

2]Effect of Saving Culture on the Financial Performance of Savings and Credit Co-Operatives in the Banking Sector in Kenya

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Abstract

Saving is an important factor in economic development as it enables the conversion of resources into capital which is in turn invested to enhance the growth of organizations, individuals and the country at large. Co-operatives provide an important framework for mobilization of capital resources. The tendency to save is closely associated to culture. This study sought to establish the influence of saving culture on the financial performance of savings and credit co-operatives (SACCOs) in the banking sector in Kenya. This study adopted a descriptive and quantitative research design. The target population was co-operatives in the banking sector in Kenya. Stratified sampling and simple random sampling was used to obtain the sample items. A Likert scale questionnaire was used to gather primary information and a secondary data collection sheet was used in gathering secondary information regarding co-operatives performance. 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. The results indicated that there was a positive relationship between saving culture and the financial performance of SACCOs in the banking sector in Kenya, with a correlation coefficient (r) of 0.636, coefficient of determination (r^2) of 0.405 and with a t -value of 0.000. The study concluded that, saving culture is statistically significant in explaining the financial performance of SACCOs in the banking sector in Kenya. The study recommends that SACCOs should offer incentive and also conduct member education so as to encourage member savings hence improve their financial performance and in turn stir up economic growth and eradicate poverty.

Keywords: SACCO saving culture, financial performance, banking sector

Introduction

Saving is a decision by people to postpone the consumption of their disposable income. A country with high saving rate generates both domestic and foreign investment which leads to economic development of a nation. Why people save is closely associated with culture as something done consistently becomes a habit and a habit becomes a way of life or culture (Centonomy, 2013). Japan is the world's largest saver which is about 44% of GDP followed by Germany and then China. In most of Africa, savings rates are relatively low and on average, 17% of GDP. Kenya saves 14% of GDP while Uganda and Tanzania save more than 20% of their GDP though their per capita income was significantly lower for the period between 2000 and 2011. The co-operative movement provides an important framework for mobilization of both human and capital resources, hence, an

important player in the social economic development of the country. The ministry of industrialization and enterprise development in Kenya provides an enabling environment for the co-operative sector to be vibrant, effective and globally competitive. (GoK, 2013). Kenya's vision 2030 for financial services is to create a successful and globally competitive financial sector capable of promoting high levels of saving and financing for Kenya's investment needs (Kiaritha, 2009) There are seven registered and active SACCOs in the banking sector in Kenya, namely, Kencom SACCO Ltd, Co-operative Bank SACCO, Equity Bank SACCO, Family Bank SACCO, Nyumba SACCO, Kenya Bankers SACCO and Postbank SACCO The SACCOs draw members from employees of commercial banks in Kenya (Ministry of Co-operative Development and Marketing, 2011).

Statement of the Problem

The SACCO sub-sector is part of the larger cooperative movement in Kenya and account for 31% of national savings (Akinwumi, 2006). It is worth about \$10 billion in assets and employs more than 500,000 Kenyans directly and another 1.5 million indirectly. SACCO savings and deposits are estimated at over \$7 billion, equivalent to about 30 per cent of national savings while the loan portfolio is in excess of \$6.6 billion. The government has made a significant initiative to support co-operative movements through legislation so as to increase financial inclusion. However, despite the government's effort to support the cooperative movement, SACCOs are facing imminent closure which means that savers risk losing billions of shillings in savings. In particular, of 7,300 SACCOs in Kenya, 2,200 were declared "dormant" in 2018 (Aduda, 2011). Nitunze Sacco, previously known as Mumias Outgrowers and Nandi Hekima Sacco Society Limited, have shut down while Moi University SACCO is under liquidation. SACCO Societies Regulatory Authority (SASRA) revoked the licenses of Nandi Hekima SACCO, Sukari SACCO and Miliki SACCO among others. However, none of the SACCOs in the banking sector has been shut down. SACCOs in the banking sector in Kenya are unique in that their members, who are bank employees, enjoy many employment perks in form of highly discounted loans from their employer.

