

ORGANIZATIONAL FACTORS ON THE FINANCIAL PERFORMANCE OF DEPOSIT TAKING SACCOS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

Research Objective: This study was aimed at investigating the effect of organizational factors on the financial performances of Deposit Taking Saccos in Nairobi County. Its specific objectives were to determine the effect of organization culture on the financial performance, to establish the effects of organization structure, to determine the effects of organization leadership capacity and to establish the effects of organization rewarding practices on the financial performance of Deposit Taking Saccos in Nairobi County.

Research Methodology: Descriptive research design was adopted with a target population of 43 SASRA licensed Deposit Taking Saccos in Nairobi City County, Kenya. Questionnaires were used in data collection. Descriptive statistics and inferential statistics assisted in data analysis.

Results and Findings: The results of the study indicated that organizational culture, organizational structure, organizational leadership capacity and organization rewarding practices affected positively and significantly the financial performance of Deposit Taking Saccos in Nairobi City County, Kenya. Moreover, holding other variables constant, the Organizational leadership capacity, Organizational culture, Organizational structure, Organizational rewarding practices accounted for 72.9% of the variability in the financial performance of Deposit Taking Saccos in Nairobi City County, Kenya.

Conclusion and Recommendation: There was a need for Saccos to improve on their support for focus, innovative, consistency of effectiveness and customer focused cultures since they were

moderately graded by those interviewed. An improvement of the aforementioned would improve the performance of Saccos since they touch on the core activities of Saccos.

Keywords: Organizational Factors, Financial Performance, Organization Culture, Organization Structure, Organization Leadership Capacity, Rewarding Practices, Deposit Taking Saccos

Introduction

Sacco is an abbreviation for Savings and Credit Co-operative societies. A movement which is formed with a clear aim of helping its members to access services at a lower cost. It can also be seen as the coming together of people with a common bond. This can be individuals, businesses, workers, farmers, or manufacturers. The common bond which brings them together involves activities such as marketing or production, thus enabling them to sell their products efficiently and have a good bargaining power and then share such returns on basis of those activities. Saccos have many problems such as lack of adequate capital, member participation, which is poor, lack of common brands, poor managerial skills, corruption, and frauds. As stated by Siddaraju, (2012) this has brought about inefficiency and lack of competitiveness. For businesses to succeed they must have sound financial management structures. As stated by Lakew & Rao, (2014), lack of proper financial management, coupled with unpredictable business environment mostly leads business entities to financial difficulties. Zeitun & Tian, (2014) also revealed that business financial performance is influenced by how effective an organization is in terms of its capital formation.

Background of SACCOS in Kenya

Lumbwa was the first SACCO in Nairobi City County, Kenya in 1908 to be formed by the European Farmers to assist in buying of farmer's farm inputs and then finding market for their output to take advantage of mass production (Kenya Union of Saving and Credit Co-operatives (KUSCCO), 2006). Kenya Farmers Association (KFA) was later formed and registered as a SACCO to replace Lubwain 1930, Gardeklint, (2009). By this time, the Saccos were registered, controlled, and regulated by the government of Kenya (KUSCCO, 2006). From 1963, many co-operative societies were formed where SACCOs made over 50% of all cooperatives. They were playing a crucial role in the financial sector which could not be ignored (SACCOs Review, 2012). From SASRA data in December 2012, the total assets base for the SACCOs stood at Ksh.216 billion, which was an improvement of 11% from the Ksh.194 billion recorded in 2009. SACCOs had been embraced in the entire economy in Kenya and probably 80% of the Nairobi City County, Kenya residents gets their livelihood either directly or indirectly through SACCOS. SACCOs in Nairobi City County in Kenya face a lot of competition in the financial sector from other players in the financial sector. Probably within the estimated population of 41 million in

the year 2013, 24.6 million people get involved economically in SACCO sector directly or otherwise (Republic of Kenya, 2013).

