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EFFECT OF ACQUISITION STRATEGIES ON PERFORMANCE OF SELECTED SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

This study assessed the influence of acquisition strategies on performance of selected Savings and Credit Cooperative Societies in Nairobi City County, Kenya. The study target population was 41 licensed SACCOs in Nairobi County. The study used primary data to collect information, and the data collection instrument was a questionnaire which was given to the 41 operations managers in the 41 selected SACCOs. The data collection procedure was done by the researcher and drop-and-pick strategy was applied. The data was coded and keyed in Statistical Package for Social Science (SPSS Version 23.0), and was analyzed using both descriptive and inferential statistics. Descriptive statistics was through mean scores, standard deviations, frequencies and percentages, while the inferential statistics was through regression analysis to establish the relationship between strategic leadership and customer growth. The findings were presented in tables and charts for easy understanding, interpreting, and describing the data. The study established that acquisition strategies had a positive and significant effect on the performance of SACCOs in Nairobi City County. The study concluded that the SACCOs significantly employed market expansion strategies through new distribution channels. It was concluded that the selected SACCOs in Nairobi City County had employed acquisition as a corporate growth strategy. The study recommends that the SACCOs should embrace integrate technology in the implementation of corporate growth strategies to enhance efficiency and effectiveness. Further studies should be undertaken to establish the effect of corporate growth strategies on the performance of other SACCOs in other regions to establish the disparities or similarities among the financial sector players.

Key Words: *Take overs, Mergers, Corporate parenting*

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INTRODUCTION

Market expansion, this strategy requires expanding your company beyond its current market. This may mean either finding a new target audience who would need your product, or finding new uses for your current product that could expand its reach. Diversification is when a company sells new products to a whole new market. This requires involved planning and research to ensure that this method will have positive results for your business. Acquisition means purchasing and absorbing a competitor to expand your business. This method allows businesses to grow at a much more rapid pace than the other four methods, but it is also costly and time consuming.

While the need for firms to develop generic strategies is still unresolved debate, strategists agree about the critical role of the growth strategies. Growth strategies are often called the master business strategies; they provide the basic direction for strategic actions. They are the basis of the coordinated and sustained efforts directed towards achieving long term business objectives. (Rosenbusch, Rauch & Bausch, 2013). The growth strategies have been playing the central role in the expansion, development, stability and finally success of the business. These grand strategies have enabled organizations to increase their market shares, develop new markets, and develop new products and services. There are several different growth strategies to be applied by the business strategists but there are four of them which are the result of product or market or both product and market changes

Saccos have recorded tremendous growth since mid-1970s and currently have gained an average growth rate of 25% per year in deposits and properties. SACCOS have developed greatly and currently have about 3.7 million members. The 230 SACCOS with FOSAs have expanded into specialized bank like actions that involve taking deposit, facility taking, debit card (ATM) and transfers of money both local and international. SACCOS have an important role of serving the financial requirements need of the households, both small and medium enterprises. They give encouragement to individuals to save hence creating or collecting capital that contribute to economic development of a country. Kenyan SACCOS are faced with challenges. This has led to SACCOs to face competition from banks especially the Kenyan commercial bank. This is because banks have experienced series of changes that have made them to realize outstanding performance. Therefore, it is worth to research the determinants of performance outcome of Saccos.

The first Savings and credit Cooperatives in Kenya were started in the sixties and since then the sector has recorded a tremendous growth. The Government annual economic survey shows that as at December 2009 there were more than 2,400 active SACCOs with membership in excess of 1.5 million people. Share capital stood at Kshs. 65 billion while outstanding loans were Kshs. 59 billion. The structure of the cooperative movement in Kenya comprises of four tiers. These include the primary societies, secondary cooperatives, tertiary cooperatives and nationwide cooperatives. The Kenya National Federation of Cooperatives (KNFC) is the only apex society in the movement. 8 It was formed with an objective of promoting, developing, guiding, assisting and upholding ideas of the cooperative and SACCO principles. KNFC is the link between cooperatives in Kenya and the international cooperative alliance.

Nairobi County has the highest number of industries and thus attracts a significant number of people seeking for employment. These employees require financial services to cater for their developmental needs which can only be adequately met by Savings and Credit Co-operative Societies. Nairobi County Annual Report (2012) indicated that there were 1,102 active SACCOs, with a total membership of 795,541, Share Capital amounting to Kshs. 11.78 billion while the member’s savings/Deposits amounted to Kshs.110.57 billion. The SACCOs are distributed in three categories as follows: employee based 935, community based 92 and transport based. These SACCOs comprise both deposit and non-deposit taking ones. In the current legal framework, a Deposit Taking Sacco (DTS) is that Sacco operating a front office savings activity (FOSA). Sacco comprises over 50% of all cooperatives in Kenya and as financial institutions they play a critical role of financial intermediation in Kenya‟s financial landscape focusing mostly on personal development (SACCOs Review 2012).

