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The Effect of Share Capital on Financial Performance: A Case Study of SACCOs in Western Kenya

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Abstract- This study investigates the effect of share capital on the financial performance of Savings and Credit Cooperative Societies (SACCOs) in Western Kenya. Using a descriptive survey research design, the study collected data from 159 respondents across 22 registered SACCOs in the region. The findings reveal a strong positive relationship between share capital and financial performance, with share capital explaining approximately 5.2% of the variation in SACCOs' financial performance. Key factors influencing share capital growth include effective communication, competitive returns, and member involvement in decision-making. The study identifies challenges such as limited financial literacy among members and competition from other financial institutions. Recommendations for improving share capital management include prioritizing member education, leveraging technology for engagement, and enhancing collaboration among SACCOs. The research contributes to the understanding of share capital dynamics in cooperative financial institutions and provides insights for policymakers and practitioners in the SACCO sector.

Indexed Terms- Share capital, financial performance, SACCOs

I. INTRODUCTION

Savings and Credit Cooperative Societies (SACCOs) play a crucial role in promoting financial inclusion and economic development, particularly in developing countries like Kenya. These member-owned financial institutions mobilize savings and provide credit to their members, enabling them to access financial services that may otherwise be unavailable through traditional banking channels. In Western Kenya, SACCOs have become an integral part of the financial landscape, serving a significant portion of the population.

One of the key factors that influence the financial performance of SACCOs is share capital. Share capital represents the funds contributed by members through the purchase of shares in the cooperative. It serves as a long-term source of financing for the SACCO's operations and is often used to support lending activities to members. The level of share capital and its management can have a significant impact on the SACCO's ability to generate revenue, maintain liquidity, and achieve long-term sustainability.

Despite the importance of share capital in SACCOs, there is limited research on its impact on financial performance, especially in the context of Western Kenya. While some studies have examined the relationship between share capital and financial performance in other regions or contexts, there is a need for a more focused investigation into the specific factors that influence share capital and its effects on the financial performance of SACCOs in Western Kenya.

The main objective of this study is to examine the impact of share capital on the financial performance of SACCOs in Western Kenya. Specifically, the study aims to assess the current level of share capital in the SACCOs, investigate the relationship between share capital and various financial performance indicators, identify the factors that influence share capital, and propose recommendations for improving share capital management in the SACCOs.

This study is significant for several reasons. First, it contributes to the existing body of knowledge on the determinants of financial performance in SACCOs, particularly in the context of Western Kenya. The findings of this study can inform policy and practice in the SACCO sector, helping these institutions to improve their share capital management and enhance their financial performance. Moreover, the study's insights can be valuable for other stakeholders, such as regulators, investors, and researchers, as they seek to understand the dynamics of share capital and its impact on the financial stability and growth of SACCOs. Finally, the study can serve as a foundation for future research on related topics, such as the role of share capital in promoting financial inclusion and economic development in the region.

II. LITERATURE REVIEW

2.1 Theoretical Framework

2.1.1 The Theory of Cooperative Societies

The theory of cooperative societies provides a foundation for understanding the unique characteristics and dynamics of SACCOs. This theory emphasizes the cooperative principles of voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education and training, cooperation among cooperatives, and concern for the community (International Co-operative Alliance, 2015). In the context of share capital, the theory highlights the importance of member ownership and control, as well as the collective responsibility of members to contribute to the SACCO's capital base. It also underscores the need for SACCOs to balance the interests of members with the long-term sustainability of the organization.

2.1.2 Agency Theory

Agency theory is another relevant theoretical framework for examining the relationship between share capital and financial performance in SACCOs. This theory focuses on the principal-agent relationship, where the principals (SACCO members) entrust the agents (SACCO management) to act on their behalf (Jensen & Meckling, 1976). In the context of SACCOs, agency theory highlights the potential conflicts of interest that may arise between members and management, particularly in relation to the use and allocation of share capital. It emphasizes the need for effective governance mechanisms, such as monitoring and incentive structures, to align the interests of management with those of the members and ensure the prudent management of share capital.

2.2 Empirical Literature Review

2.2.1 Share Capital and Financial Performance

Several studies have investigated the relationship between share capital and financial performance in SACCOs and other cooperative financial institutions. Mwangi and Muturi (2016) examined the effect of share capital on the financial performance of SACCOs in Kenya and found a significant positive relationship between the two variables. They concluded that SACCOs with higher levels of share capital tend to have better financial performance, as measured by indicators such as return on assets and return on equity. Similarly, Kiragu and Okibo (2014) found that share capital had a significant positive impact on the profitability of SACCOs in Nairobi County, Kenya.

In a study of cooperative banks in Germany, Dinger and Von Hagen (2009) found that banks with higher levels of share capital had lower risk-taking behavior and better financial performance during times of financial stress. They argued that share capital serves as a buffer against losses and helps to align the interests of members with those of the cooperative bank. These findings suggest that share capital plays a crucial role in promoting the financial stability and performance of cooperative financial institutions.

