THE EFFECT OF BUSINESS POLICY ON ORGANIZATIONAL PERFORMANCE: THE CASE OF CONSUMER COOPERATIVES IN KENYA

BY

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DECLARATION

I, **BONIFACE MWASUSU SABABU**, hereby declare that this thesis is the product of my own research work and it has not been presented for an award to any other university.

Signature:

Date: 07 - 02 - 2001

This thesis has been submitted with our approval as the University supervisors

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DEDICATION

This thesis is dedicated to my late father and mother

Mr. J. Sababu and Mrs. S. Ndawiro

ABSTRACT

This research examined the effect of business policy on organizational performance in Kenya. Its purpose was to attempt to establish the extent to which consumer cooperatives in Kenya are affected by business policy or formal strategic management systems as related to the Kenyan demographic and socioeconomic environment. A theoretical model relating formulation of formal strategic management systems and organizational performance to nine explanatory variables was developed. The study had the following objectives:

- to investigate the extent to which the consumer cooperatives have adopted formal strategic management systems in each of the functional business areas;
- to investigate and assess the relative importance of various demographic and socioeconomic factors that influence the extent to which formal strategic management systems are formulated;
- to determine the relationships between level of members` participation in the activities of their cooperatives and formulation of formal strategic management systems;
- to investigate the effects of demographic and socioeconomic factors on the levels of members' participation in the activities of their organization;
- to determine the relationship between the formulation of formal strategic management systems and the organizational performance; and
- to investigate the effects of demographic and socioeconomic factors on organizational performance.

On the basis of the stated objectives and the available literature evidence, the following hypotheses were advanced:

- significantly more than two thirds of the consumer cooperatives have not adopted any formal strategic management systems;
- organizational demographic and socioeconomic factors significantly influence the level to which formal strategic management systems are formulated;
- members` participation in the activities of their organization significantly influence levels to which formal strategic management systems are formulated;

- organizational demographic and socioeconomic factors significantly influence levels of members' participation in the activities of their organization;
- business performance ratios of organizations with formal strategic management systems are significantly higher than those without formal strategic management systems; and
- Demographic and socioeconomic factors significantly influence organizational performance.

The population of study included all consumer cooperatives in Kenya. In total, there were eighty-five active consumer cooperatives. Out of these, 59 (69.4%) were interviewed. The data were analysed by the use of tabulations, chi-square and multinomial logit model. The results were both consistent and inconsistent with the theoretical and practical expectations. They were as follows:

- majority of the consumer cooperatives have not adopted formal strategic management systems, which implies that majority of these cooperatives use informal business policy;
- like in past studies done elsewhere, formal strategic management systems in Kenya also influence organizational performance;
- while demographic and socioeconomic factors appear to influence development of formal strategic management systems and members' participation, they have no direct effects on organizational performance; and
- Members' participation has no noticeable effects on development of formal strategic management systems.

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CHAPTER 1

INTRODUCTION

This chapter discusses the importance of cooperatives to Kenya's economy, the consumer cooperatives, the concept of business policy and presents research problems, objectives and significance of the study.

1.1 The Importance of Cooperatives to the Kenyan Economy

The Kenyan economy is to a large extent pegged on cooperatives. The latter play a very important part in the country as they are found virtually in all trades and industrial sectors such as retailing, wholesaling, production, fishing, craftsmanship, banking, insurance, and quarrying. They contribute about 45% of the Gross Domestic Product (GDP) and provide the means by which rural and urban citizens participate in the economy (Ohenjo, SACCO Star, January, 2000).

Available statistics (Department of Cooperative Development, 2000) show that there were 9,151 registered active cooperatives in Kenya in December, 2000 with membership of 5,177,2000 and annual turnover of Kshs 15,798,000,000. These cooperatives are found both in urban and rural areas and employ thousands of people both on permanent and casual basis. It is estimated that one out of every two Kenyans directly or indirectly derives their livelihood from the cooperative sector. Those who are employed by the Cooperative Movement derive incomes from such employment. With this income the employees buy food, clothing and other material requirements. They, therefore, enjoy a higher standard of living than they would otherwise do.

Cooperatives mobilise savings and grant credit to members. After failing to have their banking needs satisfied by banks and non-bank financial institutions, the low-income earners in both urban and rural areas organized themselves into Savings and Credit Cooperative Societies commonly known as urban and rural SACCOS respectively. Statistics from Kenya Union of Savings and Credit Cooperative (1997 and 1998) show that by 1998, there were 2,003 Savings and Credit Cooperatives with a membership of 1,046,412, share capital of Kshs 28,494,862,332 and turnover of Kshs 3,278,519,558 (Appendices 4 and 5). The cooperators have been and still continue to get loans, which are equivalent to three times their savings. In rural areas, the rural SACCOS also mobilise savings and extend credit to their members.

The Cooperative Bank of Kenya which serves as the "Central Bank" for the Cooperative Movement, has also been mobilising savings through its nationwide branch network. By the end of 1998 the total assets of the bank amounted to Kshs 20,518,893,200, the Share Capital stood at Kshs 1,209,112,900 while loans and advances amounted to Kshs. 13.0 billion (Annual Report, 1998). The Bank has also actively participated in the disbursement of donor and government funds to smallholders. Further, it has lent and continues to lend its own funds to cooperators through their societies and unions (Kibera, 1995: 109-110).

Cooperatives are also known to have the machinery and the financial resources to implement government policy on indigenisation. This happened soon after independence when land was transferred from European settlers to indigenous

Kenyans. By 1968, one hundred and thirty (130) land buying cooperatives had been formed and this number increased to two hundred and ten (210) by 1997. These land buying cooperative societies were instrumental in the settlement of Africans in the previously whites owned estates as well as in the provision of other services in these schemes. Some cooperatives have also bought small industries which were previously owned by Asians such as Nambale, Luanda, Ndere, Victoria and Malaba-Malakisi ginneries (Kibera, 1995 : 112).

Cooperatives have been key channels through which foreign donors channeled their funds to small scale farmers. For instance, Sweden, Denmark and Norway have channeled considerable amounts of funds into Kenya through the cooperatives. They have done this by assisting various projects such as research and development, development of member transaction manuals, and provision of expert advice.

Other contributions by cooperatives include investments, provision of shelter, and social-political contribution (Ouma, 1989: 98-104). For instance, in 1995 about 18% of the total investment in Kenya was made by cooperatives and most of this investment took place in agriculture and agro-processing facilities such as animal feed mills, maize mills, coffee factories, cotton ginneries and milk processing plants. Individual members as well as cooperatives have also invested in land, small businesses, housing, and education. Cooperatives have also provided shelter to various urban and rural Kenyan dwellers, unified Kenyans with common interests and contributed funds to various charitable organizations and to individuals. In addition they have provided good training grounds for those aspiring to be leaders of private, public, or cooperative sectors (Kibera, 1995: 113).

1.2 The Consumer Cooperatives

Consumer cooperatives are wholesale and retail organizations formed to supply members with the household and firm input products. They were originally formed in Great Britain in 1844 to restrain private traders from unfair trading practices and prevent them from exploiting their customers. They started as a working class movement when 28 weavers opened a shop at Rochdale. The aim of the project was to provide factory workers with essential quality consumer goods and services at affordable prices so as to uplift their standards of living. The success of this undertaking led to many more cooperative societies of this type being formed in the industrial districts and commercial sectors in Britain (Hanson, 1986: 102). These types of organizations were later formed in other parts of the world.

Consumer cooperatives in Kenya were first started by Christian missionaries who encouraged people, particularly teachers, to form consumer cooperatives so as to enable them to get their household requirements such as house chores, goods and appliances at reasonable prices (International Cooperative Alliance - ICA, 1973). The first consumer cooperative was established at Kahuhia in Murang'a District in 1933. It collapsed later allegedly due to poor management (ICA, 1973).

During the Second World War, the European community in Kenya formed the Nairobi District Cooperative Society. It operated for some time but later collapsed due to acute competition from Asian traders (ICA, 1973). After the Second World War, a Department of Cooperatives was created under the Chief Secretary to advice the Africans on how to form cooperative societies. The first consumer cooperative to be established by Africans was Starehe African Cooperative Society in1948. Its members were drawn from the civil service. By 1954, the African Railways Consumer Cooperative Society, the Medical African Staff and Chemelil Consumer Cooperative Societies were already registered. Later, teachers organized their own consumer cooperative societies through their savings and credit cooperative societies at the district level. The East African Bag and Cordage Consumer Cooperative and the National Consumer Cooperative Union, as an umbrella organization for all primary consumer cooperatives in Kenya followed suit. For several years these consumer cooperatives flourished and were able to pay bonuses to their members, but later they became weaker and weaker so that by 1971 virtually all of them had collapsed.

The Government of Kenya and that of Germany provided substantial resources to revive consumer cooperatives. The intervention included streamlining of their accounting systems, purchasing and ordering systems, and provision of transport facilities (Ouma, 1988: 49). This, however, did not prevent collapse of the National Consumer Cooperative Union and nearly all the primary consumer cooperatives. The main causes of their failure were associated with ineffective management, lack of patronage by members, poor book-keeping, lack of trained and qualified personnel and competition from established traders (Ouma, 1989: 51). Ouma's observations were later supported by Nguku (1996) and Nginyo (1997).

1.3 The Concept of Business Policy

The term "business policy" is often used interchangeably with "strategic management". In view of this, it is useful to review various definitions of "business policy" and "strategic management" as given by different authorities in this field.

Luffman and colleagues (1991: 4) defined business policy in terms of strategic decisions. They defined strategic decisions as those which are concerned with the entire environment in which the firm operates, resources and people who constitute the organization, and the interface between the two. They concluded that failure to match appropriately the firm's capabilities to the environment can have devastating consequences.

According to Digman (1986: 4-5), "strategic management" is a continuous process that involves attempts to match or fit the organization with its changing environment in the most advantageous way possible. These two definitions are related in that they are both concerned with the internal activities of the organization as they are influenced by the external environment.

On the other hand, the definition given by Thompson and Strickland (1993: 3) seems to differ from those of Digman, Luffman and colleagues. According to Thompson and Strickland, "strategic management" is a process of developing a vision and mission, setting objectives, crafting a strategy, implementing the strategy and evaluating the performance. This definition is related to those given by Byars (1987), Pearce and Robinson (1991 and 1999) and David (1991).

Byars (1987: 6), for instance, defined strategic management as a process which is concerned with making decisions about an organization's future direction and implementing those decisions. He asserted that these decisions can be broken down into two phases: strategy planning and strategy implementation, with strategy ***planning*** being concerned with defining the philosophy and the mission of the organization, establishing long range and short range objectives to achieve the mission, and selecting a strategy that is to be used to achieve the stated objectives. Strategy ***implementation,*** on the other hand, is concerned with making decisions with regard to structure, activity and effectiveness of the organization in view of the mission and the stated objectives.

Writing in the same vein, Pearce and Robinson (1991: 3) asserted that strategic management is a set of decisions and actions that result in the formulation and implementation of plans designed to achieve an organization's objectives via formulating the mission, developing the profile, assessing the external environment, analysing the options, selecting the most appropriate option, developing the long-term objectives and grand strategies, developing annual objectives, implementing the strategic choices by means of budgeted resource allocations, and evaluating the success of the strategic process as an input for future decision making.

David (1991: 4), on the other hand, stressed that strategic management is "the art and science of formulating, implementing and evaluating cross-functional decisions that enable an organization to achieve its objectives". This definition implies that strategic management focuses on integrating business policy variables.

Other definitions of business policy and strategic management were those given by Wheelen and Hunger (1992: 11) and Glueck and Jauch, (1988:5). Wheelen and Hunger stated that the process of strategic management involves four basic elements, namely, environmental scanning, strategy formulation, strategy implementation, and evaluation and control, while Glueck and Jauch defined strategic management as a stream of decisions and actions which lead to the development of an effective strategy or strategies to help achieve corporate objectives.

Glueck and Jauch, like Wheelen and Hunger, further argued that the terms "business policy" and "strategic management" have the same meaning in the literature of management. Glueck and Jauch stressed that "business policy" is a term traditionally associated with the course in business schools devoted to integrating the educational programme of these schools and understanding what today is called strategic management (Glueck and Jauch, 1988: 4–5). Similarly, Wheelen and Hunger stated that most business schools offer a strategic management or business policy course as a final integrative class in a business administration programme. They stressed that while business policy emphasizes on the formulation of general guide lines that would better accomplish an organization's mission and objectives, strategic management emphasizes on the monitoring and evaluating of environmental opportunities and constraints in light of their organizations' strengths and weaknesses (Wheelen and Hunger, 1992: 7-8).

As it is to be expected, there are many other definitions of "business policy" and "strategic management". However, for the purpose of this study, the term "business policy" will mean the set of all general guidelines on variables which determine an organization's performance and will encompass remote environmental variables, industry variables, functional business variables, Strengths-Weaknesses-Opportunities-Threats *(SWOT)* analysis, strategy formulation, implementation, evaluation, and control. The process of integrating these variables will be referred to as strategic management, and the outcome of this process will be the desired performance of the organization. A strategic management system can thus be defined as the process of strategy formulation, implementation, evaluation and control on the basis of the remote and industry variables via the *SWOT* analysis in view of each functional business area.

Business policy can be categorised into formal and informal. ***Formal*** business policy is written or official. This type of policy is also called the formal strategic management system and is thought to have its beginnings in the 1950s in the United States of America (Aosa, 1992). Its development originated from growth in size, complexity and diversity of economic and social organizations (Digman, 1986: 4). ***Informal*** business policy is not officially stated or written down. It is a reflection of how things are done to achieve goals. This type of policy is difficult to interpret at any one moment of time as it tends to be erratic.

1.4 Statement of the Problem

Over the years, some organizations have grown to be extremely large and profitable, while others have gone bankrupt. Some organizations have diversified into many new business activities, but others have not (Byars, 1987: 6). This phenomenon is also prevalent with cooperatives in Kenya since the acceleration of the globalization process in the late 1990s. Out of the registered 8,668 cooperatives, in 1998, some 1,811 were inactive. The remaining active (6,857) split into smaller entities resulting in a total number of registered cooperatives of 9,151 by December, 1999 (Department of Cooperative Development, 2000).

According to Ouma (1989: 51), Nguku (1996), and Nginyo (1997), cooperatives in general and consumer cooperatives in particular do not appear to employ formal strategic management systems. This implies that there is either inappropriate business policy or lack of formal strategic management systems in the Cooperative Movement.

Strategic management has been shown to be important as far as organizational performance is concerned. For instance, a study of twenty listed organizations in the United States of America (USA) concluded that effective strategic management is significantly associated with higher levels of performance in profitability and return on invested capital (Byars, 1987: 5). In yet another study of ninety USA companies in clothing, chemical drugs, cosmetics, electronics, food and machinery industries, it was concluded that management of any profit seeking organization is delinquent if it does not engage in the formal strategic management process (Byars, 1987: 5). Similarly, Wheelen and Hunger (1992: 8) argued that many concepts and techniques dealing with long range planning and strategic management have been developed and used successfully by business corporations but not all organizations use these tools or even attempt to manage strategically. Such organizations succeed only for a while with unstated objectives and intuitive strategies but fail in the longrun. This view had also earlier been supported by Henderson (1973: 33). From his extensive work in the area, Henderson had concluded that intuitive strategies could not be continued successfully if the organization becomes large, the layers of management increase, or the environment changes substantially.

Goldsmith (1996) studied the relevance for international development of strategic management and a set of methods for helping managers to align organizations in USA with their environments, so that they could get to their important objectives. He found that when taken seriously, strategic management can promote strategic decision making and adaptability, but success in organizational strategy depends more on the right mental outlook than on specific techniques that could themselves sometimes turn into an impediment to open and creative thinking. He concluded that strategic management works best when understood as a way to teamwork, not as a prescribed remedy to follow.

Peterson and Anderson (1996) identified twelve strategies through which cooperatives could produce differential benefits for its members. Six of these would primarily generate additional returns, and six would primarily operate to reduce the risk inherent in returns. Through in-depth interviews with the chief executives, they determined that the taxonomy of theoretical strategies matched well with actual strategies; cooperatives use of a mix of returns and risk management strategies; actual strategic motivations are sometimes at odds with those suggested by theory; and that cooperative information systems appeared inadequate to support strategic decision making.

Non-empirical studies conducted in Kenya suggest that business policy has an effect on organizational performance in less developed countries such as Kenya. For instance, after the market liberalisation of the Kenyan economy since 1991, many cooperative organizations found the going difficult. Thus out of the registered 2,418 Savings and Credit Cooperative Societies in 1997, some 415 had collapsed by the end of 1998 (Appendices 4 and 5). Other marketing cooperative unions such as Mukuruweni Coffee Farmers Cooperative Society split into smaller societies. A day hardly now passes without reports on such and such cooperatives being in management trouble.

Many hypotheses have been advanced to explain the failures of the cooperative organizations in Kenya. Among the early writers in this subject was Ouma (1989) who believed that the failures were caused by lack of effective management, political interference, and lack of members' honesty and participation. This scenario was later advanced by Nguku (1996), who argued that lack of effective management in consumer cooperatives was responsible for their demise. A similar observation was made by Nginyo (1997). The latter believed that the causes of failure in consumer cooperatives in Kenya were lack of effective management as well as lack of committed membership.

Unfortunately, there was none among all the above cited studies which empirically tested the relationships among the business policy variables, or the relationships between demographic and socioeconomic factors and organizational performance. Furthermore, as far as the current researcher knows, there has been no research conducted on the effects of business policy on organizational performance in Kenya and especially in the consumer cooperative sub-sector. Given this state of affairs, the current research found it worthwhile to close this knowledge gap by empirically examining the effects of business policy on organizational performance in Kenya using the consumer cooperative sub-sector as the research setting.

1.5 Objectives of the Study

The primary objective of this study was to investigate the effect of business policy on organizational performance by examining the insights of consumer cooperatives sub-sector in Kenya and empirically testing the relationships among the various business policy variables and organizational performance. The specific objectives were:

1. to investigate the extent to which consumer cooperatives have adopted formal strategic management systems in each of the functional areas of business;
2. to investigate and assess the relative importance of various demographic and socioeconomic factors that influence the extent to which formal strategic management systems are formulated;
3. to determine the relationships between levels of members' participation in the activities of their cooperatives and formulation of formal strategic management systems;
4. to investigate the effects of demographic and socioeconomic factors on the levels of members' participation in the activities of their organization;
5. to determine the relationships between the formulation of formal strategic management systems and the organizational performance; and
6. to investigate the effects of demographic and socioeconomic factors on organizational performance.

1.6 Significance of the Study

The contribution of this study to knowledge in business policy issues is indisputable. Theoretically the study will, hopefully, first review the differences between business policy and strategic management and contribute to the understanding of formal strategic management systems.

Second, the findings of the study will bridge the knowledge gap which exists on the scientific understanding of the relationship among business policy factors and organizational performance.

Third, the results of the study are expected to help management of the Cooperative Movement to effectively integrate and apply the relevant business policy variables for survival and success of their organizations. The results will also sensitize cooperatives' members on the importance of their participation in the affairs of their organizations.

The research outcomes will, in addition, assist the government, particularly the Department of Cooperative Development in formulating appropriate policies for the consumer cooperative sub-sector, as well as for the whole cooperative sector.

The findings will hopefully also enable academicians to understand better the many variables comprising business policy, and determine the relationship between the existence of formal strategic management systems and organizational performance. The results are further expected to enable policy makers, cooperative members, and participating managers to understand the effects of demographic and socioeconomic factors on organizational performance in general and on cooperatives in particular.

1.7 Definition of Terms

The working definitions of the terms in this study are as follows:

- **Business policy** is defined as the set of all general guidelines on variables which determine an organization's performance, and will encompass remote environmental variables, functional business policy variables, SWOT analysis, strategy formulation, implementation, evaluation and control.
- **Strategic management** means the process of integrating the business policy variables.

- **A strategic management system** means the process of strategy formulation, implementation, evaluation and control on the basis of the remote and industry variables via the SWOT analysis in view of each functional business area.
- **A formal strategic management system** means a written or official form of a strategic management system or business policy.
- **An informal strategic management system** means a strategic management system or business policy which is not written down.
- **A consumer cooperative** means a wholesale or retail organization formed to supply members with household and firm input products.
- **Globalization** means economic liberalization and free flow of business activities and information across geographical boundaries.
- **Theoretical literature review** means ideas presented within a theoretical framework which have not been scientifically tested in practice.
- **Empirical literature review** means ideas which have been scientifically tested in practice.
- **Sample characteristics** means typical features found in the items studied which are representative of the whole population.
- **Theoretical framework** means a structure giving shape and support to the study.

1.8 Limitations of the Study

The main limitation of the study was inaccessibility of some sample areas. It is worthy noting that places like North Eastern Province and some remote rural areas in the other provinces could not be reached due to poor infrastructure. However, the effects of this did not significantly influence the results because these areas have very few registered consumer cooperatives.

CHAPTER 2

LITERATURE REVIEW

In this chapter the researcher reviews pertinent theoretical and empirical literature on business policy variables as related to organizational activities and performance and presents the hypotheses of the study.

2.1 Theoretical Literature Review

2.1.1 Introduction

Business decisions have become complex and sophisticated and managers need to learn strategic management (Pearce and Robinson, 1999). Managers today and in the future must manage firms strategically. They can no longer make decisions based on theory such as long standing rules, historical business policies or simple extrapolations of current trends. Instead they must look to the future as they plan organization-wide objectives and initiate strategy and functional policies. They must rise above their training and experience in their functional areas and be willing to address four key strategic issues of "where the organization is now; if no changes are made, where the organization will be in a year, five years or so. If the answers are not acceptable, what specific actions management should undertake; and the risks and payoffs which are involved (Wheelen and Hunger, 1992)". This assertion hinges on the subject matter of formal strategic planning.

According to Aosa (1992), formal strategic planning seems to have its beginning in the 1950s in the USA in the form of corporate planning. Early writers that assessed the issues of strategy development include Drucker (1954), Chandler (1962), and Ansoff (1965). The writings of these authors influenced the triggering off attention in the adoption of corporate planning by companies at that time (Aosa, 1992). From the late 1960s surveys carried out showed that corporate planning was practiced both in the USA and abroad. Evidence provided by early writers indicated that over the years, companies increasingly adopted strategic planning as the business environment increasingly became turbulent (Taylor, 1986 and Thompson, 1990). By the mid 1970s, when other environmental factors emerged after the oil crisis, more and more companies started to adopt the concept of strategic planning, but more and more writers criticized the kind of strategic planning in the companies by then. Among these writers were Hedley (1976), Quinn (1977, 1978, 1979), Peters and Waterman (1982), Porter (1980, 1987), Steiner and Miner (1977 and 1983), Gluck (1984), Ansoff (1984), and Mintzberg (1973 and 1985).

Their criticisms were mainly directed more at the implementation of strategic planning itself and as a result several features emerged that characterised good strategic planning practices such as the need for focused and flexible plans as well as creativity in strategic thinking.

Later the issues of strategic planning, implementation, evaluation and control emerged and the whole process was now called strategic management. Since then strategic management literature has until now concentrated on the analysis of how large innovative firms maintain, rebuild or renew their strategic capabilities (Dutrenit, 2000).

