

INSTITUTIONAL DETERMINANTS OF CHARITABLE FUNDS GENERATION 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 established that distribution and marketing channels affect the generation of charitable funds (mean score, 1.73). The study established that according to 75% respondents, pricing structure of KCS tickets influenced the consumers purchase decision. The study concludes that distribution and marketing channels and product pricing affect the generation of charitable funds by lottery organization. The study recommends that KCS management ensure that the ticket vending outlets are located in areas such as next to public meeting points and along busy town streets. The study also recommends that the government controls the number of lottery firms in the country.

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

INTRODUCTION

A lottery is a form of gambling which involves the drawing of lots for a prize. Some governments outlaw it, while others endorse it to the extent of organizing a privately run national or state lottery. It is common to find some degree of regulation of lottery by governments. At the beginning of the 20th century, most forms of gambling, including lotteries and sweepstakes, were illegal in many countries, including the U.S.A. and most of Europe. This remained so until after World War II. In the 1960s casinos and lotteries began to appear throughout the world as a means to raise revenue in addition to taxes (Shelley, 1986).

As an organization whose modus is to fund good causes, a lottery operation needs to maintain and enhance the safeguards and the tools necessary to preserve the public trust. Regulators must have complete assurance that a lottery organization is operating in compliance with the law. Stakeholders demand more accountability and assurance that their trust and resources are well-

protected (World Lottery Association, 2009). In Kenya, lotteries are controlled and regulated by the Betting Control and Licensing Board (BCLB).

Kenya Charity Sweepstake is committed to maximizing returns to good causes by operating in a responsible manner. The success for the organization in raising more than Kshs. 600 million for charitable funds over the past 10 years has been achieved through ongoing innovation and evolution but, crucially, without ever losing sight of wider commitments and responsibilities (KCS, 2010). Social responsibility and transparency are fundamental to the way in which KCS operates in determination to meet expectations of stakeholders.

The Kenya Charity Sweepstake has a wide range of instant scratch and win tickets that cater for all age groups and are easy to play. The recently introduced Kshs. 100/= ticket known as “Mchezaji” Millionaire is one of the tickets that gives the player a second chance to win. Only non-winning tickets are eligible to enter for the second chance draw. Other scratch tickets include: New Happy Sweeps (Kshs. 20/=); Shooting Star (Kshs. 40/=); Wingo (Kshs. 50/=); Jackpot (Kshs. 50/=); and Millenium (Kshs. 200/=).

PROBLEM STATEMENT

In the recent past, there has been a decline in the performance of charitable funds in Kenya. The findings derived from the returns filed by KCS in the past few years have shown that the gross amounts of funds generated by KCS have been steadily declining according to BCLB (2009). Accordingly, the available statistics indicated that the amounts generated between 2006 and 2009 were as follows: Year 2006, Kshs. 234,948,310; year 2007, Kshs. 169,927,000; year 2008, Kshs. 148,105,000; year 2009, Kshs. 130,594,000. This represents a decline of 44.4% in revenues generated in a period of four years. While the causes of decline in the generation of funds in America could be similar to those in America, Kenya being a developing country, the setup in America are different from those in Kenya and therefore a sharp decline noted above indicates the need to remedy the situation in order to make the supply of funds to such charitable causes sustainable.

GENERAL OBJECTIVE

The study sought to assess the institutional determinants of charitable funds by the Kenya Charity Sweepstake (KCS).

SPECIFIC OBJECTIVES

1. Analyze the effect of distribution and marketing channels on generation of charitable funds
2. Determine the effect of pricing of products on generation of charitable funds by KCS

LITERATURE REVIEW

Distribution and Marketing Channels

Product availability influences the consumption of any product or service and hence the need for a lot of focus on the distribution process. Kotler (2003) stated that the value chain presents an opportunity for a company to build its competitive advantage over rivals. Physical location of distribution channels has now evolved into the broader concept of Supply Chain Management (Kotler, 2003). In this regard distribution begins before the physical distribution of products and starts with the procurement of raw material components, conversion of the raw materials into the finished products, and the transportation of the finished products to their final destination.