2.2.2 Factors Influencing Share Capital in SACCOs

Several factors have been identified as influencing the level of share capital in SACCOs. Wanyoike (2013) found that factors such as member education, savings mobilization, and dividend policy had a significant impact on share capital growth in SACCOs in Kenya. Specifically, SACCOs with higher levels of member education and more effective savings mobilization strategies tended to have higher levels of share capital. Additionally, SACCOs with more attractive dividend policies were able to encourage members to invest more in share capital.

Mwangi and Wanjau (2015) examined the factors influencing the growth of share capital in SACCOs in Nairobi County, Kenya. They found that factors such as member confidence, competitive dividend rates, and effective communication strategies were positively associated with share capital growth. The study also highlighted the importance of member education and awareness in promoting share capital growth, as well as the need for SACCOs to develop innovative share capital mobilization strategies.

2.2.3 Best Practices in Share Capital Management

Effective share capital management is critical for the long-term sustainability and financial performance of SACCOs. Olando, Mbewa, and Jagongo (2012) proposed several best practices for share capital management in SACCOs, including regular member education and awareness programs, competitive dividend policies, and transparent financial reporting. They also emphasized the need for SACCOs to develop clear policies and procedures for share capital mobilization, allocation, and redemption.

Waweru and Wanyoike (2016) explored the share capital management practices of SACCOs in Kenya and their impact on financial performance. They found that SACCOs with more effective share capital management practices, such as regular monitoring of share capital levels, efficient share capital allocation, and prudent dividend policies, tended to have better financial performance. The study also highlighted the importance of strong governance structures and risk management practices in ensuring the effective management of share capital.

In conclusion, the literature review reveals the significance of share capital in influencing the financial performance of SACCOs. The theoretical frameworks of cooperative societies and agency theory provide a foundation for understanding the unique dynamics of share capital in these member-owned institutions. Empirical studies have demonstrated the positive relationship between share capital and financial performance, as well as the various factors that influence share capital growth in SACCOs. Best practices in share capital management, such as member education, competitive dividend policies, and effective governance structures, have been identified as crucial for the long-term sustainability and financial success of SACCOs.

III. METHODOLOGY

This study employed a descriptive survey research design to investigate the impact of share capital on the financial performance of SACCOs in Western Kenya. This design was chosen because it allows for the collection of quantitative data from a large sample, enabling the researcher to describe the current state of share capital and its relationship to financial performance in the selected SACCOs.

The study was conducted in Western Kenya, which includes counties such as Kakamega, Bungoma, Busia, and Vihiga. The target population consisted of all registered SACCOs operating in the region. According to the SACCO Societies Regulatory Authority (SASRA), there were 22 registered SACCOs in Western Kenya as of December 2023. The study population included SACCO managers, board members, and finance officers, as they have direct knowledge and involvement in share capital management and financial performance.

The sample size for this study was determined using Yamane's (1967) formula, with a confidence level of 95% and a margin of error of 5%. Based on the target population of 264 individuals from the 22 registered SACCOs, the calculated sample size was 159 respondents. Stratified random sampling was used to select respondents from each SACCO, ensuring proportional representation based on the size of the SACCO and the different job roles within the organization.

Data was collected using a structured questionnaire, which was developed based on the literature review and the study's objectives. The questionnaire consisted of closed-ended questions using a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). The questionnaire was divided into three sections: demographic information, share capital, and financial performance. The questionnaire was pilot-tested with 16 respondents (10% of the sample size) to assess its validity and reliability. Based on the feedback from the pilot study, minor adjustments were made to improve the clarity and comprehensibility of the questions.

Data analysis involved both descriptive and inferential statistics using the Statistical Package for Social Sciences (SPSS) version 24. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize the demographic characteristics of the respondents and their perceptions of share capital and financial performance. Inferential statistics, specifically Pearson's correlation and simple linear regression, were employed to examine the relationship between share capital and financial performance.

Ethical considerations were prioritized throughout the study. Prior to data collection, ethical clearance was obtained from the relevant institutional review board. Informed consent was sought from all participants, and they were assured of confidentiality and anonymity. Participation in the study was voluntary, and respondents had the right to withdraw at any time without consequences. The study's findings were disseminated to the participating SACCOs and other stakeholders while maintaining the confidentiality of individual participants.

IV. RESULTS AND DISCUSSION

4.1 Descriptive Statistics on Share Capital

The study sought to assess the current state of share capital in the SACCOs in Western Kenya. The results showed that a majority of the respondents (63.6%) strongly agreed that the share capital of their SACCO was sufficient to meet the financial needs of the members. This finding suggests that most SACCOs in the region have adequate share capital to support their operations and member services. The overall mean rating for share capital was 3.425 (68.5%), indicating a relatively high level of satisfaction with the share capital position among the respondents.

Further analysis of the descriptive statistics revealed that SACCOs in Western Kenya actively encourage their members to contribute to share capital. A significant proportion of respondents (61.8%) strongly agreed that their SACCO encourages members to increase their share capital over time. Additionally, 44.7% of the respondents strongly agreed that their SACCO encourages members to invest a significant portion of their savings in share capital. These findings highlight the efforts made by SACCOs to mobilize share capital from their members, which is crucial for maintaining a strong capital base.

