

**AN ASSESSMENT OF THE DETERMINANTS OF GROWTH OF SAVINGS AND  
CREDIT CO-OPERATIVES IN DAGORETTI DISTRICT, KENYA**

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**DECLARATION**

I Philip Ukhevi Uluma Registration Number D53/CTY/PT/13800/2009 do hereby declare that this Research Project is my original work and that it has not been presented for award of any degree in any university that I am aware of.

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**Supervisors' Approval**

This research Project has been submitted for examination with my approval as the University Supervisor

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This research project has been submitted for consideration with my approval as the chairman of the School of Business Studies.

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## **DEDICATION**

This research work is dedicated to my family members who have been instrumental and inspirational to my starting the Masters Degree Programme. I hope this project work will be an inspiration to them too and those around them.

## **ACKNOWLEDGEMENT**

I wish to acknowledge the following people whose contributions, guidance, encouragement and support – both financial and spiritual, which enabled and facilitated my research that has ultimately made me reach this level. Special thanks go to my supervisor Mrs. Genga for her invaluable support and my corrections supervisor Caroline Nderi for her input. I also acknowledge and with special thanks my employer through the Permanent – Ministry of Co-Operative Development who has sponsored me for this course and has given me time to pursue my studies. I will not forget the District co-operative officer for Dagoretti District – Dolphine Aremo for the valuable information she gave me and the County Co-operative Commissioner for Nairobi County – Mrs. Enid Njeru for her support.

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## ABSTRACT

The researcher carried out research on the assessment of determinants of growth of Savings and Credit Co-operatives in Kenya: A Case of Dagoretti District in Kenya. The research focused on challenges that face co-operatives as they grow and the effect on quality of services offered to the members. The research established how organizations grow and identified growth strategies for business entities that do apply to Saccos in Dagoretti also. The researcher mainly looked at growth through strategies of opening of co-operative society common bond, innovation, use of information technology and capacity building of co-operative officials. The study employed descriptive research design. The study assessed the savings and credit cooperative societies in Dagoretti District, Nairobi County. According to the District's database, there are one hundred and thirty six cooperative societies registered in Dagoretti. A sample size (*S*) of 86 Saccos was studied from the total population of 115 Saccos using the sampling framework. The primary data was collected by use of semi-structured questionnaires. The refined quantitative data was analyzed using descriptive statistics. The study investigated the causal effect and the strength of the relationships by conducting a multiple regression analysis. Data was presented using graphs and frequency tables. The research indicated how the co-operative movement has grown in Kenya to become number one in Africa and Number seven globally. The researcher also indicated the nonresponsive by some respondents and scope for this research. The study found that wrangles and leadership struggles increase as more members join the Sacco from outside the other organizations. The study found that many Saccos are partially computerized while others were not computerized. Computerization has improved loans disbursement and loans recovery. The study found that training helps improve growth in the Sacco. The study found that the Sacco's survival will depend on what kind of products we offer and how differently they offer them to the members compared to other similar providers of that product. The study concludes

that SACCOs continue to rely on the principle of common bond as a strength and basis of their very existence. The study concludes that ICTs provides reliable access to markets. The study concludes that training pertains to programs that facilitate learning process and is mostly a short-term activity to help people do their jobs better. The study concludes that Product positioning, therefore, require a synthesis of consumer and competitor analysis. The study recommends that SACCOs seek partnerships and mergers. The study recommends Saccos to adopt new technology. They need to use new technologies to create new markets, new products and tap opportunities that arise as a result of innovation. The study recommends organizational leadership to build the organization by educating and developing new leaders.

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## **ABBREVIATIONS AND ACRONYMS**

**CBD:** Central Business District

**CO-OP:** Co-operative

**ERS:** Economic Recovery Strategy

**FOSA:** Front office Service Activity

**ICA:** International Co-operative Alliance

**KUSCCO:** Kenya Union of Savings and Credit Co-operatives

**MOCD & M:** Ministry of Co-operative Development and Marketing

**SACCO:** Savings and credit co-operative

**SASRA:** Sacco Societies Regulatory Authority

**WOCCU:** World Council of Credit Unions

## DEFINITIONS OF TERMS USED

**Capacity Building:** Refers to development and training of society officials to equip them with necessary skills and knowledge required for the proper running of a co-operative, (Pearce II et al, 2007).

**Common Bond:** Refers to the catchment area where the society draws its membership, (MacPherson, 1999).

**Community Based Sacco:** A Sacco whose membership comprises persons located in a particular but membership not confined to a particular profession or activity. Members in this type of Sacco are engaged in a variety of economic activities

**Employee Based Sacco:** A Sacco society whose membership is by virtue of those persons being under same or related employer, or is engaged in a similar economic activity, (MacPherson, 1999).

**Growth:** Refers to increase in membership, savings, loans granted, surplus/profits, number of products/services offered to members, (Crowsby, 1990).

**Innovation:** Refers to introduction of new products or services; usage of new methods in product or service delivery; or application of better technology in processing or delivering a service or product (Hine and Kapeleris, 2006).

**Technology:** Technology is made up of discoveries in science, product development and improvements in machinery, process, automation, and information technology. It also includes a combination of knowledge, information and ideas, (Manyara, 2003).

## **CHAPTER ONE**

### **INTRODUCTION**

This Chapter will deal with the background of the study, statement of the problem and purpose of the study. The researcher will also look at the Research Objectives, Research Questions and significance of the Study. The researcher will finally highlight on the scope and limitations of the study.

#### **1.1 Background of the study**

Growth, from an organizational context refers to growing bigger in size of an organization (Crowsby, 1990). He observed that organizations have to grow if for no other reason than to accommodate the increased expenses that develop over the years. Inflation raises the cost of everything and retaliatory price increases are not always possible. Crowsby added that salaries rise as employees gain seniority, and the costs of benefits rises because of their very structure. Thus cost eliminations and profit improvement must be on a continued basis, and the revenues of the organization must continue to increase in order to broaden the base.

A co-operative, just as any other business entity, has to grow to meet challenges posed by the competitive business environment in which they operate. A co-operative being a business entity can be deduced from the following two definitions:

According to ICA recommendation 127, a co-operative has been defined as an association of persons who have voluntarily joined together to achieve a common end through the formation of a democratically controlled organization, making equitable contributions to the capital required and accepting a fair share of the risks and benefits of the undertaking in which the members actively participate. This definition was further simplified under Recommendation 193 where a

co-operative is defined as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise, (Manyara, 2003).

The research attempted to ascertain if a Sacco as an enterprise, which operates in an economic environment just like any other business entity, desires growth not only for survival, but also for its prosperity. In a co-operative enterprise, the members learn the principles of democratic governance, transparency and their involvement in management of a collectively owned enterprise (Kobia, 2011). Kobia further says that co-operatives have a unique advantage in addressing problems of poverty, wealth creation and its equitable distribution; social well being and transformational development of communities and society in general. He further observes that co-ops have helped to build the economies of the developed world and can be used to a greater extent to expand and transform the economies of developing countries such as Kenya.

### **Growth of Saccos**

The global statistics indicate that in the year 2011, 100 countries had credit co-operatives that numbered 51,013 with a membership of 196,498,738 (WOCCU, 2012). In the year 2009, globally there were 49,330 credit co-operatives with a membership of 183,916,050 which indicated growth globally. The WOCCU statistical report also indicated that Kenya is leading in membership, number of credit co-operatives and savings mobilization in the African continent. The statistics further show that Kenya ranks number seven (7) globally in savings mobilization.

## Global Member Statistics

Year	COUNTRIES	CREDIT UNIONS (SACCOS)	MEMBERS
2011	100	51013	196,498,738
2010	100	52945	187,986,967
2009	97	49330	183,916,058

Source: WOCCU Statistical Report 2012.

In Kenya, the growth in the co-operative movement has been witnessed in the areas of number of new co-operatives registration, savings, turnover, surplus; share capital and membership, and computerization as will be highlighted in this research. According to the Co-operative Digest (MOCD & M, 2008), co-operatives in Kenya remain friendlier in offering credit and products to the small scale firms and traders and if they coalesced into bigger unions, they would become profitable financial institutions that would be able to face stiff competition in the sector. For this to be realized, co-operative leaders must accept to give up positions held in their respective small co-operatives in order to accommodate mergers for the interest of their members. The journal further adds that the ministry of co-operative development and marketing has put up measures in place to develop co-operatives which will provide young people – across all sectors of the economy – with opportunities to grow and be self reliant.

On the growth of the co-operative movement, the co-operative Digest adds that the Sacco sector is growing very rapidly – 20% per annum – and has the potential for further growth to be able to serve the un-banked segment of the population. It says growth will further be accelerated with

enactment of the Sacco Legislation. The legislation aims at ensuring that members' savings are safe and sound, and in effect result in requisite confidence vital for any financial intermediary. During the 7<sup>th</sup> Africa Sacco Congress (Co-operative Digest, 2006), it was observed that in Kenya the Sacco sector was estimated to be growing at the rate of Ksh. 13 billion or USD 949 Million annually. It was further noted that the fast phenomenal growth was being experienced without corresponding legislation which had in turn exposed members' funds to unprecedented risks. The danger, it was said, is even greater for those Saccos taking deposits from their members. The congress further noted that no information gap should be left in order to minimize wrangles and that Saccos must embrace new technology in order to grow and remain competitive. The Sacco legislation (Kenya Gazette Supplement No.98 (Acts No. 14)) has since been enacted as a result of which the Sacco Regulatory Authority (SASRA) was established. Sasra has the mandate of regulating, supervising and Licensing Sacco societies that are deposit taking. Deposits taking Saccos are Saccos that operate front office service activity (FOSA) just like banking institutions. Currently, Sasra has licensed 123 Sacco societies in Kenya to carry out Deposit – Taking business (Sasra, 2013).

