Challenge Of Senior Management Skills To Regulation Compliance By Deposit Taking Savings And Credit Co-Operative Societies In Kenya

ISSN 2319-9725

Gamaliel Hassan Alukwe
Ph. D Student, School of Human Resource Development Faculty Jomo Kenyatta University of Agriculture & Technology

Dr Patrick Karanja Ngugi
School of Human Resource Development
Jomo Kenyatta University of Agriculture & Technology

Dr. Kennedy Ogollah
School of Human Resource Development
Jomo Kenyatta University of Agriculture & Technology

Dr. George Orwa
School of Human Resource Development
Jomo Kenyatta University of Agriculture & Technology

Abstract: The aim of the study was to investigate the challenges to regulation compliance by Deposit Taking Savings and Credit Co-operative Societies (D.T.S) in Kenya. Further, since the D.T.S are ranked according to size, the study analysed the compliance level in these groupings. The objective was to establish the relationship between senior management skills and regulation compliance, and whether SACCO size moderated this relationship. The study recommends that SACCOs should embrace capacity building and the training of senior management. In addition, mentorship and exchange programs across SACCOs should be encouraged. The study further advises SACCOs to not only employ competent managers, but also to encourage internal promotions for effective succession planning in order to improve the senior management skills. The target population was all the D.T.S in Kenya where a sample of 139 respondents was derived using stratified random sampling but only 108 respondents were interviewed using the questionnaire method. The major finding from the study was that there is a relationship between senior management skills and regulation compliance. The study further established that while senior management skills influences regulation compliance, SACCO size has a significant moderating influence in this relationship.

Keywords: Senior Management Skills, Regulation Compliance, SACCO Size, Logistic Regression Model, Deposit Taking SACCOs
1. Introduction:

It is envisaged that the Deposit Taking Savings and Credit Co-operative Societies (D.T.S) have various challenges to regulation compliance. This study investigated senior management skills as a challenge to regulation compliance. Savings and Credit Co-operative Societies (SACCOs) have a significant role in empowering their members Socio-Economic Status all over the world. There is an emerging consensus among many actors, including the United Nations (UN), the International Labour Organisation (ILO), the International Co-operative Alliance (ICA) and the European Union (EU), that the co-operative enterprise is one of the few forms of organisation that can meet all dimensions of poverty (Kuria, 2011). According to ILO (2013) in the aftermath of the global financial crisis, the successes of financial cooperatives provide a credible alternative to the investment-owned banking system. Furthermore, there are more than 55,952 credit unions in at least 101 countries in the globe. These credit unions have a combined membership in excess of 200 million people. Their penetration rate is at 7.72%, which is calculated by dividing the total number of reported credit union members by the economically active population age 15-64 years old. The total global savings/shares, loans, reserves and assets in US dollars are 1.3 trillion, 1.1 trillion, 162 billion and 1.7 trillion respectively (WOCCU, 2012b). Canada, the United States, Australia and Ireland have the most established co-operative movements (SACCOL, 2014). North America, consisting of Canada and United States, are the major players and contribute to 80% of global savings and 79% of global loans (WOCCU, 2012a).

According to Reilly (2013), there are action items that help managers cultivate senior management skills. These include developing a strategic frame of reference, using a SWOT analysis, conducting self-assessment, clear communication with facts and inspiration, staying alert to generational differences among direct reports, leveraging leadership style by tweaking it for various audiences and being mindful of your network of allies. Whetten and Cameron (2010) state that management skills form the vehicle by which management strategy, practice, tools and techniques, personality attributes and style work to produce effective outcomes in organisations.

Management skills, in other words, are the building blocks upon which effective management rests. They are the means by which managers translate their own style, strategy and favourite tools or techniques into practice. Management skills fall into four main groups: participative and human relations skills (for example, supportive communication and teambuilding);
competitiveness and control (for example, assertiveness, power, and influence skills); innovativeness and individual entrepreneurship (for example, creative problem solving); maintaining order and rationality which relates to not only managing time and but also to rational decision making (Whetten & Cameron, 2010).

