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EFFECT OF SERVICE INNOVATION ON PERFORMANCE OF DEPOSIT TAKING SACCOS IN WESTERN KENYA

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ABSTRACT

Deposit Taking SACCOs (DT- SACCOs) are the single largest providers of formal credit services second to commercial banks. The deposit taking SACCOS (DT-SACCOs) accept demand deposits from members and offer savings accounts similar those offered by the mainstream banking institutions. In order to maintain the good performance, ward off competition and respond to the ever changing market needs of their members, DT-SACCOs must continuously innovate. This research was carried out on one DT-SACCO whose offices were found in western Kenya. The objective was to find out the effect of New Service Concept on the performance of the DT-SACCO. This study adopted cross sectional research design. It targeted the SACCO's nine departmental managers and one public relations officer. A census was conducted. Closed ended questionnaires were used to collect d ata. Interview was conducted to seek further clarification on issues. Quantitative data was collected and analyzed by SPSS version 22. Descriptive statistics was computed to assist in describing and interpreting data. The findings of the study indicated that service innovation had contributed to performance of the SACCO by nearly 68%. This study contributed to knowledge in the field of service innovation and strategic management. The researcher recommended that DT-SACCOs should embrace variations in new service concepts in order to achieve customer satisfaction, loyalty and eventually improve performance.

Key Words: *Service Innovation, Performance, Deposit Taking SACCOs*

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INTRODUCTION

A cooperative is any association of persons united voluntarily to meet their common economic needs and aspirations through a jointly owned and democratically controlled enterprise. The main objective of Savings and Credit Cooperative Societies (SACCOs) is to mobilize savings and advance credit facilities to their members (SASRA, 2018). This distinguishes SACCOs from other types of cooperatives. The Kenyan SACCO sub sector is divided into two segments, the deposit taking SACCOs and the Non deposit taking SACCOs (SASRA, 2018). The deposit taking SACCOS (DT-SACCOs) accept demand deposits from members and offer savings accounts similar those offered by the mainstream banking institutions. DT-SACCOs have embraced service innovations previously found in the banking industry such as SMS banking, mobile banking, ATMs and communication through social media.

Service Innovation (SI) refers to a new service concept, client interaction channel, service delivery system or technological concept that separately, but also in combination, bring about renewed service functions that are new to the firm and that change the product offered on the market but needs new technological, human or organizational capabilities of the service organization (Owano, Alala, & Musiega, 2014). SI is a new service experience or service solution that consists of one or several of the following dimensions: new service concept, new customer interaction, new value system, new revenue model, new delivery system and technological option (Hertog, Aa, & Jong, 2010). SI refers to activities in which firms use new concepts and new technologies to improve product and service provision process and methods for the purpose of meeting diversified demands of customers, realize value improvement and gain competitive advantage.

Innovation refers to the transformation of creative ideas in a business (Njeri, 2017). Innovation is recognized as a strategic driver of economic growth and performance, sustainable competitive advantage and even survival. Previous studies have exerted their efforts to capture different types of service innovation (Ryu & Lee, 2016).

LITERATURE REVIEW

This study used Dynamic Capabilities theory by Den Hertog, (2000) to explain the SACCO's competitive ability to integrate, build and reconfigure internal and external competencies to address its rapidly changing environments. Den Hertog, (2000) proposed in his work a four dimensional model of service innovation. Service innovation can be defined as a new or considerably changed service concept, client interaction channel, service delivery system or technological concept that individually, but most likely in combination, leads to one or more new service functions that are new to the firm and do change the service offered on the market and require structurally new technological, human or organizational capabilities of the service organization (Lin 2013; den Hertog, 2000). Service innovation is new or significantly improved service concepts that create additional value for organizations and their customers (Fu & Chang, 2019). The proposed dimensions include: Service concept, which is a new service in the market. New service concept is placing a bundle of competences including human, technological and organizational ones at the disposal of a client and organizing a solution which is given varying degrees of precision (den Hertog, 2000). It majorly deals with how the innovation in service presented and conceptualized when applied to a particular market (Oliveria & Machado, 2017).

Den Hertog, van der Aa and de Jong later developed a Six-Dimensional Service Innovation Model for service innovation by adding two more dimensions to Hertog's Four Dimension Framework of Service Innovation. The dimensions include new service concept, new customer interaction, new value system, new revenue model, new delivery system and New Technology (Janssen & Hertog, 2016).

They defined Service Innovation as a new service experience or service solution that consists of one or several of the following dimensions: new service concept, new customer interaction, new value system, new revenue model, new delivery system and technological option (Hertog, Aa, & Jong, 2010). The Service Concept or offering was defined as value that is created by the service provider and the innovation may be a new way of solving a customer's problem or meeting a customer's need, perhaps by combining existing service elements in a new configuration (Hertog, Aa, & Jong, 2010).

New service concept refers to organizing a solution to a problem or customer demands (Wang, Day, & Farid, 2019). It is placing a bundle of competences including human, technological and organizational ones at the disposal of a client and organizing a solution which is given varying degrees of precision (den Hertog, 2000). Service concept refers to the prototype for a service that provides a new value to a particular market and covers the descriptions of customer needs and the services offered by firms (Ryu & Lee,2016). The key thing in new service concepts is that it should be novel in its application to a particular market although it could be familiar to another market (den Hertog, 2000).

