ANALYSIS OF FACTORS INFLUENCING INVESTMENT DECISIONS OF SACCO FUNDS IN KENYA

MURIUKI DAVID MURAGURI
STUDENT
SCHOOL OF BUSINESS
KARATINA UNIVERSITY
KENYA

NGANGA STEPHEN IRURA
DEAN
SCHOOL OF BUSINESS
KARATINA UNIVERSITY
KENYA

KYALOTERESIA N
LECTURER
SCHOOL OF BUSINESS
KARATINA UNIVERSITY
KENYA

ABSTRACT

Savings and Credit Cooperative Organizations' (Sacco's) are among the fastest growing micro finances in Kenya today. In the year 2012 members' deposits of Sacco's in Kenya amounted to approximately Kshs. 378 billion countrywide. The number of Sacco's had increased to over 19,000 by the year 2012. According to section 48 (1) of the SACCO Act 2008, a SACCO society shall not invest in non-earning assets or property and equipment in excess of 10% of total assets of which land and building shall not exceed 5%. This study aimed at investigating the influence of financial literacy on investment decisions of the Sacco funds in Kenya. The study adopted survey and descriptive research design and targeted all the 34 active Sacco's in Laikipia County. A sample of 14 Sacco's was selected using random sampling. The respondents were SACCO board of directors. Data was analysed using SPSS and presented through frequency charts, tables and graphs. Financial literacy was regressed against investment decision and a coefficient of 0.621 was obtained. The results showed that financial literacy is very significant in influencing investment decision with a p-value of 0.007 at 95% confidence level. The study recommends the board of management in the Sacco's to train the board members on testing the feasibility of a venture through analysing the risk and profitability of a venture. Trainings on the importance of cash and fund flows of an investment before investment are made. There is need for legislations which will allow the Sacco's to make investments which will serve as alternative sources of finance for member borrowings.

KEYWORDS
Sacco, investment decision, financial literacy.

INTRODUCTION

Investment is defined as mobilizing of resources to undertake a given activity with expectation of future returns or gain. It is the addition to the stock of capital goods in public or private sector over a given period of time (Donald 1990). Savings and Credit Cooperative Organization Societies (SACCOs) or Credit Unions have been developed to meet the fundamental human need to find a way of saving and borrowing without taking risks and without handing over too much power to a moneylender (USAID 2006).The Sacco's are able to mobilize savings in millions. Adam Smith (1776) in his 'Treaties of Wealth' notes that savings create capital. The savings can be utilized to make investments. There are factors which influence investment decision by the board members in the saving and credit organization. Al-Tamimi (2005) investigated the factors influencing individual investor behavior on the United Arab Emirates (UAE) financial markets study and found that the six most influencing factors in order of importance were: expected corporate earnings, get rich quick, stock marketability, past performance of the firm's stock, government holdings and the creation of the organized financial markets. He also found out the least influencing factors to be expected losses in other local investments, minimizing risk, expected losses in international financial markets, family member opinions and gut feelings on the economy.

Cooperatives form the main economic backbone for Kenya's economy since its independence. By 2007, it was reported that cooperative mobilized 31% of the country's savings and had a turnover increase of 30 billion (GoK, 2008). In 2007, cooperatives had hired over 25,000 employees; 38% of this were agricultural-based cooperatives that dealt with dairy, coffee, cereals and pyrethrum. As an integral part of the Government strategy of wealth creation and poverty reduction, cooperatives activity cut across all the sectors of the national economy that include agriculture, finance, housing, transport, building and construction, manufacturing and distribution trade. Cooperative activities comprise mainly the financial sector which are the SACCO's (44%) and the agricultural marketing sector (38%). Cooperative movement is well structured with more than 11,000 registered Cooperative Societies in 2007. The Kenya National Federation of Co-operatives is the national apex cooperative organization and 8 other National cooperative organizations/institutions bring together cooperatives per main activity such as bank, insurance, college and others (WOCCU, 2010).

