

Financial Factors Influencing Performance of Savings and Credit Co-Operative Organization in Kenya

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Abstract *This study was geared towards finding the financial factors influencing performance of SACCOs in Kenya. As a result the study found that funds misappropriation influences performance of Sacco's. The study concluded that Sacco's need to improve on their internal audit department and other internal control measures. It also established that investment decisions made by Sacco's influence their performance. It also emerged from the study that Sacco's need to invest in prudent projects in order to achieve better returns. It was also found that Sacco's should put in place loan recovery strategies and introduce collateral securities as a way of eliminating or reducing loan defaulting. The study established that member withdrawal affects Sacco's performance. The study concluded that Sacco's should introduce more products in order to compete with other organizations such as Micro finance Institutions.*

Key words Funds misappropriation, Investment decisions, Loan defaulting, Members' withdrawal, Financial Performance

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1. Introduction

1.1 Background Information

Sacco's have been recognized worldwide as important avenues of economic growth. Close to a billion people are affiliated with co-operatives reflected in composition that make up the International Cooperative Alliance (ICA) - the global apex body representing cooperatives in the world. Many countries that have achieved economic development have a vibrant and dynamic cooperative sector which contributes substantially to the growth of those economies. For example, 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 credit co-operatives in the urban centers (ICA Report, 2006).

SACCOs play a significant role in the provision of financial services to the poor (target groups). They provide savings and credit and investment opportunities to individuals, institutions and group members. Sacco's perform an active financial intermediation function, particularly mediating from urban and semi-urban to rural areas, and between net savers and net borrowers while ensuring that loan resources remain in the communities from which the savings were mobilized. Equity bank was formed in 1984 as a building society and with time it was transformed to microfinance institution up to its current status of commercial bank. The government through the ministry of cooperative development and marketing is empowering the cooperative movement in Kenya and gets support by cooperative bank of Kenya. There has been established a college to teach matters of cooperative movement (cooperative college at Nairobi) due to this concern by various stakeholders that SACCOs (cooperative movements) started to be more competitive in their field of financial institution since they contribute 30% of economic growth in the country (Gathurithu, 2011).

1.2 Statement of the problem

The uniqueness of the Sacco movement is its geographical distribution across Kenya. In all the 47 counties there are numerous Sacco's providing financial access to hitherto financially excluded Kenyans. 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, poor management and loan defaulting have influenced Sacco performance.

As envisioned in Kenya's development blueprint, Vision 2030, Sacco's 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 Sacco's. Kenya continues to enjoy the fastest growing economy in East Africa, her service industry performing better than any other sector in the economy (GOK, 2007).

One sector of the service industry is the financial sector whereby many commercial banks and other financial institutions continue to grow day by day. Some banks have even crossed border to offer services in the neighboring East African states. SACCOs are financial institutions which offers similar products like banks and most of them were formed long time ago but their performance is not something to be proud of compared to commercial banks and other financial institutions (Gathurithu, 2011).

This poor performance may be attributed to poor utilization of surplus and reserves, mis-management of funds and poor dividend and investing decisions among other factors. Their performance and growth in those terms also varies among different SACCOs. Hence the concern is; what are the financial factors influencing Sacco performance in Kenya?

1.3 Research Objectives

1.3.1 General Objective

The general objective of this research was to find out the financial factors that influence Sacco performance in Kenya using a case study of deposit taking Sacco's licensed by SASRA in Nairobi County.

1.3.2 Specific Objectives

- i. To find out whether fund misappropriations affect performance of Sacco's
- ii. To determine whether investment decisions affect performance in Sacco's
- iii. To establish how loan defaulting influences Sacco performance
- iv. To investigate whether member withdrawal affect Sacco performance

1.4 Research questions

- i. Do fund misappropriations affect performance of Sacco's?
- ii. Do investment decisions affect performance in Sacco's?
- iii. Does loan defaulting affect Sacco performance?
- iv. Does member withdrawal affect performance of Sacco's?

