

**EVALUATION OF STRATEGIC FIT COMPONENTS AND
INFLUENCE ON ORGANIZATION PERFORMANCE: CASE OF
RETIREMENT BENEFITS AUTHORITY IN KENYA PENSION
SECTOR**

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Abstract

Globally, Kenya included as per 1999 statistics a mere fifteen percent of the population had access to retirement income support. A situation worsened by government's reluctance to fund social security obligations and by poor societal relations where the elderly are abandoned. In Kenya, the pension sector related policies have been in favour of formal sector employment; minority with 15% while overlooking the informal sector with 70% of labour force. This situation has caused stagnation of pension cover at 15% of the labour force. This low coverage of pension schemes is in sharp contrast to their being over 1,350 work-related and individual scheme sector players. This study set out to determine the strategic fit components of retirement benefits authority and influence on performance in Kenya pension sector. Through a census, this study sought to determine influence of political, economic, socio-cultural and technological factors on performance of retirement benefits authority. This study was aimed at assessing how strategically aligned the Retirement Benefits Authority being the Kenya pension sector regulator, supervisor, promoter and a sector player is in spearheading mobilization of pension savings to be used to fund capital-intensive projects enhancing realization of Kenya Vision 2030 while at the same time improving quality of life for all Kenyans. Strategy involves top, middle and low level employees hence respondents from the various levels were engaged. A correlation test using Pearson correlation coefficient carried out to test nature of relationship between independent and dependent variables. All correlations gave a result of ($< +1$) indicating a positive correlation

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between the independent and dependent variables. Although, some respondents disagreed that political factors influence policymaking (2.50); political factors influences policymaking and hence all the other factors. Technological factors are also changing rapidly as implied by 95% accuracy. The researcher concluded that strategic fit to external environment components namely; political, economic, socio-cultural and technology factors influence an organization performance in varying levels. Therefore, the study recommends that organization management should continuously work towards attaining strategic fit to political, economic, socio-cultural and technological factors in their operating environments so as achieve the organization objectives.

Key words: strategic fit components, strategy, performance indicators

1. Introduction

According to IOPS(2007); Kenya retirement benefits sector is composed of four main schemes namely; the public service scheme, the National Social Security Fund (NSSF), occupational schemes and individual pension schemes. Currently the coverage of pension schemes stands at 15% of the total work force; NSSF leads with a membership estimated at 67% or 800,000 members, public service pension scheme at 22% while the work-related and individual retirement benefits schemes at about 10.4% of total scheme membership with 1,350 pension schemes. NSSF, occupational and individual schemes are funded by member contributions and are regulated by the RBA whereas the public service pension scheme is funded from treasury and regulated by the Pensions Act CAP 189, Laws of Kenya (Raichura, 2008).

This trend is a point of concern because as per retirement benefits authority report of 2007; the 15 percent of Kenya workers covered by a retirement benefits schemes are employees in formal/white collar employment. This shows low effort in spearheading sector growth since formal sector employees are inclined to save for retirement by either enrolment onto their employer sponsored occupational schemes or because of the legal requirements requiring all employers employing more than five workers to enrol them for retirement savings with the National Social Security Scheme (NSSF).

Over the years the Kenya pension sector has been poorly managed as observed by (Rono, Bitok & Asamoah, 2010); who noted that there was a need of having a regulator of the pension sector as early as 1991 because; employers would use pension funds to improve company cash flow since they had unlimited access. In addition, pension funds schemes were managed unprofessionally being run by pension fund trustees who were either the senior managers of the employer or by political appointees who had vested interests. This resulted in instances where members entitlements due were either delayed or denied, scheme funds being misused or embezzled by the same trustees entrusted to secure the funds occasioning losses to beneficiaries attributed to poor investments decisions. As a result, the formation of Retirement benefits authority in 1997 by parliament under the retirement benefits act, CAP 197 to regulate, supervise, promote retirement benefits schemes, the development of the retirement benefits sector and for connected purposes (GoK, 2014) was timely.

The establishment of the Retirement Benefits Authority has enhanced accountability and transparency in Kenya pension sector where industry players such as the National Social Security Fund are now publishing financial statements while poorly planned investments in land and property have decreased in favour of the Nairobi Securities Exchange (Raichura, 2008). However, more needs to be done because; reforms in the Kenya pension sector are skewed in favour of occupational pension schemes, a preserve of formal employment sector where employment growth is slower compared to the informal sector (Raichura, 2008).