Taking the supply chain concept then, supplier relationships and that of distributors are also to be taken into consideration and in determining the organizations distribution/logistics strategies four factors are to be considered according to Kotler (2003). They include first, deciding on the company's value proposition to its customers. (The on-time delivery standards to be offered and the levels to attain in ordering and billing accuracy). Secondly, to decide on the best channel design and network strategy for reaching the customers. Thirdly, to develop operational excellence in sales forecasting, warehouse management, transportation management, and materials management. Finally, to implement the solution with the best information systems, equipment, policies, and procedures (Kotler, 2003).

Apart from the important factors affecting location decisions, Stonebraker and Leong (1994) stress that the decision to locate a facility should be consistent with the long-term strategic direction of the company. These researchers further indicate that the objectives in location decisions should be to provide a firm with a competitive advantage obtained by virtue of location, as also pointed out by Porter (1990). Ghosh and Craig (1986) also support this premise that a good location strategy should give a firm strategic advantage that competitors may find difficult to emulate. Similarly, Blair and Premus (1987) argue that location decisions should be part of a larger corporate planning process.

A location is considered as the point of contact where customers access the desired good and services based on this argument researchers have developed store choice models which assume that consumer utility for a given retailer decreases as the distance to the retailer increased, thus reducing the likelihood that the store will be chosen (Stanley and Sewall, 1976). Location has also been said to be most relevant to service firms that require that customer to travel to the service organization (Lovell, 1983) and less relevant to services in which the service provider or organization has to travel to the customer e.g. mail delivery. In this KCS ticket sale agents ought to be located in locations that would minimize customer travel and at the same time in locations which would attract the largest number of customers. For example, within the central business areas of the major towns and cities and along the busiest streets.

Consumers generally must select outlets as well as products. There are three general ways these decisions can be made: (1) simultaneously; (2) item first, outlet second; or (3) outlet first, item second. Both the manufacturer and the retailer must be aware of the decision sequence used by their target market, as it will have a major impact on their marketing strategy. Internet retailing and other forms of in-home retailing including catalogs are increasingly important retail outlets. While store-based retailing continues to dominate in terms of overall sales, consumers increasingly use in-home options such as the Internet and catalogs in combination with retail stores in what is known as multi-channel shopping. Retailers often operate in various formats (catalog, retail store, and Internet) to leverage the benefits that consumers derive from each (Blair and Premus, 1987).

The decision process used by consumers to select a retail outlet is the same as the process described for selecting a brand. The only difference is in the nature of the evaluative criteria used. Retail outlet image is an important evaluative criterion. Store-based image and online retailer image are both important, although the dimensions consumers use to judge them vary. Store brands can both capitalize on a store's image and enhance, or detract from it. Outlet location and size are important with closer and larger outlets generally being preferred over more distant and smaller ones. Consumer characteristics such as perceived risk and shopping orientation are also important determinants of outlet choice (Johar and Sirgy, 1991).

While in a retail outlet, consumers often purchase a brand or product that differs from their plans before entering. Such purchases are referred to as unplanned purchases. Most of these decisions are the result of additional information processing induced by in-store or online stimuli. However, some are impulse purchases made with little or no deliberation in response to a sudden, powerful urge to buy or consume the product. Such variables as point-of-purchase displays, price reductions, outlet atmosphere, Website design, sales personnel, and brand or product stock outs can have a major impact on sales patterns. Once the outlet and brand have been selected, the consumer must acquire the rights to the item. This often involves credit, (Alderson, 2005).

