DETERMINANTS OF PERFORMANCE OF SAVINGS AND CREDIT
CO-OPERATIVE SOCIETIES (SACCOS) IN KENYA

BY

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DECLARATION

This project is my original work and has not been submitted for a degree in any university.

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1)61/8314/2006
SIGNED DATED ..Ef1.1^..!

This project has been submitted for examination with my approval as a university supervisor.

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DEDICATION

I dedicate this work to the Lord God Almighty who generously provided me with good health and all the resources I required during my period of study. I also dedicate it to my wife Dorcas, my daughter Joy and son Mark, for their encouragement, support, patience and perseverance throughout the course.
I wish to register my special gratitude to my supervisor Mrs Winnie Nyamute for her guidance, encouragement and patience in reading, correcting, re-reading and refining this work. I highly acknowledge my parents for implanting the seed of knowledge in me and my family for their continued support and missing my presence.

Thanks to all my lecturers in all the subjects for delivering with all the humour which made it a joy to learn. A number of people contributed to the success of this research paper. My sincere thanks go to many people who helped me directly and indirectly with the preparation of the research project particularly the respondents who made time to answer the lengthy questionnaire.
ABSTRACT

The objectives of the study were to establish the determinants of financial performance of SACCOs in Kenya and the challenges experienced in SACCO sector of the economy. The significance of this study is that recommendations made to government policy makers and management of co-operative societies, if implemented would enhance financial management and general performance of the SACCO sector through sound financial management practice.

The research design adopted was a survey of determinants of performance of SACCO in Kenya and the study was limited to 3,990 credit unions/SSACCOS. The design was appropriate as a sample of thirty five SACCOS operating within Nairobi province and have subscribed to Nairobi telephone directory 2010 was randomly selected and studied. The study was also based on data published from the audited annual reports of the SACCOs and covered a period of 5 years between 2004 and 2008 and primary data was compiled and analyzed from a survey questionnaire which was developed and circulated to SACCO’S general managers and chief executives entailing all questions on factors determining performance. The study used both primary and secondary data. Raw data collected from the completed questionnaires was edited and coded to facilitate statistical analysis. Quantitative data collected was analyzed by use of descriptive statistics using SPSS version 17 and presented through percentages, means, standard deviations and frequencies with the key independent variable being Return on Assets (ROA) that is, EBIT divided by the book value of assets, and Return on Book equity (ROE) which is net income divided by book value of equity.
The study found out that demand for loans as a variable affecting ROA was considered as most variable determining financial performance with a mean score of 5.94. Other key determinants in order of variability were as follows; capital adequacy mean of 5.91, competition from other institutions mean of 5.55, infrastructure management and oversight mean score of 5.54, while quality pay and corporate tied with a mean score of 5.48, Organizational and structural issues mean score of 5.47 inadequate legal reforms mean score of 5.22, Government interference mean score of 5.2, planning and education of members mean score of 5.14 , Lack of financial standards mean score of 4.94.

The study recommends that Government policy makers should formulate a policy that make it mandatory for all SACCOS to prepare and have in place a strategic plan that guides the direction of all management actions. The study also recommend that the ministry of co-operatives should launch a campaign aimed at recruiting more members for the societies with low membership in order to make them strong and at the same time intensify supervision of the management of the giant societies to ensure proper financial management and hence enhanced benefits to members. This study also suggests that a further research be carried out to establish how members of some SACCOS managed to maintain high membership savings despite the hard economic times and global crisis prevailing in the country at the time of the study. The skills and knowledge should be imparted to those SACCO members whose savings was low in order to encourage them to save more in future.
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<tr>
<td>AFC</td>
<td>Agricultural Finance Corporation</td>
</tr>
<tr>
<td>ATMS</td>
<td>Automated Teller Machines</td>
</tr>
<tr>
<td>ASCAs</td>
<td>Accumulating and Rotating Savings and Credit Associations</td>
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<td>DEA</td>
<td>Data Envelopment Analysis</td>
</tr>
<tr>
<td>FSD</td>
<td>Financial Sector Deepening</td>
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<td>FOSA</td>
<td>Front Office Services Activity</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GMT</td>
<td>Governance Monitoring Tool</td>
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<td>KUSCO</td>
<td>Kenya union of savings &amp; credit co-operatives</td>
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<td>KWFT</td>
<td>Kenya Women Finance Trust</td>
</tr>
<tr>
<td>MoCDM</td>
<td>Ministry of Cooperative Development and Marketing</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation &amp; Development</td>
</tr>
<tr>
<td>OLS</td>
<td>Ordinary Least Squares regression</td>
</tr>
<tr>
<td>PM</td>
<td>Performance Measurement</td>
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<tr>
<td>R&amp;D</td>
<td>Research &amp; Development</td>
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<td>SACCOS</td>
<td>Savings and Credit Co-operative Societies</td>
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<tr>
<td>SMEP</td>
<td>Small and Medium Enterprise Program</td>
</tr>
<tr>
<td>SRA</td>
<td>Strategy for Revitalization of Agriculture</td>
</tr>
<tr>
<td>TAMPA</td>
<td>Tegemeo Agricultural Monitoring and Policy Analysis</td>
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<td>WOCCU</td>
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CHAPTER ONE
INTRODUCTION TO THE STUDY

1.0 Background of the study

Counsell (2001) studies on performance state that over the last thirty years, performance has come to be acknowledged as a major category through which a great deal of social and cultural activity can be explored, described, and theorized. In disciplines as disparate as philosophy, linguistics, gender studies, sociology, and psychology, theorists have used performance as an illuminating heuristic device enabling them to account more fully for the dynamic interactions between socially and culturally located agents that constitute the experiences they are attempting to analyze. At the same time, scholars in disciplines such as anthropology and history have been placing new emphasis on the role of a wide range of performance activity within the cultures they are studying. As a result of these developments, academics concerned specifically with the performing arts have found themselves in the midst of a vastly expanded theoretical and conceptual field.

Johnston (2002) study reviewed performance measurement systems along the line of balanced scorecard and have developed rapidly in recent years, and now occupy much management time and effort. There is limited evidence that performance improvement has received proportionate attention. Six organizations selected for their success were studied using a grounded theory approach based on interviews with management accountants and operations managers in each of the organizations. It is clear that they are all making strenuous efforts to use their performance measurement systems but
with a focus on the 'good enough' rather than the detail. This gave managers in these
organizations the time and space to concentrate on the use of performance measures
on forward looking relevance, understanding and action, rather than retrospective and
detailed control. This approach was promoted by senior managers and was based on
their ability to see the business in simple terms and their understanding of the key
drivers of business performance namely; performance measurement; performance
improvement; good enough; operations management; management accounting. Few
organizations have calculated just how much time and energy they spend on
measuring their performance measurement. We would suggest that the old adage
'what gets measured gets done' should be replaced by 'what gets measured, just. Many
managers and staff seem to be swamped with performance measures and targets to the
extent that they are overburdened with measurement.

Elena (2003) study on evaluating Performance of Public-Private Research
Collaborations review the issue of performance among these partnerships and states
that is only recently that performance had come under broad and scientific
investigation. Governments as well as Corporations are under pressure to evaluate the
performance of any programmes with which they are involved. Determining
performance of these types of partnerships will necessarily require an evaluation of a
number of dimensions and data envelopment analysis (DEA) technique can be used to
help determine the performance of these collaborations using traditional and
intellectual benefits derived from the programmes. The only significant results
showed that larger organizations seemed to perform better than smaller organizations.
The results related to knowledge-based reasons, existing knowledge of organization,
state of knowledge development, and universality of knowledge showed no
significant relationship to performance. Thus, it seems that the specificity of the innovation does not seem to influence the performance of the collaboration, and policy makers or company managers should not shy away from projects that are either too general or too specific in technological innovation.

Simpson (2000) considers the use of general performance measures in evaluating specific planning and design decisions in higher education and reflects on the students learning process. The study concluded that using only those measures which are routinely recorded has imposed limitations on the questions that can be answered regarding the effects of changing course delivery. This highlighted the need to take care in deciding what performance measures should be recorded, particularly when changing from one measure to another.

