AN EVALUATION OF THE ROLE OF DIVERSIFICATION STRATEGIES ON THE REVENUE GENERATION IN SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES (SACCOs)

A CASE OF SACCOs IN KISII SUB CENTRE, KENYA.

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A Research Project Report Submitted to the graduate School in Partial Fulfilment for the Requirement of the Award of the degree of Masters of Business Administration of Egerton University.

EGERTON UNIVERSITY

MARCH 2010

DECLARATION AND RECOMMENDATION

DECLARATION

This research project is my original work and has not been submitted in this or in any other form for a degree of any university.

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RECOMMENDATION

This research project has been submitted for examination with our recommendation as university supervisors.

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DEDICATION

I dedicate this project report to my wife Beth W. Ng'ang'a and my children Getrude, Triza and Allan for they are the greatest gifts in my life.

ACKNOWLEDGEMENT

I appreciate the work done by many people who contributed immensely in one way or the other during the preparation and writing of this project report. I wish to appreciate my lecturers for having guided me for the entire academic period for preparing me into a productive human being. My sincere thanks goes particularly to my supervisors Mr. Martin Lumumba and Mr. Christopher Ngacho both of Kisii University College, Egerton University for their guidance and time taken in reviewing my work and their contribution towards the realization of this report. In addition, I wish to thank Mr. Rwenyo Conrad, Miss Jackline Ratemo and Ms Teresa Moturi for efficient typing of this project report. I am indeed grateful for my wife's moral and material support, her patience and encouragement for making this work a success. You have been the source of my inspiration. I wish to extend my special thanks to the following MBA students whom we shared a class and many experiences in addition to drawing a lot of inspiration and support during our group discussions that extended to the wee hours of the night including weekends: Samuel Odera Mutichiro, Joseph K. Rotich and Okindo Omoke. Lastly I thank God Almighty for His unending grace upon me during my academic endeavors.

ABSTRACT

The Co-operative societies in the country which makes up the co-operative sector boasts of a resource base of more than Kshs. 150 billion worth of investments) and nearly 60% of Kenyans reportedly benefit directly and indirectly from the co-operative movement (Khaemba 2007 speech on the co-operative day). The research sought to evaluate the role of diversification strategies on the revenue generation in SACCOs, Kisii Sub – centre, Kenya. This research was based on twenty SACCOs that were stratified in terms of Farmers, Teachers, Church Affiliated and Multi-purpose SACCOs. Multi-stage sampling techniques were used in collecting the data. Primary data was collected through structured questionnaire which had three sections A, B and C. The questionnaires were dropped and picked from the selected respondents after a period of two weeks and there was 88.33% respondent rate. Data was analyzed using descriptive statistics for part A and C of the questionnaire with a view of summarizing general information of the respondents and establishing significant difference in revenues due to diversification and before diversification respectively. Principle Component Factor Analysis (aggregation of factors) was used to analyze part B to establish the Principle Component Factors that influence diversification. A Kaiser criterion of 60% was used to determine the factors. The research revealed that SACCOs have embraced diversification particularly FOSA, Hotel Business, M-Pesa, Retail Shop, Posho Mill, Micro-Finance, Money Gram, Office Letting and Photocopying. Though SACCOs consider same factors before undertaking diversification, they attach different levels of importance to such factors. In addition revenue generated by the diversified strategies was significant and majority of the Finance Managers strongly supported the diversification. From the findings of this research there is need for further research in the same subject particularly in the remaining KUSCCO sub-centres and Nationwide based SACCOs.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study.

European settlers introduced the modern co-operative organizations far way back in 1908 when the European farmers at Lumbwa (Kipkelion) near Kericho established the first cooperative for production and marketing (Ouma J. Sylvester 1980). The cooperatives organized by Africans were founded after 1930's. However, owing to lack of support and encouragement by the colonial government, progress of co-operatives organized by Africans who were illiterate it would not be possible to find capable people to manage and keep books of accounts for these co-operatives (Ongore, 2001). The first co-operative society's ordinance was passed in 1931 and was later replaced in 1932.

Immediately after independence (1964), it was the policy of the government to involve all Kenyans in the economic activities of the nation. Co-operatives were institutional framework through which many indigenous Kenyans could participate. At the time however, co-operatives were faced with a number of problems, which included; lack of integrity on the part of some union/society committee members and employee's misappropriation and misallocation of funds, excessive costs in handling members produce, and general inefficiency in the business operations of the movement. The main causes of these problems were: lack of basic understanding among the co-operative about the purpose and the functions of the movement; lack of technical managerial skills, knowledge and experience on the employees (Oyoo, 2000).

the Kenya Federation of Co-operatives was registered as an umbrella to many societies. In the year 1965 the Co-operative bank of Kenya was registered. The bank was to serve the interest of the SACCOs. In the year 1996 the existence of the SACCOs was legislated. In that year the Cooperative Ordinance of 1931 was amended and enacted as cooperative societies Act (1966). In 1969 the Government required SACCOs to be based on secure crop or employment relationship. In this "check off system" SACCOs received payment from employers, processors or marketing organizations. In 1973 Kenya Union of Savings and Credit Cooperatives (KUSCCO) was formed. This was to cater for all SACCOs that were based on the employment common bond. The Government had an upper hand in the control of these SACCOs through the commissioner of cooperative development. Most collapsed due to mismanagement and excessive government control. Currently KUSSCO has a membership base of 1,766 SACCOs, a share capital of about US$1.69 million and assets of US425.8 Million. In 1997, co-operatives societies Act no. 12 of 1997 was enacted. This was as a result of the liberalization and globalization of the world trade. The sessional paper, No. 6 of 1997 Cooperatives Liberalization Economic Environment, preceded the Act.

Since then there have been tremendous changes in Global economy, which has led to the establishment of societies (amendment) bill – 2004, which was passed by parliament.
The 1997 Act was formulated to provide for a member based, autonomous and member controlled movement. This led to a steady growth of SACCOs opening front office savings accounts (FOSA). When FOSA were opened liquidity problem was solved.
In the beginning of the year 2004 there were over 4,100 registered SACCOs, 3,200 of which are carefully operational out of the total 150 SACCOs provide front office

services. The formation of Cooperative Bank in 1965 is another landmark Development in the sector. The bank is the fourth largest in Kenya and has a national outreach through 35 branches, 3 agencies, 10 mobile units and 77 ATMs. The bank is owned by more than 57,000 Kenyan shareholders. The Co-operative societies and Unions own 65% of the shares. The bank trains SACCOs with diversified common bond.

Currently, according to the Permanent secretary, Ministry of Cooperative Development, Mr. Khaemba, (in 2007 speech on the cooperative day) the Kenyan Cooperative sector has 12,000 registered SACCOs out of which 5,000 are SACCOs that offer financial services to over 3 million people with a resource base of Kshs. 150 billion.

Recently the parliament passed the SACCOs regulatory Act that will address among other issues; the registration and licensing of SACCOs, a standard chart of accounts, governance requirements, amalgamation, divisions, and liquidations; a SACCO Regulatory Authority, a central liquidity fund and transition provisions. According to Khaemba (2007) nearly 60% of Kenyans reportedly benefit directly or indirectly from the co-operative movement.

This research targeted SACCOs that are members of KUSCCO in Western Kenya region and specifically Kisii sub centre.

KUSCCO is an umbrella body of all SACCOs in the county. For administrative purposes KUSCCO has divided the country into five regions namely:

Nairobi region – which covers Nairobi and it's environs, Mt. Kenya region, which covers Central and Eastern Provinces, Rift Valley region , which covers Rift Valley Province, Western region, which covers Nyanza and Western Provinces.

Because of the vastness of the regions, KUSCCO further sub divides them into six sub-centres to facilitate administrative roles. These sub centres includes; Eldoret, Thika, Kakamega, Machakos, Kisii and Nyeri.

Kisii sub-centre covers the following districts: Gucha, Nyamira, Kisii Central, Rachuonyo, Homa-Bay, Migori, and Kuria districts and the newly created districts in Southern Nyanza region. The SACCOs in the sub centre cuts across different sectors of the economy.

1.2 Statement of the problem

Organizations worldwide diversify for a host of reasons. In some cases it is a survival strategy while other cases are to ensure a regular revenue stream throughout the year. They do this by venturing into non-traditional areas or extending range of their goods or services to the existing customers or reaching out to new markets. The Co-operative Sector in the country has in the past been dogged with a myriad of problems among them mismanagement, misappropriation of members funds and rampart corruption among the officials. This has made some collapse with huge members' resources. "The World Bank (2007) Agriculture and Rural Development, Reaching Rural Areas with Financial services." In the face of a highly competitive financial environment where commercial banks and other financial institutions are flexing their muscles to expand their market and profitability, some SACCOs have embraced diversification to supplement their traditional income. From previous researches particularly "Gachara J. (1990). An Investigation into the Investment of Reserve Funds in Savings and Credit Societies in Nairobi, Ongeri John (2006) Motivation factors affecting Employees performance in organizations- A case of

SACCOs operating in Kisii Town, Oyoo (2002). Financial Performance of SACCOs" From the findings of the listed researches, non of them specifically addressed the concept of diversification in SACCOs, thus there is need to investigate the various diversification strategies undertaken, the factors considered before undertaking them and revenue generated by the diversification strategies. There has been lack of critical research to act as a baseline in guiding this process. Hence the need to investigate the various diversification strategies undertaken in light of the factors considered and the overall revenue generation such diversified strategies contribute to the SACCOs.

