

## THE IMPACT OF DEMOGRAPHIC AND SOCIOECONOMIC FACTORS ON COOPERATIVES PERFORMANCE

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### ABSTRACT

The Kenyan economy is to a large extent pegged on cooperatives. They play very important role in the country as they are found virtually in all trades and industrial sectors such as retailing, wholesaling, production, fishing, craftsmanship, banking, insurance, and quarrying among other sectors. Available statistics from the Ministry of Cooperative Development show that there are 9,151 registered cooperatives in Kenya with membership of 5, 177,200 and annual turnover of Kshs 15, 798,000,000. These cooperatives are found both in urban and rural areas and employ thousands of people both on permanent and casual basis. It is estimated that one out of every two Kenyans directly or indirectly derives their livelihood from the cooperative sector. Of late, many cooperatives have been reported to be dormant or under liquidation. It was on the basis of this realization that the researcher of this study set out *to investigate the impact of demographic and socioeconomic factors on cooperatives performance*. A statistical model relating demographic and socioeconomic factors to cooperatives performance was developed. Out of the 9,151 total registered cooperatives in Kenya, 3660 (40%) are dormant and 1281 (14%) are under liquidation. Only 4210 (46%) are active. Out of the 4210 active cooperatives, a sample of 147 cooperatives was selected by stratified sampling method and tested at 95% confidence level. The results show that demographic and socioeconomic factors do not influence performance of the cooperatives. Perhaps there are other factors which do so. More research is therefore needed to identify those potential factors causing the demise of these cooperatives.

**Key Words:** *Cooperatives, performance, demographic and socioeconomic factors*

## INTRODUCTION

### Cooperative Meaning and Philosophy

A Cooperative organization is a socioeconomic entity formed for the purpose of providing goods and services mainly to its members. It is a business which is voluntarily organized and owned by persons referred to as members, sharing benefits and risks proportional to their investments or participation (Roy, 1981). Thinking about human beings, human life and human behavior, one discovers that a human being hardly acts as an individual. He needs company in order to live and act humanly. This means that a natural biological person is radically a social animal who must

always be together with other people. Thus a person needs other people with whom he or she interacts, communicates and establishes social relationships. Social life in other words is an integral part of human life. Cooperative philosophy is thus the philosophy of social life. It involves thinking about people living together in a society to solve their economic and social problems. It thus calls for individual honesty, openness, social responsibility and taking care of others. Cooperative philosophy is therefore hinged on two fundamental principles: it does not recognize any ideologies of individual country regimes. It is pervasive in all the known global ideologies. It flows like air molecules in optimal environmental space and combines all the ideologies into one Kiondo (basket) such that an individual is equal to the society and the society is equal to an individual. It is a  $1+1=3$  synergy. It is also self-motivated participatory role-playing. All members are free to play a role as a means of achieving both individual and collective objectives (Sababu, 2001).

## LITERATURE REVIEW

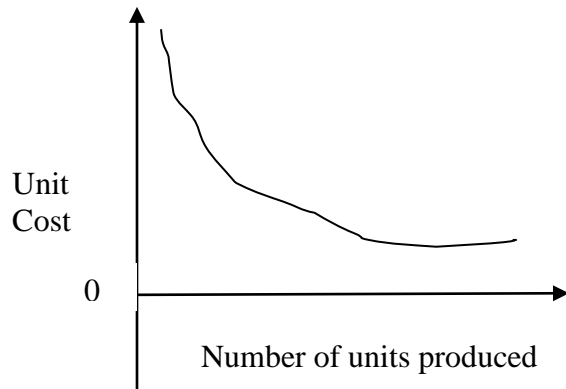
### The Cooperative Business Effects

A cooperative business effect is the economic result of joint action. It should manifest in the greater degree of satisfaction and fulfillment of the members' economic needs than by individual action. The improvement may affect the costs and price levels, the standard of service and consequently the members' standards of living. An individual can reasonably be expected to join a cooperative society or union if the cooperative effect is significant enough to compensate for the disadvantages of membership such as the share contributions, liability arising from membership and the general obligation to the society which limits the member's freedom of action (Helm, 1968).

The cooperative effect is thus achieved by pooling individual resources, which would result in the following socioeconomic advantages:

- A superior market position and control over prices through accumulated bargaining power of individual members and the shorter market channels after limiting or eliminating middle persons.
- An increased adaptability to the market through greater commercial experience, more desirable market partners and ability to regulate quantity and quality of the supplies to and from the market by storage, grading and sorting among others.
- Investments, which an individual could not afford alone but only by pooling resources together.
- Economic use of resources and facilities through wider distribution of overhead expenses and improved use of the capacity leading to a decrease in unit costs as shown in Figure 1.

Figure 1: Economic use of resources



- A degree of technical specialization, which the individual member could not achieve alone.
- The transfer of risks from an individual to the society and distributed among members if any loss or damage is incurred.
- Improving influence on the individual business participation, quality of goods, spending habits and a general economic behavior.

