Global Academic Journal of Economics and Business

Available online at https://www.gajrc.com
**DOI:** 10.36348/gajeb.2022.v04i04.004

OPEN ACCESS

ISSN:2706-9001(P)
ISSN:2707-2584(O)

**Review Article**

# Low Penetration Rate in South African Financial Co-Operatives: Reasons from Supplier Perspective

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**Article History**
Received: 22.06.2022
Accepted: 26.07.2022
Published: 30.07.2022

**Abstract:** ***Background:*** The Co-operative Financial Institutions sector in South Africa is small compared to many African countries. Despite the important role that financial co-operatives play in poverty reduction and financial inclusion that is recognised by governments globally, no study has been conducted in South Africa in an attempt to find the reason behind this sector very low penetration rate. This study sought to investigate the possible reasons for the low penetration rate in the sector, focusing on supplier perspective. ***Aim/Purpose:*** The purpose of the study is to determine the reasons for low penetration rate in South African CFIs from their own perspective, reflecting on their entrepreneurial and innovative actions or strategies. ***Setting:*** The study considered all 28 registered CFIs and Co-operative Banks in South Africa. Twenty of them participated in the study. ***Method:*** The study used quantitative design to evaluate objective data. A structured questionnaire was used to collect data from 20 registered CFI representatives around the country. SPSS software was used to analyse data. ***Results:*** The study revealed that the low penetration rate in the CFI sector is due to consumer lack of knowledge and awareness about them, their products and their actions. ***Conclusion:*** The study concludes that the South African CFI sector needs to adapt and implement a systematic program that will enable them to reach out to more consumers. The findings may also give other stakeholders like the government, a better idea on what they should do to assist the sector.

**Keywords:** Co-operative Financial Institutions; Entrepreneurial Innovativeness; Offensive Strategies; Corporate Social Responsibility; Marketing strategies; Education Strategies; Partnership Strategies; Differentiation Strategies.



## INTRODUCTION

It is important to first explain and define the two main concepts used in this study, namely a Co-operative and a Co-operative Financial Institution. This is to give readers who are not familiar with the concepts, an idea on what Co-operatives and Co-operative Financial Institutions are. The Companies and Intellectual Property Commission (CIPC) defines a Co-operative as a distinct form of company that provides services and/or products to its members; and profits or surpluses, are shared among members in relation to the amount of the business each of them did with the co-operative (2017). The objective is for the members to achieve individual and collective financial emancipation. Types of co-operatives include agricultural, marketing, housing, financial services, consumer, service, crafts and burial societies, just to mention a few, and may also be classified as primary, secondary or tertiary (CIPC, 2017). To make the co-operative effective, members meet regularly to share detailed reports with each other and to elect directors among themselves (Entrepreneur, 2009). The directors are responsible to employ managers to manage the day-to-day tasks with the aim of serving the members' interests and must be elected among members.

Financial co-operatives offer opportunities toward financial inclusion to improve the socio and economic profiles of a society and the participating individuals. Sauli (n.d:5) states that CFIs provide many of the same products and services as traditional banks, but they differ in a number of ways since they do not seek to maximise profit, rather to serve their adherents and are owned by them. They generally have lower charges compared to commercial financial institutions; and the excess returns to adherents as profit or investment share (Sauli: n.d). To emphasize the importance of financial co-operatives, Birchall (2013) argues that financial co-operatives are a much better alternative to commercial banks, especially at a time of financial crisis. During the 2008 financial crisis for instance, commercial banks were reluctant to lend, however cooperative banks and credit unions continued to serve their members and communities as they were more stable and did not need government bail outs; their assets, deposits and membership increased (Birchall, 2013; Roelants *et al*., 2012; Birchall *et al*., 2009:18). Thus, the importance of the study on CFIs.

Despite the recognised importance of CFIs and opportunities they can provide to contribute to economic development in South Africa have, they have faced numerous challenges, including:

- Government challenges with changing regulations and legislative framework;
- Market challenges such as competition, changing consumer behaviour and demand, globalisation etc.;
- And challenges in the co-operative organisational structures (Finmark Trust, 2014).

It is a fair assumption to say that South Africa hosts one of the utmost modern and sophisticated financial sectors in the globe, using latest information and communication technologies. However, the Bank Association South Africa (2017) states that financial Inclusion remains a huge challenge facing South Africa. A large portion of the population does not benefit from the sector and "many communities in rural areas are living in poor conditions" (Van de Walt, 2006).

This article focuses on one aspect of the many challenges that are faced by financial co-operatives in South Africa that has not been investigated before, which is the reasons for low penetration in the sector that keeps it very small, and seeks to find what these could have been, from the consumer point of view. Thus the objective of the study is: to determine the reasons for low penetration rate in South African CFIs by investigating the consumer awareness of CFIs' actions or strategies that may also indicate their entrepreneurial innovativeness.

