INFLUENCE OF WORKING CAPITAL MANAGEMENT ON ORGANIZATION GROWTH: CASE OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN KIRINYAGA COUNTY, KENYA.

Duncan mwai[1] **Wilson k. metto**[2] **George Gongera**[3]

mwai.kariuki@yahoo.com wmetto@cuk.ac.ke gongerageorge@gmail.com

1, 2, 3 School of Cooperative and Community Development, The Cooperative University of Kenya

---

Abstract

Financial management is a crucial functional aspect of management and is vital for any company to actualize its goals. Savings and Credit Cooperatives (SACCOS) play a vital role in financial inclusion, particularly in rural areas. However, despite their growth across Kenya, Kirinyaga County's SACCOS sector hasn't shown the same level of development compared to neighboring counties like Nyeri Embu and Meru. This study investigates the influence of working capital management on SACCOS growth in Kirinyaga County. It demonstrate that effective management of working capital can contribute to SACCOS growth. Understanding the factors influencing SACCOS growth is crucial for developing targeted strategy to enhance their performance and financial inclusion in Kirinyaga County. There was adoption of descriptive cross sectional research design to evaluate the impact of working capital management and the influence of financial structure on SACCO growth. . Deposit-taking SACCOS in Kirinyaga County was the target population of this study. Board Members of governors, accountants, auditors and managers were the respondents in this study. The study used 10% sampling technique formula (Mugenda and Mugenda, 2003). Self-administered questionnaires, interviews, and direct observation were used to gather the data. The growth of the firm theory guided the study. The data was examined through descriptive statistics. The magnitude and direction of relationships were established by the Pearson correlation coefficient (r). In data analysis, the software used was Statistical Package for Social Sciences (SPSS). The collected data was edited to ensure consistency across the respondents and to locate any omissions. Results implied that financial management practices have a positive influence on SACCOS' growth. For instance, having a cash surplus showed a favorable correlation. The results of this study are beneficial to numerous stakeholders including SACCOS managers that can use the information to manage their working capital to a level that actualize their target and the growth objectives.

Keywords: *SACCOS, Influence of Working Capital Management, Resource- The growth of the firm theory*

1. Introduction

The Savings and Credit Cooperative Societies (SACCOS) foundation is in the Cooperative movement. Rochdale Pioneer of England was the earliest cooperative movement in 1844. In 1901, 1904, and 1908 it spread to Canada, India, and the United States respectively (Medina et al., 2021). Like any other Cooperative organization, SACCOS is conducted as per the norms, philosophy, central philosophies, and ethics of the Cooperative Movement globally. They enrich their members and potential members with knowledge, skills, and resources, exchange knowledge, and share challenges SACCOS must collaborate with other types of co-operatives and come up with solutions; for instance, Producer and Marketing co-operatives (Onyilo *et al*, 2019).

The initial Savings and Credit Cooperative Society (SACCOS) in Africa was in Nigeria, Kenya, Tanzania, Ghana and Uganda, and (Tomas, 2021). Most non-English-speaking countries in Africa began to value SACCOS in 1960s, with a significant entrance into the SACCOS community in the 1970s (Adekunle *et al*, 2021). Nigerian cooperative societies expansion has been gradual, with membership of 12 in 1935 to 400 to 500 in 1949, and 450,000 in 1975 followed by increase in membership in subsequent years (Adekunle *et al.*, 2021). The Cooperative Movement of Ghana was successful, however, political activities after Ghana's independence led to interference of cooperatives affairs leading to the seizure of the assets of the Ghana Cooperative Marketing Association, the pillar of the Cooperative Movement **(**Kamenov 2019).

SACCOS have achieved widespread receptivity and effortless access to all economic and social domains, with credit-driven rather than saving-driven motivations drawing in the greatest number of members (Nyangarika *et al.*, 2020) indicates that SACCOS have easy entrance to social and economic sectors since they are formed at grassroots level and their members are more attracted by the credit lather than savings motives. (Nyangarika *et al.*, 2020) indicates that due to the enormous demand for financial products in rural areas, the SACCOS sector as a whole is growing considerably. Since smaller SACCOS have difficulties attracting savings deposits from their members the growth pattern of many smaller SACCOS seems uneven.

