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ABSTRACT

The purpose of this paper was to determine the effect of differentiation strategy on performance of SACCOs in Murang'a County of Kenya. The study adopted a descriptive survey research design. The target population consisted of all the 8 deposit taking SACCOs registered and actively operating in Murang'a county of Kenya. The targeted respondents were 64 in total and comprised of all CEOs, accountants, credit managers, marketing managers and all the 4 executive board Members of each SACCO society. The study utilized a census approach that identified and subjected all the Deposit Taking SACCOs registered and operating in the county to the study. The study utilized both primary and secondary data sources. Primary data was collected using questionnaires. Both bivariate and multivariate analysis was conducted using SPSS. The study found that differentiation strategy was applied to a large extent (M=4.05, SD=0.85) among participating SACCOS. Regression analysis showed that there was a strong positive correlation (r=0.672) between the differentiation strategy and performance of SACCOs. Differentiation strategy (p=0.00) was also statistically significant. The findings showed that a unit change in the application of the differentiation strategy resulted in a 1.680 change increase in performance of SACCOs. As such, a conclusion was reached that differentiation strategy was a useful predictor of performance. The study recommended up scaled pursuit of continuous development of SACCO products to enhance their marketability and acceptance.

Key Words: *Differentiation, performance, competitive advantage, savings and credit cooperative societies (SACCOs)*

INTRODUCTION

The World Council of Credit Unions identified Kenya's SACCO sub sector as one of the fastest growing in the world. In its 2013's report, WOCCU identified the sectors growth as top in Africa and at 7th Position in the World (Olando, Jagongo, & Mbewa, 2013). The growth trends logically means a heightened level of competition as all the players seek a share of the market pie. SACCOs have therefore to device ways to gain competitive advantage, remain relevant and survive competition (Wanyama, 2009). Mumanyi (2014) observes that despite their significance to the economy, SACCOs have not been without their own fair of challenges. Competition has effectively edged out a notable number of players. SACCOs must therefore explore strategy options available for their own survival and superior performance.

Li and Li (2008) presents competitive strategy as the long term action plan applied to help a company gain a competitive advantage over its rivals in the industry. A firm's position within its industry determines whether its relative performance is superior or inferior to the industry average. Sustainable competitive advantage emerges as the central foundation long run firm performance. A firm's competitive advantage can take two dimensions; low cost or differentiation. As such, the two dimensions of competitive advantage pooled with the scope of actions from which a firm seeks to realize them, lead to three generic strategies for achieving and surpassing the industry average performance. The competitive strategies are cost leadership, differentiation, and focus. Essentially, the focus strategy has two variants namely; focus cost and focus differentiation (Porter, 2007).

Porter (2007) has presented a set of generic strategies that firms can employ in their quest for a position in the market. Although the attractiveness of a sector determines the profitability of the industry players, the positioning of the firms is also critical and as such well positioned firms in less attractive sectors may make superior returns compared to poorly position ones in more attractive sectors (Akan, Allen, Helms,& Spralls, 2006). Porter (2007) presents that a firm's strengths ultimately falls into one of two headings: cost advantage and differentiation. The author posits that the application of the two dimensions results in three generic strategies namely cost leadership, differentiation, and focus. The strategies are applied at the enterprise unit level and are referred to as generic strategies since they are not firm or industry dependent. According to Li and Li (2008), each generic strategy offers merits that business entities can potentially leverage to enhance their success. These strategies also come with demerits as well that may undermine their success.

White (1986) describes differentiation as a condition where firms try to stand out as unique in the market or industry. In the differentiation strategy, a player seeks to be unique in a particular industry along some dimensions that are widely valued by buyers. The player or firm selects important attributes to many buyers in an industry and then uniquely positions itself to meet those needs and charges a premium price for that (Akan *et al.*, 2006). According to Thomson, Strickland and Gamble (2001), differentiation helps a firm to distinguish a product from similar offerings on the market. Differentiation strategy provides competitive advantage in a market dominated by larger companies. The differentiation strategy the business uses should be effective in delivering the message that the product is positively different from all other similar products available. Differentiation strategy may serve in creating a perceived value among consumers and potential customers. It also allows business to compete in areas other than price which may disadvantage all players. A successful product differentiation

strategy also enhances brand loyalty among customers. This is based on perceptions of high quality or cost savings. Differentiation strategy has been pursued in different forms in the organisation. These include differentiation based on product, place, promotion, personnel or technology (Spencer, Joiner & Salmon, 2009).

