

Association between Selected Financial Factors and Members' Patronage to Sacco Products in Kenya

Dr. Isaac Kiprotich Naibei, PhD* Richard Kiprotich Koskei** Dr. Peter Kimutai Cheruiyot***

*Lecturer, University of Kabianga, School of Business and Economics, P.O. BOX 2030 (20200) Kericho

** University of Kabianga, P.O. BOX 2030 (20200) Kericho, Kenya

*** Senior Lecturer, University of Kabianga, School of Business and Economics, P.O. BOX 2030 (20200) Kericho

Abstract- In Kenya, Savings and Credit Co-operative Societies (SACCOs) contributes about 30% of the country's gross domestic product. However, the growth of SACCOs has recently been threatened by competition by other financial institutions offering alternative services. The purpose of this study was to; establish the influence of interest rates on loyalty of SACCO members; determine the influence of the mode of disbursement of funds on loyalty of SACCO members; to determine the influence of variety of SACCO products on loyalty of SACCO members and to determine the influence of collateral required by SACCOs to SACCO products by SACCO members in the selected SACCOs. The target population was 441 members from which a sample of 209 members was selected using systematic sampling technique. Data was collected using Self-administered questionnaires. Data was analyzed by use of correlation analysis and regression analysis. The finding revealed a relationship between loyalty of members to their SACCOs interest rates ($r = -0.849$, $p < 0.01$), mode of disbursement ($r = 0.756$, $p < 0.01$) and variety of products ($r = 0.310$; $p < 0.05$). The study concluded that interest rates, mode of disbursement and variety of financial products are most important financial factors which influence SACCO member's loyalty. The study recommends that SACCOs seeking to enhance retention of their members should fasten in providing competitive interest rates and find modalities of improving their efficiency in disbursements of funds.

Index Terms- Financial Factors, SACCOs, Member Loyalty

I. INTRODUCTION

Savings and Credit Co-operative Societies (SACCO's) are started with a common objective which is savings mobilization and credit advancement. SACCO's encounter challenges in promoting quality financial management practices in Kenya such as limited capital, sources of funds, credit risks management and negative cash liquidity, poor governance and very low credit accessibility. A national survey conducted by Central bank of Kenya on financial access revealed that SACCO's credit accessibility has reduced from 2009 to 2013 despite the increase in credit demand (Karanja, Wachira, Lyria, 2015),

In 1992 the Ministry issued legislation vide Commissioner's circular that transformed the UBS which were hitherto sections of Unions into autonomous Rural SACCOs. By then there were about 15 of them with deposits of over KShs. 3.5 billion. By 1973, employees' particularly public servants had SACCO societies registered to cater for their financial needs.

These become known as Urban SACCOs as opposed to the previous Rural SACCOs. When the Co-operative sector was liberalized in 1997, Co-operatives started venturing into service provision that were previously offered by banks. This included cheques discounting, savings and fixed accounts and serving as salary pay points.

The report by SACCO Society Regulation authority (SASRA) evaluates the performance of the SACCO subsector based on the financial data and information extracted from audited financial statements and reports for the period 2006 to 2010. It is a legal requirement that the audited accounts of a SACCO society be registered with the Commissioner for Cooperatives Development before presentation to members at the annual general meeting. However, not all active SACCO societies comply with this requirement (SASRA Report, 2012).

The Vision 2030 strategy among other things requires the financial services sector to play a critical role in mobilizing the savings and investments for development of the country by providing better intermediate between savings and investments than at present. This sector will assist the mobilization of investment funds required to implement the projects of Vision 2030. SACCOs are among the financial services strategies to be implemented in this exercise. Service provided by savings and credit cooperative organizations (SACCOs) and other major financial institutions will play a crucial role in improving the reach and access of financial services (currently only 19% of Kenyans have access to formal financial services). It is notable that the financial services contribute about 4 per cent to GDP and its assets contribute equivalent to about 40 per cent of GDP (Olando, Jagongo & Mbewa (2013).

Daniel and Josphine (2013), while working on a study investigating the factors leading to SACCO members seeking services from other financial institutions, established that the choice of financial service providers was positively and significantly influenced by types of financial products, mode of disbursement of funds, staff performance, promotion strategies but negatively correlated with physical evidence and processing time of loan applications. The study revealed that other financial service providers offered more types of products than SACCOs. The SACCOs need to determine customers' requirements in order to come up with products that make them competitive.

