Strategic Direction and Firm Performance: Evidence from the SACCO Sector

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**ARTICLE DETAILS**

**ABSTRACT**

**Purpose:** Strategic direction setting is a critical leadership practice to be adopted by organizations that intend to attain good performance. This study sought to examine the influence of strategic direction on Sacco performance.

**Design/Methodology:** The study utilized descriptive and correlational research design. The study was conducted in SACCOs in Kenya. Primary data was collected using a close ended questionnaire from SACCOs senior managers and CEOs were also interviewed. For data analysis, the study used descriptive statistics, inferential statistics and content analysis.

**Findings:** The study established that strategic direction setting significantly influenced SACCO performance.

**Implications/Originality/Value:** The findings provide a valuable insight on the importance of strategic direction setting in enhancing performance. This study will guide SACCO leaders to proactively set strategic direction through developing and communicating the vision, mission, goals and objectives as this will boost performance in terms of increased level of customer satisfaction, increase in members, asset base growth and growth in deposit base. The findings can be used as a basis for further research by scholars who are interested in understanding strategic direction in SACCO’s.

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**Introduction**

According to Mutia (2015) strategic direction involves mission and vision articulation, development of strategic goals and objectives, as well as preparing a strategic plan. Strategic direction provides structure and clarity for members in an organization (Denison, 2013). Successful firms have a clear purpose as well as direction that defines the objectives both organizational and strategic which informs the company’s mission.

Leaders have a role in defining the mission, vision including goals that support an excellent culture

Alexander (2015) contended that strategic direction contributed to performance of firms as it enabled generation of relevant information thus reducing uncertainty. Moreover, it enhanced better understanding regarding the environment within which firms operated. A great deal of research has been done on the impact of strategic direction and the significant role it has played in enhancing firm performance (Olaka, 2016, Ng’ang’a, Waiganjo & Njeru, 2018, Njagi, 2019).

A SACCO is a Savings and Credit Co-operative. According to Bwisa (2010) cooperatives are associations formed, owned and also used to satisfy members social-economic needs Jussila, Byrne and Tuominen (2012) reiterated that cooperatives existed worldwide for instance in Japan, 91% of farmers were members and 22% of New Zealand’s GDP was generated by cooperatives. Further, Birchall (2010) noted that cooperatives existed in all economic sectors. In several rural areas SACCO’s lead in providing finance (FSD, 2010). In Kenya there are deposit taking as well as non-deposit taking SACCO’s. SACCO performance is enhanced by good governance as well as leadership practices (Njagi, 2019, Makori, Munene & Muturi, 2013; Odera, 2012).

Statement of the Problem

SACCOS are part of the financial sector that mobilize savings and provides credit to its members (Moturi & Mbiwa, 2015). They play a critical role in economic growth however they have been characterised by challenges such as decline in number of members (Kiragu, 2014), dismal performance (Wanyama, 2014) and poor governance (KNBS, 2016; Mumanyi, 2014, Nkuru, 2015, KNBS, 2016). Moreover, most of SACCOS (deposit taking) are managed by persons who are not enlightened on strategic leadership issues (Nyaga, Muhoho & Kinyua, 2022) yet their performance can be enhanced by engaging in strategic leadership practices (Odero, Egessa & Oseno, 2019, Nyaga, Muhoho & Kinyua, 2022). The challenges experienced in SACCO’s calls for leaders to set the strategic direction in order to enhance performance.

Having regards to strategic direction Nthini (2013), Kitonga, Bichanga and Muema (2016) and Olaka (2016) attributed firms’ superior performance to the adoption of strategic direction. However, the degree to which strategic direction influenced performance differed from one sector to another. Furthermore, the findings of the studies done in different sectors may not apply to SACCO’s due to disparities in their operations and structures.

Despite the growth in scholarly publications on strategic direction and firm performance little empirical evidence exists especially in regards to SACCO’s in developing countries particularly in Kenya. Thus, the study intends to examine the influence of strategic direction on firm performance by answering the question, does strategic direction setting influence firm performance?

Main Objective

To examine the influence of strategic direction on firm performance.

