EFFECTS OF STRATEGIC CHANGE ON PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT COOPERATIVE SOCIETIES (SACCOS) IN NAIROBI COUNTY

BY

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OCTOBER, 2013

DECLARATION BY THE STUDENT

I certify that this proposal is my original work and has not been presented previously for a degree in University of Nairobi or any other university for examination purpose.

Signature…………………………… Date……………………

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D61/60075/2010

DECLARATION BY THE SUPERVISOR

This proposal has been has been submitted for examination with my approval as a University supervisor.

Signature ……………………………… Date……………………………

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DEDICATION

A lot of gratitude to my parents for their financial support, constant encouragement and inculcating in me the values of hard work, patience and determination that has enabled me pursue this course. To my son Ryan who withstood my continued absence in pursuit of this degree.

Appreciation to my husband, brothers and sisters for their support, strength and understanding throughout my studies. May the almighty lord bless you abundantly

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ACRONYMS AND ABBREVIATIONS

DTS	:	Deposit Taking Sacco
SACCO	:	Savings and Credit Cooperative Society
SASRA	:	Sacco Societies Regulatory Authority
DGF	**:**	Deposit Guarantee Fund
SSA	**:**	The Sacco Societies Act
FOSA	**:**	Front Office Savings Activity
SMART	**:**	Specific, Measurable, Attainable, Realistic and Timely
SME	**:**	Small and Medium Enterprise
NSE	**:**	Nairobi Stock Exchange
ROA	**:**	Return on Assets
ROE	**:**	Return on Equity
OPM	**:**	Operating Profit Margin
SPSS	**:**	Statistical Package for Social Sciences
DSO	**:**	Days Sales Outstanding
DPO	**:**	Days Payables Outstanding

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ABSTRACT

Change is an alteration of a company's strategy, organisation or culture as a result of changes in its environment. Static competitive environment has been replaced by an increasingly dynamic uncertain environment thus organizational flexibility is getting more and more attention, which is the most important factor to acquire the future competitive advantage. While much has been written in the recent years about the concept of change management and competitive advantage, few organizations today truly have an effective, repeatable, project-level change management process and yet it is one of the most critical success factors for the organization. The operating environment is characterized by constant changes that de-stabilize the strategic balance between it and the organizations operating in that environment causing dis- equilibrium. This necessitates strategic responses by firms in the form of change so as to maintain the equilibrium. It is commonly accepted that the business environment encompassing features of the legal, regulatory, financial, and institutional system of a country has an impact on the performance of firms. As barriers to doing business appear to vary widely across the different sectors, it has also been asserted that the business environment will affect aggregate performance. The need for companies to understand and adjust to the new conditions grows daily because changes in the environment can lead to failure of both existing and new products and, ultimately lead to the loss of value or collapse of firms. The study's objective was to identify the effect of Strategic change on performance of deposit taking Saccos in Nairobi County. Consequently, the researcher adopted descriptive survey method research design as this type of study research describes existing phenomena by asking individuals about their perception, attitudes, behaviour or values and enables collection of data from a sizeable population in a highly economical way. The study used a census of the entire 45 deposit taking Savings and Credit Cooperatives in Nairobi County to identify the respondents used in the research. It utilised primary data which was collected using structured questionnaires administered the Chief Executive Officers of the 45 deposit taking Saccos in Nairobi County. The data gathered was analysed using descriptive statistics. It was then analyzed using Statistical Package for social scientists (SPSS) and the findings presented using tables. The results were then presented systematically in line with the literature reviewed and where applicable appropriate tables were used. Findings of the study indicated that the main strategic change practices adopted by deposit taking Saccos in Nairobi County were training of staff, training of board of directors and increase in number of branches which in turn led to an improvement in Return on assets, capital adequacy, asset quality and liquidity, customer satisfaction, employee satisfaction and improved productivity of the Saccos. Based on the study's conclusions, the researcher consequently recommended that proper communication needs be instituted in the various Saccos to ensure that all members of staff are pulling in the same direction and that they understand their roles and obligations. There is also need to train staff members to equip them with new skills and competencies to better take up challenges that come with the change management process.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Strategic changes can be defined as those alterations a firm makes in its business approach to better align itself with its environment in its efforts to maintain and/or improve performance. It is also defined as a difference in the form, quality, or state over time in organization's alignment with its external environment (Rajagopalan & Spreitzer, 1997 Van de Ven & Pool, 1995).Considering the definition of strategic change, strategic change could be affected by the states of firms and their external environments. Because the performance of firms might be dependent on the fit between firms and their external environments, the change of external environments, requires firms to adapt to the external environments as a result, firms would change their strategy in response to the environmental changes. (Hannan & Freeman, 1984). Strategic change sees the strategy as the result of a sequence of adaptive actions, which are undertaken by strategists as new opportunities and obstacles emerge (Michela and Giovanni, 2005).

It is commonly accepted that the business environment encompassing features of the legal, regulatory, financial, and institutional system of a country has an impact on the performance of firms. As barriers to doing business appear to vary widely across the different sectors, it has also been asserted that the business environment will affect aggregate performance. The need for companies to understand and adjust to the new conditions grows daily because changes in the environment can lead to failure of both existing and new products and, ultimately lead to the loss of value or collapse of firms.