Murang'a County is one of the 47 counties established by the constitution of Kenya, 2010 that created counties as devolved units of government. The county lies approximately 85 kilometres north-east of Nairobi and covers 2,558 square kilometres. It borders Murang'a Nyandarua to the west, Embu to the east, Nyeri to the north, Kiambu to the south and Machakos and Kirinyaga counties to the southeast and the northeast respectively. According to the Kenya Population and Housing Census of 2009, the county has a population of 942,581. The county is made up of seven sub counties namely, Kangema, Kiharu, Mathioya, Kigumo, Kandara, Maragwa and Gatanga Sub County. Murang'a County is also home to a number of upcoming towns that include Kangare, Kirwara, Kenol, Maragwa and Kangema. Cooperative Movement activities in the county have been growing in the county. Among the factors given by experts for this steady growth are agricultural productivity and proximity to the capital city of Nairobi.

Murang'a county is home to rich cooperative movement activities. Performance of the SACCO subsector in Kenya is acclaimed as one of the best in the world (Gamba & Komo, 2014). The SACCO Sub Sector contributes 45% of the GDP in Kenya as reported by the World Council of Credit Unions. The subsector was additionally documented as the fastest growing sector in the world by the World Council of Credit Unions (WOCCU) in July 2013. Kenya's SAACO subsector is ranked 1st in Africa and 7th internationally by the International Cooperative Alliance. The sub sector offers direct employment opportunities for over 500,000 people and indirect employment opportunities for a further 2 million people (Bwana & Mwakujonga, 2013). The SACCO Society Regulatory Authority (SASRA) indicates that the subsector has been growing at the average rate of 30% per annum. Deposit taking SACCOs which are the main focus of the study account for 78% of the total assets and deposits of the entire Sacco sub-sector. The DTS also command 82% of the total members in the entire SACCO industry (SASRA, 2013). Among the best performing SACCOs in Kenya are headquartered in Murang'a County as reported by SASRA and include Unaitas SACCO, Mentor SACCO and Murata SACCO Society Ltd.

Statement of the Problem

There has been a prolific growth of SACCOs in Kenya to the extent that the World Council of Credit Unions identified Kenya's SACCO sub sector as the top most growing in Africa and 7th fastest growing globally (Gamba & Komo, 2014). However, the increasing number of entrants has led to heightened competition. A number of SACCOs could not withstand the new dynamics in the level of competition which saw a number of SACCOs collapse such as Tena SACCO. According to Allen and Helms (2006), the role of Porter's generic strategies in keeping the corporate muscle of competitive advantage cannot be underestimated in the current business setting where innovation and technology has completely redefined the manner of doing business. While studies have been done on the role of differentiation strategy on performance, enough has not been done on the financial sector and even much littler has been done on the SACCO sub sector despite the critical role it plays in the national economy. The review of empirical studies on this subject revealed many gaps that needed to be filled for more useful evidence and growth in knowledge. The gaps included contextual gaps on the need to focus on a local study and target the financial sector, which

most past studies have failed to do. The researcher also identified empirical gaps on the need to consider an expanded framework of differentiation strategy Methodological gaps were also identified on the need to consider more objective indicators of performance, which most past studies had fallen short of. As such, to contribute to the growth in knowledge on this critical area, the researcher proposed to conduct a research on differentiation strategy and performance of SACCOs in Murang'a County of Kenya.

Purpose of the Study

To determine the effect of differentiation strategy on performance of SACCOs in Murang'a County of Kenya.

Research Question

This paper seeks to answer the following question; does Differentiation strategy have an effect on performance of SACCOs in Murang'a County of Kenya?

LITERATURE REVIEW

Porter's theory of competitive strategy was authored by Porter (1979) and essentially illustrates a framework of five competitive forces that shape the choice and application of business strategy. These five forces framework include the bargaining power of customers, the bargaining power of suppliers, the threat of new entrants, the threat of substitute products and the competitive rivalry within the industry. The forces are ideally external competitive forces that influence the level of competitive intensity in an industry. According Grundy (2006), an analysis of the bargaining power of suppliers requires the analysis of how easy it is for buyers to drive prices down. This condition is usually driven by factors such as the number of buyers, the significance of each individual buyer to your enterprise, the costs involved for switching

from your products to those of competitors. If the market is made up of a few but very powerful customers, then they will be able to influence the competitive strategy undertaken by the organization. According to Porter (2008), the analysis of the threat of new entrants requires an assessment of the ability of new firms to enter the current market. The key factors to consider are the costs and time involved for this entry.

