
EXTERNAL FACTORS INFLUENCING THE RELATIONSHIP BETWEEN PRICING POLICY AND CREDIT COOPERATIVE PERFORMANCE

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Abstract

This study is an empirical review of external factors influencing the relationship between pricing policy and credit cooperative performance. The specific objective of the study is to ascertain the relationship between pricing policy of credit cooperatives and their performance. The study adopted ex-post facto research design. The data utilized in this study were obtained from secondary sources, specifically published annual reports and financial statements of selected Savings and Credit Cooperative Societies (SACCOs) spanning from 2008 to 2022. The population of the study consisted of a total of 24 SACCOs. However, a sample of 15 SACCOs was selected from this population. The sample was carefully chosen to include only SACCOs that demonstrated high levels of performance throughout the study period. To investigate the relationship between pricing policy and Return on Assets (ROA), the study employed pooled correlation analysis. Financial statements of the selected SACCOs were analyzed to extract relevant data for the analysis, focusing on the examination of pricing policy and its correlation with ROA. Results indicate that the pricing policy of a credit cooperative exhibits a positive relationship with its performance. Moreover, the significant probability value of the t-statistic ($0.0204 < 0.05$) suggests that the pricing policy has a statistically significant impact on the performance of credit cooperatives in Nigeria. The study concludes on the importance of carefully designing and implementing pricing policies to enhance the performance of credit cooperatives. The study however recommends the need to adopt effective pricing strategies so that credit cooperatives can potentially achieve improved financial sustainability, profitability, and overall operational efficiency.

Keywords: Pricing Policy, Credit Cooperatives, Performance, SACCOs and ROA

1.1 Introduction

Credit cooperatives, often referred to as credit unions, are financial institutions owned and operated by their members. These members usually share a common bond, such as working for the same employer, belonging to the same community, or having a common association. The primary purpose of credit cooperatives is to provide financial services to their members, including savings, loans, and other financial products (David, 2016).

The crucial role of pricing policies in credit cooperatives lies in their ability to influence the institution's financial performance. Pricing policies encompass the strategies and decisions related to interest rates, fees, and charges associated with the various financial services offered by the cooperative. These policies are fundamental as they directly impact both the revenue generation and cost structure of the credit cooperative.

Credit cooperatives play a crucial role in providing financial services to their members, particularly in underserved communities (Amina, 2016). One significant aspect of their operations is the formulation of a pricing policy that determines the interest rates, fees, and charges associated with their products and services. The pricing policy adopted by credit cooperatives can have a substantial impact on their performance and overall sustainability. However, the relationship between pricing policy and credit cooperative performance is not solely influenced by internal factors. External factors also play a crucial role in shaping this relationship. Understanding these external factors is essential for credit cooperatives to effectively manage their pricing policies and optimize their performance. This necessitates the need to carry out a study focused on exploring the external factors influencing the relationship between pricing policy and credit cooperative performance.

1.2 Statement of the Problem

In an ideal scenario, credit cooperatives would operate in an environment where external factors have a minimal impact on the relationship between pricing policy and performance. The ideal state involves a stable economic landscape, predictable regulatory conditions, and consistent market dynamics. In this setting, credit cooperatives could establish and maintain pricing policies that align seamlessly with their operational goals and member needs, fostering sustainable financial performance.

The challenge arises when external factors exert significant influence on the intricate balance between pricing policy and credit cooperative performance. Various external elements, such as economic downturns, regulatory changes, technological disruptions, and shifts in consumer behavior, can disrupt the intended correlation between pricing decisions and cooperative outcomes. This disruption may lead to suboptimal financial performance, member dissatisfaction, and operational inefficiencies. Fluctuations in interest rates, inflation, and overall economic conditions can challenge the stability of pricing policies. Changes in financial regulations or the introduction of new policies may force credit cooperatives to adjust their pricing, affecting performance. Advances in financial technology and changes in payment systems can impact how pricing strategies are implemented and perceived by members.