2. **Statement Of The Problem:**

The Kenyan SACCO sector is the largest in Africa and the seventh worldwide (Ademba, 2010). The major innovation in the development of the sector in Kenya was the development of D.T.S. offering banking services (Owen, 2007). The D.T.S contribute more than 70 percent of the assets, member deposits, loans and 78 percent turnover of the total SACCO sector. As at December 31, 2013, out of the 215 D.T.S in Kenya, 135 had fully complied and were licensed by SASRA, the D.T.S that were yet to be licensed had also embarked on aggressive strategies to fulfil the SASRA requirements (SACCO, 2013).

Not enough studies have been done in and out of Kenya on regulation compliance in D.T.S. The study by Deller, Hoyt, Hueth, and Sundaram-Stukel (2014) on the economic impact of cooperatives in the US did not specify whether it targeted D.T.S or non D.T.S. The studies by Kilonzi (2012), Ndung’u (2013), Ngaira (2011), Odhiambo (2011) and Olando (2013) focused on sampling in only one region of Kenya. Okwee (2011) focused on only one region in Uganda, while the study by Magali (2014) in Tanzania concentrated on only three regions. All these studies were thus limited in scope. The challenges to successful implementation of the new regulatory framework also differ significantly because of SACCO size but these studies did not consider its effect. This is despite the fact that according to SACCO (2013) D.T.S are ranked according to asset size. This is categorised into three: Large D.T.S having assets over Kes.4 billion; Medium D.T.S with assets more than Kes.1 billion but less than Kes.4 billion; Small D.T.S with asset base below Kes.1 billion. This study thus seeks to provide more insight into the challenges to regulation compliance by D.T.S in Kenya.

3. **Objectives Of The Study:**

1. The main objective of this study was to assess the challenges to regulation compliance by Deposit Taking Savings and Credit Co-operative Societies in Kenya
2. The specific objective of the study was to determine how senior management skills affect compliance of SASRA regulations in Kenya.

4. Justification Of The Study:

The findings of this study will also be useful to future researchers who seek to study a similar research. It will add value for additional literature review. Students of JKUAT SHRD in particular will find this a very interesting area of study. Furthermore, since the research philosophy is positivist in nature, this study shall contribute to the existing knowledge and theories of strategic management by testing the derived hypotheses in a relatively new empirical setting. The results of this research will contribute to the overall theory of resource based view by highlighting the role of resource availability in acquiring and accumulating resources and, thus, shaping the SACCOs path towards regulation compliance. This is therefore an opportune research to add to knowledge in this area by filling these gaps in the empirical literature by conducting a field study on the challenges to regulation compliance by D.T.S in Kenya.

5. Limitations Of The Study:

The study will involve 215 D.T.S in Kenya. It is important to note that the D.T.S target lower income earners and are retail based. This is in contrast to banks and micro financial institutions that are wholesale based and target higher income earners. D.T.S thus have the unique combination of providing retail services to the low income population and having a large coverage. Generalisation of these findings to other financial institutions such as banks and micro- financial institutions shall therefore be difficult. The respondents might also opt to give responses that they believe are socially desirable or politically correct, but which might be incorrect and untruthful.

6. Literature Review:

According to Dodge (2009) an independent variable is that which is presumed to affect or determine a dependent variable. It can be changed as required, and its values do not represent
a problem requiring explanation in an analysis, but are simply taken as given. The dependent variable in contrast responds to the independent variable (Everitt, 2009). It is what you measure in the experiment and what is affected during the experiment. The dependent variable in this study is regulatory compliance while the independent variable is senior management skills. The study’s conceptual framework is illustrated in Figure 1.0.

