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Influence of Differentiation Strategy on Financial Performance of Deposit-Taking Saccos in Kenya

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Abstract

Purpose: The purpose of the study was to assess the influence of differentiation strategy on the financial performance of deposit-taking SACCOs in Kenya.

Methodology: A descriptive research cross-sectional approach was applied. The target population of this study was 174 DT-SACCOs in Kenya. The sample size was 174 respondents. Structured questionnaires were used to collect primary data from the selected respondents. Data collection method was by use of questionnaires. Quantitative data was analyzed descriptively and inferentially. Descriptive data was analyzed through measures of central tendency including means, standard deviations, frequencies and percentages. Data was coded and analyzed using the Statistical Package for Social Sciences (SPSS v23.0). Results were then presented in tables, diagrams and charts.

Findings: The results showed that differentiation strategy had a positive and significant relationship to financial performance ($r=0.590$, $p=0.000$; $R^2=0.348$, $\beta=1.039$). The findings emphasize the importance of implementing effective differentiation strategies to achieve better financial performance.

Unique Contribution to Theory, Practice and Policy: The study recommended that deposit-taking SACCOs in Kenya prioritize the implementation of differentiation strategies to enhance their financial performance. By adopting these strategies, SACCOs can position themselves for improved financial success and sustained growth in the highly competitive financial services sector. The study's findings contribute to academic theory by offering significant insights and presents practitioners in strategic management, policy makers, and the leadership in SACCOs with valuable recommendations. They are able to utilize the findings from the current study based on how to model dynamic capabilities that will ensure their knowledge and practicality of competitiveness is beefed up.

Keywords: *Differentiation Strategy, Financial Performance, Deposit-Taking Saccos*

INTRODUCTION

The incorporation of competitive management practices to address rising competition in the corporate markets is expected to positively impact on the financial performance of financial institutions (Gluck, Kaufman &Walleck, 1980). Each generic strategy offers merits that business entities can potentially leverage to enhance their success (Tansey, Spillane & Meng, 2014). At various levels of the enterprise, strategic planning has various objectives. At the corporate level, planning for progress is the primary objective but at the Business Unit level planning is intended to define potential prospects for possible future investment.

World Council of Credit Unions (WOCCU) statistical report for 2014 recorded a total of 57,000 Credit Unions (SACCO'S), spread across 105 countries and 6 continents. The worlds Credit Union system has a combined savings of US dollars 1.5 trillion, and an asset base of $ 1.8 trillion (US dollars) out of which US dollars 1.2 trillion constituted the loan portfolio. The average worldwide penetration rate of the Credit Union system stood at 8.2 percent (Kimenchu, 2014). In addressing challenges of deteriorating performance both financial and non-financial, cooperative around the world are embarking on embracing business strategies that give their institutions competitive advantage to the market competition. Mungai, Maingi and Sma (2014), show that SACCOS in Africa have tried to adopt strategies to improve performance (that is, proper implementation of risk management policies, loan appraisal, loan follow-up procedures and customer characteristics among others) to enhance their competitiveness in the industry.

Porter's differentiation strategy focuses on offering unique products or services that are valued by the customer. Unlike cost leadership, differentiation does not aim to compete on price but offers something distinctive in the market. This could be anything from superior design, brand image, technology, features, or customer service. The objective is to create a perception of value for which customers are willing to pay a premium price. Apple Inc. is a classic example of a company that has successfully employed a differentiation strategy, offering products that are perceived as unique and high quality (Porter, 1980).

Performance refers to the achievement of goals, objectives, or desired outcomes by an organization or individual. It can encompass various aspects such as financial performance, operational efficiency, customer satisfaction, and employee productivity, among others (Kaplan & Norton, 1992). Therefore, to ensure positive financial performance in term of return to assets, liquidity and also generate revenue to pay dividends to shareholders (Ngui, 2010), SACCOS need to sustain their existence in the competitive environment with the best strategies suggested (Porter, 1985).

