
Strategic Factors Affecting Compliance with the Sacco Act of 2008 by Financial Co-operatives in Kenya: A Case of Nairobi County Sacco

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To cite this article:

Ochieng Victor Omollo, Christine Ronga. Strategic Factors Affecting Compliance with the Sacco Act of 2008 by Financial Co-operatives in Kenya: A Case of Nairobi County Sacco. *Science Journal of Business and Management*. Vol. 4, No. 3, 2016, pp. 90-101.

doi: 10.11648/j.sjbm.20160403.15

Received: May 5, 2016; **Accepted:** May 14, 2016; **Published:** June 4, 2016

Abstract: The aim of the study was to address the strategic factors that affect compliance with the SACCO Act of 2008 by Financial Co-operatives in Nairobi County. Despite the fact that SASRA regulations have been in operation for the last four years, the strategic factors that affect compliance with the Act of 2008 has not been established. The study adopted a census survey of 42 Financial Cooperatives. Data was collected using a questionnaire and analyzed using descriptive statistics with the aid of Statistical Package for Social Sciences software. Multiple regressions were used in testing the strategic factors affecting compliance with the SACCO Act of 2008 by Financial Co-operatives in Nairobi County. The study found that, ICT capacity of the SACCOS in Nairobi County are inadequate; The SACCOS in the county have not attained the required human resource capacity and 80% of the SACCOS have not fully complied with the Societies' Act of 2008. The researcher's conclusion and recommendations was that ICT capacity, corporate governance and human resource capacity were found to be important as far as compliance with the Societies' Act number 14 (2008). These factors present challenges that hinder financial cooperatives from compliance. Therefore Sacco societies Act should be reviewed to ensure as many financial cooperatives are able to comply with the Act as possible in order to ensure that members deposits held in the current outfits are protected as the small and emerging Saccos endeavour to overcome the compliance challenges. The research recommends SACCO's to establish a training program to enhance management capacity on compliance issues. Meanwhile the board of directors should initiate change management with an aim of setting realistic user expectations objectives and goals.

Keywords: Co-operative, Corporate Governance, Financial Co-operatives, Compliance, Information and Communication Technology

1. Introduction

1.1. Background of the Study

Financial Co-operatives are owned and controlled by its members and operated for the purposes of promoting thrift, providing credit at low interest rates and providing other financial services to its members. The rationale behind the Savings Credit and Cooperative Organizations (SACCO's) regulation legislation was to ensure that Financial Co-operatives in Kenya operate under certain set regulations as stipulated in SACCO Act of 2008. The legislation came into being so as to curb the excessive misuse and mismanagement

of members' funds. Stakeholders on the other hand observed that prior to the SACCO Societies Act of 2008; the lack of regulation was the main reason for SACCO's stagnation; brought about by issues of mismanagement, poor structure risk and mismanagement. The setting up of a strong legal and institutional regulatory framework led to several reforms creating order, sustainability, stability and growth in the SACCO sector, (SASCO 2011). Regulation of SACCO's has come with challenges in Africa out of which many SACCO's have not been able to meet the requirements of the regulators. According to Hauya (2011), Malawi's Cooperative sector had the following challenges lack of technology, good governance, financial viability and lack of products

diversification. This was also shared with the head of Rwanda's Cooperative Agency Mr. Habyarimana who observed that SACCO's in Rwanda experienced the following lack of managerial capacity in SACCO's committees and staff, Inadequate Management Information systems (MIS) and low capacity of maintaining enough liquidity in some SACCO's. Following widespread bank failures in Kenya in the 1980's and 1990's, rural SACCO's thrived further as the banks generally withdrew from these rural areas. Many rural SACCO's later became associated with the Co-operative Bank of Kenya. According to the Cooperative Bank of Kenya Report (2008), the deposit and loan portfolio of SACCO's amounted to about 34 percent of national savings and about 24 percent of outstanding domestic credit. The World Council of Credit Unions (WOCCU) estimates that the Kenyan SACCO sector has the largest membership in Africa, estimated to be more than 2.5 million, share capital and deposits of US\$1.66 billion, and a loan portfolio of US\$1.24 billion (WOCCU, 2005).

