analysis

The data was analysed using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study. It involves observation and detailed description of objects, items or things that comprise the sample (Mugenda, 2003). This method enabled the researcher to categorise the phrases

and statements from respondents to describe the logical structure and pattern of expression which helped to ascertain an association to the statements or phrases.

CHAPTER FOUR:

DATA ANALYSIS, FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter covers data analysis, presentation, interpretation and discussion of the findings of the study with regard to the objectives. The data obtained was analyzed using content analysis. This involved the analysis of meaning and implication emanating from respondents information.

4.2 Response rate

The interview achieved 100% response from both members and staff. This was due to the availability of members who continuously visit the Sacco premises in search of services and the staff who were willing to respond to questions posed to note areas for improvement or achievement made if any.

4.3 Data analysis

It was revealed from the study that most respondents had been members of the Sacco for more than fifteen years. Staff respondents indicated similar duration although some staff joined the Sacco membership after a few years of employment. This, they confessed was due to lack of trust that the Sacco would offer them adequate and affordable credit. But with time that perception changed and they decided to join the Sacco membership. Point to note is that even if some staff were initially not members of the Sacco, they understood the operationalization of the Sacco. This period was adequate enough for the respondents

to determine strategies adopted by the Sacco in response to changes in the external environment over a fifteen year period. All respondents who were members had at least a first degree level of education while the staff respondents had a minimum of a diploma level of education. The level of education was important so as to ascertain the respondents level of understanding to questions posed. The researcher found out that most respondents were well versed with the questions posed.

Member respondents were contented and would thus maintain their Sacco membership so long as the Sacco maintains its level of efficient service provision, but in the event signs of inefficiency get noticed such as longer period to process loan applications, reduction in the amount of loan applied for amongst other issues, members would panic attributing the change to liquidity problems and withdraw their membership. Most staff respondents indicated that they would retain their membership even after changing jobs because they have inside information of all the products the Sacco offers and their benefits. They acknowledged Sacco products were quite competitive.

4.4 Strategies adopted by the Sacco

Respondents admitted that the Sacco had adopted strategies to retain and attract new members, including the following:-

4.4.1 Savings mobilization

One of the core business of the Sacco is to mobilize savings. Savings are non withdrawable monthly contributions that accumulates over time and which earn members interest/dividends annually. Minimum monthly share contribution for a member is one thousand shillings only (1,000) unless one has a loan that attracts some prorated amounts.

Prorate is a percentage pegged on shares contributions based on the amount of loan granted. This strategy of prorate received a lot of criticism when introduced because members felt that the Sacco was forcing them to save more than they intended. However, with time members have realized the benefits of savings which include; access to larger loans/credit which is pegged to their shares, One saves today for a softer landing in retirement, a fall back when temporarily out of payroll, a statement of one's savings can be used in other institutions for example foreign embassies when applying for visa and to boost self-esteem. Staff respondents have also realized that besides benefits like members, their remuneration improved. After conducting a SWOT analysis, an organization is able to create strategies to take advantage of opportunities using its strengths, overcome weaknesses to pursue opportunities. With the introduction of prorate strategy, the Sacco took advantage of its existing opportunities by ensuring members saved more with end results being beneficial to both the member who would afford more credit and the Sacco increased capital base.

4.4.2 Timely Credit Provision Strategy

The other strategy adopted by the Sacco is provision of timely credit to its members which is its core business. The Sacco had a schedule of meetings for approving loan applications. More often than not members were inconvenienced due to timing that may not have fitted to their loan demand. Numerous concerns were raised and the management scrapped off the schedule of meetings and approved loan applications on submission. This in turn increased the loan applications and hence revenue from interest

earned to the Society. Staff respondents welcomed the change because they had workload during approval time and idleness when no loan approvals. There was also a requirement where members were required to attach documentary evidence such as medical invoice, fees structure etc to a loan application. This requirement barred some members to get loans if their intended project did not have a documentary evidence. After extensive consultation the management discovered that some evidence were false which highlighted the extent to which members would go to acquire an evidence. The management therefore decided that there was no need for attaching an evidence to a loan application. It was also a relief to the staff who got into disciplinary cases for assisting Sacco members or fellow staff use an evidence that had been used and filed away. According to Burnes (2000), an organization needs to develop competency by responding to customer's demand and becoming more innovative in their ways of approaching the changing environment. The Sacco applied these in its endeavor of credit provision to its members.

