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**INFLUENCE OF INTERNAL COMMUNICATION ON
INNOVATION PERFORMANCE OF DTS IN KENYA**

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Influence of Internal Communication on Innovation Performance of DTs in Kenya

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Abstract

Purpose: The purpose of the study was to examine the influence of internal communication on Innovation Performance of DTS in Kenya.

Methodology: This study adopted a descriptive survey design. The sampling frame of this study was derived from the database of the SASRA. Multistage sampling was used to select the sample of the study. The population of the study was the 181 DTS's operating in Kenya while the target population was 18 DTS's. The respondents were individual management staff. A questionnaire was used to gather primary data. Secondary data was collected through review of published literature such as journals articles, published theses and textbooks. Information was sorted, coded and input into the statistical package for social sciences (SPSS) version 21.0 for production of graphs, tables, descriptive statistics and inferential statistics.

Results: The study found out that internal communication and innovation performance were positively and significantly related ($r=0.484$, $p=0.000$),

Unique Contribution to Theory, Practice and Policy: The study recommended for Deposit Taking Sacco's to clearly communicate and explain their well formulated goals to staff. The ability to communicate will help the managers coordinate and collaborate their organizations' activities and actions in more effective and efficient manner.

Keywords: *Internal communication, Innovation Performance, DTS.*

1.0 INTRODUCTION

1.1 Background of the Study

The world is moving quickly from a production-based economy to an innovation-based economy (Huang, Yi-Chun & Wu 2010). Knowledge storage and application are the basis of economic growth and accumulated capital (Hsu & Fang, 2010). Crossan & Marina Apaydin (2010) define innovation as production or adoption, assimilation, and exploitation of a value-added novelty in economic and social spheres; renewal and enlargement of products, services, and markets.

Human resource management (HRM) practices have been defined in several aspects. Schuler and Jackson (2002) define HRM practices as a system that attracts, develops, motivate, and retains employees to ensure the effective implementation and the survival of the organization and its members. Besides, HRM practices is also conceptualized as a set of internally consistent policies and practices designed and implemented to ensure that a firm's human capital contribute to the achievement of its business objectives (Delery & Doty, 2004).

Sanidas (2005) examined the links between SMEs, organizational innovations (OIs), and economic growth across OECD countries with particular reference to Japan and the USA. The study in these two countries revealed that the American economic survival and Japanese protracted economic downturn can be related to the existence of organizational innovation. The relative importance of SMEs in the two countries was only a contingent factor necessary but not sufficient for economic growth.

Many developing countries are recognizing innovation as a major source of modern productivity growth and presently constitute a central process of economic advancement.

In the context of Somalia, telecommunication industry has been considered as one of the most important industry in Somalia's economy. The industry has full contribution in terms of technological innovation, unemployment reduction, and acting as a source of public contribution to the society. Every telecommunication company attempts to popularize its services, renew its products, and make innovations in order to become well known and gain the major part of the market.

As contended by Küpper, (2001), service innovation strategy has been aimed at highlighting any procedures and strategies in improving and enhancing business in terms of new services or patterns of service. Many telecommunication organizations in Mogadishu brought new services to the market by enhancing their business performance, growth, and innovation strategies to succeed their competitors. However, the focus on Innovation Performance particularly in developing countries is a relatively recent phenomenon.

Kenya has managed to achieve a higher level of competitiveness when compared to other African countries. In the Global Competitiveness Index, Kenya ranked 94 in 2006, one place down from its previous rank of 93 in 2006 (Porter et al, 2006). The country's competitiveness seems to expand into the micro-economic area, displaying a rank of 68 for 2006 in the Business Competitive Index, five places up from rank 73 that Kenya occupied in 2005 (Porter et al, 2006). Kenya's technological achievements are far from being realized and it is ranked at 68 out of a total of 72. Not only has the country not managed to branch out into newer technological areas, it has also not managed to diffuse old technology to large parts of its

population, reducing with this the potential benefits that country nationals could derive from it (UNDP, 2008).

The SACCO movement in Kenya is reputed as the largest in Africa and among the top 10 globally (Wanyama, 2009). It has over KES 500 Billion in assets and a savings portfolio estimated at KES 378 Billion, the SACCO movement in Kenya constitutes a significant proportion of about 20% of the country's savings. SACCOs have thus become vital components of Kenya's economy and social development.