1.3 Objectives of the study

The general objective of the study was to evaluate the role of diversification strategies on the revenue generation in savings and credit co-operatives societies (SACCOs) in Kenya.

The specific objectives were:

1. To identify the diversification strategies used by SACCOs.
2. To determine the factors considered before employing diversification strategies.
3. To determine the level of revenue associated with the diversification strategies and the perception of SACCO's officials on the diversification strategies.

1.4 Research Questions

1. What are the various diversification strategies in the SACCOs?
2. What are the factors that influence the choice of diversification strategies?
3. Does the SACCO's revenue increase significantly with employment of diversification strategies?

1.5 Importance of the study.

The study will be of importance to the following;

To the managers of SACCOs to know the effect of their diversification strategies on revenue generation. To the academic field, it will form the basis for future research while to the general public will have a greater understanding of SACCOs Diversified Businesses. In addition it will make salaried individuals to make informed decisions before joining SACCOs and lastly it will help the policy makers at the Ministry of Cooperative Development in formulating sound proactive governance policies on the diversification strategies in line with the government's 2030 vision of making Kenya a middle income economy.

1.6 Scope and justification of the study.

The study was carried out on purposively selected SACCOs in Kenya and particularly in Western Kenya region, Kisii sub centre and cutting across selected sectors in the economy particularly teachers SACCOs, farmers SACCOs, church affiliated SACCOs. Purposive sampling was used for it involved use of common sense and best judgment in choosing the right habitations and maintain the right number of the correct people for the purpose of the study.

The Co-operative sector in the country currently has resources worth Kshs. 150 billion. SACCOs contribute about 45% of GDP and 31% of the national savings with a membership base of over 7 million. In addition it provides direct employment to about 250,000 Kenyans and supports 63% of Kenyans. The sector is largest in Africa and ranked position 7 worldwide according to the World Bank Discussion paper 35

Limited". It has 12,000 registered SACCOs according to the permanent secretary Ministry of Co-operatives Development (Khaemba April 2008 speech). The challenges that face the SACCOs today are enormous. The members' contribution alone can no longer sufficiently bear the challenges. The SACCOs provide services that matches those provided by commercial banks particularly the loaning facilities. The members' contribution alone can no longer be sufficient enough to cushion the SACCOS against the stiff competition from robust banking and micro finance institutions that in the recent past have tailor-made loans to offer to the members of the public who by extension are members of the SACCOs. To overcome this, the SACCOs have come up with various diversification strategies to supplement the members contribution so as to remain relevant in their core business as well as have competitive advantage over their competitors.

1.7 Limitations of the Study

Since structured questionnaire was used to collect primary data, there was an incident of some respondents not filling the questionnaires. Data concerning diversification strategies on SACCOs was limited owing to the fact that it is a concept that is not commonly practiced in the SACCOs.

1.8 Assumptions of the Study

The researcher made the following assumptions during the period of research.

(1) There would be no policy changes from the Ministry of Co-operative Development and other regulatory bodies particularly Central Bank of Kenya that would significantly change the running of co-operative societies.

Definitions of terms.

Organization – This refers to the various co-operative SACCOs

Structure – This refers to the conceptual and functional framework of an organization as well as configuration of its resources.

Diversification – This refers to the various strategic Business units in which the SACCOs invest member's funds besides pulling together members funds for lending roles. It has no relationship with the Markowitz efficient frontier.

Factors - These are attributes or measures of performances in business considered by the SACCOs before making decisions to diversify.

Budgeting - A decision of allocation of capital or commitment of funds to long-term assets that would yield benefits (cash flows) in the future.

Effective rate of return- Is the opportunity cost of capital that an investor could earn by putting his or her money in investment of equivalent risk.

Profit planning - This refers to operating decisions in the areas of pricing, costs, volume of output and the firm's selection of product lines.

CHAPTER TWO

LITERATURE REVIEW

2.0 Theoretical Concepts of Financial Management:

Financial management is that managerial activity which is concerned with the planning controlling of firms financial resources. Organizations create manufacturing capacities for production of goods; some provide services to customers. They sell their goods services to earn profit. In addition, organizations require real assets to carry on its activities which may either be tangible real assets or intangible real assets. Tangible real assets are physical assets that include plant machinery, office factory furniture and building. Intangible real assets include technical know - how technological collaborations, patents and copyrights. Financial assets also called securities are financial or instruments, such as shares and bonus or debentures.

Every organizations assets are managed and controlled by finance manager who specifically performs the following roles: financing decisions, investment decisions, and dividend decisions (Pandey 2004). In addition he notes that a firm attempts to balance cash inflows and outflows while performing these functions, a situation he calls liquidity decision. He broadly list the roles of finance to include; long term asset – mix or investment decision, capital mix or financing decisions, profit allocation or dividend decision, short term-asset mix or liquidity decisions. A firm performs finance functions simultaneously and continuously hence finance decision calls for skillful planning, control and execution of a firm's activities.

evaluation of prospective profitability of new investments and secondly the measurement of a cut-off rate against that the prospective return of new investment would be compared. Several budget evaluation techniques are employed particularly the discounted cash flow techniques which includes; the Net Present Value technique where investments with positive Net Present Values are accepted and those with negative NPVs rejected or Internal Rate of Return technique that equates the initial cash outlay to the expected present value of future cash-flows using an effective rate of return and those projects whose IRR is greater than the target management rate of return are accepted and those whose IRR is less rejected. Because of uncertainly of measuring future benefits of investment being difficult, risk in investment arises. This makes finance manager to evaluate investment proposals both in terms of expected return and risk.

Financing decision is the second most important function of finance managers. He/she must decide which, where and how to acquire funds to meet the firms investments needs. He establishes an optimal capital structure in the organization i.e. a point of maximizing the market value of the company share. He must raise appropriate a mount through the best available resource considering among other factors such as control, flexibility, loan covenants, legal aspects (regulatory requirements) among others.

Fisher (1965), argues that while making investments (Allocation of funds) and Financial decision (Generation of funds) finance manager is guided by the theory of finance which utilizes two crucial assumptions in guidance. First, the objective of the firm is to maximize the wealth of shareholders. This assumption implies that the shareholders have primary interest in the firm and therefore, the main objective of the firm should be to

maximize owner's wealth; secondly, the current value of the shareholders wealthy. In addition the firm should accept only those investments that generate positive Net Present Values (NPVs) and thus, increase the current value of the firm's share. It is not desirable from investors point of view. The firm's capital structure and dividends decisions become important only because of imperfections. Empirical studies do not support. Universally and unequivocally Efficient Capital Markets Hypothesis. The financial economists do recognize market imperfections such as transaction costs, bankruptcy costs, taxes, information gap, agency costs, signaling effect among others. However, each of these imperfections is looked at within the context of a theoretical system in which markets are otherwise perfectly competitive. Strategic planning considers all markets, including product, labour, capital as imperfect and changing. Strategies are developed to manage business firm in uncertain and imperfect market and environment conditions and exploit opportunities. Firms develop financial plan within the overall framework of strategic plan.

In regard to dividend decisions, Walter (1963) argues that the finance manager must choose dividend policies wisely for they affect the value of firm. He bases his model on the following assumption: Internal financing – The firm may finance all investments through retained earnings i.e. debt or new equity is not issued or constant return and cost of capital i.e. the firm's rate of return (r) and its cost of capital (k) are constant or all earnings are either distributed as dividends or reinvested internally immediately and lastly the firm has a very long or infinite life. He concludes that the financial manager should consider the questions of dividends stability, bonus shares and cash dividends in practice. Dividend policy is yet unresolved. Miller and Modigliani (1961) view dividends

as irrelevant, but dividends policy may be important for signing on agency cost reasons. Other researchers hypothesis that dividend policy may be used by a firm as a mechanism to signal outsiders regarding the stability and growth prospects of the firm.

Investment in Current Assents affects the firm's profitability and liquidity Current Assets. Management that affects a firm's liquidity is yet another important finance function. Current assets should be managed efficiently to safeguarding the firm against the risk of illiquidity (lack of liquidity) and extreme lack of liquidity can force the firm into insolvency. A conflict – exists between profitability and liquidity. If the firm does not invest sufficient funds in current assets, it may become illiquid and therefore risky. But it would loose profitability as idle current assets would not earn anything. Thus a proper trade-off must be achieved between profitability and liquidity. The finance manager must therefore review and control decisions to commit and re-commit funds to new or ongoing uses.

