

**DIFFERENTIATION STRATEGY AND PERFORMANCE OF DEPOSIT  
TAKING SACCOS IN NAIROBI CITY COUNTY, KENYA**

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**DECLARATION**

This research project is my own original work and has not been presented for award of any degree in any university. No part of this project should be reproduced without the authority of the author and/or Kenyatta University.

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## **DEDICATION**

This work is dedicated to my beloved husband Peter Mbugua and my children Japheth, Caleb and Ruth for the immense support they accorded me during my time at Kenyatta University. You really motivated me to the end. I thank God for you and will forever be grateful. May God bless you all.

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**TABLE OF CONTENTS**

**DECLARATION..... i**

**DEDICATION..... ii**

**ACKNOWLEDGEMENT ..... iii**

**TABLE OF CONTENTS ..... iv**

**LIST OF TABLES ..... vii**

**LIST OF FIGURES ..... viii**

**ABBREVIATIONS AND ACRONYMS..... ix**

**OPERATIONAL DEFINITION OF TERMS.....x**

**ABSTRACT..... xii**

**CHAPTER ONE: INTRODUCTION .....1**

    1.1 Background of the Study .....1

        1.1.1 Organizational Performance .....2

        1.1.2 Differentiation Strategy.....4

        1.1.3 Deposit Taking SACCOs in Nairobi, City County Kenya. ....7

    1.2 Statement of the Problem.....8

    1.3 Objectives of the Study .....10

        1.3.1 General Objectives.....10

        1.3.2 Specific Objectives .....10

    1.4 Research Questions .....10

    1.5 Significance of the Study .....11

    1.6. Scope of the Study .....11

    1.7 Limitations of the Study.....12

    1.8 Organization of the Study .....12

**CHAPTER TWO: LITERATURE REVIEW .....14**

    2.1 Introduction.....14

    2.2 Theoretical Review .....14

        2.2.1. Resource Based View Theory (RBT) .....14

        2.2.2 Porters Generic Strategy Model.....15

        2.2.3 Balanced Scorecard Model (BSC).....16

    2.3 Empirical Literature Review .....18

2.3.1 Product Differentiation and Performance .....	18
2.3.2 Market Differentiation and Performance .....	20
2.3.3 Service Differentiation and Performance.....	22
2.3.4 Personnel Differentiation and Performance .....	25
2.4 Summary of Literature Review.....	26
2.5. Conceptual Framework.....	30
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>32</b>
3.1 Introduction .....	32
3.2 Research Design .....	32
3.3 Target Population.....	33
3.4 Sample Size and Sampling Procedure .....	33
3.5 Data Collection Procedure .....	35
3.6 Validity and Reliability of the study .....	36
3.6.1 Validity of the Study .....	36
3.6.2 Reliability of the Study .....	36
3.7 Data Analysis and Presentation.....	37
3.8 Ethical Considerations .....	38
<b>CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION AND</b>	
<b>DISCUSSION .....</b>	<b>40</b>
4.1 Introduction.....	40
4.2 Response Rate.....	40
4.3 Demographic Information.....	41
4.3.1 Gender of Respondents.....	41
4.3.2 Age of Respondents .....	42
4.3.3 Years of Experience.....	42
4.3.4 Highest Educational Qualification .....	43
4.4 Descriptive Statistics.....	45
4.4.1 Product Differentiation .....	45
4.4.2 Market Differentiation .....	46
4.4.3 Service Differentiation.....	48
4.4.4 Personnel Differentiation.....	49

4.4.5 Organizational Performance .....	50
4.5 Inferential Statistics .....	52
4.5.1 Correlation Analysis .....	52
4.5.2 Model Summary.....	53
4.5.3 Analysis of Variance (ANOVA).....	54
4.5.4 Regression Coefficient.....	54
4.5.5 Product Differentiation .....	56
4.5.6 Market Differentiation .....	56
4.5.7 Service Differentiation.....	57
4.5.8 Personnel Differentiation.....	58
<b>CHAPTER FIVE: SUMMARY, CONCLUSION AND</b>	
<b>RECOMMENDATIONS.....</b>	<b>59</b>
5.1 Introduction.....	59
5.2 Summary .....	59
5.3 Conclusion .....	61
5.4 Recommendations for Policy, Practice and Contribution to the Body of Knowledge .....	62
5.5 Recommendations for Further Research.....	64
<b>REFERENCES.....</b>	<b>65</b>
<b>APPENDICES .....</b>	<b>71</b>
Appendix I: Introduction Letter .....	71
Appendix II: Questionnaire.....	72
Appendix III: Survey Participants .....	78
Appendix IV: Research Authorization Kenyatta University .....	79
Appendix V: Research Permit NACOSTI.....	80

## **LIST OF TABLES**

Table 2.1. Summary of Research Gaps.....	27
Table 3.1: Distribution of Target Population of the Study .....	33
Table 3.2: Sample Size .....	34
Table 3.3: Reliability and Validity Test Statistics .....	37
Table 4.1: Response Rate.....	40
Table 4.2: Product Differentiation .....	45
Table 4.3: Market Differentiation .....	47
Table 4.4: Service Differentiation.....	48
Table 4.5: Personnel Differentiation.....	49
Table 4.6: Organizational Performance .....	51
Table 4.7: Correlation Analysis .....	52
Table 4.8: Model Summary .....	53
Table 4.9: Analysis of Variance (ANOVA) .....	54
Table 4.10: Regression Coefficient.....	55



## LIST OF FIGURES

Figure 2.1: Conceptual Framework .....	30
Figure 4.1: Gender of Respondents .....	41
Figure 4.2: Age of Respondents.....	42
Figure 4.3: Respondents Years of Experience .....	43
Figure 4.4: Highest Educational Qualification .....	44

## **ABBREVIATIONS AND ACRONYMS**

<b>ATM's</b>	Automated Teller Machines
<b>BSC</b>	Balanced Score Card
<b>BOSA</b>	Back Office Service Activity
<b>CSR</b>	Corporate Social Responsibility
<b>DT</b>	Deposit Taking
<b>FOSA</b>	Front Office Service Activity
<b>HRM</b>	Human Resource Management
<b>IMF</b>	International Monetary Fund
<b>KUSCCO</b>	Kenya Union of Savings and Credit Co-operative Societies
<b>NACOSTI</b>	National Commission of Science, Technology and Innovation
<b>PEARL</b>	Protection, Effective financial structures, Asset quality, Rates of return and cost, Liquidity and Signs of growth.
<b>RBT</b>	Resource Based Theory
<b>R &amp; D</b>	Research and Development
<b>SACCOS</b>	Savings and Credit Co-operative Societies
<b>SASRA</b>	Sacco Societies Regulatory Authority
<b>SPSS</b>	Statistical Package For Social Science
<b>WOCCU</b>	World Council of Credit Unions

## OPERATIONAL DEFINITION OF TERMS

- Strategy** Plan of action an organization has to realize competitive advantage.
- Organizational Performance** The sum of accomplishments attained by all the business which is measured by increased levels of customer satisfaction, customer loyalty, increased market share, employee motivation, employee skills and improved brand image.
- Differentiation Strategy** It is the strategy employed by a deposit taking Sacco to function in uniqueness of their products, market, services and personnel in order to increase their performance.
- Product Differentiation** A strategy that enables an organization to develop new products, improve the existing products, price the products and produce quality products in order to improve the brand image, satisfy the customers and retain customer loyalty.
- Market differentiation** A strategy used by an organization to acquire new market branches, new market segments and widen the market coverage in order to achieve customer satisfaction and customer loyalty.

**Service Differentiation** A strategy used by an organization to get to understand their customers' needs, competitor intelligence, acquire technological leadership and improves on delivery channels in order to increase customer satisfaction, maintain customer loyalty and improve the brand image.

**Personnel Differentiation** A strategy used by an organization to improve on staff responsiveness, communication skills of staff, to ensure staff have friendly behavior and have a positive attitude as they work in order to increase the customer satisfaction and loyalty, increase employees motivation and employee skills.

## ABSTRACT

The Savings and Credit Cooperative Societies sub-sector occupies a strategic position in the socio-economic development of the country. Cost of doing business and reduced saving power of the SACCOs customers have reduced the revenue and access to cheap deposits that they use to give as loans to their members making them re-think their competitive strategy in order to remain competitive and increase performance. The study sought to look into differentiation strategy and performance of deposit taking SACCOs in Nairobi City County, Kenya. The specific objectives were to determine the effect of product, market; service and personnel differentiation on performance of deposit taking SACCOs in Nairobi City County, Kenya. The study was anchored on the Resource Based View Theory of the firm, Porter's model of generic strategies, and Balance Score Card model. The study would benefit the management of deposit taking SACCOs, members of staff and the regulator. The study used a descriptive research design. The population of study was 410 employees from top level management, middle level management and low level management from 41 Deposit Taking SACCOs in Nairobi City County, Kenya. A 30% sample from the 410 management staff was taken resulting to a sample size of 123 drawn using stratified random sampling techniques. A structured questionnaire was developed to collect primary data by the use of self-administered method. Systematic random sampling was used to identify respondents. The research instrument validity was ascertained by conducting a pilot study. Cronbach's alpha was used to determine reliability of the study. All the study variables had an aggregate of 0.866 of alpha which was above the recommended alpha of 0.7 while expert opinion was used to improve content validity. Construct validity was achieved through an in depth review of relevant theoretical and empirical literature. Data analysis was done by the use of descriptive statistics to study demographic data and presented using frequencies, mean scores and standard deviation. Correlation was conducted using Karl Pearson to determine the relationship between the variables of study. Multiple regression analysis was done with the aid of Statistical Package for Social Science. Reports and presentation was achieved using tables and graphs. The study established that product and market differentiation had positive but insignificant effect on performance while service and personnel differentiation had positive and significant effect on performance of deposit taking SACCOs. The study concluded that product and market differentiation had positive but insignificant effect on performance of deposit taking SACCOs while service and personnel differentiation had positive and significant effect on performance of deposit taking SACCOs. The study recommended the management of deposit taking SACCOs to enhance investment in research and development, improve on timely insight and decision making needed for product development. It also recommended opening of new branches in strategic locations in order to tap to the growing market. Management of SACCOs should 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 and staff training budgets should be increased. The study recommended future research in other locations, with use of a bigger sample and more research on the effect of product and market differentiation on organizational performance.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Global competition coupled with more demanding customers and rapid technological advancement have increased pressure to businesses resulting to change of strategy for performance improvement (Spencer, Joiner & Salmon 2009). African countries have gone through extensive financial sector reforms that have seen the introduction of new packages, trade liberalization, and removal of barriers to growth, improvement of infrastructure and change of bank ownership from public to private. These have promoted development that has increased performance across the industry (Senbet & Otchere 2005).

Kenyan financial industry has grown significantly which has made it become highly integrated. Though it has remained stable and robust, there are banks that have faced liquidity problems due to recorded poor performance hence have been placed under receivership (Financial Sector Stability Report, 2016). The Sacco subsectors have opened up membership that has seen an upward growth in terms of total assets growth, growth in loans and deposits. However, the stiff competition from other financial institutions poses serious challenges to the sector that requires re-thinking of strategies to improve performance. The Sacco sub-sector therefore needs to repackage its financial products, increase efficiency for more customer convenience, reliability and accessibility with an aim of earning public confidence (SASRA, 2017).

The cooperative sector holds a part of the global market share with IMF estimating that by 2004 financial cooperative was equivalent to 14% market share, (Bircall, 2013) (as cited by Kavalya, 2018). SACCOs' ability to differentiate by providing unique quality service increases their performance in the midst of competition (Yuliansyah, Rammal & Rose 2016). There is an existence of relationship between the strategies that organizations employ and their performance. Organizations that use differentiation strategy through their service offerings, training their staff to acquire unique skills and having differentiated marketing skills have reported increased performance (Eberefimia, 2014).

Performance has been looked at by previous researchers in terms of; profit, assets of the organization, growth in revenue, market share and new product development. Performance measurement enables an evaluation and understanding of organizations' strategies and their effect on profitability. This allows the management to make informed decisions in regards to growth of the organization within a required time frame (Jenatabadi, 2015).

