

# Influence of Umurenge Saccos Services on the Growth of Family Business in Rwanda - A Case Study of Umurenge Sacco Kimironko

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**Abstract:** *Umurenge SACCOs remain competitive in the interests they charge their membership in respect of loans and other credit facilities advanced, compared to interest rates charged by banking institutions. Umurenge SACCOs services in the small business sector have long attracted the attention of researchers. Family business failure, among other reasons, can also be attributed to, apart from lack of succession planning, failure in carrying out financial management practices in running their businesses. The general objective of this research was to determine the influence of Umurenge Saccos services on the growth of family businesses in Rwanda. This study adopted a descriptive research design. The target population of this study consisted of all the 752 family businesses in Rwanda registered at Kimironko Umurenge Saccos. A sample size of 262 respondents was determined from a total population of 150 individuals using the formula by Yamane. Financial literacy ( $r=0.896$ ,  $p=.000$ ); financing ( $r=0.693$ ,  $p=.002$ ); cash management ( $r=0.761$ ,  $p=.000$ ) and allocation of financial resources ( $r=0.532$ ,  $p=.002$ ). This depicts that Umurenge Sacco services positively influence growth of family business. From the model summary the  $R^2$  was 0.764 indicating that a combination of financial literacy, financing, cash management and allocation of financial resources explained 76.4% of the variation in the growth of family business in Rwanda. The conclusions were based on the objectives of the study that is the influence of Umurenge Saccos services on the growth of family businesses in Rwanda. It can be concluded that financial literacy measures (financial-economic knowledge and access to financial information) had significant and positive influence on the growth (in revenues and change in net-worth) of family businesses in Rwanda. Therefore, it can be recommended that managers should be able to enhance their financial management practices through acquisition of financial information that is relevant for them to make informed financial decisions relating to their businesses. This study therefore, recommends business (family) managers to be able to understand financial market operations and adhere to the requirements placed by financial institutions when requesting for credit and be able to do proper financial planning and budgeting for their businesses.*

## 1. Introduction

The Sacco sector has globally experienced growth and diversification in the range of products and services that the sector provides in the market. Sacco's have been recognized worldwide as important avenue of economic growth. Close to a billion people are affiliated with co-operatives in different parts of the world. Many countries that have achieved economic development have a vibrant and dynamic cooperative sector which contributes substantially to the growth of those economies (Clement, 2012). The World Co-operative Monitor has revealed a global turnover of 2.2 trillion USD for the world's top 300 co-operatives. Co-operatives generate partial or full-time employment for at least 250 million individuals worldwide, either in or within the scope of co-operatives, making up almost 12% of the entire employed population of the G20 countries (ICA, 2015).

The history of Saving and Credit Cooperatives (SACCOs) in the world can be traced based on two origins of modern cooperation. The first modern cooperation emerged in certain working-class environments in European industrial cities in 1840s, particularly in Great Britain and France. These pioneers invented models of the consumer and labor cooperative that defend and promote the interest of working class in the face of the social disasters endangered by the Industrial Revolution (Hosmer *et. al*, 2007).

According to a study by Eurofinas (2016), European consumer credit providers, granted new loans worth €456.6

billion in 2016, an increase of 10.7% compared to 2015. The results of the Eurofinas 2016 Annual Survey shows increase in new business across all lending categories, with particularly strong growth in personal loans and used vehicles.

In Africa different countries introduced the saving and credit schemes of SACCOs in their financial systems. According to (Churk, 2015) SACCO societies were first registered in Kenya as a thrift licensee in 2004 with the objective of mobilizing savings from members. However, it was not until 2009 that the government encouraged the registration of SACCOs to mobilize savings and give credit to employed people who had similar common bond. The government enacted the co-operative societies Act and the rules to better manage the SACCOs in 2009. From 2003, many government ministries and departments registered SACCOs in accordance with the common bond. By 2005, there were over 1,000 registered SACCOs in the country offering back office and credit facilities (Olando Jagongo & Mbewa, 2013).

In Uganda, the Uganda Co-operatives and Savings Credit Union, which seeks to be the country's Sacco umbrella body is still financially weak while Banque Populaire du Rwanda, which started as a credit society, has turned out to be one of the region's success stories although many others, including those being supported by the government are faced with governance and administrative challenges. In Tanzania, by March 2013 of the national total of 9,700 registered cooperatives, 5,559 were SACCOs, with 45% in urban areas – an increase from 5,344 in 2011. They included 1,153,248

members, representing about 25% of clients in the financial sector (both formal and semi-formal organizations) (WB 2013).

