TESTING THE SUITABILITY OF SASCCO'S CURRENT STRATEGIES

By

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CONFIDENTIALITY CLAUSE

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TO WHOM IT MAY CONCERN

RE: CONFIDENTIALITY CLAUSE

Due to the strategic importance of this research it would be appreciated if the contents remain confidential and not be circulated for a period of two years.

Sincerely

L. X. Zwane

DECLARATION

I declare that this research report is my own and in the case where other authors' views have been used, full referencing has been duly acknowledged.

This research has not been submitted before for any degree or examination at this university and is not being currently submitted in candidature for any degree.

Signed..

Date.......30. 06. 04...

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ABSTRACT

The Swaziland Association of Savings and Credit Cooperatives (SASCCO) has been the focus of this study. It is envisaged that the research undertaken will be used to benchmark the cooperative's current strategy (reorganization) and help identify factors that will lead to a successful reorganization. SASCCO was officially registered as an apex body for all Savings and Credit Cooperatives (Saccos) in 1988 under the Cooperative Act of 1964. SASCCO is at present constructing a multi-million Emalangeni Cooperative Centre that will be wholly funded by its members. Dividends for members are expected to be not less than 12% a year. The cooperative is at its maturity stage. Its grand strategy is joint venturing with other cooperatives. It has further formed partnerships and strategic alliances with both local and international organizations. Its generic strategy is to create, market unique products and services for varied customer groups through differentiation. Its mission statement is "to be a member controlled and owned financial cooperative that establishes financially strong and sound savings and credit cooperative societies by providing them with quality financial, education and technical services in order to improve the socio-economic needs of their members at grass roots level".

The management problem is finding a suitable reorganization strategy that will maximise shareholders' wealth and correctly position the Cooperative for the proposed Cooperative Bank. The Cooperative has serious financial problems, operating a poor balance sheet and lacks some key skills. The main objective of the research is, therefore, to analyze, assess and evaluate suitability of the Cooperative's current strategy based on both strategic and financial management views and then recommend a right way to a successful reorganization. A modified model adapted from (Johnson and Scholes, 1999) was used to map the whole study.

The main findings centred on the Cooperative's reorganization's strategy and its suitability. Management is clear with the strategic direction. However, the strategy is not implemented and executed very well. SASCCO is capable and has the opportunity to own the largest market share in the financial arena due to the low interest rates it offers. It was concluded that the cooperative suffers because of its imbalanced capital structure and recommended that a suitable optimal capital structure would be found by gearing the cooperative adequately. However, due to the exploratory nature of the study, it was difficult to empirically investigate some of the issues fully. As a result, a further, more representative sample that will be able to generalize the results to the whole population is recommended.

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ACOSSCA................................African Confederation of Cooperative Savings And Credit Association
CBS...Central Bank of Swaziland
CCF...Central Finance Facility
CCU...Central Cooperative Union
CIV...Calculated Intangible Valuation
CUNA......................................Credit Union National Association
EBIT.......................................Earnings before Interest and Tax
EAT...Earnings After Tax
EVA...Economic Value Added
HR...Human and Resource Management
ICA...International Cooperative Alliance
ILO...International Labour Organizations
IT..Information Technology
MVA..Market Value Added
RMP..Risk Management Programme
SASCCO..................................Swaziland Association of Credit Cooperatives
Saccos.....................................Savings and Credit Cooperatives or societies
SNCDP...................................Swaziland National Cooperative and Development Policy
SWOT.....................................Strengths, Weaknesses, Opportunities and Threats
SSXX.......................................Swaziland Stock Exchange
WOCCU..................................World Council of Credit Unions

DEFINITION OF TERMS

1. **Act:** A law made by parliament or a similar body.
2. **Apex/Umbrella/Mother Organization:** A registered cooperative established to facilitate the operations of all primary and secondary cooperatives of a particular type affiliated to it and shall be deemed to be so if it represents at least 51% of the total number of primary cooperatives of that type in the country.
3. **Bylaws:** Registered bylaws made by the members of a society in the exercise of any power conferred by the Cooperative Act and includes a registered amendment of the by-laws.
4. **Cash Flow:** essential movement of money into and out of your business.
5. **Commissioner:** The Commission of Cooperatives Development appointed in terms of Section 6 of the 1964 Cooperative Act or person exercising such powers of the commissioner as may have been conferred on him under that Section.
6. **Cooperative:** An autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. In this context it refers to the Swaziland Association of Savings and Credit Cooperatives (SASCCO).
7. **cooperative:** Any other cooperative other than SASCCO.
8. **Cost of Capital:** The opportunity cost of an investment, i.e. the rate of return that a company would otherwise be able to earn at the same risk level as the investment that has been selected.
9. **Credit Union:** A cooperative, designed to provide its members with an efficient, inexpensive savings and loan service.
10. **Dividend:** A share of the net surplus of a cooperation distributed among the members in proportion to the paid-up share capital held by them in the cooperative.
11. **Disposable Income:** The amount of income left to an individual after taxes have been paid, available for spending and saving.
12. **Investment:** An item of value purchased for income or capital.
13. **Emalangeni (E):** Swaziland currency denomination, E1.00:R1.00
14. **Investment Policy:** A formal description of the investment philosophy that will be utilized for a given fund, retirement plan, or other investment vehicle.

DEFINITION OF TERMS (cont)

15. **Member:** An individual person or registered cooperative joining in the application for the registration of a cooperative and a person or registered cooperative admitted to membership of a cooperative after registration in accordance with the provision of an Act and its by-laws.
16. **Opportunity cost:** The cost of passing up the next best choice when making a decision.
17. **Primary Cooperatives:** All member cooperatives officially registered under SASCCO
18. **Rate of return:** The annual return on an investment, expressed as a percentage of the total amount invested.
19. **Risk:** The quantifiable likelihood of loss or less-than-expected returns.
20. **Savings:** The part of a person's income that is not spent.
21. **Taxes:** A fee charged (levied) by a government on a product, income, or activity.
22. **Terminal Value:** The value of any item at the end of a specified time period.

CHAPTER ONE

Background of the Research

"CO-OPERATION!

The power of many to benefit individuals in the fight against poverty"

(SASCCO's Newsletter, April 2003)

1.1 Introduction

Prioritizing shareholders' interests is the paramount objective that benefits both the firm and the society at large (Arnold 2002: 11). In contrary to this objective, practice has shown that many organizations do not maximize shareholders' value. Moreover, they do not develop clear strategy formulation processes, as a result, organizations fail to actually get implemented (ACCA Newsletter January, 2002).

This chapter provides a framework of the current research that was conducted. Focus is on testing the suitability of current strategies for an apex body for savings and credit cooperatives in Swaziland namely, SASCCO. The research has taken into consideration the fact that testing suitability of cooperatives' strategies should assess and evaluate the life cycle, value chain, positioning, portfolio and the profile of the business. These factors should not be treated in isolation of SASCCO's macro environment, industry and the internal analysis of the Cooperative. It follows that any reorganization strategy will bring change into the organization; hence, change is also taken into consideration. The research is based on the model of Johnson and Scholes (1999). However, this model has its own limitations. As a result, the researcher has further designed a model that will fit the circumstances of SASCCO and the ever-changing, dynamic environment for Cooperatives, in line with the global standards, rules and regulations for cooperatives in general.

Strategy is discussed in a broad framework and then narrowed to the reorganization strategy of the Cooperative. The assessment is based mainly on qualitative testing of the strategies' rationale and screening the options available. Assessing suitability serves as a useful starting point that is undertaken before more detail analysis of acceptability and feasibility of the options are done.

The analysis of the investment portfolio focuses on the following issues:

- The Cooperative's flow of funds, source and the application of funds
- Its profitability or return on investment
- The risk of the Cooperative or its ability to survive
- The Cooperative growth as indicated by the intensity of operations over a few years

The paper analyzes in detail the management of the Cooperative, as well as, its financial statements. The various financial models that were used to determine the current and expected future performance of the Cooperative's competitive edge included the Du Pont analysis, liquidity assessment ratios, failure prediction models (Revised Altman and the solvency ratio), the capital asset pricing model (CAPM) and the weighted average cost of capital (WACC). Other strategic models include, Porter's Five Forces model, building resource and organizational capabilities (Thomson and Strickland, 2003) model, strategic group maps, weighted competitive strength assessment, Ambrosini impact analysis (SWOT) techniques, (Ambrosini, 1998), BCG matrix, business life cycle and linking strategy with leaders. Other valuation aspects considered the going concern and asset protection of the Cooperative.

In determining whether or not SASCCO correctly applies its cooperative principles, the International Cooperative Alliance (ICA), World Cooperative Credit Union (WOCCU) and the Swaziland National Cooperative and Development Policy (SNCDP) guidelines were used to benchmark the Cooperative. Suitable strategies for cooperatives are discussed. Moreover, issues that savings and credit cooperatives should be well managed to prevent failure in strategic management regarding change are also covered. A conclusion and recommendations concerning proper implementation of the current strategy are made.

Emphasis on this paper is not on individual registered societies (cooperatives) but on all the societies combined. Cooperatives in general are not focused on but focus is only on Savings and Credit Cooperatives (Saccos). The Swaziland Association of Savings and Credit Cooperatives (SASCCO) will, therefore, be the focus of this research.

1.2 Background of the Research

The history of cooperatives dates back to 1621. The first structured cooperatives were recorded in 1752 in Philadelphia (USA).

The Rochdale Equitable Pioneers Society was formed in England and the first consumer cooperative was formed in 1844. These cooperatives are still a yardstick for cooperatives even today (Internet, 5).

Cooperatives in Africa, especially in countries colonized by the French, emerged in the 1920's when the French Colonial administration introduced the "*Socie' tes indigenos de Prevoyance*" Act. The State Sponsored cooperatives Act passed in 1955 followed this Act. After independence most Governments of the Sub-Saharan Africa placed a great deal of emphasis on the development of cooperatives in the agricultural sector. The cooperatives did not meet the needs of members due to structural adjustment programmes. Democratic reforms were adopted in the mid 1980s and the 1990's, respectively (Internet, 11).

In Swaziland Cooperative growth and development dates back to 1931, when the first cooperative proclamation was introduced into the Kingdom during the colonial regime. Since cooperative matters were attended to from Pretoria, growth was slow with only a few cooperatives being registered in the country. The post of Registrar for cooperatives was created in 1963 in the Ministry of Agriculture and Cooperatives, followed by the Cooperative Societies Act 28 of 1964 by His Majesty order no.2 of 1975.

Following economic reforms and the democratisation process in many African countries, government policies have been re-designed to aid the development of genuine self-reliant and autonomous cooperatives. Swaziland complies with this process and has already designed its policy, set clear objectives and guidelines on how cooperatives should operate in Swaziland.

The Swaziland National Cooperative and Development Policy (SNCDP) is still to be ratified by His Majesty King Mswati III. The draft policy of the SNCDP aims at regulating cooperative investments, empowering Saccos and setting operational guidelines. The SNCDF policy is the first of its kind in Swaziland to counter the economic instabilities that affect members' disposable income base. The policy has been formulated based on the principles of the ICA regulations and guide lines.

1.3 Strategic Management

According to (Internet, 12) strategic management refers to the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then over time initiating whatever corrective adjustments in the vision, objectives, strategy, and execution are deemed appropriate.

Successful strategies seek to capitalize on what a company does best: its expertise, resource strengths, and strongest competitive capabilities. Strategic success calls for bold entrepreneurship, a willingness to pioneer and take risks, an intuitive feel for what customers prefer, quick responses to new developments, and opportunistic strategy making. An organization's culture is either an important contributor or an obstacle to successful strategy execution. And only a few companies have escaped the need to reorganize, acquire, divest, outsource, or downsize (Internet, 12).

1.3.1 Reorganization Strategy

In this paper reorganization has taken into regard the organizational structure, decision authority, reporting relationships, and strategy shared values, human resources, skills, and operations systems. Reorganization will further look into the following points as according to (Internet, 11):

- Reengineering
- Benchmarking
- Participative management
- High performance work systems
- Cross-functional work teams

Reorganization can either be external or internal. Effective reorganization involves: reducing expenses, increasing profits, improving cash flows, increasing productivity, increasing shareholders return on investment, increasing competitive advantage, reducing centralization, improving decision-making, increasing customer satisfaction, increasing sales, increasing market share, improving product quality, take advantage of technological advances, increasing innovation and avoiding a takeover (Internet, 3). Reorganization further looks at the going concern, asset protection, bankruptcy prediction and solvency evaluation of a company.

1.3.2 Suitability

"Suitability is a broad assessment of whether the strategy addresses the circumstances in which the organization is operating, for example, the extent to which new strategies will fit with the future trends and changes in the environment and/or how the strategy might exploit the core competences of the organization" (Johnson and Scholes, 1999). It involves addressing the question- is the strategy good? Suitability concerns qualitative assessment and testing out the rationale of a strategy, hence, essential for screening options (Johnson and Scholes, 1999).

1.3.2.1 Establishing the rationale

The main purpose of strategic analysis is to establish and understand the basis on which suitability of strategies can be judged by exploiting the opportunities in the environment and avoid the threats, capitalize on the organization's strengths and core competences and avoid or remedy the weaknesses and addressing the cultural and political context, to mention but a few.

- **Macroeconomic and Industry Attractiveness**

  "An assessment that the industry and competitive environment is fundamentally attractive typically suggests employing a strategy calculated to build a stronger competitive position in the business, expanding sales efforts and investing in additional facilities and equipment as needed" (Thompson and Strickland, 2003:112). Attractiveness considers a range of factors such as, market size, market potential, competitive structure, financial factors, economic factors, technological factors and social and political factors.
- **Porter's Five Forces Model**

  The model analyzes the industry as a whole, and assumes a stable environment.

1.3.2.2 Screening Options

Screening Options "is the process of comparing, the relative merits of different strategies" (Johnson and Scholes, 1999). This stage is important before a more detailed assessment of acceptability and feasibility is undertaken.

Johnson and Scholes (1999) suggest that analytical techniques that contribute to assessing suitability of strategies include:

- Life Cycle Analysis: Does the strategy fit the stage the organization is in?
- Positioning: Is the positioning viable?

- Value Chain Analysis: Does the strategy improve value for money? Does it exploit core competences?
- Business Profile: Will it lead to good financial performance?
- Portfolio Analysis: Does the strategy strengthen the balance of Activities?

1.3.3 Gap Analysis

Johnson and Scholes (1999) define the Gap Analysis as "the extent to which existing strategies will fail to meet the performance objectives in the future". Gap Analysis assists managers in understanding better the competitive environment in which they are operating, and is very useful in spotting the weaknesses and strengths of an organization in relation to its competitors.

1.3.4 SWOT Analysis

The strategy should exploit the environmental opportunities and the threats of the organization. Assessing the impact of environmental changes on the current strengths and weaknesses of an organization help managers to understand the changing environment in such a way that will allow them to identify opportunities or recognise threats which are very important.

1.3.5 Implementing and Executing Strategy

Management should be able to identify areas that need attention in order to add value or minimize costs to implement the strategy successfully. For every process to be successful, it has to have a yardstick against which to be evaluated. This provides feedback, alertness and adjustments to the strategy as the organization progresses towards achieving its goals. A reorganization strategy should pursue both a "quick fix" which assumes addressing the company problems immediately and a "band aid" which assumes addressing the core cause, going deeper to ensure that the company is on going concern reorganization.

Lynch (2000) states that management should understand the life cycle of the organization and the board of directors should be able to link the current strategy to the right leader (CEO) who will lead the entity with a vision. New open work policies and new processes have to be introduced or old ones drastically altered to foster the idea of change for the better. Once new procedures and policies are implemented, they have to be reviewed constantly to see if they are bringing about the expected results. If there are performance gaps, improvements have to be made.

Improvement is also sought even if changes are bringing about the expected results. Communication with staff and other stakeholders in the business are very essential for Cooperatives (Lynch, 2000).

1.3.6 Formation of Cooperatives

There are many reasons why cooperatives are formed. People usually opt for cooperatives when they realize that they cannot achieve their financial goals alone and are ready to surrender a part of their independence for a reasonable return of exchange. The cooperative is one of the most widespread forms of organizations in the world today, particularly in developing countries. On the other hand, in some parts of the world, cooperatives are viewed as organizations whose time has passed, an organization that has been attempted everywhere but have resulted only in failure and disappointment (Internet, 4).

1.3.7 Types of Cooperatives

There are several types of Cooperatives but the primary ones include:

- Financial or Savings and Credit Cooperatives
- Common Facility Cooperatives
- Commerce and Industry Trade Associations
- Consumer Service Cooperatives
- Producer Cooperatives
- Purchasing Cooperatives
- Worker Cooperatives

1.3.8 Management of Cooperatives

The following factors were looked at in detail:

- Organizational Structure
- Principles of Management
- Total Quality Management
- Leadership
- Culture

- Motivation
- Organizational change

1.3.9 Cooperatives Principles, Practices and Policies

Cooperative principles are guidelines by which Cooperatives put their values into practice and should follow seven internationally recognised principles (Internet, 9) namely:

- Voluntary and open membership
- Democratic member control
- Member economic participation
- Autonomy and independence
- Education training and Information
- Cooperative among Cooperatives
- Concern for the community.

It follows that Cooperatives Practices and Policies include:

- Open membership
- One member one vote
- Cash trading
- Membership education
- Political and religious neutrality
- No unusual risk assumption
- Limited interest on stock
- Goods sold at regular retail prices and net margins distributed according to patronage (Internet, 2).

1.3.10 Strategies for Cooperatives

Pearce and Robinson (2003) argue that there are three (3) grand strategies and are joint ventures, strategic alliances and consortia. Campbell and Luchs (1998) propose that if a company is to succeed in new ventures, it should identify the match between its capabilities and the opportunities available. Synergy leads to economic benefits gained through economies of scale.

1.3.11 Differences between Cooperatives and other Businesses

Cooperatives can either be set up as profit making, where the cooperative has share capital and is one whose rules allow it to give returns or distributions on surplus or share capital, or non-profit, where the cooperative may or may not have a share capital and is one whose rules prohibit it from giving returns or distributions on surplus or share capital (if any) to members. In addition, cooperatives may or may not have a board of directors but still operate (Internet, 16). The differences are, however, looked in more detail in chapter two.

1.3.12 Advantages of Cooperatives

The advantages of Cooperatives are:

- Economies of scale
- Pooling together resources, similar interests, products or services
- Fair price
- Low interest rates on loans
- Cooperatives are a possible way of strengthening traditional customs that are already declining especially, in urban areas
- Members of a cooperative have the right to be fully informed about matters relating to the Cooperative and every member has a right to take part in important decision

1.3.13 Disadvantages of Cooperatives

The disadvantages of Cooperatives are:

- Little research that has been carried out regarding Cooperative-economic-effects,
- Unemployed and poor individuals in society ignored by Cooperatives and
- Loans are deducted at source of members' income.

1.3.14 Cooperative Profile

Existing Savings and Credit Cooperatives in Swaziland felt that to be financially successful in the cooperative industry cooperatives to form the Swaziland Association of Savings and Credit Cooperatives (SASCCO). SASCCO would play a local and international representational role or to be the mouth-piece for all Saccos. SASCCO exists to support cooperative development.

Saccos draw SASCCO's by-laws and the board is responsible for setting policies and hiring of the CEO who supervises SASCCO's overall operations. The Cooperative was officially registered in 1988 under the Cooperative Act of 1964.

Its Formation was made possible through financial and technical assistance from a German donor and African Confederation of Cooperative Savings and Credit Association (ACCOSCA). SASCCO's portfolio presently consists of 38 investment or affiliated societies, which are employer-based and are totally owned by Swazis. The Cooperative is currently constructing a E30 million SASCCO Centre, which is wholly funded by its members. "The building will, *inter alia,* house a co-operative bank, rental offices, restaurants, a conference centre and parking space" (SASCCO Newsletter April, 2003). Building a Cooperative Bank will increase service delivery and add value to all members of the primary cooperatives. Members who contribute towards the construction of the multi-million SASCCO Centre are promised to receive not less than 12% dividends (SASCCO Newsletter April, 2003).

The Cooperative offers both short and long-term credit services to its members through a Central Finance Facility (CFF). Other main products/services offered by the organization include the Risk Management Programme (RMP) and Education and Training. Sources of funds are made up mainly from the annual subscriptions paid by the Saccos.

The Cooperative generic strategy is to create and market unique products and services for varied customer groups through differentiation. The organization's policy is to ensure creation of wealth for cooperative members to help alleviate poverty and to contribute to the overall development of the Swazi economy. Their mission statement is "to be a member controlled and owned financial cooperative that establishes financially strong and sound savings and credit cooperative societies by providing them with quality financial, education and technical services in order to improve the socio-economic needs of their members at grassroots level".

1.4 Motivation for the Research

Little research has been undertaken in the cooperative industry. Many organizations do not develop clear strategy formulation processes and, hence, fail to actually get the changes implemented and effectively managed. Cooperatives are neglected despite the fact that they can be very fruitful organizations. Swaziland is characterized by a large number of low-income earners with an average minimum salary of E1, 100.00 (Swaziland Census, 1997). The paper has, therefore, helped identify the factors that lead to a successful reorganization of a Cooperative and those that may flaw the strategy to take advantage of competitive edge. The research has explored the suitability of the strategy through evaluation and has suggested more logical ways of creating and not destroying shareholders' value, recommending a capitalization that will sustain the Cooperative's long-term profitability.

1.5 Value of the Project

The research is regarded as a benchmark and a timely reference that SASCCO can use to gauge itself in its competitive environment as a going concern. Moreover, the paper could also be used to be a yardstick for other subsequent research carried out by the Cooperative. Cooperative's principles and guidelines were reviewed to unveil problems faced by the Cooperative industry and member affiliates. Possible solutions were suggested to sustain the long-term existence of the Cooperative.

It is also anticipated that the efficiency and effectiveness of the strategy will increase productivity in the organization. If the recommendations are correctly applied, the study is believed to contribute a great deal to the revenue of the country. Priority areas for the policy implementation by the government were also identified to give clear directions on the Action Programme for the policy implementation.

1.6 Problem Statement

The problem statement can be simplified as follows:

- To what extent is SASCCO'S strategy suitable?
- How can SASCCO carry out a successful reorganization strategy?

The Cooperative is currently undergoing a major change regarding the cooperative's activities in the country. The changes involve among others, enhancement of members' return on their savings, as well as the establishment of a Cooperative Bank for better service delivery. This makes the whole process cumbersome since the Cooperative does not have adequate expertise for the reorganization. The Cooperative wants to better serve its member affiliates and to be correctly positioned when the proposed Cooperative Bank is established.

As an initiative, SASCCO requested proposals from professional bodies, including KPMG, to assist in the restructuring exercise in the following areas:

- Development of SASCCO management structure
- Drawing up a job specification for the Investment Manager and the Managing Director of the Cooperative Bank.
- Remuneration for principal officers, the Chief Executive Officer, Deputy Chief Executive Office, Investment Manager and Managing Director
- Development of the movement reporting structure

KPMG carried out an evaluation study and the areas covered included the current status on the management structure, job specifications and remuneration (KPMG Audit Report August, 2002). In the light of what has been already discussed, the management dilemma, management question and research question were then established as follows:

1.6.1 Management Dilemma

To find a suitable reorganization strategy.

1.6.2 Management Question

How can the Cooperative ensure a suitable reorganization strategy that will maximize shareholders' wealth (member affiliates) and correctly position the Cooperative for the proposed Cooperative Bank?

1.6.3 Research Topic

Is the reorganization strategy suitable?

1.7 Objectives of the Study

The main objectives of the study were to analyze, assess and evaluate the suitability of SASCCO's reorganization strategy regarding a sound savings and credit investment portfolio.

Specific objectives are:

- To review the Cooperative principles and guidelines by which it should put its values into practice, according to the International Cooperative Act (ICA) and the SNCDP draft as at May 2002.
- To identify the current problems facing the Cooperative and test and screen the strategies rationale to determine if they address the circumstances in which the Cooperative operates.
- To evaluate the suitability of the strategies for the future trends and changes of the Cooperative's environment and suggest appropriate reorganization steps to be pursued.

1.8 Research Design and Methodology

The study took a qualitative approach that served as an exploratory study for carrying out a further survey to draw conclusions on a more representative sample of the organization in the future.

The study utilized the researchers' previous work experiences and expertise accumulated from strategy related fields including Human Resources, Principles of Management and Operations Management, Economics, Marketing R & D and Financial Management. The research will ensure that the strategy fully addresses and fits well with the future trends and changes of the Cooperative's environment.

1.9 Data Collection Design

In carrying out the research, data collection techniques were applied.

1.9.1 Primary Data

Data was sourced via interrogative methods. A mini survey was conducted and in the form of personal interviews with key personnel in the organization, including the CEO, his assistant (Finance and Administration Manager), the treasurer (board member of SASCCO) and senior staff in the Ministry of Agriculture and Cooperatives. The interviews enabled the researcher to ask follow-up questions that would otherwise not be captured by a questionnaire. Methods used to interview subjects took the form of oral face-to-face interviews, telephone and e-mail conversations. These interviews aimed at ascertaining different perceptions in regard to the major changes in the Cooperative and the possible resulting effects on the employees.

1.9.2 Secondary Data

A literature review and evaluation was carried out. The main sources include text- books, journal articles and research papers by other scholars; Government statistics; Only Internet authorized sources; newspapers that proved to be free from authors' bias and relevant documentation requested from the Cooperative were used.

The documents obtained from the Cooperative included the by-laws of SASCCO, Annual Reports and Financial Statements for the year ended 31 December 2001-2002 (audited) and 2003-2004 (unaudited), members listing and financial strengths for each affiliate, current staff remuneration list, personnel policy, job description for all current staff, Board of Directors manual, Cooperative Society Bill for 2003 and SASCCO Centre project proposal.

1.10 Ethical Requirements

The interviews were voluntary. Where there were questions that interviewees were not willing to answer, their right was fully respected. Personal questions were avoided and where questions were not directly answered, the researcher was analytic and deductive.

1.11 Design Strategy

This was a descriptive, exploratory study which analyzed, assessed and evaluated the suitability for SASCCO's reorganization strategy in regard to establishing a sound savings and credit investment portfolio that will fit with the future trends and changes of the Cooperative. The time frame for the research was six months and it was a controllable case study conducted only in Swaziland-Mbabane at SASCCO's offices. The field interviews were conducted at the subjects' convenience. To try reducing bias and obtaining true perceptions regarding the current strategy, participants were not told the purpose of the study.

1.12 Limitations of the Project

The reorganization process is an extensive area of study; facts were not fully explored as the list is very exhaustive. It was difficult to investigate empirically some of the issues fully and due to the exploratory nature of the study the results may be flawed. A further survey is recommended to select a more representative sample that can be generalized to the whole population of the study.

- Due to limited time and budget resources the research focused mainly on the internal execution of the strategy more than the Cooperative's external environment.
- There was limited access to financial Information, due to confidentiality practised by the Cooperative, which made it difficult for the researcher to follow an exhaustive qualitative methodology.
- There were no previous studies carried out on the Cooperative, except for the auditors' evaluation report by the KPMG auditors in Swaziland.
- Transportation was also a limiting factor. The researcher was most of the time in South Africa (University of Natal) while the Cooperative to be studied is in Swaziland. This was not only costly but also time consuming as the study was to be carried out within a specific time frame not exceeding six months.

1.13 Structure of the Study

The research is divided into five chapters.

1.13.1 Chapter Two

Detailed literature review outlining theoretical background Information on company strategy is given in this chapter. Different models from different authors/scholars are used to compare past and current Information regarding a reorganization strategy. Johnson and Scholes (1999) model is used but the chapter concludes with a design by the researcher to map the Cooperative's suitable strategies.

1.13.2 Chapter Three

A detailed background of SASCCO is profiled by looking at the macro environment, industry and internal analysis of the Cooperative's Activities/operations in conjunction with the Cooperative's life cycle, value chain analysis, positioning, portfolio analysis, and business profile. The company is discussed and assessed accordingly.

Other aspects considered included the organization's history, location, structure, vision, mission statement, staff, membership, financial position, sources of funds and operations to mention but a few. Emphasis centres around the effectiveness of the current strategy on how it is implemented using the researcher's model developed in Chapter Two.

1.13.3 Chapter Four

This chapter evaluates the Cooperative's current strategy based on what the Cooperative has been profiled to be doing in Chapter Three by using Porter's Five Forces, weighted competitive strength assessment, strategic group maps, BCG matrix and performance gap analysis. Financial models include the Du Pont Analysis, liquidity ratios, Altman, solvency, CAPM and WACC and the SWOT analysis evaluation model by Ambrosini (1998). The findings centre on the issues raised in the research objectives, and other strategic, financial and management areas of concern.

1.13.4 Chapter Five

A conclusion on the suitability of the Cooperative's strategy is made, and also discusses the gaps/anomalies and deviations found in the strategy. Finally, recommendations on a viable strategy that will continuously create and add value to the Cooperative's competitive edge and long-term sustainability are suggested using the building resource and organizational capabilities, value pentagon Action model and linking strategy with leadership model.

1.14 Summary

Research shows that Cooperatives are neglected yet they can be valuable enterprises. SASCCO, an umbrella body for all savings and credit Cooperatives in Swaziland, known as Saccos is the focus of this research. A qualitative approach was pursued and appropriate data collection techniques were applied.

The main objective of the study is to analyze, assess and evaluate the suitability of the Cooperative's current strategies. It is envisaged that the value of the project will help identify factors that will lead to successful future strategies for the Cooperative.

A viable cooperative should be characterized by efficient operations, sound accounting and bookkeeping procedures, effective decision-making and good marketing and continuous public relations. Like other corporations, cooperatives need loans to finance their own business operations and to grant short-term loans to their members. The theory around testing suitability of business organizations' strategies is, therefore, discussed in detail in Chapter Two.

CHAPTER TWO

Background on Suitability of Strategies for Apex Cooperative

2.1 Introduction

Business strategy is a game plan that management uses to compete and to achieve organizational objectives. Failure to establish a coherent framework of objectives, mission statement, corporate values for all parts of the organization, and at all management levels, can lead to a lack of goal congruence and damage sub-optimal decisions. The financial management function is a critical component in strategic planning as it concerns not only with measuring past performance, but more importantly current and future decision-making (Arnold, 2002).

The dynamism of the environment under which cooperatives operate, and the problems faced by cooperatives, has left the subject of competitive capabilities and resource effectiveness for more research. Present day circumstances are such that people are constantly faced with increasing costs of living. Low income earners, for instance, suffer because they never seem to earn enough to cover their daily needs. They tend to deal with this problem by turning to illegal moneylenders who charge them very high rates of interest. By so doing, their indebtedness is increased and the situation becomes even more serious for them and their families. Low income earners are the people who stand to benefit from joining others, under the principle of self-help and mutual help, to deal with money problems.

The roles played by cooperatives are becoming more evident: in creating employment opportunities, improving infrastructure, alleviating poverty and self-reliance through savings and credit. Consequently, competent financial managers are required to make strategically supportive long-term investment decisions by appraising various opportunities and thereafter, determining the best methods through which to fund cooperative decisions.

In this chapter, a detailed literature review outlining theoretical Information on company strategy, embracing change management, corporate failure and corporate recovery will be highlighted. Broad strategic management on cooperatives will then be narrowed down to a reorganization strategy that will suit a representative body for savings and credit cooperatives in Swaziland.

2.2 Strategic Management

A fundamental priority in formulating a corporate strategy is to decide on the objectives to be achieved. The term strategic management refers to "the managerial process of forming a strategic vision, setting objectives, crafting a strategy, implementing and executing the strategy, and then over time initiate corrective adjustments" (Internet, 8).

In concordance with this view Lynch (2003), Pearce and Robinson (2003), Thomson and Strickland (2003) contend that a corporate strategy is a pattern of major objectives, purposes or goals and essential policies or plans for achieving those goals, stated in such a way as to define what business the company is involved in or is to be involved in and the kind of company it is or is to be.

2.2.1 Strategic fit

Strategic fit in plain terms can be referred to as congruence with the purpose and mission of the organization, skills and the ability to share resources and coordinated activities. Any strategy that does not fit the stage that the organization is in or any programme that does not have high congruence with the organization's purpose should be classified as unattractive. Programmes should attract resources easily and compete aggressively for a dominant position. Campbell and Luchs (1998) argue that a firm's strategy should seek fit in five areas: three external areas of customers, competition and technology and two internal areas of resources and organization.
They further state that invisible assets, such as, brand name, customer knowledge, expertise in a technology and a strong corporate culture that inspires employee commitment, are a company's best long-term sources of competitive advantage because they are unique to the firm.

The stronger a company's financial performance and market position, the more likely it is that it has a well-conceived, well-executed strategy. Campbell and Luchs (1998) state that a well formulated strategy helps to match and allocate an organization's resources into a unique and viable posture based on its relative internal competences and shortcomings. Successful strategies seek to capitalize on what a company does best, its expertise, resource strengths, and its strongest competitive capabilities.

