



CO-OPERATIVE ETHICAL VALUES AND SUSTAINABILITY: EVIDENCE FROM UASIN-GISHU COUNTY, KENYA

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Abstract

The purpose of this study was to examine the effect of member ethical values' education on loans of SACCOS and sustainability. The study was carried out in Uasin-Gishu County where there is persisting cases of non-performing loans. Cross-sectional research design was used. The target population was all SACCOS in Uasin-Gishu County. Twenty-four SACCOS were picked whereby non-performing loans were analysed before a SACCOS taking member ethical values sensitization education and after. Further, member ethical values educational sensitization was measured using co-operative ethical values of honesty, openness, social responsibility and caring for others. Both quantitative and qualitative data were collected through questionnaires and in-depth interviews. Qualitative data were analysed using content technique while quantitative data were measured using binary logistic regression. The findings indicate that member ethical values education on loans has a positive significant relationship with SACCOS' sustainability; p-values were less than 0.05. The study concluded that member's ethical values education plays a critical role on SACCOS' sustainability. The behaviour of an individual towards a loan taken was determined by the personal ego; that is, the mindset which dictates individual consciousness on behaviour; hence, commitment to repay. The study recommends to SACCOS' Managers, Ministry of Fisheries, Livestock and Co-operative Development to provide continuous SACCOS' ethical values' sensitization education so as to improve co-operative performance on loans.

I. Introduction

The co-operative societies' contribution to sustainable socio-economic development has continued to receive recognition within the world. Statistics show that almost 280 million people, translated to about 12%, are co-operative employees according to the International Co-operative Alliance (ICA, 2019). Its turnover, as reported by the World Co-operative Monitor, WCM (2019), stands at USD 2034.98 billion. In Africa, an estimated 18,509, 605 of the population are co-operative clients and members. Thus, indeed co-operative as a sector is an imperative vehicle of development. It touches all aspects of mankind's life. However, although co-operatives play an indispensable role in the economy, non-performing loans pose a big challenge to co-operatives' growth, leading to a debate on an approach to tackle the problem (ICA, 2019). A co-operative is "an autonomous association of persons united voluntarily to meet their economic, social and cultural needs" (Anania and Rwekaza, 2018). Savings and Credit Co-operative Society (SACCOS) is one of the forms of co-operatives; others are housing, insurance, producer, consumer, marketing and manufacturing co-operatives. SACCOS are financial institutions that offer various types of credit to members.

Many co-operative credit unions across the globe are experiencing challenges in collecting back loans taken by members of the International Labour Organisation (ILO, 2014). Although loans to members are very significant in poverty alleviation and stirring economic development through SACCOS, dishonesty, lack of openness and social responsibility and inability to care for others pose a difficulty (WCM, 2019). SACCOS immensely contribute to poverty alleviation and employment creation leading to economic growth. In spite of this important contribution,

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many challenges have been witnessed in SACCOS on loans, which emanate from member dishonesty (ILO, 2014). SACCOS aims at encouraging saving culture amongst the members through educating them to be honest and return the borrowed loans on time for SACCOS' continuity. Originally, the objective of starting SACCOS was to provide an avenue for access to funds by the less fortunate people.

According to Ngugi (2017), access to financial opportunities is a significant step of connecting the economically weak to a broader big life within the economy, which eventually extends credit to the members. The co-operative credit organisations date to 1849 when the first Credit Union was formed in Germany. William Raffeisens educated members by creating a monthly book called the Co-operative Monitor. Countries such as Canada had the first Co-operative Union formed in 1901, it then spread to all countries (Bee, 2014).

