

**FACTORS AFFECTING FINANCIAL PERFORMANCE OF EMPLOYEES' SAVINGS
AND CREDIT CO-OPERATIVE SOCIETIES. (A CASE STUDY OF PESA AND K-REP
WELFARE ASSOCIATION SACCOS)**

BY

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that it contains no material written or published by other people except where due reference is made and author duly acknowledged.

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ABSTRACT

Amongst most salaried Kenyans, personal financial development is achieved through SACCOs especially since they are not only more affordable but also due to the fact that they are easily accessible by the majority. This study sought to examine the factors that affect the financial performance of employee Savings and Credit Co-operative Societies with specific regards to Interest rates charged, attitude towards risk, amount of loan desired and the savings mobilized. The study design was descriptive in nature and the research used a sample of 225 respondents from a combined population of 450. The study was conducted in two SACCOs: Pesa SACCO and KWA SACCO. Ordinary Least Squares regression analysis was carried out on the data using STATA 12. The research yielded a positive and significant relationship between the financial performance of SACCOs and all independent variables except interest rates. This shows that that the issue of interest rates should be approached with caution since inasmuch as an increase in interest rates may increase the financial performance of financial institutions, it might as well cause other results such as decreased demand for loans, negating the profitability of SACCOs. The study recommended that SACCOs should institute measures to improve their customers' attitude towards risk, amount of loan desired, and the value of savings mobilized since these three have a positive impact on financial performance. A deeper investigation into the particular circumstances of every SACCO should be carried out before interest rates are increased.

Key words: Micro finance banking, employee savings, interest rates, risk attitude and financial performance.

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DEDICATION

I dedicate the project work to my wife Evelyn Ndonga, for the support and encouragement throughout the period .The co-operation, inspiration and spiritual support from my workmates and to my supervisor Dr Nyaribo for the understanding, patience and guidance.

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LIST OF ABBREVIATIONS AND ACRONYMS

CBK -Central Bank of Kenya
GOK -Government of Kenya
KDA-K-rep Development Agency
K-REP-Kenya Rural Enterprise Programme
KWA-K-rep Welfare Association
MFI -Microfinance Institutions
SACCO-Savings and Credit Co-operative Societies
SASRA-Sacco Societies Regulatory Authority
SMEs-Small and Medium Sized Businesses.
WOCCU-World Credit Council of Credit Union

DEFINITION OF TERMS

Interest Rates

This is the portion of a loan that is charged as interest to the borrower. It is usually charged on the principal borrowed at specific times during the lifetime of the loan, mostly on a monthly basis (Kuria, 2008).

Savings

This is basically income which is not spent but put aside for future use. It can be saved in different ways like in a pension scheme, fixed deposit accounts and in a SACCO savings scheme (Sacco Star, 2009).

Loan

This is a debt provided by one entity to another usually at a fees namely interest. This is usually for an agreed period of time between the lender and the borrower (Maina, 2007).

Attitude Towards Risk

This is the approach one has towards risk taking and it usually takes the form of risk taker, risk averse or risk neutral (Wright, 2000).

Financial Performance

This is the level of performance of a business entity over a period of time usually expressed in terms of profit and losses during that time (Wood & Sangster, 2005).

Profitability

This is the state of yielding either a gain or loss over specified time in the course of running a business. This duration could be monthly or annually or any other desired duration (Wood & Sangster, 2005).

CHAPTER ONE INTRODUCTION

1.1 Background to the study

Co-operatives have a big role in mobilization of resources for agro-processing, investments and marketing of agricultural produce. They play a vital role in wealth creation, production of food for subsistence and also create employment opportunities hence controlling poverty. Hence it is clear that Savings and Credit Co-operative Societies are strategic in encouraging national savings and development of any country (Ademba, 2005).

Statistics show that world over, Africa included, huge populations depend on Savings and Credit Co-operative Societies (SACCOs). In Africa alone there are over 60 million people depending on SACCOs. SACCOs just like many other business enterprises are faced with many challenges. They are basically internal and external challenges. The internal challenges include deficiency in contemporary skills, governance, inadequate resources, quality demand service, ethics and integrity among others. The external challenges include political, economic, sociological and technological reasons. Amidst this harsh and unpredictable environment, co-operative societies must build the necessary capacity to counter the problems that constrain their developments (Ademba, 2005).

Savings and Credit Cooperative Societies (SACCOs) are formal organizations that enable their members to achieve any common goals through voluntary basis. According to John, (2002), the first ever Sacco was started by Robert Owen in the year 1884. In Kenya regular financial reviews of SACCOs and other Microfinance institutions (MFIs) is of very crucial importance as they are an integral part of Kenya's financial system which includes the banking sector, Retirement Benefit institutions and the Insurance Sector (SASRA, 2011). The need for work based SACCOs in most cases comes about as a result of cohesion among employees working together for a long period of time. This camaraderie moves them to pool together

financial resources for several development plans .It is vital to note that the genesis for such co-operatives in employment settings is usually the desire for closeness among employees (Johnson, 2005).

In almost all organizations there are co-operatives societies. It is not anything new that almost all major personal developments have been achieved through SACCOs as most employees prefer them to banks in their choice of development loans. Savings and Credit Co-operative Societies (SACCOS) which are started locally are more attractive to employees compared to other sources of loan like banks.SACCOs therefore, have deeply entrenched themselves in the financial sectors of many countries Kenya included (Munyiri, 2006).

1.1.1 Financial Performance Challenges of SACCOs

Although Microfinance Institutions (MFIs) and other mainstream banking institutions are potentially an effective source of credit for employees, their lending terms are usually very strict .In most cases in order to maintain a revolving fund pool, most of these MFIs require their members to save regularly with them and make compulsory weekly deposits. Interest rates are also usually very high ranging from 17% to 29% a year in the case of banks and 5% to 20% in the case of MFIs.With such stringent conditions most employees do not take their development loans from banks or MFIs Instead they prefer dealing with SACCOs (Johnson, 2005). In Kenya borrowing from banks and other mainstream MFIs has been relatively uncommon because of the above mentioned stringent conditions. This means that individuals have had to turn to alternative sources of borrowing such as friends, relatives and rotating savings and credit associations popularly known as “chamas” so as to access funds for their personal and development needs. Thus SACCOs have stepped in to fill this credit gap by offering loans at more favourable terms (Johnson, 2005). The fact that SACCOs are advantageous especially to young people is quite clear to all. This is because they inspire a saving culture among young

adults, are sources of relatively cheap credit in a harsh financial market, give returns on investments in the form of dividends and they enable young adults to be able to develop and improve themselves (Amunga, 2014).

SACCOs face several challenges among them funding, competition and governance among many others (WOCCU, 2012). They are also required to file audited financial reports annually. Even though they do this, their reports have major shortcomings which include non-availability on a regular basis or at times missing completely. Empirical studies on the financial performance of SACCOs can be classified into two categories namely the economic theory of the firm and on accounting techniques of the firm. These studies have failed to address the main objectives of SACCOs as represented by theoretical literature. For instance, there is no clear link between financial ratios and the economic theory of the SACCOs as they are used more often without consideration of their theoretical meaning and statistical properties. These financial ratios nonetheless give a quick indication of the SACCOs position in several dimensions like profitability, liquidity etc. but fail to provide a unified and representative evaluation of the overall performance of the Sacco (Wood & Sangster, 2005).

The regulatory framework of a country which is integrated into the financial system affects the financial performance of SACCOs and other MFIs. Many countries in Africa are looking to sustainable microfinance as the leverage to address poverty and financial providers are demanding better performance in terms of financial sustainability. A good legal and regulatory framework for SACCOs and MFIs involves adopting basic principles to the conditions prevailing in the country. The problem with most African countries is that in spite of a regulatory framework being in place, it is hardly enforced which subsequently affects the financial performance of SACCOs (Gallardo, Quattara, Bikki & Steel 2005).

1.1.2 Overview of Pesa Savings and Credit Co-operative Society.

Pesa Sacco Society Ltd started by the employees of De La Rue Kenya provides an interesting case study of employment based SACCOs in Kenya. Pesa is a Kiswahili word meaning money. This word came into the minds of fifty young Kenyans working for De La Rue who came together in December 1994 and formed a Sacco with that name. Hence Pesa Sacco was born. Since its inception to date the Sacco has 250 members who work within the premises of De La Rue. The aim of the Sacco is to help the employees develop within their means and to be with them at every stage of their financial growth. The vision of Pesa Sacco is to be a leading Savings and Loaning co-operative society that provides financial and investment opportunities to members at a lower cost (Pesa Sacco Society Ltd).

The mission of Pesa Sacco is to be a member driven society to provide its members with financial solutions that would touch the lives of the members and empowering financially. The several products offered by Pesa Sacco include development loans, school fees loans, super school fees loan, emergency loan, chap chap loan, and savings schemes, (Pesa Sacco Society Ltd). The customer basis for Pesa Sacco is basically the employees of De La Rue and Ibis Consultancy (the meals service provider). Pesa Sacco is managed by a board consisting of a chairman, vice chairman, treasurer, credit committee chairman and credit committee secretary (Pesa Sacco Society Ltd).

