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**THE INFLUENCE OF MEMBERS' INCOME AND CONDUCT OF
SACCOS IN THE RELATIONSHIP BETWEEN CHARACTERISTICS
AND EFFICIENCY OF SACCOS IN KENYA**

ABSTRACT

Efficiency of SACCOs is affected by various characteristics such as size, age, bond of association, adoption of technology and managerial competency. The relationship can be influenced by appropriate moderating and intervening variables. This study therefore sought to establish how members' income and conduct of SACCOs affects the relationship between characteristics and efficiency of SACCOs in Kenya. The specific objectives were to determine the relationship between SACCO characteristics and efficiency; establish the moderating influence of the income of members in the relationship between characteristics and efficiency; and determine the intervening influence of conduct in the relationship between characteristics and efficiency. The study targeted all SACCOs that are regulated by SASRA for the period 2009 - 2013. DEA was used to compute efficiency with inputs being member deposits and borrowings; interest/dividend on member deposits and cost of borrowings; staff costs; and other operating expenses (such as rent payable, communication costs, office consumables). Outputs were loans to members and other earning assets (such as interest yielding bank deposits, treasury bills and bonds; investment in rental property; and shares); interest income; and other income (includes interest from bank deposits, treasury bills and bonds; rent from investment property; dividends from shares; money transfer and withdrawal charges). Multiple regression analysis between efficiency, characteristics and conduct was carried out. The study findings were that characteristics (specifically size and age) have a significant positive effect on efficiency of SACCOs and this relationship (for size only) is moderated by the income of members. Increase in size results in improved efficiency and, the older the SACCO the higher the efficiency. The higher the income of members, the stronger the relationship between size and efficiency. Efficiency was negatively related to strength of bond of association, possibly because weakening of the bond would be associated with increase in size, which contributes to increased efficiency. Adoption of technology had a negative relationship with efficiency, with a probable reason being low levels of computerisation of the SACCOs. Managerial competency was not significantly related to efficiency. This might be due to that SACCOs are not very complex entities and therefore the cost of additional competency may not yield payoffs that are greater than the extra expense. The main academic contribution of the study is the finding that income of members moderates the characteristics-efficiency relationship. This means that the results of empirical investigations of the relationship between size and efficiency are improved if the analysis is carried out separately for entities falling in different member income strata. Stratification would not improve the relationship between efficiency and age, bond of association, managerial competency and adoption of technology. Conduct of SACCO was found not to be a significant intervening variable between characteristics and efficiency. The study recommends policy interventions geared towards nurturing existing SACCOs with a view to increasing their size. This can be through setting a minimum size threshold that would necessitate existing SACCOs to merge and making it difficult for new ones to be established.

Members and managers should on their own volition also pursue the increase in size strategy, through recruitment of more members or even merging with other SACCOs.