The International Co-operative Alliance (2000) defines credit unions as the legally constituted not - for- profit co-operative financial institution chartered and supervised for the most part under national co-operative law and created to meet the basic financial needs of primarily low and middle-income citizens who generally cannot obtain these services through the existing banking system. The unions provide a means to learn the value of regular savings and wise use of credit. They are a form of economic empowerment based upon an individual's ability to control and manage the financial institution and provide savings, credit and other financial services (Kiuma, 2008). Savings and credit co-operative societies have a departure from other financial institutions a majority of whom are banks in that, the members who hold accounts in the SACCO's are at the same time the owners, and they conduct their voting mandate on the one member one vote basis irrespective of the members 'shareholding. This means that only the members of these institutions can deposit and borrow from them. During the initial period of establishment SACCO's were operated by using relatively unsophisticated administrative practices, such that costs were very low and practically all the income earned from interests on loans could either be distributed to the members, reinvested in the SACCO's within a capitalization arrangement or both. As the SACCO's expanded in membership and capital, more sophisticated operating and lending practices were introduced. Access to a means of secure savings and credit at non-exploitative terms are of greatest importance for the poor and those at risk of becoming poor. SACCO's provide credit on reasonable terms, either to render more efficient the household sector, to provide capital for entrepreneurial activities or to provide resources at times of emergency, whether personal or arising from natural disasters or civil strife. They enable the poor to avoid dependency on money lenders and permanent indebtedness (Murungi, 2003).

According to Kobia (2011) Savings credit and Co-operative societies were first introduced in Kenya in 1902

and were based on common bonds linked to residence, occupation, and churches, in 1969 the government decided as a requirement for SACCO's to be based on a secure crop or employment relationship. In this check-off system, SACCO's received payments directly from employers, processors (cooperatives, parastatals, or private companies), or marketing organizations. As a result, in rural areas, several commodity-based SACCO's (primarily dairy, coffee, tea, and pyrethrum) emerged, and District Unions of these SACCO's included Union Banking Sections that provided financial services to members, including payment points. The Union Banking Sections were essentially Raiffeisen-type financial cooperatives because they were part of unions that operated at the provincial level and had branches at each of the member cooperatives.

1.2. Statement of the Problem

The Kenyan Savings Credit and Cooperative Organizations (SACCO's) sector has been observed to contribute approximately over 45% to the Kenya gross domestic product, the total financial industry and consequently the economy, (MOCD&M 2010). With the enactment of the SACCO Act, 2008 (SSA) and the subsequent establishment of the SACCO Societies Regulatory Authority (SASRA), SACCO's have been brought under regulation and supervision. The regulations came in against a backdrop of losses and compromised profitability, loss of members to banks, incompetent staff and poor corporate governance. All licensed Financial Co-operatives 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 (SASRA, 2012). More specifically at operational level, SASRA regulations required SACCOS' to reconstitute their boards, improve on corporate governance and upgrade staff competence in order to improve profitability. A report by International Monetary Fund in 2011 on Financial stability issues in emerging markets and developing economies observed that deposit taking SACCO's are actually observed to be controlling more than 78% of the total deposits and assets of the SACCO industry. Strategic factors to the successful implementation of the new regulatory framework differed significantly because of both the size and diversity of the SACCO societies, with inadequate technical skills, both at board and management levels being identified as the key factor (SASRA Press Release, 2011). Other key areas, identified by SASRA that need to be continually addressed include governance, management capacity, financial management, credit management and automation. While it must be appreciated that prudential regulation has a prerequisite to integration and mainstreaming of the SACCO societies in the Kenyan financial sector, the challenges of Financial Co-operatives in regulatory compliance need to be identified and addressed to ensure that licensed SACCO's exploit their full potential and deepen financial access in the Country. The study therefore seeks to provide more insight into the strategic factors

affecting compliance with the SACCO's regulations by Financial Co-operatives in Nairobi County. The general objective of the study was to establish the strategic factors affecting compliance with the SACCO Act of 2008 by Financial Co-operatives in Nairobi County. It was guided by the following specific objectives

- I. To establish if human resource capacity affects compliance with the SACCO Act by Financial Co-operatives
- II. To determine if Information and Communications Technology affects compliance with the SACCO Act by Financial Co-operatives
- III. To find out if Corporate Governance in the SACCO affects compliance with the SACCO Act by Financial Co-operatives.

2. Literature Review

2.1. Theoretical Review

2.1.1. Agency Theory

According to Abdullah & Valentine (2009), agency theory explains the relationship between the principals, such as members and agents. In this theory, members who are the owners or principals of the SACCO, hires by electing the management board as their agent (Alchian & Demsetz, 1972; Jensen & Meckling, 1976; Mitnick, 2006; Bruton & Hirsch, 2000). Principals (members) delegate the running of business to the management board, which in turn hire and delegate authority to the managers (Clarke, 2004). Indeed, Daily, Dalton, & Canella, (2003) noted that two factors can influence the prominence of agency theory. First, the theory conceptually reduces the corporation to two participants of managers and the owners. Second, agency theory suggests that employees or managers in SACCO's can be self-interested. Shareholders expect the agents to act and make decisions in the principals' interest. On the contrary, the agent may not necessarily make decisions in the best interests of the principals (Padilla, 2002). In agency theory, the agent may succumb to self-interest, opportunistic behavior and falling short of the agreement between the interest of the principal and the agent's pursuits. Although with such setbacks, agency theory was introduced as a separation of ownership and control (Bhimani, 2008). Indeed, agency theory can be employed to explore the relationship between the ownership and management structure. However, where there's separation, the agency model can be applied to align the goals of the management with that of the owners. The model of an employee portrayed in the agency theory is more of a self-interested, individualistic and is bounded rationality where rewards and punishments seem to take priority (Jensen & Meckling, 1976). This theory prescribes that employees must constitute a good governance structure since they are held accountable in their tasks and responsibilities. An explanatory power of agency theory can be reduced when the principal decides to divest to a new business. An agent must be motivated and monitored to create wealth, portraying the

