

**INTERNAL FACTORS AFFECTING GROWTH OF SAVINGS AND CREDIT  
COOPERATIVE SOCIETIES IN MACHAKOS COUNTY, KENYA**

**VICTOR K. MUTHYA**

**A Research Project Report Submitted in Partial Fulfillment of the Requirements for the  
Award of the Degree of Master of Business Administration of South Eastern Kenya  
University**

**2019**

## **DECLARATION**

I understand that plagiarism is an offence and I therefore declare that this project report is my original work and has not been presented to any other institution for any other award.

**SIGNATURE** \_\_\_\_\_

**DATE** \_\_\_\_\_

**VICTOR K. MUTHYA**

**D61/MAC/20552/2015**

This research project has been submitted for examination with my approval as University Supervisor.

**SIGNATURE** \_\_\_\_\_

**DATE** \_\_\_\_\_

**DR. ROBERT OMBATI**

**LECTURER, DEPARTMENT OF BUSINESS & ENTREPRENEURSHIP**

**SOUTH EASTERN KENYA UNIVERSITY**

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## **DEDICATION**

This project report dedicated to my loving family: my wife, children and siblings whose prayers and words of motivation accompanied me throughout the project report; not forgetting my supervisor and career peers for their encouragement and moral support during the project process.

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## **ABBREVIATIONS AND ACRONYMS**

<b>BOSA</b>	-	Back Office Services Activity
<b>FOSA</b>	-	Front Office Services Activity
<b>GDP</b>	-	Gross Domestic Product
<b>HRM</b>	-	Human Resource Management
<b>IMF</b>	-	International Monetary Fund
<b>KSHS</b>	-	Kenya Shillings
<b>KUSCO</b>	-	Kenya Union of Savings and Credit Cooperatives
<b>LPM</b>	-	Loan Portfolio Management
<b>MFI</b> s	-	Microfinance Institutions
<b>NPL</b> s	-	Non- Performing Loans
<b>PAC</b> s	-	Primary Agricultural Cooperatives Credit Societies
<b>SACCO</b> 's	-	Savings and Credit Co-operative Societies
<b>SASRA</b>	-	Sacco's Society Regulatory Authority
<b>WOCCU</b>	-	World Council of Credit Unions

## OPERATIONAL DEFINITION OF TERMS

- SACCO:** Is referred to as an association that is autonomous of people voluntarily co-operating for their mutual social, economic and cultural benefit.
- Effect:** refers to a change that is as a consequence or result of an action or some other cause (Dictionary.com)
- Growth of SACCOs:** refers to increase in membership, increase in savings & loan portfolios (Ofei, 2001)
- Human resource capacity:** is about ensuring that an organization has enough people with the necessary skills to achieve its objectives.
- Internal factors:** are factors within the organization that impact the approach and success of your operations
- Information technology:** is the application of computers to store, study, retrieve, transmit, **(IT)** and manipulate data, or information, often in the context of a business or other enterprise (Ofei, 2001)
- Loan Portfolios:** pools of loans that SACCO has as investment on its members (Mudibo, 2009)
- Management skills:** basic skills including, problem solving and decision making, planning, meeting management, delegation and communications needed in managing an organization (Mudibo, 2009)

## ABSTRACT

The Kenyan SACCO business plays a key role in contributing to the country's savings, that has boosted social development and the economy. Co-operative societies in Kenya may be traced to the pre-independence times with initiation of development in the time immediately after the country gained independence. Most SACCOs in Machakos begin and fail to reach the break-even point and thus end up closing down. It is against this backdrop, that this study sought to interrogate the effects of internal factors as far as growth of SACCOs in Kenya is concerned, particularly those within Machakos County. The aim of the study was to establish the internal factors affecting the growth of Savings and Credit Cooperative Societies in Machakos County. The study's specific objectives included; determining the effects of management skills in the growth of SACCOs, establishing if adoption of technology affect growth of SACCOs, establishing the effect of loan portfolio management in the growth of SACCOs, and establishing whether human resource capacity affect the growth of SACCOs, in Machakos County. The study used the agency theory, stewardship theory, liquidity and contingency theories. Several empirical studies were reviewed all the way from international to regional and local scholarly works. Descriptive research design was applied in the study whereby census was used for the whole chosen population. The 33 active SACCOs found in Machakos County formed the target population; focusing on the SACCO's departments involved in top management, loan management, human resource and IT departments, thus purposive sampling was applied to select one hundred thirty-two (132) respondents since out of the 33 targeted SACCOs, each had four respondents from the said departments. Questionnaires having open and closed ended questions relating to the objectives were used to collect primary data. Both descriptive and inferential statistics were applied in the study to analyze data from the questionnaires. SPSS version 21 software was used to code and analyze data. Tables were used in data presentation. The study established that management skills positively and significantly affected the growth of SACCOs in Machakos County. Regarding loan portfolio management on growth of SACCOs in Machakos County, the study established that loan portfolio management negatively and weakly affected the growth of SACCOs in Machakos County. The study indicates a weak positive relationship between human resources capacity and growth of SACCOs in Machakos County. The study established that the SACCOs in Machakos County have to some extent invested in IT, which has positively and significantly led to growth of the SACCOs. The study concluded that managerial skills, human resource capacity, adoption of Information Technology and loan portfolio management have influence on growth of SACCOs in Machakos County. Recommendations of the study are that the institutions should undertake an internal factor evaluation and practice of the administrative functions that impact the growth of SACCOs, policy guidelines should take its position in ensuring that SACCOs are operated in the best line of their expected performance obligations and there was still some room for further future studies that would examine on the best factors to apply on the Kenyan SACCOs, that would enhance a more competitive SACCO business especially in consideration of the daily emerging business cycle trends in the world.

## **CHAPTER ONE**

### **1.0 INTRODUCTION**

A detailed description is given in the chapter for background of the study, research objectives, statement of the problem, and significance of the study, justification, and the definition of operational terminologies. The scope and limitations of the study were also highlighted by the researcher.

### **1.1 Background of the Study**

A Savings and Credit Cooperative Society is a financial institution that is owned, controlled and operated by its members, providing them with access to loans at low interest rates, promoting thrift and providing alternative financial services, as the main purpose of their existence. They have controlled poverty through boosting strategies in wealth creation, production of food for subsistence and employment opportunities creation. SACCOs stand out from other financial institutions, banks being a majority in that, the investors in them are at the same time the owners, who execute their voting freedom on the one member- one vote basis, the member's shareholding notwithstanding, an implication that only their members of can deposit and borrow from them (CBK, 2011).

The modern co-operative concept began in 1844 in Rochdale village, Manchester in England as asserted by Pollet (2013). Globally, it has since developed as a socio-economic movement with its own distinct history, purpose and identity. The ancient rural credit union was introduced in 1864 by Raiffeisen in German to cover the needs of those in marginal areas. Deemed nonbank able were the rural communities owing to limited cash flows and shortages of human resources (WOCCU 2008). A rapid growth has been witnessed in the cooperative movement throughout the world premised upon the organizational methods of Raiffeisen since this period. Farmers in Africa steered cooperatives towards the end of 1950s for cash crops like pyrethrum and coffee. According to Mumanyi (2014), the success of the cooperative movement in Ghana has been widely replicated throughout the African continent.

Klinkhamer (2009) asserts that in Tanzania, SACCOs' membership is netted from the indigenous community or a similar employer. A geographical area, a community, an employer or other associations is shared by their members. As per Mwakajumilo (2011), the members are the only beneficiaries, savers and decision-makers. Emanating from members' saving deposits, are the SACCO funds (Shrestha 2009). Enhanced incomes, assets, food consumption, education expenditure, improved housing and reduced health expenditures were enjoyed by the SACCO members compared to non-members (Sharma et al 2005). Issues to do with weak management, misuse of funds, lack of capital for work, unpleasant business practice and high loan delinquency charges are however, faced by many co-operatives and SACCOs in Tanzania (Maghimbi 2010; Mwakajumulo 2011).

As per Kobia (2011), the oldest cooperative was introduced in Kenya by white settlers in 1908 at Kipkelion, brought to operation as guided by the companies' ordinance and it was missioned towards dispensing agricultural and dairy support for the settlers. Regulatory reforms have since been put in place to help streamline the SACCO operations aimed at maximizing returns for members. According to KUSCCO (2010), the SACCO movement in Kenya has however been slapped by various setbacks that need to be addressed to enable it to do better on stability and soundness, output, modern governance, product coverage and competitiveness as well as integration to formal financial system. Inherent in the world of finance are the said challenges regarding the co-operative business. According to CBK (2011) in Kenya's GDP, SACCOs contribute 45% and venture has to date effectively mobilized deposits above Ksh.200 billion and Ksh.210 billion assets in total. In a free environment, these important resources should give SACCOs a platform to compete.

To liberalize cooperatives, Kenya was propelled by the advanced economic environment that Africa landed into in the 1990s to devise new policies and regulations in 1997 (Wanyama 2009). According to Oyoo (2002) the government generally controlled SACCOs before liberalization in 1997. Formation and running of cooperatives in Kenya are guided by the legislation in the Cooperative Societies Act of 2004. Nevertheless, Poor record management, loan pilings, ignorance among the



SACCO members, audit issues, managerial incompetence, limited capital and over taxation are some of the challenges that confront SACCOs in Kenya. The institutions are facing serious liquidity issues and most of them are not able to meet the demands of their clients' expectations, as revealed by the study by WOCCU (2008). Limited managerial expertise has significantly affected SACCOs in the country (Ondieki *et al* 2011).

Kenyan cooperative societies may be traced to the pre-independence times with initiation of development in the time immediately after the country gained independence (Ademba 2010). SACCO movement in Kenya forms a significant share of at least 20% of the country's savings with assets above Ksh.230 billion and estimated Ksh.190 billion savings portfolios. In the country's economy and social progress, it is very clear that SACCOs have increasingly become its key drivers. Kenyan SACCO segment is the biggest in Africa and the seventh in the whole world. Chahayo *et al.*, (2013) asserts that insufficient capital is however the strongest setback faced by SACCOs in Kenya.

Members' requirements have been unable to be met since the SACCOs have limited funds; that is, their loan requirements remain pending hence, to a large extent put off members. Mvula (2013) asserts that SACCOs' ability to service borrowed loans, engage qualified and competent employees as well as members' share value been lost and lack of control towards further losses arising from poor cash flow management and employee turnover in the corporations, are all caused by inadequate capital. According to a Kenya Financial Sector Stability Report (2010), latest regulation of SACCOs including establishment of the SACCO Society Regulatory Authority (SASRA), aims at addressing the SACCOs' increasing setbacks affecting them which include: limited and unclear governance structures, inadequacy of prevailing policies to direct diversified products e.g. FOSA, poor internal controls, inadequate operating standards, low Information technology uptake, poor human resource capacities leading to poor workforce, absence of disclosure requirement guidelines and worrying staff turnover as well as stiff competition from financial institutions.

According to Wanyama (2009), providing for the licensing, control, oversight and promotion of SACCOs by SASRA, the SACCO Societies Act (2008) was formulated, that provides for the establishment of the SACCO Regulatory Authority whose roles include licensing SACCOs to carry out Deposit taking business as well as regulating and supervising them.

Kuria (2010) asserts that key role has been played by the cooperative societies in creation of wealth, security of food, employment generation and contributed importantly to poverty alleviation. In Kenya, there exists over 11, 200 registered co-operative societies whose membership is estimated over 8 million, gathering domestic savings approximated at over \$2.5 billion. Over 300,000 people have been employed by the co-operatives hence, providing opportunities for self-employment to many more Kenyans.

### **1.1.1 Internal Factors**

Birchall (2008) posits that internal factors are factors within the organization that impact the approach and success of the business operations. These factors are controlled within the organization. They are the internal strengths and weaknesses which an organization shows (Birchall, 2008). Internal factors can intensely affect how well an organization is able to meet its objectives. They can be termed as strength if they positively impact on the business but as weakness if they negatively affect the business (Mack, 2012).

