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EFFECTS OF LOAN AND PROCUREMENT MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF SACCOS IN NAKURU MUNICIPALITY, KENYA

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Abstract

Kenya's cooperative sector has effectively mobilised private resources, predominantly through Savings and Credit Cooperatives (SACCOS). Reports of financial mismanagement cases are frequent in the print and electronic media involving loss of millions of shillings leading to collapse of SACCOS. Therefore, it was necessary to assess effects of loaning management practices and procurement management practices on financial performance of SACCOs. Relevant data was obtained from 32 SACCOS out of 77 registered within the Nakuru Municipality during 2006 using a systematic random sampling technique. Frequency and ranking, bivariate correlation estimates and OLS regression were employed to analyse data. The average dividend paid was 3.7%, indicating poor reward to members, being below a favoured minimum of 5%. The loan variance was 23.3%, indicating that on average SACCOS were unable to service about 23% of the loan requests from the members. The expenditure variance was 13.7%, indicating that SACCOS were on average spending within their budgetary estimates. These results reflect poor financial performance and the management practices identified to impact negatively were serialising of loan forms and purchasing from particular suppliers. The study recommends that SACCOS review their procurement and loaning procedures. They need educate members and avail loan forms freely to them for these were practices that realised better financial performance outcomes.

Keywords: Loaning Management Practices, Procurement Management Practices, Financial Performance, Savings and Credit Cooperative Societies

INTRODUCTION

A co-operative is an autonomous association of persons, united voluntarily to meet their common economic, social, cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise (Alila& Obado,1990). Co-operatives operate on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Members of co-operatives believe in the ethical values of honesty, openness, social responsibility and caring for others (Andreou, 1997). Like companies, cooperatives are economic organizations whose income generating activities are devoted to the economic and social welfare of their members by providing services which enable individuals to improve their economic means for self-advancement (Ouma, 1990).

Wanyama, (2009) noted that Cooperative societies in Kenya plays a key role in economic growth and development. They help members to make savings and acquire loans that enable them undertake various activities effectively for their economic and social benefits. They are of many types that comprises; Agricultural Marketing co-operatives, Consumer co-operatives, Housing co-operatives, Savings and Credit co-operatives, Artisans and Handicrafts co-operatives, Service co-operatives and Multi-purpose cooperatives. Most SACCOS are based in the urban areas because membership is mostly derived from salaried employees in organizations which often are urban based. The SACCOS are popular with salaried employees who get their contributions deducted directly from their salaries then forwarded to the organizations (Ouma, 1990).

The SACCOS enable members to have facilities through which they are able to make regular savings from their salaries or some other sources of income (Stalebrink, 2007). Using a check-off system, members' savings or loans repayments are deducted by the employer at source. This is more or less a 'forced' saving, that enables members to develop the habit of saving through which a loan could be obtained. The SACCOS have made great success in mobilizing large sums of savings and loaning out to members for various financial needs and self-advancement (Owen, 2007).

Management of co-operatives is a democratic process. At an Annual General Meeting (AGM), members elect a committee or board to run the affairs of the co-operative. The Board employs staff including a general manager who is answerable to them. The members' voice is limited to AGM forum. All the operations and decisions during the year are fully left in the hands of the committee and staff. The basic management tasks involved in the work of SACCOS include; collecting contributions from members, keeping custody of the collected funds, disbursing loans to members and investing the funds for benefit of the membership. The management has to build structures to ensure that the management tasks are performed effectively and efficiently (Co-operative Act, 1997).

SACCOs encounter major obstacles in their bid to perform well financially. These hindrances lead to loss of confidence by members in these institutions and when they withdraw their membership, the financial base is weakened (Musafiri & Ganesan, 2009). The existing cooperative policies and regulations in the country have not effectively prevented them from mismanagement of the members' funds. Furthermore, apart from financial mismanagement, SACCOs have ineffective risk control measures to cope with financial uncertainties (Pandey, 2010). Lack of clear understanding of the procurement practices means that SACCOs have incurred high and unreasonable costs in purchasing of products and materials. This implies that costs are mainly on higher side compared to revenue which is an indicator of poor financial performance. Giving loans to the members is one of the main roles of SACCOs. This requires management competence due to credit risks involved. These institutions have suffered the problem of non-performing loans and default cases. Sometimes, loans are given out without due process for selfish gains of the managers and at the expense of members. All these can be contributed by lack of proper loan management practices among SACCOs. For instance, flawed loan appraisal and approval process is suicidal as far as financial health of a SACCO is concerned. These organizations also ought to provide adequate education and advisory services to members concerning the utilization and repayment of loans (Mutuku, 2008).