Capacity gaps in terms of senior management skills and competence have been noted in majority of SACCOs. This is reflected in many SACCOs inability to meet the minimum regulatory requirements. Makori (2013) noted that inadequate managerial competence is a challenge facing regulatory compliance in SACCOs. Ondieki, Okioga, Okwena and Onsase (2011) revealed that the major challenges inherent in the SACCO movement in Kenya include limited transparency in the management of co-operatives and lack of capacity in management. (Magali 2013) observed that SACCOs had poor management, lack of competence and accountability of staffs and SACCOs’ leaders. Bwana and Mwakujonga (2013) found that lack of education and skills among staff is prevalent in SACCOs. Mugo (2013) noted the lack of career development path and low salaries of personnel also militates against reforms implementation. Owen (2007) noted that the majority of SACCOs have no operational manuals detailing policies and procedures for accounting, cash flow management, credit and savings operations, internal controls, procurement and risk management. This makes it almost impossible for auditors to assess compliance or detect fraud. Internal audit
capacity in most SACCOs is therefore very weak. Management board members generally do not have any formal training in finance and accounting and there is also conflict of interest since the audit committee members also have a role in operational decisions through their role in management. Furthermore, very few SACCOs have an internal control staff.

According to Owen (2007) only a small proportion of SACCOs have well qualified paid managers and staff since only these can pay attractive salaries. The study observed that as far as the training by the apex bodies of SACCOs was concerned only a small proportion of large SACCOs could afford training services at either the Kenya Union of Savings and Credit Cooperatives (KUSCCO) and Kenya Rural Savings and Credit Co-operatives Union (KERUSSU). It is therefore imperative that human resource functions in SACCOs are aligned to key functions and output areas (SASRA, 2012). In particular the regulation is very clear on the academic and skills qualification requirements of key personnel, an area yet to be fully implemented by SACCOs. The study will therefore test the following hypothesis.

H₀₁: Senior management skill insignificantly affects compliance of SASRA regulations

7. Research Methodology:

There are three epistemological positions: realism, interpretivism and positivism (Saunders, Lewis, & Thornhill, 2009). The study adopted a positivist research paradigm which advocates for the application of natural sciences to the study of social reality. Positivism is characterised by a belief in theory before research and statistical justification of conclusions from empirically testable hypothesis (Cooper & Schindler, 2011). This approach is very structured and clear, thus it is easy to be objective in this paradigm. Koul (2008) posits that since the focus of the positivist paradigm is to discover the truth through empirical investigation then the quality standards under this paradigm are both the validity and reliability. The philosophical leaning is positivist where the study shall collect large amount of qualitative data in order to test the formulated research hypotheses (Kirrane & Buckley, 2003). The methods of data collection in a positivist research paradigm are by use of sample surveys and questionnaires (Easterby-Smith, Thorbe, & Lowe, 2002).
8. Population:

Population is the total collection of elements about which inference is made to all possible cases which are of interest in the study (Sekaran & Bougie, 2010). The population of this study were the 215 D.T.S operating in Kenya. According to SACCO (2013) the D.T.S accounted for 78 percent of the total SACCOs turnover as at December 2013. In addition, the research stratified the population of D.T.S according to Counties. The sampling frame defines a set of elements from which a researcher can select a sample of the target population. Because a researcher rarely has direct access to the entire population of interest in social science research, a researcher must rely upon a sampling frame to represent all of the elements of the population of interest (Lewis-Beck, Bryman, & Liao, 2004). A sampling frame is therefore a list or rule defining the population. In this study the sampling frame consisted of the list of D.T.S per County. In Kenya, the total number of Counties is 47 and the respective D.T.S per County.

9. Findings From The Study:

9.1. Response Rate:

This study targeted a population of 215 D.T.S in which a sample of 139 D.T.S all operating in Kenya as at December 31, 2013 was derived. The duration for administering the questionnaire was one month. The questionnaire was administered to all sampled C.E.Os/GMs of Deposit Taking SACCOs in Kenya totalling to 139, of which 108 were returned. This represented a response rate of 77.7%. The response rate is considered adequate given the recommendations by Rugg and Petre (2007) who suggest a response rate of above 50% as adequate for analysis.

