

**FACTORS AFFECTING THE PERFORMANCE OF
SAVINGS AND CREDIT COOPERATIVE
SOCIETIES:**

A Case of General Motors Kenya SACCO Limited

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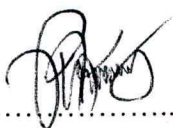
**RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF
HUMAN RESOURCE DEVELOPMENT IN PARTIAL FULFILMENT
FOR THE AWARD OF EXECUTIVE MASTER IN BUSINESS
ADMINISTRATION OF JOMO KENYATTA UNIVERSITY OF
SCIENCE & TECHNOLOGY**

JULY 2009

DECLARATION

DECLARATION BY THE CANDIDATE:

I declare that this research project is my original work and has not been previously submitted to another university for an academic degree. No part of this work may be produced or transmitted in any other form without the prior permission of the author or Jomo Kenyatta University of Science & Technology.

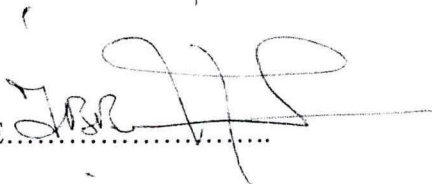
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DECLARATION BY THE SUPERVISORS

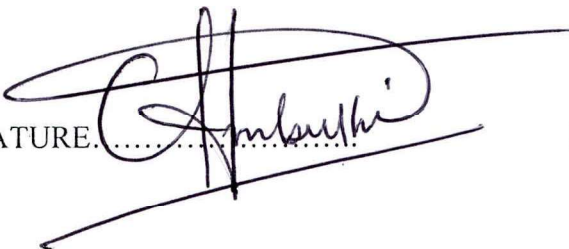
This research project has been submitted for examination with our approval as the University supervisors

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ABSTRACT

The purpose of this research was to assess the factors affecting the performance of Savings and Credit Cooperative societies – A case study of General Motors Kenya SACCO Ltd. The background of this research project broadly covers the origin of cooperative movement in Kenya and the cooperative legislation that have been enacted. It also provides an insight into the history of General Motors Kenya SACCO Ltd. GMK SACCO has faced stagnation of growth in membership over the years. The dividend rate has remained at the same rate for several years, instead of improving. Cooperatives which are performing well are expected to be improving in terms of dividend payout rates and the membership would be expected to be delighted and therefore retention rate of members are expected to be high. The specific objectives investigated the effects of member's turnover, competence of management, government regulations and the levels of members' income on the performance of GMK SACCO. For the purpose of this study, one of the indicators of performance was the speed of loan processing. The faster the loan is processed, the better the performance. The rate of dividend pay out to members was also used as a measure of performance. The higher the dividend rate, the better the performance. Share capital growth was also used as an indicator of performance. Growth in share capital was taken to mean good performance, while decline in share capital is an indication of poor performance. The methodology was both descriptive and qualitative. The target population for this study was the membership of the GMK SACCO, which comprises of 294 members. A simple random sampling of 30% of the target population was used. This translated to expected respondents of 89 members, which was considered sufficient for the study. Data was collected by use of questionnaires. Data once collected was analyzed using a simple Microsoft Excel spreadsheet. Once analyzed, the data was presented in form of tables, percentages, charts and graphs. The purpose of the data collection and analysis was to determine whether the presupposed factors affecting performance of GMK SACCO are supported by the views of the respondents, and secondly to find out if there are other factors affecting performance of GMK SACCO.

Conclusions were then drawn based on the outcome of the data collected. Members' turnover was found to have an impact on the share capital of the cooperative. When a lot

of members withdraw from the SACCO, share capital was found to reduce because the members leaving the SACCO would have to be refunded their shares. Management competence was found to have an impact on the performance of the SACCO to a great extent. Government regulations, through legislation, were found to have an impact on the performance of the SACCO. The government is able to keep the management of the SACCO in check and was able to prevent the management committee from investing the SACCO resources in non core activities. Levels of members' income were found to have an inverse relationship to the percentage of savings the members invested in the society. The higher the member's income, the smaller the percentage of the income is invested in the SACCO by the member.

ACKNOWLEDGEMENT

I wish to recognize the input my research supervisors Dr Awino and Dr Ombuki without which I would never have been able to write this research project.

DEDICATION

I wish to dedicate this research project to my wife Edna, my daughter Cynthia and sons Emmanuel and Elvis, who have been my source of encouragement as I put together this project.

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LIST OF ABBREVIATIONS AND ACRONYMS

SACCO: Savings and Credit Cooperative Society

GMK: General Motors Kenya

GMEA: General Motors East Africa

JKUAT: Jomo Kenyatta University of Science and Technology

CHAPTER ONE: INTRODUCTION

This chapter gives the background of the topic under study as well as the statement of the research problem. The chapter also outlines the general and specific objectives of the study and the research questions that the researcher aims to answer. The significance and scope of the study is also stated in this chapter. The researcher closed the chapter by outlining the limitations of the study.

1.0 Background

1.1.1 Cooperative Movement in Kenya

Cooperatives are economic enterprises founded by and belong entirely to the members. They are business associations which are created for the mutual benefit of members (Smith, 2007). These enterprises are created in order to render the best possible service at the lowest possible cost to their members. The spirit of cooperative movement is not new in the African societies. According to Mwaura (2005), cooperative spirit has always been at the heart of African communities. Long before the word 'cooperatives', communities used to work together in their farms or when doing hunting and gathering. Most Kenyan communities had a name for cooperatives. For instance, the Luhya had 'bulala', the Kikuyu had the 'ngwatio', the Luo had 'saga', the Gusii had 'lisaga' and the Kalenjin had 'kokwet' (Kamau, 2006)

Low income earners have limited access to financial services and this is normally seen as one of the constraints limiting their benefits from credit facilities. However, in most cases the access problem, especially among formal financial institutions, is one created by the institutions mainly through their lending policies. This is displayed in the form of prescribed minimum loan amounts, complicated application procedures and restrictions on credit for specific purposes (Atieno, 2001). This gap created by lending policies of financial institutions is filled by the cooperative societies.

In Kenya, cooperatives are registered under Chapter 490 of the laws of Kenya while companies are registered under Chapter 486. The cooperative societies are governed by the Co-operative Societies Act (Amended) 2004. According to the Act, a cooperative

society is only registered after incorporating in its by-laws the principles of voluntary and open membership; democratic member control; economic participation by members; autonomy and independence; education, training and information co-operation among co-operatives, and; concern for the community in general (Cooperatives Act, 2004)

According to Mudibo (2005), Co-operatives have played an important role in the development of the economy of Kenya and have led to the uplifting of the standards of living of the people. Kenya had more than 2.5 million members in Savings and Credit Co-operatives (SACCOs) out of the 5 million Co-operators while there are 3,000 SACCOs out of the 10,000 registered Co-operatives. The savings mobilized by SACCOs in Kenya are Kshs.110 billion (US\$1.5 billion) and the loans outstanding Kshs.95 billion (US\$1.3 billion). Co-operatives have been involved in the provision of credit for the purchase of land, farm inputs, housing, education, medication and development of various business ventures (Mudibo, 2005).

Some of the challenges facing SACCOs were identified by Muriuki (2001) as non-remittance from members, loan defaults, lack of diversity in services and products offered and low computerization.

The principle – agent relationship exist in Co-operatives. Member-owners are also its clients who are made up of groups with different interests. Some are net savers and others net borrowers. Each member has one vote regardless of the amount of wealth invested by the member while most Co-operatives electorate do not have high levels of business or financial acumen. These among other concerns demand the need for good governance. The Co-operatives Governance structure comprises of the Annual General Meeting, Board members, Supervisory Committee, Managers and other staff. However the principal-agent nature of the relationship requires separation of ownership and decision making between the Board members and Management. It is for this reason that good corporate governance practices must be nurtured and encouraged to evolve best practices. (Mudibo, 2005)

1.1.2 General Motors Kenya Savings and Credit Cooperative Society

General Motors Kenya (GMK) SACCO was incorporated in 1977. The common bond for GMK SACCO is the employees of General Motors East Africa Ltd; previously General Motors Kenya Ltd. General Motors East Africa changed its name from General Motors Kenya Ltd in the year 2002 to reflect a more regional representation since it serves the greater East African countries. The SACCO however did not need to change its name, and remained as GMK SACCO.