Archer and Ambrossio (1966), argues that for effective execution of finance functions, certain other functions have to be routinely performed. They concern procedures and systems and involve a lot of paper work and time. They do not require specialized skills of finance. They include; supervision of cash receipt and payments and safeguarding of cash balances, custody and safeguarding of securities, insurance policies and other valuables, taking care of mechanical details of new outside financing and record keeping and reporting.

Besides making decisions discussed above, the finance manager is also expected to plan for the profit in line with the shareholders wealth maximization (S.W.M) as reflected in

the market value of the firm's shares. It is a prerequisite for optimizing investments and financing decisions. The mix of fixed variable and variable costs has a significant, influence on the firm's profitability. Profit planning helps to anticipate the relationships between volume costs and profits and develop action plans to face unexpected surprises. Financial planning and profit planning helps a firm's financial manager to regulate flows of funds which is his primary concern.

2.2 Empirical studies on Co-operative Societies in Kenya:

Campbell (1975) discussed on Co-operatives, as they exist in Asia and Africa. He gave a brief idea about SACCOs on analysis in terms of performance, activities, structure and administration. The payment of dividends should be based on performance of society after taking into account the future needs of the society. However, the management has the final say in determining how much to pay. A society may perform very well and ends up paying lesser or no dividends.

In a study carried out by Karanja (1987) on dividend practices of publicly quoted companies in Kenya, found out that most companies distributed between 20% and 60% of their earnings and the heaviest concentration was in the 40% and 60% range. In addition it was revealed that, the level of dividends varies directly with the level of earnings, implying that most companies follow a stable dividend payout rate (that is dividend as percentage of earnings attributable to be the shareholders). This means that dividend was paid even when a company's earnings were very poor even when losses were made.

The study further pointed out that through logical reasoning liquidity position of a firm could be a factor influencing dividend policy that a firm shows a large amount of profits in its ability to pay dividends. However this researcher's study found out the contrary concluding that a firm must not only consider its present cash requirements but also the future. However, this study did not include SACCOs, which pay dividends to their members.

In a study on the determinants of savings in SACCOs in Kenya Obuon (1988) argues that if members of SACCOs are not given dividends, there will be less motivation to save. And if no sufficient corporate savings is mobilized, it will be difficult to undertake long-term investment projects unless through long-term loans. However, reliance on loans inverse indebtness dependence, cost of investment undertaking and funds unreliability, hence it should be avoided as much as possible. He concludes by noting that to expand their share capital/deposits or to raise the demand for their shares, SACCOs should not only raise their loans to members, membership, number of branches but also the average monthly contribution per member while at the same time pay out more dividend to create an incentive on the part of members. This study did identify the determinants of dividend payments by SACCOs.

In regard to how financial performance of SACCOs is affected after deregulation, Oyoo (2002) found out that performance of SACCOs in the two areas were not significantly different. Firstly, profitability ratios in the SACCOs performed relatively better before regulation as compared with after deregulation. Secondly the SACCOs continued to pay

dividends. However, he did not identify the determinants of dividend payments by these SACCOs.

Nyamwange (2006) in his circular MCD/CSFG/18/21(95) has indicated importance of SACCOs. SACCOs constitute not only the fastest growing sub sector of the co-operative movement in Kenya, but also the most significant in impacting on the livelihood of its members. They are currently regulated by the cooperative society's act, which unfortunately is grossly deficient of adequate provisions to guide SACCOs in competitive financial sector. The act does not prescribe standards of performance required for such specialized co-operatives providing financial intermediation. He has provided parameters and practices which constitutes what is known as "best practices" or "performance standards". These parameters and practices have been time tested and found reliable in providing protection against risks and avoiding risks in developing countries.

Gachara (1990) who reviewed the reserves in SACCOs and pointed out the reserve is an appropriation of the surplus of an organization that is not distributed to the members but remains in the organizations. The law requires that a SACCO should transfer 20% of each year's surplus to a statutory reserve fund, which is an amount not available for distribution. This amount is set aside for future needs, which will benefit co-operatives. Any co-operative, which has surplus form its transactions, must have a reserve fund (coop act; section 47, rule 42).

In regard to investment practices of reserve funds in SACCOs in Nairobi, Gachara (1990) found out that reserves formed a relatively small percentage (4.9%) of the total liabilities in such societies, though, in absolute terms this amount was large. The 54 societies held

combined reserves to the tune of Kshs. 61,558,000 within an established mean growth rate of 31.44% during the study period. Another objective of his study was to find out how these reserve funds are invested. It was established that most societies left such amounts in the society to increase working capital, and the main uses of funds in these organization were increasing loans to members and current assets. Further the research revealed that benefits accruing from such investments are distributed to the members in form of loans and dividends on the basis of share capital held.

In a study to establish the cash balance management practices of SACCOs in Nakuru District, Waweru (2003 revealed that SACCOs used a combination of approaches in managing cash balances. In addition, SACCOs did not invest in marketable securities and instead loaned excess cash to members. This was a major variation with companies quoted at NSE. The research concluded that there was no significant difference in the cash management practices used by the institutional and non-institutional SACCOs. In addition there was no relationship between cash management practices and cash management problems. Majority of SACCOs were found to be having low levels of computerization particularly on cash balances monitoring. He did not look at the cash investment in Strategic Business Units of SACCOs. Recommended study on impact of computerization on cash management and why SACCOs don't invest in marketable securities.

Ssenyond (1998) carried out research on members' attitude towards the loan policy of the SACCOs in Kenya. The research revealed that the members' attitude towards the loan policy varied from negative to positive. The study concluded that members see SACCOs

2.3 Concept of Diversification Strategies

In a study carried out by Mwangi (2003) to establish factors influencing diversification of investments and the importance firms attach to these factors, a case of quoted and unquoted companies in NSE, it was revealed that diversification is an important strategy pursued by firms and different factors with varying levels of importance are considered before undertaking diversification. The most widely considered factors as revealed by the study included Net profit margin, gross profit margin, growth in sales, variability of returns, stability of sales, safety of principal and size of market share. Further, firms attach different levels of importance to the different factors. Factors with highest ranking included net profit, gross profit margin, and growth in sales, safety of principal and market share. Majority of the firms that were sampled embraced technology with the aim of increasing efficiency and cutting down production cost. The firms that had low returns faulted government law enforcement as being weak. Quality of management was highly rated in importance by the financial institutions and firms in the manufacturing industry. The research also revealed that some manufacturing firms sacrificed quality as desirable factor due higher pay that will be required to attract more qualified people.

Riechi (1993) looked at the internal sources of funds a survey of public universities in Kenya. His findings were that on average public universities derive 80% of their funding from the government for their recurrent expenditure and 20% generated from internal sources which he called diversified business units. From the research it is also noted that 70% of commercial generating units were financially self supporting and University of Nairobi had the largest number of financially self supporting income generating units comparable to other public universities at that time. Further the research revealed that all

diversified income generating units were primarily set up for tuition purposes; income generation was a secondary purpose. Lastly 90% of the problems affecting income generating units were related to the university structure while only one problem was reportedly caused by natural hazards. Organizations particularly universities all over the world are searching for non government alternative funds. Oxford and Cambridge Universities have begun to look elsewhere for funds (Newsweek January 1988 page 45). They are engaged in resource generating activities such as applied research for local industry and commercialization of science and industrial parks. According to Cranfield University prospectus 1992 page 2, a high proportion of Cranfield's income comes from non governmental sources. The prospectus reveals that contract research income ranks the highest followed by continued education.

Likewise in Japan, universities generate a huge income from internal sources (Government of Japan 1989). In Thailand, universities derive their income from two sources, i.e. the government central budget and their internal sources such as land and buildings.

Mwangi (2003) generalizations or findings may not be taken to be true of what takes place in the SACCOs since companies have different ways of raising additional capital to undertake their strategic business units whereas SACCOs major source of income is from members' contribution. In addition, the research was conducted at a time when the economy was coming out from negative growth and change of political regime that was characterized with low political risk as compared to late 2007 and early 2008.

The competition in the financial sector was low and the Government 2030 Vision had not been factored, thus the same factors may not reflect the same results in the current situation. Also he did not look at the relationship between investment strategy costs and their revenue generation by the quoted and unquoted companies.

Riechi (1993) only looked at the diversified business units of the public universities. However, the major source of income for public universities is the government funding. This could also be comparable with the fact that the SACCOs major source of income come from members' contributions. Thus the internal income generation units of the public universities may not be the same as those of the SACCOs.

Byers et al (1996) see diversification occurring when the firm wants to take advantage of an extremely attractive opportunity especially when compared to with other possible growth strategies. The possible reason for this being that the markets for the current products or services are saturated or if not the profit potential of diversification looks greater than that of expanding the current business. They also saw management's quest for taking intriguing challenges as a possible reason for diversification.

Pearce et al (2000), see the stakeholders value in a diversified firm as being determined by how well the various businesses perform and or how compelling the potential synergies and opportunities appear to be. The sharing of skills and competencies across businesses will sustain the competitive advantage hence shareholder's value. Wise diversification therefore has at its core the search for ways to build value and sustained competitive advantage.

