



Management Research Review

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David Mutua Mathuva, Elizabeth Wangui Muthuma, Josephat Mboya Kiweu,

Article information:

To cite this document:

David Mutua Mathuva, Elizabeth Wangui Muthuma, Josephat Mboya Kiweu, (2016) "The impact of name change on the financial performance of savings and credit co-operatives in Kenya", Management Research Review, Vol. 39 Issue: 10, pp.1265-1292, <https://doi.org/10.1108/MRR-04-2015-0097>

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The impact of name change on the financial performance of savings and credit co-operatives in Kenya

Savings and
credit
co-operatives

1265

David Mutua Mathuva and Elizabeth Wangui Muthuma
Strathmore Business School, Strathmore University, Nairobi, Kenya, and
Josephat Mboya Kiweu
*School of Management and Commerce, Strathmore University,
Nairobi, Kenya*

Received 22 April 2015
Revised 10 September 2015
9 December 2015
Accepted 14 January 2016

Abstract

Purpose – This paper aims to investigate the impact of name change, if any on the financial performance of deposit-taking savings and credit co-operatives (SACCOs) in a developing country characterized by a vibrant SACCO sector. Sparse studies exist on the impact of name changes on revenue-cost performance in mutual financial institutions such as SACCOs.

Design/methodology/approach – The study uses a standard event methodology over a six-year period (2008-2013) to investigate the impact of name change on the return on assets (ROA) and operating profit margin (OPM). The study then uses a panel regression method to study the impact of name change on ROA and OPM for a sample of 212 deposit-taking SACCOs over the period 2008-2013.

Findings – The results, which are robust for a variety of controls, provide evidence in support of a consistent positive association between name change and subsequent financial performance of deposit-taking SACCOs in Kenya. The positive impact of name change seems to be experienced about four years after the name change. The results reveal muted influence of regulation on name change and financial performance of SACCOs in Kenya.

Research limitations/implications – The study focuses solely on deposit-taking SACCOs in a developing country context over a six-year period only. Extending the time period and including a sample of control SACCOs operating purely back-office service activities would add power to the analyses.

Practical implications – The current study illustrates the contribution of name change on the financial performance of SACCOs in a developing country characterized by a vibrant SACCO sector. Overall, the results show that name change announcements signal an improvement in SACCOs' future prospects.

Originality/value – This study provides empirical evidence on the contribution of name change announcements on the financial performance of SACCOs in a developing country context. The study adds to the sparse literature on the impact of name change on the financial performance of mutual financial institutions that are not listed on the securities exchange.

Keywords Kenya, Regulatory, Financial performance, Name change, Savings and credit co-operative

Paper type Research paper



Management Research Review
Vol. 39 No. 10, 2016
pp. 1265-1292
© Emerald Group Publishing Limited
2040-8269
DOI 10.1108/MRR-04-2015-0097

The authors wish to thank the officers at the two regulatory bodies, SASRA and the Commissioner of Cooperatives for providing data for this study. The usual disclaimer applies.

1. Introduction and motivation

The choice of an organization's name at formation becomes a central part of its identity and is positioned in the minds of its stakeholders for the life of the entity (Delattre, 2002). When the promoters or founders of an organization debate on which name to use, focus is placed on various attributes, including the products, services and operations of the organization or the geographical locale or clientele it serves (Muzellec, 2006). Muzellec (2006) argues that a key consideration in name change should be who is going to be the primary audience of the new identity. Howe (1982) observes that an organization's name extends beyond the organization itself. Investors are even willing to pay a premium when investing in a company whose name has been carefully selected. However, due to dynamism in the business environment, the owners of the organization elect to change the name for various reasons. According to Josev *et al.* (2004), some of the reasons for name change include the creation of "new image" of the organization and to better reflect the "business" focus. Usually, the focus when changing the name is on either the core products (and/or services) or the core (or new core) business due to changes in the business model. Changes in the business model could be due to regulatory influences, diversification and competition among other forces.

Organizations often spend substantial amounts to build their brand and recognition. Despite the costs associated with name change (Mase, 2009; Durrani, 2013; Cole *et al.*, 2015), its impact on financial performance remains unclear and under-researched. This is because most of the studies on name change focus on large and/or listed companies (Howe, 1982; Bosch and Hirschev, 1989; Cooper *et al.*, 2001; Josev *et al.*, 2004; Andrikopoulos *et al.* 2007; Kadapakkam and Misra, 2007; Wu, 2010; Karim, 2011; Kot, 2011; Durrani, 2013; Gupta and Aggarwal, 2014; Cole *et al.*, 2015). A number of prior studies typically examine stock market reaction to name change. For instance, Mase (2009) establishes a negative impact of name change on abnormal returns around the announcement date. Andrikopoulos *et al.* (2007) establish a negative impact of name change on the long-term abnormal returns for UK companies. Josev *et al.* (2004) establish a negative reaction to name change for companies listed on the Australian stock market.

Studies such as Karbhari *et al.* (2004) establish that restructuring triggers the market reaction to name change. Karim (2011) establishes positive market reaction to name change by firms listed in "Euronext Paris", reflecting the economic potential of name change announcements. Kot (2011) establishes a positive impact of name change on the performance of an organization if it is accompanied by change in business, restructuring, merger or acquisition. While studying name change by Chinese listed firms, Berkman *et al.* (2011) find that name change is the consequence of substantial and successful operational changes, as opposed to investor reaction as suggested by previous studies. However, Kalaignanam and Bahadir (2013) find evidence in contrary to the view that a corporate name change is a cosmetic or primary signal for business restructuring. In another study, Cole *et al.* (2015) establish a significant and positive association between insurer name change and subsequent growth in premiums.

These prior studies yield vital results; however, the focus on stock price or firm value has limitations as noted by Cole *et al.* (2015). Some of the limitations include sample limitations due to the focus on purely listed firms. Studying stock price reaction obfuscates the impact of name change on firm performance as measured by revenues and/or costs. Further, a significant majority of firms in developed and developing economies are not listed, although there have been benefits of name change to their

performance. This means that focusing on the market reaction to name change skews the analysis and may not yield comprehensive results. The present study focuses on deposit-taking savings and credit co-operatives (SACCOs), which contribute significantly towards the economy's gross domestic product through economic empowerment of individuals and communities in which they operate.

This study investigates the impact of name change on the financial performance of SACCOs in Kenya[1]. The study also examines possible regulatory influences on the association between name change and financial performance of deposit-taking SACCOs. Compared to previous studies, which have mainly focused on large, publicly traded companies (Howe, 1982; Bosch and Hirschey, 1989; Cooper *et al.* 2001; Josev *et al.*, 2004; Andrikopoulos *et al.* 2007; Kadapakkam and Misra, 2007; Wu, 2010; Karim, 2011; Kot, 2011; Gupta and Aggarwal, 2014; Durrani, 2013) and insurance companies (Cole *et al.*, 2015), the present study examines name change in mutual financial institutions in a developing country characterized by a vibrant SACCO sector. Relatively few studies have examined the impact of name change in mutually owned organizations (such as SACCOs) whose objectives are slightly different from conventional business organizations. The study is timely in that it examines name change at a time when the SACCO sector in Kenya has experienced a number of regulatory reforms including the implementation of the SACCO Societies Act in 2008 and the SACCO Regulations in 2010.

By focusing on name change by SACCOs in Kenya, we are able to change focus to mutually owned financial institutions in a developing country. Second, we are able to overcome limitations in prior literature by linking name change to financial outcomes evidenced by profitability. SACCOs are member-owned businesses whose objective is to meet the collective economic, social or cultural needs and aspirations of their membership through a mutually owned and democratically controlled enterprise (McKillop and Quinn, 2009; McKillop and Wilson, 2011). Based on this definition, it seems that financial outcomes may not be the primary focus of SACCOs. However, the changes experienced in the sector have resulted in SACCOs pursuing profit motives for sustainability and growth. In Kenya, a number of SACCOs that operate both "bank-like" front-office service activities (FOSAs) and back-office service activities (BOSAs) have changed their names for various reasons such as the need to have a "national look" and appeal to more members, improve performance, access new markets or sustain the SACCO's growth.

As a preview, name change by deposit-taking SACCOs in the sample was announced from 2010 when SACCO regulations for deposit-taking business were implemented. In this study, deposit-taking SACCOs refer to those SACCOs operating both FOSAs and BOSAs[2]. Between the period 2010 and 2013, 51 SACCOs announced a change from their traditional name. A further nine SACCOs announced name change in 2014. Of the 60 SACCOs that announced name change between 2010 and 2014, 58 were licensed to operate FOSA (and other "bank-like") services by the SACCO Societies Regulatory Authority (SASRA) as of 31 December 2013. Interestingly, the 60 SACCOs that changed names between 2010 and 2014 had been operating both FOSAs and BOSAs prior to name change.

The decision to change an organization's name requires the involvement of key stakeholders due to the considerable costs and potential risks that may arise (Howe, 1982; Mase, 2009; Durrani, 2013). For instance, when Nissan was selling cars in the USA under the name Datsun, changing the name back to Nissan in the mid-1980s cost the

firm between US\$30m and US\$100m (Durrani, 2013). Mase (2009) and Durrani (2013) note that the decision by Andersen Consulting to change its name to Accenture in 2001 cost the firm an estimated US\$100m. The costs associated with name change relate to lost clientele and the time taken to rebuild the changed image. However, the costs incurred following name change depend, primarily on the reason for the change. The costs of name change vary if the reason for name change was due to adverse publicity or other factors associated with changes in the business environment. Large organizations such as Tokyo Tsushin Kogyo (Sony), Blue Ribbon Sports (Nike), Standard Oil (Exxon) and Takachiho Seisakusho (Olympus) (Mase, 2009; Durrani, 2013) have experienced name change. The name change has been aimed at re-branding that is not related to adverse publicity.