1.2 Statement of the Problem

In the Kenya Vision 2030, Kenya aims at raising savings and investment rates from 17% to 30% and reducing the share of population without access to finance from 85% to 70%. Ahmed and Shepherd, (2010) noted that countries like USA, Japan and some European that continuously innovate contribute significantly to economic growth. Sacco's plays a critical role in the transformation of economy through mobilization of required savings and offering credit facilities. As part of Kenya Government reform process in the financial sector, SACCO Societies Regulatory Authority (SASRA) was established in 2008 with dual objectives of protecting the interests of Deposit taking Sacco's (DTS) members, ensuring public confidence in the public towards the Sacco sector and spurring Kenya's economic growth through the mobilization of domestic savings. However, despite of the increased regulatory reforms undertaken in the Sacco sub - sector in Kenya, performance of DTS' is still poor. SASRA statistics show that between 2014 and 2016, the regulator revoked operating licenses of 43 Deposit Taking Sacco's due to severely undercapitalization, inability to meet members and third parties obligations leading to unsustainably high external borrowing (SASRA 2015; 2016). CBK in a survey conducted in 2013 and 2014 found out that in spite of Sacco's wide geographical spread in the country, DTS's lost 12% and 17% respectively of their market share to other financial service providers. This implies that DTS's are threatened for survival as a competitive enterprise.

Nyaga (2014) avers that many DTS's are undercapitalized due to their low level of innovativeness. Cheruiyot (2012) found out that in order to gain competitive edge, increase capital, enhance efficiency and meet increasing demand of relatively cheaper loans by the members, DTS's must embrace innovation; introduce new products and services, adopts new technology, improve business processes and increase operational efficiency. Human Resource (HR) is the most important asset for any organization as source of achieving competitive advantage. The previous innovation literature has been characterized by relatively scant attention being paid to HRM practices and how they influence innovation performance (Laursen and Foss, 2011). Most of the empirically-based literature since the mid-2000s has focused on the effects of complementary HRM practices, rather than the effect of individual HRM practices (Ennen and Richter, 2010).

Notably still, most of the literature reviewed linking HRM practices to innovation performance are drawn from developed countries context like the USA, Europe and Japan and the studies cannot be generalized to Kenya. Although there are other HRM practices that influence innovation performance, this study will focus on internal communication. This study therefore seeks to establish the influence of internal communication on innovation performance of DTS's in Kenya.

1.3 Objective of the Study

The objective of the study was to examine the influence of internal communication on Innovation Performance of DTS in Kenya.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Collaborative Model theory

Collaborative Model theory by Clark & Wilkes-Gibbs (1986) focuses on group decisionmaking at a senior management level and involves senior management executive team (SMET) in the strategy formulation process. The role of the SMET is to employ group dynamics and brainstorming approaches to involve managers in both strategy formulation and strategic management practices phases. SMET plays the role of coordinating, encouraging and promoting differing ideas and acting as a consensus generator among various strategic management practices groups. The collaborative model overcomes both the limitations of information inaccuracy and cognitive limits of the change model (Pearce, 2008), as highlighted previously.

2.2 Empirical Review

According to Lisa and Christina, (2003) internal communication in an organization serves four roles namely, regulating, persuading, informing and integrating. The study alluded that some managers and their staff ignore the communication processes that exist in the immediate working environment as well as those that are prevalent symmetrically across the organization. This is despite the knowledge that the ability to communicate will help the managers coordinate and collaborate their organizations' activities and actions in more effective and efficient manner. The external environmental pressures that an organization deals with will always have an impact on the organization's culture, vision, leadership and communication. During these periods of continuous change, communication is crucial to maintaining stability and ensuring adaptation to change (Litteljohn& Peng, 2011).

Managers realize increasing changes in the business arena make many participants confused about the future of their companies. This creates a need for managers to have goals they have clearly formulated and will and that are articulate through communication (Barrett, 2010). For communication from management to be effective, it must inform and educate all cadres of employees about the strategies adopted and it must motivate and align staff to act in a way that facilitates the fulfillment of company goals and objectives.

Worley and Doolen, 2006 argues that internal communication can be used to create an understanding of the expectations and ethics to which the business must be aligned; it can also be used to create a motivating and compelling advertising campaign by packaging information of new products and services in line with the business' vision.