Study Hypotheses

\[ H_0: \text{Strategic direction has no significant influence on firm performance.} \]

Literature Review

Theoretical Review

This theory holds that transformational leadership is an active leadership where followers are inspired by leaders towards collective vision, giving and also receiving feedback and being encouraged to pursue their personal as well as professional goals (Frooman, Mendelson & Murphy, 2012). Burns (1978) developed the theory and Subsequently Bass (1985) enhanced the theory and made an argument that transformational leaders effectively motivated their followers. Bass (1985)
stated that transformational leadership theory had four components namely the inspirational motivation, intellectual stimulation, individualized consideration and idealized influence. Inspirational motivation calls for leaders to communicate their expectations to followers. Transformational leaders usually visualize a vision emphasizing ways that the goals collectively conform to values of the followers, thus enabling them to perceive the firm’s goals as theirs and put extra effort in achievement of the goals (Hoffman, Bynum, Piccolo & Sutton, 2011). Inspirational motivation pertains to transformational leader’s ability for creation of a vision that’s inspiring, convincing, motivating and attractive. Inspirational motivation actually arises from using styles of influence that are effective and communicative.

**Conceptual Review**

**Strategic Direction**

Ireland and Hitt (2005) asserted that it’s a process leading to an organization’s goal. It’s a brief expression of words that states the place that a firm wishes to be in the long run. The role of determining strategic direction vests on strategic leaders (Aziz, Abdullah, Tajudin and Mahmood 2013, Bichanga & Masika 2014; Bryson 2011; Okibo & Masika, 2012). Kanji (2008) asserted that leadership role involved defining the firm’s mission, vision and also goals that promoted an excellent culture as well as establishing sets of shared values that result in high performance. Goodale (2011) posited that setting a strategic direction was a critical pillar to be adopted by organizations if they wanted to attain good performance.

The strategic direction elements in the study consists of determination of an organization’s vision, mission, goals and objectives. A vision is the mental picture of a firm’s future state that’s developed through creative imagination and also foresightedness. According to Papulova (2014) vision gives direction, acts as a reference point and indicates where a firm is going and possibly why. The vision statement explains an organization’s intention to accomplish goals and it inspires members, staff and even supporters and it conveys the ideals of the organization (David, 2011; Ozdem, 2014; Taiwo, Agwu & Lawal, 2016). Bart (1998) posited that a mission is a statement of purpose which reveals a firm’s clients, products, philosophy and services. Candemir and Zalluhoglu (2013) alluded that a mission identifies the organization’s sphere of operations by focusing on the products/services offered and also the market being served. According to Abashe (2016) goals are statements of direction or what organizations or the organizations sub unit intends to do. According to Kootntz (2011) objectives describes a firm’s intention to attain something within a given time frame including the available resources. David (2007) referred to objectives as specific results that a firm sought to achieve to pursue its basic mission.

**Organizational Performance**

Wang, Tsui and Xin (2011) defined performance as a record of produced outcomes regarding a particular job function for a specific timeframe. Brown, Gray, McHardy and Taylor (2015) asserted that organizational performance had become a vital issue that had attracted many scholars interest. Wang, Sharma and Cao, (2016) contended that Organizational performance was crucial to the firm’s competitiveness and survival. Ramezan, Sanjaghi and Rahimian-Kalateh, 2013) posited that leaders try to improve firm performance so as to respond to competition and the changes in business environment. The parameters of performance in this study were increased level of customer satisfaction, increase in members, asset base growth and growth in deposit base.

**Strategic Direction and Performance**

Lopes and Ross (2013) established that using a mission statement, having long-term goals and also continuous evaluation strongly influenced profitability. Khan, Afzal, Chaudhry and Khan (2010) conducted a study in Banking, Telecommunication and also Pharmaceutical Sector in Pakistan. They intended to assess the effect a mission statement had on organizational performance. Results indicated that mission was strongly and positively associated to performance. Thus it was
concluded that organizational mission enhanced organizational performance. This study viewed goals and objective, strategic decision and intent and vision as elements of a mission. Similarly, the findings of Jonyo (2017) confirmed that mission and vision were strongly and positively associated to organizational performance. In contrast, Kirk and Nolan (2010) established weak correlations between the mission statement elements and performance though statistically significant in not-for-profit institutions.

Sirorei (2012) assessed whether strategic leadership aspects for instance vision, mission as well as the core values were implemented. Findings revealed that strategic direction was implemented using the balanced score card. Focusing on Tourism organizations owned by the government in Kenya, Ng’ang’a, Waiganjo and Njeru (2018) examined the effect strategic direction had on performance. Cross sectional survey research design was adopted by use of quantitative data together with qualitative data. Data collection was done using questionnaires. The study found that strategic direction which entailed vision, mission, objectives and values significantly influenced the organizational performance of tourism agencies which was measured in terms of client satisfaction, tourist arrivals and growth rate. It was suggested that firms should involve subordinate staff more involved during strategy formulation and that leaders should be trained to improve enhance the strategic direction quality in tourism government agencies.