The current study uses an approach which investigates the differential impact of name change on the financial performance of SACCOs in Kenya between 2010 and 2013. The study follows Horsky and Swyngedouw (1987) and Cole *et al.* (2015) who posit that new image creation is driven by name change which is aimed at improving an organization's performance. The present study shifts focus to privately owned and unlisted SACCOs in a developing country. The focus on SACCOs in Kenya is important because Kenya represents the only country in Africa with the most vibrant SACCOs classed in the transitional stage according to McKillop and Wilson (2011)[3]. Our results suggest that SACCOs benefit from name change in terms of improved financial performance. Further, the results suggest some regulatory influences on the effect of name change on financial performance.

The rest of the paper is organized as follows. Section 2 discusses the institutional setting for SACCOs in Kenya. Section 3 presents a discussion on the theoretical framework for this study and reviews the literature on name change and firm performance. Section 4 discusses the methodology. The section also presents the empirical models, data and sample characteristics. Section 5 presents the results and discussion. Finally, Section 6 concludes and provides areas of further research.

2. The savings and credit co-operative sector in Kenya

According to the World Council of Credit Unions (WOCCU) report in 2014, there were over 57,000 SACCOs globally. These SACCOs were operating in 105 countries and served over 217 million people (WOCCU, 2014). The contribution of SACCOs to the economic and social welfare of its members and the economic growth is evidenced by the level of savings mobilized and the asset base. With an 8.2 per cent penetration rate and US\$1.5tn in savings and shares and US\$1.8tn in assets, the contribution of SACCOs towards financial wellbeing of its members and by extension, the economic growth of a country cannot be overlooked. Of the 20,422 SACCOs in Africa, Kenya has over 6,500 SACCOs, making it third in terms of number of SACCOs after Ethiopia and Tanzania (SASRA, 2013; WOCCU, 2014)[4]. However, in terms of SACCO membership and savings, Kenya ranks first with over 5.1 million members, US\$3.3m in savings and shares and US\$4.3m in loans (WOCCU, 2014). Of the 6,500 SACCOs in Kenya, 1,995 were active and filing annual returns with the regulators of 31 December 2013 (SASRA, 2013). Of the 1,995 active SACCOs, 215 were operating as deposit-taking SACCOs since 2008. Deposit-taking in this study has been used to imply the provision of both BOSAs and FOSAs. The remaining 1,780 SACCOs operated traditional BOSAs.

In Kenya, two categories of SACCOs exist. The distinction between the two SACCO categories is largely due to regulatory influence on the activities of the SACCOs. The first category comprises traditional SACCOs whose membership comprises individuals from a certain geographical region, social group or employees within a specific organization. The traditional SACCOs in Kenya provide BOSA, are regulated by the Commissioner of Co-operatives and operate in line with the Co-operatives Act, Cap 490 and the Co-operative Societies (Amendment) Act, 2004. BOSA SACCOs are limited in their customer base. The second category comprises those SACCOs which operate traditional BOSAs in addition to providing “bank-like” FOSAs to diversified clientele. FOSA SACCOs are regulated by SASRA. These SACCOs are subject to prudential regulations similar to commercial banks which include the SACCO Societies Act of 2008 and the subsequent SACCO regulations of 2010. FOSA SACCOs are open to the public who can save and/or borrow. When SASRA was instituted in 2010, all the 215 SACCOs operating FOSAs were granted a grace period of 4 years to increase capital base to 10 million Kenya shillings among other requirements and obtain a license.

Due to the tremendous growth in the SACCO sector, and subsequent conversions by SACCOs into “bank-like” FOSAs, increased competition in the financial services sector has contributed to a paradigm shift towards emphasizing efficiency and financial performance. Changes in the SACCO sector have led to transformation in the SACCOs to ensure better financial performance, efficiency and transparency. One of the visible transformations by SACCOs in Kenya has been a change in the name of the SACCO to attract more membership and grow its savings and capital base. Over the past four years, there has been notable increase in the number of SACCOs which have changed name in Kenya. Between 2010 and 2014, 60 SACCOs changed their names (SASRA, 2013). This represents 28 per cent of the 215 SACCOs which have been providing traditional BOSAs as well as “bank-like” FOSAs. This implies that they can now provide “bank-like” products and services and even compete with mainstream commercial banks and microfinance institutions. The goals of the converted SACCOs have also shifted towards profit-seeking objectives. In this study, we aim to investigate whether name change has an impact (if any) on the financial performance of SACCOs in Kenya.

3. Literature review

3.1 Theoretical review

The theoretical underpinning of name change by organizations has not been well developed by researchers. However, in this study, signalling theory is used to explain the rationale and motives for name change. Cole *et al.* (2015) argue that firms may change their name to signal consumers a change in business focus such as adjustment to strategy, narrowing or broadening product offerings and geographic focus. Koku (1997) posit that a name change signals that an organization is either improving its standards or making a “clean break from the past”. From a signalling perspective, when false information is conveyed through name change, there may be a negative association between name change in prior years and future premium growth (Cole *et al.*, 2015). In most of the cases, a name change is meant to communicate positive signals or an organization’s brighter prospects. Koku (1997) asserts that the signal conveyed through name change should not be easily mimicked. This is because the potentially high costs

associated with the signals conveyed through name change act as a bond (Ippolito, 1990). Cole *et al.* (2015) argue that if the organization is conveying false signals to stakeholders, the expenditures to send the signal are forfeited.

Horsky and Swyngedouw (1987) posit that an organization may change its name as a signal of its intention to implement organizational changes such as changes in management and/or products. Bosch and Hirschev (1989) argue that a name change may signal an organization's commitment to change its strategy and direction. For instance, according to Brus (2007), Oklahoma Farmers Union Mutual Insurance Company changed its name to American Farmers and Ranchers Mutual Insurance Company in 2007 to reflect a broader geographic focus. In the case of deposit-taking SACCOs in Kenya, Metropolitan Teachers SACCO rebranded from Kiambu Teachers SACCO, to enable them to expand to other regions. This was the same case as Yetu SACCO, which was formerly South Imenti Teachers SACCO. Because of rebranding, the SACCOs have expanded their branch network and enabled a national appeal, as they pursue growth strategies nationally (Mugwe, 2012).

Mase (2009) posits that name change by an organization is an important part of its identity and conveys a signal to its employees, customers and shareholders. According to Josev *et al.* (2004), organizations may engage in various actions or behaviours that have signalling motivation. For instance, name change could signal better future prospects, higher employee morale and/or an increase in consumer preference (Durrani, 2013). A company may also change name to avoid confusion with an existent company's name (as in the case of Arthur Anderson where Anderson Consulting changed its name to Accenture). Other companies change name for ease of recognition such as the case of Federal Express change to Fedex. Other reasons suggested in literature for name change include business combination (mergers or acquisitions), new product launch and as a diversification strategy.

Changing the name of an organization is a strong signal to its owners regarding its business focus and direction (Josev *et al.*, 2004). Name change can also be viewed as a way of signalling information to external stakeholders. Organizations communicate information such as the organization's business lines or its future performance prospects (Karpoff and Rankine, 1994). Josev *et al.* (2004) argue that, assuming that managers initiate name change to signal positive future prospects, a tangible improvement in the operating performance should be felt in the longer run following the announcement. In the case of SACCOs, the communication of name change is mainly directed to members of the public in the hope that they would consider joining the organization. On the contrary, Howe (1982) argues that a name change may not have any signalling effect, as the information being communicated is already available to stakeholders. As noted by Cooper *et al.* (2001), organizations may exhibit opportunistic behaviour when they change their names around key events when they are likely to attract more benefits. For example, SACCOs may opt to change their name around major co-operative events such as Ushirika day[5]. This is when the SACCOs anticipate attracting more membership or conveying information to a wider group.

Despite the costs involved in name change (such as consultancy fees [e.g. legal and accountancy fees], advertisement and possible loss of business), the reasons for business change can contribute towards how fast these costs are recovered. For instance, if the name change was to deal with negative publicity, it may take longer to recover the costs

associated with name change. A change in name for reasons such as business combination, diversification or new product launch may be associated with lower costs which take a shorter time to recover. As such, we argue that name change due to business change, diversification or new product launch is accompanied by greater short-term returns compared to name change due to adverse publicity. This implies that organizations approve the decision to change their name in the anticipation that the benefits of changing the name outweigh the costs and risks (i.e. a positive net benefit) (Josev *et al.*, 2004).

In this study, we argue that SACCO managers and those charged with governance attempt to diversify membership and convey positive business prospects by suggesting name change. In a SACCO setting, the decision to change the name has to be ratified in the annual meeting where the rationale for name change is communicated and agreed upon. This study undertakes an empirical investigation as to whether name change is associated with positive business prospects and performance as envisaged by SACCO managers.

3.2 Empirical studies on the impact of name change on firm performance

There exist limited studies on the impact of name change on firm performance, with most studies focusing on market reaction to name change by listed companies. Prior literature has provided mixed results on market reaction to name change announcements (Howe, 1982; Horsky and Swyngedouw, 1987; Bosch and Hirschey, 1989; Karpoff and Rankine, 1994; Mase, 2009; Wu, 2010; Durrani, 2013). Few studies have linked name change to other performance measures such as growth in premiums (Cole *et al.*, 2015). Horský and Swyngedouw (1987) argue that name change is important in improving an organization's performance. The performance of an organization can be measured using traditional measures (such as *ROA* and return on equity), firm-value based measures (such as Tobin's *Q* and share price) and industry-specific measures (such as net interest margin in the case of banking institutions). In most cases, organizations aim to create a new image through name change (Bosch and Hirschey, 1989).

