

## **INFLUENCE OF TRUST ON SAVINGS MOBILIZATION IN CO-OPERATIVES IN NYAMIRA COUNTY**

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**International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366**

**Received:** 1<sup>st</sup> August 2017

**Accepted:** 11<sup>th</sup> August 2017

Full Length Research

**Available Online at:**

[http://www.iajournals.org/articles/iajef\\_v2\\_i3\\_220\\_236.pdf](http://www.iajournals.org/articles/iajef_v2_i3_220_236.pdf)

**Citation:** Nyatichi, J. M., Gichunge, E. & Orero, R. (2017). Influence of trust on savings mobilization in co-operatives in Nyamira County. *International Academic Journal of Economics and Finance*, 2(3), 220-236

## **ABSTRACT**

The purpose of the research was to study the influence of trust on savings mobilization in co-operatives in Nyamira County. It was conducted using descriptive research among co-operative members in savings and credit co-operatives. The statistical sample consisted of 220 members who were randomly selected and studied through questionnaire. Data was collected from a random sample of 220 respondents and was analyzed using the STATA 13 computer software. The validity of the questionnaire's reliability was ascertained by the researcher using the Cronbach's alpha coefficient which was at 0.991. The data was collated

using the Likert scale. The results showed that trust highly influenced savings mobilization through co-operatives among the people of Nyamira. Therefore, it is recommended that trust which significantly influenced savings mobilization in Nyamira County should be taken seriously when dealing with savings mobilization, government policies and programmes. The findings of the study will be useful for the County and National Governments in formulating coherent Policies that address developmental challenges in co-operatives.

**Key Words:** *trust, savings mobilization, co-operatives*

## **INTRODUCTION**

The history of human beings working together is as old as man and the collective nature of God during creation (Holy Bible, 1990). Man working together to address pressing needs like building the tower of Babel, going to war and building great cities like Babylon, Nineveh and Rome are early examples of joint action. Part of the reason people stayed together was because of the trust they had for those they knew and who could come to their aid in times of need. Trust continues to play a crucial role in negotiations on trade blocs, defense pacts and economic treaties.

Kenya, one of the leading economies in Africa, has forty-three tribes and is divided into forty-seven Counties with the Abagusii, who mainly live in South-west Kenya facing Lake Victoria, occupying the Counties of Kisii and Nyamira. They occupy an area of approximately twenty-eight thousand square kilometres of land. According to the 2009 population census of Kenya, the Abagusii numbered about 1.5 million people forming the 5th largest tribe in Kenya (KNBS, 2010). The Abagusii people are farmers who practice mixed farming on their small-sized farms averaging one hectare. The trusting nature of the Abagusii made them settle on a small surface area for fear of attacks for neighbouring tribes. To address their challenges, Abagusii worked together in groups called 'risaga' (Gweyi, et al, 2013) and later registered co-operatives that dealt with the marketing of coffee, milk, pyrethrum, bananas and managing tea payments. The structure of the co-operative movement in the area is that of primary co-operatives, unions, and savings and credit co-operatives that handle financial services for members of the primary co-operatives.

The co-operative ideal is as old as human society and has enabled individuals actualize their aspirations through a jointly managed enterprise (ICA, 1995). The development of the idea of co-operation in the nineteenth century can best be understood as an attempt to make explicit a principle which is inherent in the constitution of society but which had been forgotten in the turmoil and disintegration of rapid economic change (Carr-Saunders, 1938). Resource mobilization in co-operatives can be seen from the perspective of trust (Putman, 2000) playing a crucial role. The International Co-operative Alliance embodies social capital theory into seven principles and values when it sets guidelines for co-operative formation and operation (ICA, 1995) which take into account the practice of pooling resources and talents of people for the communal good (Ferragina, 2014). It brings together the importance of community to build generalized trust and the importance of individual free choice, in order to create a more cohesive society. It partly enhances the success of formal and informal co-operation between co-operatives (Putnam, 1995).

The settlement of the people who were allocated land was made easy by each group forming a co-operative society through which it pooled members' resources for production, marketing and payment. The economic activities in the area were mainly agricultural farming. The education given by community leaders and training given by Government Extension Officers to people on trust and social relations, governance and skills were applied by the community to improve their well-being. The people in the area accessed services through co-operatives which enabled members to get enhanced income for benevolent needs and investment (GOK, 1968).

