THE EFFECT OF LICENSING REQUIREMENTS ON THE PERFORMANCE OF COOPERATIVE SOCIETIES IN KENYA. A SURVEY OF DEPOSIT TAKING SACCO SOCIETIES IN NAKURU COUNTY.

BY

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A research project submitted in partial fulfillment for the requirements of the award of masters of business Administration degree (strategic management), school of business of Kenyatta University

MAY 2013
DECLARATION

This research project is my original work and has not been presented to any other institution or examination body.

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This research project has been submitted with my permission as a University supervisor.

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Chairman's approval

This research project has been submitted with my permission as the chairman of the department.

Sign--------------------------------- Date-----------------------------------

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Chairman

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DEDICATION

This research project is dedicated to my beloved wife a Dorcas Wamaitha. To my parents Dorcas Wanjiru and Johnson Macharia who laid the foundation. It also dedicated to the staff Menengai Hill primary school, Engoshura primary school and my friends for prayers and support when writing the project.
ACKNOWLEDGEMENT

My utmost gratitude goes to God, the almighty for granting me the wisdom and strength to write this proposal.

I sincerely thank my supervisor Janesther Karugu for the professional advise she gave me to ensure that the project meet the required standard.

My passionate tribute goes to my wife for her unending support she gave through the years.
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**ABREVIATION AND ACRONYMS**

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<th>Abbreviation</th>
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<tr>
<td>ATM</td>
<td>Automatic Teller Machine</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<td>CSA</td>
<td>Cooperative Society Act</td>
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<td>ERP</td>
<td>Enterprise Resource planning.</td>
</tr>
<tr>
<td>FOSA</td>
<td>Front Office Saving Account</td>
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<td>GOK</td>
<td>Government of Kenya</td>
</tr>
<tr>
<td>ICT</td>
<td>Information Communication Technology</td>
</tr>
<tr>
<td>MIS</td>
<td>Management Information System.</td>
</tr>
<tr>
<td>PAF</td>
<td>Prevention Appraisal Failure.</td>
</tr>
<tr>
<td>SACCOs</td>
<td>Saving and Credit Cooperatives Societies.</td>
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<tr>
<td>SASRA</td>
<td>Sacco Society Regulatory Authority.</td>
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<tr>
<td>SCM</td>
<td>Supply Chain Management</td>
</tr>
<tr>
<td>CRM</td>
<td>Customer Relation Management.</td>
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<tr>
<td>TQM</td>
<td>Total Quality Management</td>
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DEFINITION OF TERMS

i) Capital adequacy - Is the capital a bank or other financial institution has to hold by its financial regulator. This is the context of functional reserves banking and is usually expressed as a capital ratio of liquid assets that must be held comparable to the amount of money that is lent out.

ii) Corporate governance - involves regulatory and market mechanisms, and the roles and relationships between a company's management, its board, its shareholders and other stakeholders, and the goals for which the corporation is governed.

iii) Credit union - is a member-owned financial cooperative, democratically controlled by its members, and operated for the purpose of promoting thrift, providing credit at competitive rates, and providing other financial services to its members.

iv) Infrastructure - is basic physical and organizational structures needed for the operation of a society, enterprise or the services and facilities necessary for an economy to function.

v) Management Information Systems - are typically computer systems used for managing three primary components: technology, people (individuals, groups, or organizations), and data.

vi) Performance - Is the accomplishment, execution, working out, carrying out of anything ordered or undertaken.

vii) Savings and Credit Co-operatives – Are associations of people who have come together with common goals geared at improving their livelihood economical
Sacco Society regulatory authority SASRA is a semi autonomous government agency operating under the ministry of cooperative development and marketing. It was created by section 40f the SACCO society act 2008. It has the duty to license and supervise all deposit taking Sacco Societies in Kenya. Its operation are guided by the cooperative societies Act, Sacco society Act and Sacco society regulations 2009. The regulation came into force in June 2009. The setting up of SASRA was in response to the rapid growth of the Sacco without a corresponding legal framework to guide its growth and development. With this in mind the SACCO Societies Act in 2008 was enacted to provide for licensing, regulation and supervision of deposit taking Sacco Societies through the adoption of prudential and non prudential regulations. Therefore the establishment of SASRA was in line with the Governments financial sector reform initiative. It should be remembered Kenya seeks to strengthen its position as a financial hub for the region and as a reference point for financial development. The ongoing financial reform process in the financial sector seeks to first protect the interest of Sacco members and ensure public confidence towards the Sacco sector and secondly to spur Kenya’s economic growth through mobilization of domestic savings. SASRA immensely contributes to the national co-operative sector flagship projects and support initiatives by developing and implementing relevant programmes and activities in cooperative governance, safety and security of members’ deposits, business process automation in the Sacco sub-sector, research and development in the Sacco sub-sector, as well as carrying out education and training programmes for regulated Sacco Societies. The general objective of the study is to assess licensing requirements on performance of deposit taking SACCOs in Kenya. The specific objectives of the study were: To assess the effect of capital adequacy on the performance of deposit taking SACCOs in Kenya. To assess the effect of Management information system on the performance of deposit taking SACCOs Kenya, To assess the effect of corporate governance on the performance of deposit taking Sacco in Kenya. The study adopted the descriptive research design. The target population was 65 respondent comprising of senior management staff and Board of Directors of 3 licensed deposit taking Sacco Societies in Nakuru County. The questionnaire design adopted both open ended and close ended questions from which respondents were required to fill in. The researcher used questionnaires to solicit data from the subject. The results of the analysis were presented and interpreted in the form of tables and charts, percentages tabulation frequencies mean and other measure of central tendency. Tables were used to summarize the responses for further analysis and facilitate comparison thus generating qualitative reports of the study. Most SACCOs reported improvement in their performance both in membership, portfolio and efficiency. His is attributed to be the result of SACCO Licensing requirements. Most SACCOs are complying with the regulator requirement so as not to be locked out of the business by the operator. It is also clear from the study that all the SACCOs are conversant with the new licensing law.
CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Survival for the fittest is the law of jungle that is applicable in a competitive market place where firms struggle to fight for survival ensuring survival of the firm is a critical task of the manager. But that alone is not enough, the manager has also to actively seek growth. No matter how big or powerful a firm may be today, it is sure to be left behind in the race by newer, healthier and more efficient firms if it does not pursue growth. Internal factors such as choice of technology, efficiency of labor competence of managerial staff, company image and resources impinge upon firm survival and growth (Pareek U, 1990).

The globalization of business, customer changing preference, dynamic product change, increased competition and technology and the changing process of management have called for emergence and need for quality management. Quality has become a strategic issue among many organization all over the world because of the increased competition among industries in delivery of product and services. Therefore organization are seeking quality to attain competitive business growth, market share, profitability and a higher return on investment (Dale, 1994).

In today’s global competitive environment delivering quality services is considered as an essential strategy for success and survival (Zeithamal et al, 1990). Even the public sectors organization have come under increasing pressure to deliver quality service and improve performance. Customer need and expectation are changing when it comes to public services and quality requirement. However service quality in public sector organization is slow and is further exacerbated by difficulties in measuring outcomes greater scrutiny from public and press, lack of freedom to act in an arbitrary fashion and requirement for decision to be based in law. (Teicher et al 2002).

In today’s fast changing world one of the most critical task of every manager is to anticipate and prepare for the increasing competition. Competition is increasing in terms of more competitors, more products, wide variety of products, better quality of products and a customer who is today better informed and more aware than ever before. The increasing reach and popularity of TV as a means of information has also contributed to the increasing competition. The manager today has more potential customers to sell to and easy access to
these customers yet the market is crowded with many competitors wooing the same customer. (Sinha, 1990)

According to Dale (1994) Technology has amplified the need for quality and its control fueled by automation and flexible services system which consist of manufacturing cell and computer system have increased the complexities of production calling for high quality conformance. The need for standardization and conformity for material process and products arising from depersonalization of manufacturing based on standard association reach standard for certain items thus the need for most organization to conform to quality as a necessity to maintain their organization customers due to this concept quality management was introduced. (Dale, 1994)

The American quality expert Philip Crosby wrote that many companies chose to pay for poor quality in what he referred to as price for non conformance. The cost are identified as the prevention appraisal and frailler (PAF) model prevention cost are associated with design, implementation and maintenance of TQM system. They are planned and incurred before actual operation and can include product requirement that is the setting specification for incoming materials, processes and finished product service quality which is the creation of plans for quality reliability, operational production and inspection. Quality assurance is the creation of plans for and maintenance of the quality system and training which is the development preparation and maintenance of process (Crosby, 1991).

One of the main element of management is improving service delivery and emphasizing the citizen as customer. The development of a customer or user focuses in the public sector in order to achieve a more responsive bureaucracy has become an emerging concern in many countries, and indeed the provision of public good and services has inferably become a critical issue in current reform effort (Pinto 1998). Service quality and better customer care attract important support, establishing a service delivery orientation has become a widespread reform target, and an emphasis on customer or user support in public sector is now part of an overall focus on performance and on achieving a more responsive public sector (Gaster 1999).

1.1.1 Saving and Credit union

A credit union is a member-owned financial cooperative, democratically controlled by its members, and operated for the purpose of promoting thrift, providing credit at competitive rates, and providing other financial services to its members. Many credit unions also provide
services intended to support community development or sustainable international development on a local level, and could be considered community development financial institutions (Diekmann, 2012).

