AN ASSESSMENT OF THE MAJOR DETERMINANTS OF FRONT OFFICE SERVICES PERFORMANCE: A CASE OF MWALIMU SAVINGS AND CREDIT SOCIETY

BY

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A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS OF MASTER OF BUSINESS ADMINISTRATION (MBA) IN FINANCE OF SCHOOL OF BUSINESS, KENYATTA UNIVERSITY

AUGUST 2005
DECLARATION

This research project is my original work and has not been presented for a degree in any other University.

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DEDICATION

This work is dedicated to my wife Hilda Udali Kebeya and my children Linford, Bram and Elvis for their unlimited love and excellent support in my studies.

God Bless.
Several people to whom I cannot fail to acknowledge made the completion of this study possible. First and foremost, special thanks goes to my supervisor Mr. W. Shikuku F. Ndede, lecturer in the department of accounting and finance for his guidance, support, valuable suggestions and the many hours he spent in reading and offering advice. Thanks a lot and God bless him. I am grateful to all the staff of the school of business for the role they played during my study in particular to lecturers who taught me my course work, and for the keen interest they had towards the completion of this project. Special thanks go to the panel that I appeared before when defending my research proposal. I thank Mr. Ochola, Mr. Obare, Mr. Ndede, and Mr. Khesian for their valuable recommendations. My thanks also goes to the MBA 202/203 class for their support especially when there was a need for a discussion or group work. They include; Ali, Shadrack, Mark, Sam Nyakundi, Lydia, Ann, Scola, Nafulua, Madrine, Bomet and Abram.

I cannot forget to thank my close friends Ali and Shadrack for their availability and support whenever I needed them. They stood by me always like brothers. God bless them. To my family members: my wife Hilda Kebeya, children Linford, Bramwel and Elvis for your love, patience and always remembering me in your prayers and thoughts. Thanks I will always remember you and your contributions.

Finally the acknowledgement will not be complete without mentioning the firms (SACCOs) who co-operated with me and to all those people not mentioned here who worked so hard in one way or another, to make this study complete. Thank You all.
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<th>Description</th>
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<td>ACCOSCA</td>
<td>African Confederation of Co-operatives and credit Association</td>
</tr>
<tr>
<td>AFCO</td>
<td>Armed Forces Co-operatives</td>
</tr>
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<td>AGM</td>
<td>Annual General Meeting</td>
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<td>ARP</td>
<td>African Sacco Rentalization Programme</td>
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<td>CIS</td>
<td>Co-operative Insurance Services</td>
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<td>CMC</td>
<td>Central Management Committee</td>
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<td>CUNA</td>
<td>Credit Union National Association</td>
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<td>SACCOs</td>
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<td>FOSA</td>
<td>Front Office Savings Account</td>
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<td>TSC</td>
<td>Teachers Service Commission</td>
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<td>WOCCO</td>
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<td>W.S.F</td>
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ABSTRACT

This study had set out to establish the major determinants of Front office Services performance. These determinants are categorized into four namely: economic factors, firms specific factors, government policy related factors and time factors. The population of the study comprised of members and employees of Mwalimu savings and credit co-operative societies in Nairobi. Mwalimu members formed the sample of the study. Data collected and analyzed were both primary and secondary. The primary data was collected by use of semi-structured questionnaire. Descriptive statistics was used to analyze the data and therefore cumulative tables and percentages was used to present the findings of the study. The findings of the study revealed that the most important economic determinants are the interest rate followed by stiff competition. While the least factors are the running cost of the front office services.

Under the category of firms specific factors, the most important ones to the performance of Mwalimu front office are the management, future expected stability and competition. The lengths of membership are considered the least important factor. Company related factors were indicated as the most important of all the categories of determinants analysed.

Policies also play a major role in the performance of front office services. The cooperative act (1997) played a key role in setting a framework for front office operations.

On the basis of findings of the study, it’s recommended that all front office service providers observe the major determinants in their day-to-day operations.
government through ministry of cooperative should facilities the success of the SACCO’s front office savings, FOSA, and not to regulate them.
DEFINITION OF TERMS

CO-OPERATIVE
Co-operative may be defined as an association of persons who voluntarily joined together to achieve a common economic and social end through the formation of a democratically controlled business organization, making required and accepting a fair share of risks and benefits of undertaking.

SAVINGS AND CREDIT SOCIETY
Savings and credit society is a co-operative organization, made up of a group of People with a common bond in accordance with the co-operative law, for the purposes of promoting thrift among members and creating a service of credit for prudent and productive purpose.

COMMON BOND
Common bond is a unifying or shared interest that links groups of people or employees such as teachers, bankers or dockworkers, who came together to pursue Honorable objective.

URBAN SAVINGS AND CREDIT SOCIETY
Urban savings and credit society refers to a co-operative society whose refers
Common bond is salaried employment. The employers agree to allow ‘check of “system to be operated for the members of such a co-operative society [Mureithi; 199; 21].

MICROFINANCE
Microfinance is the provision of credit facilities to the small and medium sized enterprises and low-income earners.

**MICROFINANCE INSTITUTIONS**

Microfinance institutions are institutions, programmes, schemes producing credit facilities to SMEs and low-income earners.

**SUSTAINABILITY**

Sustainability refers to the ability to recover operating costs without recourse to subsidies and grants from external sources. i.e. operational self-sufficiency.

**CREDIT**

Credit this refers to borrowed funds with specified terms for repayment.