agent as potentially fraudulent (Arthur & Busenitz, 2003). Therefore, agency theory was relevant since the management committees and the chief executive officer are the agents of the members and they make key decisions, enter into contracts and oversee office organization & development on behalf of the members

2.1.2. Stewardship Theory

According to Davis, Schoorman & Donaldson (1997), a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized. In this perspective, stewards are managers working to protect and make profits for the shareholders. Therefore, stewardship theory emphasizes on the role of management being as stewards, integrating their goals as part of the organization (Davis et al., 1997). The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. The theory recognizes the importance of governance structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 1991). It stresses on the position of employee to act more autonomously so that the shareholders' returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling employee behaviour (Davis et al., 1997). In order to protect their reputations, Daily et al. (2003) assert that as decision makers in organizations, managers are inclined to operate the firm to maximize financial performance as well as shareholders' profits. In this sense, the firm's performance can directly impact perceptions of their individual performance. This theory relates to the project in that stewards or managers are the people who ensure that the objectives of the organization are met and therefore it meets the choice of respondents. The project shall make references on the two main theories that are stewardship and agency theories.

2.2. Review of Models

Different countries have adopted different models in regulating SACCO's. The mode of regulation applied depends on the development phase of the SACCO's in a particular Country. At the initial stages of development, regulations imply entails registration of SACCO's to conduct business. As SACCO's approach maturity stage regulations focuses on prudential standards which establishes a risk assessment process focusing on liquidity, capital and governance. At the maturity stage, regulation establishes Deposit guarantee system for explicit comfort to members that their funds are safe. Most of the Africa countries are in the initial stages or approaching maturity; thus applies a combination of simple registration of SACCO's and enforcement of prudential standards models and Kenya appears to be in this category (ACCOSCA, 2012). In South Africa for instance, the Twin Peaks Model entails separating the oversight of market conduct regulation from prudential regulation. Market conduct regulation focuses on how firms conduct their business, price their products and treat their

customers while prudential regulation focuses on regulation of liquidity, solvency and capital adequacy and structure.

2.3. Key Issues Facing Financial Co-operatives

Financial Co-operatives are a special case of co-operatives because of the nature of the commodity they handle (Nair and Kloppinger, 2004). Financial markets have certain unique characteristics that make these markets different from other markets and justify a more enhanced role for governments. Financial Co-operatives faces a specific set of issues that arise from their ownership form (co-operative) and their generally small size. Financial Co-operatives in developing countries are typically constrained by the lack of autonomy from government interference, anachronistic legal frameworks, lack of an appropriate regulatory framework, and poor supervisory capacity of the entity responsible for supervising Financial Co-operatives. Legal frameworks often prevent the adoption of better corporate governance practices; hinder the mergers, acquisitions, or splits needed to operate competitively in the market; and inhibit broader diversification. Regulatory frameworks often lack the prudential regulations that are critical for regulating financial institutions, and supervisory agencies often lack the skills and the financial resources to effectively supervise Financial Co-operatives. (ACCOSCA, 2012). According to Cuevas and Fisher (2006), they identified a set of key issues on which, they argue, an agreement was necessary, because its absence has constrained the development of the Cooperative Financial Institutions (CFI's) and the realization of their full potential to serve low-income clients. These issues include the strengths and weaknesses of CFI's, the benefits of net works, and the role of legal frameworks to encourage this potential; whether legal framework should be uniform for all CFI's or whether it should be tiered; and the effects of different supervisory arrangements on the performance of CFI's.

2.3.1. Specific Regulatory Provisions Requirements for SACCO's

The Act (Section 24) and Regulations (Section 4) detail the main Regulatory Provisions, a SACCO will be subject to the following after licensing. Similar 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. It will also be their responsibility to establish appropriate policies on credit, investment, human resource, savings, liquidity, information preservation, dividend, 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 the management has been clearly outlined in the Regulations to ensure transparency and accountability in the running of the SACCO. 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)