1.1.3 Overview of KWA Savings and Credit Co-operative Society.

KWA Sacco Society Ltd started by the employees of Krep Development Agencies provides another interesting case study of employment based SACCOs in Kenya. KWA stands for Krep Welfare Association. This word came into the minds of two hundred young Kenyans working for the Krep Development Agencies group of companies namely; Krep Bank, Makao Mashinani and Juhudi Kilimo. They came together in December 2000 and formed a Sacco with that name. Hence

KWA Sacco was born. Since its inception to date the Sacco has 200 members who work for the Krep Group of Companies. The aim of the Sacco is to help the employees develop within their means and to be with them at every stage of their financial growth (KWA Sacco Limited).

1.2 Statement of the Problem

Due to the fact that there is a need to develop a savings culture in Kenya, it is clear that there is a need to address and evaluate the structures and ways of promoting growth and development of SACCOs. This is because there is a huge gap between the SACCOs available and the public who would want to benefit from them (GOK, 2004). It is against this background that the research will seek to study the factors that affect the performance of employee SACCOs in Kenya. There are many challenges faced in promoting quality financial management which affect the performance of the SACCOs leading to poor investment decisions and mismanagement of the SACCOs once formed (Ndung'u, 2010). Performance measurement which is the continuous process of assessing progress towards achieving pre-set goals is very important for employee SACCOs. For many SACCOs however, their objectives are not easily defined as they are basically user-owned and user controlled organizations that aim to benefit their members. As a result most are run by the employees themselves even if they are not professionally able to do so. The outcome of this is that they mostly fail to take into account what really ails them so that they can be addressed. You cannot measure and address what you do not know and this is what affects most start up employment SACCOs (Bourne et al 2003).

Employee SACCOs do not do as well as banks and other large MFIs in terms of profitability, growth and even governance yet they share the same customers. These SACCOs in most cases are formed by employees working together for a long time and just want to improve their lives but have no knowledge of how they should be run effectively for them to be sustainable. Just like any other enterprise, once SACCOs are formed they need to be run

professionally so as to give back maximum return to their members who are the employees. The objective of these SACCOs is member empowerment through savings mobilization, disbursement of credit and ensuring the Sacco's long term sustainability through prudent financial practice (Mudibo 2005).

Sacco management face the major task affecting all other enterprises which is growing the returns of the owners in this case the employees. Insolvency which is the risk that a business may not have sufficient capital to offset sudden decline in the value of its assets relative to its liabilities is a present reality in the Sacco sector (Saunders & Cornet,2009).The enhanced regulatory framework by SASRA(Saccos Society Regulatory Authority) is not a cure for the challenges facings SACCOs. Sacco societies have problems generating wealth for their members due to poor financial stewardship. The solution to the challenges facing the Sacco management can only be addressed when they are fully determined (Thabo & Gichira, 2003).

The study sought to find out the factors that influence the financial performance of employment SACCOs

1.3 Objectives of the study

1.3.1 General Objective

The general objective of this study was to the factors that influence the financial performance of employment SACCOs.

1.3.2 Specific Objectives

The specific objectives of this study were as enumerated below:

- i. To determine the effect of interest rates offered on the financial performance of employees SACCOs.
- ii. To investigate the effect of employee attitude towards risk on the financial performance of employees SACCOs.

- iii. To establish the effect of amount of loan desired on the financial performance of employees SACCOs.
- iv. To determine the effect of savings mobilised on the financial performance of employees SACCOs.

1.4 Research Questions

In order to attain the research objectives, the study sought to provide answers to the following questions:

- i. What is the effect of interest rates on the financial performance of the Sacco?
- ii. How does employees' attitude towards risk affect the financial performance of SACCOs?
- iii. What is the effect of amount of loan desired on the financial performance of SACCOs?
- iv. What is the effect of savings mobilised on the financial performance of SACCOs?

1.5 Justification of the study

A lot of study emphasis has been placed on Co-operative SACCOs in general and Micro finance institutions with regards to their financial performance. However more research needs to be placed on employment based SACCOs with regards to what really inhibits their growth and performance. This is because they are run and operated by employees of a company and hence should be able to be self-sustaining to employees even in retirement. It is anticipated that the gains gotten from this study will endeavour to contribute to the knowledge that already exists in the study. The research should also be useful to the various stakeholders in SACCOs, i.e. government and employees.

1.6 Scope of the study

The study focused on the effect of interest rate, employees' attitude to risk; size of loan desired and savings made on the financial performance of employment based SACCOs. It was carried out at De La Rue company premises (for members of PESA SACCO) and at K-Rep Bank Headquarters (for members of KWA SACCO) over a duration of three months.

1.7 Significance of the study

The study put in earnest endeavour to contribute knowledge to already existing literature on existing factors affecting employee based SACCOs in Kenya. It is also expected that its findings will help in the formulation of financial policies for employment based SACCOs which if adopted will greatly enhance their financial performance. The SACCOs used as a case study will be able to improve on the issues highlighted by the research so that they can improve on their financial performance. The study is also anticipated to stimulate further research on the recommendations for further research.

CHAPTER TWO LITERATURE REVIEW

2.1 Introduction

This chapter presents an assessment of literature review on what has been covered by other researchers and analysts. The review aims to capture their views on the subject matter being discussed and is aligned to the theme and objectives of the study. The areas covered underpin both the theoretical and empirical aspects of the study.

2.2 Theoretical Review

This part covers major theories underpinning various aspects of the phenomena investigated in this study.

2.2.1 Agency Theory

The central idea behind the Principal-Agent model is that the Principal is too busy to do a given job and so hires the Agent, but being too busy also means that the Principal cannot monitor the Agent perfectly.

This theory is basically a framework for analysing the conflict of interest between key stakeholders in an organization and the mechanism of resolving such conflicts. In conjunction

with corporate governance, agency theory may be applied in every situation where one party (the principal) delegates tasks to another party (the agent) who carries out the task. The agency theory description is basically behavioural. Corporations do not operate according to the maximization principle mainly due to conflicting interests of major governing parties. The principal-agent relation in whom the principal delegates work to the agent is described using the metaphor of a contract (Jensen & Meckling, 1976). The objective of this theory is hence to determine optimal contract between the principal and the agent.

According to the agency theory, because the agent may be overcome by self-interest, opportunistic behaviour and fall short of the principal's expectations, there was a need for the separation of ownership and control. The theory here portrays the agent as individualistic and self-interested in addition to being driven by bounded rationality where rewards and punishment take priority. It thus prescribes that a good governance structure must exist to hold managers accountable in their tasks and responsibility (Bhimani, 2008). In addition to the agency theory, there is the basic finance theory which helps managers to maximize the wealth of shareholders. This theory is efficient in that it recognizes the agents' costs. This is contrary to the market theory which only serves the interest of the principal. According to this theory, short term performance is encouraged by sacrificing long-term value and competitive capacity of the Sacco. It argues that maximizing of shareholder welfare does not mean share price maximization. This is attributed to the fact that market systems tend to undervalue long-term expenditures which may lead to increase in shareholder welfare. Thus owing to short term approaches in the governance, the agents are forced to take short-term decisions in increasing share prices (Keasey et al, 2004).

An example of this theory is whereby employees who are the owners of an employment Sacco will engage and delegate the running of the Sacco to a management. In this case there will

be two participants, the managers and the owners (Employees). It explains further that the managers may have only their self-interest to safeguard. Thus despite the owners of the Sacco expecting the managers to act and make decisions in the owners interest, the managers may not necessarily do so (Abdulla & Valentine, 2009).

2.2.2 Shareholders Theory

The theory states that the main agenda of any business engagement lies in generating profits and growing shareholders wealth. Shareholders theorists call for limited government and regulatory intervention in business, believing markets are best regulated through the mechanism of the invisible hand that is if all firms work in their own self-interest by attempting to maximize profits, society at large will benefit (Cunliffie &Luhman, 2013). This theory enjoys widespread support in the academic finance community and is a fundamental block of corporate financial theory. On the other hand however, this theory has been criticized for encouraging short-term managerial thinking. Most critics believe that shareholders theory is geared toward short-term profit maximization at the expense of the long run (Smith, 2003).

Since many proponents of the shareholder theory push for managers to maximize the current stock price, it has been noted that they manipulate these prices to meet shareholders expectations. The theory hence calls on all the stake holders to take the fore-front in ensuring that the going concern of the SACCOs and interests of all the stakeholders are taken care of. This theory can be useful to employment Sacco management since they need to be cognizant of the fact that they are running the SACCOs on behalf of the employees whose first and foremost agenda is to make profits in terms of dividends and grow their wealth (Lasher, 2008).

