International Journal of
Business Strategies
(IJBS)

Influence of Customer Focus Strategy on the Financial Performance of Deposit-Taking Saccos in Kenya

AJPO

Kioko Charles Mutuku, Prof. Oloko Margaret & Prof. Muturi Willy

International Journal of Business Strategies
ISSN 2519-0857 (online)
Vol.9, Issue 1, pp 20 - 30, 2024
www.ajpojournals.org

Influence of Customer Focus Strategy on the Financial Performance of Deposit-Taking Saccos in Kenya

Kioko Charles Mutuku[1], Prof. Oloko Margaret[2] & Prof. Muturi Willy[3]
[1]Department of Business Administration, Jomo Kenyatta University of Agriculture and Technology
Corresponding Author's Email: kioko_charles@yahoo.com
[2,3]JKUAT, Kenya

Crossref

Article history

Submitted 08.01.2024 Revised Version Received 16.02.2024 Accepted 17.03.2024

Abstract

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

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

Findings: The results showed that Customer focus strategy had a positive and significant relationship to financial performance ($r=0.526$, $p=0.000$; $R^2=0.277$, $\beta=0.913$). The findings indicate that organizations that prioritize customer focus are more likely to achieve improved financial outcomes.

Implications to Theory, Practice and Policy: The study recommended that organizations prioritize customer focus strategies to enhance their financial performance. By emphasizing customer focus, organizations can improve their financial performance by cultivating customer loyalty, driving revenue growth, and differentiating themselves in the marketplace. Additionally, this approach contributes to policy by guiding lawmakers to create customer-centric regulatory frameworks that promote sustainable business growth. Furthermore, scholars can benefit from this study by gaining insights into the relationship between customer-focused strategies and financial performance, thereby enriching theoretical understandings in the field of business management.

Keywords: *Customer Focus Strategy, Financial Performance, Deposit-Taking Saccos*

1.0 INTRODUCTION

Globally, competitive organizations depend on the uniqueness of their competitive strategies to gain competitive advantage. This implies that members of such organizations get handsome returns for their investment. Turnover of cooperatives in the world grew by 11.6% to reach $2.2 trillion in 2012, equivalent to the gross domestic product (GDP) of Brazil (Kiptoo, Wanyoike & Gathogo 2015), courtesy of the uniqueness of their competitive strategies. International donors and multinational players in Africa have recognized the capacity of SACCOs to being the biggest providers of financial services to many developing countries in bid to overcome dependency on external capital financing (Rogaly, 1998). Strong subsector development of SACCOs has the potential to bolster liquidity and help leverage increased private capital. The result would help deliver financial support for the needs of lower-income Africans and reduce strain on governmental financing across Sub-Saharan Africa.

SACCOs across Sub-Saharan Africa, however, have had inconsistent outcomes with SACCOS in Uganda, for example, under developing and the poor performance being tracked down the decade (Mutesasira et al., 1998). Okwee (2011) in Uganda confirmed that less compliance with corporate governance strategies and high-risk levels have attributed to the relatively poor financial performance of these SACCOs. Similarly, SACCOs in Tanzania have been hindered by weak administrative ability, inadequate supervisory and auditing capacities and a weak knowledge of the needs and rights of participants (Feather & Meme, 2018). In Kenya, Savings and Credit Cooperative Societies have made a major contribution to the development of the Kenyan economy by encouraging members to save, access credit and mobilize capital, such as in Kenya today, it is a prerequisite for SACCO membership for all public service vehicle operators. In the recent past, however, the majority of SACCOs have faced a variety of difficulties in maintaining membership, mobilizing resources and subsequently reducing share capital (Ngatia, Muya & Ngacho, 2018).

The focus strategy involves targeting a specific market segment or niche and understanding it so well that the firm can meet its specialized needs better than anyone else. This strategy can be executed either through cost focus or differentiation focus. In a cost focus, the firm aims to become the low-cost leader in its chosen segment. In a differentiation focus, it seeks to offer niche customers a product or service they perceive as unique (Porter, 1980). Companies adopting this strategy may sacrifice volume for the sake of higher margins in their targeted segment. Performance is more the idea of outcome, achieved goal, quality, and less the economic aspects of efficiency and effectiveness. Noyé (2002) defines performance as the process of achieving the goals of a given company not a mere finding of an outcome, performance is result-oriented. Therefore, performance in this study can be defined as a future-oriented outcome/ success of a company with the aim to achieve a set objective set in the organization.