**FOSA (FRONT OFFICE SERVICES) ACCOUNT**

FOSA (front office services) account is a department in a SACCO that offers a variety of financial services to its members. Members can deposit their money received salaries or process cheques and other transactions under this service.
CHAPTER ONE

1.1 BACKGROUND TO THE STUDY

In determining the issues that merit performance attention of FOSAs, researchers need to draw on all the prior analysis, put FOSAs overall situation into perspective and lock in on what challenges have to be overcome and what issues have to be resolved in order for the FOSA to be financially successfully”. Strategic Management – Thompson and Stickland, page 144. The importance of savings and credit co-operatives all over the world cannot be over emphasized. They foster mobilization of savings and allocate the accumulated capital to productive investment in areas that bring a considerable value to an economy.

“The real question isn’t how well you are doing today against your own history, but how you are doing against your competitors” Donal Kress – Concepts and Case of performance evaluation page 115. The growth of various Front Office Services throughout the world over the last ten years demonstrates their importance in development and commerce and also in realization of their benefits to the small saver or middle class individuals in a country. Most savings and credit Co-operatives have adopted the front office concept turning round the fortunes of both members and the institutions themselves. In a layman’s language, Front Office Service operation may mean “mini-banks.” The ideology that co-operatives hold the key to economic future of this country is progressively becoming a reality. It is no longer a mirage that soon, pretty soon, SACCOS in Kenya, like credit unions in the US and Canada will command more than three quarters of business from bank, to supermarkets, hospitals, roads
telecommunication services, schools, travel and many more (Joe Chege, SACCO star No.18- 1999) Perhaps the liberalization of the co-operative sector that has virtually removed all forms of government control is conducive to the prevailing rapid prosperity and introduction of high profile products like front offices in the sector.

The story of Sacco's success can hardly be told without the mention of one Kilifi Teachers SACCO. This SACCO has set a great example of a model society not only in Kenya but also in Africa. Other SACCOS who have implemented the new concept are Kwale Teachers NACICO, Nakuru Teachers, Mwalimu Sacco, AFCO, Kenvarsity and COMOCO. Front office, according to banking and other informed sources is set to change the financial muscles of many SACCOs in a great way.

In front office, members get all their financial requirements including savings and withdrawals. Members will also get their salaries through the front office. They will also bank their other incomes from business activities at the same point. The benefits of these services cannot be counted on the fingers of one hand, for they are multiple. There is a high chance that this concept can do better if its performance is properly documented and the factors affecting their performance are highlighted.

1.2 STATEMENT OF PROBLEM

Given the importance and rapid growth of SACCOs, it is imperative that members of SACCOs understand the operations of FOSAs so as to avoid costly decisions concerning expansion and product development. The main issue is that there is no act that regulates the operations of Sacco's Front Office Services and the SACCO Savings. Their operations are in the hands of the central management committee of each SACCO. The
amount of loan disbursed and profits realized by Mwalimu FOSA have been fluctuating. In some periods, it has been low or high indicating that there are factors that affect its performance or which members do consider or fail to consider, thus affecting their performance.

The exposition of the determinants of FOSA performance will dispel some misplaced and misguided beliefs about financial markets. For instance by showing that interest rate is a major determinant of FOSA’s product marketability, dispels the view that operating a FOSA is a gamble akin to betting in a Horse race. A question that can be paused at this point is “what are the factors that affect the performance of front office savings services”. This study sets out to answer this question. The motivating factor for this study is the fact that several studies have been done on the various aspects of SACCO’s FOSA Services. This study seeks to identify the factors that determine the performance of the SACCOs Front Office Services. This is because FOSAs are normally managed under the umbrella of SACCOs management committees.

1.3 **PURPOSE OF THE STUDY**

This study seeks to identify the economic, policy, organization and time factors that may affect the operation of the front office services. In the present study, the researcher has proposed to analyze, investigate and establish whether or not, Mwalimu Saving and Credit Co-operative Society is operating on a sound footing in comparisons with other similar SACCOS. The co-operative societies are facing stiff competition as a result of liberalization and globalization.
1.4 OBJECTIVES OF THE STUDY

The broad object of the researcher was to establish whether Mwalimu Sacco is operating on a sound financial footing.

The objectives were:

1) To identify the various factors that affect front office services [WSF] withdrawable savings fund.
2) To trace the performance of Nairobi FOSA during the last five years.
3) To establish measures put in place by the SACCO to the rapid changes and competition in the industry.
4) Establish measures put in place by the various SACCOs for rapid and sustainable growth and performance.

1.5 STUDY QUESTIONS

These research sought to answer the following questions:

1) What are the factors that affect the performance of Mwalimu SACCO FOSA?
2) How can the challenges that face FOSA be addressed?

1.6 SIGNIFICANCE OF THE STUDY

1) The study was significant because it can help the SACCO to benefit from what others feel and think about their performance.
2) The Department or University can use it for further research.
3) Aims at providing in depth understanding to members of co-operative and potential members about the performance of Mwalimu Sacco and a few of its contemporaries.

4) Add to the general body of existing knowledge in the area.

1.7 ORGANIZATION OF THE REPORT

This study is divided into five chapters.

Chapter one gives an overview of the SACCO's and their importance, statement of the problem, research objectives, significance of study and organization of the report.

Chapter two summarizes what some authors and researchers have pointed out as being the determining factors of SACCO's performance, belief history of Mwalimu SACCO and W S F.

Chapter three dwells on the methodology used and hence describes the population of the study, the sample and the sampling design.

Chapter four provides the findings of the study in line with the earlier stated objective while chapter five cores summing and conclusions, recommendations and areas of further research.