3.0 RESEARCH METHODOLOGY

This study adopted a descriptive survey design. The sampling frame of this study was derived from the database of the SASRA. Multistage sampling was used to select the sample of the study. The population of the study was the 181 DTS's operating in Kenya while the target population was 18 DTS's. The respondents were individual management staff. A questionnaire was used to gather primary data. Secondary data was collected through review of published

literature such as journals articles, published theses and textbooks. Information was sorted, coded and input into the statistical package for social sciences (SPSS) version 21.0 for production of graphs, tables, descriptive statistics and inferential statistics.

4.0 RESULTS AND DISCUSSIONS

4.1 Response Rate

The number of questionnaires that were administered was 308 and a total of 296 questionnaires were properly filled and returned where as some of the respondents returned the questionnaires half-filled others refused to return them completely despite a lot of follow up. The response rate result is shown in Table 1.

Table 1: Response Rate

Response	Frequency	Percent
Returned	296	96.10%
Unreturned	12	3.90%
Total	308	100%

The response rate was 96.10% as shown on Table 1 This represented an overall success according to Mugenda and Mugenda (2003) and also Kothari (2004) a response rate of above 50% is adequate for a descriptive study. Cooper and Schindler (2003) also argues that a response rate exceeding 30% of the total sample size provides enough data that can be used to generalize the characteristics of a study problem as expressed by the opinions of few respondents in the target population Based on these assertions the response rate of , 96.10% was adequate for the study.

4.2 Demographic Characteristics

This section consists of information that describes basic characteristics such as gender of the respondent, age, level of education job position and number of years worked.

4.2.1 Gender of the respondents

The respondents were asked to indicate their gender. Figure 1 shows the results.

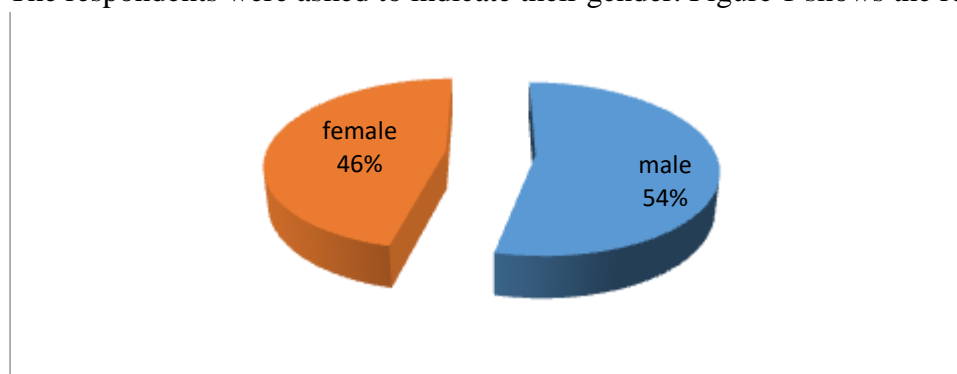


Figure 1: Gender of the respondents

Results in figure 4.1 show that 54% of the employees are males while only 46% are females. This implies that majority of people who works in Deposit Taking Sacco’s are males. This

agrees with a study by Ellis, Cutura, Dione, Gillson, Manuel & Thongori (2007) that in spite of women being major actors in Kenya’s economy, and notably in agriculture and the informal business sector, men dominate in the formal sector citing the ratio of men to women in formal sector as 74%:26%. Other studies that have identified male domination in the formal and informal sectors include Gakure (2001) and Gakure (2003).

4.2.2 Age of the respondents

The respondents were asked to indicate their age. Figure 2 shows the results.