9.2. Study Variable:

The study looked at three indicators of senior management skills. These were; Participative and Human Resources (HR) skills, Competition and control skills, and Entrepreneurship skills. Respondents were asked various questions to operationalise the constructs. The results are presented as follows.
9.2.1. Participative & Human Resources Skills:

The study queried the respondents as to whether they think the ability to motivate and inspire staff affects regulation compliance. 85.9% of respondents who were fully compliant answered yes while 59.5% of those non-compliant answered no. Cumulatively 29.6% of the total respondents answered no while 70.4% answered yes. The study queried the respondents as to whether they consider the ability to communicate facts effectively as affecting regulation compliance. 93.0% of respondents who were fully compliant answered yes while 56.8% of those non-compliant answered no. Cumulatively 24.1% of the total respondents answered no while 75.9% answered yes. This supports SASCCO (2010) view that among the noticeable concerns is how to ensure personnel within the SACCOs are well conversant and can communicate pertinent issues affecting the sector. It further supports Badaso (2014) recommendation that in order to ensure effective policy implementation there is need to communicate with the policymakers with regard to aligning policies with the functions of public organisations. For this study this means that the ability to communicate facts effectively is a good measure of participative and HR skills. The study queried the respondents as to whether in their opinion team building capacity is important in ensuring regulation compliance. 91.5% of respondents who were fully compliant answered yes while 67.6% of those non-compliant answered no. Cumulatively 28.7% of the total respondents answered no while 71.3% answered yes. This agrees with Badaso (2014) who found that the shared understanding, with commitment, between the middle management and those at the operational level to that of the top management team's strategic goals is of prime importance to successful implementation. This means that team building capacity is a good measure of participative and HR skills in this study.

The study queried the respondents as to whether in their view senior staff retention capacity is important in ensuring regulation compliance. 85.9% of respondents who were fully compliant answered yes while 59.5% of those non-compliant answered no. Cumulatively 29.6% of the total respondents answered no while 70.4% answered yes. This agrees with Ademba (2012b) who found that poor human resource management lead to poor quality of staff and high staff turnover. It also agrees with ILO (2013) finding that in general, SACCOs have flatter pay scales than the investor-owned banks, and so it is more difficult to attract and retain talent. Further it agrees with SASCCO (2010) view that performance of SACCOs is undermined when staff compensation is biased and fails to attract qualified staff. This implies that senior staff retention is a good measure of participative and HR skills. The study queried
the respondents as to whether they think clear career development path is important in ensuring regulation compliance. 88.7% of respondents who were fully compliant answered yes while 59.5% of those non-compliant answered no. Cumulatively 27.8% of the total respondents answered no while 72.2% answered yes. This agrees with SASCCO (2010) finding that succession mapping techniques had to be strengthened as this will enhance continuity of SACCO projects. It also supports Mugo (2013) view that the lack of career development path and low salaries of personnel also militates against reforms implementation. This means that clear career development path is a good measure of participative and HR skills.

9.2.2. Competition & Control Skills:

The second indicator of senior management skills was competition and control skills. The study inquired from the respondents as to whether they think the level of assertiveness affects regulation compliance. 80.3% of respondents who were fully compliant answered yes while 51.4% of those non-compliant answered no. Cumulatively 30.6% of the total respondents answered no while 69.4% answered yes. This agrees with Kabaiya (2012) who found that the lack of assertiveness and independence of the management may be a source of great pain to the shareholders in the event of wrong decision making. This means that level of assertiveness is a good measure of competition and control skills in this study. The study inquired from the respondents as to whether they consider power and influence capacity as affecting regulation compliance. 85.9% of respondents who were fully compliant answered yes while 64.9% of those non-compliant answered no. Cumulatively 31.5% of the total respondents answered no while 68.5% answered yes. This agrees with RCA (2014) finding that the division of work in an organisation has consequences on authority, delegation and responsibility where managers have some form of power and influence over the subordinates. This means that power and influence capacity is a good measure of competition and control skills in this study.

