

FACTORS AFFECTING GENERATION OF CHARITABLE FUNDS BY LOTTERY ORGANIZATIONS: A CASE OF KENYA CHARITY SWEEPSTAKE

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ABSTRACT

The purpose of this study was to assess the factors affecting generation of charitable funds by the KCS. Specifically, the study assessed the effect of four key aspects namely: distribution and marketing channels; the existing legislative framework; competition from new entrants in the lottery business; and the cost and pricing structure of its tickets. The study used a descriptive research design in which the target population was all staff, ticketing agents, and the top management of KCS in Nairobi region. The study also covered key informants drawn from the Betting Control and Licensing Board, and the Office of Vice President & Ministry of Home Affairs. A census was conducted on the KCS staff category of the target respondents. Simple random sampling was then used to draw samples from authorized KCS ticket vendors. The study used a sample size of 20% of the 326 agents which is equivalent to 65 agents/vendors. Purposive sampling was used to sample key informants. Structured questionnaire were used to collect data from KCS staff and authorized ticket

vendors/agents. The study used interview guides to collect data from key informants. The data was analyzed using both qualitative and quantitative techniques. The study revealed that legislation such as the licensing fees and the percentage of the contribution affects the generation of charitable funds (mean score 1.93). The increasing number of new players in the lottery industry has brought with it intense competition according to 100% of respondents, which has resulted to decline in the generation of charitable funds. The study concludes that legislative frameworks, competition from new entrants affect the generation of charitable funds by lottery organization. The study also recommends that KCS increase its budgetary allocation for marketing of the KCS tickets. The study further recommends that the government make policies that will encourage the generation of charitable funds and not limit it.

Key Words: *generation, charitable funds, lottery organizations, Kenya Charity Sweepstake*

INTRODUCTION

A lottery is a form of gambling which involves the drawing of lots for a prize. Lotteries come in many forms. The prize can be a fixed amount of cash or goods. In this format there is risk to the organizer if insufficient tickets are sold. More commonly the prize fund will be a fixed percentage of the receipts. A popular form of this is the "50-50" draw where the organizers promise that the prize will be 50% of the revenue. Many recent lotteries allow purchasers to select the numbers on the lottery ticket resulting in the possibility of multiple winners (BellHouse, 1991).

The purchase of lottery tickets is, from the perspective of classical economics, irrational. However, in addition to the chance of winning, the ticket may enable some purchasers to

experience a thrill and to indulge in a fantasy of becoming wealthy. If the entertainment value (or other non-monetary value) obtained by playing is high enough for a given individual, then the purchase of a lottery ticket could represent a gain in overall utility. In such a case, the monetary loss would be outweighed by the non-monetary gain, thus making the purchase a rational decision for that individual.

The licensing and control of lotteries is governed by the Betting, Lotteries and Gaming Act, Cap.131 of the Laws of Kenya. The Act empowers the Betting Control and Licensing Board to impose such conditions as it may deem necessary to ensure that lotteries are promoted and conducted as efficiently as possible and in the interest of the purpose for which it was being promoted. Pursuant to this, the Board has come up with a number of requirements which all lottery operators must adhere to. They include submission of returns by all lottery operators. All lottery operators, including the Kenya Charity Sweepstake, are required to submit returns on a quarterly basis, showing details of the number of tickets printed, number of tickets sold, cost of each ticket to the public, amount of money collected, amount of money devoted to good causes, amount of money one ascribes, draws conducted, names of winners, names of beneficiaries and the amount received by each (BCLB, 2009).

In Kenya, the Kenya Charity Sweepstake (KCS) is the leading charitable organization in the country. It was inaugurated in 1966 under Trustees Act of the Laws of Kenya. Its underlying foundation WAS to raise funds in order to assist the government in the fight to overcome the three enemies of development namely poverty, illiteracy and disease. In his message to Kenyans on 4th November, 1966, President Mzee Jomo Kenyatta said: “The countrywide charity sweepstake will continuously function for the benefit of many charities in Kenya and contribute in no small way to schools, hospitals, dispensaries and other deserving causes. It is intended that the sweepstakes will shortly be holding a draw monthly. The Kenya Charity Sweepstake will be conducted in the true spirit of Harambee and self-help thus materially assisting the development of our country” (KCS, 2010).

