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Drivers of financial and social disclosure by savings and credit cooperatives in Kenya: A managerial perspective

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1. Introduction

This study investigates managerial perspectives on the rationale and drivers of financial, social, strategic, governance and environmental disclosure in the annual reports of savings and credit cooperatives (SACCOs) in Kenya.[1] Studies on cooperative disclosure and accountability have largely focused on annual report readership (Lord, Shanahan, & Robb, 2005; Shanahan, Lord, & Robb, 2007), financial accountability in credit unions (Hyndman & McKillop, 2004; Hyndman, McKillop, Ferguson, & Wall, 2004), determinants of voluntary disclosure of bad loans in small credit associations (Mathuva, Memba, & Mboya, 2015; Spiegel & Yamori, 2004) and disclosure framework for credit unions (McGrath, 2008). However, sparse literature exists on managerial perspectives on financial, social and other voluntary disclosures by cooperatives.

Whereas studies such as Hyndman et al. (2004) and Hyndman and McKillop (2004) examine financial disclosures by credit unions in Ireland and the U.K. respectively, the inquiry performed is basic and does not reflect the disclosure of wider social information by credit unions. Therefore, the present study examines a broader spectrum of financial, social and other voluntary disclosures by credit unions in a developing country from a managerial perspective. The study focuses on credit union managers (supply-side of disclosure) because managers are responsible for preparing the disclosures and can influence disclosure decisions (McFie, 2006). Lord et al. (2005) find that an important function of SACCOs' annual report is to provide members with an indication of the value of the cooperative and the fair value of their shares. Lord et al. (2005) find profit as an important aspect that is of interest to majority of SACCO members when reading the annual report.

Despite the governance and transparency challenges faced by SACCOs in Kenya, the SACCO sector in Kenya is ranked first in Africa in terms of savings and asset base (Mathuva et al., 2015). The regulator and the accounting professional body have made efforts to improve accountability in Kenya's SACCO sector through enforcement of disclosure regulations and development of disclosure guidelines for SACCOs. However, accountability and compliance levels by SACCOs in Kenya have been remarkably low, motivating an investigation into the level and drivers of disclosure by SACCOs in Kenya from a managerial perspective. Among the reasons for the low disclosure quality include lack of qualified and experienced accountants to prepare financial statements which has affected the quality of reporting in the sector (Irungu, 2013). Despite the existence of regulations, Ahmed and Nicholls (1994) argue that the annual reports do not fully comply with disclosure requirements required by regulatory agencies. Al-Razeen and Karbhari (2004) argue that even in the presence of regulation, full disclosure is not guaranteed. This might lead to poor disclosure compliance. Further, regulators often mandate organizations to disclose mainly financial (and at times governance) information. According to Mook, Quarter, and Richmond (2007), organizations can engage in other disclosures that are largely voluntary in nature. This paper examines the level of financial, social and other voluntary disclosures, with a view to establishing the level of compliance by SACCOs. The study also aims to establish the current extent of disclosure of voluntary social, strategic, governance and environmental information from a managerial perspective.

Therefore, this paper analyses the perspectives of SACCO managers on disclosures, with a view to understanding the current disclosure level, rationale and possible drivers. To achieve this, questionnaires are issued to a sample of 215 deposit-taking SACCOs operating in Kenya as of 31 December 2013. Financial data are also collected from the annual reports of sampled SACCOs. The results reveal that SACCO disclosures are mainly addressed to members and regulator. Further, SACCO managers provide disclo-

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[1] In other jurisdictions, savings and credit cooperatives (SACCOs) are referred to as "credit unions" or "financial cooperatives".

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sures to comply with regulators and improve the image of SACCOs. The findings reveal that SACCOs provide financial, social, strategic and governance disclosures, whose intensity is influenced by the regulator, guidelines issued by the professional accounting organization in Kenya, governance and resources. The rest of the paper is organized as follows. Section 2 presents a discussion on the institutional background while Section 3 provides a review of literature and potential drivers of disclosure. Section 4 presents the methodology adopted while Section 5 discusses the study's results. Finally, Section 6 concludes.

2. Institutional background

2.1. Background on the SACCO sector in Kenya

The terms SACCOs and credit unions have been used interchangeably in this study to refer to the same business organization. SACCOs are viewed as self-help cooperative financial organizations whose aim is to promote economic, social and cultural needs and aspirations of its membership and wider local communities through a mutually owned and democratically controlled enterprise (Altman, 2015; Hyndman et al., 2004; International Cooperative Alliance (ICA), 2015; McKillop & Wilson, 2011). The membership in a cooperative is based on common bond, which is shared by savers and borrowers based on a community, organizational, religious or employee affiliation (World Council of Credit Unions (WOCCU), 2005). As mutual organizations, SACCO customers are both members and owners and consequently, the focus is on members and the benefits they derive from the union (McGrath, 2008). Being member-owned organizations, upholding accountability and transparency through the provision of adequate disclosures and proper governance to members and stakeholders is important for a SACCO's success (Quayes & Hasan, 2014).