According to the annual Report of the Ministry of Co-operative and Marketing – Nairobi Province (2009/2010), growth was noted in the number of active co-operatives from 1,240 to 1,349, membership from 617,062 to 700,303; share capital/deposits rose from Sh.75,353,436,368 to sh. 84,417,038,509. Growth was also noted in turnover from Ksh.11,160,311,834 to Ksh. 13,207,816,387; loans with members from Ksh. 51,402,497,028 to Ksh. 87,253,704,361. Societies with Fos as increased from 34 to 38, while the number of employees grew from 1974 to 2138. Societies that had computer hardware and software increased to 318 from 184. The annual report noted that the co-operative movement in the province was growing in every aspect as

indicated by the statistical information. The information related to all four (4) regions in Nairobi then, namely, Nairobi North, Nairobi East, Nairobi West and Westlands. Currently, the province has since been split into nine District comprising Starehe, Kamukunji, Kasarani, Embakasi, Njiru, Makadara, Langata, Westlands and Dagoretti. The research will carry out a survey of Dagoretti District which stretches all the way from Waithaka through Kilimani up to Upper Hill that touches the CBD, to assess the factors affecting the growth of co-operatives in this District.

## **1.2 Statement of the Problem**

Whereas the future of the co-operative development in a liberalized economic environment seems bright, the challenge is how to inculcate the business virtues in the less adapted co-operatives to spread the benefits to a wider population in the country (Wanyama, 2008). The co-operative movement in Kenya has become a success story mainly in the areas of loans disbursement but continues to miss opportunities in the use of modern information Communication technology thus making it necessary for it to refocus and re-assess its capacity not just to mobilizing financial resources further, but also to manage them well for faster economic growth (Gunga, 2008).

The Ministry of Co-operative Development Investment Policy (June 2008), a policy document on investment is a set of decisions to deal with long-term objective of sustainable and a profitable co-operative sector. Investments in this case by co-operatives meet the equity objective in relation to income distribution, proper financial resources utilization and efficiency objective in terms of increasing national income and human capital development. In this respect, the co-operative investment policy is part and parcel of national policies as stated in ERS, SRA, and Vision 2030 among others. As per the co-operative Society Management and Prudential Guideline Manual (May 2008), there is need to entrench performance based culture in the

management of co-operative societies. This can be based on financial perspective, business process perspective, and learning and growth perspective.

As highlighted in the background, the fast phenomenal growth of Saccos in Kenya was being experienced without corresponding legislation which had in turn exposed members' funds to unprecedented risks (Co-operative Digest, 2006). The Sacco Regulatory Authority (SASRA) information site indicates that Kenya has mobilized 210 billion shillings and that it controls 67% of the total assets and 62% of the total deposits for the entire continent (Internet, 2013). Sasra however observes despite the rapid growth that has seen 218 Saccos out of the 5,544 registered Saccos taking deposits from members, there are challenges that need to be addressed. They observed that Saccos face challenges of weak legislation, low uptake of information technology and low level of professional skill development in management in both senior and junior staff. They also indicate competition from the mainstream commercial banks and lack of institutional capacity development. The research endeavored to assess what contributes to the growth of Saccos and strategies that Saccos can adopt, especially in Dagoretti District, that contribute positively to viability and sustainability of the co-operative enterprise. This research was therefore to assess the determinants of growth of Saccos in Dagoretti District.

### **1.3 Research Objectives**

#### **General Objective of the Research**

The Objective of this research was to assess the determinants of growth of Saccos in Dagoretti District.

#### **Specific Objectives of the Research**

1. To assess how membership common bond affect growth of Saccos in Dagoretti District

2. To examine the extent to which technology affect growth of Saccos in Dagoretti District.
3. To examine how capacity building of society officials affect growth of Saccos in Dagoretti District
4. To assess the impact of innovation on growth of Saccos in Dagoretti District

#### **1.4 Research Questions**

The following are the research questions the researcher used during the research:-

1. What is the effect of common bond for membership on the growth of Saccos in Dagoretti District?
2. How does technology affect growth of Saccos in Dagoretti District?
3. What is the effect of capacity building of Sacco Society officials to the growth of Saccos in Dagoretti District?
4. To what extent does innovation affect growth of Saccos in Dagoretti District?

#### **1.5 The Significance of the Study**

This research was conducted to establish the co-operative growth strategies and their effect to growth of these entities. The survey was conducted in Dagoretti District of Nairobi. The findings of this research will help the co-operative officials, members and even the staff of the ministry of Co-operative Development and Marketing in designing growth strategies and evaluating the impact of the selected strategy on growth. The research will also be an eye opener for future researchers in this area who may want to research on best strategies that the country may adopt to develop the Saccos in Kenya. This will go a long way in ensuring that Kenya retains its

number one (1) position in Africa in credit co-operatives and that it improves worldwide from the current position seven (7) globally.

### **1.6 Scope of the Study**

The study covered Sacco Societies located within Dagoretti District of Nairobi County. The research used sampling method and took a sample size of eighty six (86) Saccos out the one hundred and fifteen (115) Savings and Credit co-operatives in Dagoretti District.

### **1.7 Limitations of the study**

The researcher encountered funding constraint that could not enable wider coverage of all Districts in Nairobi County that would provide necessary information for broader and detailed coverage. Thus the Research findings may not apply to all districts in the county. Some respondents were unwilling to respond. The research also was limited to coverage of only one district in Nairobi and thus the findings may not be generally applied to other districts within the County. The limitations were overcome by use of a case study that will focus on one District and use of sampling method to get a representation of population of study.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

In this second chapter, the researcher will review relevant literature information that is related and consistent with the objectives of the study. Important issues and practical problems will be brought out and critically examined so as to determine the current facts. This section will be vital as it determines the information that link the current study with past studies and what future studies will still need to explore so as to improve knowledge.

#### **2.2 Theoretical Review**

This study was guided by the Ansoff's Growth Matrix. Ansoff (1987) suggests that there are two related types of strategy – portfolio analysis and competitive strategy. Portfolio analysis examines the company's activities within both existing and potential markets. Essentially Ansoff's matrix examines growth strategies. From an analysis of market attractiveness and business position several strategic positions emerge: Invest – The Company seeks to invest resources into products/services. The objective is to build and strengthen position over the medium and longer terms. Protect these products/services require protection, as they are the cash generators for new products/services. The company must allocate resources and implement actions to protect these. Harvest – A medium-low business position coincides with a medium-low level of market attractiveness. The objective here is to maximize the revenue stream with the minimum level of resource investment. There may come a point where the company must consider divesting the product/service to another company, terminating the product/service, or

re-energizing the product/service. Divest – The weakest position and thus the company must divest itself of the product/service.

Movement is not restricted within the grid's framework. As Stanton et al. (1994) suggests a company may harvest profits from divesting a product/service to another company. While there are costs incurred from divestment, the additional resources (including finance) can be invested into products/services that require additional protection. Thus a problem within one area can be used as a basis for protecting and developing others. Emotions affect many aspects of employees' relations in organizations, from perceptions of authority to feelings about the desirability of making a career within an organization. For instance, as Kahn (1998) noted, employees form emotional attachments in the context of their work relationships and, beneath the layer of formal organizational structures, these relationships and emotions shape how they engage with their work environment. Within organizations, emotions serve as the social glue that can potentially make or break organizational structures (Fineman, 1993).

### **2.3 Growth**

Growth of an organization comprises the actual output or results of an organization as measured against its intended output (or goals and objectives). According to Richard, organizational growth encompasses three specific areas of firm outcomes, namely, financial performance (profits, return on assets, return on investment, etc); product market performance (sales, market share, etc); and shareholder return (total shareholder return, economic value added, etc), (Richard, 2008).

### **2.3.1 Membership Common Bond and Sacco Growth**

The common bond or bond of association is the social connection among the members of co-operative societies or credit unions (wikipedia, 2012). In his book 'People's Banks (1910), Henry W. Wolff summarized the character of 'common bond' based on his observations of credit unions all over Europe. While other players in the financial sector reposition themselves to meet the emerging challenges, SACCOs have continued to rely on the principle of common bond as a strength and basis of their very existence. The reliance of common bond as a basis of registration of SACCOs has meant that many of them do not see the need to expand their membership beyond the boundaries of commonness. And yet many players in the sector are being forced to adopt tactics that will see them survive the competition. While many players in the financial sector continue to seek partnerships and mergers, SACCOs continue to be driven by limiting factors of common bond among members.

Wolff (1910) observed that many individuals bring small amounts of share capital into a common pool, which collectively amounts to significant base of collateral; and that borrowers, lenders and guarantors live near one another (for example in the same village), making it convenient for the lender and guarantors to monitor the growth of the borrower, and manage any problems that may come up. He further observed that an inter-connection of liability among members is created by the bond, which may either involve direct and unlimited 'financial liability' or 'direct responsibility for good management' (which once publicly established increases the sense of security of claim-holders); and that all operations of the credit union must be conducted along 'business lines' based on a strong sense of collective responsibility.

There are several distinct types of bonds, corresponding to distinctive types of credit unions or primary co-operatives. For instance the Raiffeisen banks (1970) in Germany relied on parish –

based bonds, as parishes were very small and people were in constant communication with each other through the central nexus of the local church. The common bonds in early United States credit unions were generally employee-based, and concentrated in the manufacturing and transportation industries, and among teachers and postal workers (MacPherson, 1999). The bonds of many credit unions in Kenya are based on out-growers – farmers who deliver tea, sugar cane and other cash-crops under contract to a company (Owen, 2007), that handles manufacturing, marketing and sales of the produce. For example KPCU for coffee growers, Mosacco Sacco in Mumias for sugar cane growers and New KCC for the dairy farmers. The common bond for primary co-operatives in Kenya is based on those working together, doing similar business, engaged in same farming activity or any group doing similar business or economic activity. For example Kenversity Sacco is for the Staff of Kenyatta University, Fundilima Sacco for the employees of Jomo Kenyatta University of Agriculture and Technology (JKUAT), Sheria Sacco which is largely for the employees of the Judicial Service Commission. Secondary school teachers and lectures in the Government tertiary institutions largely belong to Mwalimu Sacco. As per the Annual Report of Nairobi Province of 2010/2011 (MOCD, 2011), Nairobi East District had the highest number of co-operative Societies. This is because almost each factory in Industrial has its own Sacco with majority of them having a membership of less than two hundred (200).

According to the Co-operative Societies Rules (2004), a co-operative society is required to make by laws, among other matters, on its area of operation and membership common bond (Rule 7(i)(c). This implies the definition of the co-operatives common bond may limit its scope and field from which to draw its membership.

