# THE LINK BETWEEN STRATEGIC CHOICE AND PERFORMANCE OF DEPOSIT-TAKING CO-OPERATIVE SOCIETIES IN KENYA

**Pius Ng'ayo Namatsi**

The Catholic University of Eastern Africa

**Abstract**

*The purpose of this study was to examine the link between strategic choices and performance of deposit taking Saccos in Kenya. The specific objectives of the study were: to determine the effect of product development strategy on the performance of deposit taking Saccos in Kenya; to assess the effect of market penetration strategy on the performance of deposit taking Saccos in Kenya; to establish how product diversification strategy affects the performance of deposit taking Saccos in Kenya; and to establish the effect of the environment on the relationship between strategic choice and performance of deposit taking Saccos in Kenya. This study used descriptive research design. The target population for the study comprised of all deposit taking Saccos in Kenya with a total of 176. A 30% sample was taken using stratified random sampling. Results from the study showed that the first and most significant independent variable in this research was product development strategies, ($t=0.044$; $p<0.05$; $Beta=0.243$), thus significant to predict perceived societies performance. The second significant variable in predicting societies performance was macro environment ($t=0.926$; $p=.000$; $Beta=0.080$). Product diversification strategies was the third variable predicting societies performance ($t=0.239$; $p=.000$; $Beta=0.072$) while the fourth variable predicting societies performance was market penetration strategies ($t=-0.234$; $p=.000$; $Beta=0.016$). The study recommends that the deposit taking societies should focus on continuously improving their existing products instead of focusing only on developing new products. It further recommends that the deposit taking saccos should take into consideration the strategic choice of exploring new markets as this will expose their products to more people thus improving their profitability. Another recommendation is that the societies should be more innovative in their product diversification as this will enable them come up with new products which will in turn create a niche for their products in the market thus gaining a competitive advantage over other societies.*

**Key words:** Strategic Choice, Product Development Strategies, Market Development Strategies, Product Diversification Strategies, Macro Environment, Deposit-taking SACCOs

**Introduction**

A strategy is a plan of action that is designed by organizations to achieve a specific goal. According to Neilson, Martin and Powers (2009), well formulated strategies, can only put an organization on a competitive map but only solid execution can keep it there. This is because strategy choices drive the organization along a conceived path to allow organizations seize and fully exploit the opportunities manifesting in the market place. It has been observed from the strategic choice approach that the success of organizational adaptation pivots on an organization's dominant coalition's perceptions of its environmental conditions and the decisions they make regarding how the organization intends to cope with those conditions. Environmental dynamics have been considered as performance determinants (Helfat, 2000) while macro environmental factors have been established to impact, to a large extent on the operations of all organizations. Different organizations implement different approaches while trying to stay ahead of competition. The totality of their effect invariably leads to a conclusion on whether those approaches have an effect on the organization's performance.

Lorenzen (2006) observes strategic choice as a tool for organizing the current circumstances of an organization based on projections of an ideal future. This is also informed by the basic function of strategic planning that enables organizations establish priorities that gives them the abilities to better serve their stakeholders (Haines, 2004). Thus, a firm's strategic choice is its managements' action plan for running the firm and conducting its operations in a dynamic environment (Thompson, et. al., 2007). Hence, the dynamism in a firm's environment necessitates the adoption of appropriate strategies aimed at sustaining competitiveness thus enhancing performance.

Strategic choice typically follows strategic analysis and is based upon the following three elements. Firstly, there arises need for the generation of strategic options. These options may take the forms of organic growth, acquisition, diversification or concentration. Secondly, after the generation of these strategic options, they need to be evaluated to assess their relative merits and feasibility. Finally, there will be a need to select the best strategy or option to be pursued. There could be more than one strategy to be implemented but what is imperative to note is the possibility of there being inherent risks in any choice or strategy chosen. Whereas there may be specific techniques for evaluating the strategic choices made, the selection of a particular option is often times subjective and most likely influenced by the values held by managers and other pressure groups with an interest in the organization.