GMK SACCO'S share capital was over Kenya shillings fifty seven million in 2004 and was about shillings sixty eight million in the year 2008. Dividend payout rate has remained constant at 10% of share capital. The membership has declined over the years from a high of 335 members in 2004 to 294 members in 2008.

1.2 Statement of the Problem

One of the reasons for the formation of SACCOs is to provide credit facilities to members at affordable rates. The SACCO's share capital is raised through contributions from its members. GMK SACCO's membership has been declining over the years. Loan default has also increased. Due to legislative restrictions, the SACCO's recourse in cases of default is to hold the loan guarantors responsible, and would seek to recover the defaulted loan from the guarantors. The SACCO cannot attach member's property to recover defaulted loans, as the only security to the loans is the member's share capital and the guarantees. Income tax legislation requires that an employee's net pay after all deductions should at least be 30% of the employee's gross pay. Recovery from guarantors is therefore sometimes limited by this requirement, and would take a long time to recover. Due to the 30% minimum net pay restriction; members who may have other sources of income other than income from employment are limited in the amount of loans they can take, even if they would have been able to repay using the other sources of income. Financial institutions like banks may therefore buy-off the SACCO loans from such members, despite the competitive interest rates charged by the SACCO on loans (Atieno, 2001).

GMK SACCO has over the years paid out a dividend of about 10%. In the year 2004, the dividend payout rate was 9.28%, in 2005 it was 10.16%, in 2006 and 2007 it was 10% while in 2008 it was 10.5%. This figures show that there has been very little improvement in terms of returns to members over the years.

(Kamau, 2006) studied how information systems, education and training, capital outlay and product diversification influence the operations of SACCOS. There is a need to study effects on performance of SACCOS occasioned by the competence of employees, effects of retrenchments and layoffs by the parent company and effect of cooperative legislation on the performance of SACCOS. No known research has been carried on factors that affect performance of GMK SACCO. This research therefore will investigate the factors that affect performance of GMK SACCO Ltd.

1.3 General Objectives

To establish the factors that affect the performance of General Motors Kenya SACCO Ltd

1.4 Specific Objectives

1. To determine the effect member's turnover has on the performance of GMK SACCO
2. To establish impact of management competence on the performance of GMK SACCO
3. To determine the effect of government regulations on the performance of GMK SACCO
4. To establish the impact of level of members' income on the performance of GMK SACCO

1.5 Research Questions

1. Does the turnover of members affect the performance of GMK SACCO?
2. What is the effect of management competence on the performance of GMK SACCO?
3. How do government regulations affect the performance of GMK SACCO?
4. Does the level of Members' income affect the performance of GMK SACCO?

1.6 Significance of the Study

This study will benefit Savings and Credit Societies in general and GMK SACCO Ltd in particular, to understand the factors that affect their performance. An appreciation of these factors will make the SACCO put in place measures to improve its performance. Policy makers in the Ministry of cooperatives Development will benefit from this study, and will help them in the formulation of policy.

This study will also lay foundation for future studies for scholars who might want to research further performance of Savings and Credit Cooperative societies.

1.7 Scope of the Study

This is a case study of GMK SACCO Ltd. GMK SACCO has 294 members.

1.8 Summary

This chapter has outlined the background of the study, and the objectives the researcher hopes to achieve by the end of this study. The next chapter will review literature on what other scholars have studied about the subject.

CHAPTER TWO: LITERATURE REVIEW

Introduction

The purpose of this literature review is to enable the researcher to avoid unnecessary and unintentional duplications, form the framework within which the research findings are to be interpreted and demonstrate familiarity with the existing body of knowledge. The review will also familiarize the researcher with previous studies and thus facilitate interpretation of the results of the study. This chapter will attempt to develop an overview of cooperation among people.

2.0 Theoretical Background:

Co-operatives are voluntary associations of people, which are formed as autonomous, self-help groups aimed at assisting members who are unable to get financial services from the commercial banking sector, due to the lack of conventional collateral (Adongo, 2005). In Kenya, first cooperative legislation enacted was the Cooperatives Societies Registration Ordinance Number 24 of 1931, later amended by Ordinance Number 16 of 1943. A new cooperative societies' ordinance was passed in 1945, with an aim of encouraging Africans to form cooperatives. Inadequate administrative capacity both within the cooperatives and the Ministry's department led to passing of the Cooperative Societies Act (1966), and also the 1969 Rules. This new act replaced the 1945 Ordinance.

2.1 Performance Measurement

Since this research project is about factors that affect performance, it is important to define what performance is. (Lebas, 2002) provide a definition of performance as "doing today what will lead to measured value outcomes tomorrow." Performance measurement then is concerned with measuring this performance relative to some benchmark, be it a competitor's performance or a preset target (Kellen, 2003). Setting organizational performance targets is a natural outcome to the implementation of a performance measurement system. If an organization were to decide to measure its performance against the number of clients served in a year, then the organization would establish a target related to that measure. According to Kellen (2003), measures can be objective or

subjective. Objective measures can be independently measured and verified, while subjective measures cannot. Measures are also typically classified as financial or non-financial (Lebas, 2002). The non-financial measure that was considered for this study is the speed of loan processing. This is because one of the primary purposes for the existence of SACCOs is to provide credit to its members at competitive rates. The financial measure that was used for this study is the dividend payout rate and share capital growth.

2.2 Members' Turnover

Members leave the SACCO for different reasons. Some of the reasons for leaving the SACCO include resignations from the SACCO and exit from the common bond. Turnover in organizations is a normal and expected phenomenon, something that all organizations experience at some level and something that is seldom problematic. According to Kochanski (2006), turnover turns toxic when it affects financial results. Kochanski goes on to say that successfully managing turnover is a matter of understanding its costs, causes and cures.

According to a report by World Council of Credit Unions Inc, most SACCOs displayed a disturbing pattern of insufficient or non-existent loan loss provisions, inaccurate measurement and classification of delinquency (portfolio-at-risk at 30 days calculated on the total outstanding loan balance) and weak, if not negative, institutional capital. The employer-based credit unions have relied on automatic salary deduction for loan repayments; historically, delinquency was essentially zero and the financial discipline of provisioning for loan losses has not been an Integral part of SACCO development. Tomno (2006) in his study of factors affecting performance of cooperative Insurance Company, concluded that among other factors, capitalization play a significant role. Since for cooperatives contributions from members make the bulk of the share capital, members' turnover would affect the cooperatives' capitalization.

2.3 Management Competence

GMK SACCO can be classified as a small business, as it employees only two members of staff. Small business is one that employs fewer than 100 people. (Scarborough, 2005).

According to Scarborough, poor management is the primary cause of business failure. Sometimes the managers of small businesses do not have the capacity to operate it successfully. They may lack the leadership ability, sound judgement and knowledge necessary to make the business work. What kills businesses usually has less to do with insufficient money, talent, or information than with something more basic; a shortage of good judgement and understanding at the very top (Scarborough, 2005).

Managers are supposed to play an entrepreneurial role in their organizations. This role stems from the manager's ability to authorize action. They spot opportunities and galvanise their organization into appropriate action (Smith, 2007).

According to Stoner (2001), managers must continually adjust to changing conditions in a complex and dynamic environment. Stoner adds that it should come as no surprise that today's managers look at change as a constant in their lives. Stoner concluded that there are three concurrent challenges that confront managers as they deal with change; namely need for vision, need for ethics and need for responsiveness to cultural diversity. As environmental turbulence increases, strategic issues emerge that challenge the way an organization plans and implements its strategy (Perrott, 2008).

Management skills can be divided into three broad categories; conceptual skills, interpersonal skills and technical skills (Smith, 2007).

The essential core competencies that must be assessed for every managerial position relate to the control of and accountability for resources, effective management of personnel and assuring results. Competency assessment can help facilitate the performance management process in your organisation. By providing an objective set of measures, competencies provide an effective benchmark from which to measure the performance gains of employees. When the competencies are behaviourally anchored and adequately validated, they also support merit and competency-based pay strategies (Smith, 2007). This researcher sought to establish the competence level of GMK SACCO management, and investigate whether the competence of management affect the performance of the SACCO.