### **2.3.2 Technology and Sacco Growth**

Technology strategy was found by many researchers as a way to improve competitiveness. Failure to develop and integrate technology strategy and business strategy is a major contributing factor to the decline of firm's competitiveness. Many literatures also indicated that technology strategy played an important role in determining firm performance in technology-driven industries such as industrial automation company (Mitchell, 2002). However, most of the previous studies have generally focused on the structure-conduct-performance theory which emphasized greatly on external factors (market condition and competitors) to link strategies to firm growth.

According to Thompson et al (2010), accurate and timely information about daily operations is essential if managers are to gauge how well the strategy execution process is proceeding; and that information systems need to cover five broad areas of customer data, operation data, employee data, supplier/partner/collaborative ally data, and the financial performance data. Due to its dynamism, ICTs promise fundamental change in all aspects of human life including knowledge dissemination, social networking, economic and business practices, political engagements, education, health, leisure, and entertainment. ICTs are also useful either as tangible goods in their own rights or as value - adding services that improve efficiency and effectiveness. Thus ICTs can provide reliable access to markets (Local, regional and International) through increased use of affordable communications (phone, email). ICT, broadly can allow for a reduction in transactions costs, improved access to timely and usable knowledge, improved communications with markets and within supply chain, acquisition of appropriate skills for enhancement of productivity and improved information about new opportunities (Gunga, 2008).

New technologies create new markets and opportunities, and every new technology replaces an older technology (Kotler and Armstrong, 2004). Kotler and Armstrong further note that when old industries fought or ignored new technologies, their businesses declined. They say that companies that do not keep up with technological change soon will find their products outdated and they will miss new product and market opportunities. They further observe that the technological environment changes rapidly and that it is perhaps the most dynamic force now shaping our destiny.

Technology is made up of discoveries in science, product development and improvements in machinery, process, automation, and information technology (Manyara, 2003). It also includes a combination of knowledge, information and ideas. Manyara also observes that the rate of technology adoption and its overall application in co-operatives in the region is generally low and that the main reasons for this include conservatism, costs and ignorance. The results and the situations also vary. He observed two situations where – some highly automated financial co-operatives and the completely non-automated agricultural primary co-operatives. ICT is increasingly becoming an essential tool for efficient operations of investments and co-operatives should be encouraged to use this technology (Ministry of Co-operative Development and Marketing, 2008). The Ministry of co-operatives through its policy document on investment notes that many co-operatives are not computerized while others are partially computerized; and recommends that CODIC be activated to fulfill its core mandate of developing and assisting the co-operative movement to acquire compatible computer software for their operations at a competitive price; and that to save on costs, Saccos should link up with private ATM service providers, e.g Pesa Point or alternatively utilize Cooperative Bank ATM service which has a country wide network.

The researcher in this case will investigate the effect IT on growth and establish why some societies have adopted IT if at all it has a positive effect on growth.

In a competitive market, members will increasingly seek providers who serve them best. Competition is the situation in which people or organizations compete with each other for something that not everyone can have. Therefore the underlying principle for any competitive situation is scarcity. It therefore follows that any person or organization that wishes to engage into productive activity, will not only have to content with the acquisition of scarce factors of production, ever changing state of technology but also with a determinate market with its ever changing tastes and preferences. The essence of competition is to win as others lose (Hollensen, 2003).

One of the earliest concepts of technology strategy was provided by Maidique and Patch (2008). They conceptualize technology strategy based on three dimensions, namely type of technology; level of competence; timing of technology introductions; level of investment; organization and policies, and source of technology. Type of technology or technology selection is associated to the distinctiveness and the value of technologies that the firm specializes in. Level of competence refers to how specialize the firm is in its technologies. Timing of technology introduction equates to introducing a technology ahead of competitors. Level of investment is related to financial resource allocations whereas organization and policies are associated with implementation of strategy (Spital and Bickford, 2002). Source of technology on the other hand refers to mode of technology acquisition, whether it is internal R and D, external R and D or others. These are methods or ways to pursuing technology strategies (Spital and Bickford, 2002).

The last three dimensions (level of investment, organization and policies, and source of technology) are greatly allied to technology management processes, which are to be distinguished from technology strategy content for further evaluation of their contribution as a source of competitive advantage (Herman, 2008). There is substantial amount of research regarding the linkage between technology strategy and firm performance, which mostly focus on new product development. Cooper and Kleinschmidt (2006) have found high correlation between new product or technology strategy and firm performance. Similarly, Zahra and Covin (2003) have found a clear correlation between business strategy-technology strategy fit and firm performance. This supports most research findings that, organizations who know how to link their technology strategy with their business strategy will be more competitive in the global marketplace (Mitchell, 2002).

### **2.3.3 Capacity Building of Society officials and Growth**

Leadership development is a key business strategy, and that leaders are developed primarily on the job (Kinicki and Williams, 2008). These are some of the seven principles of leadership developed by Johnson and Johnson (2007) as quoted by Kinicki and Williams (2008). According to Pearce II et al (2007), education and leadership development is the effort to familiarize future leaders with the skills important to the company and to develop exceptional leaders among the managers you employ. They state that key roles of good organizational leadership is building the organization by educating and developing new leaders; and that this will enable leaders be global managers, change agents, strategists, motivators, strategic decision makers, innovators, and collaborators if the business is to survive and prosper.

Excellent executives look to the future and prepare for it (Koontz and Wehnrich, 2007); and that one important way to do this is to develop and train managers so that they are able to cope with

the new demand, new problem, and new challenges. They define development as long-term future-oriented programs and the progress a person makes in learning how to manage; and that training pertains to programs that facilitate learning process and is mostly a short-term activity to help people do their jobs better. Koontz and Wehnrich identify three kinds of needs to be considered as the objectives of the enterprise, the availability of managers, and turnover rate, and that needs related to the operations and the job itself can be determined from job descriptions and the performance standards.

Manyara (2003) noted that it is a truism that most co-operative leaders are not true co-operators and are not fully conversant with the philosophy of co-operation. That they conduct co-operative business as they conduct their own private business, purely aiming at maximizing profit and forgetting the need for member promotion. Manyara further observes that many of the problems bedeviling the co-operative movement are attributable to lack of management skills and knowledge among the leaders, members and employees. Albeit co-operatives have become widespread in almost all sectors of the national economy, modern skills and knowledge are required for further and enhanced development. One of the functions of the Government is co-operative education and training. This is in line with the internationally accepted co-operative principle of co-operative education, training and information (Co-operative Societies Act, 2005).

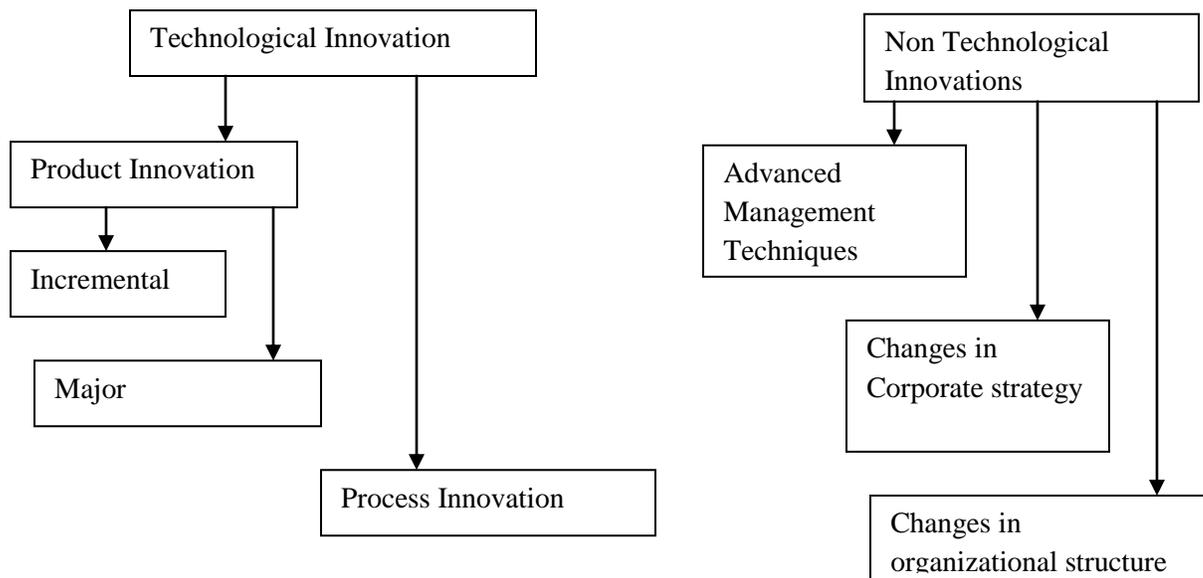
#### **2.3.4 Innovation and Sacco Growth**

Intensified competition between SACCOs as well as allowing members to easily compare offers provided by different SACCOs has heightened the rate of member switching. This ‘frictionless commerce’ tends to raise members’ expectations about services and products and makes them more prone to switching to other service providers. Innovation in its widest sense is considered to be anything that is new to a business or as comprising new products and processes; and

significant technological changes of products and processes (Hine and Kapeleris, 2006). They add that innovation has been implemented if it has been introduced on the market (product innovation) or used within a production process (process innovation). There are five types of innovation, namely, introduction of a new commodity; introduction of a new production method; opening up of a new market; change in source of supply; and re-organization of industry.