Putting together a strong management team with the right personnel chemistry and mix of skills is one of the first strategy-implementation steps. Assessing whether a company's costs are competitive with those of its close rivals is a necessary part of company's situation analysis. Success in achieving cost advantages over rivals comes from exploring all avenues for reducing costs and pressing for continuous cost reductions across all aspects of the company's operations year after year. Strategic costs analysis and value chain analysis are the essential tools in benchmarking a company's prices and costs against rivals (Internet, 8).

2.2.2 Grand strategies

Generic competitive strategies refer to how the firm will best compete in the marketplace. In order for a firm to be able to establish and exploit a competitive advantage within a particular competitive scope, it should be able to choose from what Michael Porter regards as three generic strategies:

a) Striving for overall low-cost leadership in the industry
b) Striving to create and market unique products or services for varied customer groups through differentiation
c) Striving to have special appeal to one or more groups of consumer/industrial buyers focusing on their cost or differentiation concerns (Thompson and Strickland, 2003).

The closer a firm can get to the ultimate of being the industry's absolute lowest-cost provider and, simultaneously, the provider of the industry's overall best product, the less vulnerable it becomes to rivals' actions.

2.2.3 Core Competences

Ambrosini (1998) defines the core competences of an organization as its enabling culture. He further argues that companies which analyze their core competences are able to see beyond their end products, as a result, able to compete successfully in the rapidly expanding and competitive world economy. Core competences are a strong wall against rivals who may wish to imitate the company's products and services. They emerge from skills and activities performed at different points in the value chain that, when linked, create unique organizational capability.

The key to leveraging a company's core competences into long-term competitive advantage is to concentrate more effort and more talent than rivals do on strengthening and deepening organizational competences and capabilities. Instituting a "best-in-industry' or "best-in-world" operating practices in most or all value chain activities provide a means for taking strategy execution to a higher plateau of competences and nurturing a high-performance work environment (Internet, 12).

2.3 Reorganization Strategy

Many authors use the terms "restructuring" and "reorganization" interchangeably. In this paper "reorganization" will take into consideration the following factors as considered by (Internet, 11):

- Alignment will address factors including the organizational structure, decision authority, reporting relationships, strategy shared values, human resource skills, and systems.
- Reengineering considers fundamental analysis and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance such as quality, service, speed and cost.
- A Benchmark evaluates products, services, structures and work processes of other organizations, both externally and internally.
- In participative management, involvement of those affected is not only a source of many ideas for improvement but also a means to assure effective implementation of change.
- High performance work systems (HPWS) are based on employee involvement and empowerment, which in turn shift the emphasis to employee control. HPWS involve the implementation of several work practices, such as, employment security, selective hiring, self-managed teams and decentralization, extensive and continuous training, Information sharing, multi-skilling and high compensation contingent on organizational performance to ensure that employees feel part of the process.
- In cross-functional work teams, often teams are formed to manage specific projects, such as, redesigning a business process or speeding up the development and introduction of new models or products, factors that can be critical to profitability and success (Internet, 11).

Reorganization can be internal which involves changing the management structure. Reorganizing operations involves, altering the make-up of the company assets and liabilities.

External reorganization involves acquiring other companies, merging with other companies by spinning-off or divesting undesired divisions and subsidiaries.

Effective reorganization involves: reducing expenses, increasing profits, improving cash flows, increasing productivity, increasing shareholders return on investment, increasing competitive advantage, reducing centralization, improving decision-making, increasing customer satisfaction, increasing sales, increasing market share, improving product quality, take advantage of technological advances, increasing innovation and avoiding a takeover (Internet, 3).

2.3.1 Going Concern Evaluation

The (Internet, 7)) defines going concern as "the idea that a company will continue to operate indefinitely, and will not go out of business and liquidate its assets". An entity will normally not be considered a going concern if it is unable to meet its obligations as they become due without, substantial disposition of assets outside the ordinary course of the business, restructuring of debt, externally forced revisions of its operations or similar actions.

2.3.2 Asset Protection

Asset protection should not be intended as a means of hiding or concealing assets from legitimate creditors. The general purpose of asset protection planning is to legally structure assets so that the assets cannot be reached by lawsuits and/or general creditors. The benefits of asset protection strategies can be lost if the asset technique used does not conform to state and federal laws. For an efficient strategic position proposed strategies must be evaluated with sufficient due diligence to ensure that planned strategies meets federal and state solvency and fraudulent conveyance statutes and practices (Internet, 3).

2.3.3 Asset reduction

Asset/cost reduction strategies are used more frequently by organizations that fail to recover than those that do. One way to reduce costs might be through the implementation of asset reduction or implementation of a redundancy programme.

However, care must be taken to ensure that this will not result in excessive deficiencies in knowledge skills.

2.3.3.1 Outsourcing

Outsourcing might be considered for non-core service functions. Activity-based Costing can highlight the true cost of carrying out functions in-house and enable a fairer comparison to be made with external agencies willing to provide these services. Just-in-time purchasing and production methods can eliminate the high costs of stockholding (ACCA Newsletter July, 2001).

A company must focus on its core market. The existence of significant equity in the plants or stores being closed could provide much needed cash injection to an ailing organization. A sale and leaseback is another possible cash generation option of the utilities equity in properties owned by companies. In some instances, divestment involves the selling of complete business units or brands (non-core businesses).

2.4 Suitability

"Suitability is a broad assessment of whether the strategy addresses the circumstances in which the organization is operating; the extent to which new strategies will fit with the future trends and changes in the environment or how the strategy might exploit the core competences of the organization" (Johnson and Scholes, 2000). It involves addressing the question- is the strategy good? Suitability concerns qualitative assessment and testing out the rationale of a strategy hence, essential for screening options (Johnson and Scholes, 2000).

Lynch (2000) classifies suitability as strategy content criterion that some options may be more suitable for the organization than others. This depends on how well each option matters with the environment, the resources and how well does it deliver competitive advantage. Ambrosini (1998) argues that suitability analysis can be taken further to help inform evaluation of strategies by providing a basis for screening options. He further states that a suitability model should help managers to generate some strategic options which match organizational capabilities with likely environmental changes; and address competitive strengths and weaknesses. It should utilise the organizations strengths, core competences and take corrective action where necessary. It should also address the cultural and political context in which the organization operates.

In addition, establishing the relative merits of an option when a number of choices are available should screen options.

Ambrosini (1998) on the other hand argues that assessing the impact of environmental changes on the current strengths and weaknesses of an organization can help managers to understand the changing environment in such a way that will allow them to identify opportunities or recognise threats which are very important. He also mentions that questioning the relative importance of each environmental change on the matrix and weighting them accordingly can also test the susceptibility of each strategy to environmental change.

2.4.1 Establishing the rationale

The main purpose of strategic analysis is to establish an understanding of the basis on which the suitability of strategies can be judged by exploiting the opportunities in the environment and avoiding the threats, capitalize on the organization's strengths and core competences and avoid or remedy the weaknesses and addressing the cultural and political context, to mention but a few.

2.4.1.1 Life Cycle Analysis

The life cycle analysis will be discussed by looking at the strategic, financial, operational and investment perspectives. Life cycle analysis assesses whether a strategy is likely to be appropriate given the stage of the product life cycle.

(1) Marketing Point of View

Arnold (2002), Lynch (2000) and Thompson and Strickland (2003) all contend that the life cycle of a product/service is in four stages. Typical stages regard the introduction/development stage, growth, maturity and the decline stage. A lack of understanding of customer needs, expectations and lack of attention to the marketing mix will usually lead to inappropriate product design.

The marketing mix is a set of controllable marketing variables that a firm blends to produce the response it wants in the target market. One of the ways of presenting the marketing mix is the four Ps which are product, promotion, price and place (ACCA Newsletter December, 1999).

(2) Financial Point of View

Arnold (2002) argues that the longetivity of the competitive advantage can be represented in terms of a life cycle in four stages:

- Development: Competitive advantage is established through technological or service innovation. Sales base is small.
- Growth: Competitive strength is enhanced by factors such as industry leadership, brand strength and patent rights. A lengthy period associated with high returns.
- Maturity: A stage of intense competition, characterized with high substitution or by customers and suppliers bargaining power, technological breakthroughs or competitors being able to offer a superior product. These forces can drive management to a loss of grip on cost control. Management should, therefore, erect barriers to the entry of the firms to the industry, continually innovate and improve the strategic business units (SBU) product offering, so as to stay one step ahead of competitors.
- Decline Stage: A period of negative performance spreads.

(3) Operational Point of View

Pycraft, Singh and Phihlela (2000) on the other hand, argue that if a product has a useful life of twenty years, it will consume less resources than the one that only lasts five years, which must , therefore, be replaced four times in the same period.

Pycraft et al further state that at the product/service introduction stage of the life cycle it is difficult to adapt any other than a capacity leading strategy. Capacity must be available to produce the goods or deliver the services, otherwise customers will not have the ability to sample them and make a judgment of their acceptability, and however, capacity leading strategies implicate low utilization thus high costs, which are more likely to be tolerated at the introduction stage, where competition might not be based on low prices. In the growth Stage, demand forecasting is difficult because small changes in growth rates can result in very difficult levels of demand. Smoothing with inventory might be preferred as a strategy where this is possible. In the maturity stage, the nature of competition usually emphasizes declining prices more than in earlier stages. Management is more concerned with keeping costs low. Full utilization of capacity lagging strategies seems attractive.

(4) Investment Point of View

Reilly and Brown (2003:495) view the product/service cycle as a five stage process:

- Pioneering Development: Where the industry experiences modest sales growth and very small or negative profit margins. This is a stage characterized with major development costs.
- Growth: Market for the product/service develops and demand becomes substantial. There is little competition and substantial backlogs. High profit margins and increasing productivity due to the increasing demand of goods to be sold thus high sales.
- Mature growth: Sales growth may be above normal but no longer accelerates. Rapid growth of sales and increasing profit margins attract competitors to the industry which causes increase in supply and lowers the prices causing profit margins drop to normal levels.
- Stabilization and market maturity: Longest phase. Industry growth rate of the aggregate economy or its industry segment. Investors estimate growth easily since sales correlate highly with an economic series but profit growth varies by industry and ability to control costs differs among companies. There are tight profit margins because of high competition. Rates of return on capital (for example, return on asset (ROA) and return on equity (ROE) eventually become equal or slightly below the competitive level.
- Deceleration: The industry sales growth declines because of shifts in demand or growth of substitutes. Profit margins continue to be squeezed. Some firms experience low profits or even losses. Firms that remain profitable may show very low rates of return on capital (ROC). Investors think about alternative uses for the capital tied up in the industry.

2.4.1.2 Business Profile Analysis

A business profile analysis shows the extent to which a strategy matches the favourable performance parameters financially.

2.4.2 Screening Options

Johnson and Scholes (1999) refer to screening options as the process of comparing, the relative merits of different strategies. This stage is important before a more detailed assessment of acceptability and feasibility is undertaken.

2.4.2.1 Industry Attractiveness

Thompson and Strickland (2003:112) define industry attractiveness as "an assessment that the industry and competitive environment is fundamentally attractive typically suggests employing a strategy calculated to build a stronger competitive position in the business, expanding sales efforts and investing in additional facilities and equipment as needed". Attractiveness considers a range of factors such as, market size, market potential, competitive structure, financial factors, economic factors, technological factors and social and political factors.

2.4.3 External Analysis

Johnson and Scholes (1999) argue that a strategy should exploit the environmental opportunities and be aware of the threats.

2.4.3.1 Porter's Five Forces

According to Thompson and Strickland (2003:80) the Five Forces model analyzes the industry as a whole and concerns the:

(1) Nature and Intensity of Competitive Forces

- Rivalry among competing sellers in the industry: various players in a particular sector or niche try to do the same things by constantly jockeying for position.
- The potential new entry of competitors: competitors who may offer the same products or services at lower prices or with some other advantages.
- The market attempts of companies in other industries to win customers over to their own substitute products: a company's strategic position depends on the extent to which what it offers is unique and cannot be replaced by something else. Equally, a firm which has a product which cannot be easily substituted, either because it is unique or because it has some form of protection is in a strong position.
- The competitive pressures stemming from supplier-seller collaboration and bargaining: in some cases the suppliers are strong; in which case the client firm has a weak position and its ability to compete will depend a lot on the major supplier.
- The competitive pressures stemming from seller-buyer collaboration and bargaining: similarly, the bargaining power of customers determines how much customers can impose pressure on margins and volumes.

(2) Criticism of the Porter's Model

- Porter's model has, however, been subject to many criticisms due to the historical context in which it was developed.

- Development at that time in many industries was fairly stable and predictable when compared with today's dynamics.

In general, the meaningfulness of this model is reduced by:

- Its economic sense of assuming a classic perfect market.
- The model is best applicable for analyzers of simple market structures.
- It is based on the idea of competition.
- Further, it assumes that companies try to achieve competitive advantages over other players in the markets over suppliers or customers (Internet, 17).

To enable managers think about the situation facing their industry, whether it is structured in an easy-to-understand way as a starting point or for its valuable Information, the Porter's Five Forces model will be used based on:

- Statistical Analysis: Statistical analysis determines the attractiveness of an industry as well as, providing insight on the organization's profitability.
- Analysis of Options: It is based on microeconomics; it takes into account supply and demand, complementary products and substitutes, the relationship between volume of production and cost of production and market structures like monopoly, oligopoly or perfect competition.
- Dynamical Analysis: In combination with a PEST analysis, this reveals drivers for change in an industry (Internet, 17).

(3) Competition

It is very critical for an organization to put strategies that will outwit its competitors in the market. An organization exists in competition with other organizations for resources but must select the most appropriate structures to cope with changing conditions. To achieve its goals it relies upon its environment for resources. If the organization is to survive it must be responsive to the competition needs and be able to take a critical decision in responding to the environment. In managing dependence an organization has to cope with uncertainty, especially, in an environment where technology changes quickly or the services are unpredictable or if the basic legitimacy of the organization appears to be under threat. Competitors for cooperatives are other cooperatives but in the same line of activity as a whole. In the case of an apex cooperative, the competitors are usually the commercial institutions.

2.4.3.2 Strategic Group Maps

The general trend is for companies to unintentionally stretch their resource capabilities. Thompson and Strickland (2003) define strategic group mapping as a valuable tool for understanding similarities, differences, strengths and weaknesses inherent in the market positions of rival companies. They further argue that one thing to look for is whether the industry driving forces and competitive pressures favour some strategic groups and hurt others; whether the profit potential of different strategic groups varies due to the strengths and weaknesses in each group's market position and that rivals in the same or nearby strategic groups usually pose little or no immediate threat.

2.4.3.3 Weighted Competitive Strengths model

Ambrosini (1998) developed a model to weigh competitors' rival strengths to each other in the same industry by using weighted averages. The highest score means the highest strength and the lowest score means incompetence.

2.4.4 Internal Analysis

Every organization has to manage its internal resources, the external environment within which the organization operates and add value to what it does.

2.4.4.1 Value chain analysis

Refers to activities within and around an organization and relates them to an analysis of the competitive strength of the organization. Suitability of strategic developments may also be tested by the extent to which the strategy will reconfigure the value chain in a way which improves value for money and the competitive position of the organization (Johnson and Scholes, 1999).

The value chain is regarded as part of all the industry participants from raw material suppliers through to the final consumer. Marketers need to find ways of creating meaningful competitive advantages for their products.

Segments that should be targeted are those that can be can be served better than other providers. Benchmarking the discovery and adoption of best practices, reengineering core business processes and total quality management programme all aim at improved efficiency, lower costs, better product quality and greater customer satisfaction. All these techniques are important tools for learning how to execute a strategy more proficiently (Internet, 8). The unique strength of value chain analysis is that it can be used as an analytical tool to help firms bridge the strategic gaps between the firm's capabilities and opportunities and threats in its competitive environment.

Fleisher (2002), Lynch (2000) and Thomson and Strickland (2003) all classify the value chain activities into two main categories which are:

Primary Activities

(1) Inbound logistics (inventory warehousing and handling) and Operations (transformation of inputs into the final product or service). The delivery of superior products and levels of service to customers must be preceded by a thorough analysis of their needs and expectations. A decision may be taken to redefine the target market or to create separately identifiable segments. Products from non-profitable segments may be withdrawn and put on more profitable groups of customers.

A product needs to be offered and designed in such a way so as to maximize the appeal to the segment they are trying to attract. The product needs to satisfy customer needs and forms a part of the firm's competitive strategy, especially product differentiation. This involves assessing the product's suitability for its stated purpose, its aesthetic factors, its durability, brand factors, packaging and associated services (ACCA Newsletter May, 2001).

Low productivity rates affected by low staff morale, a refusal to train workers and an inability to attract or select good workers are all likely to contribute to uncompetitive product costs. Quality problems caused by failing to get things right first time will lead to rework costs. And a failure to spot poor quality before it reaches the customer can be catastrophic, leading to image casualty and even lawsuits (ACCA Newsletter May, 2001).

(2) Outbound logistics (distribution) and Marketing and Sales (marketing communications, pricing and channel management, etc). Outbound logistics includes decisions regarding distribution channels, location of outlets and position of warehouses, stock levels, delivery frequency,

geographic market definition and sales territory organization (ACCA Newsletter December, 1999). The use of inappropriate channels means that the target audience does not have access to products at the right time in the right place.

Marketers do not have total control over the price; as a result the cost impacts are always big. However, a range of pricing strategies are available, some include:

- Penetration pricing – low prices for a product launch or to increase sales volume
- Skimming pricing – high prices used to maximize profits. Other aspects include discount structures for the trade, promotion, pricing, methods of purchase and alternatives to outright purchase.

A good knowledge of the price elasticity of demand for each product or service is essential. Charging too much or too little could be equally damaging to revenues, gross margins and ultimately profits. A policy of price discrimination might be practiced in order to maximize revenue (ACCA Newsletter July, 2001).

(3) Services (post-sale-support)
The aim of promotion is to gain the potential customer's attention, generate interest, arouse desire and stimulate action to purchase.

Lovelock (2001) defines integrated service management to be 8 Ps as opposed to 4ps strategic elements. The 8 Ps required for success in any competitive service business are:

(1) Product elements: Managers must be attentive to all aspects of the service performance that have the potential to create value for customers.
(2) Place, cyber and time: delivering product elements to customers involves decisions on place and time of delivery, as well as, on the methods and channels employed (physical or electronic distribution channels).
(3) Process: Creating and delivering product elements to customers requires the design and implementation of effective processes that describe the method and sequence of Actions in which service operating systems work.
(4) Productivity and quality: Productivity relates to how inputs are transformed into outputs that are valued by customers whereas quality refers to the degree to which a service satisfies customers

by meeting their needs, wants and expectations. Improving productivity is essential to keep costs under control whilst service quality is essential for product differentiation and building customer loyalty.

(5) People: Customers often judge quality of the service they receive based on their assessment of the people providing that service.

(6) Promotion and education: In services marketing, much communication is educational in nature, especially, for new customers. Companies need to teach these customers about the benefits of the service, as well as, where and when to obtain it, and provide instructions on how to participate in service processes.

(7) Physical Evidence: Service firms need to manage physical evidence (visible cues) carefully by creating meaningful symbols, because it can have a profound impact on customers' impressions, for example, an umbrella may symbolize protection, a fortress and security.

(8) Price and other user costs: Besides limiting pricing tasks setting trade margins and establishing credit terms managers must seek to minimize burdens that customers may bear in purchasing and using a service, including time, mental and physical effort, and unpleasant sensory experiences.

Lovelock (2001) argues that there are potential shortfalls or gaps- within the service organization and they concern:

- Not knowing what customers expect
- Specifying service quality standards that do not reflect what management believes to be customers' expectations
- Failing to ensure that service performance matches specifications
- Not living up to the levels of service performance that are promised or implied by marketing communications.

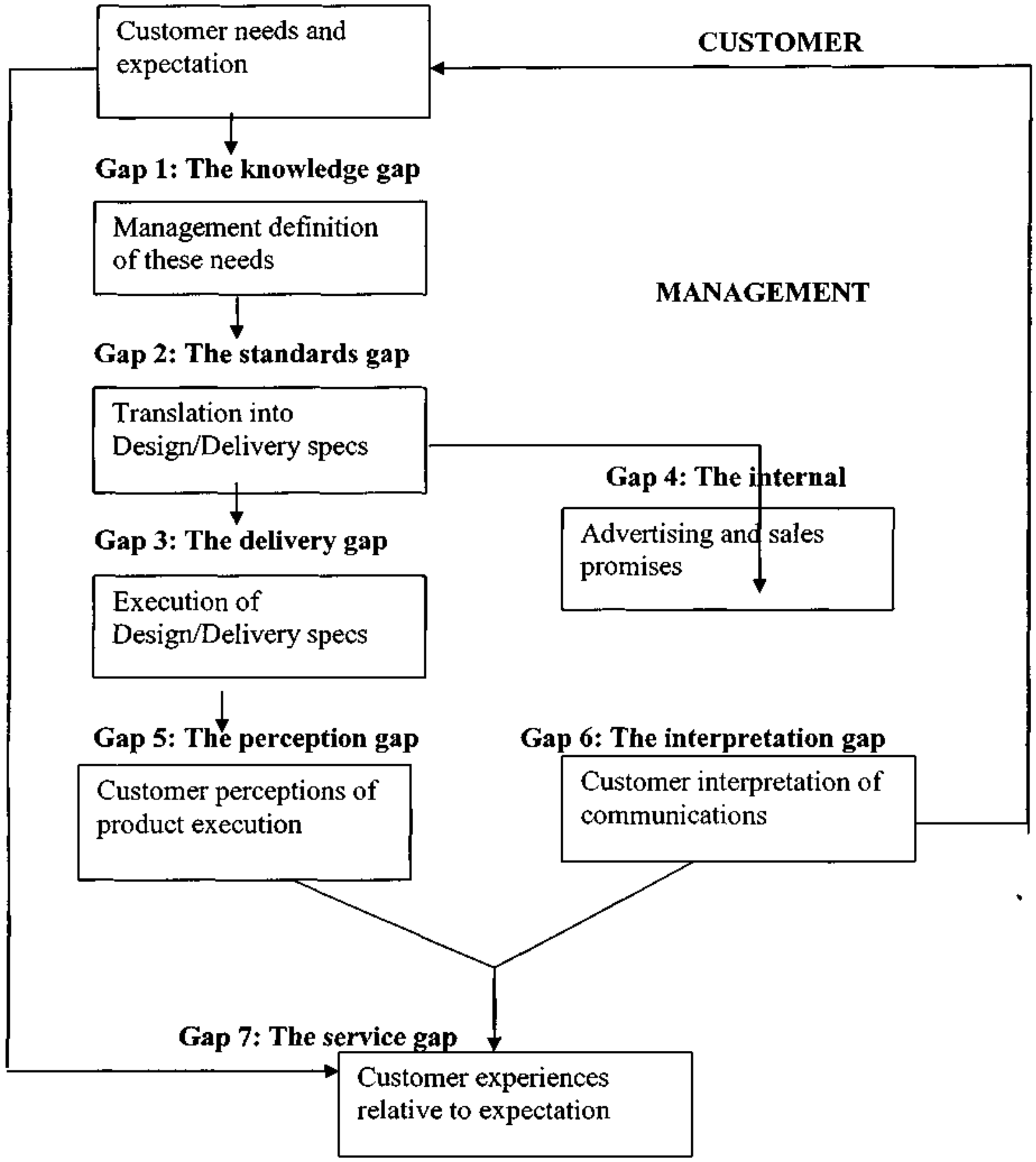
Lovelock (2001) has, however, extended these gaps to be seven, namely:

- The knowledge gap: the difference between what service providers believe customers expect and customer's actual needs and expectations.
- The standards gap: the difference between management's perceptions of customer expectations and the quality standards established for service delivery.
- The delivery gap: the difference between specified delivery standards and the service provider's performance on these standards.

- The internal communications gap: the difference between what the company's advertising and sales personnel think are the product's features, performance, and service quality level and what the company is actually able to deliver.
- The perception gap: the difference between what is actually delivered and what customers perceive they have received (because they are unable to accurately evaluate service quality).
- The interpretation gap: the difference between what a service provider's communication efforts (in advance of service delivery) actually promise and what a customer thinks was promised by these communications.
- The service gap: the difference between what customers expect to receive and their perceptions of the service that is actually delivered.

These service gaps can be further illustrated in Figure 2.1:

Figure 2.1: Planning and Managing Service Delivery



Source: Adapted from (Lovelock, 2001: 370)

Support Activities

(1) Technology development (engineering R & D)

Inadequate market research would prevent a thorough understanding of customer expectations. Having survived the short-term and establishing a long-term competitive advantage should be high on the organization's long-term success.

It should, however, be noted that R & D does not always lead to the development of break-through products, but may simply result in an improved version of an existing product, to give the firm a competitive edge over its rivals (ACCA Newsletter July, 2001).

Having survived the short-term and established a long-term competitive advantage should be high on the organization's long-term success. It should, however, be noted that R & D does not always lead to the development of break-through products, but may simply result in an improved version of an existing product, to give the firm a competitive edge over its rivals (ACCA Newsletter July, 2001).

Leading organizations extend knowledge through extensive research, development, operations, logistics, marketing, customer service and other day-to-day activities, so that everyone in the organization, anywhere and at anytime can access the organization's knowledge capital and bring world wide insights to his or her daily work. The basics include building and maintaining a knowledge network infrastructure including people and facilities, as well as technology and systems.

A successful organization is viewed as the one which has ability to bring global power to a local problem, one that will approach problem solving and decision-making as a universal search to learn beyond internal and external boundaries. Global search means that all levels of the organization will embrace the effort to seek markets competences and resources from the farthest corners of the globe.

Marketing researchers accept that the advent of the Internet is fuelling a radical change in the marketing of both goods and services, but they do not always agree on the ways in which the Internet will evolve as a commercial medium and its consequent managerial implications. Changes in one technology often have a ripple effect, requiring leverage from other technologies to achieve their full potential. Managers need to be watching developments proactively to determine their potential impact. The underlying goal of modern delivery systems should be to offer customers more choices, recognizing that some people opt for face-to-face contact. delivery systems mean that the nature of the overall service experience changes sharply as the encounter moves from high contact to low contact.

(2) Firm infrastructure [administrative support Activities, such as, accounting, legal, planning and all forms of stakeholder relations, that is, government and public relations.

(3) Human and Resource Management

There are three (3) major actions that build up an organization and they concern:

- Filling key positions with able people
- Building the core competences and organizational capabilities needed to perform value chain activities.
- Structuring the internal work effort and melding it with collaborative efforts of strategic allies.

Selection of able people for the key positions tends to be one of the earliest strategy implementation steps because it takes a full complement of capable managers and employees to get changes in place and functioning smoothly (Internet, 8).

(4) Personnel resources
Weaknesses in the organization's human resources will pervade many of the other issues already discussed. Problems could emanate from too many staff; not enough staff; poor quality staff (lacking knowledge and skills); low morale; an inappropriate culture leading to dysfunctional behaviour. And at a strategic level, difficulties will be encountered if there is lack of strategic capability (to recognize strengths, weaknesses, opportunities and threats; a failure to learn from a crises or mistakes and a failure to focus on core business (distractions). A company can be destroyed by management's decision to diversify away from its core business and can also become fragmented and unfocused systems and procedures (ACCA Newsletter May, 2001).

Gerber (1998) argues that human resources entail building a strong management team and recruiting and training talented employees. This will also include getting rid of staff that is not in support of the company strategy. The ability to motivate and inspire staff is one of the cornerstones of an entity's success. Part of the motivation to perform will be enhanced by attendant reward systems or incentives. Staff will be most productive when they are happy with their work conditions and organization.

Once new procedures and policies are implemented, they have to be reviewed constantly to see if they are bringing about the expected results. If there are performance gaps, improvements have to be made. Improvement is also sought even if changes are bringing about the expected results. Communication with staff and other stakeholders in the business are very essential for cooperatives.

2.4.4.2 Positioning

Every organization is faced with the challenge of positioning itself in order to embrace change and competition in the market. The organization should evaluate its current strategy and then correctly position itself in order to meet future challenges. Proper positioning is valuable, since it forces explicit recognition of the different attributes comprising the overall service concept and emphasizes the need for marketers to understand which attributes determine customer choice behaviour. According to (Lovelock, 2001) positioning may suggest opportunities for creating new services or repositioning existing ones to take advantage of unserved market needs.

Johnson and Scholes (1999) and Hitt, Ireland and Hoskisson (2003) contend that positioning is the key test of suitability. They further state that viable positioning is achieved by assessing whether demand is growing or declining. Demand of an organization can be affected by so many factors including the degree of competitive rivalry, relative competences of the organization in terms of a particular product or market positioning, lower unit costs as compared to competitors and unique products/services with value added features.

Thompson and Strickland (2003) state that a competitive position is in five categories ranging from weak to dominant that is, establishing where an organization is currently positioned on a matrix and the types of strategies that are most likely to suite the organization. The competitive position of the organization within its industry depends on whether it is:

- Dominant: quasi monopoly
- Strong: organizations that follow strategies of their own choice without too much concern for competition
- Favourable: No single competitor stands out, but the leaders are better placed
- Tenable: position that can be maintained by specialization or focus
- Weak: Too small to survive independently in the long-run.

Johnson and Scholes (1999) argue that competitive positioning comprises the following steps:

- Listing the key resources and competences underpinning the strategy
- Resources and competences examined on different bases of the product or market strategy
- Assessment of products/services if they are genuinely unique resources or core competences and hence provide competitive advantage to the organization
- Core competences could be assessed by evaluating competences which are valuable to buyers, rare (not easily obtained) by competitors and complex, for example, made up of several organization processes and embedded in the tacit knowledge of routines.
- Assessing the relationship between the generic product/market strategy and the strategic capability of the organization resources and competences or resource deployment analysis and having lower costs derives from the firm's ability to perform activities differently than rivals.

On the other hand Hitt et al (2003) argue that when positioning itself, a company must decide whether it intends to perform activities differently as compared to its rivals. They further mention that successful use of a chosen strategy results only when the firm integrates its primary and support activities to provide the unique value it intends to deliver and value is delivered to customers when the firm is able to use competitive advantages resulting from the integration of activities. In turn, an effective activity system helps the firm to establish and exploit its strategic position, as well as, being better able to cope with the Porter's Five Forces model of competition.

2.4.5 Portfolio Analysis

According to Thomson and Strickland (2003) the two best empirical indicators of how well a strategy is doing are whether the company is achieving its stated financial and strategic objectives, and whether the company is an above average industry performer.

Portfolio planning describes the methods of expressing a product/market relationship in a manner meaningful for management decision-making. There are two main aims:

- To ascertain, through factual analysis, the current strengths and weaknesses of an organization's product/services, their position in the market and the state of attractiveness of each of those markets.
- To indicate a strategy that would emphasize the strengths and remedy the weaknesses (Lynch, 1999).

The optimal idea came from Harry Markowitz in 1952. It states that it is possible for different portfolios to have varying levels of risk and return. Each investor must decide how much risk they can handle than allocate their portfolio. According to this decision a recommended optimal portfolio will represent all investment styles in the portfolio, stock analysts styles consist:

- Size: the total market value of the company's outstanding shares
- Growth Stocks: those with rapidly expanding earnings
- Value shares: unpopular issues that sell at depressed prices (Reilly and Brown, 2003).

The investment should be held in approximately the same proportion as their market values. Suggested proportions would be 10% to 15% in small-cap stocks and 85% to 90% in mid and large-caps, and then dividing those stakes roughly equally between growth and value (Internet, 8).

Recent research studies has shown that a well diversified stock portfolio must include at the very least 30 stocks for a lending investor and 40 stocks for a borrowing investor. This is in contradiction with earlier results quoted in many current textbooks that the benefits of diversification for stock portfolios are exhausted when the number of stocks reaches ten or fifteen. A moderate to high risk taker (portfolio manager) is highly recommended than a risk-averse investment manager. An optimal portfolio means deciding on how much risk should be taken by a cooperative, handle and then allocate its assets accordingly.

2.4.5.1 The Boston Consulting Group (BCG) Matrix

The BCG matrix is a model which categorizes a company's products in terms of cash generation and demands within two aspects of market growth and market share (Lynch, 1999:482). The BCG matrix operates on the assumption that the experience curve is operating and, therefore, the company with the largest relative share will be the largest cost producer.

The logic of the portfolio is that cash cows are the financiers of the other segments (large positive cash flows). Ideally some question marks are selected to become stars: this will require demands for capital which will be provided by the cash cows [moderate, safe and positive cash flows). As a star matures and the market growth slows so it becomes a cash cow for future products. Question marks not selected should be managed to generate cash until they become dogs. Dogs should be harvested or divested from the portfolio (Lynch 1999).

The Boston Consulting Group (BCG) suggested that organizations should maintain a balanced portfolio of businesses. Many organizations run into difficulties after failing to appraise investment projects. This is a financial technique used to measure management's effectiveness towards wealth maximization of the whole organization. Usually a ratio called return on equity (ROE) is used as the overall indicator of success. A satisfactory return is required to maximize shareholders' funds. The main strength of Du Pont Analysis is grouping income associated ratios, investment ratios and the capital structure of the organization. The ratios give insight on the firm's operations.