2.4 Government Regulation

The major legislative landmarks include the enactment of the Co-operative Societies Act of 1966. It empowered Government to get involved in the day-to-day management of cooperatives. Recognising that this created a lot of bureaucracy and unnecessary control by the government, the Act was revised in 1977. The intention was to conform to principles of co-operation and also to usher a new spirit of liberalisation of the movement, which required withdrawal of government from control of such institutions as co-operatives. Such withdrawal, it was argued, would enhance efficiency in the delivery of services to members. According to Hedlund(1988), the tone was then very much against direct state control. Co-operators would like to operate with much less control by the state. The 1997 Co-operative Societies Act commenced operation on 01 June 1998 and it was presumed that co-operatives had matured to a level where they would regulate themselves. Cooperative Amendment Act 2004 returned some government controls to the cooperative movement, which had been advocating for liberalization. The act introduced indemnity requirement where committee members or senior staff members stand to lose some preset amount (Kamau, 2006). The SACCO Societies Act 2008 was signed into law by the president of Kenya in 2008. The act is yet to be gazetted by the minister of cooperatives so that it comes into force. Once gazetted, the Act will require SACCO to maintain basic prudential standards like capital adequacy. This is the ratio of core capital to assets, asset quality, minimum liquid asset as ratio to total assets and deposits. It will also limit loans granted, control distribution of earnings and control on insider and connected lending practices. It will however have some negative consequences to SACCOs, which would include maintaining of minimum reserve funds and annual license fees. Every SACCO licensed under this Act shall make contributions, annually to the Fund, which shall be a fixed percentage of the SACCO society's deposits as determined by the Trustees from time to time. The moneys constituting the Fund shall be invested in government securities and in deposits in banks as directed by the Trustees (SACCO Act, 2008).

2.5 Income Level of Members

The amount of credit provided depends on the amount of the individual members' savings, but the use of money is not restricted. A borrower's ability to obtain credit depends on his credit rating. Credit rating is the score of the applicants' strength of weighted scores of the key financial credit characteristics. This considers income, job stability, family obligations, current outstanding debts and the applicants' record of satisfying his or her debts promptly. An individual's credit rating is a consideration of his or her apparent ability to carry his burden of new debt and his indicated past willingness to meet his obligations (Yebei, 2005).

Loan guarantee schemes are used as a means of encouraging SACCOs to increase their lending to the risky borrowers, without the traditional formal security (Atieno, 2001).

SACCO members make a monthly contribution of their income to the SACCO as deposits. The various factors affecting savings decision play a major role in influencing the savings plans of individuals. There are a number of reasons that influence the savings decisions both at the microeconomic and macroeconomic level. The various measures that work on the savings decisions try to explain the tendency of people to consume or save.

Opportunity cost is one of the major factors affecting savings decision. Opportunity cost refers to the alternative cost that should be waived while consuming certain product or service. In other words it can also be said that the opportunity cost is actually a benefit that is enjoyed by the purchaser over certain alternative action. Generally the opportunity cost is expressed as the relative price of one choice to another. The concept of opportunity cost affects the decision of savings of an individual gravely. Before going for purchasing a good or service the individual thinks about the opportunity cost of that particular purchase and hence decides on saving.

Another important factor that affects the savings decision is the theory of diminishing returns. Also known as the diminishing marginal returns, the diminishing return says that after a certain point, the additional variable input unit does not yield the same but rather yields less additional output. In other way it can also be said that creating a single unit actually costs more variable inputs. This theory affects the decision making concept of

individual and says that after a certain point the consumer prefers to save rather than going for more consumption.

2.6 Empirical Literature Review

Kamau (2005) studied factors influencing operations of SACCOs; A case of Muhigia Teachers SACCO. He considered information systems, education and training, capital outlay and product diversification. He concluded that for the case of Muhigia, committee members were not computer literate. Training was offered to committee members and general membership, as well as staff. He noted that members were not keen on attending education days as compared to general meetings. He found that Muhigia SACCO had different products, namely normal loan, school fee loan, emergency loan and advances. The SACCO also operates a front office.

Mwaura (2005) analysed factors affecting SACCO performance, and he considered Management Actions, Staff Education and training, Actions by ministry and employers and investment decisions. He concluded that members' actions, actions of national officials and employees and staff education were all crucial factors that affect performance. When loanees fail to repay their loans for three months, their accounts status changes from active to default. The society writes to the guarantors informing them of the position. All shares owned by the defaulters and any dividend due to them are used to offset the loan. Any balance remaining will be deducted from guarantors' shares. Guarantors can also make arrangements to pay for the loan through payroll. There is a guarantor clause that states that "we hereby accept jointly and severely liability for the repayment of the loan in the event of the borrower's default". This means that two or one of the guarantor(s) can be called upon to pay for the defaulted amount.

When a member ceases working for their employers they can still remain members by sending their monthly contributions through bank standing orders. An employer's committal note is mandatory. Where a member has a loan, and is willing to continue

with the membership, the society writes to the guarantors informing them of the position and if they are willing to continue with the guarantor contract, the society allows the member to send monthly loan repayment. If the guarantors are unwilling to continue with the contract the society asks the member to look for alternative guarantors. When a member fails to send alternative guarantors, the society has no option but to close the account and recover loan and interest from shares and or from guarantors. To withdraw from the society, a member sends a written notice and waits for sixty days before collecting the shares refund cheque.

Tomno (2006) studied the factors affecting the performance of cooperative insurance company of Kenya. He looked at how capitalization, technology, customer service, shareholding and product range affect the performance. He concluded that technology, customer service and ownership were key factors that affect performance of the insurance company. He further concluded that product range and capitalization play a significant role.

Giturwa (2006) studied the effects of training in employee performance in Unilever Kenya Limited. He specifically looked at the training process, training methods and tools, the changing trends in training, organizational performance and management training. He concluded that the training process should consider ranks of employees in terms of seniority. He further concluded that there was a high relationship between training and performance.

2.7 Definition of Terms

The Act - This is the Act of parliament relating to the constitution and registration of co-operative societies.

The Rules – These normally come from the Minister of Co-operatives, and are intended to make the act operational.

By Laws: These are developed by a specific co-operative society and registered under the Act and includes any registered amendments of such by laws

Resolutions: these are passed during an Annual General Meetings and become binding as long as they do not contradict the act, the rules or any other law of the land.

Performance – This is the accomplishment or fulfilment of a promise, contract or set of objectives. For the purposes of this project, performance of the GMK SACCO will be measured in terms of earnings per share.

2.8 Conceptual Framework

The following schematic diagram explains the relationship between the independent variables and the dependent variables. The independent variables affect the outcome of the dependent variable.

