

Differentiation Strategy and Performance of Deposit Taking Savings and Credit Cooperative Organizations in Kirinyaga County, Kenya

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Abstract

Abstract

Performance is an essential indicator of the success or failure of any organization. In order to remain competitive and increase performance, businesses are increasingly adopting competitive strategies. This study sought to establish the influence of differentiation strategy on performance of deposit taking SACCOs in Kirinyaga County, Kenya. The study used a descriptive cross sectional research design and adopted a census survey where all six licensed deposit taking SACCOs operating in Kirinyaga County were considered. The study population was managers of the SACCOs giving 43 respondents. The researcher administered 43 questionnaires out of which, 37 were completely filled and returned representing a response rate of percent. The researcher applied descriptive statistics by use of frequencies, percentages, means and standard deviation in form of tables, graphs while Pearson correlation coefficient and multiple linear regression analysis was adopted for inferential statistics. A correlation analysis results revealed a correlation value (r) of 0.598 with a significance level of $p < 0.000$ which indicates a strong positive relationship between differentiation strategy and SACCO performance. The coefficient of determination adjusted R squared for the regression model yielded a value of 0.339 with a standard error of estimate of 0.27388. This implies that 33.9 percent of the variation in the SACCO performance was explained by differentiation strategy. The remaining 66.1 percent of the variations in SACCO performance are accounted for by other variables not discussed in this study. The study concludes that differentiation strategy among the SACCOs had a significant effect on performance. The study recommends that it is important for deposit-taking SACCOs in Kirinyaga County, Kenya to embrace and adopt differentiation strategy to increase their performance as there is a strong and statistically significant link between differentiation strategy and performance of deposit taking SACCOs in Kirinyaga County, Kenya.

Keywords: *Differentiation Strategy, Performance, Deposit Taking Savings and Credit Cooperative Organizations (SACCOs)*

Introduction

The present business environment is highly competitive and dynamic stemming from globalization, prompt industrial and technological advancement (Islami et al., 2020). Due to increasing competition and changes in the business landscape, Rasheed et al., (2017) notes that organizations are becoming more aggressive in identifying and adopting strategies. According to Islami et al., (2020) one of the strategies that any business needs to flourish, remain profitable and increase market share in a dynamic and competitive business environment is a differentiation strategy. Edson and Muranda (2021) opine that differentiation strategy is a great influencer of firm performance and results to growth and sustainability of any business.

Differentiation Strategy

Porter (1990) identified differentiation as one of the competitive strategies that any entity can pursue to outperform competitors, generate superior profits and discover its industry niche. Porter described differentiation as the ability of a business to provide unique and high value products or services that consumers find valuable and worth paying. Islami et al., (2020) on the other hand defined differentiation as the creation of high quality products or services, which appeal to a wide range of customers. For differentiation to be sustainable in the long-term, a business must offer a service or product that is considered distinct industry-wide (Porter, 2008). This means that the uniqueness of the product or service is difficult, time consuming or expensive for rivals to imitate. According to Tanwar (2013) differentiation can be achieved through brand image, unique products or services, aggressive marketing, proprietary technology among other measures.

Performance

Organizational performance is an essential indicator of the success or failure of any organization (Consultant et al., 2016). Henri (2004) defines performance as the process of analyzing an organization's achievements against predetermined goals and objectives whereas Folan et al., (2007) views performance as how well an organization fulfills its market-oriented and financial goals. Stakeholders use financial and non-financial indicators to evaluate organizational performance. While financial performance focuses on organizational policies and operations relating to profits, non-financial performance emphasizes on organizational efficiency (Albuhisi & Abdallah 2018).

Overview of Deposit Taking SACCOs in Kirinyaga County

While banks were the primary providers of financial services in Kenya, deposit-taking SACCOs have emerged as alternative financial service providers offering services that were traditionally offered by banks. Deposit-taking SACCOs in Kenya are registered by the Ministry of Industry, Trade and Cooperatives and regulated by the SACCO Societies Regulatory Authority (SASRA). These SACCOs are licensed to provide a variety of financial services, including loans, savings accounts, processing of salaries, electronic funds transfer, cheque clearing and safe custody facilities.

The first SACCO in the County was established in 1974 with the objective of mobilizing savings and providing loans to members. Over the years, the number of SACCOs in Kirinyaga County has grown to a total of 6 deposit taking SACCOs as at the time of carrying out this study (The SACCO Societies Regulatory Authority, 2021).

According to Njera (2023), deposit taking SACCOs in the country are currently faced with a tough challenge of distinguishing themselves in the highly competitive and crowded financial

services sector. In a bid to attain competitive advantage and enhance organizational performance, SACCOs have adopted differentiation strategy by developing novel products for

their customer base who have a variety of options to choose from. Mbugua and Kinyua (2020) observe that by regularly introducing unique products and services, SACCOs have enhanced their performance and attained competitive advantage.