The cooperative movement in Kenya began in 1931 with the passage of the nation's first ordinance, which standardized cooperative activities. After the Co-operative Ordinance Act of 1945 was finally passed (Mungai *et al.*, 2019), the industry saw further interference in the ensuing ten years. Yet, the government mandated in 1969 that SACCOS be only based on a stable job or a reliable crop system. Businesses, manufacturers (cooperatives, parastatals, or private businesses), or marketing groups paid SACCOS directly under this "check-off system." This mechanism was crucial to the establishment of SACCOS since it made sure that automated deductions for loan repayment would come from a member's income (Kiugu et al., 2021). The market cooperatives' (monopsony) exclusive trading rights for specific crops aided this framework in the case of rural SACCOS. Urban SACCOS, on the other hand, grew considerably more quickly than rural ones. The government reaffirmed its unwavering acceptance and support of cooperatives as essential tools for harnessing the available natural human and financial resources for national development in Sessional Paper No. 14, on Cooperative Development, published in 1975. Due to inadequate and ineffective management, corruption, an absence of business ethics, and restrictive regulations, some cooperative societies have been underperforming (Tahir *et al*., 2021). Government direct assistance and subsidized services were used to boost Co-operative movements until 1997. Having passed the new Cooperative

Societies Act and the publication of Sessional Paper No. 6 of 1997 on Cooperatives in a Liberalized Economy, this support stopped. The Cooperative Societies Act, Cap. 490, was revised in this process. In 2004, the Act was modified. A number of tasks were devolved from the Ministry of Cooperatives to the Cooperative Societies themselves, including the authorization of budgets, capital expenditures and subsidies, auditing, accounting, and management systems. As independent businesses, cooperatives are left to compete with other private companies in the market (Anania *et al.*, 2020). The government works towards building cooperatives as a means to empower its citizens. As such, regulation of the informal sector helps to mitigate some risks linked to poor policing.

SACCOS have a long and prosperous history globally and have shown to be remarkably adaptable in addressing a broad range of social and economic human needs (Omona & J.,2021). Global experience demonstrates that nations that have attained economic progress also have thriving, dynamic cooperative sectors that significantly boost the expansion of their economies. In Kenya, for instance, co-ops account for 31% of all national savings and deposits and 45% of the country's GDP (WAKO et al., 2020). Dairy market of 76 percent, 95 percent of the cotton market, and 70 percent of the coffee market are all under cooperative control. In New Zealand, cooperative businesses account for 22% of the nation's GDP.Moreover, 95 percent of the dairy market and 95 percent of the export dairy market are owned by cooperatives. They control 70% of the market for meat, 50% of the market for farm supplies, 70% of the trade for fertilizer, 75% of the market for wholesale drugs, and 62% of the market for groceries. The co-operative movement in Spain generates about €70 billion in revenue, with worker cooperatives accounting for the vast majority of the revenue generated by cooperatives.

2. Statement of the problem

While Deposit-Taking Savings and Credit Cooperatives (SACCOS) play a crucial role in Kenya's financial inclusion, particularly for rural populations, their growth in Kirinyaga County lags behind neighboring counties. SACCOS are the primary means of access to financial services for over 81% of Kenyans (Ndegwa, 2020). In 2017, 22,000 registered SACCOS in Kenya had a minimum of 14 million members and contributed over 30% to the country's GDP (Rawal and Y., 2021). Despite the exponential growth of the SACCOS movement in Kenya, Kirinyaga County has not seen growth in the sector compared with neighboring counties like Nyeri, Embu and Meru. The deposit taking SACCOS in Kirinyaga are 6, Embu 7, Nyeri 9, and Meru 12. This translate to 17.65%, 20.59%, 26.47% and 35.29% accordingly (SASRA, 2022). This research addresses a gap in knowledge by examining the impact of financial management strategy on SACCOS growth specifically within Kirinyaga County. Jillo et al., (2023) have explored financial innovations and performance in Kirinyaga SACCOS, this research dwell deeper by analyzing the specific influence of working capital management and financial structure on the growth of SACCOS in Kirinyaga County. The bulk of SACCOS are small businesses with few employees, a significant number having less than 100 employees and majority of the SACCOS have few branches outside Kirinyaga County, hence the justification to undertake this research. Understanding the unique financial management factor influencing SACCOS growth in Kirinyaga County will inform targeted strategies to enhance their performance and contribute to a more vibrant local financial sector.