Worldwide, credit union systems vary significantly in terms of total system assets and average institution asset size, ranging from volunteer operations with a handful of members to institutions with several billion dollars in assets and hundreds of thousands of members. Credit unions differ from banks and other financial institutions in that the members who have accounts in the credit union are the owners of the credit union and they elect their board of directors in a democratic one-person-one-vote system regardless of the amount of money invested in the credit union. Generally speaking, credit unions see themselves as of "higher moral ground" than banks; they feel that they are "community-oriented", and "serve people, not profit" (Corrolly, 1984).

Surveys of customers at banks and credit unions have consistently shown a significantly higher customer satisfaction rate with the quality of service at credit unions. A credit union's policies governing interest rates and other matters are set by a volunteer Board of Directors elected by and from the membership itself. Credit unions offer many of the same financial services as banks, often using a different terminology; common services include: share accounts (savings accounts), share draft accounts (checking accounts), credit cards, share term certificates (certificates of deposit), and online banking (Mcpherson, 1999).

Modern credit union history dates to 1852, when Franz Hermann Schulze-Delitzsch consolidated the learning from two pilot projects, one in Eilenburg and the other in Delitzsch in Germany into what are generally recognized as the first credit unions in the world. He went on to develop a highly successful urban credit union system. In 1864, Friedrich Wilhelm Raiffeisen founded the first rural credit union in Heddesdorf (now part of Neuwied) in Germany. Although Schulze-Delitzsch can claim chronological precedence, Raiffeisen is often viewed as more important today. Rural communities in Germany faced a far more severe shortage of financial institutions than the cities. They were viewed as unbankable because of very small, seasonal flows of cash and very limited human resources. The organizational methods Raiffeisen refined there, which levered what is today called social capital, have become a hallmark of the global credit union identity (Diekman, 2012).
In Kenya, the cooperative movement was started in 1908 by the white settlers farmers for the purpose of marketing their farm products. After independence, the idea became more popular and many people started coming together forming various types of cooperatives. In 1966 the cooperative societies Act was passed to regulate activities of cooperative societies, in recognition of the vital role of the cooperative movement. There is a ministry that is dealing with the affairs of cooperatives in Kenya today (GOK2012).

According to SASRA2011. The Sacco subsector is part of the massive Kenyan Co-operative movement comprising of both financial and non financial cooperatives. Sacco societies are the financial cooperatives while non financial cooperatives include Dairy, livestock, coffee, fishermen, housing, multipurpose and many others which have made their indelible mark to the lives of Kenyans. Being the largest in Africa, Saccos control 67% of the total assets and 62% of the total deposits for the entire continent. The uniqueness of the Sacco movement is its geographical distribution across Kenya. In all the 47 counties there are numerous Saccos providing financial access to hitherto financially excluded Kenyans. As envisioned in Kenya's development blueprint, Vision 2030, Saccos are already playing their critical role of savings mobilization for investments. Many rural and urban Kenyans now own homes and other business enterprises courtesy of funds through their Saccos.

Savings and Credit Co-operatives (Sacco) are associations of people who have come together with common goals geared at improving their livelihood economically. They are an important part of the financial sector in Kenya, providing savings, credit and insurance services to a large portion of the population. Saccos have played an important role in the development of the Kenyan economy which has led to the uplifting of the standards of living of the people. Through their Saccos, members are able to access quality education and Medicare, funds for enterprise development, home purchase or construction and many other financial benefits. Due to the rapid growth, the Government of Kenya commitment to establish SACCO legislation, implement international financial performance standards and begun supervision of SACCOs with the sole aim of providing the incentive for improvement of SACCO management and performance. The critical role of Saccos has been recognized under vision 2030 of mobilization of savings for investments. It is therefore expected under the new Sacco legislation and adoption of prudential regulations growth of Saccos will quickly improve. The Sacco movement has entrenched the culture of savings to Kenyans which is a pre-requisite for wealth creation. On retirement employees of various organizations walk home smiling.
with savings accumulated in their Saccos during their employment period (SASRA 2011)

Kenya has the most vibrant and dynamic Sacco sectors in Africa. They range from agricultural and livestock co-operative societies in the rural areas to the savings and loan co-operatives in the urban centers. Many countries in Africa have focused attention on the legislation of micro-finance and non banking financial institutions, some have adopted prudential standards specific to Saccos while others uses existing banking laws to regulate Saccos. Thus, in most of the African countries, regulation and supervision of Saccos are under the Banking supervisory Authority (central banks). Kenya and South Africa have independent regulators with specific regulations Sacco Societies Act and Co-operative Banking Act respectively. Kenya has the largest and the most vibrant Sacco sector in Africa commanding 67% and 62 % of the total assets and savings respectively in the African continent (Carilus, 2011).

There has been need for regulatory reforms because micro financing institution legislation does not generally recognize the saving operation of SACCOs. Bank legislation was inappropriate for SACCOS who provided cooperative finance services to its members. Post office saving bank Act allows member for deposit taking but strict provision of credit to customers (Rosaline 2012). Sacco societies were first registered in Kenya in a thrift license in 1964 with the objective of mobilizing saving from their members. However it was not until 1969 that the government encouraged the registration of Saccos to mobilize saving and give credit to employed people who had a similar common board earlier Sacco had dismally security of saving. In the year 2008 Sacco regulatory Authority was created by section of the Sacco society act to regulate deposit taking Saccos. Sacco Society Regulatory Authority SASRA is a semi autonomous government agency operating under the ministry of cooperative development and marketing. It was created by section 4 of the Sacco society Act 2008. It has the duty to license and supervise all deposit taking Saccos in Kenya. It’s operation are guided by the cooperative societies Act, Sacco society Act and Sacco society regulations 2009. The regulation came into force in June 2009 (Carilus, 2011).

The setting up of SASRA was in response to the rapid growth of the Sacco without a corresponding legal framework to guide its growth and development. With this in mind the SACCO Societies Act in 2008 was enacted to provide for licensing, regulation and supervision of deposit taking Saccos through the adoption of prudential and non prudential
regulations. Therefore the establishment of SASRA was in line with the Governments financial sector reform initiative. It should be remembered Kenya seeks to strengthen its position as a financial hub for the region and as a reference point for financial development (SASRA 2011).

There is an effort to develop regulations to take care of the remaining Non Deposit Taking Saccos to ensure that the whole sector is prudentially regulated. The Cooperative Movement has played a very big role in the development of our country by pooling resources for investments and wealth creation. The Movement remains the most important vehicle through which poor Kenyans can pull resources and eventually grown to cover various economic areas. These include but not limited to Saccos, transport, housing, agricultural, manufacturing, warehousing, ICT amongst others. This way the movement controls 43% of our gross domestic product and contributes about Kshs.210b towards our national savings. At the same time, the co-operatives sector today employs over 300,000 Kenyans directly and many more indirectly. According to the Kenya economic report 2009, of the 20 million Kenyan adult population 22.5% are served by commercial banks and MFls while 17.6% are served by Saccos. Due to this large coverage and focus on small income class it made it imperative for Saccos to be regulated.(GOK2012)

According to SASRA 2011. Saccos are distributed widely across the counties in the country and therefore better positioned to bring more Kenyans under financial inclusion compared to other financial services providers. This position will be enhanced by the adoption of prudential and non prudential regulations as envisioned in the Sacco Societies act of 2008. SACCOs in Kenya are gradually responding to the fast changes in the financial environment and adopting new approaches to the SACCO model. SACCO membership is based on common bonds and knowledge about the borrower. These mechanisms, SACCOs argue, have proven their ability to manage risk, enforce lending contracts and reduce the transaction costs of delivering credit. Until recently, SACCOs have been able to retain their membership and attract new members through natural affiliation, stemming from the common bond among members. With increased competition from other financial service providers and other factors such as retrenchment, Sacco membership was on the decline prompting the SACCOs to come up with strategies and products to assist them cope with these challenges. Some of these strategies include extending to alternative markets from what they had predominantly served
and diversifying their product range.

According to Rosaline 2012. The current challenges facing the sector are similar to those of the cooperative movement which include weak governance, low uptake of information technology, and low level of professional skill development in management in both senior and junior staff. There is also a challenge of strong competition from the mainstream commercial banks and lack of institutional capacity development. The current legal framework comprising of the Sacco act and regulations is meant to address this challenges. However a multi pronged approach to addressing these challenges encompassing the sector stakeholders and the authority would be more appropriate. The new constitutional dispensation also places responsibility on the citizens through a devolved government system will also indirectly addresses the challenges facing the Sacco subsector. The county system will also require financial provider’s including Sacco to be competitive enough in order to attract resources at the county level.

1.1.2 Sacco licensing

A banking license is a prerequisite for a financial institution that wants to provide banking services. Under most jurisdictions the fundamental banking activities, such as taking deposits from the general public are exclusive to holders of a banking license. A non-banking financial company is an institution that provides financial services without meeting the legal definition of a bank, such as holding a banking license. (Delta, 2012) Licenses are typically issued by the banking regulatory body in which the bank is established. There is a relatively long and complicated procedure that goes into the application. This procedure will also depend on the type of bank license that you wish to apply for. Licensing is generally broken down into different categories, while each category has a different specialization, and a different time frame involved in the banking license application process.