2.3 Empirical Review

The causal impact of the financial stability and development on growth and its sources were examined by Beck et al (2000).They found out that there was a significantly positive causal

impact of financial development on the real capita growth and productivity per capita growth. The study recommended that positive repercussions for long-run economic growth improve resource allocation and accelerate growth. In a study conducted by Davis in 2001, it was found that professional management was gaining ground among lay directors. The study thus recommended that when people identify with co-operative purposes and values, they would like to be involved. Good governance of the SACCOs was observed to be more of the management culture (Beck et al, 2000).

2.3.1 Interest rates and Performance of Employee SACCOs.

It has been noted that SACCOs usually advance loans at interest rates that are much lower than those charged by other finance credit providers. This is in addition to the fact that SACCOs also advance credit to that segment of customers who are normally shunned by mainstream banks like the people in the informal sectors of employment. This has made SACCOs to be more attractive as a source of credit to many especially the employed (Karki, 2005).

Competition between SACCOs and other financial institutions is the trend in the global economy making the business environment to be quite dynamic. Hence businesses have to adapt to this scenarios. Marketers are dealing with consumers who are quite informed with regards to the quality of products and services they demand and are also sensitive to prices. Hence consumers are constantly facing a variety alternatives from firms competing to offers the best products and services (Kotler,2002).SACCOs like any other enterprise have face similar challenges.

SACCOs accord their members a chance to save regularly, hence creating a pool from which they can borrow exclusively for productive purposes at fair and reasonable interest rates than they would from other financial institutions SACCOs are seen as vehicles for resource

mobilization and gateways to economic prosperity for families, communities and nations (Gardeklint, 2009).

When the co-operative sector was liberalized in 1997, in Kenya SACCOs started venturing in the provision of services that were previously offered only by banks. This included cheque discounting, savings and fixed accounts and serving as salary pay points. This action marked the beginning of the fight for clients between SACCOs and other financial institutions. More than 50% of SACCOs were competing with banks and other financial institutions for clients who preferred dealing with SACCOs who were charging interest rates of lower than 12%. This gave the SACCOs a competitive advantage over the banks since clients were looking for cheaper financial products (Ongore, 2001).

Firms use price and non-price competition methods to win customers by creating differential advantage. A marketer has a differential advantage over his competitors when he provides his customer with a unique product or service which will influence the customer to opt for him rather than his competitors. However the major shortcoming of using price as a competitive tool is that competitors soon match the price and the differential advantage occasioned by price is lost. This threat is one of the main reasons for employing non-price competitive tools. Sacco members consider a number of factors in deciding whether to receive services from their own SACCOs or other financial providers. This includes the product offered, the cost of the product, staff performance and time taken to process applications (Kuria, 2008).

2.3.2 Attitude towards risk and Performance of Employee SACCOs

Risk taking behaviour is an individual's behaviour in a risky situation. It is characterized by the degree of risks involved in decision making. Social factors act to modify an individual's, risk preference or habitual patterns of dealing with risk. Most lenders consider size, probabilities of gains and losses and the information about a borrower before advancing credit (AMFU, 2011).

In most developing countries, SACCOs have brought millions of citizens into cohesive financial institutions which have succeeded in providing financial services to its members and improved their standards of living .Despite this achievement ,existing literature has shown that members of SACCOs especially in rural areas have been experiencing many problems including diseconomies of scale, high interest rates on their loans and very short term loans Such problems have caused high default of loans in most developing countries, leading to fear of taking new loans (Bernanke, 2001).

In a study carried out by Rabambu in 1994 investigating the factors affecting the attitude of farmers towards farm loans with the aim of finding out what really drives them to take loans, It was found that there was a negative and significant relationship between age and attitudes of both borrowers and non-borrowers. It was also found that education level and exposure to the mass media affects ones attitude towards financial risk (Wright, 2000).

Socio economic factors do not influence loan uptake and repayment but instead the success or failure of the project invested in determined that. The major reasons for high loan default rates are modification of the subsidy system, wilful neglect, high family expenditure and inappropriate government policy the number of years a borrower has worked is expected to increase his productivity and therefore will exert his credit worthiness in the face of lenders. In other words age, which translates into having been involved in economic activities longer, is a good determinant of attitude towards financial risk (Bailey's, 2001).

The number of years of formal schooling is an indicator of human capital, which affects efficiency. In addition to this, educated Sacco members are expected to adopt new technologies that increase their productivity .For this reason education is a good indicator of credit worthiness and hence would increase the loan repayment capacity of the borrower. In most African societies, women are involved in farming activities more than their male counterparts. Hence they are mostly able to budget very well the income that they get. For this reason, unlike men it is

expected that the women are more likely to repay their loans successfully than men. Hence gender in this case is a factor affecting attitude towards credit uptake. The size of the household has an expectation that is not clear. In one hand, it is expected that as household size increases, Income earning capacity goes up given that the number of dependant members remains constant. On the other hand the increase in the number of households who are dependant would reduce the income earning capacity thus becoming credit unworthy. The final effect on the loan repayment would thus not be determinable (Mutebi, 2002).

The more profitable an economic activity is, the higher the capacity it will have to make its loan repayments. Thus the profit anticipated will influence the risk attitude of the borrower. When a loan is used for another purpose other than what it was intended for in the first place, it will most likely influence negatively the repayment attitude of the borrower. The number of visits by loan supervisors will help borrowers to solve their technical problems and enable them to understand commitments to repay their loans. Thus frequent visits to borrowers is likely to influence them to have good repayment records (Ndungu, 2010).

2.3.3 Savings Mobilised and Performance of Employee SACCOs

All over the world, economic agents be they individuals, firms, governments and educational institutions save. They do so for a variety of reasons e.g. for consumption, investment or even for insurance purposes to cover for unforeseen financial occurrences. The savings which are usually made to financial intermediaries provide security, convenience, liquidity and returns. When however the interplay of market forces expected above become dysfunctional the satisfaction of their financial needs, resorting to government policy intervention is justified. Financial sector reforms conducted in many countries Kenya included from the 1960s were in response to the limitations of their financial sectors and structural rigidities (Sacco Star, 2009).

The reforms emphasized the provision of loan facilities to SMEs and the poor. Their enterprises were felt to have remained small due to lack of loan facilities. The antidote to their ailment was thus the designing of credit programmes by the government and donors for the provision of cheap loans. This is because they were deemed too poor to save. However, studies have shown that savings is one of the most crucial financial needs of SMEs and even SACCOs. Savings for SMEs and SACCOs is very crucial since it provides seed capital which is an indication of their usual lack of access to formal institutional credit. Thus with an improved financial system SMEs savings is boosted which is vital for their expansion and growth. In Kenya especially, SMEs and SACCOs are important agents of job creation and official policy that provides impetus for savings cannot be overemphasized (Mutebi, 2002).

Some SACCOs and MFIs compel their members to save and then “lock-in” their savings until it is their turn in the rotation to be paid or when they leave the organizations. Others like banks restrict access to savings e.g. to one withdrawal a week without penalty. SMEs proprietors have several savings options. They can save at work, with their relatives, friends and SACCOs. They can also save with co-operative SACCOs, and MFIs that accept savings. SMEs have always been part of Kenya’s economy but attracted official attention after independence in the 1980s. SMEs usually include small businesses employing 11-50 workers. Usually small family owned businesses; they employ little capital acquired from their savings. Many are unregistered like jua kalis hence maintain no books of accounts and their outputs are not entered in the national accounts. Their activities include welding, carpentry, motor vehicle mechanics, selling fruits and clothes. (Ahimbisibwe, 2007).

Urban SMEs demand saving facilities that can accept their small but regular savings. They find such saving facilities with SACCOs and MFIs which require membership after registration with reasonable membership fees. Fiscal policy can influence the level of domestic

savings directly through its influence on government savings and indirectly through savings schemes. As regards direct effect, government programmes advance the importance of reducing fiscal deficits so as to encourage savings in the private sector. This basically means that when there are changes in government savings, there will be changes in the level of taxation which in turn will affect private savings decisions. In Kenya it is more likely that if there is a reduction in the fiscal deficit, there will be an increase in private savings and vice versa, (Manyara, 2003).

In Kenya withholding tax is charged on the interest on savings. This leads to high operational costs to the MFIs due to the extra volume of records that must be maintained. This is not economical to operate a large number of small accounts. Proximity to of banking services greatly increases the willingness to save an expanded network of bank branches will encourage savings with formal institutions due to the reduction in the transactional costs of acquiring deposits. However the banks must take the local conditions into account so as to maximize on deposit mobilization (Wright, 2000).

While proximity to banking facilities is of the essence in savings mobilization, confidence in the financial system is also crucial. In the past banks have collapsed with the savings of Kenyans especially in the 1980S. This has not done good to promote the saving culture since. The argument however was that these collapses affect only the locally owned financial institutions and not the whole banking sector (Economist Intelligence Unit 2004).

