EVALUATION OF MANAGEMENT PRACTICES IMPACTING ON FINANCIAL PERFORMANCE IN SAVINGS AND CREDIT COOPERATIVE SOCIETIES (SACCOS) IN NAKURU MUNICIPALITY

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A Research Project Report Submitted To The Graduate School In Partial Fulfilment Of The Requirements For The Award Of Master Of Business Administration Degree Of Egerton University

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DECLARATION AND RECOMMENDATION

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This research is my original work and has not been presented for an award of a degree in this or any other university.

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RECOMMENDATION

This research has been prepared with our guidance and supervision; it is submitted for examination with our approval as the official University supervisors

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DEDICATION

I dedicate this research work to the following people; my late parents mum Sarah Radolo and father Naftal Odhiambo who both encouraged me to be determined in life, my wife Roselyn whose encouragement made me start the M.B.A. with a broken leg, my children Edward, Loretta, Erick, Maureen, Dan and my long time friends Loretta and Ted Casindy – (Bermuda) and the late Barbara and Eric Gravenor (British Columbia).

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ABSTRACT

Kenya's cooperative sector has effectively mobilised private resources, predominantly through Savings and Credit Cooperatives (SACCOS). The SACCOS are run by committees who govern in accordance with the Co-operative Acts, Rules, Commissioners circulars and the By-laws put in place to check practices aimed at enhancing financial performance. However, reports of financial mismanagement cases are frequent in the print and electronic media involving loss of millions of shillings leading to collapse of SACCOS. This study evaluated the managerial practices impacting on the dividends paid, loan variance (in amount requested from amount disbursed) and expenditure variance (in amount budgeted from amount spent). Relevant data was obtained from 32 SACCOS out of 77 registered within the Nakuru Municipality during 2006 using a systematic random sampling technique. Frequency and ranking, bivariate correlation estimates and OLS regression were employed to determine the specific management practices impacting on financial performance. The average dividend paid was 3.7%, indicating poor reward to members, being below a favoured minimum of 5%. The loan variance was 23.3%, indicating that on average SACCOS were unable to service about 23% of the loan requests from the members. The expenditure variance was 13.7%, indicating that SACCOS were on average spending within their budgetary estimates. These results reflect poor financial performance and the management practices identified to impact negatively were serialising of loan forms and purchasing from particular suppliers. Several management practices were identified to impact positively on the financial performance of SACCOS including adhering to schedules of meeting, educating SACCO members and availing loan forms to members throughout the month. Others were having an employment committee, allowing for longer loan repayment period and immediate release of cheques to members. It thus recommended that SACCOS review their procurement and loaning procedures. They need educate members and avail loan forms freely to them for these were practices that realised better financial performance outcomes. Strengthening of both internal and external supervision would ensure the committees running SACCOS do govern in compliance with the Co-operative Acts, Rules, Commissioners circulars and the By-laws put in place to check practices aimed at enhancing financial performance.

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LIST OF ABBREVIATIONS / ACRONYMS

A.G.M.	Annual General Meeting
ANCOVA	Analysis of Covariates
B.O.D.	Board of Directors
C.P.A. -	Certified Public Accountant
CO-OP	Co-operative Society
D.C.O. -	District Cooperative Officer
F.O.S.A	Front Office Service Activities
I.C.A.	International Cooperative Association
I.T.	Information Technology
K.A.T.C.	Kenya Accounting and Technician Course
K.C.C. -	Kenya Creameries Cooperative
K.F.A. -	Kenya Farmers Association
K.N.U.T.	Kenya National Union of Teachers
SACCOS	Savings and Credit Cooperative Society
WOCCU	World Council of Credit Unions

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

A co-operative is an autonomous association of persons, united voluntarily to meet their common economic, social, cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise. Co-operatives operate on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Members of co-operatives believe in the ethical values of honesty, openness, social responsibility and caring for others (Andreou, 1997). Like companies, cooperatives are economic organizations whose income generating activities are devoted to the economic and social welfare of their members by providing services which enable individuals to improve their economic means for self-advancement (Ouma, 1990).

The co-operatives sector is one of the largest and most effective in mobilizing private resources in Kenya. Through a voluntarily agreed association, co-operatives are able to mobilize financial resources at grass root level and tap energies of group efforts and economies of scale for the benefit of the participating members. The benefits that can accrue from an autonomous, mutually-agreed self-help and self-controlled systems of carrying out income-earning activities through a co-operative are many and varied. Co-operatives are recognized as essential vehicles for economic growth and development of a national economy (World Council of Credit Union, 2000). Through co-operatives, members improve their living conditions especially the low income earning segments of the population.

There are different types of co-operative societies in Kenya. They include Agricultural Marketing co-operatives, Consumer co-operatives, Housing co-operatives, Savings and Credit co-operatives, Artisans and Handicrafts co-operatives, Service co-operatives and Multi-purpose cooperatives. Of these, Savings and Credit Cooperatives (SACCOS) dominate. Most SACCOS are based in the urban areas because membership is mostly derived from salaried employees in organizations which often are urban based.

The SACCOS are popular with salaried employees who get their contributions deducted directly from their salaries then forwarded to the organizations (Ouma, 1990).

The SACCOS enable members to have facilities through which they are able to make regular savings from their salaries or some other sources of income. Using a check-off system, members' savings or loans repayments are deducted by the employer at source. This is more or less a 'forced' saving, that enables members to develop the habit of saving through which a loan could be obtained. The SACCOS have made great success in mobilizing large sums of savings and loaning out to members for various financial needs and self advancement (Mudibo, 1990).

Management of co-operatives is a democratic process. At an Annual General Meeting (AGM), members elect a committee or board to run the affairs of the co-operative. The Board employs staff including a general manager who is answerable to them. The members' voice is limited to AGM forum. All the operations and decisions during the year are fully left in the hands of the committee and staff. The basic management tasks involved in the work of SACCOS include; collecting contributions from members, keeping custody of the collected funds, disbursing loans to members and investing the funds for benefit of the membership. The management has to build structures to ensure that the management tasks are performed effectively and efficiently (Co-operative Act, 1997).

Every co-operative society has a committee consisting of not less than five and not more than nine members. The members of the committee elect a chairman, a vice chairman, a secretary and treasurer from the membership. The committee is the governing body of the society and is subject to any direction from AGM or the by-laws of the co-operative society. The committee has powers to enter into contracts, institute and defend suits and other legal proceedings brought in the name of or against the society and do all other things necessary to achieve the society's objects in accordance with its by-laws (Kattambo, 1992).

The Kenyan modern cooperative movement came to existence by the establishment of the Lumbwa farmers Co-operative Society in Rift Valley Province by the European settlers in 1908. This Co-operative was formed purposely for the benefits of European farmers, who had presumably learnt the advantage of cooperative business back home. However, Kenyans become involved in co-operative activities by passing of Co-operative society's Ordinance Act in 1931 and in 1945. But even then, the colonial Government did not give sufficient encouragement or adequate support. The government did this deliberately, but under the pretext that there were no capable Kenyans who would maintain books of accounts for co-operatives.

The Co-operative movement in this country received a lease of life after independence in 1963. The new government fully recognized the vital role of the Co-operative system in the national economic development. Co-operative institutions were seen as capable for the mobilisation of capital to acquire farms left vacant by Europeans who left the country at Independence. The government thus took deliberate action to revitalize Co-operatives by strengthening the department of Co-operatives which later in 1974 was made a fully fledged Ministry.

Cooperatives in Kenya formed a vehicle for acquiring farms left behind by European who left the country soon after independence since most of the farms were in the Rift Valley, many farmers Co-operatives were started in this region, however most of them after receiving their goals became dormant and some even collapsed.

Today, there are an estimated 2,600 active SACCO Societies in Kenya (Akide, 2005), which together have been able to mobilize Kshs. 110 billion (US $1.5 b) in savings or 35% of the National Savings. There are 2.2 million Kenyans who are members of one SACCO Society or another. The SACCO members support 9 million people directly through credit facilities offered by the SACCO Movement. SACCOs in Kenya provide opportunities to more and more people to access savings, cheap affordable credit, and a

chance for a secure tomorrow. The impact of these SACCO Societies on the poor rural and urban populations, particularly the un-banked segment, has been felt and is evident. Opportunities for accessing credit through mainstream financial institutions are out of reach for most people. This has posed a great challenge to the SACCO Movement to provide high quality and diversified financial services, which members can easily access. The introduction of Front Office Savings Accounts (FOSA's) and other SACCO products have gone a long way in meeting this challenge. Currently, there are 122 SACCOs offering these quasi-banking services. These FOSA have filled the void left by banks during the restructuring process.

FOSA sections in our SACCOs therefore provide a majority of the rural and urban poor access to financial and quasi-banking services usually obtained only in formal financial institutions. KUSCCO as the umbrella organization for SACCOs in Kenya has been mandated by its own constitution to provide specialized services to SACCOs in Kenya. As a member-owned and member-managed financial institution, KUSCCO plays the role of a mouth-piece, advocate, spokesman and representative of all SACCOs in Kenya.

Soon after independence, a District Co-operative office was established in Nakuru alongside other government offices. This office was to assist in the registration and monitoring of the Co-operatives in this region. Co-operatives then faced a lot of challenges among them; over expenditure, lack of education for managers, committee members and members, remittances by members and poor book keeping. The government came out strongly to assist in dealing with the challenges by educating all parties involve, making routine supervisions as well as enacting new laws for smooth running with the establishment of the D.C.O.s office in Nakuru, it became easy to register Co-operatives.

In 1964, the first farmer Co-operative (Rongai F.C.S.) was registered at the D.C.O.s office Nakuru, after which several other farmers Co-operatives such as Lenginet farmers 1971, Kiambogo, 1976, Gathiriga, 1979 and others came up. Most of these farmers Co-operatives become dormant after acquiring land and subdividing to members.

The farmers settled down on their farms and since there were large farms, they employed workers to assist them. The workers formed savings and credit Co-operatives from where they would save funds and borrow loans. The first SACCO, (Flamingo SACCO) was thereafter registered in 1969 and others followed. At the time of collecting data, there were 312 SACCOS registered by D.C.O. Nakuru.

As Nakuru district expanded in activities, other Co-operatives emerged due to various needs as follows; In 1970, the first consumer Co-operative (Kangei and Nyakinyua) was registered, followed by Housing Co-operative, (Maboko Housing) in 1979, then came multipurpose in 1986, investment in 1989 and then marketing in 1993. The larger Nakuru district, (Comprising of Molo, Njoro, Rongai, Bahati, Subukia and Naivasha) having been the home of white settlers, had a well developed agricultural land. Due to this, many prominent Agricultural, Industrial and Commercial activities come up in this area. With the many activities, cooperatives have also increased and as at 31st December 2006 data, Nakuru District Co-operative officer had registered 625 Co-operatives of which 312 of them were SACCOS.