2.3.2. Information and Communication Technology Challenges

According to Ademba (2010), slow adoption of technology as a major challenge facing SACCO's in Africa. This would certainly impact the adoption of related systems and services dependent on the availability of an existing infrastructure for support. Observations from PROCASUR Africa (2012), also underscore these points where they note how the level of use of ICT within the sector is inadequate to reform the way manage their business and facilitate effective delivery of services. It has been observed that ICT's improve an organization's productivity by allowing firms to adopt flexible structures and locations. The increased geographic dispersion is a source of productivity gains as it also allows firms to exploit comparative advantages and save on costs. Further productivity gains also come from better management, through better inter- and intra-organizational communication, and increased flexibility, owing to the removal of physical constraints on organizational communications (Mihasonirina & Kangni, 2011). According to a whitepaper from Microsoft (2004), Information and communications technologies (ICT's) are transforming societies and fueling the growth of the global economy. However, despite this broad potential their benefits have not been spread evenly. At their most fundamental level, ICT's enables organizations to be more productive. They also assist any organization (SACCOs included) to expand the reach of operations. According to an interview in the Daily Nation, the adoption of proper Information and Communication Technology (ICT) is still a challenge to the successful enactment of the SACCO Act. Many of such institutions are still mired in manual operations that need to be dropped if the objectives of the new law are to be met. This helps to highlight the slow growth of adoption of such ICT related system such as SACCO Link that are based on the existence of a viable ICT infrastructure in the SACCO Society ("Slow uptake of ICT hindering new SACCO law", 2009). The good news is that some of the SACCO's are trying to make a change. For example, members of the Kilifi Teachers SACCO have been quoted in the SACCO Star (March 2010) as having chosen to embrace ICT as part of their strategy to modernize their operations and improve their processes and delivery of products in an efficient manner. Indeed, they have decided to invest more in appropriate ICT to modernize our operations and to keep abreast with changing technological advance.

According to Thompson, Arthur, Strickcan, & Gamble, (2010) accurate and timely information about daily operations can be essential if managers are to gauge how well the strategy execution process is proceeding; and that information systems need to cover five broad areas of customer data, operation data, employee data,

supplier/partner/collaborative ally data, and the financial performance data. Due to its dynamism, ICT's promise fundamental change in all aspects of human life including knowledge dissemination, social networking, economic and business practices, political engagements, education, health, leisure, and entertainment. Information and communications technologies are also useful either as tangible goods in their own rights or as value - adding services that improve efficiency and effectiveness. Thus ICT's can provide reliable access to markets (Local, regional and International) through increased use of affordable communications (phone, email). ICT broadly can allow for a reduction in transactions costs, improved access to timely and usable knowledge, improved communications with markets and within supply chain, acquisition of appropriate skills for enhancement of productivity and improved information about new opportunities (Gunga, 2008).

New technologies create new markets and opportunities, and every new technology replaces an older technology (Kotler and Armstrong, 2004). Kotler and Armstrong further note that when old industries fought or ignored new technologies, their businesses declined. They say that companies that do not keep up with technological change soon will find their products outdated and they will miss new product and market opportunities. They further observe that the technological environment changes rapidly and that it is perhaps the most dynamic force now shaping our destiny. Technology is made up of discoveries in science, product development and improvements in machinery, process, automation, and information technology (Manyara, 2003). It also includes a combination of knowledge, information and ideas. Manyara also observes that the rate of technology adoption and its overall application in co-operatives in the region is generally low and that the main reasons for this include conservatism, costs and ignorance. The results and the situations also vary. He observed two situations where – some highly automated financial co-operatives and the completely non-automated agricultural primary co-operatives. ICT increasingly becoming an essential tool for efficient operations of investments and co-operatives should be encouraged to use this technology (Ministry of Co-operative Development and Marketing, 2008). The Ministry of co-operatives through its policy document on investment notes that many co-operatives are not computerized while others are partially computerized; and recommends that CODIC be activated to fulfill its core mandate of developing and assisting the co-operative movement to acquire compatible computer software for their operations at a competitive price; and that to save on costs.

2.4. Corporate Governance

According to Labie and Mersland (2011), corporate governance is a system or set of mechanisms by which an organization is directed and controlled in order to reach its mission and objectives. SACCO's are usually characterized by multiple objectives and are therefore different not only in their organizational forms but also in terms of products,

methodologies and social priorities and in profit seeking behaviour (Mersland & Storm, 2009). Corporate governance focuses on the boardroom but extends the scope to include owners and others interested in the affairs of the company, including creditors, debt financiers, analysts, auditors and corporate regulators' (Tricker, 1994). Governance seeks to ensure that leaders act in the best interest of the organization and use power, and seeking to ensure leader's governance to people. It targets members who are the owners of the organization and seeks to ensure that the power of an organization is used in a manner that facilitates independence, responsibility, efficient, fairness, accountable, social responsibility, transparency, efficiency and discipline (Murtishaw and Sathaye, 2006). Good Corporate Governance entails effectiveness, competitiveness and sustainability of the society. It also ensures the achievement of objectives, innovation, quality production/products, competitive edge and credibility, which would attract investments. It emphasizes the use of resources efficiently, preservation of physical and social environment, sensitivity to society's needs and social responsibility (Bosch, 1995). According to SASRA, SACCO's' should establish appropriate policies in areas such as human resource, credit, investment, savings, liquidity, risk management and establish audit committees to enhance internal controls. They should also adopt international accounting and auditing standards. SACCO's are supposed to appoint external auditors who have met the required standards as laid out in Sec.45 of the Act. Disclosures of related transactions should be done in the financial statements. Directors should not hold position in more than one SACCO licensed under the Act. Sanctions for non-compliance with the law as opposed to persuasive guidelines have also been introduced.