A network of sales kiosks was established across the country selling the first (KCS) products which were traditional tickets for the weekly draw. These first tickets cost Kshs. 2/- and had top prizes of Kshs.50, 000/-. The sales network brought a further benefit to Kenya in the way of jobs both rural and urban centers. Ticket vendors run the business of selling the tickets for KCS. Many families over the four decades that KCS has spanned have sent their children to school with the income provided from the ticket sales business. Today, KCS has grown into network of over 2,000 ticket sellers across Kenya. Agents’ commission over last 10 years equates to Kshs.500 million. The organization raises funds through the sale of its various products which are sold countrywide by KCS agents, Posta outlets and major retailers countrywide among others (KCS, 2010).

PROBLEM STATEMENT

The KCS processes thousands of applications for assistance and chooses projects that are most deserving. Donations are made to charities that play a part in social development. In recent years, schools, hospitals, dispensaries, sports, children's homes and national disasters have received donations from the KCS. Over the past few years, the KCS have given over Kshs.600 million to charities across Kenya. These donations are used to provide basic essentials like school books, building classrooms, hospital wards and dormitories, chairs and tables, medicine equipment which enables the chosen beneficiary to function properly. A study done in the United State of America by Stone (2000) found that there was a decline in generation of charity funds by lottery organization. The following factors were listed by the study as the main causes of declining charitable funds generation. They included: competition among states, probability of winning, few large jackpots, prize payout and tax rate, price of ticket, age of a Lottery, economic conditions and advertising. The need to document the causes to the decline in revenues generated was the motivation behind the pursuit for this study. The purpose of this study was to assess the factors affecting generation of charitable funds by the Kenya Charity Sweepstake (KCS).

GENERAL OBJECTIVE

Generally the study sought to assess the factors affecting generation of charitable funds by the Kenya Charity Sweepstake (KCS).

SPECIFIC OBJECTIVES

1. To assess the effect of existing legislative framework on generation of charitable funds
2. To establish the effect of competition on generation of charitable funds

LITERATURE REVIEW

Competition

Competition refers to the process of active rivalry between the firms operating in a market, in this case as applied in the lottery industry, as they seek to win and return consumers' demand for their brands. Competition can take a number of forms (Lowe and Sanderson, 1994). Porter (1998) points out that competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Rothchild (1989) defines competition as a game where we have winners. They are referred to as winners because they know how they stand against the competition and have been able to identify, create and defend a competitive advantage. It had been the norm for KCS to dominate the industry in Kenya but that has changed the face of competition with the entrants of other competitors.

Competition is also referred to as an environment that generally consists of a large number of small and medium - sized firms, many of them privately owned. In this type of economic environment, as experienced currently in the lottery industry in Kenya, no firm has a significant market share, thus, no firm can dominate the industry. It is further argued that competition is what determines the thoroughness. Competition has revolutionized business thinking in the sense that its nature has also changed because the forces of deregulation and new technologies have restructured industries in recent years (Fitzsimmons et al., 1994).

When a brand faces aggressive competition in marketplace, brand personality and reputation of the brand help it distinguish from competing offerings. This can result in gaining customer loyalty and achieve growth. A strong brand identity that is well understood and experienced by the customers helps in developing trust which, in turn, results in differentiating the brand from competition. A company needs to establish a clear and consistent brand identity by linking brand attributes with the way they are communicated which can be easily understood by the customers (Ghodeswar, 2008). KCS has been a household brand in Kenya since 1966, until the year 2000 when the Government started licensing additional players in the lottery business.

Porter (1980) argues that firms use three competitive strategies for above average performance. These generic strategies include cost leadership, product differentiation and focus (or niche). Cost leadership refers to the lowest operating cost per unit of output within an industry. Product differentiation refers to the perception by customers of unique and desirable features in products. The focus strategy is an attempt to tailor the firm's products and services to a narrow target group, segment, or market niche. Such a strategy pays strict attention to the needs of the target segment and uses either cost leadership or product differentiation within that segment. Several researchers have found empirical support for Porter's typology and its core constructs seem robust. Mintzberg (1988) proposes an alternative typology that desegregates the product differentiation strategy into differentiation through Quality, Image, Design, Price, Support, and Undifferentiated. Mintzberg's typology does not include Focus because he argues that the focus strategy addresses the scope of the market domain, while Porter's other strategies reflect how a firm competes within its chosen domain.