Smith (2002) sets out a simple framework with which to examine the performance management process and examines the organizational context within which performance management is undertaken, and notes that it becomes most important within hierarchical organizations that allow considerable autonomy amongst devolved units. The paper argues that performance management should embrace four broad functions; formulation of strategy; development of performance measurement instruments, interpreting such measures and encouraging appropriate organizational responses to performance information. The paper notes that operational research has made significant contributions to all four functions and suggests that the performance management movement offers enormous possibilities for performance management; performance measurement, strategy, Organizational structure introduction, unusually for a management trend.
Growth in SACCOs over the last twenty years has been spectacular, the number of SACCOs rose from 630 in 1978 to 3,870 by the end of October 2002. Savings and share capital rose from Kshs. 375 million in 1978 to Kshs. 60 billion by 2002. The Kenya SACCO sector is the largest in Africa controlling assets estimated at over Kshs150 billion (USD 2.2 billion) and provide financial services to an estimated 11% of the population. According to a study conducted in 2006 by the Financial Sector Deepening (FSD) about 38 per cent of adult Kenyans are unserved by the financial system indicating a huge market potential for the microfinance industry. The study shows that only 19 per cent of Kenyans are served by formal financial sector, namely commercial banks and the Kenya Post Office Savings Bank, while about 15 percent are served by semi-formal financial service providers such as microfinance institutions (Mi Is) and Savings and Credit Co-operatives societies (SACCOs) and the remaining 50 per cent are served by informal financial service providers ranging from Accumulating and Rotating Savings and Credit Associations (ASCAs and ROSCAs) to shopkeepers and money lenders. (SACCO Cap news; news of WOCCU/FSD SACCO Cap project 2009).

Challenges experienced by SACCO sector include; competition from banks which is further compounded by governance and financial management challenges. These issues have tainted (he image of the SACCO sector. The sector is not adequately regulated. Given this situation, members despite their loyalty are getting anxious about the future of their SACCOs. If the situation is not rectified, we may witness the demise of SACCOs which will be a terrible loss for Kenyans. (htpp://www.kussco).

1.0.1 Determinants of SACCO’s financial performance

Just like any other business, SACCO financial performance is not peculiar and a number of academics have been working at understanding and quantifying the
relationships between performance measures by developing causal models and encouraging organizations to calculate the correlations between the various determinants variables which includes;

**Quality pay:** Quality pay is one of the key contemporary issues, which has attracted attention from practitioners, policy makers and researchers working in multidisciplinary areas in management. Substantial analysis has been devoted to understand the role of quality in the overall performance of a service business right from the strategic level down to the implementation details. Although the relationship between service quality and profit has been considered to be neither simple nor straightforward, a significant body of services literature has tried to establish the linkage between quality and different firm performance parameters. For example, improved service quality and customer satisfaction have been shown to lead to higher productivity, increased loyalty, lower transaction cost, price-premium, favourable word-of-mouth, market share, repurchase intention, customer retention and improved firm reputation. It is popularly believed that better service leads to improved performance for a service firm. Arlow (1982).

**Planning and Education:** the active involvement of members is required to build institutions at the local level and to promote members' economic self-sufficiency. If members are to understand the principle of self-help and the rationale behind credit cooperatives, they must comprehend that they can benefit from organization and collective action. Cohesion is easier to achieve with limited membership, a restricted field of action, and the active involvement of the members. The members' confidence is reflected in the cooperative's ability to mobilize savings and encourage loan
repayment, and management's knowledge of the members is essential in appraising creditworthiness. Yun(1987).

Organizational and Structural Issues; Most credit cooperatives are organized in a two- or three tier system, with a federation of national or regional cooperatives at the top and the local (primary) organization serving members at the bottom. Regional or national umbrella organizations have good potential because they can benefit from larger economies of scale and reduce risk by diversifying their portfolios. In many countries apex institutions have successfully assisted primary organizations with managerial, auditing, and educational tasks. In numerous countries the apex institution also acts as financial intermediary, providing liquidity management and intermediary services to members. In some cases, however, when the umbrella organization has provided direct financial services to customers, problems have surfaced because the roles of the primary and secondary organization were not clear. Gadway (1988).

Infrastructure, Management, and Oversight; Credit cooperatives have often suffered from incompetent leadership, ill-defined managerial responsibilities, and insufficient accounting and controlling. The ability to track financial performance is a prerequisite in the sound management of any credit institution. Yet instances of inaccurate or nonexistent records of loan collection are not uncommon. In Niger, less than half of the managers of local credit cooperatives had records showing who was eligible for a loan, and less than a quarter kept accounts to show the amounts received by each farmer. Cuevas (1988).
**Government Interference:** Governments and international donor agencies have used credit cooperatives to promote social objectives. In some cases these organizations were used because they were the only well-functioning and effective structures that served rural areas. Often, cooperatives were required to lend at artificially low interest rates and provide financing for activities that would otherwise have been considered too risky. In many countries low prices on loans and other services attracted excess demand for the cooperatives' programs and resulted in low profits and capitalization. Continued reliance on government resources creates the impression that the government will bail out indebted farmers and their cooperative if the need arises. If group lending and credit cooperatives are to make a contribution to development, governments and sponsors should focus on institution building, training, and management at all levels of the cooperative system rather than on supplying cheap credit.

1.1 Statement of the problem

The studies so far carried out are limited in analyzing factors affecting SACCO financial performance; Chege (2006) studied on effects of non-remittance of members’ deduction by the employers to the Saving and Credit Co-operative Societies and its effect on performance and the study found out that studied 64.3% of the SACCOS studied experience the problem of non remittance thus affecting financial performance.

Tokei (2009) studied on effects of liberalization in the banking industry on SACCO’s performance and corporate governance and the study found that SACCO performance is affected by lack of Corporate governance. However despite SACCOS adopting this strategy, many are yet to reap the maximum returns because of slow and apathetic
approach to good corporate governance and some ill equipped to drive the entire industry to success.

Arlow (1982), Lenz (1981), Dalton (1980), Ramanujam (1984), White (1981), Vernon (1972) the journals reviews set required presence of a dependent variable measuring financial performance and nonfinancial explanatory factors. According to the study financial performance variables include widely-used measures embracing levels, growth and variability in profit as well as such measures as market value, assets, equity, cash flow, sales and market/book value. Non-financial explanatory variables include environmental, strategic, and formal and informal organizational factors. Some variables serve as both explanatory and performance characteristics. Some studies use sales growth as a performance measure while others use it as an explanatory measure.

Gamba and Komo (2005), study on evolution, growth and decline of the co-operative sector, a paper prepared for centre governance and development found out that performance was affected by poor and inefficient management systems, loss of Government protection, political interference and inadequate legal reform.

Mudibo (2005), a paper on co-operative governance in co-operatives the East African experience found out that structures, continuity, balance in the composition of the Board and accountability as factors affecting financial performance.

Nbubi (2009), study on strategic responses of SACCOs to challenging operating environment a case study of Nairobi province found out that SACCOs have made various changes in their traditional, resource mobilization and lending methods in attempt to cope with the changed operating environment.
The above studies conclude that rigorous empirical and policy-relevant evidence on the determinants of performance in developing countries is rather limited. The evidence that is available is derived from different models, varying indicator and variable definitions, and exclusive data sets making solidifying and extension of these empirical studies difficult and therefore the study will seek to establish the factors and effects of SACCOs financial performance.

1.2 Objectives of the study

The objectives of the study were to establish the determinants of financial performance of SACCOs in Kenya. To establish the challenges of performance experienced in SACCO sector of the economy.

1.3 Significance of the study

The recommendations of this study will benefit policy makers both in the private and public sector on policy formulation and regulator framework aimed at enhancing financial performance and management of the SACCO sector. SACCO members in the country will also benefit through higher returns to their investment as sound financial performance measurement practices and stringent controls will be implemented geared towards better results. The study will be used by scholars and researchers as it gives highlight on areas for further research on gaps established and also contribute to new knowledge on performance. The study will be useful to trainers in addressing the problem of analyzing financial performance of SACCOs and the sector at large.
CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Performance is one the finance topics that is currently been extensively studied. This chapter defines performance, highlights its importance, factors affecting performance and reviews some empirical studies that have been carried out both locally and world. The theories explore the possibilities of performance for creating and knowing. Each chapter surveys, explains, and illustrates classic, modern, and postmodern theories that answer the questions, what is performance, why people perform and how does performance constitute our social and political worlds.