Although the story of co-operative movements in Kenya reads more like a success, the late 1980s to 1990s revealed many managerial challenges (Clarion, 2009). There were cases of collapse of some of the once most profitable co-operatives such as Kenya Cooperative Creameries (KCC) and the coffee based co-operative in Central Province. The collapse of the co-operatives was largely attributed to mismanagement and corruption. In addition, much of the government control and liberalization policy embraced in Kenya from late 1980s which removed hitherto enjoyed monopoly has been partly blamed (Clarion, 2004).

In order to strengthen financial performance in the co-operatives, government has been reviewing regulations and governance structures to guide the management of the co-operatives. These include enactment of new ACTS, and introduction of new Rules and By-laws which require that staff hired are well qualified, are competitively enumerated, competent board members are elected and that management is closely supervised.

A new co-operative ACT 1997 was put in place to reduce the role of government in the running of co-operatives. Under the ACT 1997, co-operative societies have more freedom to conduct their affairs with less government control in the liberalized environment. The government through ministry of Co-operative Development is encouraging co-operative societies to be competitive if they have to survive. Those involved in agriculture are being urged to add value to their products and services for improved profits and dividend to members. The new co-operative ACT 1997 together with the Rules and By-laws give more powers to members, which they exercise during AGM. With a lot of optimism, it is hoped that the new ACT 1997 will encourage the growth of the co-operative movement in the country while helping to reduce cases of mismanagement.

1.2 Statement of the problem

The government has put in place several ACTS, Rules and By-laws to strengthen financial performance of the SACCOS in the country. Despite this, there are frequent cases of financial mismanagement reported in the print and electronic media (Clarion, 2004). The reported cases involve loss of millions of shillings with the subsequent decline in profits and dividends, delayed disbursement of loans to members, and non-compliance with budgets in expenditures and revenue projections. The outcome is poor financial performance of the SACCOS, in some cases leading to total collapse, which could be linked to managerial practices put in place. However, empirical evidence is lacking on the extent to which the managerial practices including windows of practices, external and internal supervision, and the qualification and remuneration of management board impacts on the financial performance of the SACCOS.

1.3 Objectives of the study

The overall objective of this study was to evaluate the management practices that impact on the financial performance of SACCOS within Nakuru Municipality for the 2006 period.

The specific objectives were:

i. To characterise management practices in the SACCOS that impact on the financial performance.
ii. To determine the relationships that membership size, frequency of supervision, qualifications and remuneration of management board have with the financial performance of SACCOS.
iii. To determine the impact of procurement, meeting, loaning and employment management practices on the financial performance in the SACCOS.

1.4. Research Questions

i. Which are the common management practices that impact on the financial performance of SACCOS?
ii. Is there a relationship between the financial performance in SACCOS and the membership size, frequency of supervision, qualifications and remuneration of the management board?
iii. Do procurement, meeting, loaning and employment management practices impact on the financial performance outcomes in the SACCOS?

1.5. Importance of the study

Empirical evidence on factors with likelihood impacts on financial performance of SACCOS would be of use to the management boards for decision making on fixing salaries and qualifications of managers. The evidence generated would be informative to members about likelihood impacts of those they elect to serve as board chairmen and treasurers on the financial performance of their SACCOS. The government regulators will find the evidence generated useful in formulating policies and regulation aimed at improving the supervision of SACCOS for better financial management and sustainable financial growth.

1.6. Scope and Justification of the study

This study was on SACCOs registered with the D.C.O. Nakuru operating within the Nakuru Municipality. The study captured financial performance limited to 2006 period. The choice of Nakuru Municipality for this study was influenced by the fact that it is a cosmopolitan town with diverse economic activities. Nakuru town is surrounded by a rich agricultural land supporting growth of agro-industries, commercial, chemical, millings, and tourism and education investments. This provides employment opportunities which have attracted rural-urban migration. The salaried work force constitutes the membership of SACCOS where they save and borrow loans from. Therefore Nakuru Municipality provide representative sample of SACCOS for generating evidence on the impacts of the Co-operatives ACT 1997, Rules and By-laws requiring hiring of well qualified staff, competitive enumeration of staff, election of competent board members and close supervision of management as regards the financial performance outcomes.

1.7. Assumptions of the study

i. This study was based on the assumption that all the SACCOS sampled are subjects to the Co-operative ACT 1997, Rules and By-laws put in place by the government to guide the financial management.
ii. That the information obtained from SACCOS is accurate and willingly availed.
iii. That SACCOS in Nakuru Municipality are good representation of SACCOS in Kenya.
iv. That SACCO measure their financial performance by dividend paid.

1.8. Limitations of the study

The study was limited by the following: -

i. The study area of Nakuru Municipality is relatively small to represent the whole Kenya.
ii. The number of SACCOs studied was small, population of only 77 SACCOs in Nakuru Municipality while number of SACCOS in Kenya is over 5000 (G.O.K, 2006).

1.9. Definition of Terms

i. **Bureaucracy in co-operative management**: is undue delay in decision making.

ii. **Check off system:** Is the recovery of an agreed amount from ones salary and forwarded to the SACCO.

iii. **Financial Management of SACCOs**: Is the whole system capturing, recording, analyzing and reporting of the financial transactions.

iv. **Financial Performance**: Is a measure of the direct financial benefits to members (dividend paid) and level of compliance with financial commitments (loans disbursement, actual vs budgeted expenditure; actual vs budgeted revenue).

v. **FOSA:** is Front Office Savings Accounts

vi. **Kick backs**: Is an illegal inducement to do something, or a form bribe.

vii. **Liquidity management**: Is a process of ensuring that cash demands are available as and when they arise.

viii. **SACCOS Loaning Policy**: Is the policies put in place by individual SACCOS on how to give out loans to its members.

ix. **Management committee**: Is a committee elected by members at an AGM to run the affair of their SACCO.

x. **Monthly Remittances**: Is the total monthly revenue from SACCO members which is in return forwarded to the SACCO by the employer.

xi. **Shares:** Is the accumulated monthly fixed payment to the SACCO by members, on the bases of which a member loan is calculated. At the end of the year, dividend is paid as a percentage of the accumulated shares at the end of that year.

xii. **Supervisory committee**: Is a committee elected by members at an A.G.M. to supervise the activities of the management committee and give quarterly reports as well as a report to the next AGM.

xiii. **Top up loans:** is an additional loan granted to a member who has an existing similar loan.

xiv. **Voluntary membership**: Is where SACCO members are free to join and/or leave a cooperative membership at will.

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CHAPTER TWO

LITERATURE REVIEW

2.1 Historical Background

The term 'co-operative' in its widest sense simply means working together. In this context, cooperative is as old as mankind and exists whenever the human family is found. Indeed such cooperation exists among animals, insects (bees and ants). Thus, cooperative generally means working together for a common purpose, which purpose may either be good or detrimental, for instance, cooperation amongst cattle rustlers is detrimental and so is cooperation between society officials and members to defraud the co-operative society. Thus group efforts through traditional form of cooperation may be traced in all communities of the world (Andreou, 1992).

The founder of cooperative systems was Robert Owen who, although breed of a wealthy family, was deeply sympathetic to the poor people and dedicated his life and strength to the struggle to restore human freedom, economic and social order. His conviction seemed utopia and remote from realities, but since he was influential and well known philanthropist, his ideology got round far and wide. He did not believe in meagre individual contributions from co-operators, but preferred dependency, almost entirely on financial assistance from outside sources. This explains why the cooperatives communities which he helped to form like New Community Harmony in the United States eventually failed. There are other personalities who advocated for the co-operative systems included; Dr. William King, F.W. Raiffeisen, H. Schulze Delitzsch among others. Dr. King, a collegue of Mr. Owen and a co-operative thinker advocated for self reliance. It was in fact Dr. King who formatted the co-operative principles which he published in his news magazine "The Co-operator". These principles were reviewed by the international – alliance at a conference held in Vienna in 1966, and was adopted by application by all genuine co-operative organizations all over the world (Maini, 1972).

2.2 The growth of co-operative movement in Kenya

To discuss the development of modern cooperative movement in Kenya, we need to reflect briefly on the traditional co-operative associations. The tradition of informal group work existed in Kenya as well as in all other countries of the world, since time immemorial. Examples of the traditional co-operatives approach and practices are to be found in all various ethnic (tribes) group association is normally based on lineage according to the natural geographical environment, in which the members of the group are born.

In these traditional associations, members had greater sense of belonging and commitment. They had mutual trust and were voluntarily involved in these activities, with confidence in each other. It is of course a truism that Kenyan Harambee philosophy is a co-operative spirit with its root firmly based on the country traditional form of associations. The Kenyan modern cooperative movement came to existence by the establishment of the Lumbwa Farmers Co-operative Society in Rift Valley Province by the European settlers in 1908. This co-operative was formed purposely for the benefits of Europeans farmers, who had presumably learnt the advantage of co-operative business back home. However Kenyans became involved in co-operative activities by passing of co-operative society's Ordinance Act in 1931 and in 1945. But even then, the colonial Government did not give sufficient encouragement or adequate support. The government did this deliberately, but under the pretext that there were no capable Kenyans who would maintain books of accounts for co-operatives.

The growth and development of co-operatives in Kenya were somewhat hampered by various problems and constraints, such as: lack of qualified personnel, mismanagement, political and misapplication of funds. The *Mau Mau* uprising in 1953 also affected co-operatives, especially in Central Province. It is noted however that despite these problems, most of these co-operatives made good progress such that in 1954, there were over 500 co-operatives, with Central Province alone having 123 with a membership of over 170,000 and annual turnover of £28,000. The Makueni Co-operative store paid dividend at the rate of 7%.

The growth of co-operatives could have been propelled by two reasons, one, the application of the Swynnerton Plan in 1953 which encouraged and supported African Co-operatives participation in cash crops like coffee, pyrethrum and secondly, the restriction of movement during the emergency period, ultimately created a feeling of togetherness and a sense of belonging. This fostered mutual understanding that gave the people a new approach to their economic and social problems.

The co-operative movement in this country received a lease of life after independence in 1963. The new government fully recognized the vital role of the co-operative system in national economic development. Co-operative institutions were seen as capable for the mobilisation of capital to acquire farms left vacant by Europeans who left the country at Independence. The government thus took deliberate action to revitalize co-operatives by strengthening the department of Co-operatives which later in 1974 was made a fully fledged Ministry. This was followed by effort directed towards expansion in terms of personnel and other resources. Furthermore, a new Co-operative Act was passed in 1966. The Co-operative Movement was seen as a vehicle for introduction of African Socialism and for strengthening common ties between the people from different regions in Kenya. Meanwhile, politicians too viewed co-operatives as mass movements through which they would influence voters for the impending elections for parliament and local councils, thus they indulge in the promotion of even enviable groups in order to attract followers. It must be mentioned here that the trade unions played a vital and positive role in the development of co-operatives in Kenya.