### **1.1.1 Organizational Performance**

Performance of a firm is measured by the output or results against its intended outputs according to (Richard, 2009). World Council of Credit Unions (WOCCU) developed Protection, Effective financial structures, Asset quality; Rates of return and cost, Liquidity and Signs of growth (PEARLS) system used for monitoring performance through ratio analysis and other regulatory requirements that ensure SACCOs remain liquid and stable. Through the system, SACCOs are able to monitor their performance thus make adjustments for improved performance. However, there is a lot of focus on

financial areas without looking at the long term non financial aspects which are key in SACCOs performance; customer satisfaction, loyalty and brand image, (Porter, 1985) built over a period of time and provide financial value to the SACCOs. A satisfied customer is likely to buy more products, will not be price sensitive and will provide referrals through loyalty. In the cooperative sector, members who are satisfied stay with their SACCOs for many years till their retirement time thus more profitability. This can only be achieved when SACCOs focus on non financial measures that increase operational efficiency, employee development and customer satisfaction.

Kivuvo and Olwenyi (2014) used the Altman Z-Score model to determine performance of Kenya's Sacco corporate bankruptcy looking at profitability, liquidity and solvency. The study found that there were SACCOs that were healthy; some were deemed healthy while some were almost being shut down due to bankruptcy. The study recommended improvements in performance and noted that performance is a continuum as it changes over time. Niven (2006) presents the BSC model as a measurement system that provides a balanced approach of organizational performance having all the four perspectives that are needed for increasing shareholder and customer value being; customer perspective which examines how organizations align their strategies to satisfy the needs of their customers, the internal process perspective looks at the operational efficiency to deliver promised results to customers and shareholders, the learning and development examines employee motivation, skill and development and the financial perspective which is determined by the other three perspectives.



### **1.1.2 Differentiation Strategy**

Differentiation strategy is a tactic that creates uncontested markets for organizations making them unique in the industry through provision of quality products to the customers. This is achieved through unique packaging, brand colours, taste, pricing and product design (Wesulah, 2016). Differentiation strategy may assume vertical or horizontal dimension. Vertical differentiation is the ordering of different products in terms of quality from the one with low quality to the highest, (Valentino Piana, 2003) (cited in Wahito, 2011). A consumer can say that one product is better than another if all customers understand the difference in quality thereby enabling the one with high quality to earn premium pricing. Horizontal differentiation on the other hand provides the differences between brands that have different features like packaging, tastes, colours and shapes that enable the supplier with many brands to determine the price. Deposits taking SACCOs are able to differentiate vertically through product quality and also differentiate horizontally through opening of many branches, having partnership with agents for more customer value, (Wahito, 2011). A study by Ngigi and Njeru (2014) on the influence of competitive generic strategy on customer base focusing on Deposit Taking SACCOs based in Nairobi found that differentiation influenced customer base in deposit taking SACCOs. Differentiation strategy creates customer loyalty, brand identity and customer service. Cooperatives that invest in strong marketing abilities, product engineering, creativity, research and development, channel operation, unique skills and technological leadership, (Porter, 1980) will increase their performance.

Product differentiation is one of the competitive differentiation tactics used by financial institutions to increase competitive advantage. SACCOs create high quality new products and improve or enhance the features of existing products targeted for particular markets. Organizations also improve their service delivery platforms, quick service by reducing waiting time and other value addition to improve customer experience with the service targeted for specific group (Evangelica 2017).

Sacco's product portfolio is a mixture of savings and credit products for long term purposes. There are also short term products targeting salaried and customers with children. All these are customized according to the need and the target market. The aim is to make the products unique that offers high value to the customers. These include; increasing the repayment period, lowering interest rates on loans, reducing the waiting time for loans granted, high returns on savings products and gifts to junior account holders. Product development includes the totality of features that determine the looks of a product and the functionality, (Spencer, Joiner & Salmon). New product has its benefits which include; increased revenue, costs reduction, better quality that brings more customers and results into more sales and market share.

Market differentiation is a strategy that SACCOs use to develop new channels for purposes of meeting with new and existing customers in a unique way that competitors are not able to match. An organization employs the strategy to position its existing products strategically that exceeds the competitors marketing thus create a competitive edge over its peers. These markets are in form of channels such as wholesale, retail, agents and online with an aim of serving existing members and acquiring new members for improved member satisfaction and market share (Bruhn & Georgi, 2006). SACCOs

need to provide services to their members at their most convenient time and place. This means that SACCOs need to consider location for easy reach of the members. The online platform should also be convenient with less effort so that the members can access services when they need. This creates benefits to the organizations that practice market differentiation through increased acquisition and adoption of Sacco's products and services that result into increased performance (Mulunga, 2010).

Service differentiation is a strategy adopted by organizations with more focus on the content of the service delivered to the customers. This include the components of the service, the expertise and the delivery channel (Leverin, 2006) which creates a competitive advantage to organizations (as cited in UK Essays, 2016). Organizations that aim to remain competitive through service differentiation are concerned with their employee training to equip them with skills that can enable them deliver the best service that is inimitable and that which cannot be substituted. They also empower their customers through training making their customers to understand the business process thus be able to do self service at their convenient time. Good customer service augments Sacco products offerings to its members that go a long way in improving member satisfaction.

Personnel differentiation is the ability of organizations to respond in time to the needs of their members through the skills and knowledge of employees. Deposit taking SACCOs staff with knowledge and skills that are needed for superior service will always have competitive advantage over their rivals. This is because well trained staff will offer good customer satisfaction which translates to increased performance. It therefore means that employee differentiation directly relates to SACCOs performance through the mediating

role of customer satisfaction. Rifat and Sarah (2004) provides variables that can be used in employee differentiation; knowledge for handling tasks requested by the members, unique skills, positive and friendly behavior towards the members, time management, attitude, consistency and accuracy, honesty, communication skills and care when handling customers (as cited in Rasouli and Sepideh 2018). Employee differentiation is a unique way of overcoming competitive pressure and increasing performance (Rasouli & Sepideh, 2018).

### **1.1.3 Deposit Taking SACCOs in Nairobi, City County Kenya.**

Kamonjo (2014) provides a definition of the cooperative movement as a sub-sector of the SACCOs which is owned by the members who join voluntarily to mobilize savings which they can use to access loans at low interest rates to encourage development and well-being of the members (as cited in Ngure, Maina & Kariuki, 2017). WOCCU (2013) noted that Kenyan cooperative sub sector is on a positive growth becoming top in the region while at number 7 globally (as cited in Maina & Waithaka, 2018), (Ondigo & Ongaki, 2016). The cooperative movement has contributed in the development and the realization of the Kenya's economic agenda through provision of financial services where people with low income, the unbanked, small and micro enterprises (Kimata, 2013), are able to access financial services to improve their economic status.

The cooperative movements are of two types; non deposit taking which provides only back office service activities (BOSA) and is regulated by the ministry of cooperative. The deposit taking SACCOs are regulated by SASRA and provides front office service activities (FOSA) which are basic savings, credit products and quasi banking services where members can access services through ATMs and mobile banking platforms. By

December 2017 there were over 198 deposit taking cooperatives registered in Kenya where 41 of them operated in Nairobi City County (SASRA, 2017).

Koks and Kilika (2016) noted a sustained performance by SACCOs through repeated introductions of unique products. Differentiation of products will set a few who curve out a competitive strategy above their competitors. SACCOs have adopted unique services and platforms which has improved productivity and economic growth, (Shaughnessy 2015; Formisano, Fedele & Antonucci 2016). The performance of the cooperative sub sector has been necessitated through; increased branch networks, superior products portfolio, member education, competitive interest rates to loans granted, interest and dividend returns to members, ICT and agency banking.

## **1.2 Statement of the Problem**

SACCOs are working with the policy makers and other arms of the government to ensure that they bring their members on board through their service to the realization of the government's big four agenda. The WOCCU (2013) noted the intensity of growth in the cooperative movement in Kenya and how it is leading both in Africa and globally. However, the external environment presents SACCOs with challenges that have threatened their performance. Cost of doing business and reduced saving power of the SACCOs customers have reduced the revenue and access to cheap deposits that they use to give as loans to their members making them re-think their competitive strategy. American review study in 2013, reported that poor saving culture is due to lack of saving technologies (as cited in Mbae, 2019).

The interest rate capping of the banking act passed in 2016, worked against cooperative sub sector as members moved away to seek alternative banking products thus reduced Sacco performance. Currently the sub-sector has witnessed many SACCOs closing down due to poor performance. Kageche (2016) observed that the Sacco sub-sector is shrinking and notes that banks will not be a formidable force in the near future. A study by Darius (2011) noted how financial institutions are experiencing crisis where some are even collapsing thereby causing panic in the industry (as cited in Ombati and Muturi, 2017). This has forced the financial institutions to change strategy to increase their performance. Kivuvo and Olweny (2014) study reported that there were SACCOs that were almost going bankrupt and recommended improvement in performance.

Ngure, Maina and Kariuki (2017) study in Kirinyaga County's cooperative movement reported that product development was positively correlated with performance. The study was carried in Kirinyaga County situated in the rural areas of Kenya that may have challenges with new techniques and capital needed for product development. The current study will have a different environment and more developed than Kirinyaga with diverse membership needs which is likely to change the results. A study done by Wachira (2013) reported how firms have achieved improvements in performance due to the unique strategy employed. The study focused on listed firms while this study worked with organizations that have not been listed. The aim of the study was to determine how differentiation strategy affects performance of deposit taking SACCOs in Nairobi City County, Kenya.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objectives**

The purpose of the study was to look into differentiation strategy and performance of deposit taking SACCOs in Nairobi City County, Kenya.

#### **1.3.2 Specific Objectives**

- i. To determine the effect of product differentiation on the performance of deposits taking SACCOs in Nairobi City County, Kenya.
- ii. To establish the effect of market differentiation on the performance of deposits taking SACCOs in Nairobi City County, Kenya.
- iii. To assess the effect of service differentiation on the performance of deposit taking SACCOs in Nairobi City County, Kenya.
- iv. To determine the effect of personnel differentiation on the performance of deposits taking SACCOs in Nairobi City County, Kenya.

### **1.4 Research Questions**

- i. What is the effect of product differentiation on the performance of deposit taking SACCOs in Nairobi City County, Kenya?
- ii. How does market differentiation affect performance of deposit taking SACCOs in Nairobi City County, Kenya?
- iii. What is the extent of service differentiation on performance of deposit taking SACCOs in Nairobi City County, Kenya?
- iv. How does personnel differentiation affect performance of deposit taking SACCOs in Nairobi City County, Kenya?

### **1.5 Significance of the Study**

The study findings provided deposit taking SACCOs management with tactics used in differentiation that would give them competitive advantage. They would then apply the findings to improve their strategies and operations that would result into increased performance. Deposit Taking Sacco members would benefit as their institution would adopt unique strategies that would improve the quality of services delivered thus increases their satisfaction while having value for their money. The academicians would be able to find research materials where they would use the study to build future cases and findings of their research. The study would also be used to provide citations and references for future study.

The DT Sacco sector would be able to adopt unique differentiation strategies from the findings that would enable the adopters to be above their competitors, improve value to their members and have high returns. The sector regulator would use the study findings as a benchmark through its training and supervision to the DT SACCOs to enable them improve their performance thus avoid becoming bankrupt. This in turn would create a competitive environment with high performing DT SACCOs where the government would be able to gain through taxes that would be used for the country's development.

### **1.6. Scope of the Study**

This study worked with 41 DT SACCOs based in Nairobi County that were licensed by SASRA (2016) to operate in the financial year 2016. The variables used in the study were differentiation as an independent variable and organizational performance as a dependent variable. The key areas of differentiation that were analyzed are product differentiation, market differentiation, service differentiation and personnel



differentiation. The study objective was to determine how differentiation strategy affects performance of DT SACCOs. 123 management staff was used as the population. Data collection was done from May to June 2019. The location was Nairobi City County, Kenya.

### **1.7 Limitations of the Study**

The respondents were reluctant in giving information for fear of being intimidated or print a negative image about them or their organization. The researcher communicated to the respondents about the study intention to gain trust and confidence that enabled the respondents to agree to participate in the study thus increased response rate. The researcher met with the respondents during office working hours. Some respondents objected due to their busy schedule while some declined to participate as they were not allowed by their policies while some who took the survey forms did not return as they were on leave, absent or fell ill thus reduced response rate. The researcher provided more time to the participants by dropping the questionnaire and picking later according to the agreed time to increase response rate.

### **1.8 Organization of the Study**

The study was organized in five chapters where the first chapter covered the background detailing the history of SACCOs and covering the variables of the study, explained the problem statement, objectives of the research and, the research questions and the significance. It also highlighted scope of the study, anticipated limitations and how the study overcame them. The second chapter covered theoretical and empirical review that provided relevant theories and models and explained how they were related to the study. Empirical part analyzed previous studies with gap identification that guided the study.

The chapter ended with conceptual framework that provided an illustration of how study variables were related.