3. Literature review

The current study will be guided by the growth of the firm theory. The theory, as put forth by Hafiz et al., (2022), takes into account the expanding small business by classifying three elements: the firm, the strategy, and the initial resources of the entrepreneur or entrepreneurs. The term "entrepreneur" describes the qualities of the person or people who supply the majority of the small business's managerial resources. It is possible to identify the entrepreneur(s) and their resource availability before the business is founded (Kwong et al., 2019). The firm is a reflection of the choices decided on by the entrepreneur when launching the company, including the legal structure, the location, and the industry in which the venture should operate. Possibly the most interesting component of this third consideration is the approach. Given the traits of the entrepreneur(s) and the company's managerial activities, once the business begins to operate and is likely to be linked to faster instances of growth, strategy in this context can be seen in part as posing the question. The theory of growth of the firm applies to the current study because it recognizes the influence of the variables in question on the size of the firm. The study evaluated financial management strategy for deposit-taking SACCOS growth in Kirinyaga County. The SACCOS utilizes financial and human resources together with relevant strategies at the same time to actualize its goals. Entrepreneur resources, the firm, and the strategy must be applied to realize expected growth. It is against this backdrop that the researcher found the theory valid in regard to this study.

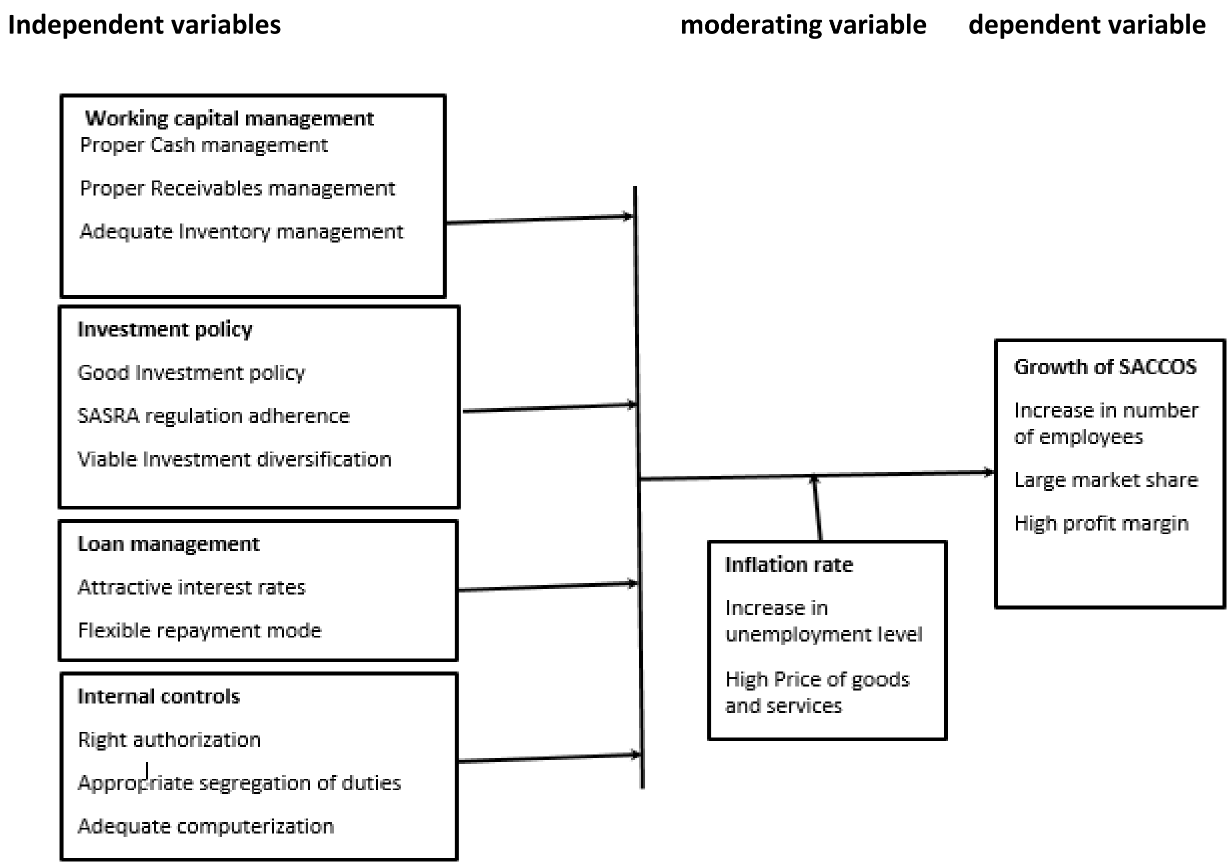

Figure 1: Conceptual Framework (source: Author, literature review)

4. Methodology

According to Asenahabi et al., (2019), a research design is the structure that ties together every element of the investigation. A descriptive research design was employed in this study. A great deal of information is obtained through description that is helpful in identifying variables and theoretical constructs that may be looked into further using different methods. Descriptions can be used to represent certain behaviors or events that cannot be investigated in any other manner, or they can be used as an indirect test of a hypothesis. A target population, as defined by Ingram et al., (2019), is the total number of subjects, components, or groupings that will be examined. The study's target population was the SACCOS in Kirinyaga County which accepted deposits. According to SASRA (2022), there are six deposit taking SACCOS in Kirinyaga County. The researcher applied the 10% sampling technique formula (Mugenda and Mugenda, 2003). The target population was 120 respondents, 54 board members, 12 accountants, 12 auditors and 42 managers Members of the board of governors, accountants, auditors and managers were be the respondents in this study. This is because those in charge of the SACCOS's activities are naturally resourceful when it comes to the organization's financial administration. The study used systematic sampling to choose its subjects. This statistical technique involves choosing components from an ordered sampling frame. First, a random element is chosen from the list to begin the sampling process. After that, each kth element in the frame—k being the sample interval—is chosen. k=N/n, where N is the population size and n is the sample size. Every element in the population has an equal and known chance of being selected (Khan et al., 2020). The study considered 10% sampling technique formula of target population for sample size (Mugenda and Mugenda, 2003). The population's heterogeneity makes the selection of this sampling strategy necessary.