In 2005, Kenya was rated as the largest economy in East Africa with a GDP of US$ 18 billion and a population of 34.3 million. However, it is rated as comprising of the highest populace living in absolute poverty with over 46% of its population living in absolute poverty. By 2005, it was reported that the number of poor people living in the country had increased from 3.7 million in 1972-73 to 15 million by 2005. This situation is worsened by weak internal control systems, poor governance and lack of commitment of leaders to abide by the institutional, legislative and policy frameworks that the government has put in place (WOCCU, 2010). To break away from the vicious cycle of poverty as propagated by Professor Nurkse (1951), the Sacco is a better source of ensuring that the members create capital for investment through saving. According to Adam Smith (1776) capital can be created though savings (Jhighan 2003).

According to neoclassical growth theory by Harrod-Dommar & Robert Solow's (1930), savings play an important role in economic development. They play an important role in sustaining growth and development. Through savings there will be capital accumulation leading to investments hence economic growth and ultimately development. Coupled with the above, a high saving economy accumulates assets faster, and thus grows faster, than does a low saving economy. However, in developing countries like Kenya, there are low levels of saving culture owing to poor underdeveloped stock markets, dominance of urban based commercial banks, Micro Deposit Taking Institutions (MDIs) and non-regulated Micro Finance Institutions (MFI's) in the financial markets as vehicles for savings. Hence Savings and Credit Cooperatives (SACCOs) are intended to offer an alternative to improve the above undesirable situation in low income countries

(WOCCU, 2010). Savings and Credit Co-operatives Organizations (SACCOs) mobilize intermediate savings exclusively within their membership under the co-operative statute 1991. Furthermore, they are one of the several types of cooperatives that are unique micro finance institutions categorized under rank four in the financial market and therefore not regulated by Central Bank of Kenya (Manyara, 2003). SACCOs are promoted and developed by Kenya National Federation of Co-operatives in an effort to alleviate poverty within the framework of Poverty Eradication Action Plan.
The above situation suggests that cooperative development in Kenya has been taken seriously both by the government and the citizens. The Sacco's have been in a position to mobilize savings which are meant for borrowing by the members. However, the savings are not enough to meet the demand for loan by the members. The board has a challenge of ensuring continuous cash flow within the Sacco's for borrowing. This calls for creation of investments by the Sacco using the funds within the organization. The above scenario also suggests that there must be fundamental and practical factors that influence the investment decisions by the Sacco's and hence affecting the investments.

OBJECTIVE OF THE STUDY
The study sought to establish whether financial literacy influences investment decisions of the SACCO funds.