There are an estimated 2,600 active SACCO Societies in Kenya which together have been able to mobilize Kshs. 110 billion (US $1.5 b) in savings or 35% of the National Savings. There are 2.2 million Kenyans who are members of one SACCO Society or another. The SACCO members support 9 million people directly through credit facilities offered by the SACCO Movement. SACCOs in Kenya provide opportunities to more and more people to access savings, cheap affordable credit, and a chance for a secure tomorrow. The impact of these SACCO Societies on the poor rural and urban populations, particularly the un-banked segment, has been felt and is evident. Opportunities for accessing credit through mainstream financial institutions are out of reach for most people. This has posed a great challenge to the SACCO Movement to provide high quality and diversified financial services, which members can easily access. The introduction of Front Office Savings Accounts (FOSA's) and other SACCO products have gone a long way in meeting this challenge. Currently, there are 122 SACCOs offering these quasi-banking services. These FOSA have filled the void left by banks during the restructuring process.

FOSA sections in our SACCOs therefore provide a majority of the rural and urban poor access to financial and quasi-banking services usually obtained only in formal financial institutions. KUSCCO as the umbrella organization for SACCOs in Kenya has been mandated by its own constitution to provide specialized services to SACCOs in Kenya (Gok, 2003). As a member-owned and member-managed financial institution, KUSCCO plays the role of a mouth-piece, advocate, spokesman and representative of all SACCOs in Kenya.

Statement of the Problem

Savings and Credit Cooperative Societies are always expected to contribute significantly to the economy wellness. These are institutions that target middle and low income earners who are take huge part of the nation's population. Despite these expectations, SACCOs are performing poorly due to mismanagement of funds and lack of appropriate members' empowerment initiatives such as education on utilization of funds. Major roles like procurement practices are not undertaken in an accountable manner thus exposing them to huge losses. The government has put in place several ACTS, Rules and By-laws to strengthen financial performance of the SACCOS in the country. However, this has not prevented frequent cases of financial mismanagement reported in the print and electronic media. The reported cases involve loss of millions of shillings with the subsequent decline in profits and dividends, delayed disbursement of loans to members, and non-compliance with budgets in expenditures and revenue projections. The outcome is poor financial performance of the SACCOS, in some cases leading to total collapse, which could be linked to managerial practices put in place. However, empirical evidence is lacking on the extent to which the managerial practices including procurement management practices and loan management practices. It is against this gap that the researcher undertook a study on effects of management practices on financial performance of the SACCOS.

Objectives of the Study

i. To assess the effects of Loaning management practices on financial performance of SACCOs in Nakuru Municipality.
ii. To find out the influence of procurement management practices on financial performance of SACCOs in Nakuru Municipality.
iii. To determine the relationships that procurement management and loaning management practices have on financial performance of SACCOs in Nakuru Municipality.

Research Questions

i. Do loaning management practices affect financial performance of SACCOs in Nakuru Municipality?
ii. What are the implications of Procurement management practices influence on financial performance of SACCOS in Nakuru Municipality?
iii. What are the effects of Loaning management practices and Procurement management on financial performance of SACCOs in Nakuru Municipality?

LITERATURE REVIEW

Co-operative Movement in Kenya

The Kenya co-operative movement has generally earned praise as being one of the most successful co-operative movements in the African continent (Ouma, 1988). The growth and development of co-operative movement in this country has been very rapid, especially in the last twenty years. There is no doubt whatsoever that these achievements and the high rate of Kenyan development, is due to political stability and peace that has continued to prevail in the country since independence. Kenya has been fortunate to have pragmatic leaders such as Mzee Jomo Kenyatta, President Daniel Moi and President MwaiKibaki. It is in light and the background of such environment of peace and tranquillity that rapid co-operative growth can be explained (Ouma, 1989).