The decision on the scope and direction of an organization will also be informed by decisions on how to best achieve the organization's desired goals. Broadly, there are two ways in which a strategy can be pursued: through internal development in the form of organic growth or through external development that takes the forms of mergers and acquisitions, joint ventures, franchising and licensing. Johnson and Scholes (1993) argue that for a given strategic choices to be successful, it must satisfy three criteria: Suitability, acceptability and feasibility. Suitability refers to whether the options are adequate responses to the firm's assessment of its strategic position. Acceptability on its part considers whether the options meet and are consistent with the firm's objectives and are acceptable to the stakeholders. Feasibility on the other hand seeks to assess whether the organization has the resources it needs to implement the strategy or strategies settled on. This criteria can be applied to any strategic choice made such as the competitive strategies, the growth strategies, or even the methods of development.

Organizational performance is taken to be the capability of an organization to achieve its mission through sound management, strong governance and a determined commitment to achieving impressive results (Lebans and Euske, 2006). It is the sum total of the transformation of inputs into outputs for achieving desired outcomes (Hurduzeu, 2015). A performing organization is considered to be one that has gained the ability to acquire and utilize mission-critical resources expeditiously in the pursuit of its operational goals (Griffins, 2006). Performance comprises the actual output or results of an organization as measured against its intended goals and objectives (Lebans & Euske, 2006). Organizational performance is not only measured by the goals and objectives set in the initial planning but also the financial returns, in terms of profits and revenues (Lebans & Euske, 2006). Moulli (2011) on his part observes performance as a concept of how well an organization is managed and the value delivered for customers and other stakeholders. Organizations seek to achieve continuous performance as an objective aimed at enabling them grow and progress. Thus, firms seeking to survive in a turbulent business environment observe continuous performance as an objective of the organization.

Within organizations, there are three primary outcomes analyzed; financial performance, market and shareholder value performance (Lebans & Euske, 2006). It is further observed that an analysis of processes within organizations and the outputs of those processes also have the capability of revealing details of an organizations performance. One framework that can be utilized to measure performance is the balanced scorecard. This balanced scorecard uses four perspectives namely financial measures, customer satisfaction, internal business processes and organizational learning to identify what measures best describes the implementation of strategies aimed at improving and sustaining performance. The financial measures perspective facilitates the identification of relevant financial measures that inform the outlook of shareholders on companies. The customer satisfaction perspective identifies the measures that inform what is important to a firm’s customers. The internal business processes perspective helps in identifying measures that answer the question as to what the business needs to excel in to remain relevant while the organizational learning and growth perspective addresses itself to the measures to be put in place to ensure continuous improvement, innovation and value creation. The balanced scorecard model is illustrated under:-

Their exist a link between a firm’s strategic choice and its performance in that continuous performance of a firm derives from the various action plans settled on and implemented by management (Carraresi, et. al., 2011). By choosing appropriate strategies, a firm develops the capability to best achieve its intended goals. Ansoff (1965) opines that an analysis of a firm’s activities, products and markets would reveal the concept of strategy as a common denominator that seeks to define the fundamental nature of the firm. Indeed, Strempek (1997) observe that strategic choice has an integral performance implication and is usually linked to the external environment in which the firm operates.

Invariably, a firm’s environment often times acts as a moderator of the relationship existing between strategic choice and performance (Prescott, 1986). An estimate is possible where it is discovered that environmental variables may play an important role in influencing the link between strategic choice and performance (Ting, Wang & Wang, 2012). Their study also suggests that business environmental dynamics have a moderating effect on a firm’s strategy and thus a firm’s performance. Further studies by Rasheed (2004) on foreign entry strategy and performance reveal that whereas the choice of the entry strategy has an effect on how the firm will perform, the intervening role of environmental variables is also recognized as being influential to that performance.

The wider co-operative sector is universally defined with reference to the seven principles of co-operatives developed by the International Cooperative Alliance namely; Voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, co-operation among co-operatives and Concern for community. These are the universally acceptable principles that distinguish cooperatives from other corporate or unincorporated legal entities such as companies and partnerships.

According to the sector regulator, SASRA, there are 176 deposit-taking Saccos registered with the regulator in Kenya. This forms a sub-set of the wider co-operatives that has expanded the types of savings and credit financial services offered to their membership key among them being the venturing into the deposit-taking financial business, similar to the one undertaken by commercial banking institutions except for the fact that, such deposits are taken from members of the societies and not from the general public (SASRA, 2015). Among them, the Saccos boost of a membership of 3,145,565 with Kshs. 237 billion in deposits and Kshs. 258 billion in loans (SASRA 2015). The sector's core capital stood at Kshs. 41 Billion as at end of 2015. This study therefore sought to establish the link between strategic choice and the performance of deposit taking Saccos with a specific focus on how product development, market penetration and product diversification influence the performance of the Saccos.