The third chapter provided research design on how the study navigated through proven research methods to provide reliable findings. This covered the target population from where the study sample was drawn, the procedures for drawing the sample, collecting and verifying data. Analytical models that were used in the study were also discussed. The chapter ended with ethical reviews that were considered in the study. Chapter four presented the research field work where data was analyzed using descriptive and inferential analysis and presented using tables and graphs. The findings were discussed in relevance to the study. Chapter five ended the project with summary of research findings, conclusions and recommendations.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter analyzed the theoretical background of the study and provided their relationship to the study. It also provided previous studies and indicated gaps that were used in guiding the study. The chapter ended by providing a conceptual framework linking variables of study showing how they were related to each other.

#### **2.2 Theoretical Review**

One theory and two models were used to guide the study. The study used Resource Based View theory, the model of generic strategy developed by Porter, and Balanced Score Card model.

##### **2.2.1. Resource Based View Theory (RBT)**

Penrose (1959) provided principles that govern the growth of businesses in an efficient manner focusing on organizations' resources thus resource based view theory (as cited in Kor & Mahoney, 2004). RBT links resources and capabilities and shows how they provide competitive advantage that increase business performance. Organization's resource studies by Barney (1991), Grant (1991) and Montgomery (1995) state that organization's resources should be valuable and be rare to be found by competitors, should also be difficult to copy and should not give chance for substitution to prevent alternative resources (as cited in Madhani, 2010). SACCOs are able to develop competencies from the resources they have to gain competitive advantage, (Pearce & Robinson, 2007).

Kisuna (2017) recognizes the importance of human resource in strategy formulation and implementation and advises the SACCOs to employ highly skilled personnel to support the interest of the organization through strategic implementation of the chosen competitive strategy. Shuen, (2014), states that skill acquisition, management of knowledge and know-how are fundamental strategic resources that can be used to achieve economic profits. Sutanto and Sudarsono (2018) explain how internal resources can lead to banks competitiveness for increased performance using core capital adequacy ratio, branch networks and brand value.

Powel and Dent-Mcallef (1997) note how RBT has become a widely accepted research viewpoint creating a relationship between resources and performance (as cited in Chen, Chao, Yang and Lee n.d). The study was guided by the theory in understanding the different differentiation strategies adopted by deposit taking SACCOs according to the resources they have.

### **2.2.2 Porters Generic Strategy Model**

Porter (1980) developed generic strategy model with three different approaches; cost leadership, differentiation and cost focus. The theory provides an explanation on how organizations can use different strategies to enable them gain competitive advantage over their peers thus increase their performance. Organizations that practice cost leadership approach aim to reduce their cost while increasing efficiency in production thus more returns. DT SACCOs that employ this strategy become defensive against their competitors as they are able to take advantage of economies of scale, sell their loans at low interest rates thus prevent their members from switching to competitors.

Differentiation strategy on the other hand, provides competitive edge through unique company offers in various dimensions which customers appreciate through premium pricing, (Putra and Suhato 2018). Hill (1988) states that mature industries which are undergoing technological changes differentiate making them become low cost (as cited in Ogot (2014)). This is achieved by strategic deployment of technology that sets SACCOs above their competitors thereby distinguishing them. SACCOs differentiate through their financial service offerings by designing new products and processes that increase member satisfaction thereby creating member loyalty. The strategy enables SACCOs to go into the uncontested markets with new and existing markets that the competitors cannot match.

Kinyuira (2014) examines focus strategy as targeting narrow market that is not served well by cost leadership and differentiation. The strategy combines both differentiation and cost leadership. There are deposits taking SACCOs that focus on specific membership to meet their needs according to their unique characteristics. Ngugi (2017) reports that SACCOs use differentiation but recommends constant review of products and services strategy and technology adoption in all operations to set them above their competitors. From the three approaches of Porters generic strategies, this study used differentiation strategy as the independent variable that was used to design the conceptual framework and questionnaire development.

### **2.2.3 Balanced Scorecard Model (BSC)**

Kaplan and Norton (1992) developed a balanced scorecard model used by businesses to monitor and measure their performance (as cited in Handy 2018). Ozturk and Coskun (2014) posit that successful implementation of BSC needs an assessment of mission and

vision which is measured according to the determined indicators compared to the targeted performance. Many organizations control systems are built on short term measures that focus on financials without looking at their objectives in the long-term.

The BSC introduces four perspectives covering both short-term and long-term planning to ensure holistic measurement of organizational performance. These are; financial perspective which takes care of the shareholders and the government, the customer perspective from which the business provides its mission to serve, the business process examines internal processes which are; loan recoveries and loan process, monthly collection of deposits and update of member accounts, learning and development perspective takes care of employee skills and growth that are key in personnel differentiation strategies (Niven, 2006).

The BSC enables an understanding of all concerned at departmental and individual level thus become aligned with the realization of the organization's mission and vision, (Kaplan & Norton n.d) and creates concentration, accountability, timeliness and transformation of an organization.

A study done by Abofaied (2017) on evaluation of banks performance by BSC in Libya noted steady improvement in financial perspective measures as the bank concentrated more on the financial perspective while internal processes did not post positive results. Ondieki (2017) however notes that all the four perspectives are being used in performance measurements by financial public sectors in Kenya. Gitonga (2014) provides challenges experienced by financial institutions in the process of BSC implementation as there is resistance to change from traditional measures and lack of

knowledge from staff. The study was guided by the BSC model by looking at the non financial metrics indicating organizational performance when differentiation strategy is adopted. These included; customer satisfaction, brand loyalty, brand identity, customer service and employee motivation.

## **2.3 Empirical Literature Review**

This section focused on previous studies, the methodologies that were used and the findings. The study examined what other researchers established in relation to differentiation strategy and performance, identified gaps and used them to shape the outcome of the study.

### **2.3.1 Product Differentiation and Performance**

Ombati and Muturi (2017) study on competitive strategy and performance of microfinance institution in Kisii County used descriptive study design with 130 employees as study population to generate a sample of 65. Stratified random sampling was used to draw the sample. A pilot study was done and expert advice sought to increase validity. Data collection was done through self-administered questionnaire. Reliability was tested through Cronbach's alpha. SPSS software was used in analysis. The study found that organizations were using product differentiation to fulfil customer's need by tailoring the product and service to suit their needs. The study was done in Kisii County. The current study location was in Nairobi and was in agreement with the previous study as it found that DT SACCOs used product differentiation to design quality products to capture the needs of their members.

Nganga (2017) study on competitive strategies applied by SACCOs in enhancing their financial performance applied descriptive survey design targeting 400 management staff from 16 SACCOs. Cluster sampling was adopted to derive a sample consisting of 80 respondents. Questionnaire was used to collect primary data. Reliability and validity was checked to ensure content addressed the research objectives. Quantitative data analysis was done with SPSS. Presentation was achieved through graphs and tables. The study established that SACCOS were developing specialized products to suit a particular target market segment. The study was done in Kiambu County consisting of both deposit and non deposit taking SACCOs. This current study consisted of deposit taking SACCOs only based in Nairobi City County. The results of the study were the same indicating the product differentiation targeting particular needs of the members even though deposit taking SACCOs has adopted banking products unlike the non deposit taking SACCOs.

A study by Ngure, Maina and Kariuki (2017) on new product development and performance of SACCOs used cross-sectional design working with 60 DT SACCOs to obtain 52 samples through simple random sampling and collecting data through self administered questionnaire. Secondary data was collected from audited reports. Analysis was achieved through the application of SPSS software. The study found that product differentiation was positively correlated with DT Sacco's performance. The study was done in Kirinyaga which is a rural area in Kenya with a small sample. This study confirmed that product differentiation is positively related with organizational performance despite being carried out in an urban location with a bigger sample.



Orji, Andah, Kate and Boman (2017) study on Nigerian deposit money banks product development and performance analysis used a survey research with 24 banks and 100 respondents generated through judgemental random sampling and random questionnaire administration. The study found an existence of relationship between new product development and profitability. The study used a small population of banks and was carried in Nigeria with different economic characteristic that might have influenced the outcome. This study confirmed the previous study that product differentiation has a positive relationship with organizational performance despite being done in Kenya with different economic characteristic.

Wanjiru (2012) examination of product development and performance employed descriptive design and census survey working with 43 banks. Semi-structured method of questionnaire was used to collect primary data. Analysis was achieved through descriptive and inferential statistics. The study established that product differentiation had positive impacts on the performance of commercial banks in Kenya. The study recommended further research in other sectors which was addressed in this study where it was carried out within the deposit taking SACCOs and also adopted the census survey as the previous study. However, this study found that product differentiation did not have significant effect on organizational performance.

### **2.3.2 Market Differentiation and Performance**

Wachira (2013) study on performance and competitive strategies used cross-sectional design with a sample of 17 drawn from commercial banks and insurance firms. Census survey was adopted. Data analysis was done through descriptive method with the aid of SPSS. The study found that firms have achieved improvement in organizational

performance using a combination of strategies with recommendations of expanding market coverage with different products. Insurance and banks are major financial institutions with big capital investments that enable them to have resources needed for market development. This study focused on deposit taking SACCOs with few players with asset base of 5 billion while majority are below the five billion that influenced the results as the study respondents disagreed that deposit taking SACCOs had despite having a wide market coverage, had not opened physical branch offices in the last three years which reduced their performance.

Achieng (2013) study on market concept and performance of SACCOs employed the use of descriptive studies with 108 respondents generated from Sacco employees. SPSS was used in analysis. Both quantitative and qualitative data were obtained. The results indicated that unique marketing concepts influenced growth with recommendations that SACCOs should improve differentiated facilities and relocation of offices to reach more clients. This study found that deposit taking SACCOs were selling their new products in existing markets and thus had not opened new branches in the last three years.

Mutuma (2013) study on expansion strategies and performance used descriptive research design working with staff from tier one banks to generate a sample of 70. Stratified proportionate and random sampling techniques were used. Primary data was obtained using survey method while secondary data was collected through annual reports. Descriptive analysis was done. Karl Pearson product moment correlation was used to understand relationship between variables. The study found that market differentiation had low effect on performance of commercial banks. The study recommended an

increase in advertising expenditure to grow market share through more intensive distribution and diversification of expansion strategies.

The study's tier one banks are well funded with some being foreign banks with massive infrastructure. The SACCOs majorities are in tier two and three hence lack enough resources to differentiate their markets. This did not change the outcome as the study found that market differentiation did not have significant effect on organizational performance.

Gachimu (2017) study on strategic positioning and performance adopted descriptive research design to carry out the study. The study used 43 banks with a population of 361 bank managers where 108 sample sizes were generated. Data collection was done using survey method. Data analysis was done through correlation and multiple regressions. SPSS software assisted in the analysis. The study found that commercial banks applied unique location strategy to improve performance. The study focused on commercial banks. This study focused on deposit taking SACCOs in Nairobi City County and found that deposit taking SACCOs had wide market coverage that differentiated them from their competitors even though they had not opened new branches in the last three years.

### **2.3.3 Service Differentiation and Performance**

Spencer, Joiner and Salmon (2009) study on differentiation strategy, performance measurement systems and organizational performance relied on a sample of 200 working with senior managers as respondents. Analysis was done through multiple regression and descriptive statistics. Correlation analysis was used to determine the existence of relationship between differentiation strategy and performance. The study found

significant positive relationship between service differentiation and performance. The study had no true random sample.

The sample used was generated from big manufacturing companies that could not be generalized to the entire manufacturing industry. The study also used mailed questionnaire that reduced the response rate. This study consisted of all deposit taking SACCOs thus offered broad representation fit for generalization. The study also used face to face self administered questionnaire to increase response rate and applied random sampling to increase reliability by reducing biasness. The study confirmed the previous study that there is a positive and significant relationship between service differentiation and organizational performance.

Sifuna (2014) study on competitive strategies and performance of public universities used descriptive design with a population of 162 heads of department. The study used disproportionate stratified sampling technique to generate a sample consisting of 54 respondents. Purposive sampling was used to identify respondents. Questionnaire was used to collect data. Validity and reliability of the data was checked. Data analysis was done through descriptive, correlation and regression methods. The study results proved that service differentiation affected performance to a very great extent. The study focused on learning institutions. This study focused on financial institutions but found the same results where service differentiation was preferred to a large extent and had significant effect on organizational performance.