1.8 ASSUMPTIONS

The following are the stated hypothesis:

1) High interest rate on advances influences the amount of advance member apply for in Mwalimu FOSA (Withdraw able savings Fund).
2) The amount of loans offset by the Mwalimu FOSA influences sustainability of loan disbursement by the Mwalimu FOSA.

1.9 SCOPE OF STUDY

This study the factors that effect Mwalimu FOSAs performance. This study was conducted in Mwalimu Savings and Credit Co-operatives Society whose offices are situated on Tom Mboya Street, Nairobi, opposite Ambassador Hotel. The study targeted the employees as well as members of the Co-operative Society FOSAs department. The study will also involve four other SACCOS that offer front office services. These include Kiambu Teachers SACCO, in Kiambu, Kenyatta University in Nairobi, Kahawa Sukari, NACICO and Ukulima Co-operatives. It will target their workers and members.

1.9.1 LIMITATIONS OF THE STUDY

While reading the findings of this study, some limitations have to be taken in account. First time and resources were not adequate and hence comprehensive research could not be carried out.

Secondly it was not possible to visit all the sample respondents because some were not within reach of researcher. Consequently vital or material information is likely to have been omitted or missed, thereby affecting the findings of the study.

Thirdly high percentage of members contracted knew little about what affect the performance of the FOSA’s, since they are only interested in the services they get.

Fourthly there were bureaucratic procedures set out by the FOSA’s which were followed before questionnaire were filled. Some of these procedures were too long and therefore a
100% response could not be arrived at. There was also limited empirical data on studies on similar data has to be able to compare the results.

Lastly some of the members and employees contacted were suspicious of the motive of the study, and therefore they were not keen in providing information necessary for this study.
CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This study started by reviewing literature on SACCOs and highlighted on the development of SACCOs in the world, regionally and then locally in Kenya. Secondly the co-operative act of 1997 and the origin of Mwalimu SACCO, which is the main target of the study was reviewed. Thus the situation on ground as concerns the same, as indicated in research findings will be given. Of great importance was literature of SACCOs that operate front office services account (FOSA). Literature on performance of FOSA was evaluated especially as pertains to use of performance indicators. Literature on sustainability of FOSA was also be looked into. Benefits of sustainability as well as measures put into place to achieve sustainability. Existing gaps and critical analysis will be highlighted.

2.2 EMERGING TRENDS IN THE FINANCIAL MARKETS

In the recent past, commercial banks have mounted aggressive marketing of their products while at the same time targeting teachers. Teachers form bulk of membership of Mwalimu Sacco Society. Other SACCO Societies at district levels have also targeted teachers. This has posed a serious challenge to Sacco Societies, Mwalimu Sacco
included. In some cases District SACCOs and commercial banks have used marketing strategies that are out to destroy SACCO Societies. (Mwalimu-Newsletter-Nov.2004-P.8)

Some of the marketing strategies used include-

1. Borrowers do not require guarantors to get loans.
2. Borrowers need not open accounts with the commercial banks so as to get loans.
3. Borrowers need not have savings with the bank so as to get loans. Their loans are not pegged to the level of savings.
4. Borrowers are not required to pay pro-rata share contributions once they have been granted loans.
5. Borrowers pay a fixed amount of the loan and interest is on the reducing balances.
6. Borrowers get loans within 48 hours

2.3 FORMATION OF MWALIMU SAVINGS AND CREDIT CO-OPERATIVE SOCIETY

Mwalimu SACCO was established in October 1974 with about 14 members from the Teachers Service Commission headquarters. The membership currently stands at 44,000 from 40 branches in Kenya. (Mwalimu Newsletter –2004 November). Mwalimu SACCO draws her members from Teachers employed by TSC and who teach in secondary schools (department 37). Also eligible are teachers in training colleges (Dept 41), the polytechnics/technical institutions (Dept 52) and special institutions (Dept 42). The TSC secretarial staff (Dept 38) as well as Mwalimu SACCO secretarial staff are eligible for
membership to Mwalimu SACCO. To become a member, one is required to fill in an application form and pay a membership fees which is automatically deducted from the salary along with the stated share contribution, subsequently monthly share deductions are made automatically thereafter through a check off system of payment if one is in the payroll, or any other suitable method of remittance approved by management (Mwalimu handbook 2000). The headquarters of Mwalimu SACCO is in Nairobi but represented in all 40 branches by elected officials or delegates. The delegates number between four and ten in every branch. They act as a link between the headquarters and the members in the branch. Annually, branch members elect their representatives or delegates who serve for 2 to 3 years. The delegates represents the members in an annual general meeting (AGM), usually held before 30th of June every year. At the AGM, three other members are elected to the supervisory committee, which is charged with the responsibility of performing the role of watchdog for the ordinary members.

2.4 MWALimu SACCO’S WITHDRAWABLE SAVINGS FUND (WSF)

In the recent past, Mwalimu’s Front Office Services, represented by WSF has grown tremendously both in Nairobi and Kisumu. The following statistics show the growth as at end of November 2004.
<table>
<thead>
<tr>
<th></th>
<th>Nairobi</th>
<th>Kisumu</th>
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</thead>
<tbody>
<tr>
<td>Members</td>
<td>12,500</td>
<td>5,200</td>
</tr>
<tr>
<td>Deposits</td>
<td>469,000,000</td>
<td>160,000,000</td>
</tr>
<tr>
<td>Accounts</td>
<td>12,400</td>
<td>5,100</td>
</tr>
<tr>
<td>Advance</td>
<td>126,000,000</td>
<td>55,000,000</td>
</tr>
<tr>
<td>Gross income</td>
<td>74,000,000</td>
<td>27,000,000</td>
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The management committee employs a general manager who is the chief executive of the society to manage the society on day-to-day basis on behalf of the Central Management Committee (CMC). The general manager, (2005, Mr. Ojall) is assisted by three deputy general managers. Namely:

- Mr. B Rondo  Deputy General Manager Administration
- Mr. J Mutua  Deputy General Manager Finance
- Mr. P Kimani  Deputy General Manager Investment.

