

**AN EMPIRICAL STUDY OF FACTORS AFFECTING GROWTH OF  
SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN KENYA:  
THE CASE OF LAIKIPIA COUNTY**

**MUCHOKI FAITH N.**

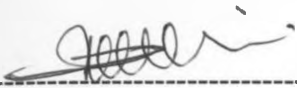
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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF  
THE REQUIREMENT FOR THE AWARD OF MASTER OF ARTS DEGREE  
IN PROJECT PLANNING AND MANAGEMENT, UNIVERSITY OF  
NAIROBI.**

**2012**

## DECLARATION

This research project report is my original work and has not been presented for a degree or for any award in any other University.

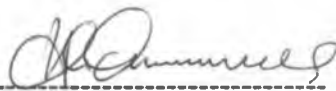
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## DEDICATION

For my children and grandchildren.

## ACKNOWLEDGEMENT

The completion of this thesis project was assisted by several people who contributed in various different ways. Since it is not possible to mention each by name, kindly accept my most sincere thanks, gratitude and appreciation hereby expressed. Special mention however goes to my supervisor, Dr. Harriet Kidombo. I have learnt a lot from her and was humbled by her dedication and commitment. May the lord almighty bless and abundantly endow her with plenty of wisdom. I also thank my lecturers who worked tirelessly to ensure that we learn and complete the requisite curriculum within schedule. To all of them I extend most sincere thanks and gratitude. The Laikipia County Cooperative Officers for unreserved assistance while undertaking the collection of data. Cooperative society's respondents in the county who took time from their busy schedule to attend to my many questions, for being forthright and sincere, I do extend heartfelt gratitude. To my colleagues, the employees of NECCO FOSA and also to our Chairman for understanding when I had to take many days off to complete the project; I do thank all of them for taking extra duties and responsibilities to cover for me. Finally, to my family for moral support and encouragement; I most sincerely thank you all and will always be grateful.

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## ABBREVIATIONS AND ACRONYMS

**BOSA-** Back office services activity, a section of a SACCO operations that does not involve banking. This is the original section of the SACCO.

**GDP** – Gross Domestic Product

**FOSA-** Front office services activity meaning, the banking section of the SACCO.

**ICA** – International Cooperatives Alliance.

**IT** – Information Technology

**Matatu** – common public transport used in Kenya. Usually Nissan 9-14 seater and minibuses.

**MFI** – Micro Finance Institution.

**MOCD** – Ministry of Cooperative Development.

**SACCO-** A savings and credit co-operative society limited duly registered and operating under the SACCOs Act (2009).

**SASRA** – SACCO Society's Regulatory Authority.

## ABSTRACT

While the Kenya cooperative sector has developed rapidly in the recent past, no one has investigated the slowed growth of SACCOs. Hence this research project investigated on factors that affect SACCOs growth. They include; Information technology, Dividend policy, Implementation of projects, Response to competitive forces and Area of operation. The study employed both correctional and descriptive survey designs. A total of 31 SACCOs in Laikipia County were studied where out of a possible 93 respondents, a 50% sample was taken totaling to 47 respondents. The main tool of research was a questionnaire while the model of the research was multiple regression. Data was analyzed using inferential and descriptive statistics such as: mean mode, median and correlation coefficient. Qualitative data was analyzed thematically to address the research questions while the quantitative data was analyzed to test hypothesis and check correlations. This was with the help of the Statistical Package of Social Sciences (SPSS). The results were that all the variables contributed positively to the slowed growth of SACCOs. The main contributor was dividend policy which according to the data, contributed 67.4%. It was thus concluded that the main hindrance to growth of SACCOs was inadequate capital base made worse by payment of high dividends in cash form. The main recommendation was that both the government and the SACCOs need to come up with policies that can enhance the SACCOs capital base. Further research could be carried out on how the SACCOs can raise funds considering that they are not quoted in the stock market and the commercial banks interest rates were phenomenally high.

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# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Savings and Credit Cooperative Societies (SACCOs) are co-operatives duly registered and operating under the SACCOs Act (2009). A cooperative society is an autonomous association of persons who have voluntarily come together with a common purpose of pooling their resources together for mutual economic and social benefit. Swiss contact co-operatives tool kit (2010). Co-operation in the sense of working together for a common goal is as old as civilized society itself. Men have always found it necessary to work together to survive and to gain communal advantage. It was due to this that the idea of modern day co-operative was conceived in Europe and also parts of America in the early 1800s. In 1844 at Rochdale in Manchester England a group of 28 men popularly known as the "Rochdale Pioneers" got together and formed the first co-operative society (Birchall, 1997). They formulated some ten principals to enable them open and run a consumer co-operative shop. These principles created the foundation of modern worldwide co-operative movement. Since then, many countries have embraced co-operatives as ventures of poverty eradication and wealth creation alongside other private sector players. Globally, nearly a billion people of the world 6 billion population are members of a cooperative. Half of the world population had their livelihood made secure to a significant extent by the cooperative enterprise. This is according to the ICA's June 1995 report. Cooperatives in the developed countries are today multibillion dollar empires as reflected by high turnovers and growing membership. Schoars (2009).

In Kenya, co-operatives were started by colonial settlers back in the 1900s. They thus bear a colonial background with the first co-operative having been registered in the year 1908 – Lumbwa co-operative society. However it was not until the end of the first world war that co-operatives gained momentum as more white settlers came to Kenya. In 1946 the Co-operative Societies colonial law was repealed to allow Africans to join co-operatives and to participate in Cash crop farming. By the time Kenya gained independence in 1963, there were 1030 registered co-operatives in the country. To date, there are a total of 10,000 registered Cooperatives out of

which 5000 are Saccos in the country. Among the SACCOs, 150 are Rural Saccos (farm produce based) while the rest are urban Saccos (employee based). They have been able to mobilize Ksh170 billion in deposits and granted loans to the tune of Kshs 120 billion. Membership has grown to over 3.7 million around 10% of the Kenyan population. The Saccos have contributed over 20% of the country's GDP. This is according to The Ministry of Cooperative Development and Marketing Strategic plan (2008-2012).

The cooperative concept has thus developed around the world as a social and economic movement with its own distinct identity, history, structure and purpose. Cooperatives are based on values of self help, self responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, cooperatives believe in the ethical values of honesty, openness, social responsibility and caring for others. These values have been put into practice through a set of seven principles that distinguish cooperatives from other business ventures. They are; Voluntary and open membership, democratic member control, economic participation by members, autonomy and independence, education training and information, cooperation among cooperatives and concern for community in general. ICA, 2010. Cooperatives are therefore membership based mutual enterprises aimed at meeting the owner's common needs like marketing of produce or provision of basic banking services (being done by the SACCOs). The owners are also the customers. Cooperatives are member owned and member controlled enterprises. They aggregate the market for people who on their own would achieve little or nothing. Coming together for a purpose is a source of strength through which people, especially low income earners are provided with a means out of economic powerlessness (Kobia, 2011).

The current highly dynamic market trends brought about by globalization and rapidly changing technologies has made the world a virtual global village. It is imperative that this has created diverse pressures, challenges and opportunities for cooperatives in the developing countries. Kenyan cooperatives require to realign themselves to be able to effectively compete in the global market. It is notable that capitalist institutions like Equity bank and to some extent, the telecommunications firm, Safaricom, are borrowing ideas from the cooperative business model in their target markets and have excelled, edging out their competitors. This goes a long way to demonstrate how complicated the market has become for co-operatives. Upon such background,

this project has studied the factors that affect the growth of cooperatives in Kenya and how they can be addressed.

## **1.2 Problems Statement**

According to a report by the SACCO Society's Regulatory Authority (SASRA) of March, 2012 Deposit taking or FOSA operating SACCOs, grew their deposits from KShs.105 million to KShs.123, but with a declining growth rate between the year 2009 and 2010 where the rate declined from 49% to 16 percentage. Although the SACCO movement in Kenya has been reported as the best in Africa, there has been general apathy towards their products considering that they compete for business with well established commercial banks. The banks have superior infrastructure and resources at their disposal and have encroached on the SACCOs traditional market. The SACCOs have not been adequately responsive to the changing external environment as per research undertaken by Maina (2008). Kobia (2011), wrote that SACCOs have retained a traditional noncompetitive outlook. They have thus been dwarfed by the competition which, according to research carried out by Kamundi (2010), keeps introducing new competing products, real time and fully automated banking services. Both locally owned and privately owned foreign banks have continued to report impressive profits in terms of billions whereas not a single SACCO has been able to reach the billion mark in terms of profitability. The spirit of the sessional paper no.10 of 1965 which identified co-operatives as the channel through which the majority of Kenyans could participate in economic development, social integration and cultural practices, is far from being fulfilled. This research project therefore carried out a study to understand why Saccos have not been able to grow to match present day competitive environment, the problems hindering growth and how they can be addressed.

## **1.3 Purpose of the study**

To investigate the Factors that affect growth of SACCOs in Kenya – Laikipia County.

### **1.3.1 Research Objectives:**

The research was guided by some questions and objectives. It strived to achieve the five objectives outlined here below and also the main objective. Five questions were raised as

outlined here. This assisted in compilation of qualitative outcomes while the hypothesis guided the quantitative data analysis.

### **1.3.2 Specific objectives**

The study sought to achieve the following five specific objectives;

1. To establish how adaptability to Information Technology affects growth of SACCOs in Kenya – Laikipia County.
2. To identify how the SACCOs dividend policy affects growth of SACCOs.
3. To examine how implementation of projects affect growth of SACCOs.
4. To establish how the SACCOs responsiveness to competitive forces affect growth.
5. To identify how limitations on area of operation affect growth of SACCOs.