The data with Sacco Societies Regulatory Authority (SASRA) which is the regulating authority for all Saccos for year 2020 showed that there were 174 fully licensed Saccos. SASRA indicated that such Saccos are allowed to do their deposit taking business in the country. Saccos faced financial performance challenges such as defaulting on payment of loans by members, low volume of business and poor financial practices, long loan processing period among others. Therefore, it was worth to carry out research to study the effect of management factors on financial performance of Deposit Taking Saccos in Nairobi City County, Kenya.

Statement of the Problem

This study addressed the organizational factors affecting the financial performance of DT Saccos in Nairobi City County, Kenya. According to Ouma, (2012),SACCOS faced a lot of challenges related to management that affected Sacco financial performances. These included: Increasing returns to shareholders, leadership wrangles in the organization, poor financial resources allocation by directors, the continued failure by various employer-institutions to promptly remit deductions made from members' salaries to the respective Sacco Societies, staff mismanagement by Sacco elected officials which led to delayed loans disbursements and the stringent rules by the regulator as per Sacco Societies Act, (2008). All these challenges could be directly addressed by the Sacco management and if done in a prudent manner, would lead to high financial performance growth of the Saccos.

As per the Sacco Supervision Annual Report 2019, SASRA was concerned that the effective operations of many SACCOs was continuously being undermined by the perennial failure by various employer-institutions to promptly remit to SACCOs, the deductions made from the salaries and other income of members of SACCOs. The exponential increase of the non-remitted deductions due to SACCOs rose to Kshs 3.86 billion for the period ended September 2019, from Kshs 2.81 billion for the period ended September 2018 as per this report, demonstrating that the situation had worsened rather than improving over the period. Indeed, the Authority's greatest concern was that over 74% of the total non-remitted deductions in 2019 was owed by Public Universities and Tertiary Colleges, yet these employer-institutions serve five (5) key DT Saccos with huge membership. It is therefore apparent that the financial operations, service delivery, soundness, and sustainability of these five (5) DT-SACCOs, would continue to be hampered in the immediate to short term, unless the trend is drastically changed by concerted efforts of the Sacco management and the concerned institutions. The data with the Sacco Supervision Annual Report 2019 Comparative figures on Sacco loan provisioning due to loan defaulters' performance indicated net increased loan provisioning from kshs 10.72 billion in 2017 to kshs.

19.38 billion for year 2019 which is a pointer of the variables affecting the financial performances of such Saccos. Too, Comparative figures on Average dividend on Sacco share capital and interests Sacco savings indicated Net decreased interest paid on Sacco savings from 6.95 % on year 2017 to 6.72 % on year 2019.

Muchibo(2005),stated that challenges faced by Saccos prevented full exploitation of their full potential in terms of their financial performances. Such problems as mentioned above on poor leadership, poor organization culture and even poor staff rewarding systems negatively affects the performance of Saccos. According to Shuck and Rose (2013), the quality of leadership engagements was also strongly linked to the dedication of the workers whose desire for them to remain in the institution was dictated by the management which established and implemented rewarding scheme of the staff.

Justification of the Study

Nairobi City County, Kenya is one of the developing counties in Kenya and is characterized by high levels of unemployment, disease pandemics and poverty. Nairobi City County, Kenya has not yet been industrialized, it relied mostly on small scale businesses and support from other small financial institution to finance their activities. There were high probabilities of DT Saccos to succeed in transforming SME if they could address some of the organizational factors which had affected their financial performance of Saccos. It is hopeful that this research will help in identifying and coming up with the solutions to areas and issues that affected adversely the financial performance of Saccos. Once these issues were addressed, the shareholders would be able to enjoy their returns on funds invested. The issue of delayed loans disbursement, poor liquidity position, defaulters of loans would be addressed by this study. Also, this study would go a long way in helping Sacco in terms of compliance with the regulatory authorities. The research served as a source of crucial information in the field of financial performance to the future researchers and academicians in the Sacco sector.