1.5 Significance of the study

The study will assist the management of various SACCOs in implementation of the recommendations; this will improve on their Sacco performance. Decisions on loan security and SACCO investment will be guided by the findings of this research. It will help the members monitor their SACCO investments and committee members in order to eliminate cases of funds misappropriation. SACCOs will be able to come up with appropriate policies on loan recovery and loan security.

The study will assist Government and its agencies in coming up with policies through the Sacco regulatory authority, SASRA. They will use the findings of the research to monitor, review and make appropriate decisions and adjustments in regards to the prudent financial management as specified by the

Co-operative Act. The study will assist SASRA in the implementation of the new regulations to deal with the investment of SACCO funds, funds misappropriation, savings and deposits, and business continuity as way of promoting SACCOs as avenues of poverty eradication.

1.6 Scope of the study

The research on Sacco's was conducted in deposit taking Sacco's licensed by SASRA in Nairobi County. The total population of deposit taking Sacco's in Nairobi County is 170 and from this the target population was all the deposit taking Sacco's licensed by SASRA in Nairobi County. The sample size was 34 deposit taking Sacco's licensed by SASRA in Nairobi County which was 100 % of the target population. The research was conducted using financial factors such as loan defaulting, membership withdrawal, funds misappropriation and investment decisions as independent variables and their relationship with performance as dependent variable and it was limited to deposit taking Sacco's licensed by SASRA.

2. Literature Review

2.1 Theoretical Framework

This section will discuss various theories that show the relationship between financial factors and organizational performance. Theories relevant to this research have been discussed.

2.1.1 CAMELS Model

In 1979, the Uniform Financial Institutions Rating System (UFIRS) was implemented in United States of America (U.S.A) banking institutions, and later globally, following a recommendation by the U.S.A Federal Reserve. The system became internationally known with the abbreviation CAMEL, reflecting five assessment areas: capital, asset quality, management, earnings and liquidity. In 1995 the Federal Reserve replaced CAMEL with CAMELS, adding the "S" which stands for financial System. This covers an assessment of exposure to market risk. The rating system is designed to take into account and reflect all significant financial and operational factors examiners assess in their evaluation of an institutions performance. Institutions are rated using a combination of specific financial ratios and examiner qualitative judgments. (Brockett *et al.*, 1997) They discussed the key components of the model as follows.

2.1.1.1 Capital Adequacy

Capital provides a cushion to fluctuations in earnings so that firms can continue to operate in periods of loss or negligible earnings. It also provides a measure of reassurance to the members that the organization will continue to provide financial services. Likewise, capital serves to support growth as a free source of funds and provides protection against insolvency. While meeting statutory capital requirements is a key factor in determining capital adequacy, the firms operations and risk position may warrant additional capital beyond the statutory requirements. Maintaining an adequate level of capital is a critical element. Firms that are less than "adequately capitalized" must operate under an approved net worth restoration plan. Examiners evaluate capital adequacy by assessing progress toward goals set forth in the plan.

Determining the adequacy of a firms' capital begins with a qualitative evaluation of critical variables that directly bear on the institution's overall financial condition. Included in the assessment of capital is the examiners opinion of the strength of the firms' capital position over the next year or several years based on the firms' plan and underlying assumptions. Capital is a critical element in the firms' risk management program. The examiner assesses the degree to which credit, interest rate, liquidity, transaction, compliance, strategic, and reputation risks may impact on the firms' current and future capital position.

2.1.1.2 Assets

The asset quality rating is a function of present conditions and the likelihood of future deterioration or improvement based on economic conditions, current practices and trends. The examiner assesses firms' management of credit risk to determine an appropriate component rating for Asset Quality. Interrelated to the assessment of credit risk, the examiner evaluates the impact of other risks such as interest rate, liquidity, strategic and compliance. The quality and trends of all major assets must be considered in the rating. This

includes loans, investments, other real estate owned and any other assets that could adversely impact a firms' financial condition.

2.1.1.3 Management

Management is the most forward-looking indicator of condition and a key determinant of whether a firm possesses the ability to correctly diagnose and respond to financial stress. The management component provides examiners with objective, and not purely subjective, indicators. An assessment of management is not solely dependent on the current financial condition of the firm and will not be an average of the other component ratings.