Cost and Pricing Structure of Products

According to Kotler (2003), price is the exchange value of good/service in terms of money. It is one of the marketing-mix elements used to adjust-product features, channels and promotion. Besides, Price communicates to the market. A firm must set a price for its product so that a firm can earn a profit. The factors influencing the setting of a price include Economic factors; Social factors; Political factors; Cost factors; Firms objectives; and Level of Competition (Kotler, 2003).

Price decision is handled in a variety of ways in different companies. In small companies, the top management sets price. In big companies, the pricing is handled by divisional and product line managers while the top managers set general guidelines for the products price (Melville, et al,

2004). The prices for lottery tickets sold by KCS are determined largely by internal factors of production as well as the expected revenues to be generated from a particular batch.

Consumers today are faced with a wide range of product and brand choices all with differing prices. According to Kotler, (2003) consumers will buy the brand or product, which the customer perceives as offering the most value. Customers are value maximizers, within the bounds of search costs and limited knowledge, mobility and income. They form an expectation of value and act on it. Whether or not the offer lives up to the value expectation affects both satisfaction and repurchase probability. Taking this context price is then seen as a determinant to the purchasing decision with regard to brand choice as the price charged should be reflective of the value offering to the consumer. The minimum denomination of lottery tickets sold by KCS is Kshs. 20/= and the maximum is Kshs. 200/= . Stocks of tickets are printed in volumes and attract huge production cost and taxes that tie up substantial capital given the need to stock various denominations. This does not allow future flexibility in prices that may be necessary as a result of unforeseeable factors. Consumers would opt to choose tickets that they perceive to give them value for money and also based on the number of chances they have to win from a given combination chosen.

In making pricing decisions based on a brand a firm should not only be driven by costs and profit requirements but should consider the overall business strategy and business model and in this regard part of the pricing decision should include choices of the kind of customers the brand is targeting and how the brand will position itself. The price of a product or brand is reflective of the firm's anticipated value positioning of its product or brand and therefore it is crucial that when organizations set their prices they properly set taking into consideration their marketing objectives. There are different price points for a brand or product depending at which stage of the product is at such that a product on introduction should have a price set for introduction or if it is a regular product being introduced into a new geographical area. However, a firm can have different brands for different price points (Kotler, 2003).

Prices alone will not create a sustaining brand relationship between consumers and the brand and hence price needs to be taken into consideration with other elements of the marketing mix. According to Clifton (2003), products alone can't support a passionate brand relationship, nor will low prices, great advertising, stunning packaging, or a superb location. They must all work together, since it is the total brand experience, and not just one isolated element, that determine the health of a brand marriage. In conclusion prices placed on brands should be those that match the value delivered and as that which offers the value as perceived by the consumer such that if a firm's price on its brand is lower than that of its perceived value then it will not maximize its potential with regard to profits and on the other hand if the price is overvalued the company may end up not selling its products and consequently may find itself making losses.

A considerable number of authors have suggested the importance of pricing for every firm's profitability and long-term survival. For instance, Nagle and Holden (1995) argued that if effective product development, promotion and distribution sow the seeds of business success, effective pricing is the harvest. Although effective pricing can never compensate for poor execution of the first three elements, ineffective pricing can surely prevent those efforts from resulting in financial success. Similarly, Finch et al. (1998), Potter (2000) and O'Connor (2003) have pointed out that pricing is the only element of the marketing mix that generates revenues for the firm, while all the others are associated with costs. Moreover, Urbany (2001) has suggested that it is also the most flexible element in that pricing decisions can be implemented relatively quickly and at a low cost a price cut.

Appropriate cost and pricing strategies enhances competitiveness of firms through acquisition of greater profit margins against a low production cost budget. If the pricing measures applied are competitive, the customers will be attracted to the products and services on offer (Taylor and Bearden, 2002). The prices offered for various goods and services should be commensurate to the expectations of the consumers (Streifield, 2001). Later, Alderson (2005) argued that firms should strive for unique characteristics in order to distinguish themselves from competitors in the eyes of the consumer. He stated that differential advantage might be achieved through lowering prices, selective advertising appeals, and/or product improvements and innovations. While these concepts lay the core foundation for firms in moving toward a sustainable competitive advantage, firms must be more innovative and entrepreneurial in their strategy planning than just lowering prices or improving existing products.