Internal factors are not only a one event or circumstance, but also a chronology of actions permeating activities of an entity. All through an entity's operations, these actions occur. On an ongoing basis, they are inherent and depending on how the organization is managed. Internal control differs from internal factors depending on how some observers who view it as an addition on to an organization's activities, or as a necessary burden. Manasseh (2007) posits that activities of an organization are intertwined with the internal factors and is most effective when based on the institution's infrastructure, which is an integral part that is essential to the organization. Internal factors greatly affected growth of SACCOs in Kenya.

### **1.1.2 Growth of SACCOs**

The definition of ‘growth’ on a performance-based angle is an open question with few studies using consistent definitions and measures (Kirby, 2005). According to Musyoki (2013) there exists three specific areas of firm outcomes that encompasses growth namely: financial performance, indicated by profits, return on assets, and return on investment; market performance, reflected through sales versus market share; and shareholder return supported by total shareholder return and added economic value. The global statistics indicate that in the year 2011, 100 countries had credit co-operatives that numbered 51,013 with a membership of 196,498,738 (WOCCU, 2008). In the year 2009, globally there were 49,330 credit co-operatives with a membership of 183,916,050 which indicated growth globally. The WOCCU statistical report also indicated that Kenya is leading in membership, number of credit co-operatives and savings mobilization in the African continent. The statistics further show that Kenya ranks number seven (7) globally in savings mobilization.

According to Ofei (2001) growth of SACCOs is measured through assessment of increase in membership and increase in savings. SACCOs depend on the savings of members to offer loans and make profits. Thus, for a Sacco to grow it needs to increase its lender, which is dependent on the savings of members. Increase in membership in SACCOs reflects to increase in savings. Once a member joins a Sacco, he or she must save in order to qualify for a loan. Therefore, if membership increases, savings of the Sacco increases and as result, the lender increases. Loan portfolio management is also an important factor when measuring growth of SACCOs. A Sacco must be able to recover the loans from its members to avoid loses. A Sacco can only grow if it is able to recover loans and make profit therefore growing the lender. Thus, loan recovery rate is used to measure growth of SACCOs. The process of capacity building of individuals or groups to make choices thus, transforming the very choices into expected actions and results may as well be termed as growth.

### **1.1.3 SACCOs in Machakos County**

Located 62 km from Nairobi city in Kenya is Machakos Town. Machakos SACCOs members’ socio-economic well-being has been promoted through many activities

such as helping them save and providing loans in Kenya. As per the ministry of Co-operative- Machakos County Office, there are over 100 registered SACCOs in Machakos County. However, those that are termed as active in terms of remitting their performance returns and financial statements are 33 as listed in Appendix V. Saccos in Machakos have a number of services, few have a fully structured management, majority are operated informally but under committees that perform almost similar duties like those that are structured. (ministry of cooperative-Machakos county, 2017).

According to Musyoki (2013), SACCOs in Machakos County have two sections namely; FOSA section and BOSA section. The banking section of the financial institution in Machakos -which merely operates as ordinary banks is known as FOSA. Separate and with its own activities from BOSA section but interworking together, the following are products from the FOSA section; fixed deposit accounts in Kenya, saving accounts in Kenya, FOSA loans in Kenya, pumua loans in Kenya, Hekima loans in Kenya, Mpesa services and salary & pension advances services in Kenya.

In Machakos County, one of the leading microfinance SACCO is Masaku Teachers SACCO with almost over 20,000 active members; that was initially founded as a Teachers SACCO in Kenya admitting only those teachers in the lower eastern part of Kenya who were then registered with Teachers Service Commission of Kenya. The SACCO's main head office is located within Machakos CBD. The SACCO has both FOSA and BOSA sections of Masaku Teachers SACCO, with the FOSA section being the banking section of the financial institution in Machakos -which merely operates as ordinary banks. With its own activities separate from BOSA section but interworking together, the FOSA section of the SACCO comes along with the following products for the Masaku Teachers SACCO members in Kenya; saving accounts, fixed deposit accounts, FOSA loans, Hekima loans, pumua loans in Kenya, Mpesa services and salary & pension advances services. Services are available from this FOSA section of Masaku Teachers SACCO during the business hours. Since the

FOSA section have embraced high technology in Kenya, the above-mentioned services are delivered within a short time (Muthini, 2013).

The Universal Traders SACCO (UTS) in Machakos County's CBD has embraced adoption of technology through introduction of M-Banking technology under its FOSA section where shareholders can do online transactions through their mobile phones to pay utilities, purchase airtime, enquire on their Sacco account balances, generate account mini statements, transfer of funds from M-PESA to their Sacco accounts, do share top ups, amongst many other m-services. The SACCO (UTS) has developed a Co-op bank debit card otherwise known as the SACCO's Link debit card for its members where they can conveniently access the funds in their SACCO accounts anytime, anywhere through ATMs and Bank Agents. This high technology service has enabled the SACCO members to access services like cash withdrawals, account balance enquiries, payment of school fees, utilities payment, generation of account mini statements and swiping card services where members can buy goods as well as services (Universal Traders, 2018). Keah (2014) asserts that a rise in SACCOs' financial performance results to a respective rise in ICT adoption. Improvement in payments, processing or reduction in service time due to the new ways to deliver financial services electronically to customers occurs due to adoption of ICT.

## **1.2 Statement of the Problem**

Growth of SACCOs is affected by several factors both internally and externally. According to Musyoki (2013), inadequate internal factors in the form of management abilities and control in operations have marred SACCOs in Kenya. Fraudulent activities and improper use of assets have been used as an avenue for losses in SACCOs instead of being used to generate revenues while institutions and their members have incurred significant losses due to ineffective systems of control in SACCOs. Corruption and internal dealings by managers and external auditors leading to organizations failing to achieve their set objectives, can also be attributed to inadequate factors within SACCOs. Challenges relating to systems of organizational control have also been attributed to technological changes necessitating the

development of new ways of controlling organizations. The least agreed SACCO growth target for membership according to the county is 10% yet the current growth rate of the SACCOs is 5%. SACCOs were not only established to pool resources together but also as a way of ensuring continuity and growth in the financial performance of an economy. As per the ministry of cooperative Machakos County Office, very few SACCOs in the county have embraced a FOSA operation which is the backbone to attracting application of most internal factors affecting growth in most SACCOs. Most SACCOs in Machakos begin and fail to reach the break-even point and thus end up closing down. It is against this backdrop, that this study sought to interrogate the effects of internal factors as far as growth of SACCOs in Kenya is concerned, particularly those within Machakos County.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

To investigate the internal factors affecting the growth of SACCOs in Machakos County.

#### **1.3.2 Specific Objectives**

- i. To determine the effects of management skills on the growth of SACCOs in Machakos County
- ii. To establish whether human resource capacity affect the growth of SACCOs in Machakos County
- iii. To establish if adoption of information technology affects the growth of SACCOs in Machakos County
- iv. To determine the effect of loan portfolio management on the growth of SACCOs in Machakos County

### **1.4 Research Questions**

- i. What are the effects of management skills on the growth of SACCOs in Machakos County?
- ii. Does human resource capacity affect the growth of SACCOs in Machakos County?

- iii. Does adoption of information technology affect the growth of SACCOs in Machakos County?
- iv. What are the effects of loan portfolio management on the growth of SACCOs in Machakos County?

### **1.5 Significance of the study**

This study may be of great significance to management, for practitioners, decision makers and policy implementers, it gives insight on internal factors that affect outreach in SACCOs and help on how to increase outreach, take corrective action on deviations and serve the interest of SACCOs in Kenya since it highlights the major internal factors affecting growth of SACCOs.

The study may provide essential information to the Cooperative Societies and its members, and ministry of Cooperative Societies which help them in enhancement of policy framework and other stakeholders which include SASRA. The commissioner of cooperatives may as well have interest in the report for decisions in policy and improve on the societies' regulations.

The study may be beneficial to management practitioners and academia that may use the findings as a source of reference in various forums. Basis for further study may be formed by this study in the area of cooperative management. The findings of this study may also add to literature that continues to grow on cooperative management.

### **1.6 Limitations of the Study**

The study targeted senior administration in charge of SACCOs of the selected cooperatives, therefore some of the experienced bottlenecks relating to this were: time and attention accorded to the study by the respondents was scarce and some never managed to respond back due to the nature of their work which permits them little time in participating in the study, some of the managers were not committal to provide information of their SACCOs and to some extent some though few, were not comfortable in stamping the questionnaires as required for fear of victimization by their employers; Some SACCOs were also difficult to access especially the smaller

ones like Nakisa SACCO, Beta Bakers SACCO, Kawama SACCO, Makos SACCO, Kamana SACCO and Ceramics SACCO amongst others, since they always remained closed during the data collection period ; and lastly challenges for easy accessibility to some of the target SACCOs which was not easy by the fact that the County is diverse and such institutions are randomly situated in various sub-counties of the County of Machakos, hence forced to use expensive private transport means and research assistants to access such institutions during the study.

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

The researcher mitigated the above said bottlenecks (limitations) through: effective utilization of the time accorded through serious but courteous moral persuasion to respondents without relenting in order to get optimal feedback on issued questionnaires , strict adherence to research budget to properly utilize the available financial resources meant for the research exercise in order to achieve optimum access to the SACCOs and lastly engagement of research assistants who helped in traversing the various target SACCOs across the County for effective and timely data collection meant for the research. In addition, further research from published information concerning the target co-operatives was done to assist in gathering secondary data for the research on time.

### **1.8 Assumptions of the study**

The study assumed that the respondents will provide accurate data and will cooperate to have the study timelines kept. The study further assumed that the research assistants will not be subjected to any adverse effect of any nature.

### **1.9 Scope of the study**

The study was conducted in Machakos County which is a county of Kenya. Machakos town is the largest town in the county and the country's first administrative headquarters. The county had a population of 1,098,584 as of 2009. The county borders Nairobi and Kiambu counties to the west, Embu to the north, Kitui to the east, Makueni to the south, Kajiado to the south west, and Muranga and Kirinyaga to the north west. The county has eight sub counties namely; Mavoko, Matungulu,



Kangudo, Mwala, Machakos, Kathiani, Yatta and Masinga. The research was conducted within the scope of selected SACCOs in the county of Machakos as per the ministry of co-operative information relating to such SACCOs.

## **CHAPTER TWO**

### **2.0 LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter presents a review of literature on the internal factors affecting the growth of SACCOs in Kenya. Both theoretical and empirical literatures were reviewed. The theoretical review helped in getting an in-depth understanding of the current body of knowledge on the research topic. Studies done on the same area by other researchers, with the recommendations therein have been understood through help from empirical literature. The sources of literature included; books, the internet and research reports. As stated by Mugenda (2000), the review of literature involves the procedural identification, location and analysis of documents containing information related to research problem being investigated.

#### **2.2 Theoretical Review**

There were several important theoretical perspectives applicable to internal factors affecting the growth. This research was guided by Agency Theory, Stewardship Theory, contingency theory and liquidity theory. These schools of thought contribute to our understanding of internal factors affecting the growth from different perspectives and are the theoretical underpinnings for this study.

##### **2.2.1 Agency Theory**

Deumes and Knechel (2008) posits that, the Theory of Agency explains how best to plan relationships whereby one party determines the job while the job is done by the other party. In this scenario, the principal engages an agent to execute a task or do the job, or the principal is not able or have no will to do. Self-interest motivates both the principal and the agent as it is assumed by the Agency Theory. Firms have an economic obligation to report on internal factors affecting growth of SACCOs as it has been argued. It is assumed by their argument that providing this extra report to the principal (shareholder) concerning the character of the agent (management) lowers information imbalance thus reducing investor risk and, therefore, the cost of equity capital. Agency theory brings out the relationship the principals have with agents. Investors of the SACCO who are its owners (principals) engage through elections the

board of management as their agents as per this theory (Mitnick 2006). The stewardship of the SACCO is bestowed to the management board by principals, which in turn hires and grants authority upon managers.