Lemitides, (1989) saw diversification as a predictable strategy for firms to pursue. At one point or another, firms turn away from specialization as a consequence of managerial motivation for growth, as well as for survival. Growth in specialized areas reaches a limit hence the move to non specialized areas. Firm efficiencies are created by diversification. These synergies include sharing of specialized skills, improved financial efficiency and improved resource allocation.

Chandler (1962) argues that a business firm's niche or competitive advantage typically has a half life of years rather than decades. Strategic planning must assure a stream of new ideas that allow the firm to find new sources of competitive advantage.

Strategic planning must focus attention on the initial stages of the decision-making processes-opportunities and occasions for choice, and the design of new action strategies for products, marketing, and financing. Product identification and alternative generation are crucial components of strategy. Strategic thinking must permeate the entire organization. Effective identification of employees with the organization's strategy requires their exposure to the basic postulates that underlie strategic plans. Michael Porter (1962) asserts that diversification strategies occur where the organization seeks to extend its current range of offerings or spheres of activity. This may be through means of integration or thorough new product development or new market development. It may arise as a result of assessment of the current range of products and markets which are deemed to have arrived at maturity and which therefore require development and new introduction. Diversification may be classified as either related or unrelated.

Any diversification should have synergy as its driving force. A combination of capacities in both niches and organizations together with the need for change and progress in the existing activities of an organization, the effect is compounded where there are slack capacities, under utilized production means and technology or surplus cash in the organization in question.

Hobbs et al (1977); Steiner, (1988); Robert et al (1991) asserts that organization strategy will be of value if successfully implemented. There should be active link between strategy development and execution. The line managers who are responsible for implementing strategies should be involved in developing the strategy.

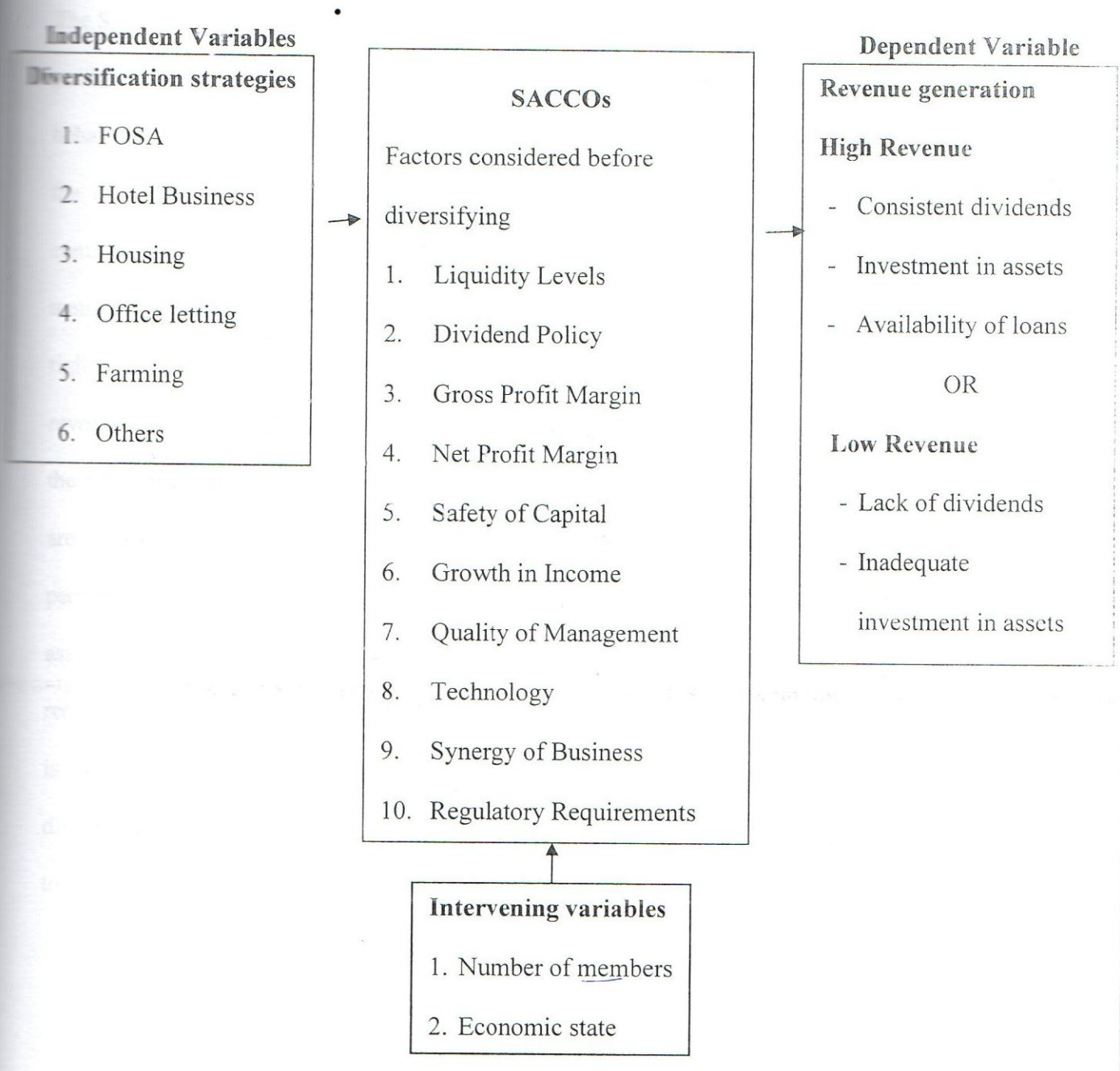
Strategic planning should enable a firm develop an edge over competitors in the market place. Focus on competitors and markets (customers) are therefore crucial for success. Grant (1991) points out that competitive advantage may not be revealed in higher profitability since a firm may trade current profit for investment in market share or technology or a firm may forego profit in the interest of customers' satisfaction or employee benefits. He observes that, as markets become increasingly turbulent, the firm's ability to respond more quickly and effectively to external change has become critical as a source of competitive advantage. He emphasizes importance of innovation as it does not only create competitive advantage; it also provides a basis for overturning the competitive advantage of other firms. Byars et al (1996) concur that to develop a competitive advantage a company should develop distinctive competencies and then use them creatively to build some of the strategic superiority, for example, tight control of distribution and its cost control to compete in its markets. Similarly Hill and Jones

(2000) argue that a distinctive competence allows a company to achieve superior efficiency, quality, innovation or customer responsiveness and thereby to create superior value and attain a competitive advantage.

Wenefelt (1984), Grant (1997) and Mohoney and Pandian (1992) classifies firms resources as tangible, intangible, and human resources. These assets and capabilities determine how efficiently and effectively a company performs its functional activities better or more cheaply than competitors.

In Kenya, SACCOs have invested money in different units to generate additional income beside the members monthly contribution in the form of shares. Some of this investments includes: hotel businesses, office letting, micro-finance, FOSA, M-Pesa among others.

2.4 Figure 1. Conceptual framework



Source: Field Survey 2009

The SACCO is collectively owned by registered members with the primary aim (goal) of pulling members' resources together for re-lending purposes. The SACCOs' affairs on behalf of the members are managed by Central Management Committee for the good of the members. They are empowered to implement diversification strategies to ensure continuity in cash stream for survival of the SACCO. The CMC members invest members' funds in diversification strategies as well as equipping the SACCOs with the rightful personnel, management structure, appropriate IT and asset acquisition to generate revenue which may either be high or low depending on intervening factors particularly the economic state of the country and the membership number. The intervening variables are managed by the SACCOs Central Management Committee through their Technical person (Finance Manager) who controls the credit as well forecasting the financial risk associated with lending and investments. The number of members is managed by annual recruitment through organized field shows and recruitment drives. The revenue generated is intended to improve the liquidity position of the SACCO, disbursement of loans, dividend payments and retention of members hence security of existence of the SACCOs to achieve the primary goal.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Design

A survey design was used in the research. This was because a survey design enabled the use of descriptive statistics and explanations for analysis. Further, a survey is to explore and describe observed phenomena, Kathuri and Pals, (1993). Surveys are effective in obtaining information relating to people's thoughts, feelings and opinions. Lastly, the survey study is appropriate since it can collect generalizable information from a population, Ongeri (2006).

3.2 Study Area

The research was carried on selected Savings and Credit Cooperative Societies in western Kenya region and particularly in Kisii sub-centre. The sub-centre boasts of several thriving economic activities such as fishing, farming of sugarcane, tea and coffee as well as a vibrant informal sector. The region is served by the reputable Commercial Banks in the country particularly the Co-operative Bank, Barclays Bank of Kenya, Kenya Commercial Bank, Standard Bank, Equity Bank and a host of Micro-finance institutions particularly the Kenya Women Finance Trust and K-Rep Bank.