Reflected in this component rating is both the board of directors' and management's ability to identify, measure, monitor, and control the risks of the credit union's activities, ensure its safe and sound operations, and ensure compliance with applicable laws and regulations. Management practices should address some or all of the following risks: credit, interest rate, liquidity, transaction, compliance, reputation, strategic, and other risks.

2.1.1.4 Earnings

The continued viability of a financial firm depends on its ability to earn an appropriate return on its assets which enables the institution to fund expansion, remain competitive, and replenish and/or increase capital. In evaluating and rating earnings, it is not enough to review past and present performance alone. Future performance is of equal or greater value, including performance under various economic conditions. Examiners evaluate "core" earnings: that is the long-run earnings ability of a firm discounting temporary fluctuations in income and one-time items. A review for the reasonableness of the firms' budget and underlying assumptions is appropriate for this purpose. Examiners also consider the interrelationships with other risk areas such as credit and interest rate.

2.1.1.5 Liquidity

Asset/liability management is the process of evaluating, monitoring, and controlling balance sheet risk (interest rate risk and liquidity risk). A sound Asset Liability Management process integrates strategic, profitability, and net worth planning with risk management. Examiners review (a) interest rate risk sensitivity and exposure; (b) reliance on short-term, volatile sources of funds, including any undue reliance on borrowings; (c) availability of assets readily convertible into cash; and (d) technical competence relative to Asset Liability Management, including the management of interest rate risk, cash flow, and liquidity, with a particular emphasis on assuring that the potential for loss in the activities is not excessive relative to its capital. Asset Liquidity Model covers both interest rate and liquidity risks and also encompasses strategic and reputation risks.

2.1.1.6 Sensitivity

Sensitivity to market risk, the "S" in CAMELS is a complex and evolving measurement area. It was added in 1995 by Federal Reserve, primarily to address interest rate risk, the sensitivity of all loans and deposits to relatively abrupt and unexpected shifts in interest rates. In 1995 they were also interested in banks lending to farmers, and the sensitivity of farmers ability to make loan repayments as specific crop prices fluctuate. Unlike classic ratio analysis, which most of CAMELS system was based on, which relies on relatively certain, historical, audited financial statements, this forward look approach involved examining various hypothetical future price and rate scenarios and then modeling their effects. The variability in the approach is significant.

2.1.2 The Rational Expectations Theory

The research was guided by two investment theories; the rational expectations theory and the short interest theory which are important theories in investment of shares for Sacco managers. Rational expectations theory states that the players in an economy will act in a way that conforms to what can logically be expected in the future. That is, a person will invest; spend, according to what he or she rationally believes will happen in the future. By doing so, that person creates a self-fulfilling prophecy that helps bring about the

future event. Although this theory has become quite important to economics, its utility is doubtful. For example, an investor thinks a stock is going to go up, and by buying it, this act actually causes the stock to go up. This same transaction can be framed outside of rational expectations theory. An investor notices that a stock is undervalued, buys it, and watches as other investors notice the same thing, thus pushing the price up to its proper market value (Johnson & Scholes, 2007).

2.1.3 Short Interest Theory

Short interest theory posits that a high short interest is the precursor to a rise in the stock's price and, at first glance, appears to be unfounded. Common sense suggests that a stock with a high short interest – that is, a stock that many investors are short selling – is due for a correction. The reasoning goes that all those traders, thousands of professionals and individuals scrutinizing every scrap of market data surely can't be wrong. They may be right to an extent, but the stock price may actually rise by virtue of being heavily shorted. Short sellers have to eventually cover their positions by buying the stock they've shorted. Consequently, the buying pressure created by the short sellers covering their positions will push the share price upward. (Pandey, 2005)

2.2 Conceptual Framework

The study seeks to examine the financial factors that influence Sacco performance in Kenya using a case study of deposit taking Sacco's licensed by SASRA in Nairobi County. The dependent variable was Sacco performance while the independent variables will include; investment decisions, loan defaulting, misappropriation of funds and member withdrawal. Some of the independent variables are likely to affect Sacco performance negatively while others are likely to affect positively or both depending on the situation. This relationship can be represented in the figure 2.1 below.