All organizations are highly dependent on the environment because the changes in the external environment affect the threats and opportunities organizations face. For any organization to remain viable in these ever-changing environments, it must maintain a strategic fit with its internal and external environment. The environmental factors influencing an organization are

classified into internal and external environment. The internal business environment is composed of factors within the organization control that influence the tactic and success of its processes such as presence of motivated or unmotivated employees, organizational structure, systems, organization culture (Apondi, 2012). The external environment comprises of a range of factors outside the organization of which it has little control over namely; political, socio-cultural, economic, technological, legal and ecological factors. Therefore, organizations need to develop strategies that will enable them fit within the environments they operate. The external business environment in which a firm competes changes continually hence the organization should continually align its operations to this change (Badri, Davis & Donna, 2000). As such, organizations continually evaluate their current strategies to ensure that they are aligned to the prevailing environmental factors in order enhance their success.

According to (Aaker, 1995); it is important for an organization to conduct an environmental analysis on forces outside it because they affect its processes and speed of activity. This entails identifying and understanding emerging opportunities and threats created by these external forces. The forces can be classified into; technological, government, economic, cultural and demographic. The influence of these forces in turn formed the basis of this study.

Strategy is the equivalent of resources and activities of an organization to the environment in which it operates. Strategy is also search for strategic fit. Strategic fit is also termed as designing strategy by pointing out opportunities in the business environment and aligning resources and competencies to take advantage of these opportunities (Johnson and Scholes, 2003). Strategic fit is important for an organization so that it achieves the correct positioning in terms of meeting identified market needs. An organization strategy is not only affected by environmental forces and resources availability but also by the values and expectations of those who have power in

and around the organization. Therefore, at times strategy is contextualized as an indication of the attitudes and beliefs of those who have most influence on the organization (Johnson and Scholes, 2003). For a strategy to be successful, a firm/organization must be flexible and make changes to the strategy based on experience (Balkin, Cardy & Luis, 2008).

The strategic fit concept is based on the school of thought that organizations have little control over their environment and that organizations successful performance depends on their strategic alignment to environment. Accordingly, firms need to align their resources to the environment or else they perform poorly. Such a view is biased because it is derived from observations from a market-based economy, arguing that a match between environment and strategy has a significant and positive co-relation with business performance (Lukas, Tan and Hult, 2001).

Strategic fit is also developing strategy by identifying opportunities in the business environment and adapting resources and competencies to take advantage of these opportunities (Johnson and Scholes, 2003). Such strategies are dynamic because the organization has little or no control over the external environment it therefore aligns them to these environmental factors. Although, a 'fit' between strategy and environment is a necessity for organization survival it can be argued that strategy consists of a process of domain differentiation rather than adaptation (Rumelt, 1979).

Strategic fit to political factors influences an organization performance significantly; Political factors such as minimum wage legislation, pricing policies, government subsidies can either work for or against an organization and as such an organization should endeavour to align with them for smooth operations. According to Lux (2016); organizations are likely to engage in political activities when these activities seem to generate greater economic returns than economic activity. Basing his argument on the supposition that political factors (politicians and government policy makers) determine the legal and regulatory frameworks within which an

organization operates. The prospective organization leaders engage/lobby the political class through corporate political activity (CPA). He further argues that economic returns are derived by adequate identification of influential political elite and appropriate engagement with them. In addition, industries classified as small and developing are highly dependent on government laws and regulations (Badri, Davis and Donna, 2000).