Hine and Kapeleris (2006) say that process innovation refers to the adaption of new or significantly improved production methods – methods that may involve changes in equipment or production organization or both. They add that there is the non-technological innovation that relates to operation of business. They use the following model to explain the various forms of innovation:-

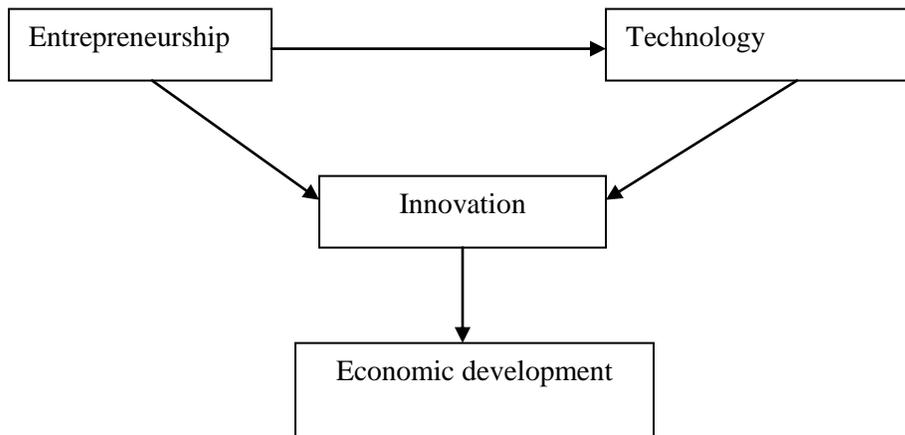
### Forms of Innovation



Source: ABS innovation survey 1995, 2003 and OECD Oslo Manual 1992

Hine & Kapeleris argue that entrepreneurship, technology and innovation have a causal relationship as demonstrated below.

## Relationship between innovation and economic development



Source: Hine & Kapeleris 2006

The principles of cooperatives are, however, different from those used by other private businesses such as corporations and create distinct problems for cooperatives in raising capital. For example the common practice for cooperatives in this country is to do business only within the common membership. To be successful therefore, a cooperative needs at least to maintain a large volume of member transactions. With increased competition, it can only do this through continual improvements in services while maintaining competitive prices. Improved service may mean expanding the range of products and services offered to members while improving the delivery of existing services. Firms position their brands by selecting optimal mix of tangible and intangible attributes as well as prices. The distribution of consumer preferences and the existing or anticipated positions of competitive brands are both critical inputs in positioning decisions. Product positioning, therefore, require a synthesis of consumer and competitor analysis (Singh, 2001). A company that overlooks new and better ways to do things will eventually lose customers to another company that has found a better way (Kotler and Armstrong, 2004).

Product quality as well as member loyalty influences positive and negative calculative commitment. Considering relationship quality, its social scope in the aspects of cooperation and trust are found to be of much greater influence on commitment than the technical side of product quality which is viewed from the aspects of knowledge transfers and adaptation. The social perspective of relationship quality in terms of cooperation and trust is said to influence positively affective and normative commitment, while trust is also found to be positively affecting positive member commitment. Further the technical side has only one significant link that exists between adaptation and normative commitment. As well as the indirect effects, product quality is also found to influence positively attitudinal and behavioral loyalties which are the key aspects towards building member commitment. This commitment affects the overall market performance of Saccos in the globalization era both locally and internationally.

New credit products such as microfinance loans are also offered as well as crop advances and other credit products. Those Saccos with FOSAs have been able to dramatically increase their saving base (liquidity) and diversify their client base and membership. FOSAs allowed both urban and rural Saccos to offer a more diversified range of savings, credit and other financial products. Due to the early history of rural Saccos with pay points, savings products, and their size, rural Saccos were much quicker to embrace FOSAs. Compared to urban Saccos, a much higher percentage of Rural Saccos have formed FOSAs. Recently, the divisions between urban Saccos focused on private sector and public sector employees and rural Saccos focused on commodities farmers (out growers) and staff of processing companies (Tea sugar etc.) are starting to blur. This change is happening with the advent of FOSAs, opening of common bonds, microfinance, and the advent of community-based Saccos. The Co-operative Bank was established in 1968. In 1994, it converted to a commercial Bank licensed under the Banking Act

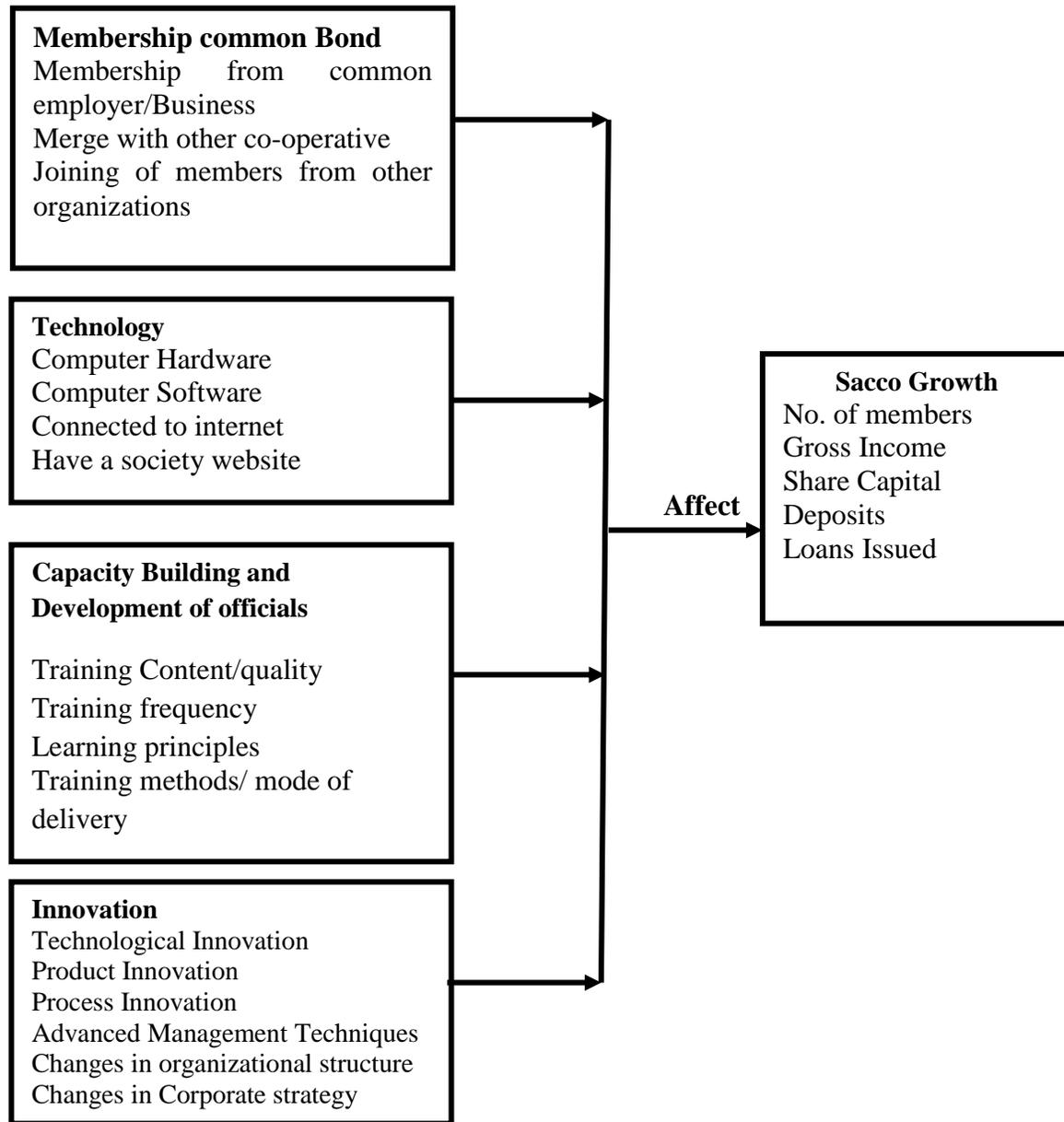
to offer the complete range of financial services. This involves consolidation of the existing co-operatives customer base and diversifying through product innovation to serve other sectors of the economy. It entered into an agreement with MoneyGram International in 1998 to provide international remittance services (Co-operative Bank, 2013).

Co-operatives in Dagoretti District fall basically under two categories, namely, the financial sector and the housing industry. The Sacco societies purely fall under the financial sector in which other industry players include commercial banks, micro-finance institutions (MFIs) and insurance companies. The Investment and Housing co-operative societies are currently engaged in land – buying for its members and for sale commercially to non-members, house constructions and investments in stocks (both quoted and unquoted); and treasury bills trading.

#### **2.4 Summary of Literature Review**

The researcher has established from the literature that performance of a co-operative may indeed be affected by the membership and the common bond from which members are drawn. A co-operative that has a bond limited to the company that employees its members, normally will not grow its membership beyond the employees of the mother company. The researcher also observed from the literature review that capacity building and development of officials is likely to enhance their effectiveness and thus performance of the society, and that this can be achieved through trainings enhancement of their management skills. Technology can enhance communication and effectiveness in the society and researcher tried to establish how societies that have embraced modern technology have grown compared to those that have not. On innovation, the research endeavored to establish how innovation affects growth of Saccos in Dagoretti District.

## 2.5 Conceptual Framework



**Independent Variables**

**Dependent Variable**

Source: Researcher, 2013

**Figure 2.1: Conceptual framework**

The expansion or opening up of the common bond for membership will lead to more members joining the co-operatives hence more savings that will in enable members access more resources.

Improvement in technology will help faster service delivery and improved communication, while capacity building and development of officials will enable better service delivery hence improved growth. Innovation on the other hand will enable address members changing demands for better products and changing tastes and this will in turn help improve growth due to a satisfied customer who will do repeat purchase.

## **2.6 Research Gap**

The researcher observed during the literature review that there is a gap between the co-operative legislations and the changing needs of co-operative members. Research needs to be done to establish the effect of co-operative legislations on decision making in a changing economic environment. This should be done bearing in mind the retention of co-operative uniqueness of being member owned and member managed.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter describes the methodology that will be used in this study. It forms a framework for specifying the relationships among the study variables. The chapter covers various aspects of the target population, sampling methodology, data collection procedure and methods, and data analysis.

#### **3.2 Research Design**

The study employed descriptive research design. The major purpose of descriptive research design is to describe the state of affairs as it is at present. Descriptive research according to Mugenda & Mugenda (1999) is a process of collecting data in order to answer questions concerning the status of the subjects in the study. This design was appropriate in this study because it ensured in-depth analysis and description of the various phenomena under investigation. The study involved both qualitative and quantitative data.

#### **3.3 Target Population**

The study assessed the savings and credit cooperative societies in Dagoreti District, Nairobi County. According to the District's database, there are one hundred and thirty six active cooperative societies in Dagoretti. The Societies are categorized according to their objectives as: Saccos, Housing, and Investment cooperatives. The number of Saccos in the District is 115 out which we have the following categories:-

## **Types of Saccos**

<b>Type of Saccos</b>	<b>Number</b>
Employee Based	89
Matatu Based	6
Youth Based	2
Community Based	18
Total	115

Source: Researcher, 2013.