Deputy General Manager Investment is the one in charge of the WSF, the equivalent of FOSA in other SACCOS. WSF offers banking services to its members in a convenient way while at the same time getting an opportunity to serve.

(Newsletter Nov.2004)

### 2.5 FRONT OFFICE SERVICES, PRODUCTS AND SERVICES

Mwalimu Sacco, WSF, offers the following services:

- Savings and withdrawals
✓ Fixed deposit accounts
✓ Standing orders
✓ Bankers cheques
✓ Advances
✓ School fees accounts
✓ Junior accounts
✓ SAYE facilities
✓ Salary processing

New products. The WSF advances have been made even more popular with co-op members and have been made more attractive. Interest charge is now at 2% per month and the repayment period is 24 months and the member can now in less than a day access up to Kshs 240,000. WSF continues to bridge advances for those who want to clear and take another advance immediately.

2.6 MWALIMU SAVINGS AND CREDIT CO-OPERATIVE SOCIETY PRODUCTS

The dynamism of financial market in Kenya today demands for more creative and innovative thinking among SACCOs than ever before. Mwalimu Sacco (Mwalimu handbook 2000) has ventured into many investments such as purchase of the then Mamjee Building on Tom Mboya street in Nairobi (1985), purchase of shares with The
Co-operative Bank of Kenya, Co-operative Insurance Services (CIS), Kenya Union of Savings and Credit Co-operatives (KUSCCO).

2.7 THE CO-OPERATIVE ACT

The last session of the seventh parliament debated and enhanced the co-operatives societies Bill of 1997 that brought changes in the co-operative societies Act [Chapter 490 the laws of Kenya]. The main objective of the bill was to amend the previous Act and liberalize the co-operative sector. The Act now democratizes the management of co-operatives societies by making them autonomous, member controlled self-reliant and commercially viable and to ensure that the co-operative societies operate within the internationally accepted principles. The Act substantially reduces the state control over the co-operatives by removing government intervention in the daily management of co-operatives (SACCO STAR –page15-19978). The above act replaces the co-operative societies act of 1963 June.

2.8 FACTORS AFFECTING PERFORMANCE OF FRONT OFFICE SERVICES.

A number of factors have been suggested by many writers as affecting the performance of SACCO’S, but the extent or intensity of each has never been tested.

(a) Economic factors. Countries economic condition and demand for goods, services and investments have always been there. A booming economy will generate more investments by investors and this will lead to employment and hence the formation of savings and credit. Co-operative society, on the other hand an economy that is not
Growing will lead to reduction in the investment, retrenchment and hence reduced activities for savings and credit societies. Future expectations by members of a front office services will affect the performance of Faso's through varying demand for its products. For example, products that are not safe and liquid as desired might be considered if the returns are high. FASO's normally balance the objective of high return with their particular preference for low default risk and adequate liquidity. A/C to Dondo (1999)

(b) Government policy Related factors

Kasslm Bharadia in his speech on current and future challenges of FASO's noted that lack of FASO support systems such as credit rating agency and credit for investment are not available thus affecting their performance. The government through its co-operative act does not give a clear guideline of how FOSA's should be managed. This responsibility is left in the hands of the central management committee

(c) Time factors.

Mr. Kimani, the Deputy General Manager, investment, in Mwalimu FOSA, notes that performance of FASO can be affected by time periods. He says that FOSA's does well in April, August and December. The months of May and September are months of low activities. To the extent that a given pattern continues and can be used to earn higher returns, Market inefficiency exists.
The demand for a certain products normally increases with the expectation that member will benefit in terms of quick and reliable services. For example when the market is efficient, member can use the available information ignored by the market in order to benefit. A notable case is when the FASO announces the commencement of bridging loans and loan clearance facilities. This information may portray an immediate effect on a particular product. For example advances and normal loan demands. The allocative efficiency means that the resources are allocated in the most productive use between competitive demands for these resources, which in this case is advance. The operational efficiency mean that the cost of transacting business in the market is determined competitively, that is, there is no monopoly. Efficient markets can be classified into three forms. This is according to several writers. Jeff (1995), Copeland (1992), Okidwell (1997) and memorandum (1997). Weak form efficiency suggest that demand for FOSA products fully reflects all market related data and therefore there is no advantage (excess profits) to be gained by analyzing past performance.

SEMI- strong form efficiency suggests that fully reflects all public information demand for FOSA products. Strong form efficiency suggest that the demand for FASO products will immediately and fully reflect all relevant information, whether publicly or privately held which by definition includes the insider information possessed by a FOSA's managers and management committee. In the real world, FOSA can never be perfectly
held which by definition includes the insider information possessed by a FOSA’s managers and management committee. In the real world, FOSA can never be perfectly efficient because of the conditions that need to be complied with. Some of this condition may not apply in the real financial world These includes:-

1) There are no taxes, business cost or other barriers to their establishment

2) Information is symmetrical that is, every player, has equal and free access to the same information all the time.