From the discussion on the historical development of strategic planning, there emerged two approaches to planning: the conventional approach (1960 to early 1970s) and the modern approach (mid - 1970s to date). Over time, there has been a shift away from the conventional to the modern approach (Taylor 1986, and Thompson 1990).

The conventional approach developed at a time that was characterised by relatively stable growth in business environment (Taylor, 1986). By then the rates of environmental change were low and so the future could be predicted fairly well. Thus most of the planning was rather extrapolative, drawing very heavily from past experiences. Extended budgeting characterised most of the plans. Planning was also highly centralised with top down structures (Aosa, 1992).

The modern approach developed as a response to environmental turbulence. The approach was more focused, participative and market driven. More attention was paid to customers so as to remain competitive (Taylor 1986, and Thompson 1990). In this millennium, however, a new dimension of strategic planning seems to be emerging. Some firms are now involved in the complex transition process as they accumulate more and more knowledge and develop new types of knowledge management to build the primary strategic capabilities because they have realised that there is no simple progression from the accumulation of technological capability to the management of knowledge as a strategic asset. The emphasis now seems to be shifting to all areas of the firm process including how technological capability is initially achieved through to how the firm approaches the international frontier (Dutrenit, 2000).

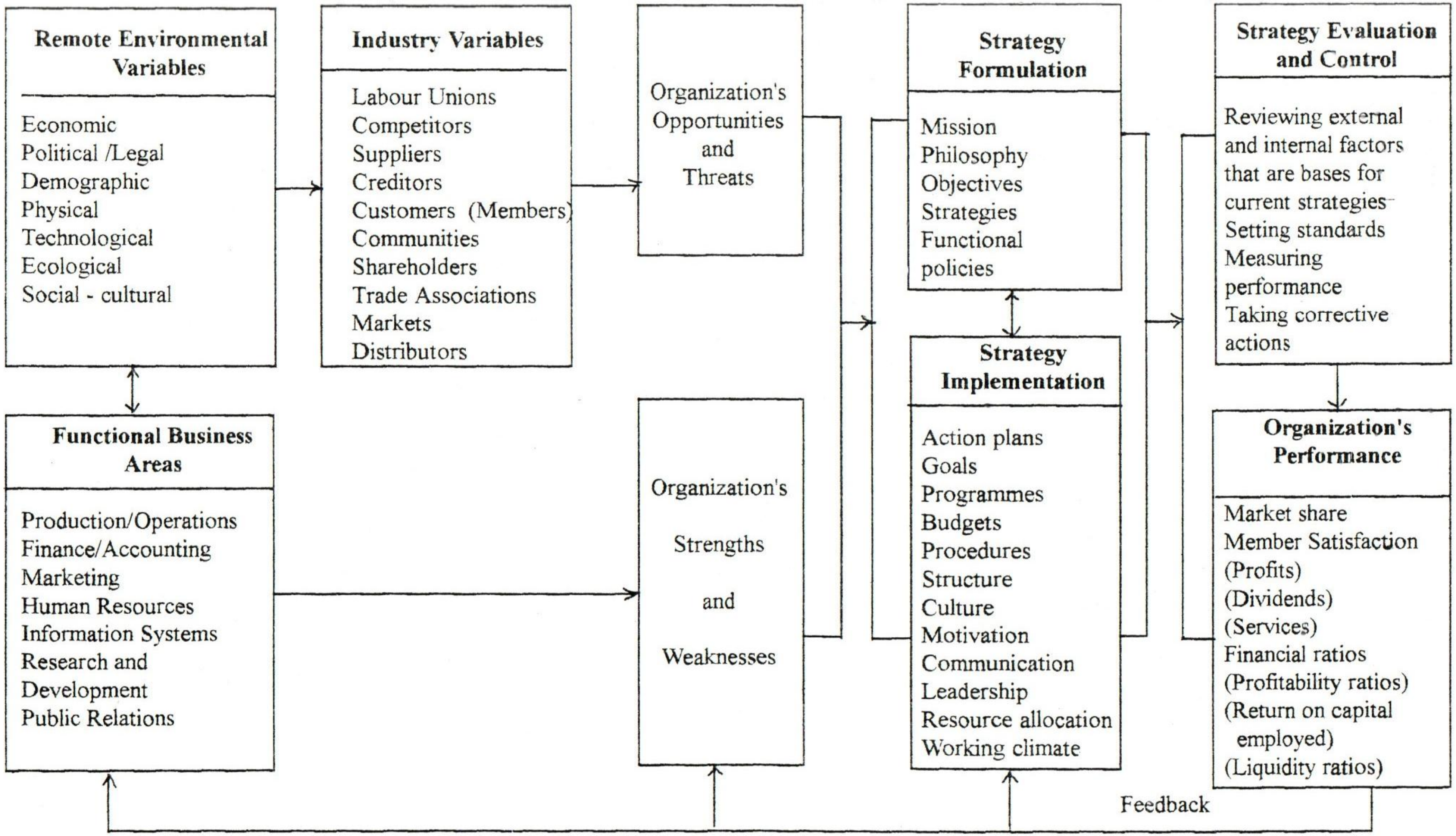
The Environment – Values – Resources (E-V-R) congruence model states that if one wished to claim that an organization was being managed effectively from a strategic point of view, one would have to show two important pieces of evidence, namely, that its managers appreciated fully the dynamics, opportunities and threats present in their competitive environment, and that they were paying due regard to wider society issues, and that the organization's resources (inputs) were being managed strategically by taking advantage of the opportunities (Thompson, 1994).

Thompson further explained that this congruence would not just happen but needed to be managed. This meant that potential new opportunities needed to be sought and resources developed, and that the values of the organization needed to match the needs of that environment and the key success factors. He emphasized that it was the value and culture which determined whether the environment and the resources were matched and whether they stayed congruent in the changing circumstances. Pumpin (1987), on the other hand, used the term Strategic Excellence Positions (SEPs) to describe capabilities which enabled an organization to produce better than average results over the longer term compared to its competitors. SEPs implied that organizations appreciated the views of their customers and developed the capabilities required to satisfy their needs. Business organizations should therefore seek to develop competitive advantage and a strategic excellence position for each product and service. Overall E-V-R congruence then depends upon these SEPs together with any corporate benefits from linkages and interrelationships. Pumpin stressed that development of SEPs and the E-V-R congruence model took time, and that it required all the functional business areas to appreciate which factors are the most significant to the customers.

On the basis of discussion above, it is evident that strategic issues require top management decisions as there are many variables which constitute business policy. The first set of these variables is composed of corporate mission, philosophy, objectives, strategies, and functional policies. These constitute the process of strategy formulation. The second set of variables are action plans, goals, programmes, budgets, procedures, organizational structures, cultures, motivation, communications, leadership styles and resource allocation. These make up the process of strategy implementation. The third process is that of strategy evaluation and control. This process involves the reviewing of the external and internal factors that are the basis for current strategies, setting standards, measuring performance and taking corrective actions (David, 1991).

The process of strategy formulation, implementation, evaluation and control, on the other hand, is influenced by the remote and industry environmental variables. One popular relationship among the key business policy variables and performance is as shown in figure 2-1. According to this framework, the functional business areas bridge the gap among these variables through the SWOT analysis. As can be seen in figure 2-1, business policy is composed of various variables which influence organizational performance through a given strategic management process. These variables are discussed below and tested in chapter four.

Figure 2 - 1: Relationships among key business policy variables



Source: Adapted from David (1991), and Wheelen and Hunger (1992).

2.1.2 Remote Environmental Variables

Remote Environmental variables are macro in nature and include economic, political-legal, demographic, physical, technological, social-cultural and ecological variables. They affect all products, services, markets and organizations in the world. Changes in environmental forces translate into changes in consumer demand for both industrial and consumer products and services. Sometimes these changes translate into threats such as lack of effective demand, stiff competition or product obsoleteness. Thus identifying and evaluating external environmental opportunities and threats enable organizations to develop a clear mission, design strategies, achieve long term objectives and to develop policies to achieve annual objectives (David, 1991). The major among the opportunities is the market, which helps to shape the organization's strategy. The other opportunities include new technologies, economies of scope and so forth. As a matter of fact, these forces individually or jointly influence performance of consumer cooperatives.

Socioeconomic variables.

Socioeconomic forces affect organizations in every part of their activities. They have a direct impact on the potential attractiveness of various strategies. The key socioeconomic variables to be monitored are product demand, economic depressions, levels of consumer disposable incomes, interests rates, stock market trends, inflation rates, propensity of people to spend, economies of scale, price fluctuations, money market rates, consumption patterns, unemployment (non-participation) trends, and growth rate of the Gross National Product (Byars, 1987; David, 1991; Wheelen and Hunger, 1992). These variables particularly levels of member participation, manager's level of experience, intensity of demand for the commodities, and age of the consumer cooperative have also been known to affect the activities of cooperatives (Ouma, 1989).

Political/legal variables

A government at both national and local level can affect an organization's activities on a day-to-day basis through its laws, policies and authority. It can thus affect an organization's strategic decisions by creating opportunities and threats which arise because the government can determine the structure of an industry through monopoly and restricted trade practices; it is a large supplier of fiscal and trade benefits through regional development programmes and industrial policies; it is a large customer through its various organs such as defence, civil service, educational institutions, health institutions, and so forth. It can also protect local business entities from foreign competition by enacting competition legislation; and affect the mood of the organization through business nationalisation, privatization, liberalisation of controlled business monopolies, divestment of businesses, vertical integration, horizontal integration, degree of ownership levels through controlled share limits, industry structuring and restructuring, control of asset characteristics, personnel mix regulations, and patents rights regulations (Luffman et al, 1991; 1997; Ghosh and Kapoor, 1995; Wheelen and Hunger, 1992).

Cooperatives have also been known to have adversely been affected by political / legal factors. Thus some cooperatives have been destroyed by politics while others have collapsed after their legal monopolies were revoked by the new Cooperative Societies Act of 1997.

Demographic variables

The key demographic variables include population size, age, sex, income, education, occupation, skills, religion, race, ethnic group, and nationality. They are very important in any business success or failure and are easy to measure (Kibera and Waruingi, 1988). In the case of cooperatives the levels of members education, experience, managers' professional training, and number of members have often been attributed to failure or success of formal strategic management systems in the Cooperative Movement (Ouma, 1989; Nguku, 1996; and Nginyo, 1997).

Technological variables

The fourth set of factors in the remote environment involves technological change. To avoid obsolescence and promote innovation a firm must be aware of technological changes that influence its industry. The space of technical change reduces the product life-cycle. This is true in the new technology of communications, electronic engineering, robotics, computing, packaging, money printing, and so on. Creative technological adaptations can further suggest possibilities for new products, for improvements in existing products or in manufacturing and marketing techniques. It therefore has an impact on a society as far as daily life, living standards, culture, products and purchasing are concerned. It also has a direct effect on business operations such as product processing, product development, employment conditions, financing, marketing and information processing (Byars, 1987; and Wheelen and Hunger, 1992). The case of the cooperatives lack of computers and appropriate technologies have been associated with lack of effective competition in the sector (Nginyo, 1997).

Technological forecasting can help protect and improve profitability of firms in growing industries. It, therefore, sensitizes strategic managers to both impending challenges and promising opportunities.

Social-cultural variables

The pace at which the social-cultural environment changes is both slow and rapid but effective. Social variables which affect an organization such as a cooperative include peoples' agility, beliefs, values, attitudes, opinions, activities and lifestyles of persons in the organization's external environment (Pearce and Robinson, 1991). These factors are dynamic and dictate the individual's desires, wants, and needs. Changes in these variables have a major impact on virtually all products, services, markets and customers. They shape the way the people live, work, produce and consume commodities.

Ecological factors

The term ecology refers to the relationships among human and other living things, air, soil and water that support them. The interactions between the human activities and the surroundings have some influence on the organization. The interaction can result in air pollution which is created by dust particles and gaseous discharges. It can also result in water pollution when industrial toxic wastes are dumped or leaked into the water supplies. Solid waste pollution such as scattered used packages and papers is caused by disposal of industrial toxic wastes on land.

The major concern of businesses is to eliminate these pollutants and efficiently and effectively manage their surroundings. Effective managers must therefore make decisions on this very important area.

Physical variables

Among the most important variables of this nature is the infrastructure. The key infrastructural factors which influence the formulation and implementation of business strategies in Kenya were identified by Aosa (1992) as the availability of roads, airport facilities, power, telephones, transport, railways, communication, facilities and information facilities. According to Aosa, these factors are, in relative terms, lacking in Africa in general and Kenya in particular. They affect organizations' activities but the organizations have no control over them. They are also the sources of the industry variables.

2.1.3 Industry Variables

Glueck and Jauch (1988) defined the term "industry" as a set of firms which are in competition with one another for customers of goods and services, and rely upon others that supply critical inputs. The key industry variables are competitors, suppliers, creditors, customers and distributors, trade associations, labour unions, markets and communities. Thus designing viable strategies for organizations including cooperatives requires a thorough understanding of these variables (Pearce and Robinson, 1991).

Competition

Management of the Cooperative Movement in Kenya has been a joint effort between the Ministry of Cooperative Development staff and Technical Donor Assistance, on the one hand, and Committee members and Movement staff on the other. The Cooperative Societies Act of 1966, the Cooperative Society's Rules of 1969, Societies by-laws and administrative circulars from the Ministry of Cooperative Development have formed the backbone of the management style adopted by the Cooperative Movement. As a result of this style of management, cooperative business practices have been over-protected by monopolies created by various laws enacted by Parliament, making their business acumen curtailed (Kenya National Federation of Cooperatives - KNFC Draft Report, 1994). This aspect disadvantaged them from competing effectively with other actors in the industry after liberalisation of this sector by the Cooperative Act, No.12 of 1997, which became effective on 1st June, 1998. This liberalisation set forth forces of competition in the cooperative sector.

Like other organizations, the starting point in dealing with competition in the cooperative sector is the analysis of the competitive forces. Competitive analysis has the objectives of identifying competitors, collecting and evaluating information on competitors, identifying potential moves by competitors, determining competitors' strengths, weaknesses and capabilities, and helping the organization to devise effective competitive strategies (Kotler, 1997).

The exact criteria used in constructing a competitors' profile are determined by situational factors, market share, breadth of the product line, effectiveness of sales distribution, price competitiveness, promotional effectiveness, entity location, productivity capacity, experience, costs of raw materials, financial positions, product quality, research and development, quality of staff and general image of the organization (Hofer and Schendel, 1978; Porter, 1980; and Kotler, 1984).

Competitive forces drive an industry towards a profit level which is sufficient to maintain organizations in the industry (Luffman, Sanderson, Lea and Kenny, 1991,1997). The strategic task for an organization is therefore to deploy resources so that it can reach a profit level in excess of what is normal in that industry.

Suppliers

Dependable relationships should at all times exist between an organization and its suppliers in the long term organizational survival and growth (Pearce and Robinson, 1991). An organization regularly relies on its suppliers for provision of raw materials, merchandise, services, finance, fixed assets, water, power and telephone facilities to enable it to function. Thus in a competitive industry such as that of the consumer cooperative sub-sector, the most important factors to consider concerning suppliers are price levels, quantity discounts, cartels, transportation, quality standards, supply abilities, reputation and reliability.

Creditors

Creditors are very important to business organizations. They provide initial capital as well as financial and tangible commodity resources. Often, creditors provide their client organizations with credit by accepting their stock as collateral. This, however, is only possible when the clients have acceptable records of past payments as a basis for new credit extension terms. The key factors to be considered by an organization regarding its relationships with creditors are whether to accept stock as collateral; whether the creditor's loan terms are compatible with the organization's objectives; and whether the creditors are capable of extending the stated loan periods for their credit (Wheelen and Hunger, 1992).

Customers

Customers are critical to the success of an organization. Enlightened organizations therefore continually monitor present and potential customers buying patterns. Likewise, effective cooperatives strategists should be concerned with who their present customers and potential customers are (Glueck and Jauch, 1988).

The examination and evaluation of customer needs involves conducting customer surveys, analysing consumer information, evaluating market positioning strategies, developing customer profiles, and determining optimal market segmentation strategies. The information generated by customer analysis is essential in developing an effective mission statement.

As far as cooperatives are concerned, the most important elements in the industry variables are the members. The members are the chief stakeholders, the owners, the employers, the managers, the employees and the customers of the cooperative. Thus their participation in the activities of their cooperatives is crucial in the success of their organization.

Communities

A community is a group of persons with common interests. It is also a source of the management, customers, employees, owners and members in case of cooperatives. Organizations must therefore be socially responsible to the local communities because they affect or are affected by the achievement of the organization's objectives (Freeman, 1984).

An organization like a cooperative can become socially responsible by contributing to community development through taxes, participation in economic and charitable activities, employment of local people and minimisation of negative side effects such as air, water, noise or solid waste pollution.

Shareholders

In most organizations, ownership and management are separate and management can be thought of as being the agents of the owners (Van Horne, 1983). Shareholders delegate their decision-making authority to the management with the hope that it will act in their best interests. It has been shown that shareholders trust on the management is pegged on appropriate incentives and control of the management (Jensen and Meckling, 1976). The incentives include stock options, bonuses and other benefits which are directly related to how close management decisions positively relate to the interests of the owners (Van Horne,1983). Control is effected by monitoring the management through bonding, auditing financial statements and costs, systematically reviewing management benefits and explicitly limiting management decisions. This is not always true in cooperatives. In this sector, ownership is a set of rights in property. These rights include control, benefit and transfer which need not be held by one person in traditional business organizations. The rights may be exercised in different ways and may change over time (Wright, 1979).

However, the performance of managers in both cooperatives and traditional business organizations are reflected by efficient capital markets which provide signals about the value of an organization's securities. Hence, if the managerial labour market is competitive both within and outside the firm, it will tend to discipline management (Van Horne, 1983).

Trade associations

A trade association can be defined as a group of traders with common interests. A strategic commercial firm should therefore participate in trade association programmes by becoming a member of that trade association or by contributing money to their cause, as it is always true that "Unity is Strength". Through trade associations, organizations like cooperatives can build bulk of their homemade products and effectively trade them in foreign markets. Equally, they can break the import bulk for their products through this unity. Hence, trade associations help an organization like a consumer cooperative to look for foreign markets and product sources.

Distributors

Distributors are among the market intermediaries along the product's channel of distribution in the industry. Their main task is to ensure that products are available in all strategic outlets any time they are needed. By the nature of their work, they perform functions of gathering information necessary for planning and facilitating exchange in research services; developing and disseminating promotion services such as advertising; searching out and communicating with prospective buyers; shaping and fitting of the offers to the buyer's requirements such as grading, assembling, packaging, bulk breaking and re-packaging; negotiating with the potential buyers; transporting and storing of goods; financing the distribution channel work; and taking risk in connection with the channel work (Kotler, 1984).

Labour unions

The labour sector commonly referred to as the labour market is a very important element in the industrial environment including that of consumer cooperatives as far as the strategic management process is concerned. It is both a source of threats and a source of opportunities. Poor labour (industrial) relations in an organization can lead to formidable costs in that organization in terms of strikes and lock-outs. Good industrial relations can lead to the acquisition of the best trained and competent personnel which eventually leads to more productivity and effective and efficient exploitation of opportunities. In essence, the labour market reflects the availability of particular skills at industrial, national and regional levels. This is effected by training, which is basically influenced by the government. Labour market costs are on the other hand influenced by inflation and the general trends in other industries, as well as the role and power of the labour union (Thompson, 1994).

In Kenya there are 33 registered labour unions but they are increasingly becoming weaker and weaker following liberalisation of the traditional monopolistic and controlled economy. In the long run, however, it is expected that their effectiveness will increase depending on how the new international labour policy responds.

Environmental forecasting

Accurate forecasting of the changing variables in an environment is an essential part of strategic management (Jain, 1984). The purpose of this forecast is to develop a vision which can also be referred to as long term objective for the organization in future environmental premises. A future time frame or horizon should always be included in the vision statements. For example, the Kenya Union of Savings and

Credit Cooperative Organization (KUSCCO), stated that its vision by the year 2003 is "to be the leading umbrella organization for cooperatives in Kenya providing market-driven products and services that are bought and used by all Savings and Credit Cooperatives Societies (SACCOS) in the country; to have highly qualified management staff providing effective, timely and affordable products and services with good returns to the members; to be perceived by its members and the public at large as the leader in all its core business areas; and to be a leading player in regional and international cooperative activities" (SACCO Star, June 1998).

There are many techniques of environmental forecasting. Among the most important ones used are trend analysis, modeling, scenario analysis, simulation, expert opinion and signal monitoring among others.

Thompson and Strickland (1980, 1993) identified four stages in forecasting environmental variables. These include identifying which forces are the most important and why they are critical; determining how these variables can change; incorporating the expectations and predictions into decision making and management thinking; and being honest and realistic when evaluating strengths and weaknesses relative to the competitors and when considering the organization's ability to respond to the opportunities and threats. It therefore follows that strategic managers should be able to develop skills in predicting significant environmental changes. In order to aid in the search for future opportunities and constraints, the manager should select the environmental variables that are critical to the firm, select the sources of the significant environmental information, evaluate the forecasting techniques, integrate the forecast results into strategic management process and monitor the critical aspects of managing the forecasts (Pearce and Robinson, 1991).

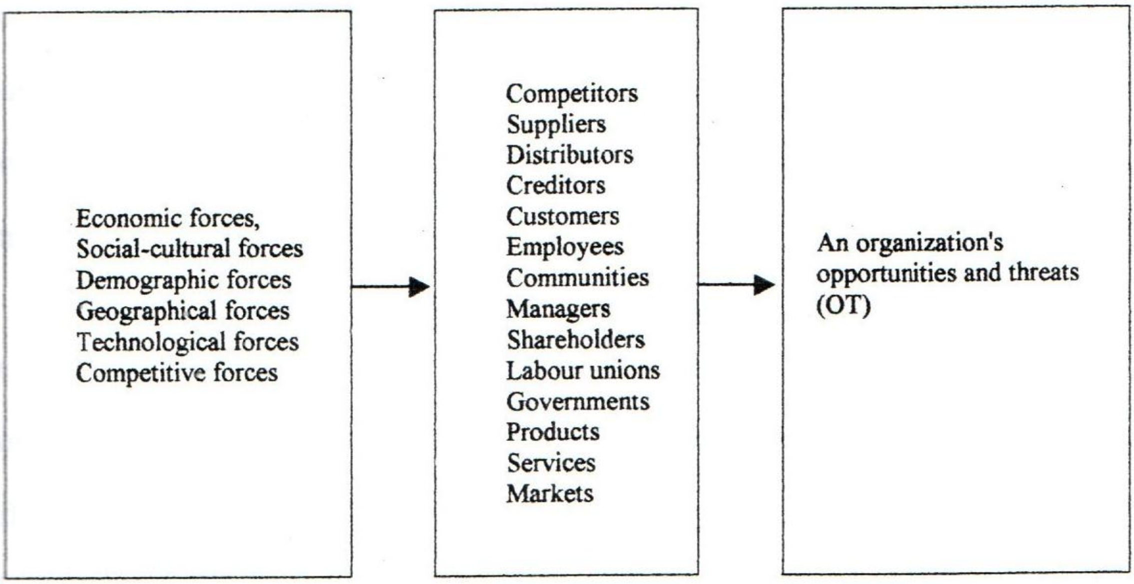
A common question in the field of strategic environmental forecasting is how far ahead one should look. Much has been thought to depend upon the reaction time to environmental change. This means that if an organization wishes to respond strategically to a perceived future change in the environment, then decisions about such a change in strategy may have to be taken some time in advance.