In 1975 a Sessional paper No. 14 on co-operative Development policy for Kenya was published, the government stated its continued recognition of co-operatives as vital institutions for mobilizing the natural, human and financial resources for national development. Apart from contributing enormously towards growth and development of agricultural sector through an integrated package of marketing, input supply and financial services, co-operatives have grown to embrace virtually all sectors of the economy albeit with varying degrees of success.

The government reiterated in the 1975Sessional Paper its commitments to pursue and promote expansion of co-operative activities in conformity with respective sectarian objectives. This policy was re affirmed in subsequent four-five-year development plans (1979-1996). In 1975, there were 996 active co-operative societies in Kenya with a membership of 664,000 and a turnover of 691 million Kenya shillings. By 1995, co-operative activities had grown dramatically, registering about 5129 active societies, with a membership of 2.7 million and a turn over of more than 10 billion shillings.

Since the publication of the Sessional Paper No. 14 of 1975, many changes have taken place in both the political and socio-economic framework. Of more importance is the structural Adjustment Programmes (SAPs) and market reforms undertaken since 1980's Sessional paper No. 1 of 1986 on economic management for renewed growth emphasized the importance of unfettered private sector growth is steering the economy to accelerate and sustain development. Policy documents, especially the current National Development Plan and Sessional Paper No. 1 on Recovery and Sustainable Development to the year 2010, re-affirmed the need for private sector-led development in Kenyan economy.

Growth of co-operatives in this country has enjoyed an enormous government support. This support took various dimensions, which include; actual budget allocations for support of co-operative activities especially immediately after independence, sourcing and channelling of donor funds to co-operatives, closely guiding and supervising activities of co-operatives through the provisions of Co-operative Societies Act(CAP 490) and the rules thereto. Though the government has all along regarded co-operatives as private organisations, it was necessary especially immediately after independence, for the government to play a pragmatic role in the overall growth and development of co-operatives in this country.

The 1975 Sessional paper was reviewed by Sessional paper No. 6 of 1997 which provides a policy framework for co-operative development in a changing economic environment and the co-operative Management approach.

The major changes in economic environment were the liberalisation of economic activities and the emergence of competitive market economy. Changes in the Co-operative Management approach involved the withdrawal of state involvement in the day to day management of co-operatives societies and unions. The paper defined a new relationship between the Government and the co-operative movement. The management of co-operatives is in the hands of the members in line with co-operative principles. This management approach was to create an enabling environment for making Kenyan Co-operative movement a conglomerate of true co-operatives. Further, to make their management democratic and professional and enable co-operatives, to be self –controlled and self reliant.

The future role of the government was to create a conducive environment for co-operative growth and development through formulation of effective co-operative development policies and overseeing development and administration of co-operative legislation the co-operative legislation was reviewed to provide for a level playing field for co-operatives to compete with the other business organisations as well as for safe guarding the interests of all co-operative stakeholders including the members and creditors.

The Kenya co-operative movement has generally earned praise as being one of the most successful co-operative movements in the African continent. The growth and development of co-operative movement in this country has been very rapid, especially in the last twenty years. There is no doubt whatsoever that these achievements and the high rate of Kenyan development, is due to political stability and peace that has continued to prevail in the country since independence. Kenya has been fortunate to have pragmatic leaders such as Mzee Jomo Kenyatta, President Daniel Moi and President Mwai Kibaki. It is in light and the background of such environment of peace and tranquillity that rapid co-operative growth can be explained (Ouma, 1990).

The vital role of the co-operative movement in national development was recognized even by the colonial government. This is evident in the report of an investigator into co-operative possibilities. Recognition of the role of co-operation was translated in practical form by formulation of co-operative ordinance in 1945 and by the creation of department of cooperative development in 1946 during colonial era. The co-operative movement received a short in the arm, only after independence which support has continued (Cambell, 1944).

The co-operative movement has made remarkable impact in socio-economic development of this nation. Co-operative societies have diversified and ventured into every sector of economy including agricultural sector, industrial sector, manufacturing, tourists and import and export industries as well as in the informal sector of our economy. More specifically, cooperative members were able at the independence to mobilize sufficient funds to:- Acquire farms which were left by European settlers at independence, Purchased coffee, pyrethrum, tea and other cash crops farms, thus, they got involved in marketing of these crops which were hitherto the preserved of non-Africans, Acquisition of cotton ginneries and plants. Acquisition of building both for commercial and house accommodation as well as other movable assets like vehicles, tractors, investments as purchase of government stocks and shares in a number of established companies for instance in breweries and in other financial institutions, Enormous contribution in Harambee projects either as cooperative institutions or as individual members of cooperatives, manufacturing of animal/chicken feeds and agricultural inputs. These achievements are practical reflections of prosperity of this nation through cooperative effort. However, the great successes have not been made smoothly and without constraints. As with all dynamic organizations, changes occur and situations vary from time to time. These inevitability carry with them varied nature of problems, not unique only to cooperative business.

2.3 Deepening Access to Financial Services through SACCOs

A recent study on access to financial services in Kenya (FinAccess 2006) reveals that fewer than one in five of the Kenyan adult population has formally banked. Alternative financial institutions such as SACCOs (credit unions) and micro-finance institutions (MFIs) reach one in seven. During 1990-2003, the credit to private sector as a proportion of GDP actually fell from 33% to 24%. Closely linked to the perceived abandonment of lower income markets by commercial banks, this period saw the emergence of Savings and Credit Co-operatives (SACCOs - Kenya's credit union movement) and microfinance institutions, seeking to fill the gap.

The Savings and Credit Co-operatives (SACCOs) provide services to 13.1%, while the currently unregulated micro-finance institutions (MFIs) reach 1.7%. Based on either large scale formal employment or smallholder commercial agricultural commodity production, the SACCOs are able to offer both basic credit and savings services to their members. A large number (42.9%) of those using SACCOs also maintained accounts with a bank. Many people borrow from SACCOs perceiving them as offering a cheaper or more accessible source of credit. Collectively the formal institutions, banks, SACCOs and MFIs, provide services to just over a quarter (26.6%) of the population. The aggregate figures conceal considerable variations in access according to gender, age and geographical location. Only 14.0% of adult women in Kenya do bank and 20.6% are formally financially included. Banks and SACCOs have notable gender imbalances in usage and equal usage is seen only among micro-finance institutions which have tended to explicitly target women to address concerns over exclusion. SACCOs are the most commonly used formal source of credit, but still only account for 13.4% of those accessing credit or 4.1% of usage by the total population. Bank provided credit accounts for 10.4% of current credit access or 3.2% of the total population.

The Government is also moving to put in place an appropriate regulatory framework for SACCOs. This will recognise the heterogeneity of this sub sector and the need for a pragmatic and risk-based approach.

Very small community based SACCOs present no systemic threat, cannot be prudentially supervised cost-effectively and members usually take an active role in management and can more directly look after their interests. By contrast the largest SACCOs in Kenya are the size of mid-sized commercial banks in terms of assets and have a membership which would put them in the top ten financial institutions by market share. Prudential supervision of these institutions is essential to protect members and the wider financial system.

2.4. Management practices in SACCOS

The cooperative principles which the International Cooperative Association (ICA) adopted and which any genuine cooperative society must strictly adhere to are: Open membership, Democratic Administration, limited rate interest, disposal of surplus, Co-operative Education and Co-operation with other co-operatives (World Council of credit union, 2000).

Depending on the size of the cooperative in question and the resourceful of the managers, millions of member's funds can be schemed off every month without any evidence coming to the light. The crucial ingredients of all these windows is that the internal cooperative management must dishonestly collude and conspire with individuals either within the cooperative society or outside it and then keep the nature of their operations under cover. Clarion (2004) has identified 12 (twelve) windows through which top management officials of cooperative societies corruptly divert the resources of their cooperatives to their own private use.

First is ordinary procurement through which the prices of stores or any equipment required by the cooperative society are grossly inflated and the premium shared between the requisitioning officials (s) and the vendors. Second is a property development project, especially housing which corrupt officials of the SACCOS use as cash cows. Through specially selected contractors and land agents, projects prices can be doubled or even tripled and the premium shared among the conspirators. Most officials of the larger

cooperative do not consider their terms complete until they preside over the development of a new office complex or residential estate.

Third is meeting in which top officials are paid when they attend. Management may decide to call meetings frequently so that their honoraria or sitting allowances can be maximized. The fourth is seminars which is more popular window that brings together diverse member's or management groups preferably at some location far away from duty station, organised so for purposes of paying allowances. Through prior arrangements with the hoteliers and other contractors, millions of shillings can be schemed off in what appears at first glance as a good course.

The fifth is loan approval. Even though loans are supposed to be approved routinely, many senior officials demand and receive bribes before or after their signatures have been appended. The sixth is travel expense for out of station assignments in which accommodation and other expenses are incurred. This is a relatively easy window for corrupt officials to exploit. In the case of senior officials, these expenses can very easily be doubled or tripled without much trouble from the auditors. And the trips themselves can easily be repeated or created so that these allowances can be increased. The seventh is fixed deposit account. Before senior official of SACCOS approves the deposits of any excess funds in a particular bank, they routinely ask for kickbacks or "incentives" from several banks. The bank that offers the biggest kickbacks gets to hold the cooperative's funds regardless of the rate of deposit interest charged.

The eight is consultancies through which corrupt officials of SACCOS generally collude with prospective consultants to fix rates as are acceptable to both parties. A particular consultant may be offered a job on condition that he hands back 20% of his nominal, accountable consultancy fees. The ninth is property purchase which is a convenient window for diversion of funds from SACCOS to private use. This window can be opened whether or not any actual development is envisaged; vendors can easily be encouraged to raise their prices so that the excess funds can be shared between them and corrupt

cooperative officials. The tenth is parties and Annual General Meetings (AGMs) which provide a window for pilfering or diverting funds from SACCOS.

In the classic case, officials collude with party organizers or hosts to inflate the expense sheets so that excess payments can be shared out. AGMs are hosted in distant places so that the opportunities for inflating travel, accommodation and other incidental expenses can be increased.

The eleventh is member's education under which numerous seminars can be organized outside the station so that imprest can be arranged and inflated as necessary. Fees for resource persons are also usually doctored accordingly. The twelfth is property management where SACCOS runs a project such as teachers' hotels through which property managers who are officials of SACCOS can award themselves hefty allowances and privileges quite out of tune with the revenues generated. These excessive allowances can easily be hidden in the profit and loss statement and so are not available for perusal.