## **Trust**

Trust, as part of social capital, can be understood as the worthiness of being relied upon (Chambers, 2003). It enhances the expected collective or economic benefits derived from the preferential treatment and cooperation between individuals and groups (Putman, 2000). Knack and Keefer (1997) argued that trust and civic norms were stronger in nations with higher and more equal incomes, with institutions that restrained predatory actions of chief executives, and with better-educated and ethnically homogeneous populations.

## **Co-operative savings mobilization**

According to the Thesaurus Chambers (1995), mobilization is defined as the act of assembling and organizing resources to support objectives in time of need which may include activating all or part of the reserve components. Savings mobilization then can be said to be the act of assembling and organizing savings to support objectives in time of need by members of a co-operative society. The process of mobilizing co-operative savings involves assessing the readiness of members' institutions that handle their payments, modalities of raising deposits responsibly without making members feel that their resources are vulnerable to poor management, financial discipline, establishing policies and procedures, developing products, devising marketing strategies, and determining the costs of accessing the services (Kiaehn, B., 2006).

## **PROBLEM STATEMENT**

The concept of social capital started in the 19th century as thinkers explored the relation between associational life and democracy. It was observed that people regularly gathered to discuss issues of state, economics, or the world and the level of social participation which was directly linked to the equality of economic, living, working and social conditions (Ferragina, 2010; 2012; 2013). Empirical studies from around the world show that associations like co-operatives play leading roles in supporting world economies (WCM, 2015). In Nyamira County, anecdotal evidence suggests that marketing co-operatives that started in the 1960's were not as productive as expected even though they contributed towards the support of savings and credit co-operatives in the County. Further, despite the low production in coffee and milk, more savings and credit co-operatives were getting registered in the County thereby giving savings mobilization a strong support in wealth creation (Ombaso, 2015). According to Gweyi et al (2013), co-operatives contribute much to the economy but attracted little interest since there was insufficient evidence to show the effect of trust on savings mobilization among co-operatives, especially in Nyamira County. The savings mobilization in Nyamira County was seen to be increasing within all levels of the economic strata and this phenomenon according to anecdotal evidence needed to be researched. The research therefore examined the effect of trust on savings mobilization.

## **RESEARCH OBJECTIVE**

The objective of the research was to examine the influence of trust on savings mobilization and co-operatives in Nyamira County.

## **RESEARCH HYPOTHESIS**

HO: trust does not significantly affect savings mobilization and co-operatives of Nyamira County

## **THEORETICAL REVIEW**

### **The Social Capital Theory**

According to Hanifan (1916:130), social capital was those tangible substances that counted for most in the daily lives of people: namely good will, fellowship, sympathy, and social intercourse among the individuals and families who make up a social unit. Ferragina (2010; 2012; 2013) added that the level of social participation in American society was directly linked to the equality of conditions while John Dewey (1900) used social capital in *The School and Society* in 1899. According to the International Co-operative Alliance, co-operatives are membership-based organizations whose activities centre on members' economic empowerment, social inclusion and cultural participation (ICA, 1995). Harold Laski emphasized that organizations exist to achieve purposes or interests which a group of persons have in common and that every organization presupposes an interest which its members all share (Maclaver, 1932).

In the co-operative perspective, producers are the owners, users and clients or generally, they produce labour. This social responsibility makes members, and the whole community, to blend together under activities that are for the common good. In the co-operative context, individual resources strengthen co-operatives' growth and enhance economic development (ICA, 2015) because they build trust, set standards, educate members and strengthen their organizations. Co-operatives venture into remote areas of production that transform local economies by mobilizing resources, providing capital and organizing outlets for members' products and services (WCM, 2015).

The trust among people helps to form and sustain strong networks of association that support savings mobilization (Putnam, 1995). Co-operatives build trust among members, support production and build strong networks within local economies while members are educated on savings mobilization, standards and networks that facilitate collective action through social networking (Garson, 2006), mutual support, and self-reliant economic development (Fukuyama, 1995). The social capital theory is important to this study as it underpins the co-operative philosophy of people mobilizing their resources into a common pool and using them for their benevolent purposes.