3) There are many rational players and none can dominate

e) The importance of market efficiency for FOSA manager
Areas where the efficient market Hypothesis will impact on the decision of FOSA management with products offered in the SACCO’s financial markets includes:-

1) SACCOs financial environment provides on the performance of management and on future prospects of the FOSA.

2) If the market are efficient, the FOSA’s products will always be correctly priced so that FOSA manager need, and not be concerned about timing of when to promote his / her products.

3) In efficient markets, accounting and financial transactions alone will rarely enhance FOSA’s wealth. If the products are fairly priced, in the market, the FOSA will receive a fair demand and hence profit

4) In efficient markets, the cost of a FOSA’s product is not influenced by cosmetic changes in accounting policies that can be used to legitimately manipulate accounting profits in the annual accounts.
CHAPTER THREE
RESEARCH METHODOLOGY/DESIGN

3.1 RESEARCH DESIGN/INTRODUCTION

This chapter outlines the method that was used to obtain and analyze the data. The methodology is divided into the following categories. The research design, population of study, sampling instruments for the data collection and data analysis. The type of research design adopted for the study was descriptive research. It was for the purpose of providing an accurate picture of the various aspects of performance, sustainability and financial footings of SACCOs Front Office services accounts (FOSA).

3.2 POPULATION

The population under study consisted of employees and members of Mwalimu FOSA (WSF). population for the study was the employees and members of Mwalimu SACCO, Front Office Service Account (FOSA) members, or (WSF) Mwalimu WSF members number 17000 by November 2004. about 1200 members are in the Nairobi branch and another 5000 in the Kisumu branch. This department (WSF) has a total of 31 employees with 19 being in the Nairobi branch and 12 in the Kisumu branch. Due to limitation of time and resources the scope of study will be limited to between 100 and 130 respondents.
3.3 DATA ANALYSIS TECHNIQUES

In this study data was analysed using simple descriptive statistics. Descriptive statistics included the use of percentages, frequencies and cross tabulations so as to achieve the set objectives. These descriptive analytical techniques have been seen exclusively applied in selected studies in the past like Steel and Webster (1992 and Bett (1995). The Likert scale was used with 5 taken to mean the highest level and 1 taken as the lowest level (Full and Albaum). This was used on frequencies and percentages calculated to indicate what adjustments has been adopted on the strategic variable in response to economic, social, technological, interest rates and management levels. The statistical package for social scientists for IBM PC (SPSS/PCT) was utilized to analyse data scored using the 5 point Likert scale. Another researcher who used descriptive statistics is Shollei (1999) to investigate the nature of and factors influencing collaborative arrangements in Kenya’s media industry for data, which were not analysed by the use of quantitative analysis, then qualitative analysis was used.

3.4 DATA COLLECTION METHODS

The study applied both primary and secondary data. Primary data was collected using structured and semi-structured questionnaire was administered to the target population. Both open and closed ended questions were used. The open ended was used to collect qualitative data and to encourage response. Direct personal interviews were also be used to collect data. The closed ended questionnaires were used to collect specific information.
Historical data on relevant variables will be collected from secondary sources e.g. reports, magazines and financial statements and personal observation. The questionnaire were pre-tested before distributing is to respondents. During pre-testing stage, it turned out that many respondents were unable to distinguish between "poor and fair". As a result the questionnaire was slightly amended to exclude "poor". Although the questionnaire were not serialized, it was possible to distinguish between those filled by employees and members. Due to limited time the researcher was not always available when the questionnaire was being filled.
CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.0 Introduction

The purpose of this study was to identify the factors that affect the performance of Mwalimu FOSA services. This chapter presents the analysis of the collected data and discusses the findings of the study.

4.1 Service Obtained

From the data collected many respondents based their response to the services they get. The services offered can be said to be standard to what is in the FOSA market. As shown in the analysis, various services or products are offered by the front office. Among them the following were regularly received /obtained by the respondents; savings and withdrawals (17.5%), standing orders (12.5%), fixed deposit account (10.8%) and SAYS facilities and advances (10.0%).
### Table 4.1

What services or products do you regularly get from your front office?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings and withdrawals</td>
<td>21</td>
<td>17.5</td>
<td>17.5</td>
<td>17.5</td>
</tr>
<tr>
<td>Fixed deposit account</td>
<td>13</td>
<td>10.8</td>
<td>10.8</td>
<td>28.3</td>
</tr>
<tr>
<td>Standing orders</td>
<td>15</td>
<td>12.5</td>
<td>12.5</td>
<td>40.8</td>
</tr>
<tr>
<td>Bankers cheque</td>
<td>10</td>
<td>8.3</td>
<td>8.3</td>
<td>49.2</td>
</tr>
<tr>
<td>Advances</td>
<td>10</td>
<td>8.3</td>
<td>8.3</td>
<td>57.5</td>
</tr>
<tr>
<td>School fees account</td>
<td>10</td>
<td>8.3</td>
<td>8.3</td>
<td>65.8</td>
</tr>
<tr>
<td>Junior accounts</td>
<td>11</td>
<td>9.2</td>
<td>9.2</td>
<td>75.0</td>
</tr>
<tr>
<td>SAYS facilities</td>
<td>12</td>
<td>10.0</td>
<td>10.0</td>
<td>85.0</td>
</tr>
<tr>
<td>Others</td>
<td>6</td>
<td>5.0</td>
<td>5.0</td>
<td>90.0</td>
</tr>
<tr>
<td>Providing advances</td>
<td>12</td>
<td>10.0</td>
<td>10.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>120</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

### Figure 4.1

What services or products do you regularly get from your front office?