Mase (2009) observes that the impact of name change on firm value has been relatively modest. An earlier study by Howe (1982) did not find significant valuation influence on name change. Horský and Swyngedouw (1987) examine the impact of name change on financial performance of 58 US corporations between 1981 and 1985. Horský and Swyngedouw (1987) establish a positive influence of name change on performance. The study finds that the improvement in performance occurs for firms that produce industrial goods and which exhibited poor performance prior to the name change announcement. Bosch and Hirschey (1989) establish limited positive cumulative abnormal return ten days prior to the announcement of name change. However, this is reversed within two weeks since the name change was announced. The findings by Bosch and Hirschey (1989) illustrate that the effects of name change were modest and were only felt during the transition period.

Karpoff and Rankine (1994) establish a positive effect of name change announcement on share price which is reversed immediately after the announcement date. Josev *et al.* (2004) establish a negative association between name change and abnormal returns especially for Australian listed companies with "major" name change. Mase (2009) provides evidence of consistent abnormal returns following the announcement of name

change. [Mase \(2009\)](#) finds this influence of name change is further reflected in a company that is diversifying or re-focusing. [Durrani \(2013\)](#) finds a significant positive association between name change and abnormal returns, one day prior to the approval day and one day after the adoption date. [Gupta and Aggarwal \(2014\)](#) find no evidence of market reaction for large cap and mid cap stocks but find some evidence of significant positive cumulative abnormal returns for small cap stocks. [Berkman *et al.* \(2011\)](#) find that in the years when name change announcements were made, companies experienced more frequent CEO turnover, significant improvements in industry-adjusted *ROA* and engaged in more restructuring activities. [Berkman *et al.* \(2011\)](#) conclude that name change for Chinese firms occur for firms that have experienced or are expected to experience successful changes in operations.

[Horsky and Swyngedouw \(1987\)](#) suggest that name change may result in improved performance or increased demand or signal the organization's commitment to improve performance. This proposition is confirmed by [Cole *et al.* \(2015\)](#) who find that a name change is associated with subsequent growth in insurance premiums. In this study, we test the contribution of name change on the financial performance of deposit-taking SACCOs in Kenya. The study adds to existing literature by examining name change by deposit-taking SACCOs in a developing country characterized by a vibrant SACCO sector. Further, we examine possible regulatory influences on the relation between name change and financial performance of SACCOs. Following this discussion, the following hypotheses are tested:

- H1.* Name change by deposit-taking SACCOs is positively related to financial performance that is evident in the periods following name change.
- H2.* The impact of name change on financial performance is more pronounced in licensed deposit-taking SACCOs compared to unlicensed deposit-taking SACCOs.

4. Methodology and empirical model

4.1 Sample composition

This study uses a standard event analysis on a yearly basis to study the impact of name change on the financial performance of SACCOs in Kenya. The study focuses on the 215 SACCOs operating both the traditional BOSAs and "bank-like" FOSAs to its membership as contained in the SASRA's 2013 report. The focus on the 215 deposit-taking SACCOs over the period 2008-2013 is informed by the following reasons. First, the 215 deposit-taking SACCOs are relatively larger and comparable to commercial banks. This is because they provide "bank-like" FOSAs as well as traditional BOSAs. Second, although the 215 deposit-taking SACCOs represent only 10.8 per cent of the 1,995 active SACCOs in Kenya, they control 78 per cent of the sector in terms of assets and deposits. Third, the 215 deposit-taking SACCOs control 82 per cent of the total membership in the sector ([SASRA, 2013](#)). Finally, the choice of the period 2008-2013 is to allow an examination of the influence of licensing (which commenced in 2010) on the relationship between name change and financial performance.

The final sample comprises 212 SACCOs with six-year continuous data over the period 2008 to 2013. Three SACCOs were dropped from the sample owing to unavailability of continuous data over the six-year period. This yields a final sample

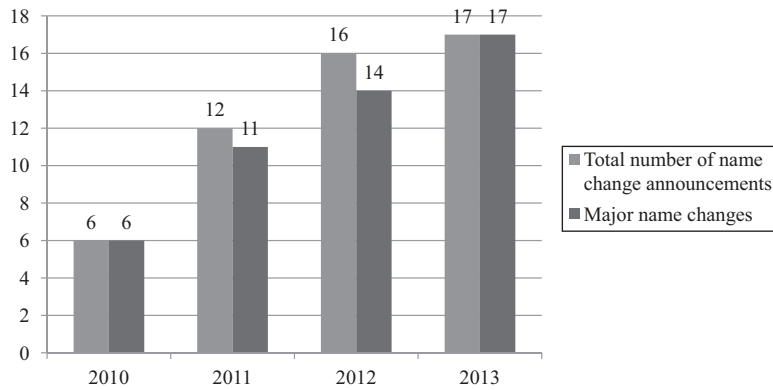
consisting of 1,272 SACCO observations. The start year of 2008 is selected because this is the year when the regulator, SASRA, was formally created and started operating. In Kenya, all deposit-taking SACCOs are required to file annual reports with SASRA from 2010. Prior to 2010, all SACCOs were filing annual reports with the Commissioner of Co-operatives. Therefore, data were hand collected from audited annual reports held at SASRA and the Commissioner of Co-operatives in Kenya between November 2014 and January 2015. Comprehensive information was retrieved from SACCO files held by the two regulators, and this allowed us to examine the impact of name change on organizations in a single sector. Consistent with *Cole et al. (2015)*, focusing on a single sector is useful in removing the confounding effects resulting from studying organizations across different industries. Further, the data set allowed us to examine all deposit-taking SACCOs operating in Kenya over an extended period (2008-2013). The use of the data from SASRA and Commissioner of Co-operatives allows us to examine the impact of name change on financial performance of licensed and unlicensed deposit-taking SACCOs, which is a departure from previous market-based studies.

In this study, we argue that name change was partially due to regulatory influence and expansion in operations by SACCOs which had changed into deposit-taking status. Following *Josev et al. (2004)*, we attempt to separate “major” and “minor” name change by deposit-taking SACCOs in the sample. According to *Josev et al. (2004)*, “major” name change whereby the new name adopted by the organization is completely different from the old name. “Minor” name change refers to those changes where a minor adjustment to the original name (e.g. insertion of a word) is made. We separate those deposit-taking SACCOs which changed names and those that did not change names over the period 2008-2013 by assigning a 1 for those SACCOs which did change name and 0 for those that did not.

As highlighted earlier, 51 SACCOs changed names over the period 2010-2013. Consequently, we study the impact of name change from the announcement date to the end of 2013. We further exclude nine SACCOs which changed name in 2014, as the annual reports for these SACCOs were not available at the time of this study. A listing of those SACCOs that changed names during the period 2010 to 2013 is provided in the [Appendix](#). To the best of the authors’ knowledge and the information gathered, there were no announced changes in names of the SACCOs in the sample prior to 2010[6]. [Figure 1](#) illustrates name change announcements by deposit-taking SACCOs over the period 2010 to 2013.

According to the results in [Figure 1](#), 48 deposit-taking SACCOs in the sample experienced major name change. As discussed earlier, deposit-taking SACCOs started announcing name change in 2010. This period coincides with the period when the SACCO Regulations of 2010 for deposit-taking business were implemented. The Regulations of 2010 required SACCOs operating FOSAs to be licensed by SASRA. Prior to being licensed, SACCOs in the sample had been operating both BOSAs and FOSAs. The licensing of deposit-taking SACCOs granted them the formal authority to expand operations and reach out to diversified membership nationwide and regionally. In this study, we investigate whether there were any regulatory influences on the relationship between name change and financial performance of deposit-taking SACCOs.

Figure 1.
Number of name
change
announcements over
the period 2010-2013



4.2 Empirical model, data and sample characteristics

To study the impact of name change on the financial performance of deposit-taking SACCOs, we model financial performance [proxied by return on assets (*ROA*) and operating profit margin (*OPM*)] as a function of prior-year name change dummy (*NameChange*) and other SACCO-specific characteristics. Although the primary objective of SACCOs has been argued to be maximization of services provided to members (Fried *et al.*, 1993), Cornforth (1995) argues that over time, SACCOs have degenerated and adopted conventional business models which include profit seeking among other objectives. The use of *ROA* and *OPM* as measures of financial performance in financial institutions is informed by studies such as Esho *et al.* (2005), Goddard *et al.* (2008), Quayes and Hasan (2014) and Mathuva *et al.* (2015). The *ROA* is used as one of the core earnings variable in PEARLS ratings by WOCCU and CAMEL ratings by NCUA which reflects the level, growth and stability of earnings (NCUA, 2000; Richardson, 2002).

We follow Cole *et al.* (2015) by using the lagged name change (*NameChange*) as our test variable. If name change by a deposit-taking SACCO and related strategies are viewed favourably, then the variable *NameChange* should be positively associated with future financial performance (FP) of the SACCO. Equation (1) illustrates the model used to test this proposition:

$$\begin{aligned}
 FP_{i,t} = & \beta_0 + \delta_i NameChange + \beta_1 Non_Int_{i,t} + \beta_2 Leverage_{i,t} \\
 & + \beta_3 Liquidity_{i,t} + \beta_4 Loans_{i,t} + \beta_5 Members_{i,t} + \beta_6 CIR_{i,t} \\
 & + \beta_7 Branches_{i,t} + \beta_8 NPLS_{i,t} + \beta_9 CA_{i,t} + \lambda_t + \rho_t + \varepsilon_t
 \end{aligned} \quad (1)$$

where δ_i is the coefficient for name change test variable. β_i represents the coefficients on the intercept and other controls. Variable λ_t captures unobservable firm-invariant heterogeneity across deposit-taking SACCOs in the sample. Examples of factors contributing to the heterogeneity include aspects such as managerial efficiency in terms of cost control, management of the loan portfolio and adoption of various strategies aimed at improving financial performance. Variable ρ_t is a time dummy control, while ε_t captures random disturbances (error term). All variable definitions in equation (1) are provided in Table I.