In Africa, the first SACCOS is traced back to 1959 when it was started in Ghana. It then spread to other countries in Africa like Tanzania, Uganda, Kenya and South Africa. The history of Kenyan SACCOS movement dates back to 1908 (Kivuvo and Olweny, 2014). The Kenya Co-operative Policy (2017) aims at using co-operatives to achieve a sustainable economy. There has been tremendous growth as well as contributions of SACCOS, which now is about 45% of the gross domestic product, (Kobia, 2011). There are two types of SACCOS in Kenya, deposit taking and non-deposit taking. The SACCOS regulatory authority regulates deposits taking (Obure and Muturi, 2015). The non-deposit-taking SACCOS, on the other hand, are unregulated but supervised by the Ministry of Livestock, Fisheries and Co-operative Development. As at 2017, there were over 22, 000 registered SACCOS with about 14 members that contributed over 62% of the total savings in the Country and over 30% of the Gross Domestic Product (GDP).

Despite that, the SASRA report for 2018 gives a different picture on how SACCOS are performing in Kenya. The Report indicates that the loans portfolio has deteriorated with non-performing loans going beyond 5%, and 3% indicators given by the World Credit Co-operative Union (WOCCU) and SASRA, respectively. The non-performing loans were 6.14% in 2017 as compared to 5.23% in 2016. This was culminated by the increase of non-performing loans from 15.57 billion in 2016 to 21 billion in 2017 (SASSRA, 2018). This indicates that there is a problem in SACCOS that needs to be addressed. Although non-performing loans were an outcome of many factors, this study has focused on ethical issues. This study plays a significant position by showing how SACCOS may use education on ethical issues to address the problems in co-operatives. The study is based on the concept that member ethical issues education on aspects like honesty, openness, social responsibility measured taken as one variable is most likely to impact on the member loan repayment, hence sustainability. Other concepts measured were SACCOS' age, number of trainings provided, budgets for education training and the type of SACCOS.

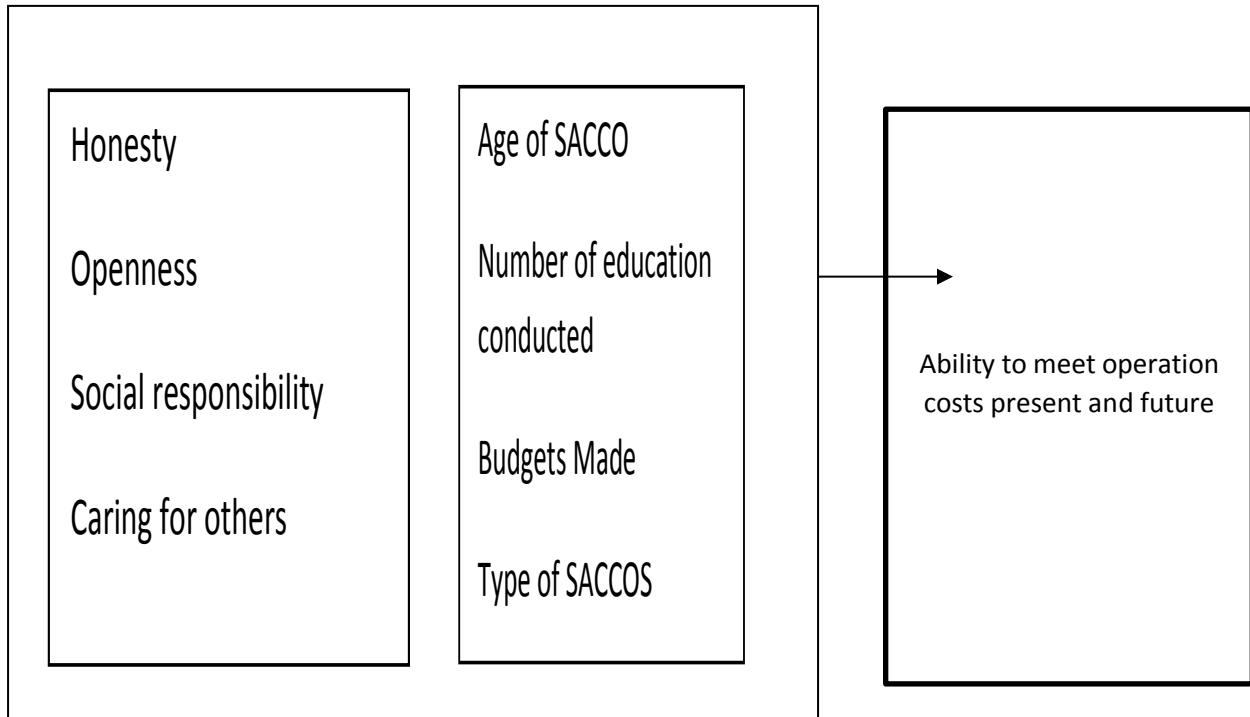
SACCOS' sustainability refers to SACCOS' ability to continue with the normal operations after meeting costs. It also refers to SACCOS' ability to cover both financing and operating costs (Okello, 2014). This has not been possible in some instances because of member failure to rise to the occasion by repaying the loans on time (Othman *et al.*, 2012). The theory of ethical value guided the study. It looks at several approaches on why, how and to what degree a person behaves in a certain way. The theory views human beings as an axiological 'ego' that determines personal commitment to honour a pledge. This theory tries to understand the concept of "the good" deeds that have value. This term, the "good deeds", go with the conduct of a person that led to blame or praise. Deontological ethics argues that the right or duty of others is to do what is accepted (Shyam, 2014). The theory is related to the study because some members fail to do their duty of repaying loans. SACCOS proves to be contributing much towards growth in the economy and on alleviating people from poverty amongst those who are low-income earners. This implies that for the SACCOS to be sustainable, they must meet *all* the costs.