The co-operative movement has made remarkable impact in socio-economic development of this nation. Co-operative societies have diversified and ventured into every sector of economy including agricultural sector, industrial sector, manufacturing, tourists and import and export industries as well as in the informal sector of our economy (Maina, 1972). More specifically, cooperative members were able at the independence to mobilize sufficient funds to:- Acquire farms which were left by European settlers at independence, Purchased coffee, pyrethrum, tea and other cash crops farms, thus, they got involved in marketing of these crops which were hitherto the preserved of non-Africans, Acquisition of cotton ginneries and plants. Acquisition of building both for commercial and house accommodation as well as other movable assets like vehicles, tractors, investments as purchase of government stocks and shares in a number of established companies for instance in breweries and in other financial institutions, Enormous contribution in Harambee projects either as cooperative institutions or as individual members of cooperatives, manufacturing of animal/chicken feeds and agricultural inputs (Owen, 2007). These achievements are practical reflections of prosperity of this nation through cooperative effort. However, the great successes have not been made smoothly and without constraints. As with all dynamic organizations, changes occur and situations vary from time to time. These inevitability carry with them varied nature of problems, not unique only to cooperative business.

Deepening Access to Financial Services through SACCOs

Gok, (2003) noted that fewer than one in five of the Kenyan adult population had been formally banked. Alternative financial institutions such as SACCOs (credit unions) and micro-finance institutions (MFIs) reach one in seven. During 1990-2003, the credit to private sector as a proportion of GDP actually fell from 33% to 24%. Closely linked to the perceived abandonment of lower income markets by commercial banks, this period saw the emergence of Savings and Credit Co-operatives (SACCOs - Kenya's credit union movement) and microfinance institutions, seeking to fill the gap.

The Savings and Credit Co-operatives (SACCOs) provide services to 13.1%, while the currently unregulated micro-finance institutions (MFIs) reach 1.7%. Based on either large scale formal employment or smallholder commercial agricultural commodity production, the SACCOs are able to offer both basic credit and savings services to their members. A large number (42.9%) of those using SACCOs also maintained accounts with a bank. Many people borrow from SACCOs perceiving them as offering a cheaper or more accessible source of credit. Collectively the formal institutions, banks, SACCOs and MFIs, provide services to just over a quarter (26.6%) of the population. The aggregate figures conceal considerable variations in access according to gender, age and geographical location. Only 14.0% of adult women in Kenya do bank and 20.6% are formally financially included. Banks and SACCOs have notable gender imbalances in usage and equal usage is seen only among micro-finance institutions which have tended to explicitly target women to address concerns over exclusion. SACCOs are the most commonly used formal source of credit, but still only account for 13.4% of those accessing credit or 4.1% of usage by the total population. Bank provided credit accounts for 10.4% of current credit access or 3.2% of the total population.

The Government is also moving to put in place an appropriate regulatory framework for SACCOs. This will recognise the heterogeneity of this sub sector and the need for a pragmatic and risk-based approach. Very small community based SACCOs present no systemic threat, cannot be prudentially supervised cost-effectively and members usually take an active role in management and can more directly look after their interests. By contrast the largest SACCOs in Kenya are the size of mid-sized commercial banks in terms of assets and have a membership which would put them in the top ten financial institutions by market share. Prudential supervision of these institutions is essential to protect members and the wider financial system.

Procurement Management Practices

Financial performance of cooperative societies is influenced by the nature of the procurement practices (Adeyemo&Bamire, 2005). Ordinary procurement through which the prices of stores or any equipment required by the cooperative society are grossly inflated and the premium shared between the requisitioning officials (s) and the vendors. Second is a property development project, especially housing which corrupt officials of the SACCOS use as cash cows (Clarion, 2004). Through specially selected contractors and land agents, projects prices can be doubled or even tripled and the premium shared among the conspirators. Most officials of the larger cooperative do not consider their terms complete until they preside over the development of a new office complex or residential estate (Lucy, 1992).

Procurement committees ought to offer efficient and effective management of organizational resources (Cole 1998). They are required to formulate and implement organization's procurement policies and practices and to ensure that these are in line with organization vision and mission. Through reducing the risk of illicit practices, performance is enhanced through effective tendering and purchasing of goods and services of the organization (Kattambo, 1992). Appropriate procurement Practices identify the products that need and the best ways in which they can be purchased. Cooperative societies perform poorly due to lack of accountability in the procurement processes (Mathur&Ambani, 2005). For instance, when an organization procures goods and services at exaggerated prices, financial will be affected negatively at the end. There is need for proper assessment to determine the needs and gaps to be fulfilled as part of procurement practice. Resources of the cooperative societies needs to be safeguarded thus it is necessary to identify issues and problems in the purchasing procedures to avoid losses. Establishment of the procurement requirements involves surveying the market to ascertain nature and prices of goods (Montgomery, 1996).

