ASSESSEMENT OF FIRM SIZE ON PERFORMANCE OF DEPOSIT TAKING SACCOS IN NAIROBI COUNTY, KENYA

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Abstract

The Cooperative Movement in Kenya is responsible for about 45% of Gross Domestic Product (GDP) and 31% of national savings and deposits. Deposit Taking Savings and Credit Cooperative Organization **[***SACCO] (DTSs) have enabled Cooperative societies to diversify their products and services in a market that is highly competitive. Those who patronize the services of DTSs have options of accessing similar services from other service providers like commercial banks and non-banking financial institutions that may enjoy economies of scale due to their size. However, some of the DTSs may be small in size which makes it difficult for them to leverage on size for a wider coverage of their catchment market. Guided by the Resource Based View (RBV) as the theoretical framework, this study examines firm size as an important influencing factor on organization performance. The study adopted a descriptive design of a survey of 42 DTSs in Nairobi County, Kenya. The target respondents were Chief Executive Officers and Human Resource Managers in the DTSs. Data was collected from 39 respondents using a questionnaire that was tested for reliability and validity. Data was analyzed using descriptive and statistical techniques. Cross tabulation of the number of employees and organizational performance was done. Chi-square tests were also conducted and the findings of the study indicate that the DTSs with the highest number of employees performed higher than those with fewer employees. These findings suggest that organizations should pay more attention to firm size and leverage on the optimum size for competitiveness in the market.*

Keywords: **Firm Size, Performance, Deposit Taking SACCOs**

Introduction

The Cooperative Movement in Kenya is responsible for about 45% of Gross Domestic Product (GDP) and 31% of national savings and deposits. Deposit Taking Savings and Credit Cooperative Organization [DTS-SACCO) have enabled cooperative societies to diversify their products and services in a market that is highly competitive as key players in the realization of Kenya Vision 2030 (Ministry of State for Planning, 2012). Those who patronize the services of DTSs have options of accessing similar services from other service providers like commercial banks and non-banking financial institutions that may enjoy economies of scale due to their size. However, some of the DTSs may be small in size which makes it difficult for them to leverage on size for a wider coverage of their catchment market. Guided by the Resource Based View (RBV) as the theoretical framework, the purpose of this study was to examine firm size as an important influencing factor on organization performance.

Organization performance can be measured in various ways. These may include but not limited to shares growth rate, market share, productivity and profitability (Ichniowski, Shaw, & Prennushi, 1997). Shares growth rate is a ratio of rate of change in shares from time to time or a specified period of time. The utilization of historical growth rates is one of the methods of estimating future growth. Market share is the percentage of a market, which may be defined in terms of either units or revenue, accounted for by a specific entity. Market share is a key indicator of market competitiveness, that is, how well a firm is doing against its competitors.

Deposit Taking SACCOs play a major role in promoting a culture of saving and credit accessibility in the Kenyan economy. The DTSs are expected to maintain high standards of accounting, resource management and transparency in the management of business (Government of Kenya [GOK], 2010). They are also expected to adhere to strict guidelines in all their dealings and operations as they compete in a dynamic business environment that affects their performance. Deposit Taking SACCOs (DTSs) operating in Kenya in general and in the Nairobi County in particular, have to compete in the market place with other banking and non-banking institutions to attract and retain a steady clientele. The licensed DTSs have encountered challenges in regard to their performance contrary to the expectations of the stakeholders and others who patronize the services provided by the DTSs. These firms are expected to increase their share growth rates, expand their market share, increase productivity and profitability, which have not been realized by some of the DTSs. Some of the underpinning factors that influence the performance of DTSs may be their size. Hence the focus of this study is to shed light on the effect of size on organization performance. This perspective had not been included in previous organization performance empirical studies on DTSs in Kenya.

In the current business environment, different organizations including those that are operating in the SACCO subsector are striving for ways to attain and sustain a competitive advantage over their competition through the uniqueness of their human resources, size and operational systems. The size of an organization can affect its performance (Terziovski & Samson, 2000) which can be manifested in terms of shares growth rate, market share, productivity and profitability attained by the organization.