Due to the number of different sectors in which banks may be involved, there are also bank licensing packages available. The main bank license is the one that allows the bank to engage in all of the activities that one would expect a major bank to partake in, including retail banking, merchant acquiring, cash management, asset management and trading. Obtaining a bank license that allows you to engage in all of these activities will generally take the longest, and cost the most. Additionally, however, you can apply for one that has fewer or even only one specialization (Zantrio2012)
With effect from 18th June 2010, the date of publication of the Sacco societies (Deposit taking Sacco Business) Regulations, 2010: all Sacco societies intending to operate FOSA had to apply for license from SASRA (section 23 of the Act and regulation 4(2)). And all SACCO society already operating FOSAs, were required to apply for license from SASRA by 17th June 2011. To register, Sacco society is required to have a certified copy of Sacco society registration certificate issued under the cooperative society act (Cap 490) Laws of Kenya, a verified official notification of the Sacco society registered office and branches if any, a certified copy of Sacco society by-laws, a certified extract of minutes of the general meeting resolution authorizing the application for deposit taking licenses. (This requirement applies to SACCO societies seeking to commence FOSA operations), a certified copy of the financial statement for the last three years, evidence that the society has adequate capital by completing and submitting the capital adequacy return.

Sacco must prepare and submit a comprehensive four year development plan in line with transitional provision and feasibility study for Sacco society making application to commence FOSA operations. It should detail the vision and the mission, the scope and nature of business operation, Economic and financial environment, organizational and management structure, finance and risk analysis, projected financial statement and analysis. The projection should show how the institution will meet the prudential standard within the plan namely; Capital adequacy- indicating sources of capital over the plan period. Loan quality and provisioning- Evaluate the loan portfolio, age, the delinquency and make the provision appropriate. Liquidity- Plan on liquidity management in full compliance with the regulatory requirement. Investment- divesting to comply with the regulation 48 (limit on property, equipment and financial asset) sustaining the asset structure and quality. Control measure and monitoring procedure- The financial projection based on business plan and hence should assist in monitoring the strategic goals of the Sacco society and therefore an implementation plan and monitoring framework should be included. Where a Sacco has a current business plan the same should be reviewed in the light of the regulatory requirement and four year transitional period. Fit to proper forms- duly completed "fit and proper test" forms submitted with the application for the fulfillment for license. The forms should be completed by all persons proposed as directors and senior management as defined in the application forms (Carilus, 2011).

The SARSA assesses the application for fulfillment of the requirement in the first stage and if satisfied issue a letter of intent to the Sacco society to put the following in place: Institutional
infrastructure or business premises appropriate for deposit taking SACCO Business, which include but not limited to; A banking hall; Adequate working space; Physical security measures; Strong room and safe. Management information system -The SACCO society management information system must be capable of performing and accounting for all transaction and providing minimum report required by the authority in an accurate and timely manner. The system should be operationally integrated and provide adequate security including data back up. Risk management policies and internal control system -Sacco societies face constant risks in the course of their business including, credit, liquidity, interest rates, operational, reputation and regulatory risks. The Authority will require the society to develop risk management policy framework addressing each of the risk identified. The risk management frame work must address the following key considerations; Clear definition of roles and responsibility of the board and management in development, implementation and review the risk management system; adequate policies procedures and limits; Risk monitoring and information system; adequate internal control and audit specific in each risk area.

Upon the completion of the requirement, specific in the letter of intent, the Sacco shall notify SASRA so that an independent on site inspection can be done to ascertain compliance. The inspection will be carried out within 30 days from date of notification. Upon completion of on site inspection, if SASRA is satisfied that the society has complied with all the conditions as stated in the letter of intent, it shall issue a compliance letter allowing the Sacco society to pay the license fee within 30 days. SASRA shall issue a license to the applicant upon payment of License fee of ksh 50,000 for head office and ksh 20,000 for each branch. The license shall be issued within fourteen days from date of payment of license fee. After licensing, the Sacco within fourteen days from licensing publishes in Kenya gazette particulars of any newly licensed Sacco. (Carilus, 2011)

According to PCO (Jan2013). Nakuru County have three licensed deposit taking SACCOs namely, Cosmopolitan Sacco, Egerton University Sacco and Tupendane Sacco. However, Stima Sacco, Harambee Sacco, Mwalimu Sacco, Vision Sacco and Afya Sacco have Branches in Nakuru town.
1.2 Statement of the problem

Sacco Societies have operated under cooperative act cap 490 CSA of law of Kenya a general legislation for all cooperatives. CSA was first enacted in 1966 and amended in 1997 to give management committee of Sacco society’s greater autonomy in running of Sacco. Cooperative societies in Kenya are faced with various challenges. Challenges that faces Sacco societies are; inadequate governance structure with no clear distinction between executive and non-executive, weak internal control systems, inadequate performance standard, lack of disclosure requirement standard, low adoption of information and computer system, poor HRM leading to poor quality of staff, high staff turnover, high competition from bank adopting cooperative system diverse products. (SASRA, 2011).

It is the basis of the above challenges that Sacco Societies need to provide improved performance to counter banks and other financing Institutions. Directors are required to adopt best practices. There is strict delineation and separation of responsibilities with CEO. The board of directors are required to have to undergo fit and proper test before being board members. Election by rotation is emphasized to ensure continuity and reservoir of knowledge.

Sacco Societies are required to embrace efficiency in management operation. Adopt international prudence standards. Adopt international financial reporting systems. Adopt disclosure requirements. Be more responsive to external regulation. Be ready to submit regular and timely report to the authority. Pay for cost of regulation. Prepare and have readily available data (data bank). Invest more heavily in ICT. Invest more in human capacity building. Heavier capitalization of Sacco Societies will be required through regular retention of surplus earning (Joel, 2012).

In response to the challenges facing Sacco Societies, the government introduced Sacco society regulatory authority (SASRA) under the Sacco society act 2008 with the mandate to license, regulate and supervise deposit taking Sacco societies. The setting up of SASRA was in response to the rapid growth of the Sacco Societies without a corresponding legal framework to guide its growth and development. With this in mind the Sacco Societies Act in 2008 was enacted to provide for licensing, regulation and supervision of deposit taking Sacco Societies through the adoption of prudential and non-prudential regulations. The ongoing financial reform process in the financial sector seeks to first protect the interest of Sacco members and ensure public confidence towards the Sacco sector and secondly to spur
Kenya's economic growth through mobilization of domestic savings. The introduction of a new licensing law will improve performance in the Sacco.

1.3 Objective of the study

1.3.1 General objective of the study

The general objective of the study was to assess the effect of licensing requirements on the performance Cooperative societies in Kenya. A survey of deposit taking Sacco Societies in Nakuru County.

1.3.2 Specific objectives

Specifically the study sought:

(i) To find out if capital adequacy affect the performance of deposit taking Sacco societies in Nakuru.

(ii) To assess the effect Sacco governance on the performance of deposit taking Sacco Societies in Nakuru county.

(iii) To establish the effect of Management information system on the performance of deposit taking Sacco Societies in Nakuru.

(iv) To identify the effect of institutional infrastructure on the performance of deposit taking Sacco Societies in Nakuru County.

1.4 Research questions

The research sought to answer the following questions.

(i) How does capital adequacy affect the performance of deposit taking Sacco Societies in Nakuru?

(ii) What are the effects of Sacco governance on the performance of deposit taking Sacco Societies within Nakuru County?

(iii) What is the effect of management information system on the performance of deposit taking Sacco Societies within Nakuru County?

(iv) What is the effect of institutional infrastructure on the performance of deposit taking Sacco Societies within Nakuru County?
1.5 Significant of the study

The findings of the study will be of great value to the following: The members of the cooperatives who have invested heavily to the Sacco, other cooperative society who would wish to improve on the performance, the study will provide information to potential and current researchers on the effect of licensing on the performance. Government bodies and policy maker can use the findings to formulate policies on the framework of Sacco performance. The research will be of great help to managers, which will help them come up with effective strategies to improve performance with an aim of retaining their customers and also attracting more members.

1.6 The scope of the study

The study was carried out in Nakuru County. The study targeted all senior Management staff and Board of Directors of licensed deposit taking Sacco Society. This was because the population understood the challenges facing Sacco performance.

1.7 Limitation and delimitation of the study

Challenges were encountered during the researcher. The researcher foresaw respondent being reluctant in providing the information finding intimidation. This problem was handled by providing introductory letter from the university and also assuring them their response would be treated with confidentiality. The researcher also encountered financial problems and limited period of time this was countered by carrying out the research within Nakuru and good time management.

1.8 Assumption of the study

The study assumed that the respondent would cooperate and give reliable information and the respondents were aware of the need for quality service for improved performance to counter challenges from commercial banks. It was also assumed that the respondents understood the questionnaire
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of literature related to this study. The materials are drawn from several sources which are closely related to the theme of the study which is to assess the effect of SASRA licensing requirements on Sacco performance.

2.2 Theoretical review

2.2.1 Contribution of quality Gurus

Quality management resulted from the work of gurus and their theories. The American gurus featured in 1950s Joseph Juran, Edward Deming and Armand Feigenbun. The Japanese quality gurus who developed and extended the work of early American quality ideas and model were Kaoufu Ishikwa, Genichi Tanguchi and Shingeo Shingo. The 1970-80s American western gurus notably Philip Crosby and Tom Peters who further extended quality management concept after Japanese success. Deming is widely regarded the father of TQM who developed Japan's road map to quality. It basically consisted of readily available technology and relies on common sense. (Deming, 1971). Deming defined quality as satisfying the customer and not merely to meet the expectation but to exceed them. His philosophy starts with the customer and ends with the customer.