Statement of the Problem

Despite the popularity and significant role in providing financial services, there is a rising concern on the survival and sustainability of deposit taking SACCOs in Kenya (Ngui, 2018). The SACCO Regulatory Authority noted that increased competition in the financial services sector is adversely affecting performance of deposit taking SACCOs in Kenya (The SACCO Societies Regulatory Authority, 2021). In the year 2022, a considerable fraction of members numbering 1.22 million were classified as dormant implying that they did not transact with their respective SACCOs for more than six months (Societies & Authority, 2021). This trend in loss of business is attributed to sustained competition from digital lenders, pyramid schemes and unlicensed deposit-taking institutions in Kenya which have attracted many customers due to their ability to provide affordable and inclusive financial services to many Kenyans regardless of their income level (Nguta, 2021). Consequently, this has resulted to gradual loss in market share, reduced member transactions and loss of revenue for deposit-taking SACCOs in the country affecting the Societies performance (Kabui & Maina, 2021).

Various scholars have tried to establish the relationship between differentiation strategy and performance in their research work. For instance, Das and Canel (2023) examined the relationship between competitive strategy and the performance of manufacturing companies, Rahmayati (2021) investigated the impact of competitive strategies on the growth of Islamic banks in Indonesia while Misango (n.d.) evaluated the effects of generic competitive strategies on performance using Bamburi Cement Limited, Kenya, as a case study. The sample population was selected using stratified and purposive sampling techniques. Nyachwaya and Rugami (2020) sought to establish the challenges encountered when implementing competitive strategies in commercial banks in Mombasa County. However, these studies concentrated on manufacturing firms and commercial banks and therefore provide limited support on deposit-taking SACCOs due to the contextual gap. Furthermore, the studies focused on other variables such as challenges and growth other than performance presenting a conceptual gap. Additionally, the studies employed stratified and purposive sampling techniques to select the sample population thus revealing a gap in research methodology. This study therefore aims to close the current knowledge gap by examining the relationship between competitive strategies and the performance of deposit-taking SACCOs in Kirinyaga County, Kenya.

Objective of the Study

This study sought to establish the influence of differentiation strategy on performance of deposit taking SACCOs in Kirinyaga County.

Theoretical Framework

A theoretical framework is a fundamental examination of accepted theories that serves as a guide for constructing arguments in a research (Bryman & Bell, 2007). The study was anchored on Porter's Generic Strategies Theory and Porter's Five Forces Model.

Porter's Generic Strategies Theory

Michael Porter developed Porter's generic strategies theory in 1980 (Porter, 1990). Porter avers that pursuit of a competitive strategy enables a business to compete in a profitable and

sustainable manner. Differentiation is one of the techniques that Porter defined as a generic competitive strategy since it can be implemented by any organization, regardless of its size,

kind or industry. The theory explains that differentiation strategy can assist a business to learn about its customers consequently developing a niche in the market and increasing its competitive advantage. Porter's generic strategies theory is valuable in assisting an organization to select a suitable generic strategy that will assist the business to compete favourably and gain competitive advantage in an industry. The theory therefore contributes to this study by assisting managers of deposit taking SACCOs in Kirinyaga County to select suitable competitive strategies to effectively compete against business rivals and improve overall performance.

Porter's Five Forces Model

The five forces model was developed in 1980 by Michael Porter (Porter, 1990). Porter identified five competitive forces that, in his view, influence every market and sector. These are threat of new entrants, bargaining power of suppliers, bargaining power of consumers, threat of substitutes and the intensity of competition among existing companies. Porter asserts that understanding competitive forces that shape an industry is the basis of developing a sound competitive strategy. This is due to the fact that the combined power of these forces determines the eventual profit and success of an industry (Porter, 2008). Porter further indicates that implementing a competitive strategy is not just about responding to opportunities or threats but also entails profiling the business environment in favor of the firm. Porter expounds that competitive forces vary from one industry to another. It is therefore imperative for an entity to carry out a thorough analysis of its business environment and identify competitive forces that shape its industry and market as opposed to blindly implementing a competitive strategy. In the context of this study, the five forces model will assist managers of deposit taking SACCOs in Kirinyaga County to assess their competitive landscape and accordingly develop suitable strategies to overcome competitive threats and improve overall business performance.

Conceptual Framework

Informed by empirical and theoretical review, the study hypothesized variable relationships as depicted in figure 1.