Variable	Definition	Mean	SD
$FP_{i,t}$	A measure of financial performance of the SACCO which is proxied by return on assets (ROA) and operating profit margin (OPM). $ROA_{i,t}$ is calculated as net income (after tax) scaled by total assets. $OPM_{i,t}$ is calculated as operating profit before interest and tax scaled by total revenue.	0.0138	0.0301
$NameChange$	Equal to 1 if the SACCO engaged in name change during the prior year and 0 if otherwise.	0.0401	0.1963
$Non_Int_{i,t}$	A measure of income diversification in the SACCO. It is calculated as the ratio of non-interest revenue to total revenue.	0.3209	0.2294
$Leverage_{i,t}$	Ratio of total debt to total assets.	0.1073	0.1276
$Liquidity_{i,t}$	Ratio of liquid assets to total deposits and current liabilities.	0.3996	0.6388
$Loans_{i,t}$	Natural logarithm of gross loans at the year end.	18.8470	1.8490
$Members_{i,t}$	Natural logarithm of SACCO members at the end of the year.	8.1912	1.4376
$CIR_{i,t}$	Cost to income ratio calculated as total operating costs to total revenue.	0.6963	0.5251
$Branches_{i,t}$	Number of SACCO branches at the end of each year.	2.0487	2.2518
$NPLs_{i,t}$	Ratio of non-performing loans to gross loans.	0.0302	0.0873
$CA_{i,t}$	Capital to assets ratio.	0.1982	0.2727
Number of members	Number of SACCO members at the end of the year.	10,425	19,863
Total assets	Value of total assets at the end of the year.	901	2,053
Gross loans	Value of gross loans at the end of the year.	664	1,686

Notes: The values for members, total assets and gross loans are provided for information purposes only; total assets and gross loans are in millions of Kenya shillings (Kshs); St. Dev. –standard deviation; at the time of writing this paper, the prevailing exchange rate was US\$1 = 106 Kshs

Table I.
Variable definitions
and summary
statistics ($n = 1,272$)

In Table I, the average ROA for deposit-taking SACCOs in Kenya over the period 2008-2013 is 1.38 per cent, which is higher than that of Australian credit unions (0.27 per cent) according to Esho *et al.* (2005), and US credit unions (0.47 per cent) according to Goddard *et al.* (2008). However, the ROA of Kenyan deposit-taking SACCOs is lower than that of micro-finance institutions (MFIs) globally (2.23 per cent) according to Quayes and Hasan (2014). The seemingly low ROA by deposit-taking SACCOs compared to MFIs is probably due to the distribution of most of the earnings to SACCO members in the form of interest rebate on deposits (Goddard *et al.*, 2008). Therefore, the net earnings of the SACCO may diminish with more membership due to higher distribution of interest on deposits to members. Further, SACCOs are largely viewed as non-profit maximizing entities whose focus is on service to members (Fried *et al.*, 1993). Therefore, high ROA is not anticipated. The findings in Table I show that the average OPM for deposit-taking SACCOs in Kenya is 11.20 per cent, which is higher than that of Australian credit unions (10.71 per cent) according to Esho *et al.* (2005) and MFIs globally (4.92 per cent) according to Quayes and Hasan (2014). This suggests that despite a higher cost to income ratio,

deposit-taking SACCOs in Kenya generate a considerably higher income from their operations.

Equation (1) presents a multivariate model used to investigate the impact of name change on financial performance. The model includes a set of nine control variables which prior studies have established to have an effect on financial performance. The variable, *Non_Int*, which is the ratio of non-interest income to total revenue, is used as proxy for income diversification in a deposit-taking SACCO. This variable has been used in previous studies such as DeYoung and Rice (2004) and Goddard *et al.* (2008). According to DeYoung and Rice (2004), an increase in income from non-interest sources results to decline in the profitability of US banks. According to the results in Table I, a typical deposit-taking SACCO generates 32.09 per cent of its revenue from non-interest sources. This is higher compared to 11.68 per cent for credit unions in the USA according to Goddard *et al.* (2008) and 4.5 per cent for Australian credit unions according to Esho *et al.* (2005).

Quayes and Hasan (2014) posit that leverage has a negative impact on the financial performance of an MFI. We therefore use the ratio of total debt to total assets as proxy for leverage. According to the results in Table I, the average leverage ratio is 10.73 per cent which is quite low compared to that of 727.95 per cent for MFIs according to Quayes and Hasan (2014). This seems to suggest that deposit-taking SACCOs in Kenya are cautious in using debt to finance their activities.

The ratio of liquid assets to total deposits and current liabilities is used as proxy for liquidity in the SACCO (Cole *et al.*, 2015). Green and Jame (2013) find that a corporate name change is associated with increases in liquidity. Opler *et al.* (1999) argue that holding liquid assets lowers the ROAs because of the liquidity premium priced in excess cash holdings. Similarly, McKillop and Quinn (2009) argue that holding excessive cash levels in a credit union could have a negative impact on cost performance, hence on the financial performance. However, holding cash is beneficial especially for a financial institution because it can use the cash to finance its activities and investments if other sources of finance are not available or are overly costly. In Table I, the average liquidity ratio of deposit-taking SACCOs in Kenya over the period 2008-2013 is 39.96 per cent, which is higher than that of Irish credit unions (2.87 per cent) as per McKillop and Quinn (2009)'s study. This suggests that deposit-taking SACCOs in Kenya maintain relatively higher liquidity levels, possibly to meet the demand for loans by SACCO members.

Gillan *et al.* (2003) and Core *et al.* (2006) find that firm size is an important driver of firm performance. Both Mersland and Strom (2009) and Quayes and Hasan (2014) have used firm size to explain financial performance. Goddard *et al.* (2008) found larger credit unions are associated with higher returns, both adjusted and unadjusted for risk. It is argued that larger credit unions are able to provide more favourable rates to members than small credit unions. Further, larger credit unions tend to generate higher ROA because of the relatively lower operating expenses compared to their interest expenses (Wilcox, 2006). Consistent with Fried *et al.* (1993) and Quayes and Hasan (2014), we use the natural logarithm of gross loans and SACCO members as proxy for SACCO size. According to the results in Table I, the average natural logarithm of gross loans by deposit-taking SACCOs in Kenya over the period 2008-2013 is 18.8470 which is lower compared to that of MFIs (28.7476) according to Quayes and Hasan (2014). Table I shows that the mean value of gross loans disbursed by deposit-taking SACCOs in Kenya over the period 2008-2013 is Kshs 664m (US\$6.2642m).

McKillop and Quinn (2009) use the traditional cost-to-income measure in their study on the cost performance of Irish credit unions. Mathuva (2009) and Quayes and Hasan (2014) found negative influence of cost-to-income ratio on the financial performance of Kenyan banks and MFIs, respectively. In this study, the cost-to-income ratio is used as control for efficiency of the SACCO in terms of cost management. According to the results in Table I, the average cost-to-income ratio for deposit-taking SACCOs in Kenya over the period 2008-2013 has been 69.63 per cent, which is higher compared to that of Irish credit unions (39.54 per cent) according to McKillop and Quinn (2009) and 24.61 per cent for MFIs according to Quayes and Hasan (2014). This suggests that a number of deposit-taking SACCOs in Kenya experience inefficiencies in cost containment, which seems to contribute to a lower return.

In line with Fried *et al.* (1993) and Menassa (2010), the number of SACCO branches is used as proxy for visibility. Hirtle (2007) argues that the growth in the number of bank branches may have implications for cost structure, business focus and profitability. Berger *et al.* (2007) argue that whereas large branch networks may lead to inefficiencies due to the costs they entail, they may be effective at generating revenue. Fried *et al.* (1993) and Seale (2004) establish that branching is associated with higher profitability, lower expenses and higher fee income for US commercial banks with fewer than 30 branches. As this study focuses on deposit-taking SACCOs which have less than 16 branches, we anticipate an improvement in financial performance for SACCOs with larger branch network.

Next, the ratio of non-performing loans to gross loans is also used as proxy for asset quality. We posit that using non-performing loans as an indicator of anticipated loss from defaults provides an indicator of portfolio quality. An increase in non-performing loans would signal increased risk of collecting loans from members, which if realized, would have an adverse effect on financial performance (Quayes and Hasan, 2014). The results in Table I show that the mean ratio of non-performing to gross loans is 3.02 per cent, which is relatively lower.

Ideally, a larger level of capital should have a positive impact on financial performance. However, more capital may also contribute to lower financial performance especially if the capital is from non-owners. Quayes and Hasan (2014) find a positive association between capital to assets ratio and financial performance of MFIs. Following previous studies, the capital to assets ratio is used as a control for the capital of the SACCO. According to the findings in Table I, the average capital to assets ratio over the period 2008-2013 is 19.82 per cent, which is higher than that of Australian credit unions (15.63 per cent) according to Esho *et al.* (2005), Irish credit unions (13.84 per cent) according to McKillop and Quinn (2009) and 12.26 per cent for US credit unions according to Goddard *et al.* (2008). However, the capital to assets ratio of deposit-taking SACCOs in Kenya is lower than that of MFIs (34.85 per cent) according to Quayes and Hasan (2014). Over time, deposit-taking SACCOs in Kenya have been building their capital base, with the aim of meeting the regulatory minimum of Kshs 10m or US\$94,340 (GOK, 2010) as well as building a stable capital base.