Environmental management

Bateman and Zeinthaml (1993) defined environmental management as the philosophy of taking actions to change the environment to suit the organizational needs. According to these authors, this can be done by strategic manoeuvrering where the firm makes conscious efforts to change the boundaries of their industry environment, pursuing independent strategies; moving into different environments; and changing the current environment to suit the organizational needs; and through cooperative strategies, where two or more organizations work together in an attempt to change their environment.

This means that effective management executives should understand the importance of the existence of the external environment; critically know and understand the relevant elements in the remote environment; know and understand the necessary elements in the industry environment; actively manage, adapt to, and shape both their remote and industry environments; assess their industry environment to make important strategic decisions; apply the general types of environmental management strategies (strategic maneouvrering, individual strategies, and cooperative strategies) to change the environment according to the organization's needs; and accept and allow change to take place successfully. Figure 2-2 shows the basic elements that constitute the environment - organizational interactions.

Figure 2 –2: Relationships between key environmental forces and an organization



Source: David, 1991: 119

2.1.4 Internal Appraisal

The major task of strategic analysis is concerned with an organization taking a view of itself in order to assess its current strategic position (Luffman, Sanderson, Lea, and Kenny, 1991). The whole process is called *SWOT* (strengths, weaknesses, opportunities and threats) analysis. This process centers on five questions as enumerated by Thompson and Strickland (1993). These questions are: how well is the present strategy working (if any); what are the organization's strengths, weaknesses, opportunities and threats; is the organization competitive on costs; how strong is the organization's competitive position; and what strategic issue does the organization face?

Before embarking on any selected opportunity, an organization should clearly identify its strengths and weaknesses of its functional business areas. The most common functional business areas through which most organizational activities cut across include production/operation policies, finance/accounting policies, marketing policies, human resources policies, research and development policies, information systems policies and public relations policies. These are the foundations of an organization's strengths and weaknesses.

In most cases production and operative activities are the most conspicuous activities. Any strategic appraisal of the production/operations process is concerned with efficiency and effectiveness of a plant, equipment and production labour (Luffman et al, 1991). A significant strategic advantage is provided by the ability of an organization to lower production costs for a given quality compared to competitors and to react quickly to change in demand (Luffman et al 1991, Rue and Holland, 1986).

Finance/accounting has many aspects which are concerned with strategy. The factors to be considered in finance and accounting include ability to raise both short term and long term funds, total financial strength, cost of capital relative to that of industry and competitor, tax, business ratios, efficiency and effectiveness of the accounting system for costs, budgets and profit planning (Pearce and Robinson, 1991).

Marketing is responsible for positioning the organzation's product offering in the market place. This involves research on the marketing mix variables and focusing on the market response in a particular market segment (Kotler, 1997).

The major role of the human resources function in terms of strategic management is to ensure that the quality of the personnel is consistent with their job descriptions. If well managed, an organization should have well defined personnel policy in staff procurement, development, compensation, integration, maintenance and separation. In adapting a strategic perspective to human resources management, an organization should develop mechanisms that match employees' competence to the organization's present and future needs as determined by the nature of the product or service and the market (Byars, 1987).

The purpose of research and development (R & D) is to promote new products development, improve product quality and innovative technology. Allocating resources to R & D is in itself a strategic choice and the major concern is how much to spend on R & D rather than buying the needed research from others. Thus the most important consideration in R & D strategy is the orientation that an organization is going to assume in its R & D efforts (Pearce and Robinson, 1991).

As far as strategy is concerned, information represents a major source of competitive advantage or disadvantage. It differentiates successful and unsuccessful firms. The process of strategic management is therefore greatly facilitated by an effective and efficient information system (David, 1991).

Finally, every organization should be concerned with its public reputation. The key areas of concern in public relations include coping with the outside dynamic variables, creating effective communication within the organization and the outside world, maintaining excellent public image, and establishing social welfare activities (Roy, 1981).

The performance of an organization is therefore a function of the strengths and the weaknesses of its functional business areas. Cooperatives like any other type of organization are no exception to this principle.

2.1.5 Strategy Formulation

The process of strategy formulation is also called strategic planning or corporate planning. It describes the periodic activities undertaken by organizations to cope with changes in their external environment (Digman, 1986). Strategic formulation is a top management function which is concerned with making decisions with regard to the determination of the organization's mission, philosophy, objectives, strategies and functional policies (Boseman, 1989). This process involves the development of long range plans for effective management of environmental opportunities and threats in light of corporate strengths and weaknesses.

Mission

An organization's mission can be defined as its purpose or reason for its existence or being. It is the focal point of an organization's activities which defines the current and the future business activities. It should, therefore, include broad description of products, services, markets and environments of the present business and the future. For example, the KUSCCO mission is stated as "To promote and develop SACCOS in Kenya by providing unique and diversified quality products and services that are capable of promoting the economic interests and general welfare of the members in accordance with the cooperative principles, in a changing environment" (SACCO Star, June, 1998).

A clear corporate mission is essential for effectively establishing corporate objectives and formulating strategies. A corporate mission is thus the foundation for priorities, strategies, plans and work assignments. It is the starting point for the design of managerial jobs and management structures (David, 1991). An organization's mission is its central focus for achievements. All structures, strategies, objectives, functional policies, programmes, budgets, procedures and evaluations follow the mission.

Defining an organization's mission

An organization's mission can be narrow or broad. For instance, a narrow mission for a consumer cooperative would be "to provide quality goods and services to the consumer cooperative members at affordable prices at strategic points." A wider or broader mission of the same organization would be "to provide quality goods and services to both the cooperative members and the public at affordable prices at strategic points." The first example focuses only on the members, while in the second example, the members and the general public are both focused. The latter is thus a broader mission.

A good organizational mission has the following advantages: it provides a unifying force for the whole organization and provides a sense of direction and a guide to decision making for all levels of management. The current thought of an organization's mission statement is based largely on guidelines set forth in the mid 1970s by Drucker, who is often called the father of modern management (David, 1991). According to Drucker, asking the question 'what is our business' is the same as asking "what is our mission."

There are many reasons why an organization should have a clearly defined mission statement. Among the most important reasons were identified by King and Cleland (1978) and adopted by Pearce and Robinson (1991) who believe that all organizations should carefully develop written mission statements for the following reasons.

- A clear mission statement ensures that there is organizational unanimity of purpose which translates into goals in a way that cost, time and performance parameters can be assessed and controlled.
- It provides a basis for motivating the use of the organization's resources.
- It develops a basis or standard for allocating organizational resources.
- A clear mission statement establishes a general tone or organizational climate.
- It serves as a focal point for those who do identify with the organization's purpose and direction and deter those who do not do so.
- It facilitates the translation of objectives and goals into a work structure involving the assignment of tasks to responsible elements within the organization.
- It guides the top, middle and lower levels of management in decision making.
- It reflects the public's expectations since this makes achievements of the firm's goals more likely.

Components of a mission statement

According to David (1991) a good mission statement should be as precise as possible; indicate the major components of strategy; indicate how objectives are to be accomplished; define the firm's products and functions; designate markets to be reached; specify the means for financing operations; and describe how the goals might an organization can help in shaping the culture of that organization, which in turn can enhance strategy implementation and consequently affect organizational performance.

Corporate objectives

Objectives are a managerial commitment to achieve specific performance targets by a certain time period (Thompson and Strickland, 1993). They are measurable performance targets towards an organization's mission and direction, and as a result, they are ends by themselves.

The objectives of an organization are determined by the interaction amongst the present condition of the organization as determined by an internal organizational analysis; external environment of the organization as determined by remote and industry analysis; future environmental forecasting; and corporate culture of the organization.

Objectives can both be long range or short range in nature. Long range objectives which can also be referred to as vision specify the results that are desired in pursuing the organization's mission and normally extend more than one financial year. Short-range objectives are performance targets normally of up to one financial year that are used by management to achieve the organization's long range objectives.

Establishment of the objectives begin with the mission. They begin from the top of the organization with a clear understanding of the mission statement; long-range objectives are then established from this statement. These specify the results that are desired in pursuing the organization's mission and extend beyond the current fiscal year of the organization; performance targets for the overall organization are then established, which are then followed by establishment of long and short range objectives for each strategic business units and major divisions.

Without objectives, organizational performance would not be achieved since there would be no direction in the activities of that organization as individuals and departments would most likely pursue different goals.

Strategies

A strategy of an organization is a means of achieving a given objective (Luffman, Sanderson, Lea and Kenny, 1991). It describes the way an organization will pursue its goals, given the threats and opportunities in the environment and the resources and capabilities for the organization (Rue and Holland, 1986).

A strategy is thus concerned with products and technology as well as markets and customers. An organization can only stay in business by satisfying customers. Thus for any given financial objectives a firm must decide what markets and customers it is going to supply, what product will be made to satisfy those customers, and with which technological process it will produce the products (Luffman and Others, 1991).

In the present global business environment an organization can stay in business only if it constantly applies relevant strategies. Both remote and industry factors are changing faster than ever before. Competition has also become so vigorous that organizations like cooperatives need to engage appropriate strategies to enable them achieve better performance. Lack of appropriate strategies would most likely lead to lower performance and consequently collapse of business.

Identifying strategic alternatives and deciding on future strategies

Since most organizations have several strategies available to them, the key strategists (chief executives, owners, members of the board, executive directors, and entrepreneurs), should first conduct investigations as to which among these strategies are the best. If it is established that none among the available strategies is suitable for the organization, a suitable strategy should then be crafted. The most common alternative strategies available to organizations were identified by Byars et al (1987) and include stable growth, concentric diversification, vertical integration, horizontal integration, conglomerate diversification, retrenchment, divestment and combination strategies. A major difficulty facing an organization is the process by which it selects the best strategy in the circumstances. Business decisions are often uncertain. This uncertainty must be taken into account as much as possible when arriving at decisions which commit the organizations and their resources to some future activity project (Steiner and Miner, 1977).

Once potential strategic alternatives have been evaluated in terms of pros and cons, one or more must be selected for implementation. The key consideration here is to satisfy the mission and the agreed objectives with minimum use of resources and fewer negative side effects (Wheelen and Hunger, 1992).

Crafting a strategy

Crafting a strategy is an expensive exercise which calls for the participation of the top, the middle and the lower levels of management in an organization. It involves innovation for original or novel idea for an organization. This strategy is appropriate in almost all organizations as it is always risky not to innovate in the omnipresent changing environment. Thus some organizations find it profitable to make innovation their grand strategy because both the consumer and the markets expect periodic changes and improvements in the products offered. The objective here is to create a new product life-cycle and make similar existing products obsolete. This strategy differs from the product development strategy, which involves the extending of an existing product life-cycle (Pearce and Robinson, 1991).

Linking business strategy with business ethics

Ethics are moral principles that govern or influence a business strategy. As a fact, business ethics are closely linked with social responsibilities. This means that every strategic action that an organization takes should be ethically acceptable by society. All strategies of an organization should involve rightful actions and should aim at the right business ethics because every business firm has ethical duties to observe towards the general public and all its stakeholders. The key business ethical factors are product safety to users; good working conditions; proper ventilation; good water and/or solid waste pollution levels; absence of any kind of discrimination; excellent local community relationships with the firm; fair resource sustenance, maintenance and recycling; optimum firm location in relation to unemployment; ozone layer protection and energy efficiency; chemical protection; patent and copyright protection; accurate labeling and information on product ingredients and expiry dates; and appropriate consumption/user doses (Thompson and Strickland, 1993). A strategy is therefore not a true winner unless it builds sustainable competitive advantage based on ethics and boosts the organization's performance.

regarded as effective if it is supported by the people who must implement it, and if it achieves the objectives to which it is related (Thompson, 1994).

Achieving synergy in strategy implementation

One of the goals to be achieved in strategy implementation is synergy between and among functions and business units (De Noble, Gustafson, and Herger, 1988). Synergy is said to exist for a divisional corporation if the return on capital employed (ROCE) of each division is greater than what the return would be if each division was independent business (de Vasconcells, 1990). In other words synergy is equal to the economies of operations and combinations of activities.

Ansoff (1988) proposed the existence of four types of synergy which often affect the success of an implemented strategy.

- The marketing synergy which refers to common distribution channels, sales force, and/or warehousing. Also a complete line of related products increases the productivity of the sales force. Common advertising and promotions can have multiple returns for the same amount of money spent.
- Operations synergy which refers to the greater utilisation of facilities and personnel, the spreading of overheads, and that large lot purchasing create production synergy.
- Investment synergy which refers to the joint use of plant, common raw materials, inventories, and of research and development among products, common tooling and machinery, and increased access to sources of capital.
- Management synergy which refers to addition of new product or business to enhance overall performance if management finds the new problems to be similar

to the ones it has successfully overcome earlier with its current products or businesses.

These synergies are however not automatic. In order to achieve them an organization must develop an implementation programme, re-organize, and combine its operations (Wheelen and Hunger, 1992).

2.1.7 Strategy Evaluation And Control

Strategy evaluation is the process of monitoring corporate activities and performance results so that actual results can be compared with the desired performance (Byars, 1987). This is a continuous process as all strategies are subjected to future modification because of constant changes of the external and internal factors.

Strategy evaluation is needed because success today is no guarantee to success tomorrow. Success always creates new and different problems, and complacent organization's experience demise (David, 1991). The key management strategy evaluation functions are therefore managing the actual operations, communicating the middle managers instructions to their workers, and communicating the workers suggestions, grievances, and ideas to the middle management.

Strategy evaluation follows planning. It ensures that the organization is always fulfilling its mission. The evaluation process is a five step feedback model which involves deciding what is to be measured, establishing standards of performance, comparing actual performance with the standards, and taking corrective action. The later entails correcting the variances, determining whether the processes are being carried out incorrectly, determining whether the processes are appropriate to the achievement of the desired standards, and determining whether the deviation is only a chance fluctuation.

Setting performance standards

It is always important to have criteria against which to compare actual performance. Performance standards are normally very difficult to set except where some kind of physical activities are involved since they can be stated in form of number of articles, selling calls, documents processed, kilometers traveled per unit time and so forth. The criteria for evaluation are used as a point of reference for determining whether an organization is achieving its objectives. These criteria for evaluation are derived from an organization's objectives.

Performance evaluation takes place when the outputs of the control systems are compared to the criteria for evaluation. Corrective actions must be taken if the criteria for evaluation are not being met. The major problems of performance evaluation are deciding when, where and how often performance is to be evaluated (Byars, 1987).

Strategy control

The effectiveness of an organization and of its people depends on the extent to which each person and department performs his or her roles and move towards the mission and the desired objectives. Control is the process by which information is provided so as to keep all functions on track. It is the sum total of the activities that increase the probability of the planned results being achieved. For a control process to be effective however, it must be economical, meaningful, timely, relevant, facilitative to actions, simple, avoid personal over-reactions, and provide quality information on trends (Oakland, 1995).

Measuring performance

The measures of performance used depends on the organizational unit to be achieved (Wheelen and Hunger, 1986). Different measures are required for different objectives. In most organizations, however, the major objectives are profitability, market share, return on capital employed (ROCE), stock price, productivity, leadership, public responsibility, return on equity (ROE), customer and/or member satisfaction.

The most commonly used measure of corporate performance is Return On Capital Employed (ROCE) (Wheelen and Hunger, 1992). It is simply the result of dividing net income before taxes by total assets (capital employed). Its advantages are: it is a simple comprehensive figure influenced by everything that happens in the organization; it measures how well the managers use the property of the organization to generate profit; it is a common denominator that can be compared with many entities; it provides an incentive to use existing assets efficiently; and it provides an incentive to acquire new assets only when doing so would increase the returns.

Despite these advantages, ROCE has some limitations as a measure of organizational performance: it is sensitive to depreciation policy; it is also sensitive to book value; and its performance is strongly affected by business cycle (Wheelen and Hunger, 1992).

Turtianen and Von Pischke (1986) emphasised that assessment of the performance of any enterprise should begin from its own premises and expectations. Similarly, Hyden (1973) had earlier emphasised that the framework for evaluating cooperative performances was basically relating to the cooperative objectives, their structure and the environment, while Okereke (1974), gave the criteria for evaluating efficiency in the cooperatives as looking at their economic performance in terms of profitability of the business, analysing the improvement of the services offered to the members, and assessing the cooperative's contribution to economic growth, and diversification of its activities. Their arguments imply that the evaluation of performance in cooperative organizations are geared on their internal environment with regard to strategy formulation, strategy implementation, strategy evaluation and control in view of the external environment and the commodities and benefits offered to the members. This is quite in line with the definitions of business policy and strategic management given in chapter one.

Feedback

Organizations must not only develop criteria for evaluation and control of performance, but also do a follow-up with appropriate actions. Developing criteria and evaluating performance are of little value if feedback is not provided to the appropriate personnel and the necessary corrective actions taken. No corrective actions are however necessary if performance standards are being met in satisfactory manner.

In many planned operations, there arise some variations in the actual results. These variations are attributed to the setting of unrealistic objectives, inappropriate organizational structure, lack of personnel motivation, lack of communication within the organization, ineptness or negligence on the part of management or subordinate staff operative employees, selection and/or crafting of inappropriate strategies as well as environmental forces.

If performance criteria are not being met satisfactorily, management must find the cause of deviation and correct it. Feedback is therefore an absolutely essential element in the entire strategic management process in relation to organizational performance.

To this end, the discussion of business policy variables as related to organizational performance depicted in the theoretical framework in figure 2-1 comes to an end.

2.2 Empirical Literature Review

Many researchers have empirically studied relationships between strategic management and performance in variety of organizations. One of the earliest studies concerning the relationship between strategic management and organizational success involved companies in the drug, chemical, machinery, oil, food and steel industries in the United States of America (Byars, 1987). The study divided the companies into two groups, depending on whether the company had a formal or informal strategic management system. Companies were classified as having a strategic management system if they established objectives for at least three years ahead and if they established specific action programmes, projects and procedures for achieving the objectives. Companies that did not meet this requirement were classified as having an informal strategic management system. The performance of companies in each of the two categories was then analysed in terms of sales, stock prices, earnings per share, return on equity, and return on employed capital. The study concluded that organizations with formal strategic management systems significantly out performed others in terms of earnings per share, return on equity and return on capital employed. However, although the sales and stock price appreciation for the companies with formal strategic management system were greater, the figures were strongly influenced by a single company.

Another study (Anisya, Robert and Kannan, 1991) examined the performance impact between executives' characteristics and strategy in the USA. The study concluded that different chief executive officers' profiles were associated with different strategic types, and that the match between executive characteristics and strategy had performance implications.

A year earlier, Lewis and Thomas (1990) had examined the strategy-performance consequences of strategic group membership for firms in the United Kingdom retail grocery industry. They found that there was very limited evidence to support the strategy - performance linkage because the relationship was equivocal. Earlier, studies of diversification, market structure and firm performance in Canada done by Montegomery (1985), and Montegomery and Wernerfelt (1988) suggested that diversified firms did not have higher market power in their respective markets than less diversified firms, and the strategy of diversification did not contribute significantly to firm performance.

Studies by Young (1981), and Porter (1987), found that the profitability of target firms, on average, actually declined after an acquisition of the firm, suggesting that implementation difficulties of strategies probably played a critical role in determining the eventual firm performance.

Deepak (1991) examined the relationship between management styles and post-acquisition performance in Canada. He found that differences in management styles had a negative impact on performance.

In a related study, Child (1974) had earlier found evidence indicating strong association between management and company growth. The age of the manager had frequently been said to contribute heavily to both the manner in which a decision was reached, and the decision quality. Studies consistently showed that young managers were associated with innovativeness and risk taking, while older managers were more risk averse and tended to make more conservative decisions (Carlson and Karlsson, 1970). Therefore, innovative firms were expected to be led by younger managers, while cautious firms tended to be led by relatively older managers.

Using a sample of firms, Conant, Mokwe and Varadarajan (1990) examined the relationships between strategic types, distinctive marketing competencies and organizational performance in defender, prospector and analyser organizations. The results of the ANOVA tests indicated that the subject profitability defender, prospector and analyzer organizations were not significantly greater than the evaluations of managers in reactor organizations.

A study by Richard Geert and Michael (1991) on cultural roots of economic performance in USA revealed that the differences in cultural values determined human organization and behaviour and thus the economic growth of a country. The study had sought to link culture and economy, suggesting that values fostered in a nation's families, organizations and political life were reflected in its economic statistics. Their findings suggested that national cultural values had an impact on economic growth. This implied that organizational culture also had an impact on the nations economic performance.

Hyvonen (1995) examined the strategic behaviour of manufacturing firms in the context of the Finnish food industry. Based on business level strategy theories, the study examined interrelationships between particular types of competitive advantages, a food manufacturer's bargaining power in input and output markets, and organizational performance. The study found no evidence to support the strategy - performance linkage at group level and that the results were not necessarily counterintuitive. He concluded that from a managerial point of view, the strategies in the Finnish food industry were largely home-market oriented, to which, inter alia, distant location and trade barriers had contributed.

Roller, Sinclair and Desgagne, (1996) believed that an important issue in corporate strategy was to explain persistent differences in conduct and performance among close competitors within an industry. They then studied the source of persistent differences between two firms competing on two identical markets in Europe. They found that the firm's respective capabilities would diverge only of some difference in the firm's respective initial capabilities exist or there was an appropriate combination of organizational inertia and market conditions.

A survey of over 225 food-manufacturing firms was used to explore the relationships between manufacturing strategy and competitiveness in USA (Starbird and Agrawal, 1996). The relationship between manufacturing objectives, manufacturing policy adoption rates, manufacturing performance, and financial performance were examined. Results suggested that many food manufacturing firms fail to fully exploit manufacturing potential contributions to customer satisfaction and that they frequently adopted manufacturing policies that have little or no effect on organizational manufacturing performance.

A study conducted by Morton (1996) examined the impact of bureaucratic complexity on the ability of management and the extent the managers adopted the principles and techniques of implementing management strategies successfully in Philippines. She found that the most important features of strategic management and implementation process in the Philippines case were the role, style and power-base of the key policy champion.

Most of the above selected studies were done in Western countries. It will thus be important at this stage to review studies done in Africa in general and Kenya in particular as far as business policy variables are concerned. However, it is worth noting that there seems to be very few relevant studies conducted in Africa.

Among well known studies in Africa are those conducted by Woodburn (1984) in South Africa, Adegbite (1986) in Nigeria, Fubara (1986) in Nigeria, and Aosa (1992) in Kenya.