Independent Variables

Differentiation

- Unique and valuable products and services
- Modification of products and services
- New technology
- Customer centric services
- Customer feedback

Dependent Variable

Performance of Deposit taking SACCOs

- Total assets
- Total deposits
- Gross loans
- Share capital
- Membership

Figure 1: Conceptual Framework

Literature Review

Islami *et al.*, (2020) assessed the relationship between differentiation strategy and organizational performance of manufacturing firms in the Republic of Kosovo. According to the study, consumers were willing to pay more for unique goods and services. The study revealed that pursuing a differentiation strategy increases an organization's competitive

advantage, which has a positive impact on organizational performance. The study was however conducted in the Republic of Kosovo, whereas the current study was done in Kenya, hence filling a contextual gap. Additionally, the previous study concentrated on manufacturing

firms whereas the current study concentrated on financial institutions hence closed a conceptual gap.

Waithira and Kinyua (2020) investigated the link between differentiation strategy and performance of deposit taking SACCOs in Nairobi County, Kenya. According to the study findings, a firms' ability to offer differentiated services led to a significant improvement in business performance. Although the study provided helpful insights to the current study, the researcher selected respondents using stratified sampling while the present study used a census survey. The present study therefore filled a gap in research methodology.

Kiprono and Kinyua (2021) undertook a study to establish the influence of differentiation strategy on the performance of selected insurance firms within Nairobi County, Kenya. The study population comprised employees from Jubilee Insurance, GA Insurance and APA Insurance companies. Respondents were identified using stratified sampling and comprised of middle-level managers, functional managers and functional staff from the insurance companies. The study assessed differentiation strategy using image differentiation, people differentiation, channel differentiation and product differentiation. The findings revealed that differentiation strategy had a positive and significant effect on the performance of selected insurance companies. The study findings may however be limited since differentiation strategy was assessed through image, people, channel and product differentiation whereas in the present study differentiation strategy was limited to service and product differentiation. Additionally, the previous study investigated insurance companies hence the findings may not apply to financial institutions. The present study therefore sought to bridge the contextual gap by examining deposit-taking SACCOs.

Kiiru (n.d.) evaluated the influence of differentiation strategy on performance of business development firms. The study revealed that by identifying market segments and developing unique high quality products and services for those segments, the selected businesses were able to increase their performance. The research revealed that the selected firms charged a premium price for their unique products significantly improving their overall performance. The research was however limited to a case study, whereas the current study considered six-licensed deposit-taking SACCOs hence closed a methodological gap.

Njue *et al.*, (2023) studied the effect of differentiation strategy on performance of commercial banks in Kenya. The study targeted licensed commercial banks in Nairobi County and sampled 227 branch managers obtained through stratified sampling. The study revealed that commercial banks should use differentiation as a strategy to enhance competitiveness since implementing this strategy would result in increased performance and benefit the stakeholders due to the increased return on investment. The study however presents a contextual gap since it focused on commercial banks which possess a different organizational structure compared to SACCOs.

Research Methodology

This study used descriptive cross-sectional survey design to establish the influence of differentiation strategy on performance of deposit taking SACCOs in Kirinyaga County. The researcher focused on six deposit taking SACCOs registered by SASRA (The SACCO Societies Regulatory Authority, 2021). The study targeted 43 respondents who compromised

managers of various departments in the six SACCOs. Due to the small number of respondents, the study adopted a census survey where all managers were targeted. The researcher collected primary data using questionnaires. Questionnaires were quantitative and qualitative in nature and included open and closed ended questions to capture the influence of differentiation strategy on performance of deposit taking SACCOs in Kirinyaga County. The research instrument was divided into three parts where part A covered general information, part B

focused on differentiation strategy whereas part C looked at performance of deposit taking SACCOs in Kirinyaga County. The questionnaire was administered through the drop and pick technique due to the bust schedule of respondents. To facilitate data collection, the researcher obtained a research permit from the National Commission for Science, Technology and Innovation, an approval letter from Africa Nazarene University and an introduction letter from the County Director, Co-operative Development, Kirinyaga County.

Data Analysis

The researcher administered 43 questionnaires out of which, 37 were completely filled and returned representing a response rate of 86%. The data collected was analyzed using descriptive and inferential statistics. Data analysis involved identifying omissions, editing and condensing data into a manageable size to create summaries and identify patterns. The researcher applied descriptive statistics by use of frequencies, percentages, means and standard deviation in form of tables, graphs while Pearson correlation coefficient and multiple linear regression analysis was adopted for inferential statistics.

Study Findings

Correlation Analysis

Correlation analysis was conducted to establish the strength and nature of association between differentiation strategy and performance of deposit taking SACCOs in Kirinyaga County, Kenya as illustrated in Table 1.