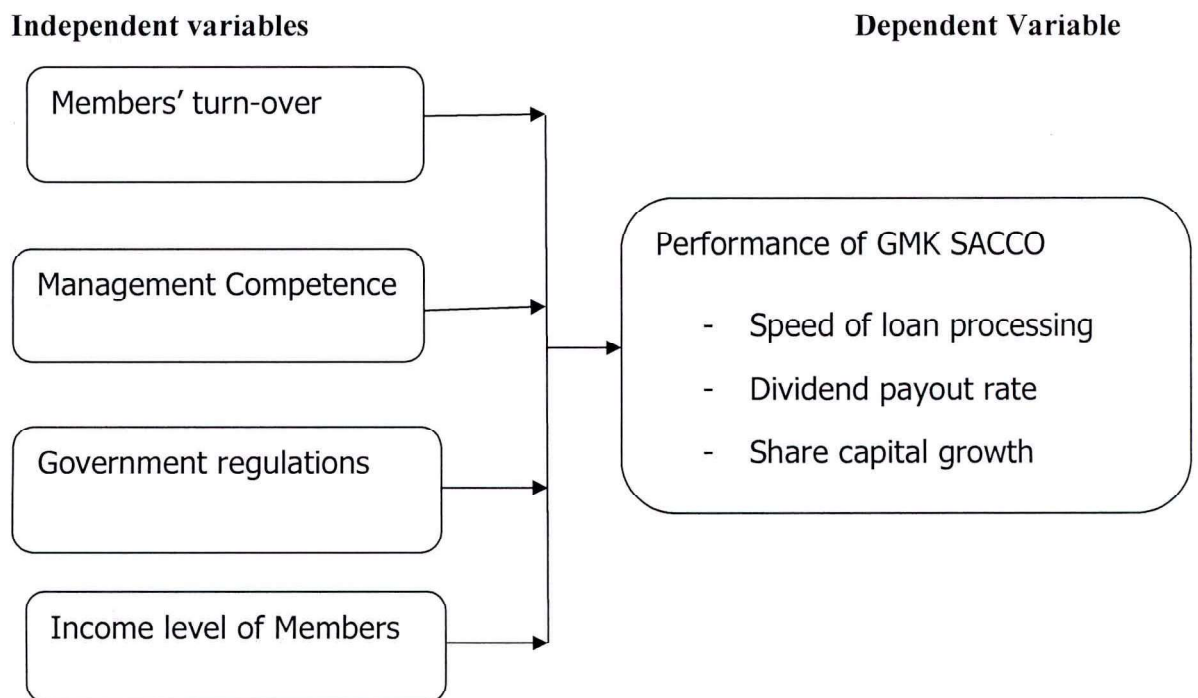


Figure 2.0 : Conceptual Framework

2.9 Summary

This chapter has reviewed literature on what others have studied about the subject. The purpose of the review was to enable the researcher develop an understanding what others have studied about the subject. The next chapter is about the research methodology, and it will outline how the research was carried out, and how the data was collected and analysed. It will cover the research design, target population, sample size and sampling design.

CHAPTER THREE: RESEARCH METHODOLOGY

Introduction

This chapter discussed the research design, population and sample, data collection procedures, data analysis procedures and presentation of findings

3.1 Research Design

Research design is a conceptual structure within which research is conducted. It informs the arrangement of the conditions for the collection and analysis of the data in a manner that aims to combine relevance to the research purpose (Kothari, 2004). This is a case study of GMK SACCO Ltd. Both descriptive and qualitative research design will be adopted. According to Kothari, descriptive research refers to a process of collecting data in order to test a hypothesis or research questions to determine the current status. Adopting a descriptive research design allowed the researcher to be flexible in data collection exercise, and made use of open ended and closed questions which allowed the respondents to provide extra information.

3.2 Target Population

The target population is the population to which the researcher wants to generalize the results (Mugenda M, 2003). The target population for this study was the entire membership of GMK SACCO, which is comprised of 294 members and 2 management staff. The table below shows the target population for members, staff and management committee

Table 3.0 : The target Population

Category of respondents	Population Frequency	Sample	Percentage
Staff	2	1	50%
Committee Members	12	4	30%

General Members	280	84	30%
Total	294	89	30.3%

3.3 Sample Size

Scholars have recommended that a sample of 30% is representative for statistical analysis (Kothari, 2004). A sample size of 30% was used for this study. This translated to 88 respondents which were considered adequate for this study.

3.4 Sampling Design

This study used stratified random sampling technique. There are three distinct strata that were considered, namely staff, management committee and general members.

3.5 Data Collection Methods and Procedures

Primary Data was collected to address the research questions. A questionnaire was prepared for the purpose of collecting data. The questionnaire had both closed and open ended questions to solicit primary data from the respondents. The questionnaire had two sections, where section A was for all members, while section B was completed by management committee. The questionnaires had statements with options ranging from strongly agree to strongly disagree. This is a Likert type of scale, which is a type of summated scales (Kothari 2003). Generally, Likert scale statements consist of a number of items, which express either a favourable or unfavourable attitude towards the aspect being considered. Secondary data was used to obtain clarifications. The SACCO office was the source of the secondary data.

3.6 Data Analysis

Data was analysed using statistical tools like mean, and frequency tables, and presented in form of charts and graphs. Mean is the most common measure of central tendency and is obtained by dividing the sum of the total values by the total number of items. Calculating the mean enables data to be compared. Qualitative techniques were used to analyze responses got from open ended questions. The raw data was entered into an excel

spreadsheet, cross-checked for errors, frequencies of different responses analyzed and desired data presentation formats produced.

3.7 Limitation of the Study

The response rate was low, and respondents had to be followed up severally to return the filled questionnaires. There was little secondary data available about the SACCO. The other limitation of the research was time constraint. The researcher could only carry out the research during weekends, evenings and limited annual leave days, as the researcher could not be available during the working hours. The major limitation of the study was in the collection of data. The management was unwilling to allow employees to be interviewed during normal working time. This forced the interviews to be conducted during lunch hour only

CHAPTER FOUR: RESULTS AND DISCUSSION

4.1 Introduction

In this chapter, the data is presented and analysed. The main data collection tool was a questionnaire, which comprised of four main variables: member's turnover, competence of management, government regulations and level of members' income. The purpose of data analysis is to determine whether the presupposed factors affecting performance of GMK SACCO is supported by the views of the respondents, and secondly to find out if there are other factors affecting performance of GMK SACCO.

Data was presented in the form of tables, pie charts and percentages where applicable.

Questionnaires were given to 89 respondents, but only 65 questionnaires were returned. Data was therefore analyzed based only on the returned questionnaires. This translated to 22.11% of the total population.

4.2 Population Characteristics

The population under study was analyzed in terms of years in SACCO membership and education level in order to provide an inside into the characteristics of the population under study. The table below summarizes the education level of respondents.

Table 4.0 : Education levels of respondents

Level	Frequency	Percentage
University	12	18.46%
Middle level College	33	50.77%
Secondary	20	30.77%
Total	65	100%

The level of education of the respondents was obtained to understand the literacy level of the respondents. For the purposes of this research, secondary school qualification was

considered literate, and would be deemed to understand the questions which responses were required in the questionnaire. From the above table, it can be observed that over 69% of the respondents had above secondary education level

The researcher also asked the respondents to state their age in GMK SACCO. The reason for asking this question was to gauge whether the respondents had been in the SACCO membership long enough to be familiar with its operations. Responses to this question were summarized as shown in the following table.

Table 4.1 : Age in SACCO as a member

Years	Frequencies	Percentages
5 years and below	27	41.54%
6-10	15	23.08%
11-20	12	18.46%
Over 20	11	16.92%
Total	65	100.00%

The majority of the members (64.63%) had been in the SACCO for 10 years or less. This partly points to a trend where members leave SACCO and others join in. However, 68.46% had been in the SACCO for a period of over 5 years. This therefore meant that the majority of the respondents were very familiar with the operations of the SACCO.

4.3 Competence of Management

In order to determine whether the management committee had the necessary training to competently manage the affairs of the SACCO, a question was put to the committee to state their levels of education. The information on education levels of the committee is presented in the following figure.

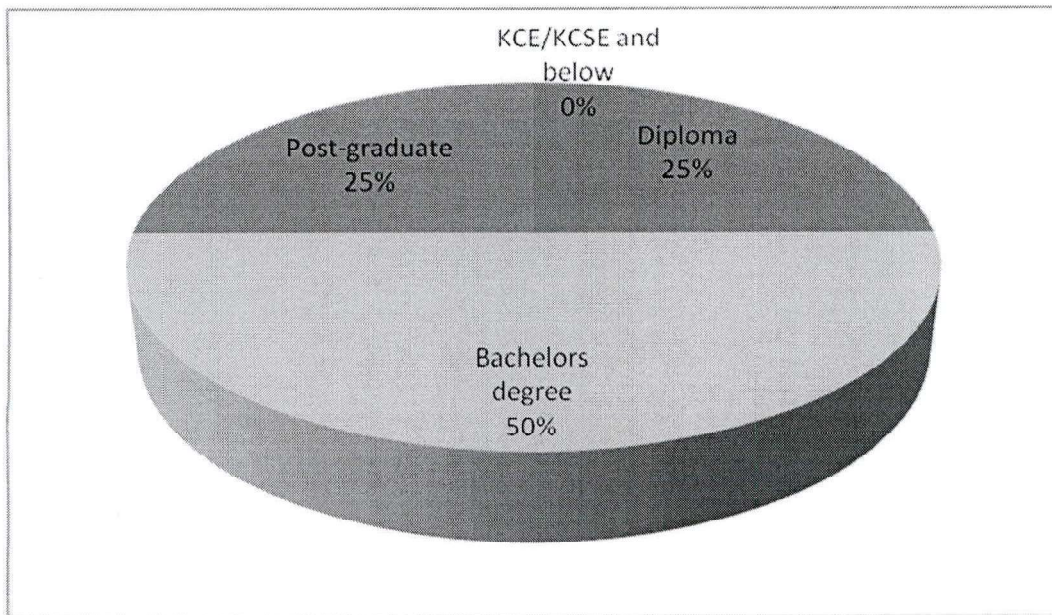


Figure 4.0 : Education level of management committee

At least 75% of the management committee members have a bachelor's degree. 25% has a diploma level of education, and none had below diploma level of education. This was very interesting results, taking into consideration that 30.77% of the general SACCO membership had only four level of education, and are eligible for election as part of the management committee through the principle of democratic management of one member one vote regardless of share capital. However, this collaborated the finding that GMK SACCO membership considers management action to have a great impact on the performance of the SACCO and though all members may be eligible for election to management committee, only voted in a certain calibre of members to take charge of the affairs of their SACCO.