2.5. Empirical evidence on financial management in SACCOS

Studies such as that of Seldadyo and De Haan (2005) have searched the empirical correlations between corruption and a variety of economic and non-economical determinants. Two sequential questions have been raised or addressed in these studies. First, what variables might theoretically explain the cross – country variations in corruption and secondly, how robustly variables are related to corruption. However, there was no consensus in the literature on both issues. It was found out that theory offered very little guidance and specifying a proper regressive model (Tanzi, 1997).

Seldadyo and De Haan (2005) evaluated corruption data from 40 countries for period from 1996 – 2000 based on 40 variables and found that a particular variable was significant in a particular specification on the model, but lost its significance when some other variables were incorporated. However, the results suggested that welfare was an important variable in determining better management. A part from welfare, bureaucracy, effectiveness and official's wages were sighted as factors determining corruption

(Seldadyo and Haan 2005). Other persons who have looked at this area include Treisman (2000), Paldam (2002), Ali and Isse (2003) and Park (2003), and though addressing the same issue, what factors determine corruption, found different answers.

Therefore, the persons to whom the running of the co-operative has been bestowed upon may take advantage to satisfy their needs. For example, poor salaried employees may look for a way to exploit the co-operative. Collusion between staff, board member and a cooperative officer from the ministry can drive SACCOS to collapse. Omari (2005) evaluated the extent of Information Technology (IT) use in SACCOS and its effect on decision making and concluded that IT use is prevalent in most SACCOS which should enable them make faster decision on processing of loans, final accounts preparations, accurate data on budget and information to members. Therefore, delay in giving of loans, processing of dividends and giving accurate budget should not arise.

Anunda (2007) in her seminar paper entitled "Liquidity management in SACCOS" stated that liquidity problems occurred due to lack of planning, non adherence to budgets, over loaning, poor debt collections, poor internal controls, staff frauds and forgeries and even staff over establishment. Liquidity problems cause delay in loans disbursements, payments of expenses and even dividends when declared. Anunda concludes that a SACCO that follows the laid down policies on financial management would not normally fall a victim of liquidity problem unless there are delays in the remittance of checks offs to SACCOS.

World Council of Credit Union (WOCCU) recommends application of a monitoring tool for measuring financial performance of SACCOS (WOCCU, MANUAL 2001) referred to as: PEALS, standing for: **P**rotection of the SACCO, **E**ffective financial structure, **A**sset quality, **R**- Rate of return and cost on operation, **L** – Liquidity rate and **S** - Signs of growth. Protection of SACCOS is to ensure adequate provision and protection on loans granting to avoid losses. Effective financial structure is to ensure that loans were issued from members' savings but not from borrowed funds. Assets quality is to protect loans delinquency so that all loans are proper and are guaranteed. Rate of return and cost of

capital to ensure that returns are proportional to capital and cost reduced without over-spending. Liquidity ratio should be adequate to ensure ability to repay loans and meet credits requirement as they fall due. Signs of growth are about what would come out of good revenue which would increase the net asset and so increase loans pay out whose end result would be more income and therefore more dividends to members.

SACCO Loaning Policies

Loans are given to all bona-fide active members. Members who are in arrears in a loan repayment and/or shares/deposit contribution do not qualify for a loan. A member can only qualify for a loan after a minimum membership period of not less than six (6) months and having saved not less than Kshs 3,000 in shares deposits. The maximum loan entitlement to any members at any time shall not exceed three (3) times the members' share/deposits, taking into account shares boosting. However, the loan repayment is subject to repayment clause, that total remittance to the SACCO (loans repayment, principal and interest, share/deposits contribution, borrowed fund etc) must not exceed two-thirds of the Member's basic salary. Loan repayment should be within the stipulated period.

Loan Applications: All loan applications are on the prescribed original forms duly completed and sufficiently guaranteed and witnessed. Applications on photocopies are not accepted. The applicant is required to attach one original current payslip (not more than two months old to the date of application); a copy of National ID Card showing both sides and no documentary evidence is required for the loan applications. Normal Loan application forms received within the month should be considered at the end of the same month. Forms received thereafter are considered at the end of the following month. All other loan categories should be processed as they are received.

Loan repayment

Loan repayment should be within the stipulated period as approved by the Annual Delegates Meeting (ADM). Once loans are disbursed, the SACCO through a loan repayment schedule should immediately advise the employer to effect loan recovery. Where the employer fails to honour a loan recovery schedule, it's the duty of the Loanee

to remind the employer to remit the Society's dues. In such a case, the member should make cash payments of the expected respective deductions to avoid default and penalty for delayed payment.

Members must ensure their employer remits Society's dues (share/deposit contributions and loan repayments) Members who are not in formal employment should make their loan payments directly to the SACCO by way of banker's cheque, standing order, personal cheques or cash deposit in the Society's Account. Any cash payment done through the bank, bank-pay-in slip should be forwarded to the SACCO for receipt and recording immediately. It is important to indicate on the paying slip the name and personal number of the member Delayed payments should attract a penalty on the interest.

Guarantors

All loans to members must be guaranteed by person(s) who are bona-fide active SACCO members. Total amount guaranteed should be able to cover the loan applied. Guarantor(s) jointly and severally accept the repayment of the loan in the event of the borrower's default. The Society deems a loan defaulted when loanee does not make repayment when due. Guarantors will be attached when loanee defaults three consecutive months. Note: the guarantors will be notified when the loan is defaulted (SACCO Rules and Guidelines Revised, 1997).

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2.6. Financial performance

A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the

analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

A study was conducted by Jim Collins and his team on the making of high performing companies. Of the studied companies, "... their stock price growth had to be in a range from somewhat lower than to not much higher than the market averages for 15 years. Then, in the next 15 years the stocks had to soar versus the market averages and comparison companies while remaining independent. That's hard to do. The selected companies are Abbott Laboratories, Circuit City, Fannie Mae, Gillette, Kimberly-Clark, Kroger, Nucor, Philip Morris, Pitney Bowes, Walgreen, and Wells Fargo..."

As to the "how," attention was focused on what happened before and during the transition from average performance to high performance. Interviews, quantitative analyses, and business press reports were studied. Clearly, there's a tendency to see things a little bit with 20-20 hindsight in such a situation. Since this study started in 1996, it was dealing with facts that were already quite old while they were being examined. Bias is likely.

The key conclusions as to "how" included the following:

(1) A series of CEOs (promoted from within) who combined "personal humility and professional will" focused on making a great company;

(2) An initial focus on eliminating weak people, adding top performing ones, and establishing a culture of top talent putting out extraordinary effort;

(3) Then shifting attention to staring at and thinking unceasingly about the hardest facts about the company's situation;

(4) Using facts to develop a simple concept that is iteratively reconsidered to focus action on improving performance;

(5) Establishing and maintaining a corporate culture of discipline built around commitments, with freedom about how to meet those promises;

(6) Using technology to accelerate progress when it fits the company's concept of what it wants to become; and

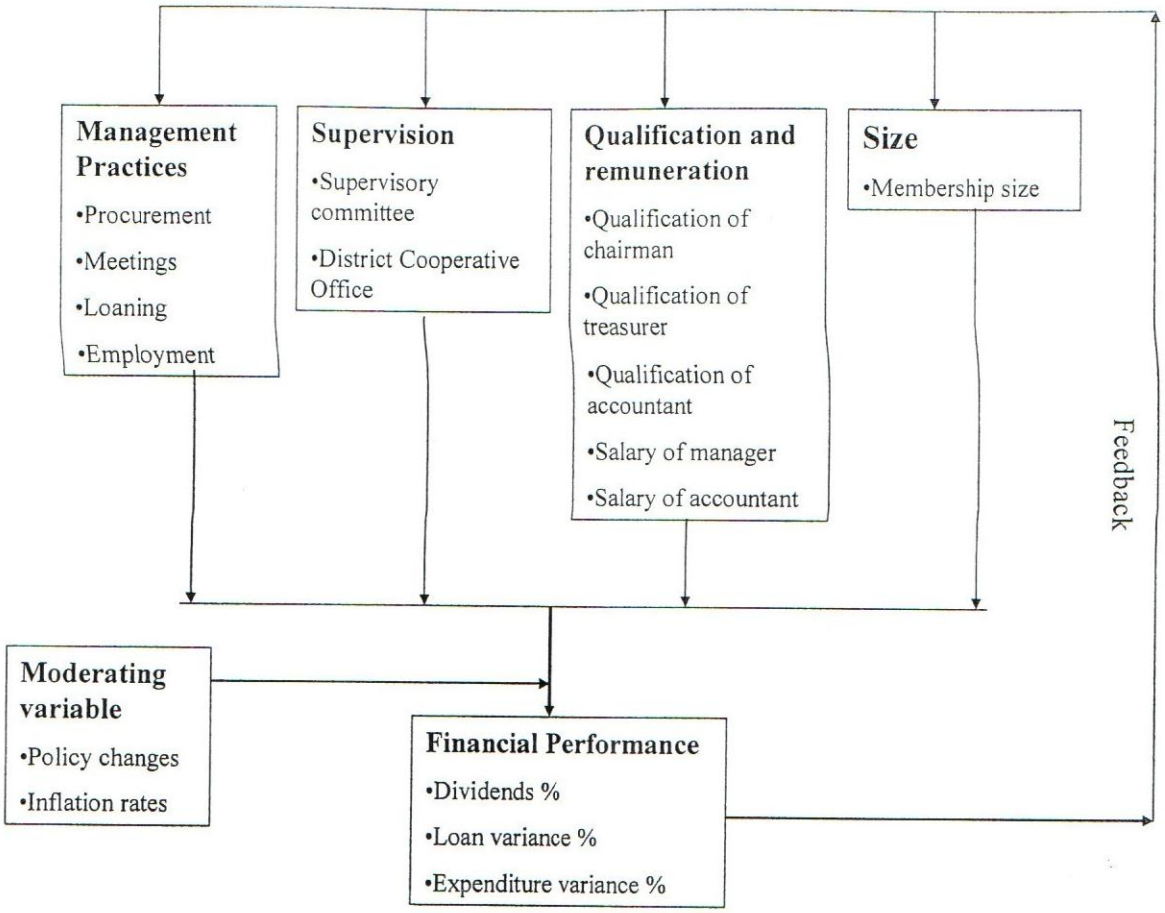
(7) The company builds momentum from consistent efforts behind its concept that are reinforced by success.

Then, a connection is made to how these 7 conditions can provide the foundation for establishing a Built to Last type of company that can outperform the competition over many decades. One potential criticism of the study is that its conclusions could be dated. Former Stanford professor Collins argues that he has uncovered basic facts about human organizations that will be unchanging.

2.7. Conceptual frame work

A good financial performance outcome in SACCOS can be reflected in the dividends paid to members, the serviced loan applications and compliance with the budget estimates presented and approved by members at the AGM. The realised financial outcome is a resultant of financial management of which the factors that have impact are illustrated in Figure 1.