The dynamism in the money market in Kenya following the liberalization of the industry has seen fundamental changes among the savings and credit cooperative societies in Kenya (Wanyama, 2009). The Sacco Societies Act (SSA) was enacted and assented to in 2008 providing for the licensing, supervision and regulation of Sacco Societies. The Act also provided for the establishment of the Sacco Societies Regulatory Authority (SASRA) with the mandate to enforce the new legal and regulatory framework. In addition to prudential regulation, the Act also establishes the Deposit Guarantee Fund (DGF) which shall provide protection to members' deposits up to Ksh.100,000 per member. The SSA commenced in 2009 but SASRA started operations in June 2010 upon publication of the Sacco Societies (Deposit Taking Sacco Business) Regulations (SASRA, 2012). The new legal and regulatory framework modelled along the same principles as those for the regulation of banks and Deposit Taking microfinance institutions has the primary purpose of improving governance of Sacco societies through enhanced transparency and accountability.

Saccos have largely been operating with little supervision despite the important role they were playing in the financial sector. The regulations provide a four-year transitional period within which licensed Saccos are expected to fully comply with the prudential standards on capital investments, non-productive assets and external borrowing. This regulatory framework demanded strategic changes for SACCOs to become compliant (Biomndo, 2012). It is from this perspective that the proposed study seeks to investigate the impact of strategic change on the performance of deposit taking SACCOs (DTS) in Nairobi County.

1.1.1 Strategic Change and Firm Performance

Strategy is about attaining and maintaining a position of advantage over adversaries through the successive exploitation of known or emergent possibilities rather than committing to any specific fixed plan designed at the outset. Henry Mintzberg defined strategy as "a pattern in a stream of decisions" to contrast with a view of strategy as planning while Max McKeown (2011) argues that "strategy is about shaping the future" and is the human attempt to get to "desirable ends with available means".

Change is an alteration in the way of doing things. It encompasses a modification of the objectives, mission and vision, systems and organizational values. Research by Dudik (2000) contends that there are three business forces that resulted in changes in an organization. These forces are: globalization, IT and industry consolidation. Change is thus a result of organizations' quest for a strategic fit with the operating environment. It is therefore a response to the opportunities and threats inherent in the external environment. It can also result from internal challenges being encountered by the organization. Organizations need to devise ways of planning, predicting and managing change Kaufman (1995) so as to achieve the desired results within the set limits and to minimize the effects of the change has on people.

Strategic change aligns the firm with its external environment. A review of the strategic change literature reflects two schools of thought namely content and process perspectives (Michela and Giovanni, 2005; De Wit and Meyer, 2010; Piercy, 2012). The content school focuses on the antecedents and consequences of strategic change using large samples. The process school focuses on managers and the process of strategic change; this school tends to use the case study approach over a longer timeframe Helfa et al., (2009). (Zhang and Rajagopalan, 2010) argue that since these schools have evolved separately, they leave us with gaps in our understanding of strategic change. They note that there remains key questions concern on strategic change and its contributions to firm performance in different environmental contexts.

According to Hughes and O'Neill (2000) during the last two decades organisations have come under increasing pressure to improve performance and demonstrate greater transparency and accountability. This pressure has resulted in public sector organisations facing shifts in ways of operating. Strategic changes have been adopted and have had enormous significance on the performance of these organisations.

Quantifying the benefits of change management can be difficult depending on the scope and depth of the changes. Many aspects of strategic change are quantifiable such as processes and procedures, efficiency and other performance metrics. There are also qualitative aspects of strategic change that are none the less important, such as employee morale and corporate culture. Zhang and Rajagopalan (2010) note that strategic change must have performance metrics in place to measure the process from start to finish and continued monitoring after. The study will seek to look into the effect of strategic change on performance of deposit taking Saccos in Nairobi County.

According to Slack et al., (2004) there are five operations performance objectives. First is costing which refers to the ability to produce/operate at low cost. The second objective is quality which refers to the ability to produce in accordance with specification and without error. The third objective of operational performance is speed or the ability to do things quickly in response to customer demands and thereby offer short lead times between when a customer orders a product or service and when they receive it. The fourth objective is dependability which is the ability to deliver products and services in accordance with promises made to customers. The fifth objective is flexibility which relates to the ability to change operations. These five parameters will be used to measure operational performance and how they have been influenced by strategic change. For financial performance the study will use revenues, expenditures and profitability.

1.1.2 Savings and Credit Cooperatives Societies (SACCOs) in Kenya

The operationalisation of the Sacco Societies Act 2008 and the Sacco Societies (Deposit-Taking Business) Regulations, 2010 brought about transformation among the deposit taking SACCOs in Kenya. The ongoing transition among the SACCOs is a process which needs to be understood by various stakeholders. The Sacco sub sector comprises both Deposit Taking and non-Deposit Taking Saccos. Deposits taking Saccos are licensed and regulated by SASRA while non-Deposit Taking Saccos are supervised by the Commissioner for Co-operatives. SASRA licenses Saccos that have been duly registered under the Cooperative Societies Act CAP 490.The total Sacco sub sector assets stood at Kshs. 293 billion an increase of 17.7% from Kshs. 249 billion in 2011. The total membership for the sector grew by 15% from 2.57 million members in 2011 to 2.97 million in December 2012. Total deposits for the sector stood at Kshs.213 billion posting an increase of 18.4 % from Kshs. 179.9 billion in 2011. Loans to members increased by 23% to stand at Kshs. 221 billion up from 179.9 billion in 2011. (Sasra, 2012)

Savings and Credit Cooperatives are member owned financial institutions with the core objective of mobilizing savings for on lending to members. They are quasi-social institutions aimed at improving the welfare of its members through access to affordable credit facilities (Johnson and Nino-Zarazua, 2011). SACCOs in Kenya are currently a leading source of the co-operative credit for socio-economic development. The phenomenal fast growth of the SACCOs in the last two decades to become a major co-operative type, particularly in Kenya is essentially due to the provision of credit for a wide range of purposes and on relatively very easy terms (Wanyama, 2009). The credit has furthermore suited different categories of borrowers including disadvantaged groups, especially women. This discussion is aimed at establishing the facts and trends regarding Kenyan SACCOs (Biomndo, 2012).