Nthini (2013), Kitonga, Bichanga and Muema (2016) and Olaka (2016) confirmed that adoption of strategic direction by firms led to superior performance. However, the degree in which it influenced performance differed from one sector to another for instance in government corporations and in not-for-profit organizations Kenya it affected to a great extent while in banks it affected strategy implementation to a moderate extent.

Nzioka (2017) investigated the adoption of strategic management practices and their influence on service delivery in the health department of the County government of Nairobi. The study revealed that the department was guided by the strategic direction which entailed a vision, mission and also core values. The study established that the provision as well as quality of services rendered was influenced by the strategic direction. The study was done in the County government health department thus presenting a sectoral gap and as such the findings may not be applied in SACCOS due to disparities in their operations. In a study conducted by Olaka (2016) in commercial banks in Kenya it was established that having a vision/mission/strategic intent that’s clearly defined and well understood by the staff was the most important sub-construct of determining the strategic direction. The study confirmed that strategy implementation was significantly influenced by determination of strategic direction. This study was done in banks and had implementation as the dependent variable thus creating a contextual and constructs gap as the current study was conducted in DTS and had performance as the dependent variable.

A study by Njagi (2019) done in Kisumu’s Matatu SACCO’s concluded that strategic direction affected performance of Matatu SACCOs in Kisumu as management monitored the achievement of goals and vision, staff understood the organizational policies including procedures.however the staff opined that the organizational vision, mission as well as plans were not well expressed during staff meetings.This study focused solely on Matatu SACCO’s and data was collected using structured questionnaires only. In a study conducted by Olaka (2016) in commercial banks in Kenya it was established that having a vision/mission/strategic intent that’s clearly defined and well understood by the staff was the most important sub-construct of determining the strategic direction. The study confirmed that strategy implementation was significantly influenced by determination of strategic direction. This study was done in banks and had implementation as the dependent variable thus creating a contextual and constructs gap as the current study was conducted in DTS and had performance as the dependent variable.
Muriithi (2022) examined the link between mission culture and Kenyan Christian Faith-Based Hotels performance and the study utilized cross-sectional survey research design. Aspects of mission culture were strategic direction and intent, goals and objectives and vision and they significantly influenced performance. This study had strategic direction as an aspect of mission and it influenced performance.

Prior studies have provided support for effect of strategic direction setting on performance however the studies were done in different contexts, sectors and have measured strategic direction using different aspects thus providing a conceptual gap. Additionally, for most studies data was collected using structured questionnaires thus failing to consider respondents views in general unlike the current study which also utilized an interview schedule.

Research Methodology
A descriptive and correlational study design was employed. The study was done in Nairobi County’s 42 SACCOS (deposit taking) in Kenya. Data was collected using close ended questionnaires from 126 senior managers. Furthermore, 12 CEOs were to be interviewed. The questionnaire items were calculated using a five-point Likert scale ranging from “1” to “5”. Strategic direction setting statements were adapted from various studies (Olaka, 2016, Ng’ang’a, Waiganjo & Njeru, 2018 & Muriithi 2022). Organizational performance was calculated on the basis of items which evaluated the SACCOS’s success in obtaining “customer satisfaction, increase in membership numbers, growth in assets and growth in members deposits. A pilot study was conducted in 4 deposit taking SACCOS in Kakamega County. Data analysis was done using descriptive statistics, inferential statistics and content analysis. For descriptive statistics the study used frequencies and percentages, for inferential the study used simple linear regression and for interviews, content analysis was employed where the data was organized in themes. The simple linear regression equation was as provided:

\[ Y = \beta_0 + \beta_1 X_1 + \varepsilon \]

\( Y \) = Firm performance
\( \beta_0 \) = Constant,
\( \beta_1 \) = Coefficients of determination,
\( X_1 \) = Strategic direction,
\( \varepsilon \) = Error term.

Results and Discussion
Response Rate
Out of the one hundred and twenty-six (126) questionnaires issued one hundred and two (102) were returned which represented 81% response rate. 50% has been considered as adequate, 60% as good while above 70% is very good (Hardigan, Popovici & Carvajal, 2016).

