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Determinants of Profit for Saccos in Kenya: A Case Study of Wanandege Sacco Ltd.

Rose Atieno Okoth
Membership Recruitment Officer, Kenya Association of Manufacturers, Kenya

Abstract:
SACCOs ensure their sustainability through adequate capital while continuing to serve their communities through demand-driven products, without necessarily being considered philanthropic organizations. Therefore, the research project's main objective was to ascertain the determinants of profitability of SACCO's in Kenya with a focus on Wanandege Sacco guided by these specific objectives; investigating the effects of product diversity on the profitability, studying the effect of product pricing on the profitability, finding out the effects of NPLs on profits and ascertaining how interest rates affect profits. The research project relied on both primary and secondary data. The study found out that product diversity had highest degree on profitability of Sacco's and that Sacco products were well diversified with many satisfied with the channels put in place to access the products. The study also found out that interest offered can sustain the Sacco in the long run and that the interest being offered was slightly higher as compared to other Sacco's. It further found out that there exists NPL's which can be reduced through strong internal controls as well as following the set standards in issuing of Loans. Finally, the study again found out that when pricing the Sacco's products, the market factors were considered thus the product price reflected true market position. The study concluded that Wanandege Sacco's Profitability is affected by Product diversity, Product pricing, Non-performing loans and Interest rate being charged on products. The study further concluded that Pricing of products is not only a major issue in many industries but also a surviving issue in which Sacco's have to be keen on not to lose its members thus Sacco's savings. The existence of Non-performing loans as the study showed impacted negatively on Sacco's profitability thus due diligence should be exercised while advancing loans to members based on ability to repay. The study recommends that Sacco's should expand their products to other areas of the economy were not much has been invested due to security issues because Sacco's loans are guaranteed by members thus a risk taking Sacco will grow faster than a risk averse Sacco. Moreover, the study further recommends that Sacco's pricing of the products should be lower than other financial institution because they are less restricted in terms of raising money and government regulations. This will make them more attractive not only to the members but also to potential members and general public. The study finally recommends that Interest rates charged by Sacco's should be significantly lower since their lending rates are not dictated by Central Bank of Kenya thus can use that opportunity for market penetration and increase its market share thus boosting their earnings.

1. Introduction

1.1. Background of the Study

Savings and Credit Cooperatives (SACCOs) are associations of people who have come together with common goal/ s geared at improving their livelihood economically. They are an important part of the financial sector in Kenya, providing savings, credit and insurance services to a large portion of the population. SACCOs are voluntary associations or cooperative financial institutions owned and controlled by their members and operated for the purposes of promoting saving, providing credit at low interest rates and providing other financial services to its members (Waweru 2011). Members regularly pool their savings, and subsequently may obtain loans which they may use for different purposes. Generally, the idea behind establishment of SACCOs is to promote savings and make credits available to the members. SACCOs are the important MFI's (micro-financing institutions) for mobilization of financial resources for various development activities.

In Africa, the idea of saving and credit societies was first described and discussed in 1959 inJipara, a small town the upper west town of Ghana, the idea was brought by the Roman Catholic priest, Father John McNulty from Ireland. In their research, Olando et al (2012) discusses that SACCO's were formed to assist villagers improve their economic conditions (Ng'ombe&Mikwamba, 2004). The English speaking nations were the first to adopt the SACCO model which includes Ghana, Uganda, Nigeria, Tanzania, and Kenya. Most of the Non-English speaking nations in Africa started appreciating SACCOs in 1960s, with major influx into SACCO community in 1970s (Mwakajumilo, 2011). The success Jipara story has been widely replicated throughout the African continent (Alila & Obado 1990).

Olando et al, (2012) discusses further that the formation of SACCOs in Africa grew tremendously to the extent that African countries formed a continental association of SACCOs, Africa Confederation of Cooperative Society Savings and Credit Association (ACCOSSCA), in 1965. ACCOSSCA was formed with the principal objective of promoting the SACCO principles, offer SACCO insurance, and educate members on SACCO issues (Ng'ombe and Mikwamba, 2004).

In their research, Olando et al (2012) discuss that according to Kenya Union of Savings and Co-operatives (KUSCCO), Savings and Co-operative Societies (SACCOs) in Kenya or the SACCO movement in Kenya is billed as the largest in Africa and among the top 10 globally. The Kenyan Financial Sector has undergone numerous challenges and transformations during its relatively short span of its existence. Due to the need to survive and grow, financial institutions have had to re-invent and position themselves to maintain their market share and tap into emerging markets. Co-operative Societies in particular have been noted to depart from traditionally being a savings and credit institution to an institution that offers front office services that have long been a preserve of commercial banks, such as operation of savings accounts and processing of salaries among other facilities. Mumanyi (2014) also adds on to discuss that the Sacco's sub-sector in Kenya is considered the fastest growing in the cooperative movement. Almost half of the 972 additional cooperative societies and unions registered in 2011 were Sacco's. As at December 31, 2011, there were 6,902 registered Sacco's, up from 6,737 in 2010, but only 3,983 were active, with 227 of them, or six per cent, offering deposit-taking services, commonly referred to as Front Office Services Activity (Fosa), aquasi-banking enterprise undertaken by licensed Sacco's.

These societies with Fossa's and the other active Sacco's operate Back Office Savings Activity (Bosa). Sacco's in Kenya have rapidly grown to be the largest in Africa, accounting for 60, 64, and 63 per cent of the continent's savings, loan and assets, respectively. Sacco's provide retail services to large numbers of members and depositors. Of Kenya's 20 million adult populations, 22.5 per cent are served by commercial banks and micro finance institutions while 17.6 per cent are served by Sacco's. Sacco's in Kenya are gradually responding to the fast changes in the financial environment and are adopting new approaches to the Sacco model. Membership has for long been based on common bonds and knowledge about the borrower. This mechanism, Sacco's argue, has enabled them to manage risk, enforce lending contracts and reduce the transaction costs of delivering credit. With changes that at some stage saw use of Sacco's drop from 13.1 per cent in 2006 to 9.0 per cent in 2009 because of stiff competition from banks and other financial institutions, and other factors such as declining membership because of retrenchment and deaths, Sacco's were forced to come up with strategies and products to assist them cope with these challenges. Some of these strategies included changing rules of membership and coming up with a new range of products (Mumanyi, 2014).

Notably, after independence, the Government of Kenya recognized co-operatives as suitable vehicles with appropriate framework to achieve their aspirations and participate in the economic development of the nation. Accordingly, steps were taken by the Government which saw the rapid growth and expansion of the SACCO Society movement in the country (Gardeklint, 2009). In fact, the SACCO movement is considered by the government as one of the economic pillars of the nation. By the year 2010, Kenya had over 5,000 registered SACCOs with a membership of about 7 million. These SACCO societies had mobilized savings of over Ksh.200billion (Republic of Kenya (RoK), 2008; Ndung'u, 2010 (Olando et al, 2012).

Wanandege Sacco ltd was started on 22nd June, 1977 after the collapse of the East African Community to carter for Kenya Airways employees. The Sacco's by laws were later amended to suit other relevant companies and interested organizations. Currently the Sacco has two branches one in Nairobi and the other in Mombasa. The headquarters is located in Nairobi's Embakasi estate while the branch at Mombasa located in Moi Avenue was started in November 2010. In the year 2008, the Sacco ventured into micro financing as an expansion plan for its product range and generate more income whereby small business people were given the opportunity to access credit facilities. Micro financing has also been in operation in Mombasa since the branch began and currently having a client base of one thousand seven hundred members (Wanandege Sacco, 2014).

1.2. Statement of the Problem

Savings and Credit Cooperatives experience a wide range of problems partly owing to the fact that they target low income earners and have to establish a balance between serving them adequately and also meeting their operation costs. Thus, while SACCO's may be regarded as business units aimed at benefiting their members, their profitability and ability to achieve long term goals in a competitive market prompted the need to carry out an in-depth analytical research in the same. Sacco's have been noted to contribute over to over 45% GDP with one in every two Kenyans directly/ indirectly deriving livelihood from them. The Kenyan Sacco sector cut across all sectors of the economy and they play an important role in mobilizing of both human and capital resources, with a membership of 3.8 million people. At the end of December 2010, Kenya had approximately 5,000 registered Sacco's compared with 3,996 a year earlier and about 230 of those have front-office service activities (FOSA) which means they can take deposits and provide loans, while the remaining ones only offer credit facilities (Eric, 2011).

Despite Sacco's immense contribution to the country's GDP, Manyara (2003) noted that SACCOs are characterised by poor leadership, undercapitalisation and high taxes through various regimes resulting to double taxation and poor regulatory mechanism. Zyi (2015), observed that Sacco's face serious and fundamental problems, some of which are managerial in nature; as majority of members lack the understanding of the processes by which Sacco's operates, failure to initiate projects which generate revenue and inability of members together with their administrators to comprehend the problems in question. Evelyn (2014) noted that key challenges facing Sacco's in Mombasa County are related to poor governance, management capacity, financial management, credit management and automation, lack of finance, discrimination, problems with the city council, multiple duties, injustice, lack of education, among others and initiatives put in place to counter the challenges.Based on the findings of other related studies, the factors that determine financial institutions' profitability comprise of characteristics of individual firms. Mulandi (2006) adds on to say that little research was done in the Kenyan context, most researches majorly investigated on how factors like firm size, credit granted, asset and liability management affect the profitability of an MFI and that of SACCOs. A knowledge gap therefore exists on the exhaustive survey of the factors that determine the profitability of SACCO's in Kenya. This study therefore sought to exhaustively investigate and document the factors that determine Sacco's profitability in Kenya by providing new evidence through analysis of unique firm-level data set of firm performance. The focus of this research was therefore to ascertain the determinants of profitability for SACCOs in Kenya.

1.3. Objectives of the Study

1.3.1. General Objective
The general objective of this study was to ascertain the determinants of profitability of SACCO's in Kenya with a focus on Wanandege Sacco Limited.

1.3.2. Specific Objectives
a) To investigate the effects of product diversity on the profitability of Wanandege SACCO.
b) To study the effect of product pricing on the profitability of Wanandege SACCO.
c) To find out the effects of Non- Performing loans on profitability of Wanandege SACCO.
d) To ascertain the effect of interest rate on profitability of Wanandege SACCO.

1.4. Research Questions
a) How does product diversity affect the profitability of Wanandege SACCO?
b) How does product pricing affect the profitability of Wanandege SACCO?
c) How can non- performing loans affect the profitability of Wanandege SACCO?
d) How does interest rate affect profitability of Wanandege SACCO?

1.5. Purpose of the Study
This research provided a basis for long term strategic planning to the SACCO fraternity. Managers have a major objective of making strategic plans to maximize shareholders' wealth and therefore this study guided them in their day to day planning towards achieving their goals and objectives. For investors, this research enabled them make wise investment decisions on where to invest and if to patronize SACCOs for their financial services and investment. To researchers, this study added to the existing body of knowledge on the factors that determine the performance of financial institution.

1.6. Scope of the Study
This research project was carried out at Wanandege Sacco society with branches in Nairobi and Mombasa. The project targeted all employees both in the BOSA (Back Office Services Activities) and FOSA (Front Office Services Activities) departments of the Sacco.

1.7. Limitations of the Study
The researcher encountered various limitations while carrying out the research. The main limitations were of time and low response rates due to tight schedules held by the employees (who are respondents), thereby hindering them from completing the questionnaires given timely as required by the researcher. This was addressed by constant follow up and visits made to them over the weekends in their homes so as to complete the form with no pressure of job demands. The researcher also encountered financial constraints in terms of the high cost for administrating questionnaires yet some were spoilt or not returned. Also, travelling back and forth was very expensive to the researcher. This cost had to be incurred due to the geographical location of some respondents who were necessary for inclusion in the research study, so as to improve the objectivity of the questionnaires.

2. Literature Review

2.1. Introduction
This chapter gives a review of studies conducted in the past on the determinants of profit in Kenyan Sacco's. It examines the theoretical background and bears a conceptual framework based on the research objectives.

2.2. Theoretical Review
Different economists have put forward several theories explaining how profit is generated in businesses.

2.2.1. Schumpeter's Innovation Theory of Profits
According to Joseph Schumpeter's Innovation theory of profits (1948), profits are a residue and a cost of entrepreneurial ability used. The residual difference between price and costs is increased (hence profit increases) due to the reductions in costs due to innovations such as introduction of new goods, differentiated goods, discovery of new source of raw materials, development of new markets, use of new organizational forms. According to this theory innovation result in a reduction in the prices of the factors of production, thus

the costs of production decreases resulting in an increase in the difference between the price and the costs of production, i.e. the residual profits(Chendroyaperumal,2009).

Schumpeter argues that anyone seeking profits must innovate because this is an important driver of competitiveness and economic dynamics (porter & Stern, 1999). According to him innovation is a "process of industrial mutation that increasingly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one.'' (Waita, 2014)

2.2.2. Dynamic Theory of Profit

In his research, J.B. Clark (1899) stated that profit accrues due to the dynamic nature of the society hence makes the future uncertain. This therefore makes any act which has to come in future to involve risk. Thus profit is the price of risk taking and risk bearing. This means that it only arises in a dynamic society and therefore in a society where changes do not occur, that is it is static by nature, the risk element disappears and hence the profit element does not exist there (Chendroyaperumal, 2009). Actually, a society is said to be dynamic when there is a change in its population, change in trends of the people, change in stock of the capital or even change in the supply of entrepreneurs. When all these factors become constant, the future also becomes certain and the risk element disappears from the society.

Clark also discusses that profit is the result of an adjustment, which is brought about by the entrepreneurs themselves. They may find new techniques of production by inventing new machines whereby their use reduces the cost of production and also reduces the course of time as well and therefore gives the entrepreneur higher profits. But when the use of machinery and production becomes common and used by the other entrepreneur operating in the economy, the supply of goods then increase and the prices fall. This in turn reduces the profit margin. Under this situation the profit is determined by the demand and supply of enterprise at a point where they are equal.

2.2.3. The Marketing Mix

Philip Kotler (2004) discussed the Marketing Mix, also known as the Four (4) P's- [product, price, place (distribution) and promotion]as a set of controllable variables that a firm can use to influence the buyer's response.The controllable variables in this context are the 4 'P's. Each firm strives to build up such a composition, which can create highest level of consumer satisfaction and at the same time meet its organizational objectives. Thus, this mix is assembled keeping in mind the needs of target customers, and it varies from one organization to another depending upon its available resources and marketing objectives.

In his research, Muinde (2009) found out that in the past one decade in the Kenyan banking industry and indeed the world over, has experienced substantial competitive conditions. Thus the style and intensity of marketing activities that exist today in the banking industry are a recent phenomenon (Ndegwa, 1996). The emergence of new banks and non-bank financial institutions, both local and foreign, has brought a competitive challenge. Currently, the Kenyan financial system is quite diverse and active. This has brought need for participants in the industry to reevaluate their priorities, strategies and manner of conducting their business in general (Koros, 2001) in the nature and scope of the services that they can offer. Currently, insurance companies compete with banks in the provision of certain types of loans and indemnities, services which until recently were a preserve for banks. Forex bureaus have virtually taken over the foreign exchange cash transactions business from banks while building societies, savings and credit cooperative societies (SACCO's), micro finance institutions (MFI's) and some non-governmental organizations (NGO's) continue to eat into the credit and personal banking markets.

