Stakeholder Management Strategies and Deposit Taking SACCOs’ Bottom Line in Kenya

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ABSTRACT
This study sought to establish the relationship between stakeholder generic strategies and the financial performance of deposit taking Savings and Credit Co-operatives societies in Kenya. The SACCO subsector is part of the Kenyan Co-operative sector comprising of both financial and non financial cooperatives. Saving and credit co-operative (SACCO) are the financial cooperatives. They are an important part of the financial sector in Kenya, providing savings, credit and insurance services to a large portion of the population. Stakeholder management is paramount in creating trust and confidence to key stakeholder especially in deposit taking SACCOs, and in keeping them satisfied. It has been argued that stakeholder management is decisive in determining whether or not a company is or remain successful and that it has direct environment and bottom line result of an organization. Systematic attention to all parties who affect or may be affected by the organization’s behavior is critical to that organizations success. Stakeholder management studies have mostly concentrated on normative branch of stakeholder management theory. It is however important to extend the study to member - based co-operatives. Descriptive research method was employed in this study. Questionnaires ware used to collect primary data. To ensure that the research instrument yields valid data, the researcher engaged expert in the relevant field in scrutinizing it. Pilot study was carried out to check on the reliability and validity of the instrument and a Cronbach’s Alpha of 0.915 was obtained. Data was collected from a sample of 64 Deposit taking SACCOs out of a population of 180 licensed DTS. This made a sample of 130 respondents Data analysis was done using Statistical Package of Social Science (SPSS) Version 20.

Key words: Deposit Taking SACCOs, Financial Performance, Stakeholder Management generic strategies
INTRODUCTION

Co-operative all over the world has played a key role in helping in mobilizing of resources and in provision of credit facilities to members. In Kenya, Cooperatives are recognized by the government to be a major contributor to national development, as cooperatives are found in almost all sectors of the economy. Indeed, the Ministry of Cooperative Development and Marketing estimates that 80 per cent of Kenya’s population derives their income either directly or indirectly through cooperative activities. The greatest contribution of cooperatives to Kenya’s social and economic development is in the financial sector where financial cooperatives savings and credit cooperatives (SACCOs) have realized tremendous growth in the last one decade (Wanyama, 2009).

The membership of deposit taking SACCOs has been growing fast in the last five years, and so were their deposits that grew by 25% in the last five years. Kenya has the largest membership in Africa followed by Senegal and Ivory Coast (WOCCU, 2005). A casual observation in the subsector shows that many deposit taking SACCO have rebranded or are in the process of rebranding and have opened their common membership bond. This is likely to increase their membership and their capital base by big margin.

Statement of the Problem

The co-operative sector and SACCO subsector in Kenya has immensely contributed to financial industry and the entire economy at large. They are an important part of the financial sector mobilization of savings; provision of credit facilities and insurance services to a large population in Kenya (SASRA, 2013). The sector contributes to forty five percent of nation’s growth domestic product as reported by (MOCD&M, 2010). The deposit taking SACCOs contributes
the lion share of about 78% of the total deposit and assets of the SACCO industry (SASRA, 2010). This critical role of SACCOs has been recognized under vision 2030 as being crucial in mobilization of savings for investment. Due to rapid growth of this sector, the government of Kenya established SACCO legislation and begun supervision of SACCOs with a sole aim of providing incentive for improvement of management, reducing risks and improving performance (Ademba, 2011).

This key sector has however been found to be facing challenges on governance, liquidity that leads to short term external borrowing, lack of comprehensive loan policy, high level of non-performing loans, slow uptake of MIS (management Information System) and political interference (Makori, Munene & Muturi, 2013). Ademba (2011) observes that SACCOs in Kenya are faced by such problems as; poor governance and, lack of members’ confidence, among others, while Ndung’u (2010), adds that the SACCOs are encompassed by mismanagement and poor investment decisions that leave many stakeholders dissatisfied.

Some empirical studies that looked at the nexus of stakeholder management and profitability suggests that there is a correlation between the two (Galbreath, 2006). These studies though did not look at generic strategies of stakeholder management in relation to performance. Recent studies on DTS have emphasized on the effect of regulation on the financial performance of SACCOs e.g. (Kioko, 2010 and Chuno, 2013). If SACCOs do not enhance stakeholder management, key stakeholders will remain dissatisfied and have options of seeking the same services from competitors like commercial banks and Microfinance institutions as observed by Ademba (2011). Therefore, the purpose of this study is to look at the relationship of generic stakeholder management strategies and deposit taking financial performance where members are also the customer.
RESEARCH OBJECTIVES

The general objective of this study is to establish the relationship between stakeholder management generic strategies and the financial performance of DTSs in Kenya.

Specific Objectives

1. To determine the relationship between swing strategy and financial performance of deposit taking SACCOs.
2. To determine the relationship between defensive strategy and DTS financial performance.
3. To determine the relationship between hold strategy and DTS financial performance.
4. To determine the relationship between offensive strategy and DTS financial performance.