Pilot Results
The study constructs were reliable as they all had values above the recommended 0.7 Cronbach’s Alpha value (Sekaran & Bougie, 2013) as indicated in Table 1 below

<table>
<thead>
<tr>
<th>Variables</th>
<th>No. of items</th>
<th>Cronbach alpha</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic direction</td>
<td>5</td>
<td>.915</td>
<td>Accepted</td>
</tr>
<tr>
<td>Performance</td>
<td>6</td>
<td>.883</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Descriptive Statistics Analysis Results
Descriptive Analysis Results for Strategic Direction
Descriptive analysis results for statements relating to strategic direction setting are presented in table 2 below;
Table 2 Descriptive statistics for Strategic Direction

<table>
<thead>
<tr>
<th>STATEMENT</th>
<th>N</th>
<th>1 f (%)</th>
<th>2 f (%)</th>
<th>3 f (%)</th>
<th>4 f (%)</th>
<th>5 f (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our Sacco has clear, compelling and realistic map to right destination</td>
<td>102</td>
<td>0(0%)</td>
<td>8(7.8%)</td>
<td>40(39.2)</td>
<td>34(33.3)</td>
<td>20(19.6)</td>
</tr>
<tr>
<td>Our Sacco has a clearly articulated vision</td>
<td>102</td>
<td>0(0%)</td>
<td>9(8.8%)</td>
<td>23(22.5)</td>
<td>45(44.1)</td>
<td>25(24.5)</td>
</tr>
<tr>
<td>The Sacco’s vision and mission are appealing to employees</td>
<td>102</td>
<td>0(0%)</td>
<td>4(3.9%)</td>
<td>5(4.9%)</td>
<td>58(56.9)</td>
<td>35(34.3)</td>
</tr>
<tr>
<td>There’s a written mission statement</td>
<td>102</td>
<td>0(0%)</td>
<td>9(8.8%)</td>
<td>26(25.5)</td>
<td>26(25.5)</td>
<td>41(40.2)</td>
</tr>
<tr>
<td>Our Sacco’s goals and objectives are specific, measureable and manageable</td>
<td>102</td>
<td>0(0%)</td>
<td>9(8.8%)</td>
<td>16(15.7)</td>
<td>53(52.0)</td>
<td>24(23.5)</td>
</tr>
</tbody>
</table>

Valid N (listwise) 102

Note: 1=Strongly Disagree, 2=Disagree, 3=Fairly Agree, 4=Agree, 5=Strongly Agree,

Table 2 shows that majority fairly agreed 40(39.2%) that the SACCO has clear, compelling and realistic map to right destination. Majority agreed 45(44.1%) that their Sacco has a clearly articulated vision. Majority agreed 53(52.0%) and strongly agreed 24(23.5%) that their SACCO’s goals and objectives are specific, measureable and manageable. Majority were in agreement to statements on strategic direction hence depicting that the leaders engage in it. Goodale (2011) posited that setting a strategic direction was a critical pillar to be adopted by organizations if they wanted to attain good performance.

Descriptive Analysis Results for Performance

Descriptive analysis results for statements relating to firm performance are presented in table 3 below;

Table 3: Descriptive statistics for firm Performance

<table>
<thead>
<tr>
<th>STATEMENT</th>
<th>N</th>
<th>1 f (%)</th>
<th>2 f (%)</th>
<th>3 f (%)</th>
<th>4 f (%)</th>
<th>5 f (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>increased level of customer</td>
<td>102</td>
<td>0(0%)</td>
<td>0(0%)</td>
<td>25(24.5)</td>
<td>61(59.8)</td>
<td>16(15.7)</td>
</tr>
<tr>
<td>satisfaction</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer loyalty has improvement</td>
<td>102</td>
<td>0(0%)</td>
<td>8(7.8%)</td>
<td>35(34.3)</td>
<td>42(41.2)</td>
<td>17(16.7)</td>
</tr>
<tr>
<td>The Sacco responds to customers</td>
<td>102</td>
<td>0(0%)</td>
<td>0(0%)</td>
<td>18(17.6)</td>
<td>44(43.1)</td>
<td>40(39.2)</td>
</tr>
<tr>
<td>promptly</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>increase in number of members</td>
<td>102</td>
<td>0(0%)</td>
<td>16(15.5)</td>
<td>8(7.8%)</td>
<td>55(53.9)</td>
<td>23(22.5)</td>
</tr>
<tr>
<td>growth level in assets</td>
<td>102</td>
<td>0(0%)</td>
<td>8(7.8%)</td>
<td>16(15.7)</td>
<td>28(27.5)</td>
<td>50(49.0)</td>
</tr>
<tr>
<td>growth in level of member's deposits</td>
<td>102</td>
<td>0(0%)</td>
<td>8(7.8%)</td>
<td>8(7.8%)</td>
<td>45(44.1)</td>
<td>41(40.2)</td>
</tr>
</tbody>
</table>

Valid N (listwise) 102

Note: 1=Strongly Disagree, 2=Disagree, 3=Fairly Agree, 4=Agree, 5=Strongly Agree,

Most respondents agreed that there was increased level of customer’s satisfaction 61(59.8%). Majority agreed that there has been an improvement in customer loyalty 42(41.2%) and that there’s an increase in number of members 55(53.9%). Further majority strongly agreed 50(49.0%) and
agreed 45(44.1%) that there has been a growth in assets and there has been a growth in the level of member’s deposits.

