

Information Technology as a Strategic Management Driver and the Performance of Savings and Credit Cooperative Organizations in Nakuru County, Kenya

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Abstract

In Kenya, the cooperative sector and the Savings and Credit Cooperative Organizations (SACCOS) sub-sector have made significant contributions to the financial sector and the economy at large. Despite their role as alternative financiers, Saving and Credit Cooperative Organizations have faced performance challenges. This study aimed to determine how information technology as a strategic management driver affects the performance of SACCOS in Nakuru County, Kenya. The study was anchored on the Technological Acceptance Model (TAM). The study applied an explanatory research design. The unit of analysis was 23 Saving and Credit Cooperative Organizations licensed by the SACCO Societies Regulatory Authority and operating in Nakuru County. The specific respondents were senior general managers, business development managers, marketing managers, finance managers, human resource managers, and information and communication technology managers. Therefore, the total population was 138 managers. The researcher purposively sampled the 138 managers. Primary and secondary data were both gathered for this project. Both descriptive and inferential statistics were used to analyze the data. Results showed that information technology had a positive and significant effect on SACCOS' performance ($\beta = 0.304$, $p = 0.000$). The study concluded that information technology had a positive and significant effect on SACCO performance. The adoption of digital services, such as mobile and internet banking, along with fintech solutions, helps improve operational efficiency, customer satisfaction, and financial performance by streamlining operations and reducing costs, though challenges such as transaction costs and system delays remain. The study also concluded that improved ICT policy implementation led to better performance among deposit-taking SACCOS. Based on the study's conclusions and findings, the study recommends that DT SACCOS deepen their investments in mobile banking platforms, as they are the next frontier in ICT innovation.

Keywords: *Information Technology, Strategic Management Driver, Performance of SACCOS*

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1. Introduction

The idea of strategic management has evolved steadily, yet it remains focused on enhancing firms' ability to respond proactively to changes and external factors (Bogers, Chesbrough, Heaton, & Teece, 2019). According to Muiga and Namusonge (2020), for strategic decisions

to effectively support a company's competitiveness and performance, critical prospects must drive the entire process. These opportunities are known as drivers of strategic management (Muiga & Namusonge, 2020). To optimize organizational performance, certain strategies and value drivers are strongly related to strategic management drivers. Like other managers, SACCO managers can modify policies and other organizational activities based on performance feedback (Chijioke, Vu & Olatunji, 2018).

The rapid proliferation of savings and credit cooperative organizations (SACCOs) and the diversification of their operations call for an in-depth understanding of the strategic management drivers and performance factors that can enhance the success of their diversified operations. SACCOs are diversifying their financial services to include deposits, savings, ATMs, and front-office services (Ringera, 2018). However, this diversification presents significant risks and new dynamics that reshape SACCOs' strategic objectives and performance indicators. Although the SACCO Society Act of 2008 has established mechanisms for licensing, regulating, and supervising SACCOs, its prudential and non-prudential laws do not provide guidance on addressing the performance issues that characterize SACCOs (Mwania, 2020).

Cooperatives in Indonesia hold great promise for enhancing the country's economy and reducing unemployment, despite their current performance still being deemed insufficient. An increase in return on assets is observed in certain SACCOs, whilst a decrease is shown in others. Syamni and Abd Majid (2018) found that while some Indonesian cooperatives have performed well financially, they will undoubtedly fail to increase their output without diversifying, ultimately resulting in bankruptcy.

Cooperatives in China are still perceived as underperforming, despite their enormous potential to improve the country's economy and reduce unemployment (Majid et al., 2020). After nearly half a century of growth, rural credit unions in China had 42,000 institutions with legal person status, 640,000 employees, Y1.33 trillion in deposits, and Y0.92 trillion in loans by the year 2000. These figures represented 12.3% and 10% of the nation's totals, respectively (Huang & Liang, 2018). Liang et al. (2022) added that cooperatives in China have neglected strategic management practices, resulting in poor performance.

