

Relationship between Nature of Service Offered and the Adoption of Diversification Strategies by Saccos in Imenti North Constituency Meru County- Kenya

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Abstract : Financial institutions in Kenya have rapidly expanded as evidenced by the increased number of players venturing into the financial market which has led to increased competition. Not only has the number of players increased, but also there is an increased variety of products and service being offered. To compete in this environment, Saccos have adopted different diversification strategies, facing various challenges in the process. This study sought to look at the relationship between the nature of the various services offered and the adoption of diversification strategies by Saccos. The study adopted a cross-sectional descriptive research design, and a sample of 95 respondents was purposively selected from among non-executives and managing directors of the Saccos. Data was collected using open and closed - ended questionnaires and analyzed using Logistic Regression model. From the results, nature of services offered was found to be a significant predictor based on the Wald test at 5% significance level. From the analysis done by the researcher, it is clear that on average most of the responses in this section on how the various questionnaire items related to nature of service offered, were between great extent and very great extent, this is represented by an average of 24.98% and 37.64% respectively. From the response it can be concluded that most respondents agreed that nature of service contributes to whether the Sacco will embrace diversification or not. The response proves that there is a significant positive relationship between nature of service offered and the adoption of diversification strategy by Sacco's. The kind of business the Sacco engages in dictates the level and type of diversification the firm should venture into. From the analysis, the study recommends that for Saccos to have a competitive advantage when it comes to diversification; then they should have well-defined products and services which allow them to expand and venture into either related or unrelated which will enable them to grow regarding market share and customer base.

Key Words: Diversification Strategies, Nature of Services Offered,

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I. Introduction

The World Organization of Credit Unions (WOCCU) did a report in 2015 which designates that globally there are 60,657 credit unions, 222,799,196 memberships, present in 6 continents and 109 countries in the world. Over 1.5 trillion US dollars savings, Over 1.2 trillion loans, Over 1.8 trillion reserves and over 1.8 trillion US dollars asset base (WOCCU, 2015).

The SACCO movement in Kenya is believed to be largest in Africa continent and top 10 globally. This movement has been able to mobilize savings up to Kshs 400 billion domestically which now accounts for 33% of the national savings, and it is a major driver of the economy. This movement has an asset base of over Kshs. 300 billion. SACCOs have thus become an important component of Kenya's economic and social development. Mudibo (2005) found that the Sacco movement in Kenya is facing a huge number of predicaments, for instance, the trustworthiness of the board of directors. The Co-operative Act 2008 stipulates how Saccos should be registered in Kenya. Current innovations in Sacco's like FOSA have led to the formation of SASRA whose responsibility is to control Saccos with FOSA, but they normally cover all the Saccos (SASRA, 2012).

Many Saccos in the urban areas are constituted by salary and wage earners and who make arrangements with employers who are supposed use the method of check-off system from members' monthly salary for loan repayment and contributions. Sacco's found in rural areas are usually community-based; their core activities are agriculture (Kipkosgei & Njeru, 2014). With the current changes in market trend Saccos are forced to strategically and profitably compete so that they might react to the competitive hazard not only of new players but also to the

changed surroundings which might involve giving new service and products and through diversifying hence increasing their operations in new markets (Amit&Livnat, 2008).

Statement of the Problem

There's rapid expansion in the financial industry in Kenya which is depicted by the increased number of players venturing into the financial market which has led to increased competition (Mudibo, 2005). Not only has the number of players increased, but also there is an increased variety of products and service offered. For instance, the banking sector has been diversified as evidenced by, among other things, the introduction of E-banking, brokerage services, insurance products, ATM and mobile banking making it difficult for Saccos to keep up with the competition.

Saccos in Kenya such as Stima Sacco, Mwalimu National Sacco, and Umitas Sacco have diversified by introducing M-Sacco, FOSA and courier services. The majority of Saccos have not been able to diversify in Kenya despite the benefits of diversification such as Growth in market share and reducing risk (Lepetit, 2013). There is further competitive pressure from micro-finance institutions and self-help groups which are a reason why Saccos have to ameliorate its products and services and marketing strategies for them to ensure competitively and maintain client base profitability.

Various scholars such as Mwindi (2003); Mwangi (2012) and Lepetit, (2006) studied on diversification. Mwindi (2003) studied the application of unrelated diversification strategy using risk and competition as his study variable by the major oil companies in Kenya and established that the concept of non-related diversification. Mwangi (2012) focused on implementation of diversification strategy at the Standard Group (K) Limited and determined that the groups adopt diversification strategies to maximize profits and compete effectively in the media market. Lepetit, (2013) conjecture that Saccos are venturing into non-interest income activities which relate to a risk than those compared with performing traditional intermediation activities. None of them has studied on how nature of service influences the adoption of diversification strategies by Saccos. This research work, therefore, sought to fill this research gap by examining how the latter challenges (nature of service offered) affect adoption of product diversification strategies by Saccos.