Karanja *et al.* (2015) carried on a study to assess the influence of collateral requirements on credit accessibility of SACCO's in Imenti North Sub-County, Kenya. The target population of the study was 34 registered SACCO's which offers credit and the management employees were the study

respondents. Results of their study revealed that collateral requirements have a moderate influence on credit accessibility in SACCO's. Pearson correlations also indicated that collateral requirements have a major positive significance contribution on credit accessibility. It was recommended that SACCO's should therefore possess a wide range of collaterals and also develop a policy which allows use other forms of collateral other than guarantors and shares only. This will certainly increase access to credit in SACCO's. However it is not clear from the findings of this study whether collateral requirements prompts members to shop for alternative sources of credit and ultimately influence their loyalty to their SACCO.

Khalayi, Alala and Musiega, (2014) conducted a study in Kakamega, Kenya on the effects of Interest Rates on Deposits Mobilization among SACCO Members using a comparative approach. The objectives of the study, among others were to analyze how interest rate for members' deposits in SACCOs is established and to evaluate the relationship between interest rates and deposits mobilized by SACCOs. The study found out that interest rates affect the growth of SACCOs deposit positively but insignificantly. This result suggests that trying to influence the SACCOs deposits by manipulating interest rates is not likely to be a practical policy option in the study area. However, the SACCOs should attempt to maintain competitive positive real interest rates relative to that of other financial institutions in order to increase the savings. However, this study does not capture other aspects of SACCO relating to credit advanced to members. There is need, therefore, to conduct further research focusing on both facets of deposit mobilization as well as credit advancements. This can be achieved by concentrating on overall member loyalty.

Despite, the fact that SACCOs significantly contribute to the economic growth of Kenya, the performance of SACCOs, has greatly shrunk over the years. Kiraku and Okibo (2014) posit that the poor performance of SACCOs is attributable to withdrawal of members. This was evidenced by 44% of the respondents surveyed who consented that member withdrawal was hampering the SACCO performance. There has been increased competition in the SACCO sector, among the SACCOs themselves and from other financial institutions offering similar services. The strength of a SACCO depends, among other things, the membership base. Therefore, retention and loyalty of members is an important element of SACCO performance. Studies revolving around performance of SACCOs have attracted the attention of many scholars (Zerfeshewa 2010; Kiragu and Okibo, 2014, Mulwa, 2014 among others).

The general objective of this study was to establish the financial factors affecting member loyalty to SACCO's products. This research sought to achieve the following specific objectives: To establish the influence of interest rates on loyalty to SACCO products by SACCO members in Ndege Chai and Imarisha SACCO; To determine the influence of the mode of disbursement of funds on loyalty SACCO products by SACCO members in Ndege Chai and Imarisha SACCO; To establish the influence of variety of financial products offered on the loyalty to SACCO products by SACCO members in Ndege Chai and Imarisha SACCO and To determine the influence of collateral required by SACCOs to SACCO products by SACCO members in Ndege Chai and Imarisha SACCO

II. RESEARCH METHODOLOGY

Research design is the blueprint of the research. It shows how the various components of the research will be integrated so as to achieve the objectives of the research. Accordingly, this study employed a causal comparative research design. A causal-comparative design is a research design that seeks to find relationships between independent and dependent variables after an action or event has already occurred. It is appropriate where the goal of the researcher is to determine whether the independent variable affected the outcome, or dependent variable, by comparing two or more groups of individuals. This design was deemed appropriate for the study because the goal of the researcher was to determine whether the independent variable affected the outcome, or dependent variable, by comparing two or more groups of individuals in an organization.

A target population is the total population in the study in which the researcher wishes to investigate phenomena (Mugenda, 1999). The population of the study constituted of all the active members of Ndege Chai and Imarisha SACCO who were not employees of the respective affiliated companies. This comprised of a population of 441 from which a sample of 209 members was selected using Yamane, (1967) formula.

Data was collected by use of self-administered questionnaire and supplemented by an interview schedule.