Co-operative education is one of the prerequisites for co-operative success (Clamentina *et al.*, 2015). The fifth co-operative principle states that education training and information should be provided to co-operatives so that they may contribute effectively and efficiently to the development of their co-operatives (Mervin, 2014). Despite that, there has been no clear information on whether co-operatives are following these principles. Co-operatives are run based on the principles, values and ethical values (Hancock and Brault, 2016). The success of the co-operatives largely depends on the robust decision-making on the application of the principles, values and ethical values of co-operative character. The co-operative principles are open and voluntary membership, member democratic control, member economic participation, autonomy and independence, education training and information. Other principles are cooperation among co-operatives and concern for the community. In addition, co-operatives adhere to values of self-help, self-responsibility, democracy, equity, equality and solidarity. In the tradition of the founding fathers, they believed in ethical values of honesty, openness, social responsibility and caring for others. Member educational

sensitization on ethical values is significant in shaping members to have co-operative character. Ethical value education of honesty, openness, social responsibility and caring for others are likely to influence member character on the behaviour towards loans. Character is an attribute shaped by environmental factors such as education. Education right from history influences attitudes. Attitudes are predispositions towards a situation (Kinyuira, 2017).

Member Ethical Education (IV) Intervening Variables

Sustainability (D)



2. Methodology

The study used cross-sectional research design. It enabled us to get data at a spot at once. The design was chosen because it saves time and a lot of data collection was possible within a short time as stated by Babbie (2015). The study area was Uasin-Gishu County. The County was chosen because statistics indicate that it has a large number of SACCOS that have non-performing loans. Hence the target population was all SACCOS in Uasin-Gishu County. Twenty-four SACCOS were chosen using the Mugenda and Mugenda formula. The formula states that if the population to be sampled is small but more than 30 then 10% may be used. After sampling had been done, the researcher picked SACCOS using a lottery system whereby all the SACCOS were separated into rural and urban areas, then put on two different basins, being 238 in total. The code numbers from one to two hundred and thirty-eight were then cut and put on the two basins based on whether it was rural or urban.