The agent may However, yield to self-interest, opportunistic behaviour and violate the contract between the interests of the principals and the agents' ends (Odhiambo 2012). Agents are likely to have motives that are different to principals. Factors such as financial rewards, labor market opportunities, and relationships with other parties that are not directly relevant to principals may influence them. For instance, this can result in a tendency for agents being more optimistic about economic performance of the SACCO or their performance under contract than the reality would imply. Agents may also be more risk averse than principals and due to these differing interests, they may have an incentive to bias information flows. Concerns may too be expressed by principals about information asymmetries where agents are in possession of certain information to which principals do not have access.

Different motivations and information asymmetries lead to the reliability of information, which impacts on the level of trust that principals will have in their agents, as implicitly implied in this theory. A variety of mechanisms are applied by SACCOs, that may be used to try to align the interests of the agents with the principals and to allow them to control and measure the behaviour of their agents and reinforce trust in agents. The less trust is in an agent the more likely however, it is that principals will opt for certain performance related pay incentives and measures that will align interests. In such a case, basic salary is likely to be set by SACCOs at a relatively low level, but this would go hand in hand with a package of other benefits like bonuses and share options. Such mechanisms, however, create potential new agency problems related to the measurement of performance. SACCO's performance may be conspired against by these agency problems thereby warranting the need for structural transformation to reverse this trend. Captured in contracts can be duties that can be made the subject of enforcement and penalties for any perceived deviation from the SACCO's objectives.

Conclusion may thus be made that agents have more information than principals and that this information asymmetry adversely affects the ability of the principals to effectively monitor whether agents are properly serving their interests. These firms are therefore necessary structures to maintain contracts, and through them, it is possible to exercise control which minimizes opportunistic behavior of agents. The SACCOS' management therefore, in their line of duty would formulate financial strategies effective in enhancing liquidity and therefore enhances growth (Kithathi, 2014). The decision-making role of the top management skills is therefore supported by the theory to ensure SACCOS adopt the best financing strategies and optimally utilize the resources within the organization to enhance liquidity for the SACCOS.

### **2.2.2. Stewardship Theory**

A steward maximizes and protects shareholder's wealth through firm performance, since by so doing, there is maximization of the steward's utility functions. Stewards are managers working to protect and make profits for the shareholders, under this perspective. Stewardship theory therefore, emphasizes on the role of management being as stewards, integrating their goals as part of the organization (Davis *et al.*, 2011). Stewards are satisfied and motivated when organizational success is attained as suggested by the stewardship perspective.

The importance of governance structures that empower the steward and offers maximum autonomy built on trust is recognized by the theory (Davis *et al.*, 2011). It stresses on the position of employee to act more autonomously so that the shareholders' returns are maximized. Costs aimed at monitoring and controlling employee behavior can indeed be minimized by this. Managers are inclined to operate the firm to maximize financial performance as well as shareholders' profits in order to protect their reputations as decision makers in organizations (Davis *et al.*, 2011). In this sense, the contribution of human resource capacity in ensuring growth of Savings and Credit Cooperative Societies is recognized by the theory.

### **2.2.3 Contingency Theory**

This is an approach to the study of organizational behavior in which explanations are given as to how contingent factors such as culture, technology and the internal environment influence the function and design of organizations. No single type of organizational structure is equally applicable to all organizations as per the assumption underlying contingency theory. Instead, dependent on a fit or match between the type of technology, environmental volatility, the size of the organization, the features of the organizational structure and its information system lies the organizational effectiveness. Developed from the sociological functionalist theories of organization structure such as the structural approaches to organizational studies were Contingency theories by Woods (2009), Chenhall (2003), and Reid and Smith (2000).

The relationships between the context and structure of internal control effectiveness and organizational performance, especially reliability of financial reporting is described by Contingency theory. Internal auditors who are specialized and higher in internal audit ability will achieve internal control effectiveness analysis and that the firm will benefit from the organizational effectiveness via internal control mechanism efficiency, as suggested by empirical study (Chenhall, 2003).

According to Chenhall (2003), the following factors were identified which impact management control systems: external environment, technology, structure and size, strategy and national culture. The demands imposed by technical tasks in the organization encourage the development of strategies to coordinate and control internal activities as suggested. The location of information in relation to environment and technology has a significant influence on the organization structure. Information is frequently internal in uncertain environments with no routine technology. Information is external where environments are certain, or where technology is routine. The dimensions of control and structure include authority structure and activities structure, i.e. rules and procedures that determine the discretion of individuals. Authority relates to social power. Decentralized authority is more appropriate where uncertain environments or non-routine technology exist, in the

contingency model. When environments are certain, Centralized authority is more appropriate.

The idea of contingency theory is therefore, that the selection and use of a management control system is contingent on a variety of internal and external factors. Hence, it is thus clear that factors such as technology, external environment, structure and size, strategy and national culture impact Management Control Systems. The demands imposed by technical tasks in the organization encourage the development of strategies to coordinate and control internal activities, as suggested by the theory.

#### **2.2.4. Liquidity Theory**

The theory proposes that credit rationed companies tend to use more trade credit than those with normal access to financial intermediaries, as suggested by Chenhall (2003). When there is a restricted monetary policy, the offer of trade credit can make up for the reduction of the credit offer from financial intermediaries, being the central point of this idea. In line with this theory, large firms, presenting good liquidity or better access to capital markets can finance those constrained by the policy. Empirical evidence to support this theory have been tried through many approaches.

Using small firms as a proxy for credit rationed companies, Nielsen (2012) found that in monetary contraction they react by borrowing more from their suppliers. Trade credit tends to be less used in countries where companies have good relations with banks, as a result. As found out by Petersen and Rajan (2009), liquid firms are less likely to demand trade credit and more likely to offer it, a negative relation between buyers' access to other sources of financing and trade credit use is expected. These authors also found out that another expected negative association is between proxies for the strength of bank relationships and trade credit demand.

According to Calvo (2013), being in the eye of the beholder, liquidity may have a dynamic of its own. For instance, liquidity may breed liquidity. This simple observation helps to rationalize some key puzzles that have become evident in financial crises. The Acceleration phenomenon, for instance, supports the fact that capital inflows increase in the run up of Sudden Stop. This phenomenon is very

disconcerting and may even suggest deep seated irrationality on the part of market participants. If liquidity breeds liquidity, there is however nothing else to explain; individuals are attracted to those liquid assets because they see that others are employing those assets as collateral. It is by this understanding that strict loan portfolio management in SACCOs must be applied especially on collaterals subjected to Sacco loan applications and awards.

## **2.3 Empirical review**

### **2.3.1 Management Skills and Growth**

Hamisu (2010) conducted a study to compare between the time-management skills and academic performance of mature and traditional-entry university students. The objective of the study was to establish the relationship between time-management skills and academic performance. He found out that the provision of management skills that includes reliable employees is vital to new organization generation. The primary and secondary methodologies used showed its influence based on results. Essentially, the executives of all organizations ought to have technological skills in more high-end and complicated production technology which is constantly dynamic. New innovations and technologies in the organization are achieved due to this expertise. It must also help with increasing capacity development and competition with foreign organizations.

Johnson (2008) conducted a study on a missed opportunity for small farmers and land reform beneficiaries in South Africa. Managerial skills were determined to be the greatest influence in exerting control over activities and relationships within teams and organizations, are management skills. However, this was motivated by the benefits to be gained from the performance and the resulting effects of the leader's performance. Additionally, management skills could also engage transformative learning in leadership development that focuses on not only critically reflecting on individual behaviors and assumptions but also effectively creating means of understanding and acting upon the environment (Johnson, 2008).

A key role in strategic planning that determines vision is also played by management skills. According to Rajan (2009), leadership strategy affects the organization's management potential and characteristics of those transformational leaders could cause important changes (Turner *et al.*, 2001). A leader like this can take charge in areas of corporate vision, strategy and culture while also being able to promote creativity (Bass, 2005) of new products and technologies in organizations.

In a later study by Avolio on Strategy Implementation at Glaxosmithkline (2012), it was established that, leadership expertise affected successful management, and this was a key component of policy implementation. The essential ingredient is management skills regardless of organizational size although in small to medium sized enterprises hire local managers while larger operations recruited foreign executives to deal with demand and market pressures.

Companies' directors indicate that leadership skills are now crucial in auto business management as per another study by Hatrawang *et al.*, (2012). Leadership, motivational creativity and inspiration by sharing the management and company's vision were characteristics of a good manager. Vision, corporate strategy and organizational culture were end-results of this encouragement process and success creativity. Getting more complicated with increased involvement in globalization and technology development (Punnett, 2004), technological advances extend the possibility of global economy changing the way people do business and communicate. Cross-cultural managers must look at the world dynamics as an opportunity and a challenge for organizational growth and individual development.

In his study *The Role of Informal Microfinance Institutions in Saving Mobilization, Investment and Poverty Reduction*, Riggio, (2005) found out that due to capital constraints and family owned management styles, small to medium sized businesses contributed an overwhelming majority of the management skills problems affecting the many industries. Resulting in a shortage of knowledge as well as limiting the understanding and introduction of new innovations was this nearsightedness. Selection options for new staff and executives were also limited by this. Literature



reviewed on use of excellent management skills; showed the importance of internal factors in organizations. However, the studies never clearly showed the influence of internal factors on the growth of organizations more so SACCOs. The researcher aimed at filling this research gap.

### **2.3.2 Human Resource Capacity and Growth**

Human resource practices involve organizational activities directed at managing the pool of human resources and ensuring that the resources are employed towards the fulfillment of organizational goals (Armstrong, 2003). According to Sunchez *et al* (2006), who wrote on the portfolio theory in management, argued that human resources (HR) can be identified as the most important asset for any organization and it is the source of achieving competitive advantage because of its capability to convert the resources, that is, money, machine, methods and material into output or product/service.

As stated by Armstrong (2003), HR can help firms improve organizational behavior in such areas as staff commitment, competency and flexibility, which in turn leads to improved staff performance. HR is primarily concerned with how people are managed within organizations, focusing on policies and systems and is generally viewed as a support function to the business, helping to minimize costs and reduce risk. Managing human resources is very challenging in our complex world and hence, human resource management (HRM) system should be supported by sound HRM practices.

Chan et al (2010) conducted a study on Human resources and the resource based view of the firm and found out that, the role of the Human Resource Manager is evolving with the change in the competitive market environment and the realization that human resource management (HRM) must play a more strategic role in the success of an organization. Organizations that do not put emphasis on attracting and retaining talents may find themselves in dire consequences, as their competitors may be outplaying them in the strategic employment of their human resources (Chan et al, 2010). With the increase in competition, locally or globally, organizations must become more adaptable, resilient, agile, and customer-focused to succeed.

In his study; quality of services: lessons from the product sector, Romero (2010), found out that in order to develop a sound HRM system, the organization should have effective HRM practices. It integrates the practices, policies and strategies through which organizations manage their human capital, that influences or being influenced by business strategy and the organizational context and socio-economic context. The analysis of various successful Indian and international organizations has been considered in the study in order to identify the unique approach taken by these organizations to address a particular human resource need or issues such as management of a company. HR professionals must know how organizational processes can be improved to maximize performance and reduce costs. This analysis differs from administering benefits or handling conflicts. HR experts who can expand their expertise to include suggesting better ways to organize employees will prove invaluable to senior leaders, and it will be much easier to measure their impact.