2.1 Performance and its importance

Scholars in disciplines such as anthropology and history have been placing new emphasis on the role of a wide range of performance activity within the cultures they are studying and as a result of these developments; academics concerned specifically with the performing arts have found themselves in the midst of a vastly expanded theoretical and conceptual field. Counsell (2001).

Performance measurement systems along the line the balanced scorecard have developed rapidly in recent years, and now occupy much management time and effort. There is limited evidence that performance improvement has received proportionate attention. Six organizations selected for their success were studied using a grounded theory approach based on interviews with management accountants and operations
managers in each of the organizations. Performance assist managers to measure results against the targets, to manage results, manage by fact and data not by adhoc random inputs. Through performance customer satisfaction can be achieved. Counsell (2001).

2.2 Factors affecting performance

The cross-cutting issues affecting Co-operatives in the East African Region are; governance, inadequate human resource, weak regulations and supervision, limited products and services, low marketing and innovation and poor image. Other key areas affecting the performance and success of credit cooperatives includes; lack of planning adequately and educating members, not resolving organizational and structural problems, not ensuring adequate infrastructure, management and oversight and government interference. Other challenges have been low capitalization, poor information technology, high taxation, lack of financial standards, HIV/AIDS and non remittance of deductions by employers. Gamba (2005).

2.3 Theories/ Models on performance

2.3.0 The Cap Model

The most widely used approach to understand service quality has been the Gap Model, which defines service quality as the difference between customer perception of current service and expectation of an excellent service. Mukherjeel (2003). The definition of a problem as a gap or discrepancy between actual and desired conditions is widespread and longstanding in any business concern. In analyzing the gap under model I desired conditions are compared with perceived actual or current conditions
and incase discrepancy arises action need to be taken to reduce or eliminate any such gap.

In model II the targeted variables seek to affect or control the standing target. In normal circumstances target is rarely under complete control and other actors and factors at work, conditions and circumstances that disturb, hinder, impede, offset and, on occasion, overwhelm members, frustrating their best efforts to influence target. Model III on gap analysis deals with the two models combined. The model deals with analyzing feedback in form of perceptions of the target and actions in ways that reduce or eliminate any discrepancy between the two. The GAP-ACT Model is a simple, easily used tool for examining, understanding and improving human performance. It is based on Perceptual Control Theory (PCT) as developed and articulated by William T. Powers.

2.3.1 The Service Profit Chain to Work

The "Service-Profit Chain" model developed by Harvard University by Lyndsay Swinton emphasizes the circular relationship between employees, customers and shareholders. This model can successfully be applied to any business no matter the size, and this article explains how. Equal effort must be made in attracting, motivating and retaining employees as is made for customers, ultimately delivering improved shareholder returns. Better shareholder returns mean more money is available to invest in employees and so the circle continues. Job vacancies should be entrusted to qualified personnel to proper the Company returns since undertrained and poorly resourced staffs often lack the tools to do the job, staffs make mistakes or lacks the
know-how to get it right first time, frustrating customers and increasing workload. Ileskett (1994).

Put the service profit chain to work for you by making sure it’s a virtuous circle. Invest in your employees - hire them carefully, pay them appropriately and enable them to do their job well. Unless your company is the only one in the world that provides the goods or service, customers will walk away from companies with poor customer service and move towards companies who deliver a more valued service. Heskett (1994).

2.3.2 Corporate governance models

Gabrielle O’Donovan business author defines Corporate governance as ‘an internal system encompassing policies, processes and people, which serves the needs of shareholders and other stakeholders, by directing and controlling management activities with good business savvy, objectivity, accountability and integrity. Sound corporate governance is reliant on external marketplace commitment and legislation, plus a healthy board culture which safeguards policies and processes. It is a system of structuring, operating and controlling a company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. (Gabrielle O’Donovan business author).

Parties involved in corporate governance include the regulatory body; the Chief executive officer, the board of directors, management, shareholders and Auditors. Other stakeholders who take part include suppliers, employees, creditors, customers
and the community at large. Key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. Of importance is how directors and management develop a model of governance that aligns the values of the corporate participants and then evaluate this model periodically for its effectiveness. In particular, senior executives should conduct themselves honestly and ethically, especially concerning actual or apparent conflicts of interest, and disclosure in financial reports.

On the other hand, research into the relationship between specific corporate governance controls and some definitions of firm performance has been mixed and often weak. The following examples are illustrative; Board composition, some researchers have found support for the relationship between frequency of meetings and profitability. Others have found a negative relationship between the proportion of external directors and profitability, while others found no relationship between external board membership and profitability. In a recent paper Bhagat and Black found that companies with more independent boards are not more profitable than other companies. It is unlikely that board composition has a direct impact on profitability, one measure of firm performance. Sanjai (2000).

Commonly accepted principles of corporate governance include; rights and equitable treatment of shareholders: Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by effectively communicating information that is understandable and accessible and encouraging shareholders to participate in general meetings.
Integrity and ethical behaviour; ethical and responsible decision making is not only important for public relations, but it is also a necessary element in risk management and avoiding lawsuits. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making. It is important to understand, though, that reliance by a company on the integrity and ethics of individuals is bound to eventual failure. Because of this, many organizations establish Compliance and Ethics Programs to minimize the risk that the firm steps outside of ethical and legal boundaries.

Disclosure and transparency: Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide shareholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.

Corporate governance and firm performance, in its 'Global Investor Opinion Survey' of over 200 institutional investors first undertaken in 2000 and updated in 2002, McKinsey found that 80% of the respondents would pay a premium for well-governed companies. They defined a well-governed company as one that had mostly out-side directors, who had no management ties, undertook formal evaluation of its directors, and was responsive to investors' requests for information on governance issues. The size of the premium varied by market, from 11% for Canadian companies
to around 40% for companies where the regulatory backdrop was least certain (those in Morocco, Egypt and Russia).

Remuneration/Compensation, the results of previous research on the relationship between firm performance and executive compensation have failed to find consistent and significant relationships between executives' remuneration and firm performance. Low average levels of pay-performance alignment do not necessarily imply that this form of governance control is inefficient. Not all firms experience the same levels of agency conflict, and external and internal monitoring devices may be more effective for some than for others. Some researchers have found that the largest CEO performance incentives came from ownership of the firm's shares, while other researchers found that the relationship between share ownership and firm performance was dependent on the level of ownership. The results suggest that increases in ownership above 20% cause management to become more entrenched, and less interested in the welfare of their shareholders.

2.2.3 C-SQ-P Model

This model was developed by Steven Fries, Damien Neven and Paul Seabright to analyze the performance of banks in a sample of transition economies, using a novel econometric approach to modelling banks as multi-product firms. This paper attempts to shed some light on the developments achieved by banks in transition and their performance (or lack thereof). This approach is aimed at understanding why successful banking system reform is taking so long in transition economies. The development of a financially sound, market-oriented banking system is often thought to be fundamental to a successful transition. Arguably, it is vital both to
The weak performance of banks in transition economies is in many ways unsurprising. Like industrial firms, socialist banks were themselves enterprises that were often badly in need of restructuring at the outset of transition. Until then, banks had been used mainly to channel funds, providing credits to state enterprises for investment projects approved under central planning. The allocation of finance was not determined by the opportunity cost of funds and the expected ability to repay; or at least, if such considerations ever influenced investment decisions, it was at the planning level and not at the level of the banking system. As a consequence, banks have had to restructure their own activities and learn from scratch much of the trade of their counterparts in market economies. Berglof (2001).

The econometric findings indicate that banks' performance differs significantly depending on the environment in which they operate. Where there has been significant progress in banking and related enterprise reforms in the areas of bankruptcy and corporate governance, new entrants have had significantly lower costs, as have firms in more competitive markets. Ranks in a favourable reform environment also obtain low margins on deposits and relatively high margins on loans, though they have nevertheless been achieving overall negative returns on equity. By contrast, when substantial banking and enterprise reforms have not been undertaken, new entrants have been unable to achieve significant cost savings. Average returns on loans have also been strongly negative. Frecis (2001).
2.3.3 R-SQ-P Model

The Model tries to establish the covariance as adjusted means or the estimated group means among a hypothetical set of groups that are average on the covariates. Leadership and team conflict research data from two published studies from the organizational behavior and management literature are analyzed. Ames (2007) concerns the indirect effect of manager trait assertiveness on subordinate perceptions of leadership ability through the attainment of social and instrumental outcomes. In addition to assertiveness, the respondents provided evaluations on several dimensions used to evaluate the quality of that manager's leadership ability including; effectiveness, willingness to work with again, and likely future success that were aggregated into a single leadership ability index (Y). Finally, the respondents answered questions used to construct measures of social outcomes and instrumental outcomes (both treated as mediators, M, in two separate analyses), tapping into whether the leader established good social relationships and manage the employees in a way that got tasks done.