Statement of the Problem

Financial performance has remained the single most important concern for business entities in their pursuit of shareholder wealth maximisation objective. The Annsoff Matrix as astrategic planning tool has continued to gain popularity in all quotas of business arrangements. Business entities are realizing that in the background of stiff competition and change in the business environment, entities must either shape up or ship out of the different business platforms. It is ironical that despite the growth of the Kenyan SACCO sub sector being highly rated in the world, several SACCOs continue to struggle in financial distress which others have been forced to shut down as is the case of Tena SACCO (Gamba and Komo, 2014).The SACCOs institution in Kenya have witnessed increased competition in the recent past and this has forced companies to go back to the drawing board to seek new ways of expanding their businesses and reach new markets more exhaustively for their products. Other challenges have come from the regulation of the sector prices of products by the government and the threat of entry and mergers of local firms with international players and this combined has increased business risk level of the firms. With the increased level of competition, local owned SACCOs have had to employ growth strategies and align itself to capture new markets or retain its existing market share. Understanding of a firm’s strategy based on independent and collaborative resources requires a combination of theories and methodologies and strategic positioning is one of these theories.

Chege, (2017) studied on effectiveness of strategies that are competitive on performance of the business of Kenya betting companies. The study suggests that all persons from the firms need to be elaborated in the management organization hence improving sharing thought and meetings along lines of easy basic leadership. Nevertheless, this research was on Kenyan betting hence cannot be applied in our current study.

Kinyuira (2014) studied on effects of porter’s generic competitive strategies on the performance of savings and credit cooperatives (saccos) in Murang’a. the results were that majority of the firms of the companies had documented strategy already to achieve their reputation, the research also discovered that most respondents agreed to the fact that corporate reputation strategies of management very largely contribute to the company’s success.

From the above review, it was clear that a lot remained to be done in respect to research on growth strategies and their resulting impact on firm performance. The researcher also unveiled methodological gaps, contextual gaps as well as empirical gaps that would be filled by the proposed study. Most past research had over concentrated on competitive strategies.

The few researchers who had focused on growth strategies had considered a narrow framework of the growth strategies as contained in the Annsoff matrix. Most past studies reviewed had used accounting based measures of performance and therefore a focus on other measures such as market based measures filled this methodological gap. Most research on this area had been done in other countries with only a few local studies encountered. The researcher had not also come across any research done in Nairobi City County despite the intensive Cooperative movement activities in the County. A focus on Nairobi City County helped fill this contextual gap.

Objective of the Study

This study assessed the effect of acquisition strategies on performance of selected SACCOs in Nairobi City County, Kenya. The study was guided by the following research question;

- What is the effect of acquisition strategies on performance of selected Saccos in Nairobi city County, Kenya?

LITERATURE REVIEW

Resource Based-View(RBV) Theory

Wernerfelt (1984) developed the RBV theory which was later popularized and developed by Barney (2001) as a tool for gaining competitive advantage. The resource-based view (RBV) as a tool of competitive advantage has its foundation on the application of a bundle of valuable tangible or intangible resources at the firm's disposal. The theorists behind the resource-based view (RBV) see resources as key to superior firm performance and argue that organizations should look inside the company to find the sources of competitive advantage rather than looking for competitive advantage from the competitive environment. The resource based view puts emphasis on resources and capabilities as the very beginning of competitive advantage. The model develops the body of knowledge of differential firm performance and also ushers new dimensions to the understanding of strategic management as a corporate discipline (Barney & Clark, 2007).

The RBV proponents assert that it is much more viable to use existing firm resources in exploiting external opportunities in a new way as opposed to acquiring new skills for each new opportunity. The basic premise of the RBV framework is the role of resources in influencing organizational performance. The RBV theory presents two kind of resources categorised into tangible and intangible resources (Arend, 2006). Tangible assets are physical assets and include Land, buildings, machinery, equipment and capital. The limitation with physical resources is that they can easily be acquired from the market so that in the long run because rivals would purchase the identical assets and therefore may not be a long term source of competitive advantage. Intangible assets are other assets with no physical presence and include brand reputation, trademarks, intellectual property are all intangible assets. The intangible assets can be a great source of competitive advantage in that they cannot be bought from the market and are achieved over a long period of time, for example, brand loyalty. As such, the theorists assert that intangible resources are a major source of sustainable competitive advantage for firms (Galbreath, 2005).