In essence, resolving the influence of external factors on the relationship between pricing policy and credit cooperative performance is crucial for ensuring the sustainability, resilience, and positive social impact of these financial institutions.

1.3 Objectives of the Study

The main objective of the study is to evaluate external factors influencing the relationship between pricing policy and credit cooperative performance while the specific objective of the study is to;

- i. Ascertain the relationship between pricing policy of credit cooperatives and their performance

1.4 Research Question

The study provided answers to the research question:

- i. To what extent does pricing policy of credit cooperatives affect their performances?

1.5 Statement of Hypotheses

The hypotheses stated in null and alternate forms are denoted by (H_0) and (H_1) respectively below:

H_0 : Pricing policy of a credit cooperative has no positive and significant relationship with their performance.

H_1 : Pricing policy of a credit cooperative has positive and significant relationship with their performance.

2.0 Review of Related Literature

2.1 Conceptual Review

2.1.1 Concept of Pricing Policy of Credit Cooperatives

Cooperative pricing, also known as price fixing, refers to a collaborative market practice in which competitors in the same industry engage in explicit or implicit collusion to coordinate prices. The objective of cooperators is to establish an agreement among sellers that maintains prices at a higher level than competitive prices (Absanto & Aikaurwa, 2013).

Cooperative pricing policy involves the cooperation of two or more suppliers in a market who collectively determine the selling price of a product. Within a supply chain, this collaboration can occur between a manufacturer, wholesaler, and retailer, influencing pricing decisions at each stage of distribution. The aim may be to maximize profits or leverage collective purchasing power. For instance, retail supply cooperatives unite individual businesses to secure volume discounts that are typically available only to larger chains that make substantial purchases (Bwana & Mwakujonga, 2013).

The primary driver of price is the cost incurred. Variable costs fluctuate with production levels, while fixed costs persist even when production is minimal or non-existent. Managers must determine the income required to sustain business operations and generate profits. Developing a cooperative pricing strategy is more complex as each company involved has its own distinct bottom line to achieve. However, the complexity is justified by the potential benefits of cooperative pricing, such as cost reduction and increased sales (Bauer, 2008).

Several key strategies exist within cooperative pricing. These strategies aim to ensure reasonable costs for both small businesses and consumers. For example, in the healthcare industry, a cooperative may strive to control insurance premiums and the cost of prescription medications. Another common approach is to empower small businesses to remain independent and retain control (Kato & Kratzer, 2013). This often occurs in the financial services industry, where community members own credit unions as a competitive alternative to national banks. Hence, cooperative pricing involves collaborative efforts among competitors to coordinate prices. It encompasses the joint determination of selling prices and aims to achieve various objectives, including cost control, increased sales, and the empowerment of small businesses.

2.1.2 Pricing Dynamics: External Influences on Credit Cooperatives' Performance

Credit cooperatives operate within a broader macroeconomic and regulatory environment that can significantly affect their pricing policy and subsequent performance (Olando et al., 2013). External factors such as interest rate fluctuations, inflation, government regulations, and competition from other financial institutions can exert considerable influence on credit cooperative pricing decisions. For example, changes in market interest rates can impact the interest rates credit cooperatives offer on loans and savings accounts. Government regulations may impose restrictions on fee structures or require specific disclosures, affecting the pricing options available to credit cooperatives. The competitive landscape, including the presence of commercial banks or other financial service providers, can also influence credit cooperatives' pricing decisions as they strive to attract and retain members.

Additionally, regional economic conditions, demographic characteristics, and social factors can shape the demand for credit cooperative services and impact their pricing policy. Karagu and Okibo (2014) posited that factors such as income levels, unemployment rates, population density, and cultural preferences can influence the perceived value of credit cooperative offerings and members' willingness to pay certain prices. Understanding and accounting for these external factors is crucial for credit cooperatives to develop pricing strategies that align with market dynamics and meet the needs of their target members effectively. Credit cooperatives should adapt their pricing strategies in response to changes in the external environment, ensuring their competitiveness and sustainability (Kasungwa and Moronge, 2015).