SACCOs in Africa have improved their results by implementing several strategic initiatives. Developing a strategy aligned with the goals, policies, and missions of deposit-taking SACCOs is one such strategic management process and activity. In strategic management processes, the second activity concerns financial resources, the sequence of procedures, the structure of incentives, and the strategy for implementing program activities. To put these strategic concepts into practice, Ghana hosted the first SACCO Society in Africa in 1959. In other African countries that do not speak English, SACCO recognition began in the 1960s and grew noticeably in the 1970s. Following the establishment of SACCOS, the ACCOSCA was founded in 1965. Upholding SACCO values, offering SACCO insurance, and educating members on SACCO matters were among ACCOSCA's top concerns (Ogweno & Bula, 2023).

The first African nation to adopt the SACCO was Ghana. Nonetheless, the Sacco used several strategies to deliver its services to customers. Despite their age and years of existence, Ghana's SACCO membership was only one million, compared to millions in Kenya, where several SACCOs have millions of registered members. This led to the emergence of both formal and informal market divisions within the corporate sector. Deteriorations also meant that several business sectors had to address issues such as poor data quality, risk management, extremely

high exchange rates, reserve planning, awards, and unanticipated capital requirements (Lenkume, 2019).

In Kenya, SACCOs are increasingly realizing that their value drivers rely on how well they leverage their strategic objectives. The primary value drivers for SACCOs, as determined by their operational models, are membership, products and services, operations, finance, human resources, and governance (Esokomi & Mutua, 2018). However, product/service innovations are steadily emerging as value and performance drivers for SACCOs, compelling them to integrate them into their operations (Anthony & Susan, 2017). As SACCOs increase, performance and strategic management become critical concerns for SACCO members and other stakeholders, given their role as financial intermediaries for various groups. As such, this study focuses on front office (deposit and savings) SACCOs in Nakuru County.

In Kenya, the cooperative sector and the SACCO sub-sector have made significant contributions to the economy. They are crucial for raising funds and providing Kenya's sizable population with access to credit (SASRA, 2018). Despite their role as alternative financiers, SACCOs have faced performance challenges. The credit risk remains high because nonperforming loans increased from 5.2% in 2016 to 9.1% in June 2020 (Financial Sector Regulators, 2020). The liquidity ratio (the share of savings held in cash and cash equivalents) decreased from 55.9% in 2018 to 49.95% in 2019. Further, in 2018, operating expenses as a proportion of total assets went up from 5.13% to 5.44%. In addition, twelve DT-SACCOs operated under conditionally limited half-year licenses in 2019 due to nonpayment of dues, while two DT-SACCOs had their licenses revoked. Furthermore, non-performing loans have been rising, rising from 7.23% in 2019 to 8.14% in 2020 (SASRA, 2021). These trends clearly indicate that SACCOs are facing challenges in their financial performance. This study sought to determine the effect of information technology on the performance of front office SACCOs in Nakuru County.

2. Literature Review

2.1 Theoretical Review

Originally created by Davis (1989), TAM aims to clarify why it is so important for an organization to choose which technologies to make more widely accepted for use in its daily operations. Customers' decisions about whether and how to employ newly introduced technology are influenced by several variables. As stated in the concept, a person's belief in the extent to which a given system might enhance their effectiveness on the job is known as their perceived utility (PU). The term "perceived ease of use" (PEOU) refers to how someone perceives a system's ease of use. It refers to whether someone believes a piece of technology will be useful for the task at hand. All the barriers should be gone if the technology is easy to use. A complicated interface and poor usability make anything unappealing to most people.