### Types of Cooperatives

In Kenya cooperatives are classified by scope and organization. Ouma (1989) identified the various types of cooperatives on this basis as primary, secondary, apex, regional and international cooperatives.

#### *Primary Cooperatives*

Primary registered cooperative organizations are those whose memberships are composed of individual persons such as coffee farmers in a given area. These in Kenya are called cooperative societies and examples include coffee, pyrethrum, horticultural and dairy cooperative societies. They are widely spread in Kenya. Their main objective is to serve the interests of the members.

#### *Secondary Cooperatives*

Secondary registered cooperative organizations are those whose membership is composed basically of primary cooperative societies and their main objective is the facilitation of the primary cooperatives. These are normally called cooperative unions and in Kenya they are organized at county levels. Examples here include County Cooperative Unions such as Nakuru County Cooperative Union, Kilifi County Cooperative Union, Murang'a County Cooperative Union, Kisii County Cooperative Union, Bungoma County Cooperative Union and Machakos County Cooperative Union. The main objective of these unions are to serve the interests of their member societies such as increasing their bargaining powers, acquiring loans, book-keeping, transport provision, agricultural inputs, education and training, commodity processing, and expert advises.

#### *Apex Cooperatives*

Apex cooperative organizations are those whose membership is composed of cooperative unions and some cooperative societies which are not affiliated to county cooperative unions. In Kenya, these are organized at national levels and include such organizations like the Kenya National Federation of Cooperatives, Kenya Rural Savings and Credit Societies Union, Cooperative Development and

Information Center Union, National Cooperative Housing Union, and the Kenya Union of Savings and Credit Cooperative Limited. Their main objective is to serve the interests of their affiliates such as provision of stationary, merchandise, insurance services, book-keeping services, expert advisory services, education and training, representation at international levels, provision of useful statistics and promotion of cooperative understanding internationally.

### ***Regional Cooperatives***

These are regional cooperatives such as the African Cooperative Savings and Credit Association which some apex cooperative organizations like Kenya Union of Savings and Credit Cooperative are affiliated to. Like apex organizations, they serve the interests of their affiliates. The other regional cooperatives are Asian Confederation of Credit Unions, Australian Federation of Credit Unions, Canadian Cooperative Credit Society, Caribbean Confederation of Credit Unions and so forth.

### ***International Cooperatives***

International Cooperative Alliance (ICA) and the World Council of Credit Union (WCCU) are the main international cooperative organizations. Like apex and regional cooperative organizations, they serve the interests of their affiliates, which are drawn worldwide. It must, however, be stated that the various cooperative organizations stated above do not exercise any control over their affiliates and are merely formed to assist them and not to rule over them. This is compatible with the cooperative philosophy.

### **Cooperative Leadership**

Cooperative leadership is based on the knowledge, ability, access to information, special skills, charisma and integrity of the members. This is where there are no appointed leaders. During the formation stages, individuals automatically assume responsibilities for specific functions (Mellor, Hanna and Stirling, 1988). Thus in cooperatives, every member is also the owner, employee and the manager of the cooperative.

## **STATEMENT OF THE PROBLEM**

The Kenyan economy is to a large extent pegged on cooperatives. They play very important role in the country as they are found virtually in all trades and industrial sectors such as retailing, wholesaling, production, fishing, craftsmanship, banking, insurance, and quarrying among many other sectors. Available statistics from the Ministry of Cooperative Development show that there are 9,151 registered cooperatives in Kenya with membership of 5, 177,200 and annual turnover of Kshs 15, 798,000,000. These cooperatives are found both in urban and rural areas and employ thousands of people both on permanent and casual basis. It is estimated that one out of every two Kenyans directly or indirectly derives their livelihood from the cooperative sector. Despite this high number of registered cooperatives however, many of them have been reported to be dormant or under liquidation. Out of the 9,151 total registered cooperatives in Kenya, 3660 or 40% are dormant and 1281 or 14% are under liquidation. Only 4210 or 46% are active. The causes of this high percentage of inactivity and consequently low performance have always been attributed to demographic and socioeconomic factors (Ouma 1989 and 1992, KUSCCO 1995, Nginyo 1997, Nguku 1996, Okereke 1974, Oginga 1996, and Ohenjo 2000). Among the key demographic and socioeconomic factors suspected to influence performance of these organizations are number of members in the cooperative, number of years the cooperative has been in operation, number of years the topmost manager of the cooperative has worked with the

cooperative, and the number of years the topmost manager has spent learning in school. It was on the basis of this realization that the researcher of this study set out *to investigate the impact of demographic and socioeconomic factors on cooperatives performance*. A statistical model relating demographic and socioeconomic factors to cooperatives performance was then developed.