According to Deming, 1978 the means to improve quality lie in the ability to control and manage system and processes properly and the role of management responsibility in achieving this. Deming is also associated with statistical processes control and other problem solving methods which aim to improve processes and reduce the inevitable variation which occurs from common causes and special causes in problem in production. Common causes of variation are systematic and are shared by many operators, machines, or product. They include poor product design, non-conforming incoming materials, and poor working conditions. According to Deming, these are the responsibilities of management. Special causes relate to the lack of knowledge or skill or poor performance are the responsibility of employees. According to Deming, 1986 it is the responsibility of top management to take lead in changing process and system. Top management is responsible for most quality problems. Management should give employee clear standards for what is considered acceptable work.
and provide the methods to achieve it. These methods include appropriate working environment and climate for work free of fault finding, blame or fear. Deming also strongly promotes employee participation. He also came out with 14 points or guidelines for managers: Create a consistency of purpose to improve product and service take a long term view and innovate; Adopt the new philosophy—accept the management style which promotes constant improvement; Cease independence on mass inspection concentrate on improving processes; End the practice of awarding business on the basis of price tag alone, building up relationship with fewer suppliers to understand jointly specification of and uses for materials and other inputs; Constantly and forever improve the system search continually for problems in all processes. It is management job to work on the system; Institute modern method of training the job—for all, to make the best use of every employee; Institute modern method of supervision—managers to focus on quality not numbers; drive out fear—so that people work more effectively; Break down barriers between departments—team working to tackle problems; Eliminate numerical goals for the workforce—eliminate slogans and exhortation, make reasonable request of the workforce; Eliminate work standard and numerical quotas—focus on quality and provide support; Remove barriers that rob workers of pride in their work—for example defective materials, poor tools, lack of management support; Institute a vigorous programs of education and training—for continual updating and improvement; Create a top management structure to push every day on the above 13 points. Top management is where it begins and end (Deming, 1986).

2.2.2 Network Theory

Sometimes planned reform efforts involve attempts to get people and groups within organization to work together more effectively (Connolly, 2000). When this is the aim, the change agent often attempts to increase formal structural connections between people and groups under the assumption that information will flow more freely, barriers and conflict between work functions will break down, and innovative activities will diffuse more effectively in a dense network (Arrighai, 1989). At the same time, however, organization members who stand to lose influence and/or structural autonomy if barriers are broken down may work against efforts to increase formal connections in ways that weaken their influence. In particular, network theorist have found that brokers who bridge the connections between those not otherwise connected have more influence in the network (Brass, 1984). The gaps between individuals who are connected by a third party have become known as structural
The more structural holes or structural autonomy in a network of interaction that an individual can generate, the more influence that person should gain (Burt 2002). Thus, change agents may attempt to increase the formal connections between workers in organization. However, workers who already can link together those not otherwise connected may have an interest in keeping those with whom they linked from becoming linked to each other to maintain their own power. Thus, these spanners of structural holes in the network can maintain their influence by resisting the change agent.

Sometimes, as in the case with the change effort studied, organizational changes, especially those involving reform, are aimed at decreasing the prevalence of functional freedoms and increasing coordination across organizational units. This kind of change often is desired when clear barriers exist between functions in the organization. Illustrations of approaches that consciously emphasize breaking down barriers include reengineering and team- and network-based organizations. However, many other types of change efforts attempt to accomplish this same result. For example, managers sometimes place people together in lower level organizational units or in teams in the hopes that they will work together, have dense ties, and become cohesive.

The basic premise of this type of approach can be described in network terms: Organizations must become densely connected through networks to be flexible and attuned to rapid change in the organization’s environment. It is typically top management that wants to accomplish this type of change. Such change may be good for the organizational as a whole but may be less good for members of separate groups that gain power from their separateness. From the point of view of network theory, change agents who are trying to accomplish greater coordination across units can be understood as advocating dense connections and attempting to increase structural embeddedness defined as dense ties between actors, can affect the quality of relationships. Brass, 1984, for example, found that trust, information exchange, and joint problem solving were all facilitated by embedded relationships. It seems reasonable to assume that brokers would have incentives to resist efforts that would lead to actors being connected directly to each other instead of connecting through the broker. The literature on power in organizations has long assumed that individuals will try to garner access to other people and organizational resources for themselves and restrict access to other people and organizational resources for themselves and restrict access to others as a way of increasing influence. Burt 2002, for example, argued that lower level participants in organizations would
try to develop informal power over others by controlling access to information, people, or resources.

2.2.3 Path-goal leadership theory

This theory by House (1971) states that the leader smooths out the path towards goal and provides a reward towards following them. As a leader, you should understand the need of the people and their desire to act or behave in a way that accomplishes goals and satisfy those needs. This theory is based on a situation of the above kind. If you know the need of a person and his desire to work and he is able to accomplish the task, you can reward him to make him feel happy and satisfied. In essence, you are doing three things. One, you are motivating the member of the group by clarifying the path to personal reward that result from attaining work goals. You have thus fixed him on the job and make him see that his performance can lead to positive or negative rewards. Two, you have already the path goal clear to the member and also told him what the job requires. You need not say too many things about the job to him as this may decrease his interest in work and deter his performance. Three, you may offer the reward to the member of the group who actually accomplished the task. Your reward may be a praise or increase in pay or promotion of the member to a higher position. Your judgment about the desirability of the member to a higher position is crucial. Your judgment about desirability of the member's effort and the goal helps you to decide whether a reward can be given.

It is very important for the leader to know every member as a person in order to use a style to get the best out of the member. A task oriented leader is preferred by a high achievement oriented member whereas a person oriented leader is preferred by a person who needs a good deal of affiliation with others. Similarly, it does good for the leader to know each situation to adjust his style of functioning for better result. With clear task on hand members feel satisfied if the leader is supporting them. They may not show a lot of output but they are satisfied. On the other hand, with a less clear or more vague task on hand members show more output, if the leader directs them to work better. The member in this situation may not be satisfied.

In most work setting, it is usually observed that members are quite dependent on the leader or superior. They also are quite conscious of their status but have very little commitment to work.
Singh (1980) suggests that the leader who is task oriented and nurtures the dependence of the members on him is most effective to dealing with such members. He or she can get the work done in his nurturing task style from members of his group. To a great extent he knows the characteristics of the members work group that he or she utilizes in making the leadership style effective and getting the work done. A leader is a person who has ability to persuade other to get the work done according to (Singh, 1980) a person may be popular but may not have the ability of leadership. Many leaders try to become popular by agreeing with every one thus avoiding any kind of conflict. Their influence on the subordinate or members of the work group may not be very lasting. There leaders who by virtue of their ability to exercise authority and power show better influence on members. It is therefore necessary for a leader to understand his authority and its sources of power, which help him to exercise influence of the subordinate.

2.2.4 Michael porter's five forces of competitive theory.

According to porter, there are five forces of competition that lead individual business struggling for survival in order to remain relevant in the market. Unless the business has stamina to withstand this these forces, they are likely not to survive in the market making the industry unattractive. An attractive industry is one where the combination of the forces drive down overall productivity. Company must therefore apply unique business models to be able to make a return in excess of the industry's average. Change in any of the forces requires a company to re-asses the market place.

The five forces are divided into two i.e. horizontal competition and vertical competition. Horizontal Competition involves threat to new products in the market, determined by: Buyer propensity to substitute, Relative price performance of substitute, The cost of switching to substitute, Perceived level of product differentiation in the industry and what one gains by switching to substitute. Threats to established rivals are also a horizontal competition, this rivalry is determined by:- Number of competitors, Rate of industrial growth, Exit barriers, Diversity of competitors, Information complexity and asymmetry, level of advertising expenses, Economic of scale. Also new entrants are a threat to the industry. New entrant bring new capacity and desire to gain market share. Unless the new entrant are blocked by the incumbent, the profit rate falls towards a competitive level thus creating perfect competition.
Vertical competition involves; bargaining power of buyers which is the ability of customers to put their firm under pressure by forcing price cuts, bargaining for high quality or more services. Consumers or market of output become so sensitive to the service they get at the expense of industry profitability. Another form of vertical competition is Bargaining power of Suppliers. It is the ability of the suppliers to put the firm under pressure by increasing price or raw materials charging exorbitant prices for unique resources, refuse to supply a firm or reduce their quality. This reduces the firm level of profitability.

![Porter's Five Forces Diagram](image)

**Fig 2.1** Porter’s five forces of competitive analysis
2.3 Empirical review

2.3.1 Capital adequacy

In economics, capital good or real capital is already produced durable goods that are used in production of good and services. The capital good are not significantly produced though they depreciate in the production process. Capital is distinct from land in that capital must be in itself be produced by human labour before it can be a factor of production .At any moment time total physical capital can be referred to capital stock. In the fundamental sense, capital consists of and produced goods that can enhance a person power to perform economically useful work. Finance capital represent obligation and liquidated as money or trade and owned by legal entities. It is a form of capital asset traded in financial market, its market value is not based on the historical accumulation of money invested but on the perception by the market of its expected revenue and risk entailed(Pieters,2005)

Capital adequacy is the capital a bank or other financial institution has to hold by its financial regulator .This is the context of functional reserves banking and is usually expressed as a capital ratio of liquid assets that must be held comparable to the amount of money that is lent out .These requirement are put into place to ensure that these institution are not participating or holding investment that increase the risk of default and that they have enough to sustain operating losses while still honoring withdraws(Carpunter,2010)

Regulators try to ensure that banks and other financial institution have sufficient capital to keep them out of difficulty. This not only protects the depositors but also the wider economy because the failure of a big bank has expensive knock out effect. Capital adequacy requirement have existed for a long time but the two most important are those specified by the Bessel Committee of the bank international settlement. The capital ratio is the percentage of bank capital over its risk weighted asset .Regulators in each country has some discretion on how they implement capital requirement in their Jurisdiction (Boyd,.2008).