Venkatesh (2009) conducted a study on Capacity building for Africa' cooperatives and socio-economy organizations and found out that the role of HR professionals continues to increase in value, more functional skills and greater leadership expectations are placed upon individuals in the profession. Overall, globalization requires a combination of linguistic, engineering and marketing knowledge that is not easily available (Sparrow, 2006). Issues facing HR are expected to change dramatically in the next decades, thus HR professionals must play special roles in dealing with these changes and must develop specific competencies to support these roles (Venkatesh, 2009).

The reviewed literature on human resource capacity suggested that internal factors are key factor in growth and performance of any organization. The literature generalized their findings to any organization without consideration that different organizations face different challenges. The reviewed literature did not study the implications of Human resource capacity on the growth of SACCOs. The researcher aimed at filling this research gap.

### **2.3.3 Adoption of Information Communication Technology and Growth**

As a way to improve competitiveness, technology strategy was found by many researchers. A major contributing factor to the decline of firm's competitiveness is failure to develop and integrate technology strategy and business strategy. Mitchell (2007), conducted a study on What Motivates Members to Participate in Cooperatives and Mutual Businesses. He found out that technology strategy also played an important role in determining firm performance in technology-driven industries such as industrial automation company as indicated by many literatures. However, most of the previous studies have generally focused on the structure-conduct-performance theory which emphasized greatly on external factors (market condition and competitors) to link strategies to firm growth.

Venansius (2014) conducted a study on Organizational Change and found out that most SACCOs have created websites where they lay down all relevant information relating the Sacco for easy accessibility to their customers. Products and services are marketed here both locally and globally, all round the clock. Payment of SACCO deposits, dividends, shares, bills, generation of SACCO account statements amongst other online banking services has been enabled through information technology. Automatic teller machines have conveniently enabled shareholders to access their accounts any time anywhere to execute e-money transactions like cash transfers, payment of bills, withdrawals and deposits amongst other SACCO mobile money services.

Manyara (2003) conducted a study on Challenges and opportunities facing SACCO in the current devolved system of government of Kenya and found out that technology is made up of discoveries in science, product development and improvements in process, machinery, automation, and information technology. According to Ministry of Co-operative Development and Marketing (2008) report, ICT is increasingly becoming an essential tool for efficient operations of investments and co-operatives should be encouraged to use this technology. Through its policy document on investment, the Ministry of co-operatives notes that many co-operatives are not computerized while others are partially computerized; and recommends that CODIC

be activated to fulfill its core mandate of developing and assisting the co-operative movement to acquire compatible computer software for their operations at a competitive price; and that to save on costs, SACCOs should link up with private ATM service providers, e.g Pesa Point or alternatively utilize Cooperative Bank ATM service which has a country wide network.

In a study by Thompson *et al.*, (2010), Quality of services and demand for health care in Nigeria, they found out that accurate and timely information about daily operations is essential if managers are to gauge how well the strategy execution process is proceeding; and that information systems need to cover five broad areas of customer data, operation data, employee data, supplier/partner/collaborative ally data, and the financial performance data. Thus, ICTs can provide reliable access to markets (Local, regional and International) through increased use of affordable communications (phone, email and website). According to Gunga (2008) broadly, ICT can allow for a reduction in transactions costs, improved access to timely and usable knowledge, improved communications with markets and within supply chain, acquisition of appropriate skills for enhancement of productivity and improved information about new opportunities.

Literature reviewed on adoption of technology showed the importance of technology in organizations. However, the studies did not clarify how technology led to the growth of organizations more so SACCOs. This has been presented by this study.

#### **2.3.4 Loan Portfolio Management and Growth**

Effective loan portfolio management function is vital for maintaining a financial institution safety and soundness as stated by IACPM (2005). Qualified and competent staff who can identify risks associated with individual borrowers and all borrowers (the loan portfolio), should be employed by SACCOs. Fundamental credit handling experience, quantitative analytical / marketing skills and experiences should be possessed by the portfolio management staff to perform their tasks well. Moreover, the bank should design the stress testing measures to examine the vulnerability of portfolios loss due to unanticipated events.

Magali and Oiong (2014) conducted a study on Assessment of Microfinance Institution Performance: The Importance of Institutional Environment and found out that the nine elements which comprise the effective loan portfolio management include formulation of sound portfolio objectives and risk tolerance limits, assessment of the credit culture, effective management information systems, portfolio segmentation and risk diversification objectives, analysis of loans originated by other lenders, aggregate policy and underwriting exception systems, portfolios stress testing, independent and effective control functions and analysis of portfolio risk/reward tradeoffs. Most of these techniques however, are applied in banks than in rural MFIs such as rural SACCOs. Gunga (2008) found that a direct influence on the profitability of a financial institution in Kenya was because of effective loan portfolio management, since banks and other MFIs depend on interest income as their revenue. Effective loan portfolio management will thus, make borrowers to repay their loans on time which will lead to increase in banks' or MFIs' revenue of which in turn will lead to increased profitability.

Devinaga, (2007) conducted a study on a management development model for SACCOs in Zambia and found out that, the higher the volume of loans extended, the higher the interest income and hence the profit potentials for the commercial banks. At this point, it is also worth noting that financial institutions with a high volume of loans will also be faced with higher liquidity risk. Thus, the SACCOs need to strike a balance between liquidity and profitability.

On assessment of the history of the Cooperative Movement in Kenya Bryan (2010) found out that, loans are among the highest yielding assets of an organization which adds to its balance sheet, and they provide the largest portion of operating revenue. In this respect, the financial organizations are faced with liquidity risk since loans are advanced from funds deposited by customers. Hamisu, (2011) notes that credit creation involves huge risks to both the lender and the borrower. The risk of a trading partner not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of a financial institution

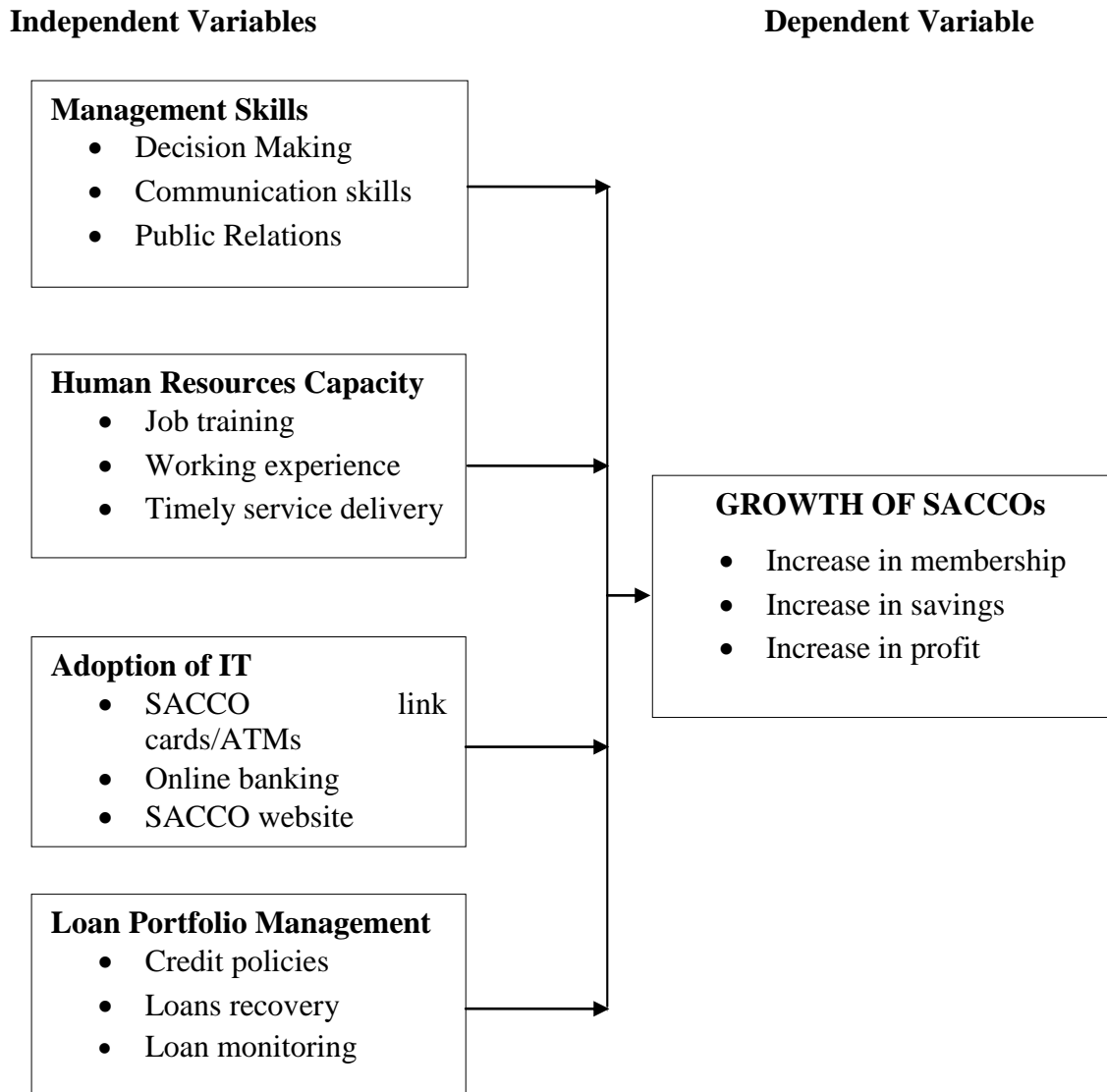
business. On the other hand, a financial institution with high credit risk has high bankruptcy risk that puts the depositors in jeopardy.

The largest share of a MFI's operating income is generated from the loan portfolio as argued by Brandt *et al.*, (2013). They asserted that income generated by the loan portfolio is affected by number of loans disbursed, the effective term for repaying the loan and the number of active clients. As per their argument, higher default rate occurs because of setting inappropriate loan terms. Moreover, they argued that if the MFI has ability to retain clients, the size of loan portfolio increases.

The reviewed literature did not present any study on internal factors affecting SACCOs conducted in Machakos County. The study aimed at filling this gap by finding out how management skills, loan portfolio management, human resource capacity and adoption of IT affected growth of SACCOs in Machakos County. This study thus, sought to fill this gap by investigating the effects of internal factors on growth of SACCOs in Machakos County.

## 2.4 Conceptual Framework

Figure 2.1: Conceptual Framework



Source: Author 2019

In the study, there were four independent variables which are:

### Management Skills

May be termed as the tactical approaches applied in control over activities and relationships within teams and organizations. The study tested this through decision making, communication skills and public relations as applied by management in SACCOs across Machakos County.

### **Loan Portfolio Management**

In simple terms, this involves credit management as far as loans are concerned within financial institutions. This was tested in the study by examining the existing credit policies, loan recovery measures and loan monitoring process in SACCOs across Machakos County.

### **Human Resources Capacity**

This variable tested the outputs behind the existing human labor brought out by competencies amongst various workforces in the SACCOs across Machakos County, measurable through levels of job training, working experience and timeliness in service delivery, an indicator of efficiency in operations within the human labor.

### **Adoption of IT**

This variable addressed the levels of information technology as adopted by various SACCOs in Machakos County in their operations and service delivery as indicated by availability of SACCO link cards/ATMs, online banking and SACCO website amongst other IT related aspects. The Independent variables were perceived to be the internal factors that affect the growth of the SACCO.

### **Growth of SACCOs**

The study was guided by the relationship of dependent variable and the independent variables. The study aimed at established the relationship between the dependent variable and the independent variables. The conceptual framework shows that there is a relationship between the two variables. The dependent variable was growth of SACCOs as indicated through increase in SACCOs' membership, savings and profit levels. It was assumed that among other factors, the independent variables influenced the growth of SACCOs in Machakos County. The variable addressed the growth of SACCOs in Machakos county which was looked at in three major dimensions including; membership, savings and profit levels.



## **CHAPTER THREE**

### **3.0 RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter presents the research methodology for the study. Methodology refers to the way data or information is collected, analyzed and presented to inform a business decision. The chapter touches on the research design, target population to be used, sample size and sampling technique, data and data collection instruments to be used, data collection procedure, pilot study and lastly highlights on data analysis and presentation.