Managers can employ the four P's model which were originally designed for the manufacturing sector but have now largely been adopted by many service firms. The 4P's (1986) are strategic weapons in the firm's market struggle against its rivals and aids in making major marketing decisions in regard to improving an institution's level of profitability (Muinde, 2009).

Companies that have attained economic good times may be in danger of forgetting the business fundamentals that contribute to their success. Increased focus on the bottom line, competitive strategies, and financial goals divert attention from the primary source of every company's good fortune-the customer (Schewe, 1998). For continued success, a consistent focus on and attention to customer needs, preferences, and expectations should always be checked.

Figure 1: The 4 P's – marketing management text and cases

2.2.3.1. Product

Ehmke et al (2007) discuss products as the goods and services offered to customers. Apart from the physical product itself, there are elements associated with your product that customers may be attracted to, such as the way it is packaged. Other product attributes include quality, features, options, services, warranties, and brand name. Thus, you might think of what you offer as a bundle of goods and services. Your product's appearance, function, and support make up what the customer is actually buying.

Schewe & Hiam (1998) add on to say that Products are goods and services offered by an organization and are purchased because they satisfy one or more of our needs. Customers pay not for the tangible product but for the benefit it will provide and therefore a product can be described as a bundle of benefits which a marketer offers to the consumer for a price. Product can also take the form of a service like an air travel, telecommunication, etc. Thus, the term product refers to goods and services offered by the organization for sale.

In this case, financial institutions like SACCOs offer credit facilities which include loans, insurance services and current/ fixed accounts. These product features or benefits of the credit facilities offered by an institution is what will attract the targeted customers to a particular institution and not the other.

2.2.3.2. Price

Price is the amount charged for a product or service and it is the second most important element in the marketing mix. Fixing the price of the product is a tricky job and therefore factors like demand for a product, cost involved, and consumer's ability to pay, prices charged by competitors for similar products, government restrictions and so on have to be kept in mind while fixing the price. In fact, pricing is a very crucial decision area as it has its effect on demand for the product and also on the profitability of the firm (Schewe & Hiam, 1998).

In her research, Muinde (2009) defines Price as the consideration given in exchange of a product. It is the value placed on a product by consumers at some point in time (Kibera and Waruinge, 1998). Pricing is a very important element in the marketing mix for it is the only one that produces revenue. Despite being so critical to the profitability of a financial institution, aggressive pricing strategies have in the past seldom been adopted (Marsh, 1988). Pricing is a very flexible element of the marketing mix and enables firms to react swiftly to competitive behavior though much depends on the sensitivity of the market to price charges (Cowell, 1984).

Also, Ehmke et al (2007) state that an institution's pricing approach should reflect the appropriate positioning of their product in the market and should result in a price that covers cost per item and includes a profit margin. The result should neither be greedy nor timid. The former will price you out of the market while pricing too low will make it impossible to grow.

Understanding the theory of pricing policies is important, as well as how these alternatives can be applied to financial institution's services in a given set of circumstances (Ennew et al 1989). Pyne, (1993) states that pricing policies affects sales volumes, demand, profit, market sector penetrated, consumer conception or services and competitive evaluation of its attractiveness. If pricing is handled poorly in the service mix, it may cause product failure (Muinde, 2009).

Managers can follow a number of alternative pricing strategies like value-based pricing, competitive pricing, going rate pricing amongst others during selection of a pricing strategy which should be based on the product, customer demand, the competitive environment, and the other products offered. Value-based is based on the buyer's perception of value (rather than on costs). The buyer's perception depends on all aspects of the product, including non-price factors such as quality and prestige. Competitive pricing structure is relatively simple to follow because you maintain your price relative to your competitors' prices. In some cases, you can directly observe your competitors' prices and respond to any price changes. In other cases, customers will select vendors based on bids submitted simultaneously. In those cases, gathering information will be more difficult. Going-rate is a price charged that is the common or going-rate in the marketplace. Going-rate pricing is common in markets where most firms have little or no control over the market price.

2.2.3.3. Place or Distribution

Place refers to the distribution channels used to get your product to your customers. What your product is will greatly influence how you distribute it. If, for example, you own a small retail store or offer a service to your local community, then you are at the end of the distribution chain, and so you will be supplying directly to the customer. Businesses that create or assemble a product will have two options: selling directly to consumers or selling to a vendor (Ehmke et al, 2007). Distribution is a complex subject spanning the process of getting the goods or services from the supplier to the customer. It involves the selection of the most expedient channel or channels and the servicing of these channels (Marsh, 1988). Every company must decide how to make its goods or services available to its target market. The company's chosen channels ultimately affect all other marketing decisions (Kotler, 1997). Before a firm decides on the type of distribution channel to use, it has to specify the role of distribution within the marketing mix.

Major financial institutions distribution of services is without doubt, one of the most discussed aspects of marketing. New technologies are bringing with it new ways to distribute services and opening up new markets. In future financial institutions will slim down their branch networks, partially to contain costs, but also in recognition that the market requirements are also changing as a result of the increasing automation of money services. Reshaping of the branch network is now necessary, but the business potential derived from personal contact with customers should not be ignored when deciding what the optimum size of a branch network should be (Marsh, 1988). Moreover, the type of distribution channel is also changing as the major Financial Institutions open up branches in stores, creates fully automated financial offices and are currently introducing corporate offices designed to service the medium to large corporate customer (Muinde, 2009).

2.2.3.4. Promotion

If the product is manufactured keeping the consumer needs in mind, is rightly priced and made available at outlets convenient to them but the consumer is not made aware about its price, features, availability and so on, its marketing effort may not be successful. Therefore, promotion is an important ingredient of marketing mix as it refers to a process of informing, persuading and influencing a consumer to make choice of the product to be bought. Promotion is done through means of personal selling, advertising, publicity and sales promotion. It is done mainly with a view to provide information to prospective consumers about the availability, characteristics and uses of a product. It arouses potential consumer’s interest in the product, compare it with competitors’ product and make his choice. The proliferation of print and electronic media has immensely helped the process of promotion (Schewe & Hiam, 1998).

Kotler (1997) states that promotion covers all those communication tools that can deliver a message to a target audience. These tools include advertising, sales promotions; personal selling and publicity. Muinde (2009) posit that promotion in financial sector occurs at two levels. The first is through central or head office departments or divisions that are responsible for the major advertising budget and how it is spent in pursuit of the corporate and marketing objectives. Publicity and public relations activities are also usually controlled centrally, although modest levels of responsibility and control can sometimes be found at a regional or area level (Bii, 1992). The second level of promotional activity in the branches where managers are responsible for supporting their marketing objectives with direct mailings, branch displays, personal selling and any other kind of promotion which might in given circumstances prove cost effective and judicious. There must nevertheless be a high degree of co-ordination between head office promotions and what the branches are doing. Good internal communication is fundamental to all marketing efforts and to the successful growth of the financial institution’s business (Bii, 1992).

In their research, Quinn et al, (1990) discuss that the aim of a promotional strategy is to bring existing and prospective customers from a state of relative unawareness of an organization's products to a state of actively adopting them (Cowell, 1984). Promotion also helps create widespread awareness about services on offer and to enhance the image of the institution.

2.3. Empirical Literature

Ergete (2015) studied the Performance of saving and Credit Cooperative Unions in Ethiopia and found that Sacco’s under study were able to fulfill short term obligations in the respective years though the trend was erratic. He also observed that Sacco’s had their total debt ratio above the required standard and that they didn’t have a return which was equal or better than the interest rate of money they borrowed thus they did not have a better financial performance on return on equity. Mwenda (2012) in her study on determinants of capital Structures in savings and credit cooperative societies in Kenya found out that Profitability exhibited a positive, strong, and statistically significant relationship with capital structure and as such, it was asserted to be a major determinant of capital structure, it was therefore deduced that Profitability was positively and strongly correlated with capital structure. Clement (2012) studied Financial Practice as a determinant of Growth of Savings and Credit Co-Operative Societies’ Wealth, the study indicated that Growth of SACCOs wealth depended on Financial stewardship, Capital structure and Funds allocation strategy. The study further discovered that SACCOs inadequately complied with their by-laws; incomes from investments did not adequately cover their costs. Josiah (2015) studied the determinants of the financial performance of savings and credit cooperative organizations in Nairobi- Kenya, the study found that the Education and Training of Staff, the Nature of the Business, Long Term Investment needs and Management Practice had a definite positive effect on the profitability of these SACCOs in Nairobi. Davis (2006) in his book “managing cooperatives,” found that professionalism in the management of cooperative upgrades the quality of their state with latest development and also develop proper & cordial relationship between managers and members of the board e.g. directors. This was shared by Mwangi (2008) in a Sacco leader forum on "Enhancing sound Sacco governance" whereby it was observed that inadequate governance and management, lack of performance standards, weak official supervision and regulation were some of the challenges experienced by Sacco's. A study by Kuhn and Sutton (2010) stated that management should enhance the effectiveness of internal control and to effectively communicate this to the board of directors and shareholders. Saroj (2005) observed that effective and efficient internal control mechanism, would lead to streamlined administrative organizational set up, he noted that strict adherence to statutes and codes prescribed by government and other professional pronouncements will minimize the risk of errors and irregularities by helping to protect resources against loss, wastages, abuse and mismanagement. Control activities would include approval, authorization, metrification, reconciliation, review of operating performance and obtaining security for assets.

2.4. Conceptual Framework

Conceptual framework provides a diagrammatic presentation of the relationship between dependent and independent variables. In this study Product diversity, Product pricing, Non-performing loans (NPL's) and Interest rates are considered as the independent variables while profitability is considered as the dependent variable.

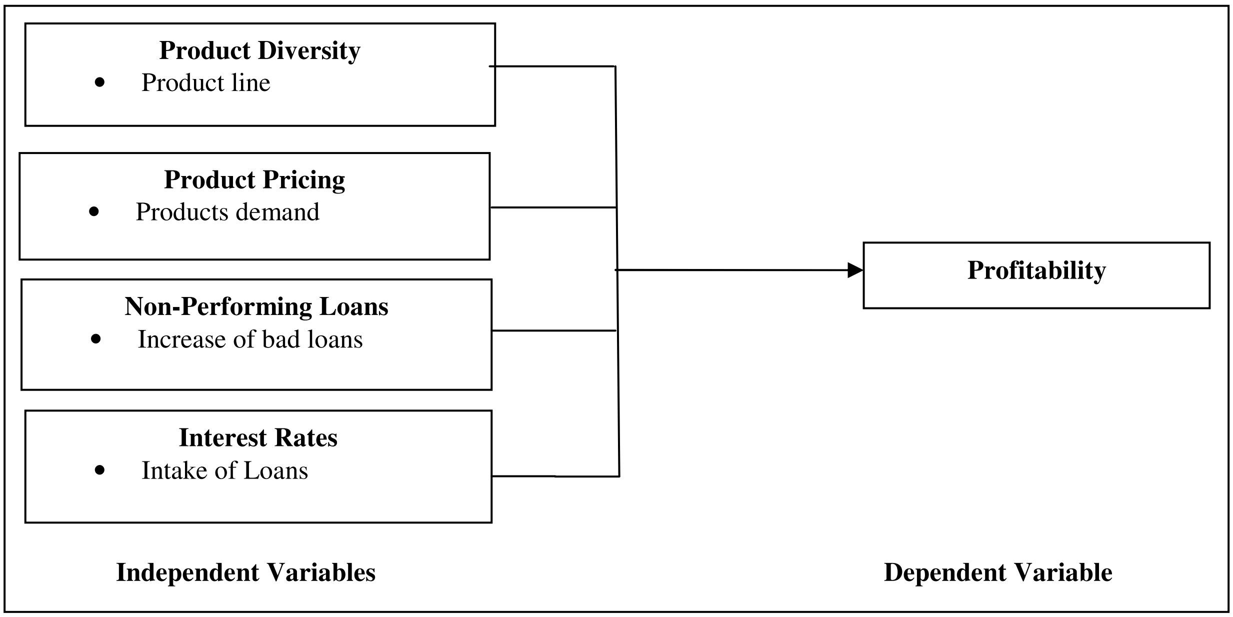

Figure 2: Conceptual Framework

<u>2.4.1. Product Diversity and Profit</u>

For a long time, Kenyan SACCOs have offered standard products such as shares and loans without carrying out research on what other products could cater for unmet needs. SACCO members are not a homogeneous group and need products that present solutions to their problems. The book 'The Poor and Their Money' (Rutherford,2000)classifies needs as revolving around "life cycle events" such as the birth of children, death, marriage, education, old age, widowhood, and homemaking; "emergency events" such as illness, accidents, bereavement, divorce, fires, etc.; and "opportunities" for starting a business, buying assets, investments, buying consumer goods, etc. A SACCO takes into account the financial pressures caused by these events and tailor products that would enable the members to satisfy those needs. In responding to clients' unmet needs with the objective to positively impact on the institutions' profitability, SACCOs have resorted to diversification of their products and services by redefining their missions, opening up the common bond to include non-members, offering front office savings activities (FOSA) and new products to address the diversified needs of the membership (Odera, 2008).

Gathurithu (2011) stated that most SACCOs have however diversified their services and products to target not only members within its common bond but also to everyone with different economic activity thereby opening the common bond. This has been caused by the current stiff competition arising from other financial institutions that have come up with more friendly financial products to the same members unlike there before. Despite the stiff competition SACCOs are still operating due to consumers' different perspectives. Indeed (Schiffman and Kanuk et al 1996) contend that although two individuals may be subject to the same stimuli under apparently the same conditions, the way they recognize them, select them, organize them, and interpret them is a highly individual process based on each person's own needs, values and expectations.

Continuous innovation and competition in this sector and new market entrants has allowed for a much wider array of products and services for retail and wholesale banking customers. These include traditional activities such as accessing financial information, obtaining loans and opening deposit accounts, as well as relatively new products and services such as electronic fund transfers and electronic bill payment services (Haneef et al, 2012).Also, to improve their levels of profitability, Sacco's have sought to diversify their products from the normal interest on loans income to include non-Interest income forms as another source of the institutions' income. In his research, Njihia (2005) discuss that these range of products includes service charge on deposits – a form of payment for the services provided by the financial institution and include charges on: opening of accounts, banker's cheque processing, salary processing, loan processing, commission on account closing among others and income from other non-deposit activities (Ongaki, 2010).Through mobilization of funds, SACCOs in Kenya offer the following products and services to its members; Loans, Deposit and Savings facility, Front Office Services Activity and Cheque Clearance Services.

2.4.1.1. Loans

The most common product offered throughout the SACCO fraternity is the Credit and Loan services which include Development loans, Emergency loans, School Fee loans and Business Loans.