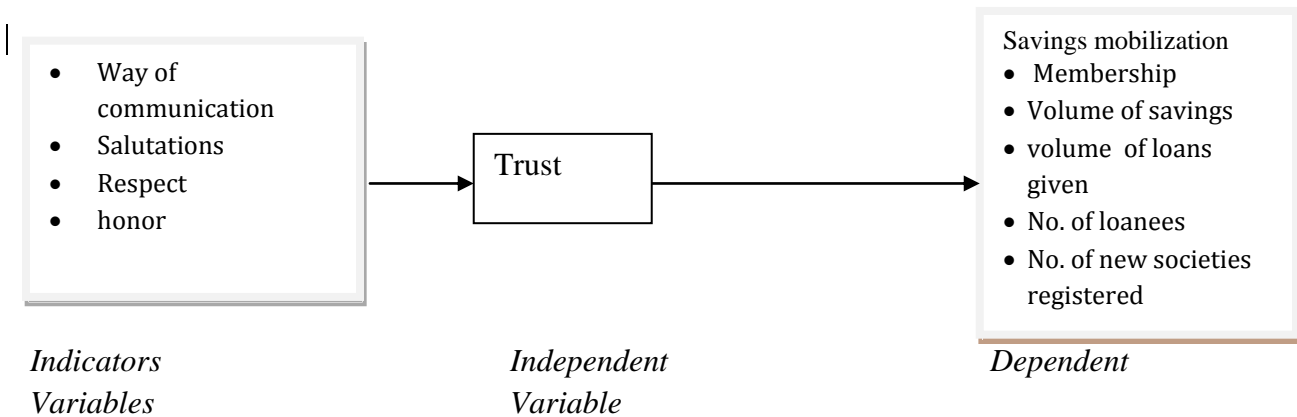
## **Trust**

A study by Kimeli et al (2012) on the effect of saving and credit co-operative societies' strategies on members' savings mobilization using simple random sampling found out that savings mobilization was not an end in itself and it played an important role in sustaining growth and development. It used questionnaires and multiple linear regression model to test the relationship and assess impact of the independent variables on savings mobilization. Savings mobilization in Kenya was strongly influenced by training, investment opportunities and savings strategies. They concluded that trust was an important element in building customer relationship with honesty as a basic tenet. The study did not address trust as an important contributor to savings mobilization in Nyamira County.

A study by Hugo (2013) on housing in the Netherlands established that self-build housing inspired occupants of housing schemes to explore co-operatives as enablers for acquiring their own houses or managing their housing estates. The co-operative advantage was evident in the Netherlands where there was a strong appeal for the transfer of housing units from housing associations to small-scale housing co-operatives. Co-operative participation was important in rural financing and critical in the economic activities that took place in the countryside as people needed funds to initiate and sustain enterprises. Tenant control and Housing associations had a strong track record and were at their best when commercial market parties were absent while co-operative housing inspired a transition from housing associations to social organizations powered by occupants. However, the study did not include the aspect of trust as an important facet of housing ownership, development and management.

## Conceptualization

In the proposed study, the social capital theory and the collective action theory predict that trust when addressed will lead to collective action that will affect savings mobilization through co-operatives. The concept in this argument is that as people understand each other, they build trust, tend to work together more easily and take joint action which will improve their aspirations' positive outcome. It emerged out of the concept that trust had an influence over savings mobilization. The study hypothesis that savings mobilization through co-operatives was not influenced by trust in Nyamira County was explained by looking at indicators of trust and people as shown in figure 1.



**Figure 1: Operational Framework Structure**

The conceptual framework shows that people come together because they trusted each another to form a co-operative society. Through the co-operative, they mobilized resources, opened opportunities and provided services thereby generating wealth and creating employment. The result of that organisation was provision of opportunities and services which led to improved local and national economies.

## RESEARCH METHODOLOGY

In the research, descriptive methods were applied as the study was to determine the current status of the variables under study. Descriptive research was used when the researcher sought to answer questions concerning the current status of the subjects in the study (Mugenda & Mugenda, 2003). The study analyzed the influence of trust on savings mobilization in co-operatives. Respondents were selected using proportionate stratified sampling and systematic random sampling so as to cover the whole County. It took a random sample of 186 respondents from all the registered co-operatives in Nyamira County.

The research collected both qualitative and quantitative data to enhance the reliability and validity of the results with the unit of observation being the member of the co-operative society. The approach was dictated by the study objectives which required both types of data. According to Mugenda (2003) and Sekaran (2009), some objectives were better assessed using qualitative

data while others were better assessed using quantitative data. The qualitative data provided an in-depth explanation of the phenomena and variables under study. The quantitative data provided the objectivity inherent in numerical data, impact and spread (Bryman and Bell, 2014).