According to SASRA (2011). Capital adequacy are financial requirements that the Sacco Society is expected to maintain to ensure it has a strong capital base and that members fund are secured and save which therefore ensures financial stability of the Sacco A Sacco is required to maintain the following minimum; Core capital of not less than ten million shillings, core capital of not less than ten percent of total assets, institutional capital of not
less than eight percent of total assets, core capital of not less than eight percent of total deposits

2.2.3 Corporate governance

Corporate governance involves regulatory and market mechanisms, and the roles and relationships between a company's management, its board, its shareholders and other stakeholders, and the goals for which the corporation is governed. (Tricker, 2009) Lately, corporate governance has been comprehensively defined as "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby mitigating agency risks which may stem from the misdeeds of corporate officers." (Sifuna, 2012)

In contemporary business corporations, the main external stakeholder groups are shareholders, debt holders, trade creditors, suppliers, customers and communities affected by the corporation's activities. Internal stakeholders are the board of directors, executives, and other employees. Much of the contemporary interest in corporate governance is concerned with mitigation of the conflicts of interests between stakeholders. (Georgen, 2012) Ways of mitigating or preventing these conflicts of interests include the processes, customs, policies, laws, and institutions which have an impact on the way a company is controlled. (Cadbury, 1992) An important theme of corporate governance is the nature and extent of accountability of people in the business.

In large firms where there is a separation of ownership and management and no controlling shareholder, the principal–agent issue arises between upper-management (the "agent") which may have very different interests, and by definition considerably more information, than shareholders (the "principals"). The danger arises that rather than overseeing management on behalf of shareholders, the board of directors may become insulated from shareholders and beholden to management. (Jesse, 2004) This aspect is particularly present in contemporary public debates and developments in regulatory policy. (Tricker, 2009)

Economic analysis has resulted in a literature on the subject. One source defines corporate governance as "the set of conditions that shapes the ex post bargaining over the quasi-rents generated by a firm." (Luigi, 2008) The firm itself is modeled as a governance structure acting
Through the mechanisms of contract, (Daines, 2008) possibly in tandem with corporate finance. There has been renewed interest in the corporate governance practices of modern corporations, particularly in relation to accountability, since the high-profile collapses of a number of large corporations during 2001-2002, most of which involved accounting fraud. Corporate scandals of various forms have maintained public and political interest in the regulation of corporate governance.

Corporate governance tend to refer to principles raised in three documents released since 1990: The Cadbury Report (UK, 1992), the Principles of Corporate Governance (OECD, 1998 and 2004), the Sarbanes-Oxley Act of 2002 (US, 2002). The Cadbury and OECD reports present general principals around which businesses are expected to operate to assure proper governance. The Sarbanes-Oxley Act, informally referred to as Sarbox or Sox, is an attempt by the federal government in the United States to legislate several of the principles recommended in the Cadbury and OECD reports; Rights and equitable treatment of shareholders(Cadbury, 1992) Organizations should respect the rights of shareholders and help shareholders to exercise those rights. They can help shareholders exercise their rights by openly and effectively communicating information and by encouraging shareholders to participate in general meetings. Interests of other stakeholders: Organizations should recognize that they have legal, contractual, social, and market driven obligations to non-shareholder stakeholders, including employees, investors, creditors, suppliers, local communities, customers, and policy makers. Role and responsibilities of the board (Shifed992). The board needs sufficient relevant skills and understanding to review and challenge management performance. It also needs adequate size and appropriate levels of independence and commitment. Integrity and ethical behavior (Cadbury, 1992) Integrity should be a fundamental requirement in choosing corporate officers and board members. Organizations should develop a code of conduct for their directors and executives that promotes ethical and responsible decision making. Disclosure and transparency: Organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual information.
Corporations are created as legal persons by the laws and regulations of a particular jurisdiction. These may vary in many respects between countries, but a corporation’s legal person status is fundamental to all jurisdictions and is conferred by statute. This allows the entity to hold property in its own right without reference to any particular real person. It also results in the perpetual existence that characterizes the modern corporation. The statutory granting of corporate existence may arise from general purpose legislation (which is the general case) or from a statute to create a specific corporation, which was the only method prior to the 19th century. (Williamson, 2002).

In addition to the statutory laws of the relevant jurisdiction, corporations are subject to common law in some countries, and various laws and regulations affecting business practices. In most jurisdictions, corporations also have a constitution that provides individual rules that govern the corporation and authorize or constrain its decision-makers. This constitution is identified by a variety of terms; in English-speaking jurisdictions, it is usually known as the Corporate Charter or the [Memorandum and] Articles of Association. The capacity of shareholders to modify the constitution of their corporation can vary substantially. Corporate governance principles and codes have been developed in different countries and issued from stock exchanges, corporations, institutional investors, or associations (institutes) of directors and managers with the support of governments and international organizations. As a rule, compliance with these governance recommendations is not mandated by law, although the codes linked to stock exchange listing requirements may have a coercive effect. For example, companies quoted on the London, Toronto and Australian Stock Exchanges formally need not follow the recommendations of their respective codes. However, they must disclose whether they follow the recommendations in those documents and, where not, they should provide explanations concerning divergent practices. Such disclosure requirements exert a significant pressure on listed companies for compliance. (Sytse, 2013).
2.3.3 Management Information Systems

A management information system (MIS) provides information that organizations need to manage themselves efficiently and effectively. According to Hubbard (2009) Management information systems are typically computer systems used for managing three primary components: technology, people (individuals, groups, or organizations), and data (information for decision making). Management information systems are distinct from other information systems in that they are used to analyze and facilitate strategic and operational activities. Academically, the term is commonly used to refer to the study of how individuals, groups, and organizations evaluate, design, implement, manage, and utilize systems to generate information to improve efficiency and effectiveness of decision making, including decision support systems, expert systems, and systems. (Crockford, 1986)

A management information system gives the business managers the information that they need to make decisions. Early business computers were used for simple operations such as tracking inventory, billing, sales, or payroll data, with little detail or structure. Over time, these computer applications became more complex, hardware storage capacities grew, and technologies improved for connecting previously isolated applications. As more data was stored and linked, managers sought greater abstraction as well as greater detail with the aim of creating significant management reports from the raw, stored data. Originally, the term "MIS" described applications providing managers with information about sales, inventories, and other data that would help in managing the enterprise. Over time, the term broadened to include: Decision support systems, resource management and human resource management, enterprise resource planning (ERP), enterprise performance management (EPM), supply chain management (SCM), customer relationship management (CRM), project management and database retrieval applications (David, 2007).

An MIS supports a business' long range plans, providing reports based upon performance analysis in areas critical to those plans, with feedback loops that improve guidance for every aspect of the enterprise, including recruitment and training. MIS not only indicates how various aspects of a business are performing, but also why and where. MIS reports include near-real-time performance of cost centers and projects with detail sufficient for individual accountability. The following are some of the benefits that can be attained for different types of management information systems. According to Dorfman (2007). Companies are able to highlight their strengths and weaknesses due to the presence of revenue reports, employees'
The identification of these aspects can help the company improve their business processes and operations. Giving an overall picture of the company and acting as a communication and planning tool. The availability of the customer data and feedback can help the company to align their business processes according to the needs of the customers. The effective management of customer data can help the company to perform direct marketing and promotion activities. Information is an important asset for any company in the modern competitive world. The consumer buying trends and behaviors can be predicted by the analysis of sales and revenue reports from each operating region of the company. (Digman, 1990).

"The actions that are taken to create an information system that solves an organizational problem are called system development". (Nichola2005) These include system analysis, system design, programming, implementation, testing, conversion, production and finally maintenance. The adoption of web based technology to service delivery has become a global trend in public administration at the beginning of twenty first century, there is a feeling among citizenry that managerialism has widened the distance between the government and citizen instead of bringing them closer together (Noordhoek and saner, 2004) as well as citizen dissatisfaction or disengagement, which is reflected particularly in Aglo-Saxon centauries, in a perception that public services are failing and of poor quality (Oakey, 2004). The search for new style of governance through the engagement of citizen is viewed as a way to change the feeling and to improve citizen trust in government.

Unlike traditional structures, which are hierarchical and one way, Internet delivery systems are non-hierarchical, two way and available 24 hours a day, seven days a week 24/7. The non-hierarchical character of Internet delivery frees citizen to seek information at their own convenience, not just when the government office is open (West, 2004). Two way interaction has been deemed away of improving trust in public (Markoff, 2000) and of marking governance function better it currently does. The interactivity of Internet is also expected to improve accountability as it makes government more responsive to needs and demands of citizens. According to Thomas (1998), trust could be obtained or restored by repeated successful individuals interaction, which is what open website aim to achieve.
2.3.4 Institutional Infrastructure

Infrastructure is basic physical and organizational structures needed for the operation of a society, enterprise or the services and facilities necessary for an economy to function. It can be generally defined as the set of interconnected structural elements that provide framework supporting an entire structure of development. It is an important term for judging a country or region's development (Sullivan, 2003). The term typically refers to the technical structures that support a society, such as roads, bridges, water supply, sewers, electrical grids, telecommunications, and so forth, and can be defined as "the physical components of interrelated systems providing commodities and services essential to enable, sustain, or enhance societal living conditions." (Kaot, 2010)

Viewed functionally, infrastructure facilitates the production of goods and services, and also the distribution of finished products to markets, as well as basic social services such as schools and hospitals; for example, roads enable the transport of raw materials to a factory. In military parlance, the term refers to the buildings and permanent installations necessary for the support, redeployment, and operation of military forces. (Peter, 2010) To make it simple, infrastructure is anything that is needed everyday, an everyday item. In Keynesian economics, the word infrastructure was exclusively used to describe public assets that facilitate production, but not private assets of the same purpose. In post-Keynesian times, however, the word has grown in popularity. It has been applied with increasing generality to suggest the internal framework discernible in any technology system or business organization. "Hard" infrastructure refers to the large physical networks necessary for the functioning of a modern industrial nation, whereas "soft" infrastructure refers to all the institutions which are required to maintain the economic, health, and cultural and social standards of a country, such as the financial system, the education system, the health care system, the system of government, and law enforcement, as well as emergency services (Peter, 2010).