SACCOs in Kenya have grown tremendously and currently they have 3.7 million members. SACCOs in Kenya have mobilized deposits from member's equivalent to Kshs 170 billion and have disbursed credit of about Kshs 120 billion. The 200 SACCOs with FOSAs have diversified into specialized bank like activities which include deposit taking, saving facilities, debit card taking and money transfer both locally and internationally. In the year 2009, the Ministry of Co-operative Development realized the need to have a regulator for the SACCOs which culminated into the SACCO Societies Act 2010 giving rise to the SACCO Societies Regulatory Authority (SASRA) According to the SACCO Societies Act (2008) SASRA has the mandate of licensing SACCOs to carry out deposit taking activities, regulate and supervise deposit taking SACCOs, manage the deposit guarantee fund and advise the minister of Co-operative Development (Republic of Kenya, 2008).

The trait of cooperatives in Rwanda is the tendency for cooperatives to be grouped on the basis of product categories. The latter characteristic offers a great potential, particularly in the markets for rice, tea, coffee, potatoes, cassava and maize (Angelique, 2009). Indeed Rwanda's economic development agenda can't be achieved without a financial sector that is effective, in particular that is capable to expand access to credit and financial services, and to enhance saving mobilization and to mobilize long-term capital for investment of financial services, even for informal ones.

To address the issues hindering the development of financial sector, the government of Rwanda has adopted a very ambitious Financial Sector Development Plan which is currently at a very advanced level of implementation. Despite this, the level of domestic savings remains very low and the financial exclusion highly alarming, reasons why a recent National Dialogue Meeting held in December 2008 recommended the creation of at least one Saving and Credit Cooperative (SACCO) at the level of each Administrative Sector (Umurenge) Proposing a strategy to achieve objective of Poverty reduction (Angelique, 2009).

As it was revealed earlier, Savings and Credit cooperatives can help their customer to keep their money in a peaceful place where its security is kept by bankers. In addition, the money kept in banks can generate some interests to the customers. Entrepreneurs can be funded through granting those credits. Credits can help people to enhance their business, satisfy their needs and improve their social welfare in form of health, education and economy (MINECOFIN, 2008).

Women entrepreneur is a common phenomenon in developing countries especially in Rwanda at large. Development is all about advancing from one stage of economic or technological situation to another. As such, female entrepreneur's development relates to advancement of women from low economic or technological stage to a

higher one. In recent years Rwanda has embarked on Economic liberation policies which pave a way to growth of cooperative societies specifically SACCOs in many areas of the country including Kigali City. (Tumwine, Mbabazi & Shukla, 2015) and Cooperative policy encourage gender equity in formation and management/leadership of SACCOs. At least one third (1/3) of a cooperative member must be women and at top management and leadership levels women are given priority. This is to encourage women to join and lead SACCOs because the impact is well known that whatever benefit obtained will be trickle down to their families and the nation at large. The ultimate goal is women development, ending the era of women as disadvantaged group almost in all economic activities including SACCOs (Tumwine, Mbabazi & Shukla, 2015).

Family businesses have dominated the economic landscape around the world (Liu, Yang & Zhang, 2010; Wee & Ibrahim, 2012), contribute an average of 75% of the GDP (Prior, 2012; Buang, Ganefri & Sidek, 2013) and are widely seen as the backbone of the economy (Schwass, 2013). Family businesses, particularly the small-to-medium sized, are the grassroots of the global economy (Wallace, 2010), and are clearly the majority of all the businesses in the world (Buang et al., 2013). By their very nature, most SMEs are family businesses (Maalu, MacCormick, K'Obobyo & Machuki, 2013). Such family businesses continue to dominate most of the world's economies. Whether large or small, family businesses play an important role in emerging and developed economies (Wee & Ibrahim, 2012).

Umurenge SACCO services that likely affect business decisions and growth in family business, therefore, in this study, include financial literacy, financing, allocation of financial resources and cash management. Despite the increased attention paid on the study of family business sector, there is still little knowledge about the influence of financial management practices and how the family characteristics affect the growth of family businesses. Such occurrences have stimulated interest in the current study, to determine the influence of financial management practices and the effect of family characteristics on the growth of family businesses in Rwanda. This research will find out the influence of Umurenge SACCO on the growth of family businesses in Rwanda referencing a cases study of Kimironko SACCO.