Since operations in the modern business sector can only be handled effectively through technology, it is vital in the study's setting as a strategic management driver (Venkatesh, Thong & Xu, 2012). Certain technical systems are implemented when creating methods for improved, effective management, and this aspect often fosters employee resistance. Strategic drivers and organizational management depend greatly on the implementers of each strategy the business chooses for competitiveness, and on whether it is accepted or rejected. The Technology Acceptance Model (TAM) states that workers should be included in the development and implementation of new technology (Venkatesh & Davis, 2000; Surry, Ensminger & Haab, 2005). This involves assessing the technology's external and internal aspects, as well as the employees' attitude toward it and behavioral intention to use it before actually using it.

According to the review, TAM is therefore crucial to the study's efforts to improve our knowledge of how information technology affects SACCOs' financial performance. Users' behavioral intentions, based on their assessments of the technology's usefulness and ease of use, predict technology acceptance according to the Technology Acceptance Model (TAM).

2.2 Empirical Review

Ayoro (2018) set out to analyze the impact of adopting information and communication technology on the financial performance of credit and savings co-ops in Western Kenya. This investigation used a correlational research strategy. One hundred and sixteen SACCOS in western Kenya comprised the study's sample. A variety of sampling techniques, including stratified, basic random, and deliberate sampling, were used in the study. The study finds that ICT adoption positively impacts the financial performance of credit cooperative societies and savings accounts in Western Kenya. However, other aspects of information technology were not included in the study, which focused only on ICT.

Ogweno and Bula's (2023) research on SACCO Performance Impact shows that approximately 62.9% of the changes in the performance of DT-SACCOs in Nairobi City County can be explained by changes in the strategy formulation process. Stakeholder Inclusion is critical in SACCO performance. SACCOs are urged to engage all stakeholders and conduct thorough market research when formulating a strategy.

Muthoka, Oloko, and Obonyo (2019) examined the impact of information technology on the performance of state-owned tourist companies in Kenya in order to evaluate the influence of strategic management drivers. All of Kenya's state-owned tourism corporations were part of the target audience, and the respondents were their management. Using questionnaires for data collection enabled both quantitative and qualitative feedback. All chairmen, CEOs, managers, and assistant managers of Kenya's state-run tourism firms participated in the survey. To examine qualitative data, content analysis was used. To assess the quantitative data, regression analysis was used. To evaluate the model's significance, an ANOVA test was run. The study's conclusions showed that information technology drivers improve performance in the tourism sector. However, the study's context is that Kenya-owned tourism state corporations are government-owned, unlike SACCOs, which are privately owned.

Ji, Yan, and Yu (2019) investigated how overall enterprise financial performance in China was impacted by information technology (IT) investments, both innovative and non-innovative. The study used a descriptive research design. The findings demonstrated that a company's profitability can be considerably increased by investing in IT. The study also found that innovative samples did not outperform non-innovative IT investments in terms of financial success, except for the profitability financial measure. The study, however, was conducted in a different geographic area from the current study; hence the gap.

Kariuki (2019) used K-Unity SACCO as a case study to investigate how technology adoption affects the performance of deposit-taking SACCOs. The study was based on a census sample of 95 K-Unity Sacco workers as of January 31, 2019. Descriptive statistics and basic linear regression models were applied. The study's findings demonstrated a statistically significant and favorable correlation between loan management software, mobile banking, and the digitization of Sacco operations and financial performance. The study, however, is specific to Deposit-Taking SACCOs and excludes non-deposit-taking SACCOs, which this study included in the population.

Research on the effects of strategic management drivers, specifically ICT, on the operations of microfinance institutions in Nairobi, Kenya, was conducted by Kiambi and Kariuki (2019). Using simple random sampling, the study selected 32 microfinance organizations in Nairobi. For the data analysis, regression, correlation analysis, and descriptive statistics were used. The study found that ICT and MFIs' financial performance in Nairobi was strongly and positively correlated. The study, however, generalized the concept of performance; hence, the need to be specific about financial performance.