The RBV theory however makes two critical assumptions of RBV that resources must also be heterogeneous and immobile. With regard to the heterogeneous resources assumption suggests that an organisation's skills and capabilities differ from that of other company or firms. Competitive advantage is pinned on the assumption that the companies or firms have different resources which they exploit differently to outsmart each other in the market. The

RBV theorists also assume immobility of resources. This means that in the short run, resources cannot move from company to company. As such, other firms are not able to replicate a rivals' resources or implement the same rival's strategies. Intangible resources, such as brand equity, processes, knowledge or intellectual property are usually immobile which assigns them the ability to sustain the competitive advantage in the long run (Arend,2006).

The resource-based view (RBV) holds that by innovatively delivering superior value to customers, a firm would stand a chance to win competitive advantage. The idea of resources as the basis of competitive advantage asserts the importance of the theory to the study at hand. It is important to restate that the study is particularly interested in determining the influence of intensive growth strategies utilised by SACCOs and the relative influence on performance. Resources are at the very baseline point for organisations' ability to develop and sustain winning strategies, a factor that underpins the significance of the theory to the study at hand. In the context of SACCOs and the focus of the study, the RBV framework applies especially to the ability of the SACCO to utilize its internal resources such as staff competencies and knowledge base to develop winning growth strategies and then relying on long run firm resources such as firm's image in order to ensure the strategies are successful.

With adequate resources at the firm level, the company is well placed to develop winning products, drive their success in the market and sustain the momentum. The theory was therefore a useful guide particularly on the analysis of the, market expansion, diversification strategies and acquisition strategies objectives of the study

Empirical Literature Review

Acquisition Strategies and Performance

Mailanyi, (2014) did a research on the effect of mergers and acquisition on the financial performance of oil companies in Kenya. The results showed that petroleum organizations performed better in the post-merger period as compared to the pre-merger period. However, merger was to have irrelevant positive results on the liquidity and solvency of the petroleum organizations. Swaminathan, Groening, Mittal and Thomaz (2014) led a study on how the attaining the double target of satisfaction of the client and competence in mergers effects on monetary results of merged organizations. Diversification had no importance effect on monetary performance of institutions that are merged. Synergy had an importance connection with performance finance of merged firms. Board size had an important connection with monetary performance of merged organizations and there was a vital connection between the controlling effect on economic development and performance finance of merged organization.

Inoti, Onyuma, and Muiru, (2014) conducted on the results of the financial acquisition performance of the acquiring Kenyan companies. The research findings show that the goodness of the fit model was sufficient reported by r squared of 0.553 which means that 55.3% of the distinction in the financial performance is elaborated by changes in liquidity, solvency income and competence. The related coefficient of 74.4% means that variables that are dependent have a strong correlation independent variable.

Conceptual Framework

Acquisition Strategies
- Take overs
- Mergers
- Corporate parenting

→

Performance
- Profitability
- Growth

Independent Variable **Dependent Variable**

Figure 1: Conceptual Framework
Source: Researcher, 2019

METHODOLOGY

A descriptive research design or approach was used in the study at hand to explain the influence of diversification strategies and performance of selected Saccos in Nairobi City County. All the 41 registered SACCOs in Nairobi County with SASRA formed the study population. The study therefore targeted all the 123 respondents which meets and even surpasses the threshold size of thirty (30). The study included all of the 41 staffs in licensed Saccos. Since the population is small and less than 200, the study took the form of census. Mugenda and Mugenda (2003) states that census is carried out when the population is less or equals to 200.

The study relied on primary data; both close ended and open-ended questionnaires were used. The close ended questionnaires were used to provide more structured responses to provide tangible and quantitative data. The open-ended questionnaires were used to provide additional information that was not captured in close ended questions. The questionnaires was prepared carefully and tested to ensure that they capture the study for further improvement.

RESULTS

Response Rate

The population of the study was 123 management employees in the operational managers, financial and administration managers and human resource managers who were the study respondents drawn from 41 SACCOs registered and regulated by SASRA in Nairobi City County, Kenya. Out of 123 questionnaires that were prepared and distributed to respondents, 120 of them were dully filled and returned. This gave a response rate of 97.56%.

Descriptive Findings

The study analyzed data using descriptive statistics to establish the extent to which market acquisition strategies were employed among the selected SACCOs in Nairobi City County. The findings were presented in the subsequent sections;

Acquisition Strategies

The acquisition strategy is a comprehensive plan that identifies and describes the acquisition approach that the management will follow to manage program risks and meet program objectives. The respondents were asked to indicate the extent to which each of the following Acquisition Strategies affect Performance of your SACCOs using a scale of 1-5 where 1= not at all, 2= small extent, 3= moderate extent, 4= great extent and 5= Very great extent. The study findings were as presented below;

Table 1: Acquisition Strategies Implementation

Statement	Mean	Std. Dev
Our company has partnered with other firms to consolidate its market	2.05	0.839
Our Sacco has taken over some of the upcoming but small scale SACCOs	2.53	0.907
Our Sacco has merged with other firms to improve its market	2.01	1.517
Our Sacco endorses corporate parenting to improving presence and market share	3.14	0.821
Our Sacco has come up with technology cooperation with other firms to enhance efficiency	3.22	0.699