Because of the large number of the population the study employed sampling survey.

### **3.4 Sample selection and sampling procedure**

A sample size ( $S$ ) of 86 respondents was studied from the total population using the sampling framework proposed by Kathuri & Pals (1993). The study employed stratified random sampling in which the Societies were stratified according to their type of members. The size of the sample to be extracted from each stratum was determined by the framework by Kathuri & Pals.

A simple random sampling technique was used to select sampling units from the population in each stratum. The respondents for the questionnaire were any of the executive officials of the Sacco for Saccos without employees. For Saccos that have employees, the CEO or the manager were the respondent for the questionnaire. The interview schedule was be administered to service recipients present at the Sacco to get insight into responses for the questionnaire.

## Samples selection

Type of Sacco	Population( $n_i$ )	$n_i/N$	Sample size( $s_i$ )
Employee Based	89	0.77	66
Matatu Based	6	0.05	4
Youth Based	2	0.02	2
Community Based	18	0.16	14
<b>Total</b>	<b>115</b>	<b>1.00</b>	<b>86</b>

Source: Researcher, 2013

### 3.5 Data Collection Tools and Procedures

The primary data was collected by use of semi-structured questionnaires and an interview schedule that will be filled by the respondents. These questions helped to elicit the relevant evidential information for analysis upon which the conclusions will be drawn. The questionnaires was distributed using the drop and pick later method. Pilot study will be done to verify the reliability and validity of the questionnaires.

### 3.6 Validity and Reliability

Before the actual study, a pilot study was done. The questionnaire was pre-tested to a selected sample. The procedure used in pre-testing the questionnaire was similar to the actual to be used in the study. This was done in order to ensure the relevance of the items to the study, gain knowledge on how to administer the instruments, and test the validity and reliability of the instruments, thus check if there are ambiguities in the instruments. The process of developing

and validating an instrument is in large focused on reducing error in the measurement process. Validity indicates the degree to which the instrument measures the constructs under investigation (Mugenda and Mugenda 1999). It also refers to the extent to which the instrument measures what it purports to measure. There are three types of validity tests which include content, criterion and related construct validity. Content validity refers to the degree to which the instrument fully assesses or measures the construct of interest. The questionnaire provided an adequate measure that covers the content area of the research questions. Meaning the questions in the questionnaire must give adequate answers to the research questions of the study.

Reliability is the extent to which a questionnaire or any measurement procedure produces the same results on repeated trials. It is the stability or consistency of scores over time or cross rates. The reliability was measured so as to find out the degree to which the measuring items would give similar results over a number of repeated trials. A test–retest method was used to estimate the degree to which the same results could be obtained with a repeated measure of accuracy of the same concept in order to determine the reliability of the instrument. The selection of the pilot sample was done using purposive sampling.

### **3.7 Data Analysis and Presentation**

The study involved both quantitative and qualitative data. The study examined the collected data to make inferences through a series of operations involving editing to eliminate repetitions and inconsistencies, classification on the basis of response homogeneity and subsequent tabulation for the purpose of inter-relating the variables. Once the data was checked for completeness ready for analysis, it was coded according to the themes researched on.

The refined quantitative data was be analyzed using descriptive statistics involving frequencies

and percentages to determine concentrations. First, regular analysis with comparison among questions was be done using frequency analysis. This made it easier to quantify and establish the variations in the number of counts observed per variable.

The second part of the analysis was to establish the causal relationship among the variables. In general two variables x and y are said to be linearly related, if there exists a relationship of the form:  $y = a + bx$ . On the other hand the relationship between two variables is said to be non-linear if corresponding to a unit change in one variable, the other variable does not change at a constant rate but changes at a fluctuating rate. Such a relation may be of the form:  $y = a + bx + cx^2$ . In this study a linear regression model was used to investigate the relationship between growth and its various determinants. The study was to investigate the causal effect and the strength of the relationships. Growth in this study was be measured by income. The determinants to be considered are membership size, technology, capacity building of the officials, and product innovation. The model below was used to analyze this relationship:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y=Growth as measured by profitability (income)

$\alpha$ = Constant term

$\beta_i$ = Beta Coefficient

$X_1$ = Membership size

$X_2$ = Technology

$X_3$ = Capacity Building of the officials,

$X_4$ = Product innovation

$\varepsilon$ = Error term

Correlation coefficients can provide for the degree and direction of relationships. It measures the association, or co-variation of two or more dependent variables. The statistical calculation of such correlation was done and expressed in terms of correlation coefficients. The Pearson Product Moment Correlation Coefficient ( $\gamma$ ) was used for this purpose. The  $\gamma$  provided information on the direction and magnitude of an observed correlation between two variables (X and Y).

In this method, the scores obtained regarding one variable were correlated with the scores of another variable. The interpretation was given in statistical figures between -1.00 and +1.00. These two values represent the two extremes of perfect relationship: a value of  $\gamma = 0.00$  represents the absence of any relationship (Moore, 1983). If the value of  $\gamma$  is -1.00, this indicates a perfect negative relationship. If the value of  $\gamma$  is +1.00, this indicates a perfect positive relationship. The values in between were interpreted accordingly. The existence of a relationship between two variables implies that the scores obtained within a certain range on one measure are associated with the scores within a certain range on another measure. Data was presented using graphs and frequency tables.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND INTERPRETATIONS**

#### **4.1 Introduction**

This chapter discusses the interpretation and presentation of the findings. This chapter presents analysis of the data on the factors affecting the growth of Saccos in Dagoretti District. The chapter also provides the major findings and results of the case study and discusses those findings and results against the literature review chapter.

##### **4.1.1 Response Rate**

The study targeted a total of 86 respondents. However, only 70 respondents responded and returned their questionnaires contributing to 81.34% response rate. According to Mugenda and Mugenda (1999) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent; therefore, this response rate is adequate for analysis and reporting. The researcher made use of frequency tables, graphs and charts to present data.

##### **4.1.2 Reliability Analysis**

Prior to the actual study, the researcher carried out a pilot study to pretest the validity and reliability of data collected using the questionnaire. The pilot study allowed for pre-testing of the research instrument.

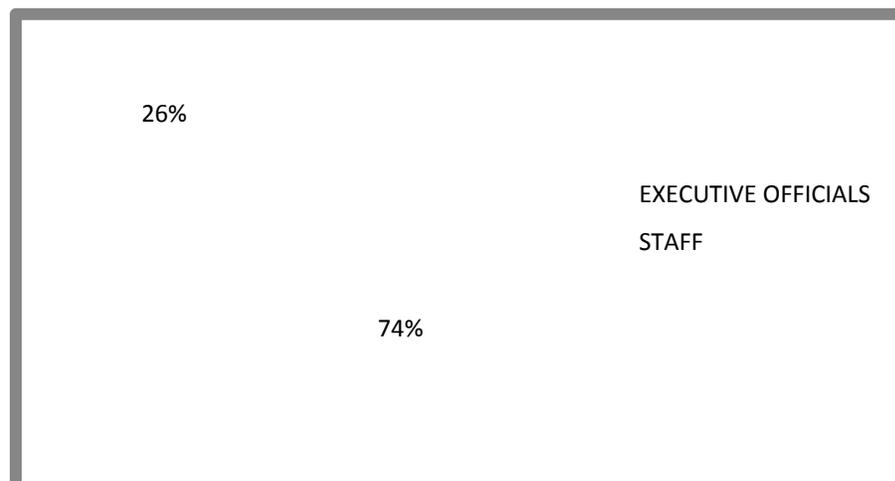
**Table 4. 1: Reliability Coefficients**

Scale	Cronbach's Alpha	Number of Items
Expansion of membership common bond	0.894	17
Technology	0.909	7
Capacity building of society officials	0.725	5
Innovation	0.613	5

The reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. The Alpha measures internal consistency by establishing if certain item measures the same construct. Cronbach's Alpha was established for every objective in order to determine if each scale (objective) would produce consistent results should the research be done later on. The findings of the pilot study shows that all the four scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Mugenda and Mugenda, 2003).

## 4.2 General Information

**Figure 4. 1: Position held by the respondents**



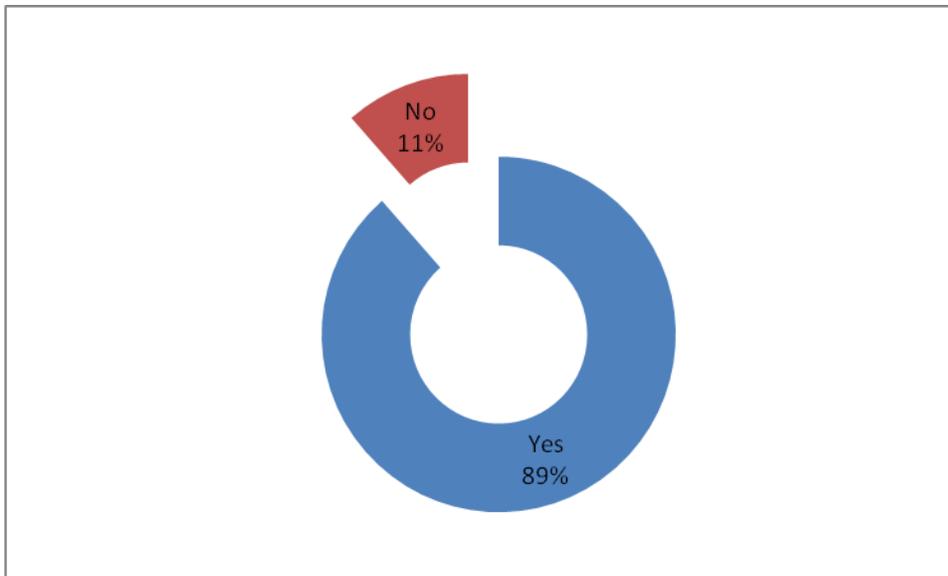
The study sought to find out the position held by the respondents. According to the findings, 74% of the respondents were executive officials while 26% were employees.