These are windows of financial practices (procurement, meetings, loaning and employment), level of supervision (internally by supervisory committee and externally by the District Cooperative Office), and the level of qualifications and remuneration of management board (chairman, treasurer, manager and accountant) as well as membership size of SACCO. The moderating variables are inflation rates and policy changes.



Source: Author

Figure 1: Conceptual framework illustrating factors impacting on the financial performance outcomes in SACCOS

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research design

The study employed a retrospective sample data collection to obtain records of financial performance and management factors from a randomly selected sample of SACCOS based on a sampling frame. The sampling frame was the list of registered SACCOS within Nakuru Municipality for the period 2006 at the District Co-operative Office (DCO).

3.2 Study area

The study area for the management factors impacting on financial performance of SACCOS was Nakuru Municipality in Nakuru district. Nakuru Municipality is the provincial headquarters of the Rift Valley province of Kenya and is a major commercial town with agricultural, industrial, tourism and educational and public service being the main employing sectors. Nakuru District has 625 registered co-operatives of which 312 are SACCOS. Within the Nakuru municipality, there are 204 co-operative societies of which 77 are registered SACCOS with the District Co-operative Office (DCO).

3.3. Target population

The target population was 77 registered SACCOS with the District Co-operative Office (DCO) of Nakuru district operating within Nakuru municipality between 2004 and 2006. The DCO's office provided to the researcher on request the list of 77 registered SACCOS and their physical addresses for locating the premises within the town.

3.4 Sampling design

Sampling aimed at obtaining half of the 77 registered SACCOS. This sample of 39 was a fair representation of the target population. The study applied a systematic random sampling technique to obtain the 39 SACCOS by dividing 77 by 39 to obtain the starting point with the sampling frame. From this calculation (77/39 =1.97), the starting point could be either 1 or 2, which was determined through simple technique. The simple

random technique resulted in number 1 from which sampling started at an equal interval from 1, 3 and 5 up to 77.

3.5 Data collection

The researcher administered structured questionnaire to managers of SACCOS for collecting both primary and secondary data. At implementation, 7 (seven) of the 39 SACCOS declined a request for an interview while 32 (thirty two) provided the information requested for the study. The information collected included financial performance of the SACCOS, windows of Finance practices, qualifications and numeration of the board and management, supervision levels and service products. Windows of practices included procurement practices, meeting arrangements, loaning procedures and employment of staff. Qualifications of the board of management were on chairman, treasurer, manager, and salary of managers. Supervision levels were the frequency of visits by the DCO and the quarterly of reporting by the supervisory committee.

The SACCO managers provided information for the period 2006 on the dividends paid to members, the sum of applied and serviced loans, the budgeted estimates approved by members at the AGM for expenditure and revenues and the actual expenditures and revenues collected.

3.6 Data Analysis

3.6.1. Computation of indicators of financial performance outcome

The indicators of financial performance in SACCOS measured in this study were the percent dividends paid, loan variance and expenditure variance. Dividend paid was the figure in percent given by the SACCOS as was paid to the members. Loan variance (L_v) was computed as the amount members applied for (C_L) less the actual amount SACCOS disbursed (D_L) in percent as:

$$L_V = \left(\frac{C_L - D_L}{C_L} \right) X100.$$

From this computation a positive value represent the proportion (%) of the amount of loan requests the SACCO was unable to disburse. Large positive value indicates unfavourable financial outcome.

Expenditure variance (E_v) was computed as the budgeted expenditure amount (B_E) less the actual amount spent (S_E) in percent as:

$$E_V = \left(\frac{B_E - S_E}{B_E} \right) X100.$$

Therefore, a positive value means that the SACCO spent within the budgetary estimates while a negative value means that the society spent above their budgetary estimates.

3.6.2. Characterization of management practices in the SACCOS

The responses to questions on management practices regarding procurement, meetings, loaning and employment were cross tabulated and the frequency used to rank the most common management practices likely to impact on financial performance of the SACCOS.

3.6.3. Determining association between membership size, supervisory levels, qualifications and remuneration of management board with the financial performance of SACCOS

Bivariate correlation estimates were computed for membership size, supervisory levels, qualifications and remuneration of management board with the dividends paid %, loan variance % and expenditure variance %. Because one set of the data was measured in ordinal scale, Spearman Rank Correlation Coefficient was used, which is defined as the Pearson correlation coefficient between the ranked quantitative variables x and yi. The n raw scores Xi, Yi are converted to ranks xi, yi, and ρ is computed from:

$$\rho = \frac{\sum_i (x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum_i (x_i - \bar{x})^2 \sum_i (y_i - \bar{y})^2}}.$$

$$p_{xy} = \frac{\sum xy}{\sqrt{\sum x^2} \sqrt{\sum y^2}}$$

Tied values are assigned a rank equal to the average of their positions in the ascending order of the values

3.6.4. Determining management practices impacting on financial performance of SACCOS

The management practices impacting on financial performance of SACCOS were determined through OLS regression analysis fitting dividend paid (%), loan variance (%) and expenditure variance (%) as dependents and the management responses (yes or no) as the independent variables with regression procedures of SPSS version 12.

The regression equation fitted for determining the impact of procurement management practices on financial performance (y):

$\mathbf{y}$ = = β_0 + β_1 Procurement committee + β_2 Purchases in bulk + β_3 Purchases tendered for + β_4 Purchase from a particular supplier + β_5 Goods verified on receipts + β_6 Negotiate for goods + β_7 Payments made by cheque

The regression equation fitted for determining the impact of meeting management practices on financial performance (y):

$\mathbf{y}$ = β_0 + β_1 Committee meetings scheduled + β_2 Meeting schedules adhered to + β_3 Monthly allowances paid for all meetings + β_4 committees commonly

meet more than scheduled + β_5 education to members organised + β_6 AGM held on time

The regression equation fitted for determining the impact of loaning management practices on financial performance (y):

$\mathbf{y} = \beta_0 + \beta_1$ maintain register for normal loans + β_2 loan forms serialized + β_3 loan forms available for all members throughout the month + β_4 loans approved per the registrar + β_5 members commonly ask for longer loan repayment period + β_6 cheques released to members immediately after loan approval

The regression equation fitted for determining the impact of employment management practice on financial performance (y):

$\mathbf{y} = \beta_0 + \beta_1$ employment committee + β_2 advertisements made when vacancies arise + β_3 always employ the best candidate

The Table 1 shows the variables included in regression model and their hypothesized effects.

The Table 1 shows the variables included in regression model and their hypothesized effects.

Table 1: Expected signs of the regression coefficients for the variables in the models

Independent variables	Description	Measurement	Expected sign
	Procurement practices		
X1	SACCO has a procurement committee	(yes=1, no=0)	+
X2	SACCO purchases in bulk	(yes=1, no=0)	+
X3	Purchases tendered for	(yes=1, no=0)	+
X4	SACCO purchase from a particular supplier	(yes=1, no=0)	-
X5	Goods are verified on receipt	(yes=1, no=0)	+
X6	SACCO negotiates for goods	(yes=1, no=0)	+
X7	Payments are made by cheque	(yes=1, no=0)	+
	Meeting management practice		
X1	Committee meetings scheduled	(yes=1, no=0)	+
X2	Meeting schedules adhered to	(yes=1, no=0)	+
X3	Monthly allowances paid for all meetings	(yes=1, no=0)	-
X4	It common for committees to meet more than scheduled	(yes=1, no=0)	-
X5	Education to members organised by SACCO	(yes=1, no=0)	+
X6	AGM held on time	(yes=1, no=0)	+
	Loaning management practices		
X1	SACCO maintain a register for normal loans	(yes=1, no=0)	+
X2	Loan forms are serialized	(yes=1, no=0)	+
X3	Loan forms available for all members throughout the month	(yes=1, no=0)	+
X4	Loans approved per the register	(yes=1, no=0)	+
X5	It is common for members to ask for a longer loan repayment period	(yes=1, no=0)	-
X6	Cheques are released to members immediately after loan approval	(yes=1, no=0)	+
	Employment management practice		
X1	SACCO have employment committee	(yes=1, no=0)	+
X2	Advertisements made when vacancies arise	(yes=1, no=0)	+
X3	Committee always employ the best candidate	(yes=1, no=0)	+

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CHAPTER FOUR

RESULTS AND DISCUSSION OF FINDINGS

4.1. Characteristics and financial performance of the sample SACCOS

Table 2 presents the characteristics of the 32 out of 77 SACCOS sampled in Nakuru municipality. Two thirds (66%) of the SACCOS were established over ten years ago and currently those with membership of less than 500 are about two thirds (66%). A larger proportion (90.6%) of the SACCOS drew membership from diverse sectors with a few (9.4%) being civil servants and learning institutions.

Table 2: Characteristics of the 32 sample SACCOS within Nakuru municipality

Characteristic	Frequency (n)	Distribution (%)
Nature of SACCO		
Civil servants	1	3.1
Learning institutions	2	6.3
Others	29	90.6
Membership size of SACCO		
≤ 100 members	15	46.9
101 to 500 members	6	18.8
> 500 members	11	34.4
When SACCO was established		
5 years	6	18.8
5 to 10 years	5	15.6
> 10 years	21	65.6
Sample SACCOS (n)	32	100

Figure 2 shows the average dividend paid, loan variance and expenditure variance for 32 sample SACCOS within Nakuru municipality. The average dividend paid was 3.7% which is below 5% favoured minimum, indicating poor financial performance and poor reward to members. The loan variance was 23.3% which indicates that the SACCOS were on average unable to service about 23% of the loan requests from the members, further reflecting poor financial performance. However, the expenditure variance was

13.7%, indicating that SACCOS were on average spending within their budgetary estimates.

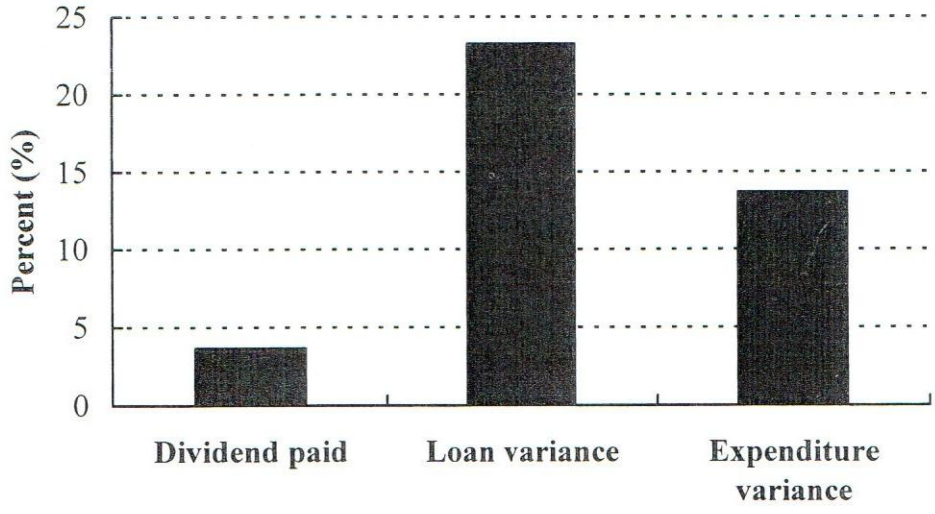


Figure 2: Financial performance of the 32 sample SACCOS within Nakuru municipality

4.2 Common management practices in the 32 sample SACCOS

Management practices are defined as practices violating the Acts, Rules and Bylaws of the SACCOS and best management practices. Table 3 presents the frequencies of procurement management practices, among which practices are ranked. The most frequent practices in procurement identified were SACCOS not having a procurement committee, not purchasing in bulk and not tendering for goods and services and purchasing from a particular supplier. These practices are windows for manipulating procurement procedures and are likely to impact on the financial performance of the SACCOS.