Source: Field data, 2019

The respondents to a little extent indicated that the SACCOs have partnered with other firms to consolidate their markets, the firms have taken over some of the upcoming but smalls scale SACCOs and also merged with other firms to improve their market as indicated by a mean of 2.05, 2.53 and 2.01. The study indicated that to a moderate extent the SACCOs have endorsed corporate parenting to improve presence and market share and also they have come up with technology cooperation with other firms to enhance efficiency as indicated by a mean of 3.14 and 3.22 respectively. This indicates that to a little extent the selected SACCOs in Nairobi City County have employed acquisition as a corporate growth strategy. A study by Mailanyi (2014) on the effect of mergers and acquisitions on the financial performance of oil companies in Kenya also made a similar conclusion that there existed a positive and significant relationship.

The respondents were asked to explain how acquisition strategies affected the performance of the Saccos. To this effect, the study established that strategic acquisition can be one of the most important means of growth their business. It was indicated that acquisition offers easier financing for future undertakings and immediate savings due to economies of scale. The strategy enabled provide a platform for corporate growth in scale and profitability.

Performance of SACCOs

The dependent variable of the study was to assess the performance of the SACCOs in Nairobi City County. The respondents were asked to indicate the extent to which market acquisition strategies affected performance of the SACCOs using a scale of 1-5 where 1= not at all, 2= small extent, 3= moderate extent, 4= great extent and 5= Very great extent. The findings were as tabulated below;

Table 2: Performance of SACCOs in Nairobi City County

Statement	Mean	Std. Dev
Our SACCO has enjoys high profitability	3.56	0.791
Our Sacco has a large customer base and growth	3.77	0.866
Our Sacco enjoys a large market share	2.78	0.901
Our Sacco has improved employee productivity with corporate growth strategies	2.99	0.764
Our Sacco has improved on quality service delivery	2.57	0.822

Source: Field data, 2019

The study established that to a great extent the SACCOs enjoy high profitability and a large customer base and growth as indicated by a mean of 3.56 and 3.77 respectively. The respondents indicated that to a moderate extent the SACCOs enjoyed a large market share, have improved productivity with corporate growth strategies and they have improved on quality service delivery due to corporate growth strategies as shown by a mean of 2.78, 2.99 and 2.57 respectively. This generally indicates that the SACCOs were performing well due to among other factors, corporate growth strategies.

Inferential Statistics

The researcher carried out inferential statistics to establish the relationship between market expansion strategies and performance of selected SACCOs in Nairobi City County, Kenya.

Regression Coefficient

In order to establish the individual influence of the variables on employee performance, the study conducted regression analysis. The findings are as shown in Table 3.

Table 3: Regression Coefficient

	Unstandardized Coefficients		Standardized Coefficients		
Model	B	Std. Error	Beta	t	Sig.
(Constant)	5.867	.625		2.715	.001
Acquisition strategies	.645	.055	.261	3.278	.001

Source: Field data, 2019

a. Dependent Variable: Firm performance

$Y = 5.867 + 0.645X_1$

Where: Y- Performance

X_1- Acquisition Strategies

Table 3 shows that holding other variables constant; performance of the SACCOs would be at 5.867. A unit increase in acquisition strategies while holding other factors constant, performance would be at 0.645.

The study pointed out that the independent variable of the study had a p value of less than 0.05 an indication that the variables significantly influenced performance. This is supported by Hallback & Gabrielson (2013) who stated that corporate growth strategies which range from market expansion strategies, diversification strategies and acquisition strategies had a positive and significant effect in turning around the performance of firms.

CONCLUSION AND RECOMMENDATION

The study established that strategic acquisition can be one of the most important means of growth their business. It was indicated that acquisition offers easier financing for future undertakings and immediate savings due to economies of scale. The strategies enabled provide a platform for corporate growth in scale and profitability.

Going by the findings, the study recommends that more aggressive investment in Corporate Growth Strategies. This is because, the study gathered enough evidence supporting the case for pay offs surpassing the costs. Acquisition strategies had a positive and significant effect in turning around the performance of firms. From the results, acquisition strategies was found to yield a great influence on the performance of SACCOs. The study recommended that Saccos and other organizations should pursue market acquisition as a strategic goal which businesswise is health as business risks are spread over different business lines. Emerging attractive business opportunities can only be utilized through the application of growth strategies which increases shareholders' financial gains.

Suggestions for further Studies

Due to time and resources limitation, the study was only limited to Nairobi City County. It would have been more useful and valuable to cover the entire Sub sector in Kenya. As such, the researcher recommends a study that fulfils this quest. A study on the effect of corporate growth strategies on performance of the SACCO Subsector in Kenya is therefore recommended.

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