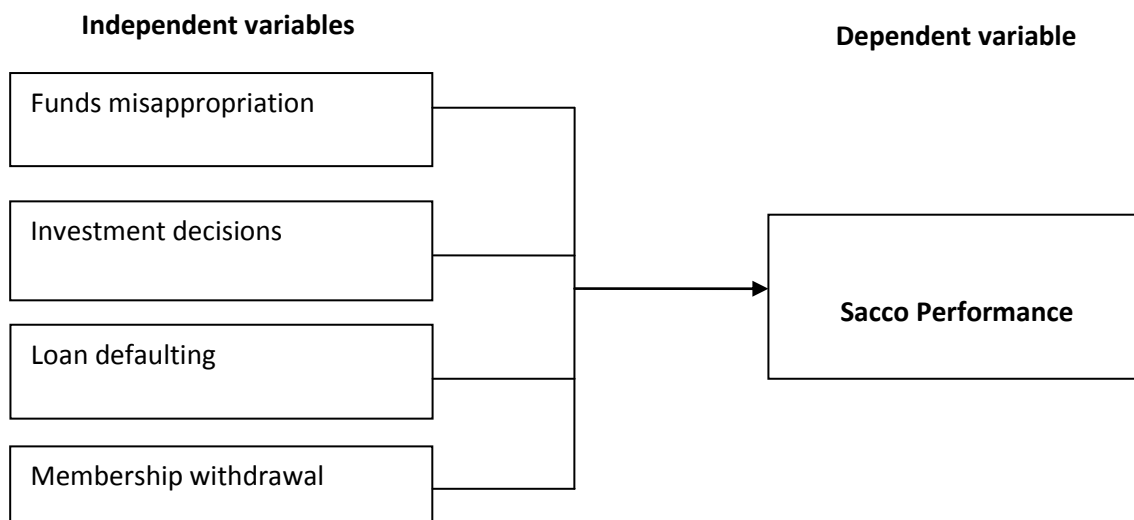


Figure 2.1. Conceptual Framework

Source: researcher, 2013

2.3 Empirical studies

The topic has not been done widely but there are related empirical studies from other countries and related sectors such as micro finance and commercial banks. According to a study done in KIFI SACCO (Kibaigwa Financial Services and Credit Co-operative) in Tanzania in 2011 it was observed that Management leniency on loan follow ups seemed to have been going on for some time. In 2006 the Board extended the repayment time for a year to all agricultural loan debtors One of the key factors that is likely to influence performance in Sacco's, Microfinance Institutions and Commercial Banks is loan defaulting. The lending modality is one reason influencing loan repayment. There are more factors that have an effect on settling

loans which include; inadequate loan follow ups by the management, inadequate collateral verification, bad repayment system and members' failure to honor their obligations (Karumuna and Akyoo, 2011).

Representative bodies have urged SACCOs to exercise cautious in admission of new members and have stressed adherence to the savings first principle. Further, representative bodies have urged SACCOs to be alert to the demands of current members. In a climate where access to credit is poor, the access that the members of SACCOs have to credit may be bought by others. Furthermore, with wide spread poverty, a large informal economy and associated informal lending can provide the right climate for exploitative pyramid selling schemes to flourish. In such a context, it was important for SACCOs to adopt and implement mechanisms to verify the validity and authenticity of loan application requests rigorously (Karumuna and Akyoo, 2011).

According to a study conducted in Uganda in 2009 showed that the Uganda Cooperatives Transport Union had difficulty in accessing credit. However it seems that this is due to the poor financial state of the cooperative and mismanagement of funds rather than an impact of the financial crisis. For example, it was reported that the union borrowed approximately \$250,000 USD from Barclays in order to purchase vehicles, however the funds were channeled into operational expenses (Butagira & Mashoo, 2009).