Scope of the Study

This mainly put emphasis on the four areas touching on the organizational factors in Saccos which affected the financial performance of the Saccos namely: organization culture, organization structure, organization leadership capacity and organization rewarding practices. These four components were regarded as the most critical organizational factors in Sacco's management. The scope of this study involved finance managers of the DTSACCOs in Nairobi City County , Kenya. The study adopted a case study approach on effects of organizational factors on financial performance of DT Saccos in Nairobi City County, Kenya. The primary data

was gathered using the questionnaire. The study was conducted between the month of September and October 2021.

LITERATURE REVIEW

Theoretical Review

Institutional Perspective Theory

Institutional Perspective theory was a concept pioneered by Lawrence & Suddaby, (2006). The theory gives agentic power to social actors and assumes that they can affect institutions by either maintaining or disrupting them. According to Meyer, (2009) the social life is of paramount importance and employees should always adapt positively towards the strategic goals of the organization. The basics behind institutional theory approach gives significant directions for taking into account the different environments in the organization and the manner in which the employees relate to one another. In line with this study, Institutional Perspective theory was employed in establishing effects of the organization structure to the financial performance of DT Saccos in Nairobi City County, Kenya.

Resource Based View Theory

This theory was founded by Wernerfelt, (1984). It forms part of the fundamental theories of strategic management. According to Aosa, (2011), when resources are correctly applied having good quality by the management, they allow institution to acquire a competitive advantage. As an organization, this theory takes the assumption that the desired outcome of all the management decisions within the organization is a SCA. Once an organization attains this SCA, it can earn higher returns thus good financial performance. Eventually, the management then focuses all its efforts on how to achieve the SCA. The management must make sure the appropriate resources are available for the best outcome to be achieved. Saccos acquired competitive advantage when they effectively employed their resources into its resourceful market with better returns. Therefore, the Resource Based View (RBV) stressed more on strategic choice, tasking the organization's top organ with the mandate of allocating key resources to maximize members return as per their expectation. In line with this research, Resource Based View theory was adopted to assess the effects of management of the Sacco in acquiring the rightful resources as classified above towards achieving a successful financial performance of DT Saccos in Nairobi City County, Kenya.

Agency Theory

Jensen and Meckling (1976) developed Agency theory which suggested on how the governance of an institution is based on the conflicts of interest between the shareholders who are the owners

and the managers who are the Agents. Generally, the theory gave details on the relationship between the principals and agents, (Abdullah et al., 2009). The management in this case was answerable to the owners. Principal gives power and authority of the business to the management board. Then the management board advertises positions and gives contract to employees who are competent personnel managers. However, if that agent violates contractual terms and conditions of the relationship, it breaks the contract between them and the relationship between them, (Odhiambo, 2012). Agents mostly are seen to have diverse opinions. They are mostly moved by issues such as monetary gains, opportunities in the labour market, or even third-party relationships. Such circumstances may tend to affect the agents' performances. Therefore, in the long run this may affect the economic performance of the SACCO. In some circumstances between the principal and the agent they may share different levels of risk thus causing difference in terms of interests. In regard to access to information the same can play part between the two if there is no smooth flow of information in the organization. The Sacco should come up with several ways that may be used to reconcile ideas and goals of the agents with those of the principals together without having any conflict.

Taylor's Motivational Theory

Founded by Taylor (1911). It stated employees do their work in reference to how they are rewarded. In early years work was paid on production basis. It was a matter of the quantity produced regardless of the quality. This culminated into high production with poor motivation of employees. This brought about poor employees' development within the organization. Saccos needs to be informed by this theory on matters of organization rewarding practices. Employees of the Sacco will be more motivated if they feel cared and catered for in their work. Good working condition is therefore a must for any good financial performance to be achieved. This theory supported the findings that motivating employees supports good financial performance of Saccos.