Saccos have registered tremendous growth since mid 1970s and have currently achieved an average growth rate of 25 percent per year in deposits and assets. Saccos have also created employment for Kenyans thus contributing to the government's efforts of achieving the goals of Vision 2030 (Mwangi and Sichei, 2011). SACCOS have grown tremendously and currently have about 3.7million members. Saccos with FOSAs have diversified into specialized bank- like activities which include deposit taking, saving facilities, debit card (ATM) and money transfers both local and international Johnson and Arnold, (2012).

1.1.3 Deposit Taking Saccos in Kenya

As at 31st December 2012, the total number of Deposit Taking Saccos was 216 of which 124 had been licensed. The remaining 91 Saccos were at different levels of compliance with the provisions of the law. All Deposit taking Saccos were in operation prior to establishment of

SASRA in 2009 and have applied to be considered for licensing as undertaking deposit taking Sacco business (SASRA, 2012).

The formation of Saccos is on the basis of an agreed common bond which could be employment, geographical location or economic activity. Ownership is therefore generally structured on these considerations. The four broad categories as at 31st December 2012 comprise the following; Government based Saccos draws its membership from government ministries, departments & agencies, public schools & colleges and local authorities or municipalities' employees, Farmer based Saccos which comprise farmers in different agriculture activities, Private institutions based Saccos which draws its membership from employees of private enterprises including non-governmental organizations operating in Kenya, Community based Saccos drawing members from the local communities where they operate and include SME traders and farmers and Teacher based Saccos having their members from public schools, colleges and universities.

1.1.4 Deposit Taking Saccos in Nairobi County

The dynamism in the money market in Kenya following the liberalization of the industry has seen fundamental changes among the savings and credit cooperative societies in Kenya (Wanyama, 2009). Since 2008 the government has put in place regulations to supervise the SACCOs. These regulations were The Saccos Societies Act 2008 and The SACCO Societies (Deposit-Taking SACCO Business) Regulations of 2010. These two regulatory frameworks introduced varied requirements for the SACCOs which were largely operating with little supervision despite the important role they were playing in the financial sector. The regulations provide a four-year transitional period within which deposit taking Saccos are expected to fully comply with the prudential standards on capital investments, non-productive assets and external borrowing. This regulatory framework demanded fundamental changes for SACCOs to become compliant (Biomndo, 2012).

According to (SASRA, 2012), Nairobi County has a total of 45 deposit taking Saccos out of which 35 are licensed and 10 are not yet licensed. They are in different sectors of the economy such as 10 in Private organisations, 9 in Community Based organisations, 25 in Mainstream government and 1 in the Education sectors. The Saccos have a total asset base of 122,457,249,163 which is 55% of the total asset base of deposit taking Saccos in Kenya, the total membership of 545,613 with 100 branches.

1.2 Research Problem

Organizational change is provoked by a major outside driving force that will cause an evolution to the next level in the corporate life cycle. (McNamara, 2001) In broad terms, either inspiration or desperation in the face of globalization, consolidation, technology, or legislation forces an organization to change in order to survive. Many organisations are undergoing a radical process of transformation due to the changes in the external environment thus in order to manage within this changing environment, organisations must adapt, and adaptation means change. Organisations have come under increasing pressure to improve performance and demonstrate greater transparency and accountability. This pressure has resulted in organisations facing shifts in ways of operating. Strategic changes have been adopted and have had enormous significance on the performance of these organisations.

Savings and credit cooperatives play a key role in empowering low income earning groups in Kenya and at the same time ensuring that its members obtain cheap loans. It is therefore important that these Saccos grow and be sustained so that the benefits derived from them are enjoyed by those involved and also trickle down to other people in the community who are not direct beneficiaries. These Saccos are facing numerous challenges in their day to day operations. The increased competition in the financial sector, declining membership, Technological advancements, globalization, changes in the economic environment and changes in the legal framework has necessitated changes in the operations of Saccos (SASRA, 2011). The changes in the legal framework have mainly affected deposit taking Saccos in Kenya in terms of complying with the 2010 deposit taking business regulations. This has thus made the deposit taking Saccos to apply strategic changes in order to comply with the set regulations.

Kombo (1997) studied the strategic practices of firms facing changed environment conditions using a study of motor vehicles franchise holders in Kenya, he found out that these firms operated in a flux environment and success of this firms was attributed to how they had responded to environmental changes. Gekonge (1999) surveyed the strategic change management practices by Kenyan companies using a case study of companies quoted in the Nairobi Stock Exchange. He noted that successful firms in the NSE had adopted strategic change management as part of their competitive strategy. Kilonzo (2012) studied the impact of SASRA Regulations on SACCO financial performance in Kenya, he found that higher capital requirements, and increase in management efficiency impacted positively to SACCO’s profitability in the post- capital regulation period. The study revealed that capital regulation affects financial performance in SACCOs.