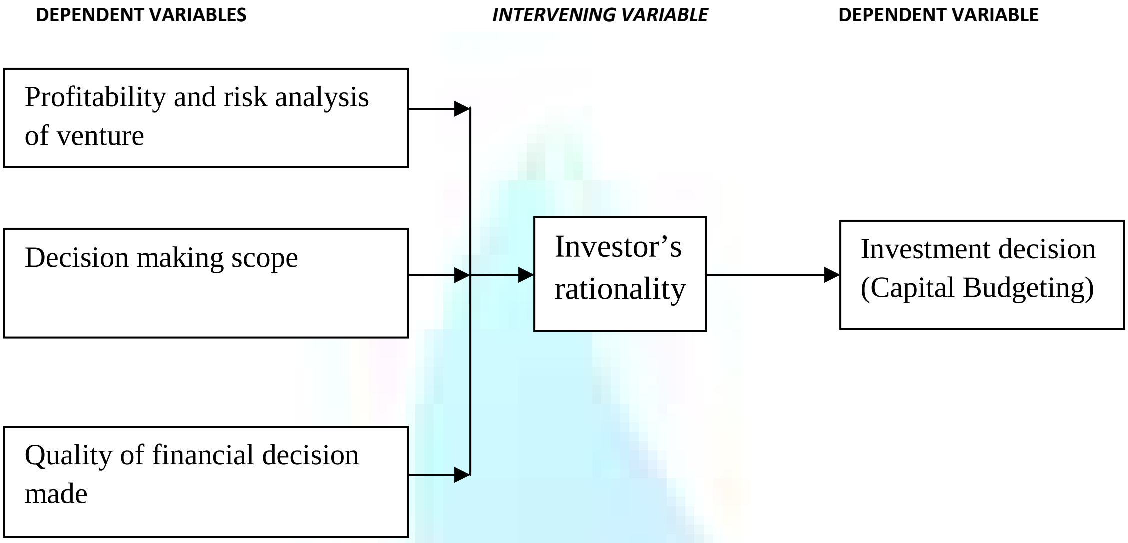
LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK
BOUNDED RATIONALITY THEORY
Bounded rationality is distinguished from rationality as "the perfect human rationality that is assumed in classical and neoclassical economic theory and the reality of human behaviour as it is observed in economic life" (Simon, 1992). It has been argued that bounded rationality perspective could be a useful supplement to the work that considers the role of heuristics in affecting real estate decision making in the valuation profession (Diaz, 1999). The behavioral assumption of bounded rationality embodies rejection of perfect knowledge and optimization on the part of economic actors, which characterizes the treatment of rationality in the neoclassical economics orthodoxy and instead involves an element of being limited or bounded (Bruin & Hartle, 2003). The neoclassical condition of "perfect human rationality" locates constraints in external environment, while Simon's concept of bounded rationality views constraints arising from the cognitive limitations of individuals themselves (Brun& Dupuis, 2000). In particular, individuals lack the capacity to "take account of all the available information, compile exhaustive list of alternative courses of action, and ascertain the value and probability of each of possible outcomes" (Hindess,1998). The bounded rationality perspective shifts the emphasis from neoclassical "Homo economics" which demonstrates characteristics of optimization and consistency based on perfect knowledge, to acknowledge imperfect knowledge and satisfying behaviour (Susan 2003).
From the theory, it can be seen that in real life individual investors have limited information and imperfect knowledge while making investment decisions. These reasons affect their investment decisions and that is why individuals are not always able to achieve optimality within the context of a dynamic and complex investment market. Investors tend to invest in tried investment products and have preference for products with which they are comfortable. Investors are mindful of past performance and they try to relate the current circumstances to past and then make their investment decision. The bound rationality theory explains that an investor can make a decision basing on past experience.
FINANCIAL LITERACY AND QUALITY OF DECISION MADE
Financial literacy, which is the ability of an investor to obtain information, analyze, manage and communicate, has been linked with the quality of investment decisions. Beal & Delpachitra (2003) argued that having financial literacy skills enable individuals to make informed decisions about their money and minimizes the chances of being misled on financial matters. Financial literacy affects financial decision-making because individuals with low literacy are more likely to rely on family and friends as their main source of financial advice and are less likely to invest in stocks (Rooij et al. 2007).
Improving financial literacy contributes positively to the financial markets and the economy. Financially educated investors help financial markets to operate efficiently, as they take better trading decisions based on fundamentals and or technical analysis instead of acting irrationally. In addition, financially literate people are in a position to protect themselves from financial frauds (Volpe, 2002). Financially educated customers' demands more customized products, which increases competition between businesses, encourage innovation and improves quality of products. Moreover, the increase in households saving associated with high financial literacy, has positive impact on investment level, financial markets liquidity and economic growth (OECD, 2005).
FINANCIAL LITERACY AND SCOPE OF DECISION MADE
An investor needs to select the right stock among different alternatives at the right time. In order to choose superior stock, investor has to evaluate alternative investments and specify criteria to minimize those alternatives and rank the lifted ones. The criteria or factors that affect investment decision could be categorized to rational or analytical factors category and irrational factors category. The analytical factors are fundamental indicators to evaluate country, industry and company as well as technical indicators to evaluate company prices' pattern (Albadvi et al., 2006). Irrational factors depend on investor attitude, behaviour and characteristics. There is a relationship between financial knowledge and the investors' preferences of the factors that influence their investment decision (Rooij, 2007).
LEVEL OF FINANCIAL LITERACY
In a study carried out by Hussein &Hassan (2012) on 'Financial Literacy and Investment Decision of UAE Investors', the financial literacy level of the UAE individual investors and the factors that influence their investment decision were examined. The research findings were as follows:
i. The financial literacy is far from the needed level.
ii. The UAE investors were more knowledgeable about the benefits of diversification while they were least knowledgeable about the type of UAE financial markets indices.
iii. The financial literacy level was found to be affected by income level, education level and work place activity.
iv. The top four most influencing factors on investment decision were religious reasons, reputation of the firm, perceived ethics of the firm and diversification purpose, whereas the least four influencing factors were rumors, family member opinions, ease of obtaining borrowed funds and friend recommendations.
v. Financial literacy affected significantly the investment decision of the individual investors. Specifically, financial literacy had a negative effect on each of the five categories that affect the investment decision except for accounting information category. The effect of financial literacy on the accounting information category was positive but statistically insignificant (Hussein &. Hassan 2012).

