

**STRATEGIC FACTORS AFFECTING COMPLIANCE WITH THE SACCO ACT OF  
2008 BY DEPOSIT TAKING SAVINGS AND CREDIT COOPERATIVES IN NAIROBI  
COUNTY**

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Requirements for the Award of the Degree of Master of Business Administration of  
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**EGERTON UNIVERSITY**

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## **DECLARATION AND APPROVAL**

### **Declaration**

I hereby declare that this research project is my original work and has not been submitted in this form or any other form to this or any other institution for examination purposes.

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Date.....

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### **Approval**

This research project has been submitted for examination with my approval as University supervisor

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## **DEDICATION**

I wish to dedicate this project to my dear wife Jacklyne Cheron, my daughter Amilia and family members who have shown great support towards the fulfillment of this project.

## **ACKNOWLEDGEMENT**

I thank the almighty God for sustaining my life and seeing me through this course at the University. I wish also to thank Egerton University for giving me the opportunity to further my studies and expand my knowledge.

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**GOD BLESS YOU ALL**

## ABSTRACT

Savings and Credit Cooperatives (Sacco's) play an increasingly important role in the process of financial intermediation in the highly competitive financial market in Kenya. Various players in the financial sector are under regulatory arms and include Insurance regulatory authority, Retirement benefits authority, commercial banks under Central bank of Kenya and lately Sacco's under Sacco society's regulatory authority (SASRA). The Sacco societies Act of 2008 (SSA) and subsequently the establishment of the Sacco Societies Regulatory Authority (SASRA) came in against a compromised profitability, mismanagement issues, embezzlement of funds loss of members to banks, incompetent staff, backdrop of losses and poor corporate governance. The study's overall objective was to examine the strategic factors affecting compliance with the Sacco Act of 2008 by Deposit Taking Sacco in Nairobi County. The specific objectives of the study were; establish the effect of human resource capacity on compliance with the Sacco Act by Deposit Taking Sacco's, determine the effect of Information and Communications Technology on compliance with the Sacco Act by Deposit Taking Sacco's, establish the effect of Corporate Governance on compliance with the Sacco Act by Deposit Taking Sacco's and determine the joint effect of human resource capacity, information and communication technology and corporate governance on compliance with the Sacco Act by Deposit Taking Sacco's. The study adopted a correlational research design and a census survey of 42 Deposit taking Sacco's in Nairobi County. Data was collected using a questionnaire and analyzed using descriptive statistics with the aid of Statistical Package for Social Sciences computer software version 21. To test the relationship in the hypotheses  $H_{A1}$ ,  $H_{A2}$  and  $H_{A3}$  Pearson's correlation analysis was used while hypothesis  $H_{A4}$  was tested using multiple regression model in testing the strategic factors affecting compliance with the Sacco Act of 2008 by Deposit Taking Sacco's in Nairobi County. The findings include that Information Communication Technology capacity of the Sacco's in Nairobi County are inadequate; The Sacco's in the County have not attained the required human resource capacity and approximately 80% of the Sacco's have not fully complied with the Societies' Act of 2008. The research's conclusion and recommendations were that Information and Communication Technology capacity, corporate governance and human resource capacity were found to be important as far as compliance with the Societies' Act of 2008 is concerned. These factors present challenges that hinder deposit taking Sacco's from compliance. Therefore more time should be given to deposit taking Sacco's to ensure that they comply with the Act. The research recommends Sacco's to enhance management capacity on compliance issues, establish a training program, while on the other hand the board of directors should initiate change management with an aim of setting realistic user expectations objectives and goals.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>ACCOSCA</b>	African Confederation of Cooperative Savings and Credit Associations
<b>ATM</b>	Automated Teller Machine
<b>BOD</b>	Board of Directors
<b>BOSA</b>	Back Office Savings Activity
<b>CBK</b>	Central Bank of Kenya
<b>CEOs</b>	Chief Executive Officers
<b>CMA</b>	Capital Markets Authority
<b>DTS</b>	Deposit Taking Sacco's
<b>FOSA</b>	Front Office Savings Activity
<b>FSA</b>	Financial Service Authority
<b>ICA</b>	International Cooperative Alliance
<b>ICURN</b>	International Credit Union Regulators Network
<b>ICT</b>	Information and Communication Technology
<b>ILO</b>	International Labour Organisation
<b>IRA</b>	Insurance Regulatory Authority
<b>KERUSSU</b>	Kenya Rural Savings and Credit Cooperatives Union
<b>KUSCCO</b>	Kenya Union of Savings and Credit Cooperatives
<b>MFI</b>	Micro Financial Institutions
<b>MIS</b>	Management Information System
<b>MOCD&amp;M</b>	Ministry of Cooperative Development and Marketing
<b>RBA</b>	Retirement Benefits Authority
<b>SACCO's</b>	Savings and Credit Cooperative Societies
<b>SACCOL</b>	Savings and Credit Cooperative League of South Africa
<b>SASRA</b>	Sacco Societies Regulatory Authority
<b>SASCCO</b>	Swaziland Association of Savings and Credit Cooperatives
<b>SSA</b>	Sacco Societies Act
<b>UK</b>	United Kingdom
<b>WOCCU</b>	World Council of Credit Union

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Cooperative societies are formal organizations that enable their membership make efforts to achieve common objectives on voluntary and democratic basis. According to (Wanyama, 2009), the first ever Co-operative movement was started by Robert Owen in the year 1844. In recent history the Sacco sector has faced tough challenges globally as noted by (WOCCU, 2012) that include income generation, compliance with the Act, mission drifts, competition, insufficient capital among many others. The sectors' financial stability will broadly impact on the nation's employment creation and economic growth. The Sacco industry being part of the cooperative sector in Kenya has impacted on many lives of Kenyans over the years. The sector is categorized into financial and non-financial Cooperatives. Financial cooperatives comprise Sacco's, housing and investment cooperatives while Non-financial cooperatives deal with the marketing of members' produce and services such as dairy, livestock, coffee, tea, handicrafts and many more similar products in other cooperatives.

Deposit-taking Sacco Societies (DTS's) are part of the larger Sacco product sub-sector in Kenya which comprises the non-deposit taking and deposit taking Sacco Societies. The non-deposit taking Sacco's are composed of those Sacco Societies whose business is limited to mobilization of deposits for purposes of lending to members. The deposits are non-withdrawable in that they may be used as collaterals for loans only and can only be refunded upon the member's withdrawal (Annual Sacco supervision report, 2014). Besides the basic savings and credit products offered Deposit Taking Sacco's also provide basic banking services that include demand deposits, payments services and channels such as quasi banking services commonly known as Automated Teller Machines, Front Office Savings Activity (FOSA) and are licensed and supervised by the Sacco Societies Act of 2008. The trend is that Sacco's generally start as non-deposit taking Sacco business and convert to deposit taking Sacco business to expand their range of financial services offered to members (Ademba, 2012).

Deposit taking Sacco's are owned and controlled by its members and operated for the purposes of promoting thrift, credit at low interest rates and other financial services to

members. The justification behind the Savings credit and cooperative organisations (Sacco's) regulation was to ensure that deposit taking Sacco's in Kenya operate under a certain set of stipulated regulations as in Sacco Societies Act (SSA) of 2008. The legislation came into being so as to minimise misuse, embezzlement and mismanagement of members' funds. Stakeholders on the other hand observed that prior to the SSA; lack of regulation was the main reason for stagnation in the sector brought about by issues of mismanagement, poor risk management structure. Sacco regulation came with challenges in Africa out of which many Sacco's have not been able to meet the set requirements of the regulators.

According to SASCCO (2010), Malawi's Cooperative sector had the following challenges lack of technology, lack of good governance, financial viability and lack of products diversification. The head of Rwanda's Cooperative Agency Mabyarimana observed that Sacco's in Rwanda experienced the following challenges that include lack of managerial capacity in Sacco's committees and staff, low capacity of maintaining enough liquidity and Inadequate Management Information systems (MIS) in some Sacco's. Rural Sacco's in Kenya thrived following widespread bank failures in Kenya in the 1980's and 1990's, which led to banks withdrawing from these rural areas. Later many rural Sacco's became associated with Co-operative Bank of Kenya. The loan portfolio and deposit of Sacco's grew and amounted to approximately to 34 percent of national savings and approximately 24 percent of outstanding domestic credit. The World Council of Credit Unions (WOCCU) estimated that the Kenyan Sacco sector had the largest membership in Africa estimated to be above 2.5 million in membership with a share capital and deposits of US\$1.66 billion and a loan portfolio of US\$1.24 billion (WOCCU, 2005).

This study seeks to examine the strategic factors affecting compliance with the Sacco Act of 2008 by Deposit Taking Sacco's in Nairobi County. To attain this the study focused on the Savings & Credit Co-operative Societies (Sacco's) sector. The study's focal point was the Deposit Taking Sacco's compliance with the Sacco Act of 2008 in Kenya. It is envisaged that the D.T.S have various challenges to compliance with the Act. For the purpose of this study the strategic factors envisaged are corporate governance, Information and Communication Technology and Human resource capacity. Stakeholder theory was utilised in order to understand the corporate governance influence on compliance with Sacco Act of importance

to the study was how leadership of the board, separation of powers, board calendar meetings, board charter and code of ethics affect compliance with the Sacco Act.

Diffusion theory was used to study the information and communication technology as an independent variable. The theory is concerned with the spread of innovation, ideas and technology through culture(s). The study thus looked at information preservation policy, automation of Sacco operations, Banking software, computer and networked systems, I.C.T infrastructural support system, backup-system, and the degree of adoption of information systems within the D.T.S. All Sacco's require resources to develop these variables. The study looked at the human resource capacity variable, of concern were the senior staff educational requirements, staff training, staff and board of directors training programme.

### **1.1.1 Savings and Credit Cooperatives (Sacco) Compliance**

Worldwide the cooperative movement faces serious and fundamental challenges which include basic concepts as the nature and aim of the co-operative, as well as its structure and the principles on which it operates leading to calls of regulating the industry. The World Council of Credit Unions (WOCCU) is the leading international trade association and development agency for credit unions that equips cooperatives with the tools and techniques necessary to strengthen their financial management and deliver fairly priced financial services to large numbers of poor and low-income people (WOCCU, 2014). Additionally WOCCU also enables safe and sound institutions to reach greater efficiencies of scale, builds national credit union networks through working closely with credit union leaders, national government officials and policy makers to create appropriate and effective regulatory environments for credit unions.

In the past regulators have proved largely unaware of cooperatives. Despite its large share of the European market Basel II had no mention of cooperatives, Fonteyne (2007). In addition cooperatives were very large and the ability to deal with new requirements without their costs increasing going up too much. Regulators in the United States recognized this issue by exempting community banks from some of their requirements. In other countries across the world, micro- finance laws regulate small cooperatives while large ones come under the banking system (ILO, 2013).

Co-operatives in Africa are important tools for providing financial services to marginalised communities and therefore must be harnessed to help mitigate poverty. Sacco's, like other

business entities in Africa, are faced with challenges in their quest towards survival and growth hence the need for regulation, Ademba (2012). Regulation and supervision of Sacco's in most African countries are under the Banking Supervisory Authority (Central Banks) with the exception of South Africa and Kenya who have their Act targeted specifically at Sacco's (SASCCO, 2010).

African countries have focused attention on the legislation of non-banking financial institutions and microfinance institutions, some have adopted prudential standards specific to Sacco's while others use existing banking laws to regulate the Sacco's. South Africa and Kenya have independent regulators with specific regulations that is Co-operative Banking Act and Sacco Societies Act respectively (Ademba, 2010). WOCCU in 1991 did an assessment of the viability of the movement in South Africa and found that only three of the existing 47 Sacco's were viable. This resulted in a shift in the movement towards a more business oriented approach focused on developing strong and sound Sacco's with the long-term interests of members in mind, as compared to short-term gains. In the year 1993 South Africa formed a self-regulatory body for all Sacco's in the Country the Savings and Credit Co-operative League of South Africa, (SACCOL, 2014).