There have been reports that the Cooperative Bank of Kenya did not reach its targeted subscription when it was listed on the Nairobi Stock Exchange. The Cooperative Bank of Kenya, which was until recently owned by the cooperative movement, was publicly listed on the stock market in November 2008. It only filled 81 per cent of its targeted subscription, which is the first under-subscription on the Nairobi Stock Exchange in recent times (Mwega, 2009: 9; Wanyama, 2009: 12).

This is an indication that the Sacco sector which controls a better percentage of the Kenyans' Gross Domestic Product (GDP) did not take the opportunity to invest in one of the largest Commercial Bank which is largely associated with the co-operative movement in Kenya.

Dividend policy is also likely to be influenced by the performance of Sacco's. This is a very important factor in measuring the Sacco performance. The behaviour of dividend policy is one most debatable issue in the corporate finance literature and still keeps its prominent place both in developed and emerging markets (Hafeez & Attiya, 2009).

Many researchers have tried to uncover issues regarding the dividend dynamics and determinants of dividend policy but we still don't have an acceptable explanation for the observed dividend behaviour of firms (Black, 1976; Brealey & Myers, 2005).

Dividend policy has been analyzed for many decades, but no universally accepted explanation for companies' observed dividend behaviour has been established. It has long been a puzzle in corporate finance. (Samuel & Edward, 2011)

Miller & Modigliani (1961) argued that under certain simplifying assumptions, the dividend decision does not affect the value of a firm and is, hence, unimportant. Yet, traditional wisdom with changed postulations advocates that a properly managed dividend policy is vital to shareholders because it can affect share prices and shareholder's wealth.

Nevertheless, while several prior empirical studies from developed economies have shed light on the relationship between firm performance and dividend payout in companies, the same may not be true in Sacco's.

3. Research Methodology

3.1 Research Design

Descriptive study design was used. Descriptive study designs are concerned with describing the characteristics of a particular individual, or of a group. Descriptive research is therefore concerned with specific predictions, with narration of facts and characteristics concerned with individuals, group or situations. The advantage of the design is that it allows flexibility in data collection and also makes use of open ended and closed questions which would allow the respondent to give extra information freely. It was also appropriate because respondents could not be manipulated.

According to Kothari (2005) descriptive research design includes surveys and fact finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as they exist at present. In descriptive studies the researcher must be able to define clearly, what he/she wants to measure

and must find adequate measures of finding it along with a clear cut definition of "population" he wants to study. The designs in such studies must be rigid and not flexible and must focus attention on the following: formulating the objective of the study, designing the methods of data collection, selecting the sample, collecting the data, processing and analyzing the data and reporting the findings.

This method of investigation allowed the researcher to explore financial factors influencing Sacco performance in Kenya by collecting and analyzing data in order to describe some phenomenon in its current status.

3.2 Target Population

The total population of Sacco's in Nairobi County is 3960 which includes 170 Deposit taking Sacco's and the rest are non deposit taking Sacco's. (MOCD, 2012) The research target population consisted of the deposit taking Sacco's licensed by SASRA in Nairobi County, Kenya. There were 34 licensed deposits taking SACCOs in Nairobi County by August, 2013. (SASRA 2013) Thus this research targeted all the 34 deposit taking Sacco's licensed by SASRA in Nairobi County.

3.3 Sample and Sampling Techniques

The census methodology was used in order to enable the researcher to gather sufficient information. The questionnaires were administered to employees in finance and accounting departments of the 34 deposit taking Sacco's licensed by SASRA in Nairobi County. The respondents in accounting and finance departments were selected through the purposive sampling.

3.4 Data Collection Instrument and Procedures

The researcher used both primary and secondary data. Primary data was collected from employees of the sampled SACCOs in finance and accounting departments using questionnaires to obtain perceptions of the respondents. This is because the type of data source is original and was collected specifically for the study. Literature was reviewed using secondary data sources including journals, Sacco reports, Sacco Act, internet and research projects. The researcher used self-administered questionnaires as the data collection instrument. The questionnaires comprised of open and closed ended questions in order to give the respondents room for airing well thought information adequate to base good judgment. Questionnaires are instruments for data collection that are defined to elicit written respondents from the subject in the study. The advantage of using the questionnaire is that the data obtained was easy to process and analyze statistically (Saunders *et al.*, 2007).