The importance of improving financial literacy has increased due to different factors including the development of new financial products, the complexity of financial markets and the changes of political, demographic and economic factors.
FINANCIAL EDUCATION
Since SACCO movement operates on a completely different path and manner from the commercial banking system, the SACCO members (including the Board of Directors) need training. The training must cater for the different user status amongst the current SACCO users, and prospective SACCO users. Because the SACCOs services can cater for the needs of people who may be initially completely unaware of the internal working of a co-operative where they work for the common good of its membership instead of the interests of the shareholders. Sasuman (2002) suggested that financial education service must be designed for the SACCO members. Etkind (1989) noted that co-operatives must train their membership so that they can fully participate in the co-operative life in full, failure to do so can be deemed to be a failure of the political task of a co-operative. A SACCO would be initiated, owned, financed and managed by the members (or shareholders) of the SACCO. The requirement that all members must be shareholders (by buying shareholding) ensures that they have a link to the success to the bank, and makes them partial owners after contributing equity in terms of shareholding.
The essence of cooperative banking is quiet unique in that that members, who include both savers and borrowers, use the cooperative to recycle money from those who have it to those who need it, without anyone outside taking a profit and with interest rates set so that systems work in everyone's interest''(ILO 2009). This is different from the commercial banking system that had been bailed out by public funds as it seeks to attain huge profits for investors and huge

bonuses for the managers. Levi & Davis (2008) identify that the basic differentiation between a cooperative and a capitalistic company is the link that the member is also at the same time as 'user'' of the cooperative.

From the review, financial literacy has been portrayed as an important aspect when financial investment decisions are being made. It has been explained to increase and improve the ability of an investor to make a decision as well as increase the knowledge base of the various options which exists in the market on where one needs to put his capital to earn him/her some income which is usually the objective of investment. There is dearth in literature on the influence of financial literacy on the factors influencing investment decision. The study investigated the influence of financial literacy in SACCO's in making investment decisions anchored by the conceptual framework figure 1.

FIGURE 1: CONCEPTUAL MODEL



The framework above was used specifically in this study to analyse the influence of financial literacy on the investment decisions in the Sacco's. The study analyzed the influence of the independent variables on the investment decisions of Sacco funds. This was achieved through measuring the level of investments in the Sacco. The investment levels were correlated with profitability and risk analysis of venture, decision making scope and quality of financial decision made

RESEARCH METHODOLOGY

The research design used descriptive survey approach in collecting data from the Sacco board members in Laikipia County. This design helped in describing the dependent and independent variables. A sample of 112 board members was targeted which was selected from 14 Sacco's. The sample was determined by employing Nassiuma (2000) formula of sample determination at 95% confidence level and 0.25 coefficient of variation. According to Nassiuma (2000), the sample size can be determined by;

$$S = \frac{.N\,(cv^2)}{Cv^2 + (N-1)\,e^2}$$

$$S = \frac{0.0625*34}{0.0625 + (34-1)\,0.0025}$$

$$= 14$$

The study selected a sample size of 14, which represented a proportion of 75% of the population. The instrument for data collection was the questionnaire.

Descriptive statistics was used with the help of the Statistical Package for Social Sciences (SPSS) software which offers extensive data handling and numerous statistical details (Muijis, 2004). In order to determine the relationship between investment decision (capital budgeting) and financial literacy, a simple correlation and regression analysis were under taken. Pearson's correlation coefficient was used to show how each independent variable relates with the dependent variable. Further simple regression analysis was employed to determine the degree of relationship between investment decision and financial literacy in the Sacco's.