### **1.3.3 Research questions**

The study was guided by the following research questions;

1. To what extent does adoptability to Information Technology affect the growth of SACCOs in Kenya?
2. In which ways does a SACCOs dividend policy affect its growth?
3. How does implementation of projects affect the growth of SACCOs?
4. To what extent is a SACCOs responsiveness to competitive forces effective on its growth?
5. How does limitation on area of operation affect growth of SACCOs?

### **1.4 Research Hypothesis**

The following hypothesis were tested;

Ho Low adaptability to Information Technology does not affect growth of SACCOs

Ho The SACCOs dividend policy has no affect on its growth.

Ho Implementation of projects does not affect growth of SACCOs.

Ho SACCOs responsiveness to competitive forces does not affect growth.

Ho Limitations on area of operation do not affect growth of SACCOs.

### **1.5 Significance of study**

The manner in which cooperatives are managed is gaining recognition every day. In Kenya the co-operative movement contributes over 20% in the growth of this country.

Therefore the growth and survival of the Saccos is important in the country as they enhance financial accessibility to majority of Kenyans. It is expected that from the findings of the research, SACCOs will be aware of the main issues that affect their growth and how they can be addressed. This leads to better organizations in terms of competitiveness, and growth. Further the government would be able to refer to the research findings and come up with policies that assists to correct the situation or that complement the peoples' efforts. The newly formed SACCOs Societies Regulatory Authority (SASRA) may also benefit from the research as it commences operations in regulation of SACCOs. Other researchers will also benefit in making reference to the project paper.

### **1.6 Limitations**

The major limitation of the research was that it was not possible to control the attitudes of the respondents. This could affect the validity of the responses. The target population consisted of SACCOs that were competing. Thus withholding of compromising information may be experienced. Communication issues also come up but were taken care of by restricting the study only to the areas that were researchable under the circumstances. Also accessibility of the target population was taken into consideration as shown in section 1.5 on research scope.

### **1.7 Delimitations of the study**

The study examined the factors influencing the growth SACCOs in Laikipia county. It targeted 31 active SACCOs in the county. Main focus was on the following aspects; Information Technology, Dividend Policy, Implementation of projects, Response to competitive forces and Area of Operation. The study period covered the Months of January to July 2012.



### **1.8 Basic assumptions of the study**

The study assumed that the respondents would cooperate to give correct and valid information to the researcher. Moreover, the study assumed that the variables used in the study would not change in the course of the study period and that the questionnaires used would be returned on time and duly answered.

### **1.9 Organization of the study**

The research covered Saccos in Laikipia County. The county was administratively divided into four districts; West, East, North and Central. Upon subdivision of the larger Laikipia district, East had retained the historical district head quarters in Nanyuki town. Therefore most of the Saccos were represented here. It had a total of 31 active Saccos while the entire county had 41 active. The sample population was thus drawn from Laikipia East. It was accessible as communication and other infrastructure were better around the district headquarters. Mugenda and Mugenda, (1999) have acknowledged the fact that a part of the population could be studied as a representative of the whole due to accessibility. In this target population, 30 of the Saccos were Urban while only one was a Rural Sacco. Two of the urban Saccos had FOSA operations. All the other twenty nine operate only back office services activity or BOSA.

### **1.10 Definition of significant terms**

**Growth of SACCOs** – Progress or development of SACCOs that enables significant contribution and responsiveness to the rapidly growing financial sector.

**Adoptability to Information Technology** - "Information Technology," usually shortened as "IT" refers to anything related to computing technology, such as networking, hardware, software, the Internet, or the people that work with these technologies. Many companies now have IT departments for managing the computers, networks, and other technical areas of their businesses. The extent to which a SACCO has adopted IT can hinder or facilitate growth.

**Dividend Policy** – These are returns to share holder investments in form of shares. In this study members save regularly with their SACCOs which funds are utilized to give loans at an interest and also other SACCO investments. At the end of the accounting period an audit is carried out

and the confirmed profits are paid out to members as dividends or retained for business growth depending on the policy.

**Implementation of projects** - Implementation of a project is where all the proper planned activities are put into action. Successful implementation of projects is paramount to the growth of a SACCO. Such projects include; new products, periodical business plans, construction/renovation of offices, computerization and upgrading of systems.

**Responsiveness to competitive forces**

These are the counter marketing forces by the SACCO to the competition.

**Area of operation**

This is the legally allowed geographic space in which a SACCO operates or carries out its business. It may also be referred to as the common bond. Many SACCOs have their registered area of operation restricted by the Commissioner for coop development at registration of by laws. Although the commissioner may have good intentions to allocate certain areas to specific SACCOs, this may affect growth.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

This chapter analyses the factors that have hindered the growth of SACCOs in Kenya and also a theoretical review of the cooperative concept. The variables, Information Technology; Dividend policy; Implementation of projects; Response to competitive forces; Area of operation and their influence on the 'The Growth of SACCOs' the dependent variable will be reviewed. All other factors were held constant for the purpose of the study.

#### 2.2 The growth of SACCOS

In 1965, the government of Kenya indentified co-operatives as the channel through which the majority of Kenyans could participate in economic development, social integration and cultural practices. This was through the session paper number 10 of 1965 on African Socialism. As a consequence, the first Cooperative Societies Act was enacted in 1966 which set a good environment for the growth of cooperative societies. Marketing co-operatives were formed by small scale cash crop growers like coffee farmers. Such were primary cooperatives owned and controlled directly by members Kobia (2011). These Primary cooperatives at district level came together to form District Unions. The Unions were therefore in regions with industrial and commercial crops like Coffee, Dairy, Sugarcane and Cotton. They were modeled in the Nordic Co-operative system. This pooling together allowed cooperatives to enjoy economies of scale in sourcing of farm inputs and marketing of farm produce. ICA, (1999) They also provided basic banking facilities through the Union Banking Sections spread out in the rural areas.

By 1992 there were 16 Union Banking Sections in the country, with savings of over Kshs 500 million. But the UBSs were faced with problems as banking was one activity among many activities of the union. Most of the other activities were not generating revenues as they were service based. This posed a problem as their losses escalated and affected the operations of the banks. Therefore in 1992, the Government introduced a Policy to separate UBSs from Unions making them autonomous Rural Saccos and catering for the same clientele MOCD (2002). This was done with the assistance of the Nordic Rural Banking Project. The banking section of the

Rural Sacco became a FOSA (Front Office Services Activity). With the introduction of Rural Saccos, various other farmers especially tea farmers moved in and registered district Saccos that could cater for their members banking needs. The first to be registered in 1992 was Kirinyaga District Tea Growers Sacco currently called Bingwa Sacco. With the assistance of The Cooperative Bank, the Rural Banking project and later on the Swedish Cooperative Center, Rural Saccos mushroomed in the countryside in the 1990s.

There were also Urban SACCOs formed by the employees of various government departments and other organizations. A big number of urban saccos were formed in 1973 following a visit to the United States of America by government officials. They learnt from the American credit unions and thus the Kenyan urban SACCOs were modeled in the American experience Njoki, (2011). In the 1990s the urban Saccos also successfully opened banking facilities in the name of FOSA. They were led by District teachers Saccos like Muhigia in Kirinyaga district. The FOSA operations gained momentum as it bridged the gap left by the commercial banks as they up scaled to corporate banking. Major Banks closed rural branches, increased account opening balances and introduced unaffordable fees/charges. Middle and low income Kenyans were left unbanked. Around 200 SACCOs operate FOSA (Front Office Services Activity) or cooperative banking facility. SASRA, (2011).

To date, there are a total of 5000 registered Saccos in the country out of which 150 are Rural Saccos (farm produce based) while the rest are urban Saccos (employee based). They have been able to mobilize Ksh170 billion in deposits and granted loans to the tune of Kshs 120 billion. Membership has grown to over 3.7 million around 10% of the Kenyan population. The Saccos have contributed over 20% of the country's GDP. This is according to The Ministry of Cooperative Development and Marketing Strategic plan (2008-2012). However, the spirit of the sessional paper no. 10 of 1965 which advanced cooperatives as the banker of the unbanked is far from being fulfilled. Upcoming banks like Equity Bank and other downscaling banks have dominated the market reporting huge profit figures. In light of modern competition from commercial banks, SACCOs seem to be struggling. The study therefore explored the challenges that Saccos faced hindering growth. It analyzed the inhibiting factors and how they could be overcome.

According to a SASRA report (2012), Deposit taking or FOSA operating SACCOs, grew their deposits from KShs.105 million to KShs.123, but with a declining growth rate between the year 2009 and 2010 where the rate declined from 49% to 16 percentage. Although the SACCO movement in Kenya has been reported as the best in Africa, there has been general apathy towards their products considering that they compete for business with well established commercial banks. The banks had superior infrastructure and resources at their disposal and had not only encroached on the SACCOs traditional market but had also taken over some of the age old cooperative ideals like banking the unbaked and 'member' Mugo (2009). This research thus studied the factors hindering growth and how they could be addressed. The project assisted to measure growth rates in, turnover, profitability, members and Customers, Deposits/Share Capital and loan portfolio.

### **2.3 Theoretical background**

The cooperative concept under which SACCOs operate may be understood in a better way against various concepts that are neither capitalist nor completely socialist. They include the Israeli Kibbutz, African Socialism, Ujamaa, Ubuntu and the Harambee philosophy.