Ames (2007) provide evidence from an ordinary least squares regression that, consistent with theory and predictions, assertiveness was quadratically related to perceived leadership ability, with greater leadership ability associated with moderate levels of assertiveness. They proposed that this curvilinear association is carried in part by the influence of assertiveness on the quality of relationships established by managers, as well as their ability to influence employees to accomplish work goals, which in turn translate into perceptions of greater leadership ability. Again in a set of OLS regressions, the association between assertiveness and both social and instrumental outcomes was also curvilinear, modeled with a quadratic function.
Compared to low or moderate levels of assertiveness, high levels of assertiveness corresponded to lower social outcomes. In contrast, instrumental outcomes increased with increasing assertiveness up to a point, but then began to level off at moderate to higher levels of assertiveness. Both social and instrumental outcomes were modeled as linearly related to leadership ability. Ames (2007).

2.3.4 Spectator studies/Event theory

The increasing interest in rehearsal and the creative process more generally can be seen as one of the consequences of the paradigm shift that has located performance itself at the centre of scholarly attention. Moving upstream, as it were, from the performance to observe, document and analyze the creative process through which it was produced, has been an innovation with respect to the methodologies developed within theatre studies, but it does not constitute a radical break from the academy's traditional concern with works of art, even though it has meant that the creative contributions of different groups of artists begin to receive the attention they deserve. Potentially more radical is the attempt to explore the way spectators experience the performance and to examine what happens downstream of performance, i.e. how spectators remember this experience, what meanings they construct with it, and how the performance, now conceptualized as event, becomes part of the social life of the community. Recent work on spectatorship in live performance ranges from highly empirical studies of particular audiences to theoretical modelling that attempts to encapsulate the essential structures of theatrical spectatorship (Sauter 2000).
2.3.5 Rural outreach and financial performance of Saccos in Kenya

According to graham Owen (2005) paper as at the end of 2005, Kenya had over 2,700 active SACCO Societies with a membership of around 2.5 million. Share capital and deposits was estimated at US$. 1.66 billion and loans outstanding at US$. 1.24 billion. Nearly 50% of the SACCOs have membership below 1,000. However 80% of the assets in the sector are in the SACCOs with membership of over 10,000 (Table 1).

Table 2 gives a snapshot of the financial and operational performance of SACCOs from 2000-2004. Active societies grew by 16 %, while total membership increased by 88% suggesting that membership in some societies increased significantly. Total assets increased by 107%.

**Table 1. SACCOs: Distribution by Size and Savings**

<table>
<thead>
<tr>
<th>Size of SACCOs</th>
<th>% of SACCOs</th>
<th>% and amounts of savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large membership over 10,000</td>
<td>20</td>
<td>80, kshs 96 Billion</td>
</tr>
<tr>
<td>Medium membership between 1,000 and 10,000</td>
<td>30</td>
<td>10, kshs 12 Billion</td>
</tr>
<tr>
<td>Small SACCOs below 1,000</td>
<td>50</td>
<td>10, Kshs 12 Billion</td>
</tr>
</tbody>
</table>
Table 2 SACCOS Financial performance (2001-2004): Source: KUSCO

<table>
<thead>
<tr>
<th>Year</th>
<th>SACCOS</th>
<th>Members in Million</th>
<th>Share Capital &amp; Deposits Us$ millions</th>
<th>Loans outstanding Us$ Millions</th>
<th>Total Assets Us $ Millions</th>
<th>Reserves UsS Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>2389</td>
<td>1.12</td>
<td>532.4</td>
<td>498.3</td>
<td>494.6</td>
<td>26.4</td>
</tr>
<tr>
<td>2001</td>
<td>2105</td>
<td>1.48</td>
<td>678.2</td>
<td>622.6</td>
<td>712.8</td>
<td>35.8</td>
</tr>
<tr>
<td>2002</td>
<td>2400</td>
<td>1.50</td>
<td>817.3</td>
<td>741.8</td>
<td>779.6</td>
<td>43.5</td>
</tr>
<tr>
<td>2003</td>
<td>2500</td>
<td>1.80</td>
<td>986.6</td>
<td>907.7</td>
<td>947.0</td>
<td>51.5</td>
</tr>
<tr>
<td>2004</td>
<td>2767</td>
<td>2.11</td>
<td>1156.4</td>
<td>1020.6</td>
<td>1021.5</td>
<td>60.1</td>
</tr>
</tbody>
</table>

In 2004, these SACCOS reported over 1.2 million clients, savings deposits of over US$ 78 million and outstanding loans of over US$ 34.2 million. This suggests that these SACCOS had over 50% of the total clientele of the sector but less than 10% of savings and less 5% of the loans. Most rural SACCOS exist in the areas where predominantly cash crops are cultivated. Apart from the rural SACCOS that emerged out of tea outgrower SACCOS that have linkages with tea companies have been particularly successful post liberalization. Rural SACCOS dealing with grains and cereals and pastoralism have been less successful. Since the majority of rural SACCOS were tied to agricultural production and marketing of cash crops, the rural SACCOS membership is predominantly male. Traditionally, only men had title to land and this is only starting to change.

Governance in Kenyan SACCOS is typically weak because of the 'Management Board' system and the general lack of policies and procedures. The Management
Boards system results in the absence of clear division between the role of the board and management needed for effective functioning of organizations. It results in poor decision-making, particularly in credit-approvals, and often are the cause for corruption. The SACCO skyscrapers in Nairobi and even some districts, which have locked significant amounts of SACCO resources in non-earning assets, are also typical examples of poor decision making by the management boards. The unwillingness of many Boards to delegate authority to managers severely hampers manager's ability to function, and by extension, ability of the cooperatives to function successfully in a competitive market. The capacity of the boards and managements of most SACCOs is weak including those that are very large. A lot of this is because of politics, lack of adequate policies and procedures, and inadequate capacity of management board members who may be elected for political reasons rather than governance and management skills. Only a small proportion of SACCOs have well-qualified paid managers and staff since only these can pay attractive salaries and benefits.

2.3.6 Resource, service quality and performance linkage - The conceptual model

The service-profit chain concept reinstated the role of quality in superior performance for any service organization. It highlights the following chain of linkages; profitability of a service firm depends on the loyalty of its customers, customer satisfaction brings loyalty; satisfaction depends on the value the customers derive from the firm offerings. Only a satisfied, loyal, productive employee can bring such value proposition for the customers and employees are satisfied when the firm is providing proper support in terms of the operational resources, practices and policies needed to
deliver results to the customers. This concept leads to hypothesis that marketing, operations design and structure are interlinked to achieve firm performances which are tested in retail banking to propose the operational R-SQ-P triad. The model is based on the theory of capabilities-service quality-performance (C-SQ-P) triad, drawing upon the service-profit chain concept. It proposes that a firm uses its multidisciplinary resources like technological infrastructure to deliver service and knowledgeable employees for optimal usage of **such infrastructure support** and marketing effort in order to distribute and communicate the offerings to the customers.

2.3.7 **Other performance studies** includes; Arlow (1982), Lenz 1981, Dalton (1980), Ramanujam (1984), White (1981), Vernon 1972. The studies reviews set required presence of a dependent variable measuring financial performance and nonfinancial explanatory factors. According to the study Financial performance variables include widely-used measures embracing levels, growth and variability in profit (typically related to assets, investment or owner's equity) as well as such measures as market value, assets, equity, cash flow, sales and market/book value. Non-financial explanatory variables include environmental, strategic, and formal and informal organizational factors. Some variables serve as both explanatory and performance characteristics; for example, some studies use sales growth as a performance measure, others use it as an explanatory measure.