Development loans are usually granted for development or investment purposes. They have their terms and conditions that should be met before one is granted this product. Having completed the required membership duration, this loan is granted three times a member's savings, minimum number of guarantors is required, two most recent original pay slips should be attached and the loan is recovered directly from the member's salary or other sources of income. Its repayment period is usually longer, up to four years, as compared to other loan products due to its magnitude. Emergency loans, just as the name suggests is usually meant for unforeseen circumstances. It also has requirements for qualification to be met like minimum guarantors, check off system to recover loan monthly and pay slips to be attached but this loan has a repayment period of one year.

School fees loans is meant for school fee purposes and is usually dispatched according to calendar months. An applicant is always required that he attaches school fees structure as proof of its purpose and it has a repayment period of up to one year (StimaSacco,2014).

Business loans are for business people who can either operate these accounts as individuals or groups of a required minimum number. They form groups to pool their savings together and therefore co- guarantees one another during loaning. In Afya Sacco, this product targets small and micro businesses and it will be advanced to individuals with personal security like vehicle log books or individuals in groups who guarantee each other and have had compulsory savings or other securities (Afya Sacco, 2014).

2.4.1.2. Front Office Services Activity (F.O.S.A)

Savings and Credit Co-operative Societies (Sacco's) are an autonomous Association of Persons united voluntarily to meet their economic and social needs but their performance over the years has been affected by low capital base thereby limiting efficient loaning of funds to members. This is therefore the reason why many Sacco's have introduced Front Office Sacco Activity (FOSA), to cope with this problem facing them and to strengthen their capital base and liquidity level. FOSAs offer simple banking services to members/customers, thus improving their working capital. Front Office Sections in turn attract non-members who open savings accounts, thus improving customer deposits and for them to benefit through the varied products or services available. The membership of the Sacco grows both in FOSA and Back Office Sacco Activity (BOSA). This improves the volume of transactions, thus improving the revenue income of the society (Matumo et al, 2012). These accounts include the ordinary savings which is withdrawable and they operate like the conventional savings account in financial institutions. Members loan processing is convenient through such account and Personal cheques can be deposited in this account for clearance, Salary can be paid through this account, Visa electron ATM cards will be issued for transacting in this account, cash can be accessed at all Visa and POS outlets or over the counter and attracts competitive interest rates (Nation Sacco, 2014).

2.4.2. Product Pricing and Profit

Young et al, (2007) defines product costing as the process of assigning shared direct and indirect costs to individual products, customers, branches or other cost items. Improved management information on products helps managers and the board members take key decisions about product design, delivery mechanisms, and especially pricing. They go further to discuss that it allows managers to understand how each product contributes (or not) to the profitability of the Bank or MFI, assists in budgeting and in interpreting (understanding) of the variances between the actual amounts spend and the budgeted (expected) amounts and also to examine the viability of a new product.

Due to the increased demand for customers, stiff competition, and a dragging economy; Sacco's have been forced to look out for new methods towards getting and keeping a long-term relation with the customers so as to improve their levels of profits. This is therefore achieved by efficiently pricing Sacco products- interest on loans, loan application fees, current account charges which includes opening fees and service charges, so as to gain a competitive edge over other financial institutions and as a result improve the profitability of a financial institution.

Njunguna (2008) adds on that when a SACCO prices loans, it needs to be sensitive to supply and demand of credit. If a loan is priced too high it will be unaffordable to most people, and demand will drop. If a loan is priced too low, this may lead to a lot of people rushing to get a loan and this could make fulfilling the demand difficult for the SACCO. It might also cause members to take out loans they don't need. Setting your price is one of the biggest challenges that businesses face. A lot of start-ups set price simply by benchmarking themselves against competitors. However, this can be a mistake, because how you pitch your product or service to your customers and how you communicate the value that you deliver are often more influential than price in closing a sale. You need to differentiate your business from your competitors when making a sale, because if you don't, you can only compete on price and price wars are not healthy to an institution. When setting an organization's price, customers don't care about costs involved or time; they only care about the value that you deliver to them like if their money is being saved or not, is the business solving a problem or not or even giving them the best product for their needs? Therefore, efficient product costing helps identify sources of profitability or losses for a financial institution and thereby enables it to focus on promoting its most productive (winning) products and redesigning those that are found to be less profitable. A Savings and Credit Cooperative (SACCO) can determine its cost structure which includes the fixed costs like rent and staff wages while variable costs include marketing expenses, to aid in product pricing (Young et al, 2007).

2.4.3. Non-Performing Loans and Profit

A non-performing loan (NPL) is a type of loan which is not earning income and full payment of principal and interest is no longer anticipated by a financial institution, the principal or interest is three months or more delinquent, or the maturity date is overdue and payment in full has not been made. It is argued that the non-performing loans are one of the major causes of the economic stagnation problems to financial institutions. Each non-performing loan in the financial sector is viewed as an obverse mirror image of an ailing unprofitable enterprise. From this point of view, the eradication of non-performing loans is a necessary condition to improve the economic status. If the NPL's are kept existing and continuously rolled over, the resources are locked up in unprofitable sectors thus hindering the economic growth and impairing the economic efficiency of an institution.

On the other hand, Haneef et al (2012) state that along with revenue maximization and operational cost minimization, risk management has moved to center stage in defining superior performance and it is recognized in today's business world as an integral part of good management practice. In its broadest sense, it entails the systematic application of management policies, procedures and practices to the tasks of identifying, analyzing, assessing, treating and monitoring risk. Financial institutions are exposed to various risks in pursuit of their business objectives; the nature and complexity of which has changed rapidly over time. The failure to adequately manage these risks exposes financial institutions not only hampering the profitability as their earnings are converting in to bad debts and causing economic slowdown, ultimately rendered them unsuccessful in achieving their strategic business objectives. In the worst case, inadequate risk management may result in circumstances so catastrophic in nature that financial institutions cannot remain in business. Also, Kamau, (2006) found out that most Sacco's have no adequate loan policy governing savings and lending procedures. They also lack proper loan recovery procedure and loan write-offs policy which causes greater risk to Sacco's liquidity (kipkosgei et al, 2014) and in consequence hampers their profitability capacity.

2.4.4. Interest Rates and Profit

Kariuki, (2005) notes that SACCOs are able to advance loans at interest rates lower than those charged by other financial providers. This has given them the opportunity to reach clients in areas that are unattractive to banks, such as rural or poor areas (Gardeklint, 2009) thereby becoming more attractive to customers, thus deeply entrenching themselves in the financial sectors of many countries. The core objective of cooperative societies is to ensure that their members are empowered through encouragement of savings and provision of credit. One of the most significant factors that determine performance of a SACCO according to Funkor (2000) is the interest rate provided. In a study done in the Southern African Development Community (SADC) region by Funkor (2000) on influences of interest rates on performance of financial institutions, it was established that high interest rates on deposits are important because they control the flow of money in the economy and more importantly encouraging customer deposits. Kariuki (2005) also supports this according to his study in the former Central Province of Kenya on "Impact of interest rates on saving culture of the SACCOs' clients" and established that high interest rates will always motivate customers to save more while low interest will discourage savings (Khalayi et al 2014).

Mulandi, (2006) found out that a bank's interest rate policy can be seen from two perspectives; the interest charged on loans or credits given by it and on the other hand there is interest a financial institution pays on its deposits. According to Kimutai (2003), the interest rate charged on loans issued is one of main determinant of financial performance of financial institutions. Interest rate is seen as the price lenders expect (or in this case, the borrowers pay) for exchanging current claims for greater future claims to products and services. Mulandi (2006) goes on to add that interest received by a bank on credits given by it is a source of revenue and tends to increase the bank's income. On the other hand, the interest paid by a bank on its deposit liabilities is a cost source and tends to contract the bank's income. Hence, Bobáková (2003) argues that the profitability of a financial institution is influenced by its interest rate policy and this policy can be adjusted to enhance profitability. This therefore means that the decisive factor financial institutions should consider is the ability to set an interest rate for asset deals that meets costs of funds, operating costs, as well as the required rate of profitability.

2.5. Critique of Existing Literature Relevant to the Study

Several factors determining profit of Sacco's are researched on but studies fail to exhaustively investigate important factors that affect performance. Mulandi (2006) surveyed factors that determine profitability of MFI's in Kenya and found out that all the independent variables studied i.e.; capital size of MFI ,size of deposit liabilities of MFI, size of credit portfolio of MFI ,composition of credit portfolio of MFI , labor productivity of MFI , IT of MFI, risk level of MFI , size of MFI ,ownership of MFI , Ownership Concentration of MFI , Control Ownership Disparity and Structural Affiliation of MFI all affect the profitability of the firm. All the variables were found to have a positive correlation with the profitability of the MFIs. Ongaki (2010) also concludes in her research which sought to establish the determinants of financial performance of SACCOs and MFIs and those results indicated that there was a positive relationship between profit ratio and interest income ratio.

However,Stierwald (2009) argued differently in relation to what determined a firm's profitability. In his research about the 'Determinants of Firm Profitability – The Effect of Productivity and its Persistence' stated that models of firm profitability can be classified into two major groups, structure-conduct performance (SCP) and firm effect models. In the SCP model the market structure determines firm behavior and profitability. A reason for that can be that high industry concentration facilitates the exertion of market power, for example in the form of monopoly pricing. Colluding firms impose a higher mark upon those goods with lower elasticity of demand without suffering the loss of demand to competitive rivals hence the increased price allows firms to earn profits that exceed competitive rates. In firm effect models, market structure is the result of the distribution of firms and firm profits. The fundamental assumption in firm effect models is that firms are heterogeneous. According to the superior firm hypothesis, introduced by Demsetz (1973), firms can be distinguished with respect to their level of cost- or production efficiency. Efficient firms have a competitive advantage over their non-efficient rivals. Higher levels of cost-efficiency can be caused by lower costs of production, economies of scale or higher quality of products.

2.6. Summary
The various studies explored in this area are the theoretical literature relevant to the studies being investigated. It was realized that most studies based their research on factors that affect performance of Sacco's to be such as size of a firm, its capital size, size and composition of its credit portfolio.

2.7. Research Gaps
Most researches carried out about the factors that determine the profitability of Sacco's base their arguments solely on interest rates as this is known to be the major income earner to financial institutions. Little research has therefore been done in the Kenyan context on what other factors in addition to interest rates affect performance. This therefore brought about the interest to the researcher to look at what other factors, both positive and negative determine the profit level of Sacco's in Kenya.

3. Research Methodology

3.1. Introduction
This chapter explains the methodology that was used to conduct this research. It is the approach by which the meaning of the data is extracted and it's a continuous process. The chapter provides a scheme, an outline or a plan which was used to generate answers to research problems (Orodho, 2003).

3.2. Research Design
Descriptive design was used to examine the determinants of profits in Kenyan Sacco's. Descriptive design was preferable by the researcher in this case because it was used to get information about current status of matters and the purpose of the methods was to describe what exited at present, that is, it looks at relationship between and among variables.

3.3. Target Population
A target population is a complete set of elements (persons or objects) that possess some common characteristic defined by the sampling criteria established by the researcher. The target population of Wanandege Sacco ltd in Nairobi and Mombasa was thirty-eight (38) which included the top level managers, middle level managers and the subordinate staff in all departments.

Category	No. of Employees
Top management	8
Middle level Managers	12
Subordinate staff	18
Total	38

Table 1: Target Population

3.4. Sample Size and Sampling Techniques
A sample according to Mugenda and Mugenda (1999) is a smaller group or a sub group obtained from the accessible population. The researcher intended to draw a sample of thirty-five (35) respondents out of the total of 38. This sample had relevant characteristics and was selected to represent the target population through purposive sampling method.
The researcher applied the following Neyman allocation sample formulae to calculate the sample size;

$$n=\frac{N}{1+N(e)^2}$$

Whereby, N is the target population, n is the sample size and e is the level of precision and in this study, 95% level of confidence was used which gives 0.05 chance of deviation from the actual. Therefore;

$$n=\frac{38}{1+38(0.05)^2}$$

$$n=\frac{38}{1+38(0.0025)}$$

$$n=\frac{38}{1+0.095}$$

$$n=\frac{38}{1.095}$$

n=35

Category of respondents	Total Population	Total Respondents	Percent of total respondents
Top management	8	7	20%
Middle level managers	12	11	31.4%
Subordinate staff	18	17	48.6%
Total	38	35	100%

Table 2: Sample Size breakdown

3.5. Data Collection Instruments

Data was collected by the use of questionnaires which were administered by the researcher whereby it was built from the objectives of the study in chapter one. The self-administered questions were used to obtain primary data, while review of related literature was used to collect secondary data as well as from the written literature by different authors. In her research, Kaggwa, (2013) states that secondary methods help to guarantee the authenticity of the data collected at the end. To collect primary data, questionnaire surveys were used because it is a valuable method of collecting a wide range of information from a large number of respondents and they are usually straightforward to analyze (Saunders et al 2009). Also, this method of data collection is practical and cost effective. Data collected using the questionnaire can usually be quickly and easily quantified by the researcher and when quantified, it can be used to compare and contrast other research and may be used to measure change.

3.6. Data Collection Procedure

The questionnaire contained statements required the respondents to opt for one answer out of five which were designed using the Likert scale. The researcher explained to the respondents the purpose of the study and what was entailed for the study to be conducted. The researcher then forwarded the questionnaires to the respondents for their views and information sharing. Adequate questionnaire construction is critical to the success of a survey. Inappropriate questions, incorrect order of questions, incorrect scaling, or poor questionnaire format can make the survey valueless, as it may not accurately reflect the views and opinions of the participants, (Mugenda and Mugenda 1999).

3.7. Validity and Reliability of the Research Instrument

The term validity shows the extent to which an instrument measures the construct under investigation. For a data collection instrument to be considered valid, the content selected and included must be relevant to the need or gap established. Mugenda and Mugenda (1999) defined reliability as a measure of the degree to which a research instruments yields consistent results or data after repeated trials. An instrument is termed reliable when it can measure a variable accurately and obtain the same results over time.

Pilot testing was carried out using a questionnaire on ten (10) respondents out of the target population in Mombasa through random sampling. Feedback from the supervisor was sought to help in modifying the instruments.

3.8. Data Analysis and Presentation

In his research, Kothari (2004) stated that the process of data analysis involves data clean up and explanation, after that the data was then coded and checked for any errors and omissions. Multiple regression model was used to analyse data to aid in determining whether the sets of independent variables together predicted the dependent variable. The regression model is in the form:

$Y=\beta 0+\beta 1X1+\beta 2X2+\beta 3X3+ \beta 4X4+\varepsilon$

Where;

$\beta 0$ - Is the constant or intercept

$\beta 1$-3 - Are the regression coefficients or change induced in Y by each X

X1 - Independent Variable Product diversity influence on Sacco's profitability

X2 - Independent Variable Non-Performing Loans influence on Sacco's profitability

X3 - Independent Variable Product pricing influence on Sacco's profitability

X4-Independent Variable Interest rate influence on Sacco's profitability

Y - Dependent Variable Profitability.

ε - Is the error component.