Infrastructure systems include both the fixed assets, and the control systems and software required to operate, manage and monitor the systems, as well as any accessory buildings, plants, or vehicles that are an essential part of the system. Also included are fleets of vehicles operating according to schedules such as public transit buses and garbage collection, as well as basic energy or communications facilities that are not usually part of a physical network, such as oil refineries, radio, and television broadcasting facilities. (Cawly, 2012). Soft
infrastructure includes both physical assets such as highly specialized buildings and equipment, as well as non-physical assets such as the body of rules and regulations governing the various systems, the financing of these systems, as well as the systems and organizations by which highly skilled and specialized professionals are trained, advance in their careers by acquiring experience, and are disciplined if required by professional associations (professional training, accreditation and discipline). (Philpaton 1986).

Unlike hard infrastructure, the essence of soft infrastructure is the delivery of specialized services to people. Unlike much of the service sector of the economy, the delivery of those services depend on highly developed systems and large specialized facilities or institutions that share many of the characteristics of hard infrastructure. The system of government and law enforcement, including the political, legislative, law enforcement, justice and penal systems, as well as specialized facilities (government offices, courthouses, prisons, etc.), and specialized systems for collecting, storing and disseminating data, laws and regulation Emergency services, such as police, fire protection, and ambulances, including specialized vehicles, buildings, communications and dispatching systems (Kaot2010)

2.3.5 Performance

According to Armstrong (2005). Performance is often defined simply in out put terms as the achievement of quantified objectives. But performance is a matter not only to what people achieve but how they achieve it. The oxford English dictionary confirms this by including the phrase “carrying out” in its definition of performance as the accomplishment, execution, working out, carrying out of anything ordered or undertaken. High performance results from appropriate behavior and effective use of the required knowledge skill and competencies. Performance means both behavior and result. Performance from abstraction to action. Not just the instrument for result but, behavior is also outcome of their own right. The product of mental and physical effort applied to task and can be judged from results. This definition of performance leads to conclusion that when managing performance both inputs (behavior) and output (result) need to be considered.

According to Johnson and Scholes (2002), many managers find a process for developing a useful set of performance indicators for their organization difficult. One reason for this is that many indicators give a useful but only partial view of the overall picture. Also some indictors are qualitative in nature, whilst the hard quantitative end of assessing performance has been
dominated by financial analysis. In an attempt to cope with this very heterogeneous situations balanced score card combine both qualitative and quantitative measures acknowledge expectation of different stakeholder and relate an assessment of performance to choice strategy. To perform is to do a piece of work in the community. It is to act in an official way, to work or to function. Performance is the action or achievement considered in relation to how successful it is. It is the ability to operate efficiently or to react quickly.

According to Pearce & Robinson (2007), operational control provide post action evaluation and controls over short periods from one month to one year. To be effective, operational controls must take four steps common to all post action controls, set standard and initiate corrective actions. It is not a question of simply considering the achievement of the target as used to happen in “management by objection” scheme. Competency factors need to be included in the process. This is the so called “mixed model” of performance management which covers the achievement of expected level of competence as well as objective setting and review.

2.4 Conceptual frame work

![Conceptual Frame Work Diagram]

The above framework shows that the independent variables will all affect dependent variables. Adequate capital will make the customer feel secured and have confidence with the
A good Sacco governance will make Sacco credible, understandable, and attractive and guarantee success. Management information system will help the management to give information needed to make decision. MIS also assists in operations like tracking inventory, billings, loan processing, preparing pay rolls etc in faster and accurate manner. Institutional infrastructure will provide enough banking hall, enough working space, provide physical security and provide a strong room and a safe to keep cash and important records translating to performance indicated by more membership, quick service, Efficiency, more share, high divided among others.

2.5 Research gaps

Performance has been researched extensively in the developed world compared to Africa and Kenya in particular. This study will seek to fill the existing research gaps by conducting a study to assess effect of Sacco licensing requirements on Sacco’s performance within Nakuru. The research will seek to find out the effect of capital adequacy on quality performance, how business plan and feasibility study affects quality performance, how management information system affects performance, how risk management policy affects performance and how institutional infrastructure affects performance. No research has assessed the effect of SACCO licensing requirement on performance of deposit taking Saccos Nakuru County.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology in this chapter looks at the descriptive survey research design, Target population of the study, sampling method and procedure, data collection instruments, data analysis and reporting.

3.2 Research design.

The study adopted the descriptive research design. According to Copper and Schindler (2003), a descriptive design is concerned with findings out the what, where and how of a phenomenon. The focus of the study was qualitative and quantitative in order to gain a better understanding and more insightful interpretation of the result.

3.3 Target Population

According to Ngechu (2004) a population is defined as a set of people, elements, events, services or household being investigated. Borg and Gall (1989) defined target population as all members of real or hypothetical set of people, events or objects which the researcher wishes to generalize the result of the research study. The target population comprised of senior management staff and Board of Directors of the SACCOs.

<table>
<thead>
<tr>
<th>Sacco</th>
<th>management staff</th>
<th>directors</th>
<th>Total</th>
<th>percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cosmopolitan Sacco</td>
<td>15</td>
<td>11</td>
<td>26</td>
<td>40</td>
</tr>
<tr>
<td>Egerton university</td>
<td>7</td>
<td>9</td>
<td>16</td>
<td>25</td>
</tr>
<tr>
<td>Tupedane Sacco</td>
<td>13</td>
<td>10</td>
<td>23</td>
<td>35</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35</strong></td>
<td><strong>30</strong></td>
<td><strong>65</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

29
3.4 Sampling Techniques.

From the above target population of 65, a complete census was done. Kothari (2005) indicate that when all member of the target population are considered it becomes more representative of the population of interest.

3.5 Data collection procedures

The questionnaire design adopted both open ended and close ended questions from which respondents were required to fill in. The researcher used the questionnaires to solicit data from the subjects. The questionnaires were chosen because of the ease of administration, scoring of items and analysis (Kothari, 2005). The items in the questionnaires were developed on the basis of the objectives of the study. The exercise obtained core information and supplementary information was obtained through further probing of the respondents. A linker scale was employed to measure the strengths of the factors tested.

3.5 Data analysis and reporting

The data collected were organized and cleaned of errors made during data collection. The data was then be coded, keyed in the computer and analyzed with the aid the Statistical package for social Sciences (SPSS) and Microsoft Excel 2007. Qualitative statistical techniques was used during the analysis to describe and summarize data. Descriptive statistic was computed.

3.7 Data Presentation

The results of the analysis was presented and interpreted in the form of tables and charts, percentages, tabulation, frequencies. Tables were used to summarize the responses for further analysis and facilitate comparison thus generating qualitative reports of the study.
CHAPTER FOUR

RESEARCH FINDINGS

4.1 Introduction

The chapter provides and discusses the result of the study. It provides the research findings and the result from the respondent based on the questionnaires that they filled.

4.2 Result and findings

4.2.1 Personal Information

The response rate was 92.3% with 60 out of 65 sample respondent filling the questionnaire dully. This is a representative response. Thus the generalizations from the sample’s answers is considered as applicable to the entire population. Of the 60 responses 70% (42) were male and the other 38% (18) were female (Table 4.1 and Figure 4.1)

Table 4.1: Response by gender.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>42</td>
<td>70</td>
</tr>
<tr>
<td>Female</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)

Figure 4.1: Response by gender

Of 60 responses the stratification of Board members and Management staff, management staff were (55%)33 and Board members were (45%)27 (Table 4.2 and Fig 4.2)

Table 4.2: Response by category

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management staff</td>
<td>33</td>
<td>55</td>
</tr>
<tr>
<td>Board Members</td>
<td>27</td>
<td>45</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)
The respondent were asked to indicate the length of time they had served the in their respective SACCOs. The response indicated that 37% had been in Sacco for between 6-10yrs whereas another 30% below 6yrs. 20% respondent have been in the Sacco for between 11-20yrs and 13% have been there for at least 20yrs as shown in Table 4.3.

Table 4.3: Length of Service.

<table>
<thead>
<tr>
<th>Length</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 6yrs</td>
<td>18</td>
<td>30</td>
</tr>
<tr>
<td>6-10yrs</td>
<td>22</td>
<td>37</td>
</tr>
<tr>
<td>11-20yrs</td>
<td>12</td>
<td>20</td>
</tr>
<tr>
<td>Over 20yrs</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)

4.2.2 Performance of the Sacco

When the members were asked regarding their opinion on the performance of the SACCO. The table 4.4 below indicates their response. Majority of the respondent indicated that the SACCO was performing well 70% while 18% felt that their SACCOs were performing fair. No respondent felt that the Sacco was performing poorly.
On the contribution of the licensing requirement initiated by SASRA on performance, majority 67% felt that licensing requirement had improved Sacco but to an average extent 13% to a great extent 10% to a very great extent 5% to a small extent and 5% to no extent. This implies that majority of SACCOs were doing well.

Members were asked how they would rate the performance of the Sacco in given areas. The findings indicated that there was improvement in membership, shares, salary processing, loan recovery, internal audit, efficiency loan processing and deposits. However ATM had worsened, E-banking had not improved, and loan recovery was moderate.
Table 4.6: How would you rate the performance of the Sacco since the introduction of the new licensing law in the following areas?