According to Darnell, Regna (2006) an Israeli Kibbutz is a collective community in Israel that was traditionally based on agriculture. Today, farming has been partly supplemented by other economic branches, including industrial plants and high-tech enterprises. The kibbutz is an original and unique Israeli creation – a multi-generation, rural settlement, characterized by its collective and cooperative community lifestyle, democratic management, responsibility for the welfare of each adult member and child, and shared ownership of its means of production and consumption, Spiro Melford E.(1956) . The first kibbutz, Degania, was founded by a group of a dozen, young pioneers in 1910, along the banks of the Sea of Galilee, Spiro Melford E. (1958). Since then, 273 kibbutzim (half of them prior to the establishment of the State of Israel) have spread across the face of the country and, to a certain extent, have defined its borders. The majority of kibbutzim were founded by members of the Zionist Youth Movements, from Israel and around the world. From the beginning, kibbutzim viewed themselves as endowed with a sense of duty, serving as a pillar of strength for building the Israeli nation. Kibbutzim have also

excelled in creative, cultural innovation, combining Jewish tradition with a new, original perspective enhanced by the unique traits and "aroma" of the Land of Israel. A kibbutz is not classic Marxist though their system partially resembled Communism, Kilborne, Benjamin, and L.L. Langness (1987). Kibbutzim largely use the cooperative enterprise model. The Kenyan SACCOs carry with them such originality in pursuit of legitimate business ideals that can reach even the financially excluded citizenry.

Ujamaa was the concept that formed the basis of Julius Nyerere's social and economic development policies in Tanzania after it gained independence from Britain in 1961 - Nathaniel Turner, (2004). In 1967, President Nyerere published his development blueprint, which was titled the Arusha Declaration (1967) . He pointed out the need for an African model of development that formed the basis of African socialism. Ujamaa comes from the Swahili word for extended family or family hood and is distinguished by several key characteristics, namely that a person becomes a person through the people or community. He translated the Ujamaa concept into a political-economic management model. Ujamaa advocated for the institutionalization of social, economic, and political equality through the creation of a central democracy; the abolition of discrimination based on ascribed status; and the nationalization of the economy's key sectors. It was people based and thus not only gained international attention but also attracted worldwide respect for consistent emphasis upon ethical principles as the basis of practical policies - Ibhawoh, Bonny, J Dibua, (2003). Cooperatives have over the years emphasized on values and principles that have evolved over the time dating back to the Rochdale pioneers of the 1940s.

African socialism is a belief in sharing economic resources in a "traditional" African way Nathaniel Turner, (2004). It was taken to be distinct from classical socialism and also far distinct from capitalism. African socialism was however not the opposite of capitalism nor a response to it, but something completely different. Its advocates claimed it was fully African, appealing to an African identity that was even stronger than anti capitalism. They claimed the socialism was merely a recapturing of the spirit of what it was to be African. In African socialism, leaders struck a middle ground between socialism and capitalism - Cockcroft L, Belkin G, Ibbott R (2009). This is the same essence that cooperatives advocate in doing competitive business while

having the social welfare of the members at heart. It is mainly manifested in the cooperative values and principles.

According to Swanson D M (2009), the word ubuntu has its origins in the Bantu languages of southern Africa. Nelson Mandela explains Ubuntu as an African ethic or humanist philosophy focusing on people's allegiances and relations with each other. According to Leymah Gbowee nobel peace prize winner of (2011), Ubuntu: "I am what I am because of who we all are." Archbishop Desmond Tutu, 2008 said that Ubuntu is the essence of being human. Its particularly about the fact that you can't exist as a human being in isolation. It speaks about our interconnectedness. You cannot be human all by yourself. Ubuntu does not mean that people should not enrich themselves but should do so in order to enable the community around you to be able to improve. This is also in line with the Kenyan Harambee spirit or 'all pulling together'. Harambee is a Kenyan tradition of community self-help events, e.g. fundraising or development activities Rasnah Warah (2008). In the background of all this human/sociological philosophies the cooperative spirit, under which the SACCOs operate, was formed. Cooperatives have served to make people work collectively as community to gain economies of scale and to achieve the humanness philosophy. But they face problems a few of which are discussed here below.

## **2.4 Information Technology**

According to Blais (2011) "Information Technology," usually shortened as "IT" refers to anything related to computing technology, such as networking, hardware, software, the Internet, or the people that work with these technologies. Many companies now have IT departments for managing the computers, networks, and other technical areas of their businesses. We are privileged to witness during our lifetime a technology revolution that has not spared any area of life. Allen and Morton (1994), have noted that IT is the area of managing technology and spans a wide variety of areas that include computer software, information systems, computer hardware, programming languages but are not limited to things such as processes, and data constructs. In short, anything that renders data, information or perceived knowledge in any visual format whatsoever, via any multimedia distribution mechanism, is considered part of the IT domain. IT

provides businesses with four sets of core services to help execute the business strategy: business process automation, providing information, connecting with customers, and productivity tools Webster, Frank and Robinson (1986). IT professionals perform a variety of functions that range from installing applications to designing complex computer networks and information databases. A few of the duties that IT professionals perform may include data management, networking, engineering computer hardware, server management, database and software design, as well as management and administration of entire systems. Information technology is starting to spread further than the conventional personal computer and network technologies, and more into integrations of other technologies such as the use of cell phones, televisions, automobiles, and more, which is increasing the demand for such jobs, Adelman (2000).

Modern business organizations have embraced use of Information Technology (IT) in order to improve their competitiveness, efficiency, customer service and performance. The Co-operative sector being a major player in our economy cannot be left behind in utilizing the technology for enhanced growth. Nyamboga, (2005). carried out a study aimed at establishing the extent of IT use and its effect on decision making in SACCOs. A total of 19 SACCOs were randomly selected from a population of 33 active country wide SACCOs found in the city of Nairobi. The study established that the extent of IT use in SACCOs is low this has been attributed to low technical skills of IT staff, few IT staff, small IT departments, lack of IT departments in some SACCOs, lack of IT managers and the fact that IT departments in SACCOs have been recently established despite the fact that majority of the SACCOs are more than 30 years old. IT was found to enhance the decision making process but its use as an aid in decision making was found to be low. SACCOs with more IT staff intensified the use of IT in their functional areas than those with few IT staff. Equally, SACCOs that had installed computers earlier than others were found to have intensified the use of IT in their operations. This study covered large SACCOs in Nairobi but with satellite stations upcountry. Many studies have been done in Nairobi area but not on the upcountry Cooperatives. The project thus studied in a similar way Cooperatives in general but based upcountry in laikipia county. The extent to which a SACCO has adopted IT could hinder or facilitate growth. To measure this, existence of a well established and functional IT department was checked. Open ended questions with five level likert scale choice answer



ranging from the best to the worst were used. Technical skills in IT, Networking of operations and use of latest technology were checked.

## **2.5 Dividend Policy**

Dividend policy is concerned with taking a decision regarding paying cash dividend in the present or paying an increased dividend at a later stage. The firm could pay in the form of stock dividend or capitalization which unlike cash dividends does not provide liquidity to the investors; however, it ensures capital gains to the stockholders. The expectations of dividends by shareholders help them determine the share value, therefore, dividend policy is a significant decision taken by the financial managers of firms - Brealey, Richard A.; Myers, Stewart C. (2008) . With Kenyan co-operatives, shares are not quoted in the stock market but managers are concerned with the popularity of the cooperative in attracting many members to contribute shares and improve its capital base. Thus coming up with a dividend policy is challenging for the directors and financial managers of a company, because different investors have different views on present cash dividends and future capital gains. Due to this controversial nature of a dividend policy it is often called the dividend puzzle Rustagi, R. P (2011). Various models have been developed to help firms analyze and evaluate the perfect dividend policy. One theory consists of people like James E. Walter and Myron J. Gordon who believe that dividends are relevant and affect the stock price in the market. They argue that current cash dividends are less risky than future capital gains to the investors. Thus, they say that investors prefer the firms which pay regular dividends and in cash form.

Another school linked to Modiglian and Miller (1958), holds that dividends are irrelevant. Investors do not really choose between future gains and cash dividends. In SACCOs, there is always pressure to pay high dividend rates and in cash form. This conforms more to the dividend relevance theory; Walter and Gordon. Owing to the current struggle for business due to intense competition, things become complicated for SACCOs because the members are also the customers Kobia 2011. The tendency has been to pay high dividends to appease the members. This has far reaching repercussions as it reduces liquidity reserves and working capital. The SACCO's capability in advancing marketing efforts, developing new products, upgrading of operational systems and acquisition of modern equipments to improve the business is curtailed.

Successful companies like Safaricom and the main commercial banks are known to plough back major amounts from their profits to enhance improved operations and competitiveness Maringa (2009). The SACCOs seem not to be doing well in this with Stima Sacco having aggressively campaigned through the media last year (2011) to beseech members to capitalize their dividends. In order to measure the extent to which dividend issues affect growth, the following parameters were used: Rate of payment, Rate of retained earnings, Capitalization of dividends.

## 2.6 Implementation of projects

Successful implementation of projects is paramount to the growth of a SACCO. Such projects include; new products, periodical business plans, construction/renovation of offices, computerization and upgrading of systems. Implementation of a project is the step where all the proper planned activities are put into action. Usually project implementation process involves preparing, deployment, maintaining and use of the final product of the project Stoemer (2012). Project managers and sometimes project team members must be committed to controlling and monitoring project implementation process. Project team helps run project evaluation process which precedes project implementation process. Project evaluation process includes performing a complete analysis of customer's needs and requirements and results in forming the definition of one or more projects to be implemented.