Many differentiation bases exist, and classified into four major groups (Wiseman, 1988). These include: product (quality, features, options, style, brand name, packaging, sizes, services, warranties, returns); price (list, discounts, allowances, payment period, credit terms); place (channels, coverage, locations, inventory, transport); and promotion (advertising, personal selling, sales promotion, publicity). Various approaches can be used to support or sharpen the firm's product through these various attributes. Of especial importance is 'product differentiation'. This is the degree to which buyers perceive products from alternative suppliers to be different, or as it is expressed by economic theory, the degree to which buyers perceives imperfections in product substitutability. The buyers of differentiated products may have to pay a price when satisfying their preference for something special, in return for greater added-value.

The connection between the producer and buyers may be reinforced, at least to the level of customer loyalty, and perhaps to the point of establishing a partnership between them. Such a relationship imposes 'switching costs' on the buyer, because its internal processes become adapted to the beneficial peculiarities of the particular factor of production, and use of an alternative would force internal changes. Hence product differentiation serves as an entry barrier. In addition, a continuous process of product differentiation may produce an additional cost advantage over competitors and potential entrants, through intellectual property protections, such as patents, and the cost of imitations.

Legislative Framework

Lottery business in Kenya is regulated by the Betting, Lotteries and Gaming Act (Cap. 131) of the laws of Kenya. The Act stipulates establishment of a board, to be known as the Betting Control and Licensing Board (BCLB). Under Section 36 of the Act, (1) The Board may issue a permit authorizing the promotion and conduct of a lottery (not being a lottery promoted and conducted under section 40, section 41 or section 42): which is intended to raise funds for social service, public welfare, relief of distress or patriotic purposes or to provide recreational or sporting facilities; and at least twenty-five per centum of the gross proceeds of which is to be devoted to the object for which the lottery is promoted: Provided that the Board may require as a condition that a specified proportion of greater than twenty-five per centum of the proceeds be devoted to the object for which the lottery is promoted, but in no case shall the Board require a proportion greater than forty-five per centum of the gross proceeds.

The Act further continues to state that where in the case of a lottery authorized under this section less than twenty-five per centum, or less than the proportion provided by the Board under its guidelines, of the gross proceeds of the lottery is devoted to the object for which the lottery is promoted or any of the proceeds are devoted to a purpose other than expenses and prizes, then each promoter of the lottery is guilty of an offence and liable to a fine not exceeding five thousand shillings or to imprisonment for a term not exceeding six months or to both. This shows that the law has a bearing on how the lotteries spend the funds they generate.

Section 37 of the Betting, Lotteries and Gaming Act – Cap 131 Laws of Kenya empowers the BCLB to control the operations of public lotteries. This includes: imposing such conditions as it may deem necessary in order to ensure that the lottery concerned is promoted and conducted as efficiently as possible in the interests of the purpose for which it is being promoted and of the public in general; take such steps as it may deem necessary in order to ensure that any conditions imposed have been or are being complied with; and guide and co-ordinate the proper and equitable distribution of the charitable funds of a lottery authorized by it. The Act further empowers and authorizes the Board, in respect of a lottery authorized by it, to impose conditions such as providing for the amount of at least twenty per centum of the gross proceeds of the lottery, which the promoters thereof may deduct from the proceeds in respect of operating expenses; providing for the protection of purchasers of tickets or chances in the lottery against

fraud; and restricting the amount of the proceeds of the lottery which may be used for the purposes of the lottery outside Kenya, which amount shall not exceed twenty per centum of the total amount devoted to the object for which the lottery is promoted. For the purposes of subsection (2) of Section 37 of the Act, fees paid in respect of the authorization of a lottery are deemed to be part of the operating expenses.

Section 25 of the Act prohibits betting and lottery licensees against unauthorized advertising. Specifically, the section states that a person who, in connection with any licensed betting premises, licensed bookmaking or licensed pool betting scheme, without the approval of the Board: holds himself out by advertisement or notice or public placard as willing to bet with members of the public; or displays any written or printed placard or notice relating to betting in any shape or form, so as to be visible in a public street or place; or prints or publishes, or causes to be printed or published, any advertisement or other notice, shall be guilty of an offence and liable to a fine not exceeding three thousand shillings or to imprisonment for a term not exceeding three months or to both; but nothing in this section shall prohibit the printing, reproduction and publication of circulars giving information relating to betting on an intended event in Kenya or elsewhere, if the circulars are issued by a person granted a licence under this Part. This Section leaves the lottery firms with very few advertising options to choose from.