<table>
<thead>
<tr>
<th>Area</th>
<th>Highly improved %</th>
<th>Improved %</th>
<th>Moderate %</th>
<th>Not improved %</th>
<th>Worsened %</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership</td>
<td>20</td>
<td>50</td>
<td>50</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Shares</td>
<td>30</td>
<td>10</td>
<td>70</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Divided</td>
<td>0</td>
<td>10</td>
<td>10</td>
<td>70</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>ATM</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>10</td>
<td>80</td>
<td>100</td>
</tr>
<tr>
<td>E Banking</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>70</td>
<td>30</td>
<td>100</td>
</tr>
<tr>
<td>Salary processing</td>
<td>40</td>
<td>50</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>70</td>
<td>10</td>
<td>10</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Loan recovery</td>
<td>0</td>
<td>10</td>
<td>70</td>
<td>20</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Deposits</td>
<td>70</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Efficiency</td>
<td>5</td>
<td>70</td>
<td>15</td>
<td>10</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Loan processing</td>
<td>75</td>
<td>10</td>
<td>10</td>
<td>5</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>Interest rates</td>
<td>0</td>
<td>10</td>
<td>200</td>
<td>70</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)

4.2.3 Capital adequacy

When members were asked regarding the Sacco core capital, majority 67% felt their Saccos were good, 8% very good, 13% fair, 5% poor and 7% very poor.

Table 4.7: How would you rate the Sacco core capital?

<table>
<thead>
<tr>
<th>Rate</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very good</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Good</td>
<td>40</td>
<td>67</td>
</tr>
<tr>
<td>Fair</td>
<td>8</td>
<td>13</td>
</tr>
<tr>
<td>Poor</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Very poor</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)

When members were asked regarding improvement of Sacco core capital since the new law, majority 83% felt that Sacco core capital had improved. This indicates that the new law had impacted positively on the Sacco performance in terms of capital.

Table 4.8: Has core capital improved since the new law?

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>50</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)
When the respondent were asked regarding the extent of improvement of Sacco core capital since the new law Majority 67% felt it had improved to a large extent.8% to a very large extent 25% to a little extent. This is an indication SACCOs are doing well in terms of capital.

### Table 4.9: The extent of improvement of Sacco core capital.

<table>
<thead>
<tr>
<th>Rate</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very large extent</td>
<td>5</td>
<td>8</td>
</tr>
<tr>
<td>Large extent</td>
<td>40</td>
<td>67</td>
</tr>
<tr>
<td>Little extent</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>No extent</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Worsened</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)

When the respondent were asked whether they were satisfied with the non compliant penalty, majority 67% felt they are not satisfied reason being it was harsh considering that the returns were very demanding. Table 4.10

### Table 4.10: Are you satisfied with penalty on non compliance?

<table>
<thead>
<tr>
<th>Yes</th>
<th>20</th>
<th>33</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>40</td>
<td>67</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)

4.2.4 Sacco governance

The respondent were fairly distributed in their response regarding Sacco governance. 45 (75%) were satisfied with the management whereas 15(25%) were not satisfied with Sacco governance Table 4.11

### Table 4.11: Are you satisfied with Sacco governance?

<table>
<thead>
<tr>
<th>Yes</th>
<th>45</th>
<th>75</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)

When the respondent were asked whether governance affect the Sacco majority 85% said that it affected Sacco governance Table 4.12.
Table 4.12: Do you think Sacco governance affect performance?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>51</td>
<td>85</td>
</tr>
<tr>
<td>No</td>
<td>9</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)

When the respondent were asked whether there has been improvement on Sacco governance since the introduction of the new law 75% indicated that there was improvement on Sacco governance.

Table 4.13: Has there been any improvement on Sacco governance since the new law?

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>45</td>
<td>75</td>
</tr>
<tr>
<td>No</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)

The respondent were asked about their opinion regarding specific statement to which they responded as tabulated below majority indicated that they strongly agree with the statements there was general indication that all Saccos engaged in business planning and rules and procedures were followed and that employees knew their reporting channels however majority of the respondent had different opinion regarding the employee having a performance target Table 4.14

Table 4.14: Please indicate the level of agreement on the following statement below.

SA-strongly agree, A-agree, N-neutral, D-disagree, SD-Strongly disagree

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA %</th>
<th>A%</th>
<th>N%</th>
<th>D %</th>
<th>SD %</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>We engage in business planning</td>
<td>10</td>
<td>70</td>
<td>7</td>
<td>8</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Employee have performance target</td>
<td>6</td>
<td>5</td>
<td>70</td>
<td>15</td>
<td>4</td>
<td>100</td>
</tr>
<tr>
<td>Sacco has rules and procedure which are followed</td>
<td>95</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td>We have a good organization structure</td>
<td>80</td>
<td>10</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>There is good relationship btw directors and employees</td>
<td>6</td>
<td>60</td>
<td>19</td>
<td>10</td>
<td>5</td>
<td>100</td>
</tr>
<tr>
<td>Employees knows reporting channels</td>
<td>82</td>
<td>5</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>We have external and internal auditors</td>
<td>90</td>
<td>5</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)
4.2.5 Management information system

Respondent were asked whether ICT was embraced in the Sacco. Majority 70% indicated that ICT was embraced in their respective Saccos. Fig 4.3

Fig 4.3: Is ICT embraced in the Sacco?

Source: Researcher (2013)

When respondent were asked to what extent ICT affected the performance of the Sacco Majority 60% felt it was to a large extent 10% to a very great extent 20% to a moderate extent 10% to a little extent fig 4.4

Fig4.4: Extent of ICT effect on performance.

Source: Researcher (2013)
When the respondents were asked the extent to which MIS had improved in selected areas. Majority felt that there was improvement in all selected areas.

**Table 4.15: The extent of to which MIS had improved.**

<table>
<thead>
<tr>
<th></th>
<th>Improved%</th>
<th>Moderate%</th>
<th>Less improved%</th>
<th>Not improved%</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accuracy</td>
<td>42</td>
<td>18</td>
<td>23</td>
<td>17</td>
<td>100</td>
</tr>
<tr>
<td>Time</td>
<td>45</td>
<td>25</td>
<td>17</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>Integration</td>
<td>55</td>
<td>25</td>
<td>13</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td>Data back up</td>
<td>60</td>
<td>17</td>
<td>20</td>
<td>3</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)

When respondents were asked whether the new law had improved MIS majority 60% felt it had improved fig 4.5

**Fig 4.5: Has there been any improvement since the new law?**

![Pie chart showing 40% Response No and 60% Response Yes]

Source: Researcher (2013)

When members were asked about the adequacy of MIS facilities in the Sacco majority felt there were adequate desktops and HP computers but inadequate laptops and notebook computers. Fig 4.6
Fig 4.6: How would you rate the adequacy of the following facilities in your Sacco?

![Bar chart showing ratings of facilities such as Desktops, Laptops, Notebooks, and HP computers.]

Source: Researcher (2013)

4.2.6 Institutional infrastructure

When members were asked if there was any improvement in their premises, majority 55% said there was no improvement in their premises.

Fig 4.7 Is there any improvement in your premises since the introduction of the new law?

![Bar chart showing Yes and No responses.]

Source: Researcher (2013)
When respondent were asked regarding facilities in the Sacco there was mixed reactions from members. However the standard was generally medium fig 4.8

Table 4.8 how would you rate the standard of the following facilities in the Sacco in relation to performance?

<table>
<thead>
<tr>
<th>Facility</th>
<th>Rating</th>
<th>Very low</th>
<th>Low</th>
<th>Medium</th>
<th>High</th>
<th>Very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank hall</td>
<td>100%</td>
<td>20</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Working space</td>
<td>90%</td>
<td>20</td>
<td>40</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Physical security</td>
<td>80%</td>
<td>60</td>
<td>40</td>
<td>5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Strong room</td>
<td>70%</td>
<td>10</td>
<td>0</td>
<td>40</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Safe</td>
<td>60%</td>
<td>0</td>
<td>0</td>
<td>50</td>
<td>20</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Researcher (2013)

On what should be done to improve Sacco premises majority of the respondent indicated that there was need to build their own premises with required standards.
CHAPTER FIVE
SUMMARY CONCLUSION AND RECOMMENDATIONS

5.1 Summary of findings

This chapter confirms the stated objectives. It gives strength to each factor and the perception of each respondent. The chapter therefore tries to summarize, conclude and on the basis of the result of data analysis.

From the analysis in chapter four it is evident that capital adequacy, Sacco governance, institutional infrastructure and management information system affects the performance of the Sacco as indicated by the respondent in the questionnaires. The response was high enough to enable the generalization of the finding to cover all the SACCOs under study.

5.2 Conclusions

Considering the responses that were received the following conclusion can be made.

5.2.1 Capital adequacy

Majority of the responses indicated that core capital was good and that it had improved since the introduction of new law to a large extent.

Capital adequacy ensure that that members fund is secured and safe. Which ensures Sacco financial stability. Respondents felt that members should increase share contribution to improve Sacco core capital.

5.2.3 SACCO governance

The response by 75% of the respondent indicated they were satisfied with Sacco governance. They also indicated that there was improvement in Sacco governance. This was attributed to training of management and staff and board members done by SASRA. Others indicated that the management of Sacco should seriously considers professional officials to enhance better performance.

5.2.4 Management information system

Respondent indicated that ICT is embraced by the SACCOs and it had impacted to a great extent towards the performance of the SACCO. They indicated that there was improvement in
accuracy, time, good integration and data backup. However, there was a feeling that more MIS facilities should be acquired, as there was a feeling of inadequacy of lap tops and note book computers.