3. Methodology

3.1. Research Design

A research design can be defined as a plan showing how the problem of investigation could be solved. It was used when collecting information about people's attitudes, opinions, habits or any of the variety of education or social issues (Kombo and Tromp, 2006). According to Orodho (2002), descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. The researcher employed a descriptive survey research design whose focus was to explain why certain things happen in a given social setting. The study adopted a census method since all elements of the population were included in the investigation and it was ideal when considering an entire population.

3.2. Population

A population could be defined as a set of people, group of things, households or firms that are being investigated (Ngechu, 2004). The main respondents were the Chief Executive Officers of the Financial Co-operatives. The

population of the study was 42 licensed Financial Co-operatives in Nairobi County, which have been licensed to operate as a Financial Co-operative. (Source: SASRA, 2014), (Appendix II)

3.3. Data Collection Procedure

Data was collected from primary sources using a closed structured questionnaire. The questionnaire was self-administered and the respondents were the Chief Executive Officers. According to Stat Pac Inc. (2013), a questionnaire was preferable as a tool of data collection for such an exercise because of its cost effectiveness, easy to analyze, familiar to most people, less intrusive than telephone or face-to-face surveys, more standardized and objective. Structured questionnaires were used to obtain data from the respondents for ease of analysis. The questionnaires consisted of closed-ended and open-ended questions for ease of analysis. To be successful, the questionnaires were designed to be short and simple, Kothari (2004). Before proceeding to the field to collect data the researcher obtained the necessary documents for the research. The researcher also notified the Chief Executive Officers or their representatives by sending letters to them asking for permission to carry out the research. The questionnaires were self-administered; the researcher dropped and picked them from the respondents.

3.4. Data Processing and Analysis

The data was collected, sorted, coded and checked for completeness. Then quantitative analysis was applied using descriptive statistics by using mean, mode and median. Data was analyzed using SPSS version 21.0 and presented using frequency tables and pie charts. According to Mugenda (2008) SPSS is a computer package used to analyze data including descriptive statistics to generate frequencies, percentages tables and graphs as well as inferential and multivariate statistical analysis. To analyze quantitative data, frequency distribution and percentages were used. Qualitative data was organized into major themes and used to draw conclusions. The data was then organized by the use of frequency tables. A multivariate regression model was applied to determine the compliance with SACCO regulation by Financial Cooperatives in Nairobi County. The researcher used the regression model since the problem of interest was the nature of the relationship itself between the dependent variable (response) and the (explanatory) independent variable. The analysis consisted of choosing and fitting an appropriate model, with a view to exploiting the relationship between the variables to help estimate the expected response for a given value of the independent variable. The regression model below was used in determining the relationship

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

Where, Y = Dependent Variables (compliance with SACCO regulation indicators); X_{1-n} = Independent variable; β_0 = the constant; β_{1-n} = the regression coefficient or change included in Y by each X; e = error term; (X_1 ; X_2 ; X_3)=

(Human resource capacity, Corporate Governance, Information and Communication Technology) n=3

4. Empirical Results and Findings

4.1. Demographic Characteristics of the Respondents

Table 1 below shows the demographic characteristics of the respondents, where 87.2% were male while 12.8% female. Distribution by age of the respondents showed that (30.8%) were between the years 25-34, (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 (60.0%) of the study participants had a degree while slightly over a quarter (25.6%) had postgraduate education.

Table 1. Profile 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

4.2. Corporate Governance

To measure corporate governance respondents were presented with ten statements on likert scale and asked to state how much they agreed with each statement. The responses ranged from 5=Very important to 1=Not Important. Out of the respondents (78%) regarded separation of powers between the board of directors and senior management important in SACCO operations. (89%) of respondents viewed Board calendar meetings as important in the operations of the SACCO, with (93%) of the respondents reported that leadership of the Board of directors were an important factor in the implementation of the SACCO Act of 2008. The view that the autonomy of the Board of Directors in decision making affect the implementation of the SACCO Act of 2008 was reported important by 79% of the respondents. The view that the presence of the board charter was important in implementation of the SACCO Act of 2008 was agreed on by 86%. Out of the respondents (85%) were of the opinion that the Board of Directors audit by an external body was important in the implementation of the SACCO Act of 2008. It was found that there is need to train Board of Directors, senior management and staff of the SACCO as it was supported by 89%. On whether supervisory committee independence was important 86% supported while 69% supported the view that the SACCO has a documented code of conduct and ethics. In respect to Board of Directors (89%) agreed it was important in the implementation of the SACCO Act of 2008.