The data were tested for reliability to establish issues such as data sources, methods of data collection, time of collection, presence of any biasness and the level of accuracy. The test for reliability established the extent to which results were consistent over time. The assessment of content validity of measures is carried by professional experts. The questionnaire was subjected to a panel of experts in the SACCO and financial industry to check the content relevance. The questionnaire was piloted before the actual survey using 30 respondents from Ndege Chai and Imarisha SACCO. The respondents who participate in the pretesting were eliminated from the actual survey. Reliability test was carried out to test the consistency of the research tools with a view to correcting them. The reliability was measured using Cronbach's Alpha reliability coefficient for Likert-type scale Cronbach, (1951) Collected data were checked for errors of omission and commission. The data collected were analyzed, with respect to the study objectives, using both descriptive and inferential statistics. Correlation analysis tested the relationship between the independent variables and the dependent variable while regression analysis was used to determine the contribution of each independent variable to the dependent variable. The following regression models was used to analyze the data

Model 1

$$Y = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 + \mu$$

Y= Loyalty to their SACCO

X₁ = interest rates

X₂ = mode of disbursement of funds

X₃ = variety of financial products offered

X₄ = collateral required

α₀ = Constant

α₁₋₄ = Coefficients for X₁₋₄ respectively

μ = Error term

III. RESULTS AND DISCUSSIONS

Data was analysed by use of correlation and regression analysis. The regression model was first tested for normality. The study tested existence of multicollinearity and obtained the results in Table 1

Table 1: Collinearity statistics

Variables	Collinearity Statistics	
	Tolerance	VIF
Interest rates	.548	1.826
Mode of disbursement of funds	.508	1.970
Variety of financial products offered	.436	2.294
Collateral required	.427	2.339

Source: Survey data, 2016

a. Dependent Variable: Y

Since the tolerance for all predictor variables were greater than 0.1 or 10%, the study concluded that there is no problem of multi-collinearity among them. So the estimators computed were considered reliable. Furthermore, the corresponding Variance Inflation Factor (VIF) for all the variables were between 1.826 and 2.337 which was within the recommended interval of 1 and 10 indicating nonexistence of any multi-collinearity.

The findings were also analyzed by correlation and regression analysis. The findings are presented in Table 2.

Table 2 Correlation matrix

	Y	X1	X2	X3	X4
Y	1.				
X1	-.848**	1.			
X2	.765**	.607**	1.		
X3	.310*	-.045	-.158	1.	
X4	-.010	-.119*	.074	.689*	1.

Source: Survey data, 2016

X₁ = interest rates

X₂ = mode of disbursement of funds

X₃ = variety of financial products offered

X₄ = collateral required

Findings revealed a significant negative relationship between interest rates and loyalty to SACCO by its members ($r = -.849; p < 0.01$). This means that the attractiveness of interest rates (X₁) of SACCOs compared to other financial institutions is a crucial factor influencing the loyalties of SACCO members. Mode of disbursement of funds (X₂) was also shown to have a significant positive influence of the loyalty of members at $r = .756; p < 0.01$. The other two variable, variety of financial products offered (X₃) and collateral requirement (X₄) were found to have no statistically significant relationship with member loyalty. These results pointed to the conclusion that SACCO products were not highly differentiated and therefore variety of products was not an important factor and that collateral requirements were almost similar in all SACCOs.

The results of the regression analysis are shown in Table 2 and Table 3. Specifically, Table 2 shows the coefficients of each variable while Table 3 shows the summary of the regression model.

The study regressed growth of SACCOs against components of the financial factors affecting SACCO member loyalty to estimate a model for explaining the loyalty of SACCO members in terms of Financial factors.

The loyalty of Members was the dependent variable and the financial factors components were independent variables. To achieve this, a multiple linear regression was done on the financial. The assumption is that, mean of wealth index changes at a constant rate as the values of independent variables decreased or increased. The model is given as:

$$Y_1 = \alpha_0 + \alpha_1 X_1 + \alpha_2 X_2 + \alpha_3 X_3 + \alpha_4 X_4 + \mu$$

Y₁ = Number of years in the SACCO

Y₁ = Frequency of use SACCO products compared to other financial institutions

X₁ = interest rates

X₂ = mode of disbursement of funds

X₃ = variety of financial products offered

X₄ = collateral required

α_0 = Constant

α_{1-4} = Coefficients for X₁₋₄ respectively

μ = Error term

Table 3 Regression coefficients

Model		Unstandardized Coefficients		Sig.
		B	Std. Error	
1	(Constant)	6.042	.248	.000
	X1	-.472	.032	.000
	X2	.334	.036	.000
	X3	.047	.048	.007
	X4	.044	.095	.647

a. Dependent Variable: Y

Source: Survey data, 2016

The estimated Equation is as follows;

$$Y_1 = 6.042 + (-.472)X_1 + .334X_2 + .047X_3 + .044X_4$$

The results in Table 2 show that X₂, X₃ have positive coefficients. This means that every unit change in these variables results to proportionate change in the dependent variable. Proportionate increase in interest rates caused proportionate decrease in member loyalty. Whereas, proportionate increase in efficiency in mode of disbursement of funds and variety of products, resulted to proportionate increase in loyalty of members.