Matanda (2005) study on differentiation strategies used by classified hotels to increase their performance adopted descriptive design. The study sample consisted of 44 hotels from Nairobi and Mombasa. The respondents were hotel general managers. Questionnaire was used where it was dropped to the participants and picked later at an agreed time. Descriptive analysis and inferential statistics were used. The study found that service quality and service delivery are widely practised as a service differentiation. The study also found that the hotels were carrying out periodic surveys to ensure that service standards were adhered to. The study was done in two Kenyan cities focusing on hotels. This study was done in one city and focused on financial industry where the study found that there was consistency in service delivery among deposit taking SACCOs even though the respondents disagreed that the deposit taking SACCOs used member feedback to improve service standards. The respondents also disagreed that there were quarterly surveys conducted to improve service differentiation.

Gabauer, Gustafsson and Witell (2011) did a study on competitive advantage and service differentiation by manufacturing companies using a sample of 332. The study adopted cross-sectional survey with random sampling and face to face interviews. Validity and reliability was done. Descriptive, correlation and regression were used to analyse the data. The study found that service differentiation is a valuable resource that makes a firms' offering inimitable. It also increases payoff and strengthens the relationship between complexity of customer needs and organization's performance. The study environment was Europe targeting manufacturing industry. This study focused on Africa targeting financial industry but confirmed that service differentiation had significant effect on organizational performance.

#### **2.3.4 Personnel Differentiation and Performance**

A study by Rasouli and Sepideh (2018) on differentiation strategy and performance of women clothing stores in Tehran, applied a sample of 100 in the study focusing on women managers. Pre-test was done with 30 questionnaires. Cronbach's alpha was used to test reliability. SPSS software was used in analysis. The study found a strong relationship between employee differentiation and performance. The study focused on women clothing while this study focused on financial institutions with a bigger sample but confirmed the previous study noting that there was a strong relationship between personnel differentiation and organizational performance.

Kariuki, Kóbonyo and Ogutu (2018) did a study on management practices and competitive advantage using cross-sectional design to carry out the study. The study drew a sample of 62 from senior managers. Questionnaire was used in data collection. Data analysis was achieved through regression and descriptive methods. The study findings showed that human resource practices that is geared towards differentiation improved competitive advantage leading to improved performance. The study noted that competitive advantage increased the uniqueness of organization leading to increased performance. The study sample was 62. The sample that was used in this study was 123 thus a bigger sample that increased response rate and reliability. The study found a significant effect of personnel differentiation on organizational performance.

A study by Rawashdeh (2018) on the impact of talent management strategies on bank performance used quantitative approach to carry out the study. 13 Jordanian banks were used to generate a sample of 120 derived from a population of line managers and HR professionals. Stratified sampling and random selection was used. Descriptive and

regression analysis were adopted. SPSS software was used in analysis. The study found a relationship between talent differentiation and bank performance. The study recommended consistency in application of the strategy to cope with changing business environment and remain competitive. Jordan is an Islamic state with different labor relations law that might have affected the outcome. This study focused on a different environment but confirmed the previous study noting a positive and significant relationship between personnel differentiation and organizational performance of deposit taking SACCOs in Kenya.

#### **2.4 Summary of Literature Review**

This section highlighted the gaps that were found from the empirical studies and provided the way forward for this study to address the research gaps.

**Table 2.1. Summary of Research Gaps**

<b>Author/Year</b>	<b>Focus of the Study</b>	<b>Findings</b>	<b>Research Gaps</b>	<b>Focus of Current Study</b>
Achieng (2013)	Market concept and performance of savings and credit cooperative	Marketing concepts influenced growth	The study used a small sample of 108.	This study used a bigger sample of 123 to improve on reliability and response rate.
Gabauer, Gustafsson and Witell (2011)	Competitive advantage through service differentiation.	Service differentiation is a valuable resource that makes a firms 'offering inimitable.	The study was done in European manufacturing industry and handled service differentiation only	This study was done in African financial industry and handles effect of product, Market, Service and Personnel differentiation on performance.
Gachimu (2017)	The strategic positioning and financial performance of commercial banks	Banks were applying location strategy to improve their performance.	There are other factors influencing performance. A small sample of 108 was used.	Other differentiation strategies affecting performance like product, service and personnel are discussed. A sample of 123 was used while focusing on SACCOs.
Kariuki, Kóbonyo and Ogutu (2018)	Management practices and competitive advantage of companies	Human resource practices and differentiation strategy improved performance.	The study was done for Companies listed in Nairobi Securities exchange	This study was done on Deposit taking SACCOs within Nairobi City County.



Matanda (2005)	Differentiation strategy used by classified hotels in major cities in Kenya.	Service quality and service delivery is widely practised as a service differentiation. The study also found that the hotels were carrying out periodic surveys to ensure that service standards are adhered to.	The study was done in two Kenyan cities focusing on hotels. There are other differentiation strategies besides service.	This study was done in one city and focused on financial industry and touched on product, market, service and personnel differentiation.
Mutuma (2013)	Expansion strategies and performance of commercial banks	Market development had low effect on performance of commercial banks.	Tier one banks are well funded and are able to differentiate their markets while SACCOs in tier 2 lack sufficient funding	The study used all the tiers in deposit taking SACCOs.
Nganga (2017)	Evaluation of competitive strategies applied by savings and credit co-operatives	SACCOs were developing specialized products to suit a particular target market segment.	The study included both deposit and non deposit taking SACCOs.	Only deposits taking SACCOs were used in this study.
Ngure, Maina and Kariuki (2017)	New product development and financial performance	Product development is positively correlated with Sacco's performance.	A small sample of 52 was used.	A bigger sample of 123 was used that increased response rate and reliability.
Ombati & Muturi (2017)	Competitive strategy and performance of microfinance	Product differentiation fulfils customer's needs.	The study was done in Kisii County	The current study was done in Nairobi County.
Orji, Andah, Kate and Boman (2017)	New product development and profitability of Nigerian deposit money banks.	There is an existence of relationship between new product development and profitability.	A smaller population of 24 banks was used. Focused on banks.	A bigger population of 41 DT SACCOs was used in the study.

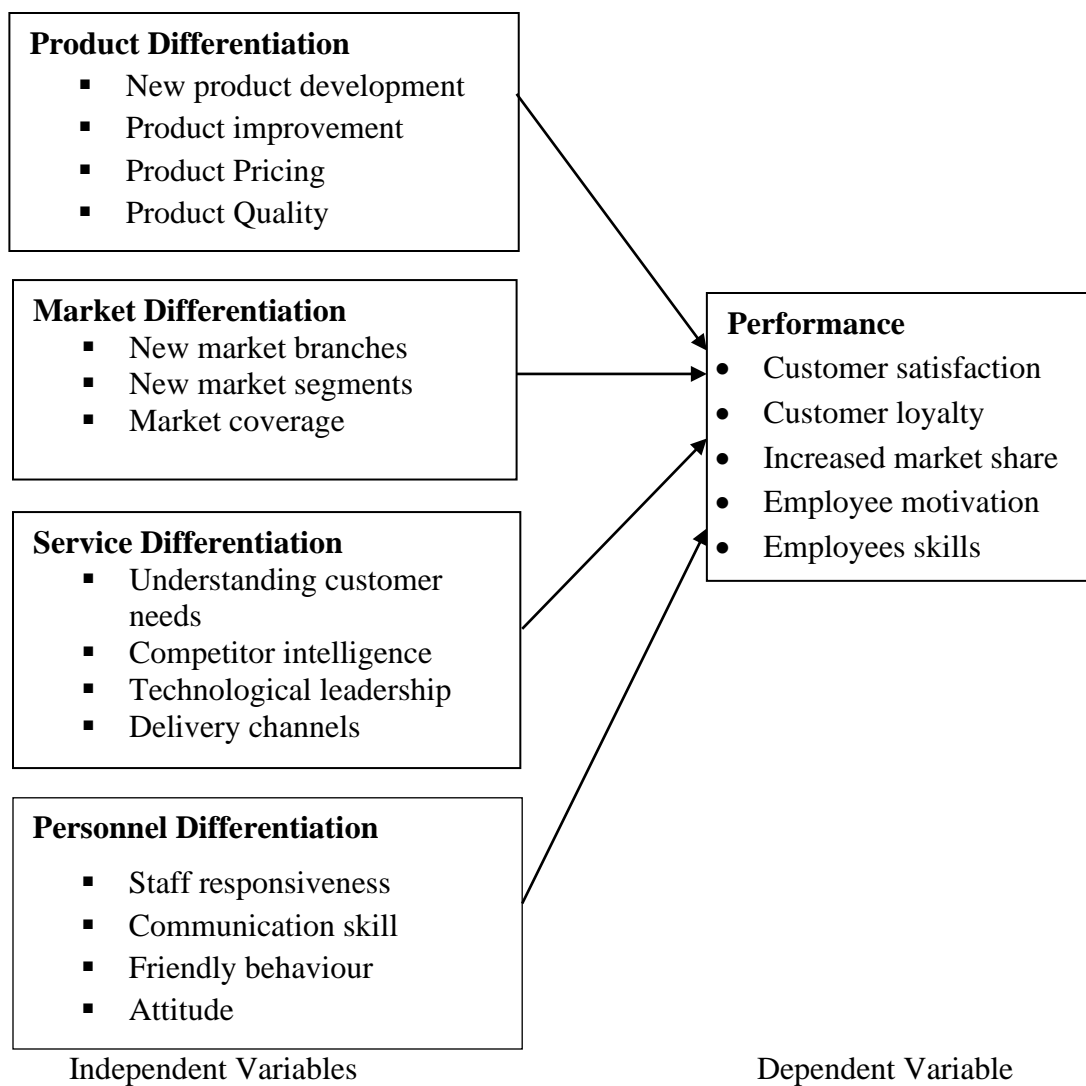
				Focus was SACCOs.
Rasouli and Sepideh (2018)	The impact of differentiation strategy on women clothing's performance in Tehran.	The study found a strong relationship between employee differentiation and performance.	Same focus but different sector	This study focused on financial institutions.
Rawashdeh(2018)	Impact of talent management strategies on bank performance	There was a relationship between talent and bank performance.	The study was done in Jordan.	The current study was done in Kenya.
Sifuna (2014)	Competitive strategy and performance of public universities	Service differentiation affects performance to a very great extent.	Learning institutions was the focus of the study.	Financial institutions were the focus of study.
Spencer, Joiner and Salmon (2009)	Differentiation strategy, performance measurement systems and organizational performance.	The study found a significant positive relationship between service differentiation and performance.	No true random sample. Used mailed questionnaire that reduced response rate.	Random sample was used. Self administered questionnaire was given through dropping and picking.
Wachira (2013)	Relationship between performance and competitive strategy	Firms have achieved improvement in organizational performance.	Two different financial industry sub sectors were used; insurance and banks.	One sub sector-deposit taking SACCOs was used in the study.
Wanjiru (2012)	Product development and performance of commercial banks.	Product development impacts positively on performance of commercial banks.	The study recommended further research in other sectors.	This study focused on SACCOs in Kenya which is a different sector.

**Source: Literature Review (2019)**

## 2.5. Conceptual Framework

In a conceptual framework, the interconnection of independent and dependent variables completes the framework for certain expected outcomes. The study used differentiation as the independent variable and performance as the dependent variable. These were analyzed to determine their relationship as shown in Figure 2.1.

### Differentiation Strategy



**Figure 2.1: Conceptual Framework**  
**Source: Researcher (2019)**

Figure 2.1 shows the interconnection between differentiation and performance of deposit taking SACCOs in Nairobi City County Kenya. The independent variables are product differentiation, market differentiation, service differentiation and personnel differentiation while performance is demonstrated using non financial indicators.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presented the methodology that was used in the study. It explained the research design, population, sampling procedure and data collection instrument. It further presented validity and reliability instruments and data collection procedure that were undertaken in the study. The chapter concluded with ethical issues such as obtaining the necessary authority to conduct research, adhering to the code of conduct and maintaining confidentiality of information, were observed to ensure the research was of high quality and reliable.

#### **3.2 Research Design**

The study used descriptive research design to carry out the investigation. Cooper & Schindler (2015) define descriptive study as the process of finding out a certain phenomena, where to find it and the processes involved in finding the phenomenon. Mugenda & Mugenda (2003) provide a definition of research design as the road map or outline used to find solutions to research problem (as cited in Kagonia 2017). This is achieved by way of collecting data to determine the relationship between variables of the study. It is a recommended plan that incorporates all the different components of the research, (Saunders, Lewis & Thornhill, 2009) (as cited in Ngatia, Muya & Ngacho 2018). The methods is suitable for carrying out investigations, provide solutions to research problem and determining relationships among variables and hence was appropriate for looking into differentiation strategy and performance of deposit taking SACCOs in Nairobi City County Kenya.