4.4.3 Review of Loaning Policy Strategy

The study revealed that due to demand for more money, the Sacco was forced by customer demand to review its loaning policy. New loan products were introduced to meet the different client needs. The loan repayment period was increased from maximum of three years to maximum of six years, the interest rate was adjusted to cope with the loan repayment period and amount granted. Loan processing period was also reduced from a week to two days. There was a policy that once a member had been granted a

loan, the member would have to wait until the loan is fully repaid before applying for another loan. This practice limited members to complete projects to their satisfaction due to running out of funds midway the project. The management devised a top-up where a members' outstanding loan with the Sacco or other financial institutions would be bought off at five percent interest of the loan balance and enable the member apply for another loan with the Sacco immediately. The practice is very popular since members are now guaranteed of completing their projects and the Sacco earns revenue from top-ups besides the interest charged on loans. This strategy is in agreement with Ansoff's Matrix of Product Development. The strategy allowed the Sacco to provide more choices for its customers in order to meet their needs more closely and also to improve its products with a medium level of risk. After review of the loaning policy, the Sacco was able to retain and attract new members who were otherwise seeking for credit from other commercial financial institutions.

4.4.4 Provision of Extra Benefits Strategy

Besides the mobilization of savings and provision of credit, the Sacco offers other social welfare benefits to its members. A social welfare provides financial assistance when least expected. For the sake of the Sacco, the financial assistance is accorded to members during bereavement.

4.4.4.1 Social welfare fund

One of the objectives of a Sacco is to encourage thrift amongst the members and also on the proper management of money and investments practices. Some occurrences such as

death are beyond human capability. Death occurs unexpectedly at a time when the bereaved family may not be financially or socially stable. Some members and staff sought for financial assistance from the Sacco to meet the funeral expenses. The requests for these assistance kept increasing which compelled the management to find a lasting solution. The Sacco established a social welfare fund to accord members and their immediate families decent burials upon demise known as Burial Benevolent Fund (BBF). Members contribute monthly one hundred and fifty shillings only (150). Members and staff were relieved of the various challenges and burdens that come along with bereavement.

4.4.4.2 Risk fund

Some members and staff are the bread winners of their family. At the demise of the member (bread winner), the family is left not only grieving but also pondering on survival. Casualties to this predicament mostly are children whose future sometimes seem bleak. A risk fund was introduced to financial assist the bereaved family a fair transition period. A risk fund is a compulsory insurance scheme for all Sacco members contributing three hundred shillings (300) monthly. The fund is used to pay the outstanding loans for the deceased member and to double the shares paid to the official appointed beneficiary. Developing additional products for an existing market is most appropriate where the strength of the business lies in its relationship with customers. This conforms with Ansoff's matrix with respect to developing new products.

4.4.5 Payment of dividends strategy

The study revealed that the Sacco encourages members to save more by paying dividends at attractive rates of interest. Dividends is interest earned on amount of shares held by a member at the end of a financial year. The more the shares the more the dividends. This strategy is beneficial to both the organization where the capital base increases and members earning good amounts from shares with the Sacco. Besides fair remuneration to staff, the management offers other incentives like bonus to employees. These boosts the morale of employees. After conducting a SWOT analysis, the Sacco noted a common practice where most organizations paid their shareholders dividends, depending on the performance. The Sacco endeavoured to encourage more savings by declaring acceptable percentage of dividend payments. This strategy is in agreement with SWOT analysis where opportunities are matched with market opportunities bearing in mind a business's resources and capabilities. Porter (1998).

4.4.6 Awareness strategies

Awareness is the state or ability to perceive, to feel, or to be conscious of events, objects, or sensory patterns. To sensitize and create awareness to existing and potential members, the Sacco established a marketing department in 2010 whose main objective was to reach out to members all over the country. The marketing department has been efficient since services were brought closer to the members. Also the Sacco had to extensively advertise itself in the local vernacular radio stations to counter the masquerading 'teachers saccos'

as Mwalimu National Sacco. Publicity is a common practice undertaken by a number of organizations from a SWOT analysis. The Sacco was left with no option but to create awareness of its existence and purpose. Porter (1998).