This imply that these SACCOs compete for savings with the commercial banks who are the employers of the SACCO members. Mismanagement, fraud and bad loans, failure by employers to remit deductions is increasingly becoming a big threat to the survival of many SACCOs which if not inverted could threaten the stability of Kenya's financial services sector and the economy. SASRA statistics show that in 2018, employers in the public and private sector owed deposit taking SACCOs \$26.7 million in unremitted deductions in form of either loan recovery or members deposit Unremitted deductions have a negative impact on SACCO members who are unable to get loans, while some get listed with credit reference bureaus and others are denied credit for lack of collateral. SACCOs also fail to meet and maintain prudential standards especially the liquidity ratio and capital adequacy ratio, making it impossible to issue new loans and plunging them deeper into loss making (SASRA, 2019). A study conducted by Gicheru, Migwi and

M’Imanyara (2011) in the transport industry in Kenya revealed that some failed to grant loans to members due to weak capital base as the monthly share contribution was low and low patronage. Other factors which influence the performance of cooperatives include education and training of members, capital and business management capacity (Birchall, 2005) operating costs (Kiaritha, Mouni & Mung’atu, 2015), competition from commercial banks (Kiaritha, Munyare, Kimani & Njenga (2018) among others. A study by Ogbu & Oaya (2017) on the impact of culture on employee performance revealed that consistency as a factor of organizational culture was a significant predictor of job effectiveness, however, organizational culture had received relatively low levels of empirical investigation. This study therefore sought to establish the effect of saving culture on the financial performance of SACCOs in the banking sector in Kenya.

Research Objective

The objective of the study was to examine the influence of saving culture on the financial performance of SACCOs in the banking sector in Kenya.

Research Hypothesis

The study sought to test the following hypothesis;

H₀: Saving culture had no effect on the financial performance of SACCOs in the banking sector in Kenya

H₁: Saving culture had an effect on the financial performance of SACCOs in the banking sector in Kenya

Literature Review

Theoretical Review

According to the Life-Cycle Theory of Savings, people save when young to finance consumption during retirement. In theory, in the absence of a bequest motive, the dissaving of the old should offset the saving of the young. However, if the age structure of the population is unbalanced, as occurs under population growth, the savings of different cohorts may not cancel out, and aggregate savings, or dis-savings, may occur. The presence of children increases the consumption requirements of young families, so that high rates of youth dependency depress saving and lower the impact of economic growth on savings rates (Ando & Modigliani, 1963).

Empirical Review

According to Gicheru, Migwi and M’Imanyara (2011) savings and credit schemes are becoming a beacon of hope to the developing countries as they grant loans to members at reasonable rates of interest. Socially conscious investors save in SACCOs and obtain an

annual return in form of dividends (Barrels, 2012). The performance of co-operatives depends on education and training to co-operative members (Ortmann & King, 2007a), capital and business management capacity (Birchall, 2005) among other factors. According to Barrels (2012) credit facilities enable impoverished persons to start businesses, rebuild after natural disasters like floods, and to receive both short- and long-term loans to meet their financial needs and improve their overall quality of life. The impact of micro lending is changing the economic landscape of the areas where it is most prevalent. Gicheru, *et al.*, (2011) conducted a study in Kenya in the transport industry which revealed that majority of SACCOs were weak in terms of loans granted and capital base. It was further indicated that some SACCOs had not granted any loans to members as the monthly share contribution was low due to low patronage. This was attributed to the fact that some SACCOs had business plans which were not backed by financial ability and hence could only attract few financiers, thus posing a threat to the survival of SACCOs in the transport industry in Kenya.

This in turn resulted in the loss of employment for drivers, conductors, SACCO staff and also loss of income to investors. The concern for low capital base was also noted by Njagi, Kimani and Ngugi (2012) despite the high demand for loans by SACCO members. Aura and Mwangi (2013) asserts that SACCOs are seen as vehicles for resource mobilization and gateway to economic prosperity for families. According to Mwangi and Wanjau (2012), SACCOs play a critical role in entrepreneurship development as they mobilise significant volumes of personal savings and channel them into small loans for productive purposes at the community level. Olando, Jagonga and Mbewa (2013) indicated that savings mobilization should be backed by adequate institutional capital which ensures permanency and provide cushion to absorb losses and impairment of members' savings.

