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Influence of strategic organizational components on the performance of deposit taking Savings and Credit Cooperatives in Kenya

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Abstract: *A cooperative business as an organization is composed of at least four key strategic components namely: the organizational purpose, key resources, key processes and enterprise performance. The four organizational components are the building blocks of any enterprise performance and their power lies in their complex interdependencies. This makes the strategic components ideal concepts of analyzing firm performance, as it ensures no important factors are overlooked. Since inception, Cooperative enterprises have devised a stable system in which the components bond to one another in consistent and complementary way, resulting to sustainable performance and better response to economic crises than investor-owned firms. However, current trend in Kenya indicate that majority of SACCOs are moving away from the cooperative business model towards investor-owned enterprise model through re-branding.Thus, this study intends to investigate the extent to which the Cooperative strategic organizational components influence the performance of Deposit taking SACCOs in Kenya.*

The research will be cross-sectional survey targeting all the 215 deposit taking Saccos licensed by the Sacco Societies Regulatory Authority (SASRA) as at 31st December 2013. Stratified random sampling technique will be used to select a sample of 115 Saccos. Data will then be collected using questionnaires, document analysis as well as interviews, then analyzed using correlational and regression analysis. The results of the study are expected to show a significant positive influence of strategic organizational purpose, key resources on performance of deposit taking Saccos as moderated by key business processes.

Key words: *strategic components, organizational purpose, key resources, key processes and enterprise performance*

I. Introduction

I.1 Background

Cooperatives are defined as autonomous associations of persons united voluntarily to meet common economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprises (Makori et al., 2013; ICA, 2012c; Wanyama et al., 2009). This implies that a cooperative is a means of organizing activity, not the activity itself, where working together and mutual benefit are the core objectives (Bwisa, 2010). The definition also informs that a cooperative is different from other forms of organizations in that it is owned by its members who directly run the organization, make decisions democratically and use capital for mutual benefit (Muthuma, 2011; Bwisa, 2010). Mazzarol et al. (2011a) and Birchall (2010) in support assert that this form of business creates the context for a closer strategic fit between the organizational design and the members' needs. In this case cooperatives unlike the investor owned firms are able to inking social association to profit centered enterprise (Lazarevic, 2011; ICA, 2012a, b, c). This ability to create a stable system in which organizational components bond together in consistent and complementary ways (Johnson et al., 2008) provide a fundamental competitive advantage to cooperatives (Jussila, Byrne, and Tuominen, 2012). In support, Weill et al. (2005) in a research where they analyzed performance of the top 1000 firms in the US economy in year 2000, found that forms of business are a better predictor of performance than industry classifications and that some business forms do, indeed, perform better than others.

According to ICA (2012a, b, c) and Jusila et al. (2012), the synergetic interaction of organizational components of cooperatives lead to sustainable growth in cooperatives because it creates economic and social sustainability. Mazzarol, Simmons and Limnios (2009; 2011) support this view and clarifies that organizational components of cooperatives include the organizational purpose, key resources, key processes and performance. Also studies by Mazzarol et al. (2011),Cortimiglia, Ghezzi and Renga (2011), Wheelen et al. (2008; 2009a, b), Zott and Amit (2011) and Jussila eta al. (2012) indicate that strategic configuration of the components can be a potential source of competitive advantage as it enables an firm to link the its structure and strategy into a competitive system. This view is strengthened by Borzaga and Galera (2012) and Birchall (2010) who points out that from its earliest manifestation, the cooperation has remained a key strength which has made cooperatives to perform well even in difficult times.