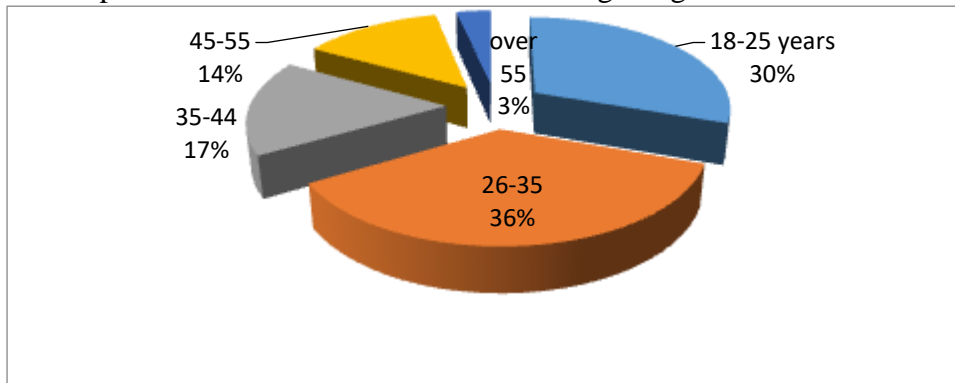


Figure 2: Age of respondents

Results in figure 2 show that 36% of employees in Deposit Taking Sacco’s are aged between 26-35 years, 30% of the employees are aged between 18-25 years, 17% have their age between 35-44 years and 14% are between 45-55 years while only 3% are aged above 55 years. This indicates that majority of the people who work in Deposit Taking Sacco’s are young. According to the Population Situation Analysis Report for Kenya (2014) the trend of population growth for persons aged 24-34 years has increased from about 12% in 1999 to nearly 15% in the year 2009. Therefore the finding of this study reflects the current trend of the Kenya population indices.

4.2.3 Length of service

The respondents were asked to indicate the duration they have worked in the organization. Results are presented in Figure 3.

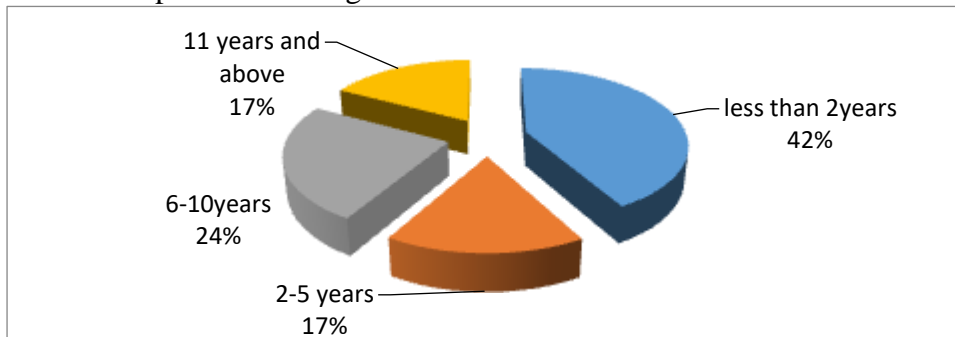


Figure 3: Length of service

Results in Figure 3 show that 42% of the respondents had worked in the Deposit Taking Sacco for less than 2 years, 17% had worked in the Deposit Taking Sacco for 2-5 years, and 24% had worked in the Deposit Taking Sacco for 6-10 years while 17% had worked in the Sacco for

above 11 years. This implies that majority of the respondents had not worked in the organization for a long period. This finding is inconsistent with that of Ngui (2014) who found out that 65% of the respondents have worked in the sector for over five years, a period considered long enough for an employee to understand the operations of their respective duties. This finding is consistent with that of Randoy et al, (2006) who found out that one’s experience depends on the number of years of service in the sector involved. It is assumed that the longer one worked in an organization, the more they understand the organization and hence the higher the ability to articulate issues pertaining to the organization (Afande, 2013)

4.2.4 Level of education

The respondents were asked to indicate their highest level of education. Figure 4 shows the results.

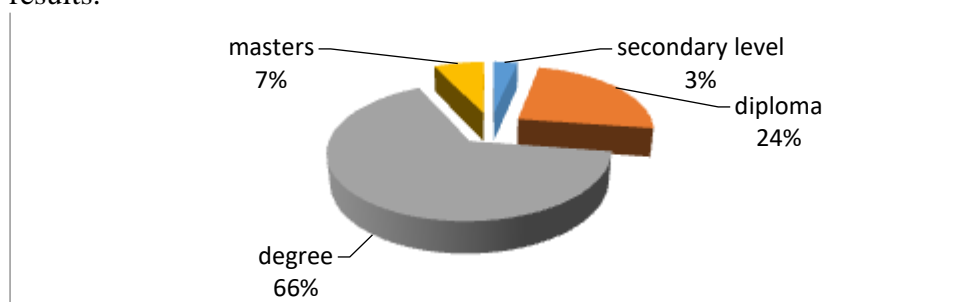


Figure 4: level of education

Results in Figure 4 show that 7% of the respondents had their highest level of education being masters level, 66% of the respondents had their highest level of education being degree level, 24 % of the respondents had their highest level of education being diploma level while only 3% had their highest level of education being secondary level. This implies that the employees working in the Deposit Taking Sacco are skilled for the job. In addition, regarding to this study, it means that the respondents were able to read the questionnaire on their own and thus better response achieved. This finding is inconsistent with that of Adegroye, Oladejo & Moruf, (2012) who found out that firm performance depends on academic qualification.

