

## Factors Influencing Sacco Members to Seek Services of Other Financial Service Providers in Kenya

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### *Abstract*

*The primary aim of this study is to examine the factors that influence Sacco members in Kenya to seek financial products from other financial service providers. The study investigated the factors that make Sacco members to seek the services of other financial service providers. Saccos are saving and credit co-operatives societies. Saccos are quasi financial institutions that mobilize savings, provide loans as well as other products to their members. To achieve this objective, the study employed the survey involving a sample of 100 Sacco members drawn from 18,833 members of the 44 Saccos operating within Central Rift Valley Region of the cooperative society. Stratified Random sampling was used to select respondents and a questionnaire was used to collect data from Sacco members. Both descriptive and inferential statistics were used to analyze the data. Hypotheses were tested using correlation analysis and regression analysis. Correlation analysis tested the relationship between the independent variables and the dependent variable while regression analysis was used to determine the contribution of each independent variable to the dependent variable. The findings of the study revealed that a large number of Sacco members took loans offered at the Saccos in spite of the cut throat competition by other financial institutions and that the Saccos were not as competitive as other financial service providers in terms of processing and delivering of financial products, the type of products offered and customer relations .*

**Key Words:** Saccos, Sacco Members, Influencing Factors and Financial Institutions.

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### **Introduction**

The Savings and Credit Cooperative Societies played a very significant role in money-lending to their members in the early days of their inception in 1973 in Kenya. This was largely due to the stringent borrowing requirements such as collateral by large banking institutions which many small scale Sacco savers did not have. Large lending institutions considered this category of prospective borrowers very risky and therefore never ventured into giving them credit facilities for a very long time. However, following liberalization in the financial sector in the 1990, many Saccos now provide financial products that were traditionally reserved for large commercial lending institutions. This development has forced banking institutions to relax their lending terms and conditions in order to remain competitive. Customers including Sacco members seeking financial products such as a range of products offered, cost of the product, time taken to process the application, disbursement mode of the funds and service delivery.

A co-operative society is made up of a group of people, who joint together voluntarily to achieve common social and economic objectives. As used in the co-operative movement, the term co-operative means the societies that have certain fundamental characteristics and regulations that are adhered to, including co-operative principles. Co-operatives are essentially democratic organizations. This in effect means that persons who wish to become members of a co-operative or who intend to form a co-operative society should do so, on their own free will. People who want to form co-operatives should feel the need and be convinced that through such an organization, their needs will be fulfilled (Ouma, 1989).

A Savings and Credit Co-operative society is a Co-operative Society, whose objective is to encourage its members to save, thereby creating or accumulating capital, which is then on lend to the members at a reasonable rate of interest. The loans are given for provident purposes, i.e. to provide for social needs such as buying clothes, radio, paying school fees, and wedding gifts. Loans are also given for productive purposes, this in effect are loans for economic development, for instance, a loan to buy a tractor, a cow, a plot or a house. An example is Nakuru Teachers Saving and Credit Co-operative Society. Access to credit is undoubtedly a major incentive to save.

Most Saccos are found in urban areas among salaried workers in the formal sector including Government ministries, parastatals and other organizations. Members' contributions are deducted from salaries on a regular basis and remitted to the Society. Loan recoveries are similarly handled (Kattambo, 1992).

Saccos started operating in Kenya in 1964 as thrift Co-operative Societies with the objective of mobilizing domestic savings from members and subsequently lending them for welfare and productive purposes. In 1966, the Ministry of Co-operative Development enacted the Co-operative Societies Act and the thrift Societies were renamed Co-operatives. The introduction of the Co-operative Production Credit Scheme (C.P.C.S.) and other credit schemes brought about the Co-operative Loaning Scheme where members were given credit through the loaning schemes and were expected to repay loaned amounts with interest through the Union Banking Sections (UBS) operated by the District Union. In 1992 the Ministry issued legislation vide Commissioner's circular that transformed the UBS which were hitherto sections of Unions into autonomous Rural Saccos. By then there were about 15 of them with deposits of over KShs. 3.5 billion. By 1973, employees' particularly public servants had Sacco societies registered to cater for their financial needs. These become known as Urban Saccos as opposed to the previous Rural Saccos. When the Co-operative sector was liberalized in 1997, Co-operatives started venturing into service provision that were previously offered by banks. This included cheques discounting, savings and fixed accounts and serving as salary pay points.

### **Statement of the Problem**

Since their establishment in 1973 in Kenya, Saccos have been providing financial products to their members without any competition from other financial service providers. However reform programmes in the financial sector that started in the late 1990s such as liberalization have resulted in a lot of competition from other financial service providers. Saccos have made remarkable progress since their introduction. Their popularity arising from their willingness to lend money without demanding tangible security. Usually a member's shares, coupled with a guarantee by a member of the society are considered adequate security for a loan. The current interest rate is 12 per cent per year and a borrower may receive four times their share and have up to 48 months to repay loan (Kattambo, 1992).

This is unlike at Banks where previously a customer was required to avail tangible collateral for example land title deed before loan was considered. The financial service providers are now offering products to entice sacco members to switch from Saccos to their businesses. This scenario has sparked off stiff competition for customers between Saccos and other Financial Institutions. While most members have remained loyal to their Saccos and only seek financial products from them, some members opt for financial products offered by other financial Institutions. However, little empirical evidence exists on the factors that influence these members to seek financial products elsewhere other than their own saccos. Thus this study attempted to establish the factors that Sacco members take into account when seeking financial products from large financial institutions in Kenya.