In his study of business policy variables in South African companies in 1984, Woodburn found that managers in Africa relied on centralised structures and carried out ad-hoc planning (Aosa, 1992). Woodburn attributed this state of events to environmental turbulence, lack of management resources, paucity of information and hostile government activities especially for companies that operated with low level of formality in planning and strategy development, and the family companies. This however, did not hold true for professional companies and those generally characterised by high levels of formality in their management.

Adegbite (1986) on the other hand conducted a study in long range planning in Nigerian companies. He found that these companies had difficulties in planning ahead and that managers in Nigeria relied much on centralised structures such that corporate planning was wide-spread and institutionalised in Nigerian companies. He attributed this to the spread of formal influence in Nigeria.

In the same year, Fubara (1986) conducted a study on companies in the same country. He found that planning in Nigerian firms tended to be informal and characterised by budgeting, and that most of the formal plans reported were actual budgets, and that profitability was greatly emphasised.

Aosa (1992) conducted a study on strategy formulation and implementation by private firms in Kenya. He grouped all the private firms into three categories, namely, foreign companies, indigenous Kenyan companies, and Indian Kenyan companies. Concerning strategy formulation, he found that in foreign companies increasing competition had significant effects on both industry and market analysis, but not competitor analysis. As the range of products increased, significantly more market analysis was carried out by these companies, but there was no such effect on competitor or industry analysis. The market served had no significant effect on any of the analysis carried out. As for the indigenous Kenyan companies, his study revealed that as the range of products increased, more industry analysis was significantly carried out, but there was no significant effect on competitor or market analysis. With respect to Indian Kenyan companies, he found that increasing competition had significant effects on both competitor and industry analysis, but not market analysis. Increasing environmental turbulence induced these companies to undertake significantly less market analysis. As the range of products increased, Indian Kenyan companies carried out significantly more market analysis, but not competitor or industry analysis.

Aosa's study also revealed that many Kenyan companies operated in highly competitive conditions. These companies paid close attention to competition in an effort to gain an edge in their markets, and were using competitor information as a basis for developing their own strategies. His findings further revealed that the companies had made a shift towards being more market driven in their strategies.

As far as strategy implementation was concerned, Aosa used company structure, values and problems to evaluate the extent of strategy implementation. He found that a large portion of the companies had functional structures but did not have identified values. The few which had values identified quality, customer service, teamwork, sensitivity to competitors, integrity, openness, honesty and loyalty to the employers as their key values. He identified the problems in strategy implementation as the effects of uncontrollable factors (remote variables), competition, lack of adequate resources, lack of effective co-ordination, lack of clearly defined implementation tasks and lack of time management. He concluded his study by stating that ''companies that maintained a strategy-budget linkage were significantly more successful in implementing strategy than those which did not maintain such linkage; companies that carried out management training were significantly more successful in implementing strategy than those that did not carry out such training; professionally run companies operated with longer planning horizons, had written mission statements and strategic plans, and were significantly different from family run companies with respect to performance of the strategy activities studied; foreign companies were more involved in strategy development than local ones and indigenous Kenyan companies were more involved in strategy development than their Indian counterparts." (Aosa, 1992: 339-357).

Comparing his findings with those in North America and other countries, Aosa found that managers in Africa relied on centralised structures and carried out ad-hoc planning. Like Woodburn and Adegbite, Aosa attributed this to environmental turbulence, lack of management resources, paucity of information and hostile government activities. Aosa also compared his study with that of Fubara and found that Fubara's findings tallied with those of family and local Indian companies in Kenya.

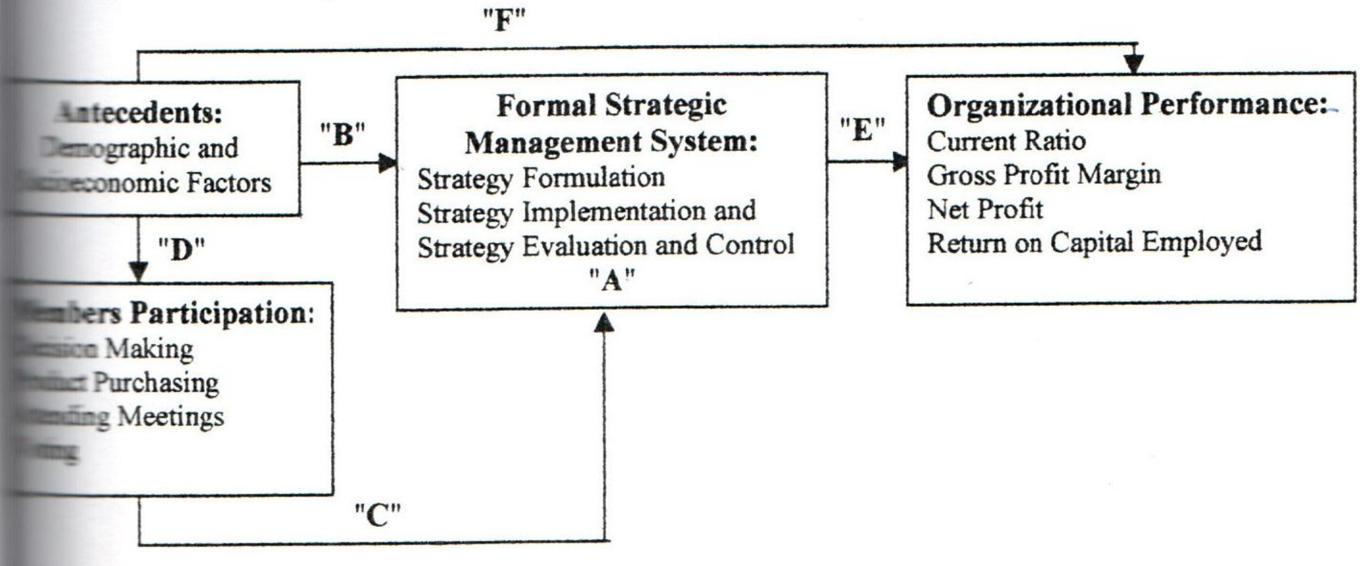
The review of literature so far has shown that none of the above cited studies has empirically tested the extent of adoption of formal strategic management systems in the consumer cooperative sub-sector in Kenya or the relationships between the demographic and socioeconomic factors and the formulation of formal strategic management systems. No study has also tested the relationships among business policy variables. Above all, none of these studies in Kenya empirically tested the relationships between formal strategic management systems and organizational performance. Elsewhere, there have been differing results and conclusions from both theoretical and empirical studies reported in the literature. Some have been narrow in scope and yet others have been methodologically deficient. Certainly, this may have been partly responsible for the mixed results and conclusions. Further, some have differed in terms of scope and context.

Given that cooperative organizations are demographic and socioeconomic entities, this study was greatly motivated by the gross absence of comprehensive empirical studies to justify the effect of business policy on cooperative performance.

2.3 Conceptual Framework of the Study

On the basis of the research objectives set in chapter one and the literature reviewed in the preceding sections of this chapter, a conceptual framework of the study was developed (figure 2-3). Simply stated, the framework shows that the antecedents are expected to influence both the extent to which organizations engage in formal strategic management (B) and level of members participation (D); members participation also influences extent of formal strategic management (C) which in turn influences organizational performance (E). Finally, the antecedents are expected to influence organizational performance (F).

Figure 2-3: Conceptual Framework of the Study



2.4 Hypotheses of the Study

The following six hypotheses which were derived from figure 2-3 were tested in subsequent chapters:

1. significantly more than two thirds of the consumer cooperatives have not adopted formal strategic management systems;
2. organizational demographic and socioeconomic factors significantly influence the degree to which formal strategic management systems are formulated;
3. members' participation in the activities of their organizations significantly influences the levels to which formal strategic management systems are formulated;
4. organizational demographic and socioeconomic factors significantly influence levels of members' participation in the activities of their organizations;
5. business performance ratios of organizations with formal strategic management systems are significantly higher than those without formal strategic management systems; and
6. demographic and socioeconomic factors significantly influence organizational performance.

CHAPTER 3

RESEARCH DESIGN AND METHODOLOGY

Chapter two reviewed both theoretical and empirical literature and concluded with formulation of conceptual hypotheses. The current chapter defines the population of study, the sampling methods and research instruments used, and the analytical models that were employed.

3.1 The Population of the Study

The sampling frame of this study included all the names of registered Consumer Cooperatives in Kenya. According to the then Ministry of Cooperative Development Statistics, in 1997 there were 186 registered consumer cooperatives in the country. Out of these, 114 were said to be active, 48 were deemed to be dormant, and 24 were in the process of being liquidated (Appendix 2). The total membership of the 186 registered consumer cooperatives was 14,100 out of which 4,000 were active members, while the rest were inactive. These statistics were however found not to be accurate at the time of the study. It was found that 29 out of the 114 Consumer Cooperatives deemed to be active by the Ministry were actually dormant. This meant that only 85 consumer cooperatives were active at the time of the fieldwork (that is, from late 1997 to early 1999).

3.2 Sampling Procedure

Given the smallness of the sampling frame, all the active consumer cooperatives were included in the study. Most of these cooperatives are located in Nairobi and Uasin

Gishu Districts (Appendix 3). A majority of them were also found to be associated with other larger cooperatives, companies, parastatals, and ministries. For instance, both Shirikisho and Afya consumer cooperative societies in Nairobi were owned by KUSCCO before both of them collapsed; while Sulmac Consumer Cooperative along the shores of Lake Naivasha is owned by Sulmac Flower Company.

3.3 Sampling Unit

The sampling unit of the study was the top manager. The title of this manager varied widely. In most cooperatives, the top manager was referred to as the Managing Director, the Secretary Manager, or simply the manager. In total 59 (69.4%) out of 85 "active" cooperative managers were interviewed. In addition some cooperative members were interviewed in order to cross - check the accuracy of the information given by the top managers. This was done by using the systematic sampling method, which involved interviewing every third cooperative member coming to the cooperative premises.

3.4 Research Instruments and Data Gathering

To adequately satisfy the study's research objectives both primary and secondary data were gathered. The primary data were collected using a partially structured questionnaire (Appendix 1). The questionnaire contained dichotomous, multichotomous, scaled and open-ended statements and questions. The researcher or his assistant personally administered the questionnaire. In some cases the questionnaire was left with the respondent and collected later after it had been completed. This method was largely used in Nairobi. Questionnaires for some cooperatives outside Nairobi, which could not be visited due to lack of infrastructural facilities and financial constraints, were posted and the Ministry of Cooperative

Development Officers in the respective areas requested to assist in the follow-up. Some officers from the Kenya Union of Savings and Credit Cooperatives (KUSCCO) also assisted in the distribution and collection of the questionnaires.

Relevant secondary data were mainly obtained from officials of the Ministry of Cooperative Development in Nairobi as well as in the country-wide branches. Others were obtained from KUSCCO Officials, Nairobi Consumers Cooperative Union Offices, Kenya National Federation of Cooperatives (KNFC), Cooperative College of Kenya and Universities. These data were in form of survey reports, annual reports, operations manuals, seminar papers, and journal articles.

3.5 Other Data Collecting Methods

Even where questionnaires are used, some of the data are still collected by observation method given the sensitive nature of some of the questions. For example, some cooperatives' top managers indicated that they had written business policies, but when asked to give a copy of the same, they were completely stuck and ended up giving the by-laws or explaining the informal business policy.

3.6 Analytical Methods and Models

In order to assist management in the selection of the most appropriate direction for development and measure of organizational performance, a range of business methods and models have been developed. These include the growth share matrix, tabulations and percentages, the payback period, the discounted cash flow, the business ratio analysis methods and various economic models.

This study involved the collection of data that indicate the extent to which consumer cooperatives have adopted formal strategic management systems and measure functional relationships between formal strategic management systems and demographic and socioeconomic factors; members' participation levels in the activities of their cooperatives and levels of formal strategic management systems; cooperative performance, and demographic and socioeconomic factors; and members' level of participation, and demographic and socioeconomic factors. Consequently, the study employed tabulations, chi-square and multinomial logit model to test the hypotheses stated in chapter two.

3.6.1 Tabulations

Tabulation is a form of descriptive statistics. It consists of counting the number of cases that fall into various categories. The tabulation may take the form of simple tabulation or cross-tabulation. Simple tabulation involves counting a single variable. It is useful for examining the variables of the study separately because a tabulation for each variable is independent of the tabulation for the other variables. In cross-tabulation two or more variables are treated simultaneously; the number of cases that have the joint characteristics are then counted.

Cross tabulation is the most common mechanism for studying the relationships among and between variables. In cross tabulation the sample is divided into subgroups so as to learn how the dependent variables vary from subgroup to subgroup (Churchill Jr.,1979).

As shown in figure 2-1 in chapter two, business policy has many variables. Therefore, in order to understand these variables' interrelationships and their effects on performance in consumer cooperatives, simple and cross-tabulation methods of data analysis were employed.

3.6.2 Business ratios

The strengths and weaknesses of any organization are determined by its functional business areas. The analysis of business ratios is therefore, a process of appraising the strengths and weaknesses of organizations by comparing the relationship between items in the balance sheet and those in the income statement. This relationship is important because the assets and liabilities in the balance sheet are responsible for the revenue and expenses in the income statement (Manasseh, 1990). The relationship gives a clear picture of the organization's performance as long as it takes into account the remote and industry variables which influence performance with regard to the functional business areas.

Business ratios have specific advantages when used to measure organizational performance. Ratios are central to any firm as figures in the balance sheet and income statement have no absolute meaning until they are reduced to ratios, which can then be used as a yardstick to measure the organization's performance (Manasseh, 1990). Ratios also measure the position of an organization at a specific period of time and are very important to all stakeholders. Despite these advantages, however, business ratios are inadequate for evaluating all objectives that an organization might want to achieve. They also only tell what happened after a fact, not what is happening or what will happen (Wheelen and Hunger, 1992).

Although there are many business ratios available in the appraisal of organizational performance, the choice of those used depends on the impact they have on the organizations' problems and the objectives of the research. In this study, the business ratios pertinent to the objectives stated in chapter one are current ratio which is used to gauge the organization's ability to settle its current obligations as and when they fall due; profitability ratio which is used to measure the efficiency with which the organization can generate a given level of profits out of its sales activities; and return on capital employed which measures the management's efficiency in utilizing both creditors' and equity funds (Appendix 6).

A typical business ratio analysis of an organization would include a study of the operating statements for some few years including a trend analysis of sales, profits, earnings per share, debt to equity ratio, return on capital employed, and so on, plus a current ration and a ratio study comparing the firm under study with industry standards (Wheelen and Hunger, 1991). A ratio of an organization is thus said to be low or high (Appendix 8) in comparison with the industry average ratios (Weston and Copeland, 1986).

3.6.3 Chi-square

The chi-square is non-parametric or distribution free statistic. It is used as a test of significance when we have data that are in terms of percentages or proportions and that can be reduced to frequencies. Many of the applications of chi-square are with discrete data (Downie and Heath, 1974).

Chi-square is given by the formula: $X^2 = \sum \frac{(O-E)^2}{E}$

Where;

X^2 = Chi-square.

O = Observed frequencies, percentages or proportions.

E = The expected frequencies, percentage or proportions.

These frequencies are called the expected, theoretical or hypothetical frequencies. To use the chi-square statistic, the data must be independent: no response is related to any other response. The categories into which the data are placed must also be mutually exclusive and all the data must be used (Downie and Heath, 1974).

3.6.4 Multinomial Logit Model

Robinson (1989) described four different ways of classifying economic models. The description outlines the general criteria that can be used to determine where to place any given economic model. One classification is by mathematical structure or methodology: optimization or simulation, static or dynamic, and linear or non-linear. Another is according to policy focus. Economic models can also be classified by theoretical type: analytic, style or application. The fourth classification is by the nature of the underlying theoretical paradigm.

Karingi (1998), on the other hand, identified three major types of economic models which are widely used to undertake policy analysis by policy makers. Among these are input-output models, computable general equilibrium (CGE) models, and econometric models.

Chowdhury and Kirkpatric (1994) argued that because of mixed nature of the economies, it is necessary to formulate models that allow analysis and exploration of questions about policy trade offs and effectiveness. Following Chowdhury's and Kirkpatric's argument, Karingi (1998) analysed economic models developed for the Kenyan economy. He classified them according to the developers-name(s). Among the models are Dick – Gupta – Mayer – and Vincent (DGMV) model, the Blomquist and McMahon model, the McMahon model, the Tayler and Akinboade model and the Kenyan Economy General Equilibrium Model (KEGEM). Karingi further emphasised that studies undertaking policy analysis need analytical framework of the economic problem that allows evaluation of the effects of a wide variety of policies on indicators.

Given the nature of the variables of this study as depicted in figure 2-3, the research objectives, the data collected and the research design, an econometric model - the Multinomial Logit Model was deemed to be the most appropriate model for this study.

The logit model is the natural complement of the regression model but both models belong to the realm of causal relations. Both models were originally designed for the analysis of experimental data. The only difference is that the logit model permits a specific economic interpretation in terms of utility maximization in situations of discrete choice (Crammer, 1991). When the dependant variable is discrete, the error terms are no longer normally distributed and the ordinary least squares method cannot be used. In such a case the logit model is appropriate (Shin, 1992)

In the logit model the log of the odd ratios P/(1-P) is a linear function of independent variables and may be used in regression analysis (Shin, 1992).

Hence

Logit L = In [p/(1-p)] = Logit

= a + bxi

where

$p/(1-p) = (1 + e^{z})/(1+e^{-z}) = e^{z}$,

the odds ratio

In[P/(1-p)] = Log of the odds ratio.

The independent variables can be either discrete (categorical) variables or continuous variables (Maddala, 1983; Greene, 1988; 1989 and 1990). In the logit model the independent variable may not be normally distributed, and the maximum likelihood estimation method is used, which is consistent and robust (Shin, 1992).

Mathematically, the Multinomial Logit Model is specified as *(ignoring the derivation or formulation phase)*:

$$P_{ij} = \frac{e^{Z_{ij}B}}{\sum_{k=1}^{n} e^{Z_{ik}B}}$$

where;

P_{ij} = Probability that the i^{th} respondent of a given consumer cooperative society will choose the j^{th} level of establishment of formal strategic management system, size of financial ratio or level of member participation.

Z_{ij} = The transformation of individual i^{th} respondent and j^{th} consumer cooperative attributes or characteristics.

k = A particular or given consumer cooperative.

$Z_{ik}B$ = Maximum likelihood parameter coefficients or Z_{ijs} for a given k^{th} consumer cooperative.

B_i = Maximum likelihood parameter coefficients of the Z_{ijs}.

N = Sample size.

Functional model forms

In this study dependent variables were discrete while independent variables were both continuous and categorical. The following models were therefore employed.

Hypothesis 1:

H_o: significantly more than two thirds of the consumer cooperatives have not adopted formal strategic management systems to a great extent. That is,

$$X^2 = \sum \frac{(O-E)^2}{E}$$

Where

X^2 = Chi-square.

O = Observed proportion of formal strategic management systems.

E = Expected proportion of formal strategic management systems.

Hypothesis 2:

H_o: organizational demographic and socioeconomic factors significantly influence the levels to which formal strategic management systems are formulated. That is,

$$P_{ij} = \frac{e^{Z^1_{ij}B}}{\sum_{j=1}^{J} e^{Z^1_{ij}B}}$$

Where

P_{ij} = Probability that respondent i reports management level j.

Z^1 = A vector of antecedent variables.

j = Level of strategic management system, $j = 0 \ldots 3$ and

i = Respondent i (Cooperative manager), $i = 1 \ldots N$.

Hypothesis 3:

H_o: members' participation in the activities of their organization significantly influences the levels to which formal strategic management systems are formulated. That is,

$$P_{ik} = \frac{e^{Z^2_{ik}B}}{\sum_{k=1}^{K} e^{Z^2_{ik}B}}$$

Where

P_{ik} = Probability that respondent i reports management level k.

Z^2 = Level of members' participation.

k = Level of strategic management system, $k = 0 \ldots 3$,

i = Cooperative manager, $i = 1 \ldots N$.

Hypothesis 4:

H_o: organizational and socioeconomic factors significantly influence the level of members' participation in the activities of their cooperatives. That is,

$$P_{it} = \frac{e^{Z^5_{it}B}}{\sum_{t=1}^{T} e^{Z^5_{it}B}}$$

Where

P_{it} = Probability that respondent i reports participation level t.

Z^5 = Vector of antecedent variables.

t = Level of members participation, t = 1 ... 3.

1 = Cooperative manager, n = 1 ... N.

Hypothesis 5:

H_o: business performance ratios of organizations with formal strategic management systems are significantly higher than those without formal strategic management systems. That is,

$$P_{il} = \frac{e^{Z^3{}_{il}B}}{\sum_{l=1}^{L} e^{Z^3{}_{il}B}}$$

Where

P_{il} = Probability that respondent i reports performance level l.

Z^3 = Level of strategic management system.

l = Cooperative performance level, l = 0 ... 2, and

i = Cooperative manager, i = 1 ... N.

Hypothesis 6:

H_o: demographic and socioeconomic factors significantly influence performance in organizations. That is,

$$P_{im} = \frac{e^{Z^4{}_{im}B}}{\sum_{m=1}^{M} e^{Z^4{}_{im}B}}$$

Where

P_{im} = Probability that respondent i reports performance level m.

Z^4 = A vector of antecedent variables.

m = Organizational performance level, m = 0 ... 2.

i = Cooperative Manager, i = 1 ... N.

Working or Operational hypotheses

In this section, the conceptual hypotheses are operationalised into testable forms. That is,

Hypothesis 1

The extent of establishment of formal strategic management systems (Table 4-10) is given as:

$$X^2 = f(\text{functional business areas}) \quad (1)$$

Where

X^2 = The extent of establishment of formal strategic management systems and

0 = No formal strategic management system is established.

1 = Formal strategic management system is established in one or two functional areas.

2 = Formal strategic management system is established in three or four functional areas.

3 = Formal strategic management system is established in five or more functional areas.

Thus X^2 has four discrete responses

Where

$^2/_3$	$\leq$	Expected proportion of those organizations which have established formal strategic management systems.
$^2/_3$	$>$	Expected proportion of those organizations which have not established formal strategic management systems.

Hypothesis 2

The effect of demographic and socioeconomic factors on the levels of establishment of formal strategic management systems (Appendix 7) is given as

$$Y = f(x_1, x_2, x_3, x_4, x_5, x_6, x_8, e); \quad (2)$$

Where

Y = Level of formal strategic management system; and

0 = No formal strategic management system is established.

1 = Formal strategic management system is established in one or two functional areas.

2 = Formal strategic management system is established in three or four functional areas.

3 = Formal strategic management system is established in five or more functional areas.

Thus the dependent variable Y has four responses.

X_1 = Level of education of the respondent (*the top Cooperative Manager*), that is:

1 = Less than a diploma

2 = Diploma

3 = Degree

4 = Diploma plus degree(s)

5 = Diploma plus other certificates plus a degree(s)

X_2 = Number of years the respondent has worked with the cooperative.

X_3 = Number of members in the consumer cooperative organization.

X_4 = Age of the consumer cooperative.