## **2. Statement of the Problem**

SACCOs are found in almost all sectors of the economy. The government has made a significant initiative to support Umurenge Sacco's movements through legislation so as to achieve the millennium development goals and vision 2020 objectives of increasing financial inclusion. Umurenge SACCOs remain competitive in the interests they charge their membership in respect of loans and other credit facilities advanced, compared to interest rates charged by banking institutions. Umurenge Sacco's services in the small business sector have long attracted the attention of researchers.

Family business failure, among other reasons, can also be attributed to, apart from lack of succession planning, failure in carrying out financial management practices in running their businesses. Most studies done on family business performance, for example, Wallace (2010), Wee & Ibrahim (2012), Amran and Ahmed (2010), Buang et al.(2013) and Phillips (2012), discussed the importance of succession planning, but there are many other aspects of family businesses, specifically on financial management practices, that are yet to be given more attention is the Umurenge SACCOs services influence on the growth of family business in Rwanda.

The development and on the growth of family business in Rwanda was due to being facilitated by the Umurenge SACCO various products will as a matter of fact, lead to the achievement of its ultimate long term development plan which is to transform the country into a middle-income country and an economic trade, communication and financial center by the year 2020 as it was stated in the previous parts (MINECOFIN,2008).Furthermore, this indicates that there are still several efforts that need to be done in order to bring about the growth of family business in Rwanda. The aim of this study therefore, is to investigate the influence of Umurenge SACCOs Services on the growth of family business in Rwanda.

### 3. Objective of the Study

To establish the influence of cash management on the growth of family businesses in Rwanda.

### 4. Conceptual Framework



### 5. Research Design

This study adopted a descriptive research design. Descriptive survey research design is a scientific method which involved observing and describing the behavior of a subject without influencing it in any way (Coopers & Schindler, 2008). It is designed to gain more information about variables within a particular field of study. The objectives are stated clearly, and a clear definition of the population is given. In this study, descriptive research design was used to achieve this by describing the data and characteristics about the population of phenomenon being studied.

#### 1) Target Population

The target population of this study consisted of all the 752 family businesses in Rwanda registered at Kimironko Umurenge Saccos.

#### 2) Sample Size Determination

The study was restricted to Chief Executive Officers, General Managers and Finance Managers of all registered

family businesses who are either owners of the family businesses or hired to operate the family businesses. The sample size consisted of all registered businesses in all the Business Sectors (Industries) in the Umurenge SSACCO. The list of the firms obtained sufficiently represented the target population. A sample size of 262 respondents was determined from a total population of 150 individuals using the formula by Slovin's.

$$n = \frac{N}{1 + N(e)^2}$$

**Table 1: Sampling Frame**

Area of Operation	Population	Sample
Trading, Shop & Retail	250	87
Transport, Storage and Communications	54	19
Agriculture, Mining and Natural Resources	82	29
Tourism, Hotel and Restaurants	194	68
Education, Health and Entertainment	96	33
Manufacturing, Industrial and Plant	76	27
<b>Total</b>	<b>752</b>	<b>262</b>

Source: Umurenge Sacco Kimironko, 2018

#### 3) Data Collection Method

According to Malhotra and Birks (2006) primary data is information which has been collected by researcher himself for the first time. Primary data is suitable for this study as it is less time consuming and less expensive as compared to primary data collection method. Data was mainly collected by using questionnaire technique.

#### 4) Model Specification

The study was based on a multiple regression model. Analysis was based on dependent, independent and error term. SPSS version 21 software was used to analyze the data collected and to provide a sufficient conclusion. The t test and correlation study were carried out to determine if there existed a significant relationship between the variables and to test whether there was a relationship amongst the independent variables. A multiple regression model was used in this study is shown below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$$

Where

Y=Dependent variable – Growth.

$\alpha$ =Constant

$\mu$ =Error

$\beta$ =Coefficients

X<sub>1</sub> = Financial literacy

X<sub>2</sub> = Financing

X<sub>3</sub>= Cash management

X<sub>4</sub> = Allocation of funds

### 5) Research Findings And Discussion

**Table 2: Cash management on growth of family business**

Statements	N	Mean	Std. Dev
The firm prefers to hold liquid cash for daily business transactions.	187	1.58	.514
Cash transactions are preferred than giving credit terms to customers.	187	1.58	.514
Payments to suppliers are normally made on cash basis	187	2.00	.410
Disbursement limits are usually set for payments	187	1.96	.512



made from the firm.			
The firm is able to meet short-term liquidity obligations towards its suppliers	187	1.58	.512
Cash transactions are in line with the firm's cash budgets.	187	1.96	.000
Disbursement limits are usually set for payments made from the firm.	187	1.96	.000