A study by Biomndo (2012) who studied nature of strategic change in deposit taking SACCOs where she confirmed that indeed SACCOs have been forced to adopt new ways of doing business. It is from this perspective that the current study is conceived to extend the findings by Biomndo by looking at the effects of strategic change on performance of deposit taking Saccos in Nairobi County. No study focusing on the effect of strategic change on performance of deposit taking Saccos has been conducted. The research will thus fill the literature gap that currently exists and contribute to the body of knowledge on this key element of strategic change. The study aims to answer the question; what are the strategic change management practices adopted in Deposit Taking Saccos in Nairobi County? What is the effect of strategic change on performance of deposit taking Saccos in Nairobi County?

1.3 Research Objectives

The study will seek to achieve three objectives

i. what change management practices are adopted by Deposit Taking Saccos in Nairobi County

ii. what is the effect of strategic change on operational performance of Deposit Taking Saccos in Nairobi County

iii. what is the effect of strategic change on financial performance of Deposit Taking Saccos in Nairobi County

1.4 Value of the study

Access to capital is a key concern for Kenya and features quite prominently in Vision 2030 as well as in the roadmap suggested by the Jubilee government. SACCOs are identified as one of the vehicle that is important in mobilising savings and consequently an important source of affordable credit for majority of low income earners and micro as well as small entrepreneurs in Kenya. Therefore any study which seeks to understand how strategic change influences SACCOs performance is welcome as it will aid the stakeholders within and without the SACCOs arena.

The study will be beneficial to the managers of the SACCOs as they will understand how to align strategic change to operational and financial performance of Saccos.

The study will also be of significance to the policy makers and regulators in the financial sector. The study by shedding light on the influence of strategic will aid the regulators and policy makers in putting in place regulatory framework which is responsive to these changes and their impact.

The study will also add to the body of knowledge on strategic change by showing the influence of strategic change on performance of deposit taking Saccos in Nairobi County.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter looks at scholarly work on strategic change and goes on to ventilate on the link between strategic change and performance in organisations.

2.2 Strategic Change

Change is the process of being different. It involves moving from a current state to a future desired state. Kotter (1995) defines change management as the utilization of basic structures and tolls to control any organisational change effort. Change management’s goals are to minimise its negative impact and avoid distractions. Burnes (2004) points out that change can be planned or emergent. Planned change is deliberate and pre-meditated. Planned change has been linked to organizational development. Emergent change is random, accidental and might be forced upon an organization.

Based on (De Wit and Meyer's, 2004) conceptualization, it may be asserted that strategic changes have large scale significance for organizational improvement. As such therefore any strategic change must focus on two key themes: Is there a need for change? If yes, what's this need and where is this need arising from? Addressing these key questions would help in aligning the strategic intent of change with the desired strategic outcomes of change. It is well acknowledged that changes that are initiated without an accurate analysis of contextual relevance are more likely to fail, as then they would not be aligned with the real needs of the organization (Self and Schraeder, 2008; Kee and Newcomer, 2008).

Strategic change encompasses shifting of ideas and ideologies, phasing out undesirable structures, systems and processes and implementing new ones. It can therefore be a total overhaul of an organizations systems, structures and processes or it can be alteration of the existing ones. It is a process through which organizations restructure or reinvent themselves so as to achieve a strategic fit with its external and internal environment. Organizations desire to remain relevant and competitive in their environment and will constantly introduce strategic changes by implementing new systems and values perceived to be appropriate (Kiptoo, 2009).

2.3 Strategic Change Management

Strategic change management can be defined as the application of structured means aimed at leading a company towards a given goal within a given finance and time limit to meet the objectives (Burnes, 2004). The mission, vision as well as operations of a given organization change significantly. It can also be termed as the plans implemented by an organizations with the main objective of the attainment of the overall strategic goals to give the organization an advantage in the market (Hill & Jones, 2001).

(Mintzberg, Ahlstrand & Lampel 1998), describe change management as the process of introducing controlled change in an organization. Organizations must establish a specific change control process for every type of change and consider a procedure specific to rapid and emergency changes. The creation of these processes must involve several interest groups. Successful management of strategic change is not only a matter of skill and expertise but is also a question of where the team draws its support from in the company hierarchy (Etindi, 2010).

In order to manage change, facing the truth of the current situation is really critical. Organizations need to appreciate the fact that the current state is undesirable and if they continue operating in that manner, they will be rendered irrelevant and may be driven out of business (Etindi, 2010). In this sense, organizations need to analyze their current situation against the changes in the operating environment and respond appropriately through instituting changes that will see them adopt the next best alternative. There is need for honesty about what needs to be changed, what areas need to be changed and how the changes will be implemented (Biomdo, 2012).

It is important to recognize and appreciate the context of change. Some of the factors that influence the need for change are demographics, for example an ageing workforce. Competition will require firms to respond by reengineering their products to counter the competition and position themselves in the environment, Technology for example calls for fast turnarounds in some product lines, staff rationalization programs, new regulatory framework, calls for a change in the operating systems, governance structures and management styles, new constitutional dispensation and change in the political class, changes in the economic environment depicted by high inflation as well as increased cost of production (Makara,2009). Factors can be transient, many and varied and may not always be clearly identifiable.

Kotter (2002) highlighted the eight step change model as follows: (i) Increase urgency: inspire people to move, make objectives real and relevant. (ii) Build the guiding team: get the right people in place with the right emotional commitment, and the right mix of skills and levels. (iii) Get the vision right: get the team to establish a simple vision and strategy, focus on emotional and creative aspects necessary to drive service and efficiency.(iv)

Communicate for buy-in: Involve as many people as possible, communicate the essentials, simply, and to appeal and respond to people's needs. De-clutter communications - make technology work for you rather than against. (v) Empower action: Remove obstacles, enable constructive feedback and lots of support from leaders - reward and recognise progress and achievements. (vi)Create short-term wins: Set aims that are easy to achieve - in bite-size chunks. Manageable numbers of initiatives. Finish current stages before starting new ones. (vii) Don't let up: Foster and encourage determination and persistence - ongoing change - encourage ongoing progress reporting: highlight achieved and future milestones. (viii) Make change stick: Reinforce the value of successful change via recruitment, promotion, and new change leaders. Weave change into culture.