A study by Ogbu and Oaya (2017) on the impact of culture on employee performance revealed that Consistency as a factor of organizational culture was a significant predictor of job effectiveness. He further noted that organization culture had received relatively low levels of empirical investigation. A study conducted by Owino and Kibera (2019) on organizational culture and performance of microfinance institutions in Kenya demonstrate that organizational culture had a significant influence on non-market performance and that market culture was inversely associated with debt/equity ratio. The study further pointed out that organizational culture is a major source of sustainable competitive advantage in the microfinance industry. A study by Costa-Font, *et al.*, (2018) among immigrants in United Kingdom(UK) revealed that savings are important drivers of economic activity and growth and that immigrants from cultures with high saving rates also have higher saving rates in the UK.

Methodology

This study adopted a descriptive survey design. The target population comprised of employees and members of all the seven SACCOs in the banking sector in Kenya. The sample for the study was drawn from the sampling frame which included all SACCOs in the banking sector in Kenya using stratified sampling and simple random sampling. Within each study unit (SACCO), two strata were created, one being that of employees of the SACCO and the other for SACCO members. Within the SACCO members' stratum, simple random sampling was used to identify individual respondents. However, since the SACCO employees were too few, they were all included in the sample. A total of 384 respondents were sampled which comprised of 29 SACCO employees and 255 SACCO members.

Primary information was gathered by use of a questionnaire. Secondary data was gathered from the annual reports of the SACCOs and reports from the Ministry of co-operative development and marketing using a data collection sheet. The t-test was used to test the direction of the relationship between the independent variable and the dependent variable. A multiple regression model was used to test the significance of the influence of the independent variables on the dependent variable. It is not clear how sampling was done from the target population.

Findings

The study sought to examine whether saving culture influences the financial performance of SACCOs in the banking sector in Kenya. Analysis of the questionnaire responses indicated that 77% of the respondents agreed that their SACCO has annual savings target for the members, 73% agreed that if members doubled their savings the performance of their SACCO would improve and 48% agreed that their SACCO performs well because members have huge savings. 77% of the respondents agreed that their SACCO had annual awards for super savers, 74% agreed that they personally like saving with the SACCO and 80% agreed that they personally have their own annual savings target. In addition 80% agreed that their SACCO has a minimum savings rule which is stancher than the minimum required by the Ministry, 75% agreed that if their SACCO had more savings than what it had then, they would make more profits and 55% agreed that members fail to borrow enough due to low saving levels. Finally, 60% agreed that SACCOs that have more savings make more profit than SACCOs with fewer saving, 62% agreed that the government should set a mandatory minimum for savings by all Sacco members in order to promote SACCO growth and 63% agreed that for SACCOs to perform better, they need to be aggressive in encouraging member savings. Many respondents agreed that saving culture was a key driver of financial performance of SACCOs. Results indicated that there were effective policies that guided the saving culture of the SACCOs.

Financial Performance

Results indicated that there was increased financial performance of SACCOs across the years of study. Specifically, the results indicated that there was increased profit before tax, total assets, loans disbursed to members, member savings, dividends disbursed to the members and membership in the SACCOs as shown in Table 1 below.

Table 1

Financial Performance

Indicator	2007	2008	2009	2010	2011	2012
Profit before Tax	22,503,435	31,085,901	43,487,267	49,154,859	53,762,458	47,054,282
Total Assets	3,948,217,996	4,718,340,180	6,119,680,121	6,198,759,226	8,079,668,453	8,503,918,376
Loans (KShs)	3,199,347,562	3,733,475,437	4,127,227,041	4,391,116,953	5,887,585,450	6,252,931,457
Deposits/Savings	2,976,612,295	3,494,384,581	4,088,832,693	4,492,111,749	4,970,561,724	5,601,357,097
Dividends/Interest	298,993,982	423,893,603	484,836,881	532,354,888	564,118,402	667,286,241
Membership	19,113	22,896	25,792	27,334	29,601	32,609
Operating Costs	7,506,469	11,489,095	82,688,108	100,129,349	110,416,028	111,059,330

Correlation Analysis – Saving Culture and Financial Performance

Correlation analysis was conducted to determine the relationship between saving and the financial performance of SACCOs in the banking sector in Kenya. The results indicated that saving culture was positively correlated with financial performance with a correlation coefficient of 0.333 as shown in Table 2 below. This reveals that any positive change in saving culture led to improved financial performance.