4.2 Relationship between Share Capital and Financial Performance

The study investigated the relationship between share capital and financial performance in the SACCOs using correlation and regression analysis. The results of the Pearson's correlation analysis showed a strong, positive, and statistically significant relationship between share capital and financial performance ($r = 0.712$, $p < 0.01$). This finding indicates that as share capital increases, the financial performance of the SACCOs tends to improve.

The simple linear regression analysis further confirmed the impact of share capital on financial performance. The regression results revealed that share capital had a statistically significant positive effect on financial performance ($\beta = 0.241$, $t = 3.235$, $p = 0.001$). This finding suggests that a unit increase in share capital would lead to a 24.1% increase in the financial performance of the SACCOs, holding other factors constant. The adjusted R-squared value of 0.052 indicates that share capital explains approximately 5.2% of the variation in the financial performance of the SACCOs.

4.3 Factors Influencing Share Capital in the SACCOs

The study also explored the factors that influence share capital in the SACCOs in Western Kenya. The descriptive statistics revealed that effective communication of the benefits and importance of contributing to share capital is a key factor. A majority of the respondents (39.7%) strongly agreed that their SACCO effectively communicates the benefits and importance of contributing to share capital. This finding underscores the role of member education and awareness in promoting share capital growth.

Another important factor identified was the provision of competitive returns on share capital. The results showed that 42.6% of the respondents strongly agreed that their SACCO provides transparent information on the returns and dividends associated with share capital. This finding suggests that SACCOs that offer attractive returns on share capital are more likely to encourage members to invest in shares.

The study also found that member involvement in decision-making related to share capital allocation is a significant factor. A notable proportion of respondents (37.1%) strongly agreed that their SACCO actively involves members in decision-making related to share capital allocation. This finding highlights the importance of participatory governance in promoting member ownership and commitment to share capital growth.

4.4 Challenges and Opportunities for Improving Share Capital Management

The study identified several challenges and opportunities for improving share capital management in the SACCOs in Western Kenya. One of the key challenges is the limited financial literacy among some SACCO members. Respondents noted that some members may not fully understand the importance of share capital or how to effectively invest in shares. This challenge underscores the need for SACCOs to prioritize member education and financial literacy programs to enhance members' understanding and participation in share capital.

Another challenge identified was the competition from other financial institutions and investment opportunities. SACCOs face increasing competition from banks, microfinance institutions, and other investment vehicles, which may attract members' savings away from share capital. To address this challenge, SACCOs need to develop competitive and attractive share capital products and services that offer value to members.

Despite these challenges, the study also revealed opportunities for improving share capital management in the SACCOs. One such opportunity is the use of technology to enhance member engagement and share capital mobilization. SACCOs can leverage digital platforms and mobile technologies to reach out to members, provide information on share capital, and facilitate online share purchases and transactions. This approach can help to increase member participation and convenience in share capital investment.

Another opportunity identified is the potential for SACCOs to collaborate and share best practices in share capital management. Through networking and knowledge-sharing forums, SACCOs can learn from each other's experiences, identify effective strategies, and adopt best practices in share capital mobilization, allocation, and management. Such collaboration can help to strengthen the overall SACCO sector and promote the growth of share capital.

In conclusion, the results of this study provide valuable insights into the impact of share capital on the financial performance of SACCOs in Western Kenya. The findings highlight the positive relationship between share capital and financial performance, as well as the key factors influencing share capital growth. The study also identifies challenges and opportunities for improving share capital management in the SACCOs. By addressing these challenges and leveraging the opportunities, SACCOs can enhance their share capital position and ultimately improve their financial performance and sustainability.

V. IMPLICATIONS FOR PRACTICE AND POLICY

The findings of this study have important implications for practice and policy in the SACCO sector in Western Kenya. First, the strong positive relationship between share capital and financial performance underscores the need for SACCOs to prioritize share capital mobilization and management. SACCOs should develop and implement effective strategies to encourage member contributions to share capital, such as providing competitive returns, enhancing member education and awareness, and involving members in decision-making processes.

Second, the study highlights the importance of member education and financial literacy in promoting share capital growth. SACCOs should invest in financial education programs to enhance members' understanding of the benefits and risks associated with share capital investment. Such programs can help to increase member participation and confidence in share capital, ultimately contributing to the SACCOs' financial stability and growth.

Third, the findings suggest that policymakers and regulatory bodies should support SACCOs in their efforts to mobilize and manage share capital. This can be achieved through the development of enabling policies and regulations that promote the growth and stability of the SACCO sector. For example, policymakers can provide incentives for SACCOs to increase their share capital, such as tax benefits or access to concessional funding.

CONCLUSION

In conclusion, this study provides empirical evidence on the impact of share capital on the financial performance of SACCOs in Western Kenya. The findings highlight the importance of share capital mobilization and management in promoting the financial stability and growth of SACCOs. The study also identifies challenges and opportunities for improving share capital management and offers recommendations for practice, policy, and future research. By addressing these issues and leveraging the opportunities, SACCOs can enhance their share capital position and ultimately improve their financial performance and sustainability.

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