## Research Objectives

This research sought to achieve the following objectives:

1. To establish the effect of interest rates on Sacco member's choice of alternative financial service provider.
2. To determine the effect of the time taken to process a loan applications on Sacco customer's choice of alternative financial service provider.
3. To evaluate the effect of staff performance on Sacco customer's choice of alternative financial service provider
4. To determine the effect of the mode of disbursement of funds on Sacco customers' choice of alternative financial service provider
5. To establish the relationship between the types of products offered and the customers' choice of alternative service provider
6. To determine the effect of the mode of disbursement of funds on Sacco customers' choice of alternative financial service provider
7. To establish the effect of physical evidence on Sacco customer's choice of alternative financial service provider.
8. To establish the combined effect of interest rates ,loan application processing time, mode of disbursement , staff performance, promotional strategy and physical evidence on Sacco customer's choice of alternative financial service provider.

## Research Hypotheses

- HO1 There is no significant relationship between interest rate and Sacco customer's the choice of alternative financial service providers
- HO2 There is no significant relationship between the length of time taken to process loan applications and Sacco customer's choice of alternative financial service providers.
- HO3 There is no significant relationship between the performance of staff and Sacco customer's choice of alternative financial service providers.
- HO4 There is no significant relationship between the mode of disbursement of funds and the Sacco customers' choice of alternative financial service provider
- HO5 There is no significant relationship the type of products offered and the Sacco customers' choice of alternative financial service providers
- HO6 There is no significant relation between physical evidence and Sacco customer's choice of alternative financial service providers.
- HO7 There is no significant relationship between promotion strategy and Sacco customer's choice of alternative financial service provider
- HO8 There is no single factor that influences Sacco customer's choice of alternative financial service providers.

## Literature Review

Competition between Saccos and other Financial Institutions is characteristic of a globalized economy in which the business environment is very dynamic and firms have adapt to such changes. The modern customer is empowered and very difficult to please. Marketers are contending with consumers who are very knowledgeable, smarter, more price conscious, more demanding and less forgiving .The consumers also a variety of firms that are promising to offer them better products and services than their competitors (Kotler, 2002). Saccos like any other business firms have to contend with such customers.

A Saving and Credit Co-operative society accords members an opportunity for saving regularly, accumulating the savings and thereby creating a pool from which they can borrow exclusively for productive purposes at fair and reasonable rates of interest than would be obtained in other financial Institutions (Ouma,1989).

Gachara (1990) found that Saccos are seen as vehicles for resource mobilization and gateways to economic prosperity for families, communities and nations. These two studies are in agreement with the primary objectives of a Sacco which are: the creation of an opportunity to the members to save and later borrow.

When the Co-operative sector was liberalized in 1997, Saccos started venturing into the provision of services that were previously offered by banks. This included cheques discounting, savings and fixed accounts and serving as salary pay points. This action by Saccos marked the genesis of the competition for customers between Saccos and other Financial Institutions. Ongore (2001) found that more than 50% of the Kenyan Saccos are in Nairobi were competing for scarce funds with Banks and Non-Bank Financial Institutions. The findings also revealed that Saccos charged a lower interest rate of 12% compared with other Financial Institutions and this gave them a competitive advantage among borrowers who were looking for cheaper financial products. A similar study by the Ministry of Cooperative Development & Marketing (G.O.K, 2005) revealed that Saccos are facing stiff competition from Banks and Micro Finance Institutions.

Firms can use price and non price competition techniques to create differential advantage (Schoell and Guiltman, 1998). A marketer has differential advantage over his rivals when he provides a unique customer satisfying offering that customers will buy from it rather than from its rivals. It has a competitive advantage over its rivals, because the firm and its market offering are different from its rival's offerings in one or more ways that are important to its customers. However, a major problem with using price as a competitive tool is that frequently competitors will either match or better your price. This threat is one of the primary reasons for employing non-price competitive tools (Pride and Ferrell, 1998). Using price as the major competitive tool may not provide a lasting differential advantage; so, many marketers prefer to engage in non-price competition.

Non-price competition minimizes the importance of price as a competitive tool. Instead of focusing on price, the marketer might attempt to create a unique market offering for a part (segment) of the larger market that rivals are targeting. Once a firm has decided which segment of the market it will enter, it must decide what position it wants to occupy in those markets. Positioning involves implanting the brands unique benefits and differentiation in the customer's mind. It is the complex set of perceptions, impressions and feelings that consumers have for the product compared with competing products. Marketers must plan positions that will give their products the greatest advantage in selected markets and they must design marketing mixes to create this planned position (Kotler and Armstrong, 2001).

Firms can also engage in non price competition by focusing on non price elements in their marketing mixes -the product, its distribution, or its promotion (Kotler and Armstrong 2001).

These can be in the manner in which their products are made available to consumers e.g. door to door selling, or availing products at distinctive outlets to specific target customer. Marketers also compete by differentiating their product offerings making them distinct. Product differentiation takes place along a continuum. At one extreme end, we find physical products that allow little variation and the other end those that can be highly differentiated (Kotler and Armstrong, 2001).

By differentiation of services that accompany the product, some companies gain services differentiation through speedy, convenient or careful delivery. The way the service is delivered through customer interaction can also lead to competitive advantage. Companies can also gain a strong competitive advantage through people differentiation – hiring and training better people than competitors do. Even when competing offers look the same, buyers may perceive a difference based on company or brand image differentiation. A company or brand image should convey the products distinctive benefits and positioning in a crowded market (Kotler and Armstrong, 2001).