RESEARCH FINDINGS

NUMBER OF BOARD MEMBERS TRAINED ON FINANCIAL LITERACY

The study established that 85.7% (72 out of 84) of the members have not been trained on financial literacy, 3.6% (9 out of 84) of the respondents stated that all the board members in their SACCO's have undertaken the financial literacy (FL) training while 4.8% (4 out of 84) stated that none of their board members have undertaken training on financial literacy. From the analysis, it is clear that the levels of financial literacy are not up to the desired levels. The findings are in agreement with a study conducted by Hussein & Hassan (2012) on the level of financial literacy in the United Arab Emirates. The study established that financial literacy is far from desired levels; most UAE investors were knowledgeable about the benefits of diversification but had little knowledge of financial market indices. The results of the analysis are as shown in Table 1 Below on the number of board members trained on financial literacy.

TABLE 1: NUMBER OF BOARD MEMBERS TRAINED ON FINANCIAL LITERACY

Response	Frequency	Percent	Score
No response	5	6.0	0
All	3	3.6	9
Few	72	85.7	144
None	4	4.8	4
Total	84	100.0	157

The results of the number of board members who have attained financial literacy trainings show that few board members have attained financial literacy. There exist a risk of either no or low investments being made for the Sacco's. The quality of investment decisions made will either be reliant on the employees or hired analyst, this may be misleading as well depending on the interests of the advisors.

INFLUENCE OF FINANCIAL LITERACY ON INVESTMENT DECISION

The study aimed at establishing the influence of financial literacy on investment decisions. To achieve the objective, the researcher developed a likert scale, the respondents were expected to provide answers on whether they agree, strongly agree, disagree, strongly disagree or not sure on; whether financial Literacy helps in making informed decisions, reduce incidences of being misled by other players in the market, removes fear in decision making, helps analyzing risk in financial venture and whether it helps analyze profitability of a venture. The response received was given scored and the mean computed. The study established that financial Literacy helps in making informed decisions with a mean of (4.54); Reduces incidences of being misled by other players in market with a mean of (4.45), financial literacy education removes fear in decision making with a mean of (4.40); the mean measure was arrived at by scoring the response using a likert scale where the response given was scored. The response indicates the importance of financial literacy to the investors in increasing the scope of decision made.

DISCUSSION OF THE FINDINGS

The results achieved indicate the importance of financial literacy skills in making informed decisions, removing investors fear and increasing the scope of the investor. The findings are in agreement with Beal & Delpachitra (2003) who argued that having financial literacy skills enable individuals to make informed decisions about their money and minimizes the chances of being misled on financial matters.

The study also sought to find out the importance of financial literacy on analyzing the risk and profitability of the venture. The results show that it helps analyzing risk in financial venture with a mean of (4.49); Helps analyze profitability of a venture mean (4.13). The findings are in agreement with Vitt et al (2000) who defined financial literacy as the ability to obtain information, analyze, manage and communicate about one's personal financial situation as it affects one's material well-being. This implies that a financially literate person is in a position to analyze the profitability and risk of a venture before the venture is rolled out.

The study sought to find out the importance of financial literacy in minimizing chances of being misled by financial advisors, to achieve the respondents were required to indicate whether they strongly disagree, disagree, not sure, agree or strongly agree with the statement. The responses were scored, a mean of 4.45. Rooij et al. (2007) found that financial literacy affects financial decision-making because individuals with low literacy are more likely to rely on family and friends as their main source of financial advice and are less likely to invest in stocks.

The study established that majority of the respondents (Board Members) were in agreement that financial literacy helps in making informed decisions, removes fear in decision making, reduces being misled by other players in the market and increases scope for making decision. The respondents admitted that lack of financial management skills has been a setback in their decision making. For effective financial decision making, the researcher established that there is need for a manager to be well equipped with venture feasibility and evaluation analysis skills, fund mobilization skills and venture cash or fund flow analysis as well as offer financial counseling. Beal & Delpachitra (2003) argued that having financial literacy skills enable individuals to make informed decisions about their money and minimizes the chances of being misled on financial matters. Rooij et al. (2007) found that financial literacy affects financial decision-making because individuals with low literacy are more likely to rely on family and friends as their main source of financial advice and are less likely to invest in stocks. This affects the decisions made since they might risk being misled by the friends they ask for advice. The board risks being misled due to the kind of advice they are likely to be receive. This also leads to copying of what other Sacco's are doing leading to lack of creativity in decision making and management. Financially educated customers demand more customized products, which increases competition between businesses, encourages innovation and improves products quality. Moreover, the increase in households saving associated with high financial literacy, has positive impact on investment level, financial markets liquidity and economic growth (OECD, 2005).