Table 4 presents the frequency of responses about meeting management practices. In ranking, the most frequent practices in SACCO meetings were payment of meeting allowances, holding more committee meetings than scheduled and not adhering to monthly schedule of meetings. The SACCO Bylaws requires that the management meet once monthly and allowance paid. The sample SACCOS scheduled their meetings but did

adhered to them, called for more meetings and paid allowances, which may lead to over expenditure, consequently impacting on financial performance.

Table 3: Procurement management practices in sample SACCOS (n=32) within Nakuru municipality

Procurement management practice	Response		Ranked common management practice*
	% Yes	% No	
Does SACCO have a procurement committee?	28.1	**71.9**	1
Does SACCO purchase in bulk?	28.1	**71.9**	1
Are purchases tendered for?	40.6	**59.4**	2
Does SACCO purchase from a particular supplier?	**43.8**	56.2	3
Are goods verified on receipts?	71.9	**28.1**	4
Does SACCO negotiate for goods?	84.4	**15.6**	5
Are payments made by cheque?	93.8	**6.2**	6

* Ranking of malpractice is for the response indicated in bold

Table 4: Meeting management practices in sample SACCOS (n=32) within Nakuru municipality

Meeting management practice	Response		Ranked common management practice*
	% Yes	% No	
Are committee meetings scheduled?	81.2	**18.8**	1
Are meeting schedules adhered to?	37.5	**62.5**	3
Are monthly allowances paid for all meetings?	**87.5**	12.5	1
Is it common for committees to meet more than scheduled?	**71.9**	28.1	2
Is education to members organised by SACCO?	56.3	**43.8**	4
Are AGM held on time?	71.9	**28.1**	5

* Ranking of malpractice is for the response indicated in bold

The most frequent loaning practices identified (Table 5) were SACCOS not availing loan forms to all members throughout the month, allowing for longer loan repayment period, and not releasing loan cheques to members immediately after loan approval. These reflect poor management practices, creating windows for favouritism in loan disbursement and recovery, which may impact on the financial performance of the SACCO. This corroborates Clarion (2004) that senior officials of the SACCOS demand and receive bribes before or after appending signatures to loan applications.

Table 5: Meeting management practices in sample SACCOS (n=32) within Nakuru municipality

Loaning management practice	Response		Ranked common management practice*
	% Yes	% No	
Does SACCO maintain a register for normal loans?	90.6	**9.4**	5
Does SACCO maintain a register for emergency loans?	90.6	**9.4**	5
Are loan forms serialized?	81.3	**18.1**	4
Are loan forms available for all members throughout the month?	31.2	**68.8**	1
Are loans approved per the registrar?	62.5	**37.5**	3
Is it common for members to ask for a longer loan repayment period?	**68.7**	31.3	1
Are cheques released to members immediately after loan approval?	50.0	**50.0**	2

* Ranking of malpractice is for the response indicated in bold

Common practices in employment in the sample SACCOS can be identified in Table 6. For all practices enquired, at least 62.5% of the 32 sample SACCOS had responses indicating practices in employment, indicating rampant practices in employment. This has serious implications for financial performance of SACCOS because of compromised qualification, integrity and staff morale.

Table 6: Employment management practices in sample SACCOS (n=32) within Nakuru municipality

Employment management practice	Response		Ranked common management practice*
	% Yes	% No	
Does SACCO have employment committee?	37.5	**62.5**	5
Are advertisements made when vacancies arise?	31.3	**68.7**	3
Are application letter registered when received?	34.4	**65.6**	4
Is entire management involved in the interviews?	37.5	**62.5**	5
Are interview results released immediately?	15.6	**84.4**	1
Does the committee always employ the best candidate?	21.9	**78.1**	2

* Ranking of malpractice is for the response indicated in bold

4.3. Association between membership size, supervisory, qualifications and remuneration of management board with the financial performance of 32 sample SACCOS

The bivariate correlations between the membership size, supervisory levels, qualifications and remuneration of management board with the financial performance of 32 sample SACCOS are presented in Table 7. Dividends paid were positive and significantly ($r= 0.564$; $p<0.001$) correlated to SACCO size but negative and significantly correlated to accountants' qualification ($r= -0.457$; $p< 0.05$) and managers' salary ($r= -0.392$; $p<0.05$). Membership is a major source of revenue for the SACCOS, with revenues rising with membership, which explains the positive correlation found with the dividends paid. However, dividends paid seemed to fall for SACCOS hiring highly qualified accountants and highly paid managers, suggesting that high salaries impact on the revenues, hence the dividends paid.

Table 7: Means and correlation coefficients between financial performance and the membership size, supervisory, qualification of management and salary of manager and accountant in sample SACCOS (n=32) within Nakuru municipality

Factor variables	Mean ± SD	Dividend paid (%)	Loan deviation from amount applied (%)	Expenditure deviation from budget (%)
		---------- Correlation coefficient r ----------		
SACCO membership size (1= <100; 2 =100 - 500; 3 = >500)	1.87 ± 0.91	0.564**	0.064	-0.135
Supervisory committee quarterly reporting frequency (1, 2, 3, 4 reports quarterly)	1.62 ± 0.49	0.182	-0.302	0.322
District cooperative officer monthly visit frequency (1=3; 2= 6; 3= 9; 4=12 months /year)	2.22 ± 0.87	0.331	-0.009	-0.028
Qualification of chairman (1=High school; 2=CPA/Diploma; 3=Graduate)	1.91 ± 0.73	-0.037	0.46	0.131
Qualification of treasurer (1= < KATC; 2=KATC; 3= ≥CPA I)	1.59 ± 0.84	0.028	-0.076	0.080
Qualification of manager (1=High school; 2=CPA/Diploma; 3=Graduate)	1.97 ± 0.82	0.318	0.168	-0.315
Qualification of accountant (1= < KATC; 2=KATC; 3= ≥CPA I)	2.39 ± 0.62	-0.457*	0.250	0.116
Salary of manager (1= ≤0.5 m; 2=0.5- 1m; 3= >1 m Ksh/y)	2.94 ± 0.25	-0.392*	0.351*	0.000
Salary of accountant (1= ≤0.5 m; 2=0.5- 1m; 3= >1 m Ksh/y)	2.89 ± 0.42	-0.307	0.281	-0.280

* P<0.05 ; **0.001

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Loan variance had positive and significant correlation ($r=0.351$; $p<0.05$) with the salary of the manager (Table 7), indicating paying a manager high salary may contribute to reduction in loan defaulting through better management. Expenditure variance showed no significant correlation with any of the factors tested.

4.4. Impact of management practices on financial performance in sample SACCOS (n=32) within Nakuru municipality

Management practices of interest in this study included procurement, meeting, loaning and employment because they can impact on the dividends paid (%), loan variance and expenditure variance, which in this study are selected financial performance indicators in SACCOS. Results are presented in Tables 8 through 11.

4.4.1 Impact of procurement management practices on financial performance

Table 8 presents the regression coefficients estimated for impact of procurement management practices on financial indicators. The model fit was good and purchasing from a particular supplier consistently had significant impact on all the three indicators of financial performance. SACCOs that purchased from particular suppliers paid 4.3% less ($P<0.005$) dividends to members, were unable ($P<0.1$) to service 16.1% of the loan requested by members and their expenditure was 32.3% above the budgeted estimate ($P<0.05$). The results have implications on procurement, implying that purchasing from particular suppliers seems to be unfavourable for good financial performance of SACCO. This may arise from a coalition with suppliers to inflate prices of goods and services, consequently depriving SACCOs of the much needed revenue.

Table 8: Regression coefficients with their standard errors estimated for the impact of procurement management practices on dividends paid (%), loan deviation (%) and expenditure deviation (%) in sample SACCOS (n=32) within Nakuru municipality

Procurement management practice	Dividend paid (%)	Loan deviation from actual applied (%)	Expenditure deviation from budgeted estimate (%)
Constant	1.20 ± 2.30	35.88 ± 11.96	9.72 ± 17.64
SACCO has a procurement committee (yes=1, no=0)	-2.88 ± 1.83	-6.46 ± 9.50	-12.81 ± 14.00
SACCO purchases in bulk (yes=1, no=0)	1.56 ± 2.43	5.51 ± 12.63	-17.23 ± 18.62
Purchases tendered for (yes=1, no=0)	3.449 ± 3.05	-8.23 ± 15.84	17.57 ± 23.35
SACCO purchase from a particular supplier (yes=1, no=0)	-4.35 ± 1.70**	16.14 ± 8.84*	-32.34 ± 13.03**
Goods are verified on receipt (yes=1, no=0)	2.32± 2.11	-5.32 ± 10.94	-.91 ± 15.13
SACCO negotiates for goods (yes=1, no=0)	-2.43 ± 1.89	-10.14 ± 9.83	20.29 ± 14.50
Payments are made by cheque (yes=1, no=0)	3.15 ± 2.60	-15.12 ± 13.50	24.04 ± 19.90
Model P value	0.021	0.367	0.338
F value	3.002	1.149	1.205
Adjusted R square	0.311	0.033	0.044

* P<0.1; ** P<0.05 ***0.001

4.4.2 Impact of meeting management practices on financial performance

Table 9 shows that adhering to schedules of meeting has positive (P<0.1) impact on financial performance of SACCOS, enabling them spend within their budgeted expenditure by about 25%. Meeting constitutes a cost to the SACCOS, therefore fewer meetings will result in less expenditure. Education to members impacted positively (P<0.1) on the financial performance of SACCOS. With education, SACCOS serviced 15.6% more of the loan requested. Educated members are better placed to adopt the SACCO motto of regular savings, wise borrowing and prompt payment of loans, which is important for favourable cash flow to service the loans requests from members.