RESEARCH METHODOLOGY

Research Design

Descriptive research design determines and reports the way things are (Gay, 1981). This approach was appropriate to this study because the study involved fact finding and enquiries of different kind from the KCS staff, agents and stakeholders in the lottery industry. To effectively achieve this objective, the study used both quantitative and qualitative approaches.

Target Population

The target population of the study comprised of all staff, ticketing agents, and the top management of KCS in Nairobi region. The Nairobi region included the city of Nairobi (Nairobi central), Athi-River municipality, Ngong municipality, Kajiado Municipality, Thika municipality, Kikuyu municipality, Limuru municipality, Kiambu municipality and Ruiru municipality. The study also covered key informants drawn from the Betting Control and Licensing Board, and the Office of Vice President & Ministry of Home Affairs.

Sampling Design and Sample Size

First, a census was conducted on the KCS staff' category of the target respondents. A census was considered appropriate for this category so that the total sample was representative and that the data collected was well analyzed. Secondly, the sample comprised of the authorized KCS ticket vendors drawn through simple random sampling. To enhance effectiveness of the study in the

light of a population of 326 agents, the researcher is proposing to use a sample size of 20 % of the population, which converts to 65 agents/vendors. This large sample size helped in minimizing sampling errors. Finally, purposive sampling was applied in selection of key informants. Table 1 below provides a summary of the sampling matrix for the study. A total of 129 respondents were targeted for the study.

Table 1: The Sampling Matrix

Category	Total Number	Target proportion	Sample size
KCS Staff	56	100%	56
KCS Authorized Ticket Sale Agents/ vendors	326	20%	65
BCLB Inspectors and OVP&MoHA informants	23	-	8
Total	405		129

Data Collection instruments

Structured questionnaire was used to collect data from KCS staff and authorized ticket vendors/agents. It is cost effective and save time at the analysis stage considering the strict timeline that was assigned to the researcher. Questions were therefore standardized to ensure all respondents replied to the same questions and the response to each question was by ticking or writing a brief statement on the questionnaire. This enhanced control towards getting specific responses relevant to the study. In addition an interview guide was prepared to collect data from key informants drawn from the BCLB inspectors and OVP&MoHA select informants.

Data Collection Procedures

A research permit was first obtained from the Ministry of Education, Science and Technology, through the help of the University administration. After the University supervisor had validated the research instruments, the questionnaires was administered to the respondents during official working hours. Brief follow-up interviews was also held with the respondents in order to elicit more information or clarifications on data submitted in the questionnaire. To ensure high response rates, the researcher allocated the respondents adequate time to understand and fill the questionnaires.

Validity of Data and Reliability of instruments

The university supervisors were the select experts for purposes of validation. This process assisted in illuminating any potential problems of the research instrument and provided a basis for design or structural changes. This was done to test the validity and workability of the instrument.

To measure the reliability, the Cronbach Alpha technique was employed. The questionnaire was divided into two parts using the even and odd numbers. Cronbach Alpha is a model of internal consistency, based on the average inter-item correlation. A large value of alpha (preferably greater than 0.5) indicates high level of consistence of the instruments in measuring the variables. The alpha was computed using Statistical Package for Social Sciences (SPSS) and reported alongside the major findings of the study.

Data Analysis Procedure

The data was coded and captured into a spreadsheet-based template and analyzed using SPSS (Statistical Package for Social Sciences). Data cleaning was performed to rid the data of inconsistent responses as well as identify the extent of missing responses across various items. The data was analyzed using qualitative and quantitative techniques. Quantitative analysis involved generating descriptive statistics and percentages. Qualitative analysis involved categorizing and indexing of open-ended responses and other field notes into common themes, a technique known as content analysis. In addition, to further determine the relationship between factors affecting generation of charitable funds (Independent) and the generation of charitable funds (dependent) the study regressed the variables using Ordinary Least Square (OLS).