RESEARCH METHODOLOGY

Research Design

In assessing the factors affecting generation of charitable funds by KCS, the study used a descriptive 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. The use of the two approaches combined reinforces each other (Kiggundu et al., 1993).

Target Population

Mugenda and Mugenda (2003) defined target population as the set of individuals, cases or objects with some common observable characteristics, which a researcher wants to generalize the results of the study. 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. This technique was considered appropriate because the vendors are scattered across the study areas and hence there would be need to avoid biasness in selection (Kothari, 2003). Guy (1987) points out that samples of descriptive study are considered adequate within ten (10%) of the target population while Cooper & Schindler (2001) recommends a sample size of 30%. 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. In purposive sampling, the researcher only targets those individuals who satisfy the set criterion (Kothari, 2003). In this case, the purpose or criterion is to select respondents involved in key decision making at KCS and Officers in-charge of lottery industry oversight at BCLB and the parent Ministry of VP&HA. A total of 129 respondents was targeted for the study.

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. According to Borg and Gall (1997), a structured questionnaire refers to questions which are accompanied by a list of possible alternatives from which respondents select the answer that best describes their situation. This tool was appropriate to the study because of the nature of information was sourced from the target respondents. 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

A research instrument is said to be valid if it measures what it is supposed to measure. The draft questionnaires were given to two selected persons knowledgeable in research to ascertain the items suitability in obtaining information according to research objectives of the study. 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.

Reliability of measurements concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials. The researcher pre-tested each of the questionnaires to the pilot sample. These respondents were not used in the main study. Pre-testing was conducted to check the questionnaires structure and the sequence, meaning and ambiguity of questions. This was conducted with respondents that was drawn from outside the Nairobi region since they were regarded to have similar characteristics as those of the study's target and are outside the geographical scope of the study. In addition, officers from other competing lottery organizations were also approached for purposes of piloting the key informants' interview guides. After the pre-test exercise, the piloted questionnaires were scored manually. Thereafter, reliability scores was computed using Statistical Package for Social Sciences (SPSS).

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
- X_1 - Distribution and marketing channels
- X_2 - Pricing of products
- e_i - Is the residual error

RESEARCH RESULTS

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
- X_1 - Distribution and marketing channels
- X_2 - Pricing of products
- e_i - Is the residual error
- β_1, β_2 - Coefficients

Table 1: 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), Distribution channels, pricing of product

The results of the study indicate that the value of R squared is 0.669. This implies that independent variables investigated (distribution and marketing channels and pricing of products) explain 66.9% of the dependent variable (generation of charitable funds). The regression equation appears useful for making predictions since the value of r^2 explains a significant portion (66.9%) of charitable funds generation.

Table 2: 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), Distribution channels, pricing of products

b Dependent Variable: Generation of charitable funds gradually decreasing

Table 3: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.169	.274		4.265	.000
Distribution and Marketing Channels	.142	.268	.142	.529	.003
Pricing structure	.033	.076	.239	.430	.002

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 equally show that F statistics is significant (p value < 5). The results of the regression analysis show that variable such as distribution and marketing channels and pricing of products have a positive relationship with the generation of charitable funds by lottery organizations. This indicates that these factors positively influence generation of charitable funds.

The regression equation can be represented as:

$$\text{Generation of Charitable funds} = 1.169 + 0.142X_{1a} + 0.033X_4$$

Effects of Distribution and Marketing Channels on Generation of Charitable Funds

There was a decline in the number of tickets sold from the outlets for the past few years according to 85% of the vendor respondents. This was also confirmed by 93% KCS staff respondents who indicated that they were aware of the gradual decline of the charitable funds generated over the past few years. The decline in the generation of funds was attributed to the increased competition in the industry especially by the new entrants such as Toto 6/49 and many other promotions such as the ‘Shinda Smart’ which have brought competition in the lottery industry. The findings are in agreement with the BCLB (2009) report which pointed there was a decline in the revenue in the periods between 2006 – 2009 which represented a 44% decline in revenue generated in a period of 4 years.