3.3 Target population

The study population included all the Central Management Committee Members and Financial Managers (officers) in all active SACCOs within Kisii sub-centre. The sub-centre consisted of 97 active SACCOs with an approximate number of 975 Central Management Committee Members, in addition to 97 Finance Managers.

3.4 Sampling Design

The study was based on twenty SACCOs in the Kisii sub-centre. The selected SACCOs are spread both in rural and urban areas, this was to avoid bias and to represent SACCOs that are multidisciplinary. The sampling was multi-stage. Multi-stage sampling is use of different sampling techniques at different stages in the research process. Random sampling was used in selecting SACCOs. The SACCOs were stratified in various categories namely: Farming SACCOs, Teachers SACCOs, Multi-purpose SACCOs transport and Church affiliated SACCOs. The SACCOs were then randomly sampled because they were many. From each of the sampled SACCOs, Finance Manager and two Central Management Committee Members were purposively and randomly sampled respectively. A total of 40 CMC members and 20 Finance Managers formed the sample. Purposive sampling was chosen because it allows the researcher to home in on people or events which have good grounds in what they believe will be critical for the research, Dane (1990). The researcher is able to dwell on instances which display wide variety possible even focus on extreme cases to illuminate the research question at hand and the aim is to explore the quality of the data and not the quantity, Nachmias (1996). In addition it can be carried out together with the probability sampling techniques, hence the use of Stratified and Simple random sampling. The Central Management Committee members and the Finance Managers were the people with relevant information to give an in depth analysis of the research question.

3.5 Data Collection

Before proceeding to the field, the researcher sought an introduction letter from the University authorizing him to proceed to collect the intended data. In addition permission to carry out the research was also sought from the office of the President.

The study based on both primary and secondary data. Primary data was collected through structured questionnaire. The questionnaire consisted of both open and closed ended questions divided into three parts; Parts A, B and C. Part A concentrated on general particulars of the respondents while part B focused on different diversification strategies, factors considered before undertaking the diversification strategies. Finally part C concentrated on the role diversification strategies play on revenue generation comparable to total revenue of the SACCOs. The questionnaires was piloted on 5 SACCOs by test and re-test technique where the same questionnaire was given to the same members after a period of 1 week and the responses were compared for validity and reliability where a correlation of 75% was considered acceptable. The 5 SACCOs were not included in actual sample. The questionnaires were then distributed to the intended respondents through drop – and pick method and a grace period of two weeks was given before collecting the questionnaire from the respondents. Secondary data was gathered from the existing literature.

3.6 Data analysis

Data was summarized in the form of tables with the view of condensing the responses. Part A of the questionnaire was analyzed using descriptive statistics with a view to summarizing the general response data in terms of proportions, frequencies and percentages. Part B which was the core of the study was analyzed using Principle

Component Factor Analysis (SPSS) with a view of reducing factors and the Kaiser Criterion was used to retain factors with eigen values greater than 1 as well as Relative Importance Index analysis (RII) to determine the rank of each variable where a criterion of over 60% was used to identify variables that have higher rating for re-occurrence.

Finally part C that concentrated on the revenue generated by Diversified Business Units was analyzed using descriptive statistics.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND DISCUSSIONS OF FINDINGS

4.1 Over view of Analysis.

Twenty SACCOs were sampled and three questionnaires were dropped per SACCO – Two of the three targeted CMC Members while one was specifically for SACCOs Accounts/Finance Managers. A total of 60 questionnaires were issued 40 for CMC members, 20 for SACCOs Finance Managers. They were dropped and picked after a period of 2 weeks.

53 Questionnaires were successfully filled and returned. 17 were for Finance Managers and 36 were for Central Management Committee Members. This represented 88.33% respondent rate. 11 Managers were from diversified SACCOs while 6 belonged to Non-diversified SACCOs.

The SACCOs sampled were; Farmers, Teachers, Municipals, Church affiliates, Transport and Multipurpose. This result is **Appendix III**.

Section A targeted all respondents and there was 100% respondent rate. 86.8% of the respondents were male while 13.2% females. 3.8% of the respondents aged between 18-24 years. 26.4% aged between 25-34 years. 30.2 percent aged 35 – 44 years while 39.6 aged above 45 years. On being asked on the period for being a member of the SACCO, 35.8% had been members below 5 years. 39.6% 5 – 9 years, 20.8% 10-15 years and 3.8% represented those above 16 years as members.

It was also noted that, 35.8% of the SACCOs sampled major source of finance was membership monthly share contribution while 64.2% membership registration fees and

the level to which the members are involved in matters concerning the SACCO, 75.5% of the respondents stated that members are highly involved while 24.5% asserted that members were lowly involved. Majority of the SACCOs had annual cash planning period (94.3%) while 5.7% had cash planning period on semi-annual basis. 45.3% of the respondents stated that the SACCOs give its members less than they qualify for, while 54.7% gave members what they qualify.

Different reasons were advanced for not giving members what they qualify for and key among them was: liquidity problems when demand is higher than available funds, poor re- payment history of the applicant and for the Tea SACCOs low monthly earnings was stated as a major impediment to awarding the loan applied for by the members.

Table 1. Members for the SACCOS' Sampled.

Year	2005	2006	2007	2008
Diversified SACCOs Members	97,153	99,755	111,466	111,776
Non-Diversified SACCOs Members	800	746	747	747
TOTAL	**97,953**	**100,501**	**112,213**	**112,523**

Source: Field Survey 2009

Section B of the Questionnaire sought to establish the diversification Strategies employed by the SACCOs as well as factors considered by the SACCOs before undertaking Diversification. The preliminary part of Section B aimed at establishing the membership base of the SACCOs, this is illustrated in Table 1 above where it was noted that the members of Diversified SACCOs have been growing from the year 2005 to 2008 while

the Non-Diversified SACCOs experienced a slight drop in the membership for the same period. The Diversified SACCOs had 99.34% of the total membership in the year 2008, 99.3% in the year 2007, 99.26% in the year 2006 and 99.18% in the year 2005.

The following were noted to be the Diversified Business Units employed by the SACCOs sampled – FOSA, M-PESA, Photocopying, and Retail shop, Investment in marketable securities, Posho mill, Hotel business and office letting. It was also found out that WaKenya Pamoja SACCO was the most diversified SACCO with 7 Diversified Business Units. 99.3% of the SACCO members was accounted for by the Diversified SACCOs.

The respondents were asked to list the factors they consider important before undertaking diversification. Twelve variables were listed for the respondents to tick those they considered influenced their decision to diversify. A provision was made for them to state any other variables not included among the list. The section aimed at addressing first research question of identifying diversification strategies employed by the SACCOs. The respondents considered safety of capital, liquidity levels, net profit margin regulatory requirements and Growth in income as important factors when making decisions on diversifications receiving each a frequency of over 68% while dividend policy, quality of management and technology development were important factors each with a frequency of over 59%. Training needs and organization structure were important to an extent of 50% while synergy of business and gross profit margin had 36.36% and 31.82% frequency respectively. The frequencies of responses are shown in table 2 below.

Table 2: Frequency of Responses on the Factors Considered Important by SACCOs CMC Members before Undertaking Diversification Strategies.

	Factor	Frequency	Rank	% Score
1.	Liquidity levels	18	2	81.18
2.	Dividend policy	14	6	63.63
3.	Gross profit Margin	7	12	31.82
4.	Net Profit margin	18	2	81.18
5.	Safety of capital	19	1	86.36
6.	Growth in income	15	5	68.18
7.	Quality of management	13	7	59.10
8.	Technology Development	13	7	59.10
9.	Synergy of business	8	11	36.36
10.	Organization structure	11	9	50.00
11.	Training needs	11	9	50.00
12.	Regulatory requirements	17	4	77.27

Source: Field Survey 2009

4.2 Rating of factors by respondents.

In addition, section B also sought to establish the level of importance attached to the factors considered when diversifying. This was aimed at establishing the Relative Importance Index to factors influencing diversification.

The rating were in the order below.

1 - Least important

2 - Of some importance

3 – Important

4 - Very important

5 - Most important

On scoring the ratings, it was established that, safety of capital had the highest score among the SACCOs of 4.7142 followed by liquidity level of 4.4706 and regulatory requirement of 4.444. Other high scoring factors were quality of management (4.2667, training needs (4.231) and growth in income of (4.1538). Attitude and environment variables which were included by the respondents had scores of 4.000 each. Dividend policy, gross profit margin, synergy business and organization structure had the lowest scores ranging between 3.4118 to 3.000 in that order.

This analysis achieved partly the aim of the second research question that sought to establish that different SACCOs attach different levels importance to the various factors influencing their decision to diversify. This is summarized in the table 3(a) and 3(b) below.