According to Nicholars (2001), Project Implementation process may be effective if some very important factors are kept in mind; The project Scope, Time and Cost. These are also referred to as 'the triple constraints'. The Project implementation process should have a definite start time and a definite completion time. The scope should be realizable within that timeframe. Tembo, 2003 notes that effective Project implementation process entails creation of a customizable framework that helps project managers to set up and manage project implementation stages. Customization of project implementation process framework lets leverage the use of management standards, policies and procedures and ensures that management expectations and plans for project implementation stages are properly outlined and applied. When project implementation process is structured, customized and organized into consistent project implementation steps, all conditions required for creation of a responsive project management environment are met, and project manager can start implementing a project.

SACCOs usually have several projects going on at the same time. New software implementation may be done as a part of the annual business plan. Renovation of new office premises may also be in progress. Mulwa (2011) notes that If there are several projects to be implemented, project implementation steps should be adjusted with all projects involved to start common project implementation process. If project implementation steps are not adjusted and not coordinated, several project activities may be duplicated. This should be avoided as the costs run high hindering the growth. To measure how implementation of projects in SACCOs affects growth, the following parameters were used: Planning for New projects; Adequacy of Funding; Timely Completion; Competitiveness of projects.

## **2.7 Responsiveness to competitive forces**

The marketing guru Philip Kotler (1985) has analyzed various responses or strategies based on market dominance - In this scheme, firms are classified based on their market share or dominance of an industry. Typically there are four types of market dominance strategies: Leader, Challenger, Follower, Nicher. To survive competition, SACCOs have to engage and respond adequately to the competition. In measuring this variable the following parameters shall be used: Introduction of new products; Marketing efforts; Market intelligence; Customer care. Ashcraft, (2005) undertook a study of the financial sector and commented that, as in other service industries, managers must remain alert to constant environmental changes, and be ready to redefine their corporate mission and reformulate their marketing policies, plans and strategies to meet the needs of the evolving, complex marketplace.

The finance sector is currently one of the most competitive in the service industry. However, in order to succeed in such a dynamic market place, Berry (2006) argues that the skills required to succeed are many and varied: market intelligence, ability to develop new market entry and customer retention strategies, application of new business models and translating them into revenue generating projects and programmes. A successful product development, effective distribution and efficient marketing programme can make a real difference to the SACCOs performance and impact on its bottom line. Commercial banks and other players are able to adopt to this environment but the SACCOs have shown low adoptability Kamundi (2009). Thus

an analysis of the factors leading to this were studied. This variable tested whether SACCOs are able to respond/counter marketing forces from the competition.

## **2.8 Area of operation**

Growth could also be hindered by limitations in the area of operation and common bond. Many SACCOs have their registered area of operation restricted by the Commissioner for coop development at registration of by laws. Kobia (2011). Although the commissioner may have good intentions to allocate certain areas to specific SACCOs, this may affect growth. The SACCOs competitors operate countrywide in areas of choice giving them a competitive edge over the SACCOs. Some SACCOs are even named according to the area where they operate further limiting them. This has resulted of late to major changes in SACCOs names. For example: Nyeri District Farmers Sacco now changed to Taifa Sacco; Kiambu Teachers Sacco now changed to Metropolitan Sacco; Nyeri district Tea growers Sacco now changed to Wananchi Sacco; Kirinyaga Tea growers Sacco now changed to Bingwa Sacco; Embu farmers Sacco now changed to Nawili Sacco and many more. Many other SACCOs have not changed like; Laikipia teachers Sacco and Ngarua coffe farmers. They thus remain identified with only a small region hindering their growth. In the area studied, this aspect was measured with the use of the following parameters: Restriction by law/name; Proximity and adequacy; Desire to enlarge area.

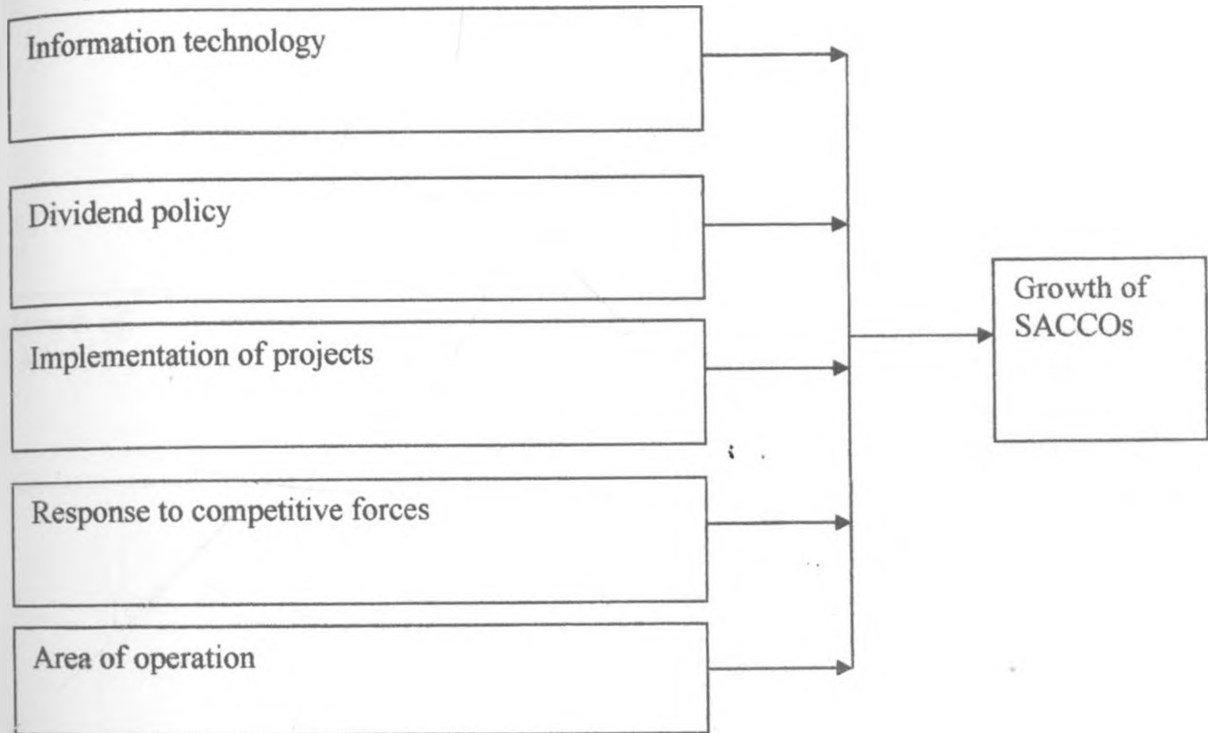
## **2.9 Other studies on SACCOs**

Various studies have been carried out on Saccos although non of them was on growth of SACCOs. Ichugu (2009) undertook a study on factors influencing performance of Saccos in Nyeri south District. He noted the problems as Corporate governance, leadership styles, non adoptability to modern technology and lack of marketing strategies. Saccos that were responsive to competition were cited as having grown in membership and profitability. Waiguru (2010) discussed managerial incompetence's in Saccos As caused by lack of strategic planning. She noted that the saccos lacked a sense of direction as they had no clear vision and mission statements. They thus do not know where they are going leading to muddling through approach. The problem of not having a clear roadmap is also in other organizations like hospitals. In the case of Saccos as noted by Ichugu (2009) adoption of formal planning has in the past facilitated growth. A study carried out by Maringa (2009) Confirms this fact. This studies focus on

managerial incompetence but do not show how this hinders growth. It is therefore important to investigate the factors that hinder growth in SACCOS which is what this study undertook.