Table 2. Corporate Governance.

	N.I	F.I	N	S.I	V.I	Mean	Std. Deviation
The separation of powers between the board of Directors and Senior management important in SACCO operations	2%	7%	14%	47%	31%	3.97	.954
The schedule of Board calendar meetings important in the operations of the SACCO	0%	3%	8%	55%	34%	4.20	.703
The leadership of the Board of Directors is an important factor in the implementation of the SACCO Act of 2008	0%	1%	6%	55%	38%	4.29	.665
The autonomy of the Board of Directors in decision making affect the implementation of the SACCO Act of 2008	0%	1%	19%	48%	31%	4.08	.774
The presence of the board charter important in implementation of the SACCO Act of 2008	0%	1%	12%	54%	32%	4.17	.716
The board of Directors audit by an external body important in the implementation of the SACCO Act of 2008	0%	1%	13%	56%	29%	4.13	.716
The SACCO training calendar schedule for the board of Directors, senior management and staff important	0%	2%	9%	58%	31%	4.18	.685
The supervisory committee independence important	0%	2%	12%	48%	38%	4.21	.756
The SACCO has a documented code of conduct and ethics	1%	6%	24%	55%	14%	3.76	.808
The vetting of the Board of Directors important in the implementation of the SACCO Act of 2008	0%	2%	9%	58%	31%	4.16	.706

4.3. Information and Communications Technology

To measure Information and Communications Technology respondents were presented with five statements on likert scale and asked to state how much they agreed with each statement. The responses ranged from 5 being Very important with 1 being Not Important. Out of the respondents (70%) viewed that Information preservation policy was important in the implementation of the SACCO Act of 2008. Automation

of SACCO operations was regarded as important in the implementation of the SACCO Act of 2008 at 64% prevalence. The requirement of Information and Communication Technology infrastructural support system was important as reported by 71% of the respondents. The requirement of a Management Information System was reported important by 85% while 68% viewed the requirement of a backup system as important in the implementation of the SACCO Act of 2008.

Table 3. Information and Communications Technology.

	N.I	F.I	N	S.I	V.I	Mean	Std. Deviation
The information preservation policy important in the implementation of the SACCO Act of 2008	0%	5%	24%	48%	22%	3.86	.835
The automation of SACCO operations important in the implementation of the SACCO Act of 2008	1%	4%	31%	41%	23%	3.82	.867
The requirement of Information and Communication Technology infrastructural support system important	1%	3%	25%	49%	22%	3.88	.816
The requirement of a management information system important in the implementation of the SACCO Act of 2008	0%	1%	13%	56%	29%	4.13	.713
The requirement of a backup system is important in the implementation of the SACCO Act of 2008	2%	7%	22%	52%	16%	3.74	.887

Table 4. Human resource capacity.

	N.I	F.I	N	S.I	V.I	Mean	Std. Deviation
The senior staff educational requirements as spelt out by SASRA important in the implementation of the SACCO Act of 2008	0%	6%	19%	56%	18%	3.86	.805
The staff training by SASRA important in the day to day operations in the SACCO	4%	15%	32%	36%	13%	3.38	1.016
The staff and board of Directors training programme calendar important to the society	0%	0%	9%	43%	48%	4.40	.638
The requirement by SASRA on professional skills important in the implementation of the SACCO Act of 2008	0%	1%	6%	49%	44%	4.36	.644

4.4. Human Resource Capacity

To measure Human resource capacity respondents were presented with four statements on likert scale and asked to state how much they agreed with each statement. The responses ranged from 5=Very important to 1=Not Important. The responses were averaged per statement and the results

displayed in the table below. Out of the respondents (74%) viewed senior staff educational requirements as spelt out by SASRA important in the implementation of the SACCO Act of 2008. The staff training by SASRA was reported as important in the day to day operations in the SACCO by majority of the respondents (49%). On the other hand the staff and Board of Directors training programme calendar

was regarded important to the society by almost all respondents (91%). The requirement by SASRA on professional skills was reported important in the implementation of the SACCO Act of 2008 by (93%) of the respondents.

4.5. Compliance with the SACCO Act of 2008

To measure compliance with the SACCO Act Of 2008 respondents were presented with one role up question asking them to rate their SACCO compliance with SACCO Act of 2008, (36%) of the respondents agreed that their SACCO complies fully with SACCO Act of 2008 while 27% strongly agreed with the statement. On the other hand 13% of the respondents were neutral on whether their SACCO was fully compliant with the SACCO Act Of 2008 or not. However, 27% of the respondents were of the view that their SACCO does not fully comply with the SACCO Act Of 2008.