Creating a sample that is typical of a specific population is the main goal of purposive sampling, according to Campbell et al., (2020). This is accomplished by choosing a sample of elements in a non-random way and applying the researcher's in-depth understanding of the population. Purposive sampling also results in time, cost, and effort savings. It is adaptable and accommodates a variety of interests and needs. It makes it possible for the researcher to choose a sample based on demographic knowledge and the goals of the investigation. As a result, the researcher will use a sample of twelve SACCOS employees.

In this study, primary data were used. Interviews, in-person observations, and self-administered questionnaires were used to collect data. Surveys are effective, economical, and time-efficient methods of gathering data. They acquire thorough data, which includes components innate to the respondents' personal characteristics (Tesfaye et al., 2021). There will be both closed- and open-ended questions. Responses to closed-ended questions are guided within the provided choices. The questionnaire will be created to both accomplish the goals and provide answers to the research questions.

Following collection, the data was coded, summarized, and input into a computer using Microsoft Excel (Suite 13). It was then adjusted to ensure consistency among respondents and identify any omissions. To examine the data, the researcher utilized SPSS Version 28 for Windows. Quantitative data was analyzed using descriptive statistics (mean, percentages, and frequencies). Content analysis was utilized for the study of qualitative data. Findings were presented in form of tables, charts, graphs.

5. Findings

The purpose of the present research was to assess how financial management technique affected the expansion of deposit taking SACCOS in Kirinyaga County. Working capital management and financial structure were among the important components of financial management studied. Using a descriptive cross-sectional research approach, the study gathered valuable data from deposit-taking SACCOS in Kirinyaga County. Respondents included managers, board members, accountants, and auditors; the results of the study indicate that most employees in the finance sector within the studied county were male (66.7%). This imbalance in gender is no surprise as women in professional and management ranks are not well represented (Gomez *et al*, 2019). After a comprehensive analysis of the data, the degree and direction of correlations between different variables were determined using statistical techniques such the Pearson correlation coefficient (r) and descriptive statistics (frequency, percentages, and averages). Microsoft Excel and IBM SPSS were the major data analysis tools. The sample population comprised individuals from community-based SACCOs and Employee-based SACCOs. According to the study's findings, SACCOS growth had positive correlations with the independent variable, demonstrating that successful financial management practices have a positive influence on SACCOS growth.

