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Effect of Compliance to Sacco Regulatory Authority (SASRA) Regulations on Financial Performance of Deposit Taking Savings and Credit Co-Operatives (SACCO) Kenya

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Authors' contributions

This work was carried out in collaboration between all authors. Author SW designed the study, wrote the protocol and wrote the first draft of the manuscript. Author MW designed the tools and handled analyses of the data while author EK managed the literature searches. All authors read and approved the final manuscript.

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ABSTRACT

Aim: This study sought to establish the effect of SASRA Regulations on SACCOs' financial performance in Nairobi County. More specifically, the study sought to investigate the effect on staff competence, quality of board of directors and corporate governance on financial performance of SACCOs.
Study Design: Data were collected from all the 34 Deposit Taking SACCOs in Nairobi County using a structured questionnaire.
Methodology: Both descriptive and inferential statistics were used to analyze the data.
Results: The study findings indicated that the quality of the Board of Directors, staff competence, corporate governance (β_1 =.567; p =0.013), (β_2 =.705; p =0.000) and (β_3 =.778; p = 0.019)

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respectively had significant effect on the financial performance of the SACCOs.
Conclusions: Corporate governance was identified as the most significant effect of SASRA regulations on the SACCOs financial performance. The researchers recommend that SASRA regulations should be modified to upgrade the roles and qualifications of the Board members in order for them to play a more influential role in improving the financial performance of the SACCOs and also there's need to have more staff involvement in decision making at higher levels at some point in their careers in order to develop their potential as future managers and directors of the SACCOs.

Keywords: Performance; competence; governance; regulation; authority; compliance.

1. INTRODUCTION

SACCOs are among the most poorly understood financial entities in most countries that comprise the existing institutional base for financial intermediation [1]. Regulators expect these cooperatives to comply with set standards and expect high level of accountability. Corporate governance is installed to monitor the ethical conduct of the SACCOs and considering the development of ethical standards and requirements, including effectiveness of procedures for handling and reporting complaints [2].

However, corporate governance in SACCOs is a fairly sensitive and much more complex issue as cooperatives are based on the principle of democracy in regards to decision making with much more spread ownership than classical firms [3]. According to the AMFIU Report [4] governance challenges still existed particularly among SACCOs where risks were highest, given that they collected and mediated members' savings. One of the principle challenges which SACCOs face is that of establishing proper governance systems that comply with regulatory bodies [5].

In Kenya, SACCOs are supposed to comply with SASRA regulations. In 2008 Kenya enacted the Sacco Societies Act, 2008 which provided for the establishment of SASRA - a Semi-Autonomous Government Agency under the line ministry and charged with the prime responsibility of licensing and supervising deposit taking Sacco Societies in Kenya [6]. This authority regulates all Deposit Taking SACCOs (DTS) in Kenya that at the time of the study totaled 215. Out of this number, the authority had licensed 126 by July 2013. The regulations were introduced against a backdrop of compromised profitability, loss of members to banks, incompetent staff and poor corporate governance. All licensed DTS were required to review and align their policies and systems to the regulatory standards to underscore the business risks attendant to them namely credit, operational, market and legal [7]. More specifically at operational level, SASRA regulations require SACCOs' to reconstitute their boards, improve on corporate governance and upgrade staff competence in order to improve profitability. However, despite the fact that SASRA regulations have been in operation for the last four years, the effects of compliance of the DTS to these regulations on their financial performance has not been established. This study, therefore sought to establish the effect of SACCOs' compliance to SASRA regulations on financial performance of DTS in Kenya.

2. RESEARCH METHODOLOGY

A survey design was used to carry out the study. The target population comprised of all the 34 DTS in Nairobi which had complied with SASRA regulations by the time of the study. Structured questionnaires were used to obtain data from the respondents. The instruments gave a Cronbach's Coefficient Alpha value of 0.7225 implying that it was above the recommended value of 0.7. Data analysis was done using both descriptive and inferential statistics.

3. RESULTS AND DISCUSSION

3.1 Descriptive Statistics

The results in Table 1 showed that most of the Board members had more than five years experience in public service and had appropriate training and education relevant to SACCO management. The results also show that respondents have some confidence in the Board members in carrying out their duties without undue outside interference thus there was need for their conduct to be checked from time to time. The findings also revealed that directors have passed proper and fitness test and they had relevant professional qualification.

The results in Table 2 show that Sacco staff members received regular training organized by the SACCOs and also the management encouraged staff development. It is also clear from the results that all SACCO's staff had relevant cooperative management skills, had relevant professional qualifications, performance appraisal was conducted regularly and staff were involved in decision making. However, the findings revealed that there was no existence of mentoring programs in DTS and also most of SACCO'S employees had served less than five years experience in the SACCOs.