4. Data Analysis and Presentation

4.1. Introduction

This chapter presents data collected from the field, its analysis, and finally the interpretation of the findings on the determinants of profit in Wanandege Sacco Ltd by use of questionnaires. The raw data obtained was analysed with the aid of Statistical Package for Social Sciences (SPSS). The results from the data analysis is summarized and presented in the form of tables, charts and graphs.

4.2. Response Rate

Thirty-five (35) respondents were targeted by this study of which 25 filled in and returned the questionnaires making a response rate of 66%. This response rate was considered excellent and representative because it conformed to Mugenda and Mugenda (2003)

stipulation that 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. This implies that based on this assertion, the response rate in this case of 66% is therefore very good.
The recorded high response rate can be attributed to the data collection procedures, where the researcher pre-notified the potential participants of the intended study, utilized a self-administered questionnaire where the respondents completed and these were picked shortly after and made follow up visits and calls to clarify queries as well as prompt the respondents to fill the questionnaires.

4.3. Demographic Data
The study sought to establish the demographic data of the respondents. The demographic characteristics that were explored were: Gender, age bracket, level of education and employment duration in the company are outlined in this section.

4.3.1. Gender Distribution
The research sought to find out the gender distribution of the respondents as shown in the Figure 1 below:

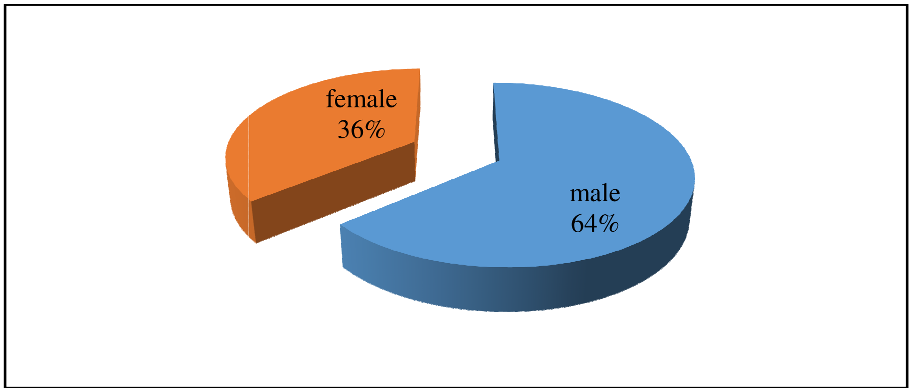

Figure 3: Gender Distribution

From the findings presented in Figure 3 above, 36% of the respondents covered in this study were female while male respondents made up 64% of the respondents. The majority of the respondents were male.

4.3.2. Age Bracket
The study sought to find out the age distribution of the respondents as shown in the table 3 below:

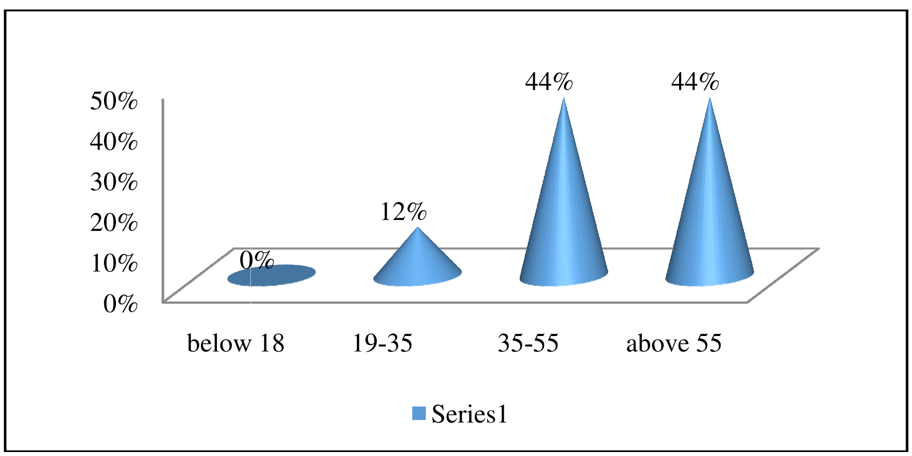

Figure 4: Age bracket

Figure 4 above presents findings on distribution of respondents by age category. From the findings, 0% of the respondents were of below 18 years, those of age category 19 –35years were represented by 12%. Age category 35-45 & above 55 years was represented by 44%.

4.3.3. Education Level

The study further sought to establish the highest level of education attained by the respondents as shown below:

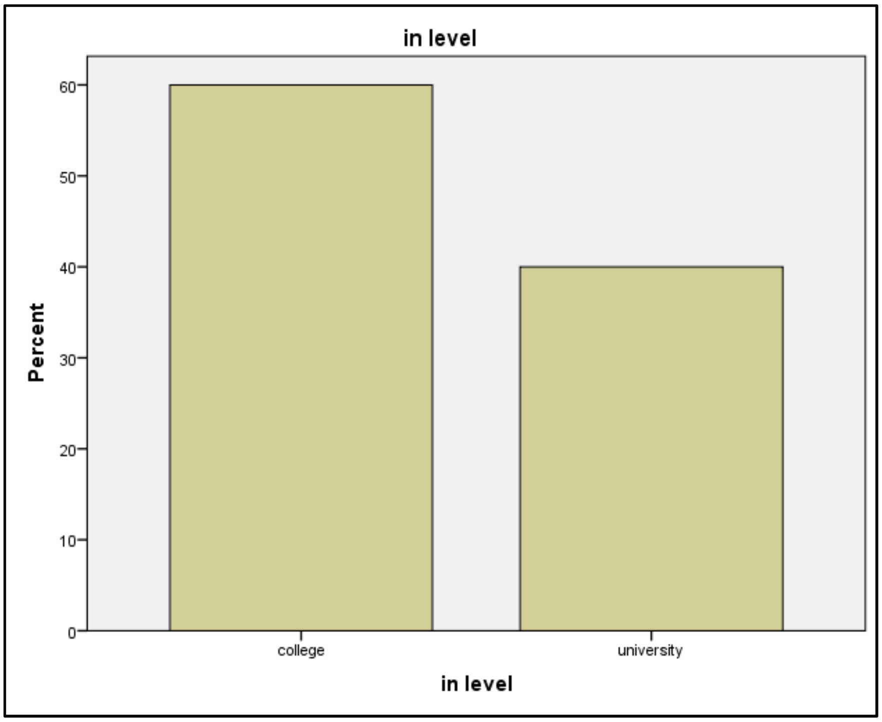

Figure 5: Highest Education Level

Figure 5 above presents findings on distribution of respondents in relation to the level of education attained. From the findings, majority (60%) of the respondents were Diploma holders while 40% were Undergraduates.

4.3.4. Distribution of Respondents by Duration in the Company

The study sought to determine the length of time that the respondents had worked for the company (in years). The findings were presented in the figure below:

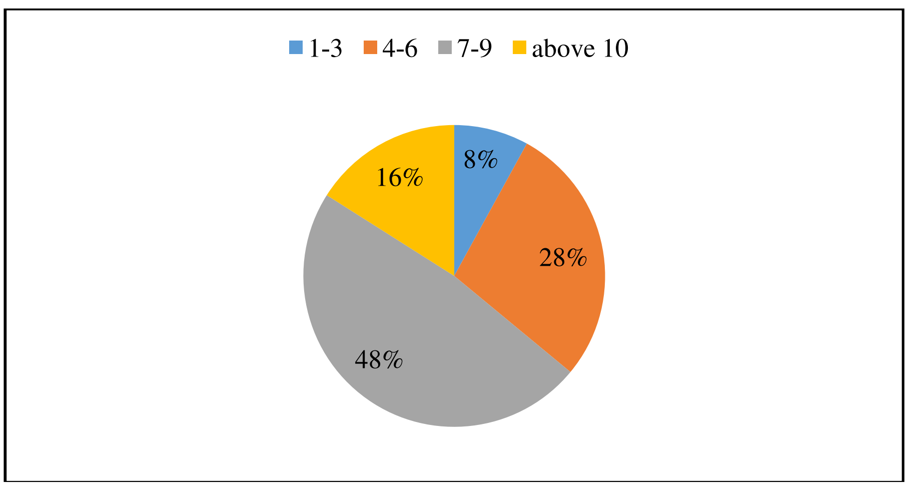

Figure 6: Length of Time Working with the Company

Figure 6 above present findings on length of time that the respondents worked for the company. From the findings, 8% of the respondents had worked for the company for between 1-3 years, 16 % had worked for the company for over 10 years, 28% had worked for between 4-6 years and 48 % worked for between 7-9 years.

4.4. Product Diversity

4.4.1. Whether Product Are Fairly Diverse

The researcher sought to find out whether the Sacco products are fairly diverse to cater for customer needs and the responses were as shown below;

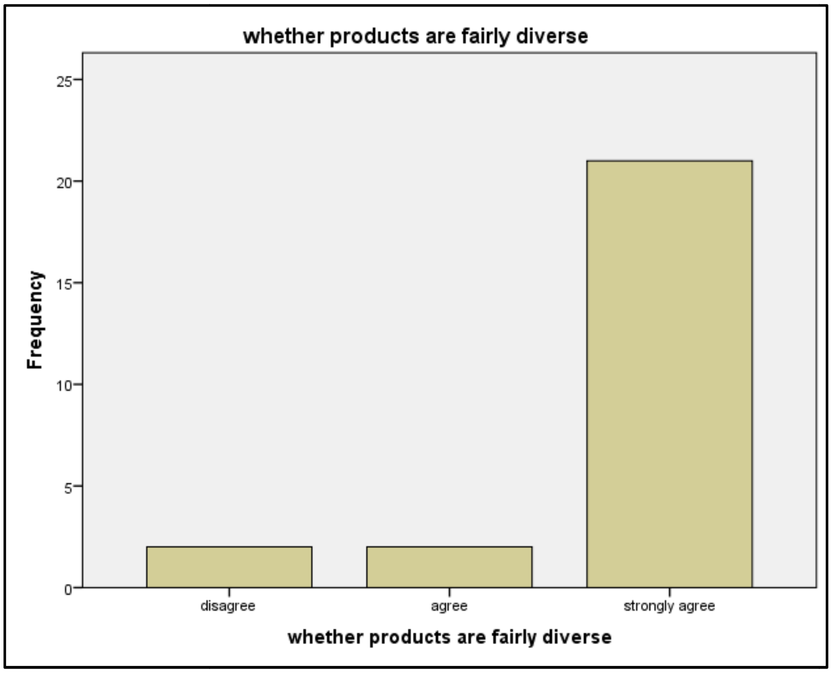

Figure 7: Product Diversity

From the findings above, no respondent strongly disagreed with question; on the other hand, 8% disagreed with the question and 8% agreed. The highest number was at 84%, who agreed that the Sacco had diversified their products.

4.4.2. Sacco Carries out Research to Uncover Other Products to Carter for Customers' Unmet Needs.

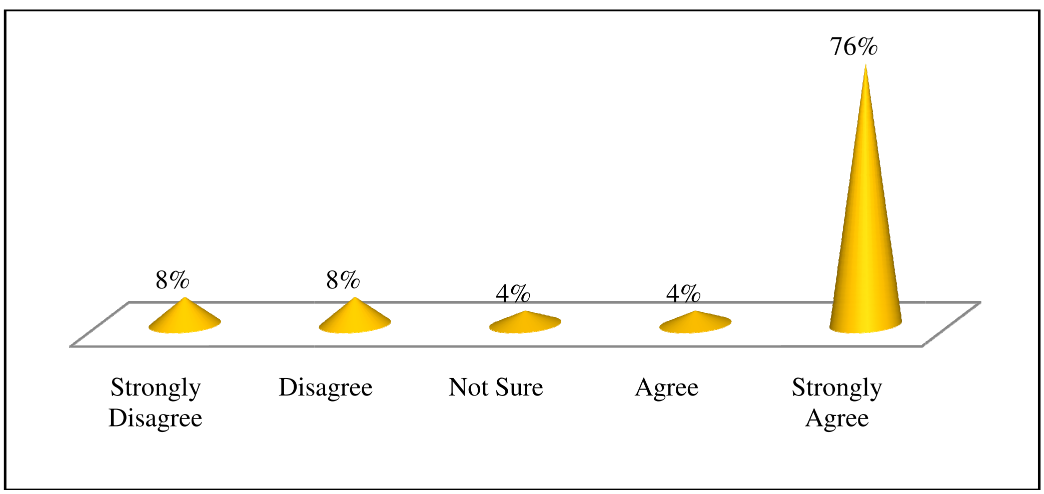

Figure 8: Research on other Products

The study found out that the respondents who strongly disagreed and disagreed were represented by 8%, those who were not sure and those who agreed again shared 4% while those respondents who strongly agreed were represented by 76%.

4.4.3. Members Satisfaction with Channels in Accessing Product & Services

The research study sought to find out whether members were satisfied with the channels put in place with the company to access its products and services;

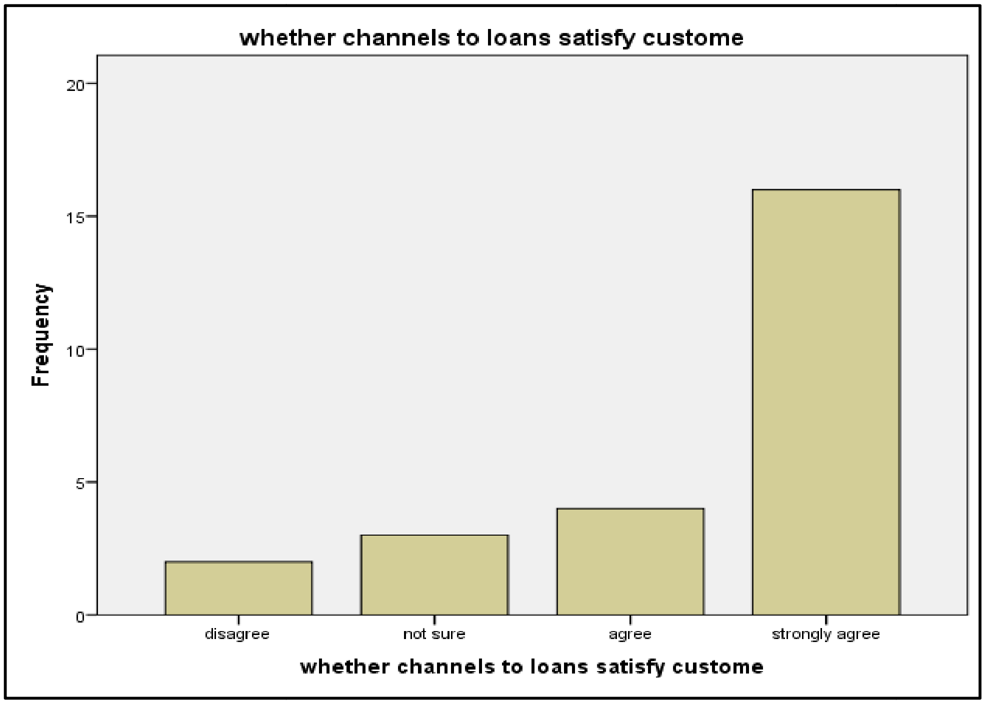

Figure 9: Channels of accessing products and services

The research found that none of the respondents strongly disagreed with the question that asked if members are satisfied with channels in place to access products and services given by the Sacco, though 8% disagreed and 12 % were not sure. On the other hand,16% of the respondents agreed while 64% strongly agreed that members are satisfied with the channels provided to access the products and services.