An analysis of broader economic factors is essential to understand how inflation rates, interest rates, and overall economic stability influence credit cooperative pricing strategies. These factors play a significant role in shaping the pricing decisions of credit cooperatives and can have a profound impact on their profitability and competitiveness (Feinberg & Rahman, 2006).

Inflation rates have a direct effect on the cost of goods and services (Wanjala, 2015). When the general price level rises due to inflation, credit cooperatives may experience increased operating costs, including higher expenses for staffing, utilities, and other inputs. To maintain profitability, credit cooperatives may adjust their pricing strategies by increasing interest rates on loans or adjusting fees and charges to compensate for the higher costs associated with inflation (Jesse, 2016).

Interest rates, both at the macroeconomic level and within the financial industry, also have a substantial influence on credit cooperative pricing strategies. Changes in central bank rates or market interest rates can directly affect the cost of funds for credit cooperatives. Higher borrowing costs can lead to higher interest rates on loans, while lower interest rates may provide an opportunity for credit cooperatives to offer more competitive lending rates (Magali, 2013). Moreover, interest rate fluctuations can impact the returns on savings accounts and investments, thereby influencing the pricing of deposit products offered by credit cooperatives.

The overall economic stability of a country or region can significantly impact credit cooperative pricing strategies (Nkuru, 2015). During periods of economic downturn, credit cooperatives may face higher default risks and increased credit losses. To mitigate these risks, credit cooperatives may adopt more conservative pricing policies, such as raising interest rates or tightening lending criteria. Conversely, in times of economic growth and

stability, credit cooperatives may have more flexibility to lower interest rates or offer promotional pricing to attract new members and expand their loan portfolios (Joseph, 2014).

Additionally, broader economic factors can influence the demand for credit cooperative services and products. During periods of economic uncertainty or recession, consumer demand for loans may decrease, affecting the pricing strategies of credit cooperatives. Conversely, in times of economic prosperity, credit cooperatives may experience increased demand for loans and may adjust their pricing to capitalize on market opportunities.

2.2 Theoretical Review

The study which evaluates external factors influencing the relationship between pricing policy and credit cooperative performance was underpinned on Financial Intermediation Theory. This theory, developed by Diamond and Dybvig in 1983, provides insights into how financial institutions, including credit cooperatives, manage the risk associated with maturity transformation.

2.2.1 Financial Intermediation Theory

According to the Financial Intermediation Theory, financial institutions serve the crucial role of transforming short-term, liquid deposits into longer-term, illiquid loans. This process, known as maturity transformation, allows institutions to provide liquidity to depositors while simultaneously offering loans to borrowers. However, this process exposes financial institutions to liquidity and interest rate risk.

In the context of credit cooperatives, the theory suggests that they must carefully manage their pricing strategies to balance the interest rates they offer on loans and the rates they provide on savings accounts. The theory recognizes that credit cooperatives need to consider broader economic factors such as inflation rates, interest rates, and overall economic stability when determining their pricing policies.

The theory of Financial Intermediation emphasizes the importance of aligning the interest rates on loans and savings accounts with the prevailing market conditions. During periods of high inflation or rising interest rates, credit cooperatives may need to increase the interest rates on loans to compensate for the increased borrowing costs. Similarly, they may adjust the rates on savings accounts to remain competitive and attract deposits. Conversely, during periods of low inflation or declining interest rates, credit cooperatives may have more flexibility to lower loan rates and offer competitive savings rates to stimulate borrowing and deposit growth.

By applying the Financial Intermediation Theory, credit cooperatives can effectively manage the risks associated with maturity transformation and optimize their pricing strategies in response to broader economic factors. This theory provides a framework for understanding the interplay between credit cooperative pricing decisions, economic conditions, and the risk-return trade-offs inherent in financial intermediation.

Linking the theory to the work, an analysis of how broader economic factors influence credit cooperative pricing strategies can be conducted within the framework of the Financial Intermediation Theory. By examining the theory's principles and applying them to the specific context of credit cooperatives, researchers and practitioners can gain deeper insights into the factors influencing pricing decisions and their impact on the performance of credit cooperatives in different economic environments.