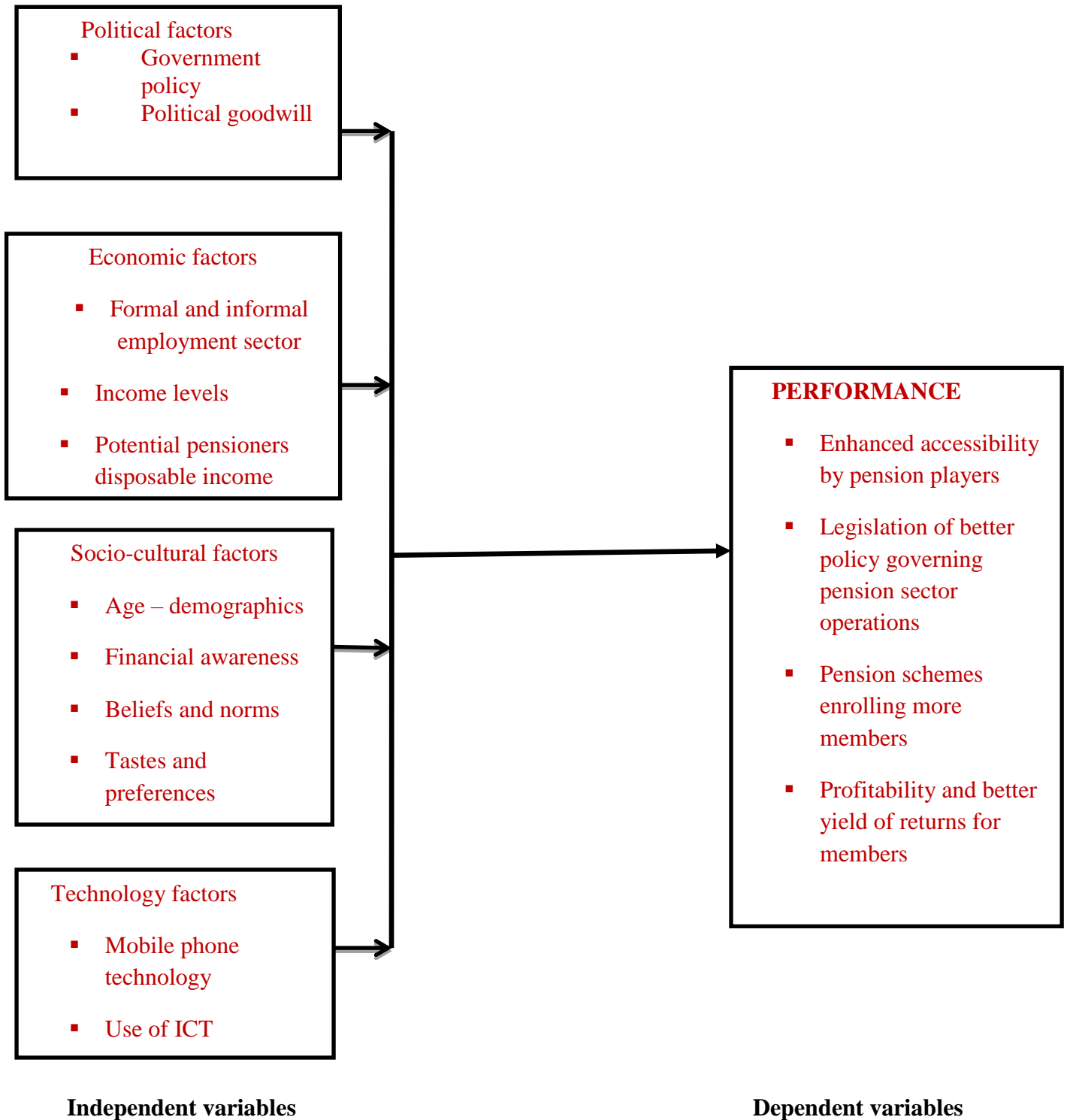
Strategic fit to economic factors influences an organization performance significantly; (Lukas, Tan and Hult 2001); argue that organizations operating in stable, market based economies record good performance. According to (Robinson, Pearce and Mital, 2012); Economic aspects to be considered include; inflation & interest rates, level of disposable income and tendency of people to spend. Organizations that capitalize on global or national economic conditions create opportunities for themselves.

Strategic fit to socio-cultural factors influences an organization performance significantly; Socio-cultural factors influencing an organization include; beliefs, values, attitudes, opinions and lifestyles of people in the external environment (Robinson et al, 2012). Cartwright and Cooper(1993); argue that cultural incompatibility between merged firms have resulted in low employee morale, poor work quality and declining financial performance. They argue that in such instances of 'culture collisions' the costs resulting from poor organization culture integration can be as high as 25 - 30% of the performance of the acquired organization. A cost that makes culture fit equal or of greater importance than 'strategic fit'.