Lambert (1987), Ely (1991), Sloan (1993), Bushman (1996), Ittner (1997), the studies dealt on business unit performance evaluation and have ignored worker-level incentive plans. Prior studies have generally examined aggregate performance
measure classifications; financial vs. non-financial, business unit vs. corporate, rather than specific performance measures for example accounting returns, cost control, quality, productivity, volume.

A review of the literature (Jainash 2004) concludes that rigorous empirical and policy-relevant evidence on the determinants of performance in developing countries is rather limited. The evidence that is available is derived from different models, varying indicator and variable definitions, and exclusive data sets making solidifying and extension of these empirical studies difficult. In addition, the robustness of some of the empirical evidence is unclear requiring further careful data analysis, model specification and sensitivity analysis. Mukherjee (1998).

2.4 Empirical Studies

Chege (2006) the study found that effects of non-remittance of members’ deduction by the employers to the Saving and Credit Co-operative Societies, a case of Nairobi Province while looking at its relationship with the SACCO performance that 64.3% of the SACCOs studied experience the problem of nonremittance and this has negative impact on SACCO performance. Some of the effects experienced include; the SACCOs are unable to give loans, they are unable to pay dividends, they cannot pay salaries, members are likely to withdraw and liquidity position is likely to deteriorate among others.

Tokei (2009) the study found that with liberalization in the banking industry, many SACCOs found themselves in precarious position that demanded urgent but sound decision and many Saccos adopted corporate governance concept as a strategy.
However despite SACCOs adopting this strategy, many are yet to reap the maximum returns because of slow and apathetic approach to good corporate governance and some ill equipped to drive the entire industry to success.

Garnba and Komo (2005) evolution, growth and decline of the co-operative sector, a paper prepared for centre governance and development found out that performance was affected by poor and inefficient management systems, loss of Government protection, political interference and inadequate legal reform.

Mudibo(2005) a paper on co-operative governance in co-operatives the Hast African experience found out that structures, continuity, balance in the composition of the Board and accountability as factors affecting performances the result of higher satisfaction with service leading towards stimulation of financial performance.

Kibaara and Mburu (2004) the study examines the evolving structure of the rural financial services and the extent to which the current financial institutions have improved access to rural financial services for producers and traders in the rural areas. The study identifies successful cases of functioning financial services in the rural areas and identifies constraints that hinder increased access to rural financial services and proposed policy intervention that could make the rural financial services more accessible to the rural producers and traders. The study uses data obtained from key rural finance stakeholders using a structured checklist. The study is supplemented with data from the Tegemeo Agricultural Monitoring and Policy Analysis (TAMPA) 2004 data consisting of responses from 1540 households. Key results from the study indicate that a number of rural financial models have evolved to address the demand
for rural financial services in Kenya. These include the community-based model, SACCOs, and the donor-funded cost-sharing arrangements model.

**Conclusion from the literature review**

In the past, management of many cooperative societies in Africa was a great cause for worry. The institutions were so badly operated, resulting into the collapsed of many SACCOS. Vices, such as nepotism, greed, conflict of interests, over politicization were common practice. Despite this we are able to witness some levels of acceptable progress in terms of how SACCO matters are managed which have registered high returns on their investments. SACCOS that have embraced the practice of good governance model and have exposed their staff to various trainings focusing on good leadership, investments and risk management, decision making, monitoring.

Jamashb (2004) concludes that rigorous empirical and policy-relevant evidence on the determinants of performance in developing countries is rather limited and therefore this applies to SACCO sector. The evidence that is available is derived from different models, varying indicator and variable definitions, and exclusive data sets making solidifying and extension of these empirical studies difficult. In addition, the robustness of some of the empirical evidence is unclear requiring further careful data analysis, model specification and sensitivity analysis.

Lambert (1987), Ely (1991), Sloan (1993), Bushman (1996), Ittner (1997) the studies dealt on business unit performance evaluation and have ignored worker-level incentive plans. Prior studies have generally examined aggregate performance measure classifications; financial vs. nonfinancial, business unit vs. corporate, rather
than specific performance measures for example accounting returns, cost control, quality, productivity, volume.

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The reviewed studies converge at a conclusion that performance systems along the line of balanced scorecard have developed rapidly in recent years, and now occupy much management time and effort. However there is limited evidence that performance improvement has received proportionate attention and that different organizations are faced with different challenges of evaluating performance.

There is no study (that we know) that has been carried out in SACCO sector of the economy on all factors affecting performance. This study aims at establishing the determinants of performance in the SACCO in Kenya taking into account all factors in totality. Racli of the above studies was limited in analyzing factors affecting SACCO performance. Chege (2006) studied on effects of non-remittance of members' deduction by the employers to the Saving and Credit Co-operative Societies and its effect on performance, Tokei (2009) studied on effects of liberalization in the banking industry on SACCOs performance and corporate governance., Gamba and Komo(2005) study on evolution, growth and decline of the co-operative sector, a
paper prepared for centre governance and development found out that performance was affected by poor and inefficient management systems, loss of Government protection, political interference and inadequate legal reform, Mudibo(2005) a paper on co-operative governance in co-operatives the East African experience found out that structures, continuity, balance in the composition of the Board and accountability as factors affecting financial performance. So no study has analyzed the effects of all factors in totality and therefore the study seeks to establish the effects of the above on SACCO performance.
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the steps adopted in studying the research problem in order to satisfy the research objectives. It contain the study area, population, research design, and data analysis, describes the population of study, the basis of sampling, the data collection instruments as well as the data analysis techniques to be used to achieve the objectives of the study. The study is a survey, which sought to assess the determinants of SACCO’S performance in Kenya.

3.1 Research design

The research design adopted was a survey of determinants of performance of SACCO in Kenya. The design was appropriate as a sample of thirty five Saccos operating within Nairobi province and have subscribed to Nairobi telephone directory 2010 was randomly taken and studied. The study was also based on data published from the audited annual reports of the SACCOs and covered a period of 5 years between 2004 and 2008 and primary data was compiled and analyzed from a survey questionnaire which was developed and circulated to SACCO’S general managers and chief executives entailing all relevant questions on factors determining performance.

3.2 Population

The study was limited to 3,990 credit unions/SSACCOS in Kenya (National Credit Union Data (2008) http://www.woccu.org/membersserv/intlculsystem.). The choice
of the SACCO sector was triggered by the important role the SACCO plays in ensuring that financial services are provided to the citizens throughout Kenya. The importance of the SACCO sector cannot be overemphasized as the sector is a major employer both directly and indirectly.

3.3 Population sample
The population of interest for our study was the major SACCOs operating within Nairobi province in Kenya and have subscribed to Nairobi telephone directory 2010 since the findings from the report was expected to be similar with the findings from the other provinces in Kenya. A random sample of 35 SACCOs was surveyed using random sample technique.

3.4 Data Collection
The study used both primary and secondary data. Data was compiled and analyzed from a survey questionnaire which was developed and circulated to SACCO's general managers and chief executives on the various factors that determine SACCO performance. The data analyzed from the financial statements included; all disclosures relating to governance issues, capital adequacy, asset quality, return on assets, total assets, total equity, total loans (loanable funds) and earnings after tax, basic infrastructure for effective and competitive service delivery, safety mechanisms to safeguard members' deposits, level of Government interference, infrastructure, management and oversight, Organizational and structural issues, planning and education participation and quality pay of an Organization.
CHAPTER FOUR
DATA ANALYSIS, RESULTS AND DISCUSSION

4.0 Introduction

This chapter outlines the findings of the survey and presents them in frequencies, mean and standard deviation. The chapter also contains the analysis and interpretations of the survey findings. This study used a random sample of thirty five respondents mainly from the General Manager and the Head of Finance in the SACCO whereby twenty seven responded to the questionnaire constituting 77% response rate. Data analysis was done through Statistical Package for Social Scientists (SPSS). Frequencies, percentages and Likert Scales were used to display the results which were presented in tables.