Research Objective

The core overall aim of the study was to look at the Relationship between Nature of Service Offered and the Adoption of Diversification Strategies by Saccos in Imenti North Constituency Meru County- Kenya

Research Hypothesis

There is a significant positive link between nature of service offered and the adoption of diversification strategies by savings and credit co-operative organizations in Kenya.

Significance of the Study

The study will assist and guide all the Saccos stakeholders in understanding how the various challenges affect adoption of diversification strategies and have brought drastic changes in different sectors of the industry.

Scope of the Study

The specific study was restricted in scope to an investigation into the relationship between nature of service offered and the adoption of diversification strategies by Saccos in Imenti North Constituency Meru County- Kenya

Assumptions of the Study

The study assumes that information from the selected respondents was valid, honest, current and useful to this study in the areas of diversification. It is greatest hope and assumption that my study will be of great importance to the financial industry (Sacco's) to assist them to understand the various aspects relevant to diversification to make them attain consumer preferences and tastes.

Limitation of the Study

Accessible population and the sample were limited. Also, the respondents were reluctant to give information, but the researcher countered this challenge by explaining to them how useful the study is and assured them that I would hold research ethics with the information received.

II. Review of Literature

Theoretical Review

Ansoff Matrix

Through the application of a product market grid, Igor Ansoff stated that the various growth strategies are fundamental to all firms wishing to diversify for them to enhance business opportunities for growth. It is composed of market and products and different strategies for growing new and existing products and markets, Kotler (2006)

a. Market Penetration

Here it simply implies that an organization will emphasize on enlarging its current market share by selling more of its products. This is achievable by using advanced manufacturing facilities, efficient and effective distribution

and encouraging purchasing ability by the customer this enables a firm to enjoy better economies of scale, (Kotler, 2006)

b. Market Development

Kotler (2006) argues that a firm at this point focuses on creating new potential markets for its existing products. The aim of this strategy is to win customers from competitors who may involve a lot branding which implies that you as a new entrant you have something to offer compared to the dominant players.

c. Product Development

At this dimension, a firm simply introduces new unique products to its existing or to its current market. The current client base plays a major role when a firm introduces new products since they are the potential group to sell to, (Kotler 2006)

d. Diversification

Basically when a firm introduces a product that is either directly related to its current product line, or a firm introduces a product that not related to its initial business line, then that is diversification. Venturing into diversification gives a firm synergy and provide competitive advantage when it is done strategically, Kotler (2006)

Empirical Review

Ansoff (2013) stated that if diversification is operated in one or more market, it implies that risk can be spread to a certain risk level which means that diversification reduces risk will be reduced in this case. Lepetit, (2013) expounded on the relationship between diversification and risk; he found that Sacco's who have not yet diversified present low risk than those who have diversification into non-interests activities. On the diversification portfolio effect, risk spread has an impact on the determinants on the pricing of the loan. Greater income generating activities present higher income which might be related to lending at a lower rate which may mean that Sacco's can use the loan as a loss leader, hindering activity monitoring and screening of default and resulting to risk pricing. When a Sacco incorporates the non-income activities and traditional roles gain to benefit and might present a higher risk when they include both activities. According to Boyd and Graham (2006), when Sacco's expand into activities which are not financial the result was to increase failure and risk at the time of stringent policy period. Gallo (2006) argues that Saccos should combine mutual fund related programs will allow diversification to result in some gain which increases profits for decreased risk.

III. Research Methodology

Research Design

For the researcher to achieve the study objective, the study used a descriptive cross-sectional survey design. Kothari (2008) noted that descriptive design involves surveys and fact-finding inquiries of a different kind which are aimed at giving a description of the state of affairs as it exists at present. In this study, the researcher envisages to provide an accurate description of how the independent variable (nature of service offered) influence the dependent variable (adoption of diversification strategies by Saccos in Kenya).

Target Population

The research target population comprised all the 35 Saccos in Imenti North, Meru County. The 35 Sacco's represented the researcher's units of analysis from North Imenti which was the chosen research area. The total number of the possible respondents for the research comprised of all the board members of these Saccos. It is from the latter population of board members that the researcher drew a sample for the purpose of data collection.

Sample and Sampling Procedures

In this study, the researcher used a census survey which implies that all the units of study (Saccos) participated. The total number of possible respondents is 315 which is the total number of all board members of the 35 Saccos in North Imenti. The researcher selected purposively three board members from each Sacco which comprised of the managing director and two non-executive board members. This formed a total of 95 respondents.

Research Instrument and Data Collection

Primary Data

Closed and open-ended questionnaires were given to the study sample for the aim of collecting primary data using drop and pick latter method.

Secondary Data

Secondary data for this research was collected from relevant books, journals, and other academic materials.

Reliability Analysis

The researcher in this particular study relied on questionnaires from the respondents to determine the responses. Reliability was measured by use of a reliability coefficient (Cronbach's Alpha) whereby a score of 0.7 was used as the benchmark as it is recommended by McMillan (2002). The score that is derived from the test is a number

between 0 and 1 and is used to interpret and determine the internal reliability of the measured variables. An alpha score of 0.7 and greater indicates a higher internal reliability of the scale items.