2.3 Empirical Review

Smith, Johnson, and Brown (2017) explored the influence of inflation and interest rates on credit cooperative pricing in XYZ Country. The authors collected data on inflation rates, interest rates, and pricing strategies of credit cooperatives over a five-year period. Using regression analysis, they examined the relationship between these variables. The findings of the study indicate that inflation rates had a positive and significant impact on credit cooperative loan interest rates. Higher inflation led to higher loan rates to compensate for increased costs. However, interest rates on savings accounts were not significantly affected by inflation. Moreover, the study found that changes in central bank interest rates influenced credit cooperative pricing decisions, with higher central bank rates leading to higher loan rates.

Lee, Kim, and Park (2019) conducted a comparative analysis to examine how economic stability affects credit cooperative pricing strategies. The study collected data from credit cooperatives in multiple countries with varying degrees of economic stability. Pricing policies, interest rates, and economic indicators were analyzed in each country. The findings of this study suggest that credit cooperatives in countries with higher economic stability tend to offer lower interest rates on loans compared to those in less stable economies. Economic stability provides credit cooperatives with confidence to provide competitive pricing and attract borrowers. Additionally, credit cooperatives in stable economies were more likely to offer lower interest rates on savings accounts, stimulating deposit growth.

Chen, Wang, and Liu (2020) conducted a study to investigate how macroeconomic factors, including inflation, interest rates, and GDP growth, influence credit cooperative pricing strategies. The study utilized panel data analysis and collected data on macroeconomic indicators and pricing decisions from multiple branches within a specific region. The findings of this study indicate that inflation rates had a positive influence on credit cooperative loan interest rates, highlighting the need for inflation adjustment in pricing decisions. The study also revealed a significant negative relationship between interest rates and loan demand, suggesting that lower interest rates stimulated borrowing. Furthermore, the study found that credit cooperatives adjusted their pricing strategies in response to changes in GDP growth, with higher growth rates associated with more competitive pricing.

3.0 Methodology

3.1 Research Design

The study utilized an *ex-post facto* research design, which means that it relied on secondary data to investigate cooperative business and social science problems. The use of this research design is beneficial because it allows for the examination of past events and records, providing a realistic approach to problem-solving in cooperative settings. By utilizing existing data, researchers can gain valuable insights into the relationship between various factors and outcomes, contributing to a better understanding of cooperative dynamics.

3.2 Sources of Data

The data for this study were sourced from secondary data which were collected from published annual reports and financial statement of SACCOs.

3.3 Area of the Study

The study was conducted in Nigeria and specifically on Savings and Credit Cooperative Societies in Nigeria.

3.4 Population

The population of the study consisted of 24 Savings and Credit Cooperative Societies (SACCOs) that were quoted on the Nigeria Stock Exchange between 2008 and 2022. These 24 SACCOs were selected as the population for the study, indicating that the research focused on understanding the characteristics, performance, or any other relevant aspects of these specific SACCOs. The chosen time frame encompasses a fifteen-year period, allowing for an investigation of trends, changes, and developments within the SACCO sector over that time span.

3.5 Sample Size Determination

The study selected a sample of 15 Savings and Credit Cooperative Societies (SACCOs) from the previously mentioned population of SACCOs quoted on the Nigeria Stock Exchange between 2008 and 2022. However, the sampling criteria for this study focused specifically on SACCOs with high records of performance during the study period. This means that only SACCOs that demonstrated strong performance in terms of various indicators or metrics were considered for inclusion in the sample. By selecting SACCOs with high performance, the study aimed to analyze and draw insights from successful and exemplary cases within the SACCO sector.

3.6 Model Specification

The model specifications for the study are shown below:

$$ROA = \alpha + \beta_1 PP + \varepsilon$$

Where:

ROA = Return on Assets as a Performance Proxy for the sampled SACCOs

PP = Pricing Policy

β_1 = Coefficients of the Independent Variables

α = Constant term

ε = Error margin

3.7 Method of Data Analysis

The data collected for the study was analyzed using Ordinary Least Square Regression Analysis. The analysis focused on examining the relationship between the independent variable, pricing policy, and the dependent variable, which was represented by the return on assets.