#### **3.2 Research Design**

According to Mugenda and Mugenda (2000), research design refers to the way the study is designed. That is, the applicable method that was adopted to carry out the research. Descriptive research design was used in the study. That is, the investigation in which quantitative data was collected and analyzed to describe the specific phenomenon in its current trends, events and linkages between different factors at the current time.

According to previous studies, descriptive research design is preferred while conducting research studies since it portrays an accurate profile of persons, events, or situation (Robson, 2002). Surveys allow for collection of a large amount of data from a sizeable population in a highly economical way, as it has also been shown. It allows one to collect quantitative data, which was analyzed quantitatively using descriptive and inferential statistics (Sparrow 2007). This research design was chosen since it enables the researcher to generalize the findings to a larger population. This study therefore was able to generalize the findings to all the SACCOs in the County of Machakos.

#### **3.3 Target Population**

According to Mugenda and Mugenda (2000), an entire group of individuals, events or objects having observable characteristics is defined as a population. The study sought to obtain data from all SACCOs which were active in Machakos County in the year

2017. According to the ministry of cooperative, Machakos County had 33 SACCOs as at June 2017 (See Appendix V) that had been fully operational therefore; the target population of study was the 410 employees of the 33 SACCOs operating in Machakos County, as shown in the table 3.1:

**Table 3.1: Target Population**

<b>Nature of SACCO</b>	<b>C.E.O</b>	<b>Credit Manager</b>	<b>H.R Manager</b>	<b>I.T Manager</b>	<b>Other Employees</b>	<b>TOTAL</b>
Employee-Based	12	12	12	12	83	<b>131</b>
Community-Based	9	9	9	9	152	<b>184</b>
Matatu-Based	12	12	12	12	37	<b>85</b>
<b>TOTAL</b>	<b>33</b>	<b>33</b>	<b>33</b>	<b>33</b>	<b>278</b>	<b>410</b>

### **3.4 Sample Size and Sampling Technique**

Census was used to increase the objectivity of the study and reduce the chances of biasness since it's a non-probability method, where the entire target population participated in the study. Further, according to Kombo and Tromp (2009) indicated that in a descriptive research, the sample population should at least be 30 elements to obtain favorable results. The study adopted purposive sampling and sampled on the Chief Executive Officers (CEOs) and Senior Managers in charge of credit, human resource and information technology, since they were in a better position to analyze the position of their organizations and the effects that the variables have on the growth of their organizations.

**Table 3.2: Sample Size**

<b>Nature of SACCO</b>	<b>C.E.O</b>	<b>Credit Manager</b>	<b>H.R Manager</b>	<b>I.T Manager</b>	<b>TOTAL</b>
Employee-Based	12	12	12	12	<b>48</b>
Community-Based	9	9	9	9	<b>36</b>
Matatu-Based	12	12	12	12	<b>48</b>
<b>TOTAL</b>	<b>33</b>	<b>33</b>	<b>33</b>	<b>33</b>	<b>132</b>

### **3.5 Data Collection Instruments**

Primary data was collected by use of questionnaires. Kothari (2004) describe primary data as those data which are collected afresh and for the first time, and thus in character, they happen to be original. According to Louis et al (2007) items that are original to the problem under study are described as primary data while Kothari (2004) describe primary data as data collected by the investigator in various field sites explicitly for a comparative study. From the SACCOs, primary data was collected by way of administering questionnaires to the sampled target respondents within them. Four questionnaires were issued to each Sacco, one to CEO, second to Credit Manager, third to the HR Manager and lastly to the IT Manager, or their equivalents.

### **3.6 Data Collection Techniques**

Self-administered questionnaires were used in the study as the major data collection tool from the respondents, who were allowed at least one week to respond to the questionnaires after exchanging telephone contacts with the researcher. To note, where the researcher felt there was need for guidance on completion of the questionnaires, this was done. Where applicable, the services of a research enumerator who could make follow-up of the administered questionnaires, were sought by the researcher.

### **3.7 Pilot Study**

According to Kombo and Tromp (2009) and Kothari (2004) a pilot study is described as a replica and rehearsal of the main survey. Pilot study assists researchers to see if the questionnaire obtained the required results, as stated by Pollet (2013). It is stated by Kothari (2004) that the term pilot studies have been misused by some researchers who appear to use it as an excuse for not using a bigger sample. The purpose of a pilot study is not so much to test research hypotheses, but rather to test protocols, data collection instruments, sample recruitment strategies and other aspects of a study in preparation for a larger study, as stated by Pollet (2013). A pilot study was carried out in the neighboring County of Kitui where five SACCOs were randomly sampled. The pilot study aimed at testing the validity and reliability of the questionnaires in gathering the data required for purposes of the study. Out of the twenty questionnaires issued to those SACCOs' employees, eighteen were responded to.

#### **3.7.1 Reliability of the Instruments**

The extent to which an assessment tool generates stable and consistent results otherwise termed as its reliability (Pollet (2013). By computing the Cronbach's Alpha coefficient to measure the internal consistency of the instrument, internal consistency reliability was determined as per Mugenda & Mugenda (2000). Kothari (2004) defined reliability as the degree of consistency of the measures or results whatever it measures. It is the ability to constantly produce the same results when repeated measurements are taken under the same circumstances. Since the questionnaire was an item-tool, test-retest method was also used to measure reliability to ascertain similarity. The Cronbach Alpha scale for the questionnaire was 0.89 showing a more internal consistency. A value of Cronbach Alpha of above 0.75 shows that the data collection instrument is reliable (Orodho, 2004).

#### **3.7.2 Validity of the Instruments**

Validity is defined as the accuracy of the data and/or information collected during a research study. It refers to the connotation and extrapolations arising from the results of the study (Orodho, 2004). It refers to the level to which study findings accurately represent the area under investigation. A research instrument is valid depending on the usefulness of the data collected in addressing the scope of the research topic. To

ensure that the research instrument has a content valid measure and that all possible items on the research instrument measure the concept under study, pilot study was used (Mugenda & Mugenda, 2000). To assess the relationship of variables, divergent validity was applied.

### 3.8 Data Analysis and Presentation

Both descriptive and inferential statistics were used in the study to analyze data from the questionnaires. To establish the nature and magnitude of the relationship between variables, simple multiple regression analyses were used. Descriptive statistics such as frequencies and percentages were computed for organizational data and multiple-choice questions to describe the main characteristics of the variables of interest for the study. For Likert type questions, mean scores were computed. Tables were used to present data.  $R^2$  was used as the value of coefficient of determination to show the degree or amount of variation in the dependent variable(s) attributed to the predictor variable(s). To show the amount of change in the dependent variable attributable to the amount of change in the predictor variable the Beta values were used, and the F ratio measures the model fit, or simply it is a measure of how well the equation line developed fits with observed data. The regression model used is presented as below:

#### Model

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where;

Y	= Growth of SACCOS (Dependent Variable)
$\beta_0$	= Constant Term
$\beta_1, \beta_2, \beta_3, \beta_4,$	= Beta coefficients
$X_1$	= Management skills
$X_2$	= Loan portfolio management
$X_3$	= Human resource Capacity
$X_4$	= Adoption of Information Technology
$\varepsilon$	= Error Term

### **3.9 Ethical Considerations**

The researcher acquired authority from the SACCOs' management to conduct research in their organizations. Consent from the respondents was sought by the researcher, who assured them that solely, the research is for academic purposes and any confidential information obtained would be treated with paramount confidentiality. Data collected from the respondents was ensured that it would exclusively be used by the researcher during data analysis.

## **CHAPTER FOUR**

### **4.0 DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF THE RESEARCH FINDINGS**

#### **4.1 Introduction**

The study employed different statistical techniques aided by SPSS version 21 to investigate the internal factors affecting the growth of Savings and Credit Cooperative Societies in Machakos County of Kenya. This chapter describes the analysis of data followed by a discussion of the research findings. The findings relate to the research questions that guided the study. The chapter begins with the analysis of the response rate and then explains the pilot study adopted by the study. Reliability and validity test were adopted in order to reduce the number of indicators or factors under each research variable and retain the indicators capable of explaining the relationship between internal factors and growth of Savings and Credit Cooperative Societies in Machakos County. Reliability analysis was carried out using Cronbach alpha which is a coefficient of reliability that gives an unbiased estimate of data generalizability.

The chapter also discusses the results of the study in line with existing literature to establish whether the results confirm previous studies, or they are inconsistent with existing knowledge. The content of this chapter is based on the research questions and the objectives of the study. The discussion mainly focuses on the study findings, how they compare with existing knowledge, theoretical contribution of the study and the knowledge gap filled.

#### **4.2 Preliminary Results**

This section covers the preliminary results of the study.

##### **4.2.2 Response Rate**

Out of the 132 targeted respondents, 88 of them responded in the study. This constitutes a response rate of 66.67 percent. All the responded questionnaires were assumed reliable by the researcher for the study, as they represented an adequate response rate for the precision and confidence required in this study. This was in line with Orodho (2009) that a response rate above 55% contributes towards gathering of

sufficient data that could be generalized to represent the opinions of respondents about the study problem in the target population.

The study population consisted of SACCOs operating in Machakos County. Questionnaires were self-administered to senior management in the ranks of Chief Executive Officers (CEOs), Credit Manager, HR Manager and IT Managers or their equivalents of SACCOs in Machakos County in Kenya. These response rates are presented on table 4.1.

**Table 4.1: Response Rate**

<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Responded	88	66.67
Did not respond	44	33.33
Total	132	100.00

### **4.3 Background Information of the Respondents**

This section covers the response obtained from the respondents in terms of the general information, that is, job title, level of education, the number of years you have worked for the institution, the type of SACCO as well as an approximated number of members in their respective SACCOs. Descriptive statistics are used to describe the basic features of the data in a study. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data (Tronchim 2006). The study used descriptive statistics to present the frequency and the percentages of the gathered data on the relationship between internal factors and growth of Savings and Credit Cooperative Societies in Machakos County in Kenya. This section presents personal information of the respondents who participated in the research study.

#### **4.3.1 Highest Level of Education**

The respondents were asked to indicate their highest level of education.



**Table 4.2: Highest Level of Education**

<b>Highest Level of Education</b>	<b>Frequency</b>	<b>Percentage</b>
Certificate/Diploma	21	23.86%
Undergraduate Degree	37	42.05%
Postgraduate Degree	19	21.59%
KCSE and Below	11	12.50%
<b>Total</b>	<b>88</b>	<b>100%</b>

Results in Table 4.2 show that the highest response rate of 37 had an undergraduate degree while 21 of the respondents had a diploma or certificate. 19 of the respondents had their highest level of education being a postgraduate degree, while only 11 had a KCSE and below. This shows that the respondents were competent enough to critically analyze the information that they provided. Further this added more confidence to the research that the respondents would understand the relationship between the variables. In as far as the title of study is concerned, the results imply that, the respondents were expected to understand the questionnaire and give valid response since they had better understanding as guided by their level of education which in this case majority having university as the highest level of education.

#### **4.3.2 Number of Working Years**

The study sought to establish the number of years an employee worked in the SACCOs. Tabulation was done in order to derive more meaning out of the data. In this study the number of years the respondents had worked in their respective firms varied. The number of years an employee worked in an organization meant understanding of the organization's operations hence was considered important in evaluating the respondents' appropriateness as relevant and knowledgeable respondents. Hence managers were deemed reliable source of credible firm information. The results are presented in Table 4.3.