Cooperatives are worldwide and cut across all sectors of the economy Birchall (2010). They provide an important framework for mobilizing both human and capital resources (Nyakenyanya, 2013; ICA, 2012a; c) that enable them to play an important role of welfare maximizing and socio-economic development (Okello, 2012; Wanyama et al., 2009; Novkovic, 2008). Statistics provided by ICA (2012b) indicate that, globally cooperatives generate a turnover of over US$1.6 trillion per year, 13.8% of the world's populations are members of cooperatives; over 3 billion people secure their livelihood through cooperatives and over 100 million people are employed in cooperatives, a 20% more than in Investor owned enterprises (Mayo, 2012; Salvatori, 2012; Atherton, et al., 2012). Also, according to Jussila et al. (2012), cooperatives have a significant presence in almost all countries across the world; for instance, in New Zealand, 22% of GDP, is generated by cooperatives while in Japan 91% of all farmers are members of cooperatives.

In Kenya, cooperatives are responsible for 45% of the GDP, 31% of the national savings and control over 85% of the coffee, dairy, pyrethrum and cotton market (Muthuma, 2011; ICA, 2012a, b). Birchall and Ketilson (2009) contend that the above statistics among other information is adequate evidence that cooperatives are important forms of enterprise, with better survival rate and impressive performance compared to their competitors. Nyakenyanya (2013) and Salvatori (2012) explain that the sustainability and resilience is facilitated by cooperative enterprises ability to successfully mobilize fragmented energies and resources that would have gone to waste. They also provide comparative advantages such as high penetration and stable interest rates (Birchall and Ketilson, 2009). This creates capacity for response that is renewed every time a new crisis emerges as evidenced by cooperatives performance in the 2008-2011 global economic crises. For instance, by the end of year 2012, following five years of financial turbulence, cooperatives were showing more stability and positive response to the crises than Investor owned enterprises (Odhiambo, 2013; Stiglitz, 2009; Sabatini, Modena and Tortia, 2012). In the period, credit cooperatives continued lending, and in the production cooperatives, reduction in sales did not translate to job cuts (Ferri, 2012). The resilience and sustainable performance was replicated everywhere in the world, for example, in the UK, between 2008 and 2011 cooperatives had a survival rate of 98% compared to 65% of the investor owned enterprises. Similarly, in the same period, the UK cooperative economy grew by 6% compared to -0.65% growth of the overall national economy (Mayo, 2012).

As evidenced above, literature and commentaries are replete with claims and suggestions that the cooperatives are sustainable form of enterprise with better survival rate and impressive performance compared to their competitors. However, current trend indicate that majority of cooperatives are moving away from the cooperative member owned enterprise to investor owned enterprises through re-branding (Odhiambo, 2013; Okoth, 2012). The wave of transformations or re-branding of cooperatives is currently being experienced in Kenya with over 60% licensed SACCO's having re-branded for market repositioning. Clarifying why the SACCO is re-branding Mwangi T., the CEO of Unaitas SACCO explained that 'the change is not only in the corporate colors and public image, but also in the internal systems and mindset' (Odhiambo, 2012; Okoth, 2012:4), which may imply a change in the 'identity'. Nyakenyanya (2013), Galor (2008), Borzaga et al. (2012) and Ferri (2012) advising on re-branding argues that transformations to appear suitable in a competitive market economy if not well regulated may diminish the competitive advantage of cooperation. It may also result to an uncritical application of unsuitable parameters designed to assess the efficiency of investor owned firms, which would negatively impact on the enterprise performance. Birchall and Ketilson (2009) and Stiglitz (2009) also discourage cooperatives transformations into investor ownership and states that the 2007 economic meltdown revealed a flaw in that investor owned firms were not able regulate themselves to protect stakeholders and institutions.

Other studies such as Ferri (2012), notes that although re-branding is generally acknowledged as a strategic move, considering the unique nature of Cooperatives, if not well regulated it may lead to dilution of cooperative philosophy, values and consequently decreased firm identity and member patronage (Oliver, 1997). Likewise, the incorporation of investors as cooperative owners will mean reduction of members' focus and control. This is a risk because membership is the backbone of cooperatives (Birchall, 2010; Borzaga and Tortia, 2010; Simmons and Birchall, 2004) and if their interests are excluded from ownership, the cooperative would lack direction and the costs of governance will increase (Atherton, Birchall, Mayo, and Simon, 2012). Therefore, cooperatives that move away from the member centered model may find their membership less well defined and distant (Byrne et al., 2005; 2012) and will struggle to maintain a committed membership (Jussila et al., 2012). This is a challenge since a sustainable competitive advantage of a cooperative requires high member commitment (Osterberg, Hakelius and Nilsson, 2009). Moreover, lack of a clear cooperative identity and values may make it difficult for a cooperative to be efficient let alone being beneficial to the members (Fulton, 1999).