Strategic fit to technological factors influences an organization performance significantly; Haiyang and Kwaku (2001); argue that product innovation is a major strategy for new technology firms with reference to young technological firms i.e. those that are eight years old or younger. A product innovation strategy is a high risk venture to such young technological firms

because they are usually short of managerial and financial resources. However, the usefulness of product innovation strategy on new technological firms depended not only on; how they managed environmental turbulence and unfair competition but also on the extent of government policy support to alleviate their resource and managerial constraints in comparison to other established players. This shows the linkage between the various strategic fit components and hence the basis for this study because studies have focussed on strategic change on other stakeholders.

Figure 1:0 Strategic Fit components



Source: Author 2016

2. Research methodology

A census was undertaken at Retirement Benefits Authority, Kenya and structured questionnaires administered to 13 respondents from the various departments selected using stratified sampling method for primary data collection. The respondents consisted of the Chief Executive Officer, departmental heads of risk, supervision & research and development departments and operational staff. Although the target population was small and respondents were few a research can still be conducted with at least ten percent of the potential respondents (Mugenda & Mugenda, 2003). Descriptive analysis on data was used because the researcher intended to establish the relationship between independent and dependent variables.

3.0 Research results

3.1 General characteristics of the respondents

From the study the researcher established the following inferences; Most of the male and female respondents who participated in the study had a Master's degree academic qualification denoted by (mean 2.00), Most of the respondents had also served the organization for 5 to 10 years; (mean 2.33) for females and (2.14) for males. The only major difference was regarding designation where most of the men are operational staff represented by (mean 1.29) males while the females are middle level managers represented by a mean ≥ 1.67 .

Table 1: Descriptive statistics of the demographic data of the respondents

	N	N	Mean	Mean	Std.dev	Std.dev
	M	F	M	F	M	F
Respondents academic qualification	7	3	2.00	2.00	.577	.000
Respondents years of service	7	3	2.14	2.33	.900	.577
Respondents designation	7	3	1.29	1.67	.756	1.155

3.2 Descriptive analysis of political factors and influence on organization performance

According to the findings, whose mean average was ≥ 3.00 the implication was the respondents moderately agreed that; government policy influences strategy at RBA; political goodwill has contributed to the pension sector growth; low government support would make RBA ineffective in incorporating sound regulatory framework of Kenya pension sector. However, most of the respondents disagreed with the statement RBA strategic plans lay emphasis on government policy as implied by a mean ≤ 2.50 . This therefore implies that the political factors moderately influenced organization performance. The findings on political factors were also closely related and therefore highly accurate as indicated by the low standard deviation (Std.Dev. ≤ 1.1269).

Table 2: Descriptive Analysis on Political Factors

	N	Min	Max	Mean	Std.Dev
1. Government policy influences strategy at RBA	10	2	5	3.50	.850
2. Political goodwill has enhanced sector growth and development of Pension sector	10	1	5	3.10	.994
3. Low government support would make RBA ineffective in setting up sound regulatory framework of Kenya pension sector	10	2	5	3.10	1.101
4.RBA strategic plans lay emphasis on government policy	10	1	5	2.50	1.269

Table 3: Correlation between Political Factors and Organization Performance

		Organization Performance
Political factors	Pearson Correlation	.855**
	Sig.(2- tailed)	.002
	N	10

** . Correlation is significant at the 0.01 level (2-tailed).

From the above inferences it was determined that there was a strong and positive correlation between RBA strategic fit to political factors and influence on the organization performance ($r=0.855$; $p<0.01$). This means that the higher the rate/intensity at which an organization strategic fit is aligned to political factors the higher the organization performance. An organization operating environment is progressive and the organization must continually align its strategy to the political factors so as to continue recording good performance

3.3 Descriptive analysis of economic factors and influence on organization performance

The result findings mean average was ≥ 4.00 , implying that respondents greatly agreed that; income levels determine pension products at RBA; consideration of informal employment sector has enabled RBA to grow the pensions sector; failure to consider disposable income levels would make RBA ineffective in increasing pension savings by scheme members; RBA strategic plans lay emphasis on the informal employment sector. The responses were also closely related and highly precise as indicated by the low standard deviation (Std. Dev ≤ 0.972).