They were thereafter rolled completely, mixing them. After that, 24 pieces were picked and listed according to code numbers. The ratio of urban SACCOS to rural was three to one; hence 18 SACCOS were sampled for urban and 6 for rural, making a total of 24. Data collection was on the performance of a SACCOS' loans for any year for a total of three years before taking any co-operative education sensitization on loan and any other three years after taking ethical education on loans. The three years were summed up as A, B, and C and the totals for each year put up. Validity was ascertained by checking at the content, criterion and face of the instrument. For the reliability, test retest of the instruments was done then alpha-coefficient calculated that was 80%. It was therefore concluded to be reliable since it was more than 70%. Quantitative data were analysed using binary logistic technique analysis while for qualitative data, it was analysed using content technique. Binary logistic was used because the outcome was twofold, a SACCOS could be sustainable or not sustainable. The model used was:

$$\pi(\tilde{x}) = \log \left[\frac{\pi(\tilde{x})}{1-\pi(\tilde{x})} \right] = \alpha + \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_p x_p \dots$$

The indicators of ethical education were honest, openness, social responsibility and caring for others. SACCOS' age, education budgets, number of training and SACCOS' type measured were the mitigating variables.

Therefore: $\log \left[\frac{\pi(\tilde{x})}{1-\pi(\tilde{x})} \right] = \text{Sustainability}$

α = The intercept term of the model, β_0 = Coefficient of the constant term and

$\beta_1 - \beta_p$ = Regression coefficients. X_1 . age of SACCOS, X_2 . Budgets for education,

X_3 - type of SACCOS, X_4 , number of training sessions provided and X_5 , whether members were ethical or not.

3. Findings and Discussions

The purpose of this study was to examine the effect of member ethical education sensitization on loans of SACCOS. This was in the light of an upsurge in the cases of non-performing loans in SACCOS. To achieve the objective, the SACCOS were examined before they were provided with education and after. Further, the SACCOS were examined by categorising them into rural and urban. An analysis of the findings indicate that SACCOS' non-performing loan was high before member ethical education sensitization was conducted 14.828% compared to 12.03% after the education. This implies that ethical education was playing an indispensable role in shaping the behaviour and attitudes of an individual as indicated by (Shyam, 2014). A study by Bee (2014) also shows that although education improves the skills and knowledge of an individual, it was imperative. The behaviour was largely determined by the personal ego. The findings are shown on Table 1. In terms of the type of SACCOS, urban SACCOS' mean before ethical education was 12.65% compared to 12.26% after education. The figures suggest that education had no significant influence on the performance of loans on urban SACCOS. This figure was compared with the performance of rural SACCOS that were 17.00% before education and 11.79% after education implying that education had more influence on changing the behaviour and attitude of a member.

Table 1. Three-year Summary of before and after education

Item SACCOS	Before Ethical Education		After Ethical Education	
	Year	Performance in Percentage	Year	Performance in Percentage
Urban	A	10.25	A	9.85
	B	13.21	B	12.90
	C	14.50	C	14.05
Total mean		12.65		12.26
Rural	A	9.25	A	13.21
	B	14.00	B	14.67
	C	27.76	C	7.50
Total mean		17.00		11.79
Overall Mean		14.828		12.03

One of the SACCOS' Manager interviewed reported that: "It's true that every year whenever loans are given out, the repayment is directly related to the education provided especially given that many a times new members seeking loans are given without any form of training in some SACCOS and for others, it's part of the routines to educate members before a loan is given out. Over the years, whenever we give out loans without more education, it hits back as the non-performing loans go up even beyond the accepted level of 5%. Sometimes when there is an inadequate fund, we do not educate the members. Budgeting for education also requires a commitment because most co-operatives are struggling to survive, as the economy is tough. If a co-operative management board is not enlightened about the important role co-operative education is playing, it will be very difficult for such to commit funds." Further, the study examines member ethical education on loans of SACCOS on the age of the SACCOS, amount of education budgets made, the number of training sessions held and whether members were ethical or not. When the binary logistic regression was run, the findings are shown on Table 2.