One of the main objectives of the study was to assess working capital's influence on SACCOS growth. The analysis's findings indicate that while having a cash surplus showed a favorable link with SACCOS growth, establishing a minimum cash balance demonstrated a mild negative correlation. Working capital and SACCOS growth have a weak positive link since, on average, the correlations are positive. Growing working capital activities are anticipated to benefit the SACCOS as well. Capital management is an essential strategy in the finance sector since it contributes to increased sales.

The implementation of internal controls showed a positive correlation to SACCO growth. While the presence of an audit committee negatively correlates with number of employees, it positively affects share capital. Notably, Alabdullah et al., (2021) report that internal control ensures the smooth and economic functioning of a business entity. Operations contribute to employee turnover, membership numbers, and even effective operations. Hence, internal controls are essential to push SACCOs to grow.

Also, SACCO growth shows a weak positive correlation with loan management practices. The main assumption is that well framed policies on loan management are effective in promoting growth of a SACCO. The introduction of CRB to curb defaults enhances changes of SACCO success and eventual growth. Monitoring borrowers yields positive results as it impact market share. The loan portfolio is a great source of revenue to the SACCOS, and thus how it is managed essentially determines if a SACCOS continues to operate or closes shop.

A SACCO's level of Investments showed a positive correlation to its growth. It became evident that having long-term cash investments positively affect the number of employees which is a good indicator of growth. It also impacts share capital; thus a diversified investment portfolio is essential to growth since too little investment can contribute to stagnation (Schoenmaker *et al.*, 2019). Investments are a tool for growth, thus it is no surprise that level of investment would affect as SACCO's growth.

6. Conclusion

Despite the exponential growth of the SACCOS movement in Kenya, Kirinyaga County has not realized growth compared with Nyeri, Embu, and Meru counties. Consequently, the purpose of the present research was to assess how financial management techniques affected the expansion of SACCOS in Kirinyaga County. The study looked at the variables impacting the expansion of Savings and Credit Cooperative Societies (SACCOS) in Kirinyaga County, Kenya. It examined the effects of working capital, investment levels, debt management, and internal controls on SACCOS growth. Working capital and SACCOS growth were found to be positively correlated by the data, with a cash surplus being more advantageous than a low cash balance. Similar to this, the growth of SACCOS was linked to a varied investment portfolio; nevertheless, inadequate investment may obstruct it. Good debt management practices, such careful borrower screening and follow-up, were found to be positively correlated with the growth of SACCOS. Lastly, there was a little positive link found between growth and efficient internal controls, such as regular audits and a department dedicated to risk and compliance. In order to foster long-term growth, the research suggests that SACCOS in the area tighten debt management procedures, diversify their investment portfolios, enhance internal controls, and improve working capital management. These recommendations are based on these results. Overall, the study stresses the significance of good financial management techniques for SACCOs to prosper and compete effectively in the marketplace. SACCOS in the region should utilize the findings in this research to create sustainable changes in their operations.

REFERENCES

Adekunle, O. A., Ola, T. O., Ogunrinade, R., & Odebunmi, A. T. (2021). The role of cooperative societies in advancing small and medium scale enterprises in Osun State, Nigeria. *Journal of International Business and Management*, *4*(6), 01-13.

Anania, P., Rwekaza, G. C., & Bamanyisa, J. M. (2020). Socio-economic benefits of agricultural marketing co-operatives and their challenges: Evidence from Selected Cases in Moshi District Council (Tanzania). Ager. Revista de Estudios sobre Despoblación y Desarrollo Rural, (30), 97-146.

Asenahabi, B. M. (2019). Basics of research design: A guide to selecting appropriate research design. International Journal of Contemporary Applied Researches, 6(5), 76-89.

Campbell, S., Greenwood, M., Prior, S., Shearer, T., Walkem, K., Young, S., ... & Walker, K. (2020). Purposive sampling: complex or simple? Research case examples. Journal of research in Nursing, 25(8), 652-661.