<u>4.4.4. Sacco's Product Are Superior Compared to Those of Competitors</u>

The researcher sought to know whether the Sacco's products are fully competitive as compared to those offered by competitors;

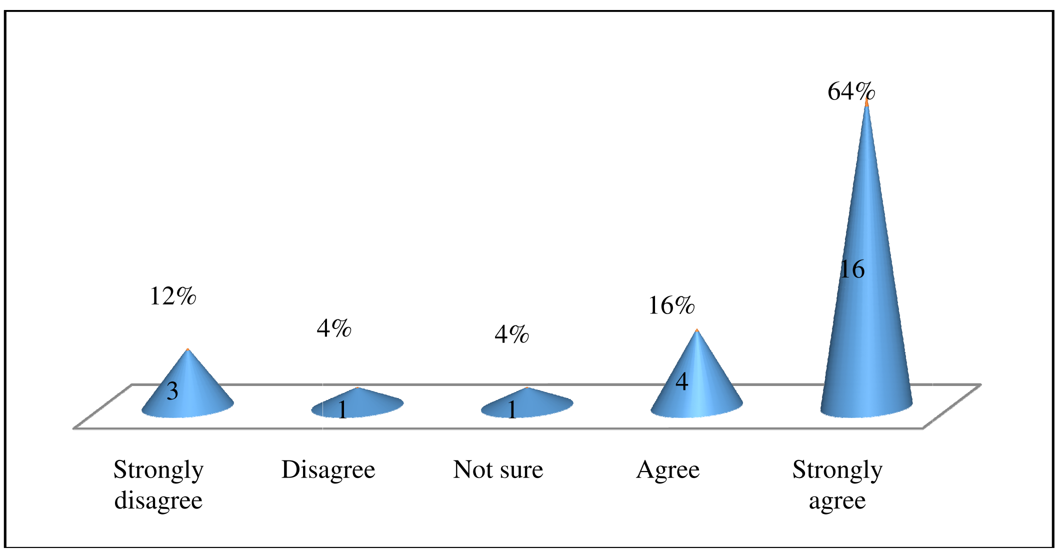

Figure 10: Superiority of Products to competitor Products

The study found out that 12% of the respondents strongly agreed that their product offerings are superior to those of competitors, those who disagreed with this and those who were not sure shared 4%. The respondents who agreed were represented by 16% while those who strongly agreed were the highest at 64%.

<u>4.4.5. Whether Sacco Products Are Fully Utilized</u>

The study sought to find out whether the Sacco's products are fully utilized;

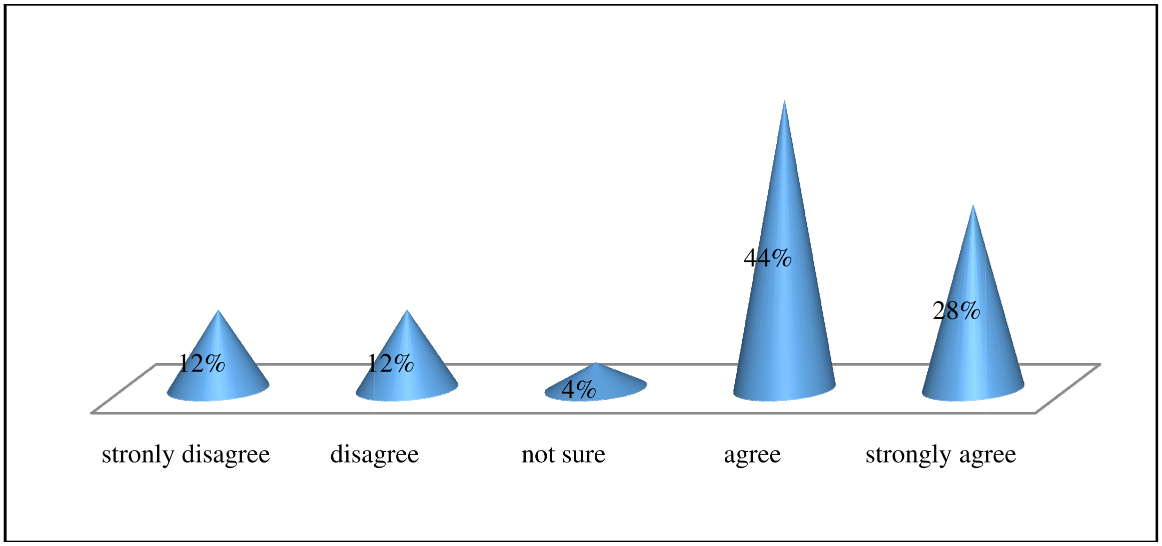

Figure 11: Sacco products full utilization

The study found out that 12% of the respondents strongly disagreed with the question that the Sacco's products were fully utilized, a shared 12 % of respondents disagreed with this, 4 % of them were not sure whether the products are fully utilized and on the other hand 44% agreed while 28% strongly agreed that there was product full utilization.

4.5. Product Pricing

4.5.1. Whether Market Factors Are Considered When Pricing

The researcher sought to find out whether market factors are incorporated when arriving at Sacco's product price.

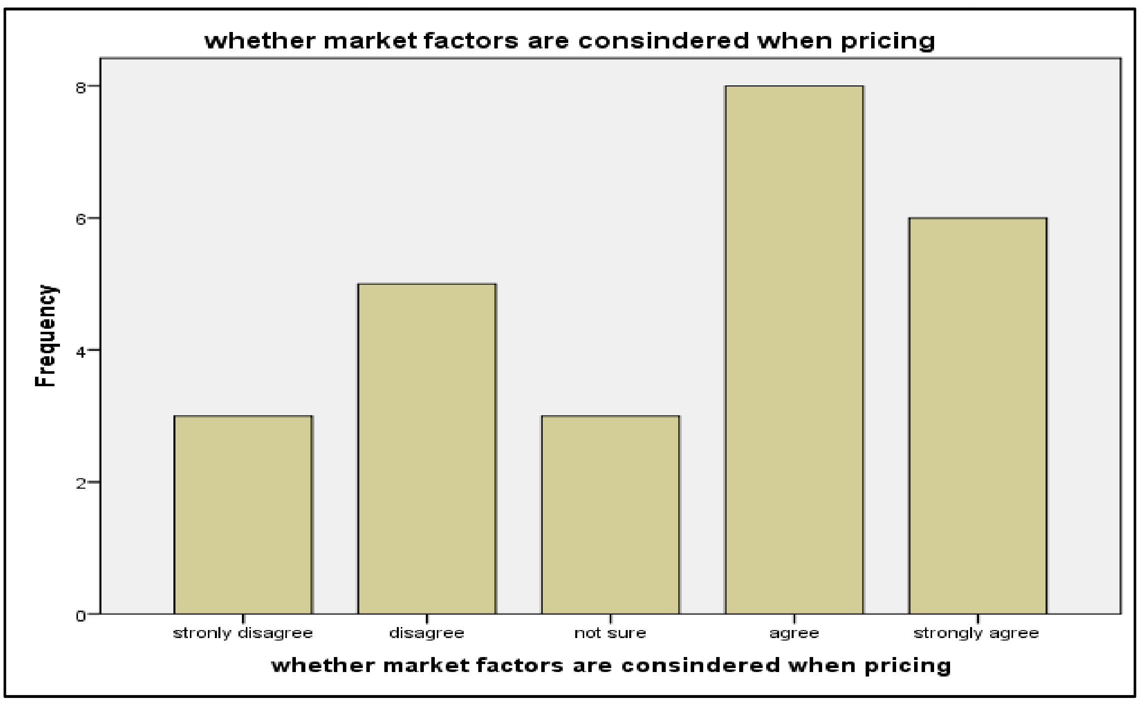

Figure 12: Consideration of market factors when pricing.

The study found out that those respondents who strongly disagreed and those not sure were represented by12%, those who disagreed were 20%, those who agreed were 32% and those who strongly agreed were 24%.

4.5.2. Your Price Reflects Your True Position in the Market

The study sought to determine whether the pricing of products reflected the existing market position;

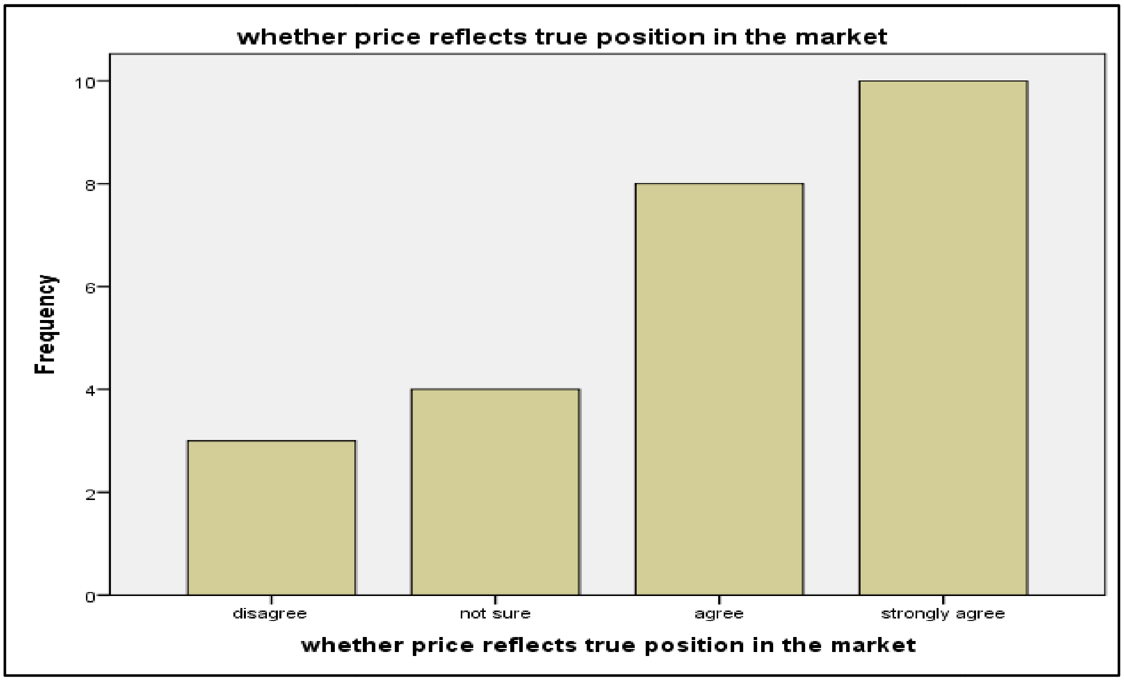

Figure 13: Sacco's product price reflects market position.

From the data gathered, no respondent strongly disagreed about the market position being reflected in the product pricing but 12% of respondents disagreed with this. Another16 % of the respondents were not sure if the true market position is reflected in the pricing but 32% of the respondents agreed, while 40% who were the majority strongly agreed with the question.

<u>4.5.3. Change in Prices to Counter Competition</u>

The research study again sought to find out whether the Sacco frequently reviews their product prices to deal with competition;

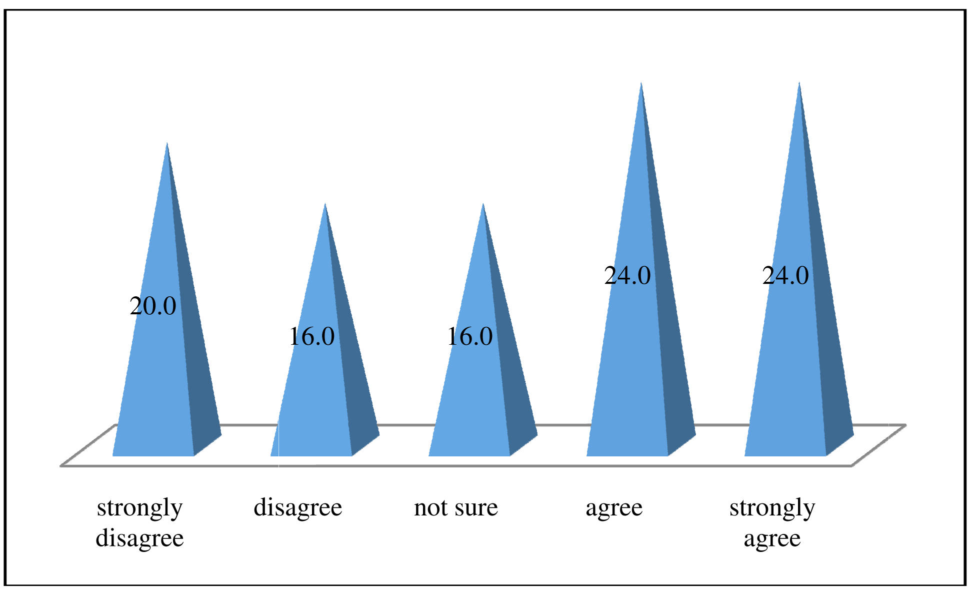

Figure 14: Changes in price to counter competition.

The study found out that 20% strongly disagreed with this, 16% of the respondents either disagreed or were not sure about pricing being reviewed to counter competition, on the other hand, we find a shared representation of 24% who agreed and strongly agreed that the Sacco frequently changes the products prices to counter competition.

<u>4.5.4. Whether Loans Are Competitively Priced</u>

The study sought to find out whether the Loans are competitively priced.

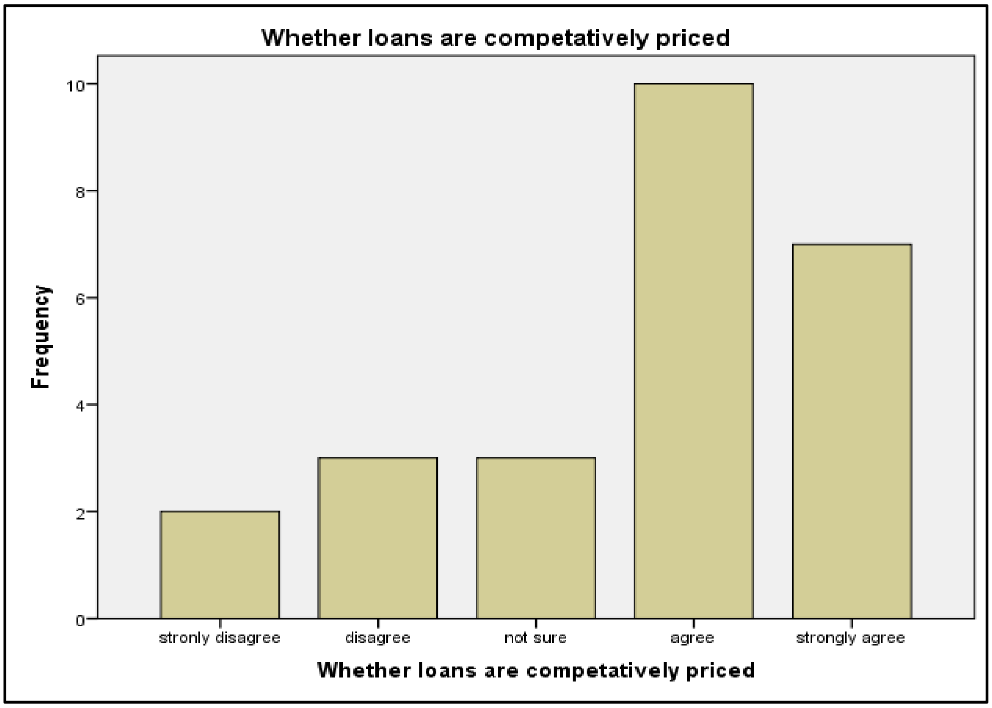

Figure 15: Whether loans are competitively priced

8% of the respondents who strongly disagreed felt that the loans were not competitively priced by the Sacco, 12% of the respondents disagreed, 40% agreed while 28% strongly agreed that the Sacco's loan products are competitively priced.