X_5 = Sex of the respondent, that is:

1 = Female

2 = Male

X_6 = Level of member participation, that is:

1 = Low level of participation

2 = Average level of participation

3 = High level of participation

X_7 = Intensity of demand for the commodities, that is:

1 = Little or Low demand

2 = Moderate demand

3 = High demand

X_8 = Number of years taken in school, that is:

1 = Below five years

2 = 5-8 years

3 = 9-13 years

4 = 14-16 year

5 = 17 and above years

e = Random disturbance term

Hypothesis 3

For relationship between members' participation on the activities of their organizations and formulation of strategic management systems (Appendix 7), the logit model is expressed as:

$$Y = f(x_6, e) \text{ and;} \quad (3)$$

Where

Y = Level of formal strategic management system as given in equation (2)

X_6 = Level of member participation and

1 = Low level of participation

2 = Average level of participation

3 = High level of participation

Hypothesis 4

In explaining members' participation with antecedents (Appendix 7), the model is expressed as

$$Y = f(x_1, x_2, x_3, x_4, x_5, x_7, x_8, e) \quad (4)$$

Where

Y = Level of member participation as explained in equation (3) and

X_1 = Level of education of the respondent (*the top Cooperative Manager*) and;

1 = Less than a diploma

2 = Diploma

3 = Degree

4 = Diploma plus degree(s)

5 = Diploma plus other certificates plus a degree(s)

X_2 = Number of years the respondent has worked with the cooperative.

X_3 = Number of members in the consumer cooperative organization.

X_4 = Age of the consumer cooperative.

X_5 = Sex of the respondent and;

1 = Female

2 = Male

X_7 = Intensity of demand for the commodities and;

1 = Little or Low demand

2 = Moderate demand

3 = High demand

X_8 = Number of years taken in school and;

1 = Below five years

2	=	5-8 years
3	=	9-13 years
4	=	14-16 year
5	=	17 and above years
e	=	Random disturbance term

Hypothesis 5

Concerning relationships between performance and formal strategic management systems, (Appendices 8 and 9), the Logit Lodel is expressed as:

Y = f (x, e), where; (5)

Y	=	Size of financial ratios and
0	=	Low ratios
1	=	Moderate ratios
2	=	High ratios

Thus Y has 3 categorical responses

X = Level of establishment of formal strategic management system where X is as Y defined in equation (2) except e.

Thus

0	=	No formal strategic management system is established.
1	=	Formal strategic management system is established in one or two functional areas.

2 = Formal strategic management system is established in three or four functional areas.

3 = Formal strategic management system is established in five or more functional areas.

e = Random disturbance term.

Hypothesis 6

The relationship between performance (Appendix 10) and demographic and socioeconomic variables is expressed as:

$$Y = f(x_1, x_2, x_3, x_4, x_5, x_7, x_8, e) \qquad (6)$$

Where

Y = Size of financial ratios and;

0 = Low ratios

1 = Moderate ratios

2 = High ratios

Thus Y has 3 nominal responses

X = Demographic and socioeconomic variables influencing the size of financial ratios

Where

X_1 = Level of education of the respondent (*the top Cooperative Manager*) and;

1 = Less than a diploma

2 = Diploma

3 = Degree

4 = Diploma plus degree(s)

5 = Diploma plus other certificates plus a degree(s)

X_2 = Number of years the respondent has worked with the cooperative.

X_3 = Number of members in the consumer cooperative organization.

X_4 = Age of the consumer cooperative.

X_5 = Sex of the respondent and;

1 = Female

2 = Male

X_6 = Level of member participation and;

1 = Low level of participation

2 = Average level of participation

3 = High level of participation

X_7 = Intensity of demand for the commodities and;

1 = Little or Low demand

2 = Moderate demand

3 = High demand

X_8 = Number of years taken in school and;

1 = Below five years

2 = 5-8 years

3 = 9-13 years

4 = 14 -16 year

5 = 17 and above years

e = Random disturbance term

The estimating model was specified in terms of the likelihood function and the estimation exercise involved obtaining solutions for the maximum likelihood estimates.

The operationalized variables above were deemed to be the most potent factors affecting formulation of strategic management systems and performance of organizations in Kenya, but which have not so far been tested. These relationships are the ones tested in the next chapter.

CHAPTER 4

RESULTS AND DISCUSSIONS

The previous chapter discussed the research design that was employed, defined the analytical methods and models, functional model forms, and operational dependent and independent variables. This chapter discusses sample characteristics and results of the data by testing the relevant hypotheses. In doing so, the conventional method of testing hypotheses beginning with non-parametric to parametric tests is employed.

4.1 Sample Characteristics

Among the factors influencing organizational performance are the remote and industry variables.

4.1.1 Remote variables

Remote environmental variables play a very important role in influencing the activities of consumer cooperatives in Kenya. Among the key remote variables hypothesized to affect consumer cooperatives are demographic and socioeconomic factors which also include members' participation in the activities of their cooperatives. Demographic and socioeconomic factors have substantially influenced the activities of the consumer cooperatives in Kenya. As can be seen (Appendix 11), there were only 3 of the interviewed cooperatives at independence. The results of the study further revealed that immediately after independence the rate of cooperative formation increased and reached the peak between 1974 and 1984. After 1985, the rate began to gradually decrease but gained momentum after 1992 due to economic depression.

The law has also been known to influence the activities of cooperatives in Kenya. Results of the simple tabulation (Appendix 12) show the effects of the new Cooperative Act, the most prominent factor being that of increased competition (21.6% of the number of mentions) among the players in the Cooperative Movement. It appears that most of the impacts of the Act are negative as far the respondents are concerned. The most disturbing issue is the fact that 36.5% of the mentions indicate that the members have actually not seen the new Act. This means that the new Act has not been effectively communicated to the Movement.

The influence of Government taxes on the activities of the cooperatives are presented in Appendix 13. Out of the 59 respondents, 37.1% said that Government taxes on cooperatives discourage them from indulging in commercial investments while 20% said that the effect is not known. As expected the majority appear to dislike the taxes because of the negative impact it has on their business activities.

4.1.2 Industry variables

The influence of industry variables on consumer cooperatives are contained in Appendix 14. As can be seen, some of the 59 cooperatives interviewed had once become dormant in their life history. Among the most potent factors which caused dormancy were lack of member patronage (22.0%), poor management (11.9%), misappropriation of funds (5.1%), lack of member training (5.1%), tribal clashes (3.4%) and conflict between members and management (3.4%).

The supply of personnel skills to the consumer cooperative sub-sector is depicted in Appendix 15. As can be seen, a substantial number of cooperatives (50.8%) frequently lacked qualified personnel. This is understandable because, although the Cooperative College has been channeling out some trained diploma and other certificate holders into the labour market, most of these graduates have been mainly utilized by the Department of Cooperative Development. On the other hand, few universities have been training people for the cooperative sector. Another factor is that the salaries in the Cooperative Movement have been and still are very low compared to those of the private sector.

As far as the industrial relationships is concerned (Appendix 16), 61.% of the respondent cooperatives indicated that their employees were not members of labour unions. The study further revealed that even those cooperatives whose employees are members of the labour unions, 13.6% are "always" in conflict, while 6.8% are "occasionally" in conflict. The study also showed that only 15.2% of the cooperatives had good industrial relations. This suggests that few employees of the Cooperative Movement are members of labour unions.

Common problems experienced by consumer cooperatives in raising capital are listed in Appendix 17. As can be seen, most of the 59 responding cooperatives said they experienced problems in raising capital base. These problems range from limited member shares and contributions (23.5%), lack of member patronage (16.0%), insufficient trading profits (6.2%), high interest rates charged by banks (7.4%), lack of sufficient membership (6.2%), loan defaulting (6.2%), and withdrawal of members (5.0%). This observation was consistent with the literature.

The major categories of customers in the consumer cooperative sub-sector are presented in Appendix 18. Out of 59 cooperatives which were interviewed, 41.5% of them mainly depend on members as customers, 22.6% depend on the general public, 14.1% on other cooperatives, 7.5% on farmers and 1.9% on the export market. The major reason for mainly depending on members is to avoid credit defaulting. This observation is similar to observations in appendix 17, where it was noted that among the major financial problems facing the cooperatives were lack of member patronage and limited membership.

The data in Appendix 19 further shows that the major categories of customers targeted by the consumer cooperatives include the general public which accounts for 34.2%, followed by increased membership (19.8%), new employees (10.8%), learning institutions (6.3%), affiliated societies (4.5%), relatives (4.5%), wholesalers (4.5%), export market (4.5%) and farmers (3.6%). Retailers account for only 2.7%.

The key categories of competitors in the consumer cooperative sub-sector are given in Appendix 20. The principal competitors are local community businesses (24.8%). This category includes hawkers, shopkeepers, and distributors. This is as expected because most of the consumer cooperatives are mainly trading businesses with few upcoming processing and service business activities. A further examination of Appendix 20 reveals that other cooperatives and women associations, suppliers and supermarkets are also crucial competitors in this industry. This is as expected since most cooperatives were previously protected by monopoly environment, which curtailed their competitive know-how.

The problems affecting cooperatives in Kenya are many (Appendix 21). The key problems mentioned by the respondents include lack of member patronage (12.8%), lack of proper book-keeping (7.20%), decreasing membership (7.20%), lack of member education (6.1%), tribalism in voting (6.1%), loan defaulting (5.6%), and corrupt management committee (5.0%).

As expected there are several suggestions for improvement (Appendix 22). The key suggestions mentioned by the respondents include training, changes in the by-laws, enforcement of member patronage, provision of local infrastructure, implementation of democratic principles, and institution of effective control by the Department of Cooperative Development. The suggested solutions are basically the main elements of business policy.

4.2 The Extent of Establishment of Formal Strategic Management Systems

4.2.1 Strategy formulation

Table 4-1 shows the types of mission statements mentioned by the respondents. Some 89.8% of the "mission statements" were contained in the by-laws of the cooperatives. Needless to say many of the statements mentioned as mission statements are technically not mission statements.

In chapter two of this study, it was stated that a good corporate mission statement should be as precise as possible, indicate the major components of a strategy, indicate how objectives are to be accomplished, define the organization's products and functions, define markets to be reached, specify the means for financing business operations, and describe how the goals would be attained. Unfortunately most of the "mission statements" presented in Table 4-1 do not meet these criteria.

Table 4-1: Types of written mission statements mentioned by the respondents

Statement	Number of Mentions	%
Provide food, drinks, and meals to members at a cheaper price within the working site	19	18.1
Sell household goods to members	11	10.5
Mobilise members savings and create credit and dividends	9	8.6
Pay surpluses and dividends to members out of their shares	9	8.6
Provide farm inputs to members	8	7.6
Wholesaling, distribution and provision of education and book-keeping services to affiliated cooperatives	6	5.7
Provide goods and services at reasonable prices	6	5.7
Service members with merchandise and operate charcoal stores	6	5.7
Give financial advice to members	4	3.8
Promote member prosperity	4	3.8
Uplift member's living standards and quality of life	4	3.8
Provide training, accounting and technical assistance to member affiliates	4	3.8
Operate a posho mill and a petrol station	2	1.9
Others	13	12.4
Total	105	100

The long term objectives which are supposed to be more specific than mission statements as stated by the consumer cooperatives are shown in table 4-2.. Some 22.8% of the respondents indicated that their objectives were to provide their members with low priced products while another 18.7% said that their objectives were to maximise profits. As stated earlier, the characteristics of good business objectives are that they should in general be measurable, consistent with the mission, reasonable, challenging, clear and verifiable, well communicated throughout the organization, have specific time dimension, accompanied by rewards and sanctions, stated in an employee's and manager's results, compatible with the workers and the managers values, and be supported by clearly stated strategies and policies. An examination of Table 4-2 shows that most of the objectives mentioned by the respondents are too general and do not meet the required criteria of good objectives.

Table 4-2: Stated objectives of the consumer cooperatives

Objectives	Number of Mentions	%
Provide members with low priced products	28	22.8
Maximise profits	23	18.7
Mobilise members savings and create credit and dividends	11	8.9
Pay highest maximum possible dividends and bonuses	10	8.1
Pay member's bonus on their share and patronage	10	8.1
Increase the market share	8	6.5
Diversify the trading activities	6	4.9
Maximise membership	5	4.1
Minimise operational costs	3	2.4
To offer loans promptly	3	2.4
Invest commercially	3	2.4
To look for the local and export markets for member's products	3	2.4
Others	10	8.1
Total	123	100

4.2.2 Strategy implementation

The extent of preparation of budgets in the consumer cooperatives' sub-sector is presented in Table 4-3. As can be seen, 93.2% of the responding cooperatives do prepare budgets. Since budgets are crucial in strategy implementation it would appear that in most consumer cooperatives, strategy implementation is taken seriously, as it would be difficult to achieve the objectives of the organization without appropriate implementation of the strategy. Unfortunately, many cooperatives prepare operational not strategic budgets.

Table 4-3: Stated budgets prepared by consumer cooperatives

Degree of Budget Preparation	Number of Responses	%
Budgets are prepared for all activities	45	76.3
Budgets are prepared for some activities	6	10.2
Budgets are prepared for few activities	4	6.8
No budgets are prepared	4	6.8
Total	59	100

Table 4-4 shows the frequencies of stock-outs and stock surpluses experienced by the consumer cooperatives. As can be seen, 23.7% and 10.2%, "frequently" experience stock shortages and stock surpluses respectively. While 49.2% and 44.1% do so "sometimes." Only 23.7% and 37.2% respectively never experience such "problems". This implies that there is lack of effective stock management in consumer cooperative sub-sector as far as strategy implementation is concerned.

Table 4-4: Frequency of stock shortages and surpluses

Frequency of Stock Shortages and Surpluses	Stock Shortages		Stock Surpluses	
	Number of Responses	%	Number of Responses	%
Frequently experience stock shortages or surpluses	14	23.7	6	10.2
Sometimes experience stock shortages or surpluses	29	49.2	26	44.1
Never experience stock shortages or surpluses	14	23.7	22	37.2
No response	2	3.4	5	8.5
Total	59	100	59	100

The levels and modes of members' participation in decision making in the affairs of consumer cooperatives are shown in Table 4-5 and 4-6 respectively. A look at table 4-5 shows that 32.2% of the members participate in all matters of their cooperatives while another 40.7% participate in some issues and 22.0% do not participate at all in decision making. The results suggest that a majority of members (62.7%) do not participate "fully" in the affairs of their cooperatives.

Table 4-5: Degree of member participation in decision making

Degree of Member Participation	Number of Responses	%
Participate only in some issues	24	40.7
Participate in all matters	19	32.2
Members do not participate at all	13	22.0
No response	3	5.1
Total	59	100

According to Table 4-6, the most used channel of member participation is the Annual General Meeting (AGM) and the Annual Delegates Conference (ADC), which account for 46.8% of mentions. This is as expected due to the fact that all cooperatives are required by law to hold annual general meetings. Where the AGM is not feasible due to the wide dispersion of its membership, an ADC must be held.

Table 4-6: Areas of member participation

Channel	Number of Mentions	%
AGM or ADC	36	46.8
Management Committee Meetings	9	11.7
Other General Meetings	5	6.5
Ad hoc meetings	5	6.5
Members education days	5	6.5
Open membership policy	5	6.5
Notice board memos	4	5.2
Suggestion boxes	3	3.9
Others	5	6.5
Total	77	100

The degrees of members' patronage and overall participation in the activities of cooperatives are shown in Table 4-7 and 4-8. As can be seen in table 4-7 only 35.6% of the members fully patronise their cooperatives. A majority of the members (64.4%) prefer to purchase their products from other sources. This is consistent with figures in table 4-8, which indicate that only 13.6% of the cooperative members fully participate in both patronage and meetings, 32.2% moderately participate while the majority, (52.5%) mentioned that their level of participation is low.

Table 4-7: Degree of members' patronage

Level of Patronage	Number of Responses	%
Non-full patronage	38	64.4
Full patronage	21	35.6
Total	59	100

Table 4-8: Overall degree of member participation in cooperatives

Level of Member Participation	Number of Responses	%
Low participation	31	52.5
Moderate participation	19	32.2
High participation	8	13.6
No response	1	1.7
Total	59	100

4.2.3 Strategy evaluation and control

As far as formal standards of performance in consumer cooperatives are concerned (Table 4-9), only 33.9% prepare standards of achievement of their organizations. This means that 66.1% of all the interviewees do not prepare formal achievement standards for their cooperatives. This is a further reflection of low level of formal strategic management systems in many of the consumer cooperatives.

Table 4-9: Formal standards of performance

Statement	Number of Responses	%
Standards prepared	20	33.9
Standards not prepared	39	66.1
Total	59	100

In conclusion, the extent to which consumer cooperatives in Kenya have established formal strategic management systems is depicted in Table 4-10. As can be seen, about 50.8% of the consumer cooperatives indicated that they have not established any formal strategic management system, while 47.5 % mentioned that they have formal systems in some functional business areas.

Table 4-10: Extent to which consumer cooperatives have established formal strategic management systems

Degree of Establishment of Formal Strategic Management Systems	Number of Responses	%
Not established any formal strategic management system	30	50.8
Established in one or two functional areas	15	25.4
Established in two functional areas	12	20.3
Established in three or four functional areas	7	11.9
Established in five or more functional areas	6	10.2
No response	1	1.7
Total	59	100%

4.3 Indicators of Cooperative Performance

Among the indicators of performance in consumer cooperatives are members satisfaction and financial ratios. Table 4-11 shows the members' complaints on the services rendered by their cooperatives. As can be seen, there are various complaints regularly cited by the cooperative members. Many members complain against mismanagement (10.4%), dishonest management committees (10.4%), delayed dividends (9.4%), highly priced and poor quality products (8.3%), too low dividends and bonuses (7.3%), lack of credit facilities (6.3%), and lack of appropriate book-keeping (4.2%).

Table 4-11: Members' complaints on the services rendered by consumer cooperatives

Item of concern	Number of Mentions	%
No complaints	15	15.6
Mismanagement by the management committee officials	10	10.4
Untrustworthy and dishonest members of the management committee	12	12.5
Delayed and low dividends and bonuses	16	16.7
Poor quality products but priced highly	8	8.3
Lack of credit facilities from the cooperative	6	6.3
Delays in loan repayments	5	5.2
Lack of required farm inputs	5	5.2
Lack of appropriate book-keeping	4	4.2
Favouritism among members by management committees	3	3.1
Lack of prompt payment to members after delivery of commodities	3	3.1
Failure to hold annual general meetings or voting	2	2.1
Lack of regular member seminars	2	2.1
Others	5	5.2
Total	96	100

Table 4-12, shows that 47.5% of the cooperatives give dividends to their members every year, 33.9 % give dividends in some years and 18.6% have never given dividends at all. This suggests that 52.5% of the cooperatives do not meet the financial needs of their members. This is supported by the complaints cited in Table 4-13.

Table 4-12: Payment of dividends

Regularity of Dividends	Number of Responses	%
Every year	28	47.5
Some years	20	33.9
Never	11	18.6
Total	59	100

Table 4-13: Members' complaints about dividends

Complaints	Number of Mentions	%
Lack of dividends and loans	16	44.4
Delayed dividends	15	41.7
Other complaints	5	13.9
Total	36	100

Another indicator of organizational performance is the financial ratio. The magnitudes of financial ratios for the consumer cooperatives are presented in Table 4-14 and the corresponding details in Appendix 8. As can be seen, 55.9% of the consumer cooperatives have low financial ratios, 20.3% have moderate ratios, 15.3% have high ratios, while 8.5% do not know their financial ratios.

Table 4-14: Magnitudes of financial ratios achieved by consumer cooperatives

Degree of Ratios	Number of Responses	%
Low	33	55.9
Moderate	12	20.3
High	9	15.3
Not known	5	8.5
Total	59	100

4.4 Testing the Hypotheses

The relevant null hypotheses were tested using the Chi-square and the Multinomial Logit Model. In doing so, the 5% significance level was used. This risk level was deemed to be appropriate on the basis of the "cost" of making an error (Maurice and Smithson, 1985, Hanke and Reitsch, 1991). It is also a compromise level in limiting type I error while at the same time taking optimum care of type II error. In addition, most studies in business field consider an alpha of 5% as an acceptable level of significance for managerial decision making.

Hypothesis 1: The null hypothesis to be tested is:

H_0: At most two thirds of the consumer cooperatives have adopted formal strategic management systems.

This expected proportion was derived from the statistical bases in the Department of Cooperative Development. The observed proportion is given in Table 4-10.

The test statistic is computed as:

$$X^2 = \sum \frac{(O-E)^2}{E}$$

$$= \frac{(30-39)^2}{39} + \frac{(29-20)^2}{20}$$

$$= \frac{81}{39} + \frac{81}{20}$$

$$= 2.1 + 4.1$$

$$= 6.2$$

The computed value of chi-square of 6.2 is larger than the critical value of 3.841 at 5% alpha level and one degree of freedom. This Chi-square is significant at 5% risk level, which implies that the hypothesis is rejected at 5% alpha level.

The conclusion that can be made from this research evidence is that ***the proportion of consumer cooperatives that has not adopted formal strategic management systems exceeds two thirds (67%) of the population.***

Hypothesis 2: The null hypothesis to be tested is:

H_o: Organizational demographic and socioeconomic factors do not influence the level to which formal strategic management systems are formulated.

The results of the Multinomial Logit Model are shown in Table 4-15.

Table 4-15: Results of the effects of demographic and socioeconomic factors on formulation of formal strategic management systems

Demographic and Socioeconomic Factor	Formal Strategic Management Level*	Coefficient	Standard Error	Z	P >|Z|	95% Confidence Interval	
Level of education	One or two functional areas (1)	-1.086181	.5946662	-1.827	.068	-2.251706	.0793432
No. of working years		.164727	.7665076	2.146	.032	.0142675	.3151865
No. of members		-.0000968	.0000822	- 1.177	.239	-.000258	.0000644
Age of cooperative		.095262	.0644228	1.479	.139	-.0310044	.2215284
Years in school		3.693598	1.282918	2.879	.004	1.179124	6.208071
Constant		-14.17016	4.579903	-3.094	.002	-23.14661	-5.193714
Level of education	Three or four functional areas (2)	-1.341552	.7660117	-1.751	.080	-2.842907	.1598034
No. of working years		-.1071676	.2574884	-0.416	.677	-.6118356	.3975003
No. of members		-.0001513	.0001361	-1.112	.266	-.000418	.0001155
Age of cooperative		.3909495	.1545013	2.530	.011	.0881324	.6937665
Years in school		7.950867	2.965287	2.681	.007	2.139012	13.76272
Constant		-36.51768	13.25447	-2.755	.006	-62.49596	-10.5394
Level of education	Five or more functional areas (3)	-.0747424	.7394151	-.101	.919	-.523969	1.374485
No. of working years		.1693853	.0968408	1.749	.080	-.0204191	.3591898
No. of members		-.0000208	.0000322	-0.647	.517	-.0000838	.0000422
Age of cooperative		.0541385	.0719285	0.753	.452	-.086387	.1951156
Years in school		2.05883	1.646108	1.251	.211	-1.167483	5.285143
Constant		-11.10909	5.8005261	-1.914	.056	-22.4872	.2690099

*0 is the formal strategic management level comparison group generated by the computer

An examination of the coefficients shows that ten out of eighteen signs of the estimated parameters in the three levels of formal strategic management systems were found to be negative, with some changing signs at different levels. Among these factors are level of education, and number of members. The number of years the manager has worked with the cooperative, age of the consumer cooperative, and the number of years the managers spent in school have positive influence, with the number of years the manager has worked with the cooperative changing to negative at the second level and back to positive at the third level.