2.4 Financial Performance

Financial performance is the Measurement of results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added, etc. One of the most fundamental facts about businesses is that the operating performance of the firm shapes its financial structure. It is also true that the financial situation of the firm can also determine its operating performance. The financial statements are therefore important diagnostic tools for the informed manager.

Zender (2010) Firm financial performance is generally measured by profitability, liquidity, solvency, financial efficiency and repayment capacity. Profitability: Measures the extent to which a business generates a profit from the use of its assets and capital which are measured by Asset Turnover, Rate of return on assets (ROA), Rate of return on equity (ROE) and Operating profit margin (OPM), Liquidity is the degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid assets. It is also defined as the ability to convert an asset to cash quickly. Liquidity is often calculated by using liquidity ratios.

Solvency is the ability of a business to have enough assets to cover its liabilities. It is often measured as a ratio, the "current ratio," which is the total current assets divided by the total current liabilities. In order to be solvent and cover liabilities, a business should have a current ratio of 2/1, meaning that it has twice as many current assets as current liabilities. This ratio recognizes the fact that selling assets to obtain cash may result in losses, so more assets are needed. Financial Efficiency is a level of performance that describes a process that uses the lowest amount of inputs to create the greatest amount of outputs. Efficiency relates to the use of all inputs in producing any given output, including personal time and energy. Financial efficiency of a business can be measured by: asset turnover ratio, stock turnover and debtor day’s ratio. Repayment capacity is an individual's financial capacity to make good on a debt. Originators are required to look at a borrower's total current income and existing debt, to make sure that the existing debt plus the potential mortgage debt, property taxes and required insurance do not exceed a stated percentage of the borrower's income.

2.5 Operational Performance

This is Firm's performance measured against standard or prescribed indicators of effectiveness, efficiency, and environmental responsibility such as, cycle time, productivity, waste reduction, and regulatory compliance. Performance measurement is the use of evidence to determine progress toward specific defined organizational objectives. This includes both quantitative evidence (such as the measurement of customer travel times) and qualitative evidence (such as the measurement of customer satisfaction and customer perceptions).

Hans Hofmann (1880 –1966) indicated the following Five Performance Metrics Key to Successful Business Operations. Customer Satisfaction: It is important to measure customer satisfaction for every function and every service of an organization and to do it for both internal and external customers over a period of time. Apart from the primary objective of knowing how well the organization/function is serving its customers, this score and its trending over time helps in identifying the functions that need the most attention. Employee Satisfaction: there is increased focus on happier workplaces and organization culture. One SMART (Specific, Measurable, Attainable, Realistic and Timely) way to gauge the mood of your people and the levers at your disposal to reduce attrition is through the metrics arrived at from employee satisfaction surveys with the pressure on margins and the constant competing demands on resources, this is one metric that can provide the guidance on the best ways to improve performance by focusing on the areas that matter the most to your people.

Productivity: This metric can chosen based on the strategic goal for the time period by deciding the numerator and denominator for the output per unit (productivity). If the goal is to launch a new product offering, then measure Return on Investment (ROI). If it is to determine which accounts to focus on, then measure sales productivity across accounts. If your new business exceeds your sales and marketing expenses, then you know that you’re on the path to success. Cash Flow: Cash is the life blood of the business and hence one the most critical aspects of performance management. There are two metrics here to look at closely and in conjunction are DSO (Days Sales Outstanding) and DPO (Days Payable Outstanding).

DSO gives the average number of days it takes a company to collect their accounts receivable or payments outstanding. DPO gives the number of days it takes a company to pay its creditors or vendors.

Gross Margin: This is like the mother of all business metrics and the best indicator of a business's health in my view. The higher the gross margin, the more the indication that you are on the right track in every operational aspect. Managing and monitoring gross margin on a regular basis goes a long way in reducing unpleasant surprises in the long run and also in deciding critical strategic initiatives for pricing, investments and sales efforts.

2.6 Link Between Strategic Change and Financial Performance

The principal idea behind strategic management is that organizations confront environmental changes by selecting and executing proper strategies. Accordingly, those able to cope successfully engage in strategic adaptation, the process whereby organizations choose new sets of core strategies to position them better for future viability by conforming to stipulations imposed by the environment. Environmental and organizational characteristics can have a strong impact on the ability to adapt strategically as well as on organizational performance.

According to (Hughes and O'Neill, 2000) during the last two decades organisations have come under increasing pressure to improve performance and demonstrate greater transparency and accountability. This pressure has resulted in public sector organisations facing shifts in ways of operating. Various corporate change strategies have been adopted by different public sector agencies, many of these cloning managerial practices from the private sector. These changes in public sector organisations have had enormous significance on the performance of these organisations.

A group of authors (Almaraz, 2004; Smith 2011; Brown et al., 2003) have linked successful change management to improvement in the financial performance of organisations. Even when managed in the most professional manner, business change is difficult for many to deal with. The change is almost always accompanied by insecurity, resistance and low morale. When management of change is poor, the results can be devastating. Every aspect of the business can suffer, leading to a lowering of profitability (Brown and Waterhouse, 2003).