Firms also employ distinguishing promotional methods to compete, such as advertising and personal selling. Firms may compete by being located at convenient locations and by creating unique and appealing atmospheres. Mergers and acquisitions can be used to gain competitive advantage. Thus instead of devoting time to such activities such as analyzing market opportunities and developing new products, too

many executives are said to be spending their time thinking about what companies they want to take over or trying to figure out what companies would like to take over their companies. Firms also use competitive intelligence to collect, analyze and interpret data about competitors in the market. This information is used as input in strategy formulation. To develop competitiveness, companies must start paying much attention to their competitors as to their customers to develop a sustainable competitive edge in the market (Pride and Ferrell, 1998).

Every firm tries to market its products to the target buyer. Customers often face a bewildering array of products from which to choose. A customer buys from the firm that offers the highest customer perceived value – the customer’s evaluation of the difference between all the benefits and all the costs of a market offer relative to those of competing offers (Kotler and Armstrong, 2001).Buyers have many needs and wants but limited income with which to satisfy their needs and wants; therefore they have to be involved in choosing process. A firm that is able to influence the customer decision making process may influence the customer in to buy its products. Consumers choose their products based on perceived risk, perceived value, perceived product quality and perceived price (Kotler, 2004, Jackbson and Aaker, 1996, Schiffmann and Kanuk, 1997).

Sacco members consider a number of factors in deciding whether to receive services from their own organizations or from other financial service providers including types of products offered , the cost of the products, the time taken to process the applications, mode of disbursement mode, staff performance, promotional strategies and the physical evidence of the services (Kuria, 2008).

### The Conceptual Framework

Factors influencing choice Financial service providers



**Figure 1. Factors influencing choice of financial institutions (Field Data, 2012)**

The conceptual framework in figure 1 portrays the relationships between the independent and dependent variables. It shows that the choice of financial service provider ( either Sacco or other financial institutions) is influenced by the types of products offered by the institution, the cost of the products, time taken to processing the applications for the various products, the mode of disbursement of the money to the members, the attitudes and general performance of staff members , physical evidence of the institutions as revealed by the physical facilities and the promotional strategies used by the institutions. The members may choose commercial banks, micro-finance institutions, self-help groups, merry- go round organizations or even shylocks.

### Materials and Methods

#### Research Design

This study employed survey as its research design. The purpose of a survey is to explore and describe observed phenomena (Kathuri and Pals, 1993). Survey research was preferred because it offers two major

strengths; namely it makes possible the collection of vast amounts of information on a large number of people and it is accurate within specified ranges of sampling error. Data was collected from both secondary and primary sources. The District Co-operative Office provided information on the registered Saccos and their membership.

**Sampling Method and Sample Size**

Stratified sampling technique was used to select the Sacco members who had sought financial products from their Saccos and also from other Financial Institutions. The criterion for stratification was based on the size (number of members) and the sector within which the Sacco operates. This criterion was found to appropriate as it ensured that unique characteristic of specific sectors were proportionally represented in the survey population. Six sectors that constituted the stratum and corresponding members were identified. The sectors were: Institution based, Company based, Hospital based, Church based, Transport based, and Council based from which the study sample was sought as shown in Table 1.

**Table 1 Distribution of active Saccos Central Rift Valley Region ( Nakuru County).**

Sector	Number of Saccos	Number of Members
Institution based	6	7160
Company based	23	2357
Hospital based	4	188
Church based	4	7645
Transport based	4	340
Council based	3	1143
Total	44	18,833
Source: Ministry of Co-operative Development and Marketing ( 2012)		

To ensure proportional representation of each sector in the sample size, the number of members in each sector was considered. Proportionate Sampling was then used which yielded 100 respondents who constituted the Sample Size as shown in table 2.

**Data Collection Method**

Questionnaires were found to be appropriate for this study as they allowed much information to be gathered over a short period of time (Mugenda and Mugenda 1999). Data was obtained from Sacco members as they sought services at their Sacco and the second approach was through snowballing method where a Sacco member who had accessed services at Sacco and elsewhere pinpointed other Sacco members who qualified to fill the questionnaire. This method was adopted given the fact that at Micro Finances and at some banks, customers are given loans in groups of five so that they inter guaranteed each other. Therefore a member of the group knows others who have accessed loans.

**Table 2 Proportionate sample size of the respondents by sector .**

Sector	Proportion of members to survey proportion	Number of Respondents
Institution based	38%	38
Company based	12.5%	13
Hospital based	9%	1
Church based	4%	40
Transport based	18%	2
Council based	6%	6
Total	99.2%	100

**Data Analysis**

Both descriptive techniques were used in the analysis of the qualitative data. The research hypotheses were tested using correlation and regression analyses . Correlation was used to test for the relationship between the independent variables and the dependent variable while regression analysis was used to establish the contribution of each independent variable to the dependent variable. The following regression model was used to establish the contribution of the independent variables to the dependent variable:

$$FI = \beta_0 + \beta_1TP + \beta_2PT + \beta_3MD + \beta_4SP + \beta_5 PS + \beta_6PE + e$$

Where : FI = Financial service provider

Bo= Intercept or constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ =Regression coefficients or slope of the regression line of the independent variables 1 to 3. They indicate the relationship between the independent variables and the dependent variable

- TP = Type of Financial Product
- PT = Processing Time of loan applications
- SP =Staff Performance
- PS = Promotion strategies
- PE = Physical Evidence
- E = Error Term