OLS regression model

$$\text{Generation of funds} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + e_i$$

Where:

Generation of funds	-	Is the dependent variable
β_0	-	Is the constant
X1	-	Legislative framework
X2	-	Competition

RESEARCH RESULTS

Effects of Legislative Frameworks on Generation of Charitable Funds

The study established that KCS agents like any other business have to comply with the laws according to 98% of the vendor respondents. The City Council of Nairobi have to be consulted on the location of the kiosks. The city bylaws also require that vendors get a business permit from the council at a fee to operate a business. These legislation according to 93% of the respondents affect the ways in which lottery organizations generate funds. This is because the fees which the lottery organizations are charged for registration is described as high by respondents. Respondents equally indicated that the law controlled everything the lottery organizations did. The study found that the amount demanded by law as a contribution towards charitable funds was felt to be high by KCS officials. When ranking factors that affect the

generation of charitable funds, legislation did not appear prominently as it trailed location of ticket sales outlets, marketing approaches, competition and administrative maintenance.

Effects of Competition on Generation of Charitable Funds

The entry of new players into the lottery market such as Toto 6/49 impacted negatively on the revenue generation by KCS by cutting market share hence reducing the amount of funds generated. The licensing of new players intensified the competition in the industry and has resulted into increase budget for publicity by the KCS which means that more of the amount that is generated is increasingly going to other expenses such as advertising which reduces the amount of the generated funds. The ministry officials argued that the competition is good and that though it leads to reduction of funds generated by a particular charitable organization, it widens the market hence resulting into generation of more funds for charity. Competition according to the ministry officials, ensure that the service delivery is efficient.

REGRESSION ANALYSIS

In this section the study presents the OLS regression results. OLS regression was done to determine the relationship between the factors affecting generation of charitable funds i.e. distribution and marketing channels, legislative framework, competition from new entrants and pricing of products, and the generation of charitable funds. The model is represented by:

$$\text{Generation of funds} = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e_i$$

Where:

Generation of funds	-	Is the dependent variable
β_0	-	Is the constant
X1	-	Legislative framework
X2	-	Competition
e_i	-	Is the residual error
β_1, β_2	-	Coefficients

Table 2: Model Summary – Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.818	.669	.565	0.577

Predictors: (Constant), legislative framework, competition from new players

The results of the study indicate that the value of R squared is 0.669. This implies that independent variables investigated (legislative framework, competition from new players) explain 66.9% of the dependent variable (generation of charitable funds). The regression equation appears useful for making predictions since the value of r² explains a significant portion (66.9%) of charitable funds generation.

Table 3: ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.2	6	2.7	6.40	8.05E-04
	Residual	8.00	19	.42		
	Total	24.2	25			

a Predictors: (Constant), legislative framework, competition from new players

b Dependent Variable: Generation of charitable funds gradually decreasing

Table 4: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
(Constant)	1.169	.274			4.265	.000
Existing Legislation	-.051	.114	-.398		-.448	.009
Competition from new players	-.002	.076	-.018		-.030	.007

a Dependent Variable: Generation of charitable funds gradually decreasing

The study results show that with all the p-values less than 0.05 implying that the test is statistically significant. The study results also show that beta coefficients of existing legislation and competition from new players were negative. This is an indication that although these factors influence generation of charitable funds, the relationship is negative. The regression equation can be represented as:

$$\text{Generation of Charitable funds} = 1.169 - 0.051X_2 - 0.002X_3$$

CONCLUSIONS

The study established that there was a decline in the charitable funds generated in the past few years which was attributed to competition in the industry. The location of vending outlets, and its location along a busy town street together with the surrounding environment would attract customers to buy tickets. Legislative frameworks affected the generation of funds as the study established that the vendors like other businesses are required to obtain a business permit to operate. The law requires that the lottery organizations surrender a certain percentage to charities. The competition in the lottery industry has been fueled by the entry of new players such as Toto 6/49 and promotions such as ‘Shinda Smart’. These have resulted into reduction of charitable funds generated by KCS as its market share has been reduced.

RECOMMENDATIONS

The study revealed that the legislation such as the licensing fees and the percentage of the contribution affects the generation of charitable funds. The study therefore recommends that the government make policies that will encourage the generation of charitable funds and not limit it.

The increasing number of new players in the lottery industry has brought with it intense competition which has resulted to decline in the generation of charitable funds. The study recommends that the government controls the number of lottery firms in the country.

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