The objective of this study was *to determine the impact of demographic and socioeconomic factors on cooperatives performance*. In view of this objective, the hypothesis of this study was:

**“H<sub>1</sub>: Demographic and socioeconomic factors influence performance of cooperative organizations”**

## METHODOLOGY

This research applied an empirical Multinomial Logit Model of investigation with Y as the Dependent Variable and X<sub>i</sub>s as the Independent Variables as follows:

$Y = F(X_1, X_2, X_3, X_4, \epsilon)$  where:

Y = Sizes of Business ratios and

0 = Low ratios

1 = Moderate ratios

2 = High ratios

X<sub>1</sub> = Number of years taken in school and

1 = Below five years

2 = 5-8 years

3 = 9-13 years

4 = 14-16 years

5 = 17 and above years

X<sub>2</sub> = Number of years the respondent has worked in the cooperative

X<sub>3</sub> = Number of members in the cooperative organization

X<sub>4</sub> = Age of the cooperative organization in years

ϵ = Random Disturbance Term

Mathematically, the logit model can be expressed as follows:

$$P_{ij} = \frac{e^{z_{ij}^1 B}}{\sum_{j=1}^J e^{z_{ij}^1 B}}$$

Where

$P_{ij}$  = Probability that respondent  $i$  reports formal strategic management level  $j$

$Z^1$  = A vector of antecedents

$J$  = Period in years

$i$  = Respondent  $i$ ,  $i=1 \dots N$

$B$  = Maximum likelihood parameter coefficients of  $Z_{ijs}$

The logit model is the natural complement of the regression model, and both models belong to the realm of causal relationships. Both models were originally designed for the analysis of experimental data. The only difference is that the logit model permits a specific economic interpretation in terms of utility maximization in situations of discrete choice (Crammer, 2011). When the dependent variable is discrete, the error terms are no longer normally distributed and the ordinary least squares method cannot be used. In such cases, a logit model is appropriate. The Logit Model also applies where the independent and the dependent variables are both discrete and continuous (Shin, 2012).

The population of study included all the 4210 active cooperatives in Kenya irrespective of their types. Out of these 4210 active cooperatives, a sample of 147 cooperatives was selected by stratified sampling method. All types of cooperatives were considered because cooperative organizations cut across all sectors of the economy, while demographic and socioeconomic factors were considered because cooperative membership also cut across all categories of classes and personalities in the Kenyan Economy.

Using questionnaires, the researcher and his enumerators cross-sectionally interviewed a total of 147 top cooperative managers. Where the manager was unwilling, an adjacent cooperative manager was approached. The data collected was then sifted and all the outliers removed.

The null hypothesis was then stated as follows and then tested at 95% confidence level.

***H<sub>0</sub>: "Demographic and Socioeconomic Factors do not have influence on performance of the cooperatives"***

## Results

The information on the computer printout shows the following results at 95% Confidence level:

Calculated -t- ratios for  $X_1$ ,  $X_2$ , and  $X_4$  independent variables were found to be less than the critical values of -t- thus agreeing with the null hypothesis, whereas the calculated value of -t- for  $X_3$  was found to be more than the critical value, where we reject the null hypothesis and take the alternate hypothesis. Overall however, the findings are as follows:

$$R^2 = .7442$$

$$\text{Calculated F-Ratio} = 2.14$$

$$K - 1 = 4 - 1 = 3 \text{ DF}$$

$$N - K = 147 - 4 = 143 \text{ DF}$$

$$\text{From Tables } F_{3,143} = 2.60$$

Thus the Calculated Value of F is positive but less than the critical value of F. The Coefficient of Determination  $R^2$  on the other hand is significant at 0.7442, an indication that there is correlation between Dependent and Independent Variables. The null hypothesis is accepted at 95% confidence level. We therefore adopt the hypothesis that; **“Overall, Demographic and Socioeconomic Factors do not have influence on performance of the cooperatives”** This is, however due to the influence of the independent variable  $X_3$  since variables  $X_1$ ,  $X_2$ ,  $X_4$  were all found to have no influence on performance of the cooperatives.

## Conclusions

The conclusion which can be drawn from this research evidence is that three of the above captured Demographic and Socioeconomic Variables ( $X_1$ ,  $X_2$ , and  $X_4$ ) have no effect on the cooperatives performance in Kenya, whereas  $X_3$  do have. Hence the number of years taken in school, experience of the cooperative managers, and number of years the cooperative has been in existence have no influence on the performance of the cooperatives. The only potent variable in this study is the number of members in the respective cooperatives. Perhaps the education system in Kenya does not cater for the cooperative movement, or the problem is competition in the Kenyan liberalized economy unlike when cooperatives enjoyed commodities monopolies in their operational arenas. Further, the study concurs with the earlier studies that poor management has been among the major problems which has caused cooperatives demises.

## Recommendations

The finding of this study has shown that Demographic and Socioeconomic Variables  $X_1$ ,  $X_2$ , and  $X_4$  do not have negative or significant positive impact on the performance of the cooperatives at 95% Confidence level, while Variable  $X_3$  do have. Studies should therefore be done on the cooperative members' relationships with performance of their cooperatives. Cooperative education and management programs should also be introduced at some level of schooling system in Kenya as well as in seminars and workshops. Incentives should also be given to members to enhance their attitudes, agility and participation in the activities of their cooperatives.

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