**Table 4.3: Number of Working Years**

<b>Number of Working Years</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 2 years	23	26.14%
2 to 10 years	56	63.64%
11 to 20 years	7	7.95%
More than 20 years	2	2.27%
<b>Total</b>	<b>88</b>	<b>100.0%</b>

Majority of the respondents (56) had worked in their respective SACCOs between 2 to 10 years while 23 of the respondents had worked for less than two years. 7 of the respondents had worked in their SACCOs for a period of between 11 to 20 years while only 2 had worked there for more than 20 years. Overall, the findings indicate that majority of respondents have worked for the same organization between 2 to 10 years, thus had a wide organizational knowledge. However, majority of the respondents were considered to understand the organizational operations hence suitable source of reliable information

The variable number of working years reflected skewness toward the older employees who had more tacit knowledge in terms of experience, learning, interaction and technical knowledge. This further meant that retention of experienced employees leads an organization growth on key processes and competencies. This finding is useful in determining SACCOs' ability to grow and sustain itself. The number of working years in an institution is associated with gradual growth of a SACCO thus the respondents with long experiences are assumed to be more efficient due to minimal mistakes and expertise.

**Table 4.4: Job Title**

<b>Job Title</b>	<b>Frequency</b>	<b>Percentage</b>
CEO	1	1.7%
IT Managers	10	11.5%
HR Managers	42	47.5%
Credit Managers	35	39.3%
<b>Total</b>	<b>88</b>	<b>100%</b>

The job titles were ranging from CEOs, Credit Managers (loan managers), HR Managers and IT Managers. Individual respondent's profile comprised of the job title or position of the respondents. The results presented in Table 4.4 indicate that the job titles of most of the respondents were HR Managers comprising of 47.5%. The lowest response rate was from the CEOs with a 1.7% response rate. IT managers were 10 making a percentage of 11.5% while the credit managers were 35 making a response rate of 39.3%. This showed that all the important departments were represented and that the respondents were in a position to understand the influence of the independent variables on the dependent variables.

#### **4.3.3 Type of SACCO Society**

The study sought to find out the type of SACCOs found in Machakos County and the findings was as shown in Table 4.5

**Table 4.5: Type of SACCO Society**

<b>Type of SACCO</b>	<b>Frequency</b>	<b>Percentage</b>
Employee based	60	69.18%
Transport Based	6	6.81%
Community Based	9	11.36%
Youth Based	13	12.65%
<b>Total</b>	<b>88</b>	<b>100%</b>

From the findings, 60 of the respondents were from employee based SACCOs, 6 of the respondents were from transport based SACCOs while respondents from

community based and youth based SACCOs were 9 and 13 respectively. Based on the findings, employee-based institutions were found to be well organized hence the majority of institutions with SACCO facilities all over the County. It's worthy to mention that, the number of members in all SACCOs under study has grown exponentially.

#### **4.4 Internal Factors Affecting Growth**

This sub-topic provides a manifestation of the study variables. Descriptive statistics for each of the research variables were measured using Likert scale. The respondents were asked to indicate the extent to which they agreed or disagreed with the statements representing management skills, loan portfolio management, human resource capacity and adoption of information technology on growth of Savings and Credit Cooperative Societies in Machakos County in Kenya. A five-point Likert scale was used ranging from (1 = Strongly Disagree, 2 = Disagree, 3 = neither agree nor Disagree, 4 = Agree, 5 = Strongly Agree). Table 4.6 to 4.10 presents the summary of means and standard deviation of variation of the study variables.

##### **4.4.1 Growth of SACCOs**

Respondents of the study were required to tick in their opinion the following statements which best describe their institution. Respondents were asked to provide answers on each item that was measured by a five-point Likert scale ranging from 1 (very low) to 5 (very high). From Table 4.6, mean and standard deviation were used to test respondent ideas where Standard deviation is the square root of the variance. It measures the spread of a set of observations. The larger the standard deviation is, the more spread out the observations are, while mean is the arithmetic mean across the observations, it is the most widely used measure of central tendency. It is commonly called the average.

**Table 4.6: Growth of SACCOs**

<b>Growth of SACCOs</b>	<b>Mean</b>	<b>Standard Deviation</b>
For the last 3-5 years, has the SACCO membership increased	4.0559	0.49813
For the last 3-5 years, has the SACCO savings increased	3.6151	0.57479
For the last 3-5 years, has the loans applications/disbursements increased	3.4941	0.52824
For the last 3-5 years, borrowers have improved on loan repayment obligations	2.8733	0.44730
For the last 3-5 years, the SACCOs' profit levels have increased	3.4507	0.38489

From the above findings, membership and SACCO savings have greatly increased over the last 3-5 years as supported by a strong mean of 4.0559 and 3.6151 respectfully. SACCOs have also greatly increased the loans applications and disbursements as shown by a mean of 3.4941 as well as their profit levels. There has however been a slow but steady loan repayment obligations from borrowers as supported by a mean of 2.8733. The standard deviation of the variable aspects was ranging between as the highest and 0.57479 and 0.38489 as the lowest indicating that the data collected was not widely spread on the Likert scale.

#### **4.4.2 Management Skills**

The first objective of the study intended to describe the extent to which the statement on the management skills affect the growth of SACCOs in Machakos County. The responses are rated in table 4.7:

**Table 4.7: Management Skills**

<b>STATEMENT</b>	<b>Mean</b>	<b>Std. Deviation</b>
The SACCO hires managers based on merit	4.0559	0.32863
Management Committees in the SACCO do timely reports	2.8526	0.36585
Managers effectively channel communication formally	3.3579	0.43664
Managers orderly keep to SACCO meetings schedules	3.8289	0.58073
Members in the SACCO are involved in decision making	2.0921	0.85581
The SACCO periodically engages on Corporate social responsibilities	3.5875	0.30444

From the findings, it is clearly indicated that there is a significant relationship between management skills and growth of SACCOs; respondents of the study strongly agreed that the SACCO hires managers based on merit as shown by a mean of 4.0559. Other statements strongly agreed were; Managers orderly keep to SACCO meetings schedules as shown by mean of 3.8289, The SACCO periodically engages on Corporate social responsibilities (mean= 3.5875), Managers effectively channel communication formally (mean= 3.3579) and Management Committees in the SACCO do timely reports as shown by a mean of 2.8526. The least significant factor according to the respondents was the statement that members in the SACCO are involved in decision making as shown by a mean of 2.0921.

#### **4.4.3 Human Resource Capacity**

The second objective of the study describe the extent of agreement/disagreement with the statements about the human resources in the respective SACCOs. The responses are rated in the Table 4.8 below.

**Table 4.8: Human Resource Capacity**

STATEMENT	Std.	
	Mean	Deviation
The SACCO has enough workers	3.4803	0.90813
Employees in the SACCO are qualified	3.8145	0.94358
Employees in the SACCO are subjected to periodic trainings with aim of staff development	3.8474	1.46821
Employees in the SACCO do meet the expectations of members (customers)	3.6507	0.74740
Customer loans are processed within set time frames	3.5757	0.57523
The Human resource has enhanced growth of the SACCO	3.9125	0.89611

The results presented in Table 4.8 indicate a strong positive relationship between human resources capacity and growth as shown by the above responses. The Human resource has enhanced growth of the SACCO was however the strongly supported statement by a mean of 3.9125, as well as Employees in the SACCO are subjected to periodic trainings with aim of staff development by mean of 3.8474 and Employees in the SACCO are qualified as shown by a mean of 3.8145

Respondents though moderately agreed on the statements that Employees in the SACCO do meet the expectations of members (customers) (mean=3.6507), customer loans are processed within set time frames (mean= 3.5757) and The SACCO has enough workers by a mean of 3.4803.

#### **4.4.4 Adoption of Information Technology Factors**

The third objective sought to identify the extent of agreement/disagreement with the statement on the adoption of technology and the growth of SACCO. The responses are rated in the Table 4.9 below.

**Table 4.9: Adoption of Information Technology**

<b>STATEMENT</b>	<b>Mean</b>	<b>Std. Deviation</b>
The SACCO has incorporated technology	3.5230	0.71716
Adoption of Technology has led to growth of SACCOs	3.7401	0.49197
Technology has enhanced accountability in my SACCO	3.3263	0.50663
Technology has led to quick service delivery	3.6190	0.53967
Technology has given the SACCO a competitive edge	3.4770	0.69477
SACCO is well linked to electronic cards/ATMs and M-Banking	3.6865	0.47499

The results presented in Table 4.9 indicate adoption of Technology has led to growth of SACCOs as shown by a mean of 3.7401, SACCO is well linked to electronic cards/ATMs and M-Banking by a mean of 3.6865, Technology has led to quick service delivery with a mean of 3.6190 as well as the SACCO has incorporated technology by a mean of 3.5230. Also, technology has given the SACCO a competitive edge by a mean of 3.4770 and technology has enhanced accountability in my SACCO by a mean of 3.3263

#### **4.4.5 Loan Portfolio Management**

The fourth objective described the extent of agreement/disagreement with the statement about loan portfolio management in their respective SACCO. The responses are rated in the Table 4.11 below.



**Table 4.10: Loan Portfolio Management**

STATEMENT	Std.	
	Mean	Deviation
The SACCO issues loans on provision of security	3.4752	0.79227
The SACCO penalizes borrowers on failure to pay loan on time	3.4770	0.67447
Loan repayment schedules are issued to borrowers on loan application	3.3914	0.67589
The SACCO conducts frequent loan evaluations / appraisals	3.5461	0.85085
The SACCO has defined loan recovery procedures /policy	3.3553	0.78692
The SACCO issues insured loans to borrowers	3.6271	0.46126

From the above findings, all the above statements were agreed as the SACCO issues insured loans to borrowers by a mean of 3.6271; The SACCO conducts frequent loan evaluations / appraisals (mean=3.5461), The SACCO issues loans on provision of security (mean= 3.4752), The SACCO penalizes borrowers on failure to pay loan on time (mean= 3.4770), Loan repayment schedules are issued to borrowers on loan application (mean= 3.3914) and the SACCO has defined loan recovery procedures /policy by a mean of 3.3553. Growth of SACCOs can be said to be significantly determined by how credit facilities (Loans) are managed.

#### **4.5 Regression Correlation Analysis**

This section covers the findings of regression and correlation analysis. In order to establish the relationship between internal factors and growth of Savings and Credit Cooperative Societies in Machakos County in Kenya, the study conducted a multiple regression analysis. The analysis included; direction and magnitude of the relationship, goodness fit of the model, test of significance of the model, estimated model and individual significance of the model parameters. The findings were as shown in the table 4.11 to table 4.14 below:

### 4.5.1 Correlations Test

Multicollinearity is a measure of the existence of strong correlation between independent variables. Two independent variables are said to be correlated if their P-value is greater than 0.5 and as such one of the variables should be dropped from the model. As shown in table 4.11, none of the predictor variables had P-value > 0.5 hence no problem of multicollinearity and a four predictor variables model could be used to forecast growth of SACCOs in Machakos County in Kenya.

**Table 4.11: Pearson Correlation**

	Growth of SACCOs	management skills	human resource	Adoption of technology	loan portfolio management
Pearson Correlation	1.000				
	Growth of SACCOs	1.000			
	Management skills	.364	1.000		
	Human resource capacity	.115	.391	1.000	
	Adoption of IT	.701	.285	.382	1.000
	Loan portfolio management	.203	.074	.451	.510

### 4.5.2 Model Summary

Coefficient of determination explains the extent to which changes in the dependent variable (growth of SACCOs in Machakos County in Kenya) can be explained by the change in the independent variables or the percentage of variation in the dependent variable (growth of SACCOs in Machakos County) that is explained by all the four independent variables (management skills, human resource capacity, adoption of technology and loan portfolio management).

**Table 4.12: Model Summary for Goodness of fit**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.763 <sup>a</sup>	.583	.576	.30373

a. Predictors: (Constant), loan portfolio management, management skills, adoption of technology, human resource capacity.

The four independent variables that were studied, explain 58.3% of the changes in the growth of SACCOs in Machakos County in Kenya as represented by the  $R^2$ . The study shows that there is a positive significant correlation between internal factors and growth of SACCOs in Machakos County in Kenya.