## LITERATURE REVIEW

The literature review constitutes mainly of studies that were the lens through which this study approached its theoretical inquiry into the reasons for the low penetration rate of the South African CFI sector.

### Theoretical framework

CFIs are member-owned and member-governed financial organisations that aim to achieve pre-determined economic and social objectives (Kepuladze *et al*., 2017). They are networks that are established to provide specific services (Kepuladze *et al*., 2017). The network character implies that CFIs are social capital-based organisations. Their members must have sufficient trust in one another and in the elected representatives and should not fear that others will be deceitful (Valentinov, 2004). Coordination within co-operatives and the allocation of resources depend on mutual understanding in the relationships between members (Hawkins *et al.*, 2012). In short, social capital is a fundamental asset of co-operatives. It can therefore be proposed that the economic principle of co-operative organisations is social capital shared by its membership. Social capital performs the same organisational role for co-operatives as price and authority relation – respectively for markets and hierarchies (Yu *et al*., 2019). Consequently, co-operatives can be regarded as representing the social capital-based organisation (Yu *et al*., 2019).

### Co-operatives and Cooperative Financial Institutions

According to the International Co-operative Alliance (ICA), whether the participants of co-operatives are the clients, workers or adherents, they possess same decision-making power on anything the company organises as well as a portion in the returns (2015). The Alliance goes on to say that "as businesses driven by values, not just profit, co-operatives share internationally agreed principles and act together to build a better world through cooperation" (2015). The co-operative principles are rules to follow in order to practice their ethics, and these are the following:

- Voluntary and Open Membership" - membership is open to all people who want to be part of co-operative, without any exclusion;
- Democratic Member Control" - members decide what they want to do together and act together. Both genders are represented in management bodies, and all members have same weight during voting;
- Member Economic Participation" - everyone subsidises equally and govern the money of the organisation.
- Autonomy and Independence" **-** co-operatives are identity-governing, and governed by owner-adherents. Should these ones get into agreement with supplementary parties, they ensure that in doing so, they still retain their freedom;
- Education, Training and Information" - tutoring and training for all associates is

provided by the organisation to enable them to participate to the growth of the company. They advise people around the assistance of co-operation;

- Co-operation among co-operatives" - co-operatives assist their adherents efficiently and reinforce the drive by acting collectively over all assemblies;
- Concern for Community" - co-operatives act for the maintainable growth of people via guidelines agreed to by their associates (ICA, 2015).

The South African Department of Trade and Industry (DTI) states that, cooperatives, seen as a system of business, lean towards subsidising the global financial progress and progress when likened to other corporate systems (2012). For example, the income of the globe's biggest three hundred co-operatives surpasses US$1 trillion, equivalent to the globe's 10$^{th}$ major economy; and co-operatives account for 25% of the global marketplace for coverage and amount to 33% of the global dairy foods (DTI, 2012). This study focuses on the Cooperative Financial Institutions in particular.

In his presentation of the International Labour Organisation (ILO) report on the influence of financial co-operatives, Peels (2013) summarised their characteristics which highlights the difference between investor owned banks and CFIs. He reports that their essential foundations are proprietorship, governance and welfare of CFIs (Peels, 2013). Clients own the co-operative, everyone with one member-share. The financial co-operative is not just the property of present group of participants, it also belongs to future associates. Association is not movable; participants manage the financial co-operative and they are a full party of the administration of the institution (Peels, 2013). Members are the core recipients of the benefits since the bank's aim is to assist them, and not to capitalise on profit. From these characteristics and operating principles, the aim of financial co-operatives should be the growth and development of their member-owners as opposed to profit maximisation for shareholders as is the case for investors owned banks. This is to try and address the illusive financial inclusion issue for financial co-operatives members in particular, and society at large.

**Financial Inclusion**

The Bank Association South Africa (2017) argues that "financial inclusion remains a huge challenge facing South Africa, with 12 million people or 23.5% of the population are considered as financially excluded, and 9% informally served". In addition, the World Bank (2014) reports that 67% of the population in South Africa don't keep money aside, even though most grown-ups accept the truth that saving is vital. Furthermore, among people who save, just 22% do it over standard networks.