The above sentiments from the opponents of cooperative transformations fortunately strengthen the assumption of this study that systematic interaction of organizational components of cooperatives influence enterprise performance. To verify the assumption, this study will examine the components and the effects of their interactions.

1.2 Statement of the Problem

A cooperative is an association formed, owned and used by members to satisfy their social-economic needs (Bwisa, 2010). In contrast, an investor-owned firm is an enterprise formed by persons with the expectation of a financial return to those who provide capital. Since inception, Cooperatives all over the world have had sustainable performance and better response to economic crises than investor owned firms (Birchall, 2012). For instance, by the end of year 2012, following five years of financial turbulence, cooperatives were showing more stability and positive response to the crises than Investor owned enterprises (Odhiambo, 2013; Stiglitz, 2009; Sabatini, Modena and Tortia, 2012). In the period, credit cooperatives continued lending, and in the production cooperatives, reduction in sales did not translate to job cuts (Ferri, 2012). The resilience and performance was replicated everywhere in the world, for example, in the UK, between 2008 and 2011 cooperatives had a survival rate of 98% compared to 65% of the investor owned enterprises. Similarly, in the same period, the UK cooperative economy grew by 6% compared to -0.65% growth of the overall national economy (Mayo, 2012). In Kenya, SACCOs a segment of cooperative movement have been vibrant and are responsible for 30% of the GDP and 33% of national savings deposits (WOCCU, 2013). They have been growing at an average of 15% annually (Tirimba, 2013) and survived the 2008-2011 economic crises better than investor-owned firms. The resilience and sustainable performance is attributed to the cooperative business model (Borzaga and Galera, 2012; Ferri, 2012; Stiglitz, 2009). However, current trend in Kenya indicate that majority of SACCOs are moving away from the cooperative member owned business model towards investor owned enterprise model through re-branding (Odhiambo, 2013; Okoth, 2012). Thus, this study intends to investigate the extent to which the Cooperative organizational components, namely: the Organizational purpose and Key resources moderated by Key processes influence the performance of SACCOs in Kenya.

1.3 Objectives

The General Objective will be to establish influence of Organizational purpose and Key resources on the performance of Deposit Taking Savings and Credit Cooperatives in Kenya as moderated by Key business processes. To achieve this overall objective, the research will specifically seek to determine the influence of vision and mission on the Performance of Deposit Taking SACCOs in Kenya, establish the influence of goals and objectives on the Performance of Deposit Taking SACCOs in Kenya, evaluate the influence of key resources on the Performance of Deposit Taking SACCOs in Kenya, establish the moderating influence of Key Business Processes on the Performance of Deposit Taking SACCOs in Kenya and analyze the strength of relationship betweenOrganizational purpose, Key resources, key business processes and the Performance of Deposit Taking SACCOs in Kenya.

1.4 Justification

The proposed research will be undertaken for various reasons. First, while globally literature on cooperatives is full of claims that cooperatives are more resilient than investor owned firms which is attributed to the cooperative business organizational components (Borzaga and Galera, 2012; Mazzarol et al., 2011a, b, c; Birchall, 2010; Mayo, 2012; Ferri, 2012; Mazzarol, 2009); there is insufficient an empirical evidence on the influence of cooperative business components on resilient performance of SACCOs (Borzaga and Galera, 2012). Thus, the study will form a formidable base for informing practitioners and policy makers (Borzaga and Galera, 2012) in establishing reasons for the current transformation of deposit taking SACCOs in Kenya. This study will also extend past research by investigating the effects of interrelationships of business components on firm performance, where the influence of combinations rather than characteristics of single components is established as recommended by Morris et al. (2013, p. 62). In addition to more explanation on the resilience of cooperatives during the 2007/2008 global economic crises when other businesses failed in most countries, SACCO managers will also get more insights on how to define and measure performance of their enterprises. Finally, the study findings will be expected provide significant information that would enhance exploitation of SACCOs' full potential in national development as envisaged in the Kenya Vision 2030.