Some problems that have been traditionally associated with performance in Cooperatives is poor debt management, inadequate credit controls. Kituku (2014) notes that there has been a tendency to focus outwards for solutions to cooperatives problems, in a way that has not touched the need for reengineering internal structures and developing strategies that give competitive advantage in the financial space. This invariably led to poor performance of some banks let alone cooperatives. Crisis facing financial institutions are mainly attributed to lack of appropriate strategies at the institutional level. Nonperforming loans (NPLs) management, poor risk mitigation policies and poor governance practices are the most key areas that require internal reengineering for appropriate competitive strategies to apply. Maina & Kagiri (2016), Ngatia, Muya and Ngacho (2018) and Mwangi and Ombui (2018) among other Kenyan scholars recommend that cooperatives should put in place competitive management practices to address rising competition in their markets due to the positive and significant nature of the relationship between competitive strategies and financial performance.

There have been significant gaps in knowledge and a lack of sufficient empirical evidence to support the sustainability of DT-SACCOS in Kenya. For instance, the study by Islami, Latkovikj, Drakulevski and Popovska (2020) sampled 123 but its focus was on the manufacture organizations' success and the findings provide little support to the DT-SACCOS. Mbugua and Kinyua (2019) likewise focuses on 123 MFI's while Mbugua and Kinyua (2020) presents a methodological gap since the focus was on 123 DT-SACCOS whereas there are 174 DT-SACCOS in Kenya. Therefore, the unit under observation presents the problem of generalizability. Despite the viable and significant findings by Githumbi (2017), the study, however, presents a contextual gap in that it focuses on the performance of large rice milling while the current study seeks to present insights in the DT-SACCOS. Kireru, Ombui and Omwenga (2016) presents significant findings to benchmark on but the focus was on Equity Bank Limited therefore presenting a contextual gap. The study will therefore attempt to close these inefficiencies by investigating influence of differentiation strategy on the financial performance of deposit-taking SACCOs in Kenya.

LITERATURE REVIEW

Resource-Based View (RBV) Theory

The Resource-Based View (RBV) theory, introduced by Barney (1991), asserts that a firm's internal resources play a crucial role in developing its competencies, skills, and competitiveness, ultimately leading to better performance. It considers a firm as a collection of assets, emphasizing its ability to leverage these assets for competitiveness. By effectively utilizing its own resources and strategies, a firm can establish a stable and advantageous position in the market, even amid competition.

RBV highlights that a company's resources are instrumental in achieving superior performance, with financial resources being particularly significant. However, critics, like Priem and Butler (2001), argue that the RBV lacks concrete managerial guidance and operational validity. It encourages resource acquisition without providing a clear roadmap for obtaining them, and it may overstate managers' control over resources.

Nonetheless, the theory has received substantial praise. Scholars like Breznik (2015), Mweru and Maina (2016), Waiganjo *et al.* (2012) and Magoshi and Chang (2009) recognize that human resources and technological capabilities are key sources of competitive advantage. This aligns with the current trend of adopting and optimizing technology for competitive edge.

In the context of the study, RBV theory proves relevant. It suggests that organizations must identify the resources and capabilities that give them a competitive edge over other SACCOS. They should then create a conducive environment, including progressive policies, technology, a good reputation, human capital, and financial resources, to effectively utilize these assets and gain a competitive advantage.

Empirical Review

Given that the pursuit of differentiation strategy being acknowledged to enable organizations to earn its success and to create, capture and sustain economic value, Islami, Latkovikj, Drakulevski and Popovska (2020) sampled 123 manufacturing organizations to ascertain the influence of differentiation strategy on organizational performance. The study specifically looked into the influence of differentiation in the supply on competitive advantages, and organizational performance. The study indicated that pursuing the differentiation strategy leads on increasing competitive advantage and improving organizational performance. Likewise, it was underscored that the manufacture organizations' success is determined by their ability to be flexible on strategic planning and on integrating internal and industrial settings factors on differentiation strategy creating. Despite the contextual gap presented by focusing on the manufacture organizations' success, the study presents the overall contribution of differentiation strategy which is useful in the current study.