**Source:** Primary data, 2018

The study sought to establish the influence of cash management on the growth of family businesses in Rwanda. From the findings indicated in Table 4.17 most of the respondents agreed that the firm prefers to hold liquid cash for daily business transactions by a mean of 1.58, the respondents agreed that cash transactions are preferred than giving credit terms to customers a mean of 2.00. Due by a mean of 1.96 was obtained on Payments to suppliers are normally made on cash basis. On disbursement limits are usually set for payments made from the firm by a mean of 1.96 was obtained and the firm is able to meet short-term liquidity obligations towards its suppliers by a mean of 1.58 was obtained. Lastly disbursement limits are usually set for payments made from the firm's gave a mean of 1.96

**Table 3:** Correlation between Cash management on the growth of family business

		Cash management	Growth
Cash management	Pearson Correlation	1	.689**
	Sig. (2-tailed)		
	N	187	
Growth	Pearson Correlation	.689**	1
	Sig. (2-tailed)	.000	
	N	187	187

\*\*. Correlation is significant at the 0.01 level (2-tailed).

**Source:** Primary data, 2018

According to above table, the study found that there is significant relationship between Cash management and growth of family business which have correlation index of ( $r = 0.569$ ,  $p = 0.000$ ). Therefore, the study found that Cash management has significant relationship to the growth of family business in Rwanda.

## 6) Regression Model

**Table 4:** Model's Goodness of Fit Statistics

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.857 <sup>a</sup>	0.713	0.627	0.2001

### a. Predictors: (Constant), cash management

Tables 4, present the regression results. From the model summary the R<sup>2</sup> was 0.713 indicating that cash management explained 71.3% of the variation in the growth of family business in Rwanda.

**Table 5:** ANOVA<sup>a</sup>

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	110.450	1	114.450	32.037	.000 <sup>b</sup>
Residual	22.659	185	.573		
Total	143.109	186			

a. Dependent Variable: Family Growth

b. Predictors: (Constant), cash management

From the ANOVA, it is clear that the overall standard multiple regression model (the model involving constant (cash management) is significant in predicting how growth of family business. The regression model achieves a degree of fit as reflected by ( $F = 32.037$ ;  $P = 0.00 < 0.05$ ). Hence rejecting the null hypothesis and accepting the alternative hypothesis.

**Table 6:** Coefficient results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.75	0.231		1.973	0
	Cash management	0.852	0.817	1.075	1.815	0

The multiple regression equation:

$$Y = \alpha + \beta_1 X_1 + \mu$$

$$Y = 0.75 + 0.852X_3 + \mu$$

Table of regression show that coefficients of the predictors (cash management) is presented. Results indicate that a message on cash management is more significant in explaining the growth of family business with a significance of 0.000 which is less than a p-value of 0.00 and beta value is 0.852.

## 6. Conclusions

The conclusions were based on the objectives of the study that is the influence of Umurenge Saccos services on the growth of family businesses in Rwanda. It can be concluded that financial literacy measures (financial-economic knowledge and access to financial information) had significant and positive influence on the growth (in revenues and change in net-worth) of family businesses in Rwanda. This was attributed by family members' prior and existing knowledge on financial management, their ability to undertake financial analysis and interpret them, and continuously accessing financial information to make better financial decision. The influence on the growth (revenues and change in net-worth) of family businesses in Rwanda, It can be concluded that allocation of financial resources measures (allocation of funds and income and control of funds) had a significant and positive influence on the growth (revenues and change in net-worth) of family businesses in Rwanda.

## 7. Recommendation

The recommendations were based on the objective of the study, that is, Influence of Umurenge Sacco services on the growth of family businesses in Rwanda.

The study sought to establish the influence of cash management on the growth of family businesses in Rwanda. As much as cash transactions are desired in family businesses, credit terms to loyal customers will increase business sales and revenues. It is also recommended that family businesses should refrain from holding too much cash for "family" emergencies. That will drain business cash flow in misappropriation of funds. Proper cash management will result in maintaining optimum levels of cash purely for

business purposes. This will eventually lead to continuous growth of such businesses.

Researcher also recommended that funds obtained through financial institutions (commercial banks) should be optimally allocated to projects and assets that will increase the value of the firm hence experience growth. Income (earnings) generated from the business to be used in clearing the most expensive debt before declaring any dividends or bonuses to shareholders. Proper financial planning and allocation of funds will lead to proper control of funds as financial tools are used e.g. budgets and cash flow statements.

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