## 2.10 Conceptual Framework

Figure 1 Conceptual Framework



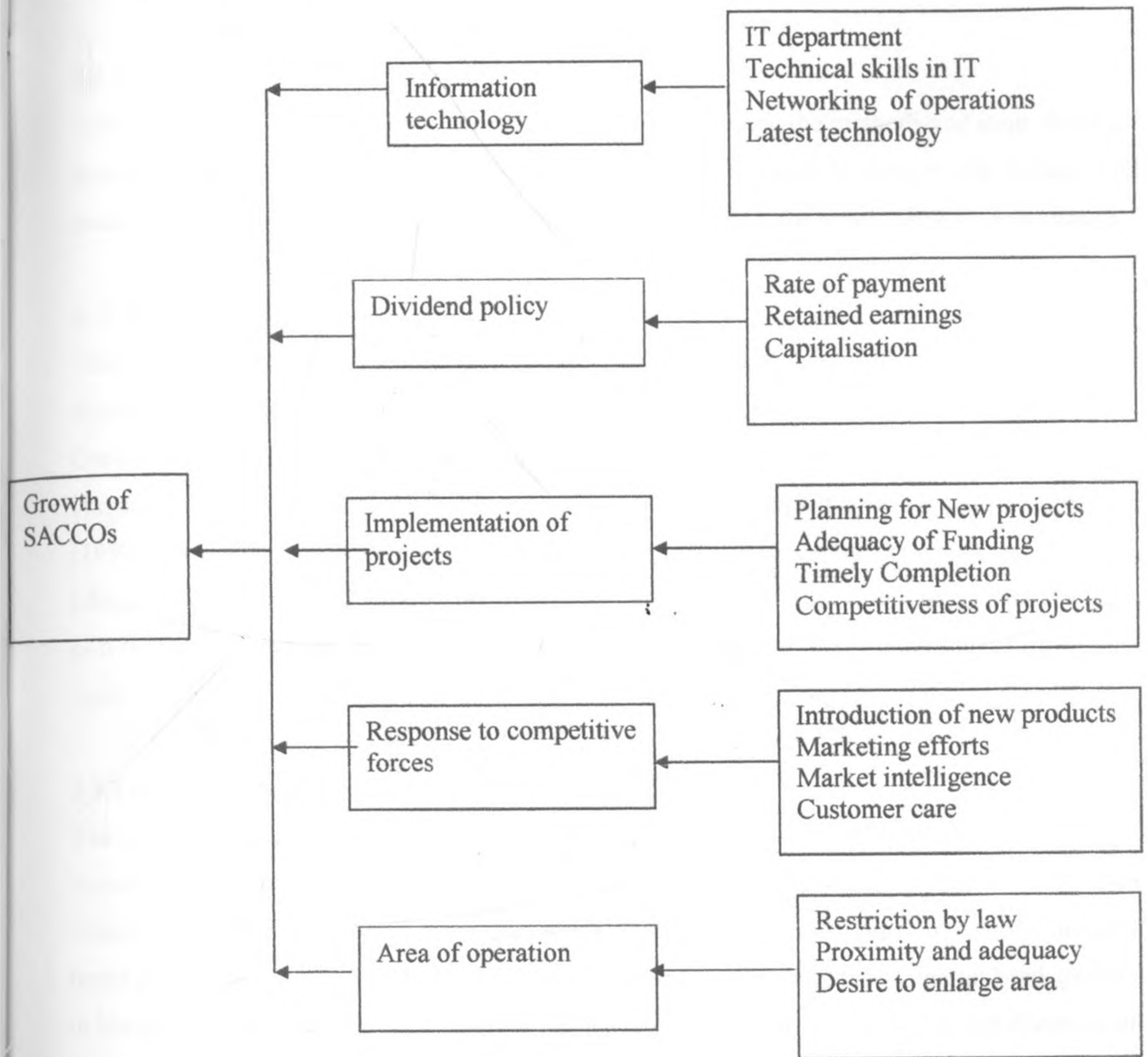
Independent variables

Dependent variable

## 2.11 Explanation of the variables

The relationship of the variables can be demonstrated further as shown in figure 2. The dependent variable, independent variables and the operational parameters are expected to have co-relationship while holding all other factors constant.

Figure 2 Relationship of parameters for the growth of SACCOs



Dependent variable

Independent Variables

Operational parameters

### 2.12 Knowledge gap

Studies carried out have centered on corporate governance and other managerial incompetence as the main reasons for slowed growth of SACCOs. Various others have the misconception that SACCOs are doing well as they have flourished in the past. This research project has helped to show there is slowed growth and also studied the factors leading to this and how they can be overcome.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter discusses how the study was conducted, explaining the methods and steps that were used to conduct the research. The basis of any meaningful research depends on the methods and procedures employed in data collection and a clear definition of the target group of respondents.

#### 3.2 Research Design

This is considered to be the structure of the research or the 'glue' that holds together all the elements in the research project. The main design used to investigate the factors affecting the Growth of Saccos was co-relational design. This design assisted to show the relationship between the dependent and the independent variables. As explained by Mugenda and Mugenda (1999) correlation design highlights in quantitative terms the degree to which variables are related. Descriptive survey design was also used for the purpose of explaining the state of affairs as it is. The research led to formulation of important principles of knowledge and solution to the significant problems facing SACCOs.

#### 3.3 Target Population

The research aimed to investigate Saccos in the Laikipia county. There were a total of 31 active Saccos in the county. A comprehensive list was obtained from the district cooperative office attached as appendix IV. From every Sacco three respondents were targeted. Therefore, the total target population was 93. Most of the Saccos surveyed have branches in the district head quarters in Nanyuki. This is because the town was the headquarter even before the recent sub-divisions of the greater Laikipia district currently Laikipia county. The growth of SACCOs is a management concern. It assumes a top down approach as indicated by Walker (2007). Therefore the top management personnel and policy makers were interviewed. To make the sample adequately representative in each Sacco, the Manager was interviewed to represent the views of the staff while the chairman represented the views of the board or the policy makers. A supervisory officer was interviewed to represent the views of the rest of the work force. Thus the total target population was 3 times 31 totaling 93.

### 3.4 Sample Size and sampling procedure

The method of selecting SACCOs to be studied will be stratified simple random sampling. In stratified sampling as shown by Tromp and Donald (2006) the researcher can stratify a target group of people believed to be reliable for the study. In this case the two SACCOs with a FOSA in place were studied as they represented a population that had taken a strategic direction. The other 29 SACCOs were selected using simple random sampling. The most accessible and cooperating were selected. As recommended by Mugenda and Mugenda (2005) for a population size that is not very large, a 50% sample was taken from the total population as shown above. In total the people interviewed were 47.

Table 3.1: Sample size

	SACCOs		Total in sample	Total population
	with FOSA	without FOSA		
Top management	2	14	16	31
Board members	2	14	16	31
Supervisors	2	13	15	31
Totals	6	41	47	93

### 3.5 Data Collection

Primary data on factors hindering growth of SACCOs was collected by directly sending questionnaires to the targeted individuals. Primary data was used because of its proximity to the truth and control over error Copper and Shindler (2003). The main tool for data collection was a structured questionnaire. Each section of the questionnaire had two to three questions on a particular concept. Mainly Likert scale numbered 1-5 guided the respondents to ensure that the responses would be process able. Some open ended questions were also included for the qualitative data.



### 3.5.1 Data Collection Techniques

The survey techniques were selected having in mind that, the respondents were bank employees/officials and confidentiality was of paramount importance. Further all the 31 SACCOs in the sample competed with each other for members and thus utmost care was taken on the disclosures that could be exposed. Ethical issues were upheld. Closed and open ended questions were used in questionnaires. They covered all the areas of concern to enable coverage of all the issues raised in the operational framework. The data collection procedure involved delivering the questionnaires to the Saccos under study. Thereafter, the completed and the uncompleted questionnaires were collected after 1 week.

### 3.5.2 Data Analysis Technique

The research will take advantage of statistical methods in presenting and analyzing the information. The raw data was first validated, edited and then coded. Data analysis was then carried out to examine what had been collected in the survey using both inferential and descriptive statistics. This was done using the Statistical Package for Social Sciences (SPSS) analysis tool kit.

The model for data analysis was multiple regressions represented as follows;

$$Y = a + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + e$$

y=dependent variable –Growth of SACCOs.

a= constant

$\beta$ = Coefficient of co relation

X1=independent variable – Information Technology.

X2=independent variable –Dividend policy.

X3=independent variable- Implementation of projects.

X4= independent variable –Responsiveness to competition.

X5= independent variable –Area of Operation.

e = error element

Hypothesis was tested according to the outcome of the data in terms of skewness for each variable. The outcomes had a normal distribution and thus used Z test statistic for larger sample. The samples were all above 30; that is 47 respondents. The SPSS package processed and

indicated the observed significant levels or P value to enable rejection or acceptance of the null hypothesis at 95% level of confidence.

### **3.5.3 Data Presentation**

The analyzed data was presented using tables, charts and graphs and appropriate explanations given.

### **3.6 Ethical issues**

Permission to carry out the study was sought from the Ministry of Cooperative Department and marketing – Laikipia county office. An informed consent was also sought from all the respondents and were made aware of voluntary participation and confidentiality of information collected was only to be used for the purpose of the study. Documented references were cited and acknowledged in the study body and a list of the bibliography in respect of the same given in the reference section. Thus, philosophy of intellectual honesty was highly respected.

### **3.7 Operationalization of variables**

In this section, the study identified behavioral dimensions, indicators or properties by the main variables in order to make them measurable. The measurements were both objective and subjective. Table 3.3 shows the operational indicators which were used during the investigation on the factors influencing the growth of SACCOs in Laikipia County.

**TABLE 2 Operationalization of variables**

Objectives	Type of Variables	Indicators	Measurement	Level of scale	Data collection	Approach of analysis
Growth of SACCOs	Dependent	Profits Deposits Loan portfolio	Percentages of growth	Ordinal/Nominal	Questionnaire	Quantitative Qualitative
Information Technology	Independent	-IT dept -Technical skills in IT -Networking -Latest tech.	Existence of the parameters And the level	Nominal/Ordinal	Questionnaire	Quantitative Qualitative
Implementation of projects	Independent	-planning -Funding -Timeliness -Competitiveness	Considered level	Ordinal	Questionnaire	Quantitative Qualitative
Response to competition	Independent	-New products -Marketing efforts -Market I. -Customer care	Level at which the parameter has been achieved	Nominal	Questionnaire	Quantitative Qualitative
Area of operation	Independent	-Proximity -Adequacy -Restriction	The extent to which this exist	Nominal	Questionnaire	Quantitative Qualitative

### **3.8 Summary**

The chapter focused on research design; the study is accommodated on correlation survey design. The study was conducted in Laikipia County. The target population were 47 respondents sampled from the active 31 SACCOs. Data was collected by use of a questionnaire. Data collected was analyzed using Inferential and descriptive statistics and presented using tables.

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF RESULTS

#### 4.1 Introduction

The responses from the subjects were compiled into frequencies and converted into percentages and presented in various formats. These were tables bar charts form. This was to facilitate easy analysis and understanding. The findings and interpretations were done on the basis of study objectives and research questions. The open ended items that did not limit the respondents, to one response but allowed them to give as many responses as they could were categorized and the findings presented also in frequency and percentage tables.

#### 4.2 Response rate

The researcher had targeted 47 respondents for the study out of which 36 returned the instrument of data collection forming 70% response rate. The following were the findings of the research.

