PERSONNEL DIFFERENTIATION AND ORGANIZATION PERFORMANCE: AN EMPIRICAL ANALYSIS OF DEPOSIT TAKING MICRO-FINANCE INSTITUTIONS IN NAIROBI CITY COUNTY, KENYA

Josephine Waithira Mbugua

Masters of Business Administration, Kenyatta University, Kenya

Godfey Muigai Kinyua

School of Business, Kenyatta University, Kenya

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ABSTRACT

The micro-finance sub sector occupies a strategic position in the socio-economic development of the country. External environment has presented challenges to the MFIs that threaten their performance to increase shareholder value. Studies have shown MFIs closing down due to bankruptcy. This has made MFIs to change their strategy in order to remain competitive and increase performance. This paper seeks to establish the effects of personnel differentiation strategy on performance of deposit taking micro-finance institutions in Nairobi City County, Kenya. Descriptive research design was employed with respondents drawn from 123 MFI's that were obtained using stratified random sampling technique. Data analysis was done by the use of descriptive statistics and simple linear regression statistics. The study found that there was a strong and positive relationship between personnel differentiation and organizational performance. The study concluded that personnel differentiation significantly affects organizational performance. The management of MFIs need to enhance their staff training budget as the study proved personnel differentiation is key in improving organizational performance. The study found out that learning and development increases employee skills, level of professionalism and competence. Motivation and confidence is related to employee productivity and results to increased organizational performance.

Key Words: *personnel differentiation, organization performance, micro-finance institutions*

INTRODUCTION

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 stiff competition from other financial institutions poses serious challenges to the sector that requires re-thinking of strategies to improve performance. MFIs 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). MFIs 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 training their staff to acquire unique skills have reported increased performance (Eberefimia, 2014).

Performance measurement has attracted growing attention in recent years with a focus on the internal processes that quantify the effectiveness and efficiency of actions with metrics, (Neely, Gregory & Platts, 1995) (cited in Henri, n.d). The long term non financial aspects which are key in MFIs performance; customer satisfaction, loyalty and brand image, (Porter, 1980) built over a period of time and provide financial value to the MFI. A satisfied customer is likely to buy more products, will not be price sensitive and will provide referrals through loyalty. In the MFI cooperative sector, members who are satisfied stay with their MFIs for many years till their retirement time thus more profitability. This can only be achieved when MFIs focus on non financial measures that increase operational efficiency, employee development and customer 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. MFIs 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 MFIs 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).

Kamonjo (2014) provides a definition of the cooperative movement as a sub-sector of the MFIs 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 deposit taking MFI is 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).

Currently Cooperative movement sub-sector has witnessed many Saccos closing down due to poor performance. Kageche (2016) observed that the MFI 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.

THEORETICAL REVIEW

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). MFIs 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 advices the micro-finance 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 MFIs according to the resources they have.

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 study was guided by the BSC model by looking at the non financial metrics indicating organizational performance when employee motivation differentiation strategy is adopted.

EMPIRICAL REVIEW

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 MFIs in Kenya

RESEARCH METHODOLOGY

The study used descriptive method to carry out the investigation. 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 MFIs registered and regulated by SASRA (2016) to operate in Nairobi City County with a total of 410 managers. 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). 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 target population comprised of management employees of all 41 Deposit Taking MFIs registered and regulated by SASRA (2016) to operate in Nairobi City County. The population consisted of 14% top level management, 36% middle management and 50% low level management. 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. Systematic random sampling was then used to identify respondents within the respective DT MFI offices. Consequently, a sample size of 123 where top level management were 17, middle level management were 45 and low level management were 61. This shows that the low level management was leading in sample size due to their number within the DT MFI industry. This shows that the low level management was leading in sample size due to their number within the DT MFI industry. The study used likert scale structured questionnaire to collect primary data. Secondary data was generated from deposit taking MFIs 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. Before data analysis, data processing was done where questionnaires were edited for completeness and consistency and then coded. 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). Schober, Boer and Schwarte (2018) provide a conventional approach where values between 0.40-0.69 indicates a moderate correlation, 0.70-0.89 is a strong correlation while 0.90-1 is a very strong correlation. The inferential statistics involved use of simple linear regression analysis whose intention was to establish the effect that personnel differentiation has on performance of Deposit taking MFI's in Nairobi City County Kenya as illustrated below;