4.1 Data Analysis

Raw data collected from the completed questionnaires was edited and coded to facilitate statistical analysis. Quantitative data collected was analyzed by use of descriptive statistics using statistical package for social sciences (SPSS) version 17 and presented through percentages, means, standard deviations and frequencies. The main independent variables in measuring financial performance are; the total shareholder return (TSR), Return on Assets (ROA) that is, EBIT divided by the book value of assets, and Return on Book equity (ROE) which is net income divided by book value of equity.
For purposes of the study Return on Assets (ROA) as a measure of performance was regressed against the determinants of SACCOS performance namely; governance issues, capital adequacy, asset quality, total assets, total equity, total loans (loanable funds) and earnings after tax, basic infrastructure for effective and competitive service delivery, safety mechanisms to safeguard members deposits, level of Government interference, infrastructure, management and oversight, Organizational and structural issues, planning and education participation and quality pay of Saccos.

The general form of our model is:

\[
ROAi_t = (\beta_0 + \beta_1 SP X_1 + \ldots + \beta_n SP X_n) + \epsilon
\]  
(Eq. 1)

The summation runs from 1 to 11: the number of independent plus control variables.

\[
ROAi_t = \text{Return on Assets of Saccos } i \text{ at time } t; i = 1, 2, ..., 35 \text{ Saccos.}
\]

\(p_0\): The intercept of equation 
\(p_i\): Coefficients of \(X_{it}\) variables 
\(X_{it}\): The different independent variables for performance of Saccos \(i\) at time \(t\) 
\(t\): Time = 1, 2, 3, 4, 5 years, 
\(\epsilon\): The error term

The above can be put in a more descriptive form as:

\[
ROAi_t = p_0 + p_1 (CA_{it}) + p_2 (OSI_{it}) + p_3 (IMO_{it}) + p_4 (GI_{it}) + p_5 (ES_{it}) + p_6 (QP_{it}) + p_7 (CP_{it}) + p_8 (PEM_{it}) + p_9 (DLit) + p_{10} (COI_{it}) + p_{11} (AOit) + \epsilon
\]  
(Eq. 2)

Where:

CA: Capital adequacy
OSI: Organizational and structural issues 
IMO: Infrastructure, management and oversight 
GI: Government interference
l-S: Lack of financial standards
QP: Quality pay to members
CG: Corporate governance
PEM: Planning and education of members
DL: Demand for loans
COI: Competition from other institutions
AO: Any other (specify)
e: The error term.

The correlation analysis was done to analyze the association between variables determining performance of SACCOS and ROA. To examine the relationship among these variables Pearson correlation coefficients are calculated.

4.2 Findings from the survey

From the findings the study results shows that (70.4%) of the SACCO used strategic plan to guide their operations while 29.6% do not use strategic plans in their management. The respondents further indicated that the strategic plan runs for a period of five years for the majority (76%) and for the minority (24%) for a period of 3 years. Only 5% of the respondents did not indicate the time their plan runs. The study sought to know the current active membership in each of the SACCOS. The findings varied but they ranged from 15 members to 10,200 members. The study sought to get information concerning land, buildings and any other asset as part of total assets owned and 29.6 per cent of the respondents have a total asset base worth Kenya shillings ten million and below. 33.3% of the respondent societies own assets valued between Kenya shillings ten million and fifty million while 37.1% own assets whose total worth is in excess of fifty millions.
The study findings on average earning for the last five years was that 70.4% of the SACCOS earned below Kenya shillings 8.99 millions over the last five years while as those SACCOS that earned above Kenya shillings 36 million were 18.5%. The study sought to get information concerning average savings per member and the findings were 14.8% and 14.8% respectively of the members average savings below Kenya shillings 5,000 and between Kenya shillings 5,000 and 9,999 respectively while 48.2% average savings were over Kenya shillings 20,000 per member.

The findings on the staff categories employed showed that all the co-operatives societies employed managerial staff and lower level staff while 37% did not employ supervisory staff. Out of those who employed managerial staff 59.3% employed 1 to 3 members of managerial staff, while only 14.8% employed over ten employees in management level. The supervisory staff employed by SACCOS ranged between 1 and 20 members of supervisory staff. 11.1% of the societies employed between 1 and five supervisory members of staff while 18.6% of the co-operatives employed over ten members of staff in supervisory level 33.3% of co-operative societies employed over thirty employees in lower level while 18.5% of them employed less than ten employees in the lower level.

The findings on the importance of performance evaluation were, 37% of the respondents indicated performance was very important while 63% indicated it was important. Therefore all respondents indicated performance evaluation was important to the success of their SACCO. Further 66.67% of the respondents indicated they undertook some performance measurement while as 33.33% don't undertake performance measurement.
The study also sought to establish the level of participation by the General Manager, the Finance manager/Accountant, the Administration Manager and the Loans and credit manager in performance management of SACCO's. A five point Likert scale was used to interpret the extent of involvement in performance management by the General Manager, the Finance manager/Accountant, the Administration manager and the Credit and Loans Manager ranging from least involved to most involved. According to the scale the manager who was least involved was awarded 1 while the manager who was most involved was awarded 5. Within the continuum are 2 for less involved, 3 for moderately involved and 4 for more involved. Mean and standard deviation was used to analyze the data. Managers with a mean close to 1 were considered least involved while those with a mean close to 5 were considered most involved. According to the table most respondents considered the General Manager to be most involved in performance management with a mean of 1.33. The Administration manager was more involved with a mean of 0.97; Finance manager was moderately involved with a mean of 0.76 while the Credit and Loans Manager was less involved with a 0.55.

On the factors affecting Return on Assets as a measure of performance in the SACCOS, the findings are as shown in table 4.1 below. According to the findings demand for loans was considered as most variable determing performance with a mean score of 5.94. Other key determinants in order of variability were as follows; capital adequacy mean of 5.91, competition from other institutions mean of 5.55, infrastructure management and oversight mean score of 5.54, while quality pay and corporate tied with a mean score of 5.48, Organizational and structural issues mean score of 5.47, inadequate legal reforms mean score of 5.22, Government interference...
mean score of 5.2, planning & education of members mean score of 5.14, lack of financial standards mean score of 4.94.

Table 4.1: Factors affecting Return on Assets (ROA) as a measure of performance in SACCOS

<table>
<thead>
<tr>
<th>Return on Assets (ROA)</th>
<th>Least used</th>
<th>Less used</th>
<th>Moderately used</th>
<th>More used</th>
<th>Most used</th>
<th>Mean</th>
<th>Std. Dev.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital adequacy</td>
<td>1</td>
<td>1</td>
<td>11</td>
<td>13</td>
<td>0</td>
<td>5.91</td>
<td>12.62</td>
</tr>
<tr>
<td>Organizational &amp; structural Issues</td>
<td>2</td>
<td>2</td>
<td>18</td>
<td>3</td>
<td>2</td>
<td>5.47</td>
<td>14.12</td>
</tr>
<tr>
<td>Infrastructure, management &amp; oversight</td>
<td>1</td>
<td>0</td>
<td>23</td>
<td>2</td>
<td>1</td>
<td>5.54</td>
<td>19.73</td>
</tr>
<tr>
<td>Government interference</td>
<td>3</td>
<td>1</td>
<td>20</td>
<td>2</td>
<td>1</td>
<td>5.2</td>
<td>16.41</td>
</tr>
<tr>
<td>Lack of financial standards</td>
<td>5</td>
<td>1</td>
<td>18</td>
<td>2</td>
<td>1</td>
<td>4.94</td>
<td>14.50</td>
</tr>
<tr>
<td>Quality of pay to members</td>
<td>3</td>
<td>0</td>
<td>18</td>
<td>5</td>
<td>1</td>
<td>5.48</td>
<td>14.60</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>2</td>
<td>1</td>
<td>19</td>
<td>4</td>
<td>1</td>
<td>5.48</td>
<td>15.40</td>
</tr>
<tr>
<td>Planning &amp; education of</td>
<td>3</td>
<td>1</td>
<td>20</td>
<td>3</td>
<td>0</td>
<td>5.14</td>
<td>16.54</td>
</tr>
</tbody>
</table>
The objective of this study is to establish the relationship between the Return on Assets (ROA) as a measure of performance to other variables that determine the SACCO performance. ROA ratio indicates how profitable a company is relative to its total assets. The ratio illustrates how well management is employing the company's total assets to make a profit. The higher the return, the more efficient management is in utilizing its asset base. The ROA ratio is calculated by comparing net income to average total assets, and is expressed as a percentage. As a rule of thumb, investment professionals like to see a company's ROA come in at no less than 5%. ROA is a better metric of financial performance than income statement profitability measures like return on sales. ROA explicitly takes into account the assets used to support business activities. It determines whether the company is able to generate an adequate return on these assets rather than simply showing robust return on sales. Asset-heavy companies need a higher level of net income to support the business relative to asset light companies where even thin margins can generate a very healthy return on assets.
The general form of our model is:

\[ ROAi_t = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \beta_3 X_{i3} + \beta_4 X_{i4} + \beta_5 X_{i5} + \beta_6 X_{i6} + \beta_7 X_{i7} + \beta_8 X_{i8} + \beta_9 X_{i9} + \beta_{10} X_{i10} + \beta_{11} X_{i11} + \epsilon \]  