Table 3(a). Respondent Rating of Factors Considered Before Diversifying

Factor	Least important f_i	Of some importance f_i	Important f_i	Very important f_i	Most important f_i	Mean score	Total score	Rank
Liquidity levels			1	7	9	4.4706	76	2
Dividend policy	1	3	5	4	4	3.4118	58	11
Gross Profit Margin	2	3	1	2	2	2.9000	29	13
Net profit margin			5	6	6	4.0588	69	8
Safety of capital				6	15	4.7142	99	1
Growth in income			4	3	6	4.1538	54	6
Quality of management			2	7	6	4.2667	64	4
Technology Development			3	6	4	4.0769	53	7
Synergy of Business		3	3	6	1	2.7500	44	14
Training needs		2	1	2	8	4.231	55	5
Regulatory Reg.			1	8	9	4.444	80	3
Organizations structure		1				3.000	3	12
Attitude			1			4.000	4	9
Environment			1			4.000	4	9

Source: Field Survey 2009

$$\text{Mean} = \frac{\sum f_i w_i}{\sum f_i}$$

The Likert Scale

1 – least important

2 - of some Important

3 – important

4 – very important

5 – most important

Table 3(b). Standard Deviation of the Factors Considered before Diversifying

Factors	Number of responses	Minimum (w)	Maximum (w)	Mean	Std. Deviation
Liquidity levels	17	3.00	5.00	4.4706	.62426
Dividend policy	17	1.00	5.00	3.4118	1.22774
Gross Profit margin	10	1.00	5.00	2.9000	1.52388
Net Profit margin	17	3.00	5.00	4.0588	.82694
Safety of capital	21	4.00	5.00	4.7143	.46291
Growth in income	13	3.00	5.00	4.1538	.89872
Quality of management	15	3	5	4.27	.704
Technology development	13	3.00	5.00	4.0769	.75955
Synergy of business	13	2.00	5.00	3.3846	.96077
Training needs	13	2.00	5.00	4.2308	1.16575
Regulatory requirement	18	3.00	5.00	4.4444	.61570
Organization structure	1	3.00	3.00	3.0000	.
Attitude	1	4.00	4.00	4.0000	.
Environment	1	4.00	4.00	4.0000	.
Valid N (listwise)	1				

Source: Field Survey 2009

Where w = weight as per the Likert scale on page 36

Standard deviation = $\frac{\sum f_i (\text{Mean} - \text{Weight})^2}{(\sum f_i) - 1}$

From table 3(b) above it was noted that gross profit margin had the highest standard deviation of 1.52388 followed by dividend policy (1.22774) and training needs of (1.16575). In addition synergy of business, growth in income and net profit margin followed in that order respectively with standard deviations of less than 1.

4.3 Comparison of factors selected and factor Rankings.

The outcomes of SACCOs CMC members selection of factors and their rankings were compared. Both outcomes identified factors relating to liquidity levels, safety of capital, quality of management, training needs and regulatory requirements being key.

A close look at the result revealed that safety of capital had a selection of 86.36% which was the highest with a rank of 1. Liquidity levels and Net profit margin had a selection of 81.18% each but liquidity level received a rank of 2 while net profit had a rank of 8. Further, regulatory requirement received a selection of 77.27% but later ranked at 3. Quality of management received a frequency selection of 59.10% but a rank of 4 in terms of importance.

This analysis explicitly showed that although SACCOs may consider the same factors in making diversification strategies, they attach different levels of importance to the factors.

4.4 Principle component factor analysis.

Factor analysis is the nature of the underlying variables among a large number of measures. These underlying variables are referred to as common factor variance (v_{co}) they explain the relationship between variables (listed in section B of the questionnaire). This was achieved through a correlation analysis of responses by use of SPSS programme

It is noted that liquidity had a minimum correlation of 0.557 to net profit and a maximum of 0.830 to regulation requirement. Dividend minimum correlation of 0.663 to safety of capital and a maximum of 0.875 to technology and synergy of business respectively. This is summarized in table 4 below.

Table 4. Correlation of Factors Considered Before Diversifying.

	Correlation between Vectors of Values										
	Liquidity	Dividend	GrossP	NetP	Safety	IncomeG	Management	Technology	Synergy	Training	Regulation
Liquidity	1.000	.789	.784	.557	.606	.693	.724	.681	.681	.628	.830
Dividend	.789	1.000	.830	.750	.663	.843	.836	.875	.875	.845	.839
GrossP	.784	.830	1.000	.899	.904	.908	.758	.784	.784	.877	.619
NetP	.557	.750	.899	1.000	.816	.843	.557	.667	.667	.845	.447
Safety	.606	.663	.904	.816	1.000	.836	.531	.612	.612	.690	.456
Income G	.693	.843	.908	.843	.836	1.000	.648	.762	.762	.814	.538
Management	.724	.836	.758	.557	.531	.648	1.000	.867	.867	.785	.830
Technology	.681	.875	.784	.667	.612	.762	.867	1.000	1.000	.845	.745
Synergy	.681	.875	.784	.667	.612	.762	.867	1.000	1.000	.845	.745
Training	.628	.845	.877	.845	.690	.814	.785	.845	.845	1.000	.567
Regulation	.830	.839	.619	.447	.456	.538	.830	.745	.745	.567	1.000

Source: Field Survey 2009

The communalities which in essence are the squares of the correlation coefficients show the variances that a variable has in common with the variable's common factor that was extracted. They become the factor loadings and show the proportion of the variable's variation to the total variation that can be explained by the extracted factors. This result is summarized on table 5(a) below.

Table 5(a) Communalities of Factors by Principal Component Analysis

Factors	Initial	Extraction
Liquidity levels	1.000	1.000
Dividend policy	1.000	1.000
Gross profit margin	1.000	1.000
Net profit margin	1.000	1.000
Safety of capital	1.000	1.000
Growth in income	1.000	1.000
Quality of management	1.000	1.000
Technology development	1.000	1.000
Synergy of business	1.000	1.000
Training needs	1.000	1.000
Regulatory requirement	1.000	1.000

Source: Field Survey 2009

The eigen values determine the importance of each of the factors and the amount of common factor variance that is explained by the factor. The variables with the Eigen values high than 1 were considered principal component hence a further analysis was carried out.

By an aggregation of the factors on section B of the questionnaire through the principal component analysis seven factors were determined to be underlying factors that influence the diversification in SACCOs. Factor 1 explained 77.263%, factor 2,10.319% factor 3, 5.176%, factor 4, 2.073% factor 5, 1.829%, factor 6, 1.523%, factor seven 1.086%. This seven factors

explained 99.269%. The total variance explained by the factors was above the 60% tolerance level allowed for social science. These results are explained in the table 5(b) below.

Table 5(b): Total Variance Explained by Principal Component Analysis

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	8.499	77.263	77.263	8.499	77.263	77.263	3.717	33.793	33.793
2	1.135	10.319	87.582	1.135	10.319	87.582	3.182	28.926	62.719
3	.569	5.176	92.758	.569	5.176	92.758	2.630	23.911	86.630
4	.228	2.073	94.831	.228	2.073	94.831	.483	4.388	91.018
5	.201	1.829	96.660	.201	1.829	96.660	.295	2.685	93.703
6	.167	1.523	98.183	.167	1.523	98.183	.292	2.655	96.358
7	.119	1.086	99.269	.119	1.086	99.269	.192	1.748	98.105
8	.062	.565	99.834	.062	.565	99.834	.131	1.189	99.294
9	.018	.166	100.000	.018	.166	100.000	.078	.706	100.000
10	.000	.000	100.000	.000	.000	100.000	.000	.000	100.000
11	.000	.000	100.000						

Source: Survey Results 2009

Table 5(c). Rotated Component Matrix: Varimax with Kaisser Normalization Rotation

13 Iterations

	Component									
	1	2	3	4	5	6	7	8	9	10
Liquidity	.393	.250	.826	.120	.115	.011	-.023	.264	-.063	.000
Dividend	.445	.544	.562	.216	.235	.060	.112	-.078	.257	.000
Gross P	.790	.382	.377	.181	.071	.167	.062	.135	-.014	.000
Net P	.811	.313	.165	.260	.062	.023	.377	-.014	.039	.000
Safety	.933	.229	.235	-.016	-.016	.045	-.130	-.036	.026	.000
IncomeG	.739	.404	.278	.111	.443	.038	.034	.038	.024	.000
Management	.260	.636	.529	.158	.035	.470	.012	-.004	.015	.000
Technology	.363	.845	.365	.095	.081	.049	.042	.022	.011	.000
Synergy	.363	.845	.365	.095	.081	.049	.042	.022	.011	.000
Training	.554	.585	.226	.515	.086	.133	.084	.028	.024	.000
Regulation	.162	.434	.856	.024	.003	.113	.065	-.180	.060	.000

Source: Survey Results 2009

Table 5(d). Component Transformation Matrix Varimax with Kaiser Normalization.

(Further Analysis)

Component	1	2	3	4	5	6	7
1	.600	.573	.489	.186	.127	.120	.071
2	-.736	.318	.563	-.088	-.071	.132	-.076
3	.218	-.665	.641	-.239	.005	-.093	-.135
4	.163	.293	-.146	-.697	-.118	-.016	-.586
5	.094	-.116	-.020	.202	-.655	.671	-.099
6	.118	-.037	.044	-.276	-.301	-.009	.301
7	.018	.162	.073	-.008	-.612	-.626	.283
8	-.008	.026	-.035	-.515	.194	.330	.665
9	-.006	-.029	.051	.181	.184	-.096	-.071
10	.000	.000	.000	.000	.000	.000	.000

Source: Survey Results 2009

From table 2 the loadings of the statements from the questionnaire on the various factors can be established as follows.