Managers should agree on the required performance and decide on the organization's return on investment (ROI). Any assumptions made should be based on the ROI results. Forecasted likely performance if strategies are unchanged should be based on the factors that can cause ROC to decline. Lastly, the gap to be filled by new strategies should be established. It should be noted, however, that the model can be very difficult to apply in practice and it is time consuming.

2.4.6 Optimal Capital Structuring

Geared companies are worth more than equivalent ungeared companies by the amount of the tax shield (ACCA Newsletter May, 2000). If a company is highly geared, it will have to pay large amounts of interest to debt-holders, and interest payments are compulsory. A low interest cover indicates reduced business retention funds which may lead to declining investment in the business. One option open to a company is to try and convert its debt to equity. Though this often dilutes the existing shareholders' interests, it at least allows the company to reduce commitment outgoings in the form of interest payments. If following asset disposals, additional funding is still needed in order to implement turnaround strategies. It may be necessary to attempt a new issue of shares, if so; an upbeat message will have to be communicated in order to persuade investors to become more heavily involved (ACCA Newsletter July, 2001).

High gearing leads to high committed costs in terms of exposure to interest payments and low interest cover. During an economic downturn, if operating profits fall, a high proportion of debt-to-equity is bound to be a drain on cash flow. If a company is overtrading (whereby the organization grows too quickly and cannot finance the growth from working capital) it can run to cash flow problems, for instance, paying over increasing dividends to keep shareholders happy, can starve the company's internal funds and limit its investment opportunities (ACCA Newsletter July, 2001).

2.5 Gap Analysis

Johnson and Scholes (2000) define Gap Analysis as the extent to which existing strategies will fail to meet the performance objectives in the future. Gap Analysis assists managers to understand the competitive environment in which they are operating better. And can be useful in spotting the weaknesses and strengths of an organization in relation to its competitors. A manager could, therefore, help develop strategies to catch market leaders or strategies to stay ahead of competitors. Management should, however be aware that this model is difficult to apply in practice and time consuming.

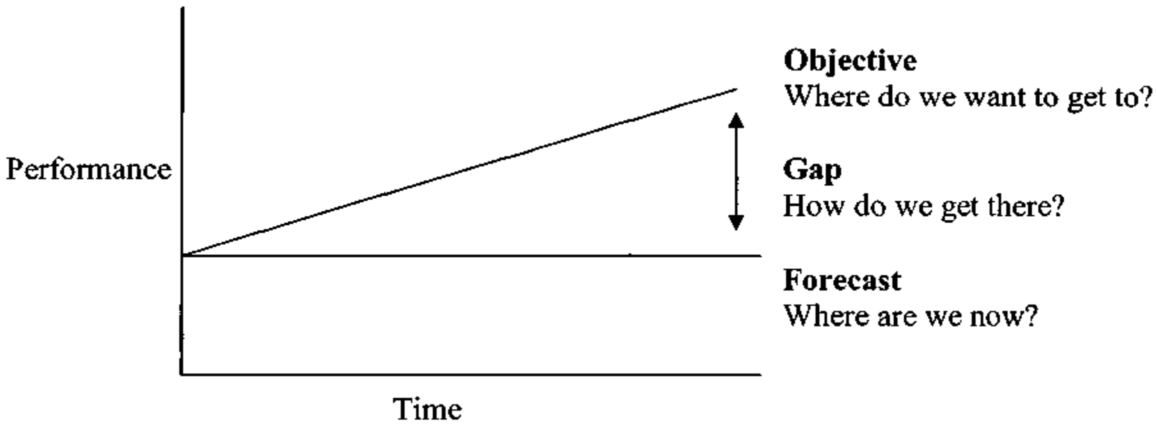
2.5.1 Product and Market Gap Analysis Model

Analyze the gap between objectives and forecasts, market and the firm's current strategy. When analyzing gap analysis, an organization can ask itself the following questions:

a) Where are we now?
b) Where do we want to get to?
c) How can we get there?

And these questions can be presented graphically as shown in Figure 2.2:

Figure 2.2: A Performance Gap Analysis



Source: (Ambrosini, 1998:221)

If the gaps are found management has to consider the following points:

(1) Redefine the objectives: Check that the objectives are realistic and achievable.

(2) Do nothing: Reorganization and redirection is commonplace in the business environment. Sometimes giving people time "bed in" to a new structure and new ways of doing things pays greater dividends than another change.

(3) Change the strategy: When a gap is found between objectives and forecast and the first two options have been considered and rejected, the only alternative is to change the current strategy and develop a new one.

(4) Improvement gaps: How can we do better in what we already do?

(5) Diversification and gaps: When improvement and expansion strategies have been considered and found not to close the gap fully, the manager has to conclude that the objective cannot be met from existing businesses and, therefore, must consider growth strategies, stability and defense sales. Only combine products or services in a market gap analysis when they perform the same function.

2.5.2 Product Line Gaps

Product Line gaps specify all the possible alternative elements that can be recognized within the product. These elements might include, price, quality, color flavor value.

2.6 SWOT Analysis

For every organization it is essential that its surroundings are given attention so as to at least predict the rivalry intensity in the industry. Studying the environment closely assists in providing information on the nature of competition about the industry the organization operates. A SWOT analysis is a tool used to evaluate the current position of an organization within its environment prior to the design of suitable strategies (ACCA Newsletter May, 2001).

It could be argued that the preparation of a SWOT analysis, whether required explicitly by the question or not, is the best way to summarize the Information presented in a case study. Corporate decline must examine a number of both the internal and the external environment, in which the organization operates (ACCA Newsletter July, 2001).

Opportunities may be perceived and exploited and threats contained by taking appropriate measurements or contingencies tailored, specifically, for the organization. Major opportunities and threats consists not only competitors but also the government, social developments, political issues economic issues, changes in technology, to mention but a few. Opportunities for an organization's access to the internet, intranet and extranet could also be spotted and fully utilized to sustain the organization's linkages to sustain the organization's long-run.

2.7 Implementing and executing a strategy

"Research by Prospectus Strategy consultants has revealed that up to 70 percent of business strategies fail to get fully implemented" (ACCA Newsletter May, 2001:28). Organizations need to look at how they formulate their business strategies and, when they are developed, how they go about implementing them. Strategy is of limited value unless it is acted upon. Competent strategy execution entails visible, unyielding managerial commitment to best practices and continuous improvement. Implementation is not just a top-management function but a job for the whole management team. All managers should, therefore, consider the actions to take in their areas of authority and responsibility to achieve intended results by each having an action agenda.

In deciding how to implement a new or revised strategy, managers have to determine what internal conditions are needed to execute the strategic plan successfully. According to the (Internet, 8) the process of implementing and executing strategy involves:

- Building an organization with the competences, capabilities and resource strengths to carry out the strategy successfully.
- Developing budgets to steer ample resources in the value chain activities critical to strategic success.
- Establishing strategy supportive policies and procedures.
- Instituting best practices and pushing for continuous improvement in how value chain Activities are performed.
- Installing support systems that enable the company personnel to carryout their strategic roles successfully day in and day out.
- Trying rewards and incentives to the achievement of performance objectives and good strategy execution.
- Rating a strategy-supportive work environment and corporate culture.
- Exerting the internal leadership needed to drive implementation forward and to keep improving on how the strategy is being executed (Internet, 8).

2.8 Cooperatives

A cooperative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs as aspirations through a jointly-owned and democratically controlled enterprise (Internet, 14).

2.8.1 Formation of Cooperatives

People usually form cooperatives when they realize that they cannot achieve their financial goals alone and they become ready to surrender a part of their independence for a reasonable return in exchange. Some researchers remark that people form cooperatives to do something better than they could do by themselves or through a non-cooperative form of business acting together members can develop bargaining power to enjoy the benefits of a larger business (Internet, 15).

The cooperative is one of the most widespread forms of organizations in the world today, particularly in developing countries. In many parts of the world, it is viewed as an organization whose time has passed, an organization that has been attempted everywhere but has resulted only in failure and disappointment (Internet, 4). Cooperatives provide access to individuals who need relatively small amounts of savings or credit. These individuals usually represent the low-income sector in the society, mostly Government employees.

2.8.2 Types of Cooperatives

The type of association is chosen according to the purpose of the establishment. There are several types of cooperatives but the primary ones include:

- Financial or Savings and Credit Cooperatives: specialized financial institutions for small businesses. Aimed at promoting mutual aid among small business entrepreneurs and employees (Internet, 13).
- Common facility Cooperatives: the most popular type, this aim to modernize and streamline the management of small businesses (Internet, 13).
- Commerce and industry trade associations: aim for the overall improvement of the industries concerned (Internet, 13).
- Consumer Service Cooperatives: owned by the people who buy the goods or use the services of the Cooperative (Internet, 9).

- Producer Cooperatives: owned by producers of farm commodities or crafts that band together to process and/market their products (Internet, 9).
- Purchasing Cooperatives: associations of for-profit businesses who band together to enhance their purchasing power and competitiveness (Internet, 9).
- Worker Cooperatives: owned and governed by the employees (Internet, 9).

2.8.3 Cooperatives Principles and Practices

Cooperatives practices and policies include: open membership, one member one vote, cash trading, membership education, political and religious neutrality, no unusual risk assumption, limited interest on stock, goods sold at regular retail prices and net margins distributed according to patronage (Internet, 2).

2.8.3.1 International Cooperative Alliance (ICA) Policy Statement

The basic objective of the ICA policy on co-operative development is to establish and build independent democratic and viable co-operatives, in which men and women will participate on equal terms. The organizations must be capable of serving their members efficiently and contribute to economic growth and social equity in their respective communities and/or countries (Internet, 9).

2.8.3.2 World Council of Credit Unions (WOCCU) Policy Statement

The policy establishes clear standards of conduct for officials and employees. It provides guidance to that performing credit union business to ensure that unions' activities are performed in compliance with the letter and the spirit of the law.

The policy statements for ICA and WOCCU are summarized in Table 2.1.

Table 2.1: Policy Statements (Summarized)

ICA Values and Principles	WOCCU Principles
Values ▪ Self help ▪ Self responsibility ▪ Democracy equality ▪ Equity and solidarity ▪ Honesty, openness, social responsibility and caring for others	1) Widening gap ▪ Have and have not ▪ One billion to five billion members
Principles 1) Voluntary and open Membership ▪ Voluntary ▪ Open to all persons ▪ Willingness to accept membership responsibilities ▪ No discrimination (gender, social, racial, political or religions)	2) World without borders ▪ Regional blocks ▪ E – world (technology)
2) Democratic member control ▪ Democratic ▪ Active participation (Policy and decisions) ▪ Accountability to membership ▪ Equal voting rights	3) Legislative and supervisory integration

Table 2.1: Policy Statements (Summarized cont.)

ICA Values and Principles	WOCCU Principles
3) Member of economic participation ▪ Equitable contribution ▪ Building of common property of Cooperatives ▪ Democratically allocate surpluses ▪ Reserves building	4) New balance ▪ Public and private
4) Autonomy and independence ▪ Self help organization ▪ External capital is duly approved	5) Consolidation process ▪ Economies of scale
5) Education, training and Information ▪ Train members ▪ Train elected representatives ▪ Train employees ▪ Inform general public, about nature, benefits and corporation	6) Value of "ACCESS," "TRUST," and "SELF-HELP"
6) Cooperative among Cooperatives ▪ Working together ▪ Local, nation regional and international structure	7) New world is "Growth Driven"
7) Concerns for community ▪ Substantial development of communities ▪ Approved policy for members	

Source: (Internet, 9)

<u>Investment Policy</u>

According to Lynch (1999:478) an investment is "any application of funds which is intended to provide a return by way of interest, dividend or capital appreciation, the idea is that funds are paid out now in the expectation of returns in the future".

Whereas an investment policy ensures that all surplus or liquid reserves are safely invested in the credit union system at favourable terms. Flexibility should be introduced to allow sufficient liquidity to pay out future withdrawals (Internet, 5). If the organization is service-based, the real value of the organization will be in a stream of future cash flows. The terminal value is derived from the going concern of the business. The key point is that the growth rate used should be appropriate for the type of cash flow being valued and the capital cost should be appropriate for the cash flow as well (Bruner 2003). The implication is that since interest rates are lower, overall return is also not high.

Any potential investment is likely to affect:

- The liquidity of the company. If an aim of investment appraisal is to satisfy shareholders, then it is important to remember that if a company has no cash it cannot pay a dividend
- The reported profit and earnings. Shareholders are concerned about earnings per share (EPS) hence; the reported figures in financial accounts (revenues, expenses and assets) must be part of the investment appraisal.
- The variability of cash flows and earnings. When appraising potential projects managers should consider not only the likely size and direction of cash flows and profits but also whether they are likely to add to or reduce the variability of returns from investors' investments (ACCA Lynch 1999).

Savings and Credit

Woerheide (1984) argues that many observers feel that the Savings and Loan Industry is a dying industry. He states that this industry has been beset by the consequence of deregulation and by profit squeeze and cash flow problems caused by the impact of spiraling interest rates on their long-term obligations. Other researchers feel that savings represent the cornerstone of a credit union and loans issued to members should come from the savings and Savings and credit Cooperatives have been successful, particularly in Africa (Internet, 5). It is further stressed that members should be paid a fair rate of return. Dividends or interest paid should be greater than inflation so as to avoid members receiving a negative rate of interest or losing their initial deposits.

2.8.4 Strategic Management for Cooperatives

Cooperatives are not well presented in most business policy literatures yet they are increasingly becoming important aspect of modern industrial organization. Butler and Wilson (1990) define a cooperative strategy as a means of an organization developing a more stable predictable environment for itself. They further state that essentials of the competitive strategy is to attempt managing uncertainty and dependence by alternative maintenance, to ensure that the organization never has to rely upon a small number of supporters whether this be in terms of customers, clients or suppliers.

A cooperative must have a pool of consistent considerable number of members that can be relied upon. In a cooperative, internal goals concentrating upon efficiency of operations have to be set, as well as, concentrating upon efficiency of operations and improving internal control, perhaps by using intensive advertising to maintain and increase organizational support. Butler and Wilson (1990) discuss the following Cooperatives strategies to be:

- Co-optation: taking a member of the management of another organization into the management of the existing organization;
- Contracting: exchange of formal legal contracts between organizations and exchange of less formal social obligations.
- Coalescing: Organizations come together and act as a unit for some unit of activity for a specified time, which may take the form of a joint venture or be taken to the point of a merger.
- In using co-operation, an organization tries to gain power over appropriate elements in the environment to reduce uncertainty through exchange of obligations. The Cooperative strategy assumes relatively equal power among participants.
- Take-over: A competitive strategy whereby an organization is attempts to reduce competition or extend its customer or supplier base through vertical integration.

On the other hand Pearce and Robinson (2003) state that there are three new grand strategies and are joint ventures, strategic alliances and consortia.

2.8.4.1 Joint Ventures

In a joint venture, two or more capable firms occasionally lack a necessary component for success in a particular competitive environment. By combining the assets and talents, they are able to minimize the threat of foreign domination and enhance the skills, employment, growth and profits of local firms (Balogan and Hailey 1999).

Joint Ventures are used in financing development of new technology, which are both cash and skills. Cooperatives elements, which support the organization through provision of resources, may be suppliers of capital; customers or suppliers of office supplies but cooperative members are the main resource suppliers, including grants from the government and donations (Butler and Wilson, 1990).

2.8.4.2 Alliances

Alliances and partnerships are a necessity in racing against rivals to build a strong global presence and/or to stake out a position in the industries of the future. The framework ethic need to extend beyond the traditional boundaries of the organization to the value chain of allied organizations and teams, such as, product developers, suppliers, manufacturers, distributors, marketers, outsourcing partners and even the customers themselves.

Problems are often caused by differing alliance partner agendas, unrealistic expectations, ownership battles, and cross-cultural conflicts. Partners need to learn how to partner in a mutually supportive, value-creating mode, bringing together their complementary competences to create more value together than they could apart. They need not to keep the lawyers and negotiators at bay and treat the alliance as a long-term, strategic relationship. The heart of value creation is trust (Balogan and Hailey, 1999).

<u>Experiences reported for Joint ventures</u>

Balogan and Hailey (1999) state that experiences reported in other studies of Joint ventures Cooperative R & D suggest that managers considering an Alliance must:

- Have a clear strategic understanding of their company's current capabilities and the capabilities it will need in the future
- Managers must consider a wide range of possible Alliances

- Before committing their company to an alliance managers must scrutinise the values, commitment and capabilities of prospective partners
- Must understand the risks of opportunism, knowledge leaks and obsolescence
- Avoid undue dependence on alliances. Alliances generally should be ways of supplementing and improving a firm's embedded knowledge, not substitutes for internal development.
- A company's alliances must be structured and managed like separate companies.
- Companies must come to trust each other
- Managers must change their core operations and traditional organizations so that they will be open to learning from alliances
- Alliances must be led not just managed. Through words and actions, senior executives must clearly communicate the purpose, importance and legitimacy of each alliance, personal commitments, patience and flexibility (Balogan and Hailey, 1999).

Strategic alliances differ from joint ventures, as the firms involved do not take an equity position in one another. Usually, they exist for a defined period during which partners contribute their skills and expertise to a cooperative project. In many instances the alliance exists because the partners want to learn from one another in order to develop in-house capabilities to supplant the partner when the agreed period comes to an end. This relationship may end with one partner copying know-how's of the other. Strategic alliances are synonymous with licensing agreements. Outsourcing is rudimentary to strategic alliances and enables firms to gain a competitive advantage (Pearce and Robinson, 2003). Consortia are defined as large interlocking relationships between businesses of an industry (Thomson and Strickland, 2003).

Ambrosini (1998) and Johnson and Scholes (1998) argue that thinking is vital if a business strategy is to achieve the surprise element needed to gain a significant advantage or dominate a market. Campbell (1998) proposes that if a company is to succeed in new ventures, it should identify the match between its capabilities and the opportunities available. He says that synergy is therefore, one of the possible key components of corporate level strategy. Synergy leads to economic benefits gained through economies of scale.

Innovation

On the input side, organizations may attempt to use new methods of fundraising aimed at an existing pool of members or may use new techniques to reach new members. On the output side, innovation will attempt to create a new domain of clients or to improve and change the services provided for an existing clientele (Butler and Wilson, 1990).

Creating the Service Product and Adding Value.

Innovation is central to effective marketing. Uses of new technologies assist to deliver existing services in new ways. Managers should study businesses outside their own industries in a search for best -in-class performers on specific supplementary services. Managers should be able to choose the right mix of supplementary service elements not more and no less than needed. Product research is very useful in defining the relative level to a given price point. Every new product service should add lustre to the core product in the eyes of target customers (Lovelock, 2001).

Targeting Customers, Managing Relationships and Building Loyalty

All marketers need to be concerned about who their customers are. Too diverse a portfolio may result in an ill define image. Marketers must be selective in targeting the desired customer segments and guidelines must be established for customer's behaviour while they are using the service. The marketer's task is not only to balance supply and demand but also to obtain the most desirable types of customers at a particular point in time. Special attention has to be paid to those customers who offer the firm the greatest value because they purchase its products with the greatest frequency and spend the most on premium services (Lovelock, 2001).

2.8.5 Management of Cooperatives

Restructuring organizations tend to resist major reorganization. The pressures to reframe may be caused by changes in the environment, technology, political climate, or leadership, or by continued growth of the organization. The pre-requisite is that every employee in the organization should, at least, have a basic understanding of the Cooperative's value chain.

This includes knowledge of both the primary Activities, such as, inbound logistics, operations, outbound logistics, marketing and sales and services and support Activities, firm infrastructure, human resource management, technology and development and procurement of the organization (Thomson and Strickland, 2003). Management should be able to identify areas that need attention in order to add value or minimize costs to implement the strategy successfully.

For every process to be successful it has to have a yardstick against which to be evaluated. This implies that management should understand the organization's life cycle of the organization and the board should be able to link the current strategy to the right leader (CEO) who will lead the entity with vision. Success of the strategy will depend on the commitment of the strategy driver/s and how much they are able to diagnose what underlies the root of poor performance. The person spearheading the whole process should have unquestionable power and support from all relevant stakeholders. The board or CEO and/or other senior managers have to rally strongly behind the strategy implementation process because the rest of the organization will take its cue from these figures. Managers must be provided with information to aid decision-making. Poor management information systems will put the organization at a strategic disadvantage and could lead to inappropriate decisions.

2.8.6 Organizational Structure

The ACCA Newsletter (2001), state that structural weaknesses can have an impact on organizational performance. Excessive centralization may lead, amongst other things, to slow decision-making by out-of-touch managers, far removed from the local conditions of the decision situation. On the other hand an organization that decentralizes too much could find itself with other difficulties, such as, a high cost structure brought about by duplication of Activities, or image casualty affected by uncoordinated local decisions.

Within the context of organizational structure, excessive bureaucracy can slow down decision-making and create a role culture of inflexibility but bureaucracy can work well in some situations. Whether it is likely to be a factor in bringing about organizational decline depends very much on the circumstances. Hierarchies that are too tall will lead to high management costs- but by taking de-layering too far and chopping out management levels, spans of control will widen and this too can cause huge problems. An organization growing in terms of products or markets that fails to recognize the need to change its functional structure to a divisional structure could also be a casualty (ACCA Newsletter May, 2001).

Most successful recoveries involve some variation in the organizational structure and business processes, such as, decentralization and better communication between staff. The specific circumstances of the organization should be borne in mind when deciding on an ideal structure (ACCA Newsletter July, 2001).

2.8.6.1 Centralization Vs Decentralization

Early studies reveal that, centralized organizations were structured as in a pyramid, with power and authority concentrated near the top of the organization, but organizations today have become more complex and are responding to dynamic changes in their environments. As a result, many managers believe that decisions need to be made by those individuals closest to the problems faced regardless of their organizational level (Robinson and Decenzo, 2001).

Centralization refers to the degree to which subordinates are involved in decision-making or how decision-making authorities are pushed down to lower levels in an organization. The more centralized, the higher is the level at which decisions are made. On the other hand decentralization considers if all decisions are pushed down to the level closest to the problems (Robinson and Decenzo 2001). The Concise Oxford Dictionary (1990) defines decentralization as reorganizing a centralised organization on the basis of greater local autonomy. Whether decision-making is centralized with management or decentralized to subordinates is a question of proper proportion. The task is to find a question of proper proportion. The task is to find the optimum degree of centralization for each situation (Robinson and Decenzo, 2001).

It should be noted, however, that centralization-decentralization is a degree of phenomenon; no organization is completely centralizes or completely decentralized. Managers often choose the amount of centralization or decentralization that will allow them to best implement their decisions and achieve organizational goals. What works in one organization will not necessarily work in another. Managers should, therefore, determine the amount of decentralization for each organization and work units within it (Robinson and Decenzo, 2001).

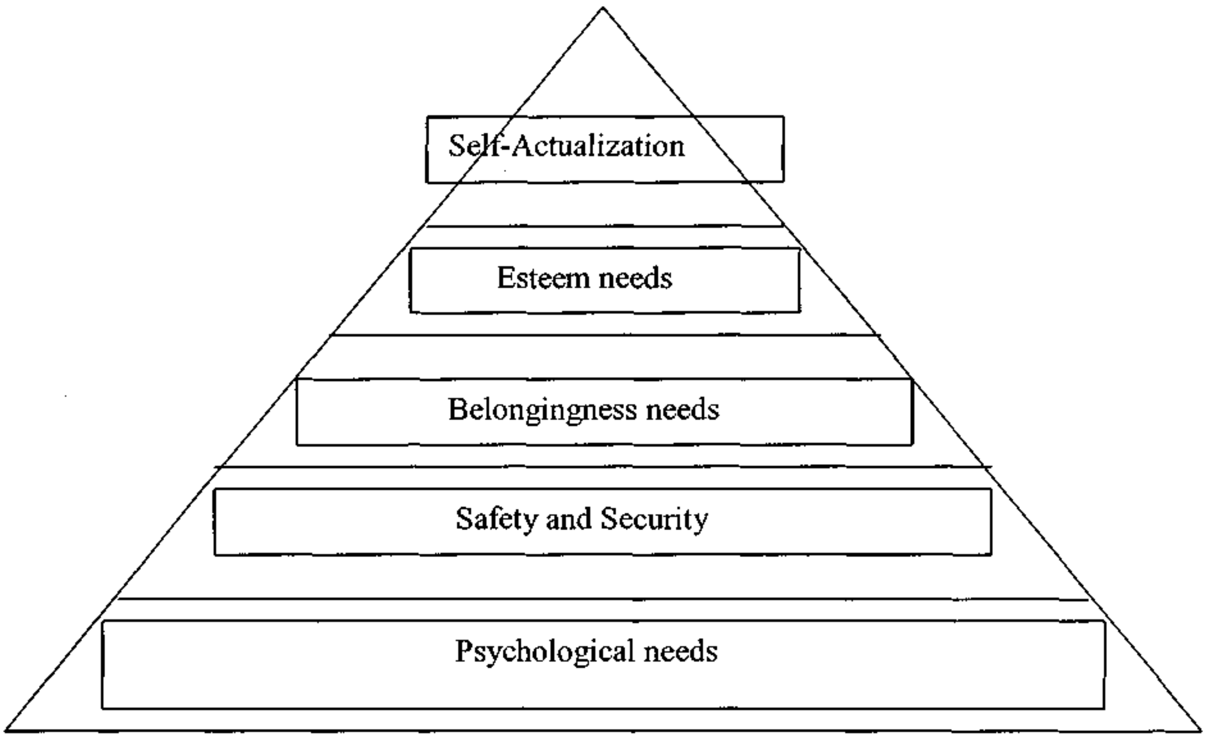
2.8.6.2 Centralized Information Vs Decentralized Information

Information processing technology can be organized on a centralized basis where or central processing unit serves many different users, or on a decentralized basis where information processing is distributed around an organization to place it closer to its users. Local area networks may be used to integrate computing power distributed (Pycraft et al, 2000).

2.8.7 Principles of Management

There are many theories that discuss principles of management and employee's behaviour or motivation at work. Inevitably, no theory can be totally comprehensive. In this research much attention will be paid to Douglas McGregor's Theory X and Y and Maslow "Hierarchy of needs". Maslow's hierarchy of needs is divided into five levels. They are usually presented diagrammatically as shown in figure 2.3.

Figure 2.3: Maslow's Hierarchy of needs



Source: (ACCA Students Newsletter, 1999)

2.8.8 Leadership

Newston and Davis (1997) define leadership as the process of influencing and supporting others to work enthusiastically toward achieving objectives. The primary role of a leader is to influence others to voluntarily seek defined objectives. There is a difference between management and leadership; strong leaders may be weak managers if poor planning causes their group to move in the wrong directions. A person can be a weak leader and still be an effective manager, especially, if managing people who have a clear understanding of their jobs and a strong drive to work.

Newston and Davis further argue that this set of circumstances is less likely since leadership ability could be acquired through observation of role models, management training and learning from work experiences.

2.8.8.1 Leadership Styles

Leaders apply different leadership styles, ranging from free-reign to autocratic:

(1) Free-reign leaders: avoid power and responsibility. They depend largely on the group to establish its own goals and work out its own problems.

(2) Participative Leaders: Decentralize authority. Decisions are not unilateral; there is frequent consultation with followers. Employees are usually informed about conditions affecting their jobs and encouraged to express their ideas and make suggestions.

(3) Autocratic Leaders: Centralize power R & D decision-making in them. Leaders take full authority and assume full responsibility.

Although a positive, participative considerate leader tends to be more effective in many situations, the contingency approaches suggest that a variety of styles can be successful. Leaders must first analyse the situation and discover the key factors in the task; employees or organization that suggest which style might be best for that combination (Newston and Davis, 1997).

<u>Goal Setting (Theory X and Theory Y)</u>

Goal setting is defined in the Source: (ACCA Newsletter December, 1999) as motivation that focuses on the processes of setting goals. The challenge is to make ideas work in a different environment with possibly different parameters and mould the ideas accordingly. Behind this there must be a level of trust that the employer will deliver his or her promises. If trust is not is not present and seen to be present and viable, then nothing will motivate an employee and they will get their satisfiers elsewhere.

Each style reflects a manager's belief about a subordinate's capabilities.

- Theory X: Traditional set of assumptions that most people dislike work and will avoid it if possible. Most people lack responsibility, have little ambition and seek security above all. The role of management is to coerce, control and threaten them with punishment to get them to work.

- Theory Y: It is about creating a climate whereby people will motivate themselves. People enjoy their work and will come to work even on weekends because they enjoy it and know they are appreciated (ACCA Newsletter June, 2000).

The right conditions can be developed for employees to work and satisfy their personal ambitions within their work, and then high levels of motivation can be achieved through:

- Getting to know the people, which may mean operating in small groups rather than the rigid hierarchy
- Identifying the source of enjoyment, strengths and weaknesses
- What they want and what they want from the job (ACCA Newsletter June, 2000):

This is a more humanistic and supportive approach to managing people. The assumption is that most people are not inherently lazy; they have become that way as a result of experience. Work is as natural as play or rest. The belief is that people will exercise self-direction and self-control in the service of objectives to which they are committed. Management, therefore, has a role of developing the employees and helps them release the potential of imagination, ingenuity and creativity that can be applied to work or towards common objectives (Newston and Davis, 1997).

2.8.8.2 Traits of Effective Leaders

Leadership can be determined partially by traits which provide the potential for leadership, and also by role behaviour. The most important traits are a high level of personal drive, the desire to lead, personal integrity and self-confidence. Cognitive (analytical) ability, business knowledge, charisma, creativity, flexibility and personal warmth are also frequently desired. Leadership traits do not necessarily guarantee successful leadership but are best viewed as personal competences or resources, which may, or may not, be developed and used. Some traits such as self confidence may be difficult to accumulate in the short-run, but others can be learned (Newston and Davis, 1997).

2.8.8.3 Leadership Roles

Leadership roles combine technical, human and conceptual skills, which leaders apply to different degrees at various organizational levels:

- Technical skills involve things. It is a person's knowledge and ability in any type of process or technique (learned skills).

- Human skills concern people. It is the ability to work effectively with people and to build teamwork (major part of leadership behaviour) and
- Conceptual skills deal with ideas. It is the ability to think in terms of models, framework and broad relationships, such as, long-range plans

Responsible Leadership

For people to take on responsible leadership, they need support and encouragement, not controls and certainty or punishment. Growing responsible leadership means including everyone in the organization. It is the responsibility of top executives to create the climate for responsible leadership. Focus should shift to coaching, mentoring and being a role model of responsibility and accountability.

2.8.8.4 Motivation

Rewards have two dimensions, which are intrinsic (include feelings of personal satisfaction, sense of achievement, responsibility and pride at work. They are individually controlled and are at the fourth level of Maslow's hierarchy) and extrinsic (include salaries and conditions, incentive arrangements, share schemes, pension schemes, and insurance). They are outside the control of the individual and at the disposal of others. Lack of attention to these rewards can lead to job dissatisfaction and motivation problems (ACCA Newsletter September, 2001).

A reward system aids recruitment and retention and ensures that employees work to a known and consistent standard hence a well constructed reward scheme will motivate employees and increase commitment and effort. Understanding what motivates people is necessary at all levels of management. Motivation is frequently based on reward. Reward systems have to be consistent, transparent and understood. Above all they should be equitable and seen to be fair (ACCA Newsletter September, 2001).

2.8.8.5 Culture

Culture is referred to as the set of values attitudes and beliefs held by the organization's members (ACCA Newsletter December, 1999).

According to Thompson and Strickland (2003) a new culture is necessary to build a strategy supportive culture that will produce a work climate and organizational *espirit de corps* that thrive on meeting performance targets and being part of a winning effort. They state that a strong culture is indicated by clear and explicit set of principles and values which are well communicated and values shared widely across the company.

Thompson and Strickland (2003) further argue that strong leadership, sincere long-standing company commitment and genuine concern for the well-being of the organization's customers, employees and shareholders are factors that develop a strong culture. On the other hand, they contend that a weak culture would be indicated by many subcultures that exist within the organization, few sacred traditions, behavioural norms widely shared, little cohesion across organization units, top executive do not espouse any business philosophy or no commitment to values, no deeply felt sense of corporate identification and where employees view the company as a way to make a living.

Team work is very essential in an organization. Teams constructed from diverse professional disciplines, life experiences and cultural backgrounds are needed to address today's complex problems. People from different functions and levels should come together spontaneously to resolve interdepartmental issues. Executives at all levels need to provide the personal and institutional support including education, recognition and rewards necessary to encourage such radical thinking and teamwork.

What organizational leaders say and do plants the seeds of cultural change and an organization should be fully prepared for any change. Effective companies gather, analyze, and communicate data and Information at Internet speed. An organization's culture is either an important contributor or an obstacle to successful strategy execution. Only a few companies have escaped the need to reorganize, acquire, divest, outsource, or downsize (Internet, 8).