3.5 Pilot Study

Nieswiadomy (2008), recommend obtaining approximately 10% of the project study total sample size for pilot study. Therefore 10% of the study total sample which was 34 deposit taking Sacco's licensed by SASRA in Nairobi was taken for the purpose of carrying out a pilot study. The pilot study was carried out in 5 deposit taking Sacco's licensed by SASRA in Kiambu County to test the reliability and validity of the questions in the questionnaire as instrument of data collection used.

3.6 Data Analysis and presentation

The researcher used open ended and closed ended questionnaire that enabled him to gather both qualitative and quantitative data. The collected data was used to analyze the financial factors influencing Sacco performance in Kenya. Descriptive statistics method was applied to analyze quantitative data where data was scored by calculating the percentages, mean' standard deviation and Variance. This was done using Statistical Package for Social Sciences (SPSS) computer software. SPSS was used to generate tabulated reports, charts, and plots of distributions and trends, as well as generate descriptive statistics and more complex statistical analyses. Inferential statistics was applied through the use of multiple regression analysis to establish the nature of the existing relationship between the research variables.

4. Data Analysis and Interpretations

4.1 Respondents profile

Table 4.1 presents the profile of the respondents who participated in the study. Majority of the respondent (81.5%) were males whereas 18.5% of the respondent were females, this is an indication that both genders were involved in this study and thus the finding of the study did not suffer from gender bias. Majority of the respondents (74.1%) were aged 19 to 35 years while the remainders were between 36 and 55 years of age. Most of the study respondents (70.4%) had served their current department for 1-10 years while the minority of the respondents (3.7%) had been working in the current department for 11-20 years. This shows that most of the SACCOs retained their employees for a long time and data collected thereof could give reliable information.

4.2 Fund Misappropriation

4.2.1 Effects of funds misappropriation on Sacco performance

To investigate effects of funds misappropriation on SACCO performance, respondents were presented with five statements on five point Likert scale and asked to state how they agreed with each of the statements. Most of the respondents were of the opinion that misappropriation of funds affect their SACCO performance (48%), audit department has been able to contribute to the SACCO overall performance (52%), audit department has been able to play its roles in protection of members’ funds, its misappropriation as well as embezzlement and they understand on the work and duties of the audit department almost always.

Chi-square test was used to determine the significance of association between respondents’ opinions on effects of funds misappropriation on SACCO performance and their gender. The test measured the null hypothesis that there is no association between respondents’ responses on effects of funds misappropriation on SACCO performance and their gender. All the p-values for effects of funds misappropriation on SACCO performance indicators were less than the conventional 5% except for “understanding on the work and duties of the audit department” indicating that there was association between effects of funds misappropriation on SACCO performance and gender.

4.2.2 Respondents responses on funds misappropriation by gender

Table 4.1. Association of respondents’ responses on funds misappropriation by gender

	Pearson Chi-Square	df	p-value
The SACCO funds has been mismanaged from time to time by gender	65.7	4	<.001
I understand on the work and duties of the audit department by gender	17.174	4	.067
Audit department has been able to play its roles in protection of members’ funds, its misappropriation as well as embezzlement by gender	32.592	4	.006
Audit department has been able to contribute to the SACCO overall performance by gender	61.9	4	<.001
Misappropriation of funds affect your SACCO performance by gender	41.6	4	<.001

4.3 Investment Decisions

4.3.1 Effects of investment decisions on Sacco’s performance

To determine whether investment decisions affect performance in Sacco’s respondents were presented with three statements on five point Likert scale and asked to state how frequently the statements were. More than half of the respondents reported that all the statements occurred almost always. Thus The SACCO invests members fund prudently (67%), investment decisions affect overall SACCO performance (62%) and the committee in charge of investment decisions is functional (56%) almost always.