II. Literature Review

This chapter shall review theoretical and empirical literature on the strategic organizational components and their influence on enterprise performance. The chapter will present the Theoretic Review, Conceptual Framework, Critique of Literature, Research Gaps and the summary.

2.1 Theoretic Review

The proposed study shall review the concept of strategic organizational components namely: Organizational purpose, Key resources, key business processes and the enterprise Performance (Laegaard and Bindslev, 2006; Daft, 2000; Zhao and Zhang, 2013). It shall also review findings by authors such Johnson et al. (2008), Mazzarol et al. (2011b), Weill et al. (2005) and Morris et al. (2013) on the influence of strategic organizational components on enterprise performance.

The study shall adopt a theoretical framework by Mazzarol et al. (2011a, b)

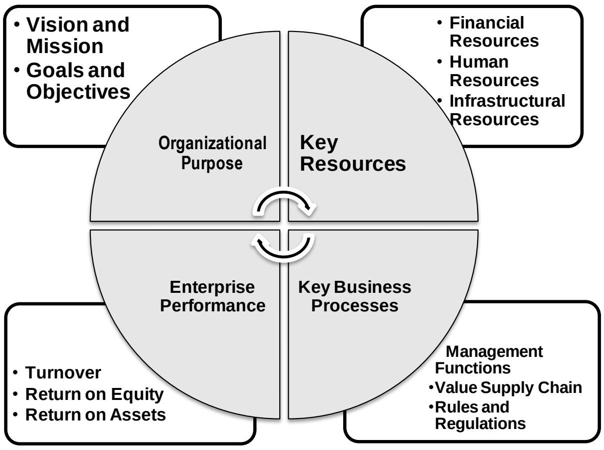
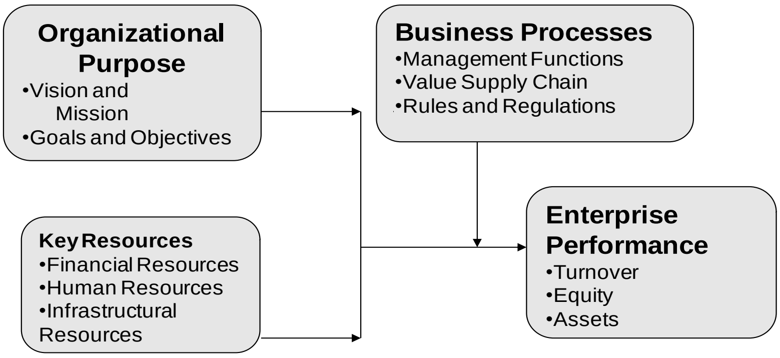


Figure 2.1 Key Components of Cooperative Enterprises (adopted from Morris et al., 2013, Johnson et al., 2008; and Mazzarol et al., 2011b)

2.2 Conceptual Framework

The proposed conceptual framework will comprise of the Organizational purpose, Key resources, key business processes and the enterprise Performance and their relationships.

Figure 2.3 Conceptual Framework



Independent Variables Moderating Variable Dependent Variable

Dependent Variable: Cooperative enterprise performance will be the dependent variable comprising of the increase in turnover, total deposits, total assets, total loans, share capital, total number of members and the number of branches. Cooperative performance will also focus on the rates of dividends and the interest on deposits. Performance will be the dependent variable because it is the most important goal and a key measure of output in all enterprises (Porter, 2004). Therefore Cooperative Performance would be the best indicator of effects of Organization Purpose and Key Resources on Performance as moderated by Key Processes.

