

**" MANAGERIAL RESPONSE TO  
DEREGULATION OF THE COOPERATIVE  
SECTOR: THE CASE OF SAVINGS AND  
CREDIT COOPERATIVE SOCIETIES  
(SACCOs) IN NAIROBI "**

**BY**

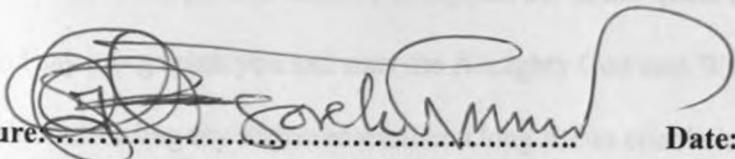
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**A MANAGEMENT RESEARCH PROJECT SUBMITTED TO THE  
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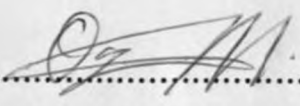
**DECLARATION BY THE CANDIDATE**

I declare that this is my original work and to the best of my knowledge, it has not been presented for examination to any other University.

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**DEDICATION**

This project is dedicated to two people who are very close to my heart namely Mama Susana Sind *nyar* Obara and late uncle Samwel Wasia Muring who, together, never wavered in their unequivocal resolve to support me in my quest for higher education. To them I say a big thank you and may the Almighty God rest Wasia's soul in eternal peace while affording my widowed mother a long life to enable her enjoy the fruits of her labour.

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degree. I am not exactly sure that I have a “stinging intellect”, but all the same I sincerely thank them for their encouragement. In this regard, I wish to thank Benta Oluoch, Oriare Nyarwath, Francis Owakah, Scholastica Odhiambo, Collins Opiyo, Seth Gor and Regina Ombam. I also wish to thank Agnes Ng’ang’a and Dinah Mwatha for helping with computer work and typesetting.

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Above all, very special thanks go to the Almighty God for being a constant source of inspirational guidance.

## **ABSTRACT**

This study had two objectives namely:-

- (i) To identify the impact of a deregulated cooperative sector on the management of Savings and Credit Cooperative Societies (SACCOs) in Nairobi;
- (ii) To find out the measures that the SACCO Societies in Nairobi are taking to cope with the effects of deregulation of the Cooperative sector.

To do this, a survey was conducted on fifty SACCOs using structured questionnaires with a few open ended questions.

The results of this study revealed that about 50% of the managers had form four level of education. The study also found out that about 92% of the SACCOs surveyed concentrated on operational issues at the expense of strategic ones. It was also clear that not much effort was being expended to explore new products. There was also found to be arbitrary appointments and promotions of staff without regard to their qualifications and competence. These issues have very serious ramifications for the future developments and growth of the SACCO Societies.

Since the cooperative sector has been identified by the government of Kenya as a formidable institutional framework for resource mobilization and capital accumulation these issues must be addressed urgently.

This study concludes that there needs to be deliberate policy on minimum qualifications for management positions. Promotions must be based on merit and proven ability.

SACCO Societies should constantly scan the environment to help them in coming up with flexible strategies for future development. An open systems approach should be adopted to encourage creativity and innovation so that new products can be introduced to take care of the changing needs of members.

## CHAPTER ONE

Last but not least, SACCO Societies should go beyond the horizon of the employer to source for members in order to strengthen membership and capital bases.

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## LIST OF ABBREVIATIONS

ACCOSCA	-	African Confederation of Cooperatives Savings and Credit Association
c	-	Gain/Loss in capitalization
CEO	-	Chief Executive Officer
FOSA	-	Front Office Services Account
GDP	-	Gross Domestic Product
GE	-	Great Extent
GOK	-	Government of Kenya
ICA	-	International Cooperatives Alliance
KNFC	-	Kenya National Federation of Cooperatives
KUSCCO	-	Kenya Union of Savings and Credit Cooperative Organizations
le	-	Level of education
LE	-	Little Extent
m	-	Loss/Gain in membership
MOCD	-	Ministry of Cooperatives Development
NATCCO	-	National Confederation of Cooperatives.
NEAA	-	No Extent At All
SACCO	-	Savings and Credit Cooperative
SACCOS	-	Savings and Credit Cooperative Societies
Sc	-	Share Capital
Tm	-	Total membership
VGE	-	Very Great Extent

- VLE - Very Little Extent
- w.a. - Weighted average
- w.s. - Weighted sum

"Would you please tell me where I ought to go from here?"  
"That depends a good deal on where you want to get to", said the Cat.  
Lewis Carroll, Alice Adventures in Wonderland.

# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Cooperatives existed in Europe over 100 years ago and have spread to many parts of the world since that time. There is hardly any country where cooperatives do not exist. (Lowe, 1989)

Cooperative members incorporated a global membership of approaching three quarters

**“Would you please tell me where I ought to go from here?”**

**“That depends a good deal on where you want to go to”, Said the Cat.**

**Lewis Carrol, Alice Adventures in Wonderland.** The banking, insurance, retail marketing and supply sectors. Examples of cooperative businesses can be found in several economies. For example, cooperatives can be found successfully trading and producing in South Africa, rural electricity generation and supply in the U.K., in several states in India on one end of the spectrum and in architecture in Scotland, and retailers in Italy, the France or restaurants in the Czech Republic and others found in New York and Latin America. In some countries farmers provide the cooperative essentially, in others it is retailers. Financial services participate in these traditional cooperative businesses in printing, housing and health services. Credit cooperatives (CAO) do exist in many countries but only rarely are they the main providers of service provision within their national systems (ICA, 1998)

# CHAPTER ONE

## 1.0 INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Modern cooperatives started in Europe over 150 years ago and have spread to most parts of the world such that today there is hardly any country where cooperatives do not exist.

(Gachara, 1990)

The cooperative enterprise incorporates a global membership of approaching three quarters of a billion individual members spanning 93 countries and 236 federal member organizations. Cooperatives cover the full range of business sizes from micro-level credit, community, fishing and worker cooperatives, to substantial players in the banking, insurance, agricultural marketing and supply sectors. Examples of cooperative businesses can be found in most areas of economic life. For example, cooperatives can be found successfully trading in mineral extraction in South Wales, rural electricity generation and supply in the USA, fertilizer manufacture in India at one end of the spectrum and as architects in Scotland, industrial cleaners in Italy, fine China manufacture in the Czech Republic and ethnic based craft people in Asia, Africa and Latin America. In some countries, farmers provide the core cooperative community, in others it is consumers. Financial services predominate but there are also substantial cooperative businesses in retailing, housing and health services.

Employment cooperatives (SACCOs) do exist in many countries but only rarely are they significant manufacturers or service providers within their national context (ICA, 1998).

Cooperatives are not foreign to the continent of Africa. There existed in Africa, before the advent of colonialism, savings associations known by different names (“ekub” in Ethiopia, “sanduk” in Sudan, “esusu” in Nigeria, “chilimba” in Zambia) but all of them consisted of a simple organization in which savings and credit was administered on a simple rotation basis by members. These associations convened on fixed intervals (weekly, monthly etc) and each of the members would contribute a fixed amount. The whole amount collected was then given out to one member according to criteria agreed upon by all members (Gachara, 1990:24).

Today, Africa has in various parts, agricultural, consumer, housing, credit and worker cooperatives. They are very much top down initiatives and have been subject to much political control in some countries. Cooperative strategies are seen as central to the regeneration of many of the regions economies where adverse trade terms, foreign debt and civil war or tribal conflict and rivalry have created economic and social dislocation (Bibangambah, 1993: 69 – 81). The impact of Structural Adjustment Programmes (SAPs) has been well documented. Many cooperatives have ceased to exist and cooperative unions disappeared with the ending of their parastatal status. Notwithstanding this, other cooperative movements in Africa are still not permitted by their governments the flexibility to respond to the market that is enjoyed by their private sector competitors. A genuine market-led cooperative movement is beginning to emerge, capable of playing a positive role in contributing to the aims of SAPs. These positive developments are threatened by a lack of technical support resources to develop management in African cooperatives. There is no continuing provision for distance learning although some radio-based cooperative



programmes have been tried. There are also a number of centers for cooperative education in Africa, the two largest being Cooperative Colleges in Tanzania (Moshi) and in Kenya (Nairobi) (Cheaka, 1999). The West of Africa is served by the *Institut Supérieur Panafricain D'Economie Cooperative* in Benin. Largely, these institutions lack the resources to develop management at the post-graduate level.

## 1.2 HISTORICAL DEVELOPMENT OF COOPERATIVES IN KENYA

In Kenya, the history of the cooperative movement can be traced to 1908, when cooperative production and marketing was first established by the European farmers at Lumbwa near Kericho. Those cooperatives organized by Africans were not found until in the 1930s and their development was nevertheless very slow due to lack of encouragement by the colonial government. The colonial government considered it impossible to find amongst Africans, people who could command the trust of their fellow members, especially in the keeping of accounts and business operations (Ouma, 1988:34).

Government's involvement in cooperatives started in 1931 when the first cooperative ordinance was enacted in order to regularize the operations of cooperative societies. Hitherto, cooperatives were registered under business law. The increased intervention occurred in 1945 when a new Act came into being and the first commissioner for cooperatives was appointed in 1946. The 1945 ordinance was a turning point for cooperatives. For the first time the indigenous Kenyans were not only officially allowed to form and join cooperatives, but were also allowed to grow cash crops like coffee which was earlier restricted to the white settlers. By 1963 when Kenya became politically independent, there were 1030 cooperative societies

with a turnover of Kshs. 100 million. Immediately after independence, it was the policy of the government to involve all wanainchi in the economic activities of the new nation. Cooperatives were a handy institutional framework through which many indigenous Kenyans could participate in nation building. At the time however, cooperatives were faced with a number of problems, which included:- lack of integrity on the part of some committee members and employees; misappropriation and misapplication of funds; excessive costs of administration and general inefficiency in the business operations of the movement. The main causes of these problems were:- lack of basic understanding among the cooperatives about the purpose and functions of the movement; lack of technical and managerial skills; lack of knowledge and experience on the part of employees and committee members; moral hazard in the society. Arising out of the foregoing and the government's acceptance of the cooperative movement as an extremely important institutional framework with a great role to play, the government was categorical that it will continue to give every encouragement to the movement. This view of the government was formalized and expanded in the first three Development Plans mainly 1970 to 1974 and that of 1974 to 1978. The aim was to ensure that cooperatives were improved and expanded as a means of increasing earnings and enhancing the social welfare of her peoples. The recognition of the importance of cooperatives in national development has taken expression in various governmental policy statements as contained in Sessional Papers. For example, Sessional Paper No. 14 of 1975 states, inter alia, that:

“The Cooperative movement will continue to play an active role in the national efforts towards accelerated economic development and will be free to compete on the basis of its efficiency and service to members, with other state and private enterprises in those sectors of the economy in which they are able to participate. The policy will be to give

highest priority to consolidation and efficiency in those spheres of the economy where cooperatives are already active, while also extending their participation in the small scale farming sector by the provision of credit, supply of farm inputs and marketing facilities for their members”.

Cooperative policies were therefore instituted to:-

- a) Enable cooperatives to improve their performance;
- b) Consolidate the movement in those areas where it was active;
- c) Enjoy marketing monopolies (for marketing cooperatives).

In order to enable the movement to take off, the government strengthened and intensified its supporting machinery for guiding and controlling the movement for the purpose of curbing malpractices. Consequently, the 1945 Cooperative Ordinance was revised and gave way to the Cooperative Societies Act, Cap 490 of the Laws of Kenya, in 1966. With the new Act, government was able to be involved and therefore influence the day-to-day activities of cooperative societies. More importantly, the government was able support to the movement both in form of finance and technical expertise. In order to marshal this support to the movement, the government entered into agreements with a number of donors who included the World Bank, United States, Germany and the Nordic Countries, who assisted in technical expertise, finance as loans and grants to needy societies.

Thus, since independence, the government adopted pragmatic policies for development of the cooperative movement. This benevolence of the government and the pragmatic policies have

served the movement well, and today Kenya has some of the most well-developed cooperative societies in this region.

Management of cooperatives has been one of the biggest problems within the movement. In this area, government has persistently injected different types of assistance although it still remains one of the main concerns. Through the Nordic Project substantial technical assistance has been availed to the movement for the development of management and accounting systems, in addition to seconding management experts in cooperative societies. The government-ran cooperative college of Kenya trains both officers of the movement and the government. There have been two major projects co-sponsored by the government and UNDP and DANIDA to address the management issues in cooperative societies. In the past government seconded officers to manage societies before they could recruit their own managers. Due to persistence of management problems in cooperative movement despite intensified government assistance, the government decided in 1997 to deregulate the cooperative sector to enable the cooperative societies to implement on their own, a new management approach which has been tested in the rest of the private sector. This was in recognition that the movement had reached a stage of development at which it could shoulder its own responsibilities. It was also clear that the past nurturing of the cooperative movement and extensive benevolence of the government was no longer justified or sustainable. Further, a continually supported movement is not likely to develop strategies for self-sustenance in a turbulent environment because of the dependency syndrome.

Sessional Paper No. 6 of 1997 on “Cooperatives in a liberalized economic environment” was therefore promulgated to “.... Liberalize the cooperative sector in order to professionalize and democratize the management of cooperatives and make them self-reliant, self-controlled and commercially viable organizations (GOK, 1997).

### **1.3 SCOPE OF THE STUDY**

There are several categories of cooperative societies in Kenya. This study focused on Savings and Credit Cooperative Societies (SACCOS). In SACCO Societies there exist several stakeholders including the government, employees, members, employers of members, management, staff, Board members, community, apex organizations among others. Management of SACCO societies have a responsibility to identify the most significant stakeholders and to put in place managerial practices that respond to their various requirements.

Hence our units of analysis are Savings and Credit Cooperative Societies (SACCOs) with particular reference to their managerial practices since deregulation of the cooperative sector in 1997. This study is handling managerial response of SACCO Societies to deregulation at a sectoral level rather than at national level. Hence, it is a sub-sectoral (micro-economic) analysis. Other related areas which the study has not focused on include:- other types of cooperatives such as agricultural, building, Jua Kali, Multi-purpose, investment, marketing and consumer societies. This study was based on data collected by the Provincial Cooperatives office, Nairobi for the financial year ending December 31, 2000. It focused on the period before and after deregulation of the cooperative sector. Hence, it is useful not only

for comparing what is happening across societies in the specified period of time but also before and after deregulation. Where non-SACCO Societies are alluded to in this study, it is expressly to facilitate comparison between what is happening in those other categories of cooperatives and the impact of deregulation on managerial practices within the SACCO sub-sector. However, not much effort is expended on non-SACCO Societies sub-sector as this is not the focus of the study.

#### **1.4 STATEMENT OF THE PROBLEM**

As Kenya enters the 21<sup>st</sup> Century, she faces a deepening economic crisis despite adherence to donor prescriptions for stabilization and structural adjustment. Given current limitations in financial resources and credibility necessary to attract donor assistance, far greater enterprise is required to mobilize and harness domestic savings for capital formation in the country (IPAR, 1999). SACCO Societies have been identified as a formidable sub-sector for domestic resource mobilization. A proper and conducive environment for development of SACCO Societies needs to be developed to support this sector if Kenya is to realize its dream of becoming an industrialized nation by the year 2020 (Ibid:11).

In this regard, the Kenya government has, since independence, given a lot of support to the cooperative sector, in the form of direct assistance and subsidized services, leading to rapid growth of cooperatives (GOK, 1997). This government assistance, though well-intentioned and indeed produced positive results when it lasted, has also created many problems related to dependency. The movement came to be almost wholly dependent on the government for free technical and financial assistance as well as development of management systems. This

has hindered the consolidation of cooperative values like self-help, responsibility, self-reliance and self-control, all of which are necessary for success of a cooperative society in a liberalized economic environment (Ibid:18). In a nutshell therefore, the benevolence of government has helped to destroy the very fabric on which cooperatives have to rely for success in a free market economy. Furthermore, Structural Adjustment Programmes have led to freezing of employment opportunities and necessitated retrenchment of staff both in the public and private sectors.