Mbugua and Kinyua (2020) investigated the influence of service differentiation on the performance of Deposit Taking Saccos in Kenya. The study targeted 123 DT-SACCOS by use of a descriptive research design and the study found that staff provided consistent service to the members, gave commission incentives to the members who gave referrals, offered differentiated mobile platform financial services, gave unique service experience to the members, were prompt in handling customer's complaints and members were happy with the services. The study found that service differentiation had a positive and significant association with performance of deposit taking Saccos. As such SACCO management need to come up with standard procedures and guidelines that will be used to reinforce the effective implementation of feedback received from customers to spearhead service improvement. Without the appreciation of service differentiation strategies, Deposit Taking Saccos are not able to optimize the link between the firm and the customers and therefore, they cannot ascertain the needs of the customers. Despite there being 174 DT-SACCOS in Kenya, the study failed to show the criteria in which the 123 saccos were selected leaving the rest out without justification. The presents a methodological gap which the current study seeks to fill by looking at all of the 174 DT-SACCOS using a census survey.

Mbugua and Kinyua (2019) studied the influence of personnel differentiation on organization performance of deposit taking micro-finance institutions in Nairobi City County, Kenya. With the help of descriptive research technique on 123 MFI's obtained via stratified random sampling technique, the study found that there is a positive relationship between personnel differentiation and organizational performance which concludes that personnel differentiation significantly affects organizational performance. However, the study did not optimize the performance since it did not focus on financial performance. Therefore, presenting a conceptual gap.

Githumbi (2017) used qualitative and quantitative data from 40 rice milling factories (from a sample of fifty-three) to establish the effect of differentiation on performance of rice milling factories in Kirinyaga County, Kenya. The study that product, physical and service differentiation had a positive influence to the performance of large rice milling factories. This leads to a conclusion that only product and service differentiation strategies are affecting performance of large rice milling. Despite the viable and significant findings, the study, however, presents a contextual gap in that it focuses on the performance of large rice milling while the current study seeks to present insights in the DT-SACCOS.

Kireru, Ombui and Omwenga (2016) sought to investigate the influence of product differentiation strategy in achieving competitive advantage of Equity Bank Limited. Therefore, the study targeted 200 supervisor staff at Equity Headquarter, Nairobi (with a sample size of 100 respondents). The findings indicated that there has been a product process differentiation in the bank where observable characteristics of a product or service that are relevant to customers' preferences and choice processes are met. These include size, shape, color, weight, design, material, and technology. The study thus, concluded that financial institutions can adopt

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product differentiation strategies to positively deliver best deposits pack at the best prices to the customers. The study however, provides little empirical evidence on how the application can be extended to the DT-SACCOS, since the focus is on banks which possess different firm structure compared to SACCOS.

Research Gaps

Islami, Latkovikj, Drakulevski and Popovska (2020) sampled 123 manufacturing organizations. Despite the contextual gap presented by focusing on the manufacture organizations' success, the study presents the overall contribution of differentiation strategy which is useful in the current study. However, the findings are applicable only in the manufacturing sector and provide little evidence on the financial industry. Mbugua and Kinyua (2020) likewise, investigated the influence of service differentiation on the performance of Deposit Taking Saccos in Kenya. The study targeted 123 DT-SACCOS. Despite there being 174 DT-SACCOS in Kenya, the study failed to show the criteria in which the 123 saccos were selected leaving the rest out without justification. The presents a methodological gap which the current study seeks to fill by looking at all of the 174 DT-SACCOS using a census survey.

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METHODOLOGY

This study adopted a descriptive cross-sectional approach in order to produce the facts regarding the nature and condition of the research phenomena (Differentiation Strategy and financial performance of Deposit taking Saccos in Kenya). The study used a purposive sampling and thus the targeted population was the 174 DT-SACCOs. Therefore, the study targeted 174 DT-SACCO managers who were conveniently and randomly selected from the target population, that is those that were ready and willing to respond to the questionnaires. Data collection method was by use of questionnaires. Quantitative data was analyzed descriptively and inferentially. Descriptive data was analyzed through measures of central tendency including means, standard deviations, frequencies and percentages. Data was coded and analyzed using the Statistical Package for Social Sciences (SPSS v23.0). Results were then presented in tables, diagrams and charts.