**Table 4. 2: Type of Sacco Society**

	<b>Frequency</b>	<b>Percent</b>
Employee based	52	74.3
Transport Based (Matatu)	4	5.7
Community Based	13	18.6
Youth Based	1	1.4
<b>Total</b>	<b>70</b>	<b>100.00</b>

The study sought to find out the type of Sacco Society. From the findings, 74.3% of the Saccos were employee based, 5.7% of the Saccos were transport based, 18.6% of the Saccos were community based and 1.4% was Youth Based.

**Figure 4. 2: If the Sacco paid dividends/Rebates to members the last financial year**



The study sought to find out if the Sacco paid dividends/Rebates to members the last financial year. According to the findings, 89% of the respondents indicated that the Sacco had paid

dividends/Rebates to members the last financial year while 11% of the respondents indicated that the Sacco had not paid dividends/Rebates to members the last financial year.

**Table 4. 3: Rates of dividends paid**

	<b>Frequency</b>	<b>Percent</b>
3.1-5%	43	61.43
5.1-7%	14	20.00
7.1-9%	13	18.57
<b>Total</b>	<b>70</b>	<b>100.00</b>

The study sought to find out the rates of dividends paid. From the findings, 61.43% of the respondents indicated that the rates of dividends paid were 3.1-5%, 20.00% of the respondents indicated that the rates of dividends paid were 5.1-7% and 18.57% of the respondents indicated that the rates of dividends paid were 7.1-9%.

### ***4.3 Sacco Growth***

**Table 4. 4: Trend of Sacco growth in the business for the last five years**

	<b>Mean</b>	<b>Std. Deviation</b>
No. of members	3.886	0.941
Gross Income	4.329	0.959
Share Capital	4.257	0.652
Deposits	4.014	0.985
Loans Issued	4.271	0.947
Interest On Deposits	3.943	0.562
Rate Of Dividend	3.829	0.636
Fosa Deposits	4.057	0.832

The study sought to find out the trend of Sacco growth in the business for the last five years. A five point likert scale was used where 5.000-4.500 = Greatly Improved; 4.499 – 3.500 = Improved; 3.499-2.500 = Constant; 2.499- 1.500 = Decreasing and 1.499 – 1.000 = Greatly decreased. According to the findings, the trend of gross income, loans issued and share capital

had improved for the last five years as shown by a mean of 4.329, 4.271 and 4.257 respectively. In addition, the trend of fosa deposits, deposits and interest on deposits had improved for the last five years as shown by a mean of 4.057, 4.014 and 3.943 respectively. More over, the trend of number of members and rate of dividend had improved for the last five years as shown by a mean of 3.886 and 3.829 respectively. According to Richard, organizational growth encompasses three specific areas of firm outcomes, namely, financial performance (profits, return on assets, return on investment, etc); product market performance (sales, market share, etc); and shareholder return (total shareholder return, economic value added, etc), (Richard, 2008).

### 4.3.1 Opening of Common Bond

**Table 4. 5: Agreement level with opening of common bond**

	<b>Mean</b>	<b>Std. Deviation</b>
All members of our society are from within our common employer/Business	3.543	1.674
Wrangles and leadership struggles increase as more members join the Sacco from outside the other organizations	4.257	0.912
I would recommend my society to merge with another co-operative to increase membership	2.771	2.001
Allowing members from other organizations to join our Sacco increases the default rate in loans	3.386	1.747
Fraud cases increase in the Sacco as the number of members from other organizations increase.	3.557	1.594

The study sought to find out the agreement level with opening of common bond. A five point likert scale was used where 5.000-4.500 = strongly agree; 4.499 – 3.500 = agree; 3.499-2.500 = neutral; 2.499- 1.500 = disagree and 1.499 – 1.000 = strongly disagree. From the findings, the respondents agreed that wrangles and leadership struggles increase as more members join the Sacco from outside the other organizations, fraud cases increase in the sacco as the number of members from other organizations increase and all members of our society are from within our common employer/business as shown by a mean of 4.257, 3.557 and 3.543 respectively. In addition, the respondents agreed that allowing members from other organizations to join our Sacco increases the default rate in loans and they would recommend the society to merge with another co-operative to increase membership as shown by a mean of 3.386 and 2.771 respectively. Inter-connection of liability among members is created by the bond, which may either involve direct and unlimited ‘financial liability’ or ‘direct responsibility for good management’ (which once publicly established increases the sense of security of claim-holders);

and that all operations of the credit union must be conducted along ‘business lines’ based on a strong sense of collective responsibility (Wolff, 1910).

#### 4.3.2 Technology

**Table 4. 6: Extent that the society is computerized**

	Yes		No	
	Frequency	Percent	Frequency	Percent
Computer Hardware	62	88.57	8	11.43
Computer Software	48	68.57	22	31.43
Connected to internet	39	55.71	31	44.29
Have a society website	23	32.86	47	67.14
Mpesa service	9	12.86	61	87.14
Sacco Link Card	9	12.86	61	87.14

The study sought to find out the extent that the society is computerized. According to the findings, 88.57% of the respondents indicated that the society had computer hardware, 68.57% of the respondents indicated that the society had computer software, 55.71% of the respondents indicated that the society had connected to internet, 32.86% of the respondents indicated that the society had a society website, 87.14% of the respondents indicated that the society had no Mpesa service and 87.14% of the respondents indicated that the society had no Sacco link card. Technology strategy played an important role in determining firm performance in technology-driven industries such as industrial automation company (Mitchell, 2002). The Ministry of co-operatives through its policy document on investment notes that many co-operatives are not computerized while others are partially computerized; and recommends that CODIC be activated to fulfill its core mandate of developing and assisting the co-operative movement to acquire compatible computer software for their operations at a competitive price; and that to save on costs, Saccos should link up with private ATM service providers, e.g Pesa Point or alternatively utilize Cooperative Bank ATM service which has a country wide network.

**Table 4. 7: Agreement level with statement on technology**

	<b>Mean</b>	<b>Std. Deviation</b>
Reports produced by our information system are accurate and reliable	3.786	0.635
Computerization has improved loans disbursement and loans recovery.	4.100	0.593
Technology is a challenge to growth in my Sacco	2.943	1.413
Computerization has reduced fraud	3.157	1.258
Errors and differences in records are easily corrected, and reconciliations done on time	3.686	1.222
Despite computerization the Sacco has had some fraud cases	1.829	0.963
Members issues and requests are responded to promptly	3.986	0.940

The study sought to find out the agreement level with statement on technology. A five point likert scale was used where 5.000-4.500 = strongly agree; 4.499 – 3.500 = agree; 3.499-2.500 = neutral; 2.499- 1.500 = disagree and 1.499 – 1.000 = strongly disagree. From the findings, the respondents agreed that computerization has improved loans disbursement and loans recovery, members issues and requests are responded to promptly, reports produced by our information system are accurate and reliable and errors and differences in records are easily corrected, and reconciliations done on time as shown by a mean of 4.100, 3.986, 3.786 and 3.686 respectively. In addition, the respondents were neutral that computerization has reduced fraud and technology is a challenge to growth in the Sacco as shown by a mean of 3.157 and 2.943 respectively. ICT is increasingly becoming an essential tool for efficient operations of investments and co-operatives should be encouraged to use this technology (Ministry of Co-operative Development and Marketing, 2008). ICT, broadly can allow for a reduction in transactions costs, improved access to timely and usable knowledge, improved communications with markets and within supply chain, acquisition of appropriate skills for enhancement of productivity and improved information about new opportunities (Gunga, 2008).

### 4.3.3 Capacity Building of Society Officials

**Table 4. 8: Agreement level with statement on capacity building of society officials**

	<b>Mean</b>	<b>Std. Deviation</b>
We often offer training to our co-operative officials	3.400	1.256
The budget allocation in our society is adequate to train the management committee and staff of the society	2.914	1.631
Training helps improve growth in the sacco	4.743	0.440
we are aware cooperative training providers who offer relevant training	4.300	0.688
lack of cooperastive traing to society officials leads to mismanagem,ent of the saccos	4.000	1.504

The study sought to find out the agreement level with statement on capacity building of society officials. A five point likert scale was used where 5.000-4.500 = strongly agree; 4.499 – 3.500 = agree; 3.499-2.500 = neutral; 2.499- 1.500 = disagree and 1.499 – 1.000 = strongly disagree. According to the findings, the respondents strongly agreed that training helps improve growth in the sacco as shown by a mean of 4.743. In addition, the respondents agreed that they are aware cooperative training providers who offer relevant training and lack of cooperative training to society officials leads to mismanagement of the Sacco’s as shown by a mean of 4.300 and 4.000 respectively. More over, the respondents were neutral that they often offer training to our co-operative official and the budget allocation in our society is adequate to train the management committee and staff of the society as shown by a mean of 3.400 and 2.914 respectively. Manyara (2003) noted that it is a truism that most co-operative leaders are not true co-operators and are not fully conversant with the philosophy of co-operation. Many of the problems bedeviling the co-operative movement are attributable to lack of management skills and knowledge among the leaders, members and employees (Manyara, 2003).

#### 4.3.4 Innovation in the Society

**Table 4. 9: Agreement level with statement on innovation in the society**

	<b>Mean</b>	<b>Std. Deviation</b>
My society introduces new products as members' needs change	4.071	1.012
My Sacco offers unique and attractive products to our members compared to other saccos	3.429	1.111
We often introduce new methods of service delivery as members' demands change to ensure growth and member retention	3.814	1.231
Our Sacco's survival will depend on what kind of products we offer and how differently we offer them to our members compared to other similar providers of that product.	4.743	0.440
Our members at times leave our society to join another	3.314	1.602

The study sought to find out the agreement level with statement on innovation in the society. A five point likert scale was used where 5.000-4.500 = strongly agree; 4.499 – 3.500 = agree; 3.499-2.500 = neutral; 2.499- 1.500 = disagree and 1.499 – 1.000 = strongly disagree. From the findings, the respondents strongly agreed that the Sacco's survival will depend on what kind of products we offer and how differently they offer them to the members compared to other similar providers of that product as shown by a mean of 4.743. in addition the respondents agreed that society introduces new products as members' needs change and they often introduce new methods of service delivery as members' demands change to ensure growth and member retention as shown by a mean of 4.071 and 3.814 respectively. More over, the respondents were neutral that the Sacco offers unique and attractive products to our members compared to other Saccos and members at times leave our society to join another as shown by a mean of 3.429 and 3.314 respectively. Hine and Kapeleris (2006) say that process innovation refers to the adaption of new or significantly improved production methods – methods that may involve changes in equipment or production organization or both.