4.2.5 Cadre

The respondents were asked to indicate their current cadre in the Sacco. Figure 5 shows the results

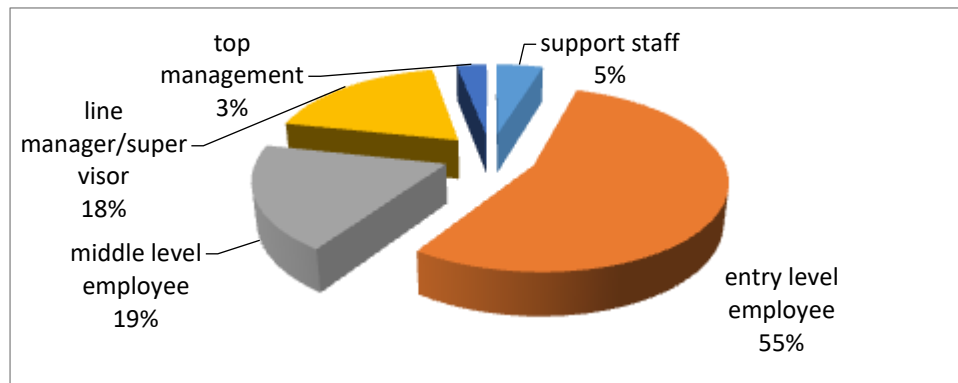


Figure 5: cadres

The results in figure 5 show that 55% of the employees are at the entry level of job position 19% are middle level employees, 18% are managers or supervisors, 5% are support staffs while 3% are top managers. This indicates that most of the people in DTS in Kenya have not been trained enough to handle management positions.

4.3 Influence of Internal Communication on Innovation Performance of Deposit Taking Sacco’s in Kenya

The third objective of the study was to establish the influence of internal communication on Innovation Performance of Deposit Taking Sacco’s in Kenya

4.3.1 Reliability Results for Internal communication

The result for reliability test for internal communication is presented it table 2 below.

Table 2: Reliability Coefficient

Variables	Number of items	Cronbach's Alpha	Comment
Internal communication	7	0.750	Reliable

Table 2 shows that internal communication was reliable since it had a cronbach alpha of 0.750 which was above the cut-off of reliability for the study. Therefore the internal consistency reliability of the measure was excellent. This indicates that the data was reliable since a Cronbach’s alpha coefficient value of 0.750 was obtained on the research variable. This was above 0.70 and an alpha coefficient higher than 0.70 signifies that the gathered data has a relatively high internal consistency and could be generalized to reflect the respondents’ opinions on the study problem.

4.3.2 Descriptive Statistics

Descriptive statistics was performed regarding to the responses on internal communication related statements. Results were presented in Table 3.

Table 3: Internal Communication.

Statements	strongly disagree	disagree	not sure	agree	strongly agree	Mean	Std. Deviation
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There is continuous interaction between the SACCO and its

employees on overall goals and objectives	21.60%	40.20%	5.10%	25.00%	8.10%	2.58	1.29
Every individual Employee is empowered with a voice on issues or topics that matter to him or her	30.70%	34.10%	1.40%	25.70%	8.10%	2.46	1.37
My Sacco continuously make deliberate and collaborative efforts to communicate organizational changes, progress and future plans to all employees	15.90%	44.90%	5.10%	13.90%	20.30%	2.78	1.41
My employer takes time to explain the company values and mission.	6.40%	57.40%	5.40%	10.80%	19.90%	2.80	1.31
My SACCOs practices open, ongoing and transparent communication between management and employees	12.10%	46.60%	7.20%	13.80%	20.30%	2.84	1.37
The communication channels used are effective	4.10%	12.80%	10.10%	40.50%	32.40%	3.84	1.13
The communication channels influence Innovation performance	1.00%	4.10%	4.70%	26.70%	63.50%	4.48	0.84
Average						3.11	1.25

Results in table 3 revealed that majority of the respondents who were 61.80% (21.60%+40.20%) disagreed that there is continuous interaction between the SACCO and its employees on overall goals and objectives .64.8% disagreed that every individual employee is empowered with a voice on issues or topics that matter to him or her. The results also revealed that majority of the respondents who were 60.80% disagreed that their Sacco continuously make deliberate and collaborative efforts to communicate organizational changes, progress and future plans to all employees. 63.80% disagreed that their employer takes time to explain the

company values and mission. Further 58.70% disagreed that their SACCOs practices open, ongoing and transparent communication between management and employees.