Performance rating of the SACCO

The respondents were asked to rate the performance of the SACCO, from poor to excellent. A member who is delighted with the services offered by the SACCO was expected to rate it as excellent, while a member whose expectations were not being met was expected to give the SACCO a poor rating.

The following table summarizes the ratings of the GMK SACCO by the respondents.

Table 4.2 : Performance rating of the SACCO

Ratings	Frequency	Percentage
Excellent	12	18.46%
Very good	15	23.08%
Good	18	27.69%
Satisfactory	17	26.15%
Poor	3	4.62%
Total	65	100.00%

The purpose of collection information on the ratings of the SACCO by the respondents was to gauge the perception of the respondents on the performance of their SACCO. Out of 65 respondents who answered this question, 20% rated the SACCO as either satisfactory or poor, while the rest rated it as good, very good or excellent.

Speed of Loan Processing

The respondents was asked to rate the speed of loan processing by the SACCO. The question was specific for the three different loan products offered by the SACCO. These loan products are normal loan, emergency loan and instant loan. The normal loans are those loans requested by the members for development purposes, and according to the GMK SACCO by-laws are repayable within a period of four years, on a monthly basis. The emergency loans are those loans which are meant to gather for emergencies, and are repayable within a period of one and a half years. Instant loans on the other hand are those loans which are for short period, maximum of one month. The instant loan was

derived its name by virtue of the fact that it was meant to be processed same day and disbursed on cash basis but pecked at a maximum of twenty thousand shillings.

The responses to this question were summarized in the following table.

Table 4.3 : Rating of loan processing speed for different loan products

Rating	Very slow	Slow	Average	Fast	Very fast	Total
Normal Loan	0	8	27	17	13	65
Percentage	0%	12%	42%	26%	20%	100%
Rating	1	2	3	4	5	Total
Emergency Loan	0	0	3	9	53	65
Percentage	0%	0%	5%	14%	82%	100%
Rating	1	2	3	4	5	Total
Instant Loan	0	0	0	7	58	65
Percentage	0%	0%	0%	11%	89%	100%

When asked to rate the speed of processing for the three loan products offered by GMEA, 89% rated instant loans at above average, while the remaining 11% gave a rating of fast. This shows that the instant loan processing is acceptable to majority of the members. In comparison, only 20% rated normal loan processing at above average, while 12% rated it at below average. The highest percentage, 42% placed it at average.

SACCO performance for last years

It was important to gauge the perception of the membership as to the direction they felt the SACCO was heading. This is because the members have to be confident that the SACCO is moving in the right direction for them to continue investing in the society. To collect information on this issue, the members were asked to compare the performance of the SACCO in the last 3 years to the performance in the prior periods. The responses to this question were tabulated as follows:

Table 4.4 : Comparison of SACCO performance in the last 3 years to the prior periods

Better	Same	Worse	Total
12	33	14	59
20%	56%	24%	100%

On being asked to compare GMK SACCO performance over the last 3 years to the prior years, 56% of the respondents thought it was the same, 20% felt it was better while 24% thought it was worse. The question was asked to gauge the perception of the members on the performance of the SACCO, as it is important to understand whether the members felt the SACCO was headed in the right direction. If performance is improving, members are more likely to be delighted, while on the other hand they are likely to be harsh if they perceived the performance was deteriorating.

The respondents were asked to state whether they considered management actions to have an impact on the performance of the SACCO. The question was asked in order to gauge whether the membership considered management competence as critical to the good performance or otherwise of their society. Responses to this question were then summarized as presented in the following table.

Table 4.5 : Effect of management actions on performance of GMK SACCO

Yes	No	Total
62	6	68
91%	9%	100%

According to the results obtained and can be observed from the above table 91% of the respondents believed management actions affect the SACCO performance. Only 9%

thought that management action do not affect SACCO performance. This therefore means that SACCO members regard management competence as very important in determining the performance of the SACCO.

The respondents were further asked to state the extent to which management action affect the performance of the SACCO. The results are as tabulated below.

Table 4.6 : Extent of effect of management actions on performance of GMK SACCO

Great	Moderate	Small	Total
37	25	4	66
56%	38%	6%	100%

91% of the respondents felt that management actions affect the performance of GMK SACCO. Out of this, 56% believed the effect of management action was great, 38% believed the effect to be moderate while only 6% believed the effect was small. From these results it can be noted that the general membership of GMK SACCO considers management competence as very important in shaping the performance of the SACCO.

Members of the cooperatives get dividends as a return on their investment at the end of the year. Low rates of dividends would be an indicator of poor performance. The respondents were asked to state their opinion on the rate of dividend payment by GMK SACCO. The question was important in order to understand what the members think about the returns they get from their investments in the SACCO. The responses to this question were summarized and presented in the following figure.

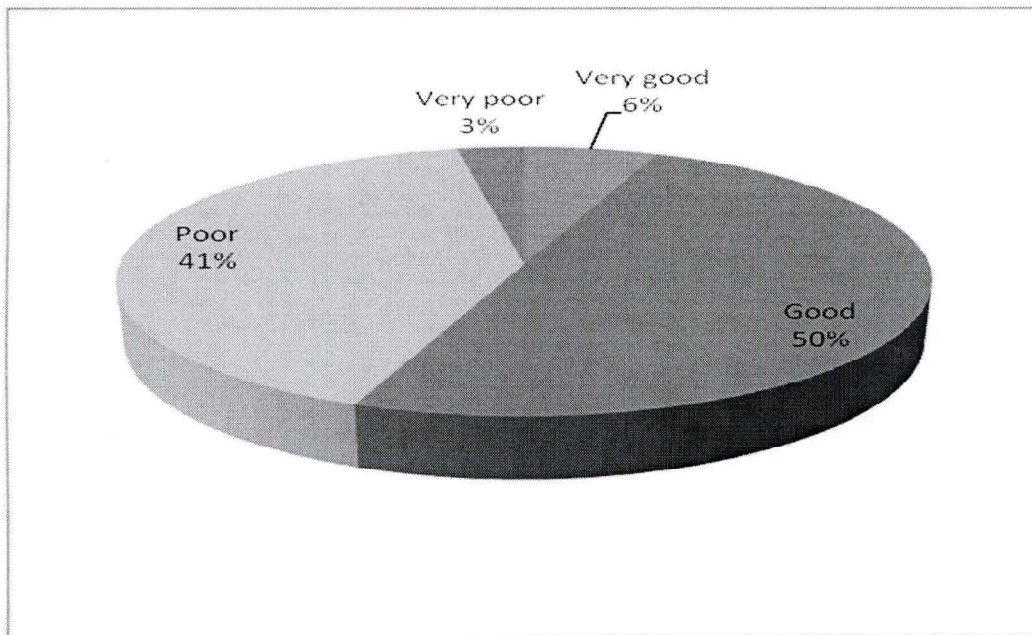


Figure 4.1 : Opinion of members on dividend payout rates

As can be observed in the above figure, only 6% of the respondents was of the view that the dividend rate was very good, 50% believed it was good, 41% thought was poor while only 3% said it was very poor.