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where: Y = Performance of SACCOs in Nairobi City County Kenya; X_1= Personnel Differentiation; β_0, $\beta_{1,}$ = Regression coefficients; ε = Error term

Analysis was aided by the use of SPSS version 22.

RESEARCH RESULTS

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

Descriptive Statistics

The respondents were provided with 15 questions related to personnel differentiation and DT MFI 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. From the analysis, the respondents noted how staff understood Deposit Taking MFIs 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 which was confirmed by Kisuna (2017) where the study advised MFIs to employ highly skilled personnel that can be used as a differentiator to increase performance. Personnel differentiation affected organizational performance to a large extent as noted by the respondents. From the findings, 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 4.18 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.

Inferential Statistics

The study sought to determine the relationship between differentiation strategy and Deposit Taking MFIs 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 1 presented the correlation analysis findings.

Table 1: 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

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

From Table 1, the study found that personnel differentiation is positively related with Deposit Taking MFIs performance personnel differentiation had (r=0.639, p-value 0.000). The positive correlation means that as personnel differentiation increased, Deposit Taking MFIs performance increased. The p values were ≤0.05 meaning that they were different from 0 an indication that there was a relationship between differentiation and performance. From Schober, Boer and Schwarte (2018) conventional approach of correlation, 0.40 to 0.69 values are considered moderate correlation and personnel differentiation fits within the range.

The research conducted simple linear regression analysis with an intention of establishing the statistical equation that can be used to determine the effect of personnel differentiation on performance of Deposit taking MFI's in Nairobi City County Kenya. The results of the simple linear regression are shown in tables 2, 3 and 4 respectively.

Table 2: Model Summary

Model 1	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.759[a]	.576	.553	.42588

From Table 2, R = 0.759 is a correlation coefficient indicating the strength of the relationship between differentiation strategy and Deposit Taking MFIs performance. Adjusted R square of 0.553 indicated that 55.3% of differentiation strategy accounted for DT MFI performance. The other 44.7% factors were outside the study objective hence there is need for future studies to discover the other factors that cause organizational performance.

Table 3: Analysis of Variance (ANOVA)

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

From Table 3, the study found that differentiation strategy is significantly related with Deposit Taking MFIs 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.

Table 4: Regression Coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
Constant	-.287	.465		-.616	.540
Personnel Differentiation	.480	.110	.393	4.362	.000

From Table 4, when all factors are held constant, performance would reduce by (-0.287) and a unit increase in personnel differentiation would lead to 0.480 increase in organizational performance. The regression model that was used in the analysis was thus:

Performance = -287 + 0.480 Personnel Differentiation

From Table 4, personnel differentiation (β=0.480, p value =0.000<0.05). The study found that an increase in personnel differentiation resulted to 0.480 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 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.

CONCLUSION

The researcher intended to assess the effect of personnel differentiation and organizational performance of Deposit Taking MFIs in Nairobi City County, Kenya. Descriptive study concluded that Deposit Taking MFIs train their staff to understand and master their products well in line with customer needs. They have also equipped their staff with tools and materials needed to ensure customer satisfaction and to conduct themselves professionally. This has enabled them to earn competitive advantage thus increase their performance. However, there are some issues related with staff attitude which is not positive towards the customers and also lack of skills to serve in the customer care department. Despite all, personnel differentiation strategy significantly affects organizational performance.

RECOMMENDATIONS

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 MFIs 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.

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