The findings in Table 3 showed that there exists separation of powers between Sacco staff and board operations. The findings also revealed that the code of conduct is documented and that the board of directors was accountable while undertaking DTS activities. The findings also showed that board members had autonomy and freedom in decision making. This indicates that the SACCOs were reasonably compliant with the SASRA regulations regarding Board appointments and performance. The findings revealed that Board members regularly used thus raising the standards of corporate governance. However, the evaluation manuals were not supposed to limit the Boards' autonomy in decision making.

3.2 Correlation Analysis

Product moment correlation was used to determine both the direction and strength of the linear relationships between the variables.

The correlation summary shown in Table 4 indicates that all the independent variables (quality of the Board of Directors, staff competence and corporate governance) had a significant and positive relationship with financial performance of the SACCOs ($r = 0.575$, $p < .001$; $r=0.352$, $p < .001$; $r = 0.318$, $p < .002$ respectively).

3.3 Multiple Regression Analysis

The results in Table 5 show that when all the predictor variables are combined, the regression model could explain approximately 48% of the variations in financial performance of the SACCOS.

3.4 Hypotheses Testing

Multiple Regression results were used to test the hypotheses.

Table 1. Quality of board of directors

Statements	Agree	Neutral	Disagree	χ2	*P*-value
	Freq (%)	Freq (%)	Freq (%)		
All Board members have more than five years of experience in public service.	27 (84.4)	3 (9.4)	2(6.3)	29.25	<.001
All Board members have appropriate training and education.	29 (90.7)	3 (9.4)	0	18.813	<.001
All Board of Directors are frequently trained on Sacco management.	30 (93.8)	2 (6.2)	0	10.563	<.001
All Board of Directors have passed the proper and fitness test	26 (81.3)	5 (15.6)	1(3.1)	13.75	<.001
All Board of Directors have relevant professional qualifications	21 (65.6)	11 (34.4)	0	1.188	<.001
Board reconstitution takes place from time to time	23 (71.9)	6 (18.8)	3(9.4)	16.438	<.001
All Board members have sufficient knowledge of Sacco operations when they join the Board of Directors	19 (59.4	7 (21.9)	6(18.8)	1.75	<.001
All board operations should be supervised by an external body	17 (53.2)	8 (25.0)	5(15.6)	5.813	<.001

Table 2. Competence of SACCO staff members

Statements	Agree Freq (%)	Neutral Freq (%)	Disagree Freq (%)	χ2	*P*-value
Training sessions for staff of Sacco are conducted regularly	29 (90.6)	2 (6.3)	1 (3.1)	21.75	<.001
The Sacco management encourages Staff development	28 (87.5)	3 (9.4)	1 (3.1)	19.25	<.001
Performance appraisal for all staff are conducted frequently	27 (84.4)	2 (6.3)	3 (9.4)	39.562	<.001
All Sacco staff have relevant co-operative management skills	21 (65.6)	8 (25.0)	3 (9.4)	22.687	<.001
All Sacco staff have relevant Professional qualification	29 (90.6)	2 (6.3)	1 (3.1)	49.25	<.001
All staff are involved in decision making	30 (93.8)	2 (6.2)	0	10.563	<.001
The Sacco has a mentoring program for all staff	26 (81.3)	5 (15.6)	1 (3.1)	13.75	<.001
All staff members have more than five years experience	21 (65.6)	8 (25.0)	3 (9.4)	6.438	<.001

Table 3. Corporate governance in SACCOs

Statements	Agree Freq (%)	Neutral Freq (%)	Disagree Freq (%)	χ2	*P*-value
The Sacco has a Board evaluation manual in place	23 (71.9)	2 (6.3)	7 (21.9)	20.187	<.001
Board members have autonomy and freedom in decision making	27 (84.4)	2 (6.3)	3 (9.4)	37.75	<.001
The Sacco has a documented code of conduct	32 (100)	0	0	3.125	<.001
Board of Directors are accountable while undertaking DTS activities	29 (90.7)	3 (9.4)	0	10.563	<.001
There is separation of power between staff and board operations	31 (96.9)	1 (3.1)	0	14.313	<.001
Board of Directors should be supervised by an external body	25 (78.1)	3 (9.4)	4 (12.5)	15.25	<.001

Table 4. Correlations results

	Quality of board	Staff competence	Corporate governance	Financial performance
Quality of Board	1			
Staff competence	0.155**	1		
Corporate governance	0.112**	-0.029**	1	
Financial performance	0.575**	0.352**	0.318**	1