2.3.4 Amount of loan required and Performance of Employee SACCOs

Most SACCOs advance loans to their members individually or as groups. Group lending models by SACCOs are usually successful especially for start-up businesses. However, this model tends to limit wealthier borrowers who have bigger business plans and hence would want to grow at a

higher rate. This has resulted in most SACCOs majoring in advancing individual loans (Morduch, 2000).

The amount of loan required by Sacco members will inform the loan portfolio of the Sacco which will greatly affect the financial performance of the SACCOs. SACCOs need to generate revenue which is sufficient to cover all their costs and also earn profits. The interests earned from the loans are the mainstay income for most SACCOs. Hence the bigger the size of the loan book, the higher the interest earned. The longer the duration of the loan booked, the higher the duration interest will be earned. The vice versa is also true. Thus as the loan size increases, the financial performance of the Sacco will also increase. When advancing loans, each client's situation is considered so that the loan requirement is tailored to meet the expectations of the client (Maina, 2007).

However in SACCOs there is usually the problem of collateral not being enough to cover the loan applied for. Hence as SACCOs grow, there is a need to come up with products that match up with such mature clients who do not have the commensurate collateral. Borrowers should receive loans based on criteria such as past repayment history which if good which not be hindered by the issue of insufficient collateral (Grameen Bank, 2008).

The success of a loan portfolio is determined by correct credit information of the clients, close monitoring of the loan performance and enforcing strict loan contracts with penalties in case of defaults. How can SACCOs advance collateral free loans to their members? This can be done by using non-traditional collateral like, marriage certificates, drivers' license and other such documents as collateral. The logic here is that when people give up something dear to them in exchange for a loan they will do their best to pay up and recover them back (Yunus, 2003).

When the loan per client is high, the cost of administering the loan should ideally be low. However, due diligence and loan monitoring costs which are very necessary for such loans push up the administration costs of the loans. Before a loan is advanced to a member, the loan

proposal and other defining terms for it takes a lot of time to finalise. The other cost inherent to SACCOs when the loan size gets big is increase in loan loss provisioning which is a must for this type of business. This reduces the profitability of the business (Paal & WiseMan, 2006).

Despite the challenges that SACCOs encounter in the course of their business, the need for their products is very high. The products mostly favoured by members include school fees loans, emergency loan and even development loans. SACCOs hence do their best to meet such needs and make it their objective to run profitably and in sustainable ways so as to ensure that these products are always there for their members (Murdoch, 2008).

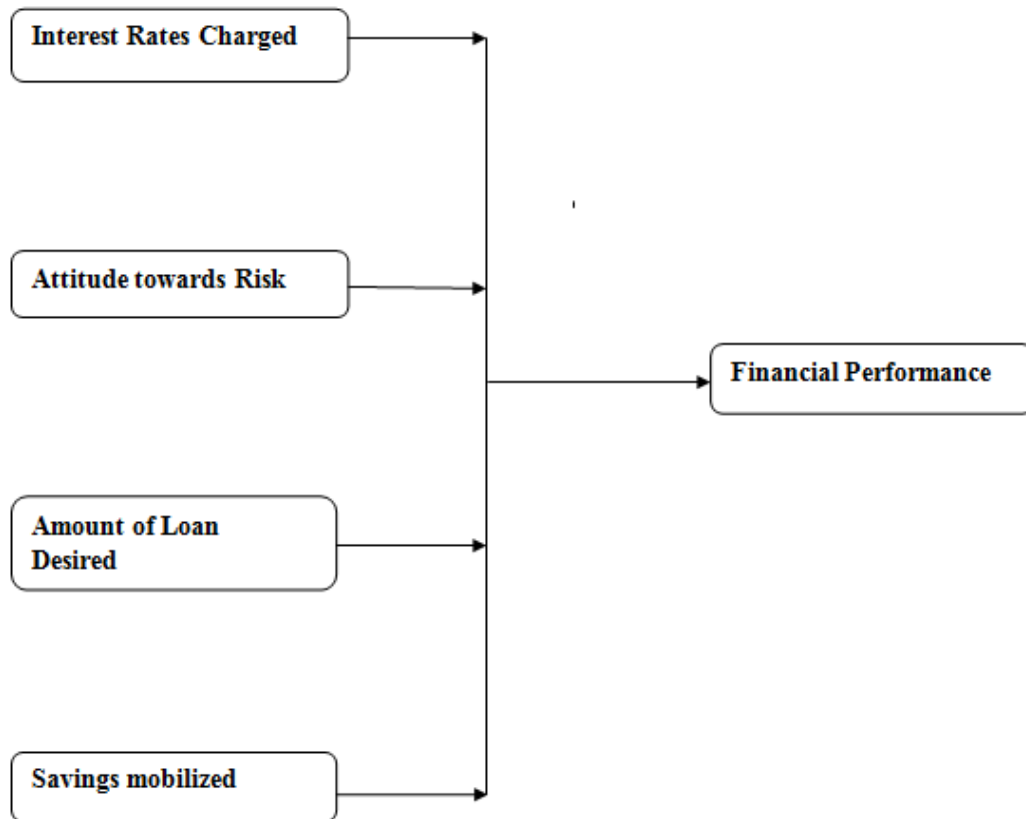
2.4 Conceptual Framework

A conceptual framework illustrates the relationship between study variables; majorly the independent and dependent variables. Figure one below shows the conceptual framework of this study.

Figure 1
Conceptual Model

Independent Variables

Dependent Variables



Source: Author

As outlined in figure one, there are four independent variables namely Interest Rates Charged, Attitude towards Risk, Amount of Loan Desired, and Savings mobilized. On the other hand, there is one dependent variable which is Financial Performance. The framework hypothesizes that there exists a relationship between each of these independent variables and the dependent variable. The research variables were operationalized in table one below:

Table 1
Operationalization of Variables

Variable	Type	Measurement
Interest rate charged	Independent	<ul style="list-style-type: none"> ▪ General trend on interest rates over the short run. ▪ Influence on the amount one is able to borrow. ▪ Effects on borrower’s lives. ▪ Willingness to recommend SACCO products to

		<p>family and friends if interest rates rise.</p> <ul style="list-style-type: none"> ▪ Perceived attractiveness of SACCO products with increase interest rates.
Attitude towards Risk	Independent	<ul style="list-style-type: none"> ▪ Willingness to take up loans. ▪ Willingness to guarantee others' loans. ▪ Attitude toward necessity of loans in people's lives ▪ Willingness to encourage family and friends to take up loans ▪ Level of fear of the unknown as pertains huge borrowing ▪ Willingness to borrow again after default and its repercussions
Amount of loan desired	Independent	<ul style="list-style-type: none"> ▪ Willingness to borrow huge loans. ▪ Willingness to guarantee others' big loans so that they can guarantee you in the future. ▪ Willingness to borrow beyond the SACCO's lending limits. ▪ Willingness to recommend others' to borrow from the SACCO due to its ability to lend whichever amount of loan desired.
Savings Mobilised	Independent	<ul style="list-style-type: none"> ▪ Perceived sense of confidence in the SACCO and hence an impetus to save with it. ▪ Effect of deposits' interest rates on willingness to save huge amounts with the SACCO. ▪ Perceived attractiveness of the SACCO's savings scheme vis a vis Banks' savings accounts ▪ Willingness to Recommend the SACCO to

		<p>family and friends primarily due to the interest rate offered on savings.</p> <ul style="list-style-type: none"> ▪ Willingness to increase periodic savings every time they earn a salary increment.
Financial Performance	Dependent	<ul style="list-style-type: none"> ▪ Satisfaction with the SACCO's last audited accounts ▪ Perceived rate of growth of the SACCO ▪ Comparison of the SACCO's ROA with those of its peers ▪ Perceived direction that management is taking the SACCO ▪ Perception pertaining whether the SACCO's cash which is available for investment is invested prudently and in a well balanced portfolio ▪ Perception of the SACCO's growth prospects ahead.

Source: Author (2015)

The table above explains how the independent variables for the study were measured so as to get the results for the study. The measurements are covered using a five point Likert scale in the research questionnaire.

2.5 Hypothesis

The null hypothesis for the research under study can be stipulated as indicated below. Once the research findings are tabulated it will be seen if the hold.

$H_{1a} = \hat{i}$ *There is a difference between interest rates offered and the financial performance of employees SACCOs.*

$H_{1b} = \dot{\iota}$ *There is no difference between employees' attitude towards risk and the financial performance of employees SACCCOs.*

$H_{1c} = \dot{\iota}$ *There is no difference between the amount of loan desired and the financial performance of employees SACCOs.*

$H_{1d} = \dot{\iota}$ *There is no difference between the savings mobilised and the financial performance of employees SACCOs.*

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methods and procedures that the researcher used to answer the research question. It covers the following areas; research designs, target population, study sample and sampling procedure, data collection and data analysis.