Empirical Review

Influence of Organization Culture on Financial Performance

Pavitt, (2010) stated that organization culture had direct relationship to the financial performance of any given Organization. Therefore, organization culture is one of the main ingredients that impacted to the better or poor financial performance of an organization. Organizational culture entails the behaviors that works towards social and psychological environment in any organization. The staff behaviors in a Sacco are defined by the culture of the Sacco itself. Such organization cultures are instilled and enforced by the management of the Sacco. A Sacco with a strong organization culture should always be well documented. Such well-documented

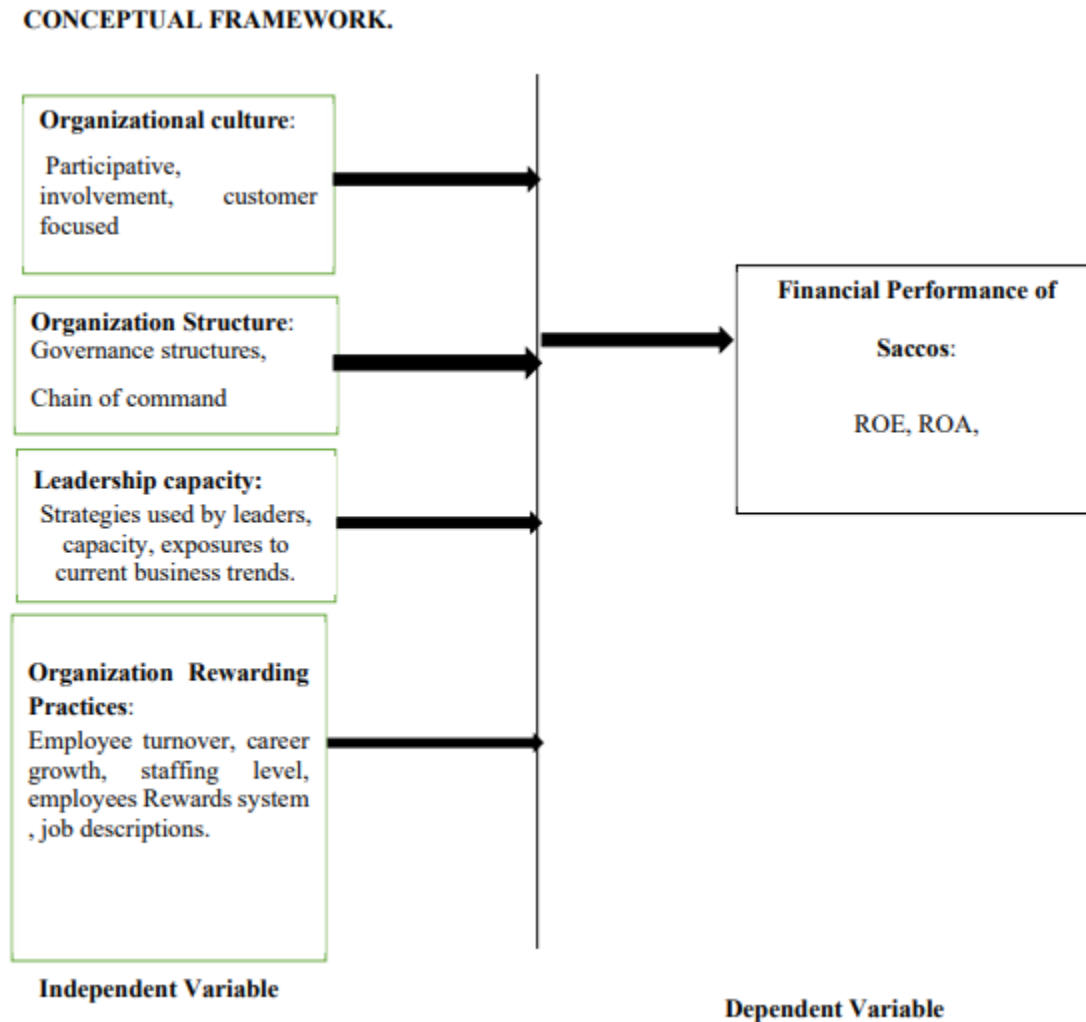
organization cultures, shaped employees views towards the organization and their behaviors too. This made employees' goals and expectations clearer which motivated and inspired them. Staff engagement and interactions improves. As stated by Weiner, (2018) such high levels of workforce engagement, drives productivity and good performance and entirely determines if the organization win or lose.