#### 4.5.3 Analysis of variance

ANOVA findings (P- value of 0.00) in Table 4.13 show that there is correlation between the predictor's variables (management skills, human resource capacity, adoption of technology and loan portfolio management) and response variable (growth of SACCOs in Machakos County in Kenya). An F ratio is calculated which represents the variance between the groups, divided by the variance within the groups. A large F ratio indicates that there is more variability between the groups (caused by the independent variable) than there is within each group, referred to as the error term. A significant F test indicates that we can reject the null hypothesis which states that the population means are equal. The P value is 0.000 which is less than 0.05 significance level.

Calculated *F*-ratio concerning variation between columns is equal to or greater than its table value, then the difference among columns means is considered significant. Similarly, the *F*-ratio concerning variation between rows can be interpreted.

**Table 4.13: Results of ANOVA of Regression Analysis**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	34.023	3	8.506	92.200	.000 <sup>b</sup>
	Residual	24.355	85	.092		
	Total	58.378	88			

a. Dependent Variable: growth of SACCOs

b. Predictors: (Constant), loan portfolio management, management skills, adoption of technology, human resource capacity.

The ANOVA results in the table above indicate that the regression model had a significant predictive power ( $F=92.2$ ;  $P=0.00 < 0.05$ ). The findings suggest that management skills, loan portfolio management, human resource capacity and adoption of technology could significantly predict growth of SACCOs in Machakos County.

From the ANOVA table, it's found that differences concerning management skills, human resource capacity, adoption of technology and loan portfolio management is significant at 5% level as the calculated  $F$ -ratio of 92.200 is greater than the value 0.00, but human resource capacity, adoption of technology and loan portfolio management are significant as the calculated  $F$ -ratio of 92.200 is more than its table value of 0.00.

#### 4.5.4 Coefficients

The established multiple linear regression equation becomes:

Forecasted growth of SACCOs in Machakos County in Kenya =  $0.542 + 0.556$  management skills +  $-0.395$  human resource capacity +  $0.869$  adoption of technology  $-0.114$  loan portfolio management +  $0.339$ .

**Table 4.14: Coefficients of Regression Equation**

Model	Unstandardized		Standardized	T	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	.542	.339		1.600	.111
management skills	.556	.104	.240	5.362	.000
1 human resource capacity	-.395	.085	-.226	-4.632	.000
Adoption of technology	.869	.054	.775	15.977	.000
loan portfolio management	-.114	.053	-.108	-2.165	.031

- a. Dependent Variable: growth of SACCOs
- b. Predictors: (Constant), management skills, human resource capacity, adoption of technology, loan portfolio management.

From the findings, management skills and adoption of technology had a positive and significant influence on growth of SACCOs in Machakos County with beta of 0.556;  $P < 0.05$  and 0.869;  $P < 0.05$  respectively. Human resource capacity and loan portfolio management had a negative influence on growth of SACCOs in Machakos County with beta of -0.395;  $P < 0.05$  and -0.114;  $P < 0.05$  respectively. These findings indicate that there were some strengths in how management skills and adoption of technology were applied in the SACCOs, which positively influenced their growth. At the same time, there were some weaknesses in how human resource capacity and loan portfolio management was applied in the SACCOs that negatively affected their growth in Machakos County.

Where,

Constant = 0.542, shows that if management skills, human resource capacity, adoption of technology and loan portfolio management were all rated as zero, growth of SACCOs in Machakos County in Kenya rating would be 0.542

$\beta_1 = 0.556$ , shows that one unit increase in management skills results in 0.556 units increase in growth of SACCOs in Machakos County in Kenya other factors held constant.

$\beta_2 = -0.395$ , shows that one unit increase in human resource capacity results in -0.395 units increase in growth of SACCOs in Machakos County in Kenya other factors held constant.

$\beta_3 = 0.869$ , shows that one unit increase in adoption of technology results in 0.869 units increase in growth of SACCOs in Machakos County in Kenya other factors held constant.

$\beta_4 = -0.114$ , shows that one unit increase in loan portfolio management results in -0.114 units increase in growth of SACCOs in Machakos County in Kenya other factors held constant.

$\varepsilon = 0.339$ , Error term.

Thus, Specific Regression Model equation is:

$$Y = 0.542 + 0.556X_1 + -0.395X_2 + 0.869X_3 + -0.114X_4 + 0.339$$

## **CHAPTER FIVE**

### **5.0 DISCUSSIONS**

#### **5.1 Introduction**

This chapter presents some briefs on the major findings of the study and relevant discussions as pertains the research objectives in relation to the established effects they have impacted on the growth of the SACCOs in the County of Machakos.

#### **5.2 Management Skills and Growth of SACCOs**

The study established that management skills positively and significantly affected the growth of SACCOs in Machakos County. Respondents of the study strongly agreed that the SACCOs hired managers based on merit, who stuck to SACCO meetings schedules, effectively and formally channeled communication and did timely SACCO reports. It was also strongly agreed that the SACCOs periodically engaged in Corporate Social Responsibilities as indicated by the strong mean and standard deviation thus strongly and positively affecting growth of SACCOs in Machakos County. The least significant factor according to the respondents that weakly affected growth of SACCOs in the County was the statement that members in the SACCO were involved in decision making. From the study, it can be categorically concluded that every organization's success is highly determined on its management capabilities. The findings are tandem with Johnson (2008) who posits that management skills are determined to be the greatest influence in exerting control over activities and relationships within teams and organizations. This however, was motivated by the benefits to be gained from the performance and the resulting effects of the leader's performance.

#### **5.3 Loan Portfolio Management and Growth of SACCOs**

Regarding loan portfolio management on growth of SACCOs in Machakos County, the study established that loan portfolio management negatively and weakly affected the growth of SACCOs in Machakos County. It was strongly found out that SACCOs issue loans on provision of security, penalizes borrowers on failure to pay loan on time, issue loan repayment schedules to borrowers on loan application, conduct frequent loan evaluations / appraisals, has defined loan recovery procedures /policy

and finally issues insured loans to borrowers. This is justified as indicated by the positive means and standard deviations. The fact that nearly all SACCOs must have strong loan portfolio management system for credit control, growth doesn't necessarily have to be determined by this predictor variable. These findings agree with that of Omino (2014), who analyzed the liquidity mitigation measures and performance of SACCOs in Kisumu County. The study found out that liquidity risk mitigation approaches adopted by different SACCOs had a significant effect on their financial performances. The study revealed that SACCOs adopted a more cautious position in their current liabilities to ensure that operating cash flows were sufficient to cover the short terms obligations entered by the firms. Further, the study revealed that debtor collection periods were longer to encourage voluntary membership and consequently the SACCOs were either unjustifiably constraining their creditor payment periods or were conditioned to do so.

#### **5.4 Human Resource Capacity and Growth of SACCOs**

The study indicates a weak positive relationship between human resources capacity and growth of SACCOs in Machakos County. The Human resource was found to have enhanced growth of the SACCO, as well as employees in the SACCO are subjected to periodic trainings with aim of staff development and employees in the SACCO are qualified; as indicated by strong means and standard deviations. Respondents equally moderately agreed that employees in the SACCO do meet the expectations of members (customers), customer loans are processed within set time frames and the SACCO has enough workers; as indicated by the strong means and standard deviations. As stated by Koch and McGrath (2006), HR can help firms improve organizational behavior in such areas as staff commitment, competency and flexibility, which in turn leads to improved staff performance. HR is primarily concerned with how people are managed within organizations, focusing on policies and systems and is generally viewed as a support function to the business, helping to minimize costs and reduce risk. Managing human resources is very challenging in our complex world and hence, human resource management (HRM) system should be supported by sound HRM practices.



### **5.5 Adoption of Information Technology and Growth of SACCOs**

The study established that the SACCOs in Machakos County have to some extent invested in IT, which has positively and significantly led to growth of the SACCOs. It was found out that adoption of technology has led growth of SACCOs, with some SACCOs having been found to be linked to electronic cards/ATMs and M-Banking, Technology has led to quick service delivery as well as the SACCO has incorporated technology, which has given the institutions competitive edge and enhanced their accountability. This is as indicated by strong means and standard deviations. The study as well found out that not many SACCOs have adopted many forms of information technology such as e-banking, m-banking, ATMs and many others. The study however, concludes that technology had a positive effect on growth of SACCOs in Machakos County. Venansius (2014) asserts that most SACCOs have created websites where they lay down all relevant information relating the SACCO for easy accessibility to their customers. Products and services are marketed here both locally and globally, all round the clock. Payment of SACCO deposits, dividends, shares, bills, generation of SACCO account statements amongst other online banking services has been enabled through information technology.

## **CHAPTER SIX**

### **6.0 CONCLUSION AND RECOMMENDATIONS**

#### **6.1 Introduction**

This chapter presents the conclusions drawn from the study findings and the necessary recommendations in relationship to the drawn conclusions. It provides in-depth conclusion and recommendations on the four internal factors and how they influence growth of SACCOs in Machakos County.

#### **6.2 Conclusion of the study**

The study concludes that internal factors are positively significant to influence growth of SACCOs thus concludes that internal factors had positive influence on growth of SACCOs in Machakos County. Managerial skills were revealed in the study that they are important especially during harsh economic times, like closing business doors and then reopening when economic conditions improve. Managerial decisions are fundamental to growth of business including SACCOs. Important business decisions such as; when to open new branches, when to offer new products, how to carry out product promotion etc, greatly lies within the managerial skills of the managerial staff. A technical interpretation of market data is very important in investments with high managerial technical skills. Flexibility and experience leads to utilization of low funds flow and high performance hence high returns thus the study concludes that managerial abilities has a positive impact on growth of SACCOs in Machakos County, just as they have on any other successful institutions.

The study further concludes that loan portfolio management is a key aspect on the growth of SACCOs. Building a strong capital base of a SACCO is determined by the systems that the SACCO puts in place to manage its loan portfolio. The study concluded that the SACCOs survival also depends on the kind of products they offer and how differently they offer them to the members compared to other similar providers of that product. Society introduces new products as members need change. They often introduce new methods of service delivery as members demands change to ensure growth. It was also found that products offered by SACCOs are similar given that the respondents were neutral on this aspect.

The study concluded that, human resource capacity is a key factor on the growth of SACCOs in Machakos County. The implementation of sound policies relies on the capacity of the human resource. Training and development of the staff helps in determining the level of employee competencies. Hiring of employees is critical since it determines the entry behavior of the employees into the SACCOs.

The study further concludes that, most SACCOs have partially adopted the adoption of information technology while some are not computerized. Adoption of information technology has improved rate of loans disbursement and loans recovery. Members' issues and requests are responded to promptly. Reports produced by the information system are accurate and reliable. Errors and differences in records are easily corrected, and reconciliations done on time. This greatly increases the efficiency of service delivery amongst the SACCOs.

### **6.3 Recommendations of the study**

The study laid down the following recommendations that, if best applied to practice, policy, and academia would influence the growth of SACCOs.

#### **6.3.1 Recommendations to Practice**

Based on the research findings, the study recommends that the institutions (SACCOs) should undertake an internal review of the management functions that impact the operations division and identify structure as one of the determining factors of growth of SACCOs.

It is further recommended in the study that the management on SACCOs which have not yet embraced technology should consider adopting new technologies, as this will allow the management to create a comprehensive understanding that can be leveraged to influence stakeholders, enhance competitive edge and create better decisions. To find effective responses to optimize SACCO's performance, the study also recommends that it is very crucial that the organization evaluates managerial abilities as this will help the organization to gather valuable information that will provide valuable insights in the strategy and the necessary input. The study recommends that

the management keeps on monitoring as well as reassessing the effect and frequency of internal factors adopted. This will help to identify whether the adopted counteractive measures are making any acceptable difference. SACCOs should at least ensure that they effectively involve stake holders in decision making which might as well play some significant role in their future growth.