In the study, the target population was taken as the total savers from the 108 registered co-operative societies in Nyamira County. The total number of registered co-operative societies in the County was 40 marketing co-operatives, 41 SACCO's, 25 other co-operatives and 2 unions totaling 108 as shown in Table 1. The study sample of 220 members was randomly selected from the 108 co-operatives and was requested to fill questionnaires. The unit of analysis was taken as the members of the registered co-operative societies in Nyamira County.

**Table 1: Registered Co-operative Societies in Nyamira County by type and Sub-County**

Category	Population (No. of Registered co-ops)					Total
	Borabu	Nyamira South	Nyamira North	Masaba North	Manga	
Marketing co-operatives	10	10	3	12	5	40
SACCO societies	5	19	4	10	3	41
Other societies/unions	6	4	9	6	2	27
Total	21	33	16	28	10	108

*Source:* MITC Annual Report, 2015

Quantitative data was analyzed using descriptive statistics, correlation and regression analysis. Cronbach's alpha coefficient of correlation was used to test data reliability obtained through the Likert-type of questions on savings mobilization. Qualitative data was categorized into themes, guided by the study objective from which interpretation and conclusion was made.

The research took a sample from the target population of 220 members which was requested to fill questionnaires. From the three main activities, 87 members from marketing co-operatives were taken, 106 members from SACCO societies were taken and 27 from other co-operative societies were taken. Because of the large area covered by the population and the generality of the number of members who filled questionnaires, a sample of 220 members was considered adequate for the study as supported by Sekaran (2009) who contended that if the purpose of the study was to understand phenomena, a sample of 30 per cent of the population was almost always used. The degree of confidence associated with this estimate was pegged at 95 per cent, taking into account the sample size (Pervez & jell, 2002).

A questionnaire was used to collect data for the research. A pre-test study of 10 questionnaires was undertaken to test the accuracy and relevance of the data collected. Necessary adjustments were made to the questionnaire before it was administered. A self-administered questionnaire was applied to collect data. The data was collated using the Likert scale. The questionnaire

comprised an assessment of credit handling in co-operatives. The measurable parameters are shown in table 2.

**Table 2: Measurable parameters**

Variable	Measure
Trust	<ul style="list-style-type: none"><li>• The number of people attending general meetings</li><li>• Increase in membership in the co-operatives</li><li>• Amount saved by each member</li><li>• Length of membership in the co-operative</li><li>• The type of services received at the co-operative</li><li>• How members treat each other</li></ul>

*Source:* Researcher

The formula the researcher used for regression model was:

$$Y = \beta_0 + \beta_1 X + \mu$$

Where: Y= savings mobilization;  $\beta$  = Beta coefficient;  $\mu$  = disturbances, and X was the trust among members.

Analysis for the data from each block was done by regression analysis. Data collected was analyzed using quantitative and qualitative methods. Quantitative data was analyzed using descriptive statistics, measures of central tendency and inferential statistics, specifically correlation and regression analysis. Qualitative data was categorized into themes, guided by the study objective from which interpretation and conclusion was made. The analysis provided a prediction about the dependent savings mobilization based on its covariance with trust (Kothari, 2004). The STATA computer programme was used to analyze data (Saunders et al, 2003).

## **RESEARCH FINDINGS**

The analysis results showed the response rate was 186 of the 220 questionnaires that were distributed which was 84.5 per cent of the distributed questionnaires. The model summary showed the number of entries that were returned being properly filled and acceptable for analysis. The mean for trust was 41.33871 with a standard deviation of 5.888909. The study established that the probability of  $F^{Calculated}$  was greater than zero and the R-square ( $R^2$ ) was 0.3044 and  $R^2$  adjusted was 0.2890 which showed that there was no multi-collinearity problem in the model. The F-Statistic from the Statistical tables, the critical value of F (4, 181, 0.05) was given as 2.4215642 at 5 per cent significance level. The general conclusion from the model was that as trust increased among members, the level of savings correspondingly increased.

The research established that trust with the probability of six in every 1000 was significant meaning that the hypothesis that trust did not influence savings mobilization in Nyamira County had to be rejected. It, therefore, meant that trust influenced savings mobilization. The calculated



't'-value for trust was 2.97 which was greater than the critical t-value for a model with 1 degree of freedom and 185 variables while the critical value is 1.96. The study showed an intercept coefficient value,  $\alpha = 12.63804$  and the value for trust,  $\beta = 0.1987364$ . The findings showed that trust influenced about 40 per cent of savings in Nyamira.