(Fq. 1)

\[ ROAi_t = (\beta_0 + \beta_1 CA_{i1} + \beta_2 OS1_{i2} + \beta_3 IMO_{i3} + \beta_4 GI_{i4} + \beta_5 LS_{i5} + \beta_6 QP_{i6} + \beta_7 CP_{i7} + \beta_8 PEM_{i8} + \beta_9 DL_{i9} + \beta_{10} COI_{i10} + \beta_{11} AO_{i11}) + \epsilon \]  

(Eq. 2)

\( ROAi_t \): Return on Assets of SSACCOS i at time t; i = 1, 2..., 27 Saccos.

\( \beta_0 \): The intercept of equation

\( \beta_i \): Coefficients of \( X_{it} \) variables

\( X_{it} \): The different independent variables for performance of Saccos i at time t

\( t \): Time = 1, 2,3,4,5 years.

c: The error term is also known as the "residual", or the "remainder" term

Determinants of Return on Assets (ROA) at time t as a measure of financial performance was analyzed over a period of five years as per data collected from the twenty seven SACCOs that responded using Statistical Package for Social Scientists (SPSS) and the findings were as illustrated below in table 4.3. From the table the variability of determinants in terms of importance and weights attached to respective factor is derived with a standard error of 0.18175.
Table 4.2: Return on Assets (ROA) as a measure of performance in SACCOS
regressed against variables determining Financial performance

<table>
<thead>
<tr>
<th>Variable</th>
<th>Return on assets 0.1</th>
<th>X variables (Bi)</th>
<th>Std. Error Mean</th>
<th>Time (t)</th>
<th>Bi(xit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital adequacy</td>
<td>0.984</td>
<td>0.969</td>
<td></td>
<td>5</td>
<td>4.76748</td>
</tr>
<tr>
<td>Organization and structure issues</td>
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<td>0.718</td>
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<td>Inadequate legal reform</td>
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<td>0.909</td>
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<td></td>
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<tr>
<td>Competition from other institution</td>
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<td>0.687</td>
<td>0.18175</td>
<td>5</td>
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<td>Any other (specify)</td>
<td>1.652</td>
<td>2.729</td>
<td></td>
<td>5</td>
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<td></td>
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From the formula;

\[ ROAi t = pO + lpXit + e \]

\[ p0=0 \]

\[ ROAi t = p0 + pi (CA i t) + p2 (OSI it) + p3 (IMO it) + p4 (GI it) + p5 (LS it) + p6 (QP it) + p7 (CP it) + p8 (PEM it) + p9 (DLit) + p0 (COI it) + p, (AOit) + e \]

Is dependent on two constants i.e. P and t time

i is the intercept equation at time t. i = number of SACCOS in this case 1 represents i because only one respondent per SACCO was interviewed. Since audited accounts were not availed the error term will adopt the Y model which is equal to O(Zero).
The standard error with 95% level of confidence is 0.18175. The independent variables values are as tabulated above: Capital adequacy(0.969), Organization and structure issues(0.806), Infrastructure, management and oversight(0.687), Government interference(0.718), Lack of financial standards(0.969), Quality pay to members(0.806), Corporate governance(0.652), Planning and education members(0.593), Inadequate legal reform(0.795), Demand for loans(0.909), Competition from other institution(0.687), others(2.729).

The study sought to establish the performance range on ROA among SACCOS and from the study most SACCOS ROA is between 1% and 5% with a percentage of 62.9% while SACCOS with ROA between 6% and 25% were 37.1%. The study further sought to establish the proportion of participants in performance management that were educated in the field of performance. From the findings 55.6% of the SACCOS had not educated their employees in the performance, while only 44.4% indicated that their employees had been educated. The findings on whether or not performance was negotiated between top management and departmental heads. 70.3% of the respondents indicated that their SACCO performance measurements were negotiated between higher level managers and departmental heads while 29.7% of the respondents indicated that their performance was not negotiated.

The study also sought to establish what information the management of the SACCOS communicated to their employees during performance process. According to the findings majority of the respondents indicated that all the information enquired were communicated to the employees. This is given as Targets to be achieved (59.3%),
Environmental expectations (74%), strategic plan details to be implemented (66.7%), Variance between actual & budgeted (70.3%) and Budgeting guidelines (55.6%). The study sought to establish the Challenges faced by the respondents’ SACCOS during performance and from the findings majority of the respondents indicated lack of education for all involved on performance process as the most common challenge they faced during the performance process with mean of 0.82. The other challenges which were moderately faced were; lack of understanding of the business environment (0.68), lack of top management support and involvement (0.66), setting of unrealistic targets by managers for personal gains (0.60), conflicts among managers (0.57) participation of all individuals (0.56) and non-communication to employees during performance (0.54).

4.3 Summary of findings and interpretations

From the total respondents 29.6% don’t apply long term strategic plan used as a guide to management actions. The implication is that these SACCOS have no clear direction that guides management strategic decisions and actions. This is very risky as the societies management is likely to loose focus and direction which can lead to failure of the society in the long run. The study findings that the SACCOS membership at the time of the survey ranged from 50 members to 10,200 members implying that some societies are not only small but weak in terms of resource base as evidenced by low membership and low assets base while others are very large and strong.

The Findings from the study that average savings per member for individual SACCOS was between Kenya shillings one thousand per member and one hundred thousand member implies that average saving per member was very low in some societies and
high in others and therefore some society members were able to keep their contribution high despite the hard economic times experienced in our country at the time of the survey. The study findings also showed that 37% of the societies did not employ supervisory staff implying that those societies do not benefit from the services of qualified and experienced supervisors and therefore managers end up supervising the lower level staff.

The study established that 63% of the SACCOS consider performance evaluation process as very important to success of their society while 37% consider performance as not important. Further, the study established that 66.67% of the SACCOS undertook performance measurement preparations and analysis before undertaking the performance process implying that financial performance is considered as an essential tool for the success of the societies.

The study also established that targets to be achieved was communicated to employees by 59.3% of the societies, environmental expectations was communicated to employees by 74% of the societies, strategic plan details to be implemented was communicated down to employees by 66.7% of the societies, variance between actual and budgeted results was communicated down to employees by 70.3% of the societies and budgeting guidelines were communicated down to employees by 55.6% of the societies. The implication is that not all employees were aware of their achievement targets and what they were working towards and the environment in which they operate.
The study found out that demand for loans as a variable affecting ROA was considered as most variable determining performance with a mean score of 5.94 the implication is that SACCO management staff should strive to provide adequate loans to members timely and use competitive interest rates. Other key determinants in order of variability were as follows; capital adequacy mean of 5.91 the implication is SACCOs should have adequate capital to enhance timely disbursements of loans to members moreover SACCOs should have a mandatory minimum capital requirements set as a guiding policy to regulate the sector, competition from other institutions mean of 5.55 the implication is that SACCOs should be competitive enough in terms of service delivery to cope with daily emerging competition from other micro finance institutions.