Makori (2013) found that various players in the Kenyan financial sector are under regulatory oversight that is vested in the various authority arms, that is retirement funds under the Retirement Benefits Authority (RBA), commercial banks regulated by the Central Bank of Kenya (CBK), listed companies fall under the Capital Markets Authority (CMA) and insurance companies under the Insurance Regulatory Authority (IRA). Sacco's are the latest to be brought to the regulatory fold under the Sacco societies regulatory authority (SASRA) which was inaugurated in 2009 and charged with the prime responsibility to license and supervise D.T.S by ensuring that there is confidence in the public towards the Sacco's and to protect the interests of SACCO members .

According to Ademba (2012), out of the 19 million adult Kenyan population approximately 22.5% are served by commercial banks and micro financial institutions (MFI) while 17.6% are served by Sacco's. Hence, due to the combination of providing retail services to low income population and having a large coverage that Sacco's must be regulated. The new legal framework consist of the Sacco Societies Act of 2008 and Sacco Societies Regulations of

2010 particularly targeting the Sacco societies that carry out the deposit-taking business and operate Front Office Savings Activities (FOSA).

The justification behind an oversight agency for the FOSA, was that Sacco's were accepting deposits that was particularly considered a high-risk activity as depositors risked losing their money and savings in an event of liquidity squeeze. Five years after the implementation of the Act, many Sacco's are still struggling to meet the requirement and hence remain unlicensed. SASRA report in 2014 illustrate that seventy three Sacco's have been licensed against two hundred and sixteen Sacco's that applied while forty eight Sacco's issued with Letter of intent. The report cited various challenges including Capital adequacy, lack of responsible governance players as the major impediments to compliance of the regulations. It is from these that the study focused on Human resource capacity, Information and communication technology and Corporate governance as the key strategic factors that Sacco's have to put in place in order to meet the basic requirements.

### **1.1.2 Strategic Factors affecting Compliance**

According to Robinson (2012), strategic factors are those things that an organization or business entity need to get right in order to succeed with their key stakeholders, that is customers, employees, owners and suppliers. Strategic Factors provide not only a common currency that links the way but also a pathway to success in which strategic planning and performance measurement are undertaken. Link being the key word and Strategic Factors form that link. Strategic Factors across other sectors also provide the tools to be able to address the needs not just of private sector profit-seeking organizations, but also of nonprofit organizations from both the private and public sectors. Strategic Factors act as integrators because all organizations have them at their core. According to Miller and Spoolman (2014) the term strategic means decisions or plans are designed to impact favorably the key factors on which the desired outcome of an organisation, game, system or venture depends. The strategic factors that savings and credit cooperatives have to put in place in order to satisfy the Act requirements are human resource capacity, information and communication technology and corporate governance, these words have been echoed by SASRA report of 2013.

There are several factors that Sacco's seeking to become deposit taking Sacco's, have to meet as stipulated by the Act in order to operate, they include putting in place a management



information system, payment of a licensing fee of fifty thousand shillings for a head office and twenty thousand for every branch outlet, developing a comprehensive risk management framework and capital adequacy requirements including a Core capital of not less than Ten million Kenya shillings of total assets, Institutional capital of not less than 8% of total capital and Core capital of not less than 8% of total deposits and employing a competent internal auditor as per accountants professional standards.

According to SASRA in 2013 Capital adequacy Challenges, lack of responsible governance players were the major impediments to compliance of the regulations. Further, Governance Structure comprising of elected officers were heavily involved in the operational affairs of the Sacco to the exclusion of the technical staff is deeply entrenched limiting the effectiveness and efficiency of the Act and regulations in licensed deposit Taking Sacco's. The Internal audit function either does not exist or the Internal Auditor is not qualified as per the legal requirements. Some Sacco's opted to stop operating the FOSA and others have not bothered to apply for the License owing to these challenges.

There are several factors that affect Sacco's to compliance with Sacco Act of 2008, they include non-separation of shares from deposits, lack of liquidity monitoring system, high investment in non-earning assets, high independence on short-term external borrowing, inadequate ICT system, inadequate managerial competencies, political interference, size and diversity, inadequate technical skills both at management and board levels. In this research the term strategic factors have been used to mean key factors that have to be in place to enable a Sacco fully complying with the requirements as stipulated in the Act.

### **1.1.3 Savings Credit and Cooperative Societies (Sacco's)**

According to the International Cooperative Alliance (ICA) in 1995 a co-operative is defined as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled Enterprise. Sacco's play a significant role in empowering their members Socio-Economic Status all over the world. In Western Europe there are around 11,000 local and regional saving and credit cooperatives banks, with over 56,000 outlets a 33 million strong membership and a staff of more than 400,000. Their market share is approximately 17% of savings, ranking third after the commercial and savings banks (Shaw, 2006). Regionally in Africa at least 28 countries have established Credit Unions (SACCOL, 2014). According to

WOCCU statistical report in 2012 on 101 countries surveyed, Africa has a membership of 16 million making it third in membership size after North America and Asia which have 105 million and 41 million respectively. Africa has a total of 20,831 Credit Unions or 37% and is second only to Asia that has 21,934 Credit Unions or 39% with a Sacco membership of 16 million constitutes 8% of the entire world membership of 200 million. (WOCCU, 2012).

The first Kenyan Sacco was registered in 1964 after the Country became independent in 1963. The Kenyan sector is by far the largest Sacco sector in Africa with several of Kenya's largest Sacco's having large capital enough to rival banks (Owen, 2007). Ademba (2010) notes that the Sacco movement has evolved in the past 40 years into a formidable force for the economic and social transformation of Kenyan people with approximately 63% of the Kenya population directly and indirectly depending on the co-operative related activities for their livelihood. The Sacco sector has also mobilised over Kshs 200 billion in savings which is about 31% of the national savings and 70% of the total Africa continental portfolio is Kenyan, with Kenya sitting in the group of the 10 largest cooperative movement (G10) members countries and ranked seventh worldwide. According to WOCCU (2012), of the total savings mobilised by Sacco's in Africa and loans advanced, Kenya contributes 62% of the savings and 69% of the Sacco loans.

According to Ondieki, Okioga, Okwena, and Onsase (2011) Kenyan cooperative sector plays a significant role in the financial sector as it contributes approximately 45% of the Country's Gross Domestic Product. The total number of Sacco's in Kenya stood over 6,000 as at December 2013, this comprised of over 5,785 non-D.T.S and 215 D.T.S. (Sacco, 2013). The non-D.T.S are supervised by the Commissioner for Co-operatives while D.T.S are licensed and regulated by SASRA while (SASRA, 2012).

### ***1.2 Statement of the Problem***

The Kenyan Sacco sector is seventh worldwide and the largest in Africa (Ademba, 2010). The sector has been observed to contribute approximately over 45% to the Kenyan Gross Domestic Product, the total financial industry and consequently the economy (Ministry of Cooperative Development and Marketing, 2010). It is estimated that approximately 63% of the Kenyan population depend on Sacco related activities for their livelihood (Ondieki et al, 2011). The major innovation in the development of the sector in Kenya was the development of D.T.S. offering banking services (Owen, 2007). The D.T.S contribute over 70 percent of

the assets, member deposits, loans and 78 percent turnover of the total Sacco sector. As at December 31, 2013, out of the 215 D.T.S in Kenya, 135 had fully complied and were licensed by SASRA (SACCO, 2013).

There is limited empirical literature available in this area as the regulations came in force in the year 2010. According to Macharia (2013) the effect of licensing requirements on the performance of Sacco's found that most Sacco's had compliance challenges. According to Magali (2013) study on Tanzania Sacco's he recommended that there should be a continuous monitoring of regulatory compliance. Muriuki and Ragui (2013) study on the Impact of the Sacco Societies Regulatory Authority (SASRA) Legislation on Corporate Governance in Co-operatives in Kenya. The study was anchored on the impact of this legislation on financial management of Sacco's, it only highlighted the impact of the legislation on corporate governance. The findings found that the legislations indeed influenced corporate governance to a great extent though there is still room for improvement. The study recommended synchronization of key monitoring tools with the Sacco's systems and processes achievable via exploitation of information and communication technologies. In addition, it recommended building the right infrastructure and allocating the right resources and human capital. The study focused on only one variable which is corporate governance.

According to Gweyi and Karanja in 2014 the major problem facing Sacco's was inadequate regulatory compliance and recommended that a study targeting all D.T.S be done. According to Mosongo, Gichana, Ithai, and Nguta (2013) study on regulation compliance on Sacco's under supervision by the Commissioner of Co-operatives. The study recommends that there was need to address the challenges to regulation compliance for the D.T.S to strategically exploit their full potential. Furthermore the studies available in the literature review were restricted in scope as they were case studies or focused on particular regions of a country but Nairobi county has not been studied . The factors that affect successful regulatory compliance also differ significantly because of contextual factors such as Sacco size divided into large, medium and small savings credit and cooperative societies but the mentioned studies did not consider its effect. This is despite the fact that according to SASRA (2013) D.T.S were ranked according to asset size. This study therefore sought to examine and provide more insight into the Strategic factors affecting compliance with the Sacco Act of 2008 by Deposit Taking Sacco's in Nairobi County.

### **1.3 Objectives of the Study**

The general objective of the study was to examine the strategic factors affecting compliance with the Sacco Act of 2008 by Deposit Taking Sacco's in Nairobi County. The specific objectives of the study are to:

- i. Establish the effect of human resource capacity on compliance with the Sacco Act by Deposit Taking Sacco's.
- ii. Determine the effect of Information and Communications Technology on compliance with the Sacco Act by Deposit Taking Sacco's.
- iii. Establish the effect of Corporate Governance on compliance with the Sacco Act by Deposit Taking Sacco's.
- iv. Determine the joint effect of human resource capacity, information and communication technology and corporate governance on compliance with the Sacco Act by Deposit Taking Sacco's.

### **1.4 Research Hypotheses**

The study tested the following hypotheses:

H<sub>A1</sub>: Human resource capacity significantly affects compliance with the Sacco Act by Deposit taking Sacco's

H<sub>A2</sub>: Information and communication technology significantly affects compliance with the Sacco Act by Deposit taking Sacco's

H<sub>A3</sub>: Corporate Governance significantly affects compliance with the Sacco Act by Deposit Taking Sacco's.

H<sub>A4</sub>: Human resource capacity, information and communication technology and corporate governance jointly significantly affects compliance by deposit taking Sacco's with the Sacco Act.

### **1.5 Significance of the Study**

The study was important to the management of policy and practice as it seeks to guide the government, managers and practitioners in designing and dealing with rapid changes in the business environment and guide them on how they will utilize the knowledge for the purpose of evaluation, effectiveness and control of implementation of the Sacco Act. The findings and recommendation of the research would provide valuable insight that shall enable the Sacco organization to evaluate how they are implementing the Sacco Act and how they can fully

adhere to set procedures set to fully comply with them. In addition, it might help policy makers with additional information and measures on how to counter and improve on challenges and how to adjust them so that more and more Sacco's can be able to offer deposit taking business to their members and public through having the right information and communication technology software and hardware, the right skills required in terms of skills in staff and board of directors. The study aimed to provide solutions that could be used to enhance compliance of the Sacco Societies Act 2008 which was a crucial step in the government's attempt to regulate and control the first growing Sacco sector. The findings were beneficial and significant; to the implementation authorities like Sacco Societies Regulatory Authority (SASRA) and Ministry of Industrialization on what needs to be done and how to get involved in capacity building for weaker Sacco's to ensure success of the implementation process.

The study also seeks to enhance knowledge and literature in the field of strategic management. Both academicians and researchers would benefit since the study would provide insight on factors that affect compliance by deposit taking Sacco's and how they can be mitigated. The study would also be used as a basis for further research by other academicians in the field of Sacco and other business sectors.

### **1.5 Assumptions of the Study**

The study was based on the assumptions that regulations and having a regulator is key in the development of any industry and subsequently in any nation. The study also assumed that the selected factors chosen are the key strategic factors affecting deposit taking Sacco's on compliance with Act of 2008. Further it's also assumed that the sample chosen would be representative and the respondents to the instruments of data collection were both objective and truthful.