5. Empirical results

Table II presents the Spearman's correlation coefficients and variance inflation factors (VIFs) for the key variables in this study [7]. We note that name change is positively correlated with both *ROA* and *OPM*, and this is significant at the 5 per cent level. This

Table II.
Spearman's
correlations

Variable	$ROA_{i,t}$	$OPM_{i,t}$	NameChange	Non_Int $_{i,t}$	Leverage $_{i,t}$	Liquidity $_{i,t}$	Loans $_{i,t}$	Members $_{i,t}$	CIR $_{i,t}$	Branches $_{i,t}$	NPLS $_{i,t}$
$OPM_{i,t}$	0.9064										
NameChange	0.0926	0.0640									
Non_Int $_{i,t}$	-0.0356	-0.0881	0.0336								
Leverage $_{i,t}$	-0.2162	-0.2483	0.0212	0.1847							
Liquidity $_{i,t}$	0.1735	0.1336	0.0959	0.2659	0.1043						
Loans $_{i,t}$	0.0702	0.1106	0.0538	-0.2379	0.0350	-0.2098					
Members $_{i,t}$	0.1416	0.1124	0.1297	0.0294	-0.0034	0.0768	0.6261				
CIR $_{i,t}$	-0.3599	-0.3731	-0.0497	0.1543	0.1013	0.0477	-0.4440	-0.2000			
Branches $_{i,t}$	0.0996	0.0448	0.1587	0.0999	0.0827	0.1657	0.3258	0.4798	-0.1184		
NPLS $_{i,t}$	0.1319	0.0531	0.1082	0.0152	0.0030	0.1014	0.2713	0.3003	-0.1865	0.2822	
$CA_{i,t}$	0.1639	0.1078	0.0386	0.1784	-0.1612	0.3434	-0.3529	-0.0320	0.1394	0.0370	0.0425
VIF			1.0000	1.2000	1.1000	1.1000	2.2000	2.2000	1.2000	1.4000	1.1000

Notes: Table II presents Spearman's correlations for the key variables used in this study; the values in italic are significant at the 5% level; VIF—variance inflation factors

finding seems to suggest that name change announcements may affect future financial performance of deposit-taking SACCOs. This proposition is tested through panel regressions, which include possible controls for SACCO's financial performance as discussed in the previous section. Inspection of the results in Table II reveals that leverage and cost-to-income ratio have a significant and negative correlation with financial performance at the 5 per cent level of significance.

Finally, with the exception of *Non_Int* which is not significant, the direction of the Spearman's correlation coefficients for the other independent variables appears to be significant at the 5 per cent level. Further, the coefficients for the independent variables reported in Table II are lower than 0.8000, implying that multicollinearity is not a serious problem among the variables (Gujarati, 2003). The high correlation coefficient of 0.9064 between *ROA* and *OPM* is anticipated. As both *ROA* and *OPM* are used as dependent variables measuring financial performance, the high correlation does not pose a risk to the model specification and the results thereof. As indicated in Table II, the VIFs were below 5.0000, the threshold suggested by Hair *et al.* (2013).

5.1 Impact of name change announcements on financial performance

In Table III, we report the results of the full sample of 212 deposit-taking SACCOs over the period 2008-2013. Two regressions are performed, one incorporating *ROA* as the dependent variable and the other incorporating *OPM* as the dependent variable. In all

Independent variables	Dependent variable			
	<i>ROA_{i,t}</i> Coefficient	Standard error	<i>OPM_{i,t}</i> Coefficient	Standard error
<i>NameChange</i>	0.0041*** (2.8851)	0.0014	0.0323* (1.6821)	0.0192
<i>Non_Int_{i,t}</i>	0.0076 (1.5682)	0.0048	0.0167 (0.6215)	0.0269
<i>Leverage_{i,t}</i>	-0.0720*** (-6.2826)	0.0115	-0.4783*** (-5.9605)	0.0802
<i>Liquidity_{i,t}</i>	0.0048** (2.5318)	0.0019	0.0151* (1.7120)	0.0088
<i>Loans_{i,t}</i>	0.0100** (2.1013)	0.0048	0.0356*** (5.7648)	0.0062
<i>Members_{i,t}</i>	-0.0045*** (-3.1100)	0.0015	-0.0407*** (-6.7076)	0.0061
<i>CIR_{i,t}</i>	-0.0039*** (-3.7130)	0.0010	-0.0666*** (-4.4824)	0.0149
<i>Branches_{i,t}</i>	-0.0003 (-0.7026)	0.0004	-0.0043*** (-3.1635)	0.0014
<i>NPLs_{i,t}</i>	-0.0110 (-1.4444)	0.0076	-0.0325 (-0.7812)	0.0416
<i>CA_{i,t}</i>	-0.0116*** (-2.8533)	0.0041	-0.0268 (-1.4091)	0.0190
Intercept	-0.1283 (-1.4916)	0.0860	-0.1260 (-1.1493)	0.1096
Adjusted R^2	0.3310		0.4082	
Standard error of regression	0.0246		0.1545	
F -statistic	3.7829		4.8791	
Probability. (F -statistic)	0.0000		0.0000	
Durbin-Watson	1.7414		1.8168	
Observations	1,272		1,272	

Notes: Table III reports the estimation results for the full sample comprising of 212 deposit-taking SACCOs in Kenya over the period 2008-2013; in all estimations, cross-section fixed and period fixed dummy variables have been incorporated; t -values are in parentheses; White's cross-section standard errors are reported alongside the t -values; ***, ** and * represent significance at the 1, 5 and 10% levels, respectively

Table III.
Impact of name
change on financial
performance

regressions, fixed effects reflecting firm-year and SACCO controls are incorporated. As reported in Table III, the adjusted R^2 is relatively higher at 33.10 and 40.82 per cent when *ROA* and *OPM* are introduced as dependent variables, respectively. The results from the two estimation models provide support for the *H1* and reveal that name change by deposit-taking SACCOs in Kenya are associated with significant improvement in financial performance as measured by both *ROA* (t -value = 2.8851, $p < 0.01$) and *OPM* (t -value = 1.6821, $p < 0.0100$) in the subsequent year.

According to the results, deposit-taking SACCOs that announce name change experience about 3.23 per cent change in operating profitability and 0.41 per cent change in *ROA*. This finding seems to suggest that a name change is associated with improved financial performance of deposit-taking SACCOs. This finding implies that name change can be a value-adding opportunity for SACCOs operating both FOSAs and BOSAs. It should also be noted that for the economic benefits of name change to be experienced, they should be accompanied by other strategies aimed at promoting the SACCO as well as creating awareness to existing and potential membership.

In addition to the test variable, the results in Table III present similar findings for a majority of the control variables. According to the results, leverage seems to have a significant and negative association with both measures of financial performance (*ROA* and *OPM*) at the 1 per cent level. This finding is consistent with Quayes and Hasan (2014) who argue that leverage has a negative impact on the financial performance. The result provides more insights into the previous observation that deposit-taking SACCOs in Kenya seem cautious in using debt to finance their activities. Acquiring more debt presents increased financial risk to SACCOs, especially noting that interest rates charged on debt are usually higher than lending rates of the SACCO[8].

The results seem to suggest that deposit-taking SACCOs with higher liquidity levels are associated with better financial performance, although the significance of the association is limited with regard to *OPM* ($p < 0.10$). This finding partially suggests that liquidity in financial institutions is important because of the need to maintain liquid funds for disbursement as loans, which is the core revenue-generating asset in a SACCO. SACCOs that are prompt in disbursing loans to members are more likely to attract more membership, as a result of goodwill among the existing members (McKillop and Quinn, 2009). Consistent with previous studies such as Gillan *et al.* (2003), Core *et al.* (2006), Mersland and Strom (2009) and Quayes and Hasan (2014), the results reveal that SACCO size as measured by the natural logarithm of gross loans is positively associated with both *ROA* and *OPM* (t -values = 2.1013, $p < 0.05$ and 5.7648, $p < 0.01$, respectively). This finding is also consistent with Goddard *et al.* (2008) and seems to imply that larger SACCOs are associated with higher returns. In a subsequent section, we investigate whether the impact of name change on the financial performance of deposit-taking SACCOs is dependent on SACCO size.

Interestingly, the results in Table III reveal a significant and negative association between SACCO membership and financial performance ($p < 0.01$). This finding seems to suggest that deposit-taking SACCOs with more members' experience reduced financial performance. This could be explained by a larger proportion of the revenue disbursed to members as interest rebate on deposits. Generally, SACCOs with diversified membership are likely to attract more deposits, and hence pay a higher interest on the deposits. Consistent with previous studies such as Mathuva (2009) and Quayes and Hasan (2014), the results in Table III reveal that the cost-to-income ratio has

a significant and negative association with financial performance at the 1 per cent level. This seems to suggest that inefficiencies in cost management by deposit-taking SACCOs could have a negative impact on their financial performance.

Contrary to Seale (2004), the number of SACCO branches have negative effect on the operating profitability of deposit-taking SACCOs (t -value = -3.1635 , $p < 0.01$). The negative association between SACCO branches and *OPM* could be due to cost implications of SACCO branches, which tend to reduce operating profitability. Increasing SACCO branches entails additional costs, which may take time to recover. Finally, in contrast with Quayes and Hasan (2014), the results in Table III reveal a significant and negative association between capital to assets ratio and *ROA* ($p < 0.01$). We note that most of the capital for deposit-taking SACCOs in Kenya is generated from members and accumulated profits over time. This implies that SACCOs with more capital base may have more members who translate to higher payout in terms of interest rebate on deposits and dividends. This may lead to reduced profitability.