4.3.2 Respondents responses on investment decisions by gender

Chi-square test was used to determine the significance of association between respondents’ opinions on investment decisions and their gender. The test measured the null hypothesis that there is no association between respondents’ responses on investment decisions and their gender. All the p-values for effects of investment decisions indicators were less than the conventional 5% except for indicating that there was association between respondents’ opinions on investment decisions and their gender.

Table 4.2. Association of respondents’ responses on investment decisions by gender

	Pearson Chi-Square	df	p-value
The SACCO invests members fund prudently by gender	41.4	4	<.001
Investment decisions affect overall SACCO performance by gender	16.214	4	<.001
The Committee in charge of investment decisions is functional by gender	31.192	4	<.001

4.3.3 Areas where Sacco’s invest member’s funds

An open ended question was posed to the respondents seeking to investigate where the respective SACCOs invested members’ funds. Most of the respondents (68%) reported that loans were the main investment option for most SACCOs followed by real estate (51%). Other investments included housing schemes, shares, fixed deposits and stocks.

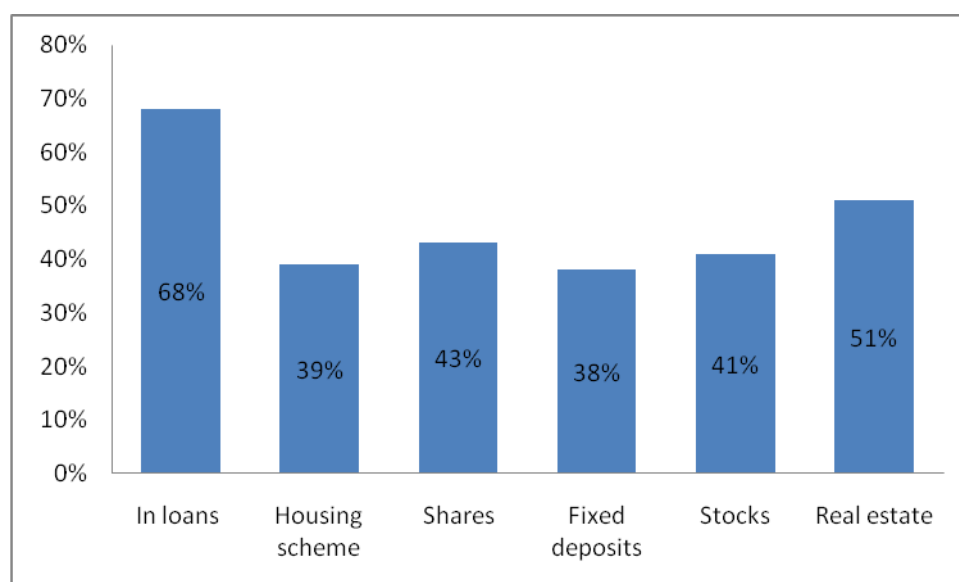


Figure 4.1. Areas where Sacco’s invest member’s funds

4.3.4 Factors taken into account by Sacco’s when making investment decisions

An open ended question was presented to the respondents which asked them to state the factors their SACCOs considered when making investment decisions. Most of the respondents reported that customers’ needs were the main factor followed by investments risks involved.

4.4 Loan Defaulting

4.4.1 Effects of loan defaulting on Sacco’s performance

To establish how loan defaulting influences Sacco performance, respondents were presented with three statements on five point Likert scale and asked to state how frequently the statements were likely to occur. Most of the respondents (70%) reported that loan defaulting affect their SACCO overall performance almost always. However, when asked whether members in their SACCO default loans, most of the

respondents (41%) reported rarely. Inflation affected loan repayment capacity of SACCO members almost always according to 23% of the respondents.

4.4.2 Respondents responses on loan defaulting by gender

Chi-square test was used to determine the significance of association between respondents' opinions on loan defaulting and their gender. The test measured the null hypothesis that there is no association between respondents' responses on loan defaulting and their gender. All the p-values for loan defaulting indicators were more than the conventional 5% indicating that there was no association between respondents opinions on loan defaulting and their gender.