Table 2

Pearson Correlation

Variable		Performance	Saving culture
Performance	Pearson Correlation	1	
	Sig. (2-tailed)		
Saving culture	Pearson Correlation	0.333	1
	Sig. (2-tailed)	0.000	

Regression Analysis

Regression analysis was conducted to empirically determine whether saving culture was a significant determinant of financial performance. An R squared of 0.111 indicates that 11.1% of the variances in financial performance in banking SACCOs are explained by the variances in saving culture based on the linear regression model. However with the combination of linear and non- linear components the R square improved to 0.405 which implied that 40.5% of the variances in financial performance of SACCOs in the banking sector are explained by the variances in saving culture management. The non- linear addition model is statistically significant with an F statistics of 131.429 and P value (0.000). The regression model took a quadratic form as suggested by the scatter plot in Fig 7 and by R-square which gave a higher value of 0.405 as compared to the linear regression model which gave an R- square of 0.111 as shown in Table 3.

The model being estimated took the form of

$$Y = \beta_0 + \beta_1 X_1 + \beta_{11} X_{11}^2 + \mu$$

Where Y= Financial performance

X_1 = Linear composition of saving culture

X_{11}^2 = non- linear composition of saving culture

Table 3

Model Summary

Model	R	R Square	Std. Error of the Estimate	R Square Change	F Change	df 1	df2	Sig. F Change
1	.333a	0.111	0.49609	0.111	33.382	1	267	0.000
2	.636b	0.405	0.40662	0.294	131.429	1	266	0.000

a Predictors: (Constant), saving culture
b Predictors: (Constant), saving culture, saving culture squared

ANOVA – Saving Culture and Financial Performance

Results in Table 4 revealed that competition is statistically significant in explaining financial performance of SACCOs in the banking sector in Kenya. An F statistic of 90.559 indicated that the combined quadratic model was statistically significant. This was supported by a probability value of (0.000) as the reported probability of (0.000) is

less than the conventional probability of (0.05).

Table 4

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.216	1	8.216	33.382	.000b
	Residual	65.71	267	0.246		
	Total	73.925	268			
2	Regression	29.946	2	14.973	90.559	.000c
	Residual	43.98	266	0.165		
	Total	73.925	268			

a Dependent Variable: Performance
b Predictors: (Constant), save culture
c Predictors: (Constant), save culture, save culture squared

Regression Model – Saving Culture and Financial Performance

The results of the regression model of saving culture and financial performance as indicated in table 5 below, revealed that saving culture is statistically significant in explaining financial performance of SACCOs in banking sector in Kenya. This is supported by ($b = -0.342$, p value = 0.000). The negative beta explains that the SACCOs performance reaches a point where it stagnates and tends to go down whether saving culture was favorable or not. The regression model derived is as shown below;

$$Y = 2.661 + 2.642X_1 - 0.342X_1^2$$

Table 5

Regression Coefficient

Model		B	Std. Error	T	Sig.
1	(Constant)	6.676	0.158	42.334	0.000
	Save culture	0.241	0.042	5.778	0.000
2	(Constant)	2.661	0.373	7.128	0.000
	Save culture	2.642	0.212	12.45	0.000
	Save culture squared	-0.342	0.03	-11.464	0.000

a Dependent Variable: Performance

Conclusion

The study concluded that there were effective policies that guided the saving culture of the SACCOs. This is because the SACCOs have annual savings target for the members

and SACCO performs well because members have huge savings. It can be concluded from this study that there exists a positive and significant relationship between saving culture and financial performance of SACCOs in banking sector in Kenya. The null hypothesis confirmed that there was no effect of saving culture on the financial performance of SACCOs in the banking sector was rejected. It further concluded that there was improved financial performance of SACCOs across the years as shown by the performance indicators. The findings were consistent with those obtained by Ogbu & Oaya (2017), Costa-Font, *et al.*, (2018), and Owino and Kibera (2019) that consistency as a factor of organizational culture enhanced performance.

Recommendations

The study recommends that studies to be carried on the effect of organizational culture on the performance of other forms of organizations and that should emphasize on member education so as to boost member savings and in turn improve their financial performance.

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