Hafiz, N., Latiff, A. S. A., Islam, M. A., Saif, A. N. M., & Wahab, S. A. (2022). Towards the Underlying Theories of Small Firm Growth: A Literature Review. *FIIB Business Review*, *11*(1), 36-51.

Ingram, H., Schneider, A. L., & DeLeon, P. (2019). Social construction and policy design. In *Theories of the policy process* (pp. 93-126). Routledge

Jillo, S. A. (2023). *Effect of Innovation on Financial Performance of Deposit Taking Saving and Credit Cooperative Societies in Laikipia County, Kenya* (Doctoral dissertation, KeMU).

Kamenov, N. (2019). Imperial cooperative experiments and global market capitalism, c. 1900–c. 1960. Journal of Global History, 14(2), 219-237.

Khan, Z., Shabbir, J., Gupta, S., & Shamim, A. (2020). An optimal systematic sampling scheme. *Journal of Statistical Computation and Simulation*, *90*(11), 2023-2036.

Kiugu, j. n. (2021). *Organizational characteristics and strategy implementation in Mhasibu Savings and Credit co-operative Society Limited, Kenya* (doctoral dissertation, Kenyatta University).

Kwong, C. C., Cheung, C. W., Manzoor, H., & Rashid, M. U. (2019). Entrepreneurship through Bricolage: A study of displaced entrepreneurs at times of war and conflict. *Entrepreneurship & Regional Development*, *31*(5-6), 435-455. Licensed Saccos 2021.pdf

Medina-Albaladejo, F. J., Añón Higón, D., Díez-Minguela, A., & Lana-Berasain, J. M. (2021). Old wine in new wineskins? Understanding the cooperative movement: Catalonia, 1860–1939. *European Review of Economic History*, *25*(2), 328-354.

Mungai, T. O. S., & Nyaga, G. J. (2019). Leadership Style, Government Regulations and Sustainability of Sacco Societies in Kenya. A Case Study of Harambee Sacco.

Ndegwa, R. (2020). The Role of Communication in Saccos in Promoting Financial Inclusion in Kenya. *European Journal of Economic and Financial Research*, *4*(2).

Nyangarika, A., & Bundala, F. S. (2020). Socio-Economic Factors Affecting Deposits Growth in Sacco's Development Case of Geita Tanzania. International Journal of Advance Research and Innovative Ideas in Education, 6(2), 1273-1288.

Omona, J. (2021). Poverty eradication and wealth creation: The role and challenges of savings and credit cooperatives (SACCOs) in Uganda. *African Journal of Business Management*, 15(8), 198-210.

Onyilo, F., & Adong, A. (2019). Agricultural cooperative marketing and credit policy reform in Uganda: An opportunity for poverty reduction. *African Journal of Food, Agriculture, Nutrition and Development*, 19(1), 14156-14170.

Rawal, Y. (2021). The importance of Saccos in the Kenyan economy. Wakandi Group. Retrieved from https://wakandi.com/blog/the-importance-of-saccos-in-the-kenyan-economy/

SASRA. (2022). Supervision Reports. Nairobi: SACCO Societies Regulatory Authority

Tahir, H. M., Ibrahim, A., & Babawulle, D. H. (2021). Small and Medium Scale Enterprises (SMEs) Performance and Economic Growth Nexus in Nigeria: ARDL-Bound Testing Evidence. Asian Journal of Economics, Finance and Management, 33-54.

Tesfaye, G., Gebrehiwot, M., Girma, H., Malede, A., Bayu, K., & Adane, M. (2021). Application of the gold standard direct observation tool to estimate hand hygiene compliance among healthcare providers in Dessie referral hospital, Northeast Ethiopia. *International Journal of Environmental Health Research*, 1-14.

Tomas, z. (2021). *Factors affecting saving practices of members of rural saving and credit cooperatives (the case of Ada'a woreda, east shewa zone, Oromia, Ethiopia)* (doctoral dissertation, st. mary's university).

Wako, y. d. (2020). *Corporate governance and financial performance of Saving and Credit Co-operatives in Meru county, Kenya* (doctoral dissertation, school of business in partial fulfillment of the requirements for the award of master of business administration degree (finance), Kenyatta university).