Table 9: Regression coefficients with their standard errors estimated for the impact of meeting management practices on dividend paid (%), loan deviation (%) and expenditure deviation (%) in sample SACCOS (n=32) within Nakuru municipality

Meeting management practice	Dividend paid (%)	Loan deviation from actual applied (%)	Expenditure deviation from budgeted estimate (%)
Constant	1.06 ± 5.60	9.57 ± 23.70	19.34 ± 33.95
Committee meetings scheduled (yes=1, no=0)	3.44 ± 3.10	-3.08 ± 13.13	-7.39 ± 18.80
Meeting schedules adhered to (yes=1, no=0)	-1.62 ± 2.04	-10.98 ± 8.62	24.89 ± 12.35*
Monthly allowances paid for all meetings (yes=1, no=0)	1.40 ± 3.29	8.32 ± 13.92	-22.08 ± 19.94
It common for committees to meet more than scheduled (yes=1, no=0)	-0.73 ± 2.45	4.70 ± 10.36	-5.48 ± 14.85
Education to members organised by SACCO (yes=1, no=0)	2.51 ± 2.08	-15.58 ± 8.82*	-19.01 ± 12.64
AGM held on time (yes=1, no=0)	-1.68 ± 5.10	29.25 ± 21.60	9.30 ± 30.94
Model P value	0.566	0.353	0.201
F value	0.819	1.172	1.552
Adjusted R square	0.164	0.219	0.097

* P<0.1; ** P<0.05 ***0.001

4.4.3 Impact of loaning management practices

Table 10 presents the regression coefficients for the impact of loaning management practices on financial performance of SACCOS. SACCOS that had a loaning management practice of availing loan forms throughout the month paid 5.32% more (P<0.1) dividends to their members. Availing loans throughout the month would allow members to access loans and from these loans the SACCO would generate income from interests. This may explain why the loaning practice impacted positively on the dividends paid to members. Some SACCOS allow for longer loan repayment period at higher interest, which generates income for SACCOS. This could explain why longer loan repayment period was associated (P<0.05) with 4.4% more dividends paid to members. Immediate release of cheques to members also impacted positively (P<0.1) on the dividends paid to members. Earlier release

of cheques means earlier recovery of loans and quicker earning of income on the loans, which can then translate into dividends to members. This would explain why immediate release of cheques was associated with 2.77% more dividends to members.

Table 10: Regression coefficients with their standard errors estimated for the impact of loaning management practices on dividend paid (%), loan deviation (%) and expenditure deviation (%) in sample SACCOS (n=32) within Nakuru municipality

Loaning management practices	Dividend paid (%)	Loan deviation from actual applied (%)	Expenditure deviation from budgeted estimate (%)
Constant	-1.07 ± 2.303	35.76 ± 13.30	34.30 ± 18.86
SACCO maintain a register for normal loans	2.77 ± 2.59	-15.31 ± 14.95	7.43 ± 21.20
Loan forms are serialized	-2.10 ± 1.82	-0.90 ± 10.53	-28.16 ± 14.93*
Loan forms available for all members throughout the month	5.32 ± 2.00*	-2.18 ± 11.57	8.75 ± 16.40
Loans approved per the register	1.58 ± 1.49	12.16 ± 8.63	-16.41 ± 12.23
It is common for members to ask for a longer loan repayment period	4.36 ± 1.53**	-7.01 ± 8.83	0.27 ± 12.52
Cheques are released to members immediately after loan approval	2.77 ± 1.56*	-9.00 ± 9.02	9.46 ± 12.79
Model p value	0.004	0.609	0.328
F value	4.396	0.758	1.222
Adjusted R square	0.513	0.049	0.041

* P<0.1; ** P<0.05 ***0.001

There was no detection of significant impact of loaning management practices examined on loan deviation (%) while serialising of loan forms impacted negatively on the expenditure. This is in contrast to expectation that it would be a positive association.

4.4.4 Influence of employment management practices

Table 11 shows the regression coefficients estimates for the impact of employment management practice on financial performance. There was no significant impact detected on dividend paid (%) and loan deviation (%), but having employment committee

impacted positively on the expenditure. The expenditure was 35.8% lower (P< 0.1) within the budgeted estimates. This suggests that employment committee could be associated with hiring well qualified managers whose management skills improve on financial management.

Table 11: Regression coefficients with their standard errors estimated for the impact of employment management practice on dividend paid (%), loan deviation (%) and expenditure deviation (%) in sample SACCOS (n=32) within Nakuru municipality

Employment management practice	Dividend paid (%)	Loan deviation from actual applied (%)	Expenditure deviation from budgeted estimate (%)
Constant	2.75 ± 1.01	27.08 ± 4.44	15.43 ± 6.40
SACCO have employment committee	0.58 ± 2.93	-0.63 ± 12.96	35.79 ± 18.68*
Advertisements made when vacancies arise	3.44 ± 2.62	-10.83 ± 11.56	15.90 ± 16.67
Committee always employ the best candidate	-1.60 ± 2.93	-0.04 ± 12.96	-3.39 ± 18.68
Model p value	0.458	0.551	0.293
F value	0.91	0.715	1.303
Adjusted R square	0.011	0.028	0.029

* P<0.1; ** P<0.05 ***0.001

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary

Kenya's cooperative sector has effectively mobilised private resources, predominantly through Savings and Credit Cooperatives (SACCOS). The SACCOS are run by committees who govern in accordance with the Co-operative Acts, Rules, Commissioners circulars and the By-laws put in place to check practices aimed at enhancing financial performance. However, reports of financial mismanagement cases are frequent in the print and electronic media involving loss of millions of shillings leading to collapse of SACCOS. To understand better the underlying reasons, this study aimed to determine the management practices impacting on the financial performance of SACCOS within Nakuru Municipality for the 2006 period. The indicators of financial performance were dividends paid (%) and loan and expenditure variances expressed as deviations from budgeted targets in loans serviced and expenditure. Relevant data was obtained using a systematic random sampling technique from 32 out of 77 registered SACCOS. The statistical analyses performed were to answer the research questions:

i. Which are the common management practices that impact on the financial performance of SACCOS?
ii. Is there a relationship between the financial performance in SACCOS and the membership size, frequency of supervision, qualifications and remuneration of the management board?
iii. Do procurement, meeting, loaning and employment management practices impact on the financial performance outcomes in the SACCOS?

Results of the financial indicators indicated that the sample SACCOS experienced poor financial performance. The dividend paid was low (< 5%) and on average 23% of the amount of loans requested could not be serviced, but expenditure was 13.7% within the budgeted estimates, indicating attempts to check on spending.

The common management practices identified to impact on the financial performance of SACCOS related to non compliance with the SACCO Bylaws. Of particular was employment practice where over 60% of SACCOS had evidence of malpractice. Though practices were rampant in employment, they did not impact on the dividends paid, loan variance and expenditure variance, suggesting employment practices may not impact on financial performance of SACCOS as long as a competent person is employed and management is maintained at high standards.

Practices in procurement related to not having a procurement committee, not purchasing in bulk, not tendering for goods and services and purchasing from a particular supplier. Practices in meeting were paying allowances in all meetings, holding more committee meetings than scheduled and not adhering to monthly schedule of meetings.

Dividends paid was positive and significantly ($r= 0.564$; $p<0.001$) correlated with membership size of SACCO but negative and significantly correlated to the level of remuneration to the management board. Loan variance had positive and significant correlation ($r=0.351$; $p<0.05$) with the salary of the manager, indicating that high salaried manager may substantially lower loan defaulting rates. Expenditure variance showed no significant correlation with any of the management practices examined.

Adhering to schedules of meeting impacted positively on expenditure, enabling SACCOS to spend about 25% within the budgeted estimates. Educating SACCO members was associated with servicing 15.6% more of the loans request. Availing loan forms to members throughout the month was associated with payment of 5.32% more dividends to their members. SACCOS having an employment committee impacted positively on the expenditure. SACCOS that had a loaning management practice of availing loan forms throughout the month could pay more dividends to their members. Allowing for longer loan repayment period and immediate release of cheques to members impacted positively on the dividends paid to members.

On the other hand, management practices that impacted negatively on financial performance were serialising of loan forms and purchasing from particular suppliers which impacted negatively on the dividends, loans and expenditure.

5.2. Conclusion

The financial performance was poor and the management practices that were identified to impact negatively included serialising of loan forms and purchasing from particular suppliers. Management practices impacted negatively were fewer than those impacting positively. Those identified to impact positively on the financial performance of SACCOS included adhering to schedules of meeting, educating SACCO members and availing loan forms to members throughout the month. Others with positive impact included having an employment committee, allowing for longer loan repayment period and immediate release of cheques to members.

5.3. Recommendations

To improve financial performance in SACCOS, procurement and loaning procedures require review because they showed the greatest impact on financial performance. It is advisable for SACCOS to have a procurement committee and streamline purchases to have them tendered for and be in bulk. Educating members and availing loan forms freely to them stand out as strategies for better financial performances.

Membership size is critical better financial performances and aggressive recruitment and strategies to retain membership have to be implemented in SACCOS because it impacts on the financial heavily. It is advisable for SACCOS to review remuneration policies against their size of membership, because hiring qualified managers for better financial management without sufficient financial base to sustain the remuneration eventually impacts adversely on financial performance through costs in salary.

Strengthening of both internal and external supervision is necessary to ensure the committees running SACCOS do govern in compliance with the Co-operative Acts, Rules, Commissioners circulars and the By-laws put in place to check practices aimed at enhancing financial performance.

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APPENDIX 1 : QUESTIONNAIRE

To Manager of ..... SACCO.

My name is SIMON P. O. Odhiambo, a student at Egerton University Nakuru Town Campus, undertaking a Masters in Business Administration (M.B.A.). Degree.
As an M.B.A. finance student, my research has to be in the area of finance. In view of this, my work is to Evaluate factors impacting on financial performance in SACCOS within Nakuru Municipality, and thus the purpose of this Questionnaire.

I therefore do kindly request you to complete the Questions listed in the best way possible.

I assure you that the responses received will be treated with confidence and will not be used for any other purpose other than this study.

Thanks

S.P.O. Odhiambo

PART A: Information about the SACCO

1. Name of SACCO. .....

2. Where is the SACCO situated .....

3. When was the SACCO started .....

4. What is the distance of the SACCO from the D.C.O.s office.....

5. Number of members in the SACCO (Tick appropriately)

   (a) 10 – 100 (b) 101 – 500 (c) 500 and over.

6. When was the last A.G.M. held (Tick appropriately)

   (a) less than a year ago (b) 2 – 3 years ago (c) over 3 years ago.