Research Hypotheses

This study tested five variables but the finding of four hypotheses is given:

\( H_0 \) 1: There is no significant relationship between Swing strategy and deposit taking SACCO financial performance.

\( H_0 \) 2: There is no significant relationship between defensive strategy in stakeholder management and deposit taking SACCO financial performance.

\( H_0 \) 3: There is no significant relationship between hold strategy in stakeholder management and Deposit taking SACCOs financial performance.

\( H_0 \) 4: There is no significant relationship between offensive strategy and Deposit taking SACCOs financial Performance.
STAKEHOLDER THEORY

The term stakeholder was traditionally defined as “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 2010). Johnson & Scholes (2002) define stakeholders as those individuals who depend on the organization to fulfill their own goals and on whom, in turn, the organization depends on. Freeman’s definition is applied in this study as it is widely used. An organization has internal and external stakeholders and the level of influence to unilaterally determine the strategy of an organization depends with the level of power that the stakeholder holds.

Stakeholder Management is stakeholders’ relationships management. The idea of stakeholder management suggests that managers must formulate and implement process which will satisfy all and only those groups who have a stake in the business Freeman & Mcvea (2001). It is built on partnering mentality that involves communicating, contracting, managing partnership and motivating as postulated by Friedman and Miles, (2006).

There are three approaches to stakeholder management: normative, descriptive and instrumental. Normative stakeholder theory approach identifies the moral or philosophical guidelines linked to the activities or the management of corporation (Fontain et al, 2006). The aim of descriptive branch is to understand how managers deal with stakeholders and how they represent their interests. It looks at how they represent their interests and the impact of the stakeholder approach in the achievement of various corporate goals Galbreath (2006). Instrumental Approach on the other hand study the organizational consequences of taking into account stakeholders in management examining the connections between the practice of stakeholder management and the achievement of various corporate governance goals. Polonsky, Jay & Don (2005) observe that understanding the link between the application of given strategies to engage stakeholders
and outcomes is critical insofar as improvement in outcomes infers that the correct strategy has been applied and these strategies have been applied successful.

Stakeholder theory suggests that by management addressing stakeholders’ interests, the organization will perform better than those organizations that do not address these groups’ interest Post et al (2002). The instrumental perspective for instance postulates that better stakeholder relationships result in higher profitability or increased firm value. Organizations will need to be concerned with those stakeholders who work hard to make strategy successfully implemented and on those who will seek to sabotage the successful management of the strategy.

“The best way to eliminate an enemy is to make him a friend” the saying goes. Stakeholder analysis and management has a utilitarian aim of identifying stakeholders who will, or can be persuaded to support actively the strategy of the organization as postulated by Eden & Ackermann (2011). Why should organizations pay attention to stakeholders? Pragmatically, this is because it helps with the competing demands being made on organizations by many stakeholders. It recognizes and enables management of the interactions that exist between stakeholders. It acknowledges the influence that both internal and external stakeholders can have and increases the likelihood of change and realization of aspirations as noted by Eden & Ackermann (2011).

Offensive Strategy

Firms engage in offensive strategies to enhance their own competitive position by taking market share away from rivals. Offensive strategies include direct and indirect attacks or moving into new markets to avoid incumbent competitors. If a firm possesses superior resources a direct attack may be called for. However, if a firm faces superior rivals, indirect attacks would be more appropriate than direct, frontal attacks. Direct attacks invite retaliatory responses especially if
they pose a serious threat to the defending firm Lee, (2014). Like defensive strategies, offensive strategies take many forms from flanking attacks or bypassing the competition to all-out frontal attacks intended to defeat the competition with all available means at the attacker’s disposal as observed by Yoffie & Kwak (2001) and Polonky et al (2005).

Offensive strategy should be adopted when a group is supportive as observed by Smakalova (2012). Stakeholders with a high cooperative potential and low threatening potential were classified as Offensive by Freeman and Mcvea (2001). He suggested that the firm should adopt an offensive strategy to bring about the cooperative potential and therefore the stakeholder's positive orientation is exploited. Galbreath (2006) focused on this stakeholder's supportive potential (Supportive stakeholders) and suggested that by involving these stakeholders in corporate activities their support could be leveraged. According to a case study done by Smakalova (2012) on generic stakeholder strategy in the area of marketing, companies should adopted offensive strategy to supportive stakeholders like customers, employees, suppliers and managers. These stakeholders according to him can either help or defend activities of companies therefore strategy for treatment with these stakeholders (customers, suppliers) should be to lay in effort to change or at least influence decisions according to the way company cooperate with stakeholders. The organization should try to maximize positive influence of stakeholders and minimize their threat. The firm should make decisions to involve these stakeholders in decision making as observed by Mishra and Suar (2010).