The regression model summary is shown in Table 4. The findings indicated that the R is .907 ($p < 0.001$), R-Square is .907 ($p < 0.001$), the Adjusted R-Square is .818 ($p < 0.001$). These findings indicated that this model accounts for 81.1% of the variations in the customer loyalty among SACCO Members.

Table 4 Regression Model Summary

R	R ²	AdjR ²	Std. Error of the Est	Sig.	FDW
				Change	
.907 ^a	.822	.818	.405	.000	1.889
a. Predictors: (Constant), X4, X2, X1, X3					
b. Dependent Variable: Y					
<i>Source: Research data, 2016</i>					

Collectively, variations in interest rates, X1, mode of disbursement of funds, X2, variety of financial products offered, X3, and Collateral requirements, X4 significantly determine the variations in loyalty of SACCO members (R-square 0.818;p<0.001). The difference between the R Square and the R Adjusted R square is only 0.04 meaning that the model fit is very good. The Durbin Watson Statistic (DW=1.889) is also within the recommended range of 1-3.

The study therefore concluded that interest rates, mode of disbursement of funds, and Collateral requirements, significantly accounts for 82.2% of the variations of membership loyalty in SACCOs and that 17.8% of loyalty of members are attributable by other factors not accounted for by this model.

IV. CONCLUSIONS AND RECOMMENDATIONS

The overall objective of the study was to establish the factors that determine customer loyalty to the products of financial institutions in SACCOs. Specifically, the study sought to establish the effect of interest rates on loyalty to SACCO products by SACCO members in Ndege Chai and Imarisha SACCO, to determine the influence of the mode of disbursement of funds on loyalty SACCO products by SACCO members in Ndege Chai and Imarisha SACCO, to establish the relationship between variety of financial products offered and the loyalty to SACCO products by SACCO members in Ndege Chai and Imarisha SACCO and to determine the influence of collateral required by SACCOs to SACCO products by SACCO members in Ndege Chai and Imarisha SACCO. The findings in respect to each of the objective are summarized as follows.

First, regarding the effect of interest rates on loyalty to SACCO products, the study found that interest rates are an important consideration on the loyalty of SACCO members. This was shown by a significant negative relationship between interest rates and loyalty of SACCO members. Likewise on the effect of mode of disbursement, the study established a positive relationship between the mode of disbursement and the loyalty of SACCO members to their SACCO.

The study established that most members of the SACCO considered the collateral requirements of their SACCO as being comparable to other SACCOs. The risk of default among SACCO members is reduced by the fact that the loans are guaranteed by fellow members' savings. Therefore this finding supports the fact that SACCO security requirements are better than those of other financial institutions.

The study established that variety of products offered by the SACCO had positive relationship with the loyalty of SACCO members. Proportionate increase in variety of products offered

by SACCOs results to proportionate increase in loyalty of members.

Spanning from the findings of the study that interest rates, mode of disbursement and variety of financial products have significant influence on the loyalty of SACCO members, the study concluded that these were the most important financial factors significantly that affect the loyalty of SACCO members and that these were crucial variables that could be manipulated to improve loyalty.

The study established that interest rates have significant negative relationship with members loyalty. The study concludes that increase in interest rates reduces the loyalty of SACCO members. The study findings showed that SACCOs have comparative advantage when compared to other financial institutions regarding it comes interest rates. Many respondents suggested that the interest rates offered by their SACCOs were actually competitive. From the finding that variety of products offered by SACCOs had significant positive relationship with loyalty of members; the study concludes that variety of financial products offered is an important marketing tool, which significantly changed the loyalty of members.

Finally, from the finding that collateral requirement has no significant correlation with loyalty of members, the study concludes that many SACCOs and financial institutions had almost identical collateral requirements and therefore, it may not be considered as an important factor which may shift the loyalty of a SACCO member.

Recommendations:

From the conclusions of the study, several recommendations were made, to the management of SACCOs, policy makers and the academia. First, it was recommended that SACCOs, seeking to enhance retention of their Members should focus on providing competitive interest rates. It has been shown that the cost of capital in Kenya over the recent past has really gone up, leading to a popular law enactment of curbing interest rates. Therefore, stakeholders in financial institutions should focus much on this variable.

Secondly, the mode of disbursement of funds had been shown to had a significant influence on loyalty of SACCO members. This findings lead to the recommendation that, SACCOs should find modalities of improving their efficiency in disbursement of funds. Of essence here was the period taken for approval and subsequent disbursement of funds.