4.4.7 Challenges faced by Sacco in adaptation of strategies

A challenge is a general term referring to things that are imbued with a sense of difficulty and victory. There are times when the Sacco buys off loans which Sacco members have with commercial financial institutions. The commercial financial institutions develop a lot of bureaucracy during the process to discourage both the Sacco and member from pursuing the matter further. Further, teachers salary is processed through Integrated Payroll Personal Data (IPPD) which is customized with priority order of salary deductions. The commercial financial institutions have priority of salary deduction over Saccos. This affects the Sacco revenue which is sometimes not received when expected due to erroneous deductions channeled to the institutions rather than the Sacco.

Members were sometimes unable to complete their projects due to the limited amount of credit granted by the Sacco. However, after the review of loaning policy by the Sacco, members have been able to complete their projects in phases subject to ability for a top-up loan. The review has been beneficial and also challenging to both the Sacco and the members as well. Some members abuse this policy by requesting for a top-ups more frequent than the least considerable duration. As much as the Sacco earns interest on the top-up, members who apply for these top-ups almost immediately after being granted another loan stand to lose by the fact that the loan balance is big hence the interest charged for the top-up will be higher thus leaving the member with very little money to take home.

Loan default is when a loan repayment is not received as expected, this may arise due to the member over-committing their salary to other financial obligations or the employer does not remit the loan repayment when expected. The issue of loan default poses a great challenge to the Sacco since it is not able to generate revenue when it is expected.

The loan review policy was a relief to most members who were able to qualify for higher amounts at better interest rate. Even after review, the Sacco is limited by conditions and also nature of business to grant members much more money for huge investment projects such as construction of homes. This puts the Sacco in a dilemma to come up with strategies of facilitating their members to either own or construct homes.

BBF payment is processed upon fulfilling set conditions by a member. These conditions include filling in a BBF claim form and attaching evidence of death. Some dishonest members have lodged claims which ended up being fraudulent claims. The Sacco Management has had to come up with ways and means of detecting fraudulent claims and further disciplinary measures to be taken against the culprits.. Some members do not heed the request made by the Sacco to update their list of nominees in event of death (to the member). After a member passes on and processing of risk fund commences, tussles between the deceased's family occur which sometimes end up being legal issues.

CHAPTER FIVE:

SUMMARY, RECOMMENDATION AND CONCLUSION

This chapter presents the summary of findings, conclusion and recommendations.

5.1 Summary of findings

The study sought to find out the strategic responses to changes in the external environment by Mwalimu National Sacco. The study found out that the Sacco, like any other organization had responded to changes in the external environment which included liberalization of the economy, mushrooming of ‘teachers saccos’ among others. The Sacco responded to these changes and challenges by establishing strategies in order to survive in this fast changing business environment. There were some challenges the Sacco faced in the course of coming up with the strategies.

The respondents appreciated the steps taken by the Sacco to review the loaning policy to circumvent the ‘a third rule’. The loan repayment period was increased from a maximum of three years to six years. New loan products with different interest rates were introduced to cater for different needs of the customers. The Sacco adopted a practice of approving loan applications as and when they are applied unlike previously when loan approval was pegged on a schedule of meetings. This increased the loan applications due to the fact that members could apply and get their loans when needed. Also the Sacco reduced the loan processing period from a week to two days.

Most respondents thought the policy of attaching documentary evidence on a loan application was causing unnecessary delays and inconveniencing to the members. With the withdrawal of this requirement there was a significant increase in loan applications which in turn increased the Sacco's revenue and also made the members happy customers. To reduce loan default, members have been encouraged to form groups where they guarantee each other and be each other's keeper by ensuring integrity, honesty are virtues of the group.

Awareness campaigns were conducted to members on the importance of honesty to avoid lodging fraudulent claims especially BBF claims and implications as a member. Furthermore, members were informed the benefits of updating records to indicate beneficiary in event of death (of the member) to avoid legal tussle.

To overcome the confusion of mushrooming 'teachers saccos', the Sacco had extensively advertised in the local vernacular radio stations. A marketing department was established in 2010 whose main objective was to reach out to members allover the country. The marketing department of the Sacco has been efficient since services were brought closer to the members.