The findings in Table III on the impact of name change on financial performance add to existing literature that focuses on market reaction to name change (Mase, 2009; Andrikopoulos *et al.*, 2007; Josev *et al.*, 2004) and impact of name change on insurer premiums (Cole *et al.*, 2015). The findings provide additional insights into the positive association between name change and financial performance in mutual financial institutions around the time when the name change was announced. The study extends the analysis by Cole *et al.* (2015) by focusing on the impact of name change on bottom-line of deposit-taking SACCOs in a developing country characterized by a vibrant credit union sector.

Although previous studies have documented positive market reaction of name change, the studies fail to explain why the positive reactions is experienced. The present study fills this gap by studying the impact of name change on the revenue-cost structure of deposit-taking SACCOs, which have been highlighted as some of the factors explaining the market reaction. More specifically, the results reveal a consistent and positive association between prior-period name change and financial performance.

5.2 Robustness checks

To assess the robustness of the results, we control for major name change, size and licensing status and check whether the impact of name change on financial performance varies. The results are reported in Tables IV through VI. With regard to the impact of major name change, we introduce a dummy variable (*MAJOR*) which is equal to 1 if the SACCO had a major name change in the prior period and 0 if otherwise[9]. We posit that to the extent that name change better reflects a national or regional look of the SACCO and an improvement in the services offered, this may have a different impact on financial performance than some minor name change.

The results in Table IV reveal that the coefficient on the variable *MAJOR* is insignificant when *ROA* is the dependent variable. This finding seems to be consistent with a study by Horsky and Swyngedouw (1987) and Bosch and Hirschey (1989). Interestingly, the significance of *NameChange* diminishes when the variable on major name change (*MAJOR*) is introduced in the model. The results provide some evidence of a positive association between *MAJOR* and *OPM*. This finding seems to suggest some contribution of major name change on the operating performance of deposit-taking SACCOs. The improved operating performance may be due to expansion in operations

Independent variables	Dependent variable			
	$ROA_{i,t}$	$OPM_{i,t}$		
	Coefficient	Standard error	Coefficient	Standard error
<i>NameChange</i>	0.0029 (0.3652)	0.0080	-0.0275 (-0.7662)	0.0358
<i>Non_Int_{i,t}</i>	0.0075 (1.5558)	0.0048	0.0162 (0.5959)	0.0272
<i>Leverage_{i,t}</i>	-0.0720*** (-6.3082)	0.0114	-0.4790*** (-5.9891)	0.0800
<i>Liquidity_{i,t}</i>	0.0048** (2.5304)	0.0019	0.0152* (1.7160)	0.0088
<i>Loans_{i,t}</i>	0.0100** (2.1022)	0.0048	0.0359*** (5.8027)	0.0062
<i>Members_{i,t}</i>	-0.0045*** (-3.1094)	0.0015	-0.0408*** (-6.6540)	0.0061
<i>CIR_{i,t}</i>	-0.0039*** (-3.7074)	0.0011	-0.0666*** (-4.4724)	0.0149
<i>Branches_{i,t}</i>	-0.0003 (-0.7109)	0.0004	-0.0044*** (-3.2609)	0.0014
<i>NPLs_{i,t}</i>	-0.0110 (-1.4434)	0.0076	-0.0326 (-0.7860)	0.0415
<i>CA_{i,t}</i>	-0.0116*** (-2.8615)	0.0041	-0.0270 (-1.4558)	0.0186
<i>MAJOR</i>	0.0012 (0.1532)	0.0078	0.0636** (2.3918)	0.0266
Intercept	-0.1283 (-1.4918)	0.0860	-0.1295 (-1.1668)	0.1110
Adjusted R ²	0.3304		0.4079	
Standard error of regression	0.0246		0.1546	
F-statistic	3.7627		4.8565	
Probability (F-statistic)	0.0000		0.0000	
Durbin-Watson	1.7415		1.8151	
Observations	1,272		1,272	

Table IV. Robustness – impact of major name change on SACCO's financial performance

Notes: Table IV reports the estimation results for the full sample comprising of 212 deposit-taking SACCOs in Kenya over the period 2008-2013 while incorporating an additional independent variable *MAJOR*, as control for major name change; in all estimations, cross-section fixed and period fixed dummy variables have been incorporated; *t*-values are in parentheses; White's cross-section standard errors are reported alongside the *t*-values; ***, ** and * represent significance at the 1, 5 and 10% levels, respectively

and wider outreach by deposit-taking SACCOs. The name change may have served to attract more members into the SACCO rather than an improvement in the range of services provided.

In Table V, we report the estimation results while controlling for the size of the SACCO. To control for SACCO size, we introduce the variable (*BAND*) which is equal to 1 if the median assets of the deposit-taking SACCO amount to Kshs 262.21m (US\$2.47m) and 0 if otherwise. We also split the sample in to two:

- (1) SACCOs with asset base greater than Kshs 262.21m (larger SACCOs); and
- (2) SACCOs with asset base less than or equal to Kshs 262.21m (smaller SACCOs).

The results in Table V suggest a significant and positive impact of name change on *ROA* in larger SACCOs at the 1 per cent level (*t*-value = 3.1861). According to the results, the coefficient on *BAND* variable is not significant. This implies that, regardless of SACCO size, name change announcements will be associated with an improvement in future financial performance as measured by *ROA* and *OPM*.

Independent variables	LARGER SACCOS <i>Assets > Kshs. 262.21m</i>		SMALLER SACCOS <i>Assets ≤ Kshs. 262.21m</i>		Full sample	
	<i>ROA_{i,t}</i>	<i>OPM_{i,t}</i>	<i>ROA_{i,t}</i>	<i>OPM_{i,t}</i>	<i>ROA_{i,t}</i>	<i>OPM_{i,t}</i>
	Dependent variable					
<i>NameChange</i>	0.0036*** (3.1861)	0.0241 (1.1948)	0.0050 (1.5658)	0.0467 (1.4820)	0.0041*** (3.0323)	0.0331* (1.7063)
<i>Non_Int_{i,t}</i>	0.0122** (2.1578)	0.0365 (1.0274)	0.0056 (0.7491)	0.0008 (0.0154)	0.0075 (1.5552)	0.0165 (0.6033)
<i>Leverage_{i,t}</i>	-0.0397*** (-4.3848)	-0.3807*** (-6.3994)	-0.0888*** (-4.5202)	-0.5216*** (-4.0338)	-0.0720*** (-6.2925)	-0.4781*** (-5.9587)
<i>Liquidity_{i,t}</i>	0.0014 (0.6808)	0.0151 (1.3698)	0.0068*** (3.2035)	0.0231* (1.8892)	0.0048** (2.5187)	0.0152* (1.7069)
<i>Loans_{i,t}</i>	0.0098*** (3.7800)	0.0624*** (3.3803)	0.0103* (1.8755)	0.0266*** (5.7977)	0.0100** (2.0940)	0.0361*** (5.3687)
<i>Members_{i,t}</i>	-0.0004 (-0.6862)	-0.0345*** (-4.2001)	-0.0072*** (-2.9027)	-0.0517*** (-4.3160)	-0.0045*** (-3.0508)	-0.0405*** (-6.6628)
<i>CIR_{i,t}</i>	-0.0117*** (-2.7548)	-0.0890** (-2.0547)	-0.0008* (-1.8400)	-0.0528*** (-7.4379)	-0.0039*** (-3.6906)	-0.0665*** (-4.4996)
<i>Branches_{i,t}</i>	-0.0002 (-0.5699)	-0.0032 (-1.2525)	-0.0001 (-0.0777)	-0.0076 (-1.4404)	-0.0003 (-0.6988)	-0.0042*** (-2.9391)
<i>NPLs_{i,t}</i>	0.0003 (0.0623)	0.0443 (1.3693)	-0.0105 (-1.1558)	0.0001 (0.0006)	-0.0102 (-1.3202)	-0.0243 (-0.5461)
<i>CA_{i,t}</i>	-0.0148** (-1.9736)	-0.0319** (-2.2752)	-0.0100 (-1.0697)	-0.0320 (-0.8593)	-0.0116*** (-2.8412)	-0.0265 (-1.4150)
<i>BAND</i>					-0.0018 (-0.6786)	-0.0166 (-0.7370)
Intercept	-0.1702*** (-3.1257)	-0.7419** (-2.0527)	-0.1056 (-1.2382)	0.1202 (1.2327)	-0.1286 (-1.4898)	-0.1291 (-1.1300)
Adjusted R ²	0.3393	0.4101	0.3306	0.4028	0.3305	0.4078
Standard error of regression	0.0186	0.1292	0.0294	0.1756	0.0246	0.1546
F-statistic	3.3800	4.2217	3.3759	4.2443	3.7639	4.8562
Probability (F-statistic)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Durbin-Watson	1.7470	1.8230	1.8390	1.9614	1.7412	1.8175
Observations	636	636	636	636	1,272	1,272

Notes: Table V reports the estimation results for the full sample comprising of 212 deposit-taking SACCOs in Kenya over the period 2008-2013 while incorporating an additional independent variable *BAND*, as control for SACCO size; in all estimations, cross-section fixed and period fixed dummy variables have been incorporated; *t*-values are in parenthesis; ***, ** and * represent significance at the 1, 5 and 10% levels, respectively

Table V.
Robustness test-
impact of SACCO
size on name change
and financial
performance

5.3 Licensing effects on the relation between name change and financial performance

In Table VI, we examine whether the licensing deposit-taking SACCOs has an effect on the association between name change and financial performance. To achieve this, we introduce the lagged dummy variable (*LICENSED*) which is equal to 1 if the SACCO was licensed during the prior year and 0 if otherwise. We also split the sample into licensed and unlicensed SACCOs as of 31 December 2013. We note that deposit-taking SACCOs in the sample started being licensed in 2010 through 2013. As of 31 December 2013, 135 deposit-taking SACCOs had been licensed by SASRA to formally operate both FOSAs and BOSAs. The results in Table VI reveal limited positive impact of name change in unlicensed SACCOs on financial performance measure by *ROA* ($p < 0.10$). The results show the coefficient on the licensing dummy variable (*LICENSED*) is insignificant. Nevertheless, the significance of the name change dummy variable (*NameChange*) remains positive and significant as previously reported in Table III. This implies that whereas the earlier presumption was that name change by deposit-taking SACCOs in the sample could have been occasioned by regulatory actions (*H2*), there seems to be muted influence of licensing status on the financial performance of SACCOs.