#### 4.3 General information of the respondents

The respondents in the study were categorized into two; male or female. This assisted to show that the extent to which the staff workforce and the officials of theSACCOs were gender sensitive and how gender issues may have influenced the situation. The outcome was that among the respondents, 53% were males while 47% were females. This can be attributed to the fact that there are more women in the country compared to men.

#### 4.4 Growth of SACCOs

An average growth rate for SACCOs was calculated for the last 5 years. This was based on the parameters of turnover, profitability, number of members, customers, deposits, share capital and loan portfolio. The outcome was as per table 4.1;

**Table 4.1 Growth of SACCOs**

Year	2011	2010	2009	2008	2007
Growth rate	9.5%	10%	17%	15%	16%

According to Table 4.1, the SACCOs growth rate declined from 16% in 2007 to 9.5% last year, 2011. There was a boom in the year 2009 when there was a sudden surge in growth to 17% but the rest of the years indicate a declined growth rate; 2008 it was 15%, 2010 the rate of growth was only 10% down from 17% the previous year. Fluctuations in growth are normal when they reflect a swing back and forth as this shows interventions to prevent decline are being introduced. The swing reflected here is more down than up. This is as a result of the factors information technology, dividend policy and non response to competition.

#### 4.5 Information Technology

Information technology was studied by checking whether the SACCO has a functional IT department, the staff in the department have technical skills in IT, other Staff members basic IT skills, Networking of operations and the use of latest technology in terms of hardware and software.

**Table 4.2 Adoptability to IT**

Parameter	1 Strongly disagree	2 Disagree	3 Medium	4 agree	5 strongly Agree
The SACCO has a functional IT department	30%	30%	10%	20%	10%
Has Technical skills in IT	46%	20%	15%	20%	9%
Networking of operations	40%	30%	10%	10%	10%
Use of latest technology	32%	25%	16%	23%	4%
Staff have basic IT skills	5%	15	25%	20%	35%

According to Table 4.2, 60% of the SACCOs do not have a functional IT department, 66% have no skilled staff in the department, 60% are not networked in their banking/SACCO operations, 57% do not use modern technology in operations and 20% of their staff do not have basic IT skills. The study observed that only 30% have functional IT department, 29% have skilled staff in IT, 20% have their operations networked, 27% use latest technology and 55% of staff in the SACCOs have basic IT skills. This means that majority of the SACCOs have not fully adopted IT in their operations. The workers have basic skills and are thus trainable to work with computers. This an area that requires more focus for the SACCOs to succeed in achieving meaningful and sustainable growth.

#### 4.5.1 Correlations – Adoptability to IT

The Pearson correlation analysis on the effects of low adoptability to IT was undertaken. The results were as indicated in table 4.3 below:

**Table 4.3 Correlations- Low adoptability to IT**

	Pearson correlations	Does your SACCO have a functional IT department	Are the operations of your SACCO networked	Do the staff have basic IT skills
Growth of SACCOs	Co-efficient of Correlation	0.764	0.656	-0.368
	Sig. (2-tailed)	0.026	0.030	0.517
	N	36	36	36
	Correlation is significant at the 0.05 level (2-tailed).			

Low adoptability to IT skills correlate positively to the growth of SACCOs. The Pearson correlation test was high and positive on two of the parameters tested at 0.764 and 0.656. Basic IT skills parameter had a negative correlation at -0.368 as shown on the table 4.3 above. The P value for the parameter on SACCOs functional IT department, was below 0.05 significant level at an average of 0.028. This means that we reject the null and hold the alternative hypothesis as true, that; low adoptability to IT influences the growth of SACCOs.

#### 4.6 Dividend Policy

All the SACCOs surveyed paid dividends in cash and there was no capitalization over the last 5 years. The only reserves that the SACCOs keep are the statutory reserves which are 20% annually. A few SACCOs around 15% have some reserves, the residuals after paying dividends. It appears common for SACCOs to borrow in order to pay members dividends as 70% responded positively to this question. This is risky as it not only deplets the liquidity of the firm but also adds some extra interest costs. The rate of dividend payment over the last 5 years was studied. The results were as per table 4.4 below.

#### Table 4.4 Rate of dividend payment



Range/year	2011	2010	2009	2008	2007
None	10%	5%	2%	3%	5%
1 -5%	20%	30%	15%	25%	19%
6 – 10%	50%	55%	70%	60%	65%
Above 11%	10%	5%	13%	12%	11%

A big number of SACCOs paid dividends above 6% in the last 5years. This were; 60% in 2011 and 2010, 83% in 2009, 72% in 2008 and 76% in 2007. These were high rates considering that during those periods the interest rates for savings accounts were 1% and below.

#### 4.6.1 Correlations – Dividend policy and SACCOs growth

Measurement on the correlation between the dividend policy and the SACCOs growth was done with the help of pearson correlation analysis. This was by relating the outcomes on the dividend payment rates and the SACCOs growth rate for the 5 year period.. The results were as per table 4.5 below.

**Table 4.5; Correlations – Dividend policy and SACCOs growth**

Growth of SACCOs	Pearson correlations	2011	2010	2009	2008
	Pearson Correlation	0.857	0.787	-0.456	0.789
Sig. (2-tailed)	0.047	0.031	0.628	0.033	
N	36	36	36	36	

Correlation is significant at the 0.05 level (2-tailed).

In most of the years, the pearson correlation coefficient was positive and high. The rate of growth of SACCOs is positively correlated to dividend payment rates. As the dividends increases the rate of growth decreases. This was the case in 2008, 2010 and 2011 where the correlation was 0.857, 0.787 and 0.789 respectfully. The year 2009 had a negative correlation at

0.456. The period had high turnovers high dividend rates and also highest growth rate; the dividend rate had increased as the growth rate increased. On the strength of the 3 parameters, the P value or the significant test is below 0.05 significant levels at 0.047, 0.031 and 0.033. Therefore the null hypothesis is rejected in favor of the alternative; the dividend policy strongly influences the growth of SACCOs.

#### 4.7 Implementation of Projects

To measure the variable on implementation of projects and how it affects the growth of SACCOs the following parameters were used; adequacy of Planning for new projects, adequacy of funding (other than normal working capital), definite start and completion time, whether the project was in support of core business, the success of the project. Half the number of SACCOs interviewed responded positively to having implemented new projects like office renovations, construction, new product development and business plans. The aggregate responses on the extent to which the project was successful based on the given parameters are represented in 4.6 below.

**Table 4.6 Implementation of projects.**

Parameter	1 Strongly disagree	2 Disagree	3 Medium	4 Agree	5 Strongly agree
Adequate Planning for new projects was done	2	31	60	4	3
Adequacy of funding (other than normal working capital)	3	25	63	6	3
The project had definite start and completion time	2	24	65	5	2
The project was in support of core business	4	36	49	7	4
The project was successful	4	34	56	3	3

The respondents were asked to rate the project implementation process and how successful it was. Majority of the respondents reported an average score at 63.9% while 30.6% felt that success in implementation of projects was only to some extent.. A small number, 2.8% reported that implementation of projects was successful to a very great extent and none was to a great extent. This means that success of projects in the SACCOs is average.

#### 4.7.1 Correlations – Implementation of projects

The success of projects implemented was correlated with the growth of SACCOs using the Pearson correlation analysis with the four parameters as shown on table 4.6 below.

**Table 4.6; Correlations – Implementation of projects and the growth of SACCOs**

Pearson correlations		Adequacy of Planning for new projects	Adequacy of funding (other than normal working capital)	Definite start and completion time	Project that is in support of core business
The Growth of SACCOs	Correlation	0.837	0.775	0.766	0.789
	Sig. (2-tailed)	0.048	0.006	0.046	0.031
	N	36	36	36	36
Correlation is significant at the 0.05 level (2-tailed).					

The influence of implementation of projects on growth of SACCOs when tested with Pearson correlation was found to be positively correlated. Four of the parameters were 0.837, 0.775, 0.766 and 0.789 on adequacy of Planning for new projects, adequacy of funding (other than normal working capital), definite start and completion time and projects that are in support of core business respectfully. The P values were all below the 0.05 level of significance as per table 4.6. Thus the null hypothesis is rejected in favor of the alternative.

#### 4.8 Response to Competitive Forces

The variable was studied by rating the parameters; introduction of new products, marketing interventions by the SACCOs, marketing research/intelligence, customer care and the staffing of marketing department. The responses were as shown on table

**Table 4.7: Response to Competitive Forces**

Parameter	1 Strongly disagree	2 disagree	3 Medium	4 agree	5 Strongly agree
The SACCO has introduced new products in the last 12 mths	10	12	3	-	2
Marketing interventions have been improved	8	10	1	1	3
Market intelligence is usually undertaken	11	9	2	-	-
Customer care efforts have existed	9	5	1	-	1
The SACCO has marketing officers	12	3	1	-	1

According to table 4.6 above, the respondents reported low competitive response to marketing forces. 22% had not introduced any new products, 18% had no marketing interventions, 20% had not undertaken any marketing research nor obtained marketing intelligence, 14% did not have any new customer care efforts and 18% of the SACCOs had no marketing officers. It was only a small percentage of 8% that had strongly agreed to the marketing parameters meaning that only the 8% were responsive to market forces while all the others were either average or unresponsive. Majority of the respondents expressed that their Saccos did not have any marketing responses in place. This was 50% while 39% indicated that they had responded to competition only to some extent. The other 8.3% were said to be average while only 2.8% had responded adequately to a very large extent. This shows that the commercial banks which have been introducing new and sophisticated products were encroaching on the SACCOs market easily.