Cooperative societies need to be economical and efficient in their purchases which can only be achieved through good procurement practices. Without suitable practices, cooperative societies end up to irresponsible procurement leading to wastage, low quality and unplanned expenditure that deters financial performance (Horngren& foster, 1987). Cooperative society's procurement plans should be aligned with budget and the procurement section has to adhere to the same. Cooperative society's financial performance has been hindered by lack of emphasis on procurement practices thus managers make poor decisions with costly consequences. The need to have coherent methods of undertaking procurement activities in cooperative societies has never been addressed particularly in Kenya. This is the reason for inadequate financial performance in those organizations. Most cooperative societies ignore procurement practices since they are unable to establish their contribution to the overall financial performance.

Cooperative societies are furthermore facing a problem of rapid changes in public procurement requirements in the whole economies at public and private sectors. These adjustments are exerting pressure on how the procurement practices influence financial performance in cooperative societies. The ability to realize financial performance goals is heighted on the competence of the procurement officers. Procurement departments of cooperative societies in Kenya also have a challenge of little information about procurement procedure, resource consumption and outputs thus inefficiency and ineffectiveness. There is lack of This problem clear procurement procedures and performance standards leading to biased and information devoid of performance objectives.

Loan Management Practices

SACCOs mobilize savings from members and give them loans that are expected to be paid with interest. The interest enables SACCOs to growth and increase the value of the organization for the betterment of the members (Fiorillo, 2006). They use these funds to engage in other economic activities that give returns to the SACCO. As such, loans are very crucial in growth and financial performance of SACCOs. However, they need to be managed well. If loans are not repaid in time or members default, SACCOs incur losses hence inadequate financial performance (Cole, 1998). Therefore, appropriate loan management practices have to be in place for the SACCOs. These can ensure effective loan management for better financial performance.

Loans are given to all bona-fide active members. Members who are in arrears in a loan repayment and/or shares/deposit contribution do not qualify for a loan. A member can only qualify for a loan after a minimum membership period of not less than six (6) months and having saved not less than Kshs 3,000 in shares deposits. The maximum loan entitlement to any members at any time shall not exceed three (3) times the members' share/deposits, taking into account shares boosting. However, the loan repayment is subject to repayment clause, that total remittance to the SACCO (loans repayment, principal and interest, share/deposits contribution, borrowed fund etc) must not exceed two-thirds of the Member's basic salary. Loan repayment should be within the stipulated period.

Desrochers & Fisher, (2005) asserted that loan management problems starts from the point of application. When due process is not followed, application may go wrong and have problems at the end of the process. All loan applications are supposed to be on the prescribed original forms duly completed and sufficiently guaranteed and witnessed. Therefore, if members use photocopies, reliability of that process is jeopardized. Loan repayment should be within the stipulated period as approved by the Annual Delegates Meeting (ADM). Once loans are disbursed, the SACCO through a loan repayment schedule should immediately advise the employer to effect loan recovery.

Loan management practices are also affected by liquidity problems due to lack of planning, non- over loaning, poor debt collections and poor internal controls (Fiorillo, 2006). Liquidity problems cause delay in loans disbursements, payments of expenses and even dividends when declared. Many SACCOs fail to follow the laid down policies on financial management thus suffer liquidity as a result of delays in the remittance of checks offs. Loan management practices require setting up of legal and formal systems and policies that will guarantee that the appropriately designated staffs are well positioned to give loan to people with good credit records. Loan should be given out for viable business activities (Andreou, 1977).

SACCOs ought to have effective organizational loan culture to provide approach to all risks associated with loans to members. It should have capacity to deliver the service required by the SACCO to meet the needs of members borrowing loans from the institution. Most of the loan defaults are caused by the nature of the business a member engages in. The profitability and loss of the business influence loan repayment (Adeyemo&Bamire, 2005).