Table 2: Binary logistic results

Variable	B	S. E	Wald	P	Exp B
Constant	3.398	0.327	8.007	0.000	10.04
SACCOS' Age	-1.852	0.552	12.01	0.049	1.146
SACCOS' Budgets	1.930	0.450	9.080	0.001	2.021
Type of SACCOS	1.740	0.458	9.071	0.046	1.060
Number of Trainings	2.540	0.498	8.990	0.000	3.012
Ethics among Members	3.297	0.3117	8.000	0.000	10.03

Results of the findings show that overall, ethical education predicts SACCOS' sustainability. This was indicated by the B value of the constant term that was 3.398. This implies that if all the variables were held constant, member ethical education affects SACCOS' sustainability by three and a third times. Whether a member was ethical or not influenced the SACCOS sustainability most compared with other variables as indicated by 3.297. This implies that there was more need for the co-operatives to upscale the members' ethical status as indicated by Kiaritha (2015). The number of trainings affects mostly SACCOS' sustainability as shown by the beta values, which was 2.54 compared to the type of a SACCOS that were 1.252. The above findings add more voice to Lebowksi (2015), which had it that member education in the form of conferences, seminars and workshops had an influence on member performance outcome. The age of SACCOS slightly affected SACCOS' sustainability because the B value was 1.852 compared to 1.93 for SACCOS' education budget. This implies that the SACCOS' age and education budgets were imparting an influence on the SACCOS sustainability. Several scholars from ancient times including the Rochdale pioneers William King among others have argued that it was imperative to have SACCOS' education (Kingu and Ndiege, 2018). The type of education that was provided touched on SACCOS' values of self-help, mutual help, equity, equality and solidarity. Education on ethical values was on honesty, openness, self-responsibility and caring for each other imperative in this study. However, these values were in most cases ignored by the members negatively affecting the society.

On theoretical reflections, the study conquers with the theory which states that values within an individual determines the rights and wrongs (Shyam, 2014). However, the study found that the environment shaped values. An environment that has education is likely to shape the goodness in character conquering with Miner and Guillotte (2014). Lastly, the study examined SACCOS in terms of non-performing loans. The study found that the SACCOS that were bad were half of the total SACCOS. This hinted that there was a big threat to SACCOS on loan issues. This also calls upon the SACCOS' Managers to work towards addressing the issue of non-repaid loans. Twenty five percent of SACCOS were fair compared to 16.66% which were not. The above finding indicates that for SACCO to do well, they must rise to the occasion by tackling the non-performing loans that's currently a threat. Excellent SACCOS were 8.33%. This means that it was possible for SACCOS to perform better if they could upscale member education on various issues such as honesty, openness, self-responsibility and caring for others. The findings are shown on Table 3.

Table 3: SACCOS' performance

Type of SACCOS	Total SACCOS	Excellent	Good	Fair	Bad
Urban	18	2	3	5	8
Rural	6	0	1	1	4
Percentage		8.33	16.66	25	50

4. Conclusion and Recommendations

The study concludes that although co-operative ethical values character in SACCOS was imperative, it was not prioritised hampering member participation hence loans performance. It was also concluded that although loan repayment was a function of many factors, the disintegration of the idea of co-operative identity was a major contributing factor. In addition, from a theoretical perspective the study concluded that the personal ego; that is the

part of the mind that mediates between the unconscious and conscious, was responsible for member commitment towards honouring loan repayment. Furthermore, the study found that non-performing loans were a big threat to SACCO's sustainability and therefore, intervention measures were urgently needed. Rural SACCOS were more responsive to ethical education sensitization compared to urban SACCOS that were not. There were also many cases of non-performing loans in rural SACCOS compared to urban SACCOS. The study recommends to SACCOS' board members, Managers, Ministry of Co-operatives to provide continuous capacity building to SACCOS on ethical values.

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