The challenge is that, most of the studies on financial inclusion mentioned earlier (Philip 2003; Finmark Trust, 2014; Birchall, 2013; DTI, 2012; the World Bank, 2014; Kirsten, 2006 & Hawkins, 2009) focus mainly on the access to financial services (often from commercial banks) such as: having a bank account, doing transactions, borrowing and so on. The launch of the Mzansi account in October 2004 to spread financial services to small wage earners and others existing out of the financial offerings, created 1.5 million new bank accounts by May 2006 (Kirsten 2006). However, it appears that many of these accounts are dormant with little or no transactions. By the end of 2008, it was assessed that "six million Mzansi Accounts had been opened, of which only 3.5 million were active" (World Bank, 2014).

Financial co-operatives are believed to have the power to help people to achieve their financial emancipation and independence, which could be key to poverty eradication and community development. Low-income consumers need financial products that meet their needs and should be offered these at lower and more affordable costs. These consumers need to be educated and protected by government regulatory bodies as well as by CFIs themselves.

**International best practices**

Co-operative financial institutions have had many successes internationally over the years. A few examples include Spain, Germany, Italy, Bangladesh, North America and Kenya. The case of Kenya is looked at here as it is more relevant for South Africa.

The Kenyan co-operative and CFI sector appear to be the best African example of success. The country has a very developed co-operative financial sector with many successes. With more than Ksh 230 billion in assets and a savings collection approximately Ksh 190 billion, the Savings and Credit Co-operative (SACCO) society in Kenya covers a considerable share of about 20% of the nation's savings (Gogo *et al*., 2017). Wanyama (2009) reports that the Kenyan Co-operative Bank is the fourth largest bank in the country. Key success factors of co-operatives in general include an enabling legislative environment; an independent Ministry that drives the promotion of co-operatives with a substantial budget; strong partnerships between government and the co-operatives movement; provision of education and training for members through the Co-operatives College that was established in 1952; provision of financial support for co-operatives through SACCOs and the National Co-operatives Bank of Kenya; conflict resolution system; and decentralised implementation (DTI, 2012).

The Kenya SACCO sub-sector comprises both deposit taking (FOSA operating SACCOs) and non-deposit taking SACCOs. At the end of December 2019, the number of registered deposit-taking SACCOs in Kenya was 163 (Kenyans.co.ke, 2020). The World Council of Credit Unions (WOCCU) 2018 statistical report placed Kenyan CFI sector as number one in Africa, with close to 8 million members and 28.4% penetration rate; more than 5 billion US dollars in saving and shares; over 6 billion US dollars in loans; and just over 8 billion US dollars in assets (WOCCU, 2018).

SACCOs in Kenya are diversified, and that allows a good diversification of the risk across various union members of different types, industry sectors and geographies such as Kenya Bus Services SACCO, Kenya Planters Co-operative Society, Kenya Creameries Co-operative (Wangui, 2010). Kenyan SACCOs have diversification strategies that broaden the credit risk to stay away from concentration of credit risk troubles, with the other practice being credit enhancement where a SACCO strengthens its credit by buying credit security in the form of collaterals from financial guarantors or through credit derivative products (Wangui, 2010). Findings from a study by Olando, Jagongo, and Mbewa (2012) indicated that Growth of Kenyan SACCOs wealth relied on loan management, institutional strengths, and innovation of their services.

Kinyua, Amuhaya and Namusonge (2015) identified specific strategies that are applied to manage stakeholders' interests in Kenyan SACCOs that have greatly contributed to their overall success. These strategies are briefly discussed below:

- **Defensive strategies**

Defensive strategies are management tools that can be used to counter an attack from a potential competitor (Kinyua *et al*., 2015).

- **Offensive strategies**

According to Fahri and Yannopoulos (2011), firms engage in offensive marketing strategies to improve their own competitive position by taking market share away from rivals. Offensive strategies may consist of direct and indirect attacks or moving into new markets to avoid current competitors. Smakalova (2012) emphasizes that offensive strategies should be adopted if a stakeholder group has relatively high co-operative potential and relatively low competitive threat.

- **Hold strategies**

Hold strategies involves keeping position.

- **Swing strategies**

This is a group of stakeholders with high co-operative and high threatening abilities, whom firms should collaborate with to maximize their positive influencing abilities and minimize threatening abilities (Freeman *et al*., 2001 in Kinyua *et al*., 2015).

- **Corporate Social Responsibility Strategy**

McWilliams, Siegel and Wright (2006) define Corporate Social Responsibility (CSR) as situations where the firm goes beyond "compliance and engages in actions that appear to further some social good, beyond the interests of the firm and that which is required by law". According to Kinyua (2016), CSR activities have been found to contribute to a better society, thus improving Kenyan SACCOs' image and contributing to their success.

- **Use of Technology and partnership**

Africa is the world's fastest growing mobile subscriber market and 70% of its population is under 35 years of age; and similar to many young adults worldwide, they are tech-savvy consumers seeking digital, convenient financial services that bring value to their lives (WOCCU, 2015). In Kenya, based on a World Council Developed Network that connects credit unions to the Safaricom's M-PESA platform, members are not only able to use M-PESA's standard payment services, but to integrate their regular credit union accounts with the mobile interface (WOCCU, 2015).