### 3.3 Target Population

Pandey and Pandey (2015) define population as consisting of entire mass of observation where a sample is drawn. Mugenda and Mugenda (2003) posit that the target population should have some observed similar behavior from where the study will derive the results. The target population comprised of management employees of all 41 Deposit Taking SACCOs registered and regulated by SASRA (2016) to operate in Nairobi City County. The study was conducted in Nairobi because Nairobi being the capital city of Kenya has diverse types of SACCOs that are a fair representation of the SACCOs in the entire nation.

**Table 3.1: Distribution of Target Population of the Study**

<b>Cadres of Staff</b>	<b>Population</b>	<b>Percentage</b>
Top level management	57	14
Middle management	151	36
Low management	202	50
Total	410	100

**Source: SASRA Report (2016).**

From Table 3.1, the population consisted of 14% top level management, 36% middle management and 50% low level management.

### 3.4 Sample Size and Sampling Procedure

The study adopted probability sampling design as it was the most precise for quantitative studies (Phrasisombath 2009) and provides non zero chance to all study elements to be included in the study (Latham, 2007). Orodho (2010) defines a sample as a small part of large population which is assumed to be a representative of the larger population.

Mugenda & Mugenda (2003) cited in Kagonia (2017) states that a sample size of 30% is good for representation of the population hence good for generalization. The study used 30% of the entire population of 410 that resulted to a sample size of 123. Proportionate stratified random sampling was used to derive participants from the three strata being top management, middle management and low management using a multiplier factor of 0.3. Proportionate stratified random sampling was used because the respondents in the departments were expected to have information and answers on the research questions that were being sought for. The study used management levels in the three levels because of the different and unique roles that each level of management plays in regards to differentiation strategy and performance of the deposit taking SACCOs. This made it possible to handle all the issues raised in the questionnaires effectively. Systematic random sampling was then used to identify respondents within the respective DT Sacco offices. Table 3.2 indicated the sample size according to the different strata.

**Table 3.2: Sample Size**

Cadres of Staff	Population	Multiply factor 30%	Sample size	Percentage
Top management	57	0.3	17	14
Middle management	151	0.3	45	36
Low management	202	0.3	61	50
Total	410		123	100

**Source: Researcher (2019)**

From Table 3.2 shows a sample size of 123 where top level management were 17 which was 14% of the sample size, middle level management were 45 which was 36% of the sample and low level management were 61 which was 60% of the sample. This shows that the low level management was leading in sample size due to their number within the

DT SACCOs industry and hence had the highest input of 60% while top management had the smallest input of 14%.

### **3.5 Data Collection Procedure**

Nayak and Singh (2015) define questionnaire as a research instrument designed for purposes of capturing information of interest to the study. The study used likert scale structured questionnaire to collect primary data. A pilot study was done using 20 deposits taking SACCOs outside Nairobi and this helped on improving the questionnaire further before it was issued to the respondents in Nairobi City County Kenya. The instrument was simple and easy to understand (Kothari, 2004). This was done in order to enhance its validity and accuracy of data to be collected for the study. Secondary data was generated from deposit taking SACCOs literature materials, internet resources and other relevant materials related to the variables under study.

Expert opinion was sought from the project supervisor, library staff and other relevant individuals in line with the study. A letter of authorization to collect data was obtained from the University. Further approval from National Commission of Science, Technology and Innovation (NACOSTI) was obtained. Authorization from the respondent was sought through introduction letter. Data was then collected with assistant of three research assistants where the survey forms were dropped at the deposit taking Sacco offices and then picked later at an agreed time. To track all the survey forms given, a register of questionnaires and various deposit taking SACCOs given was recorded for more follow-up at the time of collection.



### **3.6 Validity and Reliability of the study**

Validity and reliability help in improving the transparency and accuracy of the study. The study used both validity and reliability to support the study findings.

#### **3.6.1 Validity of the Study**

According to Yin (2003), validity is the degree to which a concept is accurately measured in a study. The researcher focused on face, content and constructs validity of the data collection instrument. Face validity was ensured through the input of experts in the thematic area of strategic management including the Supervisor and other academic staff in the school of business. Content and construct validity was achieved by undertaking an in depth and extensive review of relevant theoretical and empirical literature. A pilot study of the results was conducted to enhance both the validity and reliability of the expected outcomes from the questionnaires as shown in table 3.3.

#### **3.6.2 Reliability of the Study**

Reliability measures the internal consistency of the items in the research instrument (Borg and Gall, 2003; George and Mallery, 2003; Saunders, Lewis & Thornhill, 2009). Furthermore, George and Mallery (2003) contend that Cronbach alpha index of at least 0.7 is a good threshold for establishing the reliability of research instrument. Statistical Package For Social Science was used to analyze the pilot data for reliability as shown in the table 3.3.

**Table 3.3: Reliability and Validity Test Statistics**

<b>Variable</b>	<b>Chronbach's alpha</b>	<b>No. of Items</b>	<b>Remarks</b>
Product differentiation	0.865	8	Reliable
Market differentiation	0.830	7	Reliable
Service differentiation	0.839	9	Reliable
Personnel differentiation	0.904	7	Reliable
DT SACCOs Performance	0.893	8	Reliable
Overall Reliability	0.866	39	Reliable

**Source: Survey Data (2019)**

From Table 3.3, the findings indicated that product differentiation was ( $\alpha=0.865$ ), market differentiation ( $\alpha =0.830$ ), service differentiation ( $\alpha =0.839$ ), personnel differentiation, ( $\alpha =0.904$ ), and DT SACCOs performance ( $\alpha =0.893$ ). All the study variables were above 0.7 threshold recommended by Gliem and Gliem (2003) thus were reliable and fit for study analysis. The overall aggregate Chronbach's alpha was ( $\alpha =0.866$ ) which also indicated reliable data as it was above 0.7 thus the study concluded that the instrument was reliable.

### **3.7 Data Analysis and Presentation**

The data analysis was done by use of a number of stages. The stages involved data processing to clean up the data. Data clean up to identify any errors was done and it involved editing of questionnaires for completeness and consistency, data coding and tabulation. Specific numerical values were assigned for to the responses for further analysis. Descriptive statistics was used to analyse demographic data using mean and standard deviation. It was then presented using charts, percentages and graphs. Inferential statistics involved the use of correlation where the study sought to find out the relationship between variables under study using Karl Pearson correlation (Heron, 2009). Correlation is defined by Buxton (2008) as the extent to which a relationship conforms to

a straight line which ranges from -1 to +1 where positive values indicate an increasing correlation, negative values provide a decreasing correlation while 0 means there is no correlation between variables. The study used multiple regressions to explain cause and effect, (Walliman 2011) where data was presented using tables. Analysis was aided by the use of SPSS version 22.

The multiple regression equation was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where; Y= Performance of Deposit Taking SACCOs in Nairobi City County Kenya

$X_1$  = Product Differentiation

$X_2$  = Market Differentiation

$X_3$  = Service Differentiation

$X_4$  = Personnel Differentiation

$\beta_0, \beta_1, \beta_2, \beta_3, \beta_4$  = Regression coefficients

$\varepsilon$  = Error term

### **3.8 Ethical Considerations**

The researcher adhered to the code of conduct and strict discipline to ensure that all stakeholders' rights were respected. Informed consent was obtained from all those participating in the study. Those not willing to participate in the study were under no obligation to do so. Confidentiality was maintained and the respondents were notified through an introduction letter of the research intention to gain their confidence. The necessary research authorities were consulted and permission granted. NACOSTI granted

a licence authorizing the conduct of the research. The researcher requested permission from the human resource officers of the different SACCOs where data was collected from. The refereed materials and sources were cited accordingly.

## CHAPTER FOUR

### DATA ANALYSIS, INTERPRETATION AND DISCUSSION

#### 4.1 Introduction

This chapter presents the analysis of response rate, demographic information of respondent, descriptive statistics and inferential statistics. Data was analyzed, discussed and compared with theoretical and empirical literature review in chapter two. This chapter presented the findings of the study with interpretations in line with the research objective which was to establish the effect of differentiation strategy on performance of deposit taking SACCOs in Nairobi City County, Kenya.

#### 4.2 Response Rate

The study sampled and distributed 123 questionnaires to management staff of 23 Deposit Taking SACCOs based in Nairobi County. Out of this, 78 questionnaires were duly filled thus giving a response rate of 63%. The table below showed the study response rate.

**Table 4.1: Response Rate.**

Item	Frequency	Percent
Returned questionnaires	78	63
Un returned questionnaires	45	37
Total	123	100

**Source: Survey Data (2019)**

The Results in Table 4.1 indicated that 63% response rate. Hardigan, Popovici and Carvajal (2016) noted that a response rate of 50% is adequate, 60% is good while 70% is very good (as cited in Kavulya, 2018). The study achieved a good response rate as it was above 60% which is considered good for study analysis. Further, study by Owino (2011) on competitive strategies adopted by savings and credit cooperative societies in Mombasa County also achieved 56% response rate. Thus this study therefore had a good response

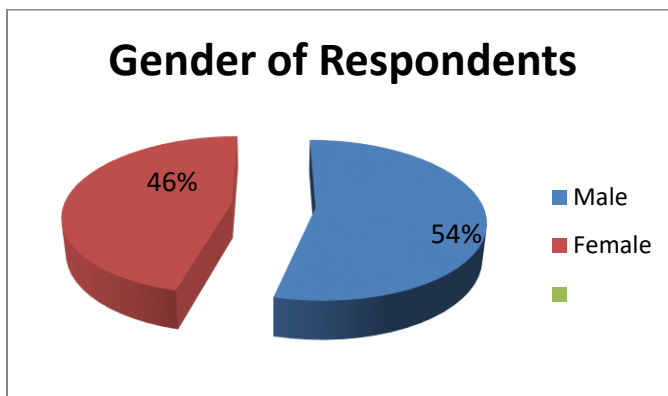
rate that was fit for analysis and reporting.

### 4.3 Demographic Information

The study sought to analyse the demographic data to provide more insight on the Deposit Taking SACCOs membership.

#### 4.3.1 Gender of Respondents.

The study sought to find out the gender of the respondents to provide more insight on the diversity of the Deposit Taking SACCOs. The findings are as indicated in Figure 4.1



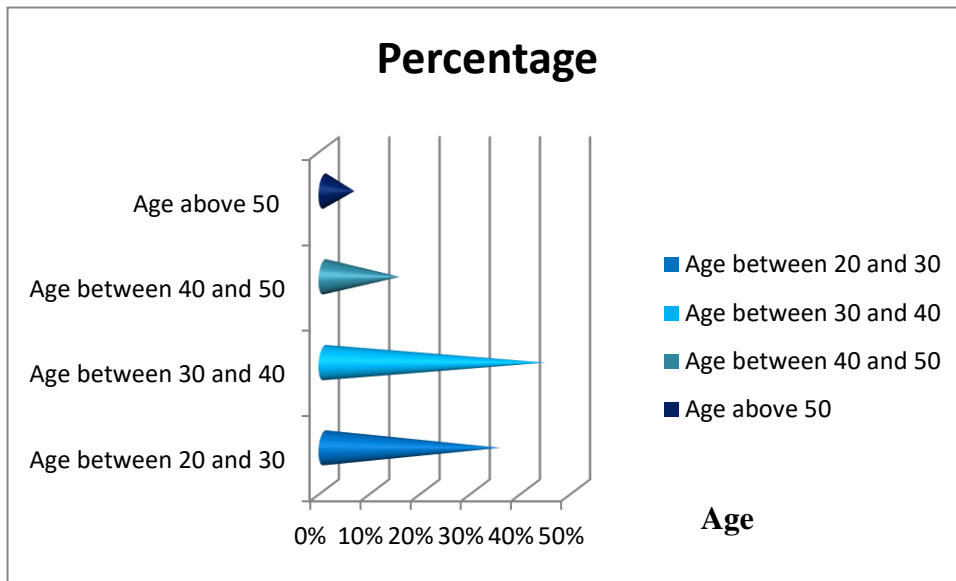
**Figure 4.1: Gender of Respondents**  
**Source: Survey Data (2019)**

The findings in Figure 4.1 indicated that that male respondent were majority at 54% while female gender was 46%. This indicated how the Deposit Taking SACCOs management is male dominated which was confirmed by Njoki (2018) study on competitive strategy and performance of Deposit Taking SACCOs in Muranga County where the findings indicated that male gender was 58% while the female gender was 42%. However, this study had a fair representation of both gender.

### 4.3.2 Age of Respondents

The study sought to understand the respondents' age to determine how age could be related with experience and decision making on differentiation strategies that Deposit Taking SACCOs could use to improve performance.