**Statement of the Problem**

According to Mbithi (2016) the strategies a company undertakes has a bearing on its eventual performance with the environment being a determinant. Carraresi et al (2011) also concludes that there are significant and positive direct relationships between a firm's strategic choices and its performance. The primary purpose of a Sacco is to encourage savings among members from which they can borrow at affordable terms decided by them collectively or through the elected directors. Other services Saccos offer include asset management, mobile money transfer and custody of valuable documents. The Saccos generates income by providing these services which it uses to meet the related costs.

Deposit taking Saccos in Kenya have been experiencing challenges in their performance especially in asset management and the provision of services to its members. There is also the challenge of the strategies they choose to increase their membership as well as diversify their products. Their expansion strategies to enable them penetrate the market by establishing more branches in the country are questionable. It was therefore important to find out whether there was a link between strategic choices and the overall organizational performance or was it that the strategic choices did not achieve its intended purposes? This study therefore sought to provide data that might help the deposit taking Saccos identify flaws in their strategic choice.

**Objectives of the Study**

The general objective of the study was to examine the link between strategic choices and performance of deposit taking Saccos in Kenya, whereas its specific objectives were:

i. To determine the effect of product development strategy on the performance of deposit taking Saccos in Kenya.
ii. To assess the effect of market penetration strategy on the performance of deposit taking Saccos in Kenya.
iii. To establish how product diversification strategy affects the performance of deposit taking Saccos in Kenya.
iv. To establish the effect of the environment on the relationship between strategic choice and performance of deposit taking Saccos in Kenya.

**Significance of the Study**

The study would be important to managers of co-operative societies seeking to understand how strategic choices made impact the performance of organizations they lead. In particular, the study would inform the understanding of how the adoption of Ansoff's growth strategies bears on the performance of co-operative societies. The study would also be significant to policy makers in the financial sector particularly to regulators as an understanding would be created on the effect of the strategic choices on performance of co-operative societies. This would help address cross-cutting issues and policy gaps. The study would also highlight areas requiring further studies. This would be beneficial to students and researchers as it would form the basis of future studies on the link between a firm's strategic choices and its performance.

**Conceptual Framework**

The following conceptual framework highlighted the relationship between the adoption of various strategic choices and performance in co-operative societies. Product development, product diversification and market penetration strategies were taken to be the independent variables whereas performance was the dependent variable. The intervening variable was the firm's macro environments.