<u>4.5.5. Whether Repayment of Loans Is Affected by Interest Rate</u>

The study sought to find out whether the Sacco's loans repayments is affected by the loans interest rate being charged. Figure 16 below shows that those who strongly disagreed and disagreed with this were represented by 8%, those who were not sure were 20%, majority of the respondents agreed with the question and were represented by 44% while those who strongly agreed that loan repayment rate is affected by prevailing interest rate were 20%.

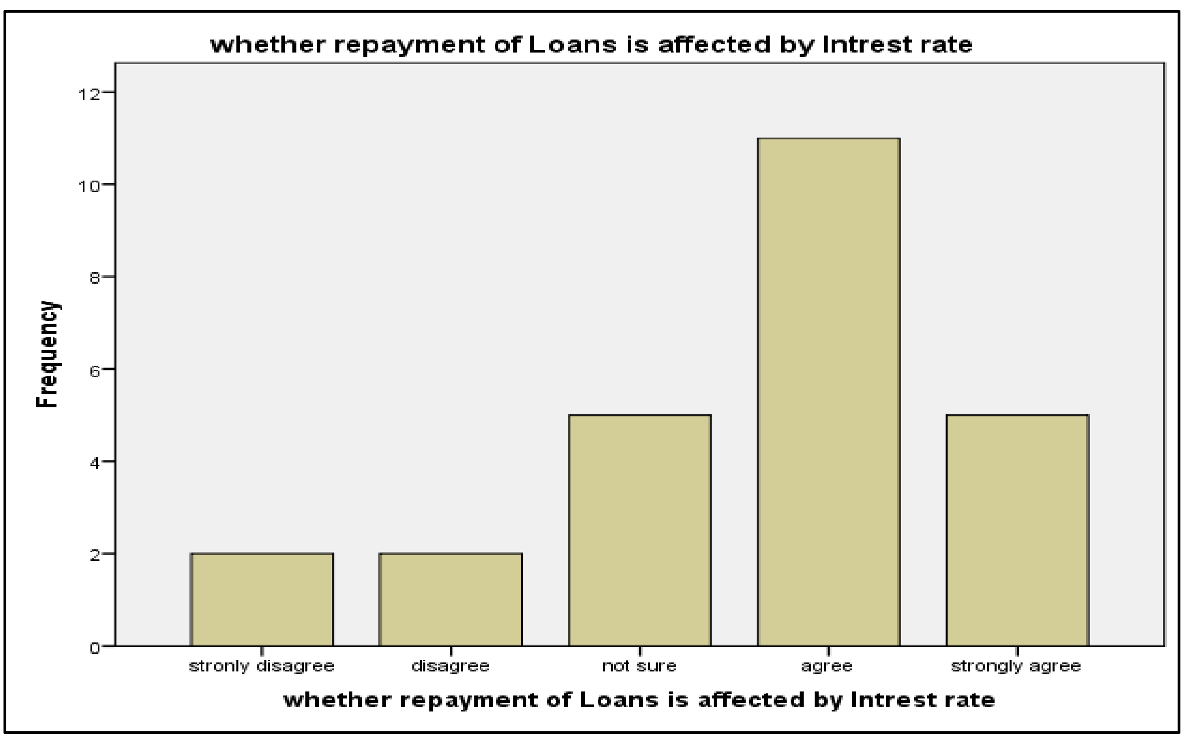

Figure 16: Whether loan repayment is affected by Interest rate.

4.6. Non-Performing Loans

4.6.1. Whether Loans Are Secured to Avoid Economic Stagnation of Organization
The researcher sought to find out whether loans are secured to avoid writing off of loans that affect the Sacco's financial stability.

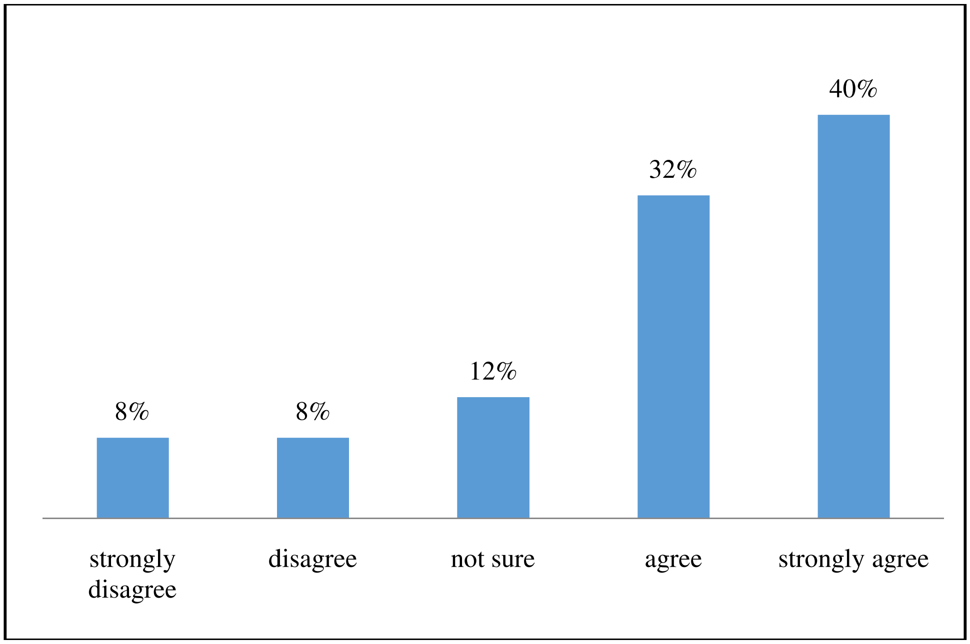

Figure 17: Whether Loans are secured.

Figure 17 above shows how respondents answered when asked if loans are secured to avoid economic stagnation. Those who strongly disagreed and those who disagreed were represented by 8%, other respondents were not sure were at 12%, those who agreed were at 32% and those who strongly agreed were at 40%.

4.6.2. Whether Weak Internal Controls Contribute to Non-Performing Loans
The study sought to know whether poor internal controls contributed to non-performing Loans in the Sacco and results are shown in the Figure 18 below;

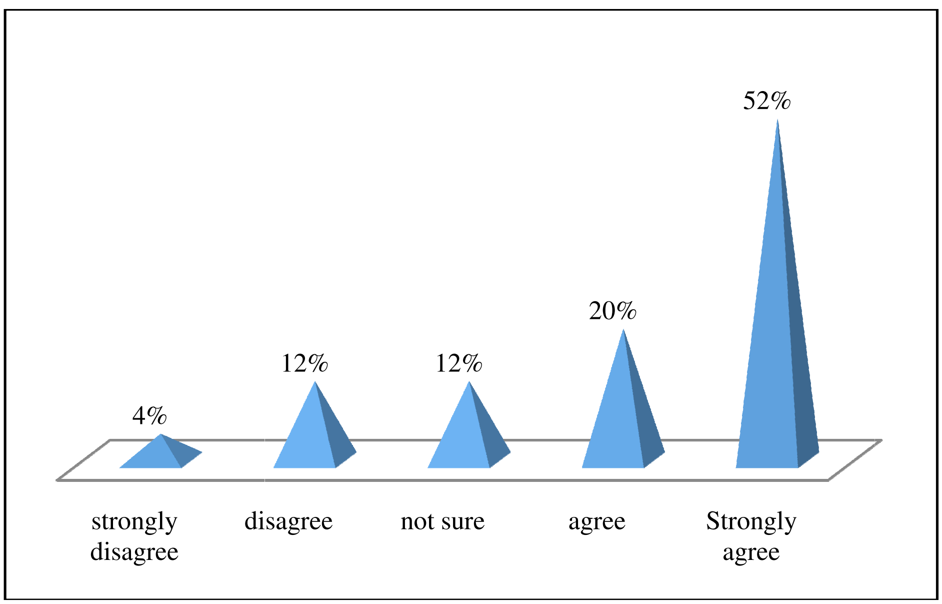

Figure 18: whether weak internal controls contribute to non-performing loans

The study found out that 4% strongly disagreed, 12% disagreed, those who were not sure were represented by 12%, those respondents who agreed were 20% while 52%, who were majority strongly agreed that weak internal controls contribute to non-performing loans.

4.6.3. Whether There Exist Control Measures to Manage Issuing of Loans
The researcher sought to know whether there existed some control measures in issuance of loans and the results were as below;

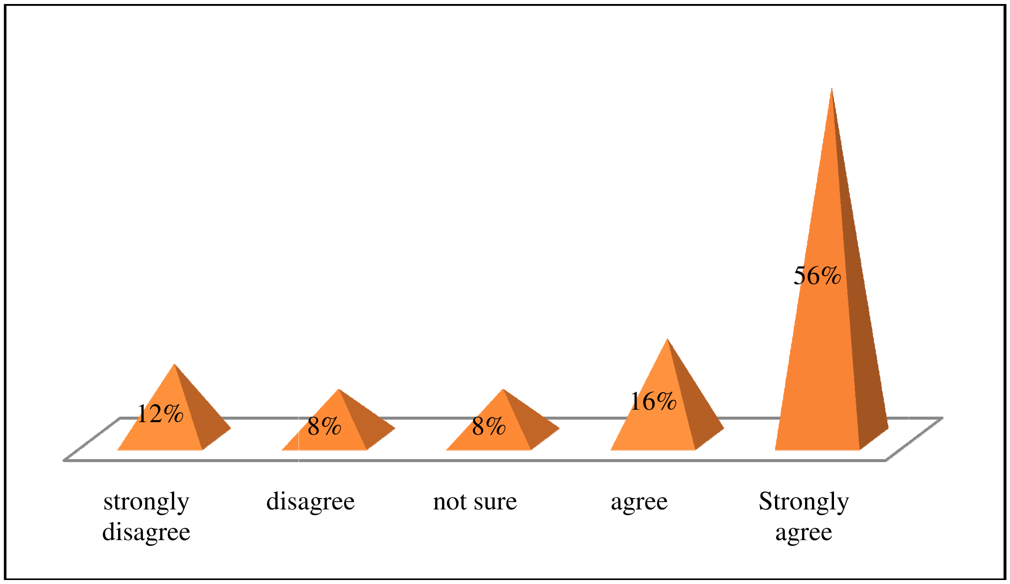

Figure 19: whether there exist measures in issuing loans

The research study discovered that 12% of the respondents strongly disagreed, 8 % of respondents disagreed which was similar to those who were not sure at 8%, those who agreed were represented by 16% while the majority of respondents at 56% strongly agreed that there are control measures in place when issuing loans.

4.6.4. Whether Loan Policies, Procedures and Guidelines in Place Are Strictly Observed When Issuing Loans
The research study sought to understand whether set measures put in place are strictly adhered to when issuing loans;

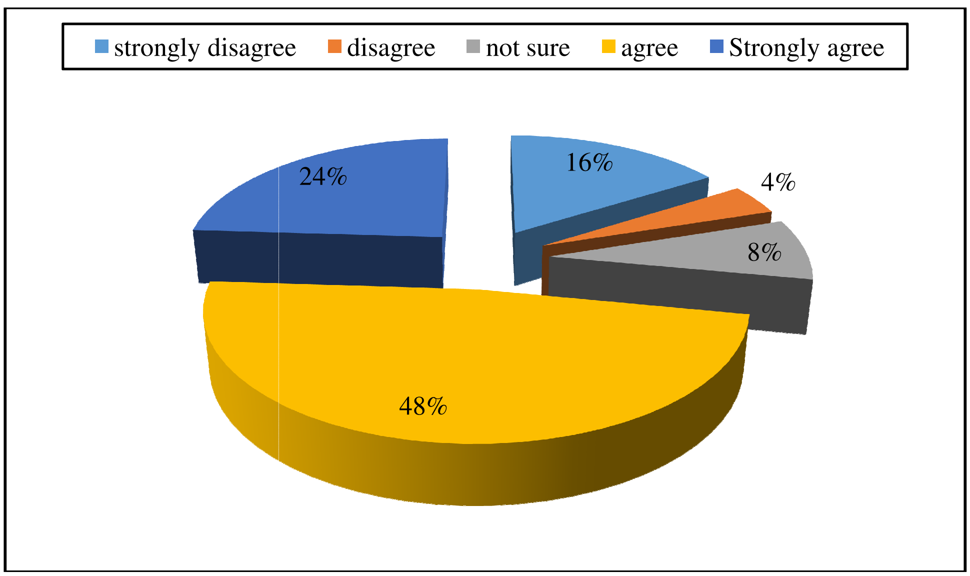

Figure 20: whether set measures are strictly observed when issuing loans.

The Figure 20 above shows that 16% strongly disagreed with the question,4 % of respondents disagreed, on the other hand 8 % of respondents were not sure, 48% of respondents agreed while those represented by 24% strongly agreed that set policies and procedures are strictly adhered to when issuing loans.