A summary of rating under table 1 showed that trust as a reason for joining co-operatives had a positive influence of 78.17 per cent while respect to members at co-operatives had a high percentage of 87.7 per cent and commendable salutations contributed 81.18 per cent. It also showed that access to important services through co-operatives contributed 88.71 per cent with encouragement to work hard in other assignments giving 86.04 per cent and honesty among members accounting for 71.51 per cent. Similarly, honourable treatment given to members contributed 77.96 per cent with members' Personal Integrity accounting for 81.72 per cent while the trust given to elected leaders gave 82.26 per cent and clear communication had 76.34 per cent. The research established that 88.2 per cent of members joined co-operatives because of the trust they had in co-operatives, their leaders and relevance.

## **DISCUSSIONS**

The first and most important convergence point of working together is that members must trust one another and also trust the people they would entrust with their resources. They also need to know that their resources would be available whenever they needed them and to the full extent of the need.

The trust that members had in co-operatives encouraged them to recruit more people to join co-operatives thereby bringing along more savings. If trust were removed from the savings model in co-operatives, members would have no reason left for patronizing co-operatives. The absence of trust would remove the glue that kept members together so they will slowly withdraw their savings and the co-operative will cease to exist. The members had an obligation to support and patronize an organisation that they freely joined for their economic, social and cultural aspirations. That contentment enhanced members' determination to save using the co-operative. A people united for a common purpose will need respect and recognition during their participative contributions to the organization's well-being. That understanding strengthened the savings culture within the membership of the co-operative.

A co-operative is kept together by the way members view each other and the operations that enable members attain their aspirations. Mutuality was the glue that kept them together and motivated them to be honest (Davis & Donaldson, 1998). When members were not honest to one another, then the reason for staying together weakened leading to individualism. That created disrespect, wrangling within and campaigns for elective posts within the co-operative in order to protect sectional leanings and parochial members' interests. Due to the openness of members, members trust that whatever was agreed upon would be done at the appropriate time and in the way it was passed. That contributed to the mobilization of savings through the co-operative and

its utilization. Members felt that they are treated with dignity and respect at the co-operative which should be highly respected in a membership-based organization. The treatment will positively encourage them to channel their resources through the co-operative thereby confirming that trust contributed to savings mobilization

Good leaders made members build more trust that made them aggregate their savings through the co-operative. Decisions made by trusted leaders become easily acceptable by all members hence positively supporting savings mobilization. The clarity on communication makes way for rapid co-operative growth and high savings mobilization.

The research showed that members of co-operatives had an appreciable exposure in the formal school system and 80.1 per cent of the membership was married. The growth phenomenon showed that there was mutual trust among members from the time members were legally allowed to join co-operatives. It was established that members who engaged in other businesses brought in the income they realized from their businesses into co-operatives. Similarly, more than 71 per cent of the main sources of income for members of co-operatives was channeled through co-operatives. Members joined co-operatives so that they could be able to save and later access credit. Members' trust in co-operatives motivated the majority of members to channel their savings into co-operatives. The major need for members in the County was to market their farm produce and get an opportunity to save part of the earnings for re-investment. Members who earned from other sources other than through marketing were those whose involvement in the activities gave them an opportunity to access services that co-operatives offered.

The study showed that savings mobilization had an incremental trend which confirmed the expected performance of a community where trust was high. Tables 2 and 3 showed the average level of annual savings per a member in co-operatives in the County which proved their trust in the co-operative enterprise. The number of entrepreneurs in the County could be said to be increasing and having confidence in co-operatives when considering the sources of savings among members. The confidence members built in their co-operative enabled them to make savings' decisions showing that 86.6 per cent channeled their savings into co-operatives. Trust made members form co-operatives or join the existing ones, increased confidence and trust would bring in more savings into the co-operative. In that finding, co-operatives, being membership-owned organisations, thrive on the goodwill of members who participate in co-operative activities and patronize their services only if they get true value for their investment.