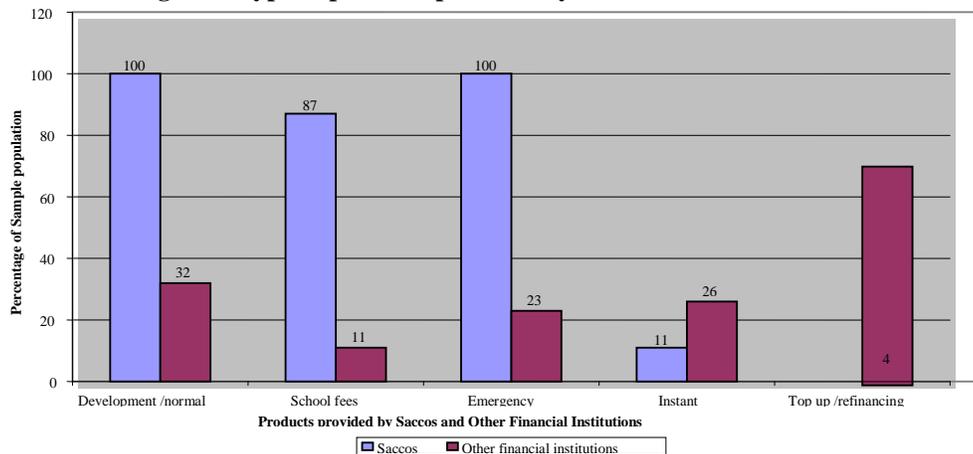
**Findings and Discussions**

The results of the study revealed the following on the factors that influence some Sacco members to seek financial products from other financial institutions:

**Type of Products Provided by Financial Institutions**

The findings revealed that the Financial Institutions offered customers a variety of products in form of loans as shown In figure 2. Saccos however appeared to be more popular in disbursing normal loans as indicated by the respondents who rated them at 100 % as compared to other Financial Institutions that were rated at 32 %. On the disbursement of other products such as school fees and emergency loans, Saccos were also rated highly at 87% and 100 % respectively as opposed to Financial Institutions that rated poorly at 11% and 23 % respectively. The Financial Institutions however were rated better than Sacco’s in the disbursement of instant loans. Financial Institutions were rated at 26% while Saccos were rated at 11%. The Financial Institutions, in addition, gave more top-up or refinancing loans ( 70%) while Saccos gave 30% of the . Figure 4.2 presents the results.

**Figure 2 Type of products provided by Financial Institutions.**



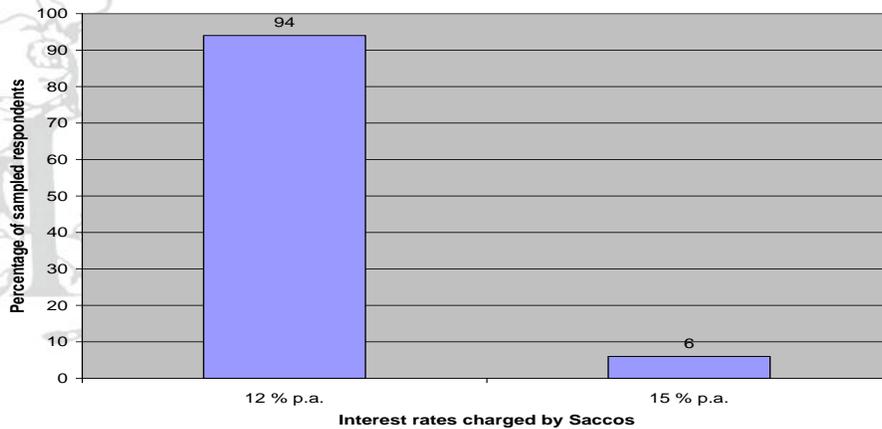
**Analysis of Cost of Loans Offered by Financial Institutions.**

An analysis of the cost of loans offered by Financial Institutions was done based on the interest rates charged per annum. A proportion of the respondents accounting for 94% indicated that they had received loans from their respective Sacco at the rate of 12% per annum while 6% of the respondents indicated that they received loans at 15%. Further examination of the costs of loans at other Financial Institutions revealed that varying rates of interest were charged on loans. The highest interest rate cited per annum indicated was 19% by 3% of the respondents. 18% was the interest rate that was offered by most Financial Institutions with 45% of the respondents confirming this. Other rates were 17% and 16% as indicated by 9% and 31% of the respondents respectively. The lowest interest rates per annum offered by other Financial Institutions were 15% and 13% as indicated by 9% and 3% of the respondents respectively. Figures 2a and 2b present the results.

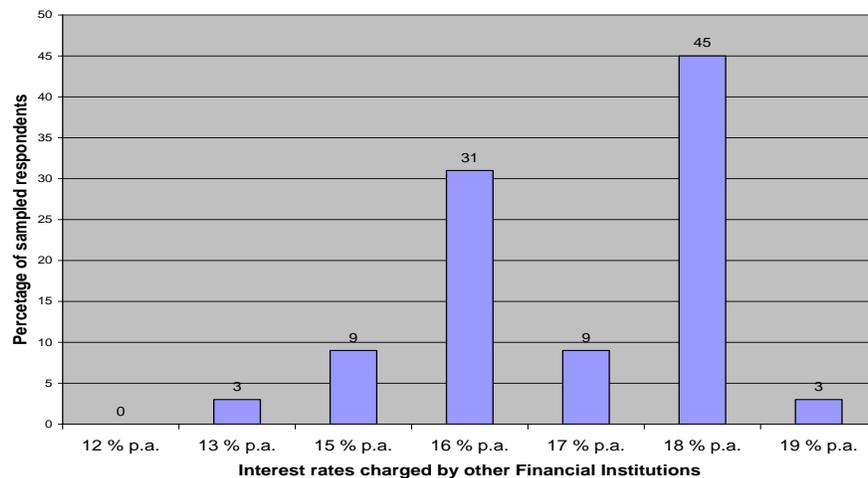
**Interest rate charged by Saccos and other financial institutions**