- [ ] Savings and withdrawals
- [ ] Fixed deposit account
- [ ] Standing orders
- [ ] Banker's cheque
- [ ] Advances
- [ ] School fees account
- [ ] Junior accounts
- [ ] SAYS facilities
- [ ] Others
- [ ] Providing advances
4.2 Most Valued Competitor’s Services

A FOSAs competitive strategy consists of the FOSAs business approaches and initiatives it undertakes to attract customers and fulfill their expectations, to withstand competitive pressures and to strengthen its market position. ‘Competitive strategy has a narrower scope than business strategy’ (Thompson Istrickland –Strategic Management page 150).

Table 4.2 indicates what respondents admire most from their FOSA’s Competitors while Table 4.3 and Fig. 4.3 show the potential competitors. A majority of the respondents (61.7%) said they most valued loan repayment period and 20.8% saving and withdrawals. Other valued services were, salary processing (5.8%) and advance management (4.2%). The rest of the respondents (7.5%) mentioned other services but did not specify them.

Table 4.2

<table>
<thead>
<tr>
<th>What is it that you value most in your front office competitors?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Frequency</strong></td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Valid</td>
</tr>
<tr>
<td>Loan repayment period</td>
</tr>
<tr>
<td>Advances management</td>
</tr>
<tr>
<td>Salary processing</td>
</tr>
<tr>
<td>Saving and withdrawals</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
4.3 Use of technology

Mintzberg’s (1998) study of how the support information systems can give managers suggested that, ability to make clear-cut decisions when needed ranked first. (Decision support systems by Efraim Turban and Jay E. Aronson page 8).

From the study of Mwalimu FOSA, it can be concluded that decision-making is not a pure art or a talent but its more complicated but made easier by use of computers and telephone. For example salary processing for 12,000 ac holders was done within two days by 3 staff using a computer. This led
to high level of satisfaction (93.8%) by members. It also improved their performance.

**Table 4.3**

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair</td>
<td>46</td>
<td>38.3</td>
<td>38.3</td>
<td>38.3</td>
</tr>
<tr>
<td>Good</td>
<td>42</td>
<td>35.0</td>
<td>35.0</td>
<td>73.3</td>
</tr>
<tr>
<td>Excellent</td>
<td>32</td>
<td>26.7</td>
<td>26.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>120</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 4.3**

How would you rate your front office level of technology use? (E.g. use of computers and telephone services)

The use of technology (i.e. computers and telephone services) was rated as fair, (38.3), good (35.0%) and excellent (26.7%).
4.4 Loan Interest and Dividend Rate

The findings of the study revealed that performance of loan disbursement and the amount of dividend depended so much on interest rates. Most respondents (72%) based their rejection of higher interest rate on the principle of Best Cost-Provider Strategy that says “Giving Customer more value for the money by incorporating good-to-excellent attributes at a lower cost than rivals” (Thomsun and Stricklang, page 150).

The table 4.4(a) and figure 4.4 b) can illustrate these findings and augments. As for Mwalimu FOSA, most respondents feel comfortable with the current interest rates as showing in Table 4.4(c) and Figure 4.4(d).

Table 4.4(a)

<table>
<thead>
<tr>
<th>Willingness</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Yes</td>
<td>34</td>
<td>28.3</td>
<td>28.3</td>
<td>28.3</td>
</tr>
<tr>
<td>Valid No</td>
<td>86</td>
<td>71.7</td>
<td>71.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>120</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Would you wish to pay higher loan interest in order to improve the dividend rate?

Whereas 28.3% of the respondents said they would will to pay higher loan interest in order to improve the dividend rate, a big majority of 71.7% disagreed to this.

Table 4.4(c)

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td>Low</td>
<td>14</td>
<td>11.7</td>
<td>11.8</td>
</tr>
<tr>
<td></td>
<td>Fair</td>
<td>70</td>
<td>58.3</td>
<td>58.8</td>
</tr>
<tr>
<td></td>
<td>High</td>
<td>35</td>
<td>29.2</td>
<td>29.4</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>119</td>
<td>99.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing</td>
<td>System</td>
<td>1</td>
<td>.8</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>120</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
The current interest of the SACCO’s was rated by the respondents as; low (11.8%), fair (58.8%) and high (29.4%).

4.5 Government and Performance of the Front Office

The government related factor include its policies on co-operative management as stipulated in the Co-operative act of 1997. Most respondents’ feel that the free environment created by the government is good for the co-operative given the liberalized global market that exists worldwide. However most respondents (49%) feel that the government has a role to play. In particular by issuing a policy that will protect their
savings and investment with the FOSA. Here members think of a body similar to the Banks Depositors Protection Fund.

Table 4.5

<table>
<thead>
<tr>
<th>How does the government affect the performance of the front office?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Valid Totally important</td>
</tr>
<tr>
<td>Unimportant</td>
</tr>
<tr>
<td>Fairly important</td>
</tr>
<tr>
<td>Important</td>
</tr>
<tr>
<td>Very important</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

A majority of the respondents (49.2%) rated the role of government in the performance of front office as important. 21.7% as fairly important, and 15.8% as very important.
4.6 Economic Factor and Performance of the Front Office

Most respondents agree that a growing economy will generally improve their savings which will in turn increase their ability to borrow money from their FOSAs. The Table 4.6 and Fig. 4.6 below helps to illustrate this point.