2.9 Organizational Change

It is imperative that managers understand the impact of environmental change on all aspects of organizational Activity. Lynch (2000) states that, if the organization possesses an attitude that welcomes positive change, the implementation of the strategy will be successful. New open work policies and new processes have to be introduced or old ones drastically altered to foster the idea of change for the better. Balogan and Hailey (1999:17) recommend the following steps for measuring organizational change:

Stage 1: Analyze Competitive Position

Change is manageable if not controllable, and change design must be context specific, with the appropriate personal skills, such as, appreciation of complexity, sensitivity and self-awareness. They further state that competitive organizational change should comprise three main components namely:

- Context: "is the why of change" it refers to the social, economic, political and the competitive environment in which the organization operates. This addresses issues like culture, structure and capabilities of the organization.

- Content: is "the what of change" affects choices regarding the organization's product range, the markets in where the organization competes, the manner it competes, as well as its structure.
- Process: is "the how of change" the process addresses the things to be done to deliver change.

Stage 2: Determine the type of change needed

This stage helps identify the required change.

Stage 3: Identify Desired Future State

Transition refers to the organizational intermediate state between where an organization is now and where it wants to be in the future. Three change phases in transition are:

- Unfreeze: To let the past go. Old ideas and practices are learned. Failure to cast aside old ideas leads to resistance to change (Newston and Davis, 1997).
- Move: Adapting to new ideas and practices are being learned. This process involves helping an employee think, reason and performs in new ways (Newston and Davis, 1997).
- Sustain: Moving forward means what has been learned is integrated into Actual practice (Newston and Davis, 1997). It must be recognized that any organizational transition through these phases is, however, underpinned by the process of individual change and the transition curve, a process which individuals go through during the change process.

Balogan and Hailey (1999), Newston and Davis (1997) define the learning curve as the period of adaptation that follows change, and it typically means that there will be a temporary decline in effectiveness before a group reaches equilibrium. It is, therefore, very important that there is a match between the selected change approach and design of the transition stage.

Stage 4: Analyze the change context

There is a need to analyze the change context in order to avoid using inappropriate change formulae. It is the context that should drive the design choices that are made rather than personal bias on the part of the change agent. Context features include considering time, scope, preservation, diversity, capability, capacity, readiness for change and power.

Stage 5: Identify the critical change features

The key issue is that none of the individual features of context can be considered in isolation from the other features, and that these features shift through time. The pattern of features at one time will be altered by the changes put in place, hence the need to be reassessed before choices are made about future changes.

Stage 6: Determine the Design Choices

One great mistake could be basing change choices on popular change recipes that have been seen or used successfully elsewhere rather than tailoring the process to the context in which the organization operates. However, choosing which options to take is not straightforward; several design choices have to be scrutinized closely and they include:

- Change Path: change involving more than one type of change.
- Change Start Point: change agents need to consider where to begin the change process. The questions could be should it start top-down or bottom-up and also considering prototyping, pockets of good practice or some combination of these options.
- Change Style: the start point does not necessarily determine change style, it may vary from highly collaborative to coercive, for example, and it can vary by staff level or occupational groupings.
- Target of change intervention: could be attitudes and values, behaviours or outputs.
- Range of Change levers: could be affected by change target and style.

Range levers include structural and systems interventions, symbols and routines, communication, education, training and personal development.

Stage 7: Design the transition process levers and mechanisms

How to use particular levers and mechanisms to aid the transition process and help effect the required changes, which are:

- Communication: during the unfreeze phase, communication needs to be designed to create readiness; during the move phase communication needs to provide explanation. In sustainability communication need to provide update Information for staff and should be matched to the needs of the audience.
- Symbolic: rituals can be used to help facilitate the unfreeze, move and sustain processes by legitimizing (understanding resistance of management and political landscape of the organization) questioning and challenging in the early stages of change and promoting new role models and social identities as change progresses.

Human and Resource Management Systems are a key to change lever, recruitment and selection, reward systems, appraisal mechanisms and training and development are all interventions that need to be used to encourage individuals to adopt new skills, behaviours, attitudes or values required as part of the changes.

Stage 8: Manage the Transition

Managing individual expectations and interpretations not just structures and systems by providing continuity between formulation and implementation to ensure consistency in the way plans are turned into practice. It is overseeing the changes, which include coordination of the myriad change projects and change related activities and monitoring change progress against plans. Change agents need to work to align the interpretations of individuals with their change vision. Individuals within the transition management team will also need to be well trained to understand the business, its vision and goals (buy-in), mechanisms, tools and techniques of change management. Have good people skills, be sensitive to people issues and be well respected within the organization. Middle managers have the task of undertaking the personal change and to implement the needed changes in their departments or teams, help and lead their staff through personal change and in the meanwhile, keep the business going (Balogan and Hailey, 1999).

Stage 9: Evaluate change outcomes

Managing the Change Process refers to the strategies and organizational structures that should reflect the adaptive stance taken toward the environment in order to ensure survival and avert decline. Organizations, which adopt a strategy of doing nothing, or really defy any labeling of strategy per se, are approaching an era of decline from which they may never recover (Butler and Wilson, 1990). Many authors have noted the change process as long, difficult and painful for participants (Balogan and Hailey, 1999).

It appears that the recognition of the need for change often only surfaces when the organization is in a state of near crisis or collapse. As organizations adapt their strategies and orient themselves towards their domain, there will be impact on factors such as culture and structure.

There is a need for organizations to professionalize and yet retain the values of altruism and motivate volunteering on the part of staff. A decline in the level of financial support becomes a greater concern, and the challenge is that new sources of funding should be sought by the organization to achieve a sustainable income. Managers should, therefore, increasingly create, develop and sustain a funding base from the members and donors. Some effort should also be made to diversify services and to secure distinctive competences (Butler and Wilson 1990).

Senior management must be committed to the change and must lead by example. A policy statement should be issued setting out the new values, and any new mission statement should reflect the same. The sources of resistance to any proposed change should be identified and mapped; together with the driving forces propelling change (Force Field Analysis can be used.) Appropriate strategies for change must be identified and selected (Balogan and Hailey, 1999).

These changes amongst others would include:

- Education of staff and other stakeholders in the importance of adopting the change agent's proposals, and the implications of not doing so (this can be easier in a crisis situation, as the negatives may be tangible. Negotiation with key stakeholders, with a view to minimizing destructive conflict and reaction to a solution that is acceptable to the parties.
- Facilitation of the process, by enabling staff and others to cope with the change (through,

for example, the provision of counseling and financial support for those who might be adversely affected.

- Participation of staff and other involved stakeholders, by inviting them to contribute their own ideas and making them feel as if they own the change (ACCA Newsletter July, 2001).

It should, however, be noted that most change efforts fail because, they turn to be too costly, too risky and too slow even when executives have truly understood the need for change, have communicated that need to their work forces, through proper channels of communication including meetings and have put in place their well-thought-out programme of quality improvement, process reengineering, organizational restructuring, and other popular techniques. The organization and its culture usually thwart progress. Existing infrastructure, including systems, technology facilities and organizational structures, built over decades at enormous cost usually do not support new ways of working and needs to be replaced, this often requires major investments and years to complete.

2.9.1 Preparing for organizational change

Major concerns of managers fall largely in the areas of professional management and organization of change without negating the strong cultural overlay of altruism and voluntarism.

Some writers define change as a journey. The main objectives may be creating more shareholder value by service quality, growth and return on investment (ROI). Organization of work need not follow function but rather follow processes that cross-functional lines and by the frequent need to design the flow of work from scratch, starting over rather than just incrementally changing what exists today. The forces of change may be emerging technologies, such as, the Internet or conditions of deregulation, privatization and open trade.

2.9.1.1 Breakdown at the top

Major change programmes must be top-down and vision-driven, and they require broader participation in the design and implementation phases.

Some authors report that, within the first three months of a major change programme as members of the senior management team confront the real implications of change, for example, processes to be reengineered, how much the business must change and the governance process for managing the change, that is, who will be accountable for the design and for the results before the change Programme is launched.

2.9.1.2 Changing Scope

Keep checking to see if the scope of the change effort will produce the business results you require. Every large organization is risky, and breakdowns are inevitable and when the breakdown happens, it takes the superhuman efforts of a number of people to allow the company to recover, particularly without the breakdown becoming visible to customers. Business risk is minimized by having the kind of person in the team who will respond appropriately when breakdowns occur.

2.9.1.3 Scale

The degree of industry change and management ambition will determine the scale of a company's business and organizational change.

2.9.2 Everything Changes

Organizations need to be prepared for a lot more to change business process and not expect to keep the change localized. Anticipating these shifts, managers can accelerate the change process.

2.9.3 Management changes

Corporate recovery involves management changes. A strengthening of the organization's current team is common in recovery situations, in particular the appointment of a new CEO (ACCA Newsletter December, 1999). Some schools of thought believe that the industry, if left alone to its own devices and market forces will be self-regulated and more competitive, resulting in a better situation for all concerned (Micro enterprise Credit Programme July, 2003).

According to the "Deloitte and Touché" study on credit legislation - 1999 the following global recommendations can be made (Internet, 5):

- All loans should be regulated
- Rules on consumer credit practices should be contained in a single Act
- Clear inclusive definitions of consumers and credit should be provided
- Specific rules on Information to consumers should be enacted

- The presentation of the cost of credit should be standardised
- A cooling off cancellation period should be part of the agreement
- Ceilings should be carefully considered as they limit access to loans and different ceilings should apply to different loan categories
- A minimum down payment should be considered
- Early repayment should be allowed and penalties should be within reasonable limits
- There should be a limitation on lending periods with extensions considered in exceptional circumstances
- Credit bureaus should be regulated by legislation with specific client rights emphasised including access to personal Information
- There should be national coordination of consumer education mechanisms for lodging complaints
- Applicants should be informed of the basis for decisions not to extend credit

The study concluded that there is no uniform approach to the imposition of limitation on interest rates and a real possibility that the imposition of ceilings would limit access to credit.

2.10 Total Quality Management (TQM)

Total Quality Management (TQM) is viewed by Pycraft et al (2000) as an extension of the traditional approach to quality. Quality control was replaced by the concept of quality assurance, which in turn has been superseded by TQM. TQM considers customers' needs and expectations first in measuring achieved quality. It also emphasizes the role and responsibilities of every member of the staff within an organization to influence quality.

Pycraft et al further state that TQM concerns:

- Meeting the needs and expectations of customers
- Covering all parts of the organization including every person in the organization
- Examining all costs which are related to quality
- Getting things "right the first time" that is, designing in quality rather than inspecting it
- Developing the systems and procedures which support quality and improvement
- Developing a continuous process of improvement

TQM instills a commitment to continuous improvement. Effective use of TQM and continuous improvement techniques are a valuable competitive asset in a company's resource portfolio one that can produce important competitive capabilities (in reducing costs, speeding new products to market, or improving product quality, service, or customer satisfaction and be a source of competitive advantage (Internet, 8). TQM classifies the balance between different types of quality costs. By increasing the amount of cost and effort placed on prevention there will be a more than equivalent reduction in other cost categories. A number of organizations have attempted to encourage TQM by the award of prizes and certificates (Pycraft et al, 2000).

2.10.1 Quality Strategy

Pycraft et al (2000: 750) argue that "without thinking through the overall purpose and long-term goals of a TQM programme it is difficult for any organization to know where it is going"

Pycraft et al (2000) further argue that a quality strategy should at least say something about:

- The competitive priorities of the organization, and how the TQM programme is expected to contribute to achieving increased competitiveness
- The roles and responsibilities of the various parts of the organization

On the other hand, some researchers propose the following criteria for quality strategy:

What to do

- Enhance organizational learning in a caring environment
- Improve service by clarifying access to programme or services for Cooperative members or to the public and clarifying access of Information to staff and combating fragmentation or duplication of services or programme
- Enable employees involved in a particular work process to work as a team
- Improve decision-making by ensuring broad and appropriate input
- Balance workloads fairly and appropriately
- Enhance efficiency and/or effectiveness (streamline)
- Enhance flexibility and responsiveness to the community
- Support a strategic long-term direction

What not to do:

- Anything that could potentially do serious harm
- Incurs a cost greater than its benefit
- Makes more difficult for member Cooperatives and staff
- Could not be explained clearly in the local media (Internet, 1).

2.10.2 Enhancing Value by Improving Quality and Productivity

Value, quality and productivity are all of great concern to senior management, because they offer powerful potential to improve value for both the customers and the firm. Satisfactory outcomes to customers should not be costly to the organization. Service marketers need to work closely with other management functions in service design and implementation.

Marketing managers should be included in productivity improvement programme. And since customers are often involved in service production, marketers should keep their eyes open for opportunities to reshape customer behaviour in ways that may help the service firm to become more productive (Lovelock, 2001).

2.10.3 Identifying and Correcting Service Quality Shortfalls

Quality entails consistently meeting customers' expectations; as a result managers have to balance customer expectations and perceptions and to close any gaps between the two. After buying and consuming the service, customers usually compare the expected quality of the service with what they actually received. A superior service is the one whose performance will surprise and delight the customer by falling above the desired service. If service delivery falls within their zone of tolerance, customers will feel that the service quality is adequate (Lovelock, 2001).

2.11 Identifying Failure Points

The ACCA Newsletter (December, 1999), views strategic failure as committing one or more of the "seven deadly sins of strategy implementation".

- Strategy not worth implementing: if the strategy is going to receive active support of management and staff, it needs to be specific, realistic and give the organization something to strive for. The strategy should just be more of the same, incremental or comfortable. It needs to be stretching or innovative.

- People are not clear on how the strategy will be implemented: When the strategy has been developed and evaluated, it then requires a plan to prepare the organization for its implementation. Issues need to be addressed include priorities for management, time scale, lessons learnt from previous strategy implementations, impact on structure and staff at all levels, participation and risks.
- Customers and staff do not fully understand the strategy: Front-line supervisory staff must understand what the strategy is about, why it is important and how it will affect them. The strategy implementation plan should include a communication plan, which sets out who needs to be told about the strategy. The plan should not only include senior management but also middle management, supervisor, staff, customers, suppliers and other key stakeholders.
- Individual responsibilities for implementing the change are not clear: people should be given clear and specific responsibilities for making strategy work. The more people you directly involve in the implementation process the better. This encourages a sense of ownership, commitment and responsibility for making the strategy happen. If someone is given an implementation task, it should be made sure that the task is done, as part of assigning staff responsibility is giving clear, understandable instructions and tasks and reviewing progress at regular intervals.
- Chief Executives and senior managers step out of the picture once implementation begins: It is very important that strong leadership is provided during the implementation phase. If staff feel that senior management are not fully committed to the strategy, their commitment and enthusiasm for it will wane. Staff must believe that implementing the strategy is one of the organization's top priorities. They need to explain the vision and communicate the importance of the strategy for the future of the organization.
- The "brick walls" are not recognized: organizations operate in an ever changing and dynamic environment. It is important that those brick walls, which inevitably will be encountered along the way, are acknowledged and addressed. Staff should be encouraged to develop creative and innovative solutions to surmount these obstacles.
- Forgetting to 'mind the shop": There is a risk that the process of developing and implementing strategy becomes the consuming concern of senior management. Both management and staff must believe that implementing the strategy is as important as doing

the day job. One is not more important than the other and the strategy, if it is relevant and meaningful, should become an integral part of the day job. Periodic checks are necessary. Assumptions need to be checked that they are still valid, developments both internal and external may require revision or addition to the strategy and to be sure that the changes are really required and the strategy is not being adjusted in a frivolous manner (ACCA Newsletter December, 1999).

A powerful tool for understanding the Activities and processes involved in delivering a particular type of service is blueprinting, which is defined by (Lovelock, 2001) as follows:

A blueprint identifies all key Activities involved in service delivery and production and specifying the linkages between these Activities. A central aspect of service blueprinting is to distinguish between what the customer experiences front stage and the Activities of employees and support processes backstage, where the customer cannot see them. Service blueprints clarify the interactions between customer and employees and how these are supported by additional Activities and systems backstage. Blueprinting facilitates the integration of marketing, operations and Human and Resource Management within a firm through interrelating between employees' roles, operational processes, and Information technology and customer interactions. A consistent approach should be maintained by the organization.

A blueprint give managers the opportunity to identify potential fail points in the process that pose a significant risk of things going wrong and diminishing service quality. It may suggest product improvement opportunities resulting from reconditioning delivery systems, adding or deleting specific elements or repositioning the service to appeal to other segments. A blueprint also highlights the points where failures are most likely to occur, helping planners to identify how failures at one point may have a ripple effect later on the process (Lovelock, 2001).

2.11.1 Bankruptcy Prediction Models

Attempts to develop bankruptcy prediction models started being recognized seriously in the late 1960's and continued to be used even today. Failure prediction models include primarily, Altman's failure prediction models, statistical, mathematical and artificial neural network models. It appears that there is no consensus on what constitutes business failure.

However, most businesses are considered to have failed once they have entered formal bankruptcy proceedings (Internet, 3).

As opposed to the ratio analysis models failure prediction models are more objective than subjective. A multivariate discriminate analysis (MDA) is used based on regression analysis. It establishes coefficients for the ratios to minimize misclassifications. The model predicts whether there is financial distress or not. In this case the Altman model – developed by Edward Altman will be used. Altman applied MDA to a sample of companies and developed a discriminate function that classified companies either as failed or successful (Correia, Flynn, Uliana and Wormald, 2000).

2.11.2 Solvency Prediction Ratios

A company's solvency evaluation depends on how financially solvent at its inception; its relative flexibility and efficiency in creating cash from its continuing operations; its access to capital markets and its financial capacity and staying power when faced with unplanned cash short-falls. When companies undertake major new projects or undergo reorganization they should perform financial feasibility studies to determine whether the company has the financial capacity to undertake the project and whether the company will be able to repay all future debt payments once the project is built. Factors affecting solvency include, capital structure and capital adequacy, operating cash flows and cost structure, earnings capacity, liquidity, asset conversions, asset utilization efficiency and strategic position (Internet, 3).

2.12 Corporate recovery

Corporate recovery involves management changes. A strengthening of the current team is common in recovery situations, in particular the appointment of a new (ACCA Students Newsletter December, 1999). A new culture is, however, necessary to fit with the organization's values, attitudes and beliefs held by the members. Senior management must be committed to the change and must lead by example. A policy statement should be issued setting out the new values, and any new mission statement should reflect the same (ACCA Students Newsletter December, 1999).
The sources of resistance to any proposed change should be identified and mapped; together with the driving forces propelling change. Appropriate strategies for change must be identified and selected.

Education of staff and other stakeholders in the importance of adopting the change agent's proposals, and the implications of not doing so (this can be easier in a crisis situation, as the negatives may be tangible. Facilitation of the process, by enabling staff and others to cope with the change, for example, the provision of counseling and financial support for those who might be adversely affected. Participation of staff and other involved stakeholders, by inviting them to contribute their own ideas and making them feel as if they own the change (ACCA Newsletter July, 2001).

2.12.1 Improved financial control

A change in strategy always calls for budget reallocations. Reworking the budget to make it more strategy supportive is a crucial part of the implementation process because every organization unit needs to have the people, equipment, facilities, and other resources to carry out its part of the strategic plan (but no more than what it really needs (Internet, 8).

Implementation of enhanced financial control systems involve:

2.12.2 Working Capital Management

Credit terms allowed to customers should be reduced (loan to member-terms for Cooperatives) and tighter credit control (Members loans for Cooperatives) should be applied. Improvements in the credit terms offered by suppliers (Financiers of loans to the Cooperative) should be negotiated. Stock turnover should be increased followed by a decrease in the levels of stock held (ACCA Newsletter July, 2001).

2.12.3 Review of Entire Internal Controls

Review of entire internal controls involves non-financial controls, such as, segregation of duties and the need for authorization (ACCA Newsletter July, 2001).

2.13 Differences between Cooperatives and Other Businesses

It should be noted, that there is a difference between a cooperative and a business corporation. Cooperatives can either be set up as profit making, where the cooperative has share capital and is one whose rules allow it to give returns or distributions on surplus or share capital. Or non-profit, where the cooperative may or may not have a share capital and is one whose rules prohibit it from giving returns or distributions on surplus or share capital, if any, to members (Internet, 16).

In a cooperative, the members may decide that other goals are as important as or more important than profit. Cooperatives should generate sufficient revenues to cover their expenses. To raise more money, they recruit more members, raise the share or member-equity price, or seek outside financing in the traditional manner. Cooperatives often heavily depend on community or member support for their capitalization and success. The member equity is a fixed amount of money contributed by each member. Earnings are usually distributed to SACCO members proportionally to their savings. The money is returned when the person leaves the Cooperative. In cooperatives consumers make decisions on the service or product and consensus decision-making strategies are made to take into account the wishes of large numbers of people. In addition, cooperatives may or may not have a board of directors but still operate (Internet, 16).

On the other hand, a general business corporation operates, as a profit making enterprise for its investors, who are also referred to as stockholders. Financial gain is usually the main goal of the shareholders. In most corporations, the management is entrusted with daily decision-making guided by a board of directors. The capital structure is often not restricted. Most corporations raise their finance by selling shares to the public and borrow money from the banks. The number of shares held by each member determines the number of votes and power to make decisions in that particular organization. The more shares one holds the more dividends one receives (Internet, 16).

2.13.1 Advantages for Cooperatives

The overriding objective of any cooperative is to provide services to members, not to remunerate capital. Members' needs are a priority and the desired benefits are sustainable. Because of economies of scale, apex groups help link cooperatives by pooling together resources, similar interests, products or services, which can be marketed at a fair price. As a result, loans are available at more reasonable interest rates than could be negotiated on individual basis.

Cooperatives are a possible way of strengthening traditional customs that are already declining especially in the urban areas. Moreover, members of a cooperative have the right to be fully informed about matters relating to the cooperative and every member has a right to take part in important decision. Other forms of businesses are not usually so completely democratic.

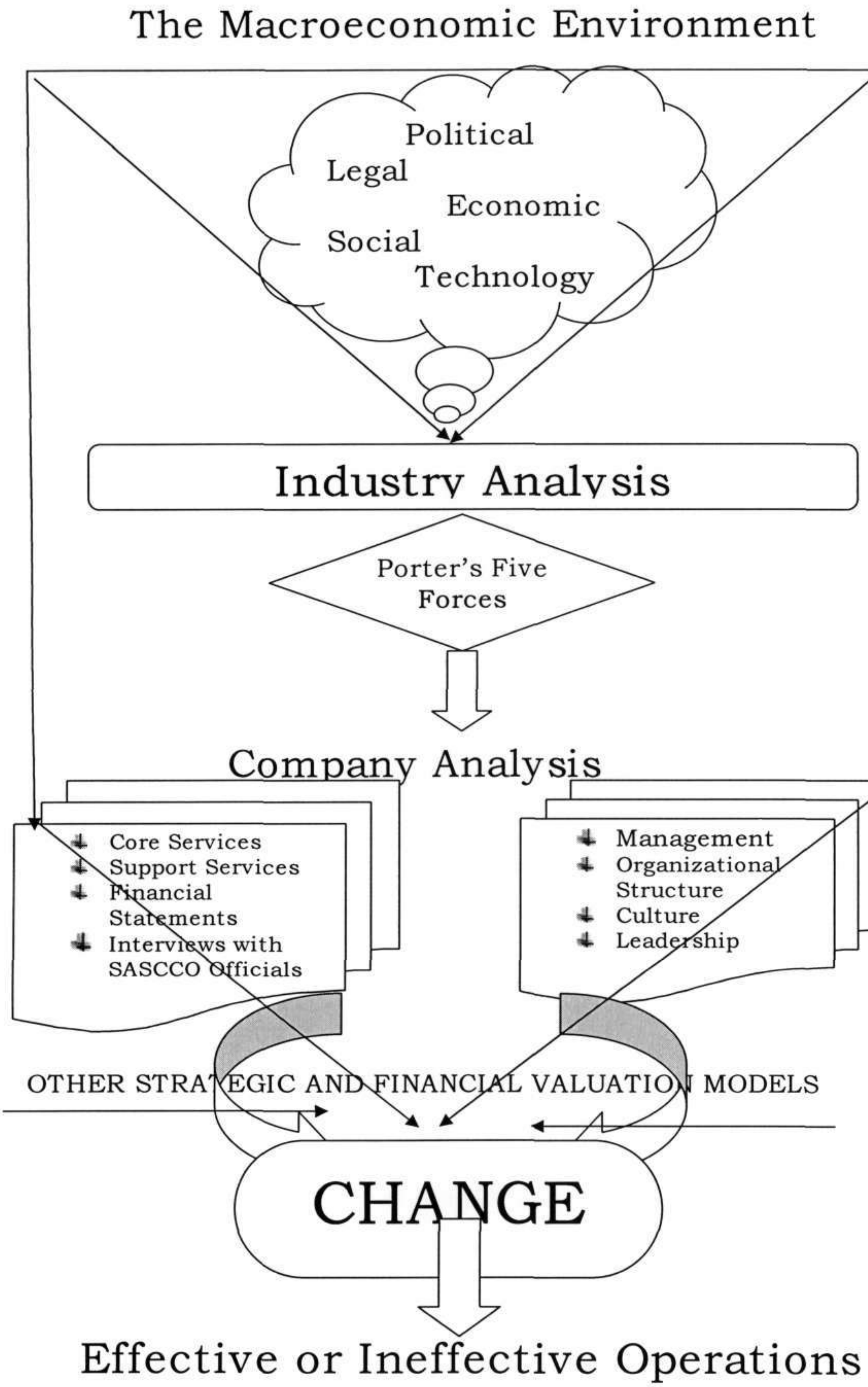
2.13.2 Disadvantages for Cooperatives

- There is little research that has been carried out regarding the economic effects of the cooperative industry and particularly little into the socio-economic effects of the power people who constitute the vast majority of borrowers.
- The poorer elements in the society are almost denied access to cooperatives' savings and credit since cooperative members' requirement is that members should be working and at least earn a stable or consistent monthly income from a recognized employer (Government) or fully registered company.
- Loans are deducted at source of members' income, which is effected through the government's central payroll system, which obtains repayments of these loans direct from the salary advice before the borrower actually has some access to his or her money.

2.14 Strategy Suitability Model for Case Analysis

Figure 2.4 illustrates the model developed for the case study.

Figure 2.4: Designed Model for Testing Suitability of Strategies for an Apex Cooperative



2.9 Summary

Based on how other researchers have defined strategy, whether for a profit or non profit making organization/Cooperative, it can be referred to as the future direction of the company. It concerns how an organization reorganizes its overall operations, that is, how to grow its business, provide quality service/products that will satisfy customers, provide competitive advantage over rivals, respond positively to changing market conditions, manage each functional piece of business, develop needed organizational capabilities, achieve strategic and financial objectives, and differentiating the company's products from its competitors' products.

Furthermore, a company can conduct its business internally and position itself in the market in numerous ways suiting the organization by identifying potential failure points in the process, reducing risks and stressing high service quality. Lastly, a policy statement issued should clearly set out new values, in accordance with the organization's mission statement. Moreover, strategy is crafted and implemented in different levels, starting from corporate level to functional level. Different forms of strategy could be applicable.

The literature has illustrated approved models both strategic and financial on how to manage and lead effectively in a changing environment. These models lay a foundation for the current research. The designed model on figure 2.1 will be used to assess (Chapter Three) and evaluate (Chapter Four) the suitability of SASCCO's current strategies, and make recommendations (Chapter Five) on effective and successful strategic management processes. A detailed profile of an apex body for all Savings and Credit Cooperatives in Swaziland (SASCCO) is given in Chapter Three. The model does not, however, test the suitability of the current strategies in conjunction with the Cooperative's macro environment, industry and its internal services.

CHAPTER 3

Analysis of Suitability of SASCCO's Current Strategies

"Anchor your future returns"

SASCCO's Newsletter (April, 2003)

3.1 Introduction

"There is no doubt that the cooperative concept is slowly but surely cementing itself in the minds of the Swazi population" (SASCCO Newsletter, April 2003). It appears that the E30 million SASCCO project has attracted public members by the pledge to offer lower than average interest rates on loans. On the other hand, the Cooperative is being exposed to the high risk of maintaining investors' confidence by promising to pay dividends of not less than 12% per annum. Usually, high risk is associated with high returns.

The remaining questions now are what protection will investors have against losing their savings into this Cooperative? Or is it a relationship based on trust, contracts or agreements? Is the Swaziland Government going to tax SASCCO's profits as a cooperative and by how much? How will the other financial institutions, such as, banks react to the idea that many Swazis may now choose to place their money with the Cooperative Bank instead of them? These questions will be explored in this section by analyzing and assessing the cooperative SASCCO in detail. It should be noted that SASCCO does not compete with other cooperatives, within the financial industry, but with other financial institutions that offer the same services as SASCCO. This also takes into account the savings and credit cooperatives that are not as yet registered with the umbrella Cooperative.

SASCCO's competitors include; the commercial banks, informal lenders, microfinance, Swaziland Stock Exchange (SSXX), big fund saving/pension companies, such as, the Swaziland Royal Insurance Corporation (SRIC) and the Swaziland National Provident Fund (SNPF).

3.2 Macroeconomic Environment (PESTL)

SASCCO's macro environment is characterized mainly by the following factors:

3.2.1 Interest Rates and Inflation

SASCCO operates in Swaziland a small landlocked country with an economy based on agriculture and Agro industry. Swaziland is heavily dependent on South Africa for 83% of its imports and 74% are its exports (Internet, 20). The Swaziland Government is trying to improve the environment for foreign investment. The country is one of the most open economies in the world. Trade accounts for over 50% of its GDP. In 2000, the World Bank research found that population growth estimation would be 2.9 percent per annum from an estimation of about 1.0 million populations (Internet, 20). GDP growth has been projected to be around 2.5% for 2004 (budget speech by the Economic Planning Minister for Swaziland, 2004).

Current interest rates as per the Swazi Observer (Tuesday, June 22, 2004) and (internet, 14) stand as shown in table 3.1:

Table 3.1: Interest Rates

Inflation Rate	4.1%	**GDP – Real Growth Rate**	2.6%
Prime Rate	13.5%	**Unemployment Rate**	22%
Bank Rate	10.0%	**Industrial Production Growth Rate**	3.7% (Fiscal Year 95/96)

Source: Swazi Observer (June 22 Tuesday, 2004).

Swaziland is faced with severe developmental challenges, including poverty and unemployment, drought and the HIV/AIDS pandemic. UNAIDS estimates the HIV/AIDS adult prevalence rate to be 33% in 2001 (Internet, 20).

South Africa is the pace setter in terms of the direction of monetary policy for Swaziland. The Lilangeni has appreciated 25.2% against the dollar, 19.1% against the British Pound, and 13.6% against the Euro. The appreciation of the Lilangeni is evident in the slowdown in inflation in 2003 from 11.2% in January to 4.6% in December. In December 2003 alone, demand deposits increased by 15.1% compared with 2004 in which they declined by 3.3%.

The economy of the Republic of South Africa has continued to expand, growing by 2.2% in 2003, hence Swaziland. The growth level is expected to be at 4% by 2006. The growth is supported by the inflation rate of not more than 3% the net present value of publicly guaranteed debt as a ratio of gross national income not exceeding 40% (Internet, 19). African economies grew at an average rate of 3.7% in 2003, and expected growth for Africa in 2004 is 4.8% (Budget speech by the Economic Planning minister of Swaziland 2004, Internet, 19).

World economic output growth is picking up, rising from a low of 2.4% in 2001 to a projected 4% in 2004. Inflationary pressures remained low throughout 2003. In part this is due to the fact that oil prices were fairly stable, contrary to expectations of an increase due to the Iraq war. Projected Consumer Prices are estimated at 6.9 and 6.1 respectively. Global growth is forecasted at 4.5% for the years 2004-2005 (Internet, 14).

3.2.2 Taxation

The current corporate tax rate stands at 30% in Swaziland. The country implemented taxation of benefits-in-kind at market rates and has not revised the personal tax bands since 2002. This has reduced personal disposable incomes.

To alleviate the tax burden, the Ministry of economic planning will bring further amendments in the future, to the Income Tax Order to revise the personal tax bands to give relief – particularly to the lower- and middle-income groups. Currently persons earning less than E14, 000.00 per annum are exempt from tax. With effect from 01 July 2004, this figure will increase to E20, 000.00 and the rates will also be reviewed. The Income Tax Order of 2003 stated that retrenched workers would be taxed from E10, 000.00 to E30, 000.00 but there is now a complete tax exemption for all severance and notice pay.

3.2.3 Capital Markets

A critical examination undertaken of current legislative practice has demonstrated that Swaziland has yet to implement minimum international standards in the area of securities regulation fully. The Central Bank is; therefore, keen to see that appropriate legislation is enacted as soon as possible.

3.2.4 Politics

Swaziland has a monarchy with a bicameral parliament consisting of the House of Assembly and the Senate. The King may also legislate by decree. Majority of the rural Swazis support the continuation of the monarchy, though in the recent years there has been a move toward democratic reform, which has caused serious instability with the present rule of law.

3.2.5 Technology

The country is still developing technologically though recently some signs of rapid growth have been noticed in the private sector more than the public sector.

3.3 Industry Analysis (External Environment)

An industry analysis of cooperatives, show that they face challenges concerning savings mobilization and expenditure control. The segmentation of industry and competitor analysis into economic factors competitive forces, structure and strength and the business environment allows cooperatives to strategize within their operating context.