5.2.5 Institutional Infrastructure

Majority of the respondents indicated that there was no improvement in institutional infrastructure. This was because SACCOs are located in rented premises.

5.3 Recommendations

The study provides a fertile ground to understand the effect of the licensing requirement on Sacco performance within Nakuru County.

The conclusion made thereof provides a basis for these recommendations. The Sacco governance should refocus their attention to these as they provide backbone for the performance. It is therefore recommended that some factors should be considered and implemented to improve the performance of the Sacco.

5.3.1 Capital adequacy

SACCO members should be encouraged to invest more in their Sacco to increase its core capital. When member's increase their share contributions, there will be improvement in Sacco capital which is critical to the survival of the Sacco. This should be done through training so that members can see the sense of increasing share contribution. Members should be discouraged from moving to banks as this overstretch their pay slip thus unable to pay loans and increase their shares.

5.3.2 Sacco governance

The performance of the Sacco depends on governance. Management should be enhanced through professionalism. More training should be done to the Sacco management on cooperate governance to improve SACCO management. Corrupt members should be removed and prosecuted.

5.3.3 Management Information System

Management information system provides information that organization needs to manage themselves effectively and efficiently. Decision making is determined by information management has. Management Staff should be trained in management of information so as to
have skilled personnel to handle computer technology. More laptops and notebook computers should be bought to improve performance of the Sacco. ATM facilities should be improved to reduce frustrations that occurs especially end months. E-banking facilities should be improved to avoid members loosing money when the system fails.

5.3.4 Institutional infrastructure

Institutional infrastructure facilitate the production of good and services there should be adequate working conditions. Bank hall should be spacious to accommodate customers, there should be an emergency door for security purpose banking hall should be ventilated Sacco should be located in save place free from burglars. Most Sacco are in rented premises they should build their premises as per the standard needed. More branches should be opened to ease congestion at the end of the month.

5.4 Suggestions for further research.

There is need to carry out research on other Licensing requirements and their implications on the Sacco performance. Retention strategies employed by SACCOs to reduce migration to other financial institution should be studied. Also strategies to reduce loan defaulters should be identified.
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Appendix 1 letter of introduction

I am a postgraduate student at Kenyatta University, School of Business. I am carrying a research on “The effect of licensing requirements on the performance of deposit taking Sacco Societies in Nakuru County”.

The significant of the study is to assess how SACCO performance can be improved to meet increased competition from other financing institution. I humbly request you to participate by filling the questionnaire attached giving answers to the best of your knowledge. Put a tick where appropriate.

The information received will be treated with high level confidentiality and will only be used for the purpose of the research.

Thanks for accepting to participate.

Sincerely

Harrison Kamau
APPENDIX 11: Questionnaire

A) Demographic information

i) Name of the Sacco

ii) What is your position?
   a) Management staff [ ] (b) Board member [ ]

iii) What is your gender?
   Male [ ] Female [ ]

iv) Your age
   Under 30 [ ] 30-39 [ ]
   40-49 [ ] above 50 [ ]

v) Your marital Status
   Single [ ] married [ ]

vi) What is your highest level of education?
   Secondary [ ] Certificate [ ]
   Diploma [ ] Degree [ ]
   Masters [ ] PHD [ ]
   Others (specify) ____________________________________________

vii) Numbers of years you have served in the organization.
   Less than years [ ] 6-10 [ ]
   c) 11-20 [ ] Over 20yrs [ ]

viii) What are the terms of employment?
   Probation [ ] contract [ ]
   Temporary [ ] permanent [ ]
   Others (Specify) __________________________
B) Sacco performance

i) How is the performance of the Sacco?

Very good [ ] Good [ ] fair [ ] poor [ ] very poor [ ]

ii) How has the licensing requirement initiated by SASRA contributed to improvement of Sacco performance?

Very great extent [ ] Great extent [ ]

Average extent [ ] Great extent [ ]

No extent [ ]

iii) How would you rate the performance of the Sacco since the introduction of the new licensing law in the following areas?

<table>
<thead>
<tr>
<th>Area</th>
<th>Highly improved</th>
<th>improved</th>
<th>moderate</th>
<th>Not improved</th>
<th>worsened</th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ATM</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>E-banking</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary processing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal audit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan recovery</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efficiency</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan processing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Others (Specify)---------------------------------------------------------------

---------------------------------------------------------------

C) Capital adequacy requirement.

i) How would you rate Sacco core capital?

Very good [ ] Good [ ] fair [ ] poor [ ] very poor [ ]

ii) Has the Sacco core capital improved since the introduction of the new law?

Yes [ ] No [ ]
iii) If yes to what extent has it impacted on the Sacco performance?

Very large extent [ ] large extent [ ] little extent [ ] no extent [ ] worsened [ ]

iv) What is your comment on capital adequacy returns requirement by the new law?

v) Are you satisfied by the penalty for non compliance?

Yes [ ] No [ ]

Kindly explain---------------------------------------------~-------------------------------------------------

What do you think should be done to improve SACCO core capital--------------------------------

D) Sacco Governance

i) Do you think Sacco governance affects performance?

Yes [ ] No [ ]

ii) State in what ways---------------------------------------------~-------------------------------------------------

ii) Has there been any improvement in Sacco governance since the introduction of new licensing law?

Yes [ ] No [ ]

Kindly explain---------------------------------------------~-------------------------------------------------

iii) What do you think should be done in governance to improve Sacco Performance?
iv) Please indicate the level of agreement on the following statement below.

<table>
<thead>
<tr>
<th>Statement</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>We engage in business planning</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee have performance target</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sacco has rules and procedure which are followed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We have a good organization structure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There is good relationship btw directors and employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees knows reporting channels</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>We have external and internal auditors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**E) Management information system**

i) Is ICT embraced in the Sacco?

Yes [ ] No [ ]

ii) If yes, to what extent has it affected Sacco performance?

No extent [ ] little extent [ ]

Moderate extent [ ] Great extent [ ]

Very great extent [ ]

iii) If not why?

Corruption [ ] Lack of skills [ ]

Lack of finance [ ] Lack of commitment [ ]

Others (specify) ____________________________________________________________

iv) To what extent has MIS been improved in the following areas?

<table>
<thead>
<tr>
<th>Area</th>
<th>improved</th>
<th>Moderate</th>
<th>Less improved</th>
<th>Not improved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accuracy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Integration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data back up</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

v) Kindly name any other areas of improvement

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________
vi) Has there been any improvement in MIS since the introduction of new licensing law?
   i) Yes [ ] (ii) No [ ]

   Kindly explain

vii) How would you rate the following MIS facilities in the Sacco?

<table>
<thead>
<tr>
<th>Facility</th>
<th>Adequate</th>
<th>Inadequate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desk tops</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Laptops</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note book computers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hp computers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

vii) What do you think the Sacco should do to improve MIS?

F) Institutional infrastructure

i) Is there any improvement in your premises since the introduction of the new law?
   Yes [ ] No [ ]

   Kindly explain

ii) How would you rate the standard of the following facilities in the SACCO in relation to performance?

<table>
<thead>
<tr>
<th>Facility</th>
<th>Very high</th>
<th>High</th>
<th>Medium</th>
<th>Low</th>
<th>Very low</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking hall</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Working space</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Physical security</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strong room</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safe</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

iii) What do you think should be done to the Sacco premises to improve performance?
Appendix iii Budget schedule

<table>
<thead>
<tr>
<th>Writing proposal</th>
<th>Cost (ksh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Printing</td>
<td>800</td>
</tr>
<tr>
<td>Photocopy</td>
<td>450</td>
</tr>
<tr>
<td>Spiral binding</td>
<td>300</td>
</tr>
<tr>
<td>Transport and miscellaneous</td>
<td>10000</td>
</tr>
<tr>
<td><strong>Sub total</strong></td>
<td><strong>11550</strong></td>
</tr>
</tbody>
</table>

**Project**

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (ksh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data collection</td>
<td>5000</td>
</tr>
<tr>
<td>Data analysis</td>
<td>2000</td>
</tr>
<tr>
<td>Printing</td>
<td>1500</td>
</tr>
<tr>
<td>Photo copy</td>
<td>700</td>
</tr>
<tr>
<td>Binding and Miscellaneous</td>
<td>6000</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td><strong>26750</strong></td>
</tr>
</tbody>
</table>

Appendix iv Work plan

<table>
<thead>
<tr>
<th>Phase</th>
<th>Description</th>
<th>Number of Weeks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1   2   3   4   5   6   7   8   9   10  11</td>
</tr>
<tr>
<td>1</td>
<td>Proposal development</td>
<td>V   V   V   V   V</td>
</tr>
<tr>
<td>2</td>
<td>Data collection</td>
<td>V   V   V   V   V</td>
</tr>
<tr>
<td>3</td>
<td>Data analysis</td>
<td>V   V   V   V   V</td>
</tr>
<tr>
<td>4</td>
<td>Data presentation</td>
<td>V   V   V   V   V</td>
</tr>
<tr>
<td>5</td>
<td>Report writing</td>
<td>V   V   V   V   V</td>
</tr>
<tr>
<td>6</td>
<td>Compiling &amp; presentation</td>
<td></td>
</tr>
</tbody>
</table>
Appendix v SASRA licensed Sacco societies in Nakuru

1 cosmopolitan Sacco
2 Egerton University Sacco
3 Tupedane Sacco

Sacco branches
1 Afya Sacco
2 Harambee Sacco
3 Mwalimu Sacco
4 Stima Scco
4 Vision Sacco