#### 4.8.1 Correlations on Response to competition

The parameters testing the effects of the response to competition on the growth of SACCOs were correlated using Pearson correlation analysis. The results were as shown on table 4.8 below

**Table 4.8 Correlations on Response to competition**

Pearson correlations		The extent to which SACCO has marketing officers	The extent to which Market intelligence is usually undertaken	The extent to which Marketing interventions have been improved	Introduction of new products in the last 12 months
Growth of SACCOs	Correlation	0.547	-0.125	0.650	0.401
	Sig. (2-tailed)	0.036	0.611	0.035	0.026
	N	36	36	36	36

Correlation is significant at the 0.05 level (2-tailed).

Parameters testing the response to competitive forces and the influence on growth of SACCOs indicated positive correlation at 0.547, 0.650 and 0.401 for three parameters; introduction of new products, marketing interventions by the SACCOs and the staffing of marketing department. The P value for three parameters was less than 0.05 level of significance at 0.036 and 0.035 and 0.026. Therefore, the null hypothesis is rejected while the alternative hypothesis is considered correct; that, response to competitive forces influences the growth of SACCOs.

#### 4.9 Area of Operation

The variable was studied with the use parameters; restricted area of operation, inadequate region operation, desire to enlarge the area of operation, operations restricted by the name and recent change of name. The outcome were as per table 4.9 below.

**Table 4.9 Area of operation**

Parameter	1 Strongly disagree	2 Disagree	3 Medium	4 Agree	5 Strongly agree
Our Area of operation has been restricted	10	16	15	29	30
The region we operate in is inadequate	18	10	21	32	19
The SACCO desires to enlarge the area of operation	8	7	12	37	36
The SACCOs operations are restricted by the name	20	10	10	30	30
We recently had a change of name	50	40	10	-	-

According to table 4.9 above 20% of the respondents did not have any problem with their area of operation. There had not been changes of SACCO names in the county as almost all the respondents were negative about it. However, 59% have reported having restricted area of

operation, 51% felt that their area of operation is inadequate, 73% desired to enlarge their area of operation and 60% felt restricted by the names of their SACCO.

#### 4.9.1 Correlations – Area of operation and the growth of SACCOs

The parameters testing the efficiency of the area of operation and the influence this has on the growth of SACCOs were correlated using Pearson correlation analysis. The results were as shown on table 4.6 below.

**Table 4.10 Correlations – Area of operation and growth of SACCOs**

Pearson correlations		Our Area of operation has been restricted	The region we operate in is inadequate	The SACCO desires to enlarge the area of operation	The SACCOs operations are restricted by the name
Growth of SACCOs	Correlation	0.869	0.704	0.871	0.783
	Sig. (2-tailed)	0.003	0.043	0.003	0.015
	N	36	36	36	36

Correlation is significant at the 0.05 level (2-tailed).

The Area of operation was found to have positive correlation to the Growth of SACCOs on all the four tested parameters at 0.869, 0.704, 0.871 and 0.783; Restricted area of operation, Inadequate region of operation, desires to enlarge the area of operation, the SACCOs operations are restricted by the name respectfully. The P values or the test of significance were all below the significance level of 0.05. Thus, the null hypothesis rejected and the alternative held to be true.

#### 4.10 Correlations

The study intended to find out the relationship between the factors that affect the growth of SACCOs. The table 4.11 below illustrates the research finding on the correlation of the variables.

#### 4.11 Pearson Correlation Matrix

Correlation analysis		X1	X2	X3	X4	X5
Growth of SACCOs	Correlation	0.710	0.811	0.792	0.533	0.807
	Sig. (2-tailed)	0.028	0.037	0.033	0.032	0.016

Correlation is significant at the 0.05 level (2-tailed).

#### Key

X<sub>1</sub> = Information Technology.

X<sub>2</sub> = Dividend policy

X<sub>3</sub> = Implementation of projects

X<sub>4</sub> = Response to competition.

X<sub>5</sub> = Area of operation.

Hypothesis testing was as follows:-

**Table 4.12 Summary of Hypothesis testing**

Variables	P value	Accept/reject the Null hypothesis	Accept/reject alternate hypothesis
Information Technology - X <sub>1</sub>	0.028	Reject	Accept
Dividend Policy - X <sub>2</sub>	0.037	Reject	Accept
Implementation of projects - X <sub>3</sub>	0.033	Reject	Accept
Response to competition - X <sub>4</sub>	0.032	Reject	Accept
Area of operation, X <sub>5</sub>	0.016	Reject	Accept



## CHAPTER FIVE

### SUMMARY, DISCUSSION OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

The study aimed at examining the factors affecting the Growth of SACCOs. This chapter therefore highlights a summary of findings, discussion, conclusions and recommendations which are meant to enhance the Growth of SACCOs.

#### 5.2 Summary of the Major Findings

The major findings centered on the declined growth of SACCOs in the last 5 years. The growth parameters, Turnover, Profitability, No. of Members and customers, Deposits/ share capital and Loan portfolio were studied to derive the growth rate of all the 36 cases in the project. The result was that the SACCOS in Laikipia county were having a positive growth rate but was declining over the period save for the year 2009 when the growth rate was high. Five variables affecting the main independent variable; the growth of SACCOs, were all found to have positive correlation. Hypothesis testing on the variables with the use p value; the test of significance at 95% confidence level confirmed the alternative in all instances. Although some parameters had reflected negatively on the Growth of SACCOs, on average the variables had P value of less than 0.05, the level of significance. The null hypotheses were all rejected and the alternative hypotheses were held to be true. Thus, Information Technology, Dividend Policy, Implementation of projects, Response to competition and Area of operation were considered to influence the SACCOs growth considerably.

All the five variables contribute above 50% on the growth of SACCOs. The dividend policy contributed the highest correlation to the growth of SACCOs. This was at 0.811, a strong

positive correlation. The  $r^2$ ; the coefficient of variation was 0.658 meaning that it contributed 66% to any positive change in the growth of SACCOs. Information technology was found to have positive correlation at 0.710 on all the parameters. This was a moderate correlation. The coefficient of variation or  $r^2$  was 0.504 and thus Information Technology contributed about 50.4% to positive changes in the Growth of SACCOs. Implementation of projects was also confirmed as a factor that contributed positively to the Growth of SACCOs. Its correlation coefficient was 0.792, strongly positive. Coefficient of variation of 0.627 and thus contributing 62.7% to slowed SACCOs growth. Response to Competition was confirmed as being important for an effective Growth in SACCOs. It related moderately with a correlation coefficient of 0.533. Finally the Area of operation, was found to have a strong positive correlation with 0.807, C.V of 0.651 and thus a percentage of 65.1%.

### **5.3 Discussion of Findings**

The findings of the research in respect to the main factors affecting SACCOs growth; Information Technology; Dividend policy; Implementation of projects; Response to competitive forces and Area of operation have been established as major impediments to SACCO's growth.

Adoptability to Information Technology is an area that requires more focus for the SACCOs to succeed in achieving meaningful and sustainable growth. The study has confirmed that 60% of the Saccos do not have functional IT department, 66% have no skilled staff in the department, 60% are not networked in their banking/SACCO operations, 57% do not use modern technology in operations and 20% of their staff do not have basic IT skills. The study however observed that 55% of the staff have basic IT skills. The majority are thus trainable to achieve the necessary

technical skills for automating the operations of the SACCOs. But only 30% have functional IT department, only 29% have skilled staff in IT, only 20% have their operations networked and only 27% use latest technology. This means that majority of the SACCOs have not fully adopted IT in their operations. The savings and credit cooperatives have adopted a traditional method of operations where managers rely heavily on intuition, experience and personal judgment to sort out issues as they arise. Mitzberg, 1994. This is as opposed to the modern methods whereby the management is more scientific and relies more on facts and figures with the help of computerized processes. The semi manual processes poses a great risk for Saccos as they may slowly become outdated and not in line with modern technology. Webster, Frank and Robinson (1986). With the current changes in the financial sector, survival of the Saccos will depend largely on adoptability to modern IT platform.

Dividend Policy contributed the highest factor to slowing down SACCOs growth with a coefficient of determination at 66%. All the SACCOs surveyed paid dividends in cash and there was no capitalization over the last 5 years. The only reserves that the SACCOs keep are the statutory reserves which are 20% annually. A few SACCOs around 15% have some reserves, the residuals after paying dividends. It appears common for SACCOs to borrow in order to pay members dividends as 70% responded positively to this question. This is risky as it not only deplets the liquidity of the firm but also adds extra interest costs. SACCOs have conformed more to the Dividend Relevance theory as proposed by Walter and Gordon (2011). The theory holds that current cash dividends are less risky than future capital gains to the investors. Thus, they say that investors prefer the firms which pay regular dividends and in cash form. In SACCOs, there is always pressure to pay high dividend rates and in cash form. Owing to the current struggle for

business due to intense competition, things become complicated for SACCOs because the members are also the customers Kobia 2011. The tendency has been to pay high dividends to appease the members. This has far reaching repercussions as it reduces liquidity reserves and working capital. The SACCO's capability in advancing marketing efforts, developing new products, upgrading of operational systems and acquisition of modern equipments to improve the business is curtailed. Successful companies like Safaricom and the main commercial banks are known to plough back major amounts from their profits to enhance improved operations and competitiveness Maringa (2009). The SACCOs seem not to be doing well in this with Stima Sacco having aggressively campaigned through the media last year (2011) to beseech members to capitalize their dividends.