The main problems in the industry concern over-indebtedness of the client caused by aggressive lenders and uninformed or naïve clients. The high interest rates being charged to clients are not the cause for over-indebtedness, but do exacerbate the problem. Overselling the borrower more than they can afford causes exploitation of clients. It could also be argued that inaccurate Information to borrowers can result in a higher rate shocks including extra charges. There is also little or no control of the cooperative industry by the relevant authorities.

The Industry dominant economic features are summarized in Table 3.2:

Table 3.2: Industry Dominant Economic Features

▪ **Market size:** medium
▪ **Scope of competitive rivalry:** fierce due to competition by commercial banks and other financial institutions.
▪ **Market growth rate and relative sizes:** growth prospects look positive for the future.
▪ **Number of rivals and relative sizes:** many rivals, although there are few dominant competitors
▪ **Members' relative sizes:** large number of individuals who have joined Cooperatives (approximately 28, 000 members for the apex Cooperative alone).
▪ **Joint ventures and alliances by rivals:** moderate.
▪ **Types of distribution channels used to access customers:** media; telephone, faxes and internet.
▪ **Pace of technological change:** slow to high pace.
▪ **Service and product differentiation by rivals:** low to moderate but high to some specific segments.
▪ **Economies of scale:** High purchasing power, achieved by largest rivals - commercial banks.
▪ **Key industry participants clustered in a particular location:** most rivals at urban areas – towns/cities yet Cooperatives target market is also concentrated in the in the rural areas.
▪ **Capital requirements and ease of entry and exit:** low capital requirement; entry and exit barriers are low.
▪ **Industry profitability above or below par:** low industry profitability. Cooperatives need revenue that will be sufficient to run operations efficiently.

Source: By Researcher

3.3.1 The Product Development and Life Cycle

The product cycle of most savings and credit services follows a fairly stable short and long-term-pattern. The Cooperative industry is at its maturity stage characterized by high substitution, high customer and lower supplier bargaining power, technological breakthroughs and competitors being able to offer a superior product.

The financial industry, and banks in particular invest in research and marketing since it is believed that the lack of understanding of customer needs, expectations and lack of attention to the marketing mix, usually lead to inappropriate product design. The financial industry believes in differentiation strategy though, some focus is on segments of the market. Marketers do not have total control over rates charged as a result the cost impacts are always big. The nature of competition usually emphasizes declining prices more than in earlier stages. Competitive advantage is established through technological or service innovation. The industry is more concerned with keeping costs low.

3.3.2 Porter's Five Forces

SASCCO has shown great understanding of the competitive environment in which it operates. Porter's Five Forces analysis has been used to portray the main sources of rivalry and threats. Moreover, a SWOT analysis has been used to reveal the best opportunities, and what threats could ultimately harm SASCCO as an apex Cooperative.

Table 3.3 summarizes Porter's Five Forces analysis of competition in the industry.

Table 3.3: Porter's Five Forces Analysis of competition in the Cooperative Industry

DEGREE OF RIVALRY	POTENTIAL ENTRANTS	BUYER POWER
▪ **Industry growth**: low, mature ▪ **Exit barriers:** low ▪ **Diversity**: several services offered ▪ **Switching costs**: low ▪ **Corporate stake**: low market growth ▪ **Price wars**: likely to boost members' numbers. It is easier to join a Cooperative than a bank which may require a substantial deposit to be able to join. ***High levels of rivalry**	▪ **Economies of scale**: high for advertising ▪ **Brand loyalty:** low choice ▪ **Product differentiation**: low to moderate ▪ **Capital requirement**: low for Cooperatives but high for financial institutions ▪ Distribution channel access: easy, travel agents/internet ▪ **Absolute cost advantage**: ▪ **Expected retaliation**: high ▪ **Expected retaliation**: high ▪ **Government Policy**: Cooperatives are expected to comply with the internationally recognized principles and Standards ***Low threat of new entrants**	▪ **Buyers:** Higher for individuals ▪ **Bargaining leverage**: low ▪ **Substitute availability**: High due to other financial modes ▪ **Switching costs**: low ***High buyer/members' power**
THREATS OF SUBSTITUTES ▪ Threat: moderate to high (depending on time availability) ▪ **Relative price**: easy availability of service no fuss requirements to obtain cash and takes only a short process ***High potential for substitutes (especially by micro-lenders)**	**Competition**	**SUPPLIER POWER** ▪ **Concentration:** High, hence low supplier power ▪ **Switching costs**: low ▪ **Substitute inputs**: possible ▪ **Risk:** low to moderate ***Low supplier power**

Source: (Internet, 8)

Major organizations which are rivals to SASCCO are discussed in this section. These are the firms which offer the same products as SASCCO's within the industry. The common goal is to offer financial services including credit and savings to clients but differs in variety and in scope. It will be discussed how these organizations have been jockeying for position in the financial industry and how this competition has destroyed or added value on the services they offer.

3.3.2.1 Commercial Banks

Most of the banks in Swaziland are in their maturity stage and are performing very well.

The Swaziland Building Society, Swaziland Development and Savings Bank, Nedbank and Standard bank are the country's major providers of short-term loans and long-term mortgages. The Swaziland Building Society offers a bond re-advance facility for securing loans to businesses to finance working capital requirements within twenty four hours of application.

The banks offer Flexible Collection Accounts for paying school fees. Banks offer products such as, investments, savings (accepted at competitive interest rates matching inflation). high transaction accounts (payroll and transmission which make loan finance available), short-term loans against investments, tailor made housing schemes that enable borrowers to build on Swazi citizen land by mobilizing pension funds as collateral, financing of developers and end users under the urban development project and a mortgage property protection as insurance scheme in case of borrowers demise.

3.3.2.2 The Central Bank of Swaziland (CBS)

The Central Bank of Swaziland (CBS) is the reserve for all the commercial banks in Swaziland. The CBS is expected to work hand in-hand-with SASCCO to ensure that its entrance into Swaziland's financial sector is adequately competitive and responsive to local needs (registration and licensing) It has been suggested that the bank could Act negatively to any major financial steps that SASCCO might take, since the bank could perceive that as competition.

Practical evidence of this sentiment could be construed from the fact that the SASCCO Centre project had to be halted for financial reasons and the CBS was reluctant in helping the Cooperative. Other local commercial banks were approached by the Cooperative but none of these banks offered any financial assistance. SASCCO also approached South African banks. The Development Bank of South Africa (DBSA) was the only bank which was able to do necessary evaluations and finance the Cooperative. A ten year loan worth twenty five million Emalangeni (E25, 000, 000.00) was granted to the Cooperative with interest deductions together with principal payments effected two years later after the issue of the loan.

3.3.2.3 Microfinance Industry

Microfinance remains unregulated in Swaziland. At present money lenders are required to register as companies which is very difficult to enforce. In 2000, there were only eleven micro lenders registered with the Ministry of Finance which represented a small fraction of the Actual number of micro lenders. Like cooperatives, micro lenders provide loans to employed people and only a few provide loans to self-employed individuals. Loans are restricted to less than 40% of net monthly pay, with monthly interest rates of about 30% to 40%. This is in blatant disregard of the Money Lenders ACT which prohibits the charging of more than prime plus 8% per annum. Collateral for the lenders involves retaining a client's bank card and pin, which is still legal in Swaziland.

3.3.2.4 Informal lenders

Informal lenders have no fixed business premises and lend to high risk borrower groups who lack security and credit records. These lenders are often assumed using dubious and exploitive practices and they charge higher rates of interest than semi-formal (Cooperative) and formal commercial institutions. Despite this, they are regularly used by the poorest of society, as they are often the only source of credit for survival purposes available to them. The government of Swaziland is still in the process of considering regulating these lenders.

Interest rates average at 40% per month. Sometimes advances are made against pledged items and the borrower reclaims the items by paying off the advance and interest, otherwise the items pledged are forfeited. Between the time the lender has made the advance, and the time the client reclaims the item; the lender must store and maintain the items in their original condition. If the client forfeits the item the item then belongs to the lender who is free to sell it as a second-hand item. The typical client of the moneylender has a low income, poor financial literacy and is likely to use the relatively small, but high-cost, loans obtained for essential and often survival needs.

3.3.2.5 Swaziland Royal insurance Cooperative (SRIC)

The SRIC was established in January 1974 and governed by the King's order-in-council, the Swaziland Royal insurance Order of 1973. Its core business is the provision of adequate and proper insurance to all classes. Most of the policies offered represent investments. This insurance company concentrates on people who are fully employed, and most of their long-term insurances can be used as collateral for short-term borrowing needs.

3.3.2.6 Swaziland National Provident Fund (SNPF)

The SNPF institution was established in 1974. It is an employee savings scheme. Monthly maximum contributions range from E50 - E60 per employee. The employee contributes 50% of the contributions and the employer contributes the balance. Benefits are receivable on retirement, incapacitation, emigration, on reaching the age of fifty irrespective of employment status to the survivors in case of contributor's death. There are ongoing negotiations regarding converting this fund into a pension scheme which was a recommendation by the ILO. Further market research has been carried out on how fund members may utilize their contributions as collateral for business loans (Internet, 22).

3.3.2.7 Swaziland Stock Exchange (SSXX)

The Stock exchange in Swaziland is without particular impact since most of the Swazi citizens are still unfamiliar with its operations. This is so particularly so with the target market of Cooperatives, which are predominantly rural.

3.4 Company Analysis

SASCCO's analysis will look at various factors which would be as follows:

3.4.1 Formation of the Cooperative (SASCCO)

The government of Swaziland supports cooperative development. As a result a representative Board of Directors was elected from different Savings and Credit Cooperatives (Saccos) to form SASCCO to be the mouth-piece for all member Saccos both locally and internationally. Among other responsibilities, the umbrella Cooperative, SASCCO, is required to ensure that the Cooperative environment is conducive to growth. SASCCO was officially registered in 1988 under the Cooperative Act of 1964. At present there are 38 investments or affiliated societies, which are employer-based and are totally owned by Swazis.

The Cooperative has embarked on a multi-million Emalangeni SASCCO Centre, which will house a co-operative bank, rental offices, restaurants, a conference centre and parking space. The SASSCO centre will be built on land bound to the North by Church Street to the South by Riverside Drive to the East by Methodist Church and Railway Flats and to the west by New York House, Mbabane, Swaziland. It is believed that this site will cater for SASCCO's current needs as well as an envisaged growth by providing rental space and income generation.

3.4.2 The Cooperative's Principles and Practices

SASCCO is guided by the Cooperatives principles and practices of ICA and the SNCDP.

3.4.3 Type of Cooperative

SASCCO is a Savings and Credit Cooperative which plays both a local and an international representational role for member cooperatives in Swaziland. It aims at promoting aid among business entrepreneurs and employees through Saccos.

3.4.4 SASCCO's Policy

SASCCO's policy is to ensure creation of wealth for cooperative members to help alleviate poverty and to contribute to the overall development of the Swazi economy. The organization believes that a policy should be a powerful management tool that can shape the whole organization and should promote consistency and common goals, provide answers and assist with decision-making. It further believes that policies save time and prevent Sacco board from having to make the same decision many times, that is, cooperatives should not be formed by the government but the people.

3.4.5 SASCCO's By-laws (Summarized)

The Cooperative's operations are guided by by-laws which have been summarized as:

- Objectives and Powers: To assist actively in the development of effective operation of Saccos in the Kingdom of Swaziland and to promote good public relations on behalf of the societies with the general public, the government, private sector, voluntary organizations, national and international cooperative organizations.
- Membership: The membership of the association consists of registered Saccos in the Kingdom.
- Funds: The funds of the association consist of affiliation fees of one hundred Emalangeni (E100 .00) per member.
- Management: The governing body of the association consist the Board of Directors to whom the general direction and management of its affairs, funds and records are entrusted.
- Election of the board of directors: The directors of the board, with the exception of the managing director, shall be elected for three years at the AGM by secret ballot by the

voting delegates appointed under article III Subsection 3.3.1 of the by-laws and thereafter one-third shall retire annually. They will be eligible for re-election.

3.4.6 SASCCO's View in Forming a Cooperative Bank

New product development and enhanced lending mechanisms, together with future R & D departments will be some of the major roles of the Cooperative Bank and SASCCO in general. This will be a project that will seek to increase service delivery and add value to all members of primary cooperatives. Societies experiencing liquidity problems may borrow from this fund through regular savings by member affiliates. Sources of funds are made up mainly of the annual subscriptions or dues paid by Savings and Credit Cooperatives, administration charges from the Risk Management Programme and profit from the printing and selling of standardized bookkeeping stationery for Cooperative societies.

Other aspects regarding Formation of the Cooperative Bank (summarized):

- The Cooperative dream: Self help concept; one stop shop; Influence in pricing.
- Why form bank? Sacco credit is constrained by liquidity; Sustainability of superior service delivery; Reduced/elimination of external dependency.
- Registration constraints: Bank must be lawful; The Act of 1964 allows registration constraints over cooperatives; CBS requirements include; Earnings prospects; Ability of management; Adequacy of capital.
- Registration constraints: Adequacy of liquidity; Services: Training of employees; Safety and soundness; Under the CBS policy 1: 10 "The CBS principal concerns are to ensure that any new entrant to Swaziland's financial sector should be adequately capitalized, well managed, properly supervised, competitive and responsive to local needs; Bank must first be registered as a "Secondary Cooperative"; Be licensed to operate as a "bank" by the CBS.
- Envisaged Cooperative Bank: Will incorporate SASCCO, CCU, Individual Saccos and Sacco members.

3.4.7 SASCCO's Strategic and Financial Management Profile

SASCCO's strategic and financial Management view are summarized in Table 3.4

Table 3.4: Strategic and Financial Objectives for SASCCO

Financial Objectives	Strategic Objectives
Liquidity is of primary importance survival for the Cooperative	Bigger market share by offering incentives to Cooperative members
Lower costs	Quick response to customer preferences
Growth in earnings	Higher product quality than rivals
Reduce dividends intended but take advantage of expansionary projects for more growth within the Cooperative	Lower costs relative to key rivals
Bigger profit margins	More focused and attractive product line than rivals: more services but fewer cost tiers
Higher revenues through improved customer service	Prompt service and always available when needed
Economic value-added performance (EVA)	Superior customer service through continuous improvement of products
Adequate cash flows to pay SASCCO's employees incentives and rewards	Introduce better internet sales than rivals
Attractive and sustainable increases in market value added (MVA)	Stronger global relationships with the rest of the markets
Striving to have stable earnings for the Cooperative during periods of recession	Recognition as leader in product innovation to meet members demands
	High levels of customer satisfaction (approximately above 80%}

Source: By researcher

The Cooperative has also formed strategic alliances with International Cooperative Alliance (ICA), World Council of Credit Unions WOCCU, African Confederation of Cooperative Savings and Credit Association (ACOSSCA) and Credit Union National Association (CUNA). It has further, formed strong relationship, partnerships with Central Cooperative Union (CCU), the local umbrella Cooperative for agricultural Cooperatives in Swaziland. The strategies have been particularly formed to compete with rivals to lead the financial industry in the future and build strong global presence with the rest of the world.

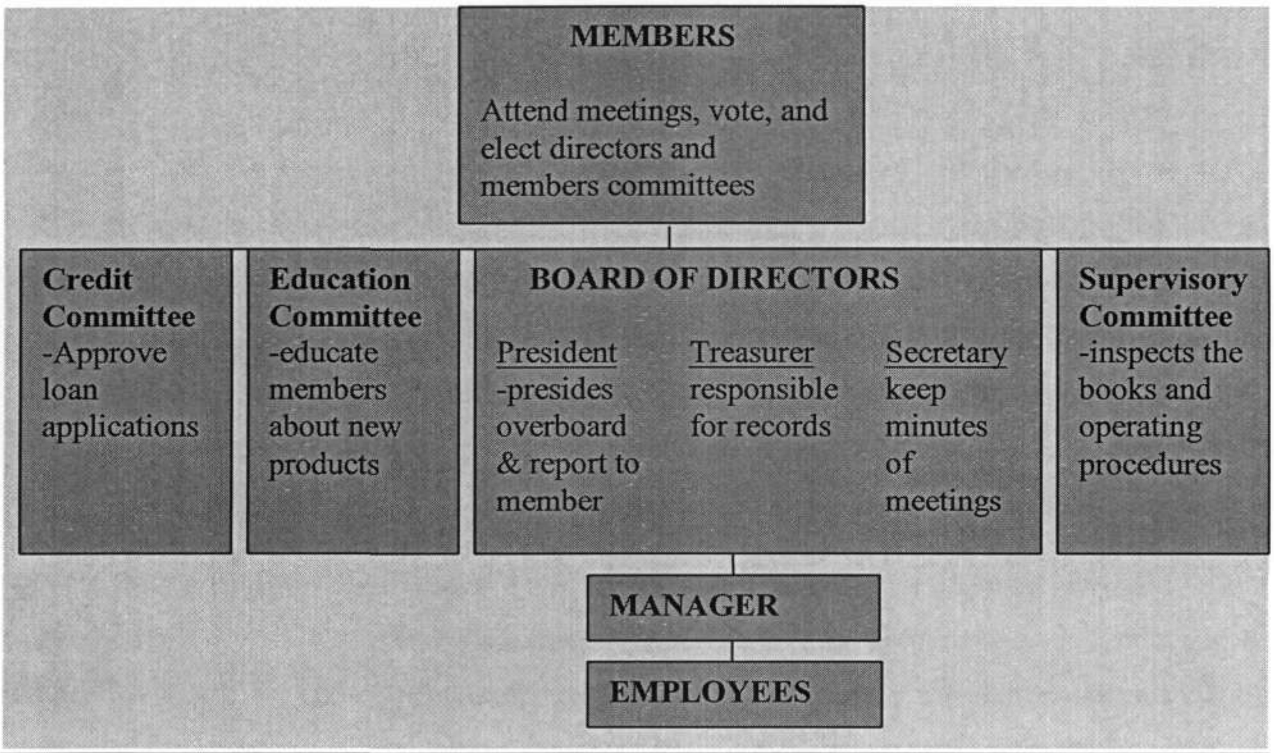
3.5 Management of the Cooperative

SASCCO's management analysis will take into consideration the Cooperative's structure, leadership and culture.

3.5.1 Cooperative Structure

An organizational structure is an instrument that operationalizes the vision and mission of an organization. A well-structured organization helps clarify responsibilities and lines of reporting. In figure 3.1 the structure of a typical credit union has been adapted as per the ICA standards and guidelines (Internet, 4). In this section the typical structure of a credit union is compared with the SASCCO's present structure. SASCCO's structure is decentralized and the final decision is taken by the members.

Figure 3.1: Structure of a Typical Credit Union Compared to SASCCO's Structure



Source: (Internet, 9).

Members

SASCCO's structure resembles that of the standard credit union. In 2001 SASCCO had twenty eight member affiliates servicing about twenty two thousand individual members. There were approximately thirty unregistered or proposed Saccos consisting about ten thousand individual members. Currently, in 2004 there are 38 societies registered with SASCCO.

Board

The board is responsible for setting policies and hiring the CEO who supervises SASCCO's overall operations. It comprises nine members: President, Vice President, Treasurer, Secretary and five members. The President, Vice-president, Treasurer and the Secretary form the executive board. All board members are representatives of the affiliated Savings and Credit Cooperatives (SASCCO Report February, 2001).

Employees

In 2001, the staff positions were as follows: CEO, Deputy CEO, Finance and Administration Officer, Technical Service Officer, Field and service officer (1), Field and service officer (2), Bookkeeper, Secretary and the Messenger/Cleaner. Current staff position is 13.

The Report on Restructuring Exercise by the KPMG auditors (August, 2002) highlighted that SASCCO's structure hinders the efficiency and effectiveness of the organization's mission and objectives as is incomplete. There is a need for the Cooperative to draft a strategic plan to reorganize itself. Existing administration and management decision-making procedures appear to be delayed, with a greater responsibility being transferred to Saccos without the corresponding transfer of authority and responsibility.

3.5.2 Leadership

According to the researcher, leadership is achieving things through other people. Weak leadership can wreck even the soundest of strategies. What matters is matching the style of leadership to the internal and external context of the organization.

While SASCCO discharged its role with excellence in managing Saccos' affairs and operations, it is faced with increasingly multi-faceted pressures as a result of its failure to respond and adapt timeously to the fast changing national, regional and global environment impacting on financial institutions. Both the CEO (Bongani Masuku) and his deputy (Winile Dlamini) believe that the customer is a priority and should receive quality service.

Masuku is regarded a hardworking and encouraging leader, though very authoritative sometimes. He has a very good reputation and has proved to be a manager who succeeds against odds. He espouses everything that SASCCO stands for and uses public relations as one of his tools to increase awareness of the organization through live presentations on national broadcasting services.

His good negotiation skills has secured a E25, 000, 000.00 loan from the South African Development Bank (SADB) when the local banks were not willing to help, which also shows that he has a strong base in finance and that he is not a short sighted-leader. He focuses on the long-term part of the Cooperative by collaborating with other world and local cooperatives. SASCCO has formed strategic alliances with other organizations for assurance of long-term profitability of the Cooperative. He is concentrating efforts on strengthening and deepening the Cooperative's competences and capabilities. The CEO believes that to satisfy shareholders and other clients SASCCO must excel in its operations, and to achieve the Cooperative's vision its strategy must be redefined and create a think tank for the Cooperative's members.

3.5.3 Culture

SASCCO believes and respects the cooperative's values. Before the new CEO was recruited the Cooperative did not have any strategies on plan. It relied on organizational plans based on the marketing plan and the financial plan. There was no management in place to drive the organizational strategy plan. The current CEO believes in an open culture with his employees.

All current and pipeline strategies are on plan, that is, he focuses mainly on the economic environmental changes, for instance, the organization currently considers the HIV status of the country, poverty and the political environment. It aims at re-engineering its products, evaluating staff performances and placing senior staff to contract employment in the future. The CEO trusts his employees that if they are left alone they can do a better job and bosses should have little interference with their jobs which should result in work efficiency for the whole organization.

3.6 SASCCO's Value Chain Activities

The Cooperative's core services include its representational role to Saccos, Swazi government and international organizations; developing cooperatives; insurance provision and developing products offered by the Cooperative. The Cooperative's support services are accounting, marketing, HR and IT. The Cooperative's value chain activities are looked into detail in this section and are related to the project initiation's as from 2001 to 2003.

3.6.1 Core Activities

The Cooperatives core activities include:

3.6.1.1 Representational Role

SASCCO is a mouth-piece for all member Savings and Credit Cooperative movements locally and internationally.

3.6.1.2 Risk Management Programme (RMP)

SASCCO facilitates a risk management programme for the Savings and Credit Cooperative Societies in Swaziland known as the SASCCO Risk Management Programme (RMP). The RMP needs to be expanded to include all Saccos and those that are not yet affiliated. With the liberalization of the Swaziland Royal Insurance Cooperative SASCCO stands to benefit if there will be expansion to other products within the same portfolio.

There are two products currently provided under this programme. These are:

- Loan Protection: Under this product upon a member's death or permanent disability the programme pays up the members loan balance outstanding. The current maximum loan coverage limit is E150 000.00.
- Life Savings: Under this product upon a member's death the programme pays an amount equal to, or part of, the members saving, which, together with the member's savings is paid to his/her beneficiaries. The current maximum savings coverage is E10 000.00. Each Sacco contributes toward this scheme. These are monthly premiums which are based on its monthly savings and loan balances. The basic premium rate is E1.50 per E1 000.00 on outstanding balances at the close of each month.

3.6.1.3 The Central Finance Facility (CFF)

The CFF is an extension of the Cooperative principle of pooling funds for mutual help benefits. Savings and Credit Cooperatives save their surplus funds with the association just as individual members do at the primary society level. The CFF programme could be expanded and operated efficiently to reap even greater results. The services of the investment manager will indeed come handy in this regard.

The purpose of the fund is to:

- Provide alleviation for short-term liquidity problems for societies to enable better investment opportunities for cooperative societies' funds through lump sum investments.
- To create a source of income for the associations focused on reducing the subscriptions or dues rate and eventually eliminating the payment of the same in the immediate and long-term future.

The CFF service ensures that societies have enough liquidity to offer business loans and enhance growth to the individual members' fund. SASCCO collects the surplus funds of member societies and invest them at better interest rates than society individual societies could achieve. The CCF advances these loans to the societies that meet the necessary criteria. Saccos are encouraged to deposit an amount equal to 3% of their shares and savings with the CFF in accordance with their last audited statements. This also includes statutory reserve funds.

3.6.1.4 Education and Training

Education and training is on activity provided by SASCCO and is used as a tool for capacity building for the Cooperative societies' human resources. Outreach by education and training through tailor-made programmes is targeted at staff members, elected officers and fund members. Due to the progressively changing operating environment and growth of Cooperative societies, there is a compelling need for education and training.

3.6.1.5 Technical Assistance and Advisory Services Provision

The Computer division, for instance, is tasked to launch new services that are carried out for the benefit of the societies. This division also ensures use of the same software applications by societies.

3.6.1.5 Other Services offered by the Cooperative

- Pension scheme: SASSCO runs a pension scheme for the Sacco members.
- Long-term loans: Loans of a member's savings are available at low interest rates. Members are given payment terms of up to sixty months.
- Short-term loans: These are loans that are payable within a short space of time ranging from three to twelve months.
- School loans: School loans are offered to cater for school fees and are repayable in 12 months. Current amount borrowed is up to the maximum of E 5000. 00.
- Emergency loans: Emergency loans are issued to cater for unforeseen expenses, such as, death and imprisonment.
- Special Loans: Loans available at very high interest rates values for special projects and are payable up to a period of 15 years.
- Fixed Deposits.
- Holiday Savings.

SASCCO's Project Proposal

SASCCO has been experiencing internal financial problems and is reorganizing its internal activities for more opportunities that exist externally. SASCCO resolved to seek land with the aim of building offices for its operations. This resolution took place in the mid 1990's. According to SASCCO's minutes (October 10, 2001) the Cooperative had shown positive growth both in the quality of its products and membership, hence, the Cooperative embarked on a Cooperative Bank project. This growth trend is set to continue given the changing environment regarding cooperative awareness in the country. It was thus, imperative that this growth be sustained by setting up proper strategies that included long-term economic investments, significant enough to convince members and stakeholders that SASCCO's business was, indeed, a going concern.

As part of strategic plan SASCCO put in place an investment committee to examine modalities of possible sustainable investments. Unfortunately, the committee could not identify an investment niche that could be pursued without violating cooperatives basic principles (SASCCO minutes October 10, 2001). The expansion of the offices included possible investments aimed at increasing members' wealth. It was envisaged that other investment opportunities would arise as the project continued to improve the investment. SASCCO has been perceived to stand greater opportunities to advance it and take the rightful place in the cooperative and financial arena.

Budget

A change in strategy nearly always calls for budget reallocations. Reworking the budget to make it more strategy-supportive is a crucial part of the implementation process, since every organization unit needs to have the people, equipment, facilities, and other resources to carry out its part of the strategic plan (Internet, 8).

The construction programme of the SASCCO Centre building initially stood as follows:

- Contract Period = 18 months
- Commencement = January 2002
- Completion = July 2003

The anticipated disbursements cash flow after 18 months was estimated to be E21, 704, 000.00, and the following costs were excluded:

- Land Acquisition
- Loose Furniture and Equipment
- Air Conditioning
- Cost Escalation beyond the dates indicated above.

The rate of return envisaged on the project was to be decided at the SASCCO AGM, since the project would be financed by its members and immediate repayment of the initial investment were not anticipated.

SASCCO's proposed financing options included mainly

- Full SASCCO participation where SASSCO reserves by the 18 Saccos would be used. It was expected that share participation would not be less than E600, 000 by each affiliate.
- Financing through a bank or money market. SASCCO would solicit a bank loan and also approach micro-financing if necessary.

These two options were, however, dropped by SASCCO's board and the following options were suggested:

- **Option 1**

  Full members' participation assumed 15, 000 Sacco members. In this option each individual member of Sacco could invest a minimum of E2, 000 with a limit of E10, 000.

The investment amount would have been paid by December 31st, 2001 and would yield dividends after one (1) year of project completion. Approximate growth pay-out dividend rate was not clearly stated. This option would also allow SASCCO affiliates participation through CFF investments with total costs of E33, 300, 000.00. Extra funds could be used towards buying furniture and installing air conditioning which were not part of the total project cost.

- **Option 2**

In this option SASCCO would hold 70% of the total investment and a strategic partner identified as NAPPO would hold 30%, with total costs of E22, 000, 000.00. It was further proposed that for option 2 the participation of NAPPO should be reduced since it was envisaged that there could be possible dominance by this strategic partner.

3.6.2 Support Services

The Cooperatives support activities include:

3.6.2.1 Finance

There was limited Information available regarding the financial activities of the Cooperative as a result the support services will only be assessed only on the financial data that was provided. The intended major activities for 2003 focused mainly on rapid progress on the SASCCO Centre. It was envisaged that the project would be in full swing in 2003. Strategies for delivery were to be put in place and provision for trips outside Swaziland as liaison with the global Cooperative world were taken. Preparation for the Formation of the Cooperative Bank was also budgeted for. Since preparations for the Cooperative Bank were already underway, costs associated with the exercise included sitting allowances (attending meetings/conferences), travel and other incidentals.

3.6.2.2 Marketing

A marketing plan for the project could not be obtained from SASCCO but an awareness campaign would in 2003 continue to instill the Cooperative's idea in the minds of all Swazis. SASCCO was to erect billboards on major roads as part of the marketing strategy.

3.6.2.3 Human and Resource Management (HR)

Personnel to be recruited included the Investment Manager who would be responsible for SASCCO projects, as well as, the Saccos investment initiatives. It was planned that both the Investment Manager and the Investment officer would be paid direct from the project. Further, a Developmental Manager and an Administration Human Resource Manager were also to be recruited.

3.6.2.4 Information and Technology (IT)

The management believed that some Saccos would join the computerization programme in 2003. This would require monitoring the Saccos membership to ensure efficiency. It was further envisaged that WOCCU would grant SASCCO membership, necessitating for the installation of a computer system called PEARLS for all affiliates.

3.6.3 Financial Statements

The final accounts Information for 2001-2002 (audited accounts) and 2003-2004 (unaudited accounts) are attached for later assessment and evaluation of the Cooperative in Chapter Four.