4.4 Members' turnover

To understand how the SACCO membership has been changing over the last 5 years, data was collected from the SACCO office. The SACCO office maintains registers of members in the office. It is this same register that is used to process the dividend payouts to members when declared and approved by the AGM. The register is audited by the both the ministry of cooperative officials and also an independent external auditor appointed by the members' general meeting. The following figure shows the membership of the GMK SACCO from the year 2004 to 2008

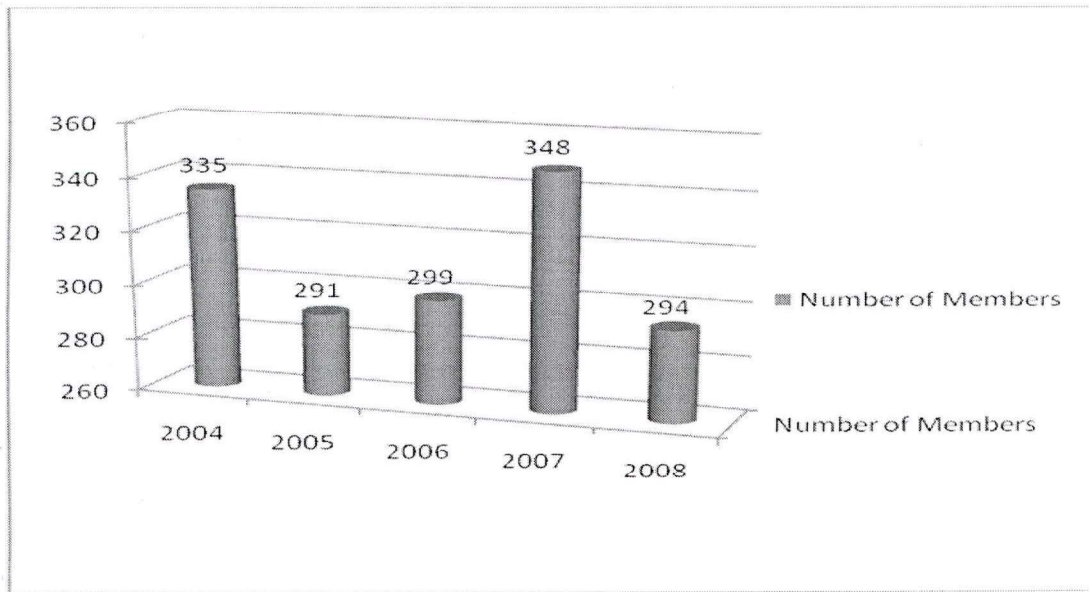


Figure 4.2 : Number of GMK SACCO members over last 5 years

The Sacco membership has remained largely stagnant over the period under review. The increase in 2007 was due to increased employment by the parent company, GMEA. In 2008, there was a staff retrenchment by GMEA. Most of the members who left the common bond also opted to resign from the SACCO.

4.5 Income level of Members

GMEA, the parent organization of GMK SACCO, has three distinct employment levels. The Executive level employees are the directors and heads of departments, the salaried level employees are the middle and lower level management, while the hourly employees are the lower cadre employees, who are eligible to join a trade union, and their remuneration is negotiated by the union in a process called collective bargaining agreement (CBA). The highest employment income earners in these three categories are the executives, followed by the salaried category, while the hourly employees are the least paid. The respondents were asked to state their employment categorization with GMEA. The purpose of this question was to band the respondents to high income, middle income or low income category. This data was then tabulated and presented in the following figure.

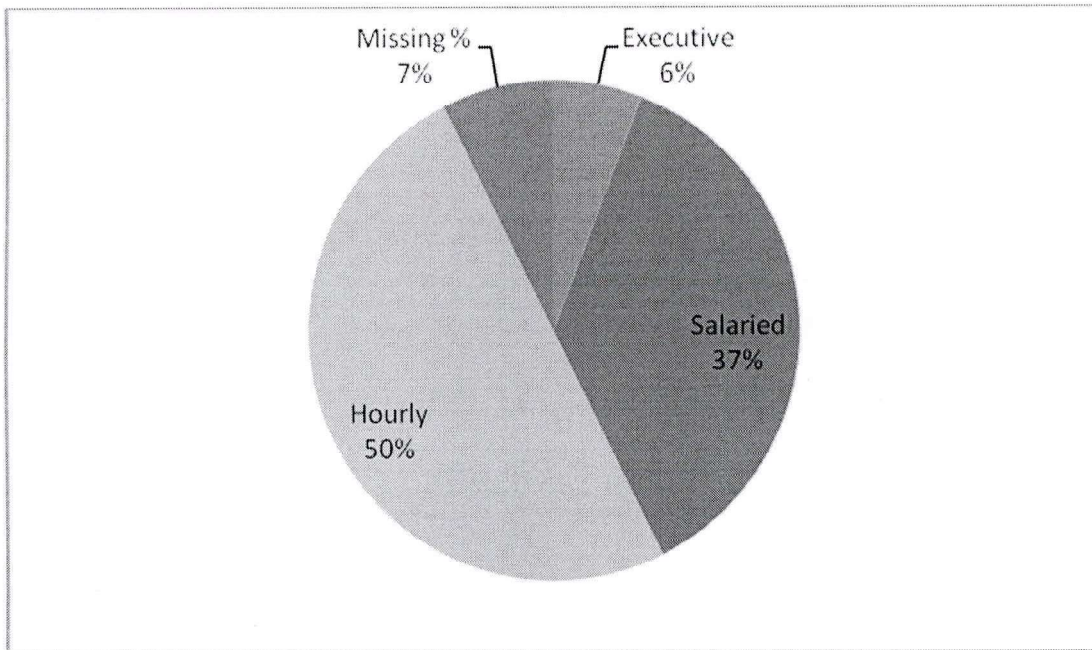


Figure 4.3 : Employment levels of SACCO members based on GMEA categorization

Out of the 68 respondents, 6% were executives, 37% were salaried and 50% were hourly staff. 7% of the respondents did not indicate their employment levels. After understanding the income levels of the respondents, the next task was to inquire the percentage of their income that is invested with the SACCO.

The following table summarizes the results of the question on percentage of employment income that is saved with the SACCO by GMEA executive members, who are the highest income earners.

Table 4.7 : Percentage of basic salary saved in GMK SACCO by executive level staff

	Less than 5%	5% to 10%	11% -20%	Over 20%	Total
Executive	2	2	0	0	4

Out of the 4 executive level respondents, 2 (50%) save less than 5%, while the other 2 (50%) save between 5% and 10%. None of the respondents saved over 10% of their basic salaries with the SACCO.

The following table summarizes the results of employment income by GMEA salaried employees, who are middle income earners.

Table 4.8 : Percentage basic salary saved in GMK SACCO by Salaried level staff

	Less than 5%	5% to 10%	11% -20%	Over 20%	Total
Salaried	17	7	1	0	25

Out of the 25 salaried level respondents, 17 (68%) save less than 5%, while 7 (28%) save between 5% and 10%. Only 1 (4%) saves between 11% and 20%, while none of the respondents save over 20% of their basic salaries with the SACCO.

The following figure summarizes the percentage of income saved by the hourly employees in GMK SACCO.