3.2 Research Design

The researcher used the cross descriptive research design approach in carrying out this research. This design entails gathering data which is used to answer questions about the current position of the subject of a study (Gay, 2011). Descriptive design was deemed most appropriate for this research since its intention was to get a sample of the population under study and generalize the results, rather than to study the whole population. This design method of research ensured a huge array of information which when analysed enables the researcher to get relevant inference on the population (Orodho, 2002). Since this study was concerned with finding the factors that affect financial performance of SACCOs, descriptive research design was deemed best suited for it.

3.3 Study Population

A population is the summation of all the organisms of the same group which live in a particular area. The population of this study was the staffs of De La Rue Currency Ltd who are members of PESA SACCO and the staff of K-rep Group who are members of KWA SACCO. According to the De La Rue Human resources department, Pesa Sacco has got two hundred and fifty members who are the staff of De La Rue. K-rep Group on the other hand has two all two hundred of its employees in KWA Sacco. In both organisations all the members are active and contribute regularly to the Sacco scheme via their employer check off system. The target population should have some observable characteristics which the researcher will intend to use to generalize the results of the study (Mugenda & Mugenda 2000). Table two below elucidates the target population.

Table 2
Population of Study

Sacco	Population
PESA SACCO	250
KWA SACCO	200
Total	450

Source: Kwa and Pesa SACCOs' Financial statements

3.4 Sample Size and Sampling Procedure

A sample is a set of data which is selected from a statistical population which is used to show how the whole population is like. Since a researcher is not able to work on the whole population because of many limitations that the researcher would face, he selects a sample to aid him in getting findings on his topic of study. This enables him get inference on the population (Orodho, 2004). The sampling technique that was used in this study was simple random sampling. This

technique was deemed ideal for this study since it gave all the subjects in the population an equal chance of being selected therefore resulting in findings which are more representative of the whole population (Mugenda & Mugenda 2000). For the purpose of this study the researcher selected 50% of the population of four hundred and fifty employees. Table two below outlines the sample size of the study.

Table 3
Sample Size

Sacco	Population	50%
KWA Sacco	200	100
Pesa Sacco	250	125
Total	450	225

Source: Kwa and Pesa SACCOs' Financial statements

3.5 Instrumentation

The study employed a questionnaire for collection of primary data. The questionnaire recorded demographic information of the respondents to capture a general picture of key attributes of the respondents. A 5-point Likert scale was used to assess the factors that affect the performance of employment SACCOs where 1=strongly agree, 2=Agree, 3=Not sure, 4=Disagree, 5=strongly disagree. The questionnaires were administered using the drop and pick method: they were left with the respondents and were picked after three days.

3.6 Pilot Study

To make this study more reliable and valid in terms of the data collection instrument, the researcher conducted a pilot study amongst members of a SACCO in which he belongs to. According to Aina (2002), a pilot study should be done in similar settings as the actual target population. Bell (2010) posits that a pilot study should expose the weaknesses of the instrument

before it is used to collect data. The researcher used 5% of the target population as respondents in the pilot study. The results of the pilot study confirmed the instrument capable of collecting reliable and valid data.

3.6.1 Reliability and Validity of the Research Instrument

By the use of the Cronbach's Alpha, the research was able to test the internal consistency of the techniques used to test the reliability of the research instruments. The alpha values normally range from 0 to 1 with reliability increasing with increase in value. Co-efficient values greater than 0.7 generally denote that the instrument is reliable (Mugenda, 2008).

Validity is the extent to which an instrument measures what it is intended to measure. It focuses a lot on reducing errors in the data collection and measurement. Inasmuch as there are various forms of validity, the research was keen on ensuring construct validity and content validity in this research.

3.7 Data Collection

The researcher collected data from the sampled respondents over a course of three days. First, authorization to collect data was sought and granted by the KCA University School of Graduate Studies and Research. Authorization was also received by the two firms which employ the sample respondents.

3.8 Data Analysis

Data collected from the primary source will be compiled, edited for clarity and accuracy and coded into a sheet using the STATA 12 Statistical Package. During quantitative data analysis, a linear regression analysis on the relationship between the independent variables and the dependent variable was carried out. Quantitative data was presented via the use of graphs and tables. The multiple linear regression used was:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \dots \dots \dots (i)$$

Where:

Y= Financial Performance of SACCOs.

β_0 =Financial performance of SACCOs in the absence of factors under study.

X_1 = Interest rates charged.

X_2 = Attitude towards risk.

X_3 = Amount of loan desired.

X_4 = Savings mobilized.

β = Coefficient of X (change in the dependent variable due to a unit change in X)

ϵ =Epsilon (Error term that caters for other variables not included in the equation)

CHAPTER FOUR
FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents data analysis, interpretation, and discussion. The researcher starts by outlining the demographic information of the respondents. He then presents an analysis of data on each of the four objectives based on descriptive and inferential statistics. After that, he presents the results of regression analysis. He finally provides a discussion of the results.

4.2 Response Rate

The sample of the study comprised of 225 respondents. The research instrument was administered to these 225 individuals but ultimately, 207 questionnaires were duly filled and returned. This was a response rate of 92% as displayed in table three below.

Table 4
Response Rate

	Questionnaires administered	Questionnaires filled & returned	Percentage
Respondents	225	207	92%

Source: Author (2015)

According to Kothari (2004) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good.

4.3 Demographic Information

In order to achieve the main purpose of this study, the researcher found it useful to outline the demographic information of the respondents. This section handles reporting on all queries posed in the demographic information section of the research instrument.

4.3.1 Gender

The study sought to find out the gender of the respondents. According to the findings 53.6% of the respondents were male while 46.4% of the respondents were female. This is explained in table four below.

**Table 5
Gender**

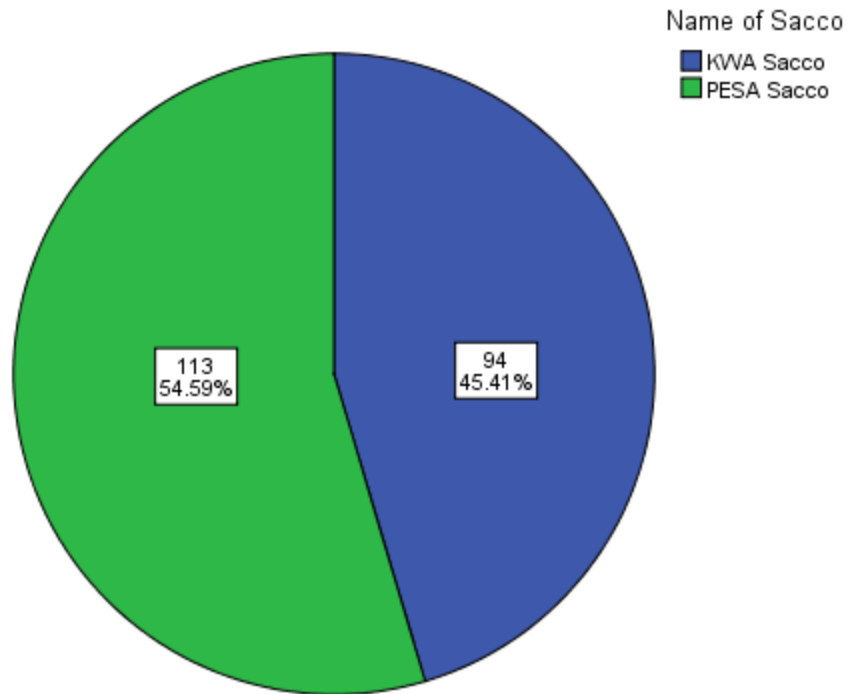
	Frequency	Percent
Male	111	53.6
Female	96	46.4
Total	207	100.0

Source: Author (2015)

4.3.2 SACCO

The analysis shows that 94 respondents were drawn from KWA SACCO while 113 respondents were members of PESA SACCO. This is shown in figure two below:

Figure 2
Response rate from SACCOs under Study



Source: Author (2015)

4.3.3 Years of Membership

The largest number of respondents had been members of their respective SACCO for between three and six years. These were closely followed by members who had been with their respective SACCO for less than three years. Only twenty two respondents said that they had been with their SACCO for more than nine years. This amplifies the fact that these SACCOs have not been in existence for long and also the staff could be having a high rate of turnover thereby leaving these SACCOs to join the employee SACCOs of their new employers.

Table 6
Years of Membership

		Years of Membership				Total
		0 - 3 years	3 - 6 years	6 - 9 years	over 9 years	
Name of Sacco	KWA Sacco	32	36	16	10	94
	PESA Sacco	37	48	16	12	113
Total		69	84	32	22	207

Source: Author (2015)

4.3.4 Level of Education

The research data shows that 70.5% of the respondents had an undergraduate degree while an additional 18.4% were Master's degree holders. This shows that the respondents are relatively highly educated. This is not surprising giving the technical expertise required by the employers from which they were sampled.