Besides, slow economic growth has led to slow pace of industrialization in the country. These factors and many more have tended to undermine the membership base of many SACCO Societies, leading to fierce competition for more members among them, and substantially reduced capitalization in a number of SACCOs. Deregulation of the cooperative sector has left the movement with virtually no single regulator. Given that SACCO Societies continue to receive deposits from members against a background of high moral hazard in the society, one wonders how safe the deposits are in the absence of a regulator. Not much research has been conducted to investigate the response patterns of SACCO Societies in the face of deregulation of the cooperative sector.

Jamisen (1999), however, suggests that cooperatives should aim for open, committed, competent, motivated and trustworthy management, education to members, improved participation of women, healthy politics, strong information flow from cooperatives to members and increased share contribution if they hope to survive in a highly turbulent business environment. But since the research was done specifically on farmer-owned

cooperative societies in Kenya, the conclusions did not necessarily address the unique circumstances of SACCO Societies. This study therefore, would be inadequate to guide SACCO Societies in a deregulated business environment. It is therefore incumbent upon SACCO Societies to come up with strategies for enhancing their competitiveness and survival in light of deregulation. Research questions that would be asked are:-

- i) What is the impact of deregulation on the operations of SACCO Societies in Nairobi?
- ii) What managerial response are SACCO Societies adopting to fill the void that has been created by appreciable withdrawal of government as a regulator?
- iii) Out of the managerial measures that SACCO Societies are adopting, which of them are the most critical?

### **1.5 OBJECTIVES OF THE STUDY**

- a) To identify the impact of a deregulated cooperative sector on the management of Savings and Credit Cooperative Societies (SACCOs) in Nairobi.
- b) To find out measures that the SACCO Societies are taking to cope with the effects of deregulation of the cooperative sector.

### **1.6 JUSTIFICATION AND SIGNIFICANCE OF THE STUDY**

The importance of the cooperative movement as an institutional framework for mobilizing and harnessing savings for capital accumulation and investment cannot be gainsaid. Partly as a result of government promotion of SACCOs, these institutions are now playing a very significant role in finance and banking sector, where they are directly involved in the mobilization of savings from a large number of savers for various types of investments



(GOK, 1997). Hence, studying this sector is justified. Furthermore, the increasing trend of deposits, loans and savings in this sector shows that there is still more potential. The knowledge about savings, deposits and loan functions would give clear picture as to the possible policy measures which can eliminate saving shortages in this sector and the economy as a whole. This study will be of significance to proper planning and policy decisions of both the cooperative and monetary sectors.

Funding SACCOs through deposits only is not sufficient. There is need to explore other savings opportunities including corporate savings as well as investment through the Stock Exchange. Study on possibilities of widening savings and investment portfolio could prevent SACCOs problems such as under-capitalization, low liquidity, among others, thereby improving the sectors' performance and contribution to national savings and economic development and growth. Although SACCOs have grown in leaps and bounds since independence in 1963, this growth has only been confined to membership and turnover.

There has been no noted corresponding growth in researches in this field. The few researches which have been carried out about SACCOs in Kenya have not been substantial as to offer any significant policy implications. Most of them have just been seminar papers and non-empirical studies whose observations and results are theoretical and not suitable for any test of significance and policy formulation. It has been noted, regrettably though, that despite sustained government assistance in form of finance, management and technical expertise, management of cooperatives has been one of the biggest problems within the movement.

There's therefore need for a new management approach which has been tested in the rest of the private sector. The result of this study should therefore assist in improving management of this sector thus reduce the number of dormant and liquidated SACCOs. This study will also be of great significance to various stakeholders as follows:-

### 1.7 ORGANIZATION OF THE REPORT

- It will be useful to the government as a formidable institutional framework for domestic resource mobilization. The result of this study will make useful suggestions to the government on how to create a proper and conducive macro-economic and political environment for development of SACCOs.
- This study will also make useful suggestions on the most viable managerial response to the environmental turbulence occasioned by deregulation of the cooperative sector.
- Useful suggestions will also be made regarding the participation of members in their capacities either as delegates or ordinary members.
- The role of the community and other stakeholders will also be highlighted. One of the cooperative principles is concern for the community. In this regard, the SACCOs should work for the sustainable development of their communities. This is hinged on the premise that it is the community that gives SACCOs the charter to operate. This study will explore the concept of social responsibility and suggest ways of mutual cooperation between SACCOs and the community.

This study will also serve as a reference material both for scholars and policy makers especially those in the cooperative and monetary sectors as well as those in research institutes and universities.

## **1.7 ORGANIZATION OF THE REPORT**

This report is divided into five main chapters. Chapter One briefly introduces the subject matter i.e. the cooperative movement from a global perspective and some historical background of this sector. It also gives, in a more insightful manner, the historical development of the cooperative sector in Kenya. The research problem which is the managerial response of SACCOs to the deregulation of the cooperative sector, has been identified and demonstrated. Both the objectives of the study and its significance and justification have been covered in this chapter.

Chapter Two discusses the theme of cooperative organization in Kenya. This sub-topic covers aims and objectives of cooperatives, and operation and organization structures of cooperatives.

Chapter Three covers literature review. This chapter reveals the kind of reading background and preparation that the researcher has undertaken to write this paper. It also enlightens the readers on the contributions that have been made by other scholars in this area and other related fields. Weaknesses and strengths of these past studies are reviewed briefly.

Chapter Four gives the theoretical (conceptual) framework adopted for operationalizing this subject. It also presents working definitions of the key theoretical terms used in this study including planning, control, coordination, staffing, directing, management and deregulation. Assumptions made are revealed in this chapter. A theoretical business model for SACCOs is discussed as well as population of study, sampling plan and data collection methods.

Chapter Five presents the methodology of the study. It includes population of study, sampling plan and data collection methods.

Chapter Six gives the result of the study and the analysis thereafter. It briefly explains the achievement of the objectives set earlier. Statistical tests of significance are carried out in this chapter. This is the core of this study and the information in this chapter is what will be most useful to the policy-makers and scholars in this area.

Chapter Seven gives the summary of this study. It summarizes what we wanted to do, how we did it and what we found out. It gives some suggestions in the line of policies and their implications. Also discussed here briefly are the limitations of this study and the recommended areas for further research.

## **CHAPTER TWO**

### **2.0 COOPERATIVE ORGANIZATION IN KENYA**

#### **2.1 AIMS AND OBJECTIVES OF COOPERATIVES**

A cooperative is an autonomous association of persons united voluntarily to meet the common economic, social needs and aspirations through a jointly owned and democratically controlled enterprise (Cooperative Societies Act, No. 12 of 1997). Experience has also shown that many officials of cooperatives, especially those with elaborate nationwide branch networks, have used their positions in the movement as launching pad for subsequent positions in national politics. Hence, it is not an exaggeration to state here that the cooperative movement is increasingly being seen as a framework for political mobilization.

Like companies, cooperatives are economic organizations whose income generating activities are devoted to the economic and social welfare of their members. Thus the term “cooperative” is usually understood to be a business undertaking within a specific social context and which works towards a wider socio-economic purpose. Traditionally, the cooperative business enterprise has been intended as a means to an end, and not as an end or final objective in itself. It was seen as a business organization not motivated by profit, but rather the result of mutual association, which has for its objectives not only the equitable distribution of the financial gains, but also the cultural and social betterment of man and the society in which he lives. Cooperatives existed to give services and benefit to the members, not for the sole benefit and enrichment of the few at the expense of the many (Ouma, 1988). Historically, cooperatives have desired an economic system based upon common ownership

and mutual aid in which no one person could be in a position to exploit the rest of the membership, a system in which equity, individual freedom and a strong sense of fellowship would be the basis of social relationships (Gachara, 1990:8). SACCO Societies are established with the primary objective of enabling members with a “common bond” to save regularly together, for the purposes of creating a pool of funds from which those members can obtain credit facilities on softer terms than would be available in the existing financial institutions.

Sessional Paper No. 4 of 1987 on “Renewed Growth through the Cooperative movement”

lists the following as the aims of SACCO Societies:-

- a) Mobilizing of savings by encouraging members to have proper savings accounts through which they can conduct their financial transactions and thereby minimize the keeping of cash in homes. This helps in harnessing any would-be idle cash for creation of national wealth;
- b) Providing security and protection of members deposits;
- c) Establishing adequate credit facilities for members;
- d) Encouraging utilization of capital mobilized within the SACCO Societies for the benefit of members;
- e) Allowing members through their selected directors to determine how the resources of the SACCO Societies should be invested for their own benefit.

Gachara (1990) contends that savings are a gateway to economic progress for families, communities and nations. Since SACCO Societies are organized with the aim of empowering

members to take control of both their savings and lending, these institutions are the answer to the problem of lack of savings capital accumulation and investment. By pooling their savings resources, members, even those of limited means, are able to invest together and borrow from the organization.

Ordinarily, an average household needs a ready source of finance to meet expenses such as school fees for children, funerals, weddings, food. Given their profit motivation, banks and other non-bank financial institutions would be unwilling to make such small loans available to households without sufficient collateral security or clearly stated repayment programme. Private moneylenders, on the other hand are notorious for exorbitant interest rates.

Financial requirements of households could be met if families or communities pooled their resources together by synchronizing their needs for credit with regular savings. By utilizing the savings of the group, it becomes possible to meet the credit needs of individual members as they arise. Unlike commercial banks and other financial institutions, SACCO Societies do not create money or credit for loan purposes. They only lend money that has previously been saved with them by the members and do not therefore contribute to inflationary pressure occasioned by credit expansion. Cooperatives do not necessarily vary interest rates charged on members loans as economic circumstances change. This decision is made by delegates or General meetings, and since the office bearers hold their positions by virtue of election, they are highly sensitive to the wishes and demands of members.

## 2.2 OPERATION AND ORGANIZATION STRUCTURES

### 2.2.1 OPERATION

The Savings and Credit Cooperative Societies do not operate exactly as other financial institutions even though they may be said to be a part of the financial system in Kenya. They recruit their members discriminately. For example, for one to be a member of a certain society, one must be an employee of the mother organization i.e. a Ministry, a parastatal body or an institution. For example one cannot be a member of NASSEFU unless he or she works with National Social Security Fund (NSSF). Such kind of restriction is absent in other financial institutions. Once an applicant is accepted as a member, he or she completes a form, declaring how much contribution he is going to make on a monthly basis. The amount so declared stands until the member varies it upwards, downwards or withdraws from the society. Most SACCOs receive their members contributions through a check-off system.

There are, however, those members who, due to perhaps the fact that they are already retired from their former employment or special arrangements with the society, remit their payments and membership contributions through bank standing order or pay cash to the society's bank account. Membership is optional but share contribution and loan repayment is contractual and compulsory once membership form is completed and signed hence one cannot skip the payment.

One of the major objectives of SACCOs is to give credits to members. It is therefore appropriate and fair to discuss how this is carried out. Once a member has stayed with the society for at least six months, he or she qualifies for a loan. However, the loan must not



exceed an agreed multiple of the member's shareholding. A casual survey of SACCOs reveals that depending on the availability of funds, societies give loans amounting to between two and four times a member's shareholding. The most common however, is three times the total deposits.

Conditions for getting a loan include, among others:-

- i) Guarantors who are jointly and severally liable to the society for the full amount of the loan should the loanee default. All guarantors must also be *bona fide* members.
- ii) The member must not have a loan of the same type outstanding.
- iii) Total deductions must not exceed two thirds of a member's basic salary.
- iv) Repayment period must not exceed four years (note that some societies are flouting this general regulation in order to enable high savers with low salaries to access credit).

The bulk of SACCOs income comes from interest on members loans. Other sources of income include dividends on shares held or bought from other organizations, deposits with banks, Treasury Bills, and other tangible assets owned such as buildings, plots etc. But before retaining earnings, SACCOs must put aside 25 percent of their surplus as statutory reserves to fulfill liquidity requirements, liquidation and long-term investments. To attract and retain members, SACCOs usually pay dividends from the profits made. Officials from branches to national level are paid honoraria at the end of every financial year. Dividends are either paid out or capitalized depending on members' wishes through their elected representatives (delegates) or directly in case of smaller SACCOs. Capitalization of dividends is however,

the more preferable option, from a financial management perspective, especially for SACCOs which are faced with liquidity problems.

Normally, the SACCOs are run by privately employed people. The managers, accountants and other members of staff are recruited by a committee of the Central Management Committee. The Committee consists of members of the executive who include Chairman, Vice Chairman, Treasurer and Honourable Secretary. Besides, there are five other members of Central Management Committee, who together with the executive members, form various sub-committees such as Education Committee, Credit Committee, and ad-hoc committees set up for specific purposes.

The Central Management Committee has the responsibility of supervising the management, deciding on investment undertakings of the SACCO and general decision making at policy level. In addition to the Central Management Committee, most SACCOs also have in place Supervisory Committee, charged with the responsibility of looking at the transactions of the society with a view to forming an independent and objective opinion as to their prudence.

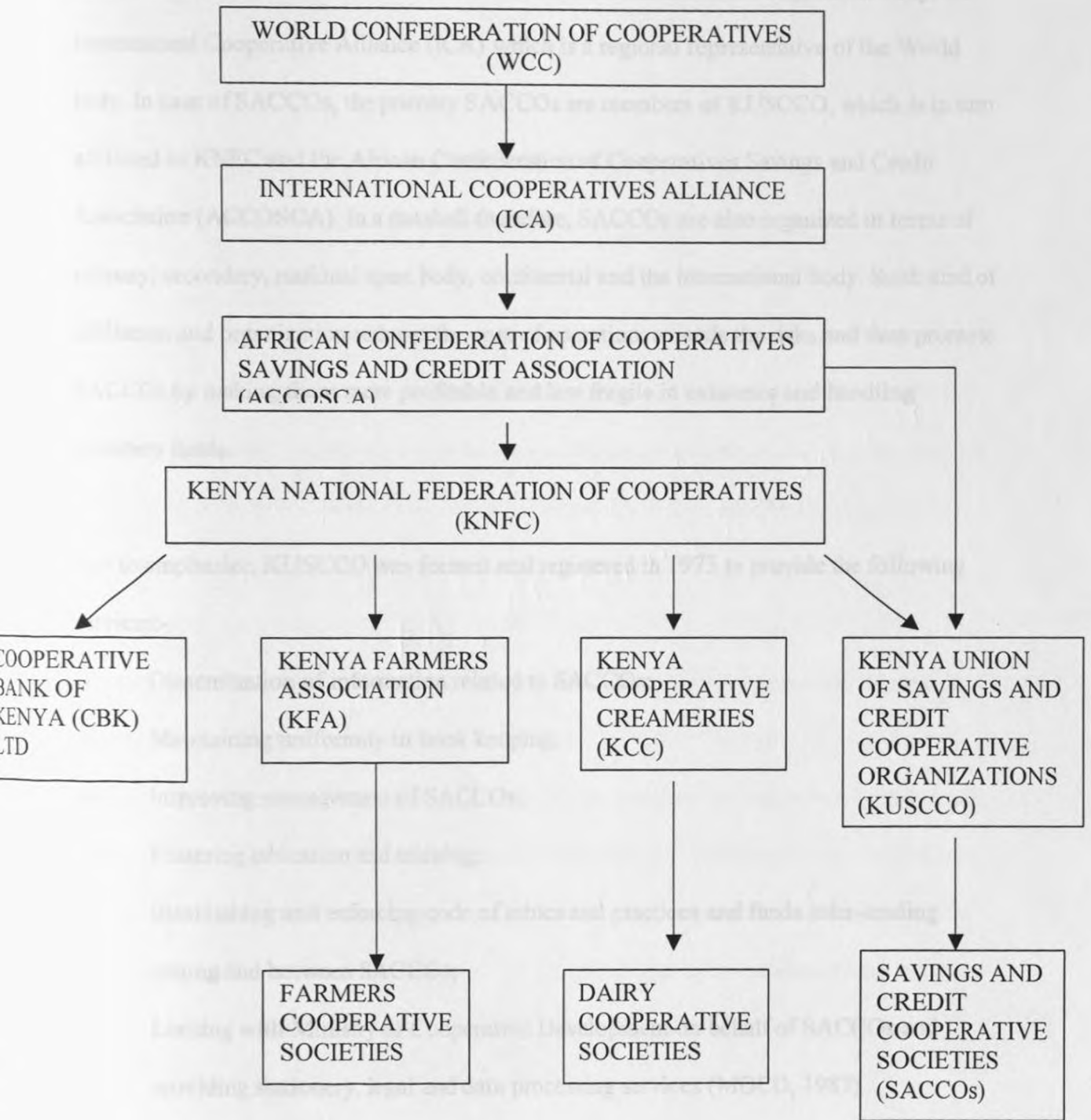
### **2.2.2 ORGANIZATION**

The cooperative movement is organized in such a way that it starts with primary societies, the secondary societies (unions), the countrywide societies, the national apex body, the continental regional body and international body. Primary societies are those whose membership is restricted to individual members. A group of people or companies are not allowed to buy shares from primary societies. Pooling together enables members to reap

economies of scale because of shared costs. Secondary societies or the district unions have membership normally restricted to primary cooperative societies. The government has over the years encouraged primary societies to affiliate themselves to secondary societies (unions). The countrywide cooperative unions act as umbrella bodies for all the secondary (district) unions handling a particular commodity. Examples of countrywide cooperatives in Kenya include Kenya Union of Savings and Credit Cooperatives (KUSCO), Cooperative Bank of Kenya, Kenya Farmers Association (KFA), Kenya Cooperative Creameries. (See diagram on the next page)