On Implementation of projects half the number of SACCOs interviewed responded positively to having implemented new projects like office renovations, construction, new product development and business plans. The respondents were asked to rate the project implementation process and how successful it was. Majority of the respondents reported an average score at 63.9% while 30.6% felt that success in implementation of projects was only to some extent. A small number, 2.8% reported that implementation of projects was successful to a very great extent and none was to a great extent. This means that success of projects in the SACCOs is average. According to Nicholars (2001), Project Implementation process may be effective if some very important factors are kept in mind; The project Scope, Time and Cost. These are also referred to as 'the triple constraints'. The Project implementation process should have a definite start time and a definite completion time. The scope should be realizable within that timeframe. If the SACCOs adopt project implementation success procedures, then growth will be enhanced.

Response to competition was found to contribute to slow SACCOs growth moderately with a correlation coefficient of 0.533, C.V of 0.284 and a coefficient of determination of 28.4%. The marketing guru Philip Kotler (1985) has analyzed various responses or strategies based on market dominance - In this scheme, firms are classified based on their market share or dominance of an industry. Typically there are four types of market dominance strategies: Leader, Challenger, Follower, Nicher. To survive competition, SACCOs have to engage and respond adequately to the competition. Ashcraft, (2005) undertook a study of the financial sector and commented that, as in other service industries, managers must remain alert to constant environmental changes, and be ready to redefine their corporate mission and reformulate their marketing policies, plans and strategies to meet the needs of the evolving, complex marketplace. The finance sector is currently one of the most competitive in the service industry. However, in order to succeed in such a dynamic market place, Berry (2006) argues that the skills required to succeed are many and varied: market intelligence, ability to develop new market entry and customer retention strategies, application of new business models and translating them into revenue generating projects and programmes. A successful product development, effective distribution and efficient marketing programme can make a real difference to the SACCOs performance and impact on its bottom line. Commercial banks and other players are able to adopt to this environment but the SACCOs have shown low adoptability Kamundi (2009).

Area of operation in which the SACCO operates is given upon registration by the Commissioner for Cooperative development. Such an area could be amended by the members and again approved by the commissioner or the registering authority like SASRA. It has now been proven by this research that this area matters quite a lot to the growth of the SACCO. It was found to

have a strong positive correlation with 0.807, Coefficient of Variation of 0.651 and thus contributed 65.1% to SACCOs slowed growth. As stated by Ashcraft, (2005) managers must remain alert to constant environmental changes, and be ready to redefine their corporate mission and reformulate their marketing policies, plans and strategies to meet the needs of the evolving, complex marketplace. They should follow the example of many who have done it like UNAITAS currently (July, 2012) undertaking aggressive campaign to rebrand through change of name. The SACCO was formally Muramati SACCO which name sounded more of central province thus restricting them in other areas of the country and even across borders. They have now adopted a more strategic name; UNAITAS. This will enable the SACCO to enlarge its area of operation.

#### **5.4 Conclusions**

The study concludes that the major challenge that SACCOs face is inadequate capital base made worse by payment of high dividends in cash form. Restrictions on area of operation is also an issue but without working capital there is nothing much a SACCO can accomplish.

#### **5.5 Recommendations**

It would be important to address the effects of slowed SACCOs growth as concluded in this research. On IT the main recommendation is that the SACCOs staff recruitment policies should be amended to include the requirement that all new employees should have adequate IT skills. The registering authority to ensure that all SACCOs are on a reliable IT platform. No dividend should be paid to the members unless the SACCO is fully automated. The retained earnings will

help the SACCO to invest in modern technology, train the staff, acquire/maintain an operating software and network the various systems.

Where the working capital is not adequate in a reasonable period of time, fundraising through the capital and money market is necessary. This may include shares drives and external borrowing. The statutory reserves should also be increased from the current 20% to 30% to enhance the capital base of the SACCOs borrowing a leaf from successful firms like Safaricom and also other Commercial banks in the market. With adequate working capital the SACCOs will be able to respond adequately to competitive forces in the market through research, new products, skilled marketing officers and customer care programmes. It will also be possible to fund projects and ensure successful completion. On Area of operation, the registering authorities have to let go of this control where they prescribe where a SACCO should operate. This may be either SASRA or the Commissioner for Cooperative development. Once a SACCO is registered, it should be set free to operate in the areas best suited for its business in a free market environment.

The government of Kenya needs not forget the spirit and the letter of the session paper no. 10 of 1965 where cooperatives were to be natured to enhance financial inclusion of all Kenyans. FSD (2009) carried out a research which revealed that around 80% of Kenyans are unbanked. Policies by the government to enhance the capacity of SACCOs in the financial inclusion struggle should be enacted. Adverse directives like one that requires schools to operate accounts only with Commercial banks should be ceded to allow Schools to operate with SACCOs as well. Further research is recommended on how to make SACCOs efficient corporate bodies without the traditional outlook that disenfranchises them from corporate clientele. A study on possible

sources of funding for SACCOs would also be necessary considering that inadequate working capital has been a problem. This study has revealed that SACCOs borrow at high interest rates to even pay dividends.



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## APPENDICES

### APPENDIX I - QUESTIONNAIRE

#### TOPIC: FACTORS THAT AFFECT THE GROWTH OF SACCOs – THE CASE OF LAIKIPIA COUNTY:

##### SECTION A: GENERAL INFORMATION

1. What is the name of your SACCO (optional) -----  
-----
2. Gender: Male ( ) Female ( )

##### SECTION B: GROWTH OF SACCOs

1. Indicate range in the growth parameter of your SACCO for the last 5 years.
  - a) Turnover
  - b) Profitability
  - c) No. of Members and customers
  - d) Deposits and share capital
  - e) Loan portfolio

###### A) Turnover

Range/year	2011	2010	2009	2008	2007
Up to 1m					
Above 1 – 3m					
Above 3 – 6m					
Above 6 – 9m					
Above 9m					

**b) Profitability**

Range/year	2011	2010	2009	2008	2007
Up to 1m					
above 1 -5m					
above 5 – 10m					
Above 10 – 15m					
Above 15m					

**c) Number of members**

Range/year	2011	2010	2009	2008	2007
Up to 1000					
above 1000 - 5000					
above 5000 - 10000					
Above 10000 – 15000					
Above 15000					

**d) Deposits and share capital**

Range/year	2011	2010	2009	2008	2007
Upto 100m					
100-200m					
201 – 300m					
301 – 400m					
Above 400m					



f) Loan portfolio

Range/year	2011	2010	2009	2008	2007
Up to 100m					
Above 100 - 200m					
Above 200 - 300m					
Above 300 - 400m					
Above 400m					

**SECTION C: ADOPTABILITY TO INFORMATION TECHNOLOGY**

Parameter	1 Strongly disagree	2 Disagree	3 Medium	4 agree	5 strongly Agree
The SACCO has a functional IT department					
Has Technical skills in IT					
Networking of operations					
Use of latest technology					
Staff have basic IT skills					

**SECTION D: DIVIDEND POLICY**

- a) How does your SACCO pay dividends? Tick as appropriate: In form of cash(  ),  
 In form of shares (  ),  
 Both cash and shares (  ).
- b) Does the SACCO have any other reserves other than the statutory reserves? Yes (  )  
 No (  )
- c) Give amount of total retained earnings kshs.....
- d) Are there instances when the SACCO borrows to pay dividends? Yes (  ) No (  )

e) Rate of dividend payment

Range/year	2011	2010	2009	2008	2007
None					
1 -5%					
6 – 10%					
Above 11%					

**SECTION E: IMPLEMENTATION OF PROJECTS**

Has your SACCO invested in any new projects in the last 5 years? Yes ( ) No ( )

If yes please give your views on aspects raised in the following table.

Parameter	1 Strongly disagree.	2 Disagree	3 Medium	4 Agree	5 Strongly agree
Adequate Planning for new projects was done					
Adequacy of funding (other than normal working capital)					
The project had definite start and completion time					
The project was in support of core business					
The project was successful					

**SECTION F: RESPONSE TO COMPETITIVE FORCES**

Parameter	1 Strongly disagree	2 disagree	3 Medium	4 Agree	5 Strongly agree
The SACCO has introduced new products in the last 12 mths					
Marketing interventions have been improved					
Market intelligence is usually undertaken					
Customer care efforts have existed					
The SACCO has marketing officers					

**SECTION G: AREA OF OPERATION**

Parameter	1 Strongly disagree	2 Disagree	3 Medium	4 Agree	5 Strongly agree
Our Area of operation has been restricted					
The region we operate in is inadequate					
The SACCO desires to enlarge the area of operation					
The SACCOs operations are restricted by the name					
We recently had a change of name					

## APPENDIX II

### DATA SHEETS ON COOPERATIVES' CONTRIBUTION TO THE NATIONAL ECONOMY

District / Province: *Laikipia East and Central and North Districts*

1. No. of Active Societies by 2009: **31**
2. Active membership of societies by 2009; **7592**
3. No. of Dormant Societies by 2009: **51**
4. Dormant membership by 2009: **4838**  
(Fill the Table below)

#### 5. STATUS OF COOPERATIVE SOCIETIES ( UP TO DECEMBER 2009)

District Name	Total number of registered societies	Number of Active societies	Number of dormant societies	Number of deregistered societies
<i>Laikipia East</i>	<i>59</i>	<i>21</i>	<i>34</i>	<i>None</i>
<i>Laikipia Central</i>	<i>28</i>	<i>10</i>	<i>17</i>	<i>None</i>
<i>Total</i>	<i>82</i>	<i>31</i>	<i>51</i>	<i>None</i>