### **1.6 Scope of the Study**

The study focused on the strategic factors affecting compliance with the Sacco Act of 2008 by D.T.S in Nairobi County. The scope of the study were 42 deposit taking Sacco's. Nairobi County was chosen since it hosts the highest number of Deposit Taking Sacco's in Kenya. The respondents were Executive officers including Chief Executive Officers and other senior managers of the deposit taking Sacco's who are the key individuals in the decision making process of the Sacco's and therefore key to the research study.

### **1.7 Limitations of the Study**

There were challenges in acquiring necessary information from some of the Deposit Taking Sacco's due to sensitivity of the data required for the study depending on the policy of data classification in various institutions. The researcher overcame these by obtaining a letter from Egerton University authorizing him to carry the research purely for academic work. In addition, the respondents were assured that the information will be kept very confidential. The study was carried out in Nairobi County and therefore limited the scope of study to overcome these the study was generalized.

### **1.8 Operational Definition of Terms**

**Co-operative:** An autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

**Corporate Governance-** Corporate governance is a system or set of mechanisms by which an organization is directed and controlled in order to achieve its mission and objectives. It's a framework of rules and practices by which a board of directors ensures accountability, fairness and transparency in a Sacco's relationship with its stakeholders (members, customers, employees and the community).

**Deposit Taking Sacco's (D.T.S)** - A Deposit Taking Sacco is a Sacco authorized to operate Front Office Savings Activity (FOSA). FOSA's carrying out banking services to both internal and external members. The D.T.S provides a wide array of financial products including demand savings account, custodial services and ATM services.

**Information and Communication Technology-**Information Communication Technology can be defined as technologies that facilitate communication and the processing and transmission of information by electronic means. ICT is the technology, which supports activities involving the creation, backup, together with the related methods, management and application storage, manipulation and communication of information.

**Compliance-** Compliance means conforming to a rule, such as a specification, standard or law. Regulatory compliance describes the goal that public agencies or corporations aspire to achieve in their efforts to ensure that personnel are aware of and take steps to comply with the regulations. In this study compliance means ability of DTS to integrate and follow regulations laid down by SASRA.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter reviews the theoretical perspectives of the concept, examines past contributions and works of various scholars on the various strategic factors affecting the compliance with the Sacco Societies Act 2008. Also it discusses the relationship between the strategic factors and how it affects compliance .It contains theoretical framework, conceptual framework and empirical framework.

#### **2.2 Savings Credit and Cooperative Societies Compliance**

Worldwide the cooperative movement faces serious and fundamental challenges which include basic concepts as the nature and aim of the co-operative, as well as its principles and the structure on which it operates leading to calls of regulating the industry. The World Council of Credit Unions is the leading international trade association and development agency for credit unions that equips cooperatives with the tools and techniques necessary to strengthen their financial management and deliver fairly priced financial services to low-income people and large numbers (WOCCU, 2014). WOCCU also builds national credit union networks, which enable sound and safe institutions to reach greater efficiencies of scale, national government officials, working closely with credit union leaders, policy makers to create appropriate and effective regulatory environments for credit unions.

World Council of Credit Unions has a long and successful history working with multinational, private partners and bilateral to develop and strengthen member owned credit unions and their national or regional systems around the world. For example WOCCU advocates before the Basel Committee on Banking Supervision, an international standards setting body that was established by the Bank for International Settlements to formulate policy on prudential standards and best practices among financial regulators globally (WOCCU, 2014). According to ILO (2013) in the economically developed countries, the recent banking crisis has led inevitably to increased regulation of the banking system by government under a tightened Basel III regime. From the point of view of cooperatives that have already proved their soundness, there is the threat of too much regulation. In contrast in developing countries there is often a lack of effective regulation from governments unable to supervise thousands of small societies. Here the threat is of too little regulation. In both

scenarios, there is the threat of inappropriate regulation by governments that do not understand the cooperative difference (ILO, 2013).

According to Fonteyne (2007) past regulators have proved largely unaware of cooperatives. For instance, Basel II had no mention of cooperatives, despite its large share of the European market. In addition cooperatives can either be very large, and able to deal with new requirements without their costs increasing too much or very small, and here inappropriately detailed requirements will impose costs that will damage their competitiveness. Regulators in the United States have recognized this issue by exempting community banks from some of their requirements. In other countries, microfinance laws regulate small cooperatives while large ones come under the banking system (ILO, 2013).

WOCCU played a key role in the formation of the International Credit Union Regulators Network (ICURN) in 2007. The Network purpose was to share information and ideas on topics of common interest among credit unions and financial cooperative supervisors and to undertake research on specific issues or topics related to financial cooperatives and their oversight. Membership in the ICURN was open to all entities that have statutory supervisory authority for credit unions and financial cooperatives in their respective jurisdictions. A steering committee of representatives from several regions across the world leads the Network and WOCCU serves as the Secretariat, the committee's role was to help coordinate the network and to assist WOCCU in organizing the annual Regulators Roundtable (WOCCU, 2014).

According to Ademba (2012) Co-operatives in Africa are important tools for providing financial services to marginalised communities and must be harnessed to help alleviate poverty. Like any other business entity in Africa Sacco's, are equally faced with challenges in their quest towards survival and growth hence the need for regulation. Most of the African countries, regulation and supervision of Sacco's are under the Banking Supervisory Authority (Central Banks) with the exception of South Africa and Kenya who have acts targeted specifically at Sacco's (SASCCO, 2010).

Most countries in Africa have focused attention on the legislation of microfinance and non-banking financial institutions, out of which some have adopted prudential standards specific to Sacco's while others use existing banking laws to regulate Sacco's. Kenya and South



Africa have independent regulators with specific regulations Sacco Societies Act and Co-operative Banking Act respectively (Ademba, 2010). WOCCU in 1991 did an assessment of the viability of South Africa's movement and found that only three of the existing 47 Sacco's were viable. Thus resulted in a shift in the movement towards a more business oriented approach focused on developing strong and sound Sacco's with the long-term interests of members in mind, rather than short-term gains. In 1993 a self-regulatory body for all Sacco's in the country was formed, it was known as the Savings and Credit Co-operative League of South Africa (SACCOL, 2014).

According to Makori (2013) various players in the Kenyan financial sector are under regulatory oversight that is vested in the various authority arms. Listed companies fall under the Capital Markets Authority (CMA), Retirement funds under the Retirement Benefits Authority (RBA), commercial banks regulated by the Central Bank of Kenya (CBK) and insurance companies under the Insurance Regulatory Authority (IRA). Sacco's are the latest to be brought to the regulatory fold under the SASRA which was inaugurated in 2009 and was charged with the prime responsibility to license and supervise D.T.S in order to protect the interests of SACCO members and ensure that there is confidence in the public towards the Sacco's. According to Ademba (2012), of the 19 million adult Kenyan population 22.5 % are served by commercial banks and micro financial institutions (MFI) while approximately 17.6 % are served by Sacco's. It is therefore due to the combination of providing retail services to the low income population and having a large coverage that Sacco's must be regulated.

### **2.2.1 Specific Regulatory Provisions Requirements for Sacco's**

According to the Sacco Act of 2008 (Section 24) and Regulations (Section 4) detail the main Regulatory Provisions, a Sacco will be subjected to the following after licensing. Equivalent to other deposit-taking financial institutions in Kenya, Sacco's have to comply with a wide range of regulatory provisions in their day-to-day operations. These include but not limited to Governance rules at a minimum, the Board of Directors (elected at the Annual General Meeting) have to establish an audit committee and credit committee. The committee's responsibility will be to establish appropriate policies on credit, liquidity, information preservation, dividend, investment, human resource, savings and risk management.

A major change on governance was that directors and senior management are subject to vetting (fit and proper test) by SASRA. The separation of the responsibilities of the Board and management has been clearly outlined in the Regulations to ensure accountability and transparency in running of the Sacco. As relates reporting requirements, Sacco's are subject to adhering to monthly (capital adequacy, liquidity, and deposits), quarterly (risk classification of assets and loan loss provisioning, investment returns, financial performance) and annual (audited financial statements).

### **2.3 Strategic Factors**

Several studies have emerged in recent history that have shown the relationship between both financial factors and strategic factors on regulation compliance with the Sacco Act of 2008 by deposit taking Sacco's in Kenya. According to Macharia (2013), the effect of licensing requirements on the performance of Sacco's found that most Sacco's had compliance challenges. According to Mvula in 2013 report presented on common issues affecting performance of Sacco's and pointed out that the issues affecting performance of Sacco's are inadequate capital, poor governance, poor asset quality, poor profitability, poor liquidity and non-compliance, on the other hand Ademba (2011) discussed some of the factors affecting performance of Sacco's as weak regulation, low marketing, limited product and services and poor image.

According to Wasike (2012) on corporate governance practices and performance at Elimu Sacco in Kenya sought to achieve two objectives; to find out influence of corporate governance practices on the performance and to establish the challenges facing corporate governance practices at Elimu SACCO. The findings indicated that the main tasks of corporate governance involved providing for transparency and legitimacy of corporate activity, assuring corporate efficiency and mitigating arising conflicts, lowering risk for investments and providing high returns for investors and delivering framework for managerial accountability. According to Ngaira (2011) a report on the impact of SACCO regulatory authority guidelines on SACCO operations in Kenya a case of Nairobi deposit taking Sacco's looked at the impact SASRA has had on Sacco performance since its inception. It concluded that SASRA regulations have greatly impacted performance of Sacco's in terms of outreach and sustainability. Most SACCOs reported recent improvement in their performance both in membership, portfolio and loan cycle and general efficiency.

This was attributed to a number of factors ranging from high demand and quick recoveries, increased membership, high efficiency, one can easily attribute this to be as a result of SASRA regulatory framework.

According to Muriuki (2010) on the factors affecting Sacco performance in Meru South district a case of Tharaka Nithi Teachers Sacco. The broad objective was to investigate the effects management variables on Sacco's performance in TNT Sacco. The results showed that governance had enormous effects on the Sacco performance. Further, the results also indicated that the aspects of education and training played a major role on influencing governance structures. The researcher recommended that the Sacco diversifies its products to take into account the needs of the members and the availability of market as a means for resource mobilization. From the above studies by Wasike, Ngaira and Muriuki the choice of variables are the key strategic factors that affect compliance with the Sacco Act of 2008. For the purposes of the study the key factors that were looked at were corporate governance, human resource capacity and Information and communication technology as the key factors that affect Sacco compliance with the Act of 2008.

#### **2.4 Strategic Factors and Compliance**

The strategic factors in these study are human resources capacity, information and communication technology and corporate governance. These factors affect compliance of deposit taking Sacco is to compliance with the set requirements as per the Sacco societies Act of 2008. Both Boards of directors and senior management are accountable for the internal governance of the Sacco's Drake (2002). The annual general meeting or assembly is the supreme authority with the highest decision making organ in the Sacco's. It has a duty to the general assembly, senior management must be accountable for the implementation of policies, preparation of the budgets, strategic plans and achievement of predetermined targets specified in the strategic plans.

According to Andrew (2008) carried out a study to assess the impact of the new regulatory framework and the continued poor perception of credit unions amongst users of financial service products. Another assessment was made of what future may hold for the direction of the United Kingdom credit union sector. The study found out that the membership of the credit unions was growing, as well as member's deposits and loans, but the numbers of credit

unions were falling. The result ultimately led to a strong, secure and professionally managed credit union sector, capable of meeting the credit needs of a wide range of persons.

The underlying factor behind merger activities is the beneficial side effect of economy of scale for which Mckillop et al (2002) noted was a considerable scope which in return allowed credit unions to diversify into a range of product and services. The management of these ranges of highly sophisticated portfolio of investments needed highly qualified managers to run efficiently. Increasingly members of credit unions, particularly to those that had merged to form larger entities, employed professional personnel in key roles such as managers as regulatory requirement became a reality. There was a downside to merger, consolidation drive in that it is arguable that such a move will ultimately threaten the viability of smaller Sacco's, forcing them into merger and possibly affecting new start up rates of borrowing of their credit facilities. The credit union ethos had always been as self-help financial cooperatives and the push to merger, led to larger financial organizations professionally managed which competed effectively with other financial institutions.