**Diagram 1: Organization of Cooperatives**



The Kenya National Federation of Cooperatives (KNFC), which is the national apex body, houses all the cooperative societies. KNFC is in turn affiliated to the continental body, the International Cooperative Alliance (ICA) which is a regional representative of the World body. In case of SACCOs, the primary SACCOs are members of KUSCCO, which is in turn affiliated to KNFC and the African Confederation of Cooperatives Savings and Credit Association (ACCOSCA). In a nutshell therefore, SACCOs are also organized in terms of primary, secondary, national apex body, continental and the international body. Such kind of affiliation and organization reduces the cost of operation, spreads the risks and thus promote SACCOs by making them more profitable and less fragile in existence and handling members funds.

Just to emphasize, KUSCCO was formed and registered in 1973 to provide the following services:-

- i) Dissemination of information related to SACCOs;
- ii) Maintaining uniformity in book keeping;
- iii) Improving management of SACCOs;
- iv) Fostering education and training;
- v) Establishing and enforcing code of ethics and practices and funds inter-lending among and between SACCOs;
- vi) Liaising with Ministry of Cooperative Development on behalf of SACCOs and providing stationery, legal and data processing services (MOCD, 1987)

The latter role has been seriously undermined following deregulation of the cooperative sector. KUSCCO has, in the present and unfolding circumstances, to reinvent itself in order to remain relevant.

### **2.3 LEADERSHIP STRUCTURE OF SACCOS**

Cooperative management policies and practices are generally subsumed within the cooperative principles. The principles of democratic control requires that the affairs of a cooperative society be administered by persons elected or appointed in a manner agreed by the members and accountable to them. Thus in directing and managing the affairs of the societies and unions, the Management Boards are holding positions of trust and as such, are expected to account for all the funds and other resources at their care by keeping accurate records and accounts susceptible to independent scrutiny.

Consequently successful business development of cooperative enterprises will depend on strong, enlightened and committed leadership that is capable of applying in cooperatives modern management and business practices based on transparency and accountability to all its stakeholders. With deregulation and the consequent competitive economy, coupled with divestiture of government management and administrative support, the main management policy be based on intensification of member education on the importance of electing enlightened and committed leaders, and recruitment of qualified staff.

The principle of democratic control applied in the literal sense may not necessarily guarantee election of enlightened and committed leaders. It can even be argued that one-member-one-

vote is only applicable in economic terms to membership with economic equality. This guideline becomes even more difficult to apply when membership is large, and individual members do not even know each other and cannot determine who are likely to be committed leaders.

Further, some of the cooperative business activities are diverse and highly technical and require the application of modern business management concepts and approach for their success. Arising out of the foregoing and depending on the level and complexity of business activities of each cooperative society or union, cooperatives will need to provide in their by-laws:-

- i) Appropriate guidelines
- ii) Code of conduct
- iii) Other requirements such as minimum literacy levels
- iv) Relevant business entrepreneurship
- v) Management experience

In a competitive economy, it is only the more effective organizations that survive. One of the tenets of effectiveness is specialization as it breeds efficiency.

The other factor is sufficient capital with which to run the business. Competitive economic systems call for cooperatives to improve their own capital base and to be more efficient in delivery of services to their members. Cooperatives will however, be expected to operate within the competitive economy, in a manner that does not compromise the cooperative

values and principle of concern to the community. Management efficiency and effectiveness of any business organization depend on, among other attributes;

- i) Vision of the Chief Executive Officer (CEO)
- ii) Quality of staff
- iii) Teamwork

Towards this end, cooperative leaders will be expected to employ members of staff who have entrepreneurial talents and capable of translating their society's visions into economic and social benefits. The movement presently needs individuals with high-level standards in the management of SACCOs. It is through this type of management that the movement can have the necessary confidence and competitive business ventures. Towards this end, the movement will continue to give particular attention to human resource development, alongside the government.

In the enhanced management system, the present management committee will be renamed cooperative committee or board, and hence change its character from management to directing and guiding. It will however, be overall responsible for growth and development of the society. Its major function will be to make the society policies and supervise their implementation. The CEO, who is an employee of the society, will be in charge of articulating the policy and translation of the committees' vision into economic and social benefits for their members. He will be responsible for day-to-day management of the society within the parameters set by the management committee through the society's budget. The CEO is expected to report in management committee meetings, the following:-



- i) The progress of the society's activities through monthly accounts (trial balances), clearly explaining variances from the budget and outline the future plans and activities of the society for the consideration and approval of the committee. The success of a society as measured against the manager's reports and accounts will be the main criteria of evaluating the manager's performance. Cooperative societies will therefore include in their by-laws this management approach, as one of the ways of improving management efficiency and effectiveness in cooperatives.
- ii) Create position of internal auditor to report to the supervisory committee on a monthly basis on the implementation of society's management and financial policies.
- iii) The role of supervisory committee should be enhanced to include working with internal auditors in order to provide proper checks on the management and financial systems. Such committees shall report directly to the members in a general meeting.

The Annual General or Delegates Meeting is the supreme law-making organ of the cooperative society. Members attending such a meeting shall decide on appropriate corrective actions to be taken on issues raised by the supervisory committee. This enhanced internal control system will install accountability in the cooperative movement.

## 2.4 THE DIMINISHING ROLE OF GOVERNMENT IN COOPERATIVE MANAGEMENT

The impact and vital role of the cooperative movement was recognized in Kenya only after independence in 1963. This was especially so as it offered the best machinery for mobilizing and raising the much needed capital for the acquisition of businesses and farms which were hitherto owned by the white settlers. It was thus considered needful that a separate Ministry solely responsible for the development and guidance of expanding cooperative movement should be created. And indeed, when the motion was introduced in parliament to facilitate the necessary enactment, it was supported by all the members of parliament.

Once passed by Parliament, the motion was enacted into law, giving the government overriding powers for direct intervention in the day-to-day management of cooperatives.

Contrary to expectations, this direct intervention of government in cooperative operations seriously compromised the universally accepted cooperative principles and values. Heavy government intervention hindered emergence of member-controlled and member-managed cooperatives as members came to rely on the government to safeguard their interest through curbing mismanagement of funds and other resources by Management Committees and staff. This compromised cooperative values within which is embedded mutual trust and social control systems.

As a result of continued government involvement in cooperatives in the form of free or subsidized technical and financial assistance as well as in development of management and financial systems, the movement came to be wholly dependent on government. This hindered

the consolidation of cooperative values like self-help, responsibility, self-reliance, and self-control. Voluntary association is what renders development of cooperatives into a movement. Heavy government involvement hindered development of cooperation between cooperatives.

The existing cooperation between cooperatives that existed within the cooperative structure before deregulation of the sector ended at a business transaction. Cooperative societies have not developed strong horizontal linkages between themselves. The current vertical linkages tend to end at union level with only specific activities at national level. Societies therefore do not benefit from the synergy that such a well-linked cooperation among cooperatives can generate.

Arising from the foregoing, there was therefore a dire need for the government involvement in cooperatives to be substantially reduced and re-oriented in order to democratize and professionalize the management of cooperatives, but largely to enable them to conform to the definition of a true cooperative and to be operated and managed in accordance with the internationally accepted cooperative values and principles. It's also clear that the movement has reached a stage in development in which future growth and development will come from a self-induced development independent of government involvement, especially on the day-to-day management of their affairs. Further, with liberalization that emphasizes free market economy, and divesting of government from involvement in business enterprises, the current level of free technical and financial assistance to the movement can no longer be sustained.

The policy is therefore to liberalize the Kenya cooperative movement in line with the current

national liberalization policy and enable it to be efficient and effective in service delivery to its members and other stakeholders.

Liberalization of the cooperative sector involves the revision of the Cooperative Societies Act (Cap 490) of the Laws of Kenya, and introduction of the Cooperative Societies Rules No. 12 of 1997. With the revision of the Cooperatives Act, the Ministry of Cooperative Development has been restructured to conform with and to be able to effectively address the newly emerging needs of the liberalized movement.

Prior to deregulation of the cooperative sector, the Ministry of Cooperative Development carried out the following functions:

- i) Cooperative Policy and implementation
- ii) Cooperative Registration and extension services
- iii) Accounting and Auditing for Cooperatives
- iv) Cooperative Education and Training
- v) Cooperative Credit and Finance
- vi) Cooperative banking

The above functions entailed involvement of the Ministry of Cooperative Development in the following duties and responsibilities to ensure that the movement was smoothly managed:-

- i) Registration of Societies
- ii) Enforcement of Cooperative Societies Act.
- iii) Policy Formulation and Implementation

- iv) Advisory management services
- v) Audit supervision
- vi) Inspection, Inquiries and Investigations
- vii) Liquidation of societies
- viii) Education and Training
- ix) Audit, Accounting and Management systems
- x) Cooperative Credit and Finance
- xi) Cooperative Bank
- xii) Amalgamation and sub-division of societies
- xiii) Approval of budgets, capital expenditure and allowance to management committees
- xiv) Hiring and dismissal of graded staff
- xv) Removal and election of management committees after inquiry, inspection and investigation
- xvi) Settlement of disputes and institution of charges.

In order to professionalize and democratize the management of the cooperatives and enable them to be member-based, member-controlled, self-reliant organizations that will be in a position to compete more effectively with the rest of the private sector, the government involvement in the day-to-day management of cooperatives had to be reduced substantially. Therefore the following functions and duties hitherto performed by the Ministry of Cooperative Development will be gradually transferred from the Ministry to the Cooperative movement:-

- a) Education and Training

- b) Auditing, Accounting and Management systems
- c) Cooperative Credit and Finance
- d) Cooperative Bank
- e) Approval of budgets, capital expenditure and allowances to committee
- f) Hiring and dismissal of graded staff
- g) Removal and election of Management Committees after inquiry, inspections and investigations.
- h) Settlement of disputes involving various stakeholders.

With liberalization, cooperatives will be expected to henceforth manage their own affairs in accordance with the universally accepted values and principles. Government will however, be concerned that all stakeholders in cooperatives including members and creditors are adequately protected. The Ministry of cooperatives, in line with this policy, is in the process of re-orienting its approach in dealing with cooperatives as they become autonomous organizations. Given the gigantic task that the Ministry of Cooperative Development is gradually transferring to the cooperative movement, it is incumbent upon the individual cooperatives within the movement to put in place managerial measures which will cope with the emergent realities in the business environment.

# CHAPTER THREE

## 3.0 LITERATURE REVIEW

### 3.1 GENERAL AND THEORETICAL LITERATURE

Mungai (1986) reviewed the role of SACCOs in Kenya's economic development. He went ahead to discuss the regional distribution of SACCOs in Kenya and their typological distribution in cooperative movement. This discussion as quoted by Obuon (1988), has helped this author in sampling for the current study.

Mwarania and Mutugu (1986) focused on the role of SACCOs in Kenya's economic development. They argued that "the one percent interest charged on loans gives a misleading signal on the relative scarcities of funds". They saw SACCOs as a part of Kenya's financial attention. According to them, funding of SACCOs is no more the responsibility of only deposits or share capital of the members but also of corporate savings. Hence there is need for dividend and retained earnings policies to be streamlined. Thus they have raised the issue of need to increase corporate saving even though they did not specify how that can be done.

Mutugu and Minishi (1986) also reviewed the role of cooperatives in Agricultural development, especially the marketing of agricultural products. Makanda (1986) also commented on the potential role of cooperatives in Agri-business, nature of cooperative movement and reasons for poor performance in Kenya. But the above scholars have not done any empirical analysis to give binding and testable conclusions.

Most other scholars who have taken keen interest on cooperatives have focused mainly on agricultural cooperatives. Though agricultural cooperatives are many in Kenya, the role of SACCOs in the movement should also be recognized especially in the financial sector hence the need to focus on this sector. Papers written on agricultural cooperatives include those by Olewe-Nyunya, Kooko Kalenda, Ochoro, Odada, Aggrey and Coughlin. But none of these scholars seem to have noticed the central role played by SACCOs in the cooperative movement and how they compete with the commercial banks and non-bank financial institutions for the existing funds. Besides, none of the scholars seems to address the question of inaccessibility of investment funds by small-scale borrowers and entrepreneurs. It's on this neglected area, and especially the changing scenario after deregulation that this paper focuses hence fills that gap in literature.

### **3.2 EMPIRICAL AND SPECIFIC LITERATURE**

Karanja (1970) carried out an empirical study on the development of cooperatives in Kenya. His approach, like that of Ouma (1988), was quite useful for the people in the field of history but was evidently devoid of much significance to practising managers whose main interest is to utilize the resources at their disposal to get their desired corporate success. The study, as it were, superficially covered almost all types of cooperatives hence too general and vague to be used for specific policies aimed at steering SACCOs through turbulent times.

In 1977 the Ministry of Cooperative Development carried out a research on SACCOs and the following was revealed:-

- i) Almost all SACCOs were in arrears in posting personal and general ledgers and Trial Balances;



- ii) That mismanagement and embezzlement of funds was common;
- iii) That there existed inadequate management, accounting and internal control systems applicable to SACCOs operations and;
- iv) That control over liquidity was inadequate.

But the methodology and type of data used were never explained. Further more no statistical analysis was done to verify these allegations. No data was explicitly tabulated in the study to show how funds were embezzled, the number of qualified managers and the criteria used to determine what constitutes good qualification for a manager, and even the number of SACCOs in arrears as a percentage of the total SACCOs in the country. However, in so far as the survey assisted the Ministry to come up with a management and accounting manual for urban SACCOs in 1982, the effort was not futile.