Mobile banking and internet are being utilized in the banking industry at an increasing rate (Collins & Sarpong, 2014). This study adopted mobile banking, internet banking and use of Short Messaging Services (SMS) as trends discussed by Collins and Sarpong. Ngumi discussed automated teller machine (ATM), debit and credit cards, internet banking, mobile banking, and electronic funds transfer as innovations in the banking sector (Ngumi, 2013). These innovations in banking sector positively influence financial performance (Ngumi, 2013).

One of the new solutions in DT- SACCOs is mobile banking which refers to monitoring your bank account and making transactions from your cell phone (Collins & Sarpong, 2014). Some financial organizations select a modality that deploy mobile banking to minimize their investment such as mobile Web a downloadable application or SMS (Collins & Sarpong, 2014). Introduction of mobile banking enables clients to access details of their accounts at the comfort of their home, pay bills and transfer funds hence reduce congestion in banking halls (A. Bitinyu, personal communication, July 23, 2020). However, regardless of the modality adopted, these firms realize that no single mobile banking modality best suits all consumers (Collins & Sarpong, 2014). Firms should deploy mobile banking and mobile payments within their reach, develop and deploy mobile capabilities aligned with each modality and then allow their customers to make their choice of modality according to their personal needs and preferences (Collins & Sarpong, 2014). Unlike manufactured products, which are highly visible and tangible, some services are invisible and intangible (den Hertog, 2000).

Electronic fund transfer is another way of delivering banking services through the internet to the consumer at improved convenience to the customer and reduced costs to the firm (Collins & Sarpong, 2014). The main challenge associated with electronic banking in Kenya and other developing countries is low internet connectivity due to costs of connection especially in rural areas yet these services should be delivered close to consumers (Collins & Sarpong, 2014).

SMS is a fast marketing communication tool which reaches many customers and whose response rate is higher than direct mail (Cheng, Blankson, Wang, & Chen, 2009). SMS and text messaging is effective for business communication due to its simplicity, ease of reach and use (Collins & Sarpong, 2014). Most handsets support SMS, while less than a half support mobile Web and even fewer support mobile applications (Collins & Sarpong, 2014). Although use of SMS may change with time, as advanced handsets become more available, SMS shall remain the most used feature on mobile phones (Collins & Sarpong, 2014).

Urgent warning messages especially in emergency situations such as suspected fraud automatically alert customers hence may increase confidence in a DT-SACCO's information system.

Performance in organizations can be referred to as the ability of a firm to produce outcomes that are related to desired targets (Njagi, 2017). Organization performance is a set of financial and non-financial indicators that offer information on the level of accomplishment of objectives and results (Lebans & Euske, 2006). Organizational performance is the actual results or output of an organization as measured against that organization's intended outputs (Tomal & Jones, 2015). Firm performance has become an issue of concern in strategic management research and has frequently been used as a dependent variable (Taouab & Issor, 2019).

METHODOLOGY

The study adopted cross sectional research design which enabled the researcher to look at numerous characteristics at the same time. It targeted the SACCO's nine departmental managers and one public relations officer. A census was conducted. Closed ended questionnaires were used to collect d a t a . Interview was conducted to seek further clarification on issues. Quantitative data was collected and analyzed by SPSS version 22. Descriptive statistics was computed infrequency counts. A linear regression equation was used where independent variable to establish the relationship between the dependent and independent variables using the Simple Linear regression equation given below:

Y=B0 + B1X1 +e

RESULTS

The results revealed that a majority of the managers 24(50%) either strongly agreed or just agreed that their organization had introduced new or improved services in the last three years to spur performance. 4(8.33%) were non committal while 20(41.7%) declined to accept this suggestion. 41(85.4%) accepted that their SACCOs had continuously improved their old products that raised. A majority of the managers 39(81.3%) generally agreed that their organization had c quality of the new products. 3(6.3%) remained neutral while 4(8.3%) rejected the suggestion continuously modified design of their products to rapidly enter new emerging markets. 2(4.2 %) were non committal while 7(14.6%) disagreed with this item. Another majority managers 42(87.5%) also agreed that their organizations had been developing new markets outside their traditional market in the last three years to spur performance. 6(12.5 %) were neutral.

When the managers were asked to give views on how SACCOs have managed to cope with demands of their clients, 43(89.7%) of them agreed that their SACCOs have managed to cope with market demands by quickly developing new products. Only 5 (12.3%) disagreed with this suggestion. 42(87.5%) agreed that their organizations had provided customized services through refinement of customer demands in the last three years. 4(8.33%) were neutral. 2(4.2%) disagreed on this item. when the managers were asked to give their opinions on how their customers feel about their services, a majority 40(83.3%) of them generally agreed that their new services were often perceived as very novel by customers. 6(12.5 %) were non committal while a minority 2(4.2%) disagreed. On the effect of their services on customer satisfaction, again a majority 44(91.7%) of them agreed that their new services had created a positive effect on their customer satisfaction. However, 4(8.3) were in disagreement.

Y=B0 + B1X1 +e

Y= 0.1722+ 0.3633*0.349+0.05 = 0.349

Linear regression modeling revealed that innovations in variations of 34.9% in new services concept introduced in the last three years improved performance of SACCOs by 34.9%. It could therefore be generalized that New Service Concept had a positive significant effect on the performance of the deposit taking SACCO in western Kenya.

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CONCLUSIONS AND RECOMMENDATION

Based on the summary from the study findings, it was established that new service concept is important in predicting performance of DT-SACCOs in Western Kenya. Since the DT-SACCO had embraced new service concept such as use of Bulk SMS, mobile banking and electronic banking previously used by banks, easy access to banking services easily enabled communication with clients. Therefore, the decision made by managers in DT-SACCOs to embrace these new solutions had affected the performance of the SACCO positively.

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