3. Methodology

The research design for the study was explanatory. Since this strategy facilitates the explanation of the cause-and-effect relationship between components, it was used in this study (Sileyew, 2019). The unit of analysis was 23 SACCOs licensed by SASRA and operating in Nakuru County. The specific respondents were senior general managers, business development managers, marketing managers, finance managers, human resource managers, and ICT managers. Therefore, the total population was 138 managers. Financial performance data for the periods (2017-2021) were extracted and analyzed, resulting in a total of 115 observations. The researcher purposively sampled all 138 managers of the 23 SASRA-licensed SACCOs operating in Nakuru County. Purposive sampling involves researchers deliberately selecting participants most likely to provide relevant and valuable insights into the research question.

This study collected both secondary and primary data. Secondary data, including ROA, were collected from SASRA's published reports for 2016 to 2021. The questionnaire was used to collect primary data. The descriptive and inferential methods were both included in the analysis. Descriptive statistics comprised of frequencies, mean, and standard deviations. Inferential statistics, on the other hand, helped measure relationships among variables, including regression analysis. Numerical values consistent with numerical codes were assigned to responses. Pie charts, bar graphs, and tables were all used to display the data.

4. Results and Discussion

4.1 Descriptive Statistics Analysis

Descriptive analysis was done for all the independent and dependent variables. To interpret the study results objectively, responses of 5 and 4 (strongly agree and agree) were grouped as agree, 2 and 1 (disagree and strongly disagree) as disagree, and 3 as neutral.

4.1.1 Information Technology

Descriptive results for information technology are presented in Table 1.

Table 1: Information Technology

statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	std. dev
Automation of operations enhances firm performance	1.90%	10.20%	2.80%	32.40%	52.80%	4.24	1.04
There are IT trainings for all employees	8.30%	17.60%	11.10%	32.40%	30.60%	3.59	1.31
Adoption of mobile banking enhances the firm's performance	8.30%	2.80%	24.10%	46.30%	18.50%	3.64	1.08
The SACCOs have ensured good and reliable internet access	4.60%	7.40%	16.70%	43.50%	27.80%	3.82	1.07
The Sacco assets and customer data are now more securely protected thanks to the adoption of ICT solutions.	4.60%	7.40%	18.50%	38.00%	31.50%	3.84	1.10
There is enough IT infrastructure	2.80%	6.50%	18.50%	50.00%	22.20%	3.82	0.95

The results showed that the majority of respondents (85.2%) agreed with the statement that automation of operations enhances firm performance (mean=4.24, std.dev=1.04). Further results showed that the majority of respondents, 63.0%, agreed with the statement that there are IT training sessions for all employees (mean=3.59, std.dev=1.31). In addition, the results showed that the majority of respondents (64.8%) agreed with the statement that Adoption of mobile banking enhances the firm's performance (mean=3.64, std.dev=1.08). Further results showed that the majority of respondents (71.3%) agreed with the statement that SACCOs have ensured good and reliable internet access (mean=3.82, std.dev=1.07). In addition, the results showed that the majority of respondents (69.5%) agreed that Sacco assets and customer data are now more securely protected thanks to the adoption of ICT solutions (mean=3.84, std.dev=1.10). Further results showed that the majority of respondents (72.2%) agreed with the statement that there is enough IT infrastructure (mean=3.82, std.dev=0.95). The study findings were consistent with those of Ayoro (2018) and Ogweno and Bula (2023), who found that the financial performance of credit cooperative societies and savings accounts in Western Kenya is positively affected by ICT adoption. The study findings also aligned with those of Muthoka, Oloko, and Obonyo (2019), who found that information technology drivers improve performance in the tourism sector.

4.1.2 Performance of SACCOs

Descriptive results for governance are presented in Table 2.