In strategic marketing and management literature, the differentiation strategy has been based on the premise that improved/innovative outputs will translate into greater demand for the business's outputs (Buzzell and Gale, 1987). Aliqah (2012) indicates that Porter's generic differentiation strategy has been further developed into more specific strategies, such as differentiation by product innovation, customer responsiveness, or marketing and image management, in responding to the complexity of the environment. According to Gorondutse and Hilman (2018), differentiation strategy calls for the development of a product or service that offers unique attributes that are valued by customers and perceive to be better than or different from the products of the competition. In increasingly competitive markets, differentiation is an important part of any business in the market. It not only helps firms differentiate themselves from other competitors, but also improve their products or services. This theory was therefore relevant to this paper which sought to determine the effect of differentiation strategy on performance of SACCOs in Murang'a County of Kenya.

Kinyuira (2013) dwelt on the effects of Porter's Generic Competitive Strategies on the performance of Savings and Credit Cooperatives (SACCOs) in Murang'a County, Kenya. The study used an explanatory research design that sought to determine the causes and reasons of the current status of the competitive strategies and performance' variables of study. The study targeted

384 employees of all the Saccos registered by the Ministry of Cooperative Development in Murang'a County. Sampling was done using the simple random sampling technique and selected a sample of 116 employees. Questionnaires were used to collect data while and descriptive and inferential statistics were used in data analysis. The key inferential tools were the correlational and regression analysis. The study found significant positive effects of differentiation strategy on performance of SACCOs. The study presents empirical gaps on the need to expand the framework of competitive strategies addressed.

A study by Teeratansirikool, Siengthai, Badir, and Charoenngam (2013) focused on an examination of the mediating role that performance measurement plays in the relationship between competitive strategies and firm performance. The study was undertaken using a mail-survey of Thai listed companies in 2009. The study relied secured the participation of 101 Thai listed companies' executives. The study used the path-analytical model in the analysis of the study subjects. Study results indicated that all competitive strategies positively and significantly enhanced firm performance through performance measurement. Differentiation strategy was found to yield both and indirect significant effect on firm performance through financial measures.

A study by Arasa and Gathinji (2010) examined the relationship between competitive strategies and organizational performance among firms in the mobile telecommunications industry in Kenya. A descriptive survey approach was used and data collected from 63 respondents from a sample size of 72 respondents selected purposively. The study established high levels of competition in the industry. The study established high levels of competition in the industry. Study results also indicated product differentiation and low cost leadership were the most commonly used

strategies. The study further established that differentiation strategy influenced performance of mobile telecommunications firms indicated by sales and market share, customer retention, profitability and product innovation. The study recommended that when firms apply the product differentiation strategy, they should consistently focus its efforts on providing unique product or service to enhance customer loyalty.

METHODOLOGY

The study adopted a descriptive survey research design in order to effectively explain the effect of differentiation strategy on performance of SACCOs. The target population consisted of all the 8 deposit taking SACCOs registered and actively operating in Murang'a county of Kenya as gathered from the department of cooperatives of Murang'a county government. The targeted respondents were 64 in total and comprised of all CEOs, accountants, credit managers, marketing managers and all the 4 executive board Members of each SACCO society. The study utilised a census approach that identified and subjected all the Deposit Taking SACCOs registered and operating in the county to the study. The study utilised both primary and secondary data sources. Primary data was collected using questionnaires. Secondary data was gathered from the annual financial statements of the SACCOs. Both bivariate and multivariate analysis was conducted using SPSS. . The study adopted a regression model of the type indicated below as adopted from Kutner, Nachtsheim and Neter (2004).

$Y_{ij} = \beta_0 + \beta_1 X_{1} + \varepsilon$

Where, Y_{ij} = Performance of SACCOs (Market Share and Turnover Growth), X_2= Differentiation Strategy. β_0 = is the regression intercept representing the expected value of the dependent variable if all of the independent variable is zero. β_1 is the regression Coefficient and is essentially the slope of the regression line and ε is the error term.

FINDINGS

Descriptive Statistics

Performance of the SACCOs

The Market share of the SACCOs in Murang'a County was largely spread. Notably, one SACCO controls more than half of the market with the least controlling less than two percent of the market. On turnover growth, again some SACCOs were more efficient in growing their turnover levels as compared to others. The SACCO with the highest turnover growth reported an average growth of 17% in turnover with the least having a mere 1% average growth in sales. This indicates wide variance in ability of the SACCOs in Murang'a County to drive their sales.