As far as their effects on formulation of formal strategic management systems are concerned, the number of years the manager has worked with the cooperative and the number of years the manager has spent in school are statistically significant at the first level of formulation, while at the second level, age of the cooperative and years spent in school are significant. However, no variable is significant at level three. The overall statistical test (Table 20) indicates that *the* ***null hypothesis that organizational demographic and socioeconomic factors do not influence the degree to which formal strategic management systems are formulated is rejected at 5% alpha level.***

In view of the above observation, the conclusion that can be made from this research evidence is ***that demographic and socioeconomic factors do play a positive role in influencing establishment of formal strategic management systems in organizations particularly at the lower levels of management.***

Hypothesis 3: The null hypothesis to be tested is:

H_o: Members' participation in the activities of their organizations do not influence the levels to which formal strategic management systems are formulated.

As shown in Table 4-16, the results of the Multinomial Logit Model reveal that at the lower levels of formal strategic management systems, the effects of members' participation is negative but this relationship becomes positive at higher levels of formal strategic management systems. However, the overall statistical test of members' participation in the activities of their cooperative (Table 20) is not significant.

Table 4-16: Results of the effects of members' participation on the levels of formal strategic management systems

Level of Members Participation	Formal Strategic Management Level*	Coefficient	Standard Error	Z	P >|Z|	95% Confidence Interval	
Low participation (1)	One or two functional areas (1)	-.5075596	.4937773	-1.028	0.304	-1.475345	.4602261
Constant		.1876588	.8061167	0.223	0.816	-1.392301	1.767618
Average participation (2)	Three or four functional areas (2)	.3463216	.6184006	0.560	0.575	-.8657213	1.558365
Constant		-2.179065	1.200684	-1.815	0.070	-4.532361	.1743219
High participation (3)	Five or more functional areas (3)	.1191725	.5943375	0.201	0.841	-1.045708	1.284053
Constant		-1.622133	1.096007	-1.480	0.139	-3.770268	.5260018

*0 is the formal strategic management level comparison group generated by the computer

Thus the null hypothesis ***that members' participation in the activities of their organization do not influence the levels to which formal strategic management systems are formulated is supported at 5% risk level.***

In view of the above evidence from the research study the conclusion that can be made is ***that participation by cooperative members in the activities of their organization do not have a significant impact on the formulation of formal strategic management systems. This suggests that cooperative members do not directly participate in business policy formulation.***

Hypothesis 4: The null hypothesis to be tested is:

H_O: Organizational demographic and socioeconomic factors do not influence levels of members' participation in the activities of their organization.

The relevant results for testing this hypothesis are contained in Table 4-17.

Table 4-17: Results of the effects of demographic and socioeconomic factors on levels of members' participation

Demographic and Socioeconomic Factor	Level of Member Participation*	Coefficient	Standard Error	Z	P >|Z|	95%Confidence Interval	
Level of education		.5488859	.4340421	1.265	0.206	-.301821	1.399593
No. of working years		.202811	.0908235	2.233	0.026	.0248003	.3808218
No. of members		-.000086	.0000764	-1.126	0.260	-.0002357	.0000637
Age of cooperative	Average level	.0111405	.0443838	0.251	0.802	-.0758501	.0981312
Sex of respondent	(2)	1.275592	1.259557	1.013	0.311	-1.193094	3.744277
Intensity of demand		1.635772	.7270143	2.250	0.024	.2108501	3.060694
Years in school		.2030621	.7025656	0.289	0.773	-1.173941	1.580065
Constant		-7.598047	3.181005	-2.389	0.017	-13.8327	-1.363392
Level of education		-.1397577	.7074327	-0.198	0.843	-1.5263	1.246785
No. of working years		.2708589	.1178255	2.299	0.022	.0399251	.5017927
No. of members		.0000589	.0000549	1.073	0.283	-.0000487	.0001665
Age of cooperative	High level	-.171073	.0920081	-1.859	0.063	-.3514056	.0092595
Sex of respondent	(3)	.8169288	1.643097	0.497	0.619	-2.403482	4.037339
Intensity of demand		.395829	1.272856	0.311	0.756	-2.098923	2.890581
Years in school		1.072169	1.097787	0.977	0.329	-1.079454	3.223792
Constant		-5.686023	3.921169	-1.450	0.147	-13.37137	1.999328

***1 is the level of member participation comparison group generated by the computer**

The results of the Multinomial Logit Model show that level of education, number of working years, age of the cooperative, sex of the manager, intensity of product demand and number of years spent in school have positive signs, while number of members shows negative relationship. This is at low levels of members' participation. At higher levels of participation, only level of education and age of the cooperative negatively affect level of members' participation, while all the rest show positive influence.

While the effect of individual demographic and socioeconomic factors on members' participation vary considerably the overall statistica: test (Table 20) is significant.

The null hypothesis ***that organizational demographic and socioeconomic factors do not affect members' level of participation is therefore rejected at alpha level of 5%.***

The conclusion of this research evidence is that ***demographic and socioeconomic factors do have some effect on level of members' participation in the activities of their cooperatives.***

Hypothesis 5: The null hypothesis to be tested is:

H_O: Business performance ratios of organizations with formal strategic management systems are not higher than those without formal strategic management systems.

The pertinent results for testing this hypothesis are found in Table 4-18. As can be seen, both coefficients are positive and the overall test effect (Table 20) is significant. This implies that the presence of formal strategic management systems significantly and positively influences the degree of business ratios of cooperative organizations.

Table 4-18: Results of the effects of formal strategic management systems on organizational performance

Level of Formal Strategic Management System*	Size of Financial Ratio*	Coefficient	Standard Error	Z	P>|Z|	95% Confidence Interval	
One or two functional areas (1)	Moderate ratios (1)	.9601431	.2805932	3.422	0.001	.4101905	1.510096
Constant		-2.449537	.5926637	-4.133	0.000	-3.611137	-1.287938
Two or three functional areas (2)	High ratios (2)	1.022823	.2926009	3.496	0.000	.449336	1.59631
Constant		-2.823508	.6718207	-4.203	0.000	-4.140253	-1.506764

*1 = 0 is the size of financial ratio comparison group generated by the computer

The results thus indicate that the ***null hypothesis that business ratios of cooperative organizations with formal strategic management systems are not higher than those without formal strategic management systems is rejected at 5% level of significance.***

In view of the above findings, the conclusion that can be made from this research evidence is that ***business performance of organizations with formal strategic management systems are significantly higher than those of organizations without formal strategic management systems, and that formal strategic management systems do play a positive role in determining organizational performance.***

Hypothesis 6: The null hypothesis to be tested is:

H_O: Demographic and socioeconomic factors do not influence organizational performance.

The relevant results for testing this hypothesis are presented by Table 4-19.

Table 4-19: Results of the effects of demographic and socioeconomic factors (X) on organizational performance (Y)

Demographic and Socioeconomic Factor	Size of Financial Ratio*	Coefficient	Standard Error	Z	P>|Z|	95% Confidence Interval	
Level of education		.4759655	.3470237	1.372	.170	-.2041884	1.156119
No. of working		.1359822	.0792784	1.715	.086	-.0194006	.291365
years		-.0000614	.0000585	-1.049	.294	-.000176	.0000533
No. members		.0130604	.0528531	.247	.805	-.0905299	.1166506
Age of cooperative	2	-1.182606	1.195164	-.989	.322	-3.525085	1.159872
Sex of respondent		.9707194	.65283	1.487	.137	-.308804	2.250243
Degree of demand		.5514803	.5779311	.954	.340	-.5812438	1.684204
Years in school		-4.183013	3.149794	-1.328	.184	-10.3565	1.99047
Constant							
Level of education		.4370362	.5064461	0.863	0.388	-.5555799	1.429652
No. of working		.1741916	.1031339	1.689	0.091	-.0279472	.3763304
years		-.0000105	.0000316	-0.332	0.740	-.0000724	.0000514
No. members		.0033187	.0643531	0.052	0.959	-.1228111	.1294484
Age of cooperative	3	-1.819526	1.605994	-1.133	0.257	-4.967218	1.328165
Sex of respondent		.6651822	.9799286	0.679	0.497	-1.255443	2.585807
Degree of demand		1.007591	.8050099	1.252	0.211	-.5701993	2.585382
Years in school		-5.570369	4.53885	-1.227	0.220	-14.46635	3.325614
Constant							

*1 is the size of financial ratio comparison group generated by the computer

An examination of the pertinent coefficients shows that the majority of the signs of the estimated parameters are positive. These include level of education of the manager, number of working years, age of the consumer cooperative, intensity of demand for the commodities, and number of years the manager spent in school. Only number of members in the cooperative and sex of the manager showed negative relationships, and that the only factor which has some negligible effect on organizational performance is the experience of the manager.

The results further show that ***overall, statistical test of demographic and socioeconomic factors on organizational performance is not significant (Table 20). Thus the null hypothesis that demographic and socioeconomic factors do not significantly influence organizational performance supported.***

The conclusion that can be drawn from this research evidence is ***that demographic and socioeconomic factors do not seem to influence organizational performance.*** A probable explanation for this state of affairs is that demographic and socioeconomic factors are not given due consideration in recruiting managers in cooperatives. The relationship between demographic and socioeconomic factors and organizational performance may also be nonlinear in which case the Multinomial Logit Model would not accurately measure that relationship.

4.5 Summary results of the Chi-square and the Multinomial Logit Model tests of the hypotheses

Overall, the results of the Chi-square and the Multinomial Logit Model tests (Table 4-20) indicate that four out of the six hypotheses tested were found to be statistically significant. These include the extent of adoption of formal strategic management systems by consumer cooperatives; the effects of demographic and socioeconomic factors on the levels of formal strategic management systems and on member's participation; and the effects of demographic and socioeconomic factors on organizational performance.

Table 4-20: Summary results of the Chi-square and the Multinomial Logit Model tests of the hypotheses

Hypothesis	Chi-square Test	Logit Model Test (Probability Value)	Significance
1. Extent of adoption of formal strategic management systems by consumer cooperatives	$X^2 = 6.2$	P = 0.05	Significant
2. Effects of demographic and socioeconomic factors on the levels of formal strategic management systems	$X^2 = 43.20$	P = 0.0001	Significant
3. Effects of members' participation on levels of formal strategic management systems	$X^2 = 1.96$	P = 0.5813	Not significant
4. Effects of demographic and socioeconomic factors on the activities of their organization	$X^2 = 25.32$	P = 0.0315	Significant
5. Effects of formal strategic management systems on organizational performance	$X^2 = 25.90$	P = 0.0000	Significant
6. Effects of demographic and socioeconomic factors on organizational performance	$X^2 = 18.15$	P = 0.2002	Not significant

On the other hand, the effects of members' participation on levels of formal strategic management systems, and the effects of antecedents on organizational performance were found not to be statistically significant. Among those with significant relationships, the strongest relationship was that between formal strategic management systems and organizational performance, followed by the effect of demographic and socioeconomic factors on levels of formal strategic management systems.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter summarizes and concludes the findings of this study as they relate to the research objectives and the corresponding hypotheses. It also presents appropriate recommendations and suggests possible directions for future research.

5.1 Summary

The purpose of the study was to investigate the effects of business policy on organizational performance in Kenya using the consumer cooperative sub-sector as the research setting. The study had six objectives relating to the subject matter of business policy and organizational performance.

A review of the relevant literature revealed that although many studies on the relationship between organizational performance and formal strategic management have been done in the developed world, few of them were conducted in Africa as a whole and Kenya in particular. Furthermore, most of those studies differed in terms of scope and context and had mixed results. This study was therefore greatly motivated by the gross absence of comprehensive empirical studies assessing the effect of business policy on organizational performance in Kenya. Accordingly, six hypotheses were advanced.

The population of study included all consumer cooperatives in Kenya. In total there were eighty-five active consumer cooperatives at the time of the study. Out of these, 59 (69.4%) were successfully interviewed. The data were analysed by the use of Chi-square test and Multinomial Logit Model. The key independent variables were formal strategic management systems and demographic and socioeconomic factors, while the main dependent variables were financial ratios.

5.2 Conclusion

The study revealed that a majority of the consumer cooperatives have not adopted formal strategic management systems which suggests that informal business policy and formal strategic management systems are in use in the consumer cooperative sub-sector.

The findings of this study appear to be both consistent and inconsistent with the relevant literature. However, while some results are not statistically significant the results are consistent with the hypothesized relationships.

The research evidence further shows that while demographic and socioeconomic factors significantly affect the formulation of formal strategic management systems, members participation in the activities of their organizations do not influence the levels to which formal strategic management systems are formulated. On the other hand, demographic and socioeconomic factors do have significant effect on members' level of participation in the activities of their organization. The study also found that formal strategic management systems do play a positive role in determining organizational performance in Kenya. Finally, the demographic and socioeconomic factors appear to have little effect on organizational performance. Thus without formal strategic management systems, demographic and socioeconomic factors appear to have no influence on organizational performance.

5.3 Recommendations

Like other types of organizations operating in competitive environments, the cooperative sector as a whole and the consumer cooperative sub-sector in particular do not appear to be an exception to the effects of business policy. Since business policy is a set of variables which determine the survival and growth of an organization, every manager should seek to determine the optimum combination of the business policy variables for his or her organization. It is on this basis that the following recommendations are made:

- all organizations in Kenya should develop formal strategic management systems to enhance their performance and counter global competition;
- the Department of Cooperative Development should provide an enabling policy framework for the Cooperative Movement which takes into account both national and international environmental factors;
- the top managers in the Cooperative Sector should formulate their formal strategic management systems in light of demographic and socioeconomic environmental factors facing their organizations;
- the middle managers should efficiently implement the pertinent management systems effectively; and
- individual cooperative members and employees should thereafter evaluate the success or failure of the formal strategic management systems through the feedback mechanisms.

It should, however be noted that the above recommendations are limited to the variables investigated in this study. This implies that more studies should be undertaken on other variables of business policy.

5.4 Direction for Future Research

The present research investigated the relationships between formal strategic management systems and organizational performance. It also studied the relationships between demographic and socioeconomic factors and the formulation of formal strategic management systems, participation of members in the activities of their organization, and organizational performance. It is, however, worthy noting that business policy is composed of many other variables. Future research should therefore identify more factors in business policy which are assumed to affect organizational performance. Such factors include political, physical and technological variables as well as majority rule concept in relation to organizational performance. For example, relationships between political variables and organizational performance; effect of physical factors on organizational performance; effect of technological factors on organizational growth; and relationships between the cooperative majority rule concept and organizational performance should be researched in other types of cooperatives such as the Agricultural Cooperative sub-sector.

APPENDICES

EGERTON UNIVERSITY

Telephone: Nakuru 61620, 61031, 61032
Telegrams: UNIVERSITY, Njoro
Telex: 33075

P.O. Box 536
Njoro, Kenya.

In reply quote Ref: ....

Date: ....

APPENDIX 1

Dear Respondent,

REF: THE IMPACT OF BUSINESS POLICY ON ORGANIZATIONAL PERFORMANCE

Of late there are many cooperative societies and unions facing problems because of the changes of the business environment in Kenya.

I believe that for every problem there is a solution, and that the problems facing the cooperatives are based on business policy issues.

It is on this basis that I am conducting research on "The Impact of Business Policy on Organizational Performance". Attached to this letter, you will find a questionnaire for this purpose.

Please complete the questionnaire to the best of your knowledge.

The information you give in the questionnaire will help in understanding the relationships among variables in business policy and help us to expand our knowledge in this very important area. This information will be treated as confidential.

Your cooperation in completing the questionnaire will be highly appreciated.

Thanking you in advance.

Yours sincerely,

B.M. Sababu
Lecturer
Agricultural Economics and Business Management

Q U E S T I O N N A I R E

1. Name of the cooperative........................

2. Type of the cooperative (Tick as appropriate)

a. Primary society [ ]

b. District Union [ ]

c. National Union [ ]

3. When was your cooperative started? (Year)__________

4. Since that year, has it been non-operational at any time?

Yes ☐ No ☐

5. If yes, please give reasons

a) ....

b) ....

c) ....

d) ....

6 (a) Does your cooperative have written statement on its purpose of existence?

Yes ☐ No ☐

(b) If yes, please provide me with a copy of the statement.

7. What is the purpose of your cooperative's existence (mission)?

....

....

....

....

8. Please state the annual objectives (targets) of your cooperatives in terms of their importance starting with the most important objective.

a) ....

b) ....

c) ....

d) ....

e) ....

9. Do you prepare annual estimates of operation (budgets)?

Yes ☐ No ☐

10. If yes, do you achieve (realize) your set targets with these budgets?

All of them ☐ Some of them ☐ None ☐

11(a). Do members complain about the services offered by your cooperative?

Yes ☐ No ☐

(b) If yes, what do they complain about?

....

....

....

12. Do you give dividends to the members yearly?

Every Year ☐ Some Years ☐ Never ☐

13 (a) If yes, when was the last dividend given?__________________

(b) Do the members complain on the amount given in respect to their shares?

Always	Sometimes	Never
☐	☐	☐

14. Do you have written business policies (guidelines to decision making) in the following areas: (Tick as many as appropriate).

	Area	Yes	No	Don't Know
(a)	Inventory (stock) management	[ ]	[ ]	[ ]
(b)	Financial management	[ ]	[ ]	[ ]
(c)	Marketing management	[ ]	[ ]	[ ]
(d)	Production mgt.	[ ]	[ ]	[ ]
(e)	Human resources mgt.	[ ]	[ ]	[ ]
(f)	Accounting	[ ]	[ ]	[ ]
(g)	Information systems	[ ]	[ ]	[ ]
(h)	Research and Development	[ ]	[ ]	[ ]
(i)	Public relations	[ ]	[ ]	[ ]
(j)	Total quality management	[ ]	[ ]	[ ]
(k)	Other areas not covered	[ ]	[ ]	[ ]

Please specify the areas under "K" above

a) ....

b) ....

15. Briefly, in a step by step list, please state the procedure for ordering your stocks from the suppliers.

Step I ....

Step II ....

Step III ....

Step IV ....

Step V ....

16. Have you at any one time been faced with stockout of trading stock?

Frequently ☐ Sometimes ☐ Never ☐

17. If yes, please state the reasons.

a) ....

b) ....

c) ....

d) ....

e) ....

18. Have you at any one time been faced with the problem of surplus trading stock?

Frequently ☐ Sometimes ☐ Never ☐

19. If yes, please state the reasons.

a) ....

b) ....

c) ....

d) ....

e) ....

20. Please state the ratio of your current assets to current liabilities i.e. $\frac{\text{current assets}}{\text{Current liabilities}}$

e.g 1:2,4:1, etc ....

21. Please complete the current assets and current liabilities list below.

Current Assets	Average Amount in Kshs.
Cash	______________
Debtors	______________
Stock	______________
Prepayments	______________

Current Liabilities	Average Amount in Kshs.
Bank Overdraft	______________
Trade credit	______________
Proposed dividends	______________
Provision for taxation	______________
Accruals	______________

22. Please state the value of your total assets in Kshs.
____

23. Please state the amount of your retained earnings in Ksh.______________

24. Please state the total liabilities of your

cooperative in Ksh......................

25. What is your average total stock shares per month?
Ksh.______________

26. Please state the percentage of your
(a) Gross profit to total sales ______________
(b) Net profit before taxes to total sale ______________
(c) Net profit after tax to total sales ______________
(d) Total capital employed i.e

$$\frac{\text{Net Profit before taxes}}{\text{The members total shares}} \times 100 = \_\_\_\_\_\_\_\_\_\_\_\_\_\_$$

27. Please state your gross profit, net profit and total sales for the years 1993/94, 1994/95, 1995/96, and 1996/97.

Year	Total Sales In Ksh.	Gross Profit	Net Profit before taxes	Net Profit after taxes
1993/94	________	__________	___________	_________
1994/95	________	__________	___________	_________
1995/96	________	__________	___________	_________
1996/97	________	__________	___________	_________

28. Please state the total capital employed (the members' total shares) in your cooperative in the following years.

Year	Total capital employed in Kshs.
1993/94	____________________________________
1994/95	____________________________________
1995/96	____________________________________
1996/97	____________________________________

29. Do you involve cooperative members in decision making in all matters concerning their affairs

All matters	Some matters	No
[ ]	[ ]	[ ]

30. If yes, please explain how they participate.

a) ....

b) ....

c) ....

d) ....

31. Do all the members purchase products from the cooperative?

Yes	No
[ ]	[ ]

32. Would you say that the number of members who attend cooperative meetings is:

(a) Very High [ ]

(b) Average [ ]

(c) Very low [ ]

33. Would you say that the number of members who attend meetings on election days is:

(a) Very High [ ]

(b) Average [ ]

(c) Very low [ ]

34. Would you say that the rate of member patronage (participation) in your cooperative is:

(a) Very participative [ ]

(b) Somewhat participative [ ]

(c) Low participative [ ]

35. Has there been a continuous supply of the highly required labour skills to your organization?

Yes ☐ No ☐

36. (a) Is your cooperative in good terms with the trade union?

Yes ☐ No ☐

b) If no, please state the reasons of the conflict.

i) ....

ii) ....

iii) ....

37. Are there problems of raising money for your cooperative?

Yes ☐ No ☐

If yes, please state these problems

i) ....

ii) ....

iii) ....

38. Please state the principal categories of your present customers.

a) ....

b) ....

c) ....

d) ....

39. Who are your potential customers?

a) ....

b) ....

c) ....

d) ....

40. Please state the major names of your present competitors.

a) ....

b) ....

c) ....

41. Please state their competitive level of intensity (tick as appropriate)

a) Highly competitive 1 [ ]

b) Somewhat strong 2 [ ]

c) Somewhat weak 3 [ ]

d) Very weak 4 [ ]

42. Is competition increasing from

a) buyers b) suppliers

☐ ☐

43. Please state how the Cooperative Act affects your business.

a) ....

b) ....

c) ....

44. Please state the effect of Government taxes on your cooperative.

a) ....

b) ....

c) ....

45. Our business premises are located in the right place for consumer cooperative business.

a) Yes [ ]

b) No [ ]

c) Don't know [ ]

46. If no, please give the reasons.

a) ....

b) ....

c) ....

d) ....

47. Please state any problems affecting your cooperative.

a) ....

b) ....

c) ....

d) ....

48. Please give suggestions on any other important issues on consumer cooperatives.

a) ....

b) ....

c) ....

d) ....

e) ....

f) ....

g) ....