4.6.5. Whether There Exist Non-Performing Loans in Your Sacco
The study sought to know whether non-performing loans existed in the Sacco;

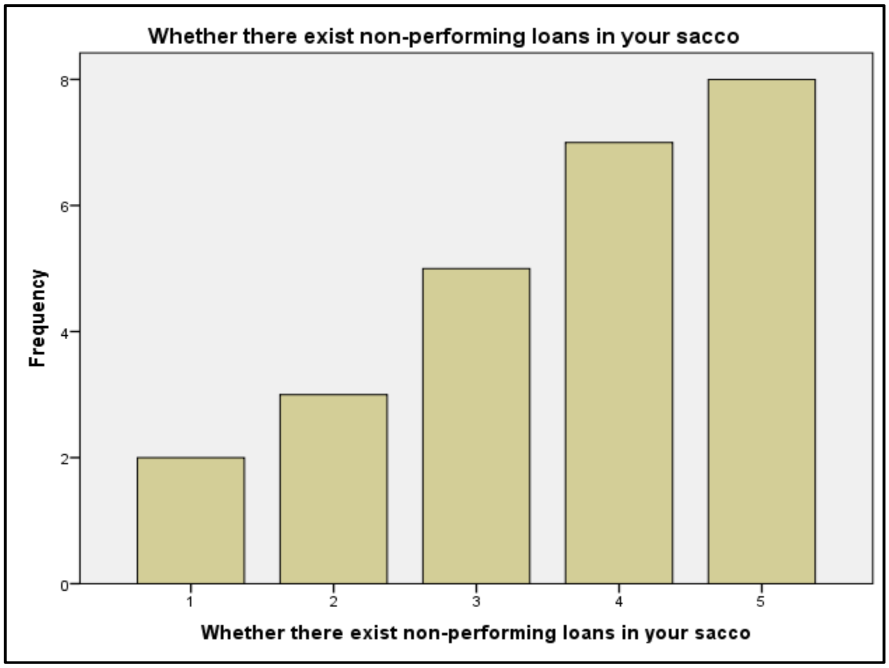

Figure 21: Existence of Non-Performing Loans

When asked if non-performing loans existed in the Sacco at the time the research was conducted, the study found out that 8% of respondents strongly disagreed, 12 % disagreed, 20% were not sure if non performing loans existed or not,28% strongly agreed, while 32 % strongly agreed that there exist non-performing loans.

4.7. Interest Rate

4.7.1. Whether Interest Rates Offered Can Achieve the Sacco's Sustainability

The researcher sought to know whether interest rates on the Sacco's products is sufficient to sustain the Sacco both in short and long term and the responses are as shown in Figure 22 below;

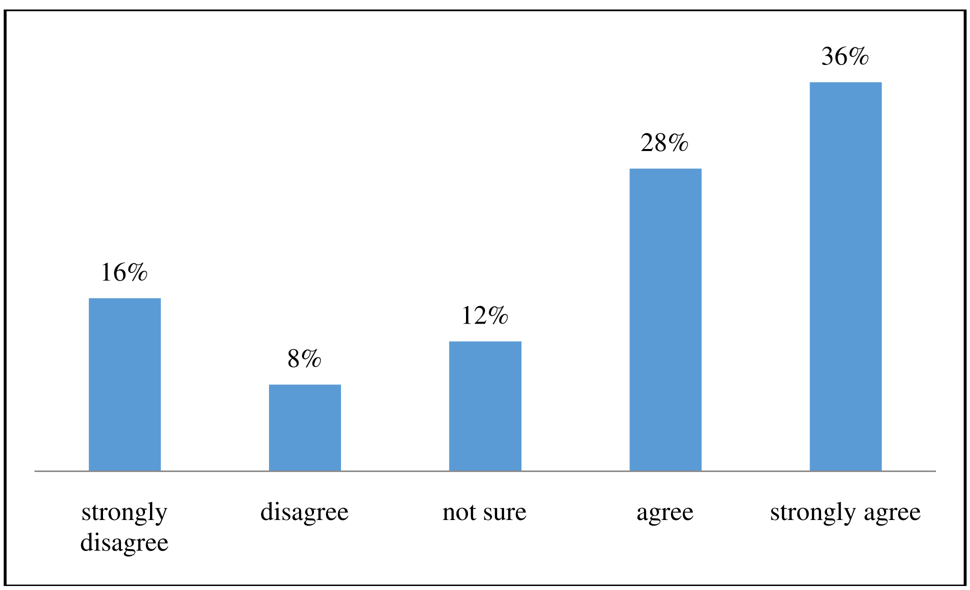

Figure 22: whether interest offered can sustain the Sacco

From the research study, 16% strongly disagreed, 8% disagreed and 12% of the respondents were not sure. On the other hand,28 % agreed while 36% strongly agreed with the question that interest on the Sacco's products is capable of sustaining the Sacco.

4.7.2. Whether Interest Offered Is Higher Than What Other Sacco's are Offering

The study once again sought to know whether interest rate offered on the Sacco's products is higher than that which is offered by other Sacco's;

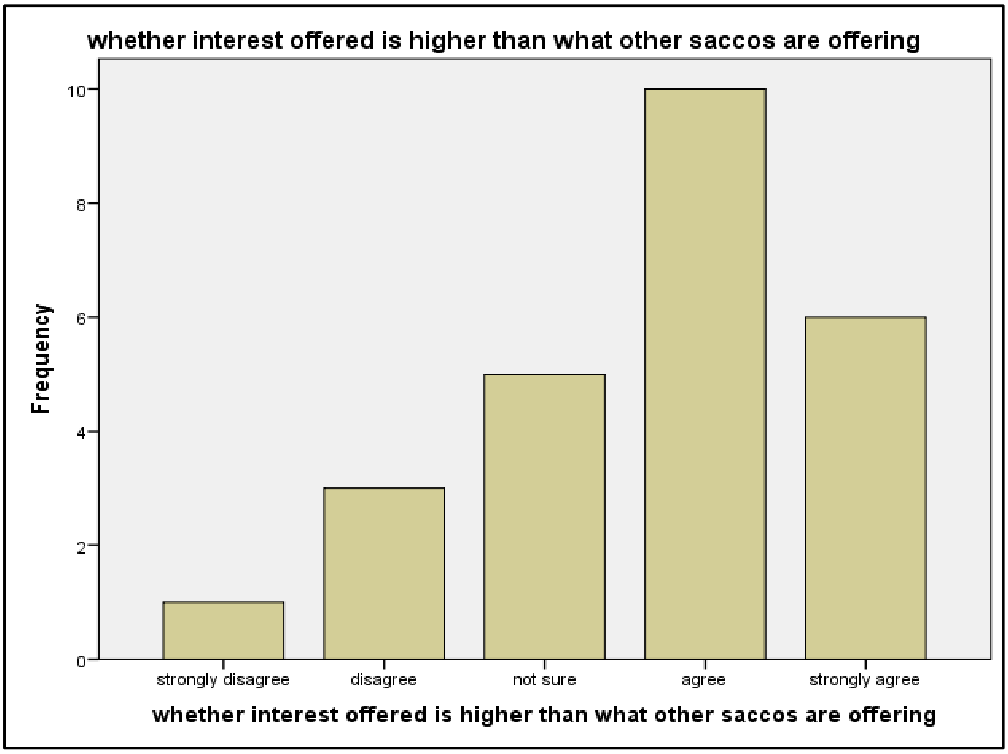

Figure 23: Interest Offered is higher than that of other Sacco's

Figure 23 above shows that 4% of respondents strongly disagreed,12% disagreed,20% were not sure if interest offered is high or not,40% agreed while 24% of the respondents strongly agreed that Interest rates offered by the Sacco is higher than that of other Sacco's.

4.7.3. Whether Interest Is Offered on Deposits to Encourage Deposits

The study once again sought to know whether interest is offered on savings as a way of encouraging savings from those who save money with the Sacco;

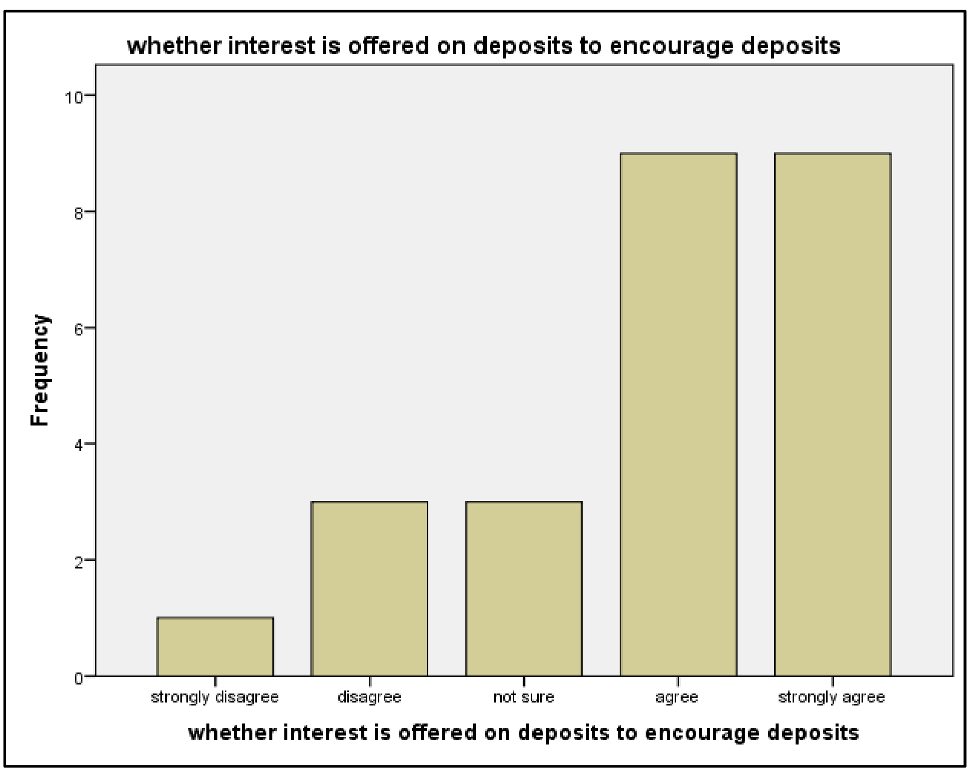

Figure 24: Interests on Deposits

The research study found out that a minimal number of 4% strongly disagreed with 12% of respondents disagreeing that interest is offered to encourage savings. Those who were not sure were 12 %, 36% was represented by both respondents who agreed and strongly agreed.

4.7.4. Whether Interest Is Periodically Structured to Improve Loan Portfolio

The study intended to know whether interest rates on the Sacco's products is periodically structured to improve portfolio and the responses were as shown by the line graph below;

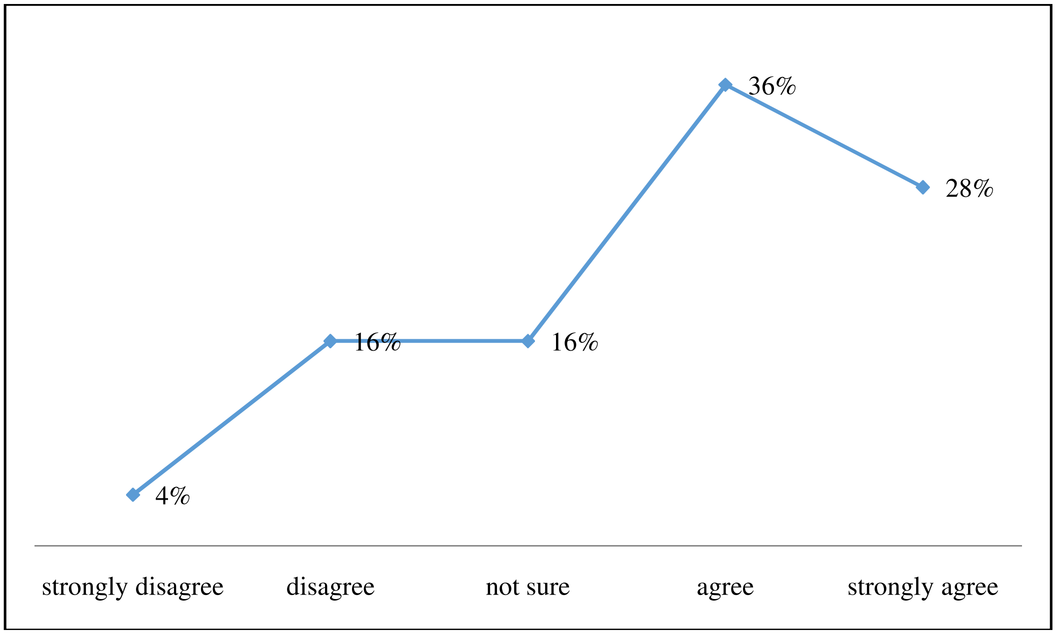

Figure 25: Whether Interests rates are periodically structured

From the research study, only 4% strongly disagreed that the Sacco's interest rate is periodically structured to improve portfolio, 16% of respondents were either disagreeing or not sure. Those respondents who agreed were 36% while those who strongly agreed were at 28%.

4.7.5. Whether Interest Offered Makes Members Seek Services from Other Financial Institutions

The researcher sought to find out whether interest rate offered by the Sacco makes members seek alternative services from competitors;

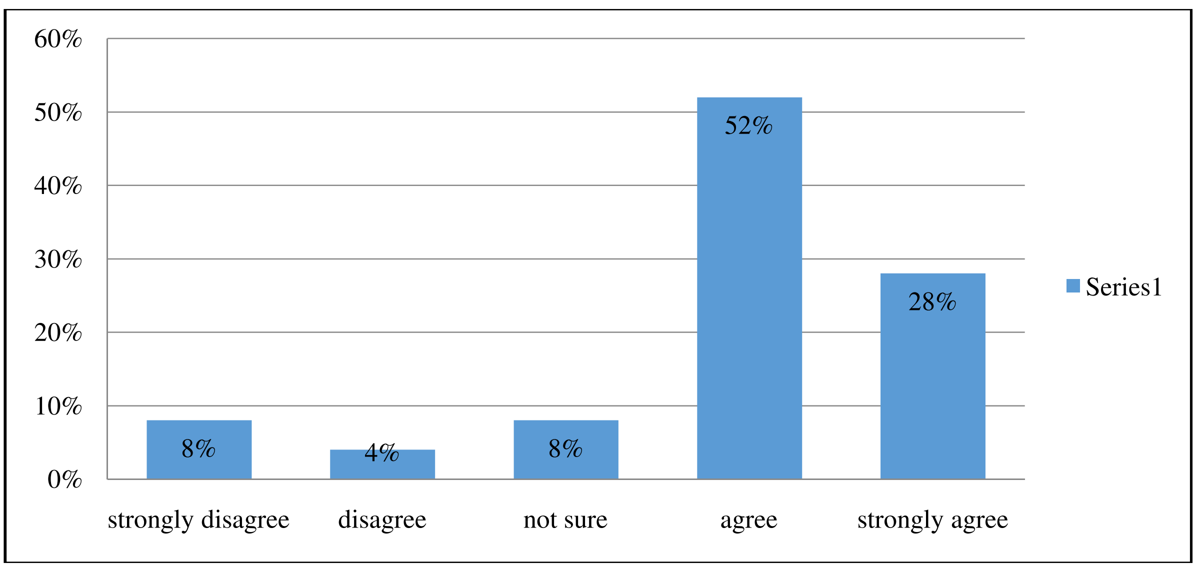

Figure 26: Interest rate effects on member's loyalty

The Figure 26 above found out that 8% strongly disagreed with the question that interest offered makes members go to alternative financial institutions, 4 % disagreed, 8% were not sure if members seek alternative lending or not, 52% agreed while 28% strongly agreed with the question.

4.8. Regression Analysis

The researcher conducted a multiple regression analysis so as to find the determinants of profit for Sacco's in Kenya, with focus on Wanandege Sacco ltd. The researcher applied the statistical package for social sciences (SPSS) to code, enter and compute the measurements of the multiple regressions for the study.