Table 4.3. Association of respondents' responses on loan defaulting by gender

	Pearson Chi-Square	df	p-value
Does inflation affect loan repayment capacity of your SACCO members by gender	25.14	4	.112
Do members in your SACCO default loans by gender	31.124	4	.741
Does loan defaulting affect your SACCO overall performance by gender	19.21	4	.431

4.5 Members Withdrawal

4.5.1 Effects of members withdrawal on Sacco performance

To investigate whether member withdrawal affect Sacco performance respondents were presented with three statements on five point Likert scale and asked to state how frequently the statements were likely to occur. Most of the respondents (64%) reported that members frequently attend the annual general meeting and other meetings for the SACCO almost always. On the other hand members' withdrawal affects overall SACCO performance almost always according to 44% of the respondents.

4.5.2 Respondents responses on members' withdrawal by gender

Chi-square test was used to determine the significance of association between respondents' opinions on members' withdrawal and their gender. The test measured the null hypothesis that there is no association between respondents' responses on members' withdrawal and their gender. All the p-values for effect of members' withdrawal indicators were more than the conventional 5% indicating that there was no association between opinions on effects of members' withdrawal and respondents' gender.

Table 4.4. Association of respondents' responses on members' withdrawal by gender

	Pearson Chi-Square	df	p-value
Do members withdraw from your SACCO by gender	12.24	4	.501
Members frequently attend the annual general meeting and other meetings for the SACCO by gender	13.324	4	.081
Members withdrawal affect overall SACCO performance by gender	32.12	4	.061

5. Summary, Conclusion and Recommendations

5.1.1 Fund Misappropriations

To find out whether funds misappropriations affect performance of Sacco's, the study established that funds misappropriation influences performance of Sacco's. The study concluded that Sacco's need to improve on their internal audit department and other internal control measures.

5.1.2 Investment Decisions

To determine whether investment decisions affect performance of Sacco's, the study established that investment decisions made by Sacco's influence their performance. The study therefore concluded that Sacco's need to invest in prudent projects in order to achieve better returns.

5.1.3 Loan Defaulting

To establish whether loan defaulting influences Sacco's performance, the study established that loan defaulting influences Sacco's performance. The study concluded that Sacco's should put in place loan recovery strategies and introduce collateral securities as a way of eliminating or reducing loan defaulting.

5.1.4 Member Withdrawal

To investigate whether member withdrawal affects Sacco's performance, the study established that member withdrawal affects Sacco's performance. The study concluded that Sacco's should introduce more products in order to compete with other organizations such as Micro finance Institutions.

5.2 Recommendations

The contribution of Sacco's in Kenyan economy cannot be ignored. However, this contribution has been affected in the recent past by some financial factors, which influence Sacco performance. To address this, Sacco's should try to look into their loan recovery strategies and security for their loans. For example, member savings and guarantors are not adequate measures to loan defaulting. Sacco's should try to bring in the idea of loan insurance like other financial institutions in order to cushion their members from unnecessary burden from defaulted loans and collateral securities.

For the Sacco's to remain relevant in today's competitive business environment they should come up with member retention policies and new competitive strategies. For example, majority of Sacco's are giving loans three times of members contributions at the lending rates of 1% on reducing balance, on the other hand, some MFIs are giving nine times of members' savings at the same lending rates with Sacco's. Sacco's should look for more member retention strategies rather than the dividend aspect.

In addition, Sacco's should try to improve on their internal controls and also strengthen the role of internal audit departments as this will reduce cases of misappropriations of funds in Sacco's.

Although majority of respondents indicated that the Sacco's invest their funds prudently and investment committee are functional, they should consider diversifying their investments and put conditions on elections of members to the investment committee.

5.3 Areas for Further Research

A study is done to compare the performance of Sacco's and Micro Finance institutions in Kenya. This is supported by the fact that during the study competition from other financial institutions mostly the Micro Finance institutions was one factor found to be affecting performance of Sacco's leading to members' withdrawal.

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