**Defensive Strategies**

Defensive strategies are management tools that can be used to fend off an attack from a potential competitor. The strategic objective of encirclement strategies is long-term market dominance as observed by Yonnopoulus (2011). Polonsky (2004) suggests that engaging non supportive group
might be a better approach and might minimize negative outcomes. The objective is to prevent competitive threat on the part of these stakeholders. It means reinforcing current beliefs about the firm, maintaining existing programs or letting the stakeholder drive the integration process. Galbrieth (2006) suggests that non supportive groups should be defended against. Friedman & Miles (2006) concur in using defensive strategy for this group of stakeholder. Defending business strategically that the organization is in is about knowing the market it operates in and about knowing when to widen your appeal to enter into new markets. Defensive strategies are about holding onto what the organization have and using competitive advantage to keep competitors at bay (Bradley, 2014). The companies should adopted defensive strategy for competitors. In this case it is better to keep this group of stakeholders for friends than enemies although the company has very small benefit from them.

Swing Strategy

This strategy should be adopted when a group is mixed blessing. The firm has to take decisions such as changing or influencing the rules of the game that governs stakeholder interaction, the decision forum and the transaction process as observed by Smakalova (2012). Freeman, the founding father of stakeholder management theory suggests that those with high cooperative and high threatening abilities were mixed blessing stakeholders who firms should collaborate with to maximize their positive influencing abilities and minimizes threatening abilities. This group of stakeholder can either assist or hinder organizational capabilities. Freeman (2001) suggested that those with high cooperative and threatening abilities were Swing stakeholders, as these stakeholders can either assist or hinder organizational activities.

Strategies for dealing with Swing stakeholders should “seek to change or influence the rules of the game that govern stakeholder interactions” (Freeman, 2001, p. 144). Polosky, Jay & Don
(2005) argue that definition of this group as Mixed Blessing stakeholders is more appropriate, and that firm should collaborate with these stakeholders to maximize their positive influencing abilities and minimize threatening abilities.

**Hold Strategies**

Hold strategies involves maintaining position or programs, it involves monitoring this group of stakeholder for changes in their position. Hold strategy according to Smakalova (2012) should be adopted when a group is marginal. The company should continue with its current strategic program when managing stakeholders with low co-operating and low threatening are less important.

The start of any stakeholder engagement process is stakeholder mapping. Stakeholder strategy matrix model can help to inform managers on strategy to use on different stakeholder groups. In other words, a stakeholders' position in the two-dimensional matrix allows the firm to determine the most appropriate strategies for managing firm-stakeholder relationships as postulated by Johnson and Schoels (2012). This is arrived at after stakeholder analysis is done to determine the relative cooperative potential and relative threatening potential of different stakeholders. The organization can also changes its behavior to address stakeholder concern and try to reinforce this stakeholder’s belief as postulated by Galbreath (2006) and Smakalova (2012).

Literature has scantly reviewed this strategy probably because it involves doing nothing much (just holding the position or program). However, as the adage in politics goes “silence is also a weapon”. Your opponent may not know what you are planning by just monitoring the situation. Again the opponent poses little threat and are not interested in collaboration and as Smakalova 2012 observes, hold strategies should by adopted if a stakeholder group has a relatively low competitive threat and cooperative potential.
Measurement of SACCOs Financial Performance

According to Grier (2007), poor asset quality is the major cause of most bank failures. The greatest risk is that of loan loss derived from delinquent loans. According to SASRA regulation, non-performing loans are those loans that have been outstanding for a period of over 30 days or over two installments. An increase in the percentage of non-performing loan to total loan portfolio is an indicator of declining asset quality (SASRA, 2010). Chuno (2013) observes that the most common financial measures for performance are Return of Assets (ROA), Return on Investment (ROI) and Return on Equity (ROE).

Liquidity gauges the ability of a SACCO to meet its obligation as they fall due. It is measured in terms of the ratio of liquid assets to deposits and short term liabilities. The minimum statutory ratio of 15 percent is required to be maintained (SASRA, 2010). Liquidity is crucial for financial institutions because they are particularly vulnerable to unexpected and immediate payment demands. To stay in business, a SACCO must be able to pay out legitimate withdrawals and credit requests instantly (Bald, 2007). On the other hand, Deshpande (2006) observed that excess liquidity in financial institutions limited gives incentives to mobilize additional deposits especially poor people’s deposits, which tended to be perceived a priori as short term, unstable, and costly. At the institutional level, excess liquidity may be caused by a lack of suitable lending opportunities (real or perceived). Liquidity adopted in this study is given as liquid asset divided by total assets.

Empirical Studies

Past stakeholder studies suggest that organizations that address their stakeholders' interests will somehow perform better than firms that do not address these groups' interests (Smakalova 2012 and Post et al., 2002). However, very few studies have explicitly considered the specific
strategies that are applied to manage stakeholders' interests. There is a lot of non rigorous empirical evidence that suggests that firms which demonstrate good stakeholder relations have good long term financial performance (Freeman and Mcvea, 2001; Hilman and Keim, 2001 and Galbrieth, 2006). Other studies on Deposit taking SACCOs performance have looked on other attributes e.g. Kiragu and Okibo (2014) looked at financial factors influencing performance of credit co-operatives in Kenya. The business benefits of effective engagement are now well-known and well-documented. A number of studies have found a clear correlation between stakeholder relationship quality and financial performance e.g. Svendsen, Boutelier, Abbott & Wheeler (2001) and sustainable wealth/long-term value Post, Preston and Sachs (2002).