Goran (1978/79) also carried out a study on the leadership profile in Kenyan cooperatives. He wanted to know who dominates the leadership in Kenyan cooperatives and how they maintain themselves in those positions. His research revealed that most leaders were farmers, teachers, traders and civil servants. And that they used money to maintain themselves in leadership. This study focused on agricultural cooperatives only without explaining why. Hence it never revealed how the situation is like in other types of cooperatives e.g. SACCOs. Thus, its sample was not representative of the actual situation in Kenya.

Ndege (1979/80) conducted research to know more about members of SACCOs. His main concern was to identify the problems and learning needs of the SACCO members so as to

come up with policy guidelines for educating them. The result was that 80 percent of the respondents had never had cooperative member education. Noting that the membership of SACCOs then was about 450,000, a sample of 50 may be regarded as proportionately too small to be very representative. Furthermore, the sample was drawn from only one SACCO. Hence the policy implications may not necessarily be suitable for all SACCOs.

Obuon (1988) carried out a study on the determinants of savings in SACCOs in Kenya. The objectives of the study included:-

- i) To identify determinants of SACCOs savings, deposits and loans and why they vary across societies;
- ii) Formulate, estimate and analyze savings, deposits and loans functions for SACCOs;
- iii) To estimate and simulate total savings, deposits and loan potentials of SACCOs and;
- iv) Suggest policies for enhancing savings mobilization, thus improving SACCO sector's performance in terms of deposits, turnover, membership, numbers and loans.

The paper concludes, inter alia, that to increase corporate savings, the SACCOs could increase their assets and profits. There is need to increase corporate savings, share capital and attempt to reduce loan outstanding among others in order to expand and diversify assets and portfolio respectively. This study, though addressing specific problem of savings in SACCOs, is too narrow in its scope to help managers of SACCOs in a liberalized economic environment. Saving is an aspect of management decisions and to deal with it alone leaves out most of the management functions that are crucial in survival of a SACCO society.

Gachara (1990) studied investment practices of reserve funds in SACCOs in Nairobi. This is highly representative of the whole country because about 50 percent of SACCOs in the whole country were either found in Nairobi or had their headquarters there. However, like Obuon (1988), Gachara falls into the trap of narrowness in scope. Investment practices like savings, are part of what managers do. In fact investments are made from funds already saved. Therefore the two studies addressed largely the same domain of the SACCO management, namely financial management. The study is useful since good investment decisions could improve or undermine the capital and liquidity bases of SACCOs. Managers should therefore aim at good investment practices.

Jamisen et al (1999) carried out a research on capital formation and farmers cooperatives in Kenya. His study was aimed at finding out factors affecting performance of farmer owned cooperatives in Kenya. The findings were that cooperatives, should aim for open, committed, competent, motivated and trustworthy management, education to members, improved participation of women, healthy politics, strong information flow from cooperatives to members and increased share contribution. Although the conclusions are plausible, their relevance to SACCOs is not authentic since the study was carried out specifically on farmer owned SACCOs.

In the light of the above, it is evident that not much research has been conducted to investigate the response patterns of SACCOs in the face of deregulation. This study therefore seeks to fill the gap in empirical literature.

### 3.3 COOPERATIVE MANAGEMENT IN A LIBERALIZED ECONOMIC ENVIRONMENT

As cooperatives reposition themselves to face up to the challenges of transition from regulation to deregulation, the pressures on management become greater. The uncertainty of the open market requires greater skills, increasing flexibility and innovation as the cooperative business organization and its environment become more complex (O'Brien, 1994).

The Cooperative movement faces serious challenges both internally and externally. The external threats are driven by the same needs that drive all businesses. The need to improve competitiveness by every possible means. The competition is growing fiercer and threatens to overwhelm many cooperatives in the short to medium term. By far the toughest challenges are however, the internal ones of inappropriate Management-Board relationships, fragmented business organizations and cooperatives frequent appearance in low growth, low value added business sectors. The culture of dependence on government hangs like a millstone around the organization of cooperatives in many parts of the world and the unwillingness to develop a professional management among the smaller cooperatives together with the creeping managerialism in the larger cooperatives threatens between them the very survival of cooperatives organization. The route to destruction will, however, be different. Privatization remains a threat to the larger cooperatives whilst bankruptcy is the greater danger in the case of small micro-cooperatives (Davis, 1999).

Yet never was there a better time for a professional management committed to cooperative identity to appear. Modern management, modern markets, modern society are all looking for essentially cooperative solutions to the otherwise serious problems of injustice, poverty, destruction of environmental systems vital to the quality of life on earth and the fragmenting communities upon which the very definition of our humanity depends. If the cooperative movement fails and disappears someone will have to reinvent it. There is of course nothing inevitable about the cooperative movement's successes or failures. All depends on the courage, vision, skill, knowledge and quality of leadership that cooperative advantages if they can only get the opportunity to apply them (Thomas, 1997).

The "Sacco Star" of October, 1997 carried the following quotation by a Mr. Mudibo:-

"Education and training is a crucial component in the growth and survival of saccos in Kenya. Without this programme, I am sure many Saccos would not survive the current liberalized economy. Our managers and members alike need education to be updated on the current situation and adjust accordingly. Many things have taken place in the past few years. There have been retrenchment, liberalization and uncertainty in our money market. All these factors require our managers to learn new tricks while our members need guidance and protection"

Externally, the cooperative advantage lies in the ability of the cooperative society to be perceived by the market and in the minds of other stakeholders such as suppliers, employers, trade unions etc as an organization based on integrity and transparency of the motives with objectives of realizing the mutual interests of its stakeholders in so far as they are compatible with the realization of customers interests. The safeguard preventing exploitative

relationships arising in the process of realizing customers interests lies in the cooperatives social dimension that recognizes that customers are not just one-dimensional beings.

Secondly, the fact that the cooperatives can be genuinely service driven without the distraction of meeting the demands of the market for shares can make a significant difference to the competitive offer that non-cooperative limited liability companies can make when they are able to compete on more or less equal terms in the market.

Thirdly, management science itself, amidst competitive conditions led by the need for partnerships in the delivery of World Class Quality, has taken management culture and methodology down a value-based, relationship-oriented approach. This stakeholder-based management provides an intellectual context in which the case for the validity if not superiority of the mutual business structure can be made within the mainstream management or business school (Jansen et al, 1999).

Fourthly, the growing numbers of socially concerned consumers and managers means that there exists an educated and articulate constituency from which the cooperatives can re-group their social foundations and draw from their professional and democratic leadership. But first they must convince this constituency of their seriousness as a viable option for the delivery of services and for leveraging social development and reform through commercial business. Internally cooperatives have major potential advantages because the social objectives and mutual status enables cooperation within the organization to be maximized. Whether it is optimized in terms of results will depend on the quality of the management and skills of all

concerned. Nevertheless, a superior potential for organizational development and genuine team building exists in the cooperative context. Employees will identify with an organization that works for and reflects the values and interests of the community because often the employees will be part of that community as well as serving it. Mutuality enables cooperatives to develop less stressful and more socially constructive working relationships with their employees and suppliers based on the perception of trust and legitimacy of cooperative management (Ibid, 1999). If the potential is to be realized there is much to be done. The priorities include:-

1. Greatly expand the provision of management development to existing managers.
2. Attract new talents to recognize career opportunities in cooperative management.
3. Develop a market for cooperative management
  - Encourage women and young graduates
  - Develop more management exchange programmes
  - Advertise widely before vacancies are filled
4. Change the status of cooperative professional management and the leadership role of the Chief Executive.
5. Change the management and organizational culture of cooperatives.

The significant role of this culture change is that it is not premised upon the old nostrum of the need for cooperative business to become more commercial and reduce the social dimension. On the contrary, it is based on the absolute conviction that the cooperative purpose and identity is the differentiating factor that gives the cooperative its competitive advantage. There is a very close link between mainstream management theory and

methodology and cooperative identity (Davis, 1999). The need for increased leadership role for professional managers in cooperatives is therefore not meant to undermine democracy but to make it a more living and vibrant reality; a modern participatory democracy that engages the membership in terms that they will want to respond to. It is not to managerialize cooperatives but to cooperatize managers. Not to oppose the market, but to compete effectively in the market and, in so doing, enable the market itself to truly reflect the needs of the society it ultimately claims to serve. The cooperative exists to serve just operation of the market for all. It will not achieve this purpose without a professional management that is committed to it (Ibid, 129).

### **3.4 COOPERATIVE STRATEGIC MANAGEMENT**

When the environment is highly turbulent, there is pressure to think only short term, to lose sight of organizational overall goals and to lose the strategic focus. Events control and determine organization's responses. When that happens, the cooperative purpose is in jeopardy. Cooperatives need to develop strategies to maintain their focus and purpose, to uphold and develop their values, and to develop their services to members and customers.

Sometimes unexpected challenges arise and cooperatives need to develop strategies for survival. A strategy is an essential management tool that provides the framework for evaluating success and failure within the cooperative. It is the essential organizing theme on which the cooperative management depends to coordinate and evaluate performance.

A cooperative strategy is that which defines its objectives in terms of the cooperative statement of identity and the overarching purposes and specific contexts of the cooperative



activities. Strategy defines the methods and resources that will be deployed in the achievement of these objectives and goes on to delineate the processes of deployment at various levels between various functions in the cooperative over a given time frame.

Strategy must operate at functional, operational as well as corporate levels. Corporate level strategy defines what business the society is to engage in. It is developed at top management (Board) level but implemented at middle management level. Functional strategies define measures of market entry and how to compete in the market. Operational strategies are those strategies that enhance efficiency in implementation of specific tasks within a cooperative. They are set at supervisory (lower management) level.

The purpose of strategic management is to enable the cooperative to maintain congruence between its identity and purpose and its environment. It must develop strategies to maintain and develop its market share, strengthen its membership base, reduce its cost base and develop its capacity to meet its members and customers' needs. Overall strategy is about the achievement of cooperative advantage in the marketplace.

There cannot be an effective strategic management programme without human resource management because cooperative strategic management is human centred, value-led and culture dependent.

In institutional terms, strategies define the organizational vision or mission, the recognition of core values, and the identification of stakeholders. In organizational terms, strategy achieves:-

- 1) Direction
- 2) Focus
- 3) Understanding
- 4) Commitment
- 5) Coordination and
- 6) Adjustment to change and development.

At the operational level, strategy is found as a plan that is acted upon at all levels across all functions. Line managers can define their key result areas in terms of the overall strategy and know why they are important. Managers at all levels have appropriate action plans for their achievement, properly resourced and over a pre-defined critical path.

As already alluded to in this paper, Human Resource Management communicates the big picture and translates it in terms of recruiting, selection, developing and utilizing human resources. In doing so the Human Resource Management department works closely with the office of the general manager, devolving as much of Human Resource Management function as is necessary to ensure flexibility and control resides with line management whilst retaining sufficient capacity and authority to monitor standards and provide specialist support when necessary (Jamsen et al).

### 3.5 COOPERATIVE VALUES AND PRINCIPLES

As already alluded to earlier, cooperatives like companies, are economic organizations which aim to enhance the economic and social welfare of their members.

Management of cooperatives therefore, must be geared towards attainment of this objective.

Management is an essentially practical activity which ought to take place in a definite and specific context. Successful management responds to its environment and is quick to recognize changes to that environment. If those responses are to be more than simple reactions to external pressure, they will have been selected with reference to the values on which the organization is founded and the purpose to which the organization is directed.

Cooperative values, principles and ownership structures can provide cooperative management with a competitive advantage in the market place (Davis and Donaldson, 1999).

#### 3.5.1 COOPERATIVE VALUES:

Cooperatives are based on values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperative members believe in the ethical values of honesty, openness, social responsibility and caring for others (Ouma, 1988).

### 3.5.2 COOPERATIVE PRINCIPLES:

These are guidelines by which cooperatives put their values into practice. They include:-

#### **1<sup>st</sup> Principle – Voluntary and open membership.**

Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership without gender, social, racial, political or religious discrimination.

#### **2<sup>nd</sup> Principle – Democratic Member Control.**

Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership.

In Sacco Societies, members have equal voting rights i.e. one member, one vote.

#### **3<sup>rd</sup> Principle – Member Economic Participation.**

Members contribute equitably to and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative.

#### **4<sup>th</sup> Principle – Autonomy and Independence.**

Cooperatives are autonomous self-help organizations controlled by the members. If they enter into arrangements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

## **5<sup>th</sup> Principle – Education, Training and Information**

Cooperatives provide education and training for their members, elected representatives, managers and employees so that they can contribute effectively to the development of their cooperatives. They inform the general public, particularly the young people and opinion leaders about the nature and benefits of cooperatives.

## **6<sup>th</sup> Principle – Cooperation Among Cooperatives.**

Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, regional and international structures.

## **7<sup>th</sup> Principle – Concern for Community.**

Cooperatives work for the sustainable development of their communities through policies approved by their members. This is necessary because it is the community which gives cooperatives the charter to operate (Davis, 1999).

# CHAPTER FOUR

## 4.0 CONCEPTUAL FRAMEWORK

### 4.1 CONCEPTUAL (THEORETICAL) FRAMEWORK

The manner in which SACCOs are managed has led to their being classified as either efficient or inefficient. For the inefficient ones, the general conclusion is that the management practices are wrong (Barnard, 1992: 233). Likewise, for the efficient ones, the managers follow good management practices. Hence the question: which are these (good) management practices?

Management has been defined by some as an art and by others as a science (Gecaga, 1991). However, there seems to be a general agreement that it is the “know-how” to accomplish a desired concrete result by making use of underlying organized knowledge and applying it in the light of realities to gain a practical desired result (Koontz, 1996).

Concurring with Koontz, Haimann (1992) defines management as a “social and technical process that utilizes resources, influences human action and facilitates changes in order to accomplish an organization’s goals”. Richard’s definition of management is more encompassing, namely that “management is the art of getting things done through and with people in formally organized groups, the art of creating an environment in such an organized group where people can perform as individuals and yet cooperate towards attainment of group goals. The art of removing blocks to such performance, the art of optimizing efficiency in effectively reaching goals” (Richard, 1992).

The importance of management for organizational efficiency has always been noted. Thus it has always been recognized that “its principles (management), if well founded, must be equally applicable to all forms of organized human cooperation to the business of government in any form as well as to the government of business” (Urwick, 1993:IX).

As a result, various theories on management principles have been developed in an endeavour to explain organizational efficiency. Fredrick Taylor, who “was the first person to emphasize that management was a very important ingredient in the effective operation of organizations” (Moore, 1982:24), came up with the theory of scientific management or the Engineering Approach. The main assumptions underlying this theory were that:-

- i) Jobs should be done in the one best way and it is a management obligation to find out this best way and to teach it to workers.
- ii) Time standards, set by time study methods should be set up for all jobs wherever possible. Taylor was the father of time study.
- iii) Employees should be selected and assigned to jobs in accord with the match-up of their capabilities and the requirements of the jobs.

Close and friendly cooperation between workers and management is the most effective way to become efficient (Moore, 1972:27).

Although Taylor’s principles were intended for broad application, “his emphasis was not on general management but on management at the shop level. He was concerned mainly with the efficiency of workers and managers in actual production. This pre-occupation screened

out the need to discover and use management principles at all levels and in all functions of business” (Koontz, 1996:20).

As a reaction to Scientific Management, the Human Relations Approach developed. This approach which is associated mainly with Elton Mayo, “added the human factor in management to the roster of independent variables” (Sills, 1993:66). Therefore Mayo’s main contribution to management was his elevation of human and particularly the social factors in industrial relationships to an important variable.