Table 4.6

How does the economic factor affect the performance of the front office?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Totally important</td>
<td>5</td>
<td>4.2</td>
<td>4.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Unimportant</td>
<td>6</td>
<td>5.0</td>
<td>5.0</td>
<td>9.2</td>
</tr>
<tr>
<td>Fairly important</td>
<td>3</td>
<td>2.5</td>
<td>2.5</td>
<td>11.7</td>
</tr>
<tr>
<td>Important</td>
<td>91</td>
<td>75.8</td>
<td>75.8</td>
<td>87.5</td>
</tr>
<tr>
<td>Very important</td>
<td>15</td>
<td>12.5</td>
<td>12.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>120</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.6

How does the economic factor affect the performance of the front office?
A majority of the respondents (75.8%) rated the effect of economic factors on the performance of the front office as important, and 12.5% as very important.

4.7 Management and Performance of the Front Office

In 1991 Coca-cola granted one million shares of stock worth 81 million dollars to its CEO (Chief Executive Officer), Roberto Goizueta. The award was based on Coca-Cola’s performance under Goizueta’s leadership. (Source: Financial Management Theory and Practice by Eugene F. Brigham and Louis C. Gapenisk, page 22).

The findings of the study show that most members (83%) and employees consider management of their FOSA as the most important factor that directly affects the performance of FOSA. For example, under the current management, the turnover has been increasing by an average of 15% p.a. From 42 million in 1999 to 120 million in 2004 financial year. The management team is under Mr. Kimani who is the General Manager.

Table 4.
How does the management affect the performance of the front office?

<table>
<thead>
<tr>
<th>Valid</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Totally</td>
<td>5</td>
<td>4.2</td>
<td>4.2</td>
<td>4.2</td>
</tr>
<tr>
<td>Unimportant</td>
<td>11</td>
<td>9.2</td>
<td>9.2</td>
<td>13.3</td>
</tr>
<tr>
<td>Fairly</td>
<td>21</td>
<td>17.5</td>
<td>17.5</td>
<td>30.8</td>
</tr>
<tr>
<td>Important</td>
<td>43</td>
<td>35.8</td>
<td>35.8</td>
<td>66.7</td>
</tr>
<tr>
<td>Very</td>
<td>40</td>
<td>33.3</td>
<td>33.3</td>
<td>100.0</td>
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<tr>
<td>Total</td>
<td>120</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figure 4.7

Most of the respondents felt technology important affect the performance of the front office, with 17.5% rating it as fairly important, 35.8% as important and 33.3% as very important.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION:
This chapter summarizes and discusses the findings of the study, recommendations, limitations of the study and suggested areas for further research.

5.2 SUMMARY AND CONCLUSION
The objective of this study was to identify the determinants of or factors affecting the performance of the Mwalimu FOSA and to establish the major determinants or factors among the ones identified. In order to analyse these objectives, the possible determinants were listed from literature and then investigated with a view to establishing the major ones as perceived by the members or employers of Mwalimu FOSA. The findings of the study revealed that the Mwalimu FOSA is sensitive to all the factors or the determinants investigated. Some of the determinants are more influential than others. The following paragraphs summarizes these findings;
Among economic factors, a countries economic growth and low level of savings are considered the major determinants of the performance in front office savings services. While cost of borrowing and transaction cost of products are considered the least determinants.
In the political environment, many respondents indicated that adequate government policy on FOSA management was the most important determinants of FOSA's
performance. As regards FOSA's specific factors, the quality of management is seen as the major determinants of the performance of FOSA's product in the SACCO's movement. Also considered as important determinants of the FOSA's performance is the stability level and future expectations of the financial stability of the FOSA, SACCO movement. Most respondents expect the improved level of technology innovation to enhance stability and hence improve the performance of FOSA. This will translate into efficient services and hence better performance.

Based on the findings of the study and observations during data collection, some conclusions can be made. First it was noted that some of the respondents do not understand most of the determinants that were being investigated. These means that Kenya FOSA movement may not be sensitive to some of the listed determinants

FOSA movement is one of the best means of mobilizing scarce economic resources and is the best way in which FOSA's can raise cheap capital for their expansion. It's also a means by which middle income earners can raise their capital. Given this significance it is necessary that the FOSA movement be made effective and efficient. There should be no unnecessary interference in operation of the FOSA. The ministry of co-operatives should thus provide an enabling environment for the market to achieve excellent performance. In this way, multiplier effects will be achieved. Another observation is that all respondents agreed the FOSA's internal related factors affect the performance of the FOSA more than any other factor. Specifically all agreed that quality of management determines to the largest extent., the FOSA 's performance
5.3 RECOMMENDATION

The government plays a vital role in the operations of Sacco movement in the country. It does so through supervision role, taxation policies, provision of adequate legislation and timely release and continuous flow of information. Its clear from the findings that all the above mentioned factors are very important as far as the government participation at the FOSA movement is concerned.

Since FOSA’s foster mobilization of savings into productive investments for middle and small income individual, the government should promote savings through rationalization of interest rates in the financial sector. Interests rates should be seen to be reasonable and not punitive. Any business activities thrive well in an atmosphere of good management. The government should therefore, put in place measures to ensure the management committee and managers of FOSA’s are held responsible in case of loss of funds. FOSA’s whose products are available to members should be keen when analyzing any products that it intends to offer. This is because it may affect its performance. This scenario can attract the predators in form of banks and other financial institution that offer similar products.

5.4 SUGGESTED AREAS FOR FURTHER RESEARCH.

This study only focused on the major factors determining FOSA’s performance but not on the dependence of the factors on each other. These factors may be
interrelated such that one causes the other. Setting out to determine the inter-
relationship between the factors can be area for future research.