The results show that 94% of the Saccos charge 12 % for their loan products while only 6% charge 15%. 46 % of the other lending institutions that 18% for their products, 31 % charge 16% , 9% charged 17% , 9% also charged 15 % , while 3% charged 19% and another 3% charged 13%. No institution charged 12%.

**Figure 3a) Interest rates per annum charged by Saccos**



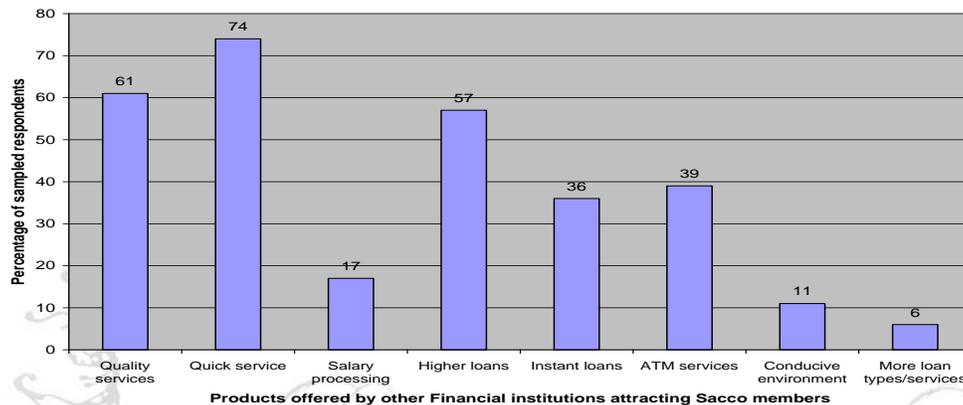
**Figure 3b Interest rates per annum charged by other Financial Institutions**



**Products Offered by Other Financial Institutions that Attracts Sacco Members**

The results in figure 4 indicates that 74% of the respondents were attracted to other Financial Institutions due to the quick service they received in terms of the length of time it took to process the loans. Other key factors were quality services at (61%), higher loans (57%) and ATM services (39%). Factors that appeared to be insignificant based on the responses given included conducive environments at (11%) salary processing (17%) and a variety of loan types or services (6%).

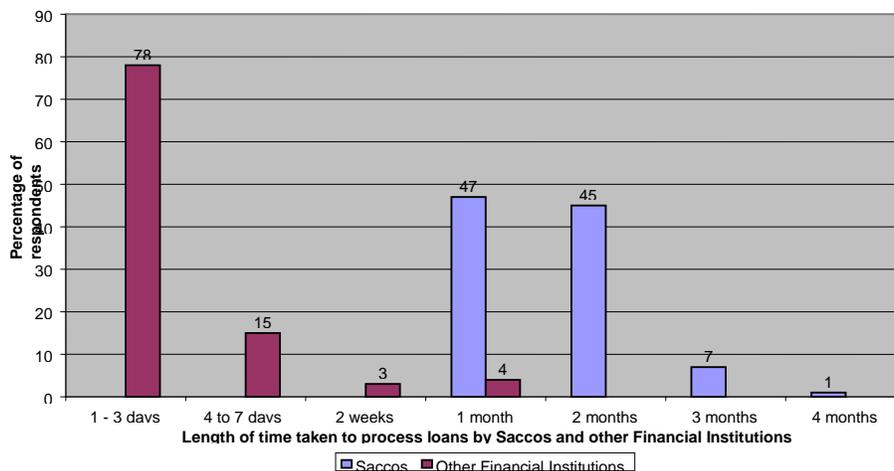
**Figure 4 Products offered by other Financial Institutions that attracts Sacco members.**



**Loan Application Processing Time**

Finding in figure 5 indicates that other Financial Institutions had the shortest periods of loan processing compared to Saccos. 78% of the respondents had their loans processed by other Financial Institution in a record time of between 1 to 3 days after lodging their application forms. 15% of the applications were processed in between 4 to 7 days while +those that waited for 2 weeks and one month formed the least proportion of loan applicants at 3% and 4 % respectively. The Saccos faired rather poorly when compared to the other Financial Institutions as their fastest periods for loan processing ranged to between one and two months as revealed by 47% and 45% of the respondents respectively. A further 7% and 1 % of the Sacco members reported to having waited for 3 and 4 months respectively to access the loans.