Independent Variables: Independent Variables will comprise of Organization purpose and Key resources. The organization purpose which refers to the reason of existence of an entity (Teece, 2010) will consist of the vision, mission and the goals and objectives. The key resources which refer to the stocks of factors of production owned or controlled by a cooperative (Penrose, 1995; Barney, 1991) will comprise of Financial, Human Resource, and Infrastructural (Physical and Information Technology) Resources.

Moderating Variable: Business processes which refer to the linking systems or means for eliciting action, exerting control and effecting coordination will be the moderating variable. It will include Management functions, Value Supply Chain and Rules and Regulations (Mazzarol, 2009; Mazzarol et al., 2011a, b; Mazzarol et al., 2012; Qi et al., 2009; Kalakota, 2001; Koontz, 2007). The Key processes are perceived to enhance the influence of Key resources and Organization purpose on Performance (Johnson et al., 2008; Teece, 2010).

2.3 Research Hypotheses

The researcher postulates the following hypotheses which will be tested:

H_{01}: Organizational vision and mission has no significant influence on the performance Deposit Taking SACCOs in Kenya.

H_{02}: Organizational goals and objectives have no significant influence on the performance Deposit Taking SACCOs in Kenya.

H_{03}: Key Resources has no significant influence on the performance Deposit Taking SACCOs in Kenya.

H_{04}: Key Processes do not moderate the influence of Organizational purpose and Key resources on the performance Deposit Taking SACCOs in Kenya.

H_{05}: There is no significant causal relationship betweenOrganizational purpose, Key resources, key business processes and the Performance of Deposit Taking SACCOs in Kenya

III. Research Methodology

The research will be cross-sectional survey targetingall the 215deposit taking Saccos licensed by the Sacco Societies Regulatory Authority (SASRA) as at 31st December 2013. Stratified random sampling technique will be used to select a sample of 115Saccos. Datawill then be collected using questionnaires, document analysisas well as interviews, then analyzed using correlational and regression analysis. The results of the study are expected to show a significant positive influence of strategic organizational purpose, key resources on performance of deposit taking Saccos as moderated by key business processes.

3.1 Conclusion

A cooperative business as an organization is composed of at least four key strategic organizational components namely: the organizational purpose, key resources, key processes and enterprise performance (Osterwalder et al., 2005; Johnson et al., (2008; Teece, 2010). The four organizational components are the building blocks of any business performance and their power lies in their complex interdependencies. In addition, to perform well, a business should devise a stable system in which the components bond to one another in consistent and complementary way. This is because changes to any of the four components affect the others and the whole (Mazzarol et al., 2011a, b; Johnson et al., 2008). This makes strategic organization components ideal concepts of analyzing firm performance, as it ensures no important factors are overlooked (Amit and Zott, 2001; 2007).

These views are consistent with the open system approach to organization theory. The study view of a cooperative business as a systematic interaction of strategic organizational components is indeed crucial as by identifying the components and sub components of an organization can make it possible to pull apart various aspects of the firm and examine their influence on each other as well as their ultimate effect on firm performance (Korsaa and Jensen, 2010). For managers and policy makers such insights would provide significant information that would enhance exploitation of SACCOs' full potential in national development as envisaged in the Kenya Vision 2030.In academic and research, this study will enrich literature on firm performance by providing a conceptual foundation linking cooperative model elements to the performance of SACCOs. Also, the study will extend research on structure/strategy relationships by examining specifically the cooperative business model impact on performance.

The research will be organized as follows first, brief discussion on performance and current trends in deposit taking Saccos in Kenya. Second, reviewing the literature relating to the organizational purpose, key resources, key processes and enterprise performance to primarily inform objectives of research. The research will attempt to examine the relevancy and applicability of those related theories and concepts by testing the hypotheses. From the research, the findings will establish the relationship between organizational purpose, key resources, key processes and enterprise performance. Third, presenting methodology employed as the rationale of research study. Fourth, presenting ample analysis and findings concluding research implications.

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