Differentiation

Table 1 presented statistics on descriptive analysis results for various components of differentiation variable which was a key subject of the current study. The mean of the means of the individual differentiation factors stood at 4.05 with the average standard deviation being (0.85). This was generally indicative of application of differentiation strategy in the SACCOs to a large extent. The low standard deviation indicates that the responses were largely close to the mean and affirming that condition of high application of the strategy.

Table 1: Differentiation

	N	Min	Max	Mean	STD
Develops and distinguish products or services offered	55	1	5	3.52	1.15
Aggressiveness in developing and distinguishing products based on place aimed at winning different geographical markets	55	2	5	4.07	.997
Develops and distinguishes their offerings based on price to win different income level clientele	55	3	5	4.16	.569
Aggressively distinguishes services based on promotion or advertising campaign	55	3	5	4.16	.855
Has embraced technology leadership as a key facet of differentiation	55	3	5	4.34	.699

Regression Analysis

Table 2 presented a summary of the output of regression analysis between the differentiation strategy and performance of SACCOs. There was a strong positive correlation (r=0.672) between the differentiation strategy and performance of SACCOs. At the 5% or 0.05 level of significance, the Analysis of Variance (ANOVA) output provides evidence to demonstrate that the slope of the regression line was not zero. This was because the P value of 0.000 was less than 5% level of significance, i.e. p value < 0.05. As such, a conclusion was reached that differentiation strategy was a useful predictor of performance. The Coefficient of Determination or R square stands at 0.452 which implied that 45.2% of the variation in the Performance of SACCOs (the dependent variable) was explained by variability in the differentiation strategy. The unstandardized coefficients in Table 2 could be substituted into the study model as shown below.

$$Y_{ij} = -0.351 + 0.680 \, X_{1} + \varepsilon$$

The new model indicated that without applying the differentiation strategy, performance of SACCOs would be -0.351. The beta coefficient (β=0.680) indicated that a unit change in differentiation

strategy yielded a 0.680 change in performance of SACCOs

Table 2: Regression Output

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-.351	.662		-.530	.599
Differentiation	1.680	.304	.672	5.524	.000

R= 0.672, R^2=0.452, Adjusted R^2=0.437, Std Error = 1.520, F=30.514, Sig. = 0.00

a. Dependent Variable: Performance

DISCUSSION

The study found that differentiation strategy was applied to a large extent (M=4.05, SD=0.85) among participating SACCOS. Regression analysis showed that there was a strong positive correlation (r=0.672) between the differentiation strategy and performance of SACCOs. Differentiation strategy (p=0.00) was also statistically significant. The findings showed that a unit change in the application of the differentiation strategy resulted in a 1.680 change increase in performance of SACCOs. As such, a conclusion was reached that differentiation strategy was a useful predictor of performance. The results agree with past studies such as Kinyuira (2013) who found significant positive effects of differentiation strategy on performance of SACCOs. It further agrees with Teeratansirikool, Siengthai, Badir, and Charoenngam (2013) who indicated that differentiation strategy yielded both and indirect significant effects on firm performance through financial measures. Finally, the results match with those by Arasa and Gathinji (2010) who indicated that differentiation strategy influenced performance of firms indicated by sales and market share.

CONCLUSION

It was concluded that the differentiation strategy greatly and significantly influenced the performance of SACCOs. Correlation analysis results led to a conclusion that the relationship between the cost leadership and performance of SACCOs is strong and positive. The implication is that investment in differentiation initiatives would lead to a significant improvement in SACCOs' performance.

RECOMMENDATIONS

Guided by findings and conclusions that affirmed the value of investment in differentiation strategy, the study recommended investment in activities geared towards an enhanced differentiation culture in the SACCOs. The study specifically recommended up scaled pursuit of continuous development of SACCO products to enhance their marketability and acceptance. There is also need to promote and upscale aggressive promotion or advertising campaigns to outline the distinction of the SACCO products from other offerings in the market. The study recommends more research and innovation to build continuous technology leadership especially on upcoming customer interaction platforms such as mobile banking, agent banking and internet banking.

SUGGESTIONS FOR FURTHER STUDY

The study recommended a follow up study that targets and covers the entire SACCO sub sector in Kenya. It was further recommended that future studies be replicated to other important sectors of the economy such as the manufacturing sector which has been identified by the World Bank as a key sector that can turn around the Kenyan economy and enhance the realisation of Kenya's Vision 2030.

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