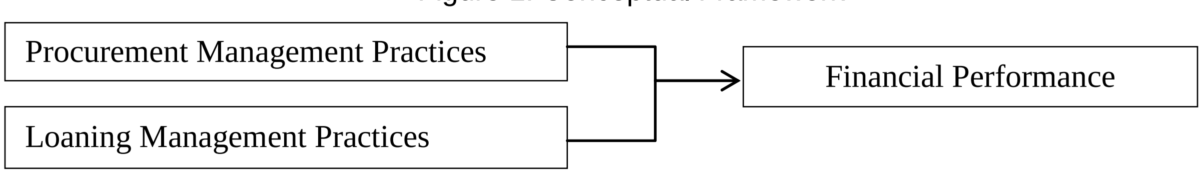
Financial performance

A subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Cole, 1998). This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

Conceptual frame work

Conceptual framework illustrates the relationship between independent variables (loan management practices and procurement management practices) and dependent variable (Financial Performance).

Figure 1: Conceptual Framework



METHODOLOGY

Research design

Research design is the blueprint under which the research is undertaken (Mugenda, 2003).The study employed a retrospective sample data collection to obtain records of financial performance and management factors from a randomly selected sample of SACCOS based on a sampling frame. The sampling frame was the list of registered SACCOS within Nakuru Municipality for the period 2006 at the District Co-operative Office (DCO).

Study area

The study area for the management factors impacting on financial performance of SACCOS was Nakuru Municipality in Nakuru district. Nakuru Municipality is the provincial headquarters of the Rift Valley province of Kenya and is a major commercial town with agricultural, industrial, tourism and educational and public service being the main employing sectors. Nakuru District has 625 registered co-operatives of which 312 are SACCOS. Within the Nakuru municipality, there are 204 co-operative societies of which 77 are registered SACCOS with the District Co-operative Office (DCO).

Target population

Target population is the total number of individuals or items from which the research is carried out (Cohen &Manion, 1980).The target population was 77 registered SACCOS with the District Co-operative Office (DCO) of Nakuru district operating within Nakuru municipality between 2004 and 2006. The DCO's office provided to the researcher on request the list of 77 registered SACCOS and their physical addresses for locating the premises within the town.

Sampling design

According to Calinski, (2000), Sampling is the process of selecting a sample of the respondents for the study in such a way that the individuals selected represent the population. Sampling aimed at obtaining half of the 77registered SACCOS. This sample of 39 was a fair representation of the target population. The study applied a systematic random sampling technique to obtain the 39 SACCOS by dividing 77 by 39 to obtain the starting point with the sampling frame. From this calculation (77/39 =1.97), the starting point could be either 1 or 2, which was determined through simple technique. The simple random technique resulted in number 1 from which sampling started at an equal interval from 1, 3 and 5 up to 77.

Data collection

The researcher administered structured questionnaire to managers of SACCOS for collecting both primary and secondary data. At implementation, 7 (seven) of the 39 SACCOS declined a request for an interview while 32 (thirty two) provided the information requested for the study. The information collected included financial performance of the SACCOS, windows of Finance practices, qualifications and numeration of the board and management, supervision levels and service products. Windows of practices included procurement practices, meeting arrangements, loaning procedures and employment of staff. Qualifications of the board of management were on chairman, treasurer, manager, and salary of managers. Supervision levels were the frequency of visits by the DCO and the quarterly of reporting by the supervisory committee.

The SACCO managers provided information for the period 2006 on the dividends paid to members, the sum of applied and serviced loans, the budgeted estimates approved by members at the AGM for expenditure and revenues and the actual expenditures and revenues collected.

Data Analysis Approach

Computation of indicators of financial performance outcome

The indicators of financial performance in SACCOS measured in this study were the percent dividends paid, loan variance and expenditure variance. Dividend paid was the figure in percent given by the SACCOS as was paid to the members. Loan variance (L_v) was computed as the amount members applied for (C_L) less the actual amount SACCOS disbursed (D_L) in percent as:

$$\mathbf{L_V} = \left(\frac{\mathbf{C_L - D_L}}{\mathbf{C_L}}\right)\mathbf{X}100 \;.$$

From this computation a positive value represent the proportion (%) of the amount of loan requests the SACCO was unable to disburse. Large positive value indicates unfavourable financial outcome.