4.6. Regression Analysis

4.6.1. Regression of Compliance with the SACCO Act of 2008 on Human Resource Capacity

Linear regression was performed to determine if Human resource capacity (X_1) influence Compliance with the SACCO Act of 2008 (Y) in Financial Co-operatives i.e. $Y=a+b_1X_1$. Table 5; shows the regression model summary where the coefficient of determination (R^2) value of .285 indicates that 28.5% of the variation in Compliance with the SACCO Act of 2008 can be explained by the regression model.

Table 5. Model Summary for Compliance with the SACCO Act of 2008 on Human resource capacity.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.534 ^a	.285	.282	.49842

a. Predictors: (Constant), Human resource capacity

Table 7. Coefficients for Compliance with the SACCO Act of 2008 on Human resource capacity.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.354	.200		11.744	.000
	Human resource capacity	.463	.051	.534	9.040	.000

a. Dependent Variable: Compliance with the SACCO Act of 2008

4.6.2. Regression of Compliance with the SACCO Act of 2008 on Information and Communications Technology

Linear regression was performed to determine how Information and Communications Technology (X_2) influence Compliance with the SACCO Act of 2008 (Y) in the Financial Co-operatives i.e. $Y=a+b_2X_2$. Table 8 shows the regression model summary where the coefficient of determination (R^2) of .114 indicates that 11.4% of the variation in Compliance with the SACCO Act of 2008 can be explained by the model.

Table 6 displays Analysis of Variance (ANOVA) on R^2 for the regression model of Compliance with the SACCO Act of 2008 on Human resource capacity. An F value of 15.152 ($df=1, 38$ and $P<.05$) shows that the model was suitable at 95% confidence level.

Table 6. ANOVA for R^2 on Compliance with the SACCO Act of 2008 on Human resource capacity.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	20.304	1	20.304	15.152	.000 ^a
	Residual	50.927	38	1.340		
	Total	71.231	39			

a. Predictors: (Constant), Human resource capacity

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

Table 7 displays the coefficient of the regression model of Compliance with the SACCO Act of 2008 on Human resource capacity. Regression coefficients (B) represent the mean change in the response variable for one unit of change in the predictor variable while holding other predictors in the model constant. The standard error was an estimate of the standard deviation of the coefficient, the amount it varies across cases. It can be thought of as a measure of the precision with which the regression coefficient is measured. If a coefficient is large compared to its standard error, then it is probably different from 0. The t-statistic is the coefficient divided by its standard error. The t statistic on our variable was compared with values in the Student's t distribution to determine the P value. The Student's t distribution describes how the mean of a sample with a certain number of observations were expected to behave. From the table the coefficient of the model was significant at 5% level of significance. Therefore, Compliance with the SACCO Act of 2008 could be predicted using the following equation:

$$Y=2.354+.463X_1$$

Where;

Y is Compliance with the SACCO Act of 2008

X_1 is the Human resource capacity

Table 8. Model Summary for Compliance with the SACCO Act of 2008 on Information and Communications Technology.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.337 ^a	.114	.109	.55495

a. Predictors: (Constant), Information and Communications Technology

Table 9 displays ANOVA on the coefficient of determination (R^2). An F value of 4.516 ($df=1, 38$ and $P<.05$) shows that the model was suitable at 95% confidence level.

Table 9. ANOVA of R² Compliance with the SACCO Act of 2008 on Information and Communications Technology.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.098	1	8.098	4.516	.009 ^a
	Residual	63.133	38	1.793		
	Total	71.231	39			

a. Predictors: (Constant), Information and Communications Technology
 b. Dependent Variable: Compliance with the SACCO Act of 2008

Table 10. Coefficients for Compliance with the SACCO Act of 2008 on Information and Communications Technology.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.133	.200		15.678	.000
	Information and Communications Technology	.275	.054	.337	5.128	.000

a. Dependent Variable: Compliance with the SACCO Act of 2008

4.6.3. Regression of Compliance with the SACCO Act of 2008 on Corporate Governance

Linear regression was performed to determine how Corporate Governance (X₃) influence Compliance with the SACCO Act of 2008 (Y) in the Financial Co-operatives i.e. $Y=a+b_3X_3$. Table 12 show the regression model summary where the coefficient of determination (R²) of .249 indicates that 24.9% of the variation in Compliance with the SACCO Act of 2008 can be explained by the model.

Table 11. Model Summary for Compliance with the SACCO Act of 2008 on Corporate Governance.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.499 ^a	.249	.245	.51090

a. Predictors: (Constant), Corporate Governance

Table 12 displays ANOVA on the coefficient of determination (R²). An F value of 12.586 (df=1, 38 and P<.05) showed that the model was suitable at 95% confidence level.