According to WOCCU, there were over 57,000 SACCOs globally operating in 105 countries and serving over 217 million people (WOCCU, 2014). Given the 8.2% penetration rate and US$ 1.5 trillion in savings and shares and US $ 1.8 trillion in assets, the contribution of SACCOs towards financial wellbeing of its members and by extension, the economic growth of a country cannot be overlooked. Out of the 20,422 SACCOs in Africa, Kenya has over 6,500 SACCOs, making it third is terms of number of SACCOs after Ethiopia and Tanzania (SASRA, 2014; WOCCU, 2014).[2] Kenya ranks first in Africa with over 5.1 million members, US $ 3.3 million in savings and shares and US$ 4.3 million in loans (WOCCU, 2014). In Kenya, 1,995 of the 6,500 SACCOs were active and filing annual returns with the regulators of 31 December 2013 (SASRA, 2014). Out of the 1,995 active SACCOs, 215 were operating as deposit-taking SACCOs (that is, provided both front-office and back-office savings activities). The remainder provided traditional back-office SACCO services. Table 1 provides comparative statistics on SACCOs in Kenya compared to more developed economies.

According to Table 1, the number of SACCOs in Kenya is more than those in more developed countries such as Canada, Ireland, Great Britain and Australia. However, Kenyan SACCOs lag in terms of savings per member which is low at US$ 640 compared to US$ 22,684 in Canada for instance. This illustrates that despite the vibrancy of the sector in Africa, Kenyan SACCOs are yet to attain savings potential comparable to that of more developed countries.

2.2. Framework for disclosure by SACCOs

The prescription of the format and type of information to be disclosed by SACCOs is largely determined by legislation, the IFRSs in place, guidelines issued by the regulators, WOCCU and International Credit Union Regulators' Network (ICURN). In Kenya, the SACCO Act of 2008 and the Cooperative Societies Act, Cap 490, Laws of Kenya require SACCOs to prepare accounts that conform to the IFRSs (Government of Kenya (GOK), 2008 [Revised,2012]). In addition to IFRSs, WOCCU, through the ICURN provides guidelines focusing on disclosures relating to governance, service to members, corporate social responsibility, consumer protection and financial stability (WOCCU, 2005).

The ICURN postulates that a cooperative financial institution should disclose relevant and useful information that supports the key objectives of governance to members, depositors, borrowers, employees and other stakeholders (ICURN, 2013). As financial institutions, whose business is financial intermediation, the SACCO business thrives on trust and confidence of the public and hence its members (Njuguna, 2014). To promote accountability and transparency, SACCOs are required to provide adequate disclosures to the stakeholders (Hyndman et al., 2004). Organizations disclose information through means such as annual reports, conference calls, analyst presentations, investor relations, interim reports, prospectuses, press releases and websites (Mayorga, 2013). The annual report has been identified as a key and official disclosure vehicle, especially for organizations not listed on a securities exchange market (Hyndman et al., 2004; Kribat, Burton, & Crawford, 2013). According to Khlif and Souissi (2010), organizational disclosure covers a wide range, including narrative and financial, mandatory and voluntary, printed and internet disclosure.

McGrath (2008) develops a disclosure framework that can be used to guide disclosure practices by SACCOs. The framework splits disclosures into three categories: financial performance, corporate governance and social. The disclosure of financial information is largely guided by IFRS. Social disclosures (including governance) are guided by various guidelines such as the Organization for Economic Cooperation and Development (OECD), Global Reporting Initiative (GRI) and WOCCU. Compared to financial disclosures, social disclosures are largely voluntary. It is therefore anticipated that SACCOs will provide more financial disclosures compared to social disclosures. Mook et al. (2007) argue that credit unions provide social disclosures to legitimize the cooperative structure, encourage stakeholder dialogue, increase transparency, promote organizational learning and support mission, vision and goals of the credit union.

The inclusion of both financial and social disclosure have been attributed to various motivations including as – a strategic tool to reduce the adverse effects of certain events (Deegan, Rankin, & Tobin, 2002), a desire to maximize competitive advantage, and as a means to manage pressure placed on the organization to administer its social and environmental responsibilities, public image and legitimacy (Gutierrez-Nieto, Fuertes-Callen, & Serrano-Cinca, 2008; Maali, Casson, & Napier, 2006). Social disclosures have been categorized under community issues, environmental conservation, customer (or member in the case of SACCOs) welfare, product and business practice and employee relations (McGrath, 2008).

[2] According to the data obtained by the corresponding author from the ministry in charge of cooperatives in Kenya, there were 6,738 registered savings and credit cooperatives (SACCOs) in Kenya as of 2013. The total number of cooperatives in Kenya as of 2013 was 13,890.

[3] The credit unions are classified as per Ferguson & McKillop (1997, 2000)'s criteria. According to Ferguson & McKillop (1997, 2000), the attributes of transitional credit union sector are large asset size, shifts in regulatory framework, adjustments to common bond, shifts towards greater product diversification, emphasis on growth and efficiency, weakening of reliance on voluntarism, recognition of need for greater effectiveness and professionalism of trade bodies and development of central services.

[4] According to McKillop and Wilson (2011), penetration rate is the total number of reported credit union members scaled by economically active population. I appreciate the definition of penetration rate as suggested by one of the anonymous reviewer's in this paper.