2.7 Link Between Strategic Change and Operational Performance

According to Almaraz (2004) successful implementation of change leads to betterment of quality of services and products which in turn improve an organisations bottom line. This may be in terms of the product or service itself, the process of creating such a product or service, or even the perception consumers have regarding the product or services. The act of implementing a quality programme focused at one of these dimensions may be short term and immediate. Such efforts can be easily measured and recorded.

Smith (2011) noted that when organisation implements relevant change management approach they are able to improve quality and productivity with savings in expenditures and increases in revenue streams both in the short term as well as in the long run. Organisations adopting a commitment to quality in its change management process typically focus on identifying good standards of performance and performance targets, working to meet the identified and desired standards of practice and then assessing performance against the standards and targets.

(Hughes and O'Neill, 2000) found that change management practices are harmful to the organisation performance. They found that the combined effects of the change result in lower productivity. According to (Hughes and O'Neill, 2000) employees are unmotivated and their work related efforts diminish. These effects are common to all business change. When the change is well-managed and planned, the effect is minimised. Productivity and morale are soon restored to their former levels and may even improve. Tabrizi (2007) argues that in many cases, first effects of change on employees, leaders, and on performance levels are negative. These effects include fears, stress, frustration and denial of change. Most employees tend to react with resistance to change rather than seeing change as a chance to initiate improvements. They are afraid of losing something, because they have incomplete information on how the change processes will affect their personal situation in terms of tasks, workload, or responsibilities.

When change management is poor or has been dealt with as an after-thought, the damage may be longer lasting and may become a permanent feature of life in the business. When change is planned without the involvement of the work-force, a degree of alienation takes place (Nelson and Aaron, 2005). Employees become angry and dispirited. They lose trust in management. As news of change begins to reach the employees, rumours flourish. As the rumours grow, many employees including highly skilled and knowledgeable staff place themselves on the job market. The business is set to lose valuable resources and intellectual property. Unlike well-managed change, morale remains low. A long-term loss of trust in management has taken place. Motivation remains low and productivity may take years to recover (Atilgan and McCullen, 2011).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction

This chapter contains definition, procedures used in research design, sampling techniques used to collect, analyze and present information. The section deals with the description of the methods employed in carrying out the research study as well as methods of presenting the data collected.

3.2 Research design

The researcher used descriptive survey method. Mugenda and Mugenda (2003) noted that a survey research attempts to collect data from members of a population and describes existing phenomena by asking individuals about their perception, attitudes, behaviour or values. Surveys enabled collection of data from a sizeable population in a highly economical way. Moreover, it explores the existing status of two or more variables at a given point in time. This descriptive research enhanced a systematic description that was as accurate, valid and reliable as possible regarding the effects of strategic change on performance of deposit taking savings and credit cooperatives in Nairobi County.

3.3 Target Population

The target population consisted of 45 deposit taking Saccos in Nairobi County (SASRA, 2011). The researcher conducted a census of the entire population. The Saccos were in different sectors of the economy as Private organisations, Community Based organisations, Mainstream government and Education sectors which are undergoing varied changes necessitated by regulations. List attached in Appendix 1.

3.4 Data Collection

The research study utilised primary data. Primary data was obtained directly from the sample population. The research instrument used in the study was questionnaires. The questionnaires were given to the respondents who in the study were the Chief Executive Officers of the 45 Deposit Taking Saccos.

The questionnaires had two sections i.e background information and the main body. The body had three sub-sections seeking to address the questions; what are the strategic change management practices adopted by Deposit Taking Saccos in Nairobi County? What is the effect of strategic change on operational performance of Deposit Taking Saccos? What is the effect of strategic change on financial performance of Deposit Taking Saccos?

3.5 Data Analysis

The data gathered from the questionnaires was analysed using the descriptive statistics with the help of the Statistical Package for Social Sciences (SPSS). SPSS helped in summarizing the data by use of descriptive statistics such as tables and percentages and prediction for numerical outcomes. The results of the analysis was organized, summarized and presented using tables clearly showing the frequency and percentages involved.

CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter covered the findings of the study. The findings were presented in form of tables. It also compares the findings of the study to existing body knowledge on the area of study.

4.2 background information of respondents

The study collected primary data from the sample of 45 deposit taking Saccos in Nairobi County. Majority of the respondents were Chief Executive officers of the Saccos with work experience of between 11-20 years. This is an indicator that they had the competencies to handle the strategic changes faced by the deposit taking Savings and credit Cooperatives.

4.3 background information of the Sacco

4.3.1 Size of the Savings and credit Cooperatives

The population was analyzed for its size based on its asset base as it is an indicator of the level of operation and is directly linked to the levels of activities. The findings of the study in view of the size are presented in table 4.1 below.

Table 4.1 Asset size of the Savings and credit cooperatives

Asset Size	**Frequency**	**Percentage**
Above 4 Billion	8	17.78%
>1b<4b	15	33.33%
Below 1b	22	48.89%
Total	**45**	**100**

Source: Research Data

The results indicate that majority of the Saccos 48.89% have less than I billion in asset size an indication that most of the Saccos are small in size. Majority of the Saccos are government based represented by 55% of the population.

4.3.2. Age of Sacco

The population was analyzed to determine the age of the Sacco so as to establish the level of experience in the industry. The findings of the study in view of age are presented in table 4.1 below.

Table 4.2 Age of Sacco

Age	**Frequency**	**Percentage**
Below 10 years	5	11.1%
11 years-20years	6	13.3%
21 years-30years	0	0.0%
31 years-40years	21	46.7%
Above 40 years	13	28.9%
Total	**45**	**100**

Source: Research Data

It was noted that majority of the Saccos that is 46.7% of the population had between 31 years and 40 years of experience in the Sacco industry.