Table 13. Coefficients of Compliance with the SACCO Act of 2008 on Corporate Governance.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.759	.291		6.046	.000
	Corporate Governance	.571	.069	.499	8.240	.000

a. Dependent Variable: Compliance with the SACCO Act of 2008

4.6.4. Combined Regression Model

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. An R² value of .651 indicated that 65.1% of the variation in Compliance with the SACCO Act of 2008 can be explained by the model. Hence Information and Communications Technology, Human resource capacity

Table 10 displays the coefficient of the regression model of Compliance with the SACCO Act of 2008on Information and Communications Technology. It was found that the coefficients of the model are significant at 5% level of significance. Therefore, Compliance with the SACCO Act of 2008 can be predicted using the following equation:

$$Y=3.133+.275X_2$$

Where;

Y is Compliance with the SACCO Act of 2008

X₂ is the Information and Communications Technology

Table 12. ANOVA of R²Compliance with the SACCO Act of 2008 on Corporate Governance.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.722	1	17.722	12.586	.000 ^a
	Residual	53.509	38	1.408		
	Total	71.231	39			

a. Predictors: (Constant), Corporate Governance
 b. Dependent Variable: Compliance with the SACCO Act of 2008

Table 13 displays the coefficient of the regression model of Compliance with the SACCO Act of 2008on Corporate Governance. From the table, the coefficients of the model were significant at 5% level of significance. Therefore, Compliance with the SACCO Act of 2008 could be predicted using the following equation:

$$Y=1.759+.571X_3$$

Where;

Y is Compliance with the SACCO Act of 2008

X₃ is the Corporate Governance

and Corporate Governance can explain 65.1% of the variation in Compliance with the SACCO Act of 2008 while other factors not studied in the study could explain 34.9%.

Table 14. Model Summary for Combined model.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.807 ^a	.651	.642	.47199

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

To determine how best the regression model fits our data, Analysis of Variance on the coefficient of determination (R^2) was calculated. An F value of 29.437 (df=3, 38 and P=.011 which is less than 5%) shows that the model was suitable at 95% confidence level.

Table 15. ANOVA for R^2 for Combined model.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.231	3	8.743	7.384	.011 ^a
	Residual	45.000	38	1.184		
	Total	71.231	39			

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

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

Table 16 displays the coefficient of the regression model of

Table 16. Coefficients of Combined model.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	1.266	.302		4.200	.000
	Human resource capacity	.298	.061	.343	4.850	.000
	Information and Communications Technology	.138	.048	.170	2.872	.005
	Corporate Governance	.030	.065	.040	1.173	.058

a. Dependent Variable: Compliance with the SACCO Act of 2008

Both univariate and multivariate findings support that of Abdullah & Valentine (2009) who carried out a multilevel study to assess the effects of human resource capacity on SACCOs' commitment to comply with rules and regulations. The study found out that human resource capacity was generally seen as a major contributor to the compliance with the SACCO rules and regulations in an organization. The findings also concur with Ademba (2010) who reported that proper Information and Communications Technology (ICT) was pivotal to successful enactment of the SACCO Act.

5. Conclusion and Recommendation

5.1. Conclusion

The study aimed at establishing the strategic factors affecting compliance with the SACCO Act of 2008 by Financial Co-operatives in Nairobi County. Specifically the study assessed; if human resource capacity affects compliance with the SACCO Act by Financial Co-operatives; if Information and Communications Technology affects compliance with the SACCO Act by Financial Co-operatives; and if Corporate Governance in the SACCO affects compliance with the SACCO Act by Financial Co-operatives.

The above discussions enable a better understanding of the impact of human resource capacity, Information and Communications Technology and Corporate Governance on SACCO compliance with the SACCO Act. SACCOs should combine their human resource capacity and their 'hard' ICT investments (i.e. acquisition of new hardware, software and networks), with appropriate 'soft actions', in order to achieve compliance with the SACCO Act. One of these necessary

Compliance with the SACCO Act of 2008 on Corporate Governance, Information and Communications Technology and Human resource capacity. From the table all the coefficients of the model except Corporate Governance were significant at 5% level of significance. Therefore, Compliance with the SACCO Act of 2008 can be predicted using the following equation:

$$Y = 1.266 + .298X_1 + .296X_2$$

Where;

Y is Compliance with the SACCO Act of 2008,

X_1 is the Human resource capacity

X_2 is the Information and Communications Technology

This means that one unit increase in Human resource capacity there will be 0.298 units increase in Compliance with the SACCO Act of 2008.

'soft actions' was the alignment of ICT investment to business strategy, 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.

5.2. Recommendations

The research recommends SACCO's to establish a training program to enhance management capacity on compliance issues. Also initiate a change management with an aim of setting realistic user expectations objectives and goals. Further SACCO's should create a compliance department for monitoring compliance and also conduct and review their strategic plans in line with the SACCO Act.

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