Table 2: Performance of SACCOs

Statement	Very poor	Poor	Moderate	Good	Very good	Mean	Std.dev
The SACCO profits	6.50%	4.60%	23.10%	45.40%	20.40%	3.69	1.06
Customer satisfaction	48.10%	16.70%	2.80%	21.30%	11.10%	2.31	1.51
non-performing loans	53.70%	22.20%	5.60%	15.70%	2.80%	1.92	1.22
Return on assets	16.70%	10.20%	11.10%	35.20%	26.90%	3.45	1.42
Growth profitability margins	3.70%	13.90%	25.90%	42.60%	13.90%	3.49	1.02
Growth in membership deposits	13.00%	6.50%	1.90%	68.50%	10.20%	3.56	1.17

Results showed that 65.8% indicated that the SACCOs' profits were good (mean=3.69, std.dev=1.06). In addition, results showed that 64.8% indicated that the customer satisfaction was poor (mean=2.31, std.dev=1.51). Further results showed that 64.8% indicated that the non-performing loans were poor (mean=2.31, std.dev=1.51). Further results showed that 75.9% indicated that the return on assets was good (mean=3.45, std.dev=1.42). In addition, results showed that 62.1% indicated that the growth profitability margins were good (mean=3.49, std dev=1.02). Further results showed that 56.5% indicated that the growth in membership deposits was good (mean=3.56, std.dev=1.17).

Based on secondary data, the profitability trends of the SACCOs are presented in Figure 1.

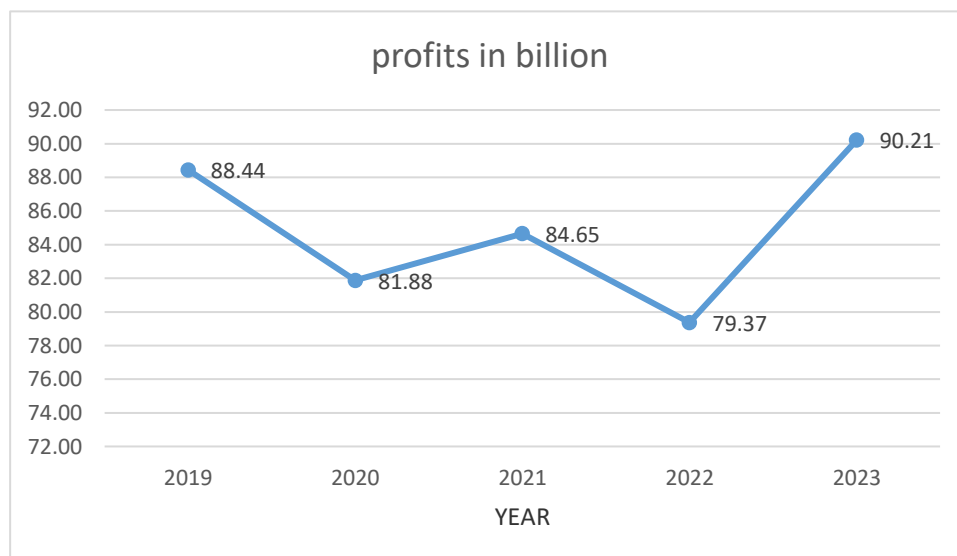


Figure 1: Profits in Billion

Results showed that the profits of SACCOs in Nakuru in 2019 were Ksh 88.44 billion. However, profits decreased to Ksh 81.88 billion in 2020, then increased to Ksh 84.65 billion in 2021. The profits further decreased to Ksh 79.37 billion in 2022 but increased to Ksh 90.21

billion in 2023. This implies that SACCO profits in Nakuru County exhibit an inconsistent trend.

Based on secondary data, the ROA trend results for the SACCOs are presented in Figure 2.