49. Please state the number of years you have taken in school.

(a) Less than 4 [ ]
(b) 4-8 [ ]
(c) 9-13 [ ]
(d) 14-16 [ ]
(e) 17 and above [ ]

50. Please indicate if you have had any training in the following areas.

(a) Commercial business management [ ]
(b) Cooperative Business Management [ ]
(c) General Cooperatives Knowledge [ ]
(d) All of the above [ ]
(e) None of the above [ ]

51. If you have selected any of the above a-e in number 50, please indicate what formal certificate you have.

a. Diploma certificate [ ]
b. Degree certificate [ ]
c. diploma and degree certificates [ ]
d. CPA certificate [ ]
e. CPS certificate [ ]
f. CPA and CPS certificates [ ]
g. Attendance certificate [ ]
h. Any other professional certificate in cooperatives

____

____

____

52. Please state the number of years you have worked with this cooperative.

____

53. Please state the number of members in your cooperative.

Number ______________________________

I don't know (tick)______________________________

54. Do you have set targets for your members to achieve?

Yes [ ] No [ ]

55. If yes, do you compare the members achievements' with set standards?

Yes [ ] No [ ]

56. Do you also have set standards for your employees?

Yes [ ] No [ ]

57. If yes, do you compare their achievements with these standards?

Yes [ ] No [ ]

58. Please state (a) Your sex: Male ________Female________
(b) Occupation ______________________________

Thank you.

APPENDIX 2

LIST OF REGISTERED CONSUMER COOPERATIVES

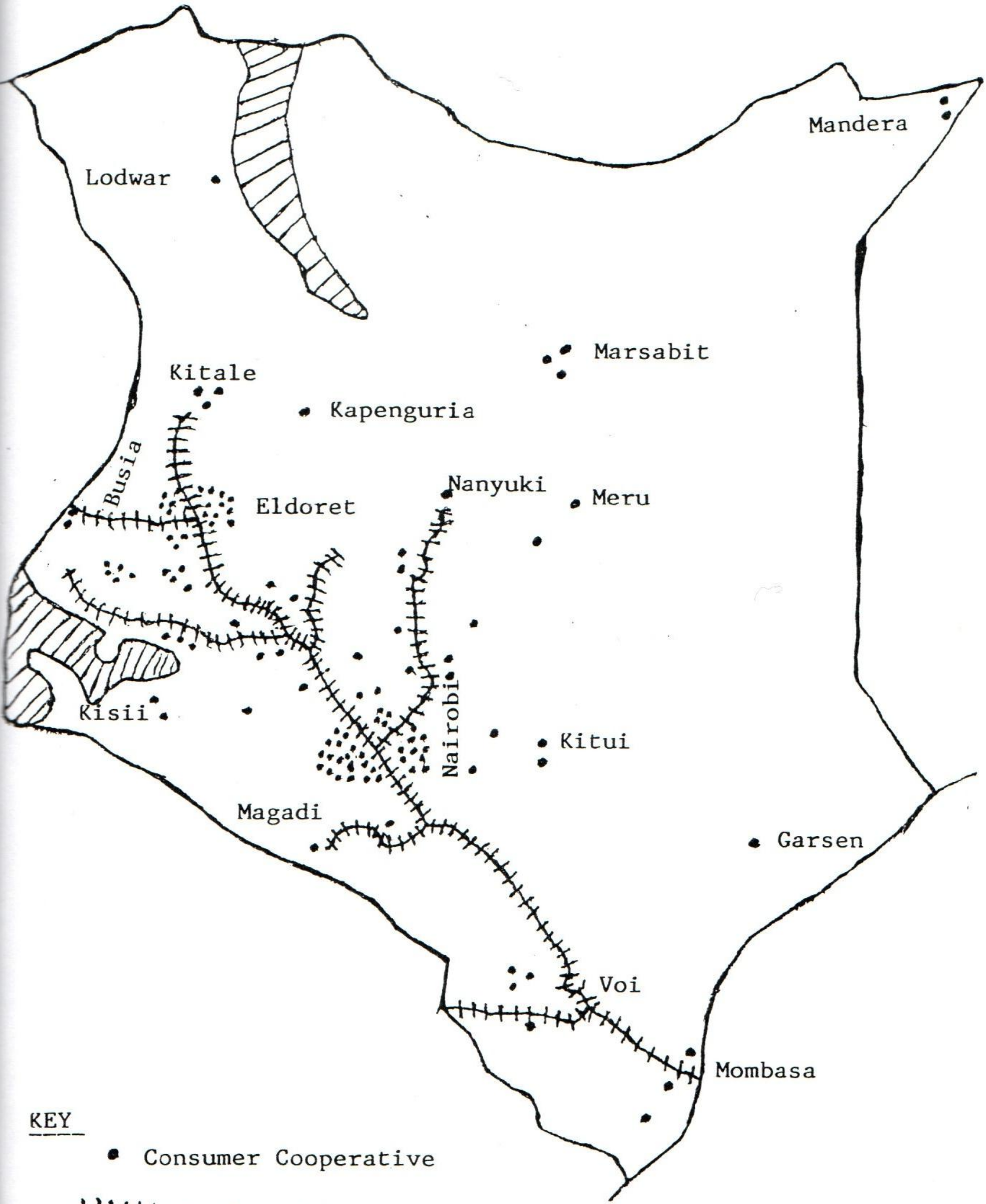
SN	COOP NAME	AREA		STATISTICS	COMMENTS
1	THE BUKURA RETAIL CS LTD	P O	BUNGOMA	3	
2	NAKURU CONSUMERS CS LTD			3	
3	NGAMINI WHOLESALE & RETAIL CS LTD	P O	NAIROBI	3	
4	MUGUGA CONSUMERS CS LTD			3	
5	MTWAPA CONSUMERS CS LTD			3	
6	FLORSPAR CONSUMERS CS LTD			3	
7	CHRISTIAN CONSUMERS CS LTD	P O BOX 12	ELDORET	3	
8	KENPIPE CONSUMERS CS LTD	P O BOX 73442	NAIROBI	1	2
9	KWA CONSUMER CS LTD	P O BOX 40550	NAIROBI	1	
10	RICHO CONSUMERS CS LTD		UASIN GISHU	1	2
11	BATBETOR CONSUMERS CS LTD		UASIN GISHU	1	2
12	BANANA CONSUMER WOMEN CS LTD		KITUI	1	2
13	LOSIRWO WOMEN CONSUMERS CS LTD		UASIN GISHU	1	2
14	THE ORIENTIAL SACCO & CONSUMER CS LTD	P O BOX 109	NAKURU	1	2
15	THE BUTERE CO-OPERATIVE STORE CS LTD	P O	KAVIRONDO	3	
16	NYAHERA STORE COOP CS LTD	P O	KISUMU	3	
17	MAKONGE CONSUMERS CO-OP SOC LTD	P O BOX 3421	ELDORET	1	
18	THOGOTO STORES CS LTD	P O BOX	KIAMBU	3	
19	TAITA TRADERS CS LTD	P O	WUNDANYI	3	
20	KENYA AFRICAN ASSO. OF FARMERS TRADERS CS	P O	NAIROBI	3	
21	STAREHE AFRICAN CS. STORE LTD	P O BOX 32048	NAIROBI	1	2
22	MWALIMU SUPERMARKET CONSUMER SOC LTD	P O BOX 1919	KAKAMEGA	1	
23	LIMURU AFRICAN TRADERS & FARMERS CS LTD	P O	LIMURU	3	
24	KIPSIGIS TRADERS CS LTD	P O BOX 298	KERICHO	2	
25	KOYO NANDI CO-OP STORE LTD	P O	KAPSABET	3	
26	TAITA CONSUMERS CS LTD	P O BOX 1047	WUNDANYI	1	
27	KAKUYUNI CO-OP STORE CS LTD	P O BOX	KANGUNDO	2	
28	THE POSTS & TELECOMS EMPLOYEES CS LTD	P O BOX 49649	NAIROBI	1	
29	SURVEY OF KENYA CO-OP STORE LTD	P O BOX 30046	NAIROBI	2	
30	LANGATA CONSUMERS CS LTD	P O BOX 30129	NAIROBI	1	
31	RUARAKA CONSUMERS CSA LTD	P O BOX 12095	NAIROBI	1	
32	SASA CONSUMERS CS LTD	P O BOX 126	MURANGA	2	
33	NAIROBI TRADERS CS LTD	P O BOX 14045	NAIROBI	1	
34	KANDARA CONSUMERS C.S.S. LTD	P O BOX 41	THIKA	1	2
35	NAIROBI TRADERS CS LTD	P O BOX 13045	NAIROBI	1	2
36	KAJIADO WHOLESALE TRADERS CS LTD	P O BOX 26	KAJIADO	1	
37	JAMHURI CONSUMERS CS LTD	P O BOX 12969	NAIROBI	1	
38	MWEA CONSUMERS CS LTD	P O BOX 80	KERUGOYA	1	
39	PORT WORKERS CS LTD	P O BOX 95155	MOMBASA	1	
40	THIKA HOUSEWIVES CONSUMERS CS LTD	P O BOX 425	THIKA	1	2
41	WESTLANDS CONSUMERS CS LTD	P O BOX 30402	NAIROBI	2	
42	EASTLANDS CONSUMERS CS LTD	P O BOX 17100	NAIROBI	2	
43	SABATIA AND ESAGERI FOREST STATION CS LTD	P O BOX 43	ELDAMA-RAVIN	1	2
44	KOMOTHAI CONS & HOME CS LTD	P O BOX 166	RUIRU	3	
45	KABETE CONSUMERS CS LTD	P O BOX UPPER	KABETE	2	
46	RAFIKI STORES CS LTD	P O BOX 532	THIKA	1	
47	NGAO CONSUMERS	P O BOX 62	NJORO	1	
48	BANITA CONSUMERS CS LTD	P O BOX 580	NAKURU	1	2
49	TAIFA CONSUMER CS LTD	P O BOX 12596	NAIROBI	2	
50	SORGET FARMERS CS LTD	P O BOX 43	LONDIANI	2	
51	UHURU GENERAL STORE CS LTD	P O BOX 12407	NAIROBI	1	
52	MARSABIT DISTRICT LIVERSTOCK TRADERS CS	P O	MARSABIT	1	2
53	KAKUZI FIBRELANDS TRADERS CS LTD	P O BOX 3	MAKUYU	2	
54	DONHOLM STAFF CONSUMERS CS LTD	P O BOX 28200	NAIROBI	2	
55	DAWIDA CONSUMERS CS LTD	P O BOX 1021	WUNDANYI	1	
56	ERERI CONSUMERS CS LTD	P O BOX 147	THIKA	2	
57	SASUMUA DAM CONSUMERS CS LTD	P O BOX 18	SOUTH KINANG	1	
58	BAHATI CONSUMERS CS LTD	P O BOX 12941	NAIROBI	1	
59	EASTERN CONSUMERS SUPPLY STORE CS LTD	P O BOX 45615	NAIROBI	2	
60	EMBAKASI CONSUMER CS LTD	P O BOX 19194	NAIROBI	1	
61	MUKURWE WAGATHANGA CONSUMERS CS LTD	P O BOX 126	MURANGA	3	
62	NAIROBI CONSUMERS CS LTD	P O BOX 13121	NAIROBI	1	
63	KANGEMI CONSUMERS CS LTD	P O BOX 49515	NAIROBI	2	
64	SAMBURU WHOLESALE & CONS CS LTD	P O BOX 3	MARALAL	3	
65	THEGI CONSUMERS CS LTD	P O BOX 288	NYERI	1	2
66	SIGOR FARMERS CS LTD	P O BOX	BOMET	2	
67	JUJA CONSUMERS CS LTD	P O BOX RUIRU	RUIRU	2	
68	COTU CONSUMERS CS LTD	P O BOX 13000	NAIROBI	2	
69	NGANDORI CONSUMERS CS LTD	P O BOX 21	EMBU	3	
70	KEJACI CONSUMERS CS LTD	P O BOX 30231	NAIROBI	2	
71	TEMBO CONSUMERS CS LTD	P O BOX 30161	NAIROBI	1	
72	ELBURGON FCS LTD	P O BOX 8	ELBURGON	1	2
73	NAROK CONSUMERS CO-OP SOC LTD	P O BOX 31	NAROK	2	
74	MWANGOJI CONSUMERS CS LTD	P O BOX MWATATE	MWATATE	1	2
75	MASAKU CONSUMERS CO-OP SOC LTD	P O BOX 514	MACHAKOS	1	
76	HIGHRISE CONSUMERS CS LTD	P O BOX 49720	NAIROBI	1	

77	LAMU CONSUMERS CS LTD	P O BOX	41	LAMU	2	
78	SAI CONSUMERS CS LTD	P O BOX	92	KIKUYU	2	
79	SAFARI CONSUMERS CS LTD	P O BOX	590	KISII	1	
80	MUKONGOLO CONSUMERS CS LTD	P O BOX	461	KAKAMEGA	2	
81	TRANS-NZOIA CONSUMERS CS LTD	P O BOX	2298	KITALE	1	2
82	KANGEMI CONSUMERS CS LTD	P O BOX	49515	NAIROBI	2	
83	KENYA HIGH SCHOOL CONSUMERS CS LTD	P O BOX	30038	NAIROBI	1	
84	NGONG FOREST STATION CONSUMERS CS LTD	P O BOX	24951	NAIROBI	1	
85	NGARA CONSUMERS CS LTD	P O BOX	45154	NAIROBI	1	
86	MUSINDE KHAABA CS LTD	PO BOX	31	KILINGILI	2	
87	MATHARE HOSPITAL CONSUMERS CS LTD	P O BOX	40663	NAIROBI	1	
88	BANANA CONSUMER CS LTD	P O BOX	12	KITUI	2	
89	CHEMILIL CONSUMERS CS LTD	P O BOX	193	CHEMILIL	1	
90	MASABA CONSUMERS CS LTD	P O BOX	226	BUTERE	2	
91	KAWANGWARE CONSUMERS CS LTD	P O BOX	22094	NAIROBI	2	
92	KANGEI & NYAKINYUA CONS CS LTD	P O BOX	612	NAKURU	2	
93	UMOJA CONSUMERS CS LTD	P O BOX	1	UPLANDS	2	
94	VIBANDA CONSUMERS CS LTD	P O BOX	13068	NAIROBI	2	
95	FARASI CONSUMERS CS LTD	P O BOX	40373	NAIROBI	2	
96	CHEMNYOGA CONSUMERS CS LTD	P O BOX	755	ELDORET	3	
97	BURA CONSUMERS CS LTD	P O BOX	111	GARISSA	2	
98	ITHIMANI ITHIANI CONSUMERS CS LTD	P O BOX	315	KITUI	1	2
99	RAU FISH CONSUMERS CS LTD	P O BOX	77185	NAIROBI	1	
100	KASUVA DANCERS CONSUMERS CS LTD	P O BOX	1053	TALA	2	
101	UCHUNGUZI CONSUMERS CO-OP SOC LTD	P O BOX	11873	NAIROBI	1	
102	NORTH KISA MULTI-PURPOSE CS LTD	P O BOX	75	KHWISERO	3	
103	NYAHURURU CONSUMERS CS LTD	P O BOX	455	NYAHURURU	3	
104	EMARABA CONSUMERS CS LTD	P O BOX	639	KAKAMEGA	3	
105	KEBIRIGO CONSUMERS CS LTD	P O BOX	8	KISII	1	
106	EKJAN CONSUMERS CS LTD	P O BOX	22398	NAIROBI	1	2
107	KERIO SOUTH WOMEN CONSUMERS CS LTD	P O BOX	60845	NAIROBI	1	
108	NJUKIRI CONSUMERS CO-OP SOC LTD	P O BOX	36	EMBU	3	
109	CO-OP COLLEGE STAFF CONSUMERS CS LTD	P O BOX	24814	NAIROBI	3	
110	MOMBASA EKJAN CONSUMERS CO-OP SOC LTD	P O BOX	86546	MOMBASA	1	
111	NAL-STAFF CONSUMERS CS LTD	P O BOX	30202	NAIROBI	1	
112	KITALE TYPE CONSUMERS CS LTD	P O BOX	469	KITALE	1	
113	GUSII CONSUMERS CS LTD	P O BOX	945	KISII	2	
114	KIBERA LINDI CONSUMERS CS LTD	P O BOX	50763	NAIROBI	2	
115	CHEPTABACH WOMEN GROUP CS LTD	P O BOX	1961	ELDORET	1	2
116	KARURA FOREST CONSUMERS CS LTD	P O BOX	30241	NAIROBI	2	
117	SALAMA CONSUMERS CS LTD	P O		GARSEN	1	
118	MVUKE CS LTD	P O BOX	180	NAIVASHA	1	2
119	NDEMBO WOMEN CONSUMERS CS LTD	P O BOX	1036	WUNDANYI	1	
120	KAIRUTHI DEV CS LTD	P O BOX	85	OTHAYA	1	
121	KILIMO CONSUMERS CS LTD	P O BOX	30028	NAIROBI	1	
122	SISIBO CONSUMERS CS LTD	P O BOX	755	ELDORET	3	
123	GICHUGU WOMEN CONSUMERS CS LTD	P O BOX	1	KIANYAGA	2	
124	DUKE CONSUMERS CS LTD	P O BOX	30253	NAIROBI	1	
125	POKOT KILETAT WOMEN CS LTD	P O BOX	265	KAPENGURIA	1	
126	KIMALA CONSUMER C.S LTD	P O BOX	193	TAVETA	2	
127	MUKURU CONSUMERS CS LTD	P O BOX	60311	NAIROBI	2	
128	OLUTSI CONSUMERS CS LTD	P O BOX	1	BUNYALA	1	2
129	BULALA TRADERS CS LTD	P O BOX	49	NYADORERA	1	
130	SOCIAL SECURITY CONSUMERS CS LTD	P O BOX	30599	NAIROBI	2	
131	BARUTI CONSUMER CO-OP SOC LTD	P O BOX	2182	NAKURU	1	2
132	MT KENYA CONSUMERS CS LTD	P O BOX	115	NANYUKI	1	2
133	KENYA WOMEN CONSUMERS CS LTD	P O BOX	44848	NAIROBI	2	
134	MBALAYI CONSUMERS CS LTD	P O BOX	258	KIMILILI	2	
135	EKARAKARA /MASINGA CHURCHES CONS CS LTD	P O BOX	21	MASINGA	1	
136	KURUR CONSUMERS CS LTD	P O BOX	2381	ELDORET	1	
137	NYAMERU CONSUMERS CS LTD	P O BOX	30	KADOGO	1	
138	BAO SACCO CS LTD	P O BOX	7044	NAKURU	1	
139	KISUMU FOOD KIOSK CONSUMER CS LTD	P O BOX	955	KISUMU	1	
140	SULMA CONSUMERS CS LTD	P O BOX	314	NAIVASHA	1	
141	MUTUNDU CONSUMERS CS LTD	P O BOX	3	MUTUNDU	1	
142	KAKAMEGA KIOSK CONSUMER CS LTD	P O BOX	1622	KAKAMEGA	1	
143	MAGADI CONSUMERS CS LTD	P O BOX	1	MAGADI	1	
144	TENDA CONSUMERS CS LTD				1	2
145	GREEN GROCERS WOMEN CO-OP SOC LTD			NAIROBI	1	
146	MOIBEN CONSUMERS	P O BOX	2522	ELDORET	1	
147	UASIN GISHU TEXTILE CONSUMERS CS LTD	P O BOX	968	ELDORET	3	
148	SOPERA WOMEN CONSUMER CS LTD				1	2
149	KWALE CONSUMER CS LTD				1	
150	BLUE TRIANGLE CONSUMERS CS	P O BOX	20	ATHI-RIVER	1	
151	CO-OPERATIVE MERCHANDISE SERVICES			NAIROBI	1	
152	NYANDO CONSUMERS CS LTD	P O BOX	2	MUHORONI	1	
153	ZIWA MERCHANTMEN CONSUMER CO-OP SOC LTD	P O BOX	90	ZIWA	1	
154	TIRIKI TEACHERS CONSUMERS CS LTD	P O BOX	7	TIRIKI	1	
155	GURUDUMU CONSUMERS CS LTD	P O BOX	30429	NAIROBI	1	
156	ROADSIDE CONSUMER CS LTD	P O BOX	63	MANDERA	1	

157	MOMBASA TEACHERS CONSUMERS	P O BOX	85671	MOMBASA	1	
158	TENAGE CONSUMERS CS LTD	P O BOX	303	BOMET	1	
159	KIPKOIMET CONSUMER SOC LTD	P O BOX	3311	ELDORET	1	
160	TURKANA CONSUMER CS LTD	P O BOX	158	LODWAR	1	
161	MOI UNIVERSITY CONSUMERS	P O BOX	30	ELDORET	1	
162	SCHOOL AVIATION CONSUMERS LTD	P O BOX	2663	NAIROBI	1	
163	KIBIKO WOMEN CONSUMERS	P O BOX	321	NGONG	2	
164	BANGAL WOMEN CONSUMERS	P O		BANGALE	1	2
165	FARHAAN CONSUMERS CS LTD	P O BOX	254	GARISSA	2	
166	NASSEFU CONSUMERS CS LTD	P O BOX	30599	NAIROBI	1	
167	NAISIAE WOMEN CONSUMER CS LTD	P O BOX	148	NGONG	2	
168	BUSIA CONSUMER CS LTD	P O BOX	14	BUSIA	1	
169	KILAGAN WOMEN CS LTD	P O BOX	1337	ELDORET	1	2
170	PESJUM CONSUMER CS LTD	P O BOX	1044	ELDORET	1	
171	ROADSIDE CONSUMER CS LTD	P O BOX	63	MANDERA	1	
172	KIATU CONSUMER CS LTD	P O BOX	595	LIMURU	1	
173	KAPSABET CONSUMER CS LTD	P O BOX	718	KAPSABET	1	
174	HIGHLAND MILLING CS & CS LTD	P O BOX	2909	ELDORET	1	
175	CO-OPERATIVE MERCHANDISE CS LTD	P O BOX	45767	NAIROBI	1	
176	NYAMBENE DISTRICT CONSUMER	P O BOX	353	MAUA	1	
177	NEEMA CONSUMERS	P O BOX	4813	ELDORET	1	
178	MUGURIU CONSUMERS	P O BOX	135	MOGOTIO	1	
179	MUMIAS O. I. CONSUMERS	P O BOX	295	MUMIAS	1	
180	KISABEI CONSUMERS	P O BOX	987	ELDORET	1	
181	VISION CONSUMERS	P O BOX	6940	NAIROBI	1	
182	KAPSIMOTWA CONSUMERS	P O BOX	88	BOMET	1	2
183	KIANJURI FARMERS CONSUMERS	P O BOX	6	MERU	1	
184	TRANS-NZOIA TEACHERS CONSUMER	BOX	2274	KITALE	1	
185	SUSWOT CONSUMER	BOX	416	KAPSABET	1	
186	TIRIKI CONSUMER	BOX		TIRIKI	2	

KEY: 1=Active cooperative
2=Dormant cooperative
3=Under liquidation cooperative

APPENDIX 3 MAP: The distribution of Registered Consumer Cooperatives in Kenya.