Only members and employers of FOSA were taken as the sample of study. Many
other players such as government officials, investment advisors like KUSCCO and
parents SACCO, management staff and government agencies were left out. Future
research should thus concentrate on these areas
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## APPENDICES

### APPENDIX I

#### BUDGET

<table>
<thead>
<tr>
<th>A</th>
<th>Cost of Proposal</th>
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<tr>
<td>(a)</td>
<td>Typing and printing 50 pages @ 30</td>
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</tr>
<tr>
<td>(b)</td>
<td>Photocopying 3 copies x 50 @ 2</td>
<td>300</td>
</tr>
<tr>
<td>(c)</td>
<td>Binding 5 copies @ 70</td>
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<tr>
<td>(d)</td>
<td>Traveling expenses</td>
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<tr>
<td></td>
<td></td>
<td><strong>4,150</strong></td>
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</table>

<table>
<thead>
<tr>
<th>B</th>
<th>Projected cost of project</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(e)</td>
<td>Traveling expenses</td>
<td>4,000</td>
</tr>
<tr>
<td>(f)</td>
<td>Cost of processing data</td>
<td>3,000</td>
</tr>
<tr>
<td>(g)</td>
<td>Typing and printing</td>
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<td>(h)</td>
<td>Photocopying</td>
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<tr>
<td>(i)</td>
<td>Binding 5 copies @ 1000</td>
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<tr>
<td></td>
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<td><strong>15,000</strong></td>
</tr>
<tr>
<td>(j)</td>
<td>10% contingencies</td>
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</table>

**Total Cost** | **20,650**
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<tr>
<td></td>
<td>1 Week</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Adjustments</td>
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</tr>
<tr>
<td></td>
<td>1 Week</td>
<td></td>
</tr>
<tr>
<td>3</td>
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APPENDIX III

Isaac Odek
Private bag
Kiambu.

Letter to respondents

Dear Sir/Madam,

I am a postgraduate (MBA) 2nd year student in the faculty of commerce of Kenyatta University. I am currently collecting data to assist me to write my research project as regards the performance of Front Office Service Accounts (FOSA) or Withdrawable Savings Fund (WSF) for Mwalimu SACCO, Nairobi.

Kindly fill the attached questionnaire, which has been designed to sample opinion on the performance of WSF. Your opinion will be the answers because different people view things differently and at the end they are both correct. After carefully reading the questions, answer them by checking the blank box that corresponds to your feeling about the subject.

The information you give will be treated with strict confidentiality. Thank you in advance for your kind co-operation.

Yours Sincerely,

Isaac Odek
APPENDIX IV

QUESTIONNAIRE

FACTORS THAT AFFECT THE PERFORMANCE OF FRONT OFFICE SERVICES. A CASE OF NAIROBI SAVINGS AND CREDIT SOCIETIES.

The information collected from this questionnaire will be treated in strict confidence and will be used only for this academic study.

1. Name of your front office service savings and credit co-operative ..................................................

2. What is your position in the front office service? Tick the correct case.
   a) Employee
   b) Member (a\c holder)
   c) Management committee member
   d) Other (specify) ..........................................................

3. What services or products do you regularly get from your front office. (Tick the Correct case)
   a) Savings and withdrawals
   b) Fixed deposit accounts
   c) Standing orders
   d) Bankers cheque
   e) Advances

40
f) School fees accounts

g) Junior accounts

h) SAY'S facilities

i) Salary processing

j) Providing advances

k) Others (specify)

4. How long have you been a member (a/c holder) of your SACCO's front office service. (✓ Tick)

a) 1 to 2 years

b) 3 to 4 years

c) 5 years and above

5. If you could change one thing about the product named in no. 4 what would it be and how? ........................................................................................................................................................................

6. What is that you most value in your front office?

........................................................................................................................................................................

7. What is the that you value most in your front office competitors? (Tick the correct case)

1.) Their low interest rate

2.) Loan repayment period

3.) Advances management

4.) Salary processing

5.) Savings and withdrawals
6. Others

8. What trends in your lifestyle are likely to change your needs from your front office services? (Tick the most appropriate)
   1) s
   2) Retirement
   3) Better products from competitions
   4) Others (specify)

9. Who else provides products and services that could be substituted for your SACCO’s front office products. (Tick the appropriate)
   1.) Banks
   2.) Micro- finance
   3.) N.G.O funded programmes
   4.) Others

10. Which services needs an improvement in your So’s front office products?
    (Tick)
    1.) Savings and withdrawals
    2.) Fixed deposits
    3.) Standing orders
    4.) Bankers cheque
    5.) Advances
    6.) School fees accounts
    7.) Junior accounts
8.) SAYE facilities
9.) Salary processing
10.) Providing advances
5) 11. How would you rate your front office level of technology use (e.g. use of computers and telephone services.)
6) Fair □  Good □  Excellent □
7) 12. Would you wish to pay higher loan interest in order to improve the dividend rate?
8) Yes □  No □
9) 13. How do you rate the current interest?
10) Low □  Fair □  High □
11) 14. How do you rate the performance of the front office?
12) Fair □  Good □  Excellent □
13) 15. Do you see a growth and bright future for your front office?
14) Yes □  No □  No idea □  50-50 chances □
15) 16. Below is a list of some factors that may affect the performance of front office. Please indicate how important each of the factors is related to your front office.
16) Key 5=Very important
17) 4=Important
18) 3=Fairly important
19) 2=Unimportant
20) 1=Totally Unimportant

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<th>(b) Economic factors</th>
<th>(c) Competition</th>
<th>(d) High interest rates</th>
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