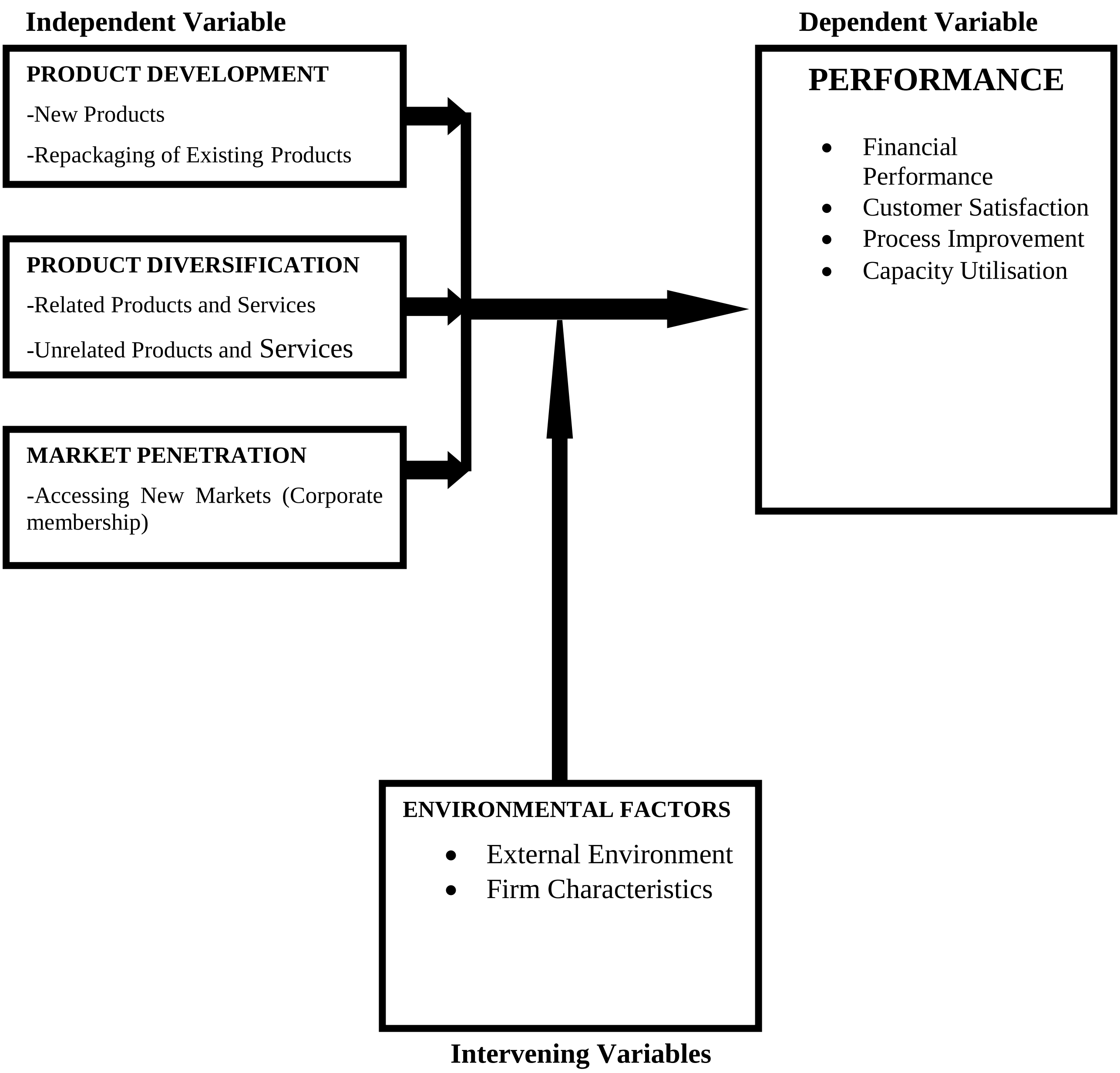


**Figure 1: Conceptual Framework**
Source: Adopted from literature review

From the framework above, strategy choice was explained by three elements, namely: product development under the parameters new products and repackaging of existing products; product diversification which involved related products and services and the unrelated products and services; and market penetration under the parameters accessing new markets. By means of arrows, these strategic choices elements were capable of influencing performance of deposit taking Saccos by influencing the financial performance, customer satisfaction, process improvement and capacity utilization. In this study, environmental factors under the parameters of the external environment and firm characteristics acted as the intervening variable.

## LITERATURE REVIEW

### *Theoretical Framework*

### Strategic Choice Theory

The idea behind this theory is the integral role of leaders or leading groups in influencing an organization's direction and performance through decision making in a volatile environment (Child, 1997). This theory provides an alternative to the common view where organizations were thought to be designed along their operational requirements based on their external environment. Under this theory, the agency of individuals and groups within organizations to make choices that impact organizations was considered (Keating et al, 1994). Consideration was made of the relevant forces in the external environment that affect employment relationships (Child, 1997). Changes in the external environment were taken to induce firms towards making changes in their competitive strategies.

These changes were definitely filtered and constrained to be consistent with the values, beliefs and philosophies inherent in the minds of key decision makers (Goddard, 1992). The historical and institutional structures limited the range of feasible options to be considered in light of outcomes observed from previous decisions and the current distribution of power within the firm and between it and outside entities (Kochan, et al., 1984).

The theory was relevant to this study because strategic adoption was taken to be more of a human resource issue (Gado, 2013). This notion was further supported by a positive correlation between quality resource levels attendant to a specific firm and the strategic choices it made and an even stronger relationship between strategic choices and performance levels.

### The Resource Based View Theory

The resource dependency theory proposes that where a firm exercises control over critical resources, such control can make other firms dependent on it as they seek to acquire the critical resources (Emerson, 1963). Resource Dependence Theory assumes a level of heterogeneity in firms' needs in terms of their resources and capabilities (Pfeffer & Salancik, 1978). This heterogeneity was taken to exist even in firms operating in the same industry. The essence of this theory was that organizations are often not self-sufficient resource wise thus limiting their capability of remaining competitive. This lack of self-sufficiency triggers interactions with other organizations as a means of acquiring resources for their survival. The most viable interaction often involves strategic interactions geared towards minimizing uncertainties relating to the acquisition of much needed resources (Gray & Yan, 1992).