Following the Hawthorne experiments (1927-32) in the Western Electric Company, he concluded that logical economic factors are far less important even in economic relationships than emotional and non-logical attitudes and sentiments, the most powerful being those arising from man’s participation in social groups, “Thus not only must arrangements for work satisfy the objective requirements of accomplishing the purpose to which the effort is directed, but the arrangements will be effective only if, simultaneously, they satisfy, for the workers concerned, these subjective requirements of social satisfaction in the working process (Urwick, 1993: 220 – 221).

It was in the process of research for suitable theory of management that finally Henry Fayol (1841-1925) came up with a set of five management functions (Fayol also proposed 14 principles of management). Therefore management functions as an approach to managerial work had its genesis in the work of Fayol. His five management functions were Planning, Organizing, Command, Coordination and Control.



These functions have been revised and extended over the years by a number of distinguished management theorists. One of these theorists is Lyndall Urwick who, in his formulation has accepted all the functions as identified by Fayol. He however, adds a sixth function, namely forecasting (Miner, 1973:48). Another theorist who is clearly in the Fayol tradition is James Belasco. Belasco, almost like Urwick, accepts almost all of Fayol's formulations except command which he substitutes with directing (Belasco, 1995:20).

Harold Koontz, on his part, accepts only Planning and Organizing. However, like Belasco, he also accepts the directing function. But unlike any of the rest, he has included the staffing and accounting functions to his formulation (Koontz, 1968).

This analysis would be incomplete without a mention of Tom Peters' treatise on management. Peters' definition of management, unlike all the others already alluded to, incorporates the fact that the environment of management is highly turbulent requiring pro-action. According to Peters "five areas of management constitute the essence of pro-active performance in our chaotic world":-

- 1) An obsession with responsiveness to customers;
- 2) Constant innovation in all areas of the firm;
- 3) Partnership – the wholesale participation of and gain sharing with all people connected with the organization.
- 4) Leadership that loves change (instead of fighting it) and instills and shares an inspiring vision and,

5) Control by means of simple support systems aimed at measuring the “right stud” for today’s environment (Peters’. 1988).

From the above analysis we can see that there is a general agreement on what the salient functions of management are. General in the sense that there is no complete agreement on which concepts should constitute the principal management functions. However, there is consensus on their usefulness in discussing managerial work. As Miner (1973:50) observes, “lists of managerial functions whether they contain three items or seven have proved useful as a framework for discussing managerial work”.

In the study, we are going to analyze the above main management functions, which are good to help us understand what a good management team should orient itself to with a view to making the organization effective. However, in applying the framework, we also sought to understand the nature of the functions against the background of a liberalized economic environment. In this regard, this study delineated those management practices that shall have been adopted after liberalization and analyzed them for efficacy and relevance.

#### **4.2 BUSINESS MODEL OF SACCO SOCIETIES**

Operations of cooperative societies are guided by different Acts of Parliament, one of which is the Cooperative Societies Act (Cooperative Societies Rule Numbers 12 of 1997) while the other is the Companies Act (Cap 486). This dualism stems from the unique nature of cooperative societies as they incorporate both social and profit motives. As profit making organizations, cooperatives are expected under the law to operate in strict adherence to

relevant legislations guiding operations of companies in Kenya. Besides, they need to live up to the basic principle of prudence in business practice if they have to survive in a market economy. Prudence requires that all business practices (transactions) must meet the “best possible option” criteria. The main motivation is to make a profit.

The social agenda of cooperative societies, on the other hand, is to enable all the stakeholders, including members and the community, to reap maximum benefits from their cooperation. This would entail sometimes relenting on the question of profit motivation in order to ensure that members are assisted to access credit. It is based on the recognition that through the cooperative movement, members are able to access bigger loans and other services than they would ordinarily get when working individually.

Most cooperative societies in Kenya still advance loans to their members at a highly subsidized interest rate of one percent on a reducing balance basis. This rate is too low to sustain most profit-motivated enterprises, especially lending institutions. But given that SACCO Societies have members who regularly contribute towards their shareholding and loan repayment, these organizations are able to draw from this reliable pool to enable them sustain low interest rates and still get some surplus at the end of a financial year.

The success of a cooperative society therefore depends to a large extent on how well it is able to strike a balance between profit motivation and welfare mission.

### 4.3 DEFINITION OF KEY THEORETICAL TERMS

#### PLANNING

Planning is a process which involves making decisions concerning how the organization is to accomplish its goals and objectives. This includes deciding what is to be done, how it is to be done, when it is to be done and by whom. It is then in this respect that Urwick defines planning as “an intellectual process, a mental predisposition to do things in an orderly way, act in the light of facts rather than guesses. It is the antithesis of gambling (Urwick, 1993:33).

Haimann is more explicit in his definition, which sees planning as selecting objectives, policies, programmes and procedures. It involves looking ahead and preparing for the future ....it precedes all other managerial functions .... nothing can be done without a plan”, (Haimann, 1992:12). Planning is both a primary function and a continuing one and is to be carried out simultaneously with the other principal functions.

#### DIRECTING

Directing is a function that includes all those activities which are designed to encourage subordinates to work effectively in both the short and long run. According to Miner (1993:65) directing is a “means of getting the best performance out of the organization members once they are hired”.

Supervision is therefore very central to directing. It attempts to obtain the closest match possible between what the workers are expected to do (role prescriptions) and what they actually do (role behaviour). Equally important in directing are communication, motivation

and chain of command. Hence directing involves leading and motivating the members in their role prescriptions in such a way that the overall goals of the organizations can be achieved. Therefore directing functions must be geared towards satisfying “the needs of the employees so that the organization can continue to exist in future (Belasco, 1995:21).

## **COORDINATION**

Coordination is sometimes placed at the very center of all management functions. It's argued that coordination is the internal objective underlying an organization; that the purpose of organization is coordination. We can further argue here that without coordination, there is no organization for the component parts of the organization will fall apart.

Fayol reaffirms this definition in his submission that coordination is a “harmonizing process pulling various parts of the corporation together” (Miner, 1993:46). Therefore, all departments or sections in an organization must work in coordination for they all have a single objective of making the organization efficient by meeting its goals.

## **CONTROL**

Control is the process of regulating organizational activities so that actual performance conforms to expected organizational standards and goals (Barytol and Martin, 1991).

Therefore, in control we are “checking whether everything is going on according to our plans and if not, checking any deviation with a view to seeing that everything is geared towards achieving the objectives (Richards, 1992: 393). Auditing is a control mechanism. It helps to

direct role behaviour towards role prescriptions. Without financial control, an organization would just collapse due to embezzlement, misappropriation, overpricing, under pricing and outright theft. Therefore, auditing is necessary in order to “make financial control absolutely watertight as regards precautions against influences which may be brought to bear on the individual” (Urwick, 1993:101).

## **STAFFING**

Staffing is an executive function, which involves recruitment, selection, compensation, appraisal, promotion and separation. Staffing involves all cadres of people in the organization from the Board of Management, management staff upto non-management staff.

The quality of managers in an organization has an effect on whether the organization’s objectives will be achieved or not (Koontz, 1998). There is then the need to use appropriate methods in the recruitment and selection of managers and non-management staff as well.

On the Board of Management, the issue is whether there ought to be a technical or functional Board composed of experts and professionals in the particular field as opposed to a representative Board, which more often than not is usually a political Board due to a lot of patronage in its selection (Ndegwa, 1979). How well an organization handles issues of compensation, training, appraisal, promotion and separation has an impact on the performance of staff.

## DEREGULATION

Deregulation refers to the freeing up of the market from direct control by government and its agencies so that prices of goods and services are determined largely by the forces of supply and demand. In such a market, the attractiveness or otherwise of products supplied by a market player largely depends on price and quality of those products.

For SACCO Societies in Kenya, deregulation has meant the end of direct government involvement in management, provision of financial and technical assistance as well as management support systems. It also means end of protected markets in terms of “Common Bond” and state subsidies whenever such cooperatives found themselves on the brink of collapse.

The deliberate state manipulation of cooperatives as instruments of social and economic policy must also end. Such control led to bureaucratic practices within the cooperatives and authoritarian undemocratic relations with their so-called members. For the advocates of the free market, deregulation is the primary imperative in order to give freedom of choice to individuals.

The strength of their position has been based on the negative experiences of many of the abuse of state power and the economic inefficiency that came in its wake. In Africa, individual farmers have been given freedom to sell their produce to whom they wish and the abuses and misuse of the cooperative name by parastatal bodies in the recent past gives the genuine cooperative movement a serious image problem to overcome. Free markets,

however, can be problematic for individuals. Concentrations of economic power and the resulting dependency within free markets can create problems of monopolistic abuse of power, lack of fair access to the market and inefficiency.

The problem therefore is how to free the market to be responsive to consumer choice without the same market becoming manipulated by those with the most resources at the expense of those with few resources. The experience of deregulation in the labour market, for example, suggests that without the counter-veiling power of association, free markets will simply lead to the poor getting poorer. Many have misconstrued deregulation as the panacea to all the problems afflicting cooperatives but, in fact it marks their true rationale. It is significant for leaders in the cooperative movement to begin to see deregulation of the sector not as freedom from government control but rather as increased responsibility. There is therefore need for managers and staff to rise upto this responsibility. Education and training is a crucial component in the growth and survival of SACCOs in Kenya. Without this programme, many SACCOs would most likely find survival an uphill task in a liberalized cooperative environment.

#### **4.4 ASSUMPTIONS OF THE STUDY**

The assumptions below help us to apply the theory of the firm to analyze this sector (which is otherwise a welfare or social sector with profit maximization not being the major objective).



They also help us to analyze a SACCO Society as a “going concern” which is incorporated to operate into perpetuity or beyond the present day. These assumptions include:-

1. The government will not renege on the principles of deregulation beyond mere “panel-beating” to re-align the policies to the prevailing circumstances on the ground. Otherwise the recommendations made in this paper shall not be relevant.
2. A savings and Credit Cooperative Society (SACCO) is operating as a going-concern. It is on this basis that futuristic issues like education to members, investments become relevant in this study.
3. A SACCO, like any other economic agent, will engage in production and consumption activities. It is this assumption that brings into focus the idea of stakeholders and social responsibility to ensure that there is mutual inter-dependence between the society and its environment.
4. We also assume that loan recipients (members) uphold the moral obligation to repay the loans advanced to them and that not all the members can take loans at the same time. Without this assumption, it would be difficult to fathom how the society would fight off the reality of liquidation in event of inability to meet its obligations to stakeholders.

# CHAPTER FIVE

## 5.0 RESEARCH METHODOLOGY

### 5.1 POPULATION OF STUDY

The population of interest in this study constitute all the SACCO Societies registered in the roll of cooperatives and maintained at the Provincial Cooperatives office, Nairobi as at 31<sup>st</sup> December, 2000.

### 5.2 SAMPLING PLAN

The SACCO Societies which were included in the sample must have been registered before 1994. This was so to give an allowance of three years before deregulation (1997) and three years after deregulation since the data used was for December, 2000.

Since the register maintained by the Provincial Cooperatives Officer in Nairobi also includes non-SACCO Societies such as multipurpose, Jua Kali, Investment, Consumer, Farmers and Producer Cooperatives among others, it was necessary to eliminate all these. Out of the initial population of 2474 societies in Nairobi, all the non-SACCOs, dormant, liquidated and those societies which were in the process of liquidation were eliminated. After the aforesaid elimination criteria, a qualifying population of 1252 SACCO Societies was obtained. Using systematic sampling method, (a sample of 30 is usually regarded as satisfactory for statistical estimation), we surveyed 50 SACCOs in order to enhance our degree of freedom. This has ensured that the sample is adequately representative.

The sample was drawn from a finite population since the total number of SACCOs in Nairobi was known. Whenever a SACCO drawn was found to be inactive, liquidated or in the process of liquidation, it was replaced by the next one which met all the requirements for selection into the sample. This was meant to ensure availability of data for this study. The list of SACCOs in the Cooperative directory comprised the sample frame from which the 50 SACCOs were drawn.

It should also be noted that the whole of the 50 SACCOs surveyed in this study have all been drawn only from Nairobi Province. Other provinces have SACCOs but they are scattered all over those expansive areas, making the cost of observing them (in terms of time and money) likely to be higher than the benefit that would accrue from the study. Thus, those other provinces were excluded from the survey.

### 5.3 DATA COLLECTION

This study is a survey. Primary data was collected using both structured and unstructured questions. The items of the questionnaire were developed from pertinent literature. In a number of cases, personal interviews were conducted with respondents. The interviews were meant to crosscheck information provided by the respondents.

Where a SACCO happened to have received publicity in the recent past (prior to the interview), whether adverse or favourable, care was taken not to create an impression that an investigation was being conducted into the circumstances surrounding the subject of such publicity. Data was collected in May/June 2001.

## CHAPTER SIX

### 6.0 DATA ANALYSIS AND FINDINGS

#### 6.1 LEVEL OF EDUCATION (Le)

Table 1: Level of education

Level of education	Frequency	Proportion
Below Form 4	0	0%
Secondary education (Form 4)	25	50%
Advanced Level (Form 6)	17	34%
University (First degree)	8	16%
Above First degree	<u>0</u>	<u>0%</u>
<b>Total</b>	<b><u>50</u></b>	<b><u>100%</u></b>

Source: Own Survey

From Table 1 above, it can be seen that out of the 50 SACCO Societies surveyed, 25 managers (or 50%) had secondary school level of education, 17 (or 34%) had Advanced level while only 8 (or 16%) had a first degree. None of the managers had either below form 4 level of education or qualifications above first degree. The modal level of education was form 4.

## 6.2 TOTAL MEMBERSHIP (Tm)

Table 2: Total membership

Number of Members	Frequency	Proportion
1000 and below	8	16%
1001 - 2000	4	8%
2001 - 3000	8	16%
3001 - 4000	4	8%
4001 and above	26	52%
<b>Total</b>	<b>50</b>	<b>100%</b>

Source: Own survey

Table 2 shows that out of the fifty SACCO Societies surveyed, eight (or 16%) had membership of 1000 and below while twenty six (or 52%) had above 4000 members. The modal class was 4001 and above.

### 6.3 SHARE CAPITAL (Sc)

Table 3: Share Capital

Share Capital (Kshs.)	Frequency	Proportion
Below 100,000,000	12	24%
101,000,000 – 200,000,000	16	32%
201,000,000 – 300,000,000	0	0%
301,000,000 – 400,000,000	4	8%
401,000,000 – 500,000,000	0	0%
Above 500,000,000	18	36%
<b>Total</b>	<b>50</b>	<b>100%</b>

Source: Own survey

Out of the fifty SACCO Societies surveyed, twelve (or 24%) had share capital amounting to Kshs. 100,000,000 and below. Eighteen of the SACCO Societies (or 36%) had shareholding above Kshs. 500,000,000. No society had shareholding between Kshs. 201,000,000 – 300,000,000 and Kshs. 401,000,000 – 500,000,000.

Share Capital (Kshs.)	Frequency	Proportion
Below 100,000,000	12	24%
101,000,000 – 200,000,000	16	32%
201,000,000 – 300,000,000	0	0%
301,000,000 – 400,000,000	4	8%
401,000,000 – 500,000,000	0	0%
Above 500,000,000	18	36%
<b>Total</b>	<b>50</b>	<b>100%</b>

#### 6.4 GAIN/LOSS IN MEMBERSHIP (m)

*Table 4: Gain/Loss in membership*

Membership	Frequency	Proportion
Gain (increase)	12	24%
Loss (decrease)	32	64%
Stable	6	12%
<b>Total</b>	<b>50</b>	<b>100%</b>

Source: Own survey

Table 4 above indicates that out of the fifty societies surveyed, twelve (or 24%) gained membership after deregulation of the cooperative sector. However, thirty two (or 64%) experienced reduction in membership. Only six societies (12%) remained stable after deregulation

#### 6.5 GAIN/LOSS IN CAPITALIZATION (c)

*Table 5: Gain/Loss in capitalization*

Capitalization	Frequency	Proportion
Gain (increase)	26	52%
Loss (decrease)	18	36%
Stable	6	12%
<b>Total</b>	<b>50</b>	<b>100%</b>

Source: Own survey

From Table 5 above, it is evident that twenty six (or 52%) of the fifty societies surveyed gained in terms of capitalization after deregulation. Eighteen (or 36%) experienced decrease shareholding while only six (or 12%) remained stable. The modal class are those who gained share capital after deregulation.