Ravasi & Schultz, (2006) stated that for organizations that puts efforts in the quality of its products and services outputs its financial performance tends out to be good whereas for those organization that ignores the details of their product or service output they tend to have poor financial performance. Therefore for those Sacco's that want to improve their financial performances they would need to mind about the quality of their output product and services. Some of the Sacco's also adopted organization culture which puts more emphasis on employees that they must achieve their job targets without taking into account how they would do it. Ravasi & Schultz, (2006) stated that organizations that put its employees into consideration before any decision is undertaken relates well and the financial performance of such organizations is always high as a result of good cooperation. This study established the culture the Sacco management supports affected the financial performance of the Saccos.

Conceptual Framework

Conceptual framework is presentation which is either in written form or in form of a pictorial to show graphically, or as a narration, main variables with respective associations. This study endeavored in establishing the effects of organizational factors on the financial performance of DT Saccos licensed by SASRA in Nairobi City County , Kenya. This relationship is represented in the figure 2.1 below.

Figure 2.1: Conceptual Framework



RESEARCH METHODOLOGY

The study used descriptive research design to determine the effect of organizational factors on financial performance of DT Saccos in Nairobi City County, Kenya. The target population consisted of all 43 SASRA licensed DT Saccos in Nairobi City County, Kenya as per the data of 31st December 2020. Data collection was done through closed ended questionnaires. A pilot test was performed to identify, and restructure misunderstood, ambiguous or misinterpreted questions. Face validity was used to test degree by which the measurements which were used were able to represent all social areas intended. Content validity was increased through consultation with finance managers in 43 DT Saccos visited during data collection. Reliability was done to ensure that research instruments used during assessment had result which were

consistent each time the instrument was used with the same kind of subject in similar situation (Russell, 2013). All the items were consistent and gave reliable data as all the Cronbach’s alpha coefficients were greater than 0.70 (>0.70).Data collected was coded and analyzed using descriptive statistics and inferential statistics. The multiple regression analysis model was specified as follows: $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \mu$ where: Y = Financial management, X₁ = organization culture, X₂ = organization structure, X₃ = organization leadership capacity, X₄= organization rewarding practices and μ = Error Term. Research ethics followed the acceptable ethical guidelines in carrying out this study which included but not limited to: getting informed respondent consent, voluntary respondent participation, confidentiality of the respondents and anonymity of the respondents.

FINDINGS

The first objective was:

To determine the effect of organization culture on financial performance of DT Saccos in Nairobi City County , Kenya. The findings were as tabulated in Table 1.

Table 1. Organizational Culture and Financial Performance

	Mean	Std. Deviation
The Sacco supports a customer focus culture.	2.514	1.468
The Sacco insists on the consistency of effectiveness.	3.286	1.564
The Sacco supports innovative culture.	3.286	1.363
The Sacco supports mission focus culture.	3.343	1.528
The Sacco supports an employee participative/ involvement culture.	3.857	1.772
Composite Mean	3.257	1.339

Source: Researcher (2021)

The table above illustrated that organizational culture had an effect on financial performance of DT Saccos in Nairobi City County, Kenya based on the composite mean score value of 3.257 meaning most of those interviewed agreed with majority of the statements and their responses varied with a standard deviation of 1. 339. This was in agreement with an earlier finding by Pavitt, (2006) who founded that organization culture affected performance.

To support the above study that found out that the findings organizational culture had an effect on financial performance was supported by these statements as per those interviewed: Saccos' support of an employee participative/ involvement culture, going by the mean response obtained (3.857) within the interval of 3.6-4.5. This was followed by an agreement that the Sacco supports mission focus culture, which generated a mean score of 3.343. The Sacco supports innovative culture and the Sacco insists on the consistency of effectiveness generated a mean score of 3.286 each. Lastly, the respondents indicated that the Sacco supports a customer focus culture, which generated a mean score of 2.514.