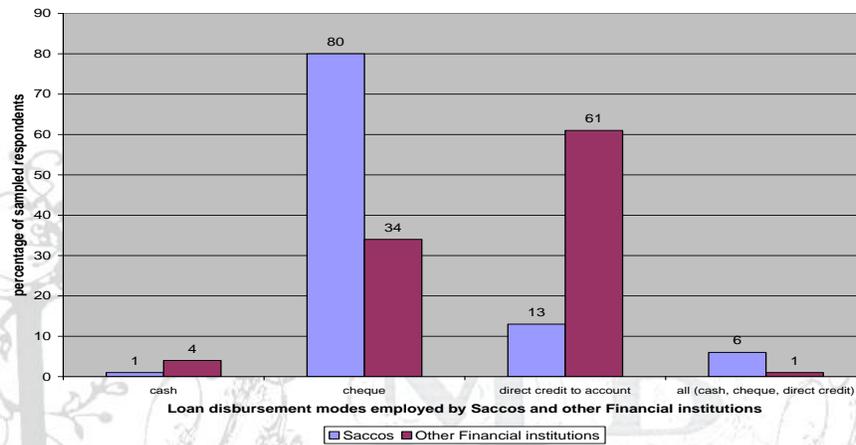
**Figure 5 Loan application processing Time**



**Loan Disbursement Modes**

Figure 6 shows findings based on the most modes of loan disbursement by Financial Institutions indicated that most Saccos heavily relied on the use of cheques which accounted for 80%, while direct credit to members' accounted for 13%. Cash was the least used method with only 1% of Sacco employing its use. Other Financial Institutions directly credited customers' accounts (61%) following the successful application of loans, while the cheque accounted for 34%. Cash use by other Financial Institutions was at a low of 4%. The fact that most Saccos largely used cheques to disburse loans to customers tended to lengthen the period of loan processing as the customer had to be subjected to a further waiting of between 4 to 7 days for clearing and processing. This had the implication of making the Saccos less competitive when compared to other Financial Institution that preferred to directly crediting money to members accounts thus making the money accessible to the customer faster.

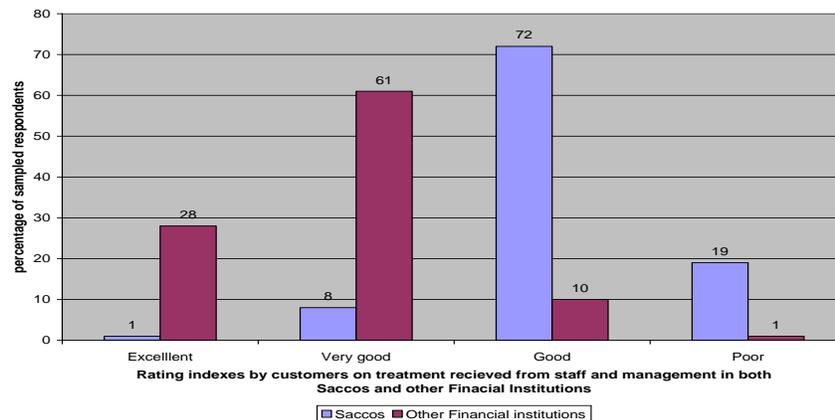
**Figure 6 Loan disbursement modes employed by Saccos and other Financial Institutions.**



**Customer's Rating of Service Accorded by Different Financial Institutions.**

The figure 7 indicates that other Financial Institutions by a large margin faired very well compared to the Saccos as they received excellent and very good performance index at 28% and 61 % respectively while Saccos received a rating of 1% and 8 % on the same ratings. This indicates that Saccos need to move at great speed to address this concern so as to be competitive. Performance index for the Saccos was indicated as good with a rating of 72% while poor stood at 19 %.

**Figure 7 Customer Service rating indexes**



### **Promotional Strategies Employed by the Financial Institutions.**

An analysis in figure 7 of the promotional strategies applied by Saccos and other Financial Institutions revealed that most Saccos heavily relied on Annual General Meetings and member educational programmes when rolling out their products accounting for 74% and 69 % respectively. The use of the print and electronic media and visits by Sacco representatives featured as low key promotional strategies by Saccos. This was a clear indicator that Saccos were yet to embrace new and innovative ways of marketing such as advertising in the electronic and print media which were the mode of choice for other Financial Institutions.

### **The correlation between Customers Perceptions and Physical Evidence on the choice of financial institutions**

The results of correlation analysis on the relationship between customer perceptions towards Financial Institution and their choice of Financial Institution are provided in table 3. The value of  $r = 0.441$  indicates that there was a significant and positive relationship between customer's perceptions and choice of financial institution. This implies that customer perceptions of Financial Institutions and choice of financial institution influence a customer as they seek an alternative products provider.

### **Hypothesis Testing**

The following section provides the results of hypotheses testing. Hypotheses 1 to 7 were tested using Pearson correlation analysis and hypothesis 8 through regression analysis.

#### ***H01 The is no significant relationship between the type of products offered and the Sacco customer's choice of alternative financial service provider***

The correlation analysis in table 4.1 indicates that there was a positive and significant relationship between the type of product offered by Saccos and the customer's choice of alternative financial service provider ( $r=0.445$ ) at 0.01 significance level. There was a positive association between the type of products offered by Saccos and the choice of financial service provider. Therefore, null hypothesis was rejected as there was enough evidence to indicate that the types of products offered by Saccos and other financial institutions were related to the customers' choice of financial service providers.

#### ***H02 There is no significant relationship between the interest rate and the Sacco customer's choice of alternative financial service provider.***

The Person Correlation in table 3 indicates that there was a positive and significant relationship between the interest rate (cost of loans) and the choice of financial institutions ( $r=0.839$ ) at 0.01 significance level. There was a positive association between interest rates charged and the choice of financial institutions (Saccos and other financial institution). Therefore, null hypothesis was rejected as there was enough evidence to indicate that interest rates charged by Saccos and other financial institutions were related to the customers' choice of financial service providers

#### ***H03: There is no significant relationship between the time taken to process applications for loans and the Sacco customer's choice of alternative financial service provider***

From the results of the correlation analysis in table 3, there was a positive and significant relationship between the time taken by Saccos to process applications for loans and the customer's choice of alternative financial service provider ( $r=0.716$ ) at 0.01 significance level. Therefore, null hypothesis was rejected as there was enough evidence to indicate that the time taken by Saccos and other financial institutions were related to the customers' choice of financial service providers.