Although policies are not a requirement in the provision of the Act, all Sacco's are required to have by laws that define at the minimum the field and requirement for membership scope of activities, duties and responsibilities of the Board members, committees and operational staff. In the absence operational policies, some activities like setting interest rates on loans and saving products have been institutionalized in the bylaws, Ademba (2011). Because of these, Sacco's are forced to refer to the Annual general meeting for operational decisions that can be easily made by senior management kept their interest rates below market rates despite higher borrowing costs, fluctuating inflation, stiff competition, rates and changing cost structures Sacco's are required to comply with the standards set by the regulatory body.

In Kenya, the Ministry of Cooperative Development and Marketing oversees Sacco's activities but this will move to Sacco societies regulatory Authority (SASRA) established by law. Currently, Sacco's are not monitored properly as there is no annual or frequent examination of Sacco's by the regulatory body. Moreover, there exists no comprehensive set of standards by which Sacco's should comply (WOCCU, 2008). Hence it's hoped that the new Sacco regulation will establish prudent standards that will govern the Sacco sector. The standards established will enhance benchmarking and enforce safety and sound principles to safeguard Sacco's from losses. As financial institutions, Sacco's should be accountable to

their members, stakeholders and to the public by enhancing excellence through professionalism (Ademba, 2011).

According to Wanyoike (2013) study on the effect of compliance to SASRA Regulation on financial performance of Sacco's found out that qualifications should be upgraded for managers to have more qualifications, since this qualification was needed for a better performance. The boards of directors should also to be trained or and elected on professional grounds. Maintaining competitiveness with much larger rival's demand that credit unions focus on both efficiency and member and customer satisfaction. While mergers can potentially increase efficiency, they can also reduce member's satisfaction through rationalization of staff and/ or branches and from the problems in the integration of systems, procedures and technologies (Ralston et al, 2001).

Overall, it is submitted that with supervision and regulations passed to Financial Services Authority (F.S.A), the outlook for credit unions in the United Kingdom (U.K) was better than at any in history. The results of the new regime ultimately led to a strong, secure and professionally run credit union sector, capable of meeting the credit needs of a wide range of persons. However, it must be noted this did not happen overnight as the move away from wholly volunteer run organizations was not universally popular. The enforced professionalism has put a lot of administrative load that has led a reduction in number of credit unions and further increasing pressure on consolidation. In the long run the move from long held ethos self-help community credit union, to much larger financial service providers, as evidenced by the movement in the USA, ACCOSCA (2008).

Credit unions can help social and financial exclusion, however, state bodies must also recognize that they will only be able to help if they prove successful at attracting more members, highly qualified staff. The regulation and legislation must reflect the need to allow credit unions to attract all members of the society, by allowing them to provide competitive, effective and efficient reliable services preferred by customers. The governance structure of Sacco's assume legitimacy via the votes of its members who surrender their wealth or administration to board of management (Muchemi, 2005). The board can therefore make or break the wealth acquisition aspirations of the Sacco membership. One way through which Sacco's can improve management financial decisions is through provision of financial education and training to its members. Broadly defined, financial education and training

encompasses all aspects of our lives and it revolves around the ability and courage to enable us acquire logical wealth acquisition and management skills. If rightly applied, the knowledge can positively impact on the running of these Sacco's. It is therefore important to understand the life cycle of wealth creation and management and its relevance to various stages of Sacco's growth prospects.

#### **2.4.1 Corporate Governance and Compliance**

Owen (2007) argues that governance in Kenyan Sacco's are typically weak because of their 'management Board' system which results in the absence of clear division between roles of the board and management committees. The boards and management capacity of most Sacco's is weak with board membership largely seen as a stepping-stone into politics. This causes board membership to be occupied by individuals not necessarily interested in enhancing member interests. Okwee (2011) found that a significant number of Sacco do comply less with corporate governance guidelines which may relatively explain the poor financial performance of these Sacco's. SASCCO (2010) also found that in some instance, an attempt to implement good corporate governance is perceived by leaders as an act of questioning their ability to perform.

Lari (2009) argued that corruption and mismanagement were two significant challenges facing Sacco's in today in Kenya. According to Bwana and Mwakujonga (2013) Sacco's board of directors were not trusted by their employees. Furthermore, there were no adequate guidelines on various stakeholders in Sacco's. For instance, the authority of the Executive Committee and Credit Committee in comparison with staff authority was not properly defined. In addition, the board members in most cases were non-professional volunteers, yet they assumed very highly technical issues such as loan analysis and disbursement, budgeting and financial expenditure control.

According to Bwana and Mwakujonga in 2013, Sacco's frequently require very important decisions to be made on urgent matters such as change in interest rates, introduction of new products and services to be done expeditiously, however most of this decisions have to await approval by the Annual General Meetings. The historical practice where the board of directors (B.O.D) comprising of elected officers heavily involved in operational affairs of the Sacco, to the exclusion of the technical staff and the C.E.O, was deeply entrenched limiting the effectiveness of the Act and Regulations in D.T.S. The Sacco B.O.D was charged with the

responsibility of ensuring sound and prudent management of Sacco affairs through implementation of sound and effective policy framework (SASRA, 2012). This however has been a key concern in a majority of Sacco's where there is need to improve on the corporate governance front to ensure realisation of the Sacco's full potential.

#### **2.4.2 Information and Communication Technology and Compliance**

According to Owen (2007) lack of good computerised systems was a major constraint in efficient operations. In its absence, it proved very difficult to track loan delinquencies, aging of accounts, provisioning, write offs, and ensure that accountants and financial managers apply business rules consistently. Furthermore, most Sacco's had a manual or simple spreadsheet-based accounting and communication technology systems. Even in Sacco's which had computerised systems, these were not integrated between front and back office. The exceptions are some of the top Sacco's that are using off the shelf software and some others that have developed customised systems. The key factor constraining the adoption of computerised systems is the limited capacity of Sacco boards and managements. The weakness of the underlying communications infrastructure was also a factor constraining adoption of networked systems.

Makori (2013) noted that an inadequate ICT system and underdeveloped Management Information System (MIS) is a challenge facing regulatory compliance in Sacco's. This was a significant challenge for the Sacco sector given that large Sacco's have several thousand clients and a wide variety of products. New products required sophisticated cash flow loan management systems that allowed staff and managers to generate the necessary types of reports for proper loan monitoring and recovery management. This unfortunately was lacking in most Sacco's. The operating regulations and prudential standards defined new ways of doing business thus requiring heavy investments by the Sacco's in upgrading the existing management information systems for effective compliance (SASRA, 2012). The pace of the upgrade was however slow, importantly as well was that generation of data by Sacco's is not entirely without integrity issues on its accuracy and consistency.

Information and communication technology (ICT) is a system that manages information, collects, processes, stores, analyses and distributes it to users for a specific purpose or objective. Information and communication technology are distinct from other information systems in that they are designed to be used to analyse and facilitate strategic and operational

activities in the organisation (O'Brien, 1999). An ICT system thus provided information that was needed to manage organisations efficiently and effectively. Information and communication technology are not only computer systems these systems encompass three primary components: technology, people (individuals, groups, or organizations), and data/information for decision making.

According to Turban, Volonino, and Wood (2013) there are six components of an information system; software, data, network, procedures, hardware and people. Hardware relates to a set of devices such as monitor, keyboard and mouse while software are the programs that act as processor to process data or inputs, data is the information collected, network is the telecommunication system such as phones or internet while procedures relate to a set of instructions about how to combine the hardware and people are those individuals who relate with the system, interface with it or use it output (Turban et al., 2013). ICT provide information organisations require to manage themselves efficiently and effectively and are distinct from other information systems because they are used to analyse and facilitate operational and strategic activities (O'Brien, 1999).

### **2.4.3 Human Resource Capacity and Compliance**

Human resource capacity gap in terms of senior management skills, educational levels and competence have been noted in majority of Sacco's. This is reflected as Sacco's inability to meet the minimum regulatory requirements. A resource is defined as anything that is used to produce benefit. Benefits of resource utilisation may include increased wealth, meeting needs or wants, proper functioning of a system or enhanced well-being (Miller & Spoolman, 2014). Makori (2013) noted that inadequate managerial competence is a great challenge facing regulatory compliance of Sacco's. According to Ondieki et al., (2011) reveals that the major challenges inherent in the Sacco movement in Kenya include limited transparency in management of co-operatives and lack of management capacity. Magali in 2013 observes that Sacco's had poor management, lack of competence and accountability of staffs and Sacco's leaders.

According to Bwana and Mwakujonga (2013), lack of education and skills among staff are prevalent in Sacco's. According to Mugo (2013), lack of career development path and low salaries of personnel also militates against reforms implementation. Owen in 2007 notes that the majority of Sacco's have no operational manuals detailing policies and procedures for



accounting, credit and savings operations, internal controls, cash flow management, procurement and risk management. This makes it almost impossible for auditors to assess compliance or detect fraud. Internal audit capacity in most Sacco's is therefore very weak.

Management board members generally do not have any formal training in finance and accounting and there is also conflict of interest since the audit committee members also have a role in operational decisions through their role in management. Furthermore, few Sacco's have an internal control staff employed. According to Owen (2007) a small proportion of Sacco's have well qualified and paid managers and staff since only these can pay attractive salaries. The study observed that as far as the training by the apex body of Sacco's was concerned only a small proportion of large Sacco's could afford training services at Kenya Union of Savings and Credit Cooperatives (KUSCCO) or Kenya Rural Savings and Credit Co-operatives Union (KERUSSU). It was therefore imperative that human resource functions in Sacco's should be aligned to the key functions and output areas (SASRA, 2012). In particular the regulation is very clear on the academic and skills qualification requirements of key personnel, an area yet to be fully implemented by Sacco's.

A threshold of the required qualification of the senior staff which has meant that Sacco's had to go back to the drawing board and recruit more qualified staff as per Sacco Societies Regulatory Authority (SASRA) while at the same time they had to train the already existing staff in order to meet set regulations. According to Sasra regulations, an internal auditor should be a qualified Certified Public Accountant and also pass the test of integrity. Training of staff has been emphasized by SASRA thus the authority conducts seminars from time to time. Previously Sacco staffs were being recruited based on nepotism and most of them did not have relevant qualification. This has changed with the introduction of Sacco Societies Act (SSA) of 2008 regulations.

## **2.5 Theoretical Framework**

### **2.5.1 Stakeholder Theory**

Stakeholder theory was utilised in order to understand how corporate governance influence on compliance of SASRA regulations, of importance to the study was how powers were shared between board of directors and senior management, schedule of board meetings, leadership in the board, autonomy and board charter affect SASRA compliance levels. The stakeholder theory addressed three interconnected problems relating to business; the problem

of value creation and trade; the problem of ethics of capitalism; the problem of managerial mindset.

The stakeholder theory suggests that if we adopt as a unit of analysis the relationships between a business and the groups and individuals who can affect or are affected by it then we have a better chance to deal effectively with these three problems (Freeman, Harrison, Wicks, DeColle and Purnell, 2010). Firstly from a stakeholder perspective, business can be understood as a set of relationships among groups that have a stake in the activities that make up the business (Walsh, 2005). Basically how they interact to jointly create and trade value. To understand a business is to know how these relationships work and change over time. It is the executive's job to manage and shape these relationships to create as much value as possible for stakeholders and to manage the distribution of that value.

Where there is a conflict in stakeholder interest, the executive must find a way to re-think how problems of a broad group of stakeholders are addressed and to the extent this is done even more value may be created for each (Harrison, Bosse, and Phillips, 2010). If tradeoffs have to be made, as sometimes happens it could then, executives must figure out how to make the tradeoffs and then work on improving the tradeoffs for all sides (Freeman et al, 2010). Secondly, although effective management of stakeholder relationships helps businesses survive and thrive in capitalist systems, it is also a moral endeavor because it concerns questions of values, choice and potential harms and benefits for a large group of groups and individuals (Phillips, 2003). Finally, a description of management which focuses attention on the creation, maintenance and alignment of stakeholder relationships better equips practitioners to create value and avoid moral failures (Sisodia, Wolfe, and Sheth, 2007). The business description that stakeholder theory offers has been readily accepted in the field of business ethics. The ethical underlying foundations of the theory consist of the normative core of stakeholder theory. One way to think about the work developed under the banner of stakeholder theory is to see it as providing a normative justification for the theory and its associated activities. Stakeholder theory is a genre of theories capable of encompassing a variety of normative cores.