A SACCO is a representative, peculiar, self-help cooperative owned, operated and run voluntarily by its members with the same shared bond and a common goal: common economic and social needs through jointly owned and democratically controlled enterprises (Mugendi, Gichohi & Moguche, 2019; Feather & Meme, 2018; Kwai & Urassa, 2015). Sacco's have been recognized worldwide as important avenues of economic growth. They perform an active financial intermediation function, particularly mediating from urban and semi-urban to rural areas, and between net savers and net borrowers while ensuring that loan resources remain in the communities from which the savings were mobilized. Their growth has been exponential over the last decades and competition among them grows stiffer by day.

There has been knowledge gaps and insufficiency of satisfactory empirical findings to help the DT-SACCOS in Kenya stay afloat. For instance, Kiragu, (2014) in a study on financial factors influence on microfinance performance focused on the financial factors leaving out a myriad of other institutional factors such as institutions policies. Kimando, Njogu, & Kihoro (2012) in study of business strategies impact towards institutions performance concentrated on microfinance institutions and commercial banks and didn't concentrate on SACCOs performance in specific. Wasike (2012) in research on factors affecting performance of SACCOS pointed out that inadequate capital, poor asset quality and compliance as key factors affecting the SACCOs and didn’t study policies as internal influencers to performance. In a bid to solve this problem of performance, different SACCOs have adopted different strategies. The study will therefore attempt to close these inefficiencies by assessing the influence of customer focus strategy on the financial performance of deposit-taking SACCOs in Kenya.

2.0 LITERATURE REVIEW

SERVQUAL (Service Quality) Model

The SERVQUAL (Service Quality) model, developed by Parasuraman, Zeithaml, and Berry in the late 1980s, is a valuable framework for assessing service quality across various industries, including financial services. It identifies five key dimensions of service quality: Tangibles, Reliability, Responsiveness, Assurance, and Empathy. These dimensions provide a comprehensive understanding of customer expectations and perceptions, aiding in the evaluation and enhancement of service delivery.

For deposit-taking Savings and Credit Cooperative Societies (SACCOs) in Kenya, these five dimensions are essential for improving customer satisfaction and, consequently, financial performance. Tangibles, which encompass the physical environment and staff appearance, instill customer confidence. Reliability, ensuring promised services are accurate, builds trust and long-term engagement. Responsiveness, especially important in the financial sector, demonstrates willingness to assist customers with sensitive financial queries. Assurance, linked to staff competence and courtesy, influences customer trust. Lastly, Empathy, personalized attention to customers, can set a SACCO apart in a competitive market.

The SERVQUAL model offers an empirically-based framework to assess the impact of a customer-centric strategy on SACCO financial performance. By comparing customer perceptions to expectations across these dimensions, SACCOs can identify service gaps and make targeted improvements. Aligning service delivery with customer expectations can lead to increased loyalty, reduced attrition, and improved financial results. Previous research, such as Rust, Zahorik, and Keiningham (1995), has demonstrated that service quality strongly predicts customer satisfaction, which in turn significantly affects customer retention and profitability. Therefore, adopting a customer-focused approach guided by SERVQUAL can be instrumental in shaping the financial success of SACCOs in Kenya.

Empirical Review

Kavulya, Muturi, Rotich and Ogollah (2018) investigated the effect of customer focus strategy on the performance of saccos in Kenya. By use of a cross-sectional survey design on the 181 authorized deposit taking SACCOs in Kenya, the study showed that customer focus strategy and performance of Saccos are positively and significantly. This is an indication that customer focus strategy has a direct effect on performance of Saccos in Kenya.

Mekonnin (2015) investigated the influence of customer orientation on the performance of Financial Institution, that is the Eastern Hararghe Commercial Bank of Ethiopia. The result of the study also indicates customer orientation has assisted the bank to improve its customers need, even though competing with private commercial banks with different banking strategies is proved to be a challenge to commercial bank of Ethiopia. Additionally, customer orientation is crucial for financial institutions like banking sector since their business income is generated from service rendering to customers.