Lack of education for all involved on performance process as the most common challenge they faced during the performance process with mean of 0.82. The implication is that not much can be achieved from the process and even the results cannot be analyzed and interpreted correctly. The other challenges which were moderately faced were; Lack of understanding of the business environment (0.68) and the implication is that members are able to handle issues as they arise since not updated on the business dynamics. Lack of top management support and involvement (0.66) the implication is that even implementation is totally impossible without goodwill and support of the top management. Setting of unrealistic targets by managers for personal gains (0.60) the implication is that self interest overrides the societies interest and therefore there is conflict of interest. Conflicts among managers (0.57) the implication is that members don't work as a team and therefore performance compromised.
The study found out that lack of participation of all individuals in performance process implying that some officers were overburdened with performance tasks whiles other officers were not actively involved. This also reduces the acceptance and ownership of the results of the performance process by all members of staff.
5.0 Summary of the findings

The study objectives were to establish the determinants of financial performance of SACCOS in Kenya the key independent variable being ROA. The study found out that demand for loans as a variable affecting ROA was considered as most variable determing performance with a mean score of 5.94. Other key determinants in order of variability were as follows; capital adequacy mean of 5.91, competition from other institutions mean of 5.55, infrastructure management and oversight mean score of 5.54, while quality pay and corporate tied with a mean score of 5.48, Organizational & Structural Issues mean score of 5.47 Inadequate Legal reforms mean score of 5.22, Government Interference mean score of 5.2, Planning & Education of Members mean score of 5.14, Lack of financial standards mean score of 4.94.

The study established that, majority of the respondents indicated lack of education for all involved on performance process as the most common challenge they faced during the performance process with mean of 0.82. The other challenges which were moderately faced were; Lack of understanding of the business environment (0.68), Lack of top management support and involvement (0.66), Setting of unrealistic targets by managers for personal gains (0.60), Conflicts among managers (0.57) Participation of all individuals (0.56) and Non -communication to employees during performance (0.54).
5.1 Conclusion

Lack of business planning, unrealistic and conflicting goals and targets, absence of stringent monitoring and evaluation of measure among the main causes of business failures. However, through effective financial performance evaluation these activities can be efficiently and effectively managed. The financial performance of SACCOS is not peculiar in any way from any other business situation in Kenya and poor financial management of societies has lead to many collapsing.

The study objectives were to establish the determinants of financial performance of SACCOS in Kenya. The significance of this study is that recommendations made to government policy makers and management of co-operative societies, if implemented would enhance financial management and general performance of the SACCO sector through sound financial management practice. The study would also form a basis for academics and further research and knowledge on the subject of performance. Future studies in financial performance and particularly in the SACCO sector can use the results of this study as reference material.

The study found out that demand for loans as a variable affecting ROA was considered as most variable determining performance with a mean score of 5.94. Other key determinants in order of variability were as follows; capital adequacy mean of 5.91, competition from other institutions mean of 5.55, infrastructure management and oversight mean score of 5.54, while quality pay and corporate tied with a mean score of 5.48, Organizational and structural issues mean score of 5.47 inadequate legal reforms mean score of 5.22, Government interference mean score of 5.2,
planning and education of members mean score of 5.14, Lack of financial standards mean score of 4.94.

From the study lack of education is the greatest challenge facing most SACCOS the performance process with mean of 0.82. The implication is that not much can be achieved from the process and even the results cannot be analyzed and interpreted correctly. The other challenges which were moderately faced were; lack of understanding of the business environment (0.68) and the implication is that members are able to handle issues as they arise since not updated on the business dynamics. Lack of top management support and involvement (0.66) the implication is that even implementation is totally impossible without goodwill and support of the top management. Setting of unrealistic targets by managers for personal gains (0.60) the implication is that self interest overrides the so cities interest and therefore there is conflict of interest. Conflicts among managers (0.57) the implication is that members don't work as a team and therefore performance compromised.

5.2 Recommendations

This study recommends that Government policy makers should formulate a policy that make it mandatory for all SACCOS to prepare and have in place a strategic plan that guides the direction of all management actions. The study also recommend that the ministry of co-operatives should launch a campaign aimed at recruiting more members for the societies with low membership in order to make them strong and at the same time intensify supervision of the management of the giant societies to ensure proper financial management and hence enhanced benefits. The study also recommends that a research be undertaken to establish how some societies were able
to maintain high membership savings despite the economic crisis facing the world at the time of study. The skills and knowledge should be imparted to those SACCO members whose savings was low in order to encourage them to save more in future.

Recommendation that Government policy makers have a policy that ensures mandatory for all SACCOS to employ qualified and experienced management staff for efficiency and good corporate governance. The study also recommends that Government policy makers formulate a policy that ensure all SACCOS participate in the annual performance contracting exercise and that the ministry of co-operatives and development should go further and enforce implementation of the policy and conduct regular system audits to ensure adherence to policy guide lines. It is also recommended that government policy makers should ensure all high level managers are fully involved in performance measurement process and that the officers in charge of performance process open up the process to accommodate suggestions from all members of staff and also compose brainstorming groups to enrich the process.

The study also recommends that top management of the co-operative societies should have a training program and ensure performance participants are well trained in the performance process.

It is also recommended that all performance measures should be negotiated between lower level employees and high level managers to enhance acceptability and ownership of the performance process by all employees. All information regarding the performance process should also be communicated to enhance awareness. The study also recommends that the performance participants in the SACCOS are trained in
performance process. It is also recommended that government policy makers should ensure all SACCOS maintain minimum capital base to cushion the members against any unforeseen circumstance and economic crisis. It is recommended that all SACCOS should be regulated fully by the SACCO regulatory authority immediately to enhance on good corporate governance, good financial standards and efficiency. Further research should be undertaken to establish the extent of variance between performance variables and net operating profits as a measure of performance in the SACCO sector.

5.3 Limitations of the study

The study was carried out when SACCO managers were not willing to avail data especially on financial performance and respective trends since needed ratification of the members thus availability of data was a problem. Moreover most SACCOS do not file their annual returns with registrar of companies and ministry of Co-operatives and development.

Incomplete details in the return forms provided and lack of standard financial reporting policy affected the results.

The time within which the research was to be completed and the resources available were also limited and low response rate and limited knowledge on the relevant questions.
5-4 Suggestions for further studies

The study findings suggest that further research be undertaken in SACCOS to establish the relationship between Return on Net operating profit (NOP) and financial performance. The study also suggests that a further research be carried out to establish how members of some SACCOS managed to maintain high membership savings despite the hard economic times and global crisis prevailing in the country at the time of the study.
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APPENDIX I : DETERMINANTS ()I PERFORMANCE OF SACCOS IN KENYA: A SURVEY OF NAIROBI PROVINCE

High level of confidentiality will be accorded to the information in this questionnaire and will be used for academic purposes only. Any difficulties experienced will be discussed with you during the interviews.

Date…………………………….Questionnaire Number

PART 1

General information about the SACCO

1. Do you have a strategic plan as a guide to management actions of the SACCO?

   Yes ( )  No ( )

2. What is the current number of active members of your SACCO?

3. What is the total Asset Value of the SACCO?
   (a) Land - Number of acres, ............... Value Kshs
   (b) Buildings: Total value of building
   (c) Fixed asset value
   (d) Total Value of investment
   (e) Any other Asset: - Total Value
   (f) What has been your been your Total asset base(Fixed & Current) in Kshs(Millions) for the last 5(five) years; FY2004,

   FY2004_________________________FY2008,

   FY2005_________________________FY2006,

   FY2007_________________________FY2008

4. What has been your average earnings in Kshs (Millions) for the last 5(five) years; FY2004_________________________FY2005.
5. What is the average saving (Kshs) per member?

6. How many of the following staff categories are employed by the SACCO?
   - Managerial Staff
   - Supervisory Staff
   - Lower level staff

Part II

SACCO performances and challenges

QUESTIONNAIRE: PLEASE MARK THE APPROPRIATE COLUMN

(Rating on a scale of 0 = Not important, 1 = Less important, 2 = Modestly important, 3 = Important, 4 = Very important)

7. Is performance evaluation important to the success of your SACCO?

   Not important  Limited important  Important  Very important

   (  ) (  ) (  ) (  )

8. Do you undertake performance measurement process?

   Yes (  )  No (  )

9. To what extent are the following involved in performance management in your SACCO?

   Least involved  Most involved

   1 2 3 4 5

   - General Manager ( ) ( ) ( )
   - Finance Manager ( ) ( ) ( )
   - Administration Manager ( ) ( ) 0 0
   - Loans & Credit 0 0 0 0 0
14. What Challenges do you face during performance evaluation for your SACCO?

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<th>Most</th>
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<tr>
<td>1 2 3</td>
<td>4 5</td>
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<tr>
<td>Lack of top management support and involvement ( ) ( )</td>
<td>( ) ( )</td>
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Name of Respondent (Institution)

Date