Regression Analysis Results

The results of hypotheses testing are stated in tables 4.a, b and c

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.231*</td>
<td>.053</td>
<td>.044</td>
<td>.64638</td>
<td>.053</td>
<td>5.637</td>
</tr>
</tbody>
</table>

The value of R² is 0.053 as in table 4a above. This indicates that strategic direction explains 5.3% of the variance in SACCO performance while the remaining 94.7% can be attributed to other factors which are not covered in the study. The durbin watson value is 1.334 which is within the accepted limits of between 1 and 3 Alsaeed (2005) hence there’s no autocorrelation problem.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>2.355</td>
<td>1</td>
<td>2.355</td>
<td>5.637</td>
<td>.019*</td>
</tr>
<tr>
<td>1</td>
<td>Residual</td>
<td>41.781</td>
<td>100</td>
<td>.418</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>44.136</td>
<td>101</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The ANOVA table 4b shows that the regression model can be used to explain the effect of Strategic direction on performance as P=0.000 is significant at 95% confidence level.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>3.203</td>
<td>.340</td>
<td>9.430</td>
</tr>
<tr>
<td>Strategic direction setting</td>
<td>.203</td>
<td>.085</td>
<td>.231</td>
<td>2.374</td>
</tr>
</tbody>
</table>

Having regards to the regression findings in table 4c above, substituting the equation; 
\[ Y=β₀+β₁X₁+ε \] becomes
\[ Y= 3.203+0.203 X₁. \]
Assuming that all other independent variables are 0.000 performance will be 3.203. A unit increase in strategic direction results to 0.203 increase in performance and it is statistically significant.

The null hypothesis was rejected that Strategic direction did not significantly influence Sacco performance. The results indicated that strategic direction setting positively and significantly influenced performance (B= 0.203, t=2.374, sig= 0.019).

The current study confirmed that strategic direction influenced performance. These findings are similar to earlier findings of studies by Nthini (2013), Kitonga, Bichanga and Muema (2016), Olaka (2016), Nganga (2018) and Mutole (2019) who confirmed that adoption of strategic direction by firms led to superior performance. Nzioka (2017) noted that the provision as well as quality of services rendered were influenced by the strategic direction. Yazdani et al. (2011) contended that
it was crucial for firms to have a well-articulated vision, objectives as well as direction. Aziz et al. (2013) observed that the leader’s role of equipping staff with direction by clearly spelling out the vision, mission and goals influenced firm performance. Waihenya, Kimaru and Kamaku (2018) found that strategic direction identification significantly influenced customer growth in SACCOs. Therefore, the results of this current study confirms that strategic direction setting is crucial for Sacco’s performance.

Regarding the interview, the respondents explained that the SACCO leaders inspired employees towards a set strategic direction by involving them to give their views in strategic planning process, effective communication of strategies, plans and policies, having a clearly stated vision and mission including well-articulated goals and objectives. Thus, these findings mirror the quantitative data results on the aspect of having a clear vision, mission, goals and objectives. Similarly, Goodale (2011) posited that setting a strategic direction was a critical pillar to be adopted by organizations if they wanted to attain good performance.

Conclusion
The study concludes that strategic direction setting has a positive and significant influence on SACCO performance. For Sacco’s to achieve greater performance leaders should determine the strategic direction and communicate it to the staff as it may result to better organizational performance. The increase in performance as strategic direction increases concurs with the transformational leadership theory that inspirational motivation through setting strategic direction improves performance. The study’s findings provide a guideline for Sacco leaders to understand why they should incorporate strategic direction setting aspects of vision, mission, goals and objectives in their operations as it may lead to increased level of customer satisfaction, increase in members, asset base growth and growth in deposit base.

Further Studies
Future studies may cover other sectors such as microfinance, banks and state corporations. The results apply to Kenyan experience; thus, the study can be replicated in other contexts. Further research can use different study designs. Additionally, future studies may be conducted on each aspect of strategic direction setting independently. To broaden the horizon, other aspects of performance such as innovation and employee performance should be studied. Furthermore, studies can be done on moderating effects on the link between strategic direction setting and performance.

References