Table 7
Level of Education

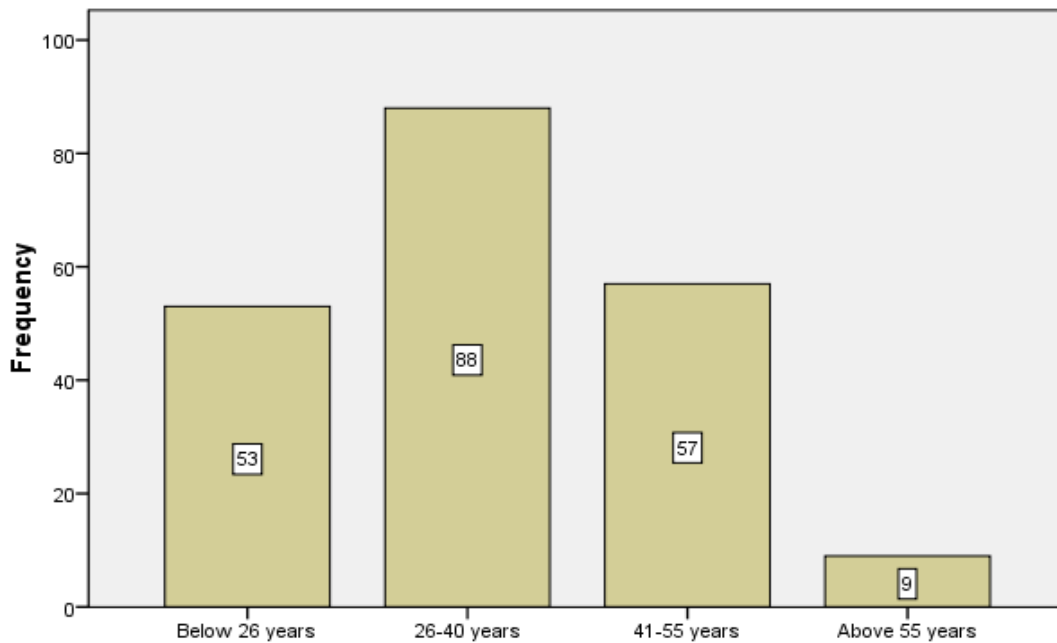
	Frequency	Percent
Primary	3	1.4
Secondary	20	9.7
Undergraduate	146	70.5
Masters and Above	38	18.4
Total	207	100.0

Source: Author (2015)

4.3.5 Age of Respondents

The study found out that most of the respondents were aged between twenty six and forty years old. Around two thirds of the sampled respondents were aged below forty years, and only nine respondents reported ages more than fifty five years. This is illustrated in figure two below.

Figure 3
Age of Respondents



Source: Author (2015)

4.3.6 Rank of Respondents

The researcher sought to find out the ranks of the respondents at their respective workplaces. The possible responses under “rank” were senior management, middle level management, lower level management, and operations staff. As evident in table seven below, a hundred and two staff members, were operations staffs. These are almost half of all sampled respondents. In fact, one can notice that membership in the SACCOs decrease as you go up the corporate ladder.

Table 8
Rank of Respondent

	Frequency	Percent
Senior Management	23	11.1
Middle Level Management	32	15.5
Lower Level Management	50	24.2
Operations Staff	102	49.3
Total	207	100.0

Source: Author (2015)

4.4 Interest Rates

The researcher used a five point Likert scale (1 = “Strongly Agree, 2 = Agree, 3 = Uncertain, 4 = Disagree, and 5 = Strongly Disagree) to collect data pertinent to several attributes of interest rates and their effects on financial performance of SACCOs. There were varied responses to each of the elements of this independent variable. In table eight below, we have outlined the frequencies of responses to each of the elements of this independent variable.

Table 9
Interest Rates

	Percent					Mean	s.d
	SA	A	U	D	S D		

The interest rate offered by the Sacco is better than what is offered by other financial institutions.	8.7	51.2	34.3	3.4	2.4	2.8150	.93524
The rate of interest has is likely to remain stable in the short run	10.6	41.1	44.4	3.4	.5	2.8778	.80586
Because of fair interest rates by the Sacco many have taken loans that have uplifted them.	10.6	44.9	36.2	4.8	3.4	2.9551	1.01840
I would recommend the Sacco to new prospective members on the basis of its interest rates.	11.1	39.6	41.5	6.3	1.4	2.7841	.93792
I would take a big loan with the SACCO even in times of rising interest rates.	13.0	44.4	35.7	4.8	1.9	2.6406	.95972
I would stick with the SACCO even if interest rates rose.	10.1	51.2	30.4	6.3	1.9	2.5729	.99593

Source: Author (2015)

4.4.1 Implications

In general, the respondents either answered “Agreed” or “Uncertain” to all statements posed in this section. This shows the sensitivity of the respondents to changes in interest rates. SACCOs should therefore handle the issue of increasing interest rates with caution since the benefits which would accrue from higher rates would be negated by an exodus of customers to other financial service providers.

4.5 Attitude toward Risk

Responses to indicators of attitude toward risk are discussed in table nine below. The research used a five point Likert scale to capture the responses of respondents to the questions falling under this variable.

Table 10
Attitude toward Risk

	Percent					Mean	s.d
	SA	A	U	D	SD		
I am willing to take up a loan any time so long as I qualify.	7.2	24.2	41.5	24.2	2.9	2.9130	.94107
Can guarantee as many loans as my limit allows.	16.4	28.5	35.7	13.0	6.3	2.6425	1.09621
Loans are necessary for personal development as long as they are utilized well.	17.4	32.9	30.9	14.5	4.3	2.5556	1.07286
Would encourage new members to take loans for their personal development.	19.3	32.4	31.4	11.6	5.3	2.5121	1.09216
I don't fear taking loans of huge amounts due to fear of the unknown.	22.2	36.7	23.7	12.6	4.8	2.4106	1.11062
Despite loan repayment default history would still take up loans.	27.1	35.3	21.7	13.0	2.9	2.2947	1.09061

Source: Author (2015)

4.5.1 Implications

There was more variability in responses under this section than in the previous section. This is because the level of risk averseness is arguably more subjective than all other variables used in

this study. With the mean responses ranging from 2.2947 to 2.9130 on a 1 to 5 scale, these results show a general lack of strong convictions amongst the sampled responses.

4.6 Amount of Loan Desired

In table ten below, we report on responses to statements about the amount of loan desired. Just like all previous cases, the responses were recorded on the 5 point Likert scale.

Table 11
Amount of Loan Desired

	Percent					Mean	s.d
	SA	A	U	D	SD		
I always get the loan amount I have applied for.	34.8	29.0	18.8	10.1	7.2	2.2609	1.23837
As long as funds are available will take the maximum loan I am qualified for.	29.0	30.4	21.7	13.5	5.3	2.3575	1.18556
I would be willing to make efforts in securing guarantors to enable me take bigger loans.	20.8	37.2	20.8	15.0	6.3	2.4879	1.16110
My confidence in the Sacco increases when it is able to advance higher loans to members.	24.2	35.3	17.9	18.4	4.3	2.4348	1.16767
The Sacco loan limits cover what I would require for my personal development.	29.0	33.8	18.8	14.5	3.9	2.3043	1.14871
I would recommend a new member to the Sacco since they meet my loan requirements.	31.4	33.3	16.4	13.5	5.3	2.2802	1.19414

Source: Author (2015)

4.6.1 Implications

The respondents on average agreed with the elements of this variable. This shows their acknowledgement and satisfaction with that ability of their SACCOs to avail their requested

loans, regardless of the size. This result is quite positive and is a valid endorsement of the suitability of the SACCOs' products to customer needs.

4.7 Savings Mobilized

Table eleven below disseminates the results of the analysis of queries under the Savings Mobilized Variable.

Table 12
Savings Mobilized

	Percent					Mean	s.d
	SA	A	U	D	SD		
I have confidence in the Sacco hence save with them.	8.2	40.1	34.3	15.0	2.4	2.6329	.91931
The interest I receive from my savings encourages me to save even more.	21.7	26.6	27.1	16.9	7.7	2.6232	1.21601
I feel that it is easier to save with the Sacco than with a commercial bank.	14.5	36.2	21.7	18.4	9.2	2.7150	1.19095
I would recommend a new member to save with the Sacco	18.8	27.5	31.9	17.9	3.4	2.6087	1.11326
It is more advantageous to save with the Sacco than other financial institutions.	18.8	43.5	16.9	14.0	6.8	2.4638	1.14798
I would increase my savings every time I get a pay increase.	30.9	27.1	17.9	16.4	7.7	2.4300	1.28987

Source: Author (2015)

4.7.1 Implications

On average, the respondents were either in agreement or were uncertain on how to answer to queries under this variable. This is contrary to expectations but again it could be that many

members were in the SACCOs with the intention of ultimately borrowing money and not necessarily to bank their savings.

4.8 Financial Performance

In table 12 below, we summarize the results of the responses received with respect to the dependent variable, financial performance.