**Critique of the Existing Literature Relevant to the Study**

Smakalova (2012) and Galbreath (2006) have researched in the area of stakeholder management strategies relevant to this study. Smakalova looked at generic stakeholder strategy as relating to marketing strategy. The research involved 13 industry companies as a sample. However the researcher did not give us the sampling frame, or the sampling technique used in arriving to the sample of thirteen firms. Galbrieth (2006) sought to establish in his study whether primary stakeholder management positively affected bottom line. However, he did not look at the specific stakeholder management strategies but the management aspect of it. He focused on corporate governance and employee management and ignores other stakeholders and also failed to look on strategies used in managing the stakeholders.

The central claims for an integrated approach to stakeholder engagement arguably centre primarily on benefits to the organization – essentially on the view that “incorporating stakeholder views in decision-making processes enhances organizational performance and commitment” (Simmons, 2003). However, despite development of this literature, stakeholder management
generic strategies as extended by Freeman (2010) from the Porter’s framework of generic competitive strategies is scantly explained in the literature and little is documented as to whether they give competitive advantage to firms practicing them or lead to better performance. The stakeholder management and CSR strategy have not been empirically studied in co-operative sector context where the shareholder is also the customer and where partnering are highly encouraged among the stakeholders.

**Research Gaps**

A vast amount of empirical research has been conducted in developed countries on strategic management and financial performance of firms and their evidence is that effective and efficient stakeholder management is crucial for long term (financial) business sustainability e.g. (Adriof and Wadock, 2002; Hubber, Scharioth and Pallas 2004; Gabreath 2004). Evidence shows that the direct influence of customer retention on profitability is surprisingly high at 10% – 20% (Hubber, Scharioth and Pallas, 2004). However, empirical study on relationship between stakeholder management strategies and financial performance of firms in developing countries is lacking. As a result, scholars have also noticed that literature on these stakeholder generic strategies is also very scanty and need further development (Simmons, 2003; Eden and Ackermann, 2011; Smakalova, 2012).

Studies done in SACCO subsector have mainly focused on challenges facing SACCOs e.g. (Makori, Munene & Muturi, 2013) and effects of regulatory authority on financial performance (Kioko, 2010 and Wanyoike, 2013). Okwee (2011) came closer by studying the nexus between corporate governance and financial performance of SACCOs in Lango sub region in Uganda. In the cooperative sector, there are no empirical studies done to look at the relationship between stakeholder management strategies and performance. This is the research gap this study sought to
This study therefore aims to establish the relationship between stakeholder management strategies on one hand and deposit taking SACCOs’ financial performance. It examined whether effective stakeholder management has any significant influence on financial performance of deposit taking SACCO.

RESEARCH METHODOLOGY

This study employed descriptive research design. A descriptive study attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction (Cooper & Schindler, 2003). Descriptive research design as portended by Mugenda & Mugenda (2003) aims at producing accurate representation of persons, events and situations. Descriptive survey design guarantees breadth of information and accurate descriptive analysis of characteristics of a sample which can be used to make inferences about population as observed by Orodho (2002). Analytical design was used a mathematical model to determine the relationship between the generic stakeholder management strategies and financial performance of deposit taking SACCOs.

Target Population

Kothari (2004) defines population as the research universe. A target population is the totality of cases conforming to the designated specifications as required by the study and could be people, events or things of interest. It is a group of individuals, items or objects from which a sample of study will be obtained and to which the results will be inferred (Kombo & Tromp, 2006). He defines population as a group of individual objects or other items from which samples are taken for measurement. The study population of this study is the 180 licensed and registered deposit taking SACCOs operating in the county from the list provided by SASRA in their website.
Sampling Frame

The sampling frame in this study is the 180 SACCOs that are licensed and registered by SASRA as deposit taking societies in Kenya. The accuracy of statistical inference based on samples depends on the adequacy of samples and sampling methods (Mugenda & Mugenda, 2003). Borg and Gall (2007) define a sample as a subgroup carefully selected so as to be representative of the whole population with the representative of the whole population with the relevant characteristic and sampling characteristic and sampling as the process of selecting a number of individuals in such a way that they represent the large group from which they were selected.

Sample and Sampling Techniques

The study used stratified random sampling to identify the subgroups in the target population and their proportions for selecting a sample size to show the representation within the group. According to Orodho (2009), stratified random sampling is considered appropriate since it gives all the respondents an equal chance of being selected and thus has no bias and eases in generalization of the obtained finding.