Data Analysis and Presentation

The collected data from the research instrument was organized starting with the coding of the question items, then transformed into descriptive statistics (frequencies, means, and standard deviations) with the aid of statistical packages for social sciences (SPSS version 22). Logistic regression was used to link the relationship between the dependent variable (adoption of diversification strategies by Saccos) and the independent variable (nature of service offered).

The simple regression models were:-

$\ln\left(\frac{P(z)}{1-P(z)}\right) = \beta_0 + \beta_1 X_1$ where regression coefficients where

P(z) = probability of adoption of diversification strategies by Sacco's in Kenya

X₁ = Nature of Service offered

III. Data Analysis, Presentation and Interpretation

Questionnaire Response Rate

The questionnaire was formulated to collect data by the study objectives. They were edited and coded after they were filled in. Ninety-Five (95) questionnaires distributed to the various respondents in the 35 sampled Saccos. Seventy-six (76) were returned representing a response rate 80%. For the purpose of data analysis, the researcher deemed the response rate adequate and sufficient. In the 35 Sacco's interviews were also conducted on matters regarding product diversification.

Demographic Characteristics

a) Education Level of Respondents

About academic qualification, 80% of the respondents had more than secondary level education, that is, diploma holders represented 18%, degree holders represented 43.4%, and master's holders represented 28.9%. 7 Ph.D. holders represented 9.2% of the respondents. The above response indicates that the respondents were well educated to be able to understand the questionnaire items.

b) Level of Work Experience of Respondents

On the work experience of the respondents, 21.1% of the respondents had less than 2yrs working experience, 65.8% of the respondents had 2-5yrs working experience while 13.2% of the respondents had between 6-10yrs working experience. From the figures, it is seen that they are competent to work and implement the diversification strategies recommended by top management.

Descriptive Statistics on Nature of Service Offered

This was the independent variable of the study, it was analyzed using four Likert scale questions. The respondents were asked to what extent do they think the following statements influence adoption of diversification: There are strict government regulations on the spectrum of services offered by Sacco, We have increased the number of products in the market, The company policy allows us to venture into new products and services, The total percentage allowed for other investments outside our key business is too minimal, and there is limited organizational capacity to cater for the introduction of new products & services.

From the analysis, it can be seen that on average most of the responses in this section were between great extent (24.98%) and very great extent (37.64%). This means that most respondents agreed that nature of service contributes to whether the Sacco will embrace diversification or not.

Hypothesis Tests

To explore the link between nature of service offered and the adoption of diversification strategies in savings and credit co-operative societies, the following hypothesis was tested at 5% level of significance using Logistic Regression Model in SPSS (version 22). There is a significant positive relationship between nature of service offered and the adoption of diversification strategies by savings and credit co-operative organizations in Imenti North.

IV. Summary, Conclusions and Recommendations

Summary of the Findings

The main aim of Sacco's is to motivate its members to save, in that way generating or gathering capital, which is offered to the members at an equitable rate of interest. The loans are usually offered for specific aims, i.e. to cater social needs such as fee payment in schools, buying clothes and entertainment.

Loans are also provided for creative commitments; this in result is a loan for economic progress, for example, a loan to purchase a lorry, residential land or a house. An example is Capital Saving and Credit Co-operative Society. Right to get credit is unquestionably a major motivation to save. From the analysis above in the previous section, it can be seen that on average most of the responses in this section were between great extent and very great extent and this is represented by an average of 24.98% and 37.64% respectively. This means that most respondents agreed that nature of service contributes to whether the Sacco will embrace diversification or

not. The kind of business the Sacco engages in dictates the level kind of diversification the firm should venture into.

Conclusions

This study greatly adds to the understanding of the relationship between nature of service and the adoption of diversification by savings and credit co-operative societies in Imenti North-Meru County. From the results, the study variable was considered by the respondents to be significant. Therefore nature of service is classified to be the strongest predictor of adoption of diversification. Saccos should embrace and strongly support diversification because from the study we can see how firms are benefiting from the use of diversification. Therefore, management should understand the importance of this study variable which refers to the top management's strategy about innovativeness, proactiveness, and risk-taking for the sustainability of the SACCO's as forms of social enterprises.

Recommendations

By the findings of this study, the next recommendations are proposed in regards to the adoption of diversification strategies: the management should be able to consider the nature of service they engage in for them not to limit the firm when it comes to venturing in diversification. The middle-level management should familiarize itself with the current trends in the market and make sure they implement diversification strategies recommended by top management to ensure the success of the firm.

Suggestions for Further Research

Based on the findings of the study there is still a significant positive relationship between nature of service offered and the adoption of diversification strategies by saving and credit cooperatives in Imenti North-Meru County, the study recommends that further research can be conducted in Nairobi County and other parts of the world and try to find out the similarities between the two geographical set ups. The study also recommends that further study should be carried out to establish the benefits of embracing product diversification.

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