It was also recommended that SACCO's should therefore develop a wide range of collaterals and also develop a policy which allows the use other forms of collateral other than guarantors and shares only. This might increase access to credit in SACCO's, maintain their members and even attract more members to the SACCO.

For academia, this study has made significant contribution. Hitherto, many studies had focused on non-financial factors. This study provided a framework in which related studies could be replicated in other financial institutions.

Recommendations for further studies:

The scope of this study was SACCOs operating in Kericho County. It is recommended that a similar study could be conducted among SACCOs in other areas of jurisdiction. Further

insights regarding the phenomenon could be adduced from a similar study conducted using a longitudinal research design where data is collected on similar respondents over a longer period of time in order to show the loyalty preferences over time and the possible explanations.

REFERENCES

- [1] Daniel, O.A & Josephine, K (2013). Factors Influencing SACCO Members to Seek Services of Other Financial Service Providers in Kenya *International Review of Management and Business Research*, 2(2) 610-621
- [2] Douglas D. and Leonard P. (2000). *Basic Marketing Management*. Hamilton Printing.
- [3] Gachara J. R. (1990). An Investigation into the Investment of Reserve Funds in Savings and Credit Co-operatives in Nairobi. Unpublished Thesis, University of Nairobi.
- [4] Government of Kenya (2005). Baseline Report on Commodities, Products, Services and Marketing systems in Co-operatives. Co-operative Marketing Department.
- [5] Karanja, J.G. and Wachira, A. and Lyria, R.K. (2015). Influence of Collateral Requirements on SACCO's Credit Accessibility in Imenti North Sub-County, Kenya (September 15, 2015). *International Journal of Economics, Commerce and Management*, 3(9)
- [6] Katambo V.M. 1992. Cooperatives, Formation, Management and Settlement of Disputes. Oxford University Press.
- [7] Khalayi, J.A., Alala, O. and Musiega, D. (2014). A Comparative Study of Effects of Interest Rates on Deposits Mobilization among SACCO Members in Kakamega County *International Journal of Business and Management Innovation*, 3 (51) 2014 28-41
- [8] Kiragu, J.M. and Okibo, B. (2014). Financial Factors Influencing Performance of Savings and Credit Co-Operative Organization in Kenya. *International Journal of Academic Research in Accounting, Finance and Management Sciences* 4(2) 291-302
- [9] Mosongo, E. Gichana, I. Ithai, J. and Nguta, M. (2013). Financial Innovations & Financial Performance: A case of SACCOs in Nairobi, County, *Internal Journal of Research in Management* 3(5) 93-100
- [10] Mugenda, O. and Mugenda, A. (1999). *Research Method, Quantitative and Qualitative Approaches*. African Centre of Technology (A.C.T.)
- [11] Mulwa, J.M. (2014). Does Financing Diversification Matter? An Evaluation of the Performance of Savings and Credit Cooperative Societies; a case of Kakamega County, Kenya, *International Journal of Management & Information Technology*, 4(3)
- [12] Nachmias, C.F., and Nachmias, D. (Eds). (1996). *Research Methods in Social Sciences*. St Martin's Press Inc.
- [13] Olando C.O., Jagongo, A & Mbewa M.O. (2013). The contribution of SACCO Financial Stewardship to growth of SACCOs in Kenya. *International Journal of Humanities and Social Sciences* 3(17) 110-136
- [14] Too, J.C. & Muturi, W. (2015). Factors affecting SACCOs Membership in Kenya: A case of SACCO Membership in Kenya. *Public Policy and Administrative Research*. 2(11) 125-135
- [15] Yamane T. (1967). *Statistics, An introductory Analysis*, 2ND Ed, New York Harpes and Row
- [16] Zerfeshewa B. (2010). Determinants of Saving and Credit Cooperatives (SACCOs) Operational Performance in Gondar town, Ethiopia, Thesis. Mekelle: MU

AUTHORS

First Author: Dr. Isaac Naibei, Lecturer, University of Kabianga, School of Business and Economics, P.O. BOX 2030 (20200) Kericho, Kenya naibei2008@yahoo.com
Second Author: Richard Kiprotich Koskei, Ndege Chai Sacco, Kericho, Kenya, Richard.koskei@ngegechaisacco.com
Third Author: Dr. Peter Kimutai Cheruiyot, Senior Lecturer, University of Kabianga, School of Business and Economics, P.O. BOX 2030 (20200) Kericho, Kenya cheruiyotpeterkimutai@yahoo.com