5.4 Long-term effects of name change announcements

Following Cole *et al.* (2015), we examine the long-term impact of name change on financial performance by examining name change occurring in years $t-2$, $t-3$ and $t-4$ and financial performance. The results in Table VII reveal that the impact of name change on financial performance by deposit-taking SACCOs is mute up to three years following name change announcement. A significant and positive impact of name change seems to be experienced in the fourth year after the name change announcement for both *ROA* ($p < 0.01$) and *OPM* ($p < 0.10$). The results seem to depict that name change in deposit-taking SACCOs have longer-term effects, as they relate to future sustainability of the co-operative organization. However, the period in which the benefits diminish is not clear given the limitations in the period covered in this study. These findings contrast with Cole *et al.* (2015) who find that firms with name change experience positive growth in insurance premiums up to four years following the name change announcement. Interestingly, Cole *et al.* find that over time, the effect of name change announcement becomes muted in the fourth year following the name change in the case of insurance companies. However, in this study, we find that the effect of name change announcement is felt in the fourth year following the announcement in SACCOs. This implies that the long-term effects of name change may not be similar across firms in different sectors.

6. Conclusion

The decision to change an organization's name has associated costs as well as some benefits such as favourable market reaction and subsequent premium growth for insurance companies. As a departure from previous studies, the present study examined name change in mutual financial institutions in a developing country context. The study is timely in that it examines name change at a time when the SACCO sector in Kenya has experienced a number of regulatory reforms. The study investigates the impact of name change, if any, on the financial performance of deposit-taking SACCOs in Kenya. Further, the study examines whether the regulatory action of licensing deposit-taking SACCOs influenced the association between name change and financial performance.

Independent variables	Licensed SACCOs			Unlicensed SACCOs			Full sample		
	ROA _{<i>i,t</i>}	OPM _{<i>i,t</i>}	ROA _{<i>i,t</i>}	Dependent variable	OPM _{<i>i,t</i>}	ROA _{<i>i,t</i>}	OPM _{<i>i,t</i>}	ROA _{<i>i,t</i>}	OPM _{<i>i,t</i>}
<i>NameChange</i>	0.0011 (1.5050)	0.0090 (0.9919)	0.0102* (1.8626)	0.0900 (1.5986)	0.0042*** (3.2484)	0.0347* (1.8819)			
<i>Non_Int_{<i>i,t</i>}</i>	0.0340e-03 (0.0041)	-0.0084 (-0.2219)	0.0068 (0.9699)	0.0140 (0.3341)	0.0076 (1.5792)	0.0169 (0.6542)			
<i>Leverage_{<i>i,t</i>}</i>	-0.0395*** (-9.7673)	-0.2490* (-1.7339)	-0.0777*** (-4.8021)	-0.4395*** (-4.2161)	-0.0721*** (-6.3377)	-0.4794*** (-6.1026)			
<i>Liquidity_{<i>i,t</i>}</i>	0.0059*** (1.9923)	0.0773*** (3.1098)	0.0071*** (3.6788)	0.0150*** (3.3995)	0.0048** (2.5108)	0.0150* (1.6511)			
<i>Loans_{<i>i,t</i>}</i>	0.0126 (1.5351)	0.1332*** (4.2303)	0.0125* (1.8630)	0.0409*** (4.9708)	0.0099** (2.1133)	0.0348*** (5.9767)			
<i>Members_{<i>i,t</i>}</i>	0.0023 (0.3755)	-0.0237*** (-4.2099)	-0.0104*** (-2.6928)	-0.0691*** (-4.4256)	-0.0044*** (-3.0787)	-0.0390*** (-6.3984)			
<i>CIR_{<i>i,t</i>}</i>	0.0001 (0.0858)	0.0413*** (8.4629)	-0.0023* (-1.7184)	-0.0746*** (-4.4267)	-0.0039*** (-3.7065)	-0.0668*** (-4.3795)			
<i>Branches_{<i>i,t</i>}</i>	-0.0017 (-1.1763)	-0.0143* (-1.8719)	-0.0011 (-1.3388)	-0.0088 (-1.5918)	-0.0002 (-0.6047)	-0.0028 (-1.5572)			
<i>NPLs_{<i>i,t</i>}</i>	0.0021 (0.1639)	0.0972 (1.3135)	-0.0296 (-1.0938)	-0.1331 (-0.8260)	-0.0097 (-1.6044)	-0.0085 (-0.3590)			
<i>CA_{<i>i,t</i>}</i>	-0.0060 (-0.4292)	0.0100 (0.2329)	-0.0084 (-1.6059)	-0.0199 (-0.6445)	-0.0115*** (-2.8563)	-0.0248 (-1.2871)			
<i>LICENSED</i>									
Intercept	-0.2485 (-1.3172)	-2.2997*** (-3.7558)	-0.1270 (-0.9569)	0.0025 (0.0159)	-0.0018 (-0.6968)	-0.0322 (-1.1623)			
Adjusted R ²	0.3750	0.3651	0.3885	0.4908	0.3307	0.4097			
Standard error of regression	0.0200	0.1198	0.0252	0.1587	0.0246	0.1544			
F-statistic	2.8295	2.7534	3.3362	4.5438	3.7662	4.8854			
Probability (F-statistic)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000			
Durbin-Watson	2.8736	2.5353	1.8972	2.0923	1.7454	1.8294			
Observations	440	440	832	832	1,272	1,272			

Notes: Table VI reports the estimation results for both licensed and unlicensed deposit SACCOs in Kenya over the period 2008:2013; in all estimations, cross-section fixed and period fixed dummy variables have been incorporated; *t*-values are in parentheses; ***, **, * and * represent significance at the 1, 5 and 10% levels, respectively

Table VI.
Robustness-impact of licensing on name change and financial performance

Table VII.
Robustness-long-term effects of name change announcements

Independent variables ↓	Dependent variable				
	$ROA_{i,t}$	$OPM_{i,t}$	$ROA_{i,t}$	$OPM_{i,t}$	$ROA_{i,t}$
<i>NameChange</i> _{t-2}	0.0041*** (2.8851)	0.0323* (1.6821)	0.0034*** (2.7772)	0.0353* (1.7420)	0.0038*** (2.7755)
<i>NameChange</i> _{t-3}			0.0028 (0.5342)	-0.0133 (-0.4268)	
<i>NameChange</i> _{t-4}					0.0024 (1.2681)
<i>Non_Int</i> _{i,t}	0.0076 (1.5682)	0.0167 (0.6215)	0.0077 (1.6175)	0.0159 (0.5771)	0.0158 (0.5881)
<i>Leverage</i> _{i,t}	-0.0720*** (-6.2826)	-0.4783*** (-5.9605)	-0.0717*** (-6.1698)	-0.4797*** (-5.8471)	-0.0719*** (-6.2182)
<i>Liquidity</i> _{i,t}	0.0048** (2.5318)	0.0151* (1.7120)	0.0048** (2.5181)	0.0152* (1.7020)	0.0048** (2.5222)
<i>Loans</i> _{i,t}	0.0100** (2.1013)	0.0356*** (5.7648)	0.0098* (1.9560)	0.0364*** (5.0147)	0.0100** (2.1032)
<i>Members</i> _{i,t}	-0.0045*** (-3.1100)	-0.0407*** (-6.7076)	-0.0045*** (-3.1108)	-0.0407*** (-6.7103)	-0.0045*** (-3.1176)
<i>CIR_{i,t}</i>	-0.0039*** (-3.7130)	-0.0666*** (-4.4824)	-0.0039*** (-3.7490)	-0.0666*** (-4.4743)	-0.0039*** (-3.6942)
<i>Branches</i> _{i,t}	-0.0003 (-0.7026)	-0.0043*** (-3.1635)	-0.0003 (-0.7773)	-0.0042*** (-2.9407)	-0.0003 (-0.7660)
<i>NPLS</i> _{i,t}	-0.0110 (-1.4444)	-0.0325 (-0.7812)	-0.0114 (-1.5530)	-0.0309 (-0.7242)	-0.0113 (-1.4532)
<i>CA_{i,t}</i>	-0.0116*** (-2.8533)	-0.0268 (-1.4091)	-0.0116*** (-2.8154)	-0.0269 (-1.4141)	-0.0116*** (-2.8455)
Intercept	-0.1283 (-1.4916)	-0.1260 (-1.1493)	-0.1256 (-1.3786)	-0.1388 (-1.6927)	-0.1274 (-1.4920)
Adjusted R ²	0.3310	0.4082	0.3305	0.4077	0.3312
Standard error of regression	0.0246	0.1545	0.0246	0.1546	0.0246
F-statistic	3.7829	4.8791	3.7644	4.8540	3.7639
Probability (F-statistic)	0.0000	0.0000	0.0000	0.0000	0.0000
Durbin-Watson	1.7414	1.8168	1.7408	1.8172	1.7414
Observations	1,272	1,272	1,272	1,272	1,272
					0.0038*** (2.5901)
					0.0105*** (4.0462)
					0.0072 (1.5012)
					-0.0713*** (-6.3223)
					0.0048*** (2.6324)
					0.0359*** (5.8983)
					0.0411*** (-3.1331)
					-0.0049*** (-3.1331)
					-0.0038*** (-3.6109)
					-0.0004 (-0.9294)
					-0.0052*** (-4.2477)
					-0.0110 (-1.4926)
					-0.0268 (-1.3981)
					-0.0116*** (-2.8314)
					-0.1254 (-1.4617)
					0.4088
					0.1545
					4.8721
					0.0000
					1.7438
					1,272
					0.0832* (1.9114)
					0.0141 (0.3083)
					-0.4725*** (-6.0653)
					0.0153* (1.7807)
					0.0357*** (5.7235)
					-0.0437*** (-6.8592)
					-0.0319 (-0.7830)
					-0.0265 (-1.4181)
					-0.1029 (-1.0042)

Notes: Table VII reports the estimation results illustrating the long-term effects of name change on financial performance of 212 deposit-taking SACOs over the period 2008:2013; in all estimations, cross-section fixed and period fixed dummy variables have been incorporated; *F*-values are in parentheses; ***, **, * and * represent significance at the 1, 5 and 10% levels, respectively

To achieve this objective, the study examines a panel data set comprising 212 deposit-taking SACCOs over a six-year period (2008-2013). In this study, we measure financial performance using *ROA* and *OPM*.