The findings were as indicated in Figure 4.2.

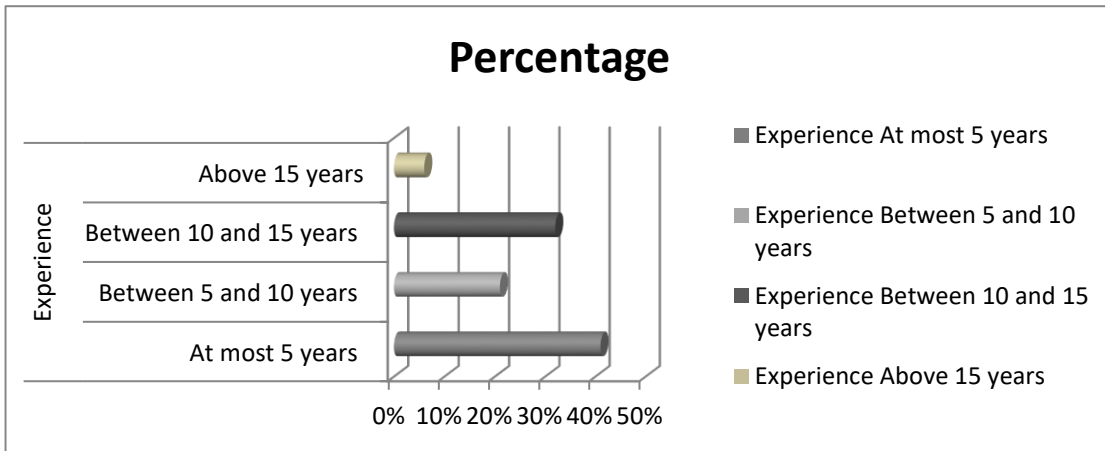


**Figure 4.2: Age of Respondents**  
Source: Survey Data (2019)

Figure 4.2 showed that respondents between the age of 20 to 30 were 35%, 30-40 were 44%, 40-50 were 15% while those who were above 50 years were 6%. This is an indication that the study used mature respondents with sound mind hence provided reliable response to the study.

### 4.3.3 Years of Experience

The study sought to establish the years of experience of the respondents to determine how it can affect decision making where the findings were as discussed in Figure 4.3.



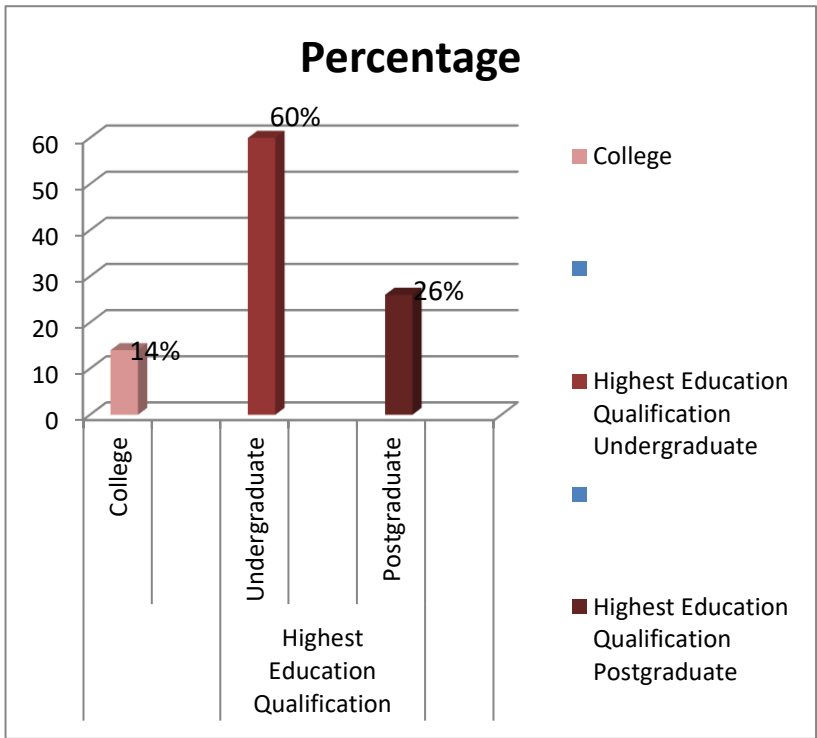
**Figure 4.3: Respondents Years of Experience**  
**Source: Survey Data (2019)**

Results in Figure 4.3 indicated that respondents had worked in the Deposit Taking SACCOs less than 5 years at 41%, 5 to 10 years were 21%, 10 to 15 years were 32% while over 15 years were 6%. This indicated that the study used experienced professionals who could make strategic decision and had good understanding of the questions hence provided reliable data.

#### **4.3.4 Highest Educational Qualification**

The study sought to find the educational qualification of respondents to determine how education is related with management decision making where the findings are as indicated below;





**Figure 4.4: Highest Educational Qualification**  
**Source: Survey Data (2019)**

Figure 4.5 showed that undergraduate were the majority at 60%, post graduate were 26% while college level were 14%. The study was confirmed by Ngatia (2018) study on the relationship of competitive strategy and performance of Mwalimu National which indicated that undergraduate (bachelors) was the majority at 51%. This is an indication that Deposit Taking SACCOs management are skilled staff with knowledge in differentiation strategies that can be used by Deposit Taking SACCOs to increase performance.

#### 4.4 Descriptive Statistics

The study sought to describe the four differentiation strategy dimensions and organizational performance using descriptive statistics. The study objective was to find out the effect of differentiation strategy on performance of deposit taking SACCOs in Nairobi City County, Kenya. The respondents were provided with 39 questions related to differentiation strategy dimensions and DT SACCOs performance where they were to give their opinion on how they agreed with the statements. These were presented in a five point likert scale where they were to rate with choice ratings being; 5= very large extent, 4= large extent, 3= moderate extent, 2= little extent and 1= not at all. The mean and standard deviation were used in analysis.

##### 4.4.1 Product Differentiation

The study used different questions to elicit responses from the respondents on product differentiation.

**Table 4.2: Product Differentiation**

<b>Product Differentiation</b>	<b>Mean</b>	<b>Std. Deviation</b>
The Sacco members prefer our products because of their quality.	4.27	0.71
We design our products to capture the needs of our members.	4.32	0.67
Our members recognize our products because of their unique features.	4.24	0.73
We have improved the features of our products that have brought new members to the society.	4.16	0.80
The Sacco has developed unique new products that set it above its competitors.	4.21	0.72
Our products have premium pricing due to their high quality.	4.00	0.99
Our members are not sensitive to our product premium pricing.	3.70	1.21
We have a research and development team that provides timely information for new product development.	3.60	1.36
<b>Aggregate mean Score and Std. deviation</b>	<b>4.06</b>	<b>0.90</b>

**Source: Survey Data (2019)**

The descriptive analysis results on product differentiation showed that respondents noted that Deposit Taking SACCOs customers preferred their products because of their quality at a mean of 4.20, products were designed to capture the needs of the members at a mean of 4.20, the unique features of the products at 4.19 and the improvements made on the existing products' features also brought new members with a mean of 4.17, premium pricing was due to high quality products at 3.85, and the members were not sensitive to premium pricing due to quality at 3.80 while research and development input in product development was rated at 3.60. The mean aggregate score was 4.06 meaning that the respondents preferred product differentiation as a strategy for organizational performance to a large extent. The aggregate standard deviation is very low at 0.90 showing that respondents gave convergent views and opinions regarding how product differentiation affects performance in deposit taking SACCOs. This finding is in line with a study by Ombati and Muturi (2017) who noted that product differentiation fulfilled customer needs thus confirming the study where respondents valued product differentiation to a large extent.

#### **4.4.2 Market Differentiation**

The study provided different questions related with market differentiation to find out the respondents opinion.

**Table 4.3: Market Differentiation**

Market Differentiation	Mean	Std. Deviation
The Deposit Taking SACCOs sells its new products to existing members	4.50	0.44
The Deposit Taking SACCOs sells its new products and services to new members.	4.11	0.81
Our market coverage is wide with many members.	4.13	0.76
Our marketing and promotion strategies are advanced and unique.	3.80	1.01
Our market coverage is wide with few members.	3.68	1.11
Our Deposit Taking SACCOs branch locations are differentiated.	3.51	1.32
The Sacco has opened new branches in last three years	3.01	1.73
<b>Aggregate mean Score and Std. deviation</b>	<b>3.82</b>	<b>1.03</b>

**Source: Survey Data (2019)**

The results of the descriptive analysis for market differentiation showed that respondents agreed that the Deposit Taking SACCOs were selling new products to existing members at a mean of 4.50, were selling the same to the new members at a mean of 4.11, market coverage was wide with many members at a mean of 4.13, marketing and promotional strategies were advanced and unique at 3.80, wide market with few members at 3.68, differentiated branch locations at 3.51 and new branches opened in the last three years at 3.01. Overall aggregate mean score was 3.82 which are 4 in the likert scale when rounded off meaning that the respondents agreed to a large extent that market differentiation affected organizational performance. The standard deviation of 1.03 provided the variability of study items and nearness to the mean as respondents agreed that market differentiation affects organizational performance.

#### 4.4.3 Service Differentiation

The study provided different questions related with service differentiation to find out the respondents opinion.

**Table 4.4: Service Differentiation**

Service Differentiation	Mean	Std. Deviation
Our staffs provide consistent service to our members.	4.38	0.59
We have commission incentives to our members who give us referrals.	4.35	0.63
We offer differentiated mobile platform financial services to our members.	4.33	0.60
Our services provide unique experiences to our members.	4.31	0.65
There is promptness in handling members complaints	4.29	0.70
Our members are happy with our services.	4.28	0.67
We provide member portal services and other unique online services.	4.14	0.82
We use member feedback to improve our services.	4.09	0.90
The Deposit Taking SACCOs do quarterly survey to collect member feedback	3.90	1.08
<b>Aggregate mean Score and Std. deviation</b>	<b>4.23</b>	<b>0.74</b>

**Source: Survey Data (2019)**

Results on service differentiation strategy indicated that the respondents noted that the Deposit Taking SACCOs staff provided consistent service to the members at 4.38 mean, gave commission incentives to the members who gave referrals at 4.35. Offered differentiated mobile platform financial services at 4.33, unique service experience to the members at 4.31, promptness in handling complaints at 4.29, members were happy with the services at 4.28, provided member portal and other online unique services at 4.14, used member feedback to improve services at 4.09 and does quarterly survey to collect

member feedback at 3.90. Overall, the aggregate mean score was 4.23. This means many respondents were in agreement of the strategy that service differentiation affects organizational performance to a large extent. The standard deviation of 0.74 indicated small variability with closeness to the mean which means that service differentiation is important and is applied in deposit taking SACCOs to improve performance. This finding is confirmed by a study that done by Gabauer, Gustafsson and Witell (2011) who noted that service differentiation was a valuable resource that improved a firms offering as the respondents indicated that staff provided consistent service with commission incentives that increased Deposit Taking SACCOs offerings.

#### **4.4.4 Personnel Differentiation**

The study provided different questions related with personnel differentiation to find out the respondent's opinion.

**Table 4.5: Personnel Differentiation**

<b>Personnel Differentiation</b>	<b>Mean</b>	<b>Std. Deviation</b>
Our staff understands our products and services which they provide in line with member needs.	4.55	0.41
Our staffs are well equipped to serve our members satisfactorily.	4.30	0.67
Our employees handle our customer professionally	4.28	0.65
Our staff provides accurate and stable services to the members.	4.50	0.45
Our employees are honest when dealing with our members.	4.48	0.51
Our staff have positive attitude towards the members.	4.40	0.60
Our employees have the skills to provide good customers services	4.37	0.57
<b>Aggregate mean Score and Std. deviation</b>	<b>4.41</b>	<b>0.55</b>

**Source: Survey Data (2019)**

Table 4.5 indicated that the respondents noted how staff understood Deposit Taking SACCOs products well in line with customer needs which was ranked high with a mean score of 4.55, were well equipped to serve the members satisfactorily and professionally at 4.30, employees handled customer professionally at 4.28, provided accurate and stable services to the members at 4.50, employees are honest when dealing with the members at 4.48, staff have positive attitude towards the members at 4.40 and employees have the skills to provide good customer service at 4.37. The mean aggregate was 4.41 with a standard deviation of 0.55. This means that the respondents were to a large extent of the opinion that personnel differentiation affects organizational performance. The small standard deviation of 0.55 shows a very minor variation to the mean and this means that personnel differentiation is important and is applied in deposit taking SACCOs to improve performance. This finding was confirmed by Kisuna (2017) where the study advised SACCOs to employ highly skilled personnel that can be used as a differentiator to increase performance.