As an explicit effort normative cores answer two questions facing all corporations. First, what is the purpose of the firm and second to whom does management have an obligation. These are answered by the stakeholder theory (Freeman et al, 2010). Another important ethical

question deals with which stakeholders are legitimate from the firm's perspective. It is a common misconception that stakeholder theory casts a very large net in terms of who is considered a legitimate stakeholder (Phillips, Freeman, and Wicks, 2003). This notion of legitimacy is further clarified by the definition that a stakeholder represents a "group that the firm needs in order to exist, specifically customers, suppliers, employees, financiers, and communities" (Dunham, Freeman, and Liedtka, 2006).

Traditional shareholders view looks at the shareholders or stockholders as the only owners of the firm, and having a binding fiduciary duty to put their needs first, to increase value for them. However in contrast, the stakeholder theory argued that there are other parties involved, including employees, customers, suppliers, communities, governmental bodies, political groups, financiers, trade associations and trade unions. Even competitors are sometimes counted as stakeholders, their status being derived from their capacity to affect the firm and its stakeholders. The nature of what is a stakeholder is highly contested by Miles in 2012 with hundreds of definitions existing in the academic literature (Miles, 2011). Others have differentiated between primary and secondary stakeholders. Primary refers to groups whose support is necessary for the firm to exist and to whom the firm may have special duties towards.

Secondary stakeholders on the other hand have no formal claim on the firm and management has no special duties pertaining to them; nevertheless the firm may have regular moral duties, such as not doing them harm (Gibson, 2000). Rather than seeing the definitional problem as a singular and fixed, admitting of only one answer, we instead can see different definitions serving different purposes. Thus, what might make one a (legitimate) stakeholder for one company, or for a given research agenda, may vary (Freeman et.al, 2010).

### **2.5.2 Diffusion of Innovations Theory**

The research studied the information and communication technology as an independent variable and utilised the diffusion theory which is also known as the diffusion of innovations theory. This theory is concerned with the spread of innovation, ideas and technology through culture(s). In the case of this research study it explains how diffusion of the management information system and degree of adoption of management information systems, infrastructural support system within the D.T.S. Diffusion of innovations theory sought to explain how innovations are taken up in a population.

An innovation is an idea, object or behaviour that is perceived as new by its audience. Diffusion of innovations offers three valuable insights into the process of social change: Importance of peer-peer conversations, what qualities make an innovation spread and peer networks. Understanding the needs of different user segments. Diffusion of innovations takes a radically different approach to most theories of change. Instead of focusing on persuading individuals to change, it sees change as being primarily about the evolution or “reinvention” of products and behaviors so they become better for the needs of individuals and groups. In diffusion of innovations it is not people who change, but the innovations themselves (Robinson, 2012).

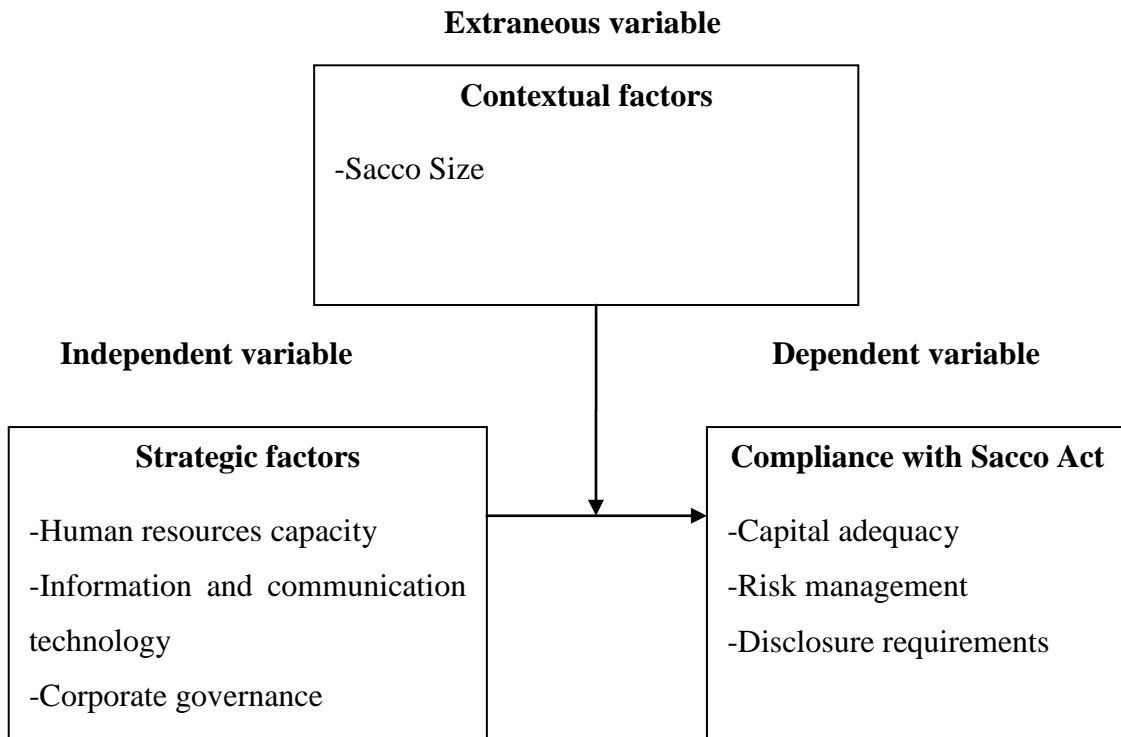
Diffusion of innovations is a theory that seeks to expound how, why, and at what rate new ideas and technology spread through cultures. The origins of the diffusion of innovations theory vary and span multiple disciplines. Diffusion theory states that there are many qualities in different people that cause them to accept or not to accept an innovation. There are also many qualities of innovations that can cause people to readily accept or to resist them. Rogers (2003) claims that four main elements influence the spread of a new idea: innovation, time, communication channels and a social system. This process relies heavily on human capital. These elements work in conjunction with one another: diffusion, which is the process by which an innovation are communicated through certain channels over time among the members of a social system. The innovation must also be widely adopted in order to self-sustain. According to Rogers (2003) the diffusion theory has five stages put forward to the process of adopting an innovation, these are: awareness, interest, evaluation, trial and adoption. These same stages apply, to varying degrees, to groups of people in addition to individuals.

If the innovation is adopted, it spreads via various communication channels. During communication, the idea is rarely evaluated from a scientific standpoint; rather, subjective perceptions of the innovation influence diffusion. Lastly, social systems determine diffusion, norms on diffusion, roles of opinion leaders and change agents, types of innovation decisions and innovation consequences. Within a rate of adoption, there is a point at which an innovation reaches critical mass. Rate is usually measured by the length of time required for a certain percentage of the members of a social system to adopt an innovation.

Diffusion manifests itself in different ways in various cultures and fields and is highly subject to the type of adopters and innovation-decision process. The rates of adoption for innovations are determined by an individual's adopter category: innovators, early adopters, early majority, late majority, and laggards. Also additionally the gatekeepers and opinion leaders who exist within a given community are change agents from outside the community who essentially bring innovations to new communities, through the gatekeepers, then through the opinion leaders (Rogers, 2003). According to Robinson (2012) five intrinsic characteristics of innovations that influence an individual's decision to adopt or reject an innovation are the relative advantage, compatibility with existing values and practices, simplicity and ease of use, trial ability and observable results. Furthermore, according to Rogers in 2003 innovations are often adopted by organisations through two types of innovation decisions: collective and authority innovation decisions.

## **2.6 Conceptual Framework**

According to Mugenda and Mugenda (2003), conceptual framework can be described as a hypothesized model identifying the concepts under the study and their relationship. It is a diagrammatic presentation showing the relationship between the dependent and the independent variables. Kothari (2004) defines a dependent variable as one that depends upon other variables or as a consequence of other variables. It is the one that is antecedent to the dependent variable. The conceptual framework aims at explaining the relationship between the variables. The dependent variable was Compliance with SACCO Act (2008) being the subject of the study and one that was manipulated or influenced by the independent variables which were hypothesized to be Human resource capacity, Information and Communication Technology and Corporate governance. These variables are related as shown in figure 2.1



**Source: Author, 2015**

**Figure 2.1: Relationship between strategic factors, contextual factors and compliance with Sacco Act**

As shown in Figure 2.1, there exists a relationship between strategic factors, contextual factors and compliance with the Sacco Act which are independent variable, and dependent variable respectively. However these variables are affected by some extraneous variable such as Sacco size of Deposit taking Sacco which is categorised into large, medium and small. For Sacco's to be fully compliant they need to ensure that the extraneous variable is addressed. According to Ombuki, Arasa, Ngugi, and Muhwezi (2014) their research showed a positive and significant relationship between environmental factors and compliance with procurement regulatory Act. Further results in their study indicated that having various interests, objectives and beliefs, interest groups are involved in regulations in several ways such as lobbying legislative bodies to pass or alter procurement statutes, influencing implementation of these statutes, influencing budget authorization and appropriations processes.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The chapter contains the research design, population, data collection methodology, and research procedures and data analysis methods.

#### **3.2 Research Design**

The study adopted a correlational approach. A research design is defined as a plan showing how the problem of investigation is solved. Research design is the collection of information about people's attitudes, opinions, habits or any of the variety of education or social issues (Kombo and Tromp, 2006). Correlational study method was used to investigate the nature and strength of relationship between variables at a single point in time.

#### **3.3 Target Population**

The population of the study comprised of 42 deposit taking savings and credit cooperatives in Nairobi County, licensed to carryout deposit taking business. All the 42 deposit taking Sacco's shall be studied for the purpose of research, the study adopted a census survey study design (SASRA, 2014), (Appendix II).

#### **3.4 Data Collection**

Primary data was collected using a closed structured questionnaire. The questionnaire was self-administered to the respondents and the respondents were Executive Officers, including Chief Executive Officers and other senior managers of deposit taking Sacco's in Nairobi County. According to Mugenda and Mugenda (2003), a questionnaire was preferable as a tool of data collection for such an exercise because of its cost effectiveness, easy to analyze. Before proceeding to the field for data collection the researcher obtained the necessary documents for the research. The researcher also notified the executive officers including Chief Executive Officers and other senior managers or their representatives by sending letters to them asking for permission to carry out the research.

#### **3.5 Validity and Reliability**

According to Kothari (2004), validity measures the accuracy of instruments in obtaining the anticipated data which can meet the objectives of the study. The researcher therefore consulted and sought the opinion of other experts in assessing or validating the contents of

the research instruments. A pilot data collection exercise for testing the questionnaires by pre-testing of the instrument on three (3) Deposit Taking Sacco's was performed, sampled out of the entire population in Nairobi County before the actual data collection exercise in a bid to ensure consistency and comprehensiveness. Pre-testing assisted to detect weaknesses and ambiguities for purposes of being corrected, hence specifically ensure that the questions are sound and in line with the study. Respondents who were used in the pilot study were not used again in the study.

Reliability of measurement can be defined as the degree to which a particular measuring procedure gives similar results over a number of repeated trials (Orodho, 2005). In other words it's the ability of the research instrument to measure what it is meant to measure consistently and dependably. Reliability of the research instruments was determined through testing and re-testing. Cronbach's alpha ( $\alpha$ ) was used, indicating the test of reliability. Cronbach's alpha reliability coefficient ranges between 0 and 1. 0 implies that there is no internal reliability while 1 indicated perfect internal reliability. In the study Cronbach's alpha reliability coefficient value of 0.7 or higher is considered sufficient (George and Mallery, 2003). Reliability results for all the set of variables in the questionnaires presented a Cronbach alpha statistics of more than 0.7, thus the threshold value of 0.7 was met. This showed that the study instrument was reliable.