The findings implied that there was effect of organizational culture on the financial performance of Deposit Taking Saccos in Nairobi City County , Kenya with the encouragement of an employee participative/ involvement culture having the greatest effect. However, there is need for the Saccos to improve on their support for focus, innovative, consistency of effectiveness and customer cultures since they were moderately graded by the respondents. An improvement of the aforementioned focus cultures would improve the performance of the Saccos since they touch on the core activities of the Saccos. As stated by Weiner, (2018) well-documented organization cultures, shapes employees' views towards the organization and their behaviors too. This makes employees' goals and expectations clearer which motivates and inspires them. Staff engagement and interactions improves. Such high levels of workforce engagement, drives productivity and good performance and entirely determines if the organization win or lose.

Inferential Analysis

Correlation Analysis

The correlation result on the effects of organizational factors on financial performance of DT Saccos in Nairobi City County , Kenya can be either; negative, positive or neutral. In this study, the Pearson r statistic was used to calculate bivariate correlations. Values between 0 and 0.3 indicate no correlation, 0.3 and 0.5 a weak linear association, values between 0.5 and 0.7 indicate a moderate linear association and Values between 0.7 and 1.0 indicated a strong linear association. The study showed a weak positive and insignificant correlation between Organizational culture and Financial Performance ($r = .150$, while at 5% the p-value was greater than 0.05).

Regression Analysis

The dependent variable of the study was financial performance of DT Saccos in Nairobi City County , Kenya, while the independent variables was organization culture. The results from the regression analysis illustrated that, a unit change in the Organizational culture would result to a 0.046 times changes in the financial performance of DT Saccos in Nairobi City County , Kenya

in the same direction. However, results showed that organizational culture had a coefficient estimate which was insignificant based on p-value of 0.696, which is greater than $\alpha = 0.05$.

Summary

The first objective was to assess effect of organization culture on financial performance of DT Saccos in Nairobi City County , Kenya which the study found out that organizational culture had a positive significant effect on financial performance the composite mean score value of 3.257 meaning most of those interviewed agreed with majority of the statements but their answers varied with a standard deviation of 1.339.This was in agreement with an earlier findings by Pavitt, (2006) who founded that organization culture affected performance.

Conclusion

The findings imply organizational culture affected the financial performance of DT Saccos in Nairobi City County , Kenya with the encouragement of an employee participative/ involvement culture having the greatest effect.

Recommendations for Practice

There is need for the Saccos to improve on their support for focus, innovative, consistency of effectiveness and customer cultures since they were moderately graded by those interviewed. An improvement of the aforementioned focus cultures would improve the performance of the Saccos since they touch on the core activities of the Saccos.

Limitations of the study

The researcher faced various limitations while carrying out the research. The main one was during data collection from the respondents. Those who responded had the feeling that the information they were filling in the questionnaires was somehow sensitive and therefore were not fast in giving it out. However, through sharing and giving details of the importance of the research and that it was meant for a research project only and that maximum confidentiality on the respondents and their respective Saccos was assured, they were able to respond positively. Time factor was another constraint in compiling all the required information and preparing the research report before the timelines that were set. Respondents were the main causes of the delay in filling in the questionnaires and submitting them for analysis. This built pressure on the researcher but in the long run the research project was completed and presented within the set timelines which was set. The transfer of data to the SPSS software had some limitations too linked to human error because the whole process involved physical count of the questionnaires filled and transfer of data. However, the researcher managed to reduce the human error through

scrutiny before the data entry. The study did not cover other important sectors of the economy like agriculture, tourism, banking, small and medium microenterprises among others. The study therefore recommends the following studies to be done in order to exhaustively explore the effect of organizational factors on financial performance in every aspect of the economy. Since there was 29.1% error term on the study, the study recommends that other organizational factors not covered by the study should be considered in other similar studies so as to explore more on the organizational factors affect financial performance.

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