Deposit Taking SACCOs compete in a dynamic business environment that affects their performance. The organizations have to determine the appropriate size for their optimum operation and competitiveness in their markets and areas of business. An organization can use its size to build an inimitable business that can deliver goods and services that cannot be easily imitated its competitors. Due to the liberalization of the market in Kenya, organizations are unable to operate effectively due to micro and macro-economic circumstances that adversely affect business (Kenya National Bureau of Standards [KNBS], 2016). The DTSs are grappling with reduced market volumes, declining market share, low levels of productivity and reduced profitability. These challenges can be traced to the size of the DTSs, hence the need for the current study.

Sagwa, (2014) found out that firms had a positive effect on performance and there were other factors that may account for firm performance. The relationship between size and organization performance was examined which had not been done on DTSs previously. This research study sought to test the hypothesis that there is a relationship between human resource management practices and organization performance.

Literature Review

The study was anchored in the Human Capital Theory (HCT) and the Resource Based View (RBV) of the firm. There is strong evidence that supports the RBV (Crook, Ketchen, Combs & Todd, 2008). Organizations can attain and achieve a sustained competitive advantage through their employees according to Barney (1991). This can be realized when an organization has a human resource pool that cannot be imitated or substituted by its rivals or competitors. The Human Capital Theory according to Schultz (1961) provides a perspective that value addition by people within an organization can contribute to enhancing better organization performance. Human Capital Theory regards people as assets and not a cost within an organization. Human capital represents the human factor in the organization (Bontis, 1998); the combined intelligence, skills and expertise that gives the organization its distinct character that sets it apart from other organizations. The HCT emphasizes the added value that people can contribute to an organization. Boxall (1996) refers to this situation as one that confers ‘human capital advantage’ to an organization.

The Resource Based View of the firm provides a key element such that if human resource management systems are to create sustained competitive advantage, they must be difficult to imitate (Barney, 1991). The resource based view has been more popular among management researchers and there is an existing body of literature on it (Sagwa, 2013). A resource-based view of a firm explains its ability to deliver sustainable competitive advantage when resources are managed such that their outcomes cannot be imitated by competitors, which ultimately creates a competitive barrier (Smith & Rupp 2002).

Methodology

The study used a descriptive research design (Cooper & Shindler 2006) and surveyed 42 DTSs in Nairobi County. The target respondents were Chief Executive Officers and Human Resource Managers or other managers in the DTSs. The population of the study comprised of all the 42 licensed Deposit Taking SACCOs in Nairobi County as listed in the Kenya Gazette (Societies Regulatory Authority [SASRA], 2015).

The researchers sought consent and obtained a research permit from the National Council for Science, Technology and Innovation (NACOSTI) for data collection. The researchers provided a cover letter along with the data collection instrument. The instrument was dropped off and later picked. Data was collected from 39 respondents using a questionnaire that was tested for reliability and validity.

A pre-test was done by administering the instrument to sixteen conveniently selected human resource managers to evaluate for relevance, meaning and clarity. Content validation was also done by dividing the instrument into several sections. Each section was checked carefully to ensure that it conveyed the necessary message and attracted the relevant feedback, as per the tested specific themes of the research objective and hypothesis. The Cronbach's Alpha coefficient was used to measure the internal consistency of the constructs. The alpha coefficient of .700 or above was used as an acceptable measure.

Data Analysis

Demographic profiling of respondents and their respective institutions was done as indicated in (table 1 below).

Table 1: Demographic Information

		Ownership of SACCO			**Total**
		Kenyan	**Foreign**	**Other**	
Designation of respondent	Chief Executive Officer				
	Manager	7	0	0	7
	Human Resource Manager	12	0	0	12
	Other Please Specify	19	0	0	19
Total		39	0	0	39
Number of employees	Up to 100	14	1	0	15
	101 to 200	17	0	1	18
	201 to 300	4	1	0	5
	301 to 400	1	0	0	1
Total		36	2	1	39
Years of operation in Kenya	10 Years & below	15	1	0	16
	11 to 20	11	1	1	13
	21 to 30	6	0	0	6
	31 to 40	3	0	0	3
	Above 40 Years	1	0	0	1
Total		36	2	1	39
Category of Sacco	Teacher based Sacco	3	0	0	3
	Government based Sacco	13	0	0	13
	Farmers based Sacco	3	0	0	3
	Community based Sacco	10	0	0	10
	Others	7	2	1	10
Total		36	2	1	39