4.4 Strategic change practices in the Sacco

Table 4.3 Strategic change practices

Strategic change practices	**Mean Score**	**Standard Deviation**
Increase in number of branches	17.46	3.21004
directives	9.52	1.751
Training of staff	22.22	4.086
Training of bod	20.63	3.794
Increase in number of staff	14.29	2.626
Communication with the staff	15.87	2.918

Source: Research Data

The different Saccos adopted various strategic change practices in seeking to deliver change at the deposit taking Saccos. The most used were training of staff, training of board of directors and increase in number of branches were all applied by all respondents. The least applied strategic change practice was directives which were utilized by a meager of the respondents.

4.5 Effect of strategic change on financial performance Saccos

The objective of the study was to establish the effect of strategic change on performance os deposit taking Saccos in Nairobi county. Respondents were asked to use a 5 point rating scale where 1=Not at all while 5=Very great extent to rate how the strategic change practices affected financial performance of Saccos. The response was coded with “Not at all” being allocated a code of 1 while “very great extent” was allocated a code of 2. Mean scores were used to analyze the data. The higher the mean score the greater the extent of adoption of the practice. The findings are presented in the table 4.4 below.

Table 4.4 Effect of strategic change on financial performance Saccos

Financial performance indicator	**Mean Score**	**Standard Deviation**
return on assets	11.93	21.26142
return on equity	10.80	19.23652
liquidity	11.08	19.74274
capital adequacy	10.80	19.23652
asset quality	11.65	20.75519
earnings ability	10.51	18.73029
repayment capacity	11.08	19.74274
total assets	11.36	20.24897
total deposits	10.80	19.23652

Source: Research Data

Informants were asked to comment on the effect of strategic change on financial performance of Saccos. The most prevalent indicator was return on assets with a mean score of 11.93. This was followed by asset quality with a mean score of 11.65, total assets with a mean of 11.36 and liquidity and repayment capacity with a mean of 11.08. The least applied financial performance indicator was earnings ability with a mean score of 10.51.

4.6 Effect of strategic change on operational performance Saccos

The objective of the study was to establish the effect of strategic change on performance os deposit taking Saccos in Nairobi county. Respondents were asked to use a 5 point rating scale where 1=Not at all while 5=Very great extent to rate how the strategic change practices affected operational performance of Saccos. The response was coded with “Not at all” being allocated a code of 1 while “very great extent” was allocated a code of 2. Mean scores were used to analyze the data. The higher the mean score the greater the extent of adoption of the practice. The findings are presented in the table 4.4 below.

Table 4.5 Effect of strategic change on operational performance Saccos

Operational performance indicator	**Mean Score**	**Standard Deviation**
customer satisfaction	19.38	17.40666
employee satisfaction	17.62	15.82424
BOD satisfaction	14.98	13.4506
productivity	18.06	16.21985
size of Sacco	16.74	15.03303
membership	13.22	11.86818

Source: Research Data

Informants were asked to comment on the effect of strategic change on operational performance of Saccos. The most prevalent indicator was customer satisfaction with a mean score of 19.38. This was followed by productivity with a mean score of 18.06, employee satisfaction with a mean of 17.62. The least applied operational performance indicator was membership with a mean score of 13.22.

4.7 Discussion of Results

This chapter has analyzed the findings from the informants in deposit taking Saccos in Nairobi County. The analysis has revealed that the most adopted strategic change practice among the Saccos is training of staff. The informants felt that the training was necessary since there have been changes in the legal framework of Saccos thus the need to perform duties differently. (Appiah, 2010) emphasized the importance of training as it has a direct impact on employee performance. According to his findings, an improvement in employee performance also leads to an improvement in the company's performance. Kotter (1995) stresses that in successful management of change, celebrating small milestones/wins is imperative. This ensures that the stakeholders are motivated through celebrating small wins, milestones in the change process. Key performance indicators help the guiding coalition/change managers to monitor and evaluate their progress based on the achievements in the change process.

The major indicator to improved financial performance in Saccos as indicated by the respondents was return on assets, as most informants felt that adoption of strategic change by Saccos will lead to a higher return on assets. On the improved operational performance indicator, the respondents indicated that customer satisfaction was a major indicator of improved operational performance as a result of adopting strategic changes in deposit taking Saccos in Nairobi County. Thus it is evident that strategic change in the Saccos has led to improved financial and operational performance of deposit Saccos in Nairobi County.

The literature on the relationship between strategic change and firm performance has revealed equivocal findings. Studies by (Hambrick and Schecter, 1983; Haveman, 1992; Zajac and Kraatz, 1993), found that strategic change enhances performance while other studies have found that strategic change reduces performance (Jauch, Osborne, and Glueck, 1980; Singh, House, and Tucker 1986). These contradictory findings suggest that the relationship between strategic change and firm performance may not be linear, as most previous studies have assumed.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section presented a summary of study findings, conclusions and recommendations based on the major findings of the study.

5.2 Summary of Findings

The main objective of the study was to determine the effects of strategic change on performance of deposit taking Saccos in Nairobi County. Based on the findings from the previous chapter, it is safe to conclude that the main strategic change practices adopted by deposit taking Saccos in Nairobi County are training of staff, training of board of directors and increase in number of branches while directives was the least preferred strategic change practice adopted. Return on assets, total assets, asset quality and liquidity were the main indicators of improved financial performance in the deposit taking Saccos. The indicators of operational performance were mainly indicated by customer satisfaction on the services of the Saccos, employee satisfaction and improved productivity of the Saccos.