SASCCO
PROPOSED OPERATIONAL BUDGET
2004

INCOME	**BUDGET 2002**	**Actual 2002**	**BUDGET 2003**	**Actual 2003**	**BUDGET 2004**
				Unaudited	
	E		E	E	E
Dues and Subscriptions					
Members Dues	360,000	374,490	841,680	840,846	1,680,000
Affiliation Fees	1,500	900	2,000	300	1,000
	361,500	**375,390**	**843,680**	**841,146**	**1,681,000**
Commission Received					
Risk Management	400,000	347,417	450,000	343,575	320,000
Kwakitsi Commission	200,000	150,000	200,000	193,937	400,000
Pension Fund Commission	15,000	4,874	20,400	16,915	20,400
Funeral Commission		2,985	1,000	6,987	10,000
	615,000	**505,276**	**671,400**	**561,414**	**750,400**
Consultancy and Training					
Workshops & Seminars	0	-	-	1,900	5,000
Computerization fees		7,200	8,000		8,000
Service Fees	5,000	-	15,000		5,000
	5,000	**7,200**	**23,000**	**1,900**	**18,000**
Interest Received					
Bank Interest	10,000	24,491	25,000	11,034	10,000
Int. on Investment – Long Term	150,000	41,265	80,000	15,201	50,000
Int. on Investment – Short Term					
Int. on Loans – Saccos	150,000	70,814	100,000	74,236	80,000
Int. on Loans – Staff					
Int. on Reserves	150,000				
	460,000	**136,570**	**205,000**	**100,471**	**140,000**
Other Income					
Subletting	35,200	31,541	25,000	32,252	25,000
Seminar Contribution					
Profit on Stationery Sales	25,000	31,272	35,000	14,815	10,000
Profit on Asset Disposal		-	60,000		
Discount Received		904			
Other Income	5,000	14,145	5,000	87,054	10,000
Capital grant			-		
Credit Union Day					
	65,200	**78,679**	**125,000**	**134,121**	**45,000**
Total Revenue					
	1,506,700	**1,103,115**	**1,868,080**	**1,639,052**	**2,634,400**

	BUDGET 2002	Actual 2002	BUDGET 2003	Actual 2003 Unaudited	BUDGET 2004
EXPENDITURE					
Salaries and Wages					
Basic Pay	756,000	752,398	1,056,293	937,764	1,142,000
Allowances					
Overtime					
13th Cheque					
Car Allowance					
	756,000	**752,398**	**1,056,293**	**937,76**	**1,142,000**
Related Expenses					
SNPF					
Pension					
	0	**0**	**0**	**0**	**0**
Stationery and Material					
Computer Stationery					
Office Stationery	15,000	54,224	20,000	26,688	30,000
Cleaning Material					
	15,000	**54,224**	**20,000**	**26,688**	**30,000**
Transport Costs					
Fuel	25,000	34,887	40,000	38,369	45,000
Vehicle Repair	10,000	8,810	20,000	15,006	20,000
	35,000	**43,697**	**60,000**	**53,375**	**65,000**
Office Expenses					
Office Rental	100,000	96,750	112,200	99,000	120,000
Office Improvements					
Travelling Expenses	70,000	46,800	80,000	38,668	80,000
	170,000	**143,550**	**192,200**	**137,668**	**200,000**
Interest Expenditure					
Interest on savings	120,000	295,551	200,000	365,152	250,000
Interest on shares	2,500	1,750	3,000	2,250	5,000
Computer					
	127,500	**297,301**	**203,000**	**380,461**	**270,000**
Repairs and Maintenance					
Office Repairs		1,831	-		
Office Furniture	20,000	-	-		
Office Equipment	5,000	18,195	5,000	2,240	5,000
Computer					
	25,000	**20,026**	**5,000**	**2,240**	**5,000**
Governance Fees					
Board Sitting Allowances	25,000	73,053	25,000	68,684	30,000
Honorarium	10,000	3,600	11,000	5,500	12,000
Board Travelling					
	35,000	**76,653**	**36,000**	**74,184**	**42,000**
Communication					
Telephone/Faxes/Cell	25,000	59,039	25,000	66,594	30,000
Internet Expenses					
	25,000	**59,039**	**25,000**	**66,594**	**30,000**
Utilities					
Electricity and Water	10,000	9,864	15,000	9,282	15,000
Office Teas and Refreshments					
	10,000	**9,864**	**15,000**	**9,282**	**15,000**

	BUDGET 2002	Actual 2002	BUDGET 2003	Actual 2003	BUDGET 2004
				Unaudited	
Training and Conferences					
Internal Training					
External Training					
External Conferences					
Internal Conferences					
Biennial Meeting expenses				1,059	
General Meeting	12,000	13,460	15,000	50,706	20,000
Staff Meeting	35,000	4,888	35,000	2,200	35,000
SACCO Congress Issues					
Africa Congress		43,873	70,000	64,800	80,000
	47,000	**62,221**	**120,000**	**118,765**	**135,000**
Advertising and Publicity					
Newsletter and Brochures	5,000	16,348	50,000	42,500	100,000
Electronic Media					
Newspapers	10,000	10,960	-		
Credit Union Day	15,000	21,324	15,000	7,500	15,000
	30,000	**48,632**	**65,000**	**50,000**	**115,000**
Consultancy					
Internal Consultancy					
Consultancy Technology		19,333	15,000	1,840	5,000
External Consultancy		23,050	85,000	40,262	30,000
Audit Fees	8,000	9,100	15,000	7,500	10,000
	8,000	**51,483**	**115,000**	**49,602**	**45,000**
Affiliation Fees					
WOCCU	65,000	50,750	85,000		85,000
Southern Regional Block					
ICA					
	65,000	**50,750**	**85,000**		**85,000**
Sundry Expenses					
Bad debts	10,000	-	10,000	-	10,000
Bank Charges	6,000	10,026	15,000	14,906	70,000
Donations	3,000	1,000	5,000	2,500	5,000
Depreciation Expenses	16,000	100,766	100,000	163,194	170,000
Insurance Expenses	35,000	27,392	40,000	19,256	25,000
Miscelleneous	5,000	-	-		
Contingencies	10,000	38,170	5,000	2,015	5,000
Staff Uniform	15,000	15,909	5,000		10,000
Legal Fees	17,074				
Sales Tax	1,274				
Loss on Disposal	1,538				
Loss on Investment	120,209				
	240,095	193,263	180,000	201,871	295,000
Total Expenditure	1,588,595	1,863,101	2,177,493	2,108,494	2,474,000
Surplus (Loss)					

SWAZILAND ASSOCIATION OF SAVINGS AND CREDIT CO-OPERATIVES LIMITED

BALANCE SHEET AT 31 DECEMBER 2002

	NOTES	2002 E	2001 E
ASSETS			
Non current assets		1,828,644	1,310,295
Fixed Assets	2	613,195	347,525
Investments	3	1,215,449	967,770
Current Assets		2,598,979	1,190,722
Inventory		64,622	76,220
Receivables	4	2,221,342	881,288
Prepayments		7,500	10,146
Cash and cash equivalents	5	305,515	223,068
Total Assets		4,427,623	2,501,017
EQUITY AND LIABILITIES			
Capital and reserves		**2,241,907**	**2,243,946**
Members' shares	6	35,000	26,500
Members' savings	7	3,299,685	2,404,160
Reserves and transfers	8	31,318	31,318
Capital grant	9	4,197	5,014
Retained deficit	10	(1,128,293)	(223,046)
Current liabilities		**2,185,716**	**257,071**
Payables	11	1,595,716	257,071
Other payables – Risk Management Program		590,000	-
Total equity and liabilities		4,427,623	2,051,017

SWAZILAND ASSOCIATION OF SAVINGS AND CREDIT CO-OPERATIVES LIMITED

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

2002 Budget E	REVENUE	Notes	2002 E	2001 E
360,000	Subscription		374,490	295,665
400,000	Risk commission		347,417	325,755
760,000			721,907	621,420
751,700	Other operating income	12	381,208	376,161
1,511,700			1,103,115	997,581
(1,346,000)	Administrative expenses	13	1,711,061	1,085,941
(122,500)	other operating expenses	14	(297,301)	(175,337)
43,200	Operating deficit before appropriation		(905,247)	(263,697)
-	Appropriation		-	-
43,200	Deficit for the year		(905,247)	(263,697)

Accounting information furnished only for 2001 – 2002 and only budget for 2003 – 2004. No tax charged for co-operatives but now need to be charged because of the introduction of SASSO Centre.

Analysis (Assume a 10% sales (members) increase from the A information given it was not easy establish the degree of operational leverage and financial leverage since the Company does not pay tax. Also their accounts do not differentiate between Fixed and Variable costs, hence not easy to establish the contribution margin (CM.). The figures for VC & FC were separated based on the researcher's discretion which may or may not flow the results of the study.

3.6.4 Interviews with SASCCO's Officials on Strategic Management of the Cooperative (CEO, Deputy CEO and Treasurer)

Interviews with SASCCO's executive officials were conducted between October, 2003 and March, 2004 as an exploratory study to test the viability of the Cooperative's current strategies. Responses from the interviews held were as follows:

(1) What are the Cooperative's long-term objectives?

- To ensure that SASCCO members are financially empowered.
- To ensure security of members savings by introducing efficient working systems and recruiting the right staff.
- Utilize economies of scale for the overall SASCCO members. To revisit SASCCO by-laws to allow election of efficient Board of Directors and employment of professional staff
- To set up a Cooperative Bank to consolidate members contributions

(2) What is the organization's Core Services?

- Developing Cooperatives
- Insurance provision
- Developing products offered by the Cooperative, for example, the CFF, education and training
- Representational role or mouth-piece for Saccos to the Swazi Government and international organizations.

(3) What are the Cooperative's Support Services?

- Accounting
- Marketing
- Information Technology (IT)
- Human Resources

(4) To succeed financially how should the organization appear to its shareholders?

The Cooperative should improve its gearing and commission receivables from the Risk Management Programme and sale of stationery to Saccos. In fact, having a strong Sacco membership implies and determines a stable financial funding for SASCCO.

(5) To satisfy the shareholders and other clients what business processes SASCCO must excel in?

- SASCCO must be efficient in operations, that is,
- The risk to save by Saccos must be rewarded in time
- Audit must be done on time
- Minimize operational costs in order to reduce deficits
- SASSCCO must raise dues which has never happened for the past three years, as a result it is now operating under a deficit which is a decision of the AGM

(6) To achieve your vision as SASCCO how should you appear to your clients?

- SASCCO's current strategies must be periodically redefined.
- The Cooperative must regularly evaluate itself to ensure accuracy of short and long-term objectives
- A think tank for SASCCO must be created

(7) To achieve your vision how will you cope with any changes in the Cooperative?

- SASSCO should be aggressive in its strategy
- SASCCO must change its management modalities
- Expansion in operational base
- Take and calculate risk (risk profile analysis)

(8) What were the Cooperative's previous strategies?

None, SASCCO relied on strategic plan according to its organizational plan, marketing plan and its financial plan. There was no management in place to drive the organizational strategy plan.

(9) Are the current strategies on plan?

Yes. The new strategies focus mainly on the economic environmental changes, for instance, the organization will consider the HIV status of the country, poverty and the political environment.

(10) How much have you prepared for this organizational change?

Pipeline programmes are as follows:

- To re-engineer our products
- Evaluate staff performances
- Place senior staff (executive) on contract employment

(11) Does the Cooperative have a Market Research department or plan?

No. SASCCO does not have money to hire or have a Research and Development (R & D) department

- The Finance and administration manager does the Human and Resource Management
- The Marketing Manager is not utilized in the interim to do R & D but that is considered for the future.
- SASCCO has shelved other plans and now concentrating on funding and completion of the SASCCO Centre project.

(12) Has the Cooperative formed any strategic alliances/partnerships?

Yes, with the Southern African Regional Block, ICA, WOCCU, CUNA, and CCU.

(13) What is the kind of technologies used by the Cooperative?

Computers with internet access have been installed. Staff has access to the organization's websites.

(14) What would you regard as the Cooperative's core competences?

- With cooperatives the client is the owner. The client sets the rules on how to operate the respective accounts involved. A borrower, for instance, is the one who sets the lending rules in the annual general meetings (AGM), which is rare with the other financial institutions.
- The Cooperative decisions are diversified through its being an apex body which is composed of different Saccos

(15) What is the Cooperative's generic strategy?

It is striving to create and market unique products or services for varied customer groups through differentiation. SASCCO will ensure that Saccos are well managed by striving to:

- Increase the educational drive
- Introduce of automated service, for example , computerization that is already taking place
- Use a generic approach by putting the right manager with the right skills at the right positions

(16) How will SASCCO add value to its products or services?

- Finishing of the SASCCO Centre will improve the organization's earnings which should result in good dividends for the members.
- SASCCO is working towards a provision of medical aid facility to its staff and members.

(17) What does the organization regard as competitiveness?

- SASCCO caters for various groups of customers with varied incomes. This means that low income earners who reside in isolated geographical areas (ignored clients or under-appreciated customer segments) are also targeted by SASCCO, as long as they belong to a Sacco.

- SASCCO will sustain development of Sacco committees in economic sectors where the Cooperatives are not as active as expected by recruiting suitable staff. The requirements include technical skills, education, psychology and leadership skills. Existing staff will be organized in-service training in order to visit all Saccos and give them the best training on working in a Cooperative environment.

3.7 Change Management

In August 2002, the auditor's report from KPMG indicated that a comprehensive reorganization strategy was necessary for the Cooperative. It is true that the reorganization process largely involves putting into place the internal Activities of the Cooperative, but employees need to be clearly conveyed Information as that would also affect their daily operations at work. The long-term implications are that their current job positions may be changed. In the interview held with the CEO, he indicated that the Cooperative has pipeline programmes including the evaluation of staff performances, placing senior staff onto contract employment and re-engineering the Cooperative's products. These factors affect the employee job, as well as, the social welfare of the employee.

When asked if the organization has prepared for the organizational change, the CEO's response indicated that almost all the Cooperative staff members were aware of the changes taking place. However, there is some doubt as to whether the employees clearly understand the basis of the transformation and its implications. There seems to be no clear understanding of the Cooperative's mission and vision by some of the staff, hence, a shaky foundation to implement the transformational change.

It appears that the employees were not given an opportunity to contribute towards the goals set for the change. As a result the means of achieving the goals and the entire process is not collaborative enough as it does not involve all the employees. The transformation does not seem to be well planned and well communicated. There was no relevant Information regarding any workshops or briefings held to the staff about the changes which would be forth coming. Regarding, achievement of the Cooperative's vision and ability to change, the Cooperative can be sustained by taking aggressive measures in the reorganization strategy and by changing its management modalities, expand the operational base and take risk reasonably.

3.8 Summary

In Chapter Three, the Cooperative has been profiled as per the Information obtained from the Cooperative's documents that have been able to obtain by the researcher and from the interviews held with SASCCO's officials. The economy of Swaziland is expanding at the moment, which implies good current investment opportunities to SASCCO with more members into the Cooperative. SASCCO's decentralized structure is advantageous for its efficiency and effectiveness on the current programmes. The executive management's belief that the customer should be a priority will yield good investment returns for the Cooperative.

SASCCO's value chain will be assessed and evaluated in detail in Chapter Four considering the fact that the initial construction programme was planned to take 18 months. The evaluation will be mainly based on strategic and financial models and the researcher's interpretation, analysis and understanding of the Cooperative's operations based on her accumulated work experience in a financial environment and academic knowledge drawn from different fields of Management.

CHAPTER 4

Evaluation and Findings on SASCCO Strategy

4.1 Introduction

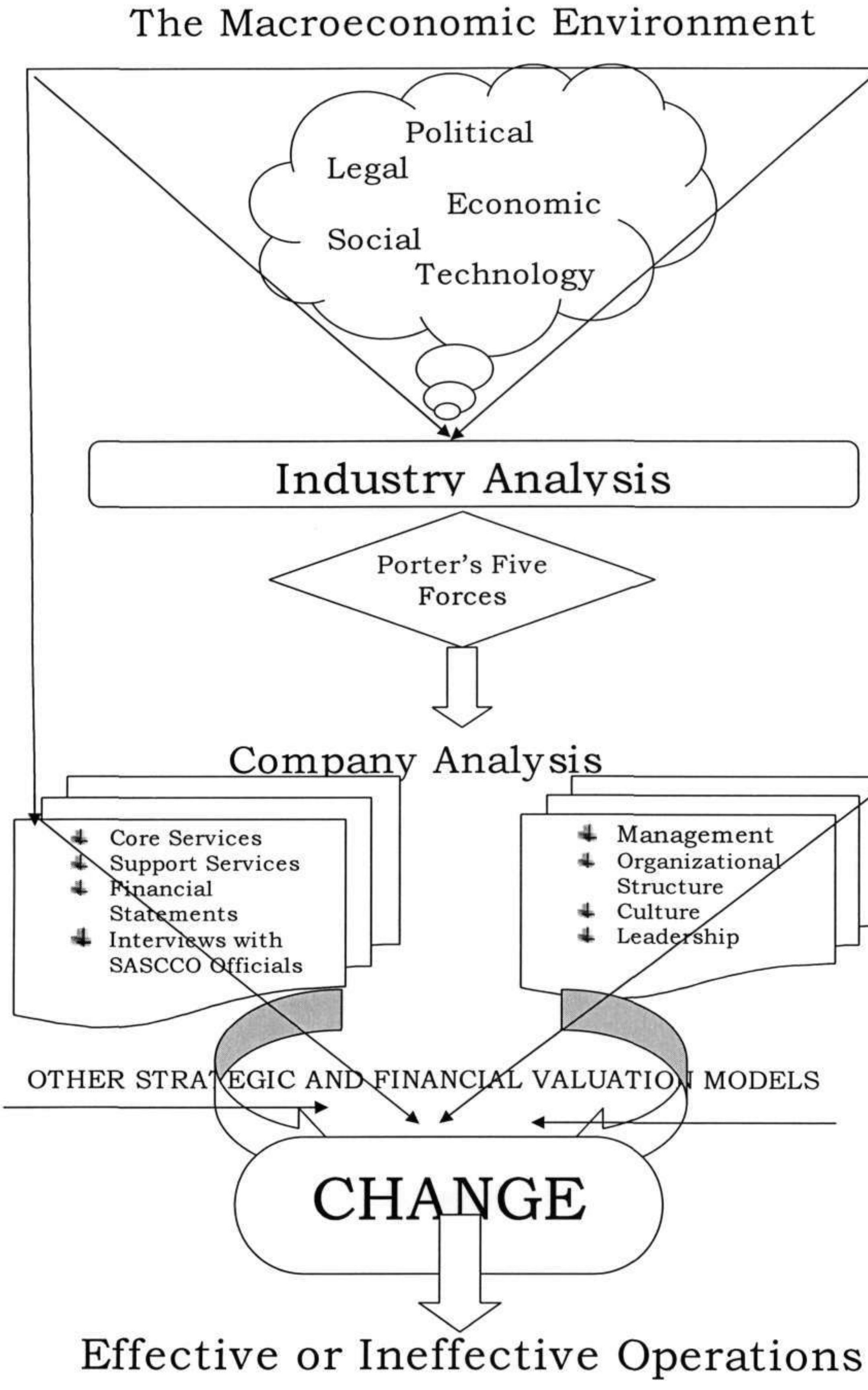
Efficiency and effectiveness of management is usually reflected by the manner the organization is managed internally and its overall design and ability or capacity to take on board the need to effect radical changes in both strategic and operational elements (Arnold, 2002). Contrary to most management styles, employees would like a great deal of personal space, autonomy and say in how the organization is run and over what its strategic goals should be. The most "natural" design of organizations to accommodate these concerns is a decentralised structure, although, such structures have inbuilt tensions which demand precise and strictly controlled management and systems (Robbins and Decenzo, 2001).

In this chapter the Cooperative, SASCCO, is assessed and evaluated in detail using the researcher's design model from figure 4.2. Firstly, the macroeconomic environment is discussed. Secondly, the Cooperative's industry is assessed according to SASCCO's current strategies. The Cooperative will then be tested the suitability of its current strategies using other authors' approved models. The results will then be interpreted according to the findings.

4.2 Strategy Suitability Model for Case Analysis

The Cooperative will now be assessed and be evaluated according to the suitability model developed by the researcher which is shown in Chapter Two as Figure 2.4:

Figure 2.4: Designed Model for Testing Suitability of Strategies for an Apex Cooperative



4.3 Suitability of the Current Strategy

From the interviews held with the executive staff of SASCCO and the treasurer it was determined that the Cooperative has a clear strategic direction. The basics and the essential facts of strategic management are known by SASCCO but the strategy is not well implemented and executed. The Cooperative did not consider sufficiently the ever-changing and dynamic environment which requires management to acknowledge and address any obstacles encountered along the way.

The objectives of SASCCO were found to be in line with the standard requirements by world organizations, the ICA, WOCCU and the SNCDP by the Swaziland's Ministry of Agriculture and Cooperatives. The Cooperative operates as a going concern as confirmed by its audited accounts for the year 2002 (Delloite and Touch Auditors).

The main objective of the Cooperative has now become more profit-making than non-profit making. What should be of great concern to the Cooperative is the development of the Cooperative Bank project. The Cooperative Bank project is regarded as an expansionary activity that will improve the growth of the Cooperative, as well as, shareholders' wealth. The objectives of starting a Cooperative Bank are clear and fit with the purpose and mission of the organization. The management is also aware of the tax implications that would be involved, since the Cooperative would operate on a share capital basis.

It was, however, noted that SASCCO has inadequate resources to run the entire project successfully, and due to insufficient funds there is a delay already in the project. There are also human resource management issues which are hindering the execution of the Cooperative's strategy.

The Cooperative's competitive strategy of striving to create and market unique products through differentiation is being hindered by the inadequate Cooperative resources and the slow process of developing the marketing talents while SASCCO's rivals are experts in this field. The organization has an open culture. Management is concentrating efforts on strengthening and deepening the organization's competences and capabilities. It was also noted that the Cooperative lacks proper skills for executing the strategy in conjunction with its long-term objectives.

4.3.1 Macro environment

SASCCO is in a favourable position within the present economy in Swaziland and should capitalize on these boom economy opportunities. The country is one of the most open economies in the world. The world economic output growth is increasing, hence, this the best time for the Cooperative to sell its products. Since the inflation rates are low, it means that interest rates in the overall market are also low and the members of the Cooperative will be willing to save more on their disposable income. An expert marketing officer employed by SASCCO should possess the appropriate skills and be in a position to sell for SASCCO.

African economies are maturing. The population growth in Swaziland is estimated at 2.9% per annum, meaning that there is a bright future market for the Cooperative to sell even to more generations in the long-run. As has been mentioned in Chapter Three, the Swazi economy relies mostly on the South African economy in fact it holds that if the South African economy is growing the Swazi economy will also be growing.

The appreciation of the Lilangeni against the major world currencies means more investors coming into the country which will boost the whole economy of Swaziland and strengthen the purchasing power parity of consumers. It should, however, be noted that the country is currently facing severe developmental challenges, including poverty, unemployment, drought and the HIV/AIDS pandemic which is presently growing at a fast rate, especially, with the adults. These factors are posing a great threat to the economy of Swaziland. The implication is that SASCCO's profit margins would be greatly affected by the level at which the members are dying. SASCCO needs to participate effectively in preventing the spread of the pandemic as one of its social/community responsibilities.

4.3.1.1 Taxation

The present corporate tax in Swaziland stands at 30% indicating a better rate for investors when compared to the South African current corporate tax rate of 35%. Further amendments to the Income Tax Order to revise the personal tax bands to give relief particularly to the lower- and middle-income groups, will encourage much more savings to the Cooperative by the members. With effect from 01 July, 2004 the figure of E14, 000, 000.00 exemption will increase to E20, 000.00 and the revision of the current rates will also encourage more savings. Furthermore, retrenched workers would now be completely exempt from all severance and notice pay tax which has already benefited retrenched workers from Swaziland Railway. These former employees could save with the Cooperative although putting money into savings is hardly what retrenched people think is a good use of their money.

4.3.1.2 Capital markets

If the Central Bank of Swaziland enacts and implements fully the minimum international standards in securities regulation, SASSCO stands to face a great challenge from the stock exchange competition. If the Cooperative does not improve on its present recurring deficit it, stands to be out maneuvered by the stock exchange market.

4.3.1.3 Politics

The instable present rule of law in Swaziland may result in either, the best or the worst of the Cooperative's profitability. If multiparty succeed in Swaziland, presently ruled by the monarchy system, the economy may, or may not stabilize.

4.3.1.4 Technology

The Cooperative has to develop alongside the world and contend with the largest rivals in the financial industry in terms of technology; otherwise, it may not catch up and be defeated. Presently the technology is not up to standard and the Cooperative is still operating in rented small offices which may be costly to install a well-developed intranet system that would be later not be used. Consequently, much is expected in this regard when the SASCCO Centre will be completed.

4.3.2 Industry Evaluation (External Environment)

When evaluating SASCCO the overall financial industry is taken into consideration since the Cooperative does not compete with other cooperatives. SASCCO is an umbrella body to develop the savings and credit cooperatives. The competition is in the overall financial industry, which is fierce and characterized by high substitution. SASCCO should, therefore, strategize in order to be able to win the largest share in the financial arena. The main problems in the industry concern over-indebtedness of the client which is caused by unfair high interest rates charged to clients. The Cooperative should capitalize on the industry's weakness by offering lower interest rates.

The cooperative industry is characterized by low capital requirements but this is not the case with the financial industry, high investment inputs are required as a start-up. Embarking on a Cooperative Bank project implies that SASCCO is now competing in the financial industry and it could be easy for the Cooperative to be ousted from the industry if it does not take strong competitive stands. It should, however, be noted that the whole cooperative industry profitability is below par. Cooperatives need revenue that will be sufficient enough to run their operations efficiently which is not the case, for instance, with the banks. Growth prospects look positive for the future.

SASCCO can strengthen itself by forming more joint ventures and alliances with rivals to neutralize the stiff competition in the market. High product differentiation is also encouraged to win more Cooperative members who will be loyal to the different societies. The Cooperative could also capitalize more on the most neglected segments of the economy, the rural people, by making banking much easier for them and to secure the purchasing power which is now achieved by its largest rivals.

4.3.2.1 Porter's Five Forces Model

In this section SASCCO's competitiveness in the financial/cooperative industry is assessed using the Porter's Five Forces model. It should, however, be noted that this kind of model only assumes a classic perfect market and that the economy factors are stable:

- A high level of rivalry is caused by the low exit barriers and the low switching costs to clients within the financial institutions. It is very easy to move from one bank to another or to register with an insurance company if one is not satisfied with the service offered by the cooperatives. If the service is not easily accessible, informal lenders would always be readily available.
- Generally, with SASCCO as an apex body for cooperatives, there is low threat that there will be a new entrant of such a kind. Although, cooperatives have low capital requirements they are expected to comply with the international principles and practices and with the government policy for cooperatives formation, which makes it difficult to start-up a new cooperative. The same applies with the financial institutions. It should, however, be noted that it is a different case with informal lenders who are not formally registered in Swaziland and are mushrooming because they need no formal capital to start.
- There is high buyer/members' power because of the low switching costs.
- There is low supplier power because with this kind of service the client is the owner and

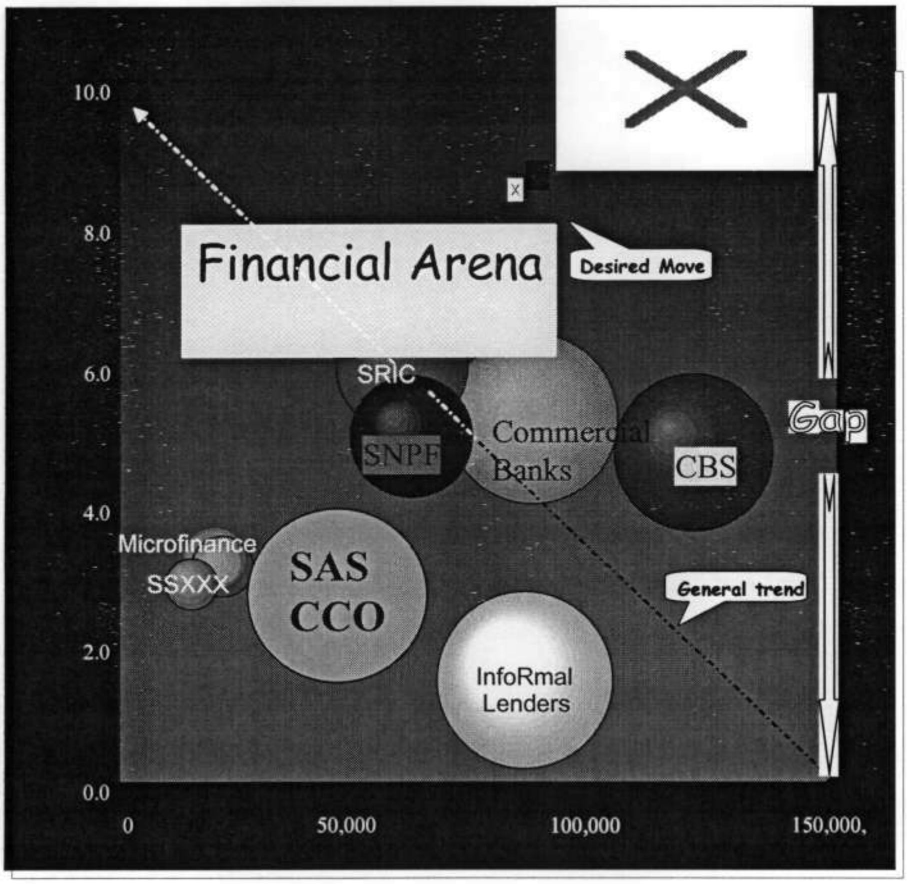
sets the rules on how the respective accounts should be operated.

- SASCCO entered the cooperative industry with a strong financial base of about E35 million and this has thus stirred much competition with other financial institutions which are not cooperatives but mostly commercial banks. However, banks lend too much riskier borrowers to maintain their earnings. SASCCO members are being offered numerous products from revised services in regard to credit facilities both by banks and credit bureaus. Further, the government of Swaziland offers reasonable measures in regard to community development funds that attract low interest rates. These funds can be sourced from Inhlanyelo Rural Development Fund, Enterprise Trust Fund and others.

4.3.2.2 Strategic Group Maps

The Cooperative will now be evaluated against its competitors using the Strategic Group Maps as shown in Figure 4.1:

Figure 4.1: Strategic Group Maps for Assessing Competitive Positions of Rival Firms



Source: (Thomson and Strickland, 2003:102)

Interpretation

The close proximity of the companies on the strategic group map substantiates the analysis in the Porter's Five Forces analysis, indicating that rivalry is intense. The Informal lenders and SASCCO appear to have severe resource constraints or poor strategies and/or implementation, followed by the Swaziland Stock Exchange and the Micro financiers, their customer satisfaction levels are lower than the average trend indicates they should be. The leaders in the industry are the banks. The SRIC has high customer satisfaction but a lower base of members compared with the banks, followed by the SNPF.

4.3.2.3 Weighted Competitive Strength Assessment

The Cooperative will now be weighted its competitive strengths in the industry as depicted in Table 4.1:

Table 4.1: Weighted Competitive Strength Assessment

Key Success Factor/ Strength Measure	Weight	SASCCO	Commercial Banks	CBS	Informal Lenders	SRIC	SNPF	Microfinance	SSXX
Quality/customer service	.3	4	8	8	1.5	4.8	6	5	3.3
Reputation/Brand Image	.2	5.1	8.7	5.7	1.1	5.5	4.3	2.8	0.5
Supply chain capability	.15	4.3	8.3	1.2	7.3	3.0	3.0	1.7	4.7
Operating cost	.1	2.4	7.3	9.5	0.5	6.7	6.6	3.0	5.1
Financial resources	.25	1.7	9.6	10	1.0	7.5	5.5	4.5	3.2
Sum of weights	**1.00**								
Weighted overall strength rating		**3.5**	**8.4**	**6.9**	**2.3**	**5.5**	**5.1**	**3.4**	**3.4**

Interpretation of the results

The weighted competitive strengths assessment ranks SASCCO fifth out of eight institutions which offer the same products as SASCCO. SASCCO outperforms the informal lenders because of their bad reputation and unjustified interest rates, the quality of service they offer and their lack of financial resources. The Cooperative's competence is slightly above that of microfinance and the Swaziland Stock Exchange because these institutions are still on their infancy stage in Swaziland, and not familiar to most people. However, they are a threat to the Cooperative because they almost tie with SASCCO. This is an indication that as soon as they market themselves effectively they will outperform the Cooperative and are, therefore, a threat to SASCCO.

The overall results are that the commercial banks are the leaders in the competitive arena with a strong back-up of the Central Bank of Swaziland because of their financial strength, good image with customers, quality service they deliver and their supply chain capability.

4.3.3 Company Analysis (Internal Evaluation)

In this section the Cooperative is assessed its internal operations.

4.3.3.1 Value Chain

The staff understanding of the Cooperative's operations is low to moderate due to the inadequacy of appropriate skills. SASCCO is facing a challenge in the industry to educate its members against sourcing finance from other bodies outside the Cooperative environment. Much will be expected from the Cooperative as an umbrella body. Presently about 90% of SASCCO's affiliated members are urban centred and employee-based. Assisting the rural population to form savings and credit Cooperatives remain a standing challenge for SASCCO since most of the rural groups do not have income generating projects which are essential for the viability of savings and credit Cooperatives. Capacity building to assist rural groups is needed, as well as expansion of staff to increase outreach and research (Report by Acting CEO February, 2001).

The entire value chain is important to SASCCO as it is part of customer-orientation. Recruitment of the new CEO in 2001 brought substantial changes into the Cooperative. Improvements include the development of other Cooperatives (Saccos) and products offered by the Cooperative, such as, the CFF, RMP, Education and Training.

Primary Activities

The core services offered by the Cooperative are as follows:

There is on-going progress to redefine the target market. Some services from non-profitable segments have been withdrawn and put on more profitable action programme, for example, the insurance services (RMP) which also forms a part of the Cooperative's competitive strategy. Marketing distribution channels seem to be not well set. SASCCO reaches individual customers through the Saccos which is a long process. This ensures the target audience's access to products/services at the right time in the right place.

SASCCO, according to the CEO, is targeting everyone in the country. The findings, however, are that the Cooperative has more of its members from both low income earners and middle class people (employed) and does not yet cater for the poor (unemployed). SASCCO is in the process of designing and offering services to clients according to their requirements in order to satisfy their needs. Unfortunately, the products are not clearly differentiated from those of competitors, except for the lower interest rates charged to clients and the issuing of loans twice the member's savings. Penetration pricing is used in the offering lower interest rates. For instance, current bank rates stand at 10% as per the Swazi Observer (June 19, 2004) whilst the cooperative rate is as low as 2.5% usually not more than 5% but varies with a cooperative.

Services

The service delivery has the following gaps:

- The standard gap: SASCCO has not yet translated and delivered the promised products to clients.
- The delivery gap: Execution of standard services to customers has still not yet been obtained.
- The perception gap: The delay of the project has made some of the customers skeptical about their funds saved in the Cooperative. Some clients are already losing hope and confidence in the Cooperative.

Support Activities

Findings from the support/functional divisions were found as follows:

- Finance: A very weak balance sheet, characterized by a continuous, growing deficit. Gearing has now been obtained from the Development Bank of South Africa (DBSA).
- Marketing: This department shows a strong drive but lacks the composite skills. There is little expenditure on promotional activities and there are few newsletters that have been in circulation.
- Human and Resource: The CEO has taken aggressive measures in redressing personnel issues. A new Marketing Manager was recruited together with an Investment Manager who will monitor the SASCCO project fully and update the CEO on new developments.
- The accounts of the project will be run separately from the Cooperative's accounts. The Cooperative is, however, still in the process of recruiting more qualified personnel to run executive posts.

Presently there is no HR manager: the Assistant CEO, who is also a finance manager, is currently performing the personnel duties.