Eklof, Podkorytova and Malova (2018) sought to link customer loyalty and satisfaction and profitability measured as ROA, ROE, profit margin and operating income, as well as market indicators. By sampling 9 Scandinavian banks (from 2004 to 2014), the study confirmed that customer satisfaction and loyalty have a significant positive influence on banks' profitability. It was also indicated that there is a positive relationship between the customer satisfaction of the preceding year and market indicators of the current year.

Homaid et al. (2017) looked into the role of customer-focused strategies in view to improve Islamic microfinance institutions performance, Yemen. This implies that the study focused on the aspects of Total Quality Management (TQM) and Market Orientation (MO) on organizational performance. Out of 93 sampled banks. Both TQM and MO proved to be positively and significantly related to performance. These findings are evidence that TQM and MO are essential organizational customer strategies to foster the performance of MFIs. However, despite of the profound findings, the study is limited in its focus since it only focuses on the Islamic banks. These findings might be biased based on the culture the Islamic Banks use. Thus, the current study seeks to consider the possibility of studying other banking sectors such as the DT SACCOs in Kenya.

Research Gaps

A conceptual gap can be identified from the research, for example, Eklof, Podkorytova and Malova (2018) sought to link customer loyalty and satisfaction and profitability measured as ROA, ROE, profit margin and operating income, as well as market indicators. By sampling 9 Scandinavian banks (from 2004 to 2014), the study confirmed that customer satisfaction and loyalty have a significant positive influence on banks' profitability. It was also indicated that there is a positive relationship between the customer satisfaction of the preceding year and market indicators of the current year. The research, though, showed a conceptual void as it focused upon customer loyalty and loyalty.

3.0 METHODOLOGY

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

4.0 FINDINGS

Response Rate of the Research Instrument

The study sample for the study incorporated 174 respondents who comprised of CEOs of the deposit taking Savings and Credit Cooperative Organizations. A total of 174 questionnaires were issued to the respondents and a total of 156 questionnaires were recollected for analysis. This makes a response rate of 90% which was considered adequate for analysis. This is in line with such as Mugenda (2008) and Cooper and Schindler (2003) who suggested that a response rate of more than 70% based on the study sample is enough for analysis and making conclusion in a study.

Table 1: Response Rate

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

Descriptive Statistics

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

Table 2: Customer Focus Strategy

	Strongly disagree	Disagree	Not sure	Agree	Strongly agree	Mean	Std Dev
The firm gets positive feedback on the new and existing products and services provided to the customers.	0%	5.8%	17.9	34.6%	41.7%	4.12	0.904
Customer base has been increasing indicating the customer loyalty being maintained.	0%	0%	35.9%	28.8%	35.3%	3.99	0.846
The firm provides products and services that meet or are over the customer expectations	0%	5.8%	12.2%	41.7%	40.4%	4.17	0.856
The firm acknowledges the use of social media to communicate continuously with the customers	5.8%	0%	23.1%	41.7%	29.5%	3.89	1.020
The firm likewise acknowledges digital marketing to reduce costs and make marketing efficient	5.8%	0%	23.1%	35.3%	35.9%	3.96	1.056
Provides services are of high quality	0%	5.8%	41.7%	34.6%	17.9%	3.65	0.841
The firm has a marketing team that continuously carries out market scouting for new markets and new customers	0%	0%	41.7%	34.6%	23.7%	3.82	0.791
The firm has a quality management system that tracks the supply chain performance in order to maintain the quality of products and services	0%	5.8%	11.5%	35.3%	47.4%	4.24	0.875
Overall						**3.98**	**0.90**

The results in Table 2 revealed that 76.3% of the respondents agreed with the statement that the firm gets positive feedback on the new and existing products and services provided to the customers. Additionally, 64.1% agreed with the statement that the customer base has been increasing indicating the customer loyalty being maintained. Moreover, 82.1% of the respondents agreed that the firm provides products and services that meet or are over the customer expectations. Likewise, 71.2% of the respondents also agreed that the firm acknowledges the use of social media to communicate continuously with the customers. Additionally, 71.2% of the respondents agreed that the firm likewise acknowledges digital marketing to reduce costs and make marketing efficient. Finally, 82.7% of the respondents agreed that the firm has a quality management system that tracks the supply chain performance in order to maintain the quality of products and services.