**Table 3: Rating of measures of trust on savings mobilization**

Measure of trust	Classification	Rating	Frequency	Per cent	Cumulative %	% Positive effect
1. Trust as a reason to join co-operatives	No response		3	1.61	1.61	
	Strongly disagree	1	5	2.69	4.30	
	disagree	2	3	1.61	5.91	78,17
	neutral	3	11	5.91	11.83	
	Agree	4	70	27.63	49.46	
2. Respect at co-operatives	Strongly agree	5	94	50.54	100	
	No response		1	0.54	0.54	
	Strongly disagree	1	5	2.7	3.2	
	disagree	2	6	3.2	6.4	87.7
	neutral	3	11	5.9	12.3	
3. Commendable salutations	Agree	4	71	38.0	50.3	
	Strongly agree	5	91	49.7	100.0	
	No response		2	1.08	1.08	
	Strongly disagree	1	3	1.61	2.69	
	disagree	2	9	4.84	7.53	81.18
4. Access to important services	neutral	3	21	11.29	18.82	
	Agree	4	91	48.92	67.74	
	Strongly agree	5	60	32.26	100.0	
	No response		0	0	0	
	Strongly disagree	1	0	0	0	
5. Encouragement to work hard in other assignments	disagree	2	7	3.76	3.76	88.71
	neutral	3	14	7.83	11.29	
	Agree	4	75	40.32	51.61	
	Strongly agree	5	90	48.39	100.0	
	No response		0	0	0	
	Strongly disagree	1	4	2.15	2.15	
	disagree	2	8	4.3	6.45	86.04
	neutral	3	14	7.53	13.98	
	Agree	4	78	41.95	55.91	
	Strongly agree	5	82	44.09	100.0	

6. Honesty among members	No response		3	1.61	1.61	71.51
	Strongly disagree	1	5	2.69	4.30	
	disagree	2	14	7.53	11.83	
	neutral	3	31	16.67	28.49	
	Agree	4	72	38.71	67.20	
7. Honourable treatment	Strongly agree	5	61	32.80	100.0	77.96
	No response		2	1.08	1.08	
	Strongly disagree	1	1	0.54	1.61	
	disagree	2	11	5.91	7.53	
	neutral	3	27	14.52	22.04	
8. Members have Personal Integrity	Agree	4	95	51.08	73.12	81.72
	Strongly agree	5	50	26.88	100.0	
	No response		1	0.54	0.54	
	Strongly disagree	1	2	1.08	1.61	
	disagree	2	9	4.84	6.45	
9. Elected leaders are trusted	neutral	3	22	11.83	18.28	82.26
	Agree	4	106	56.99	75.27	
	Strongly agree	5	46	24.73	100.0	
	No response		2	1.08	1.08	
	Strongly disagree	1	9	4.84	5.91	
10. Clear communication	disagree	2	4	2.15	8.06	76.34
	neutral	3	18	9.68	17.74	
	Agree	4	86	46.24	63.98	
	Strongly agree	5	67	36.02	100.0	
	No response		1	0.54	0.54	
	Strongly disagree	1	2	1.08	1.61	
	disagree	2	11	5.91	7.53	
	neutral	3	30	16.13	23.66	
	Agree	4	79	42.47	66.13	
	Strongly agree	5	63	33.87	100.0	

Source: Research findings, 2016

## CONCLUSIONS

The summary of findings of the research established that the people of Nyamira County were brought up in a setting that recognized that collective action made completion of any task easy and fast. In that set-up, they cultivated trust and worked in organized groups. Because of trust, co-operatives aggregated members' produce and delivered it to markets at low operational costs. The trust in co-operatives was an integral part of co-operative involvement which ensured a steady growth of co-operative activities; produce marketing and savings mobilization. Trust among members grew with age in both life and membership in a co-operative. While members had trust in their co-operatives because they treated them equally and fairly, the highest need for co-operative members in Nyamira County for which co-operatives were formed was to market their produce and save the surplus income. The trust and reciprocity within the membership made members join the savings and credit activity. Trust was a major factor in savings mobilization as co-operative members trusted their co-operatives to provide a ready market for their produce, cared for their merchandise, got the correct prices for their merchandise and the merchandise would be available whenever needed. Finally, it was established that trust significantly influenced savings mobilization in Nyamira County. The research showed how a simple econometric model could be used to explain on an important economic phenomenon like savings mobilization in Nyamira County and the whole country.

## RECOMMENDATIONS

From the study of social capital and savings mobilization in co-operatives in Nyamira County, it was recommended that since trust was a major input to savings mobilization as it made members to entrust their savings with elected leaders, any abuse of the trust by co-operative leaders and managers will have a ripple effect on savings mobilization in co-operatives and, therefore, should be avoided at all costs. Co-operative leaders will need a code of ethics and leadership guidelines in order to enhance the trust among members.

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