**Table 3 Correlation between types of products, interests rates, mode of disbursement, staff performance, promotional strategies , physical evidence and choice of service provider**

		TYPES OF PRODUCTS	INTEREST RATES	PROCESSING TIME	MODE OF DISBURSEMENT	STAFF PERFORMANCE	PROMOTION STRATEGIES	PHYSICAL EVIDENCE	SERVICE PROVIDER
TYPES OF PRODUCTS	Pearson Correlation	1	.309	.543	.305	.345	.707	.658	.395
	Sig. (2-tailed)		.000	.000	.000	.000	.000	.659	.000
	N	384	384	384	384	384	384	384	384
INTEREST RATES	Pearson Correlation	.309	1	.539	.428	.417	.498	-.033	.839
	Sig. (2-tailed)	.000		.000	.000	.000	.000	.521	.000
	N	384	384	384	384	384	384	384	384
PROCESSING TIME	Pearson Correlation	.543	.539	1	.541	.525	.499	-.019	.716
	Sig. (2-tailed)	.000	.000		.000	.000	.000	.704	.000
	N	384	384	384	384	384	384	384	384
MODE OF DISBURSEMENT	Pearson Correlation	.305	.428	.541	1	.472	.511	.036	.331
	Sig. (2-tailed)	.000	.000	.000		.000	.000	.479	.000
	N	384	384	384	384	384	384	384	384
STAFF PERFORMANCE	Pearson Correlation	.345	.417	.525	.472	1	.561	.079	.723
	Sig. (2-tailed)	.000	.000	.000	.000		.000	.123	.000
	N	384	384	384	384	384	384	384	384
PROMOTION STRATEGIES	Pearson Correlation	.707	.498	.499	.511	.561	1	-.063	.727
	Sig. (2-tailed)	.000	.000	.000	.000	.000		.218	.000
	N	384	384	384	384	384	384	384	384
PHYSICAL EVIDENCE	Pearson Correlation	.658	-.033	-.019	.036	.079	-.063	1	.393
	Sig. (2-tailed)	.659	.521	.704	.479	.123	.218		.821
	N	384	384	384	384	384	384	384	384
SERVICE PROVIDER	Pearson Correlation	.395	.395	.486	.331	.345	.327	.012	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	.000	.821	
	N	384	384	384	384	384	384	384	384

**HO4:** *There no is significant relationship between the mode of disbursement of funds and Sacco customer's choice of alternative financial service provider.*

The results of the Pearson correlation analysis in table 3 at 0.01 ,show that there was a positive and significant relationship between the length of period involved in processing loans at Saccos and other financial institutions correlated ( $r=0.331$ ) .This implies that a shorter processing time of applications may influence on where they go to get financial products. Therefore, the null hypothesis was rejected because there was enough evidence to indicate that length of time it takes to process loan application means there was association between influence a customer as they seek an alternative products provider.

**HO5:** *There is no significant relationship between the performance of Staff and the Sacco customer's choice of financial service providers*

The correlation analysis results on table 3 indicates the performance of financial institutions and Sacco's. The value of  $r = 0.723$  shows that there is strong relationship between the performance of Saccos and that of financial institution on the customer's choice of where to bank. There was association between interest rates charged by Saccos and other financial institution and cost was significant. Therefore, the null hypothesis was rejected because there was enough evidence to imply that loan performance by Sacco Staff/Management Officials influenced their choice of financial service provider.

**H06** *There is no significant relationship between promotion strategy and Sacco customer's choice of alternative financial service provider*

The results of the correlation analysis provided in table 3 indicate that there was a positive and significant relationship between the promotion strategies of Saccos and the customer's choice of alternative financial service provider ( $r=0.727$ ) at 0.01 significance level. Therefore, null hypothesis was rejected as there was enough evidence to indicate that promotion strategies employed by Saccos and other financial institutions were related to the customers' choice of financial service providers.

**H07** *There is no significant relationship between physical evidence and the Sacco customer's choice of alternative financial service provider.*

The analysis on table 3 indicates there was a positive relationship between physical evidence of Saccos and customer's choice of alternative financial service provider (0.393) at 0.01 significant level. Therefore, the null hypothesis was rejected as the result indicated that there is a positive relationship between the physical facilities of Saccos and the customer's choice of financial service providers.

**H08** *There is no single factor that influences Sacco customer's choice of alternative financial service provider.*

**Table 4a) Results of the Regression analysis  
Model Summary (a)**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.787(a)	.619	.608	.66647

a Predictors: (Constant), TP, IR, PT, MD, SP, PS, PE

The results of the regression analysis in table 4a indicate that  $R^2$  was .619 or 61.9%. This shows that the six variables of type of service products, time taken to process loan applications, mode of disbursement of funds, staff performance, promotion strategies and physical evidence explain only 61.9% of the factors that influence the choice of financial service providers. The statistical F test is used to determine how well the regression equation fits the data. In this study, the F value of 54.514 was significant at the 1% level, indicating that at least one of the independent variables helped to explain some of the variation in customer loyalty. Further, the adjusted coefficient of determination revealed that 60.8% of the variance in loyalty was explained by the regression model.