The mean of the responses was 3.98 implying that majority of the respondents agreed with the statement on customer focus strategy and their responses were varied as shown by the standard deviation of 0.90.

Correlation Analysis

The study focused on assessing the relationship that exists between customer focus strategy and financial performance.

Table 3: Correlation Tests of Customer Focus Strategy

		Mean customer focus	Mean financial performance
Mean customer focus	Pearson Correlation	1	.526**
	Sig. (2-tailed)		.000
	N	156	156
Mean financial performance	Pearson Correlation	.526**	1
	Sig. (2-tailed)	.000	
	N	156	156

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

The correlation coefficient (r) of 0.526 between customer focus strategy and financial performance in Table 3 indicates a moderate positive association between these two variables. This positive correlation suggests that as the level of customer focus strategy implementation increases, financial performance also tends to increase in deposit-taking SACCOs in Kenya. In other words, organizations that prioritize a customer-focused approach are more likely to experience improved financial performance.

The statistical significance of this correlation is indicated by the p-value ($p = 0.000$), which is less than 0.01 (0.01 level of significance). This implies that the observed correlation between customer focus strategy and financial performance is highly unlikely to have occurred by random chance. It is statistically significant, providing evidence of a genuine and meaningful relationship between these two variables.

In practical terms, these findings suggest that deposit-taking SACCOs in Kenya may enhance their financial performance by emphasizing and effectively implementing customer focus strategies. This conclusion aligns with the research conducted by Kavulya, Muturi, Rotich, and Ogollah (2018), which also found a positive and significant association between customer focus strategy and the performance of SACCOs in Kenya.

Regression Analysis

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

Table 4: Model Fitness

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.526[a]	.277	.272	.866261

a. Predictors: (Constant), Mean customer focus

The results in Table 4 presented the fitness of model of regression model used in explaining the study phenomena. Customer focus strategy was found to be satisfactory in contribution as a factor to financial performance. This was supported by coefficient of determination i.e. the R^2 of 0.277%. This shows that 27.7% of variation in financial performance is explained by variation in customer focus strategy. The results meant that the model applied to link the relationship. This also implies that 72.3% of the variation in the dependent variable is attributed to other variables not captured in the model

Table 5: ANOVA for Customer Focus Strategy

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	44.208	1	44.208	58.911	.000[b]
	Residual	115.563	154	.750		
	Total	**159.770**	**155**			

a. Dependent Variable: Mean financial performance

b. Predictors: (Constant), Mean customer focus

From Table 5, the results on analysis of variance (ANOVA) were illustrated. The findings revealed that the model was statistically significant. This was supported by an F-statistic of 58.911 and a p-value of 0.000 which is less than 0.05 ($p<0.05$) significance level. The findings implied that customer focus strategy is a good predictor of financial performance. The results were in line with those of Homaid, Md Zain, Al-Matari, Minai and Ahmad (2017) who looked into the role of customer-focused strategies in view to improve Islamic microfinance institutions performance, Yemen. Both Total Quality Management (TQM) and Market Orientation (MO) proved to be positively and significantly related to performance.

Table 6: Regression of Coefficient for Customer Focus Strategy

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.197	.479		.412	.681
	Mean customer focus	.913	.119	.526	7.675	.000

a. Dependent Variable: Mean financial performance

Regression of coefficients results in Table 6 revealed that customer focus strategy and financial performance are positively and significantly related (β =0.913, p=0.000). This implies that a unit increase in customer focus strategy would lead to increase in financial performance by 0.913.

The regression model for this coefficient would be;

$Y = \beta_0 + \beta_1 X$ ………………………. Equation 1

Where Y = financial performance

$\beta_0 =$ 0.197, $\beta_1 =$ 0.913

X= customer focus strategy

$Y = 0.197 + 0.913X$ ………………………. Equation 1

5.0 CONCLUSION AND RECOMMENDATIONS

Conclusion

In conclusion, this research study provides robust evidence of the positive impact of customer focus strategy on the financial performance of organizations. The correlation and regression analyses consistently demonstrate a significant association between customer focus strategy and financial performance. The findings indicate that organizations that prioritize customer focus are more likely to achieve improved financial outcomes. Elements such as positive feedback, increased customer base, meeting customer expectations, effective communication channels, digital marketing utilization, service quality, presence of a marketing team, and quality management systems were identified as crucial factors in driving financial success. These results underscore the importance of implementing customer-focused strategies to enhance financial performance and gain a competitive advantage in the market.