On the other hand, majority of the respondents who were 72.90% agreed that The communication channels used are effective. The results also revealed that 90.20% agreed that the communication channels influence Innovation performance. Using a five point scale likert mean, the overall mean of the responses was 3.11 which indicates that majority of the respondents agreed to the statement of the questionnaire. Additionally, the standard deviation of 1.25 indicates that the responses were varied. The results herein imply that internal communication influence innovation performance.

4.3.3 Correlation Analysis

Correlation analysis was conducted between internal communication (independent variable) and innovation performance (dependent variable). Results are presented in Table 4.

Table 4: Correlation matrix

		Innovation Performance	Internal communication
Innovation performance	Pearson Correlation	1.000	
	Sig. (2-tailed)		
Internal Communication	Pearson Correlation	.630**	1.000
	Sig. (2-tailed)	0.000	

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

Results in Table 4 indicated that there was a positive and a significant association between internal communication and Innovation performance ($r=0.630$, $p=0.000$). Worley and Doolen, 2006 argues that internal communication can be used to create an understanding of the expectations and ethics to which the business must be aligned; it can also be used to create a motivating and compelling advertising campaign by packaging information of new products and services in line with the business’ vision.

4.3.4 Regression Analysis

The results presented in table 5 present the fitness of model used of the regression model in explaining the study phenomena. Internal communication structure was found to to explain 39.7% of variation in innovation performance.

Table 5: Model Fitness

Variables	Coefficients
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R	0.630
R Square	0.397
Adjusted R Square	0.395
Std. Error of the Estimate	0.565

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant.

Table 6 :Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	61.599	1	61.599	193.211	0.000
Residual	93.732	294	0.319		
Total	155.331	295			

Table 6 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the independent variable is a good predictor of innovation performance. This was supported by an F statistic of 193.211 and the reported p value (0.000) which was less than the conventional probability of 0.05significance level.

Regression of coefficient results were presented in table 7

Table 7: Regression of Coefficients

	B	Std. Error	t	sig
(Constant)	0.851	0.113	7.524	0.000
Internal communication	0.484	0.035	13.9	0.000

Regression of coefficients significantly related. The role of internal communications is one that is seen to have been undergoing related ($r=0.484$, $p=0.000$). This shows that internal communication and innovation performance are positively and considerable change (Keenan and Hazelton, 2006; Therkelsen and Fiebich, 2003). Its various eras include those of entertaining employees (1940s), informing (1950s) and persuading (1960s) to open communication (1980s to date) (Theaker, 2004). Today's internal communications practitioners are focused on challenging and stimulating employees, managing change and gaining employee engagement and commitment (Smith, 2005; Tench and Yeomans, 2006).

Thus, the model for the study is;

$$\text{Innovation performance} = 0.851 + 0.484 X$$

Where,

X= Internal Communication

4.6.5 Hypothesis Testing

The hypothesis was tested by using the ordinary least square regression. The acceptance/rejection criteria was that, if the p value is greater than 0.05, the H_0 is not rejected but if it's less than 0.05, the H_0 fails to be accepted. The null hypothesis was that internal communication does not have a significant relationship with innovation performance. The alternative hypothesis was that internal communication had a significant relationship with innovation performance.

Results in Table 6 above show that the calculated f-statistic of 193.211 was higher than the tabulated/critical f statistic ($F_{\alpha} = 0.05$). The findings were further supported p-value of 0.000. This indicated that the null hypothesis was rejected hence internal communication had a significant relationship with innovation performance.

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Based on the study findings, the study concluded that internal communication affect innovation performance. DTSS in Kenya practice open and transparent communication between management and employees. This stimulates employees and the employer gain employee engagement and commitment. For communication to be effective management must inform and educate all cadres of employees about the strategies adopted and it must motivate and align staff to act in a way that facilitates the fulfillment of company goals and objectives.

From the regression results the study concluded that internal communication has a positive and significant effect on innovation performance.

5.2 Recommendations

The study recommended for Deposit Taking Sacco's to clearly communicate and explain their well formulated goals to staff. The ability to communicate will help the managers coordinate and collaborate their organizations' activities and actions in more effective and efficient manner.

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