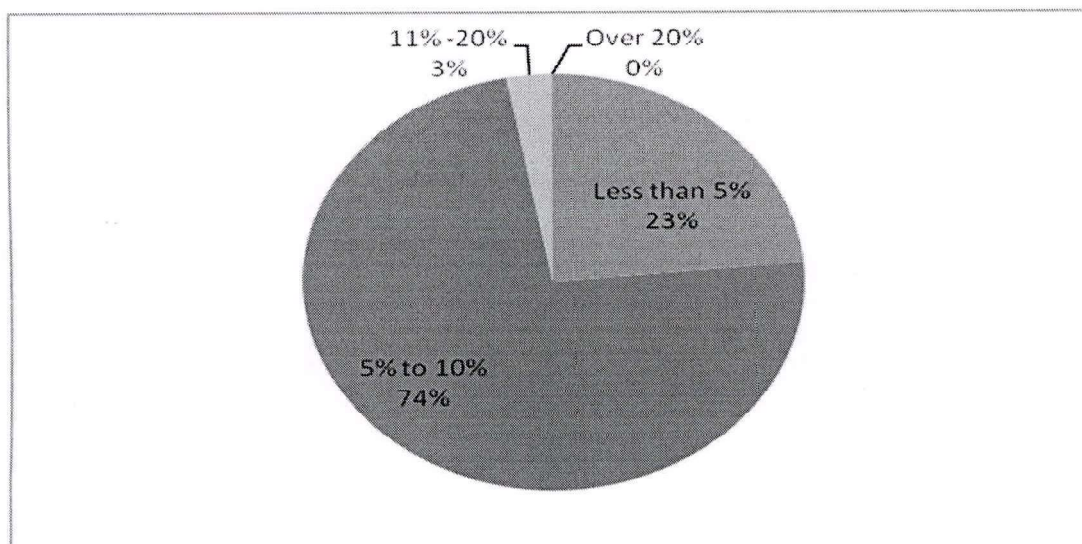


Figure 4.4 : Percentage of basic salary saved in GMK SACCO by hourly level staff

Out of the 34 hourly level respondents, 8 (23%), save less than 5%, while 25 (74%) save between 5% and 10%. Only 1 (3%) saves between 11% and 20%, while none of the respondents save over 20% of their basic salaries with the SACCO.

To further gauge the competence of management committee, the researcher asked the committee to state the frequency of reviews of the financial results of the SACCO. Since the books of accounts are reconciled and closed on a monthly basis, a monthly review would be considered as the optimum review frequency in order to institute appropriate corrective actions if the results are not as per expectations. The following table shows the responses by the management committee on the frequency of the reviews.

Table 4.9 : Frequency of SACCO's financial performance review by management

Monthly	Every 3 months	Every 6 months	Once a year
4	0	0	4
100%	0	0	100%

On being asked the frequency of management review of SACCO's financial statement, all the 4 respondents (100%) agreed that the review is done monthly. The researcher was able to independently verify this fact through minutes of management meetings available in the SACCO office.

4.6 Government regulations

As noted in the literature review, it is a requirement under the cooperative societies act for the commissioner of cooperatives to approve any investments outside the core business of the SACCO. The researcher intended to find out whether this legislation is effective, and whether it supports or impedes the performance of the SACCO. The management committee was asked whether they have ever had an investment request turned down by the commissioner of cooperatives. The whole committee members

responded in the affirmative. They were then required to state whether they concurred with the commissioner of cooperatives' decision to turn down their request. The responses to this question were then summarized and presented in the following figure.

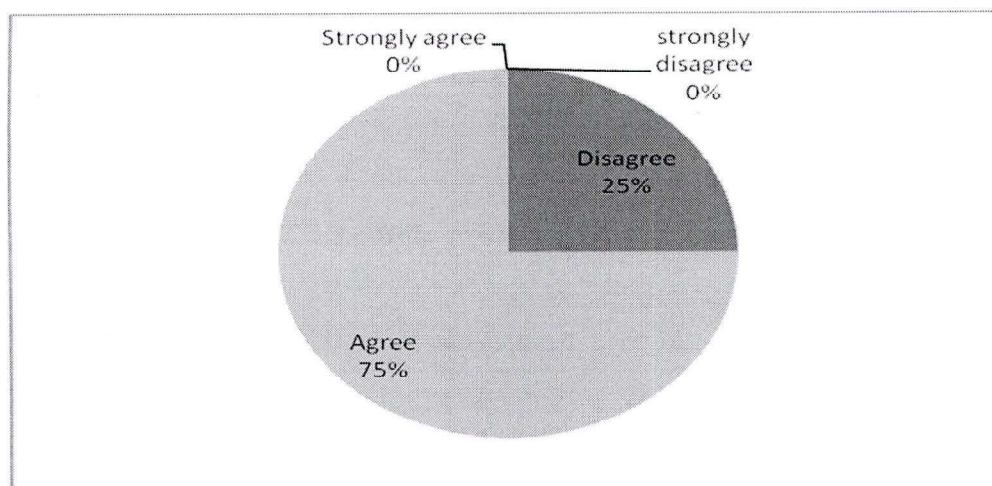


Figure 4.5 7: Views on Commissioner's decision to turn down investment request

Asked whether the commissioner of cooperatives has ever turned down an investment proposal, 100% of the committee members returned a yes. On being asked to state their opinion on the commissioner's decision to turn down the request, 75% of the respondents agreed, while 25% disagreed. None strongly agreed or strongly disagreed. The reason given for the investment request being turned down was that it was a non-core activity and would divert the attention and capability of the SACCO from its core function of mobilizing savings and giving loans to members at an affordable rate.

Asked to state what other legislative requirements are an impediment to the running of their SACCO, the management committee mentioned the SACCO Societies Act_ which was signed into law by the President of Kenya in December 2008 is yet to be gazetted by the minister of cooperatives so that it comes into force. Once operational, the act will set up a SACCO Authority. The authority will levy an annual license fee to SACCOs and will also require SACCOs to deposit 30% of their deposits in a statutory reserve fund. According to the management of GMK SACCO, these legislative requirements would increase the operational costs of the SACCO

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

This chapter provides a summary of findings, conclusions and recommendations for further research.

5.1 Summary of Findings

The purpose of this research was to assess the factors affecting the performance of Savings and Credit Cooperative societies – A case study of General Motors Kenya SACCO Ltd.

Some of the factors that the researcher set out to investigate included the effects member's turnover, competence of management, the effect of government regulations and the levels of members' income on the performance of GMK SACCO. For the purpose of this study, the indicators of performance were the speed of loan processing and dividend payout rate. The faster the loan is processed, the better the performance. Likewise, the higher rates of dividend pay-out to members, the better the performance. Share capital growth was also used as an indicator of performance. Growth in share capital was taken to mean good performance, while decline in share capital is an indication of poor performance. It was imperative therefore that the views of the SACCO membership were sought on the speed of loan processing and the rates of dividends paid. Members' turnover was found to have an impact on the share capital of the cooperative. When a lot of members withdraw from the SACCO, share capital was found to reduce because the members leaving the SACCO would have to be refunded their shares. Management competence was found to have an impact on the performance of the SACCO to a great extent.

Government regulations, through legislation, were found to have an impact on the performance of the SACCO. The government is able to keep the management of the

SACCO in check and was able to prevent the management committee from investing the SACCO resources in non core activities. Levels of members' income were found to have an inverse relationship to the percentage of savings the members invested in the society. The higher the member's income, the smaller the percentage of the income is invested in the SACCO by the member.

5.1.1 Competence of Management

The membership of GMK SACCO strongly felt that actions of management affect the performance of the SACCO. In addition, majority of members felt that the effect of management actions to the SACCO was to a great extent. The majority of the management committee members have at least a university degree as a minimum. This would seem odd when one considers that SACCOs are essentially democratic institutions, and one of the principles governing cooperatives is one member one vote. All members of the SACCO are eligible to be elected to the management committee. On analysing the respondents of GMK SACCO membership however, the majority feels that management competence is a key attribute to performance of the SACCO. This explains why the majority of the management committee members are well educated in comparison to the general membership. It was also noted that the management committee reviewed the financial statements of the SACCO on a monthly basis.

5.1.2 Government Regulations

The SACCOs are regulated by The Co-operative Societies Act, the Co-operative Societies Rules and registered By-Laws. According to the act, SACCOs are basically for lending loans to members. The ministry therefore restricts non-core investments by cooperative societies. The management committee admitted that the commissioner of cooperatives has turned down some investment requests proposed by the SACCO committee. They stated that the request which was turned down was about an investment in land buying on behalf of members. Majority of the committee members concurred with the commissioner of cooperatives' verdict.



5.1.3 Members' Income

The parent company GMEA has 3 different levels of employees, namely executive, salaried and hourly. The executives are the highest paid, followed by the salaried level, while the hourly employees earn the least. One would think that the savings in the cooperative would also follow this trend, with the executives saving the highest percentage, followed by the salaried and lastly the hourly employees. The findings however showed that on the contrary, the hourly employees save the highest percentage of their earnings in the cooperative. It should be noted however that the percentage may not necessarily mean more savings in terms of amounts. For instance, an hourly staff who earns twenty thousand and saves two thousand shillings is saving ten percent of his income, while his executive counterpart who earns half a million shillings and saves twenty thousand shillings is only saving four percent of his income.