The study has established that few board members have undertaken financial management courses. In a study carried out by Hussein &Hassan (2012) on 'Financial Literacy and Investment Decision of UAE Investors' carried out by the financial literacy level of the UAE individual investors and the factors that influence their investment decision were examined. The research established that financial literacy is far from the needed level. From the study the researcher established that most of the investors lack the financial literacy skills which bring in independence in the type of decisions they make. Investors (not only in Sacco's) go into business but they lack the knowledge to make informed decisions on their own independent. Sacco boards members are managers and lack of finance skills are a great setback as they strive to achieve.

The study established that lack of financial management skills affects investment decisions and the findings are in agreement with Beal and Delpachitra (2003) who argued that having financial literacy skills enable individuals to make informed decisions about their money and minimizes the chances of being misled on financial matters. The low levels of financial literacy among the board in the Sacco's play an active role in their failure to realize the set institutional goals.

It was determined that that financial literacy has coefficient =0.533; P value 0.023. This was tested at 95% confidence interval. This indicates that there is a positive relationship between financial literacy and investment decision. The findings are in agreement with Beal and Delpachitra (2003) who argued that having financial literacy skills enable individuals to make informed decisions about their money and minimizes the chances of being misled on financial matters. It can be inferred that financially literate mangers are likely to make valid investment decisions. There is a need to have the board members being undertaken through training as suggested by Sasuman (2002) that financial education service must be designed for the SACCO members. Etkind (1989) noted that co-operatives must train their membership so that they can fully participate in the co-operative life in full, a failure to do so can be deemed to be a failure of the political task of a co-operative.

CONCLUSIONS AND RECOMMENDATIONS

There is need to conduct training on resource mobilisation, venture cash and fund flow analysis and venture feasibility study specifically for the board members. The training will serve as an exposure to the board of management in the Sacco's reducing the chances of being misled by the staff or financial advisors.

REFERENCES

1. Beal, D.J.; Delpachitra, S.B. (2003), Financial Literacy among Australian University Students, Economic Papers, Vol. 22, No. 1, pp. 65-78.
2. Chambo, S. A., Mwangi, M. &Oloo, O. (2008) An Analysis of the Socio- Economic Impact of Co-operatives in Africa and their Institutional Context, Nairobi, International Cooperative Alliance and the Canadian Cooperative Association.
3. Chen, Haiyang; Volpe, Ronald. (1998), An Analysis of Personal Financial Literacy Among College Students, Financial Services Review, Vol. 7, No. 2, pp. 107-128.
4. Jighan M. L (2006) Economics of developing countries (third revised edition) New age international publishers New Delhi.
5. Kenya National Federation of Cooperatives (KNFC) (2008a) Proceedings Report of the National Cooperative Leaders' Conference (November 2007), Nairobi, Kenya National Federation of Cooperatives.
6. Kenya Union of Credit Cooperative Organisation (KUSCCO) (2012) *Sacco fund management and investment report,* Nairobi, KUSCCO.
7. Lindberg O. (1993) Kenya: Review of the Cooperative Sector with Special Emphasis on Coffee Cooperatives', in H. Porvali (ed.), The Development Of Cooperatives and Other Rural Organizations, Agriculture and Rural Development Series, No. 8, Washington, D.C., World Bank.
8. Manyara, M. K. (2003) *The Development of Cooperative Law and Policy in Kenya*, Nairobi, Oscan Print.
9. McDonald, R., & Siegel, D. (1986).Value of Waiting to Invest. *Quarterly Journal of Economics*, Vol. 101, (Nov.1986), pp. 707-728.
10. McKinnon, R.I. (1973) *Money and Capital in Economic Development* Washington D.C.: The Brookings Institution
11. Ministry of Cooperative Development and Marketing (2008) *Cooperative Development Policy,* Nairobi, Government printer.
12. Namrata Sharma (2005), Impact assessment in Nepal Hills District Centre for Micro Finance, Kathmandu, Nepal.
13. Republic of Kenya (2004a), The Cooperative Societies (Amendment) Act, 2004, Nairobi, Government Printer.