Sampling was based on a model believed to be objective by providing a sample large enough to reduce on random sampling errors by applying the formulae:

\[ n = \frac{NC^2}{C^2 + N - 1(e^2)} \]

\[ n = \frac{180 (0.5)^2}{0.5^2 + 180 - 1(0.05)^2} = 64 \]

Where:

- \( n \) is the sample size
- \( N \) is the population
- \( C \) is the coefficient of variation (0.5)
e is the level of precision (0.05)
(Nachmias & Nachmias, 2008)

**Table 4.1 Sacco sample size**

<table>
<thead>
<tr>
<th>Region</th>
<th>No of DTSs</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nairobi</td>
<td>41</td>
<td>14</td>
</tr>
<tr>
<td>Central</td>
<td>30</td>
<td>10</td>
</tr>
<tr>
<td>Eastern</td>
<td>33</td>
<td>12</td>
</tr>
<tr>
<td>Western</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Nyanza</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>Rift Valley</td>
<td>36</td>
<td>13</td>
</tr>
<tr>
<td>North Eastern</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Coast</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>180</strong></td>
<td><strong>64</strong></td>
</tr>
</tbody>
</table>

**Table 2.2 Number of Respondent**

<table>
<thead>
<tr>
<th>Category</th>
<th>Target</th>
<th>Sample ratio</th>
<th>No of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Directors</td>
<td>256</td>
<td>3:3</td>
<td>65</td>
</tr>
<tr>
<td>Senior Managers</td>
<td>256</td>
<td>3:3</td>
<td>65</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>512</strong></td>
<td><strong>3:3</strong></td>
<td><strong>130</strong></td>
</tr>
</tbody>
</table>

**RESEARCH FINDINGS AND DISCUSSION**

**Survey Response Analysis**

The research assistants managed to have 121 questionnaires filled in and returned, making a response rate of 93.03%. This response rate was good and representative as it conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.
Test of Significance of the Overall Model

The Null hypothesis of the overall model is that the model has not fit (not a single hypothesis has fit). The null hypothesis is that at least one hypothesis has fit:

\[ H_0 = \beta_1 = \beta_2 = \beta_3 = \beta_4 = 0 \]

\[ H_1 = \text{At least one of the } \beta_j \text{ is not equal to Zero} \]

The overall model, Table below is the model summary. It gives R (Pearson correlation coefficient) = 0.904 while the R squared is 0.818. R-squared is a statistical measure of how close the data are to the fitted regression line. It is also known as the coefficient of determination. The regression model accounts for 81.8% of the variance. The more variance that is accounted for by the regression model the closer the data points will fall to the fitted regression line. Therefore, 81.8% variation in financial performance can be explained by variation of all predictors combined. This shows that all the five independent variables combined have a strong positive relationship with the independent variable. This implies that there is a strong positive correlation between predictors and the financial performance of deposit taking SACCOs.

Table 2.3 Model Summary b

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.904\textsuperscript{a}</td>
<td>.818</td>
<td>.810</td>
<td>.786681253</td>
<td>1.960</td>
</tr>
</tbody>
</table>

\textsuperscript{a} Predictors: (Constant), Use of offensive strategy, Use of hold strategy, Use of defensive strategy, Use of swing strategy
b. Dependent Variable: average financial performance

When predictors are combined, there is a very strong relationship between the dependent variable and all independent variables. The last column gives the Durbin – Watson value. Durban- Watson is used to test the presence of serial correlation among the residuals. The value of the statistic varies from 0 to 4. As a general rule of thumb, the residuals are uncorrelated if the Durbin- Watson is approximately 2. A value close to zero indicates a strong positive correlation while a value close of 4 indicates strong negative correlation as postulated by Tabachnick & Fidel (2001). From the model summary table above shows a Durbin – Watson value of 1.960 that is very close to 2 that imply that there is no serial correlation among the residuals which is good for the overall model.

Table 2.4 ANOVA a

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>319.909</td>
<td>5</td>
<td>63.982</td>
<td>103.385</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>71.170</td>
<td>115</td>
<td>.619</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>391.079</td>
<td>120</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: average financial performance

b. Predictors: (Constant), Use of offensive strategy, Use of hold strategy, Use of defensive strategy, Use of swing strategy

The Null hypothesis of the overall model stated that: There is no fit for the overall model. The Alternative hypothesis is that there is a fit in the overall model or for at least one strategy. The ANOVA table above tests significance of the overall model. From the table, F value is 103.385. The p - value of the overall model is 0.000. The level of significance (α) is 5% = 0.05. Conclusion is made that since P – value (0.000) is less than Alpha (0.05), we therefore reject the
Null hypothesis and conclude that there is a fit in the overall model. This means that the entire model has a significant positive relationship with the financial performance of deposit taking SACCOs. Therefore, even though DTS are member based financial institutions they strive to manage various groups of stakeholders with intention achieving their objective. They do also engage in corporate social responsibility albeit in a small scale. They believe that this helps in improving staff motivation, enhances SACCO’s image and help them in marketing their products.