5.1.4 Members' Turnover

GMK SACCO membership has been experiencing high member turnover. The figures obtained from the SACCO office indicate a turnover rate of 12%. The share capital for GMK SACCO actually showed no growth between the years 2004 through to 2006. This was due to withdrawals from the SACCO membership due to separation from the common bond. While the members' turnover affected the shareholding of GMK SACCO, there seems to have been no effect on the amount of dividend payout rates.

5.2 Conclusions

5.2.1 Competence of Management

Management competence as indicated by respondents is a key factor that affects the performance of the GMK SACCO, and indeed any organization. As noted in the literature review, what kills businesses usually has less to do with insufficient money, talent, or information than with something more basic; a shortage of good judgement and understanding at the very top. This view has been supported by the views of the

respondents who believed that management actions greatly affect the performance of the SACCO. The GMK SACCO management's monthly review of the SACCO financial statements indicates that the management is aware of and is carrying out its responsibilities. Lack of timely review of financial statements would mean that management would not know the direction of the SACCO and may therefore fail to take corrective actions on a timely manner.

5.2.2 Government Regulations

The SACCO is a creation of the cooperative act. The commissioner of cooperatives through his officers assists in ensuring that SACCOs adhere to the laid down regulations governing cooperative societies. The fact that GMK SACCO has had an investment proposal which was turned down by the commissioner shows that the government regulations indeed affect the running of the SACCOs. The proposed investment in land buying activities by the SACCO may have benefited members if it went ahead, but was for sure not one of the core functions of the SACCO. This may have led to inability by the SACCO to discharge its core mandate of lending loans to members at affordable rates, as capital would have been tied up in non-liquid investments.

5.2.3 Members' Income

Members' income seems not to be the biggest determinant of how much members save with the SACCO. The low income earners save the highest percentage of their income with the SACCO. The higher income groups also have other savings with banks. It can therefore be concluded that apart from income, the other competitors of the SACCO for member's deposits are the financial institutions like banks.

5.2.4 Members' Turnover

Members turnover have an impact to the SACCO in terms of share capital. The members who resign from the SACCO have to be refunded their shares and deposits, and this leads to a reduction in total share capital. The SACCO's biggest source of income is interest from loans disbursed to members, and with a reduction in share capital, there will be less money available for lending to members.

5.3 Recommendations

This research has confirmed the view that competence of management greatly affects the performance of SACCOs. According to the research findings, GMK SACCO happens to have a competent management team. While this is the case however, it is the management team competence is not by design, as the process of election into the board of the SACCO is based on democracy and not competence. This researcher therefore recommends to the ministry of cooperatives to review the legislation to include minimum qualifications for eligibility into the management board of SACCOs, and if such competence is not available within the membership, a provision can be made for co-opting qualified management from elsewhere.

The member's turnover affects the performance of cooperatives, as share capital is reduced when members resign. This researcher therefore recommends to GMK SACCO to open up membership to prospective members who are outside the current common bond of GMEA employment. This is because the biggest reason for high turnover in the SACCO is due to separation of members from the parent company GMEA either through resignations or retrenchments. Opening up the membership would reduce the vulnerability of the SACCO occasioned by actions of the parent company.

5.4 Suggestions for Further Research

This study was a case of GMK SACCO, which is urban based. There is need to for further study to find out if there is symmetry of factors affecting urban based SACCOs and rural based SACCOs. This study brought out an interesting perspective where lower income members of the SACCO tend to save higher percentages of their income than their colleagues who earn more. There is need for further research to find out the reasons for this phenomenon.

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APPENDICES

Appendix I: GMK SACCO past performance metrics

YEAR	2004	2005	2006	2007	2008
Share Capital	57,366,048	57,047,374	57,382,566	64,039,178	68,022,809
Dividend Pay-out	5,324,994	5,800,000	5,738,257	6,403,918	7,142,395
Dividend Rate	9.28%	10.16%	10%	10%	10.50%
Number of Members	335	291	299	348	294

Source: GMK SACCO

Appendix II: Questionnaires

SECTION A: DEMOGRAPHIC DATA:

The information provided in this questionnaire will be treated with confidence, and shall be used only for academic purposes. Please fill the questionnaire as accurately as possible. Either tick in the appropriate box or answer in the space provided.

- 1) What is your gender: Male () Female ()

- 2) What is your age?
 - a) Below 30 ()
 - b) 30 – 40 ()
 - c) 41- 50 ()
 - d) Above 50 ()

- 3) Age in SACCO membership in years
 - a) 5 years and below ()
 - b) 6 – 10 years ()
 - c) 11-20 years ()
 - d) 20 years and above ()

- 4) How do you rate your SACCO?
 - a) Excellent ()
 - b) Very good ()
 - c) Good ()
 - d) Satisfactory ()
 - e) Poor ()

- 5) How would you compare the last 3 years performance of the SACCO to the prior years
- a) Better
 - b) Same
 - c) Worse
- 6) Please indicate by ticking in the appropriate brackets your employment level based on GMEA categorization
- a) Executive level ()
 - b) Salaried Level ()
 - c) Hourly level ()
- 7) What percentage of your basic salary do you save in GMK SACCO?
- a) Less than 5% ()
 - b) Between 5% and 10% ()
 - c) Between 11% and 20% ()
 - d) Over 20% ()
- 8) Do you save your money anywhere else other than the SACCO? Tick one.
Yes () No () If yes, why? _____
- 9) Have you ever taken a development loan from the SACCO? Yes () No ().
If the answer is yes, how long did it take to receive the loan from date of application?
- a) 1-7 days ()
 - b) 8-14 days ()
 - c) 15-30 days ()

d) Over 30 days ()

10) Have ever taken an emergency loan from the SACCO? Yes () No (). If the answer is yes, how long did it take to get the loan from date of application?

a) 1-2 days ()

b) 3-4 days ()

c) 5-7 days ()

d) Over 7 days ()

11) Have you ever taken an instant loan from the SACCO? Yes () No (). If the answer is yes, how long did it take to get the loan from date of application?

a) 1 day ()

b) 2 days ()

c) 3 days ()

d) Over 3 days ()

12) How would you rate the speed of loan processing by GMK SACCO compared to your expectations? (Please tick as appropriate)

	Very slow	Slow	Average	Fast	Very fast
Normal Loan					
Emergency Loan					
Instant Loan					

13) In your opinion, do you think management actions affect the performance of GMK SACCO, and if yes, to what extent? Yes () No ()

a) Great ()

b) Moderate ()

c) Small ()

14) In your view, what do you think of the dividends (returns) paid out by GMK SACCO?

a) Very good ()

b) Good ()

c) Poor ()

d) Very poor ()

SECTION C: To be filled by the management Committee

15) Level of education/professional qualification

a) Certificate ()

b) Diploma ()

c) Bachelors degree ()

d) Post-Graduate degree ()

e) Others. Please state _____

- 16) How often is the SACCO's financial performance reviewed by management?
- a) Once a month ()
 - b) Every 3 months ()
 - c) Every 6 months ()
 - d) Once a year ()
- 17) Have you ever made an investment proposal which was turned down by the commissioner of cooperatives? Yes () No ()
- 18) If the answer is yes, did you agree to the reasons over which the proposal was turned down?
- a) strongly disagree ()
 - b) Disagree ()
 - c) Agree ()
 - d) Strongly agree ()
- 19) What was the nature of the investment that was turned down? Please state
-

SECTION D: To be filled by GMK SACCO staff

- 20) Level of education/professional qualification
- a) Certificate ()
 - b) Diploma ()
 - c) Bachelors degree ()
 - d) Masters degree ()

e) Others. Please state _____

21) Please indicate the following data for the last five years

	2009	2008	2007	2006	2005
Membership					
Loans to members					
Share capital					
Dividends paid (%)					

22) Please indicate reasons why members resign from GMK SACCO

Thank you very much for accepting to fill this questionnaire. The information you have given shall be held in strict confidence and shall only be divulged to third parties with your permission. If you have further information you consider useful, please submit in a separate sheet.