RESULTS

Response Rate

The study sample for the study incorporated 174 respondents who comprised of CEOs of the deposit taking Savings and Credit Cooperative Organizations. A total of 174 questionnaires were issued to the respondents and a total of 156 questionnaires were recollected for analysis. This makes a response rate of 90% which was considered adequate for analysis. This is in line with such as Mugenda (2008) and Cooper and Schindler (2003) who suggested that a response

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rate of more than 70% based on the study sample is enough for analysis and making conclusion in a study.

Table 1: Response Rate

Questionnaires	Number	Percentage
Duly filled and returned	156	90%
Uncollected/ unfilled	18	10%
Total	**174**	**100%**

Descriptive Statistics

The respondents were required to indicate whether they agree or disagree with the following statements relating to differentiation strategy. The results are as shown below.

Table 2: Differentiation Strategy Descriptives

	Strongly disagree	Disagree	Not Sure	Agree	Strongly Agree	Mean	Std Dev
The firm has invested in product differentiation	0%	5.8%	36.5%	28.8%	28.8%	3.81	0.924
The firm products are well differentiated to meet the customer needs and expectations	0%	0%	23.1%	41.0%	35.9%	4.13	0.760
The firm provides prices that are competitive in the market which reap good profit margins	0%	5.8%	11.5%	53.2%	29.5%	4.06	0.801
The prices are set according to the new segmentations of the markets targeted	5.8%	0%	23.1%	41.0%	30.1%	3.90	1.023
The firm trains the new and existing personnel on the competitive strategies to be pursued	5.8%	0%	23.7%	23.7%	46.8%	4.06	0.98
The firm has employed staff that are well skilled and conversant with the new techniques of the financial markets	0%	5.8%	41.6%	29.5%	23.1%	3.70	0.890
The firm has new markets to venture in	0%	0%	35.9%	34.6%	29.5%	3.94	0.809
The firm has embraced the idea of social/internet marketing to help in convenient sales	0%	5.8%	24.4%	34.6%	35.3%	3.99	0.912
Overall						**3.95**	**0.89**

The results in Table 2 revealed that 57.7% of the respondents agreed with the statement that firm has invested in product differentiation. Additionally, 76.9% agreed with the statement that the firm products are well differentiated to meet the customer needs and expectations. Moreover, 82.7% of the respondents agreed that firm provides prices that are competitive in the market which reap good profit margins. Likewise, 71.1% of the respondents also agreed that the prices are set according to the new segmentations of the markets targeted. Additionally, 70.5% of the respondents agreed that the firm trains the new and existing personnel on the competitive strategies to be pursued. Finally, 69.8% of the respondents agreed that their firm has embraced the idea of social/internet marketing to help in convenient sale.

The mean of the responses was 3.95 implying that majority of the respondents agreed with the statements on differentiation strategy and their responses were varied as shown by the standard deviation of 0.89.

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Correlation Analysis

The research study focused on obtaining the relationship that exists between Differentiation Strategy and Financial performance.

Table 3: Correlation Tests of Differentiation Strategy

		Mean differentiation	Mean financial performance
Mean differentiation	Pearson Correlation	1	.590**
	Sig. (2-tailed)		.000
	N	156	156
Mean financial performance	Pearson Correlation	.590**	1
	Sig. (2-tailed)	.000	
	N	156	156

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

The correlation coefficient (r) of 0.590 between differentiation strategy and financial performance in Table 3 indicates a strong positive association between these two variables. This positive correlation suggests that as the level of differentiation strategy increases, financial performance also tends to increase in deposit-taking SACCOs in Kenya. In other words, when organizations implement strategies to differentiate themselves from competitors, it is likely to have a favorable impact on their financial performance.

Furthermore, the statistical significance of this correlation is denoted by the p-value ($p = 0.000$), which is less than 0.01 (0.01 level of significance). This implies that the observed correlation between differentiation strategy and financial performance is not likely to have occurred by random chance. Instead, it is statistically significant, indicating that there is a genuine relationship between these two variables.