The question here is, can some of these successful models be adopted by the CFI sector in South Africa, resulting in a successful financial co-operative sector aimed to achieve decent living conditions, financial independence and indeed economic development for its communities? The answer may be yes. However, Satgar (2007) warns that "in practice the line between enabling support and autonomously developed co-operatives, has to be constantly monitored such that, on the one hand, the bureaucracy does not capture these institutions, and on the other, the co-operatives themselves do not become dependent on state support". This article argues that all should start with the people or consumer education and proper marketing and CFIs engagement with communities so that they can learn about them, the products or services and benefits they offer.

In conclusion, the aim of this study is to determine the reasons for low penetration rate in South African CFIs from the supplier perspective. The objectives set to achieve this aim are to investigate the CFIs' points of view about the low penetration rate in their sector as well as their entrepreneurial and innovative actions or strategies.

**Research Methods and design**

This study design and data collection method was inspired by the need to gather enough data in order to investigate the consumer knowledge (or lack of it thereof) about CFIs and their entrepreneurial and innovative actions or strategies such as marketing, education, partnerships, corporate social responsibilities, offensive strategies and differentiations, from the supplier point of view. A quantitative research design was deemed appropriate to investigate these activities. This required an empirical study with data collection from participants that was achieved using questionnaires.

**Sampling and sample size**

The sample size was the entire population size of all 28 registered CFIs with the SA Treasury including the four Co-operative Banks as per the latest list obtained from the SA Reserve Bank in January 2020. All were considered for the survey; and the reason was that it is a small population and to have enough data for better results, all needed to be surveyed. Twenty CFIs completed the questionnaire.

**Data collection instrument and procedure**

Questionnaires were used to collect data for the study. According to Kuada (2012), a questionnaire is the most predictable data collection tool used in surveys". The registered CFIs and Co-operative Banks managers or founders were contacted via telephone and explained the objectives of the study. Some of them could not be reached via telephone. An informed consent form and the questionnaire were then emailed to all. Bowling (2005) reports that electronic mode of questionnaire administration been documented in individual experiments and in reviews to have more complete item response rates than the different paper and pencil methods, although respondents need access to a computer and/or internet facilities or equipment in an office, clinic or home setting, and basic computer literacy. It was assumed that since only management of the CFIs and Co-operative Bank would be surveyed, this would not be an issue. Twenty questionnaires were collected, which represent 71.2% of the registered CFIs and Co-operative banks. As for the data collection tool validity, the constructs and items used in the measuring instrument were tested in other studies (Kinyua, 2016; Smakalova, 2012) and found to be valid and reliable. The design of the questionnaire was also aided by a statistician to ensure validity.

**Data analysis**

Data from the questionnaires were captured in a spreadsheet, checked and cleaned. The tests that were used in the analysis include: descriptive statistics including means and standard deviations; Chi-square goodness-of-fit-test; ANOVA; Binomial test; One sample t-test; Independent samples t-test; and Factor analysis.

**Ethical consideration**

Ethical clearance was obtained from the Ethics Committee of a large public university in Kwazulu Natal before data collection started.

## RESULTS AND DISCUSSIONS

The analysis started with the demographics of respondents. The results show that there was a slightly higher percentage of male respondents (55%) compared to female respondents (44%). Because the respondents had to be in management position to complete the survey, the higher percentage of male reflect the reality of the society with men often dominating in managerial positions. Eighty-five percent of the respondents (17) have got higher education qualification. This is not surprising due to the managerial position they occupy in the CFIs. Also 75% of the respondents are in senior management position. More than half (12) of the respondent CFIs have members between 201 and 1000; just over a third (6) have more than 1000 members; and 10% (2) have less than 200 members. On the other hand, 45% of the respondents CFIs have no non-member account holders; 50% have got between one and two hundred, and just one has got between 201 and 1000 nonmember account holders. The respondent CFIs also reported an average of 6% annual penetration rate of membership. This may not reflect the reality though, as if that was true, their membership base could be greater than what it is at the moment. Nonetheless, this rate is still very low compared to other countries that have been looked at earlier, somehow confirming the South African CFI sector's lagging behind those countries'.

**CFIs opinion on consumer knowledge about them and their services**

To test these opinions, participants were asked to rate their agreement (from 1 – strongly disagree to 5 = strongly agree) to items regarding consumer knowledge about CFIs and their services. Results from a one-sample t-test in which the average agreement is tested against the central score of '3' reveal that there is significant agreement that respondents believe that consumers don't know about CFIs; nor do they know about CFIs' products. However, there is neither agreement nor disagreement to the other items.