#### 4.4 Regression analysis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 17.0) to code, enter and compute the measurements of the multiple regressions

**Table 4. 10: Results of multiple regression between growth of Saccos (dependent variable) and the combined effect of the selected predictors**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.793	.726	.678	.2076

a. Predictors: (Constant), Technology, Innovation, Capacity building of society officials, Expansion of membership common bond.

R-Square (coefficient of determination) is a commonly used statistic to evaluate model fit. R-square is 1 minus the ratio of residual variability. The adjusted  $R^2$ , also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. 67.8% of the changes in the growth of Saccos variables could be attributed to the combined effect of the predictor variables.

**Table 4. 11: ANOVA results of the regression analysis between growth of Saccos and predictor variables**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.223	4	3.112	3.971	.001
	Residual	92.876	66	.641		
	Total	115.099	70			

a. Predictors: Technology, Innovation, Capacity building of society officials, Expansion of membership common bond.

b. Dependent Variable: growth of Saccos.

The probability value of 0.001 indicates that the regression relationship was highly significant in predicting how technology, innovation, capacity building of society officials, expansion of membership common bond influenced growth of Saccos. The F critical at 5% level of significance was 3.971 since F calculated is greater than the F critical (value = 2.830), this shows that the overall model was significant.

**Table 4. 12: Regression coefficients of the relationship between growth of Saccos and the four predictive variables**

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
1 (Constant)	2.770	0.451		4.307	0.000
Expansion of membership common bond	+0.332	0.121	0.146	3.333	0.025
Technology	+0.433	0.079	0.126	3.214	0.025
Innovation	+0.248	0.073	0.045	3.329	0.032
Capacity building of society officials	+0.142	0.073	0.142	3.425	0.021

a. Dependent Variable: growth of Saccos

The regression equation above has established that taking all factors into account (technology, innovation, capacity building of society officials, expansion of membership common bond) constant at zero growth of Saccos will be 2.770. The findings presented also show that taking all other independent variables at zero, a unit increase in technology would lead to a 0.433 increase in the growth of Saccos. Further, the findings shows that a unit increases in expansion of membership common bond would lead to a 0.332 increase in growth of Saccos. In addition, the findings show that a unit increase in innovation would lead to a 0.248 increase in growth of Saccos. The study also found that a unit increase in the scores of capacity building of society officials would lead to a 0.142 increase in growth of Saccos. Overall, capacity building of society officials had the least effect on growth of Saccos and technology had the highest effect.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECCOMENDATIONS

#### 5.0 Introduction

This chapter offers summary, conclusions and recommendations of the research on the consequences of gambling on the factors affecting the growth of Saccos in Dagoretti District.

#### 5.2 Summary

The study found that wrangles and leadership struggles increase as more members join the Sacco from outside the other organizations. Fraud cases increase in the Sacco as the number of members from other organizations increase. It was also found out that most members of the Sacco societies are from within the original common employer/business. Members from other organizations joining the Sacco increases the default rate in loans. The study conclude that Saccos would be neutral on merging with other Saccos to increase membership meaning it would be a strategy that may only be adopted efforts to convince the undecided have been undertaken.

The study found that many Saccos are partially computerized while others were not computerized. Computerization has improved loans disbursement and loans recovery. Members' issues and requests are responded to promptly. Reports produced by the information system are accurate and reliable. Errors and differences in records are easily corrected, and reconciliations done on time.

The study found that training helps improve growth in the Sacco and officials are aware cooperative training providers who offer relevant training. It was also found that lack of cooperative training to society officials leads to mismanagement of the Saccos.

The study found that the Sacco's survival will depend on what kind of products they offer and how differently they offer them to the members compared to other similar providers of that product. Society introduces new products as members' needs change. They often introduce new methods of service delivery as members' demands change to ensure growth and member retention. It was also found that products offered by Saccos are similar given that the respondents were neutral on this aspect.

### **5.3 Conclusions**

The study concludes that SACCOs continue to rely on the principle of common bond as a strength and basis of their very existence. The reliance of common bond as a basis of registration of SACCOs has meant that many of them do not see the need to expand their membership beyond the boundaries of commonness. Fraud cases increase in the Sacco as the number of members from other organizations increase. Inter-connection of liability among members is created by the bond, which may either involve direct and unlimited 'financial liability' or 'direct responsibility for good management. Co-operatives common bond limit its scope and field from which to draw its membership.

The study concludes that ICTs provides reliable access to markets. ICT allows reduction in transactions costs, improved access to timely and usable knowledge, improved communications with markets and within supply chain, acquisition of appropriate skills for enhancement of productivity and improved information about new opportunities. New technologies create new markets and opportunities.

The study concludes that training pertains to programs that facilitate learning process and is mostly a short-term activity to help people do their jobs better. Most co-operative leaders are not true co-operators and are not fully conversant with the philosophy of co-operation. They conduct

co-operative business as they conduct their own private business, purely aiming at maximizing profit and forgetting the need for member promotion. Many of the problems bedeviling the co-operative movement are attributable to lack of management skills and knowledge among the leaders, members and employees.

The study concludes that Product positioning, therefore, require a synthesis of consumer and competitor analysis. Product quality as well as member loyalty influences positive and negative calculative commitment. The social perspective of relationship quality in terms of cooperation and trust is said to influence positively affective and normative commitment, while trust is also found to be positively affecting positive member commitment. Saccos should introduce new methods of service delivery as members' demands change to ensure growth and member retention.

#### **5.4 Recommendations**

The study recommends the SACCOs to seek partnerships and mergers. They need to take members from other organizations so as to expand their membership beyond the boundaries of commonness. All operations of the credit union need to be conducted along 'business lines' based on a strong sense of collective responsibility.

The study recommends Saccos to adopt new technology. They need to use new technologies to create new markets and opportunities. Saccos should link ICT providers to acquire compatible computer software for their operations at a competitive price; and to save on costs, Saccos should link up with private ATM service providers, e.g Pesa Point or alternatively utilize Cooperative Bank ATM service and other financial institutions which have a country wide network.

The study recommends organizational leadership to build the organization by educating and developing new leaders; and that this will enable leaders be global managers, change agents,

strategists, motivators, strategic decision makers, innovators, and collaborators if the business is to survive and prosper. The elected co-operative officials should develop and train managers so that they are able to cope with the new demand, new problem, and new challenges. Government should offer co-operative education and training.

The study recommends cooperatives to maintain a large volume of member transactions. New credit products such as microfinance loans, instant loans and long term loans should be offered. Saccos should consolidate the co-operatives customer base and diversify through product innovation to serve other sectors of the economy.

### **5.5 Suggestions for Further Research**

A similar study could be carried out in other counties to find out whether the same results would be obtained. The study focused on growth of Saccos thus another study should be carried out on performance of Saccos.

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## APPENDICES

### Appendix I: Questionnaire

The researcher is a Master of Business Administration student at Kenyatta University carrying out research on “Assessment of the determinants of growth of savings and credit co-operatives in Kenya, a survey of Dagoretti District”. This is to kindly request you to tick or fill in blank spaces with your most suitable answer or response. The information provided will be treated in confidence and only used for the purpose of academic.

### SECTION A: ORGANIZATIONAL DETAILS

1) a) Name of your society.....

b) Name of Respondent (Optional) .....

Position Held:

Executive Official ( )

Staff ( )

c) Type of Sacco Society

Employee based ( )

Matatu Based ( )

Community Based ( )

Youth Based ( )

d) Number of members .....

e) Did you pay dividends/Rebates to your members last financial year:-

Yes ( )

No ( )

f) If the answer is yes in d) above, what were the rates:

1% - 3% ( )

3.1% -5% ( )

5.1% - 7.0%( )

7.1% - 9.0 ( )

Above 9% ( )

### SECTION B: SACCO GROWTH

2) What is the trend of the following in your business for the last five years? Please tick as appropriate.

Trend	Greatly Improved	Improved	Constant	Decreasing	Greatly decreased
No. of members					
Gross Income					
Share Capital					

Deposits					
Loans Issued					
Interest On Deposits					
Rate Of Dividend					
Fosa Deposits					

### SECTION C: MEMBERSHIP COMMON BOND

- 3) Tick appropriately where 1 means you strongly agree, 2 you agree, 3 neutral, 4 disagree and 5 means you strongly disagree with the statement

	Statement	Rate				
		1	2	3	4	5
1	All members of our society are from within our common employer/Business					
2	Wrangles and leadership struggles increase as more members join the Sacco from outside the other organizations					
3	I would recommend my society to merge with another co-operative to increase membership					
4	Allowing members from other organizations to join our Sacco increases the default rate in loans					
5	Fraud cases increase in the Sacco as the number of members from other organizations increase.					
6	Opening the common bond will lead to higher growth of our sacco					

### SECTION D: TECHNOLOGY

- 4) Do what extent is your Sacco computerized?