In practical terms, these findings suggest that deposit-taking SACCOs in Kenya can potentially enhance their financial performance by implementing and effectively executing differentiation strategies. This aligns with the research conducted by Islami et al. (2020), which also supports the idea that pursuing differentiation strategies can lead to increased competitive advantage and improved organizational performance.

Regression Analysis

Regression analysis was done to determine the influence of differentiation strategy on financial performance. Results were presented in Table 4.

Table 4: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.590[a]	.348	.344	.822350

a. Predictors: (Constant), Mean differentiation

The results in Table 4 presented the fitness of model of regression model used in explaining the study phenomena. Differentiation strategy factor was found to be satisfactory in contribution as a factor to financial performance. This was supported by coefficient of determination i.e. the R^2 of 34.8%. This shows that 34.8% of variation in financial performance is explained by variation in differentiation strategy. The results meant that the model applied to link the relationship. This also implies that 65.2% of the variation in the dependent variable is attributed to other variables not captured in the model.

Table 5: ANOVA for Differentiation Strategy

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	55.627	1	55.627	82.256	.000[b]
	Residual	104.144	154	.676		
	Total	**159.770**	**155**			

a. Dependent Variable: Mean financial performance
b. Predictors: (Constant), Mean differentiation

From Table 5, the results on analysis of variance (ANOVA) were illustrated. The findings revealed that the model was statistically significant. This was supported by an F-statistic of 82.256 and a p-value of 0.000 which is less than 0.05 ($p<0.05$) significance level. The findings implied that differentiation strategy is a good predictor of financial performance. These results were in line with those of Mbugua and Kinyua (2020) who investigated the influence of service differentiation on the performance of Deposit Taking Saccos in Kenya. The study found that service differentiation had a positive and significant association with performance of deposit taking Saccos.

Table 6: Regression of Coefficients for Differentiation Strategy

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.270	.457		-.591	.555
	Mean differentiation	1.039	.115	.590	9.070	.000

a. Dependent Variable: Mean financial performance

Regression of coefficients results in Table 6 revealed that differentiation strategy and financial performance are positively and significantly related ($\beta =1.039$, $p=0.000$). This implies that a unit increase in differentiation strategy would lead to increase in financial performance by 1.039.

The regression model for this coefficient would be;

$$Y = \beta_0 + \beta_1 X \text{ ……………………… Equation 1}$$

Where **Y** = financial performance

$\beta_0 =$ -0.270

$\beta_1 =$ 1.039

X= differentiation strategy

$$Y = -0.270 + 1.039X \text{ ……………………… Equation 2}$$

CONCLUSION AND RECOMMENDATIONS

Conclusion

In conclusion, this study provides evidence of the significant impact of differentiation strategies on the financial performance of deposit-taking SACCOs in Kenya. The correlation, regression, and ANOVA analyses consistently support the positive association between differentiation strategy and financial outcomes. The findings emphasize the importance of implementing effective differentiation strategies to achieve better financial performance. Elements such as product differentiation, customer focus, competitive pricing, employee training, skilled personnel, and strategic marketing were found to be key factors in driving financial success. By capitalizing on unique market positioning and customer value propositions, SACCOs can enhance their financial performance and gain a competitive edge in the industry.

Recommendations

Based on the study findings, it is recommended that deposit-taking SACCOs in Kenya prioritize the implementation of differentiation strategies to enhance their financial performance. This includes investing in product differentiation, understanding and meeting customer needs, offering competitive pricing, providing employee training on competitive strategies, hiring skilled personnel, exploring new markets, and leveraging social and internet marketing. By adopting these strategies, SACCOs can position themselves for improved financial success and sustained growth in the highly competitive financial services sector. The study's findings contribute to academic theory by offering significant insights and presents practitioners in strategic management, policy makers, and the leadership in SACCOs with valuable recommendations. They are able to utilize the findings from the current study based on how to model dynamic capabilities that will ensure their knowledge and practicality of competitiveness is beefed up.

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