7. Age of SACCO : (a) below 5 yrs

   (b) between 5 and 10 yrs

   (c) over 10 years

8. What is the nature of the SACCO

   (a) Farmers (b) Civil servants (c) Learning Institutions (d) Any other (state)

PART B: INFORMATION ON WINDOWS OF FINANCIAL PRACTICES

1. Ordinary procurement management practices

i. Does the SACCO have a procurement committee? (Yes/ No)

ii. Are procurements made in bulk? (Yes/ No)

iii. Are purchase tendered for ? (Yes/ No)

iv. Does the SACCO tend to purchase from a particular supplier? (Yes/ No)

v. Are goods verified on receipt? (Yes/ No)

vi. Does SACCO negotiate for goods? (Yes/ No)

vii. Are payments made by cheque? (Yes/ No)

2. Meetings management practices

i. Are committee meetings scheduled at the beginning of the month? (Yes/ No)

ii. Are schedules adhered to? (Yes/ No)

iii. Are allowances paid for all meeting? (Yes/ No)

iv. Is it common for committees to meet more than scheduled? (Yes/ No)

v. Is education to members organised by SACCO? (Yes/ No)

vi. Are AGMs held on time on or before 30th April each year? (Yes/ No)

3. Loan approvals management practices

i. Does SACCO maintain a registrar for normal loans? (Yes/ No)

ii. Does SACCO maintain a registrar for emergency loans? (Yes/ No)

iii. Are loan forms serialised? (Yes/ No)

iv. Are loan forms available for members throughout the months? (Yes/ No)

v. Are loans approved as per registrar? (Yes/ No)

vi. Is it common for members to ask for longer loan repayment periods? (Yes/ No)

vii. Are cheques released to members immediately after loan approval? (Yes/ No)

4. **Staff employment management practices**

i. Does the SACCO have an employment committee? (Yes/ No)

ii. Are job advertisements made when vacancies arise? (Yes/ No)

iii. Are application letters registered when received? (Yes/ No)

iv. Is the entire management involved in the interview? (Yes/ No)

v. Are interview results released immediately? (Yes/ No)

vi. Does the committee always employ the best candidate? (Yes/ No)

PART C: Information on qualification and salary of qualification of Boards and supervision of SACCOs

Section 1: Information about the staff

1. The manager

What were the qualifications of manager in years indicated (Tick in appropriate box)

Qualification	Year		
	2004	2005	2006
a) Graduate + CPA and above			
b) Diploma			
c) Secondary school			

What was the salary of manager in the following year? (Tick as appropriate)

Salary (Ksh)	Year		
	2004	2005	2006
Above 1 milion			
Between 0.5 and 1 million			
Below 0.5 million			

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2 The accountant

What were the qualifications of the accountant in the years indicated (Tick in appropriate box)

Qualification	Year		
	2004	2005	2006
a) CPA I and above			
b) KATC final			
c) Below KATC			

What was the salary of the accountant in the following years? (Tick as appropriate)

Salary (Ksh)	Year		
	2004	2005	2006
Above 1 milion			
Between 0.5 and 1 million			
Below 0.5 million			

Section 2 – Information about the board members

1. The treasurer

What were the qualifications of the treasure in the years indicated (Tick in appropriate box)

Qualification	Year		
	2004	2005	2006
a) CPA II and above			
b) CPA I			
c) Below CPA			

2. The chairman

What were the qualifications of the chairman in the years indicated (Tick in appropriate box)

Qualification	Year		
	2004	2005	2006
a) Graduate and			

above			
b) Certificate and above			
c) Below Certificate			

Section 3. Information on supervision

1. Supervisory committee reports (numbers per year)

Frequency of reporting	Year		
	2004	2005	2006
Visits in numbers per year (1, 2, 3, 4)			

2. District cooperative Officers' visits to SACCOS (numbers per year)

Frequency of visits	Year		
	2004	2005	2006
Visits in numbers per year (12, 9, 6, 3)			

PART D: Information on financial performance

1. Dividends paid in percentages

	Year		
	2004	2005	2006
Dividends paid (%)			

2. Loans

Loans (KSh)	Year		
	2004	2005	2006
Loans applied for			
Loans paid			
Loan variance			

3. Budget compliance

Budget (KSh)	Year		
	2004	2005	2006
Budgeted amounts			
Actual expenditure			
Variance			

PART E: Information collected from the DCO office Nakuru

1. Level of supervision
   We have 2 types of supervision

(i) Internally by supervisory committee who should give quarterly reports to the management and a copy to D.C.O.'s office

(ii) By the D.C.O.'s office, which are regular(once every month)?

2. Minimum qualification levels of SACCO Managers/Accountants.

3. Minimum salary scale for both manager and Accountant.

4. Expected levels of chairmen and Treasurers qualifications.

APPENDIX 2 : Regression Results Print out

Procurements

Parameter Estimates

Dependent Variable: dividends%

Parameter	B	Std. Error	t	Sig.
Intercept	1.201	2.304	.521	.607
[procmte=1]	-2.798	1.830	-1.529	.139
[purbulk=1]	1.558	2.434	.640	.528
[tender=1]	3.449	3.051	1.131	.269
[suplyer=1]	-4.348	1.703	-2.553	.017
[verfygds=1]	2.317	2.108	1.099	.283
[Negtiat=1]	-2.433	1.894	-1.284	.211
[paycheq=1]	3.150	2.600	1.212	.237

a This parameter is set to zero because it is redundant.

Parameter Estimates

Dependent Variable: loan variance%

Parameter	B	Std. Error	t	Sig.
Intercept	35.880	11.961	3.000	.006
[procmte=1]	-6.458	9.498	-.680	.503
[purbulk=1]	5.512	12.632	.436	.666
[tender=1]	-8.226	15.836	-.519	.608
[suplyer=1]	16.140	8.840	1.826	.080
[verfygds=1]	-5.317	10.941	-.486	.631
[Negtiat=1]	-10.135	9.832	-1.031	.313
[paycheq=1]	-15.121	13.496	-1.120	.274

a This parameter is set to zero because it is redundant.

Parameter Estimates

Dependent Variable: Expenditure variance%

Parameter	B	Std. Error	t	Sig.
Intercept	9.723	17.635	.551	.587
[procmte=1]	-12.805	14.003	-.914	.370
[purbulk=1]	-17.228	18.624	-.925	.364
[tender=1]	17.572	23.348	.753	.459
[suplyer=1]	-32.337	13.034	-2.481	.021
[verfygds=1]	-.906	16.130	-.056	.956
[Negtiat=1]	20.292	14.496	1.400	.174
[paycheq=1]	24.042	19.898	1.208	.239

a This parameter is set to zero because it is redundant.

Meetings

Parameter Estimates

Dependent Variable: dividends%

Parameter	B	Std. Error	t	Sig.
Intercept	1.059	5.600	.189	.852
[metmthly=1]	3.441	3.101	1.110	.278
[metadhed=1]	-1.619	2.037	-.795	.434
[mtalwnce=1]	1.395	3.289	.424	.675
[momthm=1]	-.734	2.449	-.300	.767
[semner=1]	2.505	2.084	1.202	.241
[AGM=1]	-1.682	5.103	-.330	.744

a This parameter is set to zero because it is redundant.

Parameter Estimates

Dependent Variable: loan variance%

Parameter	B	Std. Error	t	Sig.
Intercept	9.574	23.703	.404	.690
[metmthly=1]	-3.079	13.126	-.235	.816
[metadhed=1]	-10.980	8.624	-1.273	.215
[mtalwnce=1]	8.317	13.921	.597	.556
[momthm=1]	4.704	10.364	.454	.654
[semner=1]	-15.584	8.822	-1.767	.090
[AGM=1]	29.253	21.600	1.354	.188

a This parameter is set to zero because it is redundant.

Parameter Estimates

Dependent Variable: Expenditure variance%

Parameter	B	Std. Error	t	Sig.
Intercept	19.342	33.953	.570	.574
[metmthly=1]	-7.385	18.803	-.393	.698
[metadhed=1]	24.888	12.353	2.015	.055
[mtalwnce=1]	-22.075	19.941	-1.107	.279
[momthm=1]	-5.482	14.845	-.369	.715
[semner=1]	-19.008	12.637	-1.504	.145
[AGM=1]	9.299	30.941	.301	.766

a This parameter is set to zero because it is redundant.

Loaning procedure

Parameter Estimates

Dependent Variable: dividends%

Parameter	B	Std. Error	t	Sig.
Intercept	-1.070	2.303	-.465	.646
[Nmlonreg=1]	2.768	2.589	1.069	.295
[Lonfmser=1]	-2.102	1.823	-1.153	.260
[lonfmavl=1]	5.323	2.003	2.658	.014
[Lnprvreg=1]	1.580	1.494	1.058	.300
[Repymt=1]	4.358	1.529	2.850	.009
[Chkqck=1]	2.766	1.562	1.771	.089

a This parameter is set to zero because it is redundant.

Parameter Estimates

Dependent Variable: loan variance%

Parameter	B	Std. Error	t	Sig.
Intercept	35.759	13.299	2.689	.013
[Nmlonreg=1]	-15.314	14.949	-1.024	.315
[Lonfmser=1]	-.900	10.525	-.086	.932
[lonfmavl=1]	-2.177	11.566	-.188	.852
[Lnprvreg=1]	12.159	8.626	1.410	.171
[Repymt=1]	-7.005	8.829	-.793	.435
[Chkqck=1]	-9.003	9.020	-.998	.328

a This parameter is set to zero because it is redundant.

Parameter Estimates

Dependent Variable: Expenditure variance%

Parameter	B	Std. Error	t	Sig.
Intercept	34.304	18.859	1.819	.081
[Nmlonreg=1]	7.429	21.198	.350	.729
[Lonfmser=1]	-28.159	14.925	-1.887	.071
[lonfmavl=1]	8.751	16.401	.534	.598
[Lnprvreg=1]	-16.412	12.231	-1.342	.192
[Repymt=1]	.273	12.520	.022	.983
[Chkqck=1]	9.457	12.791	.739	.467

a This parameter is set to zero because it is redundant.

Employment

Parameter Estimates

Dependent Variable: dividends%

Parameter	B	Std. Error	t	Sig.
Intercept	2.750	1.005	2.736	.011
[emplcom=1]	.582	2.933	.198	.844
[advtcncy=1]	3.442	2.617	1.315	.199
[bestempl=1]	-1.599	2.933	-.545	.590

a This parameter is set to zero because it is redundant.

Parameter Estimates

Dependent Variable: loan variance%

Parameter	B	Std. Error	t	Sig.
Intercept	27.082	4.439	6.101	.000
[emplcom=1]	-.628	12.959	-.048	.962
[advtcncy=1]	-10.832	11.562	-.937	.357
[bestempl=1]	-.035	12.959	-.003	.998

a This parameter is set to zero because it is redundant.

Parameter Estimates

Dependent Variable: Expenditure variance%

Parameter	B	Std. Error	t	Sig.
Intercept	15.425	6.400	2.410	.023
[emplcom=1]	35.790	18.683	1.916	.066
[advtcncy=1]	-15.895	16.667	-.954	.348
[bestempl=1]	-3.391	18.683	-.181	.857

a This parameter is set to zero because it is redundant.