Other questions were asked to participants to rate their agreement to items regarding reasons why consumers are members of CFIs. Results from a one-sample t-test in which the average agreement is tested against the central score of '3' reveal that there is significant agreement that CFIs believe consumers are members because of the competitive prices of their products, their fast services; their commitment to excellent service; and the flexibility of their credit payment terms. There is also significant disagreement that members join to win gifts during promotions. There is neither agreement nor disagreement that 'members join because of their extended hours of service'.

The next questions that were asked to respondents CFIs explored the products they offer to members or non-members. Results from a Binomial test show that a significant majority of respondents said they offer two products (loans and saving accounts). More importantly, the results mean that these CFIs' line of products is very limited and not diversified. This may not be good for them in their bid to compete with other financial service providers, especially the mainstream banks. Olando, Jagongo, and Mbewa (2012) indicated that Growth of Kenyan SACCOs wealth relied among other things on innovation of their services, including products. A very successful credit union in America, Kinecta Federal Credit Union, cited 'target product development' as a key success factor which emphasizes developing products and services that can be customized to meet individual customer preferences and needs (Schoemaker *et al*., Parayre *et al*., 2002).

Furthermore, questions were asked to respondent CFIs about benefits they offer to consumers. Results from a binomial test show that respondent CFIs mainly offer two benefits to members. As discussed in previous sections, these benefits offered by respondents CFIs are too little compared to those in countries with successful financial co-operative sectors. One would assume that this may not be helpful in drawing more members to the sector.

The next questions to respondent CFIs were to rate the speed of their services. Results from a Chi-square goodness-of-fit test show that a significant number of respondents (50%), rate the speed of CFI as fast. The question is, how may this feature be improved by CFIs as part of a strategy to grow their membership base? For example, a s part of their success strategies, credit unions in Ecuador endeavoured to cut the time a customer spent on dealings; they did this by easing procedures and opening additional cashier windows (Paredes, 2001).

The next sections discuss the entrepreneurship and innovativeness within the South African CFI sector.

**Are South African CFIs entrepreneurial and innovative enough to deal with the problem of low penetration rate affecting the development of the sector?**

To try and answer this question, six strategies that have been used in more successful financial co-operative sectors across the globe have been used as benchmark.

**CFIs marketing actions**

To explore the marketing strategy actions of respondent CFIs, they were asked whether they use those that were put to them or any other ones. Results from a binomial test (Table 1) show that only two actions are adopted by a significant number of CFIs. These are 'handing out flyers and brochures' and 'people talking about them'. From this result it is clear why most respondents don't know about CFIs. That is because they are not visible in places where they can be seen or heard. A question that may be asked is, why should CFIs market themselves? If companies like Coca Cola or Discovery still market themselves, one would assume that because marketing works. In Lithuania, Jaseviciene, Kedaitis and Vidzbelyte (2014) found that effective advertisement criterion for example, can help credit unions to attract new members and to choose certain strategies in order to form a credit union's public image. WOCCU (2015) reported that to consider using credit union financial services, young adults "expect to use online and mobile technology to manage their finances, just as they use these channels for information, entertainment, social and payment services".

**Table 1: CFIs marketing actions**

| Items | Yes | No | n | p-value |
|---|---|---|---|---|
| C12.1 Adverts of saving Cooperatives on TV or radio | 4 (20) | 16 (80) | 20 | .012* |
| C12.5 Online adverts and pop-ups about financial co-operatives | 2 (10) | 18 (90) | 20 | .000* |
| C12.7 Handing out of Flyers and brochures about financial co-operatives | 15 (75) | 5 (25) | 20 | .041* |
| C12.8 People talking about financial co-operatives | 17 (85) | 3 (15) | 20 | .003* |

*indicates significance at the 95% level

**CFIs Offensive strategy actions**

To explore the offensive strategy actions of respondent CFIs, they were asked whether they use those put forward or any other ones. Results from a binomial test (Table 2) show that respondent CFIs do not adopt these offensive strategies to improve their membership base; especially a significant majority of them do not use strategies such as 'offering jobs to members or account holders', 'organising raffles', or 'giving members/account holders the option to pay bills and buy online'. Nonetheless, these strategies seem to be very effective in a country with successful financial co-operative sector like Kenya. Kinyua *et al.,* (2015) found that offensive strategies have significant positive correlation between Kenyan SACCOSs financial performance and success.