The components on the above matrix (table 5(d)) are the factors that influence diversification as outlined in statements 1 to 5 of the questionnaire section B.

This is revealed by the loadings as shown by the coefficients.

Statement 1: Liquidity levels loads slightly above average on factor 1 at 0.600.

Statement 2: Dividend policy loads heavily on factor 1 at -0.736.

Statement 3: Gross profit margin loads heavily on factor 2 at -0.665

Statement 4: Net profit margin loads heavily on factor 4 at -0.697

Statement 5: safety of capital loads heavily on factor 6 at 0.671

Statement 6: Growth in income loads heavily on factor 7at 0.301

Statement 7: Quality of management loads heavily on factor 6 at-0.626

From the above statements liquidity levels explains 60% of the variations of factor 1 while safety of capital explains 67.1% of the variations of factor 6.

By considering the above loadings there are seven factors that influence diversification strategies employed by the SACCOs as extracted by the principal component factor analysis and they include:

1. Liquidity levels
2. Dividend policy
3. Gross profit margin
4. Net profit margin
5. Safety of capital
6. Growth in income
7. Quality of management

It was also established that 90.9% of the Diversified Business Units were under main stream SACCO administration while 9.1% were internally autonomous. None of the diversified SACCOs were managed by an agency. Further on being asked to state the satisfaction level of the Diversified Business Units, 72.71% percent of the respondents judged the management structure as satisfactory while 22.7% judged it highly satisfactory. Only 4.1% passed unsatisfactory verdict on the structure of the management.

On being asked to give suggestions on how to improve the management structure, different suggestions were put forward particularly need for computerization of the Diversified Business Units with the main stream SACCO operation in addition to net working registry and loans recovery. Others were of the opinion that investment seminars and education should be made available to the people operating the Diversified Business Units. In addition majority of the committee members suggested that it is high time they should be trained on management decision making.

On being asked to state who manages the Diversified Business Units, 68.18% of the respondents stated that they are managed by Managers while 31.82% stated that the diversified business units are managed by Heads of Departments. There was 100% respondent rate on the fact that the managers are specifically trained to manage the Diversified Business Units. It was also established that 72.7% of the managers had received training of over 6 month while 18.2% had received training of 1 to 3 months and a paltry 9.1% had a training ranging between 4 to 6 months.

In addition 50% of the cash generated from Diversified Business Units was used for re-lending purposes. 40.9% for payment of dividends and 9.1% for re- investment.

4.5 Revenue Generated by Diversification Strategies

This section aimed at establishing the level of revenue generated by diversification strategies. Business Units comparable to the revenue from the main operations and overall revenue for the SACCOs. Thus a total of 11 Finance Managers were sampled from the Diversified SACCOs, of these, 36.36% had worked for the SACCOs for a period of 3 to 5 years. This

was also similar to those who had worked for the SACCOs for over 6 years and 22.27% had been with the SACCOs for a period of 1 to 2 years. On aggregate it was established that 29.4% of all the managers of the SACCO had been with the SACCOs for a period of 1 to 2 years. 35.3% had been with the SACCO for a period between 3 to 5 years and 35.3% had been with the SACCO for over 6 years.

It was noted that Diversified SACCOs had a total asset value of Kshs. 293,575,494.90 while the Non Diversified SACCOs had asset value worth Kshs. 880,355.66. The gross asset value for the SACCOs that were sampled was Kshs. 294,455,850.56 of this, Diversified SACCOs accounted for 99.70%. Table 6(a) below summarizes revenues for the diversified SACCOs.

Table 6(a). Revenue Analysis of Diversified SACCOs

Years	Revenue From Main Operations	Revenue From Diversified Business Units	Gross Revenue	% of Div. Revenue Total Revenue	% of Diversified Revenue To Revenue From Main Operations
2003	302,139,422.00	21,576,051.00	323,715,473.00	6.67	7.14
2004	342,919,003.45	31,949,500.75	374,868,504.20	8.5	9.32
2005	387,444,654.80	47,897,266.00	435,341,920.20	11.0	12.36
2006	403,980,319.25	78,306,926.70	482,287,245.95	16.2	19.38
2007	444,608,6873.45	114,841,419.55	559,450,103.00	20.5	25.83
2008	490,034,218.94	128,609,669.00	618,643,887.94	20.8	26.24
TOTAL	**6,372,604,491.89**	**423,180,833**	**2,794,307,134.29**		

Source: Field Survey 2009

From the table above it can be noted that for the years 2003 and 2004 the proportion of Diversified Business Units revenue to total revenue of the SACCOs was less than 10%. In the years 2005 to 2008 the revenue of the Diversified Business Units to total revenue of the SACCO was on an upward trend with double digit growth of 11.0% in 2005 to 20.08% in 2008. This is the period in which the Kenyan economy was doing well with a GDP growth rate of above 5%. Thus the economic growth of the entire country had a direct consequent on the revenue generated by the Diversified SACCOs. In addition the SACCOs had a growing number of members for the same period of time.

On comparing revenues from diversified SACCO and non Diversified SACCO it was noted that with a wide asset base and strong membership, Diversified SACCOs had higher

revenues than Non Diversified SACCOs for the period between 2003 to 2008. This is summarized in the table **6b** below.

Table 6(b). Comparative Analysis for Gross Revenue from both Diversified and Non Diversified SACCOs.

Year	2003	2004	2005	2006	2007	2008
Diversified	323,715,473	374,868,504.20	435,341,920.20	482,287,245	559,450,103	618,643,887
Non-diversified	4,104,307	5,300,664.50	5,588,449.70	5,848,401	6,442,244.30	5,819,637
TOTAL	**327,819,780**	**380,169,168.70**	**440,930,369.90**	**488,135,646**	**565,892,347.30**	**624,463,524**

Source: Field Survey 2009

Further the respondents were asked to state the extent to which they agree with diversification strategies employed in their SACCOs. 54.5% strongly agreed, while 45.5% agreed with diversification strategies. In addition, on being asked to state where they were involved in decision making in Diversified Business Units, majority stated that they were involved in project identification (81.8%) while in project expansion and setting up of project received 36.4% and 45.5% respectively. In regard to pricing goods and services 54.6% were involved. On aggregate, majority of the managers were involved in more than 3 areas concerning the businesses particularly involved in project expansion and set up, pricing of goods and services, re-investment of funds, evaluation and technical advice. 31.8% of the managers stated that Diversified Business Units are monitored on monthly basis with 27.3% stating that they are monitored daily. 81.8% of the managers stated that the Diversified Business Units were not computerized with the main SACCO operations while 18.2% stated that their Diversified Business Units were computerized with the rest of the SACCO

that their Diversified Business Units were computerized with the rest of the SACCO operations. This analysis achieved the object of the research question 3 that revenue generated by Diversified Business Unit is significant and SACCOs Managers perceived diversification as a good concept.

In light of government vision 2030 of establishing a competitive SACCO sector, the managers were asked to state the plans they had in respect of optimization of revenue generation of Diversified Business Units. Their suggestions were as varied as they were and included: Completion of stalled buildings, computerization of diversified business units to minimize costs, strengthening of FOSA for those that had FOSA, entering in strategic alliance particularly with Co-operative Bank in regard to ATMs, aggressive membership drive to triple the number of members, development of idle SACCO plots, opening of FOSA for those that did not have FOSA and review of pricing of their product in line with profitability margins.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary

The research established that SACCOs have embraced diversification strategies alongside their main core operation of pulling members' resources together for re-lending purposes. The Diversified Business Units were found to be: FOSA, Hotel business, M-Pesa, Posho Mill, Retail business, Photocopying business, Money Gram, Office letting and Micro Finance. In addition it was established that the SACCOs before undertaking diversification they were profitable enough from their main core business. Income generated from Diversified Business Units was majorly used for re-lending purpose to the members.

Before they diversify, a group of factors were noted to be considered particularly liquidity levels, dividend policy, gross profit margin, net profit margin, safety of capital, growth in income, synergy of business, technological development, training needs, organizational structure, regulatory requirements, attitude and environment. Of these factors, the study exposed that, a group of factors override others in terms of importance. This was achieved through the Principle Component Factor Analysis that isolated the following factors from the factors mentioned above to be the most important factors influencing decision to diversify: liquidity levels, dividend policy, gross profit margin, net profit margin, safety of capital, growth in income and quality of management.

The outcomes of the SACCOs CMC members on selection of factors and their rankings were compared. It was found out that though SACCOs consider same factors in making the diversification strategies they attach different levels of importance to the same factors. The

was that liquidity levels contributed a variation of 60% on factor 1, dividend policy a variation of 73.6% to factor 1 while net profit margin and safety of capital had a variation of 69.7% and 67.1 % on factor 4 and 6 respectively. Growth in income had the lowest variation contribution of 30.1% on factor 7.