- IT department: Computers with an internet have been installed. The staff has access to the organization's websites which will improve the Cooperative's efficiency in its operations, as well as being interactive with the global market.
- Research and Development: Non existent. The Cooperative's Activities are still conducted in a small building and which makes it impractical for the organization to presently run intensive R & D. The finance problem is also a contributing factor. There is some indication that the Cooperative will consider R & D in the near future when the SASCCO Centre project is complete.
- Investment: At the time the research was conducted the investment manager was reported to be newly recruited. The Cooperative appears to have undiversified investment services but the Cooperative Bank project places the Cooperative at a favourable position with its competitors.

4.3.3.2 Positioning

Proper positioning is valuable for the Cooperative to assess whether demand is growing or declining. As has been mentioned in the previous chapters, this Cooperative is affected by the intense rivalry in the industry. According to the life cycle - portfolio matrix, SASCCO is in a strong competitive position, in a mature industry. The competitive positioning for SASCCO is in catering for the various groups of customers with varied incomes. Low income earners who live in isolated geographical areas are also targeted by SASCCO. The Cooperative will sustain development of Sacco committees in economic sectors where the cooperatives are not as active as expected, by recruiting suitable staff. The umbrella Cooperative is still re-organizing itself yet the competitors are already ahead.

The industry's major player's key factors for competitive success are depicted in Table 4.2:

Table 4.2: Key Factors for Competitive Success

Technology Related ▪ Product innovation ▪ Use of e-commerce **Skills Related** ▪ Superior workforce talent ▪ Quality control know-how ▪ Expertise in a particular field	**Market Related Costs** ▪ Fast accurate technical assistance ▪ Courteous customer service ▪ Breadth of product line and selection ▪ Creativity and innovation ▪ Create customer relationships ▪ Innovative advertising
Organizational Capability ▪ Superior Information system ▪ Ability to respond quickly to shifting market ▪ conditions **Other Costs** ▪ Favourable image or reputation ▪ Convenient location	**Distribution Related Costs** ▪ Lower distribution costs ▪ Prompt delivery of service ▪ Short delivery times ▪ Contact positions

Source: By Researcher

4.3.4 Financial Analysis for SASCCO

SASCCO is facing its greater challenge in the industry to educate its members against sourcing finance from other sources outside the Cooperative's environment. Much is being expected from the Cooperative as an umbrella body.

4.3.4.1 Portfolio Analysis

The portfolio analysis will determine the best products the Cooperative should concentrate on.

The BCG Matrix

The star products in the SASCCO portfolio are assumed to be the RMP and the CFF because they are performing well and are the core services provided by the Cooperative. The cash cow products are assumed to be the education and training provided to member cooperatives. These are also regarded as core service of the Cooperative as stated in the Cooperative's by-laws. The questionable products are the technical assistance and advisory services provision, since their effectiveness is very doubtful. Products which need to be divested into other portfolios include fixed deposits and the holiday savings.

Diversification

Though SASCCO has formed alliances as a means to increase capacity savings, thereby increasing revenues and reducing costs; the balance sheet for the year ended 31 December 2002, reveals that the investment portfolio for the Cooperative is not well diversified. Funds are only invested with the African Alliance, Old Mutual and ACOSSCA.

The organization is further strengthening its relationship with other local organizations, for example, CCU the apex for agricultural Cooperatives in Swaziland. This is evidenced through its alliance with ICA and WOCCU.

4.3.4.2 Tax implications

Generally cooperatives are not charged tax but the apex Cooperative will now have to be taxed because of the establishment of the SASCCO Centre. The Cooperative will now own share capital and the rules allow it to give returns or distributions on surplus or share capital, unlike non-profit cooperatives, where there is no share capital and the rules prohibit the Cooperative from giving distributions on surplus.

4.3.4.3 Dividend Policy

Due to limited financial Information given, it could not be established clearly whether the Cooperative has a formal dividend policy but it is possible that the dividends will be will be paid out of the Cooperative's net operating income, not from the retained earnings since the Cooperative is currently operating on a deficit. Expected future dividends will be paid at the rate of 12% per annum (SASCCO Newsletter April, 2003).

It was also difficult to calculate the Cooperative's dividend payout growth rate since the fixed costs could not be separated from the variable costs. Generally, with cooperatives it is not easy to distinguish between variable and fixed costs, hence, difficult to establish the contribution margin. Figures for variable costs and fixed costs are separated at the accountant's discretion which may flaw the financial results. Moreover, it is not easy to establish the degree of both operational leverage (contribution margin less fixed costs) and financial leverage (EBIT less interest) clearly since there is no tax deduction, this may also flaw the financial results. The same applies with SASCCO as tax is not, as ye, deductible.

4.3.4.4 Du Pont Analysis

All calculations were based on the Cooperative's financial accounts Information.

ROE = Return on Investments (ROI) * Financial Multiplier Leverage (FML)

Where:

Assumptions

- Sales (members dues + affiliation fees)
- EBIT (Revenue + other income before interest)
- EAIT (operating income before appropriation)

	2002	2001	AVG
EBIT / SALES (OPERATING MARGIN)	1.5281	1.6053	1.5906
SALES / TOTAL ASSETS	1.63	0.2485	0.2058
INTEREST EXPENSE / TOTAL ASSETS	0.0671	0.0701	0.0686
TOTAL ASSETS / ORDINARY EQUITY (FML)	1.9749	1.1146	1.5447
EAIT / TOTAL ASSETS	-0.2045	-0.1054	-0.155
ROE (NET PROFIT% *FML)	**-0.4039**	**-0.1175**	**0.2394**

Interpretation

The overall average ROE of 23.9% indicates that the firm is unable to generate revenues in excess of its expenses. It is making increasing and continuous losses on investment returns. It then remains a question as to how will then the Cooperative offer 12% dividends if this situation continues. The profit margins are too low to exceed capital charges. Shareholders may not be compensated for what they have invested in the business. The level of assets financed by equity is accelerating.

However, this return measure is in book-value terms and may not reflect what would be paid as equity share.

4.3.4.5 Income and Expenditure 2002

This section assesses the profit and loss account for SASCCO.

Revenue

Total revenues generally are improving due to the members' dues which have increased from E374, 490.00 in year 2002 to E840, 846.00 in year 2003. Other income rose by E72, 909.00, as obtained from the Cooperative's unaudited accounts. Members 'dues generate the most income into the business whilst consultancy and training bring the least income.

Expenditure

Generally, the expenditure level is higher than the revenue generated with a loss of E469, 442.00 in 2003, but the loss is expected to reduce to E160, 400.00 in 2004. The highest expenditure by the Cooperative is incurred on salaries and wages and the sundry expenses, the lowest charges being on utilities.

Advertising Expenses

The income and expenditure of the organization shows that the Cooperative is not adequately investing in promotional techniques, although for the 2004 budget, this amount has almost doubled. The level of expenditure is very low with this item, yet promotion should be used intensively to advertise the Cooperative's products in order to increase more revenue in the organization. Even the 2004 budget still indicates low budget for promotion.

Salaries and Wages

The lower expenditure on salaries than what was actually budgeted could be explained that some employees do not take advantage of the overtime. This could also be an indication that the staff is content with the present salaries scale and see no need to work overtime to supplement their salaries. This is supported by the evaluation conducted by KPMG (August, 2002) that the payment scales were relatively good.

Utilities Expenses

Utility expenses are within budget. Low charges on utilities may be either because the Cooperative uses its electricity and water very conservatively or because it is operating from a small office, hence low consumption needs.

Interest Expense

There seems to be too much money spent on interest on savings rising at 24% from year 2002 to year 2003. In 2003 the Cooperative exceeded the budget by E165, 152.00. The bank charges budget for 2004 is overstated; the trend shows that the budget could lay in the region of E15 000.00 and E 20, 000.00.

Board Sitting Allowances

There seems to be too much expenditure on Board sitting allowances. Normally, the Cooperative budget for these expenses is at E25, 000.00 per annum but the expenditure ends up exceeding the estimated budget almost three times than it was budgeted. Over the past years there has been no control over board sitting allowances. This implies that unplanned or unbudgeted meetings were held. This could further imply that the E30, 000.00 budgeted figures for 2004 may be unrealistic.

Communications

This item is also overspent, possibly there are more personal calls made.

Office Stationery

It appears that office stationery was under budgeted, as a result an over expenditure of E 390, 224.00 was incurred.

Transport Costs, Office Rentals and Travelling Expenses

Transport costs, office rentals and travelling expenses are within the budget. It shows that there is no misuse of vehicles or unnecessary trips undertaken by staff.

Interest on savings

This item was underestimated. Management is advised to consider a consistent or fixed interest rate for savings payment in order to avoid recurring budget shortfalls. The same applies with interest on shares, though variances are positive.

This reflects the Cooperative's inability to predict interest rates.

Repairs and Maintenance

There has been control over repairs and maintenance expenses.

Staff training

It appears that the organization does not consider staff training as a priority. Only small amounts are set aside and even lower funds have been utilized under this item than should be.

Audit fees

Audit fees are a requirement and are well budgeted for by the Cooperative. The Cooperative produces audited accounts which represent a fair presentation in all material respects: the financial position of the association at the end of each year; the results of its operations and cash flow Information for the year ended in accordance with the Swaziland and International Accounting Standards and in the manner required by the Swaziland Cooperative Societies Act of 1964.

Bad debts

There is a need to decrease the E10, 000.00 year budget for bad debts since this amount overstates the budget expenditure unnecessarily. There have not been any bad debts incurred for the past 3 years.

Sundry expenses

Sundry expenses are higher than they should be.

4.3.4.6 Balance Sheet 2002

There must be a budget criteria or yardstick put in place as a good reason to justify increases/decreases in the budget estimates.

Total Assets

The company does not have many fixed assets because it is a service company. Most of its assets consist of the computers and software (accounted for as an asset). If the IT assets are leased operationally, they will become off-balance sheet items, thus further reducing the value of the assets.

Non-current assets

The fixed assets and the investments are improving. The increase of E 518 349.00 in 2002 is assumed to have arisen from the new office furniture, office equipment and computers and software purchased. Investments grew by 26%. This increment has been derived from investments funds at African Alliance and Old Mutual. Funds invested with ACOSSCA remained the same, implying no growth.

Investment Funds

Africa Alliance alone yielded 92% of the portfolio, and Old Mutual yielded 8%. It should be noted that the Old Mutual fund exists as a voluntary saving by a key member of management and former board member. The proceeds from this fund will be received by the association at maturity. ACOSSCA had no growth.

4.3.4.7 Liquidity Assessment

Current Ratio	Current Assets / Current Liabilities	2002	1.18
		2001	4.6
Acid Test Ratio	Current Assets – Stock / Current Liabilities	2002	1.15
		2001	4.6

Interpretation

The results from the current ratio reveal that in 2002 the Cooperative had an adequate working capital (WC) to finance its short-term liabilities, but in 2001 the company had too much cash which was not well invested. The quick ratio results for both 2002 and 2001 show that the Cooperative would be able to finance its short-term loans even without the Cooperative's any inventories (stationery) being sold.

4.3.4.8 Proposed Budget for 2004

SASCCO's proposed operational budget for 2004 seems to be considerable since it reduces the deficit from E469, 442.00 to E160, 400.00 which shows that if the organization manages its operations well, it will be able to eliminate deficit completely in the long-run (unaudited accounts). The asset turnover for 2002 was 8.5% which shows that the members' dues are able to finance the assets of the Cooperative. From the audited accounts, the 2002 deficit has increased from E263, 697.00 to E905, 247.00.

There are still some concerns that the budget has wide discrepancies. The Cooperative's estimations are not in proportion with the actual budgets. The figures overlap, for example, the interest on long-term investments could be predicted since the organization of the time will be in a position to know the interest rates to be received. In 2002 the amount of interest expected from long-term investments was budgeted to be E150, 000.00 yet the actual interest received amounted to E41, 265.00. Also for the next year 2003 E80, 000.00 was budgeted but interest came out to be E151, 201.00, which reveals a very wide discrepancy.

4.3.5 Optimal Capital Structure

To determine if the Cooperative has apportioned its capital structure appropriately its equity and gearing effect, cost of capital, bankruptcy and solvency is evaluated as follows:

4.3.5.1 Equity and Gearing Effect

From the financial statements given, the Cooperative is not geared. It is an all-equity firm.

4.3.5.2 Cost of capital, CAPM and WACC

The results have shown that, since this is an all-equity company the cost of capital is equal to the cost of equity since no dividend has yet been paid out. The Capital Asset Pricing Model (CAPM) method has been used to determine the cost of capital of the Cooperative based on the following assumptions (calculations based on 2002 budget):

- The risk free rate (Rf) was assumed to be equal to that that of the South African risk less stocks which currently sit at 6%.
- The beta of the company was estimated to be slightly above (one) 1 since this is not a very risky company, at, 1.02.
- Risk premium to be 5%
- Corporate tax to be 35% (South African corporate tax rate used since higher than Swazi 30% as SASCCO has not yet been taxed)

Illustration

CAPM	Ke = Rf + B (Rm – Rf)
	Ke = 6% + 1.02 (5%) = 11.1%

WACC is, therefore, 11.1% since this is a 100% equity firm.

What will happen after debt has been introduced?

The Development Bank of South Africa (DBSA) has loaned SASCCO an amount of E25 000 000.00 at 15% commercial rate.

Workings

The after-tax rate would be as follows: Interest* (1 - t) = 15% * (1 - 35%) = 9.75%
The Capital Structure should now change since it is now geared and must work for the betterment of the Cooperative:
Total market value for 2002: Equity = E2, 241, 907.00 Debt =E25, 000, 000.00 = **E27, 241, 907.00**
WACC or new cost of capital is: 9.85%, i.e. [2, 241, 907.00 / 27, 241, 907.00 = 0.0823*11.1% = **0.9135%** = 25, 000, 000.00 / 27, 241, 907.00 =0.9177* 9.75 = **8.94%** Hence: .9135% + 8.94 = **9.85%**]

Interpretation

From the results above it can be seen that the cost of capital has now reduced from 11.1% to 9.85% because of the introduced debt.

The interest cost has reduced from 15% to 9.75% because of the tax shields from the 35% tax. The dividend payout of 12% is, therefore, justified.

4.3.5.3 Bankruptcy Prediction

The Revised Altman Failure Prediction Model has been used to measure the extent to which SASCCO is likely to fail as an operational entity. The scores obtained from the audited accounts for 2001 and 2002 show that the Cooperative is likely to succeed. On the other hand there is a great concern since the scores have fallen from 6.3623 in 2001 to 3.6482 in 2002 nearing the level of uncertainty. Further, it should be noted that the calculations have been based only on the past two financial years not the current ones. This implies that at a decreasing rate of 43% [6.3623 – 3.6482 / 6.3623] a year. SASCCO might sit on a score below 1.1 for 2004 which could be very dangerous for the Cooperative since that could suggest certain failure within the next two years.

Formula $\mathbf{Z = .012X1 + .014X2 + .033X3 + .006X4 + .999X5}$

- The mid point of distribution is 2.7
- From 1.2 to 2.9 = Uncertainty.
- A score below 1.1 = Company almost certain to fail.
- If score is above 2.9 = Company is almost to succeed

Workings

			2002		
Z =	X1 = Net working Capital / Total Assets	6.56 *	0.0933	=	0.612
	X2 = Retained Earnings / Total Assets	3.26 *	-0.2548	=	0.8306
	X3 = EBIT / Total Assets	6.72 *	0.2494	=	1.674
	X4 = Net Worth / Total Assets	1.05 *	0.5063	=	0.5316
					3.6482
			2001		
Z =	X1 = Net working Capital / Total Assets	6.56 *	0.3733	=	2.4488
	X2 = Retained Earnings / Total Assets	3.26 *	-0.0892	=	0.2908
	X3 = EBIT / Total Assets	6.72 *	0.3989	=	2.6806
	X4 = Net Worth / Total Assets	1.05 *	0.8972	=	0.9421
					6.3623

4.3.5.4 Solvency Evaluation Ratio 2002

A solvency ratio has been calculated to find the degree of SASCCO's inability to meet its debt repayments which may result in legal default by the organization.

Cash Flow at end of year / Total Liabilities 305, 515 / 4, 427, 623 = 6.9%

A business is technically insolvent if it is unable to cover its principal and interest payments. The percentage ratio of 6.9% is interpreted as follows: the company will only be able to cover its total liabilities only up to 6.9% of its total liabilities, which is an area of concern to the Cooperative.

4.3.6 Gap Analysis

Gap Analysis is very useful in understanding the competitive environment in which the organization operates. With SASCCO it was found that a gap between its objectives and how it implements its current strategies exists. SASCCO's objectives to set up a Cooperative Bank and to consolidate members' contributions, and as a result to empower them financially, was almost a flaw.

The introduction of gearing has helped the SASCCO Centre project to pick-up again in 2004 after it has been halted for quite some time due to financial constraints. The target date set was 2003 yet the Cooperative Bank is still not in operation although appropriate evaluation of the project was conducted by professionals and feasibility study undertaken. This now leaves the organization with questions regarding the recruiting of the right personnel to produce creative strategies that will be effectively implemented and which will run the project successfully.

4.3.7 SWOT Analysis

The SWOT analysis for the Cooperative is depicted in Table 4.3:

Table 4.3: - SWOT of SASCCO

Environmental change (Opportunities and Threats)	Opportunities				Threats				Scores	
	Owning the largest market share in the financial arena – due to low interest costs (i.e owning a large section of the clients/employees from private, parastatals and the govt sector	Expanding co-op's service lines (especially, the Cooperative/ society banks) to meet broader range of customer needs	Increased services through Alliances with other world Cooperatives	Hosting major conferences	High service substitution	Growing bargain power of customers	Slow increase of membership base.	Bank-ruptcy or failure of the Cooperative.	+	-
Strengths										
Clients/Membership Competitive Advantage	+3	+3	+3	+3	+3	+2	+2	+1	+20	0
Visionary CEO	+2	+2	+3	+1	+2	+2	+2	+2	+16	0
Customer focus	+2	+1	+2	+1	+1	+1	+1	+1	+15	0
Better marketing/incentives	+2	+2	+2	+1	+2	+2	+1	+1	+13	0
Corporate culture: open door	+1	+1	0	+1	0	0	+1	+1	+5	0
Work experienced staff	+2	+1	0	+1	+2	+1	+2	+2	+11	0
Low interest costs with high dividends	+3	+2	0	0	+2	+2	0	+1	+10	0
Weaknesses										
Low marketing drive among Saccos.	-2	+1	0	0	-3	-2	-3	-3	+1	-1
Weak financial base (operating on a deficit)	-3	-3	-3	-2	-3	-2	-3	-3	+1	-2
Behind on R & D	+1	-1	+1	+1	-2	-1	-2	-3	+3	-9
Inadequacy of some key skills	-3	-3	-2	-2	-2	-2	-2	-3	0	-1
Falling behind rivals in Technology (e-commerce)	-1	-1	0	+1	-3	-3	0	-2	1	-1
Environmental Impact scores +	**+15**	**+12**	**+10**	**+8**	**+12**	**+10**	**+9**	**+9**		
Environmental Impact scores -	**-10**	**-8**	**-2**	**-4**	**-13**	**-10**	**-11**	**-14**		

Source: Adapted from Ambrosini (1998:127)

The highest opportunity for SASCCO (highest score of +15) is to own the largest market share in the financial industry with a large strong base of members, due to the low rates it charges from clients. The Cooperative can take a large section of the employees from the working class in the country. The organization still stands great opportunities by further forming up strategic alliances with other partners both locally and internationally.

The rentals from the SASCCO Centre will help increase the organization's future revenues at the same time reduce costs. The most ominous threat is bankruptcy and high service substitution, because of the easy availability of financial services offered by microlenders. This is further perpetuated by the organization's current threat of slow growing membership base. SASCCO'S strengths are its low interest rates charged to members and the visionary CEO, who will need a very strong team with which to operate.

The Cooperative's main weaknesses are that it has a poor balance sheet, inadequate key skills and a low marketing drive among the Saccos. For the past three years the Cooperative has been operating a deficit which is very unhealthy for long-term existence of the Cooperative, especially a service-based Cooperative which should be raising more of its revenues by providing more services to clients than relying on donations. SASCCO is a growing organization but in a mature industry it has a shortage of key resources, yet has embarked on a gigantic project. Compared with other key players in the industry the Cooperative is still behind on its R & D and technology. Nedbank, for instance, is well known for its aggressiveness in technology, as well as, its competent staff.

4.3.8 Management of the Cooperative

The overriding objective of any Cooperative is to provide services to members, not to accrue or accumulate capital. Savings represent the cornerstone of a credit union, and loans issued to members are taken from these savings. Successful strategies seek to capitalize on what a company does best, its expertise, resource strengths, and strongest competitive capabilities. Often, most Cooperatives fail because of poor management, slow and tedious decision-making.

Cooperatives are voluntary and democratic organizations controlled by their members who actively participate in setting policies and making decisions. Members contribute equitably to, and democratically control, the capital of their Cooperative. Part of the capital is usually the common property of the Cooperative. Cooperatives are autonomous, self-help organizations. Their role is to provide education and training for their members, elected representatives, managers and employees and to contribute to their development.

The current staff number of SASCCO is very small and communication between higher and lower executive management seem to be not a problem. The Cooperative structure is mostly decentralized. Information is distributed around the organization to place it closer to its users. The Cooperative believes in total quality management (TQM) making the customer a priority and by striving to meet the customer's needs and expectations through its open culture.

Most members of the Cooperative are aware of the organization's activities and how the organization operates. The Cooperative has an IT department to disseminate the organization's information. However, the computerization system is still in its developmental stage. The Cooperative is also considering putting in place a staff training programme. At this stage, it is not clear how quality systems and procedures are to be developed to support total quality management or a continuous process of improvement in the Cooperative.

The leadership of SASCCO is strong but has a weak management; an example of this is the fact that Cooperative has been able to take aggressive risks but operating at a loss. The leadership style is participative though sometimes authoritative. The CEO frequently consults with his followers, which shows responsible leadership.

Employees are encouraged to express their ideas and make suggestions but in most cases the CEO's decisions preside. The Cooperative's goal-setting is more Theory Y type. Management as a level of trust in its employees is shown in that they can work without supervision. Employees were found to be well motivated through an incentive system. Most have just recently joined the Cooperative and still keen to work effectively. The CEO's traits as an effective leader include self confidence, more than average risk-aversion and integrity. Leadership roles observed combined both technical and human skills. SASCCO is at the stage that requires a strong leadership of a surgeon who has the capacity for selectiveness, knows what has to be changed when and how, someone who is decisive and is able to make tough decisions without fear of staff actions as long as it is for the good of the organization.

SASCCO's transformational change leadership change should be visionary with a clear focus on where the organization is headed and how it is to get there. The required transformational leader should have charisma to provide a vision and a sense of mission that instills pride, gains respect and trust for the transformation.

The leader should also be inspirational to be able to communicate high expectations, use symbols to focus efforts and to be able to express complex but important processes in a simple manner. The leader should have intellectual simulation and individualized consideration to enable him/her to promote intelligence, rationality, careful problem solving at the same time to give personal attention and treat each employee individually, as well as, to coach and advise employees accordingly. The organization's culture encourages the *espirit de corps* and has clear and explicit rules and values that are shared widely across the organization.

4.3.9 Main Advantages for the Cooperative

The main advantages for the Cooperative are:

- SASCCO will cater for various groups of customers with varied incomes. Underappreciated customer segments in the rural areas are also targeted by the Cooperative but they must belong to a Sacco.
- SASCCO will sustain development of Sacco committees in economic sectors where the Cooperatives are not as active as expected, through activities such as, educational training in technical skills, psychology and leadership skills. Staff will be visiting all Saccos to provide the best training on working in a Cooperative environment.
- Empowering members financially.
- Ensuring security of members' savings by introducing efficient working systems.
- Utilizing economies of scale for the overall benefit of SASCCO.
- Setting-up a Cooperative Bank to consolidate members contributions

4.3.10 Main Disadvantages for the Cooperative

The main disadvantages for the Cooperative are that:

- The current by-laws and objectives of the Cooperative do not state clearly how the Cooperative is going to cater for unemployed people or the poorest elements in the society. It appears SASCCO is targeting only the working class in the society, that is, clients who are employed and would be at least earning a consistent monthly income from a recognized employer.
- Loans would be directly deductible from the source of the members' income.

4.4 Change and Corporate Recovery

The organization is in a transitional change period. It is reorganizing its activities and some of the change has involved the composition of the Cooperative's structure itself. The current CEO has brought about many changes in the organization, including the structure of management, organizational culture and the daily operations. For now, it is not clear whether these changes will be successful in improving the Cooperative's profitability, but the changes are contextually correct and insightful. The current strategy is focused and has direction. It is long-term and future oriented. If the strategy is successfully executed, the Cooperative will have the opportunities to recover.

The organization possesses a positive attitude towards change. New, open work policies and processes have been introduced into the Cooperative and old ones have been altered to foster the idea of change for the better. Pipeline programmes include, re-engineering the Cooperative's products, evaluating staff performances and placing senior staff on contract employment to reduce costs in terms of full time employment benefits such as, long service or gratuity. Although the change is context specific it is accompanied by an appreciation of its complexity. The Cooperative did not take aggressive measures in preparing its employees for this major transitional period. It is however, aware that aggressive strategies have now to be put in place to change its management modalities and expand its operational base and calculate risks.

4.5 Summary

The life cycle, value chain, positioning, portfolio, and business profile of the Cooperative were assessed and evaluated to test the suitability of the Cooperative's current strategies. From the results obtained, it can be determined that the apex Cooperative has a bright future provided that the key issues raised in the paper are paid attention to, and addressed. Should they not be taken seriously, as indicated by the failure prediction models trend within two years the Cooperative could manifest signs of failure and incompetence.

The Cooperative is capable and stands a great opportunity of owning the largest market share in the financial arena due to the low interest rates it charges from client loans. The Cooperative is capable of owning a large section of the employees from all work perspective in the country.

It is, therefore, on the hands of the CEO and his management team to bring SASCCO on track by recruiting skillful and vibrant personnel. All employees should be allowed to participate in the organization's decision-making and the day-to-day running. The current reorganization strategy is appropriate and must be well executed and implemented appropriately.

The Cooperative has a leadership advantage: the CEO is visionary and has insight into the long-term aspect of the organization. The staff is cooperative, supportive and experienced but lacks diverse expertise. The main problem of the Cooperative appeared to be its low gearing which is presently hindering the Cooperative's operations and its inefficiency. It follows that SASCCO should reduce its equity and introduces further long-term debt and mid-term financing, preferably the operational lease for its IT system, to take advantage of the tax shields which lead to reduced interest costs. Both the current and the acid test ratios show that the Cooperative is liquid enough to meet its short-term liabilities. SASCCO's change process has been a top-down approach, but has not been interactive and involved participation from all staff members. A clear vision should be created for the future. In Chapter Five, recommendations will be provided as a guide to what SASCCO could do to ensure that whatever changes have been effected is maintained for the long-term strategic success of the institution.

CHAPTER FIVE

Recommendations and a Conclusion on SASCCO's Strategy

5.1 Introduction

Having critically analyzed suitability of SASCCO's current strategies in Chapter Four, Chapter Five aims at using the outcomes of the analysis to make recommendations as to what SASCCO can do to improve its current strategies and any change strategies that could be adopted to make the process a success to achieve the intended goals of the Cooperative.

5.2 Recommendations

After thorough analysis and evaluation of SASCCO it has been found that there is a gap between the objectives set and forecasts, market and the firm's current strategy (reorganization). The Cooperative's strategy is not implemented very well because of several issues including funding, shortage of appropriate skills and poor budgeting, to mention but a few. The recommendations made will then be based on where the Cooperative is now, where it should go and how it should get there. It is further recommended that SASCCO considers the following points in order to be able to execute its strategy successfully:

5.2.1 By-laws Amendments and the Cooperative's Act

The Cooperative Act of 1964 requires amendments to track the ever-changing world and new business approaches. For instance, cooperatives are expected to generate only sufficient profits to sustain their daily activities but now evident that cooperatives whether for profit making or not, need to concentrate on how to sustain their long-term viability in order to be able to weather long-run financial problems. The Cooperative needs to be financially sound with readily available cash loans to the members of the society, hence, meeting desired consumer goals. Cooperatives can no longer rely solely on donations or government subsidies for their survival but need to generate lot of revenue and in profit, while still adhering to the cooperatives' principles. The Investment purposes and opportunities should be clearly stated to amass millions under the loans and savings portfolios.

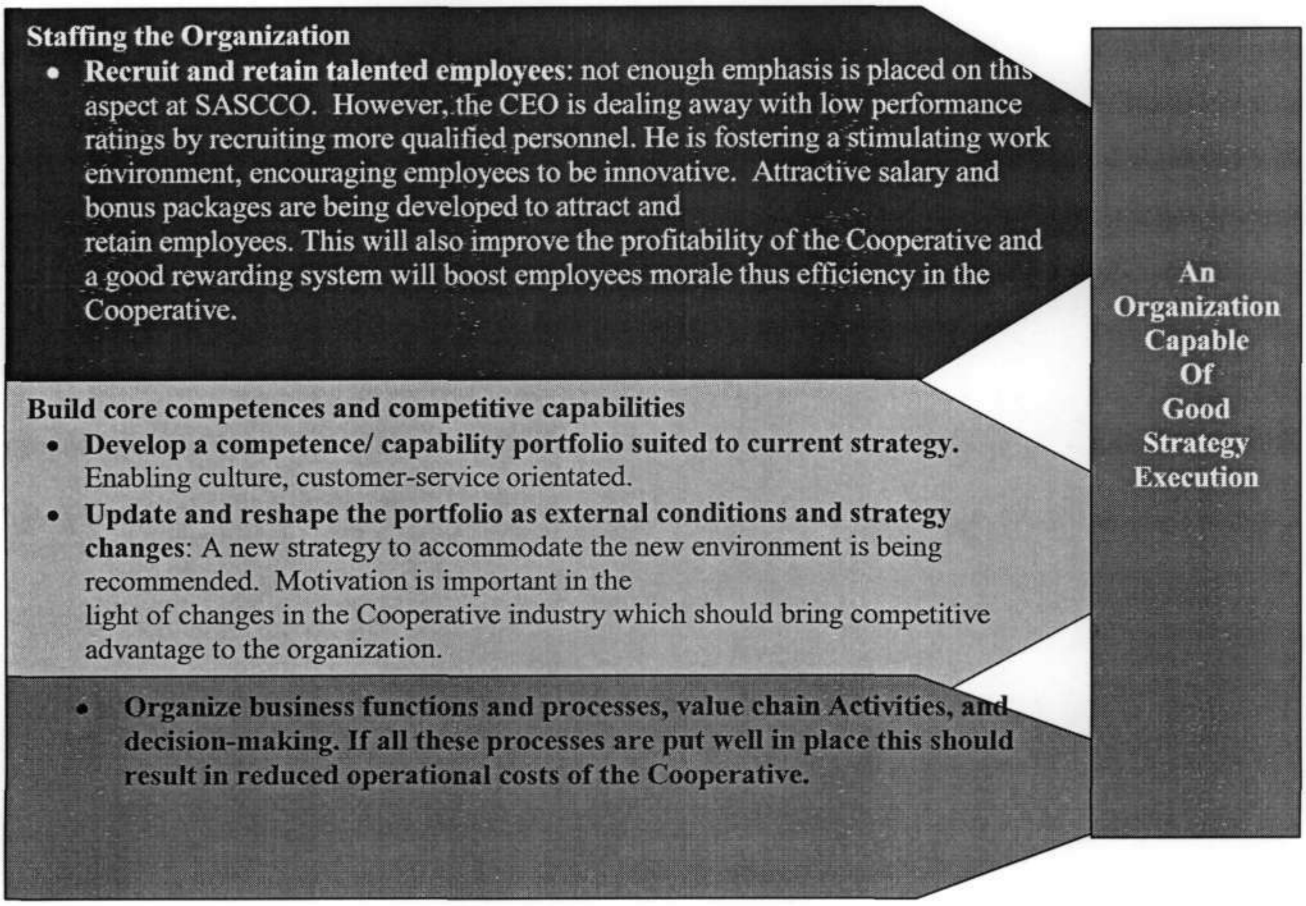
Clear and unambiguous by-laws will not only improve the overall efficiency of SASCCO but will also be very beneficial to the Cooperative to generate more funds thus, meeting the members' needs. SASCCO is, therefore, advised to liaise effectively with the Department of Agriculture and Cooperatives under the Commissioner's office to consider modifying its current by-laws. The by-laws should state clearly the goals that need to be achieved by the board from those of the CEO. Further, SASCCO should meet the savings and credit needs for the poor by introducing transparent regulations that will allow participants to understand the Cooperative environmental decisions in order to promote sound investment in the industry.

5.2.2 Suitability of SASCCO's Reorganization's Strategy

A clear mission statement, vision, objectives and goals should be clearly understood and embraced by all employees. The process should be transparent and collaborative involving continuous communication between all stakeholders at all stages of the transformation. The Cooperative has to implement its reorganization strategy by encouraging a more proactive management that would be appropriate to devise more efficient and effective tactics for changing activities in the Cooperative.