Recommendations

Based on the study findings, it is recommended that organizations prioritize customer focus strategies to enhance their financial performance. This includes actively seeking and encouraging positive customer feedback, expanding and retaining the customer base, ensuring consistent customer satisfaction, leveraging effective communication channels and digital marketing, maintaining service quality, establishing dedicated marketing teams, and implementing robust quality management systems. By emphasizing customer focus, organizations can improve their financial performance by cultivating customer loyalty, driving revenue growth, and differentiating themselves in the marketplace. Additionally, this approach contributes to policy by guiding lawmakers to create customer-centric regulatory frameworks that promote sustainable business growth. Furthermore, scholars can benefit from this study by gaining insights into the relationship between customer-focused strategies and financial performance, thereby enriching theoretical understandings in the field of business management.

REFERENCES

Eklof, J., Podkorytova, O., &Malova, A. (2018). Linking customer satisfaction with financial performance: an empirical study of Scandinavian banks. *Total Quality Management & Business Excellence*, 1-19.

Feather, C., & Meme, C. K. (2018). Consolidating inclusive housing finance development in Africa: Lessons from Kenyan savings and credit cooperatives. *African Review of Economics and Finance*, *10*(1), 82-107.

Homaid, A. A., Md Zain, A. Y., Al-Matari, Y. A., Minai, M. S., & Ahmad, F. (2017). The role of customer-focused strategies to improve Islamic microfinance institutions performance: empirical evidence and lessons from Yemen. *International Review of Management and marketing*, *7*(1), 291-299.

Kavulya, P. W., Muturi, W., Rotich, G., &Ogollah, K. (2018). Effect of customer focus strategy on the performance of saccos in Kenya. *International Journal of Business Strategies*, *3*(1), 1-16.

Kimando, L., Kihoro, J. M. D., & Njogu, G. W. M. (2012). Factors influencing the sustainability of micro-finance institutions in Murang'a Municipality.

Kiptoo, G. K., Wanyoike, D. M., & Gathogo, G. M. (2015). Influence of Cross-Borrowing on Financial Performance of Savings and Credit Cooperative Societies in Eldama Ravine SubCounty, Kenya.

Kiragu, D. N. (2014). *The effect of Sacco societies regulatory authority's regulations on financial performance of Saccos in Nairobi county* (Doctoral dissertation, University of Nairobi).

Kwai, M. D., & Urassa, J. K. (2015). The contribution of savings and credit cooperative societies to income poverty reduction: A case study of Mbozi District, Tanzania.

Mekonnin, R. (2015). Customer Orientation and Business Performance of Financial Institution: A Case Study of Eastern Hararghe Commercial Bank of Ethiopia. *Management Studies and Economic Systems*, *1*(4), 257-265.

Mugendi, N. C., Gichohi, P., & Moguche, A. (2019). Relationship between Savings Strategy and Wealth Maximization in Saving and Credit Cooperative Societies in Meru County, Kenya. *Journal of Finance and Accounting*, *3*(1), 67-78.

Mutesasira, L., Sempangi, H., Hulme, D., Rutherford, S., & Wright, G. A. (1998). Use and impact of savings services among the poor in Uganda. *Kampala, Uganda: Microsave*.

Ngatia, E. W., Muya, J., &Ngacho, C. (2018). Relationship Between Competitive Strategies and Performance of Savings and Credit Co-operative Societies: A Case of Mwalimu National Sacco in Kenya. *International Journal of Social Sciences and Information Technology* 4(10) 1 – 17.

Noyé, D. (2002). *L'amélioration participative des processus*. Insep Editions.

Okwee, A. (2011). Corporate Governance and Financial Performance of SACCOs in Lango Subregion. *Unpublished MBA Research Project, Makerere: Makerere University*.

Porter, M. E. (1980). Competitive strategy. *Measuring business excellence*.

Rust, R. T., Zahorik, A. J., & Keiningham, T. L. (1995). Return on quality (ROQ): Making service quality financially accountable. Journal of Marketing, 59(2), 58–70.

Wasike, J. T. (2012). *Corporate governance practices and performance at Elimu Sacco in Kenya* (Doctoral dissertation, University of Nairobi).