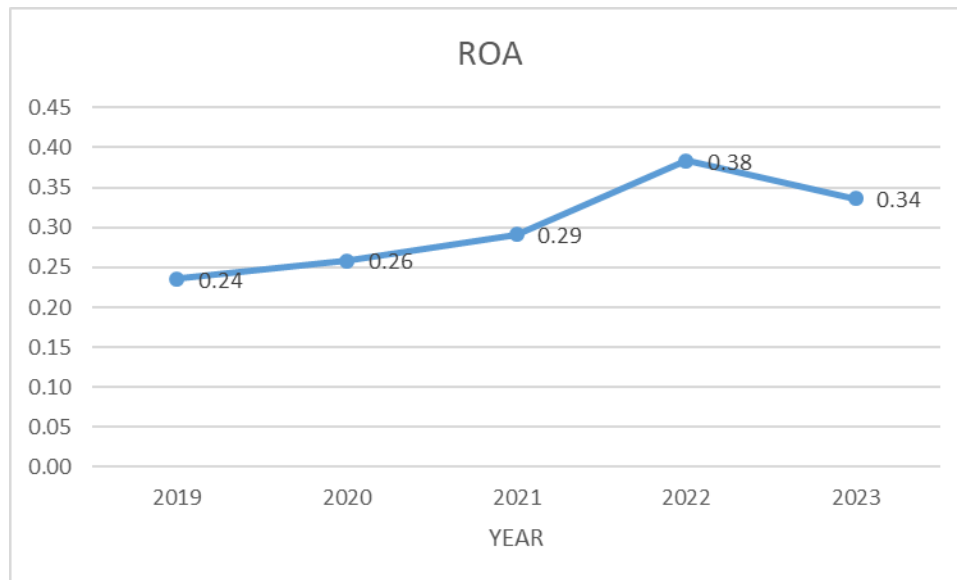


Figure 2: ROA of the SACCOs

Results showed that the ROA of SACCOs in Nakuru in 2019 was 0.24. However, the ROA increased to 0.26 in 2020 and to 0.29 in 2021. The ROA further increased to 0.38 in 2022 but decreased to 0.34 in 2023. The upward trend in ROA from 2019 to 2022, followed by a slight decline in 2023, indicates that SACCOs in Nakuru County have generally improved their financial performance over time. This suggests that strategic management practices in these SACCOs have likely contributed to better asset utilization and efficiency, directly supporting the study’s objective of examining how strategic management drivers influence organizational performance. The slight drop in 2023 also underscores the need for sustained, consistent strategic initiatives to maintain positive performance outcomes.

4.2 Regression Analysis

Regression analysis was used to assess relationships between variables. Regression results are presented in Table 3.

Table 3: Regression of Coefficient

	Unstandardized Coefficients	Std. Error	Standardized Coefficients	t	Sig.
	B		Beta		
(Constant)	-0.379	0.239		-1.585	0.116
Information technology	0.314	0.077	0.304	4.07	0.000

Results showed that information technology had a positive and significant effect on SACCOs' performance ($\beta = 0.304$, $p = 0.000$). Therefore, for every 1-unit increase in information technology, there will be a 0.304-unit increase in SACCOs' performance. The study findings also agreed with Kiambi and Kariuki (2019), who found that ICT and MFIs' financial

performance in Nairobi were strongly and positively correlated. The study findings were consistent with Kariuki (2019), who demonstrated a statistically significant and favorable correlation among loan management software, mobile banking, and the digitization of Sacco operations with financial performance. The study findings, however, did not align with Ji, Yan, and Yu (2019), who found that innovative samples did not outperform non-innovative IT investments in terms of financial success.

5. Conclusion

The study concluded that information technology had a positive and significant effect on SACCO performance. The adoption of digital services, such as mobile and internet banking, along with fintech solutions, helps improve operational efficiency, customer satisfaction, and financial performance by streamlining operations and reducing costs, though challenges such as transaction costs and system delays remain. The study also concluded that improved ICT policy implementation led to better performance among deposit-taking SACCOs.

6. Recommendations

Based on the conclusions and findings, the study recommends that DT SACCOs deepen their investments in mobile banking platforms, as it's the next frontier in ICT innovation. This will enable members to access the SACCO's services while not being limited by time or location. The SACCOs ought to revamp their mobile banking applications to offer a wide array of features to members. The SACCOs ought to ensure that networks and data are well secured against unauthorized access through dual authentication, password protection, redundant servers, firewalls, or cloud computing.

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