APPENDIX 4

KENYA SACCO (CREDIT UNIONS) STATISTICS AS AT 31ST DECEMBER 1997

Unit of Currency: Kenya Shillings

Name of Province	Affiliation	No. of Societies	No.of Members	Share Capital	Loans Outstading	Turnover	Total Assets	Reserves
	AFF.	510	518,417	15.287,849,876	12,346,801,359	1,811,225,623	15,589,061,448	475,131,254
NAIROBI	NON-AFF	690	98,759	4,526,096,929	2,291,920,931	655,554,963	2,779,693,611	94,443,926
	TOTAL	1,200	617,176	19,813,946,805	14,638,722,290	2,466,780,586	18,368,755,059	569,575,180
	AFF.	294	99,747	1,815,938,814	1,225,922,870	141,175,523	1,359,281,672	54,835,508
RIFT VALLEY	NON-AFF	96	48,362	880,455,182	594,386,846	68,448,739	659,045,659	26,586,913
	TOTAL	390	148,109	2,696,393,996	1,820,309,716	209,624,262	2,018,327,331	81,422,421
	AFF	141	59,412	725,365,096	673,099,235	67,477,446	711,006,831	3,092,756
COAST	NON-AFF	157	35,998	434,798,540	282,580,664	25,409,270	351,782,010	864,755
	TOTAL	298	95,410	1,160,163,636	955,679,899	92,886,716	1,062,788,841	3,957,511
	AFF.	142	49,986	1,302,693,462	872,232,111	103,425,855	1,089,076,752	39,236,631
CENTRAL	NON-AFF	105	15,636	403,083,462	225,576,064	40,665,984	383,581,088	11,458,683
	TOTAL	247	65,622	1,705,776,924	1,097,808,175	144,091,839	1,472,657,840	50,695,314
	AFF	107	50,375	872,728,860	674,538,492	102,277,579	584,937,960	28,774,698
NYANZA	NON-AFF	31	20,555	355,981,508	275,140,700	60,163,284	467,950,369	10,043,865
	TOTAL	138	70,930	1,228,710,368	949,679,192	162,440,863	1,052,888,329	38,818,563
	AFF	53	81,235	1,080,511,738	909,535,620	116,471,211	1,389,964,232	34,590,080
WESTERN	NON-AFF	3	454	1,915,558	379,872	238,426	7,067,696	36,889
	TOTAL	56	81,689	1,082,427,296	909,915,492	116,709,637	1,397,031,928	34,626,969
EASTERN	AFF.	66	139,548	1,515,481,463	1,193,513,686	233,123,129	1,325,421,225	29,352,542
AND	NON-AFF	23	11,378	51,196,017	48,639,230	19,400,696	88,828,543	1,417,917
N/EASTERN	TOTAL	89	150,926	1,566,677,480	1,242,152,916	252,523,825	1,414,249,768	30,770,459
	AFF.	1,313	998,720	22,600,569,309	17,895,643,373	2,575,176,366	22,048,750,120	665,013,469
TOTAL	NON-AFF	1,105	231,142	6,653,527,196	3,718,624,307	869,881,362	4,737,948,976	144,852,948
GRAND TOTAL		**2,418**	**1,229,862**	**29,254,096,505**	**21,614,267,680**	**3,445,057,728**	**26,786,699,096**	**809,866,417**

APPENDIX 5

1998 SACCO STATISTICS

Unit of Currency: Kenya Shillings

Name of Province	Affiliation	No. of Members	Share Capital	Loans Outstanding	Turnover	Total Assets	Reserves
	AFF.527	555,255	17,393,218,019	13,834,212,436	2,039,336,565	18,677,949,591	610,247,677
NAIROBI	NON-AFF 600	46,679	2,497,057,801	2,528,694,134	32,220,324	2,184,902,851	114,136,071
	TOTAL	601,934	19,890,275,820	16,362,906,570	2,071,556,889	724,383,748	20,862,852,442
	AFF. 49	69,074	1,095,118,586	874,689,754	92,876,280	1,586,919,628	33,317,100
WESTERN	NON-AFF. 5	571	828,661	538,520	92,150	2,103,414	49,374
	TOTAL	69,645	1,095,947,247	875,228,274	92,968,430	1,589,023,042	33,317,100
	AFF. 79	62,759	1,389,955,116	1,070,126,487	102,634,955	759,607,833	32,216,166
NYANZA	NON AFF. 78	20,555	355,981,508	275,140,700	60,163,284	467,950,369	10,043,865
	TOTAL	83,314	1,745,936,624	1,345,267,187	162,798,239	1,227,558,202	42,260,031
	AFF.81	49,809	1,187,884,248	991,853,326	171,498,349	15,302,779	43,026,725
CENTRAL	NON-AFF.1	1,068	2,586,866	6,251,568	102,605	5,657,369	323,985
	TOTAL	50,877	1,190,471,114	998,104,894	171,600,954	20,960,148	43,350,710
	AFF.68	135,455,	1,224,937,790	152,861,547	374,482,514	2,423,882,074	48,173,439
EASTERN	NON-AFF.14	5,664,	67,579,194	17,610,654	1,957,648	24,227,052	223,820
	TOTAL	141,119	1,292,616,984	170,472,201	376,440,162	2,448,109,126	48,397,259
	AFF.76	29,414	1,021,510,913	823,445,187	77,680,670	763,229,455	7,287,242
COAST	NON-AFF. 15	1,690	30,042,265	11,468,458	2,448,392	3,529,001	16,204
	TOTAL	31,104	1,051,853,178	834,913,645	80,129,062	766,758,456	7,303,446
	AFF. 130	75,404	2,089,999,710	1,909,414,604	229,143,303	965,222,527	15,552,342
RIFT VALLEY	NON-AFF. 280	13,570	238,161,655	363,300,005	32,022,519	22,154,910	2,874,312
	TOTAL	88,974	447,161,365	2,272,714,609	261,165,822	987,377,437	18,426,654
	AFF. 1010	977,170	25,402,624,382	19,656,603,341	3,149,512,636	27,262,880,289	789,771,317
TOTAL	NON-AFF. 993	89,797	3,092,237,950	3,203,004,039	129,006,922	639,758,650	127,667,631
GRAND TOTAL	**2003**	**1,046,412**	**28,494,862,332**	**22,859,607,380**	**3,278,519,558**	**27,902,638,939**	**917,438,948**

APPENDIX 6 : Business Ratios

The current ratio

The current ratio is used to gauge the organization's ability to settle its current obligations as and when they fall due. It attempts to ascertain the relationship between the organization's current assets and its current liabilities. It is computed as follows:-

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

The ratio tests the organization's quantity of current assets rather than quality. A current ratio of 3:1 is generally viewed as favourable.

Profitability business ratios

This family of ratios includes the gross profit margin and the net profit margin ratios, and it is computed as follows:

$$\text{Gross profit margin} = \frac{\text{Gross profit}}{\text{Sales}} \times 100$$

The main purposes of this ratio is to gauge the efficiency with which the organization can generate a given level of profits out of its sales activities.

$$\text{Net profit} = \frac{\text{Net profit after taxes} \times 100}{\text{Sales}}$$

It measures the management efficiency in managing operating costs.

Return on capital employed ratio

Return on capital employed ratio measures the management's efficiency in utilising both creditors and equity funds. It is calculated as follows:

$$R.O.C.E = \frac{\text{Net Profit before taxes}}{\text{Total capital employed}} \times 100$$

This ratio indicates the return the organization will give to its owners and creditors. It takes care of the interests of all the parties with financial stakes in the organization.

APPENDIX 7: Demographic and Socioeconomic Variables (X) and the extent to which Formal Strategic Management Systems (Y) are formulated

Dependent Variable (Y)	Independent Variable (X)							
	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8
3	1	7	80	9	2	3	2	3
0	1	15	490	15	2	2	3	2
0	1	5	62	25	2	1	3	3
0	1	2	59	9	2	1	3	3
0	1	3	41	5	1	2	3	3
3	2	24	70,000	65	2	1	2	3
1	5	1	3,500	23	2	2	3	4
0	1	1	1,100	55	2	1	3	2
0	1	6	82	19	2	1	3	3
2	1	6	1,200	24	2	2	3	4
1	1	4	2,500	21	2	1	3	4
2	2	12	1,000	22	2	2	3	5
0	1	2	81	15	2	1	2	3
1	2	3	7	16	2	1	3	4
0	1	7	28	23	2	1	2	2
0	5	4	97,010	26	1	3	2	5
0	5	3	81	11	2	2	2	5
0	3	3	74	11	2	2	3	4
0	1	2	27	9	2	1	2	3
0	1	3	68	13	2	2	2	3

1	2	13	53	29	2	1	1	4
0	1	2	58	13	2	1	2	3
0	1	1	17	19	2	1	2	3
2	2	14	15,000	24	2	2	3	5
1	1	16	7,206	21	1	3	3	5
0	1	3	162	8	2	1	3	4
0	1	0	89	22	2	1	2	3
1	2	1	77	17	1	2	2	4
0	2	3	10,964	7	2	1	-	3
1	1	16	6	17	2	1	2	3
0	1	23	92	23	2	2	2	2
2	2	7	1,000	18	2	3	3	4
2	2	5	13	27	2	2	3	4
1	3	3	160	-	1	2	2	5
0	3	3	605	9	2	2	3	4
1	1	10	5,044	25	2	2	3	4
0	1	3	31	12	1	1	2	3
1	2	27	16	17	2	2	2	4
1	1	16	4	20	2	3	2	3
1	2	7	1,000	6	2	1	3	4
1	3	6	52	9	1	2	3	4
0	5	1	34	8.5	2	1	2	5
0	2	4	604	6	1	1	3	4
3	3	8	2,100	25	2	1	2	4
0	2	1.5	-	66	2	1	2	4

3	5	5	-	75	2	1	2	5
1	2	5.5	-	31	2	2	3	4
2	5	4	3,000	34	2	1	1	4
1	-	-	-	-	-	-	-	-
0	-	-	-	-	-	1	-	-
0	1	5	16	5	2	1	2	3
3	5	8	4,885	33	2	3	3	5
0	1	8.25	60	23	2	2	2	3
0	1	.5	-	-	2	1	3	3
0	-	6	5,628	-	2	1	2	4
1	5	-	326	15	2	3	3	5
0	1	5	16	5	2	1	2	3
3	1	.75	5,000	34	2	2	2	5
2	1	-	15	33	2	2	1	3

APPENDIX 8: Standardised Financial Ratio $\left(z = \frac{x - m}{s}\right)$

Current Ratio	Gross Profit Margin (%)	Net Profit Margin (%)	Return on Capital Employed (%)	Comment
0.2	3.2	3.4	4.0	High
-0.3	-0.5	-0.5	-0.4	Low
-0.3	-0.5	-0.5	-0.4	Low
-0.3	0.7	0.7	1.0	High
-0.3	-0.7	-0.2	-0.4	Low
-0.3	-0.4	-0.8	-0.4	Low
-0.3	-0.4	-0.5	0.0	Low
-0.3	-0.5	-0.1	-1.1	Low
-	-	-	-	No records
0.3	2.1	1.5	3.4	High
-0.4	0.2	0.4	0.0	Moderate
-0.3	-0.5	0.0	0.0	Low
0.0	-0.1	-0.3	0.0	Moderate
-0.4	0.4	-0.5	0.9	Moderate
-0.3	0.6	-0.1	0.4	Moderate
-0.4	-0.5	0.0	-0.4	Low
-0.2	-0.5	-1.2	-1.2	Low
-0.2	-0.5	-0.6	0.0	Low
-0.3	-0.5	-0.3	0.0	Low
-0.2	0.2	-0.4	0.4	Moderate
0.9	0.8	1.1	3.5	High
-0.3	-0.6	-0.5	-0.4	Low
-0.3	-0.3	-0.5	-0.4	Low
-0.3	-0.1	-0.5	-0.4	Low
0.0	-0.4	0.0	-0.3	Moderate
-0.3	-0.5	-0.1	-0.4	Low
-0.3	-0.9	0.0	0.0	Low
2.5	2.4	2.1	0.5	High

-0.2	0.2	1.0	-0.2	Moderate
-0.3	-0.5	0.0	-0.4	Low
-0.3	-0.1	-0.5	-0.4	Low
-0.3	-0.9	-0.5	-0.4	Low
-0.4	-0.8	0.0	-0.4	Low
-0.5	0.4	1.1	0.8	Moderate
-0.3	-0.5	-0.5	-0.4	Low
-0.5	0.7	1.0	-0.1	High
-0.3	-0.4	-2.4	-2.7	Low
-0.3	-0.5	-0.4	-1.4	Low
-0.5	0.5	1.5	-0.3	Moderate
-0.3	-0.5	-0.5	-0.4	Low
-0.1	2.1	2.2	3.1	High
-	-	-	-	N/A
-0.3	-0.5	-0.5	-0.4	Low
0.1	-0.5	0.0	0.0	Moderate
-0.5	-0.4	-1.4	-0.4	Low
-0.3	0.0	-0.5	-0.4	Low
-0.3	-0.6	-2.1	-0.4	Low
0.1	-0.4	0.0	-0.1	Moderate
-0.3	-0.7	-0.5	-1.1	Low
-	-	-	-	N/A
0.3	0.0	-0.4	0.0	Moderate
-0.1	-0.3	-0.2	-0.4	Low
-0.3	-0.4	-1.3	0.0	Low
-0.1	1.2	2.7	0.8	High
-	-	-	-	Do not know
-0.3	-0.3	-2.0	-0.4	Low
3.6	1.3	3.4	-0.3	High
-	-	-	-	No answer
-0.3	4.2	-0.1	-0.4	Low

Note: z = Standardised financial ratio

x = Raw score

m = Mean score

s = Standard deviation

The level of business ratio was determined in comparison with cooperative sector index.

APPENDIX 9: Formal Strategic Management Systems (X) and Financial Ratios (Y)

Dependent Variable (Y)	Independent Variable (X)
1	1
0	0
-	1
0	1
0	0
2	3
2	3
0	0
-	0
1	1
0	2
1	3
0	0
0	0
0	1
0	0
0	0
0	0
1	1
1	0
-	0
0	0
1	2
1	3
2	2
0	0
0	0
2	2
0	0
0	1

0	0
2	1
1	3
0	0
-	-
2	1
0	0
1	1
0	0
2	1
1	1
0	0
-	0
1	2
0	0
0	3
0	0
1	1
0	0
0	2
0	0
2	1
0	0
0	0
0	0
2	1
0	0
0	2
0	0

APPENDIX 10: Demographic and Socioeconomic Factors (X) and Performance (Y)

Y	X_1	X_2	X_3	X_4	X_5	X_6	X_7	X_8
0	1	5	16	5	2	1	2	3
0	1	15	490	15	2	2	3	3
0	1	0	89	22	2	1	2	4
0	1	3	31	12	1	1	2	3
0	2	5.5	-	31	2	2	3	3
0	1	5	62	25	2	1	3	-
0	1	8.25	60	23	2	2	2	4
-	-	-	-	-	-	1	-	2
0	2	3	7	16	2	1	3	5
0	1	7	28	23	2	1	2	5
2	1	16	7,206	21	1	3	3	2
2	2	14	15,000	24	2	2	3	4
0	1	23	92	23	2	2	2	3
0	2	1	77	17	1	2	2	3
0	2	3	10,964	7	2	3	-	3
2	1	7	80	9	2	2	2	4
0	1	-	15	33	2	2	1	4
1	1	4	2,500	21	2	2	3	3
1	5	1	3,500	23	2	1	3	4
0	1	2	27	9	2	1	2	4
0	-	6	5,628	-	2	1	2	5
1	5	4	3,000	34	2	1	1	5

1	1	.75	5,000	34	2	2	2	4
1	3	3	160	-	1	2	2	4
1	5	1	3,625	23	2	2	3	4
0	1	3	162	8	2	1	3	3
0	1	6	1,200	24	2	2	3	3
0	1	2	58	13	2	1	2	4
0	1	16	4	20	2	3	2	5
1	1	10	5,044	25	2	2	3	5
1	2	12	1,000	22	2	2	3	5
2	5	5	-	75	2	1	2	4
2	5	8	4,885	33	2	3	3	5
0	2	4	604	6	1	1	3	4
2	5	-	326	15	2	3	3	3
1	3	8	2,100	25	2	1	2	5
0	1	2	81	15	2	1	2	5
0	2	1	34	8.5	2	1	2	4
1	5	4	97,01Q	26	1	3	2	3
0	2	1.5	-	66	2	1	2	4
0	1	3	41	5	1	2	3	2
0	2	13	53	29	2	1	1	-
0	1	1	1,100	55	2	1	3	4
-	-	-	-	-	-	-	-	4
0	3	3	74	11	2	2	3	5
2	2	7	1,000	18	2	3	3	4
1	5	3	81	11	2	2	2	3

0	2	27	16	17	2	2	2	4
0	2	24	70,000	65	2	1	2	3
2	2	5	13	27	2	2	3	4
0	1	16	6	17	2	1	2	3
0	2	7	1,000	6	2	1	3	4
2	1	2	59	9	2	1	3	3
1	3	3	605	9	2	2	3	3
0	1	3	68	13	2	2	2	3
0	1	1	17	19	2	1	2	3
1	1	.5	-	-	2	1	3	4
-	1	6	82	19	2	1	3	
-	3	6	52	9	1	2	3	

APPENDIX 11: Historical Trends of Consumer Cooperatives in Kenya

Period started	Number of Responses	%
Before 1963	3	5.1
1963 - 1973	12	20.3
1974 - 1984	24	40.7
1985 - 1995	19	32.7
Do not know	1	1.7
Total	N = 59	100

APPENDIX 12: The Cooperatives Act (1997) and Consumer Cooperatives

Description	Number of Mentions	%
New Act not seen	27	36.5
Increased competition	16	21.6
Acts as a guide to activities	7	9.5
Lack of control on member patronage	5	6.8
Insignificant	4	5.4
Lack of control on Management Committee and prices	4	5.4
Too bureaucratic procedures	3	4.1
Removed monopoly	3	4.1
Members now have direct say on the cooperative	3	4.1
No answer	2	2.7
Total	74	100

APPENDIX 13: Government Taxes and Consumer Cooperatives

Description	Number of Mentions	%
Discourages commercial investments	26	37.1
The effect is not known	20	28.6
The effect is insignificant	10	14.3
Reduces working capital	6	8.6
Reduces members patronage	6	8.6
Value added tax hurts businesses due to increased product prices	2	2.9
Total	70	100

APPENDIX 14: "Causes" of Dormancy in Consumer Cooperatives

Cause of dormancy	Number of Responses	%
Lack of member patronage	13	22.0
Poor management	7	11.9
Misappropriation of funds	3	5.1
Lack of training among members	3	5.1
Tribal clashes	2	3.4
Conflict between management and members	2	3.4
Others	6	10.2
No response	2.3	39.0
Total	59	100

APPENDIX 15: Supply of Skilled Personnel in Consumer Cooperatives

Supply	Number of Responses	%
Frequently lacking qualified personnel	30	50.8
Never lacking qualified personnel	26	44.1
No response	3	5.1
Total	59	100

APPENDIX 16: Relationships Between Consumer Cooperatives with Labour Unions

Degree of relationship	Number of Responses	%
No relationship	36	61.0
Good relationship	9	15.2
Often in conflict because of salary delays, demand for bribes, and retrenchment without pay	8	13.6
Sometimes in conflict	4	6.8
No response	2	3.4
Total	59	100

APPENDIX 17: Major Problems of Raising Capital Base by Consumer Cooperatives

Problem	Number of Mentions	%
Limited member shares and contributions	19	23.5
No problem in raising capital	17	21.0
Lack of member patronage	13	16.0
High interest rates from banks	6	7.2
Lack of sufficient membership	5	6.2
Loan defaulting	5	6.2
Lack of sufficient profits in trading	5	6.2
Withdrawal of members	4	5.0
Lack of remittance of member contributions by employers	3	3.7
Failure by affiliates to pay promptly	2	2.5
Low member purchasing power	1	1.2
No answer	1	1.2
Total	81	100

APPENDIX 18: Major Categories of Customers for Consumer Cooperatives

Customer	Number of Mentions	%
Members	44	41.5
General public	24	22.6
Other cooperatives	15	14.1
Farmers	8	7.5
Agents and stockists	4	3.8
Export market	2	1.9
Others	8	7.5
No response	1	1.0
Total	106	100

APPENDIX 19: Major Categories of Potential Customers for Consumer Cooperatives

Customer	Number of Mentions	%
The general public	38	34.2
Increased cooperative members	22	19.8
New employees	12	10.8
Learning institutions	7	6.3
Relatives of the existing members.	5	4.5
Wholesalers	5	4.5
Export market	5	4.5
Affiliated societies	5	4.5
Farmers	4	3.6
Retailers	3	2.7
Others	5	4.5
Total	111	100

APPENDIX 20: Major Categories of Competitors for Consumer Cooperatives

Category and/or Name	Number of Mentions	%
Local communities business activities (hawkers, shops, distributors, producers etc)	30	24.8
Private company businesses	29	24.0
Other cooperatives and women associations	16	13.2
Financial organizations, Banks and individuals	14	11.6
Suppliers	12	9.9
Supermarkets (Uchumi, Ibrahims etc)	11	9.1
NGOs	5	4.1
Mother Company	2	1.7
Parastatals	2	1.7
Total	121	100

APPENDIX 21: Problems Affecting Consumer Cooperatives

Response	Number of Mentions	%
Lack of member patronage	23	12.8
Lack of book-keeping	13	7.2
Ignorant members	13	7.2
Lack of cooperative education in members	11	6.1
Tribalism in voting	11	6.1
Loan defaulting and member retrenchments	10	5.6
Corrupt management committee	9	5.0
Lack of cooperative professionals	9	5.0
Political interference	7	3.9
Rising operations costs	7	3.9
Limited membership	6	3.3
Liberalisation of economy	6	3.3
Imposed leadership	6	3.3
Failure to attend meetings by management committee members	4	2.2
Lack of money supply in the economy	4	2.2
Backlog of dividends and loans	4	2.2
Member conflicts	3	1.7
Low purchasing power of members	3	1.7
Theft of movable assets by the management committee	3	1.7
Slow remittance of member contributions by employers	3	1.7
Transport problem	2	1.1
Competition with some office bearers in the same business	2	1.1
Lack of marketing promotion	2	1.1
Non remittance of funds by employers	2	1.1
Lack of marketing policy	2	1.1
Lack of security in the community	2	1.1
Excessive taxation	2	1.1
Regular changes of Cooperative Act	2	1.1
Lack of sufficient funds	2	1.1
Others	7	3.9
Total	180	100

APPENDIX 22: Suggested Ways of Solving Problems Faced by Consumer Cooperatives

Suggestion	Number of Mentions	%
Training of management committee members	23	16.1
Training of book-keepers	19	13.3
Training of members	16	11.2
Training of managers	15	10.5
Change and enforce by-laws	15	10.5
Enforce member patronage	6	4.2
Institute some control on some cooperatives by the D.C.D.	6	4.2
Ensure annual general meetings and elections are held every year	5	3.5
Provision of local infrastructure	5	3.5
Computerization of activities	2	1.4
Proper payment of employees	2	1.4
Ensure members participation	2	1.4
Allow non-members to join	2	1.4
Provision of auditors by Department of Cooperatives		
Development free of charge	2	1.4
Follow the laid down policies	2	1.4
Recruit qualified management and labour force	2	1.4
Stock building materials and solar gadgets for members	2	1.4
Others	17	11.9
Total	143	100

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