Technological development, synergy of business, organizational structure and regulation requirement though were considered by the respondents as important but they were found out to be insignificant by the principal component factor analysis.

The Diversified SACCOs had a positive gross revenue trend from the year 2003 to the year 2008. It was noted that the revenue generated by the Diversified Business Units had a growth rate of 6.67% in 2003 to 20.8% in 2008 thus the income generated from diversification was significant comparable to the total revenue generated by the SACCOs thus this achieved the objective of research question 3. In addition majority of the managers strongly agreed with Diversification Business Units hence the need to improve on them to generate more income. However, the major shortcoming the research established on the Diversified Business Units was low computer connectivity with the main SACCO operation. This brings about inefficiencies in communication process.

5.2 Conclusion

From the research findings it can be concluded that SACCOs have adopted diversification in atleast 2 business units and the income generated by the Diversified Business Units is significant and Central Management Committee Members continues to play a central role in making decisions pertaining to diversification. They consider several factors to which they

attach different levels of importance before undertaking diversification. There is urgent need for use of Information Technology in networking the diversified business to the rest of the SACCO operations.

5.3 Recommendations

Diversification is an important strategy undertaken by the organizations for a host of reasons particularly extending range of goods/services to existing customers or reaching out to new market. This is aimed at supercharging growth prospects. From the findings of the research, it would be recommended that more SACCOs employ Diversification Strategies to bring about growth of income and maintain their competitive edge. The Ministry of Co-operative Development and Marketing should come up with a proper policy to guide on what extent diversification can be undertaken within a given SACCO particularly on the number of Diversification Units to avoid cost disadvantage. Lastly SACCOs should embrace the use of IT more than they currently do.

Further study can be undertaken in the following areas:

1. KUSCOs other sub-centres because of differences in the economic endowment to determine whether the factors will differ from one sub-centre to another or will remain the same.
2. A similar study can be undertaken in the Nationwide SACCOs.

APPENDIX 1

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APPENDIX II

QUESTIONNAIRE

Name of organization _____

Contact address _____

Instructions:

1. Part **A** of the Questionnaire is to be filled by every respondent.
2. Part **B** is to be filled by **Central Management Committee** Members **only**.
3. Part **C** is to be filled by the Finance Officers/ Managers of the SACCOs.

SECTION A: GENERAL INFORMATION OF SACCO

1. Gender Male ☐ Female ☐
2. Age of Respondent

   18 - 24 yrs ☐ 25 – 34 yrs ☐

   35 – 44 yrs ☐ Above 45 yrs ☐
3. How long have you been a member of the SACCO?

   Below 5 yrs ☐ 5 – 9 yrs ☐ 10-15 yrs ☐ Above 16 yrs ☐
4. Which of the following constitute the major sources of finance? Tick where applicable.

   - Members registration fees ( )
   - Membership monthly share contribution ( )
   - Membership registration fees and monthly share contribution. ( )

   ( )
5. To what extent are members involved in decision making about the SACCO business operations?

   Lowly involved ( ) Highly involved ( )

6. What is the length of the SACCO's cash planning period?

Monthly	Semi annual	Annual

Others please specify.....

7. Does your SACCO ever give its members less than they qualify for in loans?

Yes [ ] No [ ]

8. If No, what are the possible reasons?

.....

.....

SECTION B:

(To be filled by Central Management Committee Members only in addition to part A)

9. Kindly state the number of members of the SACCO for the years listed below

YEAR	REGISTERED MEMBERS
2008	
2007	
2006	
2005	

10. How many diversified business units does your SACCO operate?

One	Two	Three	Others, specify

11. Tick out of the following your SACCOs diversification strategies (SBU's)

i. FOSA [ ]

ii. Hotel business [ ]

iii. Housing (rental houses) [ ]

iv. Office letting [ ]

v. Investment in marketable securities [ ]

vi. Farming (Agricultural investments) [ ]

vii. List others:

(i) _____

(ii) _____

(iii) _____

12. What factors do you consider before investing in diversification strategies above? Please tick where appropriate

(a) Liquidity levels. [ ]

(b) Dividend policy. [ ]

(c) Gross profit margin [ ]

(d) Net profit margin [ ]

(e) Safety of capital [ ]

(f) Growth in income [ ]

(g) Quality of management [ ]

(h) Technology development [ ]

(i) Synergy of business [ ]

(j) Organizational structure [ ]

(k) Training needs [ ]

(l) Regulatory requirement [ ]

(a) List others:-

(1) .....

(2) .....

13. On a scale 1to 5 where one is the least important and 5 the most important, what level of importance would you attach to each of the factors listed below.

Factors influencing diversification

	Least important ⟶				Most important
(a) Liquidity levels.	1	2	3	4	5
(b) Dividend policy.	1	2	3	4	5
(c) Gross profit margin	1	2	3	4	5
(d) Net profit margin	1	2	3	4	5
(e) Safety of capital	1	2	3	4	5
(f) Growth in income	1	2	3	4	5
(g) Quality of management	1	2	3	4	5
(h) Technology development	1	2	3	4	5
(i) Synergy of business	1	2	3	4	5
(j) Training needs	1	2	3	4	5
(k) Regulatory requirement	1	2	3	4	5
(l) List others:					
(i)	1	2	3	4	5
(ii)	1	2	3	4	5

14. How are your Diversified Business Units managed?

(a) They are internally autonomous [ ]

(b) They fall under mainstream SACCO administration [ ]

(c) They are managed by an agency [ ]

(d) List others:-

(i) .....

(ii) .....

15. To what extent can this management structure be judged.

ii. Highly satisfactorily [ ]

iii. Satisfactorily [ ]

iv. Unsatisfactorily [ ]

v. Highly unsatisfactorily [ ]

16. What suggestions can be made on this management structure for improvement, if need be?

.....

.....

.....

17. Who are in charge of the diversified business units?

Managers [ ] Supervisors [ ] Heads of Departments [ ]

18. Are these people specifically trained to manage the SBUs?

Yes [ ]

No [ ]

19. If yes, how long are they trained?

1 - 3 months	4 - 6 months	Over 6 months

20. How is cash generated from the Diversified Business Units majorly utilized?

a. For re-lending purposes. [ ]

b. For reinvestments in other diversified business units [ ]

c. Payment of dividends [ ]

SECTION C:

(To be filled by SACCO's Finance officers / Managers)

21. How long have you been with the SACCO as Finance/ Business Unit Manager?

1-2 years	3-5 years	Over 6 years

22. What is the current value of the total fixed assets of the SACCO? _____

23. State the annual total revenue of the SACCO and annual revenues from diversified business units.

Year	Total annual revenue of the SACCO.	Total annual revenue from diversified business units
2008		
2007		
2006		
2005		
2004		
2003		

24. To what extent do you agree with the diversification strategies employed in your SACCO:- (Tick where appropriate)

Strongly disagree	Disagree	Neither agree nor disagree	Agree	Strongly agree

25. Where are you involved about the decision making in SBU(s)?

- Project identification [ ]
- Project expansion [ ]
- Setting up of project [ ]
- Pricing of goods (services) [ ]
- Re-investment of funds. [ ]
- Specify others.....

26. How frequently are the Business unit (s) monitored?

- Daily. [ ]
- Monthly. [ ]
- Annually. [ ]

27. Does your SACCO have integrated computerized cash monitoring system of business unit(s)? Yes [ ] No [ ]

28. In light of the government vision 2030 of establishing a competitive SACCO sector, what plans do you have in respect of;

- Optimizing revenue generation of diversified business unit(s).

.....

.....

APPENDIX III

SACCOS INCLUDED IN THE SAMPLE;

CATEGORY/ STRATAS	NUMBER
TEA SACCOS/FARMING	5
TEACHERS SACCOS	4
JUA KALI	2
MUNICIPAL	2
CHURCH AFFILIATED	3
MANUFACTURING	2
TRANSPORT	1
MULTI-PURPOSE	1

Source: Field Survey 2009

APPENDIX IV

LIST OF SACCOS SAMPLED

1. Kisii Bottlers SACCO
2. Homa Bay Municipal Employees' SACCO
3. South Nyanza Teachers' SACCO
4. SONY Sugar SACCO
5. Suna Jua Kali SACCO
6. Kendu Hospital SACCO
7. Lake Adventist Workers' SACCO
8. WaKenya Pamoja SACCO
9. Gusii Mwalimu SACCO
10. Kisii Municipal Employees' SACCO
11. Rachuonyo Teachers' SACCO
12. Nyamira Township Jua Kali SACCO
13. Nyamira Adventist Workers' SACCO
14. Nyamira Tea SACCO
15. Nyamira Line Services SACCO
16. Ogembo Tea SACCO
17. Irianyi Tea SACCO
18. Ogembo Businessmen SACCO
19. Migori Teachers' SACCO
20. Keroka Farmers SACCO