Table 1
Correlation Results

		Performance	Differentiation Strategy
SACCO Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	37	
Differentiation Strategy	Pearson Correlation	.598**	1
	Sig. (2-tailed)	.000	
	N	37	37

Table 1 indicates a Pearson correlation coefficient (r), which provides valuable insights into the relationships between differentiation strategy and performance of SACCOs. The correlation value (r) of 0.598 with a significance level of $p < 0.000$ indicates a strong positive relationship between differentiation strategy and SACCO performance. This suggests that there is a strong and statistically significant link between differentiation strategy and performance of deposit taking SACCOs in Kirinyaga County, Kenya.

Simple Linear Regression Analysis

The study investigated the effect of differentiation strategy on performance of deposit taking SACCOs in Kirinyaga County, Kenya. To achieve this, simple linear regression was used to analyze the effect of differentiation strategy on SACCO performance.

Table 2

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.598 ^a	.357	.339	.27388	.357	19.449	1	35	.000

a. Predictors: (Constant) Differentiation Strategy

Table 2 shows that the coefficient of determination adjusted R squared for the regression model yielded a value of 0.339 with a standard error of estimate of 0.27388. This implies that 33.9 % of the variation in the dependent variable, SACCO performance was explained by the variations in the independent variable, differentiation strategy. The remaining 66.1 % of the variations in SACCO performance are accounted for by other variables not discussed in this study. This means that to improve their performance, deposit taking SACCOs in Kirinyaga County, Kenya should pursue differentiation strategy, which results to 33.9 % of SACCO performance.

Table 3

ANOVA Results

ANOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.459	1	1.459	19.499	.000 ^b
Residual	2.625	35	.075		
Total	4.084	36			

a. Dependent Variable: Performance

b. Predictors: (Constant), Differentiation Strategy

Table 3 shows the results of the ANOVA that was used to test the overall significance of the model. The table shows that the F-statistic for the model was 19.499 with 3 degrees of freedom and its p-value was 0.000. This implies that the overall model is significant ($p < 0.05$).

Table 4:

Regression Coefficients

Model	Coefficients					
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B
	B	Std. Error	Beta			Lower Bound Upper Bound
(Constant)	2.607	.485	.5378		.000	1.623 3.591
Differentiation Strategy	.473	.107	.598	4.410	.000	.255 .690

Dependent Variable: Performance

Table 4 shows the regression results of differentiation strategy on the performance of deposit-taking SACCOs in Kirinyaga County, Kenya. The study found that differentiation strategy was positively related to performance of deposit-taking SACCOs in Kirinyaga County, Kenya.

As illustrated in table 4, holding all factors constant, the SACCO performance would be 2.607. The analysis also revealed that one-unit change in differentiation strategy is linked to a 0.473 unit rise in SACCO performance. The study's beta coefficient between the differentiation strategy and SACCO performance revealed a value of 0.598 with a significance level of $p < 0.000$ indicating a strong positive influence of differentiation strategy on SACCO performance.

This suggests that there is a strong and statistically significant link between differentiation strategy and performance of deposit taking SACCOs in Kirinyaga County, Kenya.

The findings of this study are in harmony with Islami *et al.*, (2020) who assessed the relationship between differentiation strategy and organizational performance of manufacturing firms in the Republic of Kosovo. The study revealed that pursuing a differentiation strategy increases an organization's competitive advantage, which has a positive impact on organizational performance.

Further, the study results agreed with Waithira and Muigai (2020), who carried out research on how differentiation strategy affected the performance of deposit-taking SACCOs in Nairobi County, Kenya. According to the research, a firm's ability to offer differentiated services led to a significant improvement in business performance. The findings also concur with those of Kiiru (n.d.) who assessed the influence of differentiation strategy on performance of business development firms. The study revealed that by identifying market segments and developing unique products for those segments, a business is able to improve its performance. The study concluded that there is a positive and statistically significant relationship between differentiation strategy and firm performance.

Conclusion

The study explored the impact of differentiation strategy on the performance of deposit-taking savings and credit cooperative organizations in Kirinyaga County, Kenya. The study found that offering unique and customer focused products and services, adopting technology in product and service delivery and actively seeking customer feedback significantly influences performance. The study concluded that there is a positive and statistically significant relationship between differentiation strategy and performance of deposit-taking SACCOs in Kirinyaga County, Kenya.

Recommendations

Based on the findings, the study recommends that for SACCOs to significantly improve their performance, they should implement differentiation strategy which statistically significantly affects SACCO performance. Additionally, due to the dynamic and competitive nature of the financial services sector, SACCOs should continuously monitor, adapt and invest in differentiation strategies based on evolving market conditions and competitor actions. Further, a comparative study can be carried out with other types of financial institutions operating in the same region or business environment. This will provide insights into whether the relationship between competitive strategies and performance is unique to deposit taking SACCOs or largely applies to the financial services sector.

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