- a) We have Computer Hardware: Yes ( ) No ( )
- b) We have Computer Software Yes ( ) No ( )

- c) We are connected to internet Yes ( ) No ( )
- d) We have a Sacco website Yes ( ) No ( )
- e) The Sacco has Mpesa service Yes ( ) No ( )
- f) Our members have Sacco Link Card Yes ( ) NO ( )

5) To what extent do you agree with the following statements? Tick appropriately where 1 means you strongly agree, 2 you agree, 3 neutral, 4 disagree and 5 means you strongly disagree with the statement

	1	2	3	4	5
1. Reports produced by our information system are accurate and reliable					
2. Computerization has improved loans disbursement and loans recovery.					
3. Technology is a challenge to growth of my Sacco					
4. Computerization has reduced fraud					
5. Errors and differences in records are easily corrected, and reconciliations done on time					
6. Despite computerization the Sacco has had some fraud cases					
7. Members issues and statement requests are responded to promptly					

#### SECTION E: CAPACITY BUILDING OF SOCIETY OFFICIALS

6) Tick appropriately where 1 means you strongly agree, 2 you agree, 3 neutral, 4 disagree and 5 means you strongly disagree with the statement

	Statement	Rate				
1	We often offer training to our co-operative officials	1	2	3	4	5
2	The budget allocation in our society is adequate to train the management committee and staff of the society	1	2	3	4	5
3	Training helps improve growth in the sacco	1	2	3	4	5

4	We are aware co-operative training providers who offer relevant training	1	2	3	4	5
5	Lack of co-operative training to society officials leads to mismanagement of the Sacco	1	2	3	4	5

## SECTION F: INNOVATION IN THE SOCIETY

7) Tick appropriately where 1 means you strongly agree, 2 you agree, 3 neutral, 4 disagree and 5 means you strongly disagree with the statement

	Statement	Rate				
1	My society introduces new products as members' needs change	1	2	3	4	5
2	My Sacco offers unique and attractive products to our members compared to other saccos	1	2	3	4	5
3	We often introduce new methods of service delivery as members' demands change to ensure growth and member retention	1	2	3	4	5
4	Our Sacco's survival will depend on what kind of products we offer and how differently we offer them to our members compared to other similar providers of that product.	1	2	3	4	5
5	Our members at times leave our society to join other Saccos	1	2	3	4	5

**Thank you for taking your time to fill this questionnaire.**

## **Appendix II: Interview Schedule**

- 1) From how many other organizations does your membership come from? List them.
- 2) What are some of the technology used by your Sacco Society? In what ways do they affect efficiency of operations?
- 3) List some of the new technologies you have adopted in your Sacco
- 4) What methods does your Sacco use to communicate with members?
- 5) What noticeable change can be attributed to training of society officials?
- 6) Please list some of the innovations in the Sacco Society in the recent past.
- 7) What are some of the new products (if any) has your Sacco introduced in the past one year?
- 8) What change is there in the society that can be attributed to innovation? List.

### Appendix III: Budget

No.	Description	Amount
1	Proposal Typesetting and Printing 50pgs @50	2,500/=
2	Stationery	3,000/=
3	Questionnaire Preparation and Testing	3,500/=
4	Data Collection Traveling Expenses	12,000/=
5	Data Analysis (Software Hire)	5,000/=
6	Typing and Report Binding	10,000/=
7	Airtime and Communication Expenses	3,000/=
8	Subsistence	5,000/=
9	Contingencies	4,400/=
	<b>Total</b>	<b>48,400</b>

#### Appendix IV: Work Plan

	Nov	Dec	Jan	Feb	Mar	April	May
1. Topic Identification	■						
2. Approval of Topic	■						
3. Proposal Presentation		■					
4. Pretesting of Questionnaire			■				
5. Defense				■			
6. Proposal Submission					■	■	
7. Data Collection & Processing							■
8. Submission of Project Report to Graduate School							■

Source: Researcher, 2013

### Appendix V: Sampling Framework

N	S	N	S	N	S	N	S
10	10	140	103	550	226	4500	354
15	14	150	108	600	234	5000	357
20	19	160	113	650	241	6000	361
25	24	220	140	700	248	7000	364
30	28	230	144	750	254	8000	367
35	32	240	148	800	260	9000	368
40	36	250	152	1200	291	10000	370
45	40	260	155	1300	297	15000	375
50	44	270	159	1400	302	20000	377
55	48	280	160	1500	306	30000	380
60	52	290	165	1600	310	50000	381
65	56	300	169	1700	313	100000	384
70	59	320	175	1800	317		
75	63	340	181	1900	320		
80	66	360	186	2000	322		
85	70	380	191	2200	327		
90	73	400	196	2400	331		
95	76	420	201	2600	335		
100	80	440	205	2800	338		
110	86	460	210	3000	341		
120	92	480	214	3500	346		
130	97	500	217	4000	351		

**Source:** Kathuri & Pals (1993).

N=Population size

S=Sample size

**Appendix VI: Active Societies Distribution in Dagoretti District**

<b>Category</b>	<b>Number</b>
Employee Based Saccos	89
Transport Based Saccos	6
Community Based Saccos	18
Youth Based Saccos	2
Housing Co-operatives	18
Multipurpose Co-operatives	1
Investment Co-operatives	2
<b>Total</b>	<b>136</b>

Source: MOCD Annual Report, 2012

## Appendix VII: Sampling Framework

	Name		Name
	<b>Employee Based Saccos</b>		
1	911/First Force	22	Governors
2	Adra	23	Hazina
3	Ask	24	Issaco
4	Baico	25	Jumuiya Ya Ulaya
5	Bands	26	Kasneb
6	Bawan	27	Kemri
7	Bob Morgan	28	Kenyatta Matibabu
8	Brico	29	Kilele
9	CIC	30	KMA
10	Com21	31	KRB
11	Dagoretti High School	32	KRGC
12	Dalabima	33	Lenana School
13	Dawa	34	Mafaim
14	Devco	35	Mimosa
15	Eastel	36	Nachu Staff
16	Emergency	37	Ndama
17	Equity	38	New Lepic
18	Feed the Children	39	Ngong Hills
19	Fountain	40	Nyota
20	Galexon	41	Oxford
21	Bush	42	Queensway

43	Real Staff	67	Miotoni
44	Rusinga School	68	Prodisym
45	Sepu	69	Apex management
46	Sheria	70	Barabara
47	Springs	71	Upper Hill united
48	Uaminifu	72	Coulson Harney
49	Utafiti	73	Soko
50	Vision	74	Golf
51	ZEMA RE	75	NPA
52	Rise	76	ICPSK
53	St. Christopher	77	MSL
54	Wanaultimate	78	Ukombozi
55	Abcorn	79	Mogis
56	Pusclub	80	Pewita
57	Old Mutual	81	Engen
58	KPA	82	Foresite
59	Wanaanga	83	Avl
60	Acorn	84	Teenwise
61	Corpabs	85	Delga
62	Gel	86	Cart
63	Geomap	87	Tumaset
64	Impax	88	Naitil
65	Simba	89	ERC
66	Homegrown		

	<b>Community Based Saccos</b>		
1	Wanasadaka	11	Orthodox Development
2	Cafacadelta	12	Koisacco
3	Cornerstone	13	Quacom
4	Vine	14	Secowestern
5	Deseret	15	Stimella
6	Kara	16	Ukristo na ufanisi
7	Kawangware Youth	17	Umande
8	Multi Care	18	Videsho
9	Nest		
10	Wasc mip		
	<b>Transport Based Saccos</b>		<b>Youth Based Saccos</b>
1	2B Travellers		Kawangware Youth
2	Dakika		Vibes
3	Kibera Matatu Owners		
4	Ngumo Line		
5	Nguso		
6	Pakin Alicia		

Source: MOCD Statists: Dagoretti District, 2012.

**Appendix VIII: List of Saccos in Dagoretti that have CEOs and Managers**

	<b>NAME</b>
1	Equity
2	Sheria
3	Utafiti
4	Bands
5	Bob Morgan
6	CIC
7	Hazina
8	Jumuiya Ya Ulaya
9	Kemri
10	Kenyatta Matibabu
11	Kilele
12	Orthodox
13	Queensway
14	Ukristo na Ufanisi
15	Fountain
16	Vision
17	Uaminifu
18	Dakika
19	Emergency
20	Koi
21	Nest

Source: Researcher 2013

## Appendix IX: List of Licensed Saccos

	Name		Name
1	Stima	23	Mombasa Port
2	Baringo Teachers	24	Muramati
3	Tai	25	Bingwa
4	UN	26	KMFRI
5	South Iment Tea Growers	27	Nakuru Teachers
6	Kenya Highlands	28	Nacico
7	Bandari	29	Baringo Famers
8	Gusii Mwalimu	30	Nandi Hekima
9	Wakenya Pamoja	31	Muranga Teachers
10	Meru South Farmers	32	Mwito
11	Kilifi Teachers	33	Muhigia
12	Kitui Teachers	34	Irianyi Tea
13	Ndege Chai	35	Tharaka Nithi Teachers
14	Tenhos	36	Mungania Tea Growers
15	Nyamira Tea Farmers	37	COMOCO
16	Nyeri Teachers	38	Taifa
17	Kakamega Teachers	39	Fariji
18	KITE	40	Diocese of Meru
19	Kipsigis Teachers	41	Wakulima Dairy
20	Mombasa Teachers	42	Universal Traders
21	Borabu	43	Wananchi
22	Chai	44	Baraka

45	Mwalimu National	69	Bureti
45	Chepsol	70	Sheria
47	Wanandegge	71	Kenya Cannery
48	Kenya Police Staff	72	Asili
49	K-Unity	73	Safaricom
50	Biashara	74	Mathira Farmers
51	Nation Staff	75	Magadi
52	Orthodox Development	76	Nithi Tea Growers
53	Kuria Teachers	77	Kenpipe
54	Konoin	78	Maua Methodist Hospital
55	Kiambaa Dairy Rural	79	Bungoma Teachers
56	Simba Chai	80	Siaya Teachers
57	Githunguri Dairy and Community	81	Narok Teachers
58	Kingdom	82	Trans - Nzoia Teachers
59	Sot Tea Growers	83	Chemilil
60	Nyandarua Teachers	84	Murata
61	Metropolitan Teachers	85	Airports
62	Keiyo Teachers	86	Ndosia
63	Mumias Outgrowers	87	Siraji
64	Afya	88	Chuna
65	Embu Teachers	89	Meru Mwalimu
66	Harambee	90	Ukulima
67	Jamii	91	Wanaanga
68	Wareng Teachers	92	Nyambene Arimi

93	Naku	110	Taita Taveta Teachers
94	Waumini	111	Nassefu
95	Thika District Teachers	112	Fundilima
96	Meru North Farmers	113	Maisha Bora
97	Jijenge	114	County
98	Fortune	115	Mudete Factory Tea Growers
99	Marakwet Teachers	116	Samburu Traders
100	Tembo	117	Nafaka
101	Sukari	118	Busia Teso Teachers
102	Sotico	119	Kenversity
103	Lengo	120	Egerton
104	Imenti	121	Dimkes
105	Hazina	122	Magereza
106	Marsabit Teachers	123	Yetu
107	Kenya Bankers	124	
108	Ntiminyakiru		
109	Washa		

Source: Sasra 2013