Table 2.5 Coefficients of the overall model

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
<th>95.0% Confidence Interval for B</th>
<th>Correlations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
<td>Lower Bound</td>
<td>Upper Bound</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.711</td>
<td>.452</td>
<td>1.57</td>
<td>.11</td>
<td>-184</td>
</tr>
<tr>
<td></td>
<td>Use of swing strategy</td>
<td>.554</td>
<td>.132</td>
<td>4.20</td>
<td>.80</td>
<td>.293</td>
</tr>
<tr>
<td></td>
<td>Use of offensive strategy</td>
<td>.340</td>
<td>.143</td>
<td>2.37</td>
<td>.01</td>
<td>.056</td>
</tr>
<tr>
<td></td>
<td>Use of hold strategy</td>
<td>.351</td>
<td>.130</td>
<td>2.70</td>
<td>.00</td>
<td>.094</td>
</tr>
<tr>
<td></td>
<td>Use of defensive strategy</td>
<td>.253</td>
<td>.132</td>
<td>1.92</td>
<td>.05</td>
<td>-.008</td>
</tr>
</tbody>
</table>

a. Dependent Variable: average financial performance

The coefficient table above shows the predictors’ coefficients. The constant (α) has a coefficient of 0.711; Swing strategy = 0.554; Offensive strategy =0.34; Hold strategy = 0.351 and defensive strategy = 0.253
Table 2.6 Residuals Statistics

<table>
<thead>
<tr>
<th></th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predicted Value</td>
<td>5.96753073</td>
<td>12.11656570</td>
<td>9.97577104</td>
<td>1.632761727</td>
<td>121</td>
</tr>
<tr>
<td>Residual</td>
<td>-2.658034801</td>
<td>1.738227248</td>
<td>0E-9</td>
<td>.770117687</td>
<td>121</td>
</tr>
<tr>
<td>Std. Predicted Value</td>
<td>-2.455</td>
<td>1.311</td>
<td>0.000</td>
<td>1.000</td>
<td>121</td>
</tr>
<tr>
<td>Std. Residual</td>
<td>-3.379</td>
<td>2.210</td>
<td>0.000</td>
<td>.979</td>
<td>121</td>
</tr>
</tbody>
</table>

a. Dependent Variable: average financial performance

The residual table 4.40 of the entire model gives the predicted values of financial performance of the deposit taking SACCOs. The highest performance based on the three measures was 12.12 while the minimum was 5.98. The mean financial performance of the representative SACCOs was 9.976. The table also gives maximum and minimum errors of estimate (the difference between the actual and the predicted value).

**Prediction Model of the Study Variables**

From the coefficient table, the outcome can be predicted by the model:

Deposit taking SACCOs Financial Performance = α + β1 (Offensive strategy) + β2 (Defensive Strategy) + β3 (Swing Strategy) + β4 (Hold Strategy) + error term

\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \]

The output in the coefficient table gives us the parameters for model prediction. The prediction model becomes:

\[ \hat{Y} = 0.711 + 0.349X_1 + 0.253X_2 + 0.554X_3 + 0.351X_4 \]

**DISCUSSION**

The result on the assessment of the relationship between generic stakeholder strategies and financial performance of deposit taking SACCOs has shown a strong positive relationship.
overall model was found to have a fit with a Pearson’s correlation coefficient of 0.904. The research found that some strategies were more popular than others but all the five strategies: offensive strategy, defensive strategy, hold strategy, swing strategy and CSR strategy have a strong combined positive correlation. This agrees with study done by Smakalova (2012) who looked at these strategies as marketing strategies. It also collaborates with Hilman and Keim (2001) who argue that key stakeholders create intangible assets which can create competitive advantage and that there is need for a company to build good relationships. Other scholars like Soriano, Torres and Rosalen (2009) observe that there is need for firms to establish stakeholders’ need and expectations for this has strategic importance in identifying critical factors of success that is necessary for formulation of strategy. In his study (Minyu 2011) found that firms interviewed tended to use different strategies for managing their stakeholders. He observes that stakeholders may have impacts of competitive advantage either on resource advantage or positional advantages by their various influences.

This study found that majority of top management in deposit taking SACCOs were adopting offensive strategy to manage stakeholder group that have relatively high cooperative potential and relatively low competitive threat. There was a positive relationship between the DTS that adopted offensive strategy and their financial performance. Stakeholders with a high cooperative potential and low threatening potential were classified as Offensive by Freeman and Mcvea (2001). He suggested that the firm should adopt an offensive strategy to bring about the cooperative potential and therefore the stakeholder's positive orientation is exploited.

The study reported a positive relationship between adoption of defensive strategy and the financial performance of deposit taking SACCOs. The strategy was found to be adopted by deposit taking SACCO in wading off competition from other firms like commercial banks and
micro finance institutions. Other scholars like Lee (2014) have argued that defensive strategies are used by market leaders in strategic management. He argues that small-businesses that have reached a market-leading position may need to use such strategies. The goal of these strategies is fighting off competitors who try to take away the firm’s market share. When a firm uses this strategy, it defends its market share by diversifying into new markets and niche segments. The idea behind the strategy is that if a firm loses its market share in the existing market it can make up for it in these new markets. There is however a danger of the flanking defense is that it can stretch firm’s resources thin and pull attention away from firm’s main focus. The counter-offensive defense is a retaliatory strategy. When a competitor attacks the firm’s business, it can strike back with its own attack.

