The relationship between complexity behavior and enterprise growth: A case of savings and credit cooperatives in Uganda

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Abstract: This study examines the relationship between complexity behavior and enterprise growth in savings and credit cooperatives (SACCOs) in Uganda. A cross-sectional survey was conducted in the four regions of Uganda, using a mixed method approach. Primary data was collected using a self-administered questionnaire from 269 SACCOs in Uganda. Zero-order correlation, regression analysis, and structural equation modeling techniques were used to analyze the data. The study findings indicate a positive and significant relationship between complexity behavior and enterprise growth in SACCOs in Uganda. Furthermore, the dimensions of complexity behavior (self-organizing, adaptive behavior, and networking) are found to be positively and significantly correlated with enterprise growth in SACCOs in Uganda. This research focuses on the role of complexity behavior in promoting enterprise growth in a developing economy.

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The paper results will enhance our teaching and research knowledge in financial cooperatives as University lecturers in finance, microfinance, banking and management.

PUBLIC INTEREST STATEMENT

The growth of savings and credit cooperatives (SACCOs) is very paramount in promoting employment, wealth creation, innovation, and development of the economy. However, SACCOs experience slow growth in their life span due to financial and non-financial barriers, which adversely affect the growth over time. Therefore, in practice, managers should endeavor to be creative and self-organizing during routine activities beyond the SACCO norms. In the same vein, SACCOs should create linkages with other stakeholders to share ideas/information relevant for the growth of SACCO. SACCOs should adopt modern technologies and adjust their operational strategies to address the competitive pressures and changes in the business environment. Therefore, the study underscores the importance of self-organizing, networking, and coping mechanisms in the growth of SACCOs.
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Keywords: enterprise growth; complexity behavior; adaptive behavior; self-organizing; and networking

1. Introduction

According to Machado (2016), growth of small and medium enterprises (SMEs) is a very important phenomenon that fosters their survival and competitiveness. This growth drives innovations, creates employment opportunities, and generates income in the economy (Akingunola, 2011; Kasekende & Opendo, 2003; Koech, 2011). However, empirical evidence suggests that SMEs experience slow growth over time, a phenomenon associated with financial and institutional barriers (Davidsson, Achtenhagen, & Naldi, 2010; McKelvies & Wiklund, 2010, Muthaih & Venkatesh, 2012). Theoretically, growth as a function of complexity behavior is rooted in the complexity theory (Goldstein, 1999; McMillian, 2008); however, this contradicts earlier studies on enterprise growth that are anchored on the business life cycle model, resource-based view, and dynamic capabilities theories (Zhang, 2010; Adizes, 1979; Penrose, 1959; Rostow, 1960). According to the complexity theory, enterprises growth is associated with the response and adaption to dynamic changes in the business environment.

According to Nuwagaba (2012), savings and credit cooperatives (SACCOs) are informal/formal financial intermediaries that focus on socioeconomic well-being of their members generally and are formed to promote the economic interests in communities. These financial intermediaries are member-owned, member-managed, member-used, and member-controlled. According to the CGAP Annual Report (2005), SACCOs are user-owned financial intermediaries with members who typically share a “common bond” based on geographic area, employer, community, or other affiliation and have equal voting rights. In their practice, their operations are guided by the established international cooperative movement principles and values set by the International Cooperative Alliance.

Indeed, they have positioned themselves as potentials for increased production, productivity, and value addition in the economy (National Planning Authority, 2015) and continue to significantly impact on reducing poverty and social exclusion and promoting rural and national development (Ministry of Trade, Industry and Cooperatives [MTIC], 2016). The Ugandan government is committed to promoting their growth and development through various interventions directly by the line Ministry of Trade, Industry and Cooperatives (MTIC, 2016) and also through donor assistance (RFSP and Profira Projects 2008–2019). Despite these interventions, available information reveals a slow growth in their life span (Bwana & Mwakujonga, 2013), hence putting their remarkable contribution to socioeconomic development of African economies in contention. Specifically, the SACCO growth has generally remained poor even though the government and other stakeholders are addressing the competence and governance challenges in Uganda (Ssekakubo, Ndiwalana., & Lwango, 2014). For instance, the savings, share capital, membership, incomes, and returns to members have remained low in SACCOs (World Council of Credit Unions Statistical Report, 2016). The success factors for the growth of enterprises are rooted in the complexity behavior constructs of self-organizing, networks, and coping mechanisms. Put in Uganda context, these SACCOs have registered slow growth as manifested in limited ability to self-organize their systems, processes, and staff to create innovative practices that foster their growth. The networking activities among the SACCO staff and other stakeholders are weak, which have limited the formulation of innovative and productive synergies needed to promote the growth of SACCOs. In addition, SACCOs are not equipped with adequate adaptive strategies, such as flexibility of interest rates to match with the changes in the dynamic business environment. This paper is motivated by the need to study the global variable enterprise growth in the semi-financial sector and to examine the extent to which the growth of SACCOs in Uganda is a function of complexity behavior. The current study examines the relationship between