The study established that the location of a vending outlet next to a public meeting point would attract more customers according to 20% of the respondents. The study equally found out that the

appearance of the surrounding environment and location of the vending outlet along a busy town street would attract more customers to buy tickets according to 14% of the vending agents. Major outlets were described as very effective by respondents (mean score 1.83). Considered to be fairly effective distribution channel by respondents was post offices (mean score, 2.33). Petrol stations were considered least effective distribution channels for KCS tickets by respondents. The results confirm Ghosh and Craig (1986) who stated that location of business is very important as location strategy was a competitive advantage.

The study established that television advertisements and shows and corporate image of KCS were very effective marketing approaches that KCS used in marketing KCS tickets. Other approaches of marketing considered as very effective by respondents include personal selling by agents (mean score, 1.73), the internal marketing by staff and CSR activities (mean score 1.33). Other approaches considered as effective by respondents but not very effective in marketing KCS tickets include radio advertisement (mean score 2.13) and corporate branding (mean score 2.08). The results confirm Ghosh and Craig (1986) who stated that location of business is very important as location strategy was a competitive advantage. The study results also support Lovelock (1983) opinion that service firms require customers to travel to the service organization and therefore a location where accessibility was easy would mean more customers.

The distribution and marketing channels affect the amount of charitable funds generated according to 87% of the respondents. The BCLB and the ministry officials explained that the effective distribution and marketing channels would ensure more outlets and hence increase volumes of sales of tickets hence more charitable funds is generated. Effective distribution would lead to reaching a wider population through distribution, public awareness and enhanced participation by the larger publics leading to more funds for the charity. The study results also support Lovelock (1983) opinion that service firms require customers to travel to the service organization and therefore a location where accessibility was easy would mean more customers.

Effects of Pricing of Products on Generation of Charitable Funds by KCS

The pricing structure of KCS tickets to a large extent influence the consumer purchase decision according to 75% of the respondents, as the customers are able to buy according to their ability. The differentiation of the tickets in terms of amount attracts all the people who may want to buy the tickets as they will get the tickets that fit their pockets. As a result, more and more customers would buy tickets thereby generating more funds for the charity. The findings are in agreement with Kotler (2003) who argued that consumers will buy the brand or products, which the customer perceived as offering the most value. This also concurs with Nagle and Holden (1995), Potter (2000) and O'Connor (2003) who pointed out that effective pricing generates revenue more for an organization.

CONCLUSIONS

The study concluded that marketing approaches such as television adverts and corporate image of KCS were indicated as very effective. Thus distribution and marketing channels affect the amount of charitable funds generated as effective distribution and marketing would ensure more outlets and increased public awareness. This will increase volumes of sales of tickets leading to more charitable funds generated.

The study concluded that the pricing structure of KCS tickets to a large extent influence the consumer purchase decision, as the customers are able to buy according to their ability. The differentiation of the tickets in terms of amount attracts all the people who may want to buy the tickets as they will get the tickets that fit their pockets. As a result, more and more customers would buy tickets thereby generating more funds for the charity.

RECOMMENDATIONS

The study established that distribution and marketing channels affect the generation of charitable funds, the study therefore recommends that the KCS management should ensure that the ticket vending outlets are located in areas such as those next to public meeting points and along busy town streets. The study similarly recommends that KCS increase its budgetary allocation for marketing of the KCS tickets.

The study established that pricing structure of KCS tickets influenced the consumers purchase decision. The study therefore recommends that KCS to price its products to attract more consumers who may not be able to buy the current denomination of tickets.

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