## 6.6 EFFECTS OF DEREGULATION

*Table 6: Effects of deregulation*

FACTOR	FREQUENCY					
	NEAA	VLE	LE	GE	VGE	MEAN
	1	2	3	4	5	
Intensified competition	8	8	0	17	17	3.54
Less Government involvement	0	5	13	29	3	4.32 3.6
Reduction in Grants	33	0	0	5	12	2.26
Uncertainty in environment	13	8	8	13	8	2.90
Less barriers to entry or exit	3	13	8	13	13	3.40
Increased responsibility for Management and Board	5	0	0	21	24	4.18
Demand for better services	8	0	0	20	22	3.96
Member concern with management of SACCO	5	5	0	29	11	3.72
<b>Total</b>	<b>75</b>	<b>31</b>	<b>29</b>	<b>147</b>	<b>110</b>	<b>28.28</b>
<b>Grand Mean</b>						<b>3.54</b>

Source: Own survey

N = 50



Where:-

- NEAA - No Extent At All
- VLE - Very Little Extent
- LE - Little Extent
- GE - Great Extent
- VGE - Very Great Extent

	FREQUENCY										
	BEFORE DEREGULATION					AFTER DEREGULATION					
	NEAA	VLE	LE	GE	VGE	NEAA	VLE	LE	GE	VGE	M
1	0	0	0	0	0	5	0	0	21	24	4.11
2	0	0	0	0	0	0	0	0	0	0	0
3	0	0	0	0	0	0	0	0	0	0	0
4	0	0	0	0	0	0	0	0	0	0	0
5	0	0	0	0	0	0	0	0	0	0	0
6	0	0	0	0	0	0	0	0	0	0	0
7	0	0	0	0	0	0	0	0	0	0	0
8	0	0	0	0	0	0	0	0	0	0	0
9	0	0	0	0	0	0	0	0	0	0	0
10	0	0	0	0	0	0	0	0	0	0	0
11	0	0	0	0	0	0	0	0	0	0	0
12	0	0	0	0	0	0	0	0	0	0	0
13	0	0	0	0	0	0	0	0	0	0	0
14	0	0	0	0	0	0	0	0	0	0	0
15	0	0	0	0	0	0	0	0	0	0	0
16	0	0	0	0	0	0	0	0	0	0	0
17	0	0	0	0	0	0	0	0	0	0	0
18	0	0	0	0	0	0	0	0	0	0	0
19	0	0	0	0	0	0	0	0	0	0	0
20	0	0	0	0	0	0	0	0	0	0	0
21	0	0	0	0	0	0	0	0	0	0	0
22	0	0	0	0	0	0	0	0	0	0	0
23	0	0	0	0	0	0	0	0	0	0	0
24	0	0	0	0	0	0	0	0	0	0	0
25	0	0	0	0	0	0	0	0	0	0	0
26	0	0	0	0	0	0	0	0	0	0	0
27	0	0	0	0	0	0	0	0	0	0	0
28	0	0	0	0	0	0	0	0	0	0	0
29	0	0	0	0	0	0	0	0	0	0	0
30	0	0	0	0	0	0	0	0	0	0	0
31	0	0	0	0	0	0	0	0	0	0	0
32	0	0	0	0	0	0	0	0	0	0	0
33	0	0	0	0	0	0	0	0	0	0	0
34	0	0	0	0	0	0	0	0	0	0	0
35	0	0	0	0	0	0	0	0	0	0	0
36	0	0	0	0	0	0	0	0	0	0	0
37	0	0	0	0	0	0	0	0	0	0	0
38	0	0	0	0	0	0	0	0	0	0	0
39	0	0	0	0	0	0	0	0	0	0	0
40	0	0	0	0	0	0	0	0	0	0	0
41	0	0	0	0	0	0	0	0	0	0	0
42	0	0	0	0	0	0	0	0	0	0	0
43	0	0	0	0	0	0	0	0	0	0	0
44	0	0	0	0	0	0	0	0	0	0	0
45	0	0	0	0	0	0	0	0	0	0	0
46	0	0	0	0	0	0	0	0	0	0	0
47	0	0	0	0	0	0	0	0	0	0	0
48	0	0	0	0	0	0	0	0	0	0	0
49	0	0	0	0	0	0	0	0	0	0	0
50	0	0	0	0	0	0	0	0	0	0	0
51	0	0	0	0	0	0	0	0	0	0	0
52	0	0	0	0	0	0	0	0	0	0	0
53	0	0	0	0	0	0	0	0	0	0	0
54	0	0	0	0	0	0	0	0	0	0	0
55	0	0	0	0	0	0	0	0	0	0	0
56	0	0	0	0	0	0	0	0	0	0	0
57	0	0	0	0	0	0	0	0	0	0	0
58	0	0	0	0	0	0	0	0	0	0	0
59	0	0	0	0	0	0	0	0	0	0	0
60	0	0	0	0	0	0	0	0	0	0	0
61	0	0	0	0	0	0	0	0	0	0	0
62	0	0	0	0	0	0	0	0	0	0	0
63	0	0	0	0	0	0	0	0	0	0	0
64	0	0	0	0	0	0	0	0	0	0	0
65	0	0	0	0	0	0	0	0	0	0	0
66	0	0	0	0	0	0	0	0	0	0	0
67	0	0	0	0	0	0	0	0	0	0	0
68	0	0	0	0	0	0	0	0	0	0	0
69	0	0	0	0	0	0	0	0	0	0	0
70	0	0	0	0	0	0	0	0	0	0	0
71	0	0	0	0	0	0	0	0	0	0	0
72	0	0	0	0	0	0	0	0	0	0	0
73	0	0	0	0	0	0	0	0	0	0	0
74	0	0	0	0	0	0	0	0	0	0	0
75	0	0	0	0	0	0	0	0	0	0	0
76	0	0	0	0	0	0	0	0	0	0	0
77	0	0	0	0	0	0	0	0	0	0	0
78	0	0	0	0	0	0	0	0	0	0	0
79	0	0	0	0	0	0	0	0	0	0	0
80	0	0	0	0	0	0	0	0	0	0	0
81	0	0	0	0	0	0	0	0	0	0	0
82	0	0	0	0	0	0	0	0	0	0	0
83	0	0	0	0	0	0	0	0	0	0	0
84	0	0	0	0	0	0	0	0	0	0	0
85	0	0	0	0	0	0	0	0	0	0	0
86	0	0	0	0	0	0	0	0	0	0	0
87	0	0	0	0	0	0	0	0	0	0	0
88	0	0	0	0	0	0	0	0	0	0	0
89	0	0	0	0	0	0	0	0	0	0	0
90	0	0	0	0	0	0	0	0	0	0	0
91	0	0	0	0	0	0	0	0	0	0	0
92	0	0	0	0	0	0	0	0	0	0	0
93	0	0	0	0	0	0	0	0	0	0	0
94	0	0	0	0	0	0	0	0	0	0	0
95	0	0	0	0	0	0	0	0	0	0	0
96	0	0	0	0	0	0	0	0	0	0	0
97	0	0	0	0	0	0	0	0	0	0	0
98	0	0	0	0	0	0	0	0	0	0	0
99	0	0	0	0	0	0	0	0	0	0	0
100	0	0	0	0	0	0	0	0	0	0	0

The question that is being answered by Table 6 is found in section B of the questionnaire (Appendix 1) i.e. the effects of deregulation. It addresses the extent to which deregulation of the cooperative sector affected the management of SACCO societies in Nairobi.

The table reveals that overallly, deregulation of the cooperative sector affected the management of SACCO Societies to a great extent. This is confirmed by a Grand Mean of 3.54 against a scale of 1-5. The most affected aspect of SACCO management was government involvement in day-to-day activities of the sub-sector. This aspect (government involvement) recorded a mean of 4.32. It was closely followed by responsibility for management and members of the Board, with a mean score of 4.18. Others which were affected to a great extent include demand for better services, member concern with management of SACCOs and competition, recording mean score of 3.96, 3.72 and 3.54 respectively. The least affected was grants which had a mean of 2.26

## 6.7 Measures to cope with effects of Deregulation

Table 7: Planning measures to cope with effects of deregulation

FACTOR	FREQUENCY											
	BEFORE DEREGULATION						AFTER DEREGULATION					
	NE AA	VLE	LE	GE	VGE	M	NE AA	VLE	LE	GE	VG E	M
1) Revision of SACCO By-Laws	8	29	13	0	0	2.10	5	0	0	21	24	4.18
2) Introduction of F.O.S.A.	27	18	5	0	0	1.56	8	0	5	20	17	3.76
3) Demand for better services	21	8	21	0	0	2.00	5	5	5	20	15	3.70
4) Intensified membership drives	8	13	21	8	0	2.58	8	0	0	25	17	3.86
5) Setting minimum share contribution	5	21	13	5	6	2.72	8	8	0	29	5	3.30
6) Retaining retirees as members	25	21	0	4	0	1.66	16	5	5	0	24	3.22
7) Admitting members from diverse backgrounds	38	5	4	3	0	1.44	20	5	0	13	12	2.84
8) Setting and reviewing short-term objectives	5	17	21	7	0	2.60	0	0	8	29	13	4.10
9) Intensified member education	5	5	33	7	0	2.84	3	0	5	17	25	4.22
10) Environment scanning	16	16	18	0	0	2.04	8	5	5	25	7	4.36
11) Regular membership audits	8	16	12	6	0	2.00	8	0	8	8	26	2.18
<b>Total</b>						<b>23.54</b>						<b>39.72</b>
<b>Grand Mean</b>						<b>2.14</b>						<b>3.61</b>

Source: Own survey

N = 50

Where:-

F.O.S.A. - Front Office Services Account

M - Mean

From Table 7 above, the following observations can be made:-

Overall, planning measures were used by SACCO Societies to a great extent to cope with effects of deregulation of the cooperative sector. It recorded a grand mean of 3.61 after deregulation compared to a grand mean of only 2.14 before deregulation, indicating that planning measures were deployed to very little extent before deregulation.

The most important component of planning was environmental scanning which recorded a mean score of 4.36, followed by revision of by-laws with a mean score of 4.18 and setting and reviewing of short term objectives recording a mean of 4.10. These measures were used by SACCO Societies to a great extent after deregulation. The least used measure after deregulation was regular membership audit with a mean score of 2.18. another measure that was utilized to a little extent after deregulation is admitting members from diverse backgrounds.

Before deregulation of the cooperative sector, on the other hand, planning measures were utilized to a very little extent as indicated by a grand mean of 2.14. Regarding individual components of planning, the most important measure before deregulation was members education with a mean score of 2.84. the usage was still very low in the five point Likert scale which puts it at Little Extent. Another measure that was considered important before

deregulation is membership drives. Like member education, it was utilized to a little extent, recording a mean score of 2.58. The least considered planning measures before deregulation were admitting members from diverse backgrounds and introduction of F.O.S.A. with mean scores of 1.44 and 1.56 respectively, indicating that they were used to little extent.

**Table 8: Planning Measures – Comparison of mean scores before and after deregulation**

FACTOR	MEAN SCORE		DIFFERENCE
	BEFORE DEREGULATION	AFTER DEREGULATION	
1) Revision of SACCO By-Laws	2.10	4.18	2.08
2) Introduction of F.O.S.A.	1.56	3.76	2.20
3) Demand for better services	2.00	3.70	1.70
4) Intensified membership drives	2.58	3.86	1.28
5) Setting minimum share contribution	2.72	3.30	0.58
6) Retaining retirees as members	1.66	3.22	1.56
7) Admitting members from diverse backgrounds	1.44	2.84	1.40
8) Setting and reviewing short-term objectives	2.60	4.10	1.50
9) Intensified member education	2.84	4.22	1.38
10) Environmental scanning	2.04	4.36	2.32
11) Regular membership audits	2.00	2.18	0.18
<b>Grand Mean</b>	<b>2.14</b>	<b>3.61</b>	<b>1.47</b>

Source: Own Survey

N = 50

Table 8 above, shows that environmental scanning achieved the highest usage whereas regular membership audits did not record much change. The differences between the mean scores of the two factors before and after deregulation were 2.32 and 0.18 respectively.

This means that due to deregulation of the cooperative sector, the environment has become extremely turbulent leading to the need for SACCO Societies to seek to understand the changes taking place there. There however, has not been need to update membership registers to ascertain the exact number of members regularly.

**Table 9: Staffing measures to cope with effects of deregulation**

FACTOR	FREQUENCY											
	BEFORE DEREGULATION						AFTER DEREGULATION					
	NE	VLE	LE	GE	VG	M	NE	VLE	LE	GE	VG	M
Minimum qualification for Management and Board.	16	13	5	13	3	2.48	8	0	0	33	9	3.70
Hiring of consultants for specialized tasks.	13	21	13	3	0	2.12	8	12	5	20	5	3.04
Training staff on customer care	16	5	16	12	1	2.54	8	0	0	16	26	4.04
Hiring and promotion of staff on merit	5	8	25	8	4	2.96	12	5	5	16	12	3.22
<b>Mean</b>						<b>10.10</b>						<b>14.00</b>
<b>Standard Mean</b>						<b>2.50</b>						<b>3.50</b>

Source: Own survey

N = 50

From Table 9 above, one can make the following observations:-

Overall, staffing measures were utilized to a great extent after deregulation as indicated by a mean score of 3.5. Regarding the specific measures under staffing, training staff on customer care was the most important with a mean score of 4.04. it was followed by minimum qualification for management and members of the Board which recorded a mean score of 3.70. Both factors were utilized to a great extent. Hiring and promotion of staff on merit, and hiring of consultants for specialized tasks were utilized to a little extent with mean scores of 3.22 and 3.04 respectively.

Before deregulation however, staffing measures were utilized to a little extent. The grand mean was 2.5. Regarding the individual components of staffing, hiring and promotion of staff on merit, and training staff on customer care had mean scores of 2.96 and 2.54 respectively, confirming that this function was not taken seriously before deregulation of the cooperative sector.

*Table 10: Staffing Measures – comparing mean scores before and after deregulation*

FACTOR	MEAN SCORE		DIFFERENCE
	BEFORE DEREGULATION	AFTER DEREGULATION	
1) Minimum qualification for Management and Board.	2.48	3.70	1.22
2) Hiring consultants for specialized tasks.	2.12	3.04	0.92
3) Training staff on customer care.	2.54	4.04	1.50
4) Hiring and promotion of staff on merit.	2.96	3.22	0.26
<b>Grand Mean</b>	<b>2.50</b>	<b>3.50</b>	<b>1.00</b>

Source: Own survey

N = 50

From Table 10 above, it is evident that the factor that attracted greatest attention was training of staff on customer care whereas hiring and promotion of staff on merit got least attention.

The difference between the mean scores of the two factors before and after deregulation was 1.50 and 0.26 respectively. This means that the SACCOs realized the need to train their staff to respond to the changing customer needs and sensitivities occasioned by deregulation.

On the other hand, the age-old practice of hiring and promoting staff without regard to their qualifications and competence persisted even after deregulation.