5.3 Conclusions

The objective was to determine the effects of strategic change on performance of deposit taking Saccos in Nairobi County. The study established that training of staff was the major strategic change adopted by the Saccos while improved return on assets and customer satisfaction were the major indicators of improved financial performance in the Saccos.

5.4 Recommendations for Policy and Practice

Proper communication needs to be instituted in the various Saccos to ensure that all the members of staff are pulling in the same direction and that they all understand their roles and obligations in their departments. This will ensure that all the changes instituted in the Sacco are achieved and realized to meet the set objectives. There is also need to train staff members to equip them with new skills and competencies to better take up challenges that come with the change management process.

5.5 Suggestions for further research

Further research should be carried out on the strategic responses of Savings and credit cooperatives in Kenya to the new prudential regulations of 2010. This will determine how Saccos are coping with introduction of prudential guidelines introduced by the Sacco Act and the deposit taking regulations, 2010 and also comparing their current performance with those before the introduction of the regulations. It will also enable development of policy guidelines on key issues affecting these organizations.

5.6 Limitation of the Study

The researcher encountered problems with respondents unwilling to promptly complete the questionnaire. This delayed data analysis. Even though an introduction letter was attached, a lot of time was taken convincing the respondents that the study was purely for academic purposes.

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APPENDIX I: LIST OF SACCOS

	SACCO	SECTOR
1	Lenga Tumaini	Community Based
2	Nest	Community Based
3	Ukristo Na Ufanisi	Community Based
4	Chai	Community Based
5	Jamii	Community Based
6	Kingdom	Community Based
7	Orthodox	Community Based
8	Wanaanga	Community Based
9	Waumini	Community Based
10	Ardhi	Government
11	Elimu	Government
12	Reli	Government
13	Teleposta	Government
14	Transcom	Government
15	Ufanisi	Government
16	Ufundi	Government
17	Afya	Government
18	Airports	Government
19	Asili Cooperative	Government
20	Chuna	Government

21	Fundilima	Government
22	Harambee	Government
23	Hazina	Government
24	Kenpipe	Government
25	Kenversity	Government
26	Kenya Police	Government
27	Magereza	Government
28	Mwito	Government
29	Nacico	Government
30	Nafaka	Government
31	Nassefu	Government
32	Sheria	Government
33	Stima	Government
34	Ukulima	Government
35	Ngp Bamburi	Private Organisation
36	Comoco	Private Organisation
37	Kenya Bankers	Private Organisation
38	Maisha Bora	Private Organisation
39	Naku	Private Organisation
40	Nation Staff	Private Organisation
41	Safaricom	Private Organisation
42	Tembo	Private Organisation

43	United Nations	Private Organisation
44	Wanandege	Private Organisation
45	Mwalimu National	Teachers

Source: Sacco Supervision Report 2012

APPENDIX II: QUESTIONNAIRE

Please fill in the following questionnaire

PART A: Background information of respondent

1. Position held …………….…………………………………………………………….
2. Years of experience in the Sacco………….......................................………………..

PART B: Background information of the Sacco

1. Asset Size ......…………………………………………………………………………….
2. Sector ………………………………………………………………………….………..
3. Age of Sacco……………………….……………………………………………………

PART C: Strategic change practices in the Sacco

Indicate the change management practices adopted by the organization by ticking (√) where appropriate.

PRACTICE	
Increase in number of branches	
directives	
Training of staff	
Training of bod	
Increase in number of staff	
Communication with the staff	

Others (please specify below)

1…………………………………………………………………………………………………

2…………………………………………………………………………………………………

3…………………………………………………………………………………………………

4…………………………………………………………………………………………………

5…………………………………………………………………………………………………

PART D: Effect of Strategic change on the Saccos Financial performance

Indicate how you rank the effect of strategic change on Sacco's financial performance

Key

5= Very strongly agree

4= Strongly agree

3= Agree

2= Not at all

1= Not sure

Financial performance indicators in the Sacco:

		1	2	3	4	5
i.	Return on assets	( )	( )	( )	( )	( )
ii.	Return on equity	( )	( )	( )	( )	( )
iii.	Liquidity	( )	( )	( )	( )	( )
iv.	Capital adequacy	( )	( )	( )	( )	( )
v.	Loan portfolio	( )	( )	( )	( )	( )

vi.	Asset Quality	( )	( )	( )	( )	( )
vii.	Earnings ability	( )	( )	( )	( )	( )
viii.	Repayment capacity	( )	( )	( )	( )	( )
ix.	Total assets	( )	( )	( )	( )	( )
x.	Total deposits	( )	( )	( )	( )	( )

PART E: Effect of Strategic change on the Saccos operational performance

Indicate how you rank the effect of strategic change on Sacco's operational performance

Key

5= Very strongly agree

4= Strongly agree

3= Agree

2= Not at all

1= Not sure

Operational performance indicators in the Sacco:

		1	**2**	**3**	**4**	**5**
i.	Customer satisfaction	( )	( )	( )	( )	( )
ii.	Employee satisfaction	( )	( )	( )	( )	( )
iii.	BOD satisfaction	( )	( )	( )	( )	( )
iv.	Productivity	( )	( )	( )	( )	( )
v.	Size of Sacco	( )	( )	( )	( )	( )

vi.	Number of branches	( )	( )	( )	( )	( )
vii.	Membership	( )	( )	( )	( )	( )