Overall the four differentiation strategy dimensions had the following findings from the respondents; personnel differentiation was rated high with an aggregate mean score of 4.41, service differentiation at 4.23, product differentiation at 4.06 and market differentiation at 3.82. All the four differentiation strategy dimensions affected organizational performance to a large extent as noted by the respondents.

#### **4.4.5 Organizational Performance**

The study provided different questions related to organizational performance to find out the respondents opinion.

**Table 4.6: Organizational Performance**

<b>Organizational Performance</b>	<b>Mean</b>	<b>Std. Deviation</b>
Our members have given us new referrals due to their satisfaction with our products and services.	4.35	0.56
Our Deposit Taking Sacco has improved in professionalism due to employee training.	4.31	0.61
There is improvement in our Deposit Taking Sacco internal processes that has increased efficiency.	4.28	0.66
There is employee growth due to career and education advancement.	4.25	0.72
Members' loyalty has increased due to satisfaction with our products.	4.20	0.75
Increased member education has increased satisfaction.	4.20	0.75
Our brand recognition has improved in the Deposit Taking Sacco market.	4.00	0.90
Our employee turnover has reduced due to motivation.	3.97	1.01
<b>Aggregate mean Score and Std. deviation</b>	<b>4.19</b>	<b>0.74</b>

**Source: Survey Data (2019)**

Results in Table 4.6 showed that the respondents noted that members had given their organization new referrals due to satisfaction at a mean of 4.35, there was increased professionalism as a result of employee training at 4.31, improved internal processes leading to efficiency at 4.28, employee growth due to career development and advancement at 4.25, member loyalty increase due to satisfaction at 4.20, increased member education leading to satisfaction at 4.20, improved brand recognition at 4.00 and reduced employee turnover at 3.97. Overall the aggregate mean score for organizational performance was 4.19 with a standard deviation of 0.74 meaning that the respondents agreed to a large extent that there was increased performance. The standard deviation was also small an indication that data was close to the mean. The increase in performance was



also confirmed by Sutanto and Sudarsono (2018) study noting that brand value increased with efficient use of internal resources for competitive advantage.

## 4.5 Inferential Statistics

### 4.5.1 Correlation Analysis

The study sought to determine the relationship between differentiation strategy and Deposit Taking SACCOs performance using Karl Pearson Correlation. Heron (2009) defines correlation as the assessment of the direction and strength of the relationship between variables where values that are close to +1 have high positive correlation, those that are equal to 0 have no correlation while those that are close to -1 have high negative correlation (Beaumont, 2012). Taylor (1990) noted that the importance of correlation can also be judged based on the significance level where observed data provides evidence to reject the null hypothesis that the population parameter is equal to zero thus arriving at a conclusion that population correlation is not equal to zero.

**Table 4.7: Correlation Analysis**

		Performance	Product	Market	Service	Personnel
Performance	Pearson Correlation	1	.585**	.464**	.635**	.639**
	Sig (2-tailed)		0.000	0.000	0.000	0.000
	n	78	78	78	78	78
Product	Pearson Correlation		1	.703**	.608**	.453**
	Sig (2-tailed)			0.000		
	n		78	78		
Market	Pearson Correlation			1	.542**	.286**
	Sig (2-tailed)					
	n			78		
Service	Pearson Correlation				1	.486**
	Sig (2-tailed)					
	n				78	
Personnel	Pearson Correlation					1
	Sig (2-tailed)					
	n					78

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

**Source: Survey Data (2019)**

Results in Table 4.7 showed that the study found that all the four variables of differentiation strategy were positively related with Deposit Taking SACCOs performance where product differentiation had a positive correlation at ( $r=0.585$ ,  $p$ -value  $0.000$ ), Market differentiation had ( $r=0.464$ ,  $p$ -value  $0.000$ ), service differentiation had ( $r=0.635$ ,  $p$ -value  $0.000$ ) and personnel differentiation had ( $r=0.639$ ,  $p$ -value  $0.000$ ). All indicated positive correlation which means that as differentiation strategy increased, Deposit Taking SACCOs performance increased. All their  $p$  values were  $\leq 0.05$  meaning that they were different from 0; an indication that there was a relationship between differentiation and performance. Service and personnel differentiation had the highest correlation values.

#### 4.5.2 Model Summary

The study sought to determine how the model fit to describe the relationship between differentiation strategy and Deposit Taking SACCOs performance. Table 4.8 provided a summary of the fitness of the model with predictor variables being product differentiation, market differentiation, service differentiation and personnel differentiation.

**Table 4.8: Model Summary**

Model 1	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.759 <sup>a</sup>	.576	.553	.42588

**Source: Survey Data (2019)**

From Table 4.8,  $R = 0.759$  is a correlation coefficient indicating the strength of the relationship between differentiation strategy and Deposit Taking SACCOs performance. Adjusted R square of  $0.553$  indicated that  $55.3\%$  of differentiation strategy accounted for Deposit Taking SACCOs performance. The other  $44.7\%$  can be explained by other

factors other than those covered by the study objective hence there is need for future studies to discover the other factors that cause organizational performance.

#### 4.5.3 Analysis of Variance (ANOVA)

The study sought to determine the significant effect of differentiation strategy and how it affects Deposit Taking SACCOs performance.

**Table 4.9: Analysis of Variance (ANOVA)**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	18.023	4	4.506	24.843	.000 <sup>b</sup>
Residual	13.240	73	.181		
Total	31.264	77			

**Source: Survey Data (2019)**

Results in Table 4.9 indicated that the study found that differentiation strategy is significantly related with Deposit Taking SACCOs performance. This is evident from the ( $p = 0.000$ ) which was as per the required level of  $p$  value = 0.05. The study confirmed Wachira (2013) findings that unique differentiation strategy employed by organizations significantly affected performance.

#### 4.5.4 Regression Coefficient

The study sought to determine the contribution of each differentiation strategy variables on Deposit Taking SACCOs performance.

**Table 4.10: Regression Coefficient**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
Constant	-.287	.465		-.616	.540
Product Differentiation	.166	.110	.180	1.505	.137
Market Differentiation	.044	.080	.061	.554	.582
Service Differentiation	.348	.119	.302	2.925	.005
Personnel Differentiation	.480	.110	.393	4.362	.000

**Source: Survey Data (2019)**

From Table 4.10, when all factors are held constant, performance would reduce by (-0.287) while one unit increase of product differentiation would result into 0.166 increase in organizational performance, an increase in market differentiation would lead to 0.44 increase in organizational performance, a single unit increase in service differentiation would lead to 0.348 increase in organizational performance and a unit increase in personnel differentiation would lead to 0.480 increase in organizational performance. However, product differentiation was not significant at 95% significance level ( $0.137 > 0.05$ ) while market differentiation was also not significant at ( $0.582 > 0.05$ ). The study therefore developed a revised model where product and market differentiation were not included in the model as there was no sufficient evidence to support their effect on performance. The model was thus:

$$\text{Performance} = -287 + 0.348\text{Service differentiation} + 0.480\text{Personnel Differentiation}$$

#### **4.5.5 Product Differentiation**

The study sought to find out the effect of product differentiation on the performance of deposit taking SACCOs. From Table 4.10, product differentiation was ( $\beta=0.166$ ,  $p=0.137>0.05$ ). The findings indicated that product differentiation increased deposit taking SACCOs performance by 0.166. The p value was however above 0.05 thus making the variable not significant to organizational performance. The study thus concluded that product differentiation had positive but insignificant effect on performance of DT SACCOs in Nairobi County.

However, Wanjiru (2012) study indicated that product differentiation had significant impact on organizational performance of commercial banks in Kenya which the study disapproved. Penrose (1959) resource based theory noted that organizations can use internal resources to achieve competitive advantage. These resources are different from Deposit Taking SACCOs to commercial banks and the levels of investment thus difference in study results between the two industries. Ngugi (2017) recommended that SACCOs should review product differentiation strategy to increase competitive advantage.

#### **4.5.6 Market Differentiation**

The researcher aimed to establish the effect of market differentiation on performance of deposit taking SACCOs. Market differentiation ( $\beta= 0.044$ ,  $p=0.582>0.05$ ). From the findings in Table 4.10, market differentiation increased deposit taking SACCOs performance by 0.44. However, its significant level was 0.137 which is greater than 0.05 recommended. The study thus concluded that market differentiation had positive but insignificant effect on performance of DT SACCOs in Nairobi County.

This was confirmed by Mutuma (2013) study that market differentiation had low effect on organizational performance among commercial banks in Kenya. Achieng (2013) also reported that unique marketing influences growth hence the need to increase market coverage for improved market share. The balance score card model by Kaplan and Norton (1992) encourages evaluation of performance through market share which can be increased by market differentiation.

#### **4.5.7 Service Differentiation**

The study aimed to determine the effect of service differentiation on performance of deposit taking SACCOs. Service differentiation ( $\beta= 0.348$ , p value =0.005<0.05). The findings indicated in Table 4.10 prove that an increase in service differentiation resulted to 0.348 increase in organizational performance. Further, it was also revealed that service differentiation had statistical significant effect on organizational performance as the p value was below 0.05. The study thus concluded that service differentiation had positive and significant effect on performance of DT SACCOs in Nairobi City County.

Spencer, Joiner and Salmon (2009) confirmed a positive significant relationship between service differentiation and organization performance. Gabauer, Gustafsson and Witel (2011) noted that service differentiation is a valuable resource that makes a firm's offering inimitable which is one of the attributes of an organization's resource requirements that can be used to increase competitive advantage. Porters (1980) generic strategy of differentiation enables organizations to be unique thus more competitive advantage for increased organizational performance.

#### **4.5.8 Personnel Differentiation**

The researcher sought to assess the effect of personnel differentiation on performance of deposit taking SACCOs.

Results from Table 4.10, personnel differentiation ( $\beta=0.480$ ,  $p$  value  $=0.000<0.05$ ). The study found that an increase in personnel differentiation resulted to 48% increase in organizational performance. Personnel differentiation was also having a statistical significant effect on organizational performance at  $p=0.000$  making it strongly significant. The study thus concluded that personnel differentiation had positive and significant effect on performance of DT SACCOs in Nairobi City County.

The study of Rasouli and Sepideh (2018) noted a significant relationship between employee differentiation and organizational performance.

Further, Kariuki, Ko'bonyo and Ogutu (2018) observed that practices that are focused on personnel differentiation increased competitive advantage leading to increased performance. This is supported by Kaplan and Norton (1992) theory of BSC which advices organizations to consider measurement and improvement in non financial aspects as they affect the organization's financial performance. Employees are important organization's resources, Penrose (1959) which helps in organizational growth. Through learning and development as advised in the BSC, employees can improve their productivity thus translate into organizational performance.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter focused on the research summary of findings, conclusions and recommendations. The study sought to find out the effect of differentiation strategy on the organizational performance of Deposit Taking SACCOs in Nairobi City County with key specific objectives being; product differentiation, market differentiation, service differentiation and personnel differentiation as independent variables.

#### **5.2 Summary**

The study had a good response rate that was considered fit for analysis and reporting. Many of the management staff was between the ages of 30-40 meaning that they were mature to provide reliable answers. They also had experience as all of them had worked in their respective Deposit taking SACCOs for more than one year giving them opportunity to acquire experience needed to make strategic decisions. The respondents' majority had attained a minimum of bachelor level that indicated acquisition of skills to lead in various strategic decisions and a good understanding of differentiation strategy as a tool for organizational performance improvement. The male gender were the majority management staff of Deposit Taking SACCOs indicating that male have taken the lead in SACCOs strategic decision making to improve organizational performance.

The study's first objective was to determine the effect of product differentiation on the performance of Deposit Taking SACCOs in Nairobi City County, Kenya. The descriptive study found that Deposit Taking Sacco products were preferred due to their quality which



were designed to capture the needs of the members and were using existing products to acquire new members. However, research and development was lowly rated as the respondents thought that information was not being given in time to facilitate product development. Descriptive study indicated that respondents agreed that product differentiation affect organizational performance to a large extent. The study also found that ( $\beta=0.166$ ,  $p=0.137>0.05$ ) product differentiation was positively related with organizational performance but did not affect organizational performance in a significant way.