**Table 2: CFIs Offensive strategy actions**

| **Binomial Test** | | | | |
|---|---|---|---|---|
| | Yes | No | n | p-value |
| D13.3 Offering jobs to members or non-member account holders | 2 (10) | 18 (90) | 20 | .039* |
| D13.4 Organising raffles in shopping centres or streets to promote your financial co-operative | 1 (5) | 19 (95) | 20 | .000* |
| D13.5 Giving members/account holders the option to pay bills and buy online | 2 (10) | 18 (90) | 20 | .000* |

* indicates significance at the 95% level

**CFIs educational actions strategies**

To test these strategies of respondent CFIs, they were asked whether they use those put forward or any other ones. Results from a binomial test (Table 3) show that respondent CFIs do not adopt these educational strategies to improve their membership base; especially a significant majority of them do not use 'Radio or TV shows to promote themselves', p=.012. Why would these strategies be important to CFIs? Stokvels which are a form of informal financial co-operatives in South Africa are well known on TV shows; and they are very popular even though one would not say for certain the TV shows are the cause of their popularity. As for social media, most businesses are on them nowadays because it has been platform for almost everything today. Many business organise open days to promote themselves, especially if they knew businesses or open new branches in other areas.

**Table 3: CFIs educational actions strategies**

| **Binomial test** | | | | |
|---|---|---|---|---|
| | Yes | No | n | p-value |
| E14.1 Radio or TV shows promoting or discussing co-operative financial institutions | 4 (20) | 16 (80) | 20 | .012* |
| E14.2 Social media awareness campaigns about financial co-operatives | 9 (45) | 11 (55) | 20 | .824 |
| E14.3 Open days organised by financial co-operatives to promote themselves or their services | 12 (60) | 8 (40) | 20 | .503 |

* indicates significance at the 95% level

**CFIs partnership strategies**

To explore the offensive strategy actions of respondent CFIs, they were asked whether they use those put forward or any other ones. Results from a binomial test (Table 4) show that respondent CFIs do not adopt these partnership strategies to improve their penetration rate. Especially a significant majority of them do not allow the 'use of financial co-operative card to buy or withdraw money from retailers', p<.05 or the 'use of your financial co-operatives card to withdraw from other financial services' ATMs', p<.05. However, these strategies have been useful to financial co-operatives in countries with successful CFI sector. For instance, one of the key success factors of a Canadian credit union is 'delivery channels' which focuses on enhancing the existing channels and developing new channels such as wireless access, grocery store branches so they can interact easily in any different ways they wish (Schoemaker *et al*., 2002). In Kenya, with the World Council Developed Network that connects credit unions to the Safaricom's M-PESA platform, members are not only able to use M-PESA's standard payment services, but to integrate their regular credit union accounts with the mobile interface (WOCCU, 2015).

**Table 4: CFIs partnership strategies**

| **Binomial Test** | | | | |
|---|---|---|---|---|
| | Yes | No | n | p-value |
| F15.1 Use of your financial co-operative card to buy or withdraw money from retailers such as Shoprite, Spar etc. | 2 (10) | 18 (90) | 20 | .000* |
| F15.2 Use of your financial co-operatives card to withdraw from other financial services' ATMs | 3 (15) | 17 (85) | 20 | .003* |
| F15.3 Partnerships between financial co-operatives and community based organisations such as NGOs or other organisations | 11 (55) | 9 (45) | 20 | .824 |

* indicates significance at the 95% level

**CFIs Corporate Social Responsibility strategies**

To explore these strategies', used by respondent CFIs, they were asked whether they use those put to them or any other ones. Results from a binomial test (Table 5) show that respondent CFIs do not adopt these CSR strategies to improve their membership base. Especially a significant majority of them do not adopt the strategies of 'organizing Community support groups to assist people with disabilities or during disasters', p=.003, or 'giving Community development loans to local community support groups', p=.012. The question here is; how do CSR strategies can benefit financial co-operatives? McWilliams, Siegel and Wright (2006) argue that CSR activities have been conceived to embrace social qualities or characteristics into goods and manufacturing methods, adopting changing human resource management practices, and pushing for the goals of community organisations. Kinyua (2016) found that CSR activities such as integrating social concern into business, good ethical values, striving to satisfy to satisfy the community, and engaging in environmental stewardship contribute to a better society, thus improving Kenyan SACCOs' image and contributing to their success. Grameen Bank of Bangladesh have adopted initiatives such online Schools, which use video conferencing technology to impart high quality education in remote areas and provides internet facilities; and Studyline, a call centre based service engaging human agents to answer college, university admission related queries (Telenor, 2016).