The relationship between adoption of hold strategy and the financial performance of deposit taking SACCOs was found to be a positive relationship. Hold strategy according to Smakalova (2012) should be adopted when a group is marginal. The company should continue with its current strategic program when managing stakeholders with low co-operating and low threatening as they are less important. The organization can also changes its behavior to address stakeholder concern and try to reinforce this stakeholder’s belief as postulated by Galbreath (2006) and Smakalova (2012).

The research finding on the relationship between adoption of swing strategy and the financial performance of deposit taking SACCO was found to be positive. This agrees with Freeman (2001) who suggested that those with high cooperative and threatening abilities were Swing stakeholders, as these stakeholders can either assist or hinder organizational activities. Galbreath (2006) study results suggest that some primary stakeholder groups, but not all, positively affect
firm performance. More specifically, corporate governance and employee management were significantly and positively associated with performance.

SUMMARY OF STUDY FINDINGS

The purpose of the study was to examine the relationship between generic stakeholder management strategies and the financial performance of deposit taking SACCOs in Kenya. Descriptive statistics and correlation analysis were employed in the study. Cronbach’s Alpha gave an Alpha of 0.915 which implied that there was internal consistency and that the research instrument was reliable. Multicolliality test gave VIF of between 1.981 and 2.52 for all the predictors. This implies that there is no strong correlation among the predictors. Mayer (2000) postulated that only VIF OF 10 and above should make a researcher worry. Data was analyzed using Statistical Package for Social Science (SPSS Version 20). The following indicate the summary of each individual objective.

**Relationship between Offensive Strategy and Financial Performance of DTS**

The first objective of the study was to examine the relationship between adoption of swing strategy and performance of deposit taking SACCOs in Kenya. The study findings were that top management was conscious of having different stakeholders some of whom are co-operative while others pose serious threat through their actions or what they are likely to do.

To arrive at the finding descriptive and inferential statistics were carried out. Descriptive statistics indicates that majority of senior managers and executive directors were adopting offensive strategy. Offensive strategy is seen to be employed to supportive stakeholders like the employee, customers, other managers in the organization and suppliers of DT SACCOs. This is reported by a high percentage of the managers who agreed to be adopting the strategy.
Research finding shows that offensive strategy adoption has a significant influence on the financial performance of DT SACCOs. When analyzed with other predictors, the relationship becomes even stronger. The finding agrees with Šmakalova (2012) observation from a case study of thirteen industries that offensive strategies should be adopted if a stakeholder group has relatively high cooperative potential and relatively low competitive threat. Other scholars like Mishra and Suar (2010) suggested that firms should make decisions to involve their key stakeholders in decision making. This according to him would create good relationship and motivation towards achievement of firm’s objectives.

**Relationship between Hold Strategy Adoption and Financial Performance of DTS**

The second objective was to examine the relationship between the swing strategy adoption and performance of DT SACCOs in Kenya. Descriptive statistics and correlation analysis provided the results discussed herein. Results indicated that adoption of swing strategy individually and when combined with other predictors has a significant influence of financial performance of deposit taking SACCOs in Kenya. When used together with other predictors, the relationship becomes even stronger. However it was found that a few managers were neutral of adopting this strategy than in any other predictors. This means that they did not give it much weight as was the case with other strategies.

Correlation analysis indicates that there is a significant positive, relationship between hold strategy adoption and good financial performance of deposit taking SACCOs. The regression analysis was significant since alternative hypothesis was true $\beta1 \neq 0$. This implied that there is a significant relationship between adoption of hold strategy and financial performance of deposit taking SACCOs in Kenya. The finding collaborates with other scholars like Smakalova (2012).
and Galbreath (2006) who suggested that stakeholders with low cooperation and law threatening abilities should only be closely monitored.

**Relationship between Defensive Strategy Adoption and Financial Performance of DTS**

Descriptive statistics gave a high mean and high percentage value. This implies that a big number of senior managers were adopting defensive strategy to minimize or prevent competitive threats from competitions. Results indicated that adoption of defensive strategy individually and when combined with other predictors has a significant influence of financial performance of deposit taking SAACOs in Kenya. When used together with other predictors, the relationship becomes even stronger. Correlation analysis indicates that there is a significant positive, relationship between defensive strategy adoption and good financial performance of deposit taking SACCOs. The regression analysis was significant since alternative hypothesis was true $\beta_1 \neq 0$.

The finding concur with other scholars like Johnson and Scholes (2002) who suggests that stakeholder matrix can be useful in managing different groups of stakeholders. The matrix suggests that strategies for dealing with stakeholders can be determined based on stakeholder ability to cooperate and threaten organizational outcomes. It also agrees with stakeholder theory that suggests that organizations that address stakeholder interests will somehow perform “better” than firms that do not address these group interests as noted by Post et al, (2002). This also implies that member based firms (where members are also the customers) should proactively manage their stakeholders for better long term performance.