Table 13
Financial Performance

	Percent					Mean	s.d
	SA	A	U	D	SD		
The current year audited results of the SACCO are satisfactory.	48.4	33.9	11.3	1.6	4.8	1.8065	1.03763
The SACCO is headed in the right direction financially.	43.5	41.9	6.5	8.1	.0	1.7903	.88960
All product lines will record growth at the end of this financial year.	54.8	25.8	11.3	3.2	4.8	1.7742	1.09274
The SACCO is among the best performing SACCOs in Kenya.	38.7	41.9	12.9	4.8	1.6	1.8871	.92515
The SACCO is yet to explore a big part of its target market	45.2	37.1	12.9	1.6	3.2	1.8065	.95538

Source: Author (2015)

4.8.1 Implications

Going by the responses to the queries in this section, the respondents had a general consensus that the firm's performance was headed in the right direction. 48% of the respondents agreed that the current year audited results of the SACCOs were satisfactory, 43% were of the opinion that the SACCOs were headed in the right direction, 54% were strongly in agreement that all the

product lines would record growth by year end while 38% were of the opinion that the SACCOs were among the best performing in Kenya. From this analysis, the majority of the respondents either strongly agreed or agreed with the constructs posed in this section, showing a strong confidence in the respective SACCOs and their prospective future growth patterns.

4.9 Validity and Reliability Analysis

4.9.1 Validity

There are three types of validity: Internal validity, external validity & construct validity. Internal validity is present in a causal relationship which is not driven by factors other than the independent variables. External validity occurs when we can generalize the research findings to the whole population while construct validity measures the extent to which the independent variables measure the theoretical constructs. Internal validity is guaranteed by the fact that the research variables were chosen from a wider set of possible interrelations as the ones with the largest possible impact on performance of SACCOs. Since the study was designed carefully using the descriptive research design approach, we can infer that the findings can be generalized throughout SACCOs & hence has external validity. Finally, construct validity can be inferred from the fact that all regressors were positive & significant and the overall regression, as indicated in the ANOVA table, was also significant.

4.9.2 Reliability

To measure the reliability of the data collection instrument an internal consistency technique, Cronbach's alpha, was computed using STATA. Table twelve below indicates that the research instrument was reliable since data obtained from all independent variables had a Cronbach's alpha of greater than 0.7. This means that the research data had relatively high internal

consistency and could be generalized to reflect opinions of all possible respondents in the target population on the dependent variable.

Table 14
Reliability Analysis

Variable	Cronbach's Alpha	Comments
Interest Rates	0.880	Accept
Attitude Toward Risk	0.903	Accept
Amount of Loan Desired	0.888	Accept
Savings Mobilized	0.877	Accept

Source: Author (2015)

4.10 OLS Diagnostics & Regression

Ordinary Least Squares regression was carried out to investigate the nature of relationship between the independent variables and the dependent variable. The researcher also carried out an Analysis of Variance to evaluate whether the overall regression was significant. Further, the research reported on the coefficient of variation to indicate the extent to which variations in the dependent variable could be attributed to variations within the regressors.

4.10.1 Correlation

Before regression analysis was carried out, a correlation matrix of the regressors was computed to investigate whether there was multicollinearity in the dataset. This is shown in table 16 below.

Table 15
Correlation Matrix

	INTEREST RATE	ATTITUDE TOWARDS RISK	AMT OF LOAN DESIRED	SAVINGS MOBILIZED
INTEREST RATE	1			
ATTITUDE TOWARDS RISK	.102	1		
AMT OF LOAN DESIRED	.015	.540	1	
SAVINGS MOBILIZED	.014	.083	.084	1

Source: Author (2015)

If correlation coefficients of regressors are high (>0.7), there is multicollinearity in the data. High degrees of multicollinearity inflate the coefficient of determination such that the overall regression looks good inasmuch as individual regressors could be insignificant. Multicollinearity also makes a research to lose robustness. In highly collinear data, small changes in specification can cause big changes in regression coefficients and/or their significance. From table sixteen, the highest correlation coefficient was 0.54, indicating that the data didn't have multicollinearity and hence was valid for regression analysis.

4.10.2 Regression Analysis

The results of regression analysis are shown in table fourteen. It is evident that all regressors, except interest rates, had a positive influence on the dependent variable. Further, all the independent variables were statistically significant at the 5% level.

Table 16
Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.642	.273		6.019	.000
	INTEREST RATE	-.081	.068	-.096	-1.191	.018
	ATTITUDE TOWARDS RISK	.428	.054	.503	7.926	.000
	AMT OF LOAN DESIRED	.296	.056	.307	5.285	.030
	SAVINGS MOBILIZED	.107	.080	.168	1.463	.021
a. Dependent Variable: FINANCIAL PERFORMANCE						

Source: Author (2015)

The regression equation can therefore be expressed as:

$$Y = 1.642 - 0.081 X_1 + 0.428 X_2 + 0.296 X_3 + 0.107 X_4 \dots\dots\dots(ii)$$

Explained as follows:

Y = Financial Performance of SACCOs.

1.642 = Financial performance of SACCOs in the absence of factors under study.

X₁ = Interest rates charged.

-0.081 = Coefficient of X₁ (change in the Financial Performance of SACCOs due to a unit change in Interest rates charged)

X₂ = Attitude towards risk.

0.428 = Coefficient of X₂ (change in the Financial Performance of SACCOs due to a unit change in Attitude towards risk.)

X₃ = Amount of loan desired.

0.296 = Coefficient of X₃ (change in the Financial Performance of SACCOs due to a unit change in Amount of loan desired)

X₄ = Savings mobilized.

0.107 = Coefficient of X₄ (change in the Financial Performance of SACCOs due to a unit change in Savings mobilized)

4.10.3 Coefficient of Determination

We report the coefficient of determination of the regression to indicate the extent to which variation in the regressors would lead to variation in the independent variable. The coefficient of variation is a measure of model specification. The better a model is specified and a research is designed, the higher the coefficient of determination.

Table 17
Coefficient of Determination

R	R Square	Adjusted R Square
.7867	.6189	.4934

Source: Author (2015)

From the analysis, the regression model's coefficient of determination (R^2) was 0.61689. Essentially, this means 61.89% of variability in the response variable can be attributed to variations within the regressors. The remaining variation can be attributed to factors other than the study's independent variables.

4.10.4 Analysis of Variance

The study utilized a one way Analysis of Variance (ANOVA) to test the significance of the overall regression model. The results of this test are outlined in table seventeen below.

Table 18
Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	51.797	4	12.949	24.529	.000 ^a
	Residual	106.638	202	.528		
	Total	158.435	206			

Source: Author (2015)

Since the p – value of the Analysis of Variance is way less than 0.05; we can deduce that the overall regression was significant.

4.10.5 Findings on the Hypothesis

From the study, the hypothesis has been upheld and this is basically since the outcome of the research shows the following:

$H_{1a} = \bar{0}$ *There is a difference between interest rates offered and the financial performance of employees SACCOs.*

$H_{1b} = \bar{0}$ *There is no difference between employees' attitude towards risk and the financial performance of employees SACCOs.*

$H_{1c} = \bar{0}$ *There is no difference between the amount of loan desired and the financial performance of employees SACCOs.*

$H_{1d} = \bar{0}$ *There is no difference between the savings mobilised and the financial performance of employees SACCOs.*

The study has thus upheld the null hypothesis that there is no difference between the financial performance of the SACCOs and the factors under study except for interest rate which was seen to have a negative correlation albeit small. For the rest the rest of the factors under study that is amount of loan desired, employees' attitude towards risk and savings mobilized they are positively correlated with the financial performance of the SACCOs. The one with the biggest impact is attitude towards risk which basically shows that it is the biggest concern to those want

to invest in the SACCOs. This is indicated by the results obtained and analyzed in the linear regression.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objective of this study was to investigate the factors determining the financial performance of employees' SACCOs.

5.2 Summary of the Findings

5.2.1 Interest Rates

The study found out that interest rates had a negative and significant influence on financial performance of SACCOs. A unit increase in interest rates would lead to a decrease in SACCOs' profitability of 0.081. This relationship can be explained by the fact that the benefits which would accrue to SACCOs due to increased interest rates would be negated by less willingness to take loans and a probable exodus of customers to other financial service providers.

The finding in this research study is in agreement with the study by Karki in 2005 on interest rates that show that SACCOs usually advance loans at interest rates that are much lower than those charged by other finance credit providers. This has made SACCOs to be more attractive as a source of credit to many especially the employed (Karki, 2005).

Thus it can be concluded from the findings of both the study and the literature review that interest rates indeed do have a negative and significant relationship with the financial performance of employees' SACCOs. Hence this sensitive factor needs to always be handled with a lot of sensitivity.