Resource dependence theory was relevant to this study because it forms a formidable explanation for competitiveness and improved performance arising from a firm's ability to acquire initially unavailable resources critical to it continued competitiveness. Thus, an organization's competitive advantage results from a strategy that involves the harnessing of resources from different sources and seeking to control them.

### The Contingency Theory

The essence of contingency theory is that best practices depend on the circumstances of a particular situation (Northouse, 2007). Sometimes referred to as the “it all depends” theory, this reference offers a simplistic assessment of the theory. To contingency theorists, the primary focus lies in attempting to identify and measure the conditions under which business decisions are most likely occur (Carlisle, 1976). Contingency theory attempts to relate a number of management variables that have a bearing on the outcomes experienced by organizations out of their decisions. It allows for the analysis of a situation and determine what variables influence the decisions made.

A fit is presumed whereby the organization’s decisions are taken in a manner befitting its circumstances. Such fit offers the organization a chance to achieve and enjoy higher performance that generates surplus resources thus leading to expansion in form of growth in size, geographic reach, innovation and diversification (Hamilton and Shergill, 1992).

This theory was important to this study in the sense that it created awareness, especially in fast changing organizations, on the need to continuously reengineer in order to avoid misfit and performance loss.

### Empirical Studies

### Product Development Strategy and Organizational Performance

Goedhuys and Veugelers (2008) highlight that innovative performance is an important driver for organizational growth. In particular, the combination of product and process innovations significantly improve firm growth. Both innovation and growth performance are taken to be supported by access to finance. In addition, Mbithi et al (2015) observed a weak relationship between product development strategy and all aspects of performance. Further, Adhiambo (2014) postulates that whereas traditional product development strategies have a negative effect on a firm’s performance, more innovate product development initiatives invariably lead to better performance over time.

### Market Development Strategy and Organizational Performance

According to Zott and Amit (2007) novelty-centered business models tied with product market strategies that stress differentiation, cost leadership, or early market entry have the potential of enhancing an organization’s performance. Muga (2016) highlight that the companies that make some necessary changes to venture in new markets which include price reduction, adding established distribution channel, developing friendly means of payment for their products and to a lesser extent changing product packaging perform better. Further, Mwania (2017) established that market development and expansion strategies have a positive effect on organizational performance.

### Diversification Strategy and Organizational Performance

Afza et. al., (2008) postulate that non-diversified organizations perform better than the diversified organizations. In addition, Ojo, (2009) highlights that diversification impacts on the performance of companies positively, with geographical diversification being recommended in addition to other forms of diversification for maximum performance. On top of this, Mwangi (2016) established that there exists a strong relationship between performance and internal growth diversification strategies. The study recommends the application of the diversification strategies highlighted in expanding the scope of markets and operation of their entities in a bid to ensure sustainable competitive advantage.

### Macro Environment and Organizational Performance

According to Nguimkeu, (2013) a firm's environment either obstructsd or enhances its performance and continual performance was hinged on the management of environmental variables. In addition, Kariuki et al (2011) highlight that an organization's strategy choice is influenced by the business environment. Further, Dut, (2015) postulares that there is a relationship between a firm's performance and its ability to manage the environmental variable around it.

### Research Methodology

This study used descriptive research design given the descriptive nature of the problem. The problem was descriptive as it was a fact finding investigation aimed at providing adequate interpretation of a phenomena. This design involved the use of questionnaires or interviews for collecting data and using the same to generalize about a population from a sample. The target population for the study comprised of all deposit taking Saccos in Kenya. The population was grouped into three by the regulator. The first group known as the large tier deposit taking Saccos comprised of those Saccos with total assets above Kshs. 5 Billion. The second group, medium tier deposit taking Saccos, comprised of Saccos whose total assets were between Kshs. 1 billion and Kshs. 5 billion. They totaled 176 stratified as shown in Table 1 below. The study sample was 30% of the target population which was selected through stratified sampling and simple random sampling methods.