**Table 5: CFIs Corporate Social Responsibility strategies**

| **Binomial Test** | | | | |
|---|---|---|---|---|
| | Yes | No | n | p-value |
| G16.1 Driving one or more community services or projects in your areas of operation | 13 (65) | 7 (35) | 20 | .263 |
| G16.2 Organizing Financial literacy sessions for diverse ethnic groups | 9 (45) | 11 (55) | 20 | .824 |
| G16.3 Organizing Community support groups to assist people with disabilities or during disasters such as flooding | 3 (15) | 17 (85) | 20 | .003* |
| G16.4 Engaging in voluntary programs initiated by local community groups | 8 (40) | 12 (60) | 20 | .503 |
| G16.5 Giving Community development loans to local community support groups | 4 (20) | 16 (80) | 20 | .012* |

* indicates significance at the 95% level

**CFIs differentiation strategies**

To explore the differentiation strategy actions of respondent CFIs, they were asked whether they use those put forward or any other ones. Results from a binomial test (Table 6) reveals that respondent CFIs do not adopt these differentiation strategies to grow their membership base. Especially a significant majority of them do not adopt the strategies of 'opening new branches', p<.05; or 'free ATM withdrawal', p<.05. These strategies may be costly for CFIs, especially for the very small and/or new ones. However, they may help to turn things around for these CFIs. For Canadian credit unions for instance, new branches are a distribution channel for products and services, brand promotion and recognition, and differentiation (Schoemaker *et al*., 2002). The number and location of branches, in part, determines the geographic sphere of influence the institution has and its ability to attract and serve customers (Klug, 2007). Australia's first customer-owned bank, Bankmecu appeals to young people through its e-Statements, interactive mobile app, conversations on social media and its visual-centered, user-friendly branding (WOCCU, 2015).

**Table 6: CFIs differentiation strategies**

| **Binomial Test** | | | | |
|---|---|---|---|---|
| | Yes | No | n | p-value |
| H17.1 The introduction of new products | 12 (60) | 8 (40) | 20 | .503 |
| H17.2 Opening of new branches | 2 (10) | 18 (90) | 20 | .000* |
| H17.3 Offering of diverse products | 9 (45) | 11 (55) | 20 | .824 |
| H17.4 Giving loans without needing any collateral | 6 (30) | 14 (70) | 20 | .115 |
| H17.5 Free ATM withdrawal | 0 (0) | 20 (100) | 20 | .000* |

* indicates significance at the 95% level

Factor analysis with Promax rotation was applied to explore the structure of the data. Items measured on a 5-point Likert scale pertaining to the organisational actions were included in the initial analysis. These include C10.1 – 10.8 (marketing), D11.1 – 11.4 (offensive strategies), E13.1 – 13.3 (education), F14.1 – 14.3 (partnerships), G15.1 – 15.5 (corporate social responsibility), and H16.1 – 16.5 (differentiation). During the process items H16.2 and H16.4 were dropped because they cross-loaded onto multiple factors; in addition, item C10.8 was dropped because it did not load adequately onto any factor. Three factors were extracted using Kaiser-Meyer-Olkin measurement of sampling adequacy (KMO). A value of .902 indicates a successful and reliable extraction process has taken place. The three factors account for 62.20% of the variation in the data. Cronbach's alpha was used to test the reliability of each factor. The factor loadings, as well as the Cronbach's alpha values are shown in table 1 where it can be seen that all three factors have an Alpha value which is greater than .7, confirming the reliability of each factor as composite measure.

**Table 7: Factor loadings and Cronbach's Alpha**

| | Factor | | |
|---|---|---|---|
| | 1. Marketing | 2. CSR | 3. Offensive strategies |
| **Cronbach's alpha** | **.915** | **.907** | **.892** |
| C 10.5 Online adverts and pop-ups about financial co-operatives | .862 | | |
| C 10.4 Adverts about financial cooperatives on Facebook, Twitter and other social media | .847 | | |
| C 10.1 Adverts of saving Cooperatives on TV or radio | .836 | | |
| E 13.1 Radio or TV shows promoting or discussing co-operative financial institutions | .784 | | |
| C 10.2 Adverts of financial cooperatives on billboards or somewhere in the street | .706 | | |
| E 13.2 Social media awareness campaigns about financial co-operatives | .678 | | |
| C 10.3 Advertising of financial cooperatives via SMS | .667 | | |
| C 10.7 Handing out of Flyers and brochures about financial co-operatives | .584 | | |