5.2.2 Attitude toward Risk

Additionally, the study found out that attitude toward risk had a positive and significant influence on financial performance of SACCOs. The results imply that a unit increase in Attitude toward Risk would lead to a 42.8% increase in on financial performance of SACCOs. In fact, this is the most important of all regression coefficients due to its ability to impact financial performance positively. If customers change their attitude toward risk and borrow more in terms of frequency and magnitude, the resultant effect on SACCO profitability would be immense. The findings on this study is in line with Ndungu in 2010 on attitude towards risks which posits that so long as a venture is profitable a loan is taken to service it is used for the intended purpose, then the loan repayments would not be a problem at all. Thus with support from frequent visits by loan supervisors this is likely to influence good repayment patterns (Ndungu, 2010).

It can therefore be concluded that attitude towards risk does indeed have a positive and significant relationship with the financial performance of the employees' SACCOs. Thus a lot of sensitization of the advantages of taking risks to enable development will not only benefit the borrower but also the SACCOs by shoring up their financial performance.

5.2.3 Amount of loan desired

The Amount of loan desired was also found to have a positive and significant relationship with the financial performance of SACCOs. The regression coefficient implies that a unit increment in the loan desired (then applied for, and possibly granted) would lead to a 29.6% increment in the financial performance of SACCOs. The insinuation here is that SACCOs should somewhat encourage their members not to fear applying for big loans.

The findings on this study corroborates Maina in 2007 which posits that the amount of loan required by SACCO members will inform the loan portfolio of the SACCO which will greatly influence their financial performance .This is because the interest earned from the loans

are the mainstay income for most SACCOs hence the bigger the size of the loan book the higher the interest earned (Maina, 2007).

Thus it can be concluded that the amount of loan desired will dictate the financial performance of the SACCO if indeed they are taken up.

5.2.4 Savings Mobilized

The ability of SACCOs to mobilize savings was also found to have a positive and significant relationship with financial performance of SACCOs. The results show that a unit increment in savings mobilized would lead to a 10.7% increase in financial performance. This makes perfect sense given the fact that savings are an incredibly cheap source of financing to SACCOs and the more of savings that a SACCO has, the better it will be able to meet demand for its services. The findings on this study are in line with Mutebi in 2002 which states that savings is one of the most crucial financial needs of SMEs and even SACCOs. Savings for SMEs and SACCOs is very crucial since it provides seed capital which is an indication of their usual lack of access to formal institutional credit. Thus with an improved financial system SMEs savings is boosted which is vital for their expansion and growth. In Kenya especially, SMEs and SACCOs are important agents of job creation and official policy that provides impetus for savings cannot be overemphasized (Mutebi, 2002). Hence it can be concluded that savings mobilised do indeed have a positive and significant relationship with the financial performance of the employees SACCOS.

5.3 Conclusions

The study concluded that Attitude toward Risk, Amount of loan desired, and savings mobilized have a positive impact on financial performance of SACCOs. An increase in these three variables would therefore lead to an increase in financial performance of SACCOs. This would especially be the case in an increase in attitude towards risk which would affect the financial performance

highest at 42%. Interest rates were found to have a slightly negative impact on the financial performance of SACCOs. This could be explained by the fact that an increase in interest rates would lead to higher interest income for the SACCOs but it would also discourage members from borrowing (in terms of both magnitude and frequency) at best. At worst, it would make them to start shopping around for cheaper credit. Increasing interest rates is therefore an issue which should be approached with caution by SACCOs. This study further adds credence to the literature review on the factors under study hence reinforcing them as vital for an employee SACCO and need to be handled prudently in order to enhance its financial performance.

5.4 Recommendations

Guided by the research findings, the author recommends that SACCOs should handle the issue of interest rates with exceptional care. This is the only variable which has a counterproductive possibility – increment in interest rates might lead to the contrary of the expected results. A SACCO might increase interest rates to improve its profitability but this move might as well derail profitability due to customer backlash.

This study recommends that SACCOs should be keen on changing the attitude of their customers toward risk since it has the biggest impact at 42% on their financial performance. This would lead to a rise in new applications and the average amount applied for, causing a positive impact on their financial performance.

The amount of loan desired for was found to have a positive and significant implication on the profitability of SACCOS. As such, there should be a concerted effort to encourage customers to borrow as much money as is sufficient to meet their needs. Disbursement procedures should also be revised and default risk checks should reviewed occasionally as they tend to limit how much customers can borrow even when the circumstances which led to their imposing have lapsed.

SACCOs should craft innovative strategies to mobilize more savings from their current members and to sign up new saving members. This would increase the savings under their control, basically providing a cost – free pool of money available for lending. This is a better way to raise capital as opposed to, for instance, borrowing from other financial institutions. The fact that savings are costless would reduce the financial costs on their income statement leading to a rise in profitability.

5.5 Recommendation for Further Study

It is suggested that future research could expand the scope of this study and investigate the effect of this research’s independent variables in other financial institutions, such as banks. Since interest rates were found to have a negative impact on profitability in this study, this variable could be zoomed into to evaluate under which circumstances it would give rise to a positive and significant relationship with financial performance. Finally, future researchers could investigate factors affecting the financial performance of SACCOs other than the ones covered in the study.

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APPENDIX I

Letter of Introduction

Dear Respondent,

This questionnaire endeavours to establish **FACTORS AFFECTING FINANCIAL PERFORMANCE OF EMPLOYEES’ SACCOS IN KENYA**. It has been designed to enable the student to carry out research on the topic above. The study is purely academic work in partial fulfilment of the Master of Science in Finance (MSC) KCA University. Your assistance will be greatly appreciated and your feedback will be handled with utmost confidentiality.

APPENDIX II

QUESTIONNAIRE

SECTION I: GENERAL INFORMATION

Please tick the appropriate box for the questionnaire as indicated below:

Demographic Characteristics

1. Gender: Male Female

2. Name of Sacco.....

3. For how long have you been a member of Your Sacco?

4. Level of	Years	0-3yrs	3-6 yrs	6-9 yrs	Over 9 yrs	Education
	old	(1)	(2)	(3)	(4)	
	Tick					
	Qualification	Certificate	Diploma	Degree	Masters	Other
		(1)	(2)	(3)	(4)	(5)
	Tick					

5. Age

6.	Years	18-24	25-29	30-34	34-39	40+	What is your rank?
	old						
	Tick						Management <input type="text"/> Union

Please indicate by ticking in the appropriate box to what extent you agree/disagree to the following statements below.

SECTION II: Performance

(1- Strongly agree, 2- Agree, 3- Not Sure, 4- Disagree and 5- Strongly Disagree)

SECTION II: Interest Rates

(1- Strongly agree, 2- Agree, 3- Not Sure, 4- Disagree and 5- Strongly Disagree)

	SA	A	U	D	SD
The interest rate offered by the Sacco is better than what is offered by other financial institutions.					
The rate of interest has is likely to remain stable in the short run					
Because of fair interest rates by the Sacco many have taken loans that have uplifted them.					
I would recommend the Sacco to new prospective members on the basis of its interest rates.					
I would take a big loan with the SACCO even in times of rising interest rates.					
I would stick with the SACCO even if interest rates rose.					

SECTION III: Attitude towards Risk

(1- Strongly agree, 2- Agree, 3- Not Sure, 4- Disagree and 5- Strongly Disagree)

	SA	A	U	D	SD
I am willing to take up a loan any time so long as I qualify.					
Can guarantee as many loans as my limit allows.					
Loans are necessary for personal development as long as they are					

utilized well.					
Would encourage new members to take loans for their personal development.					
I don't fear taking loans of huge amounts due to fear of the unknown.					
Despite loan repayment default history would still take up loans.					

SECTION IV: Amount of loan desired

(1- Strongly agree, 2- Agree, 3- Not Sure, 4- Disagree and 5- Strongly Disagree)

	SA	A	U	D	SD
I always get the loan amount I have applied for.					
As long as funds are available will take the maximum loan I am qualified for.					
I would be willing to make efforts in securing guarantors to enable me take bigger loans.					
My confidence in the Sacco increases when it is able to advance higher loans to members.					
The Sacco loan limits cover what I would require for my personal development.					
I would recommend a new member to the Sacco since they meet my loan requirements.					

SECTION V: Savings Mobilised

(1- Strongly agree, 2- Agree, 3- Not Sure, 4- Disagree and 5- Strongly Disagree)

	SA	A	U	D	SD
I have confidence in the Sacco hence save with them.					
The interest I receive from my savings encourages me to save even more.					
I feel that it is easier to save with the Sacco than with a commercial bank.					
I would recommend a new member to save with the Sacco					
It is more advantageous to save with the Sacco than other financial institutions.					
I would increase my savings everytime I get a pay increase.					

SECTION VI: Financial Performance

(1- Strongly agree, 2-Agree, 3-Not Sure, 4-Disagree and 5-Strongly Disagree)

	SA	A	U	D	SD
The current year audited results of the SACCO are satisfactory.					
The SACCO is headed in the right					

direction financially.					
All product lines will record growth at the end of this financial year.					
The SACCO is among the best performing SACCOs in Kenya.					
The SACCO is yet to explore a big part of its target market					

Thank you for your time and co-operation. The information you have provided will be treated with utmost confidentiality.

The end