*Table 11: Directing measures to cope with effects of deregulation*

FACTOR	FREQUENCY											
	BEFORE DEREGULATION						AFTER DEREGULATION					
	NE AA	VLE	LE	GE	VGE	M	NE AA	VLE	LE	GE	VGE	M
1) Regular performance appraisal	8	8	25	8	1	2.72	5	0	5	29	11	3.82
2) Staff motivation policies	5	12	33	0	0	2.56	8	0	8	33	1	3.38
3) Performance based reward system	12	8	25	5	0	2.46	12	0	0	37	1	3.30
Mean						<b>7.74</b>						<b>10.5</b>
Grand mean						<b>2.58</b>						<b>3.5</b>

Source: Own survey

N = 50

Table 11 above indicates that overall, the SACCO Societies surveyed utilized the directing function as a measure to cope with the deregulation of the cooperative sector to a great extent. This is attested to by the grand mean of 3.5 of the individual aspects of directing, the most important stood out to be regular performance appraisal with a mean score of 3.82, also indicating that this measure was used to a great extent. Although performance based reward system was the least utilized, it still had a mean score of 3.30, suggesting that it was resorted to a little extent after deregulation.

Before deregulation however, directing in general was used to a little extent as indicated by a grand mean of 2.58. Regarding individual aspects of directing, again regular performance



appraisal stands out as the most utilized measure before deregulation, recording a mean of 2.72 staff motivation policies and performance based reward system did not take prominence as management tools before deregulation as indicated by mean scores of 2.56 and 2.46 respectively.

**Table 12: Directing measures – comparison between mean scores before and after deregulation**

FACTOR	MEAN SCORE		DIFFERENCE
	BEFORE DEREGULATION	AFTER DEREGULATION	
1) Regular performance appraisal.	2.72	3.82	1.10
2) Staff motivation policies.	2.56	3.38	0.82
3) Performance based reward system.	2.46	3.30	0.84
<b>Grand Mean</b>	<b>2.58</b>	<b>3.50</b>	<b>0.92</b>

Source: Own survey

N = 50

Table 12 indicates that overall, there was very little attention paid to directing as a management function after deregulation. This is confirmed by a mean difference of 0.92. In relative terms, the most affected aspect of directing was regular performance appraisal with a mean difference of 1.10. On the other hand, the least affected was staff motivation policies which recorded a mean difference of 0.82.

This means that SACCO Societies have not yet appreciated the need to motivate staff and reward their performance as a way of enhancing productivity of these organizations.

*Table 13: Control measures to cope with effects of deregulation*

FACTOR	FREQUENCY											
	BEFORE DEREGULATION						AFTER DEREGULATION					
CONTROL	NE	VL	LE	GE	VG	M	NE	VLE	LE	GE	VG	M
	AA	E			E		AA				E	
	1	2	3	4	5		1	2	3	4	5	
Hiring of Auditors	8	0	12	29	1	3.30	5	0	0	29	16	4.02
Minimum qualifications for supervisory committee	16	12	12	0	10	2.52	8	0	8	29	5	3.46
Monthly Trial Balances	8	0	16	25	1	3.22	5	0	0	25	20	4.10
Regular Bank Reconciliation	5	0	8	25	12	3.78	5	0	0	20	25	4.20
Updating of Cash Book	5	0	8	12	25	4.04	0	0	0	20	30	4.60
<b>mean</b>						<b>16.86</b>						<b>20.38</b>
<b>grand mean</b>						<b>3.37</b>						<b>4.07</b>

Source: Own survey

N = 50

It is clear from Table 13 that overall, the control function was employed to a great extent after deregulation of the cooperative sector. The grand mean was found to be 4.07. Individual aspects of control function were also operationalised to a great extent after deregulation as indicated by mean scores of 4.60, 4.20, 4.10 and 4.02 for updating of cashbook, regular bank reconciliation, monthly trial balances and hiring of internal auditors respectively. The only aspect of control that has not gained much prominence in the post-deregulation era is the

requirement that members of supervisory committee should meet certain set minimum qualification. This component has a mean score of 3.46 (i.e. little extent).

Unlike other factors which have already been analyzed in this study, control function was crucial even before deregulation of the cooperative sector, with a relatively high mean score of 3.37. Measures like updating of the cash book and regular bank reconciliation were already popular with the SACCO Societies surveyed even before deregulation. Their mean scores were 4.04 and 3.78 respectively.

**Table 14: Control Measures – comparison between mean scores before and after deregulation**

FACTOR	MEAN SCORE		DIFFERENCE
	BEFORE DEREGULATION	AFTER DEREGULATION	
1) Hiring of auditors.	3.30	4.02	0.72
2) Minimum qualifications for Supervisory Committee.	2.52	3.46	0.94
3) Monthly Trial Balances.	3.22	4.10	0.88
4) Regular Bank reconciliation.	3.78	4.20	0.42
5) Updating of Cash Book	4.04	4.60	0.56
<b>Grand Mean</b>	<b>3.37</b>	<b>4.07</b>	<b>0.70</b>

Source: Own survey

N = 50

From Table 14 above, it can be seen that the grand mean difference in control measure was 0.70. The factor that recorded the greatest mean difference was minimum qualifications for supervisory committee scoring 0.94. The factor with the lowest difference was regular bank reconciliation with 0.42. This means that control as a management function had been adopted to a great extent even before deregulation of the cooperative sector. SACCO Societies are concerned with operational issues.

**Table 15: Combined effect of measures to cope with deregulation**

FACTOR	MEAN SCORE		DIFFERENCE
	BEFORE DEREGULATION	AFTER DEREGULATION	
1) Planning	2.14	3.61	1.47
2) Staffing	2.50	3.50	1.00
3) Directing	2.58	3.50	0.92
4) Control	3.37	4.07	0.70
<b>Grand Mean</b>	<b>2.64</b>	<b>3.67</b>	<b>1.03</b>

Source: Own survey

N= 50

Table 15 indicates that overall, the grand mean difference was 1.03. The most difference was seen in planning which had a mean score difference of 1.47. The least difference, on the other hand, was noticed in control which recorded a mean score difference of 0.70. This means that deregulation affected planning function the most, indicating that before deregulation of the cooperative sector, SACCO Societies did not pay much attention to issues

like environmental scanning, introduction of new products, and setting and reviewing short-term objectives among others.

To the contrary however, control had been adopted to a great extent before deregulation.

SACCO Societies in Nairobi could therefore be said to have been myopic in their approach to management i.e. they did not explore strategies that could enhance their long term competitive position.

### 6.8 FACTOR ANALYSIS

The purpose of this analysis is to establish the relative importance of each of the factors analyzed in this study, as a measure to cope with the effects of a deregulated cooperative environment. The result of this analysis should reveal which factor was most utilized after deregulation. It should also reveal the factor(s) that was least utilized. This analysis, together with the tables which have already been analyzed in this study are crucial for subsequent summary, discussion and conclusion.

**Table 16: Factor Weightings after deregulation**

FACTOR	NEAA	VLE	LE	GE	VGE	SUM	MEAN	RANK	% SCORE
a	0.10	0	0	0.42	0.48	1	4.18	5	83.6
b	0.16	0	0.10	0.40	0.34	1	3.76	12	75.2
c	0.10	0.10	0.10	0.40	0.30	1	3.70	13	74.0
d	0.16	0	0	0.50	0.34	1	3.86	10	77.2
e	0.16	0.16	0	0.58	0.10	1	3.30	17	66.0
f	0.32	0.10	0.10	0	0.48	1	3.22	19	64.4
g	0.40	0.10	0	0.26	0.24	1	2.84	22	56.8
h	0	0	0.16	0.58	0.26	1	4.10	6	82.0
i	0.06	0	0.10	0.34	0.50	1	4.22	3	84.4
j	0.16	0.10	0.10	0.50	0.14	1	4.36	2	87.2
k	0.16	0	0.16	0.16	0.52	1	2.18	23	43.6
l	0.16	0	0	0.66	0.18	1	3.70	14	74.0
m	0.16	0.24	0.10	0.40	0.10	1	3.04	21	60.8
n	0.16	0	0	0.32	0.52	1	4.04	8	80.8
o	0.24	0.10	0.10	0.32	0.24	1	3.22	20	64.4
p	0.10	0	0.10	0.58	0.22	1	3.82	11	76.4
q	0.16	0	0.16	0.66	0.02	1	3.38	16	67.6
r	0.24	0	0	0.74	0.02	1	3.30	18	66.0
s	0.10	0	0	0.58	0.32	1	4.02	9	84.4
t	0.16	0	0.16	0.58	0.10	1	3.46	15	69.2
u	0.10	0	0	0.50	0.40	1	4.10	7	82.0
v	0.10	0	0	0.40	0.50	1	4.20	4	84.0
W	0	0	0	0.40	0.60	1	4.60	1	92.0
<b>Mean</b>							<b>84.60</b>		
<b>Grand Grand Mean</b>							<b>3.67</b>		

Source: Own survey

N = 50

The factors represented by the letters of alphabet are as follows:-

- a - Revision of SACCO by-laws
- b - Introduction of Front Office Services Account
- c - Demand for better and diversified products
- d - Intensified membership drives
- e - Setting minimum share contribution
- f - Retaining retirees as members
- g - Admitting members from diverse backgrounds
- h - Setting and reviewing short-term objectives
- i - Intensified member education
- j - Environmental scanning
- k - Regular membership audits
- l - Setting Minimum qualifications for Management and Board
- m - Hiring of consultants for specialized tasks
- n - Training staff on customer care
- o - Hiring and promotion of staff on merit
- p - Regular performance appraisal
- q - Staff motivation policies
- r - Performance-based reward system
- s - Hiring of internal auditors
- t - Minimum qualifications for supervisory committee
- u - Monthly Trial Balances
- v - Regular bank reconciliation
- w - Updating of cashbook

Table 16 reveals that overall, the SACCO Societies surveyed utilized all the factors considered in this study to a great extent as measures to cope with the effects of deregulation of the cooperative environment. This is attested to by a grand grand mean of 3.67.

Regarding the various components of the factors considered in this study, updating of cashbook stands out as the one used to a very great extent with a mean score of 4.60 or a percentage score of 92%. The least used factor among those considered in this study was regular membership audits with a mean score of 2.18 or a percentage score of 43.6%.

As can be seen from the table, the five most important factors that the SACCO Societies surveyed have put into use after deregulation are updating of cashbook, environmental scanning, intensified member education, regular bank reconciliation and revision of SACCO by-laws with mean scores of 4.60, 4.36, 4.22, 4.20 and 4.18 respectively. All of them were used to a great extent.

On the other hand, the factors which have been used least out of the ones considered in this study are retaining retirees as members, hiring and promotion of staff on merit, hiring of consultants for specialized tasks, admitting members from diverse backgrounds and regular membership audits with mean scores of 3.22, 3.22, 3.04, 2.84 and 2.18 respectively.



## CHAPTER SEVEN

### 7.0 SUMMARY, DISCUSSIONS AND CONCLUSIONS

#### 7.1 SUMMARY

The objectives of this study were twofold, first, to identify the impact of a deregulated cooperative sector on the management of SACCO Societies in Nairobi, and second, to find out measures that the SACCO Societies were taking to cope with the effects of deregulation of the cooperative sector.

In order to tap the required information for this study the questionnaire used was divided into three sections. Section A captured demographic information, Section B concentrated on effects of deregulation of the cooperative sector while Section C looked at the measures being taken by SACCO Societies in Nairobi to cope with effects of deregulation.

Regarding demographic information, the study found out that out of the fifty SACCO Societies surveyed, twenty five (or 50%) were managed by managers with secondary school (form four) level of education. Only eight (or 16%) were managed by University graduates. Seventeen (or 34%) of the SACCO Societies surveyed were found to be under management of people with advanced level (form six) education (Table 1). Fifty-two per cent of SACCOs surveyed have membership above 4000 (see Table 2) while only eight of them (or 16%) have one thousand members and below. It is also important to note that SACCO Societies in Nairobi have not only grown in terms of total membership but also in share capital. Out of

the SACCOs surveyed, eighteen (or 36%) had share capital above Kshs. 500 million.

Another interesting observation is that between 1997 (when deregulation was affected) and the year 2000 (when data was collected), thirty-two SACCOs (or 64%) experienced loss in membership while twenty-six (or 52%) gained in terms of capitalization.

Concerning impact of deregulation on the management of SACCO Societies, the study has revealed that overall deregulation affected management of SACCOs to a great extent. The most affected aspect of SACCO management was government involvement in day-to-day operations of cooperatives. Other areas which were affected to a great extent include responsibility for the Management and Board, demand for better and diversified products, member concern with management of their SACCOs, and intensified competition (see Table 6).

To respond effectively to the effects of deregulation, the various managerial measures considered in this study were used to varying extents. Planning, for instance was used to a great extent. The various components of planning which were used to a great extent include environmental scanning, revision of by-laws, and setting and reviewing short-term objectives. The least used measures were regular membership audits and admitting members from diverse backgrounds.

Likewise, staffing measures were utilized to a great extent after deregulation. Under this management function, training of staff on customer care was the most used measure followed by setting minimum qualification for management and Board. Surprisingly, hiring and

promotion of staff on merit and hiring of consultants for specialized tasks were only utilized to a little extent.

Like other measures already alluded to, directing was used to a great extent after deregulation. In line with expectations, regular performance appraisal was adopted to a great extent. It is however, disheartening that performance based reward system was not taken seriously despite adoption of performance appraisal as a management tool.

Generally speaking, control was found to be the most popular intervention measure against deregulation of the cooperative sector. Within this function, updating the cashbook was used to a very great extent, recording the highest mean out of all the measures considered in this study. Other measures which were used to a great extent include regular bank reconciliation, monthly trial balances and hiring of internal auditors. It is also worth noting that control function was quite popular with SACCO Societies even before deregulation of the sector.

The study reveals that out of the intervention measures considered, the five most popular were updating cash book, environmental scanning, intensified member education, regular bank reconciliation and revision of by-laws in descending order. On the other hand, the five least popular measures include retaining retirees as members, hiring and promotion of staff on merit, hiring of consultants for specialized tasks, admitting members from diverse backgrounds and regular membership audits.

## 7.2 DISCUSSIONS

This study has revealed that out of the SACCO Societies surveyed, twenty five (or 50%) are managed by form four certificate holders. Perhaps this could be explained by the fact that cooperative education in Kenya is not offered at University or post-graduate levels. Besides the only college that has been offering cooperative training i.e. Cooperative College of Kenya has limited facilities and can only admit a small number of trainees. Since graduates of this college were guaranteed employment opportunities by the government upon successful completion of the course, admission criteria has been very competitive. Hence many applicants could not get a chance.

Another possibility is that since SACCOs drew their membership from salaried workers whose wages have generally been very low in Kenya, they were reluctant to employ university graduates who would demand a lot of money. Yet another possibility is that since the government, until 1997, was involved in day-to-day management of SACCO Societies, there was very little managerial work left for managers. Thus, the work did not require highly educated or skilled managers. Things have however, changed since deregulation. The environment is becoming increasingly turbulent, requiring proper diagnostic skills if the SACCO sub-sector is to survive in the free market economy.

The fact that 52% of SACCOs surveyed had membership above 4000 and 36% of them had shareholding above Kshs. 500 million is a pointer to the fact that SACCO Societies are becoming huge organizations with a lot of resources. Perhaps, these organizations are increasingly being seen as alternatives to the formal banking and non-bank financial sector.

The enormous resources are being entrusted to managers who have very low levels of education as has already been alluded to in this paper. This state of affairs creates lack of confidence among members in their society perhaps explains why 64% of the government in day-to-day management of these organizations. The major fear is that deregulation of this important members lose billions of shillings due to inept and unscrupulous management.

Deregulation of the cooperative sector has increased the managerial load on the shoulders of Management and Board members. These people no longer have to wait for government officials to make difficult or controversial decisions on their behalf. Further more, they no longer can afford to use government as a scapegoat for their poor decisions. Management of SACCO Societies has become more complex and especially in a competitive business environment.