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

3.4.1 $H0_1$: There is no significant relationship between quality of board of directors and financial performance of deposit taking SACCOs

The results revealed that quality of board significantly influenced financial performance (β_1 =.567; p =.01 and t = 1.857) and thus the null hypothesis was rejected. The implication of this is that whenever a board is constituted its quality must be a key consideration. This means that experience of the board in public service, training, professional qualifications and integrity of the board has to be taken into account. Ignoring the factors mentioned above when constituting the board means that the SACCO will have a board that is of poor quality thus compromise financial performance. This meant that the SASRA regulations needed to upgrade the roles and qualifications of the Board members in order for them to play a more influential role in improving the financial performance of the SACCOs. These findings agree with those of Muriithi [8] who found that the size and the composition of the board of directors together with the separation of the control and the management have the greatest effect on the performance of SACCOs.

Table 5. Multiple regression results

	Unstandardized coefficients		Standardized coefficients			Collinearity statistics	
	B	Std. error	Beta	t	Sig.	Tolerance	VIF
(Constant)	4.601	1.271		3.62	0.001		
Quality of board	0.559	0.301	0.567	1.857	0.013	0.864	1.158
Staff competence	0.696	0.085	0.705	8.188	0.000	0.95	1.053
Corporate Governance	0. 751	0.261	0.778	2.877	0.019	0.826	1.211
R Square	0.519						
Adjusted R square	0.489						
F_o	3.113						
Sig.	0.005						

a. Dependent Variable: Financial performance of SACCOS

3.4.2 $H0_2$: There is no significant relationship between staff competence and financial performance of deposit taking SACCOs in nairobi county

The results revealed that staff competence had positive and significant influence on SACCOs financial performance (β_2 =.705; p <.001 and t = 8.188) and therefore the null hypothesis was rejected. The implication of this is that staff competence is a key consideration as far as financial performance of Sacco is concerned. This means that DTS should ensure that staff members are trained regularly, encourage staff development, conduct performance appraisal frequently and involve staff in decision making to enhance staff competence. Ignoring the factors mentioned means the SACCO will have employees that are incompetent thus compromising financial performance. This suggests that SACCO staff competence as required by SASRA regulations had a strong influence on the financial performance of the SACCOs in the area.

3.4.3 $H0_3$: There is no significant relationship between corporate governance and financial performance of deposit taking SACCOs

Regression results revealed that corporate governance significantly influenced financial performance (β_3 = .778; p = 0.02 and t = 2.877) and therefore the null hypothesis was rejected. The implication of this is that corporate governance is a key consideration as far as financial performance of Sacco is concerned. This means that DTS should ensure that the Sacco have in place a board evaluation manual, have autonomy and freedom in decision making, have a documented code of conduct, be accountable while undertaking DTS activities and should be supervised by an external body. Ignoring these factors would lead to SACCOs failing to meet the required standards thus compromise financial performance. These results confirm those of studies done by Daily and Dalton [9] which found that having more independent directors on the board improves financial performance.

4. CONCLUSIONS

The findings have revealed that the quality of the Board of Directors was an important aspect in improving the SACCOs financial performance as per the SASRA regulations are concerned although compared to the other two variables it was weaker. In particular, most SACCOs' Boards were composed of members who had more than five years of public service prior to appointment, had sufficient working knowledge of Sacco operations prior to joining the Boards and were also frequently trained on Sacco management. The findings also revealed that SACCO staff competence as required by SASRA regulations had a strong influence on the financial performance of the SACCOs in the area. It was also determined that half of SACCOs staffs were somehow involved in decision making at a higher level within their SACCOs as about two thirds of them had relevant co-operative management skills since the SACCOs management in the area encouraged staff development. Finally, they identified corporate governance as the most significant effect of SASRA regulations on the SACCOs financial performance in the study area, hence, needed to be emphasized in order to strengthen the operations of the SACCOs in the area.

CONSENT

In this study, the participants were given adequate information on the aims of the research, the procedures that would be followed, the credibility of the research and the purpose for which the results were to be used. This enabled participants to make an informed decision on whether they want to participate in the research or not. All respondents, therefore, gave their free and informed consent to participate in this study anonymously. No form of deception or coercion was used to ensure the participation of the respondents.

ETHICAL APPROVAL

In this study, the researcher followed the following research ethics:

> In order to conduct research at the SACCOs, approval was sought for and obtained from the National Commission for Science Technology and Innovation (NACOSTI) and the Sub County Co-operative Officers.

Participants' confidentialities were not compromised, as their names were not used in the collection of data. No private or secret information was divulged as the right to confidentiality of the participants was respected. For this reason no concealed media was used. Research findings were therefore presented anonymously.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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