Table 4: Descriptive Analysis on Economic Factors

	N	Min	Max	Mean	Std.Dev
1. Income levels determine pension products at RBA	10	3	5	4.40	.699
2 Consideration of informal employment sector has enabled the RBA to grow the pensions sector	10	4	5	4.60	.516
3. Failure to consider disposable income levels would make RBA ineffective in increasing pension savings by scheme members	10	2	5	4.50	.972
4.RBA strategic plans lay emphasis on informal employment sector	10	4	5	4.80	.422

Table 5: Correlation between Economic Factors and Organization Performance

		Organization Performance
Economic factors	Pearson Correlation	.818**
	Sig.(2- tailed)	.004
	N	10

** . Correlation is significant at the 0.01 level (2-tailed).

The research findings deduced that economic factors had a strong and positive correlation with the organization performance ($r = 0.818$; $p < 0.01$). This when interpreted implies that economic factors have a big influence on an organization strategic fit and hence the organization performance. Therefore an organization needs to continually monitor its operating environment and have a strategic fit with the economic factors to record good performance.

3.4 Descriptive analysis of socio-cultural factors and influence on organization performance

From the study findings the mean averaged $\geq 3.50 \leq 4.10$ implying that the respondents had a moderately high agreement that; age factor influences strategy at RBA; creating awareness on need for pension savings by RBA has increased enrolment on pension schemes; failure to

consider customer tastes and preferences would make RBA ineffective in reducing age old poverty and elderly dependency levels; RBA strategic plans lay emphasis on perceptions of pension products by potential members. In addition, the responses were closely related and highly accurate as indicated by low standard deviation (Std.Dev. \leq 1.080).

Table 6: Descriptive Analysis on socio-cultural Factors

	N	Min	Max	Mean	Std.Dev
1. Age factor influences pension products at RBA	10	3	5	4.10	.876
2. Creating awareness on need for pension savings by RBA has increase enrolment on pension schemes	10	3	5	3.90	.738
3. Failure to consider customer taste and preferences would make RBA ineffective in reducing age old poverty and elderly dependency levels	10	2	5	3.50	1.080
4.RBA strategic plans lay emphasis on perceptions of pension products by potential members	10	2	5	3.90	.994

Table 7: Correlation between Socio-cultural Factors and Organization Performance

	<u>Organization Performance</u>	
Socio-cultural factors	Pearson Correlation	.776**
	Sig.(2- tailed)	.008
	N	10

** . Correlation is significant at the 0.01 level (2-tailed).

From the research findings, the researcher was able to conclude that socio-cultural factors strongly and positively influenced organization performance and hence need of a strategic fit. The findings of the correlation were ($r = 0.776$; $p < 0.01$). The 0.01 significance level shows that

on repetition of the study similar results are likely to be realized with 99% accuracy. This means that socio-cultural factors have a major role on strategic fit and hence they highly influence an organization performance.

3.5 Descriptive analysis of technological factors and influence on organization performance

From the study findings where the mean averaged $\geq 3.50 \leq 4.10$ the implication was respondents had a moderately high agreement that; use of ICT has enhanced supervision of pensions schemes by RBA; consideration of mobile phone based applications has increased access to pension services; failure to consider mobile phone applications would make the RBA ineffective in incorporating the bulk 70% of labour force in the informal sector; adoption of ICT has enhanced accountability in the pension sector. In addition the respondent's views were closely related and highly accurate as indicated by the low standard deviation (Std. Dev ≤ 1.080).

Table 8: Descriptive Analysis on Technology Factors

	N	Min	Max	Mean	Std.Dev
1. Use of ICT has enhanced supervision of pensions schemes by RBA	10	3	5	4.10	.876
2. Consideration of mobile phone based applications has increased access to pension services	10	3	5	3.90	.738
3. Failure to consider mobile phone based applications would make RBA ineffective in enrolling the bulk 70% potential customers in the informal sector	10	2	5	3.50	1.080
4. Adoption of ICT has enhanced accountability by pension schemes	10	2	5	3.90	.994

Table 9: Correlation between Technological Factors and Organization Performance

	Organization Performance	
Technological factors	Pearson Correlation	.655*
	Sig.(2- tailed)	.040
	N	10

*. Correlation is significant at the 0.05 level (2-tailed).

From the research findings technological factors were found to strongly and positively influence strategic fit and hence performance of the organization. The findings of the correlation analysis were ($r = 0.655$; $p < 0.05$). This means that technological factors have significant influence on strategic fit and therefore an organization performance. The alpha value for technology (0.05) shows how quickly technology changes and a similar study have capacity of 95% accuracy in attaining similar results. Hence, organizations should continuously keep monitoring technological changes in their operating environments.