Model Summary[b]										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.884[a]	.782	.739	.48902	.782	17.957	4	20	.000	2.416
a. Predictors: (Constant), Interest rate, Non-Performing Loans, Product Pricing, Product diversity										
b. Dependent Variable: Profitability										

Table 3: Model Summary

Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Profitability) that is explained by all the four independent variables (Product diversity, Product pricing, Non-performing loans and Interest rate).

The four independent variables studied explain only 78.2% of the determinants of profit for Wanandege Sacco as represented by the R^2. This therefore means that other factors not studied in this research contribute 21.8% of the determinants of profit for the Sacco. Therefore, further research should be conducted to investigate the other factors (21.8%) that influence the Profitability Sacco's.

4.9. ANOVA

a. Predictors: (Constant), Interest rate, Non-performing loans, Product pricing and Product diversity.

b. Profitability

The significance value is .0000 which is less than 0.05 thus the model is statistically significant in predicting Interest rate, Non-performing loans, Product pricing and Product diversity. The F critical at 5% level of significance was 7.9. Since F calculated is greater than the F critical (value = 17.957), this shows that the overall model was significant.

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	17.177	4	4.294	17.957	.000[b]
	Residual	4.783	20	.239		
	Total	21.960	24			
a. Dependent Variable: Profitability						
b. Predictors: (Constant), Interest rate, Non-performing Loans, Product Pricing, Product Diversity.						

Table 4

4.10. Coefficient of Determination

a. Predictors: (Constant), Product diversity, Non-performing loans, Product pricing and Interest rate.

b. Profitability.

The researcher conducted a multiple regression analysis so as to determine the relationship between Y and the four variables. As per the SPSS generated table 3, the equation ($\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon}$) becomes:

$Y= 2.866 + 0.801X_1+ 0.566X_2+ 0.610X_3+ 0.708X_4 +\boldsymbol{\varepsilon}$

Where Y is the dependent variable Profitability), X_1 is Product diversity, X_2Non-performing loans,X_3isProduct pricing and $X_4$is Interest rate

According to the regression equation established, taking all factors into account (Product diversity, Non-performing loans, Product pricing and Interest rate) constant at zero, Profitability will be 2.866 .The data findings analyzed also show that taking all other independent variables at zero, a unit increase in Product diversity influences will lead to a 0.801 increase in Profitability; a unit increase in non-performing loans variable will lead to a 0.566 increase in Profitability,; a unit decrease in non-performing loans variable will lead to a 0.566 increase in Profitability;a unit increase in Product pricing variable will lead to a 0.615increase in Profitability anda unit increase in Interest rate variable will lead to a 0.708increase in Profitability . This concludes that Product diversity contribute more to the Sacco's profitability, followed by Interest rate.

At 5% level of significance and 95% level of confidence, Product diversity had a 0.002 level of significance; Non-performing loans showed a 0.002 level of significance, and Product pricing showed a 0.005 level of significance while Interest rate showed 0.003 level of significance; hence the most significant factor is Product Diversity.

Model		Un-standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	2.866	2.150		.938	.004
	Product Diversity	.801	.149	.825	.987	.002
	Non-Performing Loans	.566	.060	.300	.710	.004
	Product Pricing	.610	.079	.504	0.705	.003
	Interest Rate	.708	.144	.446	0.746	.003

Table 5

4.11. Correlations

There is a weak positive coefficient of correlation of 0.255 and 0.308 between profitability of Sacco's (dependent variable), Product diversity & Nonperforming loans (independent variables) respectively indicate that Product diversity & Non-performing loans have minimal effect on profitability of Sacco's in Kenya. There is a strong positive correlation of 0.702 between profitability of Sacco's (dependent variable) and Product Pricing (independent variable) indicating that Product Pricing has a strong influence on profitability of Sacco's in Kenya. There is a strong positive correlation of 0.504 between profitability of Sacco's (dependent variable) and Interest rate (independent variable) indicating that Interest rate has a strong influence on profitability of Sacco's in Kenya.

		Profitability	Product Diversity	Non-Performing Loans	Product Pricing	Interest Rate
Pearson Correlation	Profitability	1	.308	.255	.702	.504
	Product Diversity	.308	1	.392	.194	.192
	Non-Performing Loans	.255	.392	1	.110	.138
	Product Pricing	.702	.194	.110	1	.191
	Interest Rate	.504	.192	.138	.191	1

Table 6

5. Discussion, Conclusion and Recommendation

5.1. Introduction

This research study sought to find out the determinants of profit for Sacco's in Kenya with a focus on Wanandege Sacco Ltd. The findings, discussions, conclusion, recommendations and areas of further research are presented below.

5.2. Summary of Findings

The research study found out that there is a linear relationship between product diversity and profitability. Though the correlation coefficient was weak, the linearity indicates that the Sacco has diversified their products in order to maximize their profit. The correlation indicates further that Sacco held a portfolio of products that maximizes profit and minimizes risk.

The study also found out that product pricing had the highest degree of correlation in relation to Sacco's profitability. Price serves as a competitive tool in any industry and this seems to have been mastered by the Sacco. High prices discourage customer's intake of products and services while low prices encourage high intake of a Sacco's product and services. However, Sacco's need to find the appropriate pricing of their products and services in order to achieve their long term goals as well as their sustainability. The product price was therefore found to highly influence the Sacco's profitability and these findings are also supported by the demand and supply theory.

Effects of non-performing loans had the lowest correlation to the Sacco's profitability. Non-performing loans represent potential future costs in cases whereby the repayment progress collapses. The Sacco has put strong internal controls in issuance of loans thus showing that there are a few of non-performing loans in the company. Loans have to be backed by promising collateral so as to minimize the risk of loss of money in case a loanfails to honor the agreement to fully service it.Non- performing loans are bad debts to any organization and when bad debts are written off, they present a cost to the organization. The result of the study finding a correlation between profitability and non-forming loans therefore is true. The weak correlation could be resulting from a possibility that most of the respondents may not have entirely understood the question on non-performing loans.

Interest rate had the second highest correlation to the Sacco's profitability; the strong relationship is an indicator that interest plays a crucial role in the Sacco's profitability.Interest on loans is taken as the cost of the loans thus the higher the interest rate, the lower the profit and the lower the interest charged on Loans the higher the Profit.Sacco products that have lower interest rate attracts high demand, the cumulative effect of the high demand will trickle down to the Sacco's profitability inform of interest rate earned by the Sacco. Interest charged on the Sacco's products is the highest contributor for profit to any economy and this therefore calls for prudent application of interest rate that will enable the Sacco achieve its goals and objectives. Interest rate in any financial organization forms the major component of profit contributions thus the findings of the study reflects a real economic scenario.

5.3. Conclusion

From the study, there is clear relationship between product diversity and profitability of the Sacco. This could be explained by diversity of markets needs which might be brought about by different customer tastes and preferences as well as variation of income earned. Sacco's should therefore invest heavily in product diversification so that they can meet wide markets needs which will in turn improve their profitability.

The study again determined that there is a clear relationship between non-performing loans and Sacco's profitability. The management should therefore work towards having zero nonperforming loans so as improve the Sacco's profitability. Existence of non-performing loans is an indication that loans are not repaid and serviced as required. Thistherefore means that there are high chances of losing both theloan principal and interest and thus stronger internal controls that requires appropriate analysis of clients records, assessingthe client's ability to repay as and when required is very critical to minimizing the possibility of having non-performing loans. The existence of non-performing loans as the study shows impacts negatively on Sacco's profitability thus due diligence should be exercised while advancing loans to members. For further controls, loans should be secured by assets of equivalent of or higher value than the loan being advanced.

The study found a very strong relationship between Products pricing and profitability of Sacco's. The price set contains a profit margin that is very critical for the survival of a business and thereforeproduct pricing in Sacco's should be market oriented so as to increase their competitiveness and at the same time allow for expansion despite stiff competition in the industry. The study concludes that Pricing of products is not only a major issue in many industries but also a surviving issue in which Sacco's have to keep on watch not to lose its members, which means losing the Sacco's deposit contributions.

Interest rate offered by the Sacco's was also found to have a strong relationship to the Sacco's profitability. Interest on loans is taken as the cost of the loans thus the higher the interest, the lower the profit and the lower the interest charged on Loans the higher the Profit the Sacco's makes. It therefore calls for management to set interest rates that will enable it achieve its objective by retaining its existing customers as well as expanding into new markets thus increasing its profitability. Interest rate is a driving factor in Commercial Banks, Micro finances and Sacco's. The rates should be lower than the other financial institutions like banks so as to keep members who will in turn pay interest on loan facilities thus facilitating growth. High interest rates will make members take loans from other financial institution thus making the Sacco lose income, saving and membership.

5.4. Recommendations

The study recommends that Sacco's should expand their products to other areas of the economy where not much has been invested into due to security issues. This is because Sacco's loans are secured by members, thus a risk taking Sacco will grow faster as compared to a risk averse Sacco.

Moreover, Sacco pricing of the products should be lower than other financial institutions because they are less restricted in terms of raising money and government regulations. This will make them more attractive not only to the members but also to potential members and the general public. The study further recommends that Interest rates charged by Sacco's should be significantly lower since their lending rates are not dictated by Central Bank of Kenya and thus can use that opportunity to easily penetrate into new markets and increase its market share thus boosting their earnings.

5.5. Areas for Further Research

The current study was based on a limited sample taken from Wanandege Sacco Ltd. Therefore, the results could not be generalized to other parts of Kenya especially in the analytical terms. Further research should be done on a larger scale with a large sample size hence shed more light on what determines profit for Sacco's in Kenya. Further research studies can also consider the reasons for rapid mushrooming of Sacco's in Kenya.

6. Acknowledgement

I thank God for giving me the strength, wisdom and the ability I needed during this entire period of studying. I also acknowledge my research supervisor Dr. Joseph Obwogi who has guided me and given me insights to succeed in doing my research study. Also not forgetting to thank JKUAT for ensuring that we got quality education by hiring professional lecturers who equipped us with relevant and timely information who helped in the completion of my course work.

7. Acronyms

- SACCOs Savings and Credit Cooperatives.
- MFI Micro Finance Institutions
- NPLs Non Performing Loans
- FOSA Front Office Services Activity
- BOSA Back Office Services Activity
- ATM Automated Teller Machines
- POS Point of Sale
- SCP Structure-Conduct Performance

8. Definition of Terms

8.1. Savings and Credit Cooperatives
A Savings and Credit Cooperative Organization is owned, governed and managed by its members who have the same common bond: they may be working for the same employer, belonging to the same church, labor union, social fraternity or living/working in the same community (Mwenda, 2012).

8.2. Common Bond
The bond of association or common bond is the social connection among the members of Credit Co-operatives. Common bonds substitute for collateral in the early stages of financial system development and it is also sometimes referred to as the chain of trust amongst members (Emmons et al, 1999).

8.3. Point of Sale
Electronic funds transfer at point of sale — is an electronic payment system involving electronic funds transfers based on the use of payment cards, such as debit or credit cards, at payment terminals located at points of sale(Kaggwa,2013).

8.4. Marketing Mix
The marketing mix refers to the set of actions, or tactics, that a company uses to promote its brand or product in the market (Kotler et al, 2004).

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APPENDICES

Appendix I: Letter of Introduction

Dear Respondent,
I am currently pursuing my Masters degree in Business Administration at Jomo Kenyatta University of Agriculture and Technology. In partial fulfillment of the degree, I am carrying out a research study about the 'Determinants of profit for SACCO's in Kenya' focusing on Wanandege Sacco. This choice is based on your strategic importance in the achievement of the study objectives and your opinions will be of high importance to this study. This is an academic research and the information provided is purely for academic purposes and will be treated with utmost confidentiality.
Your co-operation will be highly appreciated.

Yours faithfully,
Rose Atieno Okoth - HD333-C005-2693/2012.

Appendix II: Questionnaire

PART I: General Information

i. Gender
Male [ ] Female [ ]
ii. Age
Below 18 Years [ ] 19-35Years [ ] 36-55Years [ ] Above 55Years [ ]
iii. Level of education
Secondary [ ] College [ ] University [ ]
Others please specify……………………………………………………
iv. How long have you worked for Wanandege Sacco?
1-3 Years [ ]4 - 6 Years [ ]7 - 9 years [ ]Above 10 years [ ]

- For the Following Sections, Tick Your Level of Agreement or Disagreement as Most Appropriate to Your View.
- → SA Strongly Agree
- → A Agree
- → NS Not Sure
- → D Disagree
- → SD Strongly Disagree

PART II

2.1. Product Diversity Questions

NO	QUESTION	SA	A	NS	D	SD
I	Your Sacco products are fairly diverse.					
II	As a means of gaining competitive edge, your Sacco carries out research to uncover other products to carter for customers' unmet needs.					
III	Members are satisfied with the channels provided to access the products and services offered by the Sacco					
IV	Product elements associated to the Sacco make customers attracted to you as compared to competitors					
V	The range of products offered are fully being utilized by the Sacco members					

PART III

2.2. Product Pricing Questions

NO	QUESTION	SA	A	NS	D	SD
i	Key factors like market trends, are considered when fixing product prices by the Sacco					
ii	Your price reflects your true position in the market					
iii	Your prices are set frequently as a means of countering competition					
iv	Your loans and savings products are adequately priced in regard to gaining competitive advantage					
v	Willingness of clients to repay loans is affected by the high interest rates					

PART IV

2.3. Non Performing Loans Questions

NO	QUESTION	SA	A	NS	D	SD
i	To prevent economic stagnation for your organization through problem loans, all loans are secured					
ii	Internal controls are a major contributor to non-performing loans for your organization					
iii	Due to the risk factor when issuing credit, there are measures in place to manage non-performing loans					
iv	Loan policies, procedures and guidelines in place are strictly observed when issuing loans by loan officers					
v	There are non-performing loans existing in your Sacco currently					

PART V

2.4. Interest Rate Questions

NO	QUESTION	SA	A	NS	D	SD
i	Interest rate charged on products and services offered is adequate for the organization to achieve sustainability					
ii	Lending rates are higher than those set by other Sacco's					
iii	Your company issues interest on deposits received as a means of encouraging member deposits					
iv	Interest rates are periodically structured to improve on the loan portfolio performance					
v	Interest rate is a factor that influences Sacco members to seek services of other financial providers.					

Thank You Very Much for Your Co-Operation.

Appendix III: Work Plan

Activities	**June 2014**	**Aug-Oct 2014**	**Nov 14 Mar 2015**	**May 2015**	**June 2015**	**July 2015**	**Aug 2015**	**Sept 2015**	**Oct 2015**	**Nov 2015-Feb 2016**
Research/project Identification										
Proposal writing										
C Correction/Amendment/Signing of Proposal										
Proposal presentation										
Sampling										
Data Collection & Pilot Study										
Data analysis										
Documentation/project defense / project signing										

Appendix IV: Budget

COST ITEM	COST (KSH)
Stationery	8350
Travelling	4800
Typing	6090
Printing	6500
Internet	4800
Data collection	8800
Binding	2000
Photocopy	2300
Miscellaneous	6500
TOTAL	**KSH. 50,140**