**Table 3.1: Reliability Test Results**

<b>Variable</b>	<b>No of items (Questions)</b>	<b>Cronbach's Alpha</b>
Corporate Governance	12	0.869
Information and Communication Technology	11	0.865
Human Resource Capacity	12	0.723
Compliance	4	0.756

### **3.6 Data Processing and Analysis**

The data collected from the field was sorted, edited, coded and checked to ensure completeness. Data was analyzed using Statistical package for social sciences version 21. Data that was obtained from the research questionnaire was summarized using descriptive statistics. To test hypotheses  $H_{A1}$  to  $H_{A3}$ , Pearson's correlation analysis was utilised while testing hypothesis  $H_{A4}$ , multiple regression model was used as shown below;



The regression model below was used in determining the relationship

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where, Y = Compliance Sacco Act

$\beta_0$  = Constant

$\epsilon$  = error term

$X_1$  = Human resource capacity

$X_2$  = Corporate Governance

$X_3$  = Information and Communication Technology

Sacco compliance indicators were regressed against the independent variables. Since the purpose of the research was to establish the dependent variable (compliance with Sacco Act of 2008) from a set of predictor variables (Human resource capacity, Corporate Governance, Information and Communication Technology).

## CHAPTER FOUR

### RESULTS AND DISCUSSIONS

#### 4.1 Introduction

The chapter presents research findings, interpretation and discussions. It presents the strategic factors affecting compliance with the Sacco Act of 2008 by deposit taking Sacco's.

#### 4.2 Descriptive Statistics

This section presents and discusses results of descriptive statistics of the profile of respondents as well as those of study variables.

##### 4.2.1 Demographic Characteristics of the Respondents

The table below represents the demographic characteristics of the respondents. The study targeted 42 licensed deposit taking Sacco's in Nairobi County. Responses were obtained from 39 respondents making a response rate of 92.9%. The respondents profile is as shown in Table 4. 1.

**Table 4. 1: Demographic characteristics of the respondents**

Variable	Category	Frequency	Percent
Gender	Male	34	87.2
	Female	5	12.8
Age	25-34	12	30.8
	35-44 years	19	48.7
	45 and above years	8	20.5
Highest Level of Education	Diploma	6	15.4
	Bachelor degree	23	60.0
	Post graduate	10	25.6

As shown in Table 4. 1 there were more male respondents with a prevalence of 87.2 than female respondents who formed 12.8% of the sample. Distribution by age of the respondents showed that in general most of the respondents (48.7%) were between 35-44 years of age with minority (20.5%) being 45 and above years. The level of education for the respondents was also sought in the questionnaire. Overall results showed that more than a half (60.0%) of the study participants had a degree while slightly over a quarter (25.6%) had postgraduate education.

#### 4.2.2 Human Resource Capacity

To measure Human resource capacity respondents were presented with twelve statements on likert scale and asked to state how much they agreed with each statement. The statements were distributed across two categories namely participative and human resources skills and competition & control skills. The responses ranged from 1 = strongly disagree; 2 = disagree; 3 = Neutral; 4 = Agree to 5 = strongly agree. The responses were averaged per statement and The results displayed in Table 4.2.

**Table 4. 2: Human Resource Capacity**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>Participative and Human Resources Skills</b>		<b>3.99</b>	
Staff are motivated and inspired	39	3.86	.805
Staff have the required educational requirements	39	3.38	.816
The internal auditor has the required educational requirement as stipulated by the Act	39	4.40	.638
The Board communicates effectively affects to staff	39	4.30	.644
There is team building and training of staff regularly	39	4.36	.763
There is a senior staff retention policy	39	3.87	.761
There exists a clear staff development plan	39	3.77	.865
<b>Competition and Control Skills</b>		<b>3.75</b>	
There is a level of assertiveness	39	3.91	.747
There is Board power influence on recruitment	39	3.84	.949
There is capacity to assess compliance and detect fraud	39	3.69	.866
Senior and junior staff are trained as per training calendar	39	3.43	.855
There is formal training of internal audit team in finance & accounts	39	3.87	.767
<b>Overall</b>		<b>3.87</b>	

Table 4.2 indicate that the overall mean for the items for information interpretation was 3.87. This indicates that the respondents generally agreed with the statements regarding aspects of Human resource capacity in their Sacco's to a great extent. The item with the highest mean score was 'Team building capacity and staff training had a mean score of (M = 4.30, SD = .763) and the item senior staff educational level requirements had the lowest score of (M = 3.38, SD = .816). The results generally indicate that the respondents strongly agreed with the statements regarding Human resource capacity in their Sacco's.

The view that the presence of the board charter is important in implementation of the Sacco Act of 2008 was agreed on by majority of respondents. These findings agree with those of Ademba (2012) who notes that principals (members) of Sacco's delegate the running of business to the management board, which in turn hire and delegate authority to the managers. The findings concur with Ademba (2013) who asserted that as decision makers in organizations, board of directors and managers are inclined to operate the firm to maximize financial performance, compliance of Sacco's as well as shareholders' profits.

#### **4.2.3 Information and Communications Technology**

To measure Information and Communications Technology respondents were presented with eleven statements on likert scale and asked to state how much they agreed with each statement. The statements were distributed across three categories namely Networked Systems, Computer Systems and Banking Software. The responses ranged from 1 = strongly disagree; 2 = disagree; 3 = Neutral; 4 = Agree to 5 = strongly agree. The responses were averaged per statement and the results displayed in Table 4. 3.

**Table 4. 3: Information and Communications Technology**

	N	Mean	Std. Deviation
<b>Networked Systems</b>		<b>3.85</b>	
Use of mobile services is important	39	3.86	.835
There exists a local Area Network	39	3.82	.867
The internet is important in Sacco operations	39	3.88	.816
<b>Computer Systems</b>		<b>3.89</b>	
There is existence of ICT policies and procedures	39	4.13	.713
There is prevalence of manual systems	39	3.74	.887
The Sacco utilises windows 7 or above in operations	39	3.79	.857
<b>Banking Software</b>		<b>4.07</b>	
The Sacco uses customised Banking Systems	39	4.56	.557
There is a Backup system	39	3.81	.845
Sacco operations are automated	39	3.69	.730
There is a documented Information and Preservation policy	39	4.46	.776
There is integration of FOSA and BOSA	39	3.84	.547
<b>Overall</b>		<b>3.94</b>	

Table 4.3 shows that the mean score for Information and Communications Technology distribution was 3.94. Standard deviation for all statements were below 1.0 which reflects that the responses were not far spread from each other among the respondents thus indicating low variability in response to the statements. The respondents almost agreed unanimously about the statements. The item with the highest score was ‘The Sacco uses customized banking systems.’ (M = 4.56, SD =.557) and the item with the lowest score was ‘The Sacco has automated its operations’ (M =3.69, SD =.730). The results generally indicate that the respondents agreed with the statements regarding Information and Communications Technology in their Sacco’s.

#### **4.2.4 Corporate Governance**

To measure corporate governance, respondents were presented with eleven statements on likert scale and asked to state how much they agreed with each statement. The statements were distributed across four categories namely separation of powers, board calendar meetings, leadership of the board and code of ethics. The responses ranged from 1 = strongly disagree; 2 = disagree; 3 = Neutral; 4 = Agree 5 = strongly agree. The responses were averaged per statement and the results displayed in Table 4.4.

**Table 4. 4: Corporate Governance**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
<b>Separation of Powers</b>		<b>4.13</b>	
There is a structure of the Board of directors and senior management	39	3.97	.954
Board members have autonomy and freedom in decision making	39	4.08	.774
Board of directors are vetted before assuming office	39	4.29	.665
There is separation of powers between Board of directors and senior management	39	4.16	.706
<b>Board calendar meetings</b>		<b>4.04</b>	
There is a schedule of Board calendar meetings	39	4.20	.703
The board meeting are held as stipulated by the Act	39	3.76	.828
Board members have met for the stipulated duration required	39	4.17	.716
<b>Leadership of the board</b>		<b>4.07</b>	
There is leadership from the Board of directors	39	4.13	.716
The board of directors decisions affect Sacco compliance with the Act	39	4.18	.685
Board members have knowledge on Sacco operations	39	4.21	.756
The Board of directors is audited by an external body	39	3.64	.808
There is Board of directors tenure policy	39	4.15	.596
<b>Code of Ethics</b>		<b>4.18</b>	
There is a documented code of ethics	39	4.18	.675
<b>Overall</b>		<b>4.11</b>	

Results of Table 4.4 show the mean score for corporate governance dimension was 4.11. Standard deviation for all statements were below 1.0 which reflects that the responses were not far spread from each other among the respondents thus indicating low variability in response to the statements. The item with the highest score was ‘Board of directors are vetted before assuming office.’ (M = 4.29, SD = 0.665) while the item with the lowest score was ‘The Board of directors is audited by an external body.’ (M = 3.64, SD = .808). The results generally indicate that the respondents agreed with the statements regarding corporate

governance in their Sacco's. These results were interpreted to mean that the firms practice corporate governance to a great extent.

#### 4.2.5 Compliance with the Sacco Act of 2008

To measure compliance with the Sacco Act of 2008 respondents were presented with four statements on likert scale and asked to state how much they agreed with each statement. The responses ranged from 1 = strongly disagree; 2 = disagree; 3 = Neutral; 4 = Agree to 5 = strongly agree. The responses were averaged per statement and the results displayed in Table 4. 5

**Table 4. 5: Compliance with the Sacco Act**

<b>Compliance with the Sacco Act</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Capital adequacy requirement as per the Act affects compliance	39	4.32	.878
The Sacco has a functional risk management policy structure in place	39	4.31	.842
The Sacco fully adheres to the disclosure of accounts requirement	39	4.07	.955
There Sacco has complied to International financial reporting standards	39	3.77	.843
<b>Overall</b>		<b>4.12</b>	

Table 4. 5 shows that the mean score for compliance with the Sacco Act was 4.12. Standard deviation for all statements were below 1.0 which reflects that the responses were not far spread from each other among the respondents thus indicating low variability in response to the statements. The respondents almost agreed unanimously about the statements. The item with the highest score was ‘Capital adequacy requirement by the Act affects compliance.’ (M = 4.32, SD =.878) and the item with the lowest score was ‘There Sacco has complied with international financial reporting standards’ (M = 3.79, SD =.843). The results generally indicate that the respondents agreed with the statements regarding Compliance with the Sacco Act in their Sacco's.

#### 4.3 Test of Hypotheses

This section discusses the results of hypotheses testing.



### 4.3.1 Strategic Factors affecting Compliance with the Sacco Act

The study sought to determine the effects between dimensions of Strategic factors and compliance with the Sacco Act as hypothesized in H<sub>A1</sub> to H<sub>A3</sub>. To test the hypotheses, data was analyzed using Pearson’s correlation. The results displayed in Table 4.6 present the results of the analysis.

**Table 4.6: Correlations matrix for Strategic Factors and Compliance with the Sacco Act**

		Corporate Governance	Human Resource capacity	Information Communication Technology	Compliance with the Sacco Act
Corporate Governance	Pearson Correlation	1	.450	.498	.665
	Sig. (2-tailed)		.000	.000	.000
	N	39	39	39	39
Information and communication technology	Pearson Correlation	.450	1	.491	.215
	Sig. (2-tailed)	.000		.000	.034
	N	39	39	39	39
Human resource capacity	Pearson Correlation	.488	.491	1	.375
	Sig. (2-tailed)	.000	.000		.000
	N	39	39	39	39
Compliance with the Sacco Act	Pearson Correlation	.665	.215	.375	1
	Sig. (2-tailed)	.665	.034	.000	
	N	39	39	39	39

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

\* Correlation is significant at the 0.05 level (2-tailed)

#### **4.3.1.1 Human Resource Capacity and Compliance with the Sacco Act**

The study sought to establish whether there is a significant effect between human resource capacity by Deposit Taking Sacco's on compliance with the Sacco Act ( $H_{A1}$ ). Data was analyzed using Pearson's correlation and the results were presented in Table 4.6. The results indicate that there is a positive significant effect between human resource capacity and compliance with the Sacco Act ( $r = 0.215$ ,  $p < 0.05$ ). Therefore the results support the hypothesis that; there is a significant relationship between human resource capacity and compliance with the Sacco Act.

The first indicator of human resource capacity was participative and human resource skills. The study queried the respondents as to whether staffs' are motivated and inspired. Table 4.2 displayed the results. The study queried the respondents as to whether they consider the ability of the board to communicate effectively. These findings found similarity with SASCCO (2010) finding, on the annual Savings and Credit Co-operative Association of Africa report that among the noticeable concerns is how to ensure personnel within the Sacco's are well conversant and can communicate pertinent issues affecting the sector. It comparable with Badaso in 2014, on the challenges of implementing procurement policies in State Corporations in Kenya, that in order to ensure effective policy implementation there is need to communicate with the policymakers with regard to aligning policies with the functions of public organisations. Hence, ability to communicate effectively is a good measure of participative and human resource skills.