5.2 Conclusions

As a conclusion to the discussions above it is clear that Mwalimu National Sacco recognizes the fact that it is operating in a dynamic environment. It also realizes that for it to sustain good performance it has to continually make changes so as to adapt to the

environment. The firm sees the need to delight its customers by satisfying their needs and exceeding their expectations. The study indicated that for an organization to survive in this dynamic environment it must continuously scan the external environment for opportunities to develop products that respond to changing customer needs.

The study indicated that the Sacco has adopted strategies in response to changes in the external environment including the introduction of new loan products and establishment of a marketing department. The Sacco has also endeavoured to improve service provision to its customers by reducing the period of loan processing from a week to a maximum period of two days and advertised in vernacular radio stations in respective counties, to reach a wider audience.

5.3 Limitations of the study

The study being a case study may not be used to make generalization for the Sacco industry. The Sacco industry has diverse sectors in different industries hence difficult to make a comparison between the different industries.

The researcher experienced bias during the interview process. Bias is when a person, place or thing is viewed or shown in a consistently inaccurate way either in a positive or negative manner. Independence of response could not be verified from both respondents. The researcher noted exaggeration of responses and sometimes selective memory. This therefore may have affected the findings as given.

5.4 Recommendation for further research

It would be interesting to do a similar study on another National Sacco such as Haramee Sacco for comparison of results. Also since commercial financial institutions are a competitor to the Saccos, a research on how these institutions relate with their clients vis a vie the relationship of the Sacco with its members would be of interest.

5.4.1 Recommendations for policy and practice

Most respondents expressed their desire to own homes but were prohibited by the budget involved in undertaking such a project. It is recommended that the Sacco considers entering into an alliance with 'Home construction companies' to assist members construct affordable homes.

Since the introduction of top-up facility, members have been applying for loans quite frequently irrespective of the loan duration. The Sacco is considering a further loan review policy to have a year as the minimum period before a top-up is available to a member. This would curb the frequency members seek for top-up.

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INTERVIEW GUIDE

AN INTERVIEW GUIDE TO FIND OUT STRATEGIC RESPONSES TO EXTERNAL ENVIRONMENT BY MWALIMU NATIONAL SACCO

The interview guide was administered to members visiting the Sacco for services and also to middle level staff of the Sacco

- 1. How long have you been a member and/or employee of the Sacco**
- 2. What is your highest level of education**
- 3. How has the Sacco managed to survive**
 - a) Would you withdraw your membership from the Sacco?
 - b) What strategies would you suggest the Sacco adopts to retain and attract new members
 - c) What strategies would you suggest the Sacco drops in order to attract and retain new members
 - d) What existing practices would you recommend that the Sacco retains
 - e) What existing practices would you recommend that the Sacco drops
- 4. Survival in a liberalized economy**
 - a) Do you think the Sacco has adopted strategies to enable it survive in a liberalized economy?
 - b) What other strategies would you recommend that the Sacco adopts to survive in a liberalized economy?
 - c) What recommendations would you suggest to the Sacco to survive in a liberalized economy?
- 5. Survival in a competitive environment**
 - a) What is market competition?
 - b) Do you think the Sacco has competitors? If so who are they?
 - c) In your opinion, do you think the Sacco is able to compete effectively?
 - d) How do you think the Sacco is countering the competition?

- e) What would you recommend the Sacco adopts to compete effectively?
- f) What practices/strategies should the Sacco drop in order to compete effectively?

6. Benefits accrued to the Sacco by issuing loans

- a) Are you aware of the Sacco's loaning policy?
- b) Do you know the loan products offered by the Sacco?
- c) Do you know the lending conditions of the Sacco?
- d) Do you think the lending conditions are favourable?
- e) What recommendations would you suggest to improve the lending conditions?
- f) What benefits has the Sacco gained from issuing loans to members?
- g) How has the Sacco been disadvantaged due to loaning?

7. Competitive strategy

- a) What is the Sacco market position today and where do you see the Sacco tomorrow?
- b) Do you think the Sacco has sufficient market share?
- c) Which other market share would you suggest the Sacco to target?