The second objective of the study was to establish the effect of market differentiation organizational performance of Deposit Taking SACCOs in Nairobi County. The descriptive study found that Deposit Taking SACCOs were selling new products to existing and new customers and had wide market coverage with many customers. However, the respondents rated low that Deposit Taking SACCOs had opened new branches in the last three years. The respondents agreed to a large extent that market differentiation affects organizational performance. It was also found ( $\beta= 0.044$ ,  $p=0.582>0.05$ ) to be positively related with organizational performance but did not affect organizational performance in a significant way.

The study's third objective was to determine the effect of service differentiation on organizational performance among Deposit Taking SACCOs in Nairobi City County, Kenya. From the analysis of the descriptive, the study proved 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 leading to new business. However, the respondents disagreed that the Deposit Taking SACCOs were using member feedback and quarterly surveys to improve service. The respondents therefore agreed to a large extent that service differentiation affects organizational performance. The study also found that ( $\beta=0.348$ ,  $p \text{ value} =0.005<0.05$ ) service differentiation was positively and significantly affecting organizational performance therefore meeting the objectives of the study.

The fourth objective was to assess the effect of personnel differentiation and organizational performance among Deposit Taking SACCOs in Nairobi City County, Kenya. The descriptive study results showed that staff understood Deposit Taking SACCOs products well in line with customer needs and were well equipped to serve satisfactorily and professionally. However, the respondents disagreed that the staff had positive attitude towards the customers and that they had skills to serve customer care. The respondents agreed to a large extent that personnel differentiation affected organizational performance. There was also positive, strong relationship between personnel differentiation and organizational performance. The study also found that ( $\beta=0.480$ ,  $p \text{ value} =0.000<0.05$ ) personnel differentiation had significant effect on organizational performance thus meeting the research objectives.

### **5.3 Conclusion**

Deposit Taking SACCOs are focused on improving their performance through adoption of various strategies that will add competitive advantage and set them apart from their peers. The study's first objective was to determine the effect of product differentiation on organizational performance of Deposit Taking SACCOs in Nairobi City County, Kenya. The study concluded that product differentiation had positive but insignificant effect on

performance of deposit taking SACCOs in Nairobi City County Kenya.

The second objective was to establish the effect of market differentiation and organizational performance of Deposit Taking SACCOs in Nairobi City County, Kenya. The study concluded that market differentiation had positive but insignificant effect on performance of deposit taking SACCOs in Nairobi City County Kenya.

The third objective of the study was to determine the effect of service differentiation and organizational performance of Deposit Taking SACCOs in Nairobi County, Kenya. The study concluded that service differentiation had positive and significant effect on performance of deposit taking SACCOs in Nairobi City County Kenya.

The fourth objective was to assess the effect of personnel differentiation and organizational performance of Deposit Taking SACCOs in Nairobi City County, Kenya. The study concluded that service differentiation had positive and significant effect on performance of deposit taking SACCOs in Nairobi City County Kenya.

#### **5.4 Recommendations for Policy, Practice and Contribution to the Body of Knowledge**

The researcher makes recommendations that will be helpful to policy makers in deposit taking SACCOs in Nairobi City County Kenya. The recommendations in this study will also be used to add to the body of knowledge. The academicians will be able to find the research materials where they will use the stud to build future cases and findings of their research.

On product differentiation, the study noted that research and development was not giving more insight in time to facilitate differentiated product development. The study recommended that the management of deposit taking SACCOs should enhance investment in research and development to improve on timely insight and decision making needed for product development. This is because customer needs are changing at a faster rate and competitors are also changing their strategies. Research and development will give Deposit Taking SACCOs an upper hand over peers thus facilitates development of new and innovative products that will increase organizational performance.

The study also recommended that the policy makers and regulators should motivate the Deposit Taking SACCOs sector through partnership in research to discover new innovative products as this will reduce the cost for R&D.

On market differentiation, the study noted that the respondents rated low opening of new branches in the last three years which decreased the reach of Deposit Taking Sacco products and services. The management should consider opening of branches in strategic locations to tap the growing market and those who are not techno savvy. Further they can also increase customer education on their online and digital platforms to improve understanding on product use to reach their customers where they do not have physical branch locations.

The policy makers can also provide assurance to the customers on the safety of their data to prevent cyber crime that can lead to defrauding of customers. This will increase the adoption of online banking thus more differentiated online market coverage.

On service differentiation, the study noted a problem with feedback insight that the Deposit Taking SACCOs receive as it was not being used to increase service differentiation. The study recommended to the management 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. The management will also need to automate their customer touch points to enable generation of real time data with analytics for timely decision making.

On personnel differentiation, the study observed that there was low response on staff positive attitude towards the customers and that they lacked skills to serve customer care. Deposit Taking SACCOs management needs to enhance their staff training budget as the study proved that personnel are key in improving organizational performance. This is made possible with competent staff through learning and development that increases employee skills, level of professionalism, motivation and confidence which is related to employee productivity thus increased organizational performance.

### **5.5 Recommendations for Further Research**

The study focused on differentiation strategy where specific objectives were; product, market, service and personnel. The study recommends future research in other Deposit Taking SACCOs strategies to understand how they affect performance. Further, other differentiation strategies can be explored to determine the effect on organizational performance. The study location was based in Nairobi City County with a sample size of 123. Future studies can be done in other locations with a bigger sample to understand Deposit Taking SACCOs organizational performance.

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## APPENDICES

### Appendix I: Introduction Letter

Josephine W. Mbugua

P.O. BOX, 902-00217

Limuru

Email:josephine10207@gmail.com

Dear Participant,

Ref: Introduction Letter

I am a student at Kenyatta University taking an MBA course in Strategic Management.

As part of my academic requirements I am carrying out a study on “Differentiation strategy and performance of Deposit Taking SACCOs in Nairobi City County, Kenya.

Kindly assist in filling this questionnaire to enable me complete writing this research.

The information provided for this research will be treated with utmost confidentiality and will purely be used for academic purposes. The data provided in the questionnaires will be kept private by the researcher and no other person will have access to it. If you require any clarification feel free to contact the undersigned. Thank you.

Yours faithfully,

Josephine W. Mbugua

Reg: D53/OL/CTY/32178/2016

Mobile: 0720-255956

## Appendix II: Questionnaire

### Section A: Personal Details

1. What is the name of your SACCO? .....
2. What is your age in years? (Kindly select one that applies to you.)
  - a) 20 – 30 ( )
  - b) 30-40 ( )
  - c) 40 -50 ( )
  - d) 50 and above ( )
3. What is your gender: Male  Female
4. Please indicate the number of years you have worked with the SACCO.
  - (a) Less than 5 years ( )
  - b) between 5-10 years ( )
  - c) Between 11-15 years ( )
  - d) Over 15 years ( )
5. What is your highest educational qualification?

Primary school	<input type="checkbox"/>
High school	<input type="checkbox"/>
College	<input type="checkbox"/>
Undergraduate	<input type="checkbox"/>
Post-graduate	<input type="checkbox"/>

**Section B: Product Differentiation**

6. Please indicate the extent to which you agree with the following statements relating to product development and its effects on the performance of your SACCO where; Very large extent=5, Large extent=4, Moderate extent=3, Little extent=2 and Not at all=1

Indicator	Very Large Extent	Large Extent	Moderate Extent	Little Extent	Not at All
The Sacco has developed unique new products that set it above its competitors.					
We have a research and development team that provides timely information for new product development.					
We have improved the features of our products that have brought new members to the society.					
Our products have premium pricing due to their high quality					
The Sacco members prefer our products because of their quality.					
We design our products to capture the needs of our members.					
Our members recognize our products because of their unique features.					
Our members are not sensitive to our product premium pricing.					

**Section C: Market Differentiation**

7. Please indicate the extent to which you agree with the following statements relating to market development and its effects on the performance of your SACCO where; Very large extent=5, Large extent=4, Moderate extent=3, Little extent=2 and Not at all=1

Indicator	Very Large Extent	Large Extent	Moderate Extent	Little Extent	Not at All
The SACCO sells its new products and services to new members.					
The Sacco sells its new products to existing members					
The Sacco has opened new branches in the last three years					
Our SACCO branch locations are differentiated.					
Our marketing and promotion strategies are advanced and unique					
Our market coverage is wide with many members.					
Our market coverage is wide with few members.					

**Section D: Service Differentiation**

8. Please indicate the extent to which you agree with the following statements relating to service differentiation and its effects on the performance of your SACCO where; Very large extent=5, Large extent=4, Moderate extent=3, Little extent=2 and Not at all=1

Indicator	Very Large Extent	Large Extent	Moderate Extent	Little Extent	Not at All
Our staff provides consistent service to our members.					
The Sacco does quarterly survey to collect member feedback					
We use member feedback to improve our services					
We provide member portal services and other unique online services					
We offer differentiated mobile platform services financial services to our members.					
Our services provide unique experience to our members.					
Our members are happy with our services.					
There is promptness in handling member complaints					
We have commission incentives to our members who give us referrals					



**Section E: Personnel Differentiation**

9. Please indicate the extent to which you agree with the following statements relating to personnel differentiation and its effects on the performance of your SACCO where; Very large extent=5, Large extent=4, Moderate extent=3, Little extent=2 and Not at all=1

Indicator	Very Large Extent	Large Extent	Moderate Extent	Little Extent	Not at All
Our employees have the skills to provide good customer service					
Our employees handle our customer professionally					
Our staff are well equipped to serve our members satisfactorily					
Our staff understand our SACCO products and services which they provide inline with member needs					
Our employees are honest when dealing with our members					
Our staff provide accurate and stable services to the members					
Our staff have positive attitude towards the members.					

**Section F: Deposit Taking Sacco Performance Indicators**

10. Please indicate the extent to which you agree with the following statements relating to your SACCO performance indicators where; Very large extent=5, Large extent=4, Moderate extent=3, little extent=2 and Not at all=1

Indicator	Very Large Extent	Large Extent	Moderate Extent	Little Extent	Not at All
There is improvement of our SACCO internal processes that has increased efficiency.					
Our SACCO employee turnover has reduced due to motivation					
Member loyalty has increased due to satisfaction with our products					
Increased member education has increased satisfaction					
Our members have given us new referrals due to their satisfaction with our products and services.					
Our brand recognition has improved in the SACCO market					
Our SACCO has improved in professionalism due to employee training.					
There is employee growth due to career and education advancement					

Thank you.

### Appendix III: Survey Participants

No	List of Deposit Taking SACCOs Participants
1	Airport
2	Asili
3	Chuna
4	Comoco
5	Elimu
6	Harambe
7	Hazina
8	Kenya Bankers
9	Kenya Police
10	Maisha Bora
11	Mwalimu
12	Nacico
13	Nafaka
14	Nation
15	Nyati
16	Sheria
17	Shirika
18	Shoppers
19	Stima
20	Telepost
21	Ukulima
22	Wanaanga
23	Waumini

## Appendix IV: Research Authorization Kenyatta University



KENYATTA UNIVERSITY  
GRADUATE SCHOOL

E-mail: [dean-graduate@ku.ac.ke](mailto:dean-graduate@ku.ac.ke)

Website: [www.ku.ac.ke](http://www.ku.ac.ke)

P.O. Box 43844, 00100  
NAIROBI, KENYA  
Tel. 810901 Ext. 4150

Internal Memo

FROM: Dean, Graduate School

DATE: 4<sup>th</sup> July, 2019

TO: Josephine Waithira Mbugua  
C/o Business Administration Dept.

REF: D53/OL/CTY/32178/2016

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School-Board at its meeting of 26<sup>th</sup> June, 2019 approved your Research Project Proposal for the M.B.A Degree Entitled, "Differentiation Strategy and Performance of Deposit Taking Micro-Finance Institutions in Nairobi City County, Kenya"

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation and Kenyatta University Management.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.

ANNBELL MWANIKI  
FOR: DEAN, GRADUATE SCHOOL






c.c. Chairman, Business Administration Department.

Supervisors:

1. Dr. Phelgonah Genga  
C/o Department of Business Administration  
Kenyatta University

AM/Inn

# Appendix V: Research Permit NACOSTI

 REPUBLIC OF KENYA	 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Ref No: 649736	Date of Issue: 14/August/2019
<b>RESEARCH LICENSE</b>	
	
This is to Certify that Ms. JOSEPHINE MBUGUA of Kenyatta University, has been licensed to conduct research in Nairobi on the topic: Differentiation Strategy and Performance of Deposit Taking Micro-Finance Institutions in Nairobi City County for the period ending : 14/August/2020.	
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	Verification QR Code 
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The Grant of Research Licenses is Guided by the Science, Technology and Innovation (Research Licensing) Regulations, 2014

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5. The License does not give authority to transfer research materials
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7. The Licensee shall submit one hard copy and upload a soft copy of their final report (thesis) within one of completion of the research
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