**Relationship between Swing Strategy Adoption and Financial Performance of DTS**

The fourth objective was to examine the relationship between adoptions of swing strategy and the financial performance of deposit taking SACCOs in Kenya. Descriptive statistics gave a high
mean and percentage value which implies that a big number of senior managers were adopting swing strategy. Regression analysis gave a relatively a high coefficient of determination that indicates that there is a significant positive relationship between swing strategy adoption and good financial performance of deposit taking SACCOs. When analyzed among other predictors in overall model, the relationship becomes stronger. The regression analysis was significant since alternative hypothesis was true β1≠ 0. This implied that there is a significant relationship between adoption of swing strategy and financial performance of deposit taking SACCOs in Kenya.

This finding agrees with Freeman (2001) who suggests that firms should collaborate with stakeholders that are mixed blessing. Polonsky et al (2005) also argue that firm should collaborate with these stakeholders to maximize their positive influencing abilities and minimize threatening abilities. Smakalova (2012) in his case study of industrial companies in the Czech Republic in two periods- in 2010 and 2011 concludes companies should adopted swing strategy for stakeholders who can either helps or defends activities of companies. Deposits taking SACCOs were for instance found to be co-operating with some commercial banks which can be explained along the same line. For example, Unaitas SACCO collaborates with Family Bank while many other deposit taking SACCOs collaborate with Co-operative Bank than any other commercial banks.

CONCLUSIONS

This study’s main objective, as suggested by the title was to examine whether employment of stakeholder management generic strategies in deposit taking SACCOs has any relation with the performance of the same. The study finding clearly shows that for-profit member based firms which deposit taking SACCOs are, proactively engaging all stakeholder groups using offensive
strategy, hold strategy, defensive strategy, swing strategy and corporate social responsibility as a strategies individually and when combined had a strong positive relationship with the financial performance of deposit taking SACCOs.

The finding show top management has higher preference for certain strategies when managing different stakeholder groups. Offensive strategy for instance is used when managing internal customers and supportive stakeholders like suppliers, government representatives. Swing strategy was used to manage mixed blessing groups of stakeholders by collaborating with them to maximize their positive influence. Hold strategy is the least used while defensive strategy was highly used when managing stakeholders like competitors who pose threat to the deposit taking firms. CSR strategy is highly adopted when managing internal employee, the community and the ecological environment.

Although majority of deposit taking SACCOs were seen to adhere to and demonstrate their commitment to CSR, a few of them are struggling to do that. DT SACCOS use CSR activities to position their corporate brand in the eyes of consumers and other stakeholders, such as through their member’s education days and during their annual general meetings when presenting reports. Managers also believed that by engaging in CSR activities, it played a key role in motivating the staff, helped enhance their corporate image and also improved the effect of their marketing and community relations. This implies that even though the main motive of business is to earn profit, organizations should take initiative for welfare of the society and should perform its activities within the framework of environmental norms strategically.

Other strategies used by top management in deposit taking SACCOs other than those suggested in the questionnaire are: Communication strategy - A few managers said that they have a full stakeholder engagement plan for each group of stakeholder; members’ education forum,
proactive partnership management and stakeholder events that involve partners and members to develop relationships.

RECOMMENDATIONS

Proactive stakeholder management is paramount in managing relationships of different stakeholder groups in all organizations including member based firms like deposit taking SACCOs. Top management in deposit taking SACCO and other firms should strive to know and understand their stakeholders and their stakes. They should also seek to understand the opportunities and challenges that different stakeholders present and the legal, ethical and philanthropic responsibilities that the firms have. The opportunities created should help to build good productive working relationships with the stakeholders while challenges presented by stakeholders should be a representative of how the firm handled the stakeholder. The managers should determine the ideal generic strategies to use for each stakeholder group depending on the level of their power and interest in the firm. Understanding various stakeholders is therefore critical so that the management can know how to engage with every group. Good communication is paramount in any organization and can be used in getting the views of key stakeholder and giving feedback in real time to keep them satisfied. Every firm should consider coming up with a communication strategy for better employment of the generic stakeholder management strategies that have shown a strong positive relationship with deposit taking SACCOs’ financial performance.

Proposed Area for Further Study

The study looked at stakeholder management generic strategies relationship with financial performance of deposit taking SACCOs. However, financial performance is not a consequence of a single variable like strategies. Further studies can incorporate other variables like advertising.
and good leadership. Furthermore, deposit taking SACCO’s financial performance was based on three parameters namely Return on Assets, Return of Equity and Liquidity (Liquid Assets to Total Assets) for a period of two years. The study focused on only 180 deposit taking SACCOs that are licensed. There are 215 deposit taking SACCOs some of which are not licensed. Further studies can increase the number of parameters for measuring financial performance and take a sample of all deposit taking SACCO in Kenya.

REFERENCES


Johnson & Scholes (2002), *Exploring Corporate Strategy*, Dorling Kindersley, Delhi