### **6.3.2 Recommendations to Policy**

As per lessons learnt during the research process and attributable findings, the study recommends that SACCOs need to develop strict and strategic policy guidelines on human resource practises (HR Policy) and loan portfolio management (Credit Policy) that would positively determine growth of the institutions (SACCOs) in their day to day operations.

With the current trends in Kenya of emergence of unethical practices in some SACCOs, like the recent case of Ekeza SACCO that has led to investors been duped into fake SACCO investments and loss of millions for innocent investors, such illegalities have attracted an economic mistrust in SACCO business and led to serious legal tussles and corruption allegations amongst the defrauding SACCOs. Hence, this research further recommends that SACCO regulatory authorities like SASRA and oversight bodies like Ministry of Co-operatives and Supervisory Committees should combine efforts in monitoring, guiding and penalizing such SACCOs that taint the good name and social-economic objectives of SACCOs' business aimed at uplifting various stakeholders of such organizations. Only well behaved and managed SACCOs that comply to policy requirements should be allowed to engage in the SACCO business venture.

### **6.3.3 Recommendations to Academia**

The study further recommends that further future studies be conducted on SACCOs to establish other critical factors that may as well affect competitive and better SACCOs' performance/growth. Future researchers may as well dig deeper into the phenomena on how better human resource capacity and loan portfolio management factors could positively contribute to growth of SACCOs in Kenya. This may as well be

necessitated by the fact that most literature reviewed on SACCOs seem to be not yet exhaustive in relation to the study subject matter.

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**APPENDIX I**  
**LETTER OF INTRODUCTION**

**Victor Muithya**  
**P.o. Box 1789-90100,**  
**Machakos.**  
**30<sup>th</sup> October 2018.**

**Dear Respondent,**

**REF: TO WHOM IT MAY CONCERN**

I am a post graduate student at South Eastern Kenya University pursuing a master's Degree in Business Administration. I am expected to undertake a research titled INTERNAL FACTORS AFFECTING GROWTH OF SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN MACHAKOS COUNTY, KENYA. Your cooperation and assistance in the data collection process are required to enable me to complete the exercise. This information will be strictly used for the intended academic purpose and will be treated with utmost confidentiality.

Thanking you in advance.

Yours faithfully,

**Victor K. Muithya**  
**D61/MAC/20552/2015**



<b>Growth of SACCOs</b>	<b>SD</b>	<b>D</b>	<b>ND</b>	<b>A</b>	<b>SA</b>
For the last 3-5 years, has the SACCO membership increased					
For the last 3-5 years, has the SACCO savings increased					
For the last 3-5 years, has the loans applications/disbursements increased					
For the last 3-5 years, borrowers have improved on loan repayment obligations					
For the last 3-5 years, the SACCOs' profit levels have increased					

### **PART C: MANAGEMENT SKILLS**

**Instructions: For the following questions, tick the box that best describe the extend you agree with the statement about the management skills in your SACCO. The responses are rated in scale of 1-4**

**4=Strongly agree, 3=Agree, 2=Disagree, 1=Strongly Disagree.**

<b>STATEMENT</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
The SACCO hires managers based on merit				
Management Committees in the SACCO do timely reports				
Managers effectively channel communication formally				
Managers stick to Sacco meetings schedules				
Members in the SACCO are involved in decision making				
The Sacco periodically engages on Corporate social responsibilities				

### **PART D: HUMAN RESOURCE CAPACITY**

**Instructions: For the following questions, tick the box that best describe the extend you agree with the statement about the human resources in your SACCO.**

**The responses are rated in scale of 1-5**

**5= Strongly agree, 4=Agree, 3=Neutral, 2=Disagree, 1=Strongly Disagree.**

STATEMENT	1	2	3	4	5
The SACCO has enough workers					
Employees in the SACCO are qualified					
Employees in the SACCO are subjected to periodic trainings with aim of staff development					
Employees in the SACCO do meet the expectations of members (customers)					
Customer loans are processed within set time frames					
The Human resource has enhanced growth of the SACCO					

#### **PART E: INFORMATION TECHNOLOGY FACTORS**

Instructions: For the following questions, tick the box that best describe the extend you agree with the statement about adoption of technology in your SACCO. The responses are rated in scale of 1-4

**4=Strongly agree, 3=Agree, 2=Disagree, 1=Strongly Disagree.**

STATEMENT	1	2	3	4
The SACCO has incorporated technology				
Adoption of Technology has led to growth of SACCOs				
Technology has enhanced accountability in my SACCO				
Technology has led to quick service delivery				
Technology has given the SACCO a competitive edge				
Sacco is well linked to electronic cards/ATMs and M-Banking				

#### **PART F: LOAN PORTFOLIO MANAGEMENT**

Instructions: For the following questions, tick the box that best describe the extend you agree with the statement about loan portfolio management in your SACCO. The responses are rated in scale of 1-4; 4=Strongly agree, 3=Agree, 2=Disagree, 1=Strongly Disagree.

<b>STATEMENT</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>
The SACCO issues loans on provision of security				
The SACCO penalizes borrowers on failure to pay loan on time				
Loan repayment schedules are issued to borrowers on loan application				
The SACCO conducts frequent loan evaluations / appraisals				
The SACCO has defined loan recovery procedures /policy				
The SACCO issues insured loans to borrowers				

**Thank you for taking your time to fill this questionnaire.**



**APPENDIX III**

**TIME FRAME**

	<b>2018/19</b>					
<b>Month /Activity</b>	<b>OCT 2018</b>	<b>NOV 2018</b>	<b>DEC 2018 - JAN 2019</b>	<b>FEB - APRIL 2019</b>	<b>MAY 2019</b>	<b>JUNE - JULY 2019</b>
Project Proposal Writing						
Corrections						
Data Collection						
Data Analysis						
Report Writing						
Submission of Report						
Finalisation of Report						

## APPENDIX IV

### BUDGET

<b>Item</b>	<b>Unit Cost</b>	<b>Cost (KShs)</b>
Proposal Writing	Item	5,000
Printing and Photocopying of proposal	Item	4,600
Preliminary spiral binding of proposal copies	200	1200
Computer/typing services	Item	3,000
Hiring of research assistant	5,000	5,000
Data analysis using SPSS	Item	10,000
Printing and Photocopying of Research Report	Item	6,000
Hard binding, copies	4	3,200
<b>Total</b>		<b>38,000</b>

**APPENDIX V**  
**LIST OF SACCOS IN MACHAKOS COUNTY**

**MACHAKOS COUNTY SAVINGS CREDIT & CO-OPERATIVE SOCIETIES (SACCOS)**

S.N O	NAME OF REGISTERED SACCO	SUB-COUNTY	NATURE	MANAGEMENT
1	ABC Empowerment Sacco Society Ltd	Machakos	Church-based	Structured
2	Kwena Sacco Society Ltd	Machakos	Businessmen/teachers	Structured (FOSA)
3	Universal Traders Sacco Society Ltd	Machakos	Business men	Structured (FOSA)
4	Moko Sacco Society Ltd	Machakos	Business men	Structured (FOSA)
5	Machakos University Sacco Society Ltd	Machakos	University staff	Non-structured
6	Peter Mulei Supermarket Sacco Soc Ltd	Machakos	Peter mulei staff	Non-structured
7	Colonia Sacco Society Ltd	Machakos	Teachers College staff	Non-structured
8	Mwalimu National Sacco	Machakos branch	Teachers	Structured
9	Kawama Sacco Society Ltd	Machakos	Transport	Non-structured
10	Matatwa sacco Society Ltd	Machakos	Transport	Non-structured
11	Mitu Sacco Society Ltd	Machakos	Transport	Non-structured
12	Mitwa Sacco Society Ltd	Machakos	Transport	Non-structured
13	Makani Sacco Society Ltd	Machakos	Transport	Non-structured
14	Nakiso Sacco Society Ltd	Machakos	Transport	Non-structured
15	Namaki Sacco Society Ltd	Machakos	Transport	Non-structured
16	Umawa Sacco Society Ltd	Machakos	Transport	Non-structured
17	Mkos Sacco	Machakos	Transport	Structured
18	Kamata Transport Sacco Society Ltd	Machakos	Transport	Non-structured
19	Nzailoni Sacco Society Ltd	Machakos	Transport	Non-structured
20	Kakuyuni Sacco Society Ltd	Kangundo	Business men	Non-structured
21	Kangundo Rural Sacco	Kangundo	Business men	Non-structured
22	Beta Bakers Sacco	Mwala/Masirga	Business men	Non-structured
23	Yatta Boda Boda Sacco	Mwala/Masirga	Transport	Non-structured
24	J.P.Z.A Sacco Society Ltd	Mvuritu	JPZ staff	Non-structured
25	Ceramics Sacco Society Limited	Mavoko	Business men	Non-structured
26	Devki Sacco Society Limited	Mavoko	Devki staff	Non-structured
27	Lukenyu Schools Sacco Society Ltd	Mavoko	Lukenyu schools staff	Non-structured
28	Portland Sacco Society Limited	Mavoko	Portland Co. staff	Non-structured
29	Simba Sacco Society limited	Mavoko	Simba Co. Staff	Non-structured
30	KMC Sacco Society Limited	Mavoko	KMC staff	Non-structured
31	Kapa Sacco Society Limited	Mavoko	Kapa Co. staff	Non-structured
32	Athi Steel Sacco Society Limited	Mavoko	Athi steel Co. Staff	Non-structured
33	Athi Sand Sacco Society Limited	Mavoko	Business men	Non-structured
34				

**NOTE:**

Out of the 100 registered Saccos in the Machakos County, at least 33 of them are currently operational and regularly remit their accounts to the county ministry of marketing & co operative development for audits (thus active). Majority have unstructured management (only managed by committees) while minority have a structured management (FOSA and various management levels). Only a few are registered under SASRA.



**APPENDIX VI**  
**PERMISSION TO PROCEED FOR DATA COLLECTION**



**SOUTH EASTERN KENYA UNIVERSITY**  
**OFFICE OF THE DIRECTOR**  
**BOARD OF POST GRADUATE STUDIES**

P.O. BOX 170-90200  
KITUL KENYA  
Email. [info@seku.ac.ke](mailto:info@seku.ac.ke)

TEL. 020-4213859 (KITUI)  
Email. [directorbps@seku.ac.ke](mailto:directorbps@seku.ac.ke)

Our Ref: D61/MAC/20552/2015

DATE: 21<sup>st</sup> January, 2019

Victor Kavoo Muithya  
Re g. No. D61/MAC/20552/2015  
Masters of Business Administration  
C/O Dean, School of Business and Economics

Dear Muithya

**RE: PERMISSION TO PROCEED FOR DATA COLLECTION**

This is to acknowledge receipt of your Master in Business Administration Proposal document entitled: *"Internal Factors Affecting Growth of Savings and Credit Cooperative Societies in Machakos County, Kenya"*.

Following a successful presentation of your Masters Proposal, the School of Business and Economics Board of Examination in conjunction with the Directorate, Board of Postgraduate Studies (BPS) have approved that you proceed on and carry out research data collection in accordance with your approved proposal.

During the research work, you will be closely supervised by Dr. Robert Ombati. You should ensure that you liaise with the supervisor at all times. In addition, you are required to fill in a Progress Report (*SEKU/ARSA/BPS/F-02*) which can be downloaded from the University Website.

The Board of Postgraduate Studies wishes you well and a successful research data collection exercise as a critical stage in your Master of Business Administration.

Prof. Felix Ngunzo Kioli  
Director, Board of Postgraduate Studies

Copy to: Deputy Vice Chancellor, Academic, Research and Students Affairs (Note on File)  
Dean, School of Business and Economics  
Director, Machakos Campus  
Chairman, Department of Business and Entrepreneurship  
Dr. Robert Ombati  
BPS Office - To file