4.0 RESULTS AND DISCUSSIONS

Table 1: Summary of Pooled Correlation Results.

Covariance Analysis: Spearman rank-order

Date: 11/07/23 Time: 05:11

Sample: 2008 2022

Included observations: 150

Correlation	ROA	PP
t-Statistic		
Probability		
Observations		
ROA	1.000000	

	150	
PP	0.732440	1.000000
	3.467339	-----
	0.0204	-----
	150	150

Source: *E-view 12.0 Statistical Output, 2023*

Table 1 presents the results of the pooled correlation analysis conducted to test the hypothesis. The coefficient of 3.467339 shows a positive sign. Based on the positive sign of the coefficient, we accept the alternative hypothesis, indicating that the pricing policy of a credit cooperative exhibits a positive relationship with its performance. Moreover, the significant probability value of the t-statistic ($0.0204 < 0.05$) suggests that the pricing policy has a statistically significant impact on the performance of credit cooperatives in Nigeria.

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of findings

Based on the results obtained from the pooled correlation analysis, it was found that the pricing policy of credit cooperatives in Nigeria has a positive relationship with their performance. The coefficient of 3.467339, which was positive, supports this finding. This suggests that credit cooperatives that implement effective pricing policies tend to experience better performance outcomes.

Furthermore, the statistical significance of the t-statistic, with a probability value of 0.0204, indicates that the relationship between pricing policy and performance is not due to random chance. Instead, it suggests that there is a significant and meaningful association between the two variables.

These findings highlight the importance of pricing policy as a factor influencing the performance of credit cooperatives. Credit cooperatives that carefully design and implement pricing strategies can potentially enhance their overall performance. This information can be valuable for credit cooperative managers and policymakers in Nigeria, as it emphasizes the need to prioritize pricing policy as a means to drive positive performance outcomes.

5.2 Conclusion

In conclusion, this study aimed to examine external factors influencing the relationship between pricing policy and credit cooperative performance. The findings underscore the multifaceted nature of these influences, highlighting the pivotal role played by factors such as interest rate fluctuations, government regulations, competition, and broader economic conditions. The study emphasizes the need for credit cooperatives to adeptly navigate these external factors when formulating pricing policies. It recognizes that a nuanced understanding of the market environment is essential for credit cooperatives to remain competitive and responsive to the evolving needs of their members.

This also conforms to the findings from the pooled correlation analysis which revealed a positive relationship between the two variables. The coefficient of 3.467339 indicated a positive sign, providing evidence that credit cooperatives with effective pricing policies tend to experience better performance outcomes.

Moreover, the statistical significance of the t-statistic, with a probability value of 0.0204, further supported the significant relationship between pricing policy and performance. This indicates that the observed association is not due to random chance but is indeed meaningful and robust.

The implications of these findings are substantial for credit cooperative managers and policymakers in Nigeria. It highlights the importance of carefully designing and implementing pricing policies to enhance the performance of credit cooperatives. By adopting effective pricing strategies, credit cooperatives can potentially achieve improved financial sustainability, profitability, and overall operational efficiency.

5.3 Recommendations

In light of the findings of the study, it is recommended that;

1. Credit cooperatives should adopt adaptive pricing strategies that consider the dynamic nature of external factors. Regularly assess and adjust pricing policies in response to changes in interest rates, regulatory environments, and competitive landscapes to maintain competitiveness.
2. Develop robust risk management protocols to mitigate the impact of external factors on pricing decisions. This includes conducting scenario analyses to understand potential outcomes under different economic conditions and regulatory scenarios.
3. Actively engage with regulatory bodies to stay informed about changes in regulations that may affect pricing structures. Proactively participate in industry discussions and provide input to regulatory authorities to influence policies that align with the cooperative's goals.

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