The basic components of SASCCO's strategy and as a capable organization would be recommended as shown in figure 5.1:

Figure 5.1: Building Resource Strengths and Organizational Capabilities



Improved resource strengths and organizational capabilities of the Cooperative could be taken advantage of by adhering to the cooperatives principles of charging low interest to members. Through voluntary and open membership the Cooperative stands a great opportunity to take a large section of the clients or employees from all the economic sectors.

SASCCO can further focus on capturing a larger share of the business sector by expanding its service lines to make banking easier for the society members especially, those who are at remote rural places. Society banks or offices can be established to provide easier access to banking services. This also could work at an advantage of the Cooperative since most of the government employees occupy the larger sector of the working class. Salaries could be easily be obtainable at the nearest society banks which could be the hardest hit on the commercial banks and further be threatened SASCCO's offer of lower interest rates. Meeting the broader range of customers' needs will place SASCCO at a competitive membership advantage which should help the Cooperative reduce the level of high substitution in the industry, especially from the informal lenders.

Infrequent changes in the strategy are recommended. This will help the Cooperative strategize better for the future by knowing which strategies work for the organization. It does not necessarily mean that strategies should not change but should be tailored depending on the stage and times in which the organization is.

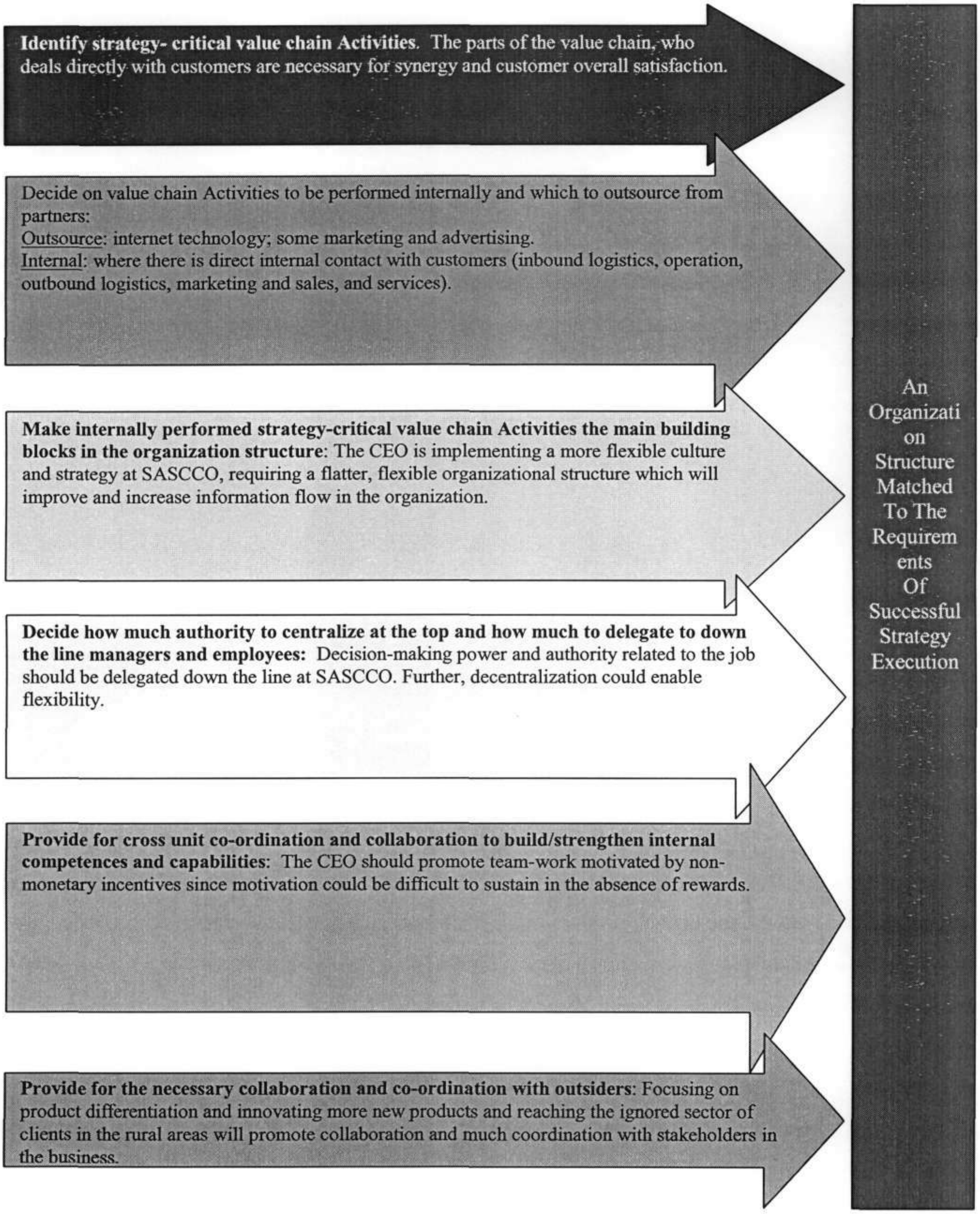
5.2.3 Performance Gap Analysis

Registered members' savings should be secured and members empowered financially. The Cooperative's objectives should be realized or seen to be working by all stakeholders. Management should strive not to lose investors' confidence by bridging the gap between management and subordinate staff by addressing questions, such as, where is the organization now? Now can something better be done in what is being done already? Management should, consider growth strategies, stability and defense service sales to be able to bridge this gap. More members will join the Cooperative and consequently that will improve on the current financial crisis.

5.2.4 A Successful Strategy Execution

A recommended successful strategy for SASCCO is shown in summary in Figure 5.2.

Figure 5.2: Structuring how SASCCO Should Promote a Successful Strategy Execution



SASCCO is advised to concentrate and capitalize to its core competences, by letting the members set the lending rules and diversifying decisions to out perform competitors. For instance, the banks lack support in improving relations with the business community by their reluctance to advance longer-term finance in the form of loans but overdrafts. Banks insist on excessive level of security to back their lending, the scale and range of their charges are almost impossible to attain. Moreover, their tardiness in passing on interest rate reductions to customers and their undue haste in recalling funds with clients are inconsiderate and SASCCO could take advantage of these weaknesses by making its services much friendlier and more accessible to members.

5.2.5 Reorganization Strategy

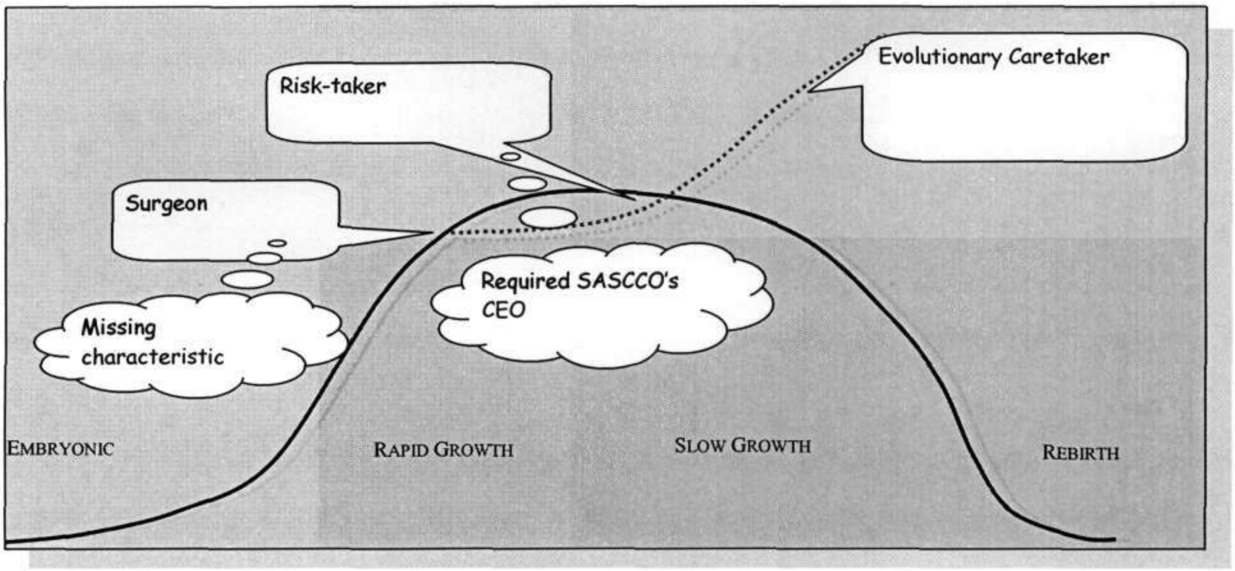
A successful reorganization of SASCCO would mean connecting change initiatives to the core business. Promising innovations can wither if there is no path to integration with mainstream operations. Realistic limits should be set. Raising expectations that cannot be met by the Cooperative could undermine changes that are achievable. Management should avoid being too optimistic about penetrating new markets to keep the shareholders confidence.

5.2.6 Strategy Linked to Leadership

Strategy linked to leadership requires someone who has the ability and qualities, as well as, experience, to take the organization into the uncertain future and to ensure that once the organization has achieved its transformation goals, the new organizational behaviour will be maintained for the benefit of achieving long-term strategic development. Successful organizations have good leaders who set high standards and goals across the entire spectrum of strategies, leadership, plans, quality of productivity and reliability.

According to the life cycle portfolio matrix, SASCCO is in a favourable competitive position, in a mature industry. It follows then that the Cooperative should hold its position: grow with the industry and reinvest as necessary, re-organize; differentiate through excellent quality and service at reasonable rates and focus on the business sector. To achieve successful reorganization in worse times when the economy is in recession, SASCCO requires a CEO who is prepared to be a risk-taker and as has been mentioned earlier in Chapter Four, a leader with characters of a surgeon and an evolutionary caretaker is recommended to re-engineer the Cooperative as shown in figure 5.3:

Figure 5.3: Leadership Required for Re-Engineering the Cooperative



Such re-engineered leadership should bring the Cooperative on track without having to put lot of costly resources into work, and should be able to set a clear direction for all stakeholders and maintain open and continuous communication about any changes in the processes. The processes should be understandable and to everyone in the organization. A successful leader should not be afraid to make mistakes but should be ready and willing to make any mistake a learning path.

5.3 Management of the Cooperative

The member Saccos are independently unique and need to be sustained continuously. To achieve this essential goal, it would be advisable that SASCCO's management cut above the rest of its rivals in terms of service delivery. A focused management system and a continuous increase in creativity should be secured to ensure a competitive advantage to the Cooperative. Management has a role of developing the employees and helping them release the potential of imagination, ingenuity and creativity that can be applied to work and a common objective. If all employees are involved in all the levels of decision-making, they will gain motivation and feel part of the organization and be committed to achieving the long-term goals of the Cooperative.

5.4 Total Quality Management (TQM)

It is suggested that the Cooperative improves its services by clarifying access to all programmes offered by the organization, easy access to information and combating any fragmentation or duplication of services. The CEO should encourage employees involved in a particular work processes to work as a team. Balancing of workloads fairly and appropriately should be encouraged. The Finance Manager, for instance, tends to be too involved in many activities which may end up making her less effective. Job evaluations could also be implemented to run the Cooperative competently.

5.5 Value Chain Analysis

A recommended successful value chain for SASCCO explores the following points:

5.5.1 Financial Control (Budget)

A budget committee or team with the appropriate budgeting skills should be established to make realistic budget estimations. This budget could be set as an interim and then on annual basis. The current wide discrepancies may imply that an Investment Manager or Economist with adequate hedging risk knowledge is essential for the Cooperative.

An investment/economist expert will be able to advise the organization of forthcoming and level of prevailing interest rates, inflation and provide knowledge of the operation of the capital markets and use the techniques of the money market to hedge away the inherent risks that prevail from exchange rates. If this fact is not taken seriously by the Cooperative, substantial losses could be incurred and the effects could be worse in the long-term sustainability of the Cooperative. Focus should be on increasing operating profit margins and increasing turnover as indicated by the Du Pont Analysis to improve the financial situation.

5.5.1.1 Costs Reduction

Unbundling (Vertical de-integration) strategies: SASCCO should investigate reducing costs by implementing offensive strategies to increase revenues. Initiatives to capitalize on competitor weaknesses should be taken by concentrating to services where rivals have weak geographic concentration. Special attention should be paid to buyer segments neglected by rivals and more focus should be placed on the core business of the Cooperative by providing superior customer services.

5.5.1.2 Control of Expenditure

Management can cut expenditure on communications by monitoring the telephones, faxes and cell phones closely to ensure that they are not abused. The cell phone bills could be substituted by giving deserving officers (as per management's discretion) allowances with set limits. Management could also revisit the communications budget estimates to ensure their authenticity.

5.5.1.3 Consultancy and Training Income

Since this item brings small revenue to the organization, it could be improved to generate more income for the business by training more staff in this area alternatively, it could be invested into other profitable portfolios within the Cooperative before it becomes a drain to the whole SASCCO's overall profits.

5.5.1.4 Sundry Expenses

Much expenditure has to be cut from this non-descript item. The losses on investments could, for instance, imply use of more hedging techniques to bring down the level of expenditure. Bank charges could be reduced by investing the Cooperative's revenues generated with other financial institutions that offer higher income or give more interest on deposits. Legal fees should be altogether avoided by adhering with all the accounting standards applicable. Too much money is spent on staff uniforms. If uniform allowances are given, the level of expenditure could be reduced substantially.

5.5.1.5 Board Sitting Allowances

Management is advised to adhere to the budgeted estimates as they seem to be reasonable and do not overspent on this item as it has serious implications to management. A contingency plan needs to be developed to accommodate unforeseen meetings and circumstances.

5.5.1.6 Optimal Capital Structure

The optimal capital structure is one that reduces the overall cost of capital to its lowest level, thus increasing the overall value of the company. Capital structure optimization's choice will depend on the company's financial risk, which is primarily influenced by degree of operating business risk and the nature of debt. The company should determine its own desirable optimal structure mix, so as to avoid high gearing.

For instance, in case of accelerating depreciation, the additional borrowing may not reduce the company's tax bill immediately, but simply cause additional losses to be carried forward. As long as SASCCO is able to mix its equity structure proportionately by securing debt to lower interest charges to gain tax shields, the Cooperative stands the chance of survival. If not, then the likelihood is very strong that SASCCO will fall victim to bankruptcy.

5.5.1.7 Gearing the Cooperative

SASCCO should introduce more debt into its capital structure to help reduce its insolvency. There are two main factors that need to be considered when dealing with gearing. The first one is that it is a cheaper form of financing than equity because of its tax benefits. Secondly, the more debt issued the larger the risk of the company defaulting which tends to make shareholders worry of highly geared firms. The implication of more gearing is that the shareholders will require a greater rate of return with increased risk. Financial risk will arise from the increased variability of dividends payments to the shareholders which then push up the overall cost of capital. The advantages of debt outweigh its disadvantages. Equity, for instance, besides the fact that it is expensive, is very inflexible as growth depends purely on reinvesting earnings and the ability of the owners to provide new funding and can cause dilution via new shareholders.

Based on the evaluation results of SASCCO, a recommended average level of debt as part of the Cooperative's capital structure would be around 60%. A high debt-to-equity ratio would help strengthen manager's focus, ensuring that they view cash as a scarce resource and allocate capital accordingly. Moreover, management can create new ways to work the balance sheet by managing the physical capital, and deploying or eliminating unproductive capital both as fixed and working capital.

The Cooperative should ensure that future debt maturations are sufficiently spaced apart to allow for the recovery periods. These should be in line with free cash flows available to be able to finance the loans. Once the company has recovered and is no longer in danger of bankruptcy, it should refocus its efforts on funding with short-term debt as opposed to long-term debt to provide flexibility. Gearing will reduce the deficit.

5.5.1.8 Future Equity

It is recommended that once the Cooperative has recovered from the deficit and starts to be profitable it could raise new capital from its retained earnings. When a company wants to issue equity investors may believe, rightly or wrongly, that the company is doing this because it thinks its shares are overpaid and may respond by selling them. In addition preservation of retained earnings would be good for SASCCO to develop and encourage more projects expansion into the Cooperative.

5.5.1.9 Mid-Term Financing

The association should consider mid term financing methods when purchasing assets. The most suitable financing method for IT assets would be an operational lease. Since the Cooperative's highest asset value is its computers and software, it could lease these items operationally rather than buying them. When using the balance sheet figures, if the computers and software amount is removed it means that the fixed assets amount will reduce since operational leases are off-balance sheet items.

The association should note that diversification will lower the risk of the portfolio. The Cooperative could also opt for other asset allocations. This is a technique that divides assets into major categories in order to create diversification and balance the risk. The main objective of mid-term financing is to choose the most cost effective financing method in order to maximize shareholders' wealth. At this stage, medium term debt is encouraged to keep the cost of borrowing low. This will also reduce interest costs, compared to funding with unsecured notes. Lower interest costs should be taken advantage of to plough back money into the business, thereby reducing the business risk.

The main advantage of an operational lease is that the interest cost is tax deductible. This form of leasing provides an alternative means for obtaining use of an asset without purchasing it. The lessee normally does not intend to have a permanent title of the asset, Correia, Flynn, Uliana and Wormald (2000). The term of the lease agreement is usually shorter than the asset's useful life.

The lessor assumes the responsibility for maintenance and the insurance of the asset, hence, these assets become an off-balance sheet item, and the rentals deducted in the profit and loss account. This will provide a room for the Cooperative to have use of the most up-to-date equipment since it will be able to lease upgraded machinery at the end of the lease contract. This form of leasing is also regarded as the cheapest that SASCCO could predict with certainty its future base payments and budget accordingly and borrowing at an almost risk free rate. Furthermore, operational leases can, with notice, be terminated at any time.

5.5.1.10 Portfolio Diversification

There is a great need for SASCCO to generate higher profits for the sole purpose of reinvesting the profits into the organization to engage in more activities. It cannot rely only on donations. This is why the association has been incurring losses for the past four years. The continuation of the association's activities is dependent upon its ability to operate profitably, and on the availability of ongoing finance from its members and finance providers.

Over reliance on the African Alliance fund can bring negative returns to the Cooperative. At the moment, it can be seen that investments to this fund alone consist more than 75% of the overall portfolio. The fund is perceived to be a large-cap stock, implying that it has great financial strength and stability. However, when the economy performs badly the share price for large-caps falls, though still holds better than small-cap stock funds. A typical fund is likely to have a broad range of products and services that can help them weather economic storms.

As a practical matter it makes more sense to invest both in large and small capital stocks. Investment should be in terms of how these stocks will perform over longer and shorter periods and to balance between the desire for the lowest possible risk and the highest possible return to trade-off risk. Investment with the Old Mutual fund seems to be reasonable and in tact due to the professional management, diversification, and economies of scale, simplicity and liquidity of the fund. It should, however be noted that mutual funds are always associated with high costs, over diversification, possible tax consequences and the inability of management to guarantee a superior return as is already the case with the Cooperative, it incurs substantial charges to Old Mutual.

Recent research studies have shown that a well-diversified stock portfolio must include at the very least thirty stocks for a lending investor and fourty stocks for a borrowing investor. An optimal portfolio for SASCCO means deciding on how much risk the Cooperative can handle and then allocate its assets accordingly.

5.5.1.11 Conducting both External and Internal Audits

Annual external audits and quarterly internal audits for the Cooperative are highly recommended to gain investor confidence that the Cooperative is still operating as a going concern.

5.5.1.12 Pension Fund and Medical Aid Scheme

A pension fund and a medical aid scheme for SASCCO employees would be necessary for the apex body, however, some organizations are now moving away from providing these services.

5.5.1.13 Expansion Projects Encouraged

Establishment of further structures by the society is encouraged since it adds value and image to the organization but this move should not cause the agency problems by depriving members' rights to loans as their savings would be locked up in the fancy building constructions.

The proposed working structure of the Cooperative Bank should aim to work hand-in-hand with the individual societies. ATMs could be installed in selected places around the country to enable distant members' easy access to their funds.

5.5.1.14 Taxation

SASCCO is advised to put some measures in place to ensure that the Cooperatives members are not double taxed by the CBS's move to tax the Cooperative.

5.5.1.15 Credit Control Facilities

The Cooperative should encourage strong regulatory policies to cater for the low income earners who become heavily indebted because of the heavy deductions effected directly from their salaries. With the increasing formalization of the savings and credit industry, SASCCO needs to install accelerated investment computerization system software that will recruit only members who are financially cleared with other financial agencies or members who have approved financial credibility.

5.5.1.16 Counselling Programme for Indebted Customers

A debt-counselling programme by SASCCO is recommended to help members who are heavily indebted to control this kind of situation. This will not only reflect the Cooperative's responsibility for the community/members but will also bring a good reputation for the Cooperative. Such initiative has a potential of attracting many clients into the Cooperative thus, increasing SASCCO's base for its members who from the analysis conducted in Chapter Four reflected to be the main source of funding for the Cooperative. It is further suggested that the Cooperative in its by-laws, ensures a law that will assist the borrower a right to defend a claim of indebtedness.

5.5.2 Research and Development

It is important for the Cooperative to consider marketing or R & D as the essential tool for the entity's growth and expansion. Although the company is strongly advised to invest heavily in R & D, it is in-house at the moment and it is suggested that it chooses to be a follower rather than a leader in the industry, by using recently developed technology to keep up with current trends in the savings and credit market. SASCCO should hire appropriate expertise to run the R & D department to promote creativity, innovation and development of new products. Increased promotion coming up with effective innovations and quickly achieved product improvements should be encouraged.

Management should release the potential for generating new knowledge, ideas and programmes by all employees concerned. Promotion of creativity and continuous innovation can, for instance, be done through encouragement, rewarding success, skills training in relation to required capabilities, procedures, budgeting processes and promoting the organization's objectives. A development manager or a manager with a marketing degree from a recognized institution is recommended.

5.5.3 Human and Resource Management

SASCCO management should start by acknowledging that human resources are assets and the success of any transformation. It is recommended that a qualified HR manager is recruited instead of the Finance Administrator doing this job as is the current situation. It was noted with concern that most of the executive staff newly recruited is from the Swaziland Electricity Board (SEB).This is a drawback as these employees have been exposed only to one sector of the economy. It would be recommended that employees with diverse skills and experiences from different sectors of the economy be recruited.

The Cooperative should plan to adequately train, reward and recruit competent personnel. As has been assessed from the previous chapters, the current strategies are not executed well because of shortage of rightful skills.

Since SASCCO is involved into more expansionary programmes, it is necessary that a strategic planner be recruited to assist in facilitating effective planning and implementation of the programmes in the Cooperative.

5.5.4 Up-to-date Technology

SASCCO should in future consider implementation and execution of its service strategy online and the Cooperative could further be advised to consider the following factors:

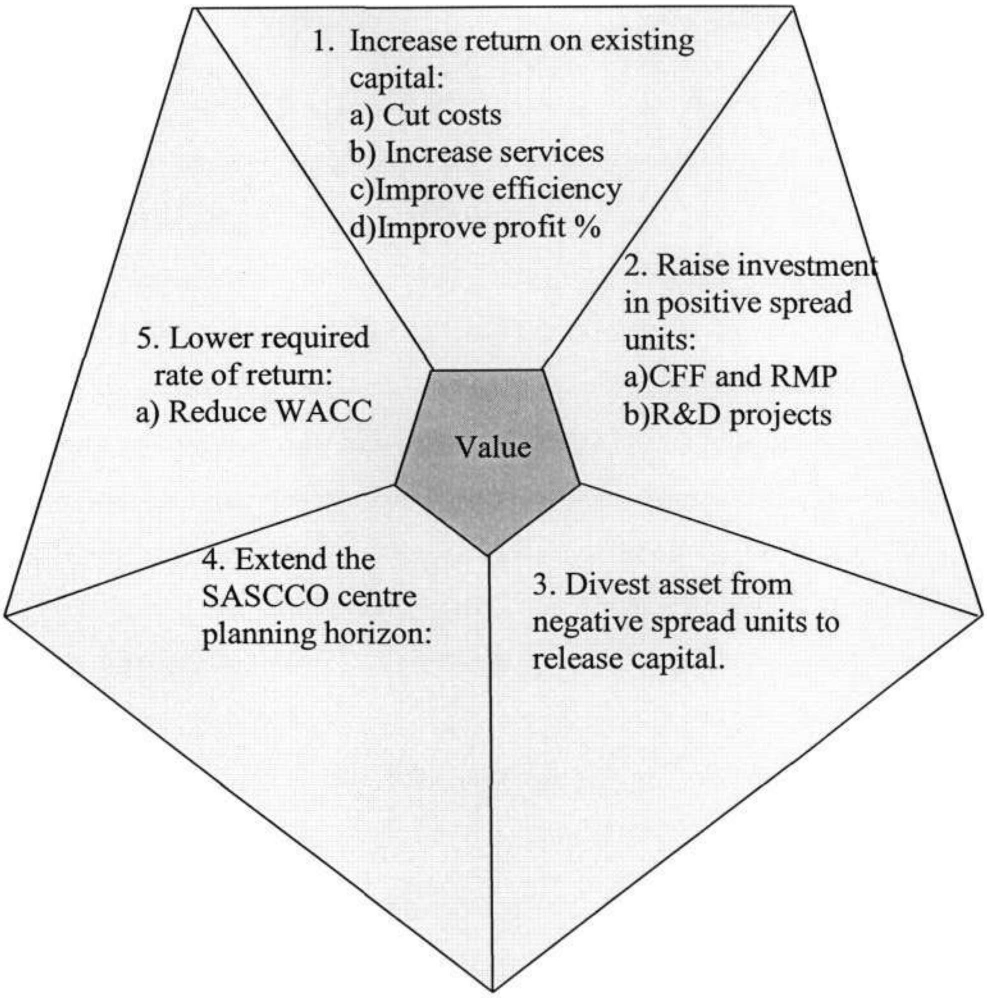
- A distinctive strategy that delivers unique value to customers by making online services that would be appealing to clients
- Modifying the value chain to enable differentiation, lower costs and better value for money
- Using innovative marketing techniques to reach and stimulate their target market
- Have strong capabilities and resources in cutting edge Internet technology
- Keep the website fresh and exciting to stimulate members services
- Pay for links and advertising space at search engine sites

5.6 Explicit commitment to value

The Cooperative's reorganization plans to overcome threats will result in different financing requirements. Whatever the strategy is, it must maximize shareholder value. More focus should be placed on cash and value, not earnings. The right performance measures should be used for each business. Incentives should be linked to performance. The shareholder should be made the centre and focus on optimizing each business. There should be no hesitation in making aggressive promotions when the economy is expanding because that is when customers can make substantial savings and prefer the Cooperative as the medium for preserving their savings.

The value Action pentagon in Figure 5.4 suggests five areas which SASCCO's managers can explore to maximize shareholder value:

Figure 5.4: Suggested Value Action Pentagon for SASCCO



5.6.1 Value Based Management Methods (VBM)

Value Based management (VBM) is an approach that emphasizes shareholder wealth maximization objectives. SASCCO can add value action by extending the planning horizon of the SASCCO Centre/Cooperative Bank project and by lowering the required rate of return without losing investor confidence. Value is created when returns generated from existing and new investments consistently exceed the cost of capital (workings of the cost of capital shown in Chapter Four).

5.6.1.1 Economic Value Added (EVA)

It is recommended that the Cooperative considers techniques such as the economic value added (EVA). Knowledge of such techniques will help evaluate SASCCO's return strategy if it will add value to its operations, profits and shareholders satisfaction. EVA will indicate SASCCO's future equity returns, based on the logic that superior management performance should be reflected in the Cooperative's stock return. Furthermore, management performance based on the ability to add value to the firm would also be examined by this technique. EVA attempts overcoming some of the accounting problems of standard economic profit [EAIT – capital charge (cost of capital * net operating assets)] which when applied appropriately should improve on SASCCO's current financial position.

5.6.1.2 Market Value Added (MVA)

Market value added (MVA) will help assess the cooperative to operate a healthy balance sheet. MVA measures management success in adding value to capital employed or the degree to which the value of shareholders investments are enhanced. This technique looks at the long-term sustainability of the Cooperative and is recommended to be used appropriately to improve on the Cooperative's deficit.

5.8 Conclusion

There is no doubt that the current research will be of great value to SASCCO and its member societies. Solutions are suggested to the prevailing problems, which should result in a sustainable long-term relationship between SASCCO and its members. Appropriate application of the recommendations will increase the organization's productivity hence, its profit margins. The research has further explored several questions, which may have already been in the minds of the members, if the project is viable. The organization has been assessed and evaluated based on strategic and financial models. The Cooperative has the potential resource strengths, and strong competitive capabilities to run a suitable reorganization strategy that will succeed the organization.

Savings and Credit problems could be reduced if greater regulation and monitoring of the industry is conducted by the department of Agriculture and Cooperatives under the Commissioner's office. Unambiguous Information concerning savings and credit should be readily available to all members. This could only be achieved if there is close monitoring or control of the credit and savings access. The government of Swaziland needs to institute consumer credit protection legislation. More consumer awareness and educational programmes should be encouraged to raise responsible borrowers and employees. Members need to be more informed about the advantages and disadvantages of the use of credit in Cooperatives. Members should be in a position to determine what interest rates they are paying on their loans. Borrowers need to be informed of the dangers of taking too much debt and made responsible for their actions by including both the employers and the board members in deciding if a member should be granted a loan.

It is clear from the various studies of Cooperatives that the poor are able to pay interest and can save. This provides the reason that new forms of credit should be developed with more oriented goals to get rid of exploiter interest rates charges in the country and also as a means of out-performing money lenders charging unjustifiable interest rates. The duty of the state is to protect its citizens and enhance their well-being and to address the crucial issue of poverty in the country. This implies that the Cooperative (SASCCO) has a greater challenge, of not losing the investors' confidence since the idea has only just taken-off in the industry. There is a great task for the mother Cooperative to educate its members against sourcing finance from other sources outside the Cooperative environment. Much will be expected from the Cooperative as an umbrella body.

The results obtained from the SWOT analysis, revealed that the Cooperative has more weaknesses inside than threats from outside. SASCCO lacks sufficient expertise for internal reorganization, which will make it difficult for the Cooperative to sustain a long-term return for its members' reserves. SASCCO is showing inability to devise tactical strategies for running daily operations. It, therefore, follows that it may not be competent enough to recruit the right personnel in, logistics, marketing, research and development for its long-term sustainability. The Cooperative's technology was found to be below standard compared to that of its competitors in the industry. If the Cooperative is unable to meet the average standard set by the financial industry, the establishment of the Cooperative Bank may not be successful.

However, if the Cooperative is well reorganized it will recover from what might appear to be imminent disaster, and can offer tremendous investment returns. As a matter of fact, if its opportunities and strengths are appropriately utilized it will continue to survive as a going concern and sustain its long-term in the competitive business arena. A great opportunity for SASCCO exists to own the largest market share in the financial industry. The Reorganization strategy is, therefore, a suitable turnaround strategy to profit the cooperative. More than proportionate assets are financed by equity and the rate is increasing very fast. The results show that the Cooperative's balance sheet is very weak but the deficit could be reduced (though at a very slow pace), for instance, by increasing members' shares, members' savings, reserves and profits. If this situation continues, the association's reserves will run dry. The Cooperative can only be able to reduce a significant amount or clear off this recurring deficit by committing more long-term debt into its capital structure. Debt is cheaper than equity as illustrated in Chapter Four and SASCCO can be able to enjoy tax benefits arising from reduced interests costs or tax shields from leased assets instead of acquiring them through outright purchase.

The financial results from the 2001 to 2003 reflect that the Cooperative is lowly geared. By introducing more secured debt in its capital structure, more benefits would be gained than using equity: interest payments are tax deductible, whereas dividends are not; floatation costs for debt (not leases) can be amortized over their life, while those of equity cannot be amortized; and debt is generally cheaper than equity. It should be noted, however, that ratio analysis is based on historical information which is subjective rather than objective. The figures calculated could be misleading in measuring value creation as they do not specifically take into account risk and time value of money. Accounting figures are subject to distortions and often do not give a true reflection of the company's current economic position. The balance sheet assets are reflected at historical costs not current replacement values. Consequently, if SASCCO were to value its assets with current replacement prices, efficiencies may be better or worse than reflected.

SASCCO could, further, be rated as a slightly more than one beta association, hence, has transited into a high volatile and risky fund. In turn, as compensation to investors, the Cooperative should be prepared to reward the members with higher returns than before. Such an effort should be manifested in the refining of policies and methods of productivity, creating specialist units and mechanisms to ensure improved quality of service, developing personnel specially suited to the present strategy, fostering individual and group commitment to the company mission and allocation of equitable resources among different strategic business units of the Cooperative.

Although the Cooperative is currently operating on an increasing level of deficit, the current reorganization strategy is suitable as has been tested. Right personnel should be put in place. There is a future for the Cooperative; its opportunities outweigh its weaknesses. SASCCO should pay serious attention on the raised issues; more so, introduce adequate long-term debt suitable for its capital structure. If serious measures are not undertaken on time, despite the fact of its enlightened CEO, the Cooperative would still be likely to fail and take a long time to recover.

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