**ANOVA 4(b)**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	125.512	5	25.102	56.514	.000(a)
	Residual	77.288	174	.444		
	Total	202.800	179			

a Predictors: (Constant), TP, IR, PT, MD, SP, PS, PE

b Dependent Variable: Y

Thus, the  $R^2$  in this regression model points to other factors not included in the model that account for customer choice of financial service provider . For instance, choice may be influenced by factors such as the service provider’s image, complaint management capabilities, the quality of communication between the firm and the customer, and trust , demographic factors such as age, gender, ethnicity, and income , and prior experience with the service industry in general which are beyond the scope of this study.

**Coefficients 4(c)**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.026	.335		6.054	.000
	TP	.191	.062	.211	3.062	.003
	IR	.642	.146	.823	13.654	.000
	T	.045	.057	.051	.797	.427
	MD	.184	.070	.151	2.636	.009
	SP	-.564	.111	-.386	-5.105	.000
	PS	.741	.058	.724	12.793	.000
	PE	.564	.023	.012	.645	.312

a Dependent Variable: Y

The results of the regression analysis given in table 4b, the relative contribution of the seven independent variables on the dependent variable. Their relative importance to the choice of financial service provider is indicated as interest rate ( $\beta=.823$ ), promotion strategies ( $\beta=.724$ ) , staff performance ( $\beta=-.386$ ), type of financial product ( $\beta=.211$ ), mode of disbursement of funds ( $\beta=.151$ ), processing time of loan applications ( $\beta=.041$ ), , and physical evidence  $\beta (.012)$ . It is evident from these results that interest rates and promotion strategies had the greatest influence on the choice of financial service provider while physical evidence and time of processing the loans had the least effect on customer’s choice of financial service provider.

### Conclusion and Recommendations

The study established that the choice of financial service providers was positively and significantly influenced by types of financial products, mode of disbursement of funds, staff performance, promotion strategies but negatively correlated with physical evidence and processing time of loan applications. The study revealed that other financial service providers offered more types of products than Saccos. The Saccos need to determine customers’ requirements in order to come up with products that make them competitive.

The results of correlation analysis in table 3 show that there is a positive relationship between the type of products offered by Saccos and customer’s choice of alternative service provider. They indicate that interest rate or cost of loans ( $r=0.839$ ) positively influences the customer’s choice of financial service providers. This positive association between interest rates charged by Saccos and other financial institution led to the conclusion that the cost of loans was a significant factor in influencing the competitiveness of a financial service provider. The Saccos could therefore leverage on their ability to charge lower interest rates to improve effectiveness and competitiveness in the provision of financial products.

The Pearson correlation analysis result given in table 3 showed that there was a positive relationship between the length of time involved in processing loan applications or requests and the choice of financial service providers (0.716) . It would be advisable for Sacco Management to put strategies in place to shorten the loan process since the findings of these study indicated that quick service was what customers preferred most.

The correlation analysis result in table 3 indicated that there was a positive and significant relationship between staff performance and the customer's choice of the financial service provider (0.723). This implied that the nature of customer treatment greatly influenced choice of where to get financial service products. The study revealed that customers were accorded better treatment at Financial Institutions. The intangible value that Institution staff adds to the overall service package should be fully utilized to help the firm to gain competitive advantage. Saccos therefore require putting in place urgent corrective strategies to address public relation and customer care issues in order to remain relevant in this era of competition.

The result of the correlation analysis in table 3 indicated that there was a positive relationship between physical evidence and customers' choice of financial service providers (0.393). This implies that the physical facilities, the appearance of the staff, dress code, brochures, ATMs etc have a positive influence in choosing a financial service provider by customers.

The results of the regression analysis given in table 4b, indicated the relative importance of the seven independent variables on the choice of financial service provider. The analysis showed a positive relative contribution of the variables to the dependent variable (the choice of financial service provider) as indicated as interest rate ( $\beta=0.823$ ), promotion strategies ( $\beta=0.724$ ), staff performance ( $\beta=-0.386$ ), type of financial product ( $\beta=0.211$ ), mode of disbursement of funds ( $\beta=0.151$ ), processing time of loan applications ( $\beta=0.041$ ), and physical evidence ( $\beta=0.012$ ). It is evident from these results that interest rates and promotion strategies had the greatest influence on the choice of financial service provider while physical evidence and time of processing the loans had the least effect on customer's choice of financial service provider.

## Recommendations

There is need for Sacco managers to develop strategies to make their firms more competitive with other financial service providers in this sector that is characterized by cut throat competition. The findings highlight the relative significance of the type of financial services, the interest rates, the amount of time taken to process loan applications, promotion strategies and physical evidence on the customers' choice of their financial service providers.

In spite of the reforms made in the financial sector, Saccos still have an important role to play in the mobilization and rising of funds for a wide segment of the population as a way of realizing social economic development. The study brought to light the concern that reforms in the Financial Sector have put Saccos in a vulnerable position with a growing concern of members increasingly seeking products from other Financial Institutions. There is therefore the need for speedy measures in terms of strategy formulation, product innovation and customer care to strengthen and protect the gains made in the Cooperative sub sector.

Co-operatives need to aggressively protect their turf by remaining competitive and relevant in the 21<sup>st</sup> century by becoming sensitive to the dynamic environment failure to which they will render themselves irrelevant. The customers are important in determining the success of the business. This research study was initiated with the intention of making a modest contribution to the relevant body of knowledge and stimulates further research in the discipline of Saccos.

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