The study queried the respondents whether there is team building and training regularly Table 4.2 displays the results. This is equivalent to Badaso in 2014, on the challenges of implementing procurement policies in State Corporations in Kenya, who found that the shared understanding, with commitment, between the middle management and those at the operational level to that of the top management team's strategic goals is of prime importance to successful implementation and compliance. Hence, team building capacity is a good measure of participative and human resource skills in this study.

The second indicator of human resource capacity was competition and control skills. The study inquired from the respondents if there is a level of assertiveness, influence of the board, capacity to assess compliance and detect fraud. This is comparable to Kabaiya in 2012, on the

relationship between corporate governance practices and financial performance of Sacco's, who found that the lack of assertiveness and independence of the management may be a source of great pain to the shareholders in the event of wrong decision making. This means that level of assertiveness is a good measure of competition and control skills in this study.

The study inquired from the respondents as to whether there is formal training of internal audit team in accounts and finance. This is comparable to Bwana and Mwakujonga (2013) who found, on the historical and development perspectives, that Sacco's in Tanzania and Kenya lack well trained staff and officials. It also similar to FRC (2012) finding on the UK corporate governance code, that organisations should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles. This is similar to Owen (2007), on the rural outreach and financial Cooperatives, who found that Sacco management generally do not have any formal training in finance and accounting and there is also conflict of interest since the audit committee members also have a role in operational decisions through their role in management. This means that formal training of internal audit team in accounts and finance is a good measure of competition and control skills.

#### **4.3.1.2 Information and Communication Technology and Compliance with the Sacco Act**

The study sought to establish whether there is a significant relationship between Information and communication technology and compliance with the Sacco Act ( $H_{A2}$ ). Data was analyzed using Pearson's correlation and the results were presented in Table 4.6. The results indicate that there is a positive significant relationship between Information and communication technology and compliance with the Sacco Act ( $r = 0.375, p < 0.05$ ). Therefore the results support the hypothesis that; there is a positive relationship between Information and communication technology and compliance with the Sacco Act. The study posed to the respondents as to whether they consider the use of mobile services important. The results are displayed in Table 4.3. This agreed with SASRA (2013), on the Sacco Supervision Annual Report; Deposit Taking Sacco's, which found that the D.T.S continues to adopt technology delivery channels including automated teller machines and mobile financial services.

It is equivalent to Sacco (2010), on the 2010 Annual Savings and Credit Co-operative Association of Africa (11th SACCA Congress) report which viewed that adopting ICT and in

particular, the use of mobile phones in mobilising the markets, monitoring prices on the market, money transfer and payments of bills and services is an effective tool in improving operation and services in Sacco's. Use of mobile services is therefore a good measure of networked systems in this study. The study posed to the respondents as to whether the Sacco has Local Area Networks, the results is shown in Table 4.3. This is comparable to Ademba (2012) findings, on the scope of board accountability in Financial Co-operatives, that low adoption of information technologies affects regulation compliance.

According to Makori (2013), findings on the challenges facing Deposit-Taking Savings and Credit Co-operative Societies regulatory compliance in Kenya, a large extent inadequate ICT system had an effect on the successful implementation of a good management system. The finding meant that for the study's existence of local area network is a good indicator of networked systems. The study posed to the respondents as to whether use of internet was important in operations of a Sacco. This is comparable to Ademba (2012) on the challenges facing Sacco's in Africa today who found that there was need to keep pace with the information technology is an external challenge affecting African Sacco's. Owen (2007), on the rural outreach and Financial Co-operatives found that Sacco's in Kenya have the weakness of the underlying communications infrastructure is a factor constraining adoption of networked systems. In relation to use of banking software it agrees with Owen (2007) findings on rural outreach and Financial Co-operatives that some of the top Sacco's are using developed customised systems or modular banking software. Hence, the use of customised banking systems is a good measure of banking software.

#### **4.3.1.3 Corporate Governance and Compliance with the Sacco Act**

The study sought to establish whether there is a significant relationship between Corporate Governance and compliance with the Sacco Act ( $H_{A3}$ ). Data was analyzed using Pearson's correlation and the results were presented in Table 4.6. The results indicate that there is a positive significant relationship between Corporate Governance and compliance with the Sacco Act ( $r = 0.665, p < 0.05$ ). Therefore the results support the hypothesis that; there is a positive significant relationship between Corporate Governance and compliance with the Sacco Act. It also compares to Tache (2006) findings, on sustainable Sacco development that the members elect a Board of Directors and other committees from among the members and even they have the right to remove inefficient and unfaithful elected Board of Directors at

any time. Shareholders role in director appointment was therefore a good measure of corporate governance which in turn was utilized to measure regulation compliance.

In respect to B.O.D structure and separation of powers this findings are in contrast to those of Adams and Mehran (2011) on corporate performance board structure, and their determinants which found that regulation accounts for the relationship between board structure and performance. This finding implies that B.O.D structure in so far as a policy is concerned should be investigated. On leadership from the board, the findings are equivalent to FRC (2012) study on the UK corporate governance code which found that a key challenge in corporate governance is the distinction between the leadership of the chairman of a board, the support given to and by the C.E.O, where there should be a clear job description of responsibilities at the head of the company between the running of the board and the executive responsibility for the running operations of the company's business. It's also agreement with Sacco report (2010) on the annual Savings and Credit Co-operative Association of Africa in the 11th SACCA Congress report which found that the failure to distinguish the roles of directors and management posed a considerable challenge on good governance efforts. These meant that the distinction between Board leadership and operations was a good measure.

#### **4.3.2 Effect of Strategic Factors on Compliance with the Sacco Act**

The study sought to establish the joint significant effect of Strategic factors on compliance with the Sacco Act dimensions. It was hypothesized ( $H_{A4}$ ) that Strategic factors for examples Human resource capacity, information and communication technology and corporate governance jointly significantly affect compliance by deposit taking Sacco's with the Sacco Act. Test of hypothesis was performed using multiple regressions. The results of the analysis were presented in Table 4. 7

**Table 4. 7: Multiple Regression Results for Effect of Human Resource Capacity, Information and Communication Technology and Corporate Governance on Compliance with the Sacco Act**

**Model Summary**

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std. Error of the Estimate
1	.737a	.543	.521	.29162

**ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.231	3	8.743	7.384	.011a
	Residual	45.000	36	1.184		
	Total	71.231	39			

**Coefficients**

Model		Unstandardized Coefficients Beta	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.220	.261		4.682	.000
	Corporate Governance	.095	.063	.126	1.521	.130
	Information and Communications Technology	.119	.066	.133	1.801	.000
	Human resource capacity	.425	.067	.504	6.325	.000

a. Predictors: (Constant), Corporate Governance, Information and Communications Technology, Human resource capacity

b. Dependent Variable: Compliance with the Sacco Act of 2008

Multiple regression model containing the three independent variables (Information and Communications Technology, Human resource capacity and Corporate Governance) were ran

to predict Compliance with the Sacco Act of 2008. As illustrated in table 4.7 an  $R^2$  value of .543 indicates that 54.3% of the variation in Compliance with the Sacco Act of 2008 can be explained by the model whereas the 45.7% accounts for the margin of error within the statistical model that is the sum of deviations with the regression line thus it explains the disturbance term. Therefore these results support the hypotheses that human resource capacity, information and communication technology jointly significantly affect compliance with the Sacco Act by deposit taking Sacco's whereas corporate governance is insignificant.

The ANOVA results show that the model was significant ( $F = 7.384, p < 0.05$ ). The standardized coefficients show that the effect of human resource capacity on compliance with the Act was positive and significant ( $\beta = 0.504, t = 6.325, p < 0.05$ ), the effect of information and communication technology on compliance with the Act was positive and significant ( $\beta = 0.133, t = 1.801, p < 0.05$ ), the effect of corporate governance on compliance with the Act was positive and significant ( $\beta = 0.126, t = 1.525, p < 0.05$ ).

In respect to the relationship influence of the dimensions of strategic factors, Table 4.7 shows that human resource capacity has the greatest effect on compliance with the Sacco Act of 2008 ( $\beta = 0.504, p < 0.05$ ). The full regression model on Table 4.7 can be interpreted to show how each dimension affects compliance with the Sacco Act of 2008. For every unit increase in human resource capacity a 0.504 unit increases in compliance with the Sacco Act is predicted holding other variables constant. For every unit increase in information and communication technology a 0.133 unit increases in compliance with the Sacco Act is predicted holding other variables constant.

Therefore from the unstandardized coefficients in table 4.7, the following regression equation was developed

$$Y = 1.220 + 0.425X_1 + 0.119X_2$$

Where;

Y is Compliance with the Sacco Act of 2008,

$X_1$  is Human resource capacity

$X_2$  is Information and Communications Technology

#### 4.4 Summary of Findings

The study sought to establish whether there is a significant effect between human resource capacity by Deposit Taking Sacco's on compliance with the Sacco Act ( $H_{A1}$ ). Data was analyzed using Pearson's correlation and the results were presented in Table 4.6. The results indicated that there is a positive significant effect between human resource capacity and compliance with the Sacco Act. The study sought to establish whether there is a significant relationship between Information and communication technology and compliance with the Sacco Act ( $H_{A2}$ ). Data was analyzed using Pearson's correlation and the results were presented in Table 4.6. The results indicated that there is a positive significant relationship between Information and communication technology and compliance with the Sacco Act. The study sought to establish whether there is a significant relationship between Corporate Governance and compliance with the Sacco Act ( $H_{A3}$ ). Data was analyzed using Pearson's correlation and the results were presented in Table 4.6. The results indicated that there is a positive significant relationship between Corporate Governance and compliance with the Sacco Act. Therefore the results supported the hypotheses  $H_{A1}$  to  $H_{A3}$ .

The study sought to establish the joint effect of Strategic factors on compliance with the Sacco Act dimensions. It was hypothesized ( $H_{A4}$ ) that Strategic factors for example Human resource capacity, information and communication technology and corporate governance jointly significantly affect compliance by deposit taking Sacco's with the Sacco Act. Test of hypothesis was done using multiple regression. Therefore these results supported the hypotheses that human resource capacity, information and communication technology jointly positively significantly affect compliance with the Sacco Act. The above findings account for 54.3% that agrees with the stakeholder theory where Walsh in 2005 notes that businesses understood set of relationships among groups that have a stake in the activities of the business while 45.7 % can be accounted for the other factors and the error term. These study concurs with that of Makori in 2013 findings on the challenges facing Deposit-Taking Savings and Credit Co-operative Societies regulatory compliance in Kenya that to a great extent inadequate ICT system had an effect on the successful implementation of a good management system.



## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATION**

#### **5.1 Introduction**

This chapter provides the summary, conclusion and the recommendation of the research study based on the findings from the collected data. The chapter discusses summary of findings regarding the research objectives, hypotheses and conclusions of the study. Finally, this chapter discusses recommendations and directions for further research.

#### **5.2 Summary**

This study examined the effect of strategic factors on compliance with the Act of 2008 by deposit taking savings credit cooperative societies, data for the study was collected from 39 deposit taking savings credit cooperative societies in Nairobi County. The findings revealed that to a great extent deposit taking savings and credit cooperatives are affected by the strategic factors. Regarding the effect of human resource capacity on compliance with the Sacco Act by Deposit Taking Sacco's, respondents were presented with twelve statements on likert scale and asked to state how much they agreed with each statement. The statements were distributed across two categories namely participative and human resources skills and competition and control skills. The respondents strongly agreed with the statements regarding aspects of human resource capacity in their Sacco's to a great extent. The item with the highest mean score was 'Team building capacity being of importance. Regarding the presence of the board charter as important in implementation of the Sacco Act of 2008 was agreed on by majority of respondents.