| | | | |
|---|---|---|---|
| D 11.2 Financial co-operatives actively promoting their low interest rates | .368 | | |
| G 15.4 Engagement of financial cooperatives in voluntary programs initiated by local community groups | | .898 | |
| G 15.1 Community services or projects that are driven by a cooperative | | .794 | |
| G 15.5 Community development loans given to local community support | | .759 | |
| G 15.3 Community support groups organized by financial co-operatives to assist people with disabilities or during disasters such as flooding | | .754 | |
| D 11.3 Raffles held in shopping centres or streets where financial co-operatives are promoted | | .619 | |
| G 15.2 Financial literacy sessions organised by financial co-operatives for diverse ethnic groups | | .609 | |
| E 13.3 Open days organized by financial co-operatives to promote themselves or their services | | .595 | |
| D 11.1 Employees of a financial cooperative approaching people in a public area to explain the benefits of belonging to a CFI and asking them to join | | .569 | |
| C 10.6 Attendance of financial co-operatives at community events | | .511 | |
| F 14.3 Partnership between financial co-operatives and community based organisations such as NGOs or others | | .507 | |
| H 16.1 The introduction of new products by financial co-operatives | | | .873 |
| F 14.2 Being able to use a financial co-operatives' card to withdraw from other financial services' ATMs | | | .855 |
| F 14.1 Being able to use a financial co-operative' card to buy or withdraw money from retailers such as Shoprite, Spar etc. | | | .759 |
| H 16.5 Free ATM withdrawal | | | .756 |
| H 16.3 Diversity in the products they offer | | | .680 |
| D 11.4 Ability to pay bills and buy online with CFI cards | | | .543 |
| **Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO) = .902; Bartlett's test of sphericity (df=300) = 5586.274, p<.0005;** | | | |

Further analysis was done on the three composite measures that loaded together to determine the extent to which these strategies are applied by respondent CFIs (for example, how many CFIs apply which strategies and how many). The results show that not many strategies have been adopted or used by respondents CFIs. For instance, with the marketing strategies, 10% percent of all respondent CFIs do not apply any. A further 10% apply seven of them, which is the highest number of those strategies adopted. For CSR strategies, again 10% of respondent CFIs do not apply any. Just nine percent apply all of nine strategies. As for offensive strategies, 40% of respondent CFIs do not apply any. Only 15% apply four of them which is the maximum number of those strategies adopted. This may not be enough for these CFIs to grow their membership base considering the positive effects these strategies have had on CFIs' success in other countries as seen earlier.

More analysis was conducted to determine if significant proportions of respondents adopt a certain number of these actions or strategies. Results from a Binomial test reveal that A significant 85% of the CFI's indicated that they apply at least 1 of the 9 actions under the Marketing strategy, p=.003. Another significant 80% of the CFI's indicated that they apply at least 1 of the 10 actions under the Community strategy, p=.012. The question here is that how many of the respondent CFIs apply more than one strategy which is not a great number that can make any difference.

Results from a Binomial test show that a significant proportion (80%) of respondents says they adopt two or less actions under the offensive strategies, p=.012. There is no evidence that a significant proportions of respondent CFIs adopt more than two actions under offensive strategies. Further analysis indicates that a significant proportion adopt at most five actions under Marketing and CSR (p=.041).

For the three composite measures, it can be seen from the analysis that, overall not a significant number of respondents adopt enough actions from any of the three measures to make an impact on their growth in general and on increasing their membership numbers in particular. This result is only applicable to this sample of 20 respondents CFIs though, and not to the entire population of 28 registered CFIs.

## CONCLUSION

Financial co-operatives play an important role in poverty reduction and financial inclusion across the globe. Despite that, no study has been conducted in South Africa to try and find the reason behind the sector very low penetration rate. Considering that, the study sought to determine the reasons for low penetration rate in South African CFIs by investigating the supplier side point of view as well as their entrepreneurial and innovative actions or strategies. Government initiatives focus often on regulations or financing co-operatives, but that not helped the sector membership growth. The study results found that the respondent CFIs acknowledged that consumers do not know about them nor the products or services they offer. Thus the lack of interest in CFIs which result in this low penetration rate for the industry.

The study also found that respondent CFIs lack entrepreneurial innovativeness that could help improve their image in the public eyes and draw more members into the sector. This was shown by the fact that a significant majority of respondent CFIs do no use enough strategy actions that have been used by CFIs in countries with very successful financial co-operative sectors. These results imply that the South African CFI sector needs to adapt and implement a systematic program that will enable them to reach a much bigger number of consumers. The findings may also give the government who is a stakeholder, a better idea on what they should do to assist the sector deal with this problem.

**Limitations and recommendation for future research**

The study, despite following a quantitative survey, did not manage to survey all registered CFIs in South Africa. Twenty CFIs out of 28 participated, which represent about 71.4% of that population. It is recommended that for future research on this topic, because of the CFIs population is very small, a study endeavours to have all 28 registered CFIs participate to give a better indication for generalising the results. Also, a consumer survey needs to be conducted to have a better idea behind the low penetration in the South African CFI sector.

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