The study inquired from the respondents as to whether in their opinion the capacity to assess compliance/detect fraud is important in ensuring regulation compliance. 93.0% of respondents who were fully compliant answered yes while 51.4% of those non-compliant answered no. Cumulatively 22.2% of the total respondents answered no while 77.8% answered yes. This agrees with Owen (2007) observation that the internal audit capacity in most SACCOs is a challenge with majority of SACCOs having no operational manuals
detailing policies and procedures making it almost impossible for auditors to assess compliance or detect fraud. Capacity to assess compliance/detect fraud is therefore a good measure of competition and control skills in this study. The study inquired from the respondents as to whether in their view formal training of internal audit team in finance and accounts is important in ensuring regulation compliance. 91.5% of respondents who were fully compliant answered yes and also 51.4% of those non-compliant answered yes. Cumulatively 22.2% of the total respondents answered no while 77.8 answered yes. This agrees with Bwana and Mwakujonga (2013) who found that SACCOs in Tanzania and Kenya lack well trained staff and officials. It also agrees with FRC (2012) finding that the organisation should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles. This also supports Owen (2007) observation that SACCOs management generally do not have any formal training in finance and accounting and there is also conflict of interest since the audit committee members also have a role in operational decisions through their role in management. This means that formal training of internal audit team in finance and accounts is a good measure of competition and control skills.

9.2.3. Entrepreneurship Skills:

The third indicator of senior management skills was entrepreneurship skills. The study inquired from the respondents as to whether they think creative problem solving affects regulation compliance. 91.5% of respondents who were fully compliant answered yes while 64.9% of those non-compliant answered no. Cumulatively 27.8% of the total respondents answered no while 72.2% answered yes. This supports Mathews (2007) finding that multiple perspectives of creativity and creative thinking are currently utilised in programs and courses on creative problem solving, creating new enterprises, and managing innovation and entrepreneurship. This means that creative problem solving is a good measure of entrepreneurship skills in this study.

The study inquired from the respondents as to whether they consider innovation ability as affecting regulation compliance. 91.5% of respondents who were fully compliant answered yes while 67.6% of those non-compliant answered no. Cumulatively 28.7% of the total respondents answered no while 71.3% answered yes. This study agrees with Ademba (2012a) who found that deficiency of contemporary skills is an internal challenge affecting African SACCOs. It also agrees with Magali (2014) finding that 46% of the rural SACCOs in
Tanzania were creative and innovative as a result of the creative and innovative behaviour of the SACCO leaders/ managers. This means that innovation ability is a good measure of senior management skills.

The study inquired from the respondents as to whether in their opinion leveraging of leadership styles to different audiences affects regulation compliance? 77.5% of respondents who were fully compliant answered yes while 67.6% of those non-compliant answered no. Cumulatively 38% of the total respondents answered no while 62% answered yes. This agreed with SASCCO (2010) finding that leadership style affects the direction and sustainability of SACCO development. This means that leveraging of leadership styles to different audiences is a good measure of entrepreneurship skills. The study inquired from the respondents as to whether in their view building of network allies is important in regulation compliance. 85.9% of respondents who were fully compliant answered yes while 62.2% of those non-compliant answered no. Cumulatively 30.6% of the total respondents answered no while 69.4% answered yes. This agrees with Vesala and Pyysiainen (2008) who found that cooperation and networking skills can be viewed as proper entrepreneurial skills. This means that building of network allies is a good measure of entrepreneurship skills in this study.

10. Summary Of The Findings:

The study sought to investigate the state of senior management skills in D.T.S and found that D.T.S considered senior management skills significantly affecting compliance of SASRA regulations in Kenya. The respondents scored highly on the indicators of senior management skills. Specifically, participative and human resource skills, competition and control skills, and entrepreneurship skills were found to be good indicators of management information systems. The senior management skill value of Exp(B) was 21.884 and implies that a one unit increase in senior management skills increased the odds by approximately twenty two times that survey respondents belong to the fully compliant group.

The study further established that while senior management skills influences regulation compliance, SACCO size has a significant moderating influence in this relationship. This was demonstrated by the increase in the value of both Cox & Snell and Nagelkerke R2 at the introduction of the SACCO size in the moderated logistic regression analysis done in order to
establish the moderating influence of SACCO size in the relationship between the regulation compliance and senior management skills

11. Recommendations Of The Study:

On senior management skills the study makes the following recommendations. The SACCOs should embrace capacity building and the training of senior management. In addition, mentorship and exchange programs across SACCOs should be encouraged. The study further advices SACCOs to not only employ competent managers, but also to encourage internal promotions for effective succession planning in order to improve the senior management skills.
References:


36. SASCCO. (2010). *2010 Annual Savings and Credit Co-operative Association of Africa*