From the findings seven respondents were managers, 12 were human resource manager while majority 19 were loan officers and liaison officers. This indicates that 30% of the respondents were designated as human resource managers to handle the human resource function. Such managers would be expected to have a wealth of knowledge in handling human resource issues. It will also be essential to point out that majority of the respondents 37 were Kenyan-owned while only two (0.05%) were foreign-owned. The findings imply that ownership of a listed company may influence human resource management practices and firm performance. Table 1 also shows that 15 institutions (38%) had up to 100 employees; 18 institutions (46%) had employee populations ranging 101–200; five institutions (12%) had 201 – 300 employees; and only one institution (2%) had 301 – 400 employees.

Concerning the period they have been operating in the country, 16 (41%) SACCOs have been in operation in the country for less than 10 years; 13 (33%) had operated for a period of between 11 to 20 years; 6 (15%) had operated for 21-30 years; 3 (7%) had operated for 31-40 years; while 1 SACCO (2%) have operated for the last 40 years. The study was also interested in SACCOs scope of operation since inception. From the findings, 13 of them (33%) were government-based, 10 (25%) were community-based, 3 (7%) were farmers-based and the remaining (10) were categorized as other, consisting of community-based for profit institutions.

A cross tabulation was done to find out the joint frequency distribution of cases based on two or more categorical variables (table 2 below).

Table 21: Cross Tabulation on Number of Employees and Organizational Performance

		Organizational Performance								Mean score
		3.25	3.50	3.75	4.00	4.25	4.50	4.75	5.00	
Number of employees	Up to 100	1	1	2	4	4	3	0	0	4.05
	101 to 200	0	2	4	5	4	1	1	1	4.07
	201 to 300	0	1	0	0	0	3	1	0	4.35
	301 to 400	0	0	0	0	0	0	1	0	4.75
Total		1	4	6	9	8	7	3	1	4.305

From the findings, SACCOs with a population of 301 to 400 had high level performance. These was followed by institutions with employees of between 201 and 300; institutions with employees of 101 to 200 followed and the least association were the institutions with employees less than 100 which stood with a mean of 4.05.

Chi-square tests were performed to ascertain that the two variables are independent. If the variables are independent (have no relationship), then the results of the statistical test will be non-significant and we are not able to reject the null hypothesis, meaning that we believe there is no relationship between the variables as indicated in table 3 below.

Table 3: Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	35.592[a]	28	.153
Likelihood Ratio	30.962	28	.319
Linear-by-Linear Association	.002	1	.966
N of Valid Cases	39		

a. 40 cells (100.0%) have expected count less than 5. The minimum expected count is .03.

Organizational performance was measured using four items namely; sales growth rate, market share, productivity and profitability. As shown in (table 4 below), the respondents rated the perceived firm performance.

Table 4: Organizational Performance

Variables	**Mean**	**Std Deviation**
Compared to your competitors in the previous year, what is your SACCO's shares growth rate	4.0769	.62343
Compared to your competitors in the previous year, what is your SACCO's market share percentage	4.0256	.62774
Compared to the previous year, what is the level of employee productivity in your SACCO	4.2051	.61471
Compared to the previous year, what is the level of profitability of your SACCO	4.1538	.70854
Overall mean= 4.12; Overall Cronbach's Alpha= 0.765		

A five point Likert scale was used to collect the responses, where 5 indicated 'strongly agree' and 1 indicated 'strongly disagree,' while 3 was taken as the midpoint. A mean of 3 and above represented agreement or favorable response with the given statement, and a mean of less than 3 denoted less favorable. The most significant factor was the statement that 'Compared to the previous year, what is the level of employee productivity in your Sacco' with a mean of 4.2051 and standard deviation of .61471, while the least significant factor was the statement on market share, with a mean of 4.0256 and standard deviation of .62774. However, the overall mean score for organizational performance is 4.12 and a Cronbach's Alpha of 0.765.

Conclusion

The study concludes that the DTSs with the highest number of employees performed higher than those with fewer employees. Organizations should pay more attention to firm size and leverage on the optimum size for competitiveness in the market. The findings of the study have implications for managers who are expected to formulate business strategies that may be influenced by the size of the organization.

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