The results provide empirical evidence of a positive association between SACCO name change and subsequent improvement in financial performance. This initial finding illustrates that name change, accompanied by appropriate strategies, are value adding in terms of improvement in financial performance. The results are robust for a variety of controls and indicate that name change by deposit-taking SACCOs in Kenya are associated with internal strategic stances which focus on improving service to members as well as financial performance. The results seem to suggest a positive reaction to name change by SACCO members and potential members, and this is experienced about 4 years after the name change. This finding suggests that deposit-taking SACCOs can improve their performance by adopting names that have a regional or national look alongside other strategies aimed at improving performance. The results also provide muted regulatory influences on the association between name change and financial performance.

The study focuses solely on deposit-taking SACCOs in a developing country context over a six-year period only. This may affect the generalizability of the findings, and therefore, more studies on SACCOs in more developed economies would be useful. The results demonstrate that the impact of name change seems to be experienced from the fourth year after the name change. Further research could investigate the window period when deposit-taking SACCOs experience the positive impact of name change until when the effect becomes muted. Another area would be examining a control group of co-operatives operating purely BOSAs and assess whether the results are comparable to those of deposit-taking SACCOs.

Notes

1. In Kenya, credit unions are commonly referred to as SACCOs. In this study, the term "SACCO" has been used interchangeably with "credit unions" to refer to the same business organization.
2. Deposit-taking SACCOs in this study refer to those SACCOs providing both FOSAs as well as BOSAs. FOSA products are varied and range from deposit services (e.g. fixed deposit, savings or short/call deposits) to special accounts (e.g. medical, school fees among others). In addition, the emergence of FOSA brought in other product offerings such as cheque clearing, safe custody, standing orders, electronic funds transfer, salary processing and automated teller machines. BOSA normally entails check off arrangements with the employers who remit member contributions on a monthly basis. A limited number of loan products are also provided by BOSAs.
3. McKillop and Wilson (2011) highlight some of the attributes of a transition credit union industry as 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 the data obtained by the corresponding author from the ministry in charge of co-operatives in Kenya, there were 6,738 registered SACCOs in Kenya as of 2013. The total number of co-operatives in Kenya as of 2013 was 13,890.

5. Ushirika day (Ushirika is a Swahili word for “co-operation”) is a forum organized for SACCOs in Kenya to meet and discuss issues affecting them. During this forum, winning SACCOs receive awards under various categories such as best managed SACCO, highest mobilization of savings, most innovative SACCO, champion of governance and so forth.
6. Whereas a control sample for non-deposit-taking SACCOs would have certainly added value to the analyses, we could not access information on documented name changes for these SACCOs.
7. The Spearman’s correlation coefficients are appropriate for both continuous and discrete variables, including ordinal variables (Gujarati, 2003).
8. The SASRA supervision report of 2013 indicates that the average lending rate by SACCOs in Kenya over the period 2010-2013 was 13.4 per cent, while the average lending rate charged by commercial banks in Kenya was 16.5 per cent. As SACCOs usually borrow at commercial bank lending rates, this means that their spread is largely negative, which translates into losses when they borrow to finance their loan portfolio.
9. We appreciate the comment by one of the reviewers who advised that we control for the potential impact of major name changes on financial performance due to improvement in regional coverage and range of products.

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Appendix

Savings and credit co-operatives

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No.	Old name	Code	New name	Year branded	Type of name change
1	ACO	7315	Airport	2011	Major
2	Baringo Farmers	5641	Skyline	2013	Major
3	Baringo Teachers	2549	Boresha	2012	Major
4	Borabu Farmers	5459	Vision Point	2013	Major
5	Bungoma Teachers	2876	Ng'arisha	2013	Major
6	Chebosobon	11346	Greenhills	2012	Major
7	Diocese of Meru	10068	Centenary	2012	Major
8	Embu Farmers	6894	Nawiri	2011	Major
9	Embu Teachers	2633	Winas	2012	Major
10	Gilgil	10624	Vision Africa	2011	Major
11	Githongo Majani	6387	Smart Champions	2013	Major
12	Irianyi Tea	8843	Kenya Achievas	2013	Major
13	Kagwe Christian	9231	Fariji	2011	Major
14	Kericho Tea	6336	Kenya Highlands	2010	Major
15	Kiambu Tea	6447	Tai	2010	Major
16	Kiambu Teachers	2628	Metropolitan	2011	Major
17	Kiambu Unity Finance	2275	K-Unity	2010	Major
18	Kicowo	2271	Nufaika	2013	Major
19	Kilifi Teachers	2255	Imarika	2013	Major
20	Kipsigis Teachers	2885	Imarisha	2013	Major
21	Kirinyaga District Farmers	8379	Fortune	2011	Major
22	Kirinyaga Tea	4107	Bingwa	2010	Major
23	Kitale Tea	6918	Transcounties	2011	Major
24	Kuria Teachers	7221	Stake Kenya	2013	Major
25	Macadama	5937	Jijenge	2011	Major
26	Mathira Farmers	9187	Enea	2012	Major
27	Mathira Tea	5988	Baraka	2010	Major
28	Maua Methodist Hospital	7320	MMH	2012	Major
29	Meru Farmers	10672	Capital	2012	Major
30	Meru Mwalimu	6825	Solution	2012	Major
31	Meru North Farmers	4918	Dhabiti	2013	Major
32	Mumias Outgrowers	3109	Nitunze	2013	Major
33	Mungania Tea Growers	6267	Daima	2011	Major
34	Muramati	6760	Unaitas	2012	Major
35	Muranga Teachers	2648	Mentor	2012	Major
36	Mwalimu	2265	Mwalimu National	2011	Minor
37	Nakuru Teachers	2675	Cosmopolitan	2012	Major
38	Nanyuki Equator	2895	Necofosa	2013	Major
39	Nation Staff	2386	Nation	2012	Minor
40	Nithi Tea	5014	Thamani	2012	Major
41	Nyandarua Teachers	2559	Tower	2012	Major
42	Orthodox	10120	Miliki	2013	Major
43	Rukuriri Rural	6917	County	2011	Major
44	Samburu Traders	5142	Supa	2013	Major
45	Siaya Teachers	2865	Taraji	2013	Major
46	Silibwet FSA Rural	11933	Kenya Midland	2012	Major
47	South Imenti	6366	Yetu	2011	Major
48	Thika District Teachers	8012	Orient	2013	Major
49	Trans Nzoia Teachers	2660	Trans-National Times	2013	Major
50	Uruku Rural	6864	Times-U	2010	Major
51	Wakulima Dairy	10226	Wakulima Commercial	2012	Minor

Table AI.
List of SACCO name changes in Kenya over the period 2010-2013

Source: SASRA report of 2013

About the authors

David Mutua Mathuva, PhD, is currently a Lecturer and an Academic Director (MSc Development Finance) at Strathmore University Business School where he teaches accounting and finance. Previously, Dr Mathuva worked at KPMG Kenya in the Risk Consulting department, Forensic Services. He is a member of Institute of Certified Public Accountants of Kenya (ICPAK). He has presented papers at national and international accounting and finance conferences. David has also published a number of articles in peer-reviewed journals such as *Advances in Accounting incorporating Advances in International Accounting*, *Journal of Applied Accounting Research*, *Journal of Accounting in Emerging Economies*, *Journal of Co-operative Organization and Management* among others. His research interests are in reporting, audit (including forensic audit) and corporate finance. David Mathuva is the corresponding author and can be contacted at: dmathuva@strathmore.edu

Elizabeth Wangui Muthuma, PhD, is a Lecturer in Public Management and Research at Strathmore University Business School. Elizabeth has published a number of articles in peer-reviewed journals such as *Africa Insight* and *African Review of Social Sciences Methodology*. Her research interests include savings and credit co-operatives, public policy and corporate governance.

Josephat Mboya Kiweu, PhD is a Senior Lecturer at Strathmore University Business School where he teaches finance and selected courses in accounting. Dr Mboya has presented and published a number of research articles in peer-reviewed journals such as *Managerial Finance*, *Advances in Accounting incorporating Advances in International Accounting*, *Journal of Applied Accounting Research* among others. Dr Mboya presented academic papers in a number of international conferences, seminars and workshops and has co-chaired the 6th African Accounting and Finance Conference. His research interests include, among others, corporate governance, financial institutions and markets and financial management.

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