4. Discussions

The purpose of the current study was to establish the relationship between Political, Economic, Socio-cultural and Technology factors - independent variables and Organization Performance - dependent variable in Kenya pension sector with reference to The Retirement Benefits Authority, which is both a sector regulator and team player. The organization was formed to oversee growth and development of the Kenya pension sector.

The findings relating to influence of political factors on organization performance show moderate agreement that government policy influences strategy at RBA; political goodwill has enhanced sector growth and development of pension sector; low government support would make RBA ineffective in setting up sound regulatory framework of Kenya pension sector. However, most results did not agree that RBA strategic plans lay emphasis on government policy.

This indicates the hidden hand of political factors nevertheless on an organization. It was also established that a strong and positive correlation between political factors and organization performance enhances organization performance ($r= 0.855$; $p< 0.01$). Considering that, the Kenya pension sector is still an infant industry then political factors will play a key role in determining its success (Badri, Davis and Donna, 2000). Furthermore, (Lux, 2016); argues that organizations are likely to engage in political activities when these activities are deemed to generate greater economic returns than economic activity. This argument is based on the supposition that political factors (politicians and government policy makers) determine the legal and regulatory frameworks within which an organization operates.

The research findings on influence of economic factors on organization performance show great agreement that income levels determine pension products at RBA; consideration of informal employment sector has enabled the RBA to grow the pensions sector; failure to consider disposable income levels would make RBA ineffective in increasing pension savings by scheme members; RBA strategic plans lay emphasis on informal employment sector. It was also established that economic factors have a strong and positive correlation with the organization performance ($r = 0.818$; $p< 0.01$). As such, organizations need to continually have strategic fit to economic factors in their operating environment for them to attain enhanced performance levels. According to (Lukas, Tan and Hult, 2001); basing on observations from a western economy they argue that firms operating in stable, market based economies record good performance. Furthermore, economic factors entail the nature and direction of economy in which an organization operates. The RBA just like global and national business entities is affected by various economic factors such as inflation& interest rates, levels of disposable income, tendency

of people to save and its alignment to these factors is crucial in enhancing its performance (Robinson, Pearce and Mital, 2012)

The research findings pertaining influence of socio cultural factors on organization performance show moderately high agreement that age factor influences pension products at RBA; creating awareness on need for pension savings by RBA has increased enrolment on pension schemes; failure to consider customer taste and preferences would make RBA ineffective in reducing age old poverty and elderly dependency levels; RBA strategic plans lay emphasis on perceptions of pension products by potential members. In addition, the findings correlation ($r = 0.776$; $p < 0.01$) imply that socio-cultural factors strongly and positively influence the RBA strategic fit and hence organization performance. This observation affirms the observations of (Robinson, Pearce and Mital, 2012) that beliefs, values, attitudes, opinions and lifestyles of people in the external environment influences an organization performance. Organizations should be progressive in their strategic endeavours and have harmony with socio-cultural factors in their operating environment to facilitate smooth operations and subsequently better organization performance

The research findings with regard to influence of technological factors on organization performance show moderately high agreement that use of ICT has enhanced supervision of pensions schemes by RBA; consideration of mobile phone based applications has increased access to pension services; failure to consider mobile phone based applications would make RBA ineffective in enrolling the bulk 70% potential customers in the informal sector; adoption of ICT has enhanced accountability by pension schemes. Also the findings of the correlation analysis ($r = 0.655$; $p < 0.05$) imply a strong and positive relationship between strategic fit to technological factors and an organization performance. This observation affirms the observations by (Robinson et al, 2012) that technology is a highly dynamic component and organizations

should monitor it closely because today's technology will be redundant tomorrow ($\alpha=0.05$). As such, companies apply technological advances to create a competitive advantage.

5. Conclusions and recommendations

It was evident in the current study that an organization strategic fit to political, economic, socio-cultural and technological factors influences performance. It was also observed that although some respondents disagreed that political factor does not influence strategy, it is evident that political factor is the basis on which all other factors are built on and as such stakeholders in any sector should ensure alignment with the prevailing political factors in their operating environment. In addition, a similar study should in future be conducted on the Retirement Benefits Authority, Kenya to see if it yield similar results because environmental factors are continuously changing. The finding of this study will assist the Kenya pension sector stakeholders in addressing the policy gaps and build investor confidence that have slowed down pension uptake in Kenya market.

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