Regarding effect of information and communications technology on compliance with the Sacco Act by Deposit Taking Sacco's, respondents were presented with eleven statements on likert scale and required to state how much they agreed with each statement. The statements were distributed across three categories namely networked systems, computer systems and banking software. Respondents agreed unanimously about the statements. The item with the highest score was use of customized banking systems affects regulation compliance. The findings showed a positive significant effect between information and communications technology and compliance with the Sacco Act.

Regarding effect of corporate governance on compliance with the Sacco Act by deposit taking Sacco's, respondents were presented with twelve statements on likert scale and required to state how much they agreed with each statement. The statements were distributed across four categories namely separation of powers, board calendar meetings, leadership of the board and code of ethics. The findings showed a positive significant relationship between corporate governance and compliance with the Sacco Act. The item with the highest score was leadership of the Board of Directors is an important factor in the implementation of the Sacco Act of 2008. These results were interpreted and meant that firms practice corporate governance to a great extent.

Regarding the joint effect of strategic factors on compliance with the Sacco Act by deposit taking Sacco's, regression results showed that the combination of human resource capacity, information and communication technology and corporate governance explained a greater variance in compliance with the Sacco Act by Deposit Taking Sacco's than individual variables alone.

The first objective of the study was to establish the effect of human resource capacity on compliance with the Sacco Act by Deposit Taking Sacco's. The findings showed a positive significant relationship between human resource capacity and compliance with the Sacco Act. Thus the results did support Hypothesis H<sub>A1</sub>.

The second objective was to determine the effect of Information and Communications Technology on compliance with the Sacco Act by Deposit Taking Sacco's. The findings showed a positive significant relationship between Information and Communications Technology and compliance with the Sacco Act. Thus the results supported Hypothesis H<sub>A2</sub>.

The third objective was to establish the effect of Corporate Governance on compliance with the Sacco Act by Deposit Taking Sacco's. The findings showed a positive significant relationship between Corporate Governance and compliance with the Sacco Act. Thus the results supported Hypothesis H<sub>A3</sub>.

The fourth objective of the study was to determine the joint effect of human resource capacity, information and communication technology and corporate governance on compliance with the Sacco Act by Deposit Taking Sacco's. The corresponding hypothesis was tested using multiple regression analysis. The regression results showed that the

combination of human resource capacity, information and communication technology and corporate governance explained a greater variance in compliance with the Sacco Act by Deposit Taking Sacco's than individual variables alone. Therefore the results supported Hypothesis H<sub>A4</sub>.

### **5.3 Conclusion**

The broad objective of the study aimed at examining strategic factors affecting compliance with the Sacco Act of 2008 by deposit taking Sacco's in Nairobi County. Specifically the study examined the, effect of human resource capacity on compliance with the Sacco Act by deposit taking Sacco's, effect of information and communications technology on compliance with the Sacco Act by deposit taking Sacco's, effect of corporate Governance on compliance with the Sacco Act by deposit taking Sacco's and joint effect of human resource capacity, Information and communication technology and corporate governance on compliance with the Sacco societies Act of 2008. The findings of the study lead to the following conclusions.

There is a link between strategic factors and compliance with Sacco Act of 2008 by deposit taking Sacco's in Nairobi County; human resource capacity is positively related to compliance. The study confirms that human resource capacity is crucial in ensuring that deposit taking Sacco's fully complies with the Sacco Act of 2008.

Results of the study also revealed that information and communication technology positively affects compliance with the Sacco Act of 2008. The findings confirm that corporate governance is crucial in effective management and it affects compliance of deposit taking Sacco's with the act of 2008. Finally, the results show that the combined effect of human resource capacity, information and communication technology and corporate governance. This shows that a combination of human resource capacity, information and communication technology and corporate governance would achieve a greater effect on compliance by deposit taking Sacco's. Therefore, in the long run these would enable proper preparation to compliance and creation of a system that would guide savings and credit cooperative organizations.

## **5.4 Recommendations of the Study**

The study's main objective was to examine the effect of strategic factors on compliance with the Sacco Act of 2008 by deposit taking Sacco's. The study used diffusion theory and stakeholder theory to determine the joint effect of strategic factors on compliance with the Sacco Act. The findings conducted in Nairobi County on Deposit taking Sacco have various implications on strategic management and policy implementers.

### **5.4.1 Recommendations for Policy Formulation and Implementation**

The study has implications to policy formulation and implementation bodies. First, the study confirmed that a positive significant relationship exists between strategic factors and compliance with Sacco Act. Deposit taking Sacco's must combine their human resource capacity and their 'hard' ICT investments including but not limited to acquisition of new hardware, software and networks, with appropriate 'soft actions', in order to achieve compliance with the Sacco Act. One of these necessary 'soft actions' is the alignment of ICT investment to business strategy and strategic plan, which results in the selection of the most appropriate ICT investments that support to the highest possible extent the selected business strategy and action plan of the firm, and therefore leads to a higher level of ICT benefits and compliance with the Sacco Act.

Lastly, the study recommends that Sacco's engage external experts to advice the board of directors. Deposit taking Sacco's require to continuously carry out training on the board, management committee, members and staff of the Sacco. Further they need to employ qualified personnel. On corporate governance Sacco's need to benchmark with the best practices found in the Sacco sector and implementation of their strategic plans.

### **5.4.2 Recommendations for Future Research**

The study adopted a cross sectional census research design in which data was collected at a single point in time. It confined its focus to Deposit taking Sacco's in Nairobi County which involved 42 D.T.S. Generalisation of these findings in the larger context or on other financial institutions such as microfinance institutions and non-deposit taking Sacco's shall be difficult. These factors were however not exhaustive therefore there's need for future research to be conducted to identify other factors to compliance with the Sacco Act of 2008 on a different extraneous variable or intervening variable.

Whereas this research relied on quantitative approaches to examine the strategic factors affecting compliance with the Sacco Act, an in-depth analysis of individual responses can generate useful inductive information and provide a richer understanding. Therefore there is need for further research to establish other factors that may affect Sacco compliance apart from strategic factors and a target of both Deposit taking Sacco's and non-deposit taking Sacco's across the Country since the Sacco sector is a major contributor to the national economy of Kenya.

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## APPENDICES

### Appendix I: Questionnaire

This questionnaire is to collect data for purely academic purposes. All the information will be treated as confidential. **DO NOT WRITE YOUR NAME ON THIS QUESTIONNAIRE.** The questionnaire is meant to examine the strategic factors affecting compliance with the Sacco Act of 2008 by deposit taking Sacco's in Nairobi County.

Kindly answer all questions by either ticking the option that applies, the information provided will be treated as strictly confidential.

#### Section I: Background Information

Gender:

Male  Female

Age bracket:

Below 20  21-30  31-40  41-50  51-60  Over 60

Level of education

Certificate  Diploma  Bachelors  Masters  Doctoral

Name of deposit taking Sacco \_\_\_\_\_

#### Section II: Strategic Factors

##### a) Human Resource Capacity

This section queries senior management skills as a challenge to compliance with the Sacco Act of 2008. On a scale of 1 to 5, rank to what extent you strongly agree or disagree with the statements using the scale below. (1 = strongly disagree; 2 = disagree; 3 = Neutral; 4 = Agree 5 = strongly agree (1 to 5), by ticking the appropriate box.

<b>i) Participative and Human Resources Skills</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Staff are motivated and inspired					
Staff have the required educational requirements					
The internal auditor has the required educational requirement as stipulated by the Act					
The Board communicates effectively to the staff					
There is team building and training of staff regularly					
There is senior staff retention policy					
There exists a clear staff development plan					
<b>ii) Competition and Control Skills</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
There is a level of assertiveness					
There is Board power influence on recruitment					
There is capacity to assess compliance and detect					
Senior and junior staff are trained as per training calendar					
There is formal training of internal audit team in finance & accounts					

**b) Information and Communication Technology**

This section queries information and communication technology as a challenge to compliance. On a scale of 1 to 5, rank to what extent you strongly agree or disagree with the statements using the scale below. (1 = strongly disagree; 2 = disagree; 3 = Neutral; 4 = Agree 5 = strongly agree (1 to 5), by ticking the appropriate box.

<b>i) Networked Systems</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Use of mobile services is important					
There exists a local Area Network					
The internet is important in Sacco operations					
<b>ii) Computer Systems</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
There is existence of ICT policies and procedures					
The is prevalence of manual systems					
The Sacco utilises windows 7 or above in operations					
<b>iii) Banking Software</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
The Sacco uses customised Banking Systems					
There is a Backup system					
Sacco operations are automated					
There is a documented Information and Preservation					
There is integration of FOSA and BOSA systems					

**c) Corporate Governance**

This section queries corporate governance as a challenge to compliance with the Sacco Act of 2008. On a scale of 1 to 5, rank to what extent you strongly agree or disagree with the statements using the scale below. (1=strongly disagree; 2=disagree; 3=Neutral; 4=Agree 5=strongly agree (1 to 5), by ticking the appropriate box.

<b>i) Separation of Powers</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
There is separation of powers between Board of directors and senior management					
Board members have autonomy and freedom in decision making					
Board of directors are vetted before assuming office					
<b>ii) Board calendar meetings</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
There is a schedule of Board calendar meetings					
The board meeting are held as stipulated by the Act					
Board members have met for the stipulated duration required					
<b>iii) Leadership of the board</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
There is leadership from the Board of directors					
The board of directors decisions affect Sacco compliance with the Act					
Board members have knowledge on Sacco operations					
The Board of directors is audited by an external body					
There is Board of directors tenure policy					
<b>iv) Code of Ethics</b>	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
There is a documented code of ethics					

**Section III: Compliance with the Sacco Act**

This section queries compliance with the Sacco Act of 2008 as the dependent variable in the study. On a scale of 1 to 5, rank to what extent you strongly agree or disagree with the statements using the scale below. (1 = strongly disagree; 2 = disagree; 3 = Neutral; 4 = Agree 5 = strongly agree (1 to 5), by ticking the appropriate box.

	<b>SD</b>	<b>D</b>	<b>N</b>	<b>A</b>	<b>SA</b>
<b>i) Compliance with the Sacco Act</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Capital adequacy requirement by the Act affects compliance					
The Sacco has a functional risk management policy structure in place					
The Sacco fully adheres to the disclosure of accounts requirement					
There Sacco has complied to international financial reporting standards					

I wish to thank you most sincerely for affording time out of your busy schedule to respond to the research questionnaire.



Appendix II: List of Deposit Taking Sacco's (D.T.S)

- 1) Afya SACCO society ltd
- 2) Airport SACCO society ltd
- 3) Ardhi SACCO society ltd
- 4) Asili SACCO society ltd
- 5) Chai SACCO society ltd
- 6) Chuna SACCO society ltd
- 7) Comoco SACCO society ltd
- 8) Elimu SACCO society ltd
- 9) Fundilima SACCO society ltd
- 10) Harambee SACCO society ltd
- 11) Hazina SACCO society ltd
- 12) Jamii SACCO society ltd
- 13) Kenpipe SACCO society ltd
- 14) Kenversity SACCO society ltd
- 15) Kenya bankers SACCO society ltd
- 16) Kenya police SACCO society ltd
- 17) Kingdom SACCO society ltd
- 18) Magereza SACCO society ltd
- 19) Maisha bora SACCO society ltd
- 20) Miliki SACCO society ltd
- 21) Mwalimu National SACCO society ltd
- 22) Mwito SACCO society ltd
- 23) Nacico SACCO society ltd
- 24) Nafaka SACCO society ltd
- 25) Naku SACCO society ltd
- 26) Nassefu SACCO society ltd
- 27) Nation SACCO society ltd
- 28) Nest SACCO society ltd
- 29) Safaricom SACCO society ltd
- 30) Sheria SACCO society ltd
- 31) Stima SACCO society ltd
- 32) Telepost SACCO society ltd
- 33) Transcom SACCO society ltd
- 34) Ufanisi SACCO society ltd
- 35) Ufundi SACCO society ltd
- 36) Ukristo na ufanisi wa anglicana  
SACCO society ltd
- 37) Ukulima SACCO society ltd
- 38) United nation SACCO society ltd
- 39) Wana-anga SACCO society ltd
- 40) Wananchi SACCO society ltd
- 41) Wanandege SACCO society ltd
- 42) Waumini SACCO society ltd

**Source: SASRA report, 2014**