**Table 1: Distribution of Target Population**

| Cadre | Number | Percentage |
|---|---|---|
| Large Tier Deposit Taking Saccos | 15 | 9 |
| Medium Tier Deposit Taking Saccos | 58 | 33 |
| Small Tier Deposit Taking Saccos | 103 | 58 |
| **Total** | **176** | **100** |

A structured questionnaire was used as the main research instruments for data collection. The researcher sought for permission from the organizations before distributing the questionnaires to the employees. SPSS was used in transferring the data into more understandable information through coding, tables and graphical representation of the findings. The descriptive analysis assisted the researcher to make a conclusion on the link between strategic choice and performance of deposit taking societies in Kenya.

### Results and discussion of findings

In order to establish the link between strategic choice and society's performance, a number of questions were drawn from the variable, product development strategy. The results are as presented in Table 2 below.

**Table 2: Link between Product Development Strategy and Society Performance**

| Items | Strongly disagree (%) | Disagree (%) | Neutral (%) | Agree (%) | Strongly agree (%) |
|---|---|---|---|---|---|
| New products have been introduced in my society in the last five years | - | - | 1.9 | 79.2 | 18.9 |
| Existing products have been improved in my society in the last five years | - | 15.1 | 22.6 | 62.3 | - |
| Members suggestions largely drive the introduction of new products | - | - | 5.7 | 81.1 | 13.2 |
| Product development has had an effect on the society's performance | - | - | - | 81.1 | 18.9 |

**Source: Research data, 2018**

Table 2 shows that majority of the respondents 79.2% agreed that new products have been introduced in their society in the last five years while 62.3% of the respondents agreed that existing products have been improved in their society in the last five years. Majority of the respondents 81.1% agreed that members suggestions largely drive the introduction of new products while 81.1% of the respondents agreed that product development has had an effect on the society's performance. These results are in tandem with those of Goedhuys and Veugelers (2008) who concluded that innovative performance is an important driver for firm growth. They are further supported by Adhiambo (2014) whose study established that more innovate product development initiatives invariably lead to better performance over time.

**Statistical Analysis for Multiple Regressions**

To help in determining the relationship between product development strategies, market development strategies and product diversification strategies as independent variables and society performance as dependent variable, the study carried out regression analysis. The results are presented in the form of model of summary, Analysis of Variance (ANOVA) and regression coefficients. The findings are shown in the subsequent sections.

**Table 3: Regression Model Summary of the Predictors of Society Performance**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.341[a] | 0.116 | 0.042 | 0.19035 |

a. Predictors: (Constant), product development strategy, market penetration strategy, product diversification strategy, macro environment

The summary results given in Table 3 indicate that the regression model provided a correlation R value of 0.341 and an R squared value of 0.116. This indicates that the independent variables (product development strategy, market penetration strategy and product diversification strategy) jointly can explain 11.6% of the performance of a given society.

**Table 4: Coefficients[a]**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2.904 | .575 | | 5.051 | .000 |
| | Product development strategies | .243 | .119 | .283 | .044 | .000 |

a Dependent Variable: Employee Performance

The coefficient results in table 4 above shows that a unit increase in product development strategies would lead to improvement in society performance by a factor of 0.283 having a p-value of 0.000 which is less than the confidence level of 0.05. At 5% level of significance and 95% level of confidence.

## Summary of Findings

### Link between Product Development Strategies and Society Performance

Based on the results from chapter four, the first and most significant independent variable in this research was product development strategies, (t=0.044; $p<0.05$; Beta=0.243), thus significant to predict perceived societies performance. Majority of the respondents 79.2% agreed that new products have been introduced in their society in the last five years while 62.3% of the respondents agreed that existing products have been improved in their society in the last five years. Majority of the respondents 81.1% agreed that members suggestions largely drive the introduction of new products while 81.1% of the respondents agreed that product development has had an effect on the society's performance.

## Conclusion

The study concludes that the respondents agreed that new products have been introduced in their society in the last five years and that existing products have been improved in their society in the last five years. It is further concluded that quite a number of respondents were unsure on the improvement of existing products in their society. The respondents however agreed that members suggestions largely drive the introduction of new products and that product development has had an effect on the society's performance.

## Recommendations

Based on the conclusion that quite a number of respondents were unsure on the improvement of existing products in their society, it is recommended that the deposit taking societies should focus on continuously improving their existing products instead of focusing only on developing new products. This is because there are customer who are still interested in the existing products and could influence others on this choice.

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