Members are also becoming increasingly impatient with mediocre management which cannot deliver on their basic requirements such as safeguarding their deposits, giving them loans timely and adequately and declaring and paying dividends annually. Given that employees are no longer restricted as to which SACCO Societies they must join, those SACCOs which appear to provide better and diversified services or products stand better chances of attracting more members from the market place.

Regarding measures adopted by SACCO Societies to cope with effects of deregulation, control was found to have been the most widely used. In fact, the measure that was found to

be the most utilized as an intervention measure is updating of the cash book. It is a control measure. Others like regular bank reconciliation, monthly trial balances and hiring of internal auditors were also used to a great extent. All these aspects of control are routine or operational measures. It is understandable that SACCO Societies were more concerned with operational issues than strategic ones since there was no stiff competition in the cooperative sector before deregulation. In fact, members of a particular trade or profession were required, in keeping with the concept of "common bond", to automatically join SACCO Societies falling within those trades or professions. For example a new employee at the Ministry of Finance was expected to join Hazina SACCO Society whereas those recruited into the police force had very little choice other than Utumishi SACCO Society.

Things have since changed with deregulation. Employees have a wider choice. Hence there is need for SACCO Societies to look beyond the internal operations and develop strategies to strengthen their survival chances into the future.

Issues like environmental scanning must now be taken more seriously with a view to translating whatever information obtained from that exercise into long term strategies for the organization.

A worrying practice among SACCO Societies is that they were reluctant to admit members from outside the "common bond". In the face of employment freeze and retrenchment in both the private and public sectors, societies cannot afford to restrict their membership to those

employees who share a trade or profession. This practice undermines a society's chances of enhancing its membership and capital bases.

Among the least popular measures was found hiring and promotion of staff on merit. One wonders how a forward looking organization could afford to adopt an arbitrary system of procuring and promoting human resource. It is clear that staff in SACCO Societies are hired based on who they know and also rely on the same "godfathers" for promotion. This kind of practice denies the cooperative sector well trained and motivated human resource. Hence, it compromises quality of services delivered and perhaps explains many cases of collapsed societies.

### **7.3 CONCLUSIONS**

The importance of the cooperative sector as a formidable institutional framework for resource mobilization and capital formation in Kenya cannot be gainsaid. This paper concludes that:-

- i) To enhance the ability of SACCO Societies to effectively respond to the effects of deregulation of the cooperative sector, the societies must take it upon themselves to constantly scan the environment to decipher political, social, economic and global business trends that impact on the way they conduct their operations. This should help to realign their internal activities to be in tandem with strategic intention. Short-term objectives should be set and reviewed whenever necessary to ensure that the organization does not lose sight of the overall corporate strategy.

- ii) To strengthen managerial capacity within their organizations, SACCO Societies should adopt a deliberate policy of recruiting highly qualified and competent professionals to join their managerial ranks. Preference should be given to University graduates with relevant skills and professional qualifications in such areas as Accountancy, Management, Information Technology, Cooperative Studies etc. In addition, the lower cadres should be encouraged to enhance their capacity through training and education.
- iii) SACCO Societies should operate as open systems constantly encouraging creativity and innovation. This entails development of new products to take care of the changing needs, tastes and preferences of their members. It is gratifying to note that some seventeen (or 34%) of the SACCO Societies surveyed have adopted Front Office Services Account (F.O.S.A). There is still need to explore other possible new products besides F.O.S.A.
- iv) In order to broaden membership and capital bases of SACCO Societies, these organizations should try to attract members from outside the “common bond”. This will also increase the earning potential of the societies.
- v) To safeguard members against abuse of power and embezzlement of funds by managers, the government should retain authority in the following areas of SACCO operations besides the current areas of jurisdiction:-



- Major capital investments e.g. real estate
  - Provide guidelines on maximum allowable proportions of assets which can be invested in say real estate, off-shore, term deposits, Treasury Bills and Treasury Bonds.
- vi) To ensure visionary and competent leadership in SACCO Societies, the government should provide guidelines on minimum qualifications for members of the Board and Management staff.
- vii) To ensure efficiency in the cooperative sector in the long run, SACCO Societies should set up a regulatory body so that the government may eventually cede most of its powers to the new body.

#### **7.4 LIMITATIONS OF THE STUDY**

This study was restricted to Nairobi Province mainly because of resource and time constraints. Nairobi, being the capital city of Kenya, benefits immensely from higher levels of education and average earnings of workers. These factors are likely to be different in other provinces in Kenya. Hence the conclusions might not necessarily be applicable to rural SACCO Societies.

Another limitation of the study is that the sample that was considered for this study was a general sample i.e. it did not stratify SACCO Societies in different sectors such as public, parastatal, private, NGO etc. Hence the results are also general i.e. no due consideration has

been made of the unique features of the SACCO Societies found in different sectors of the society.

The data used in the study was mainly for the year 2000. In a few of the cases even the summaries for the year 2000 had not been concluded and in such cases we had to rely on 1999 figures combined with some estimation. In a highly dynamic environment, the business value of such information is likely to have deteriorated immensely and to use it for decision making might lead to some errors. It is also possible that some new measures have been adopted in the year 2001 to cope with effects of deregulation. Such measures, if any, were not illuminated in the data for end of 2000.

No complex econometric or business statistical models were attempted in this study. This simplistic approach, although gives results that are simple to interpret, ignores detailed cross analysis. It does not bring out clearly the various combinations of measures that, if adopted, would bring out optimal results.

## **7.5 RECOMMENDATIONS FOR FUTURE RESEARCH**

- A study should be conducted to find out what measures are being adopted by SACCO Societies outside Nairobi Province in response to the deregulation of the cooperative sector.
- Specific studies should be conducted to come up with sector-specific recommendations on management of SACCO Societies in the public, private, parastatal and NGO sectors.

- Similar studies should be conducted to improve on this work as time passes by since the business environment is very dynamic. Besides, one hopes that subsequent researchers will be able to access more current and relevant data on this important area.
- Last but not least, more sophisticated statistical and econometric tools should be utilized to find out the minute details that might have escaped in this study due to the simple nature of the statistical method adopted for analysis.

## 7.6 POLICY IMPLICATIONS

Given the importance attached to the cooperative sector as one of the most important engines of growth of the Kenyan economy, very precise policies must be adopted to push this sector forward. In so doing, the much need capital will be accumulated for investment.

However, low level of education among managers does not augur well for performance and development of the cooperative sector. There is need to raise the level of education among managers to at least first degree in relevant fields supported with professional qualifications.

Given the prevalence of arbitrary appointments and promotions, the sector has missed out on qualified human resource and demotivated those who are qualified and hard working. This translates into poor service delivery and lack of foresight in management. There's urgent need to revolutionize this thinking, and adopt meritocracy as a basis for appointments and promotions.

Attachment to an employer or profession through the principle of “common bond” undermines the ability of a SACCO Society to enhance its membership base and growth in assets. SACCO Societies must be aggressive in recruiting members beyond the horizon of the employer.

This study has revealed that SACCO Societies are still pre-occupied with operational issues such as cost controls, auditing, updating cash books etc at the expense of strategic matters. More often than not, organizations with this kind of orientation are caught unawares by changes which are fast pacing towards them.

SACCO Societies should take environmental scanning very seriously in order to strengthen their strategic posture. This calls for setting and revising short term objectives whenever new information is available. They however, must not lose focus on the overall strategy of the organization.

Introduction of new and diversified products is what makes a SACCO the first choice organization of members. Besides savings and credit, new products such as F.O.S.A, holiday account, special occasions account should be introduced to give members an opportunity to enjoy what they would not ordinarily afford from the formal financial system.

In conclusion, this study has revealed that the cooperative sector is very important in mobilizing financial resources for investment and employment creation. The SACCO Societies sub-sector has, since independence in 1963, been filling a gap that the formal

financial sector has scorned due to the perceived uncredit worthiness of small income earners. Since these people happen to be the majority among employees, the SACCO sub-sector targets a very big proportion of the work force. It is therefore safe to conclude that the development of SACCO Societies is closely intertwined with the overall economic development of the country. No effort should therefore be spared to ensure that the effects of deregulation of the sector are turned into opportunities for growth and development of this very vital sub-sector.

# APPENDIX 1

## QUESTIONNAIRE FOR SOCIETIES

### SECTION A

#### I) INFORMATION ABOUT THE RESPONDENT

Name of Respondent:

.....

Position in Society:

.....

Level of education:

.....

.....

Professional Qualifications:

.....

.....

Date of Joining the Society:

.....

Previous positions and work experience:

.....

.....

.....

.....

**INFORMATION ABOUT THE SOCIETY**

Name of the Society:

.....

Membership drawn from:

.....

Total Membership:

.....

Share Capital:

.....

Date of incorporation:

.....

**SECTION B**

**EFFECTS OF DEREGULATION**

Using a scale of 1 – 5 where:-

1 = No Extent At All

2 = Very Little Extent

3 = Little Extent

4 = Great Extent

5 = Very Great Extent

Explain to what extent the following are caused by deregulation of the cooperative sector?

(Tick only as appropriate)

	1	2	3	4	5
a) Reduction/Gain in membership	( )	( )	( )	( )	( )
b) Reduction/Gain in capitalization	( )	( )	( )	( )	( )
c) Intensified competition	( )	( )	( )	( )	( )
d) Less government involvement in Sacco management	( )	( )	( )	( )	( )
e) Reduction in Grants	( )	( )	( )	( )	( )
f) Uncertainty in the environment	( )	( )	( )	( )	( )
g) Less barriers to entry or exit by members	( )	( )	( )	( )	( )
h) Increased responsibility for Management and Board	( )	( )	( )	( )	( )
i) Increased demand for better services	( )	( )	( )	( )	( )
j) Increased member concern with management of their SACCO	( )	( )	( )	( )	( )

Others (Specify



## SECTION C

### MEASURES TO COPE WITH EFFECTS OF DEREGULATION

Using a scale of 1-5 as in Section B above, explain to what extent your society adopted the following management practices to cope with the effects of deregulation of the cooperative sector. (Tick only as appropriate)

#### 1. PLANNING

MANAGEMENT PRACTICE	Before deregulation	After deregulation
a) Revision of Sacco By-Laws	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
b) Front Office Service Accounts (FOSA)	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
c) Introduction of better and diversified products	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
d) Intensified membership drives	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
e) Pegging minimum share contribution to earnings (e.g. 5% of basic pay)	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
f) Retaining retirees as members	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
g) Admitting members from diverse backgrounds	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
h) Setting and reviewing short-term objectives	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
i) Intensified member education	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
j) Environment scanning	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
k) Regular membership audit	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
Others (Specify)		

## 2. STAFFING

### MANAGEMENT PRACTICE

### Before deregulation      After deregulation

- |  |                     |                     |
|--|---------------------|---------------------|
| a) Minimum qualifications for management and Board members | ( ) ( ) ( ) ( ) ( ) | ( ) ( ) ( ) ( ) ( ) |
| b) Hiring of consultants for specialized tasks             | ( ) ( ) ( ) ( ) ( ) | ( ) ( ) ( ) ( ) ( ) |
| c) Introduction of better and diversified products         | ( ) ( ) ( ) ( ) ( ) | ( ) ( ) ( ) ( ) ( ) |
| d) Sensitizing staff on customer care                      | ( ) ( ) ( ) ( ) ( ) | ( ) ( ) ( ) ( ) ( ) |
| e) Hiring of staff on merit                                | ( ) ( ) ( ) ( ) ( ) | ( ) ( ) ( ) ( ) ( ) |
| Others (Specify)   |                     |                     |

## 3. DIRECTING

### MANAGEMENT PRACTICE

### Before deregulation      After deregulation

- |                                    |                     |                     |
|------------------------------------|---------------------|---------------------|
| a) Regular performance appraisal   | ( ) ( ) ( ) ( ) ( ) | ( ) ( ) ( ) ( ) ( ) |
| b) Staff motivation policies       | ( ) ( ) ( ) ( ) ( ) | ( ) ( ) ( ) ( ) ( ) |
| c) Performance based reward system | ( ) ( ) ( ) ( ) ( ) | ( ) ( ) ( ) ( ) ( ) |
| Others (Specify)                   |                     |                     |

**4. CONTROL**

**APPENDIX 2**

<b>MANAGEMENT PRACTICE</b>	<b>Before deregulation</b>	<b>After deregulation</b>
a) Hiring of auditors	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
b) Minimum qualifications for Supervisory Committee	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
c) Preparing of monthly Trial Balances	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
d) Regular bank reconciliation	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
e) Regular updating of Cash Book	( ) ( ) ( ) ( ) ( )	( ) ( ) ( ) ( ) ( )
Others (Specify)		

**THANK YOU VERY MUCH**

## **APPENDIX 2**

### **LIST OF SACCOS USED IN THE STUDY**

1. A. R. T. SACCO
2. BANKI KUU SACCO
3. B. A. T. SACCO
4. BARAFU SACCO
5. BLUE TRIANGLE
6. COOPERATIVE INSURANCE COMPANY SACCO
7. CHAI SACCO
8. CHUNA SACCO
9. COOPERATIVE BANK SACCO
10. COSMOS SACCO
11. CUEW SACCO
12. DOME SACCO
13. ELIMU SACCO
14. MWALIMU SACCO
15. HAZINA SACCO
16. AFYA SACCO
17. HARAMBEE SACCO
18. UKULIMA SACCO
19. ENERGY SACCO
20. EXAMS SACCO

21. FARMERS CHOICE SACCO
22. EXTELCOMS SACCO
23. GEMINIA INSURANCE SACCO
24. GENERAL MOTORS SACCO
25. BUNGE SACCO
26. JAMII SACCO
27. KASNEB SACCO
28. KEMRI SACCO
29. KENYA BANKERS SACCO
30. KENYA POLICE SACCO
31. KIWI SACCO
32. LAKESTAR SACCO
33. MWITO SACCO
34. MILIMANI SACCO
35. NACICO SACCO
36. NASSEFU SACCO
37. OSHWALS SACCO
38. POSTBANK SACCO
39. POLYTECH SACCO
40. RELY SACCO
41. SAUTI SACCO
42. SHERIA SACCO
43. TEMBO SACCO

- 44. UNEP SACCO
- 45. UFANISI SACCO
- 46. UCHUMI SACCO
- 47. NATION SACCO
- 48. ARDHI SACCO
- 49. ARCHIVES SACCO
- 50. MAGEREZA SACCO

APPENDIX 3



UNIVERSITY OF NAIROBI  
 FACULTY OF COMMERCE  
 MBA PROGRAMME - LOWER KABETE CAMPUS

P.O. Box 30199  
 Nairobi, Kenya

TO WHOM IT MAY CONCERN

I am writing to you in connection with the MBA programme of the University of Nairobi.

The MBA programme is a two-year programme of the University of Nairobi. It is designed to provide you with a solid foundation in business management. We would like to see that you are well prepared for the programme. We would therefore appreciate if you could provide us with the following information:

IN CHARGE  
 FACTORIES  
 MBA PROGRAMME

# APPENDIX 3



**UNIVERSITY OF NAIROBI**  
**FACULTY OF COMMERCE**  
**MBA PROGRAMME - LOWER KABETE CAMPUS**

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Telephone: 732160 Ext. 226  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

---

DATE: .....

## TO WHOM IT MAY CONCERN

The bearer of this letter: .....

Registration No.: .....

Is a Master of Business and Administration student of the University of Nairobi.

He/She is required to submit as part of his/her coursework assessment a research project report on some management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

Thank you.

**DR MARTIN OGUTU**  
**SENIOR LECTURER &**  
**COORDINATOR, MBA PROGRAMME**

MO/ek

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