Expenditure variance (E_v) was computed as the budgeted expenditure amount (B_E) less the actual amount spent (S_E) in percent as:

$$\mathbf{E_V} = \left(\frac{\mathbf{B_E - S_E}}{\mathbf{B_E}}\right)\mathbf{X}100 \;.$$

Therefore, a positive value means that the SACCO spent within the budgetary estimates while a negative value means that the society spent above their budgetary estimates.

Determining management practices impacting on financial performance of SACCOS

The management practices impacting on financial performance of SACCOS were determined through OLS regression analysis fitting dividend paid (%), loan variance (%) and expenditure variance (%) as dependents and the management responses (yes or no) as the independent variables with regression procedures of SPSS version 12.

The regression equation fitted for determining the impact of procurement management practices on financial performance (y):

y = = β_0 + β_1 Procurement committee + β_2 Purchases in bulk + β_3 Purchases tendered for + β_4 Purchase from a particular supplier + β_5 Goods verified on receipts + β_6 Negotiate for goods + β_7 Payments made by cheque

The regression equation fitted for determining the impact of meeting management practiceson financial performance (y):

y = β_0 + β_1 Committee meetings scheduled + β_2 Meeting schedules adhered to + β_3 Monthly allowances paid for all meetings + β_4 committees commonly meet more than scheduled + β_5 education to members organised + β_6 AGM held on time

The regression equation fitted for determining the impact of loaning management practiceson financial performance (y):

y = β_0 + β_1 maintain register for normal loans + β_2 loan forms serialized + β_3 loan forms available for all members throughout the month + β_4 loans approved per the registrar + β_5 members commonly ask for longer loan repayment period + β_6 cheques released to members immediately after loan approval

The regression equation fitted for determining the impact of employment management practice on financial performance (y):

y = β_0 + β_1 employment committee + β_2 advertisements made when vacancies arise + β_3 always employ the best candidate

The Table 1 shows the variables included in regression model and their hypothesized effects.

Table 1: Expected signs of the regression coefficients for the variables in the models

Independent variables	Description	Measurement	Expected sign
	Procurement management practices		
X1	SACCO has a procurement committee	(yes=1, no=0)	+
X2	SACCO purchases in bulk	(yes=1, no=0)	+
X3	Purchases tendered for	(yes=1, no=0)	+
X4	SACCO purchase from a particular supplier	(yes=1, no=0)	-
X5	Goods are verified on receipt	(yes=1, no=0)	+
X6	SACCO negotiates for goods	(yes=1, no=0)	+
X7	Payments are made by cheque	(yes=1, no=0)	+
	Loaning management practices		
X1	SACCO maintain a register for normal loans	(yes=1, no=0)	+
X2	Loan forms are serialized	(yes=1, no=0)	+
X3	Loan forms available for all members throughout the month	(yes=1, no=0)	+
X4	Loans approved per the register	(yes=1, no=0)	+
X5	It is common for members to ask for a longer loan repayment period	(yes=1, no=0)	-
X6	Cheques are released to members immediately after loan approval	(yes=1, no=0)	+

FINDINGS AND DISCUSSIONS

Descriptive Findings

The researcher sought the views of the respondents in relation to loaning management practices and procurement management practices. Results have been analysed and discussed based on their influence on financial performance of SACCOs.

Findings for Loaning Management Practices

The most frequent loaning practices identified (Table 2) were SACCOS not availing loan forms to all members throughout the month, allowing for longer loan repayment period, and not releasing loan cheques to members immediately after loan approval. These reflect poor management practices, creating windows for favouritism in loan disbursement and recovery, which may impact on the financial performance of the SACCO. This corroborates Clarion (2004) that senior officials of the SACCOS demand and receive bribes before or after appending signatures to loan applications.

Table 2: Loaning management practices in sample SACCOS (n=32) within Nakuru municipality

Loaning management practice	Response		Ranked common management practice*
	% Yes	% No	
Does SACCO maintain a register for normal loans?	90.6	9.4	5
Does SACCO maintain a register for emergency loans?	90.6	9.4	5
Are loan forms serialized?	81.3	18.1	4
Are loan forms available for all members throughout the month?	31.2	68.8	1
Are loans approved per the registrar?	62.5	37.5	3
Is it common for members to ask for a longer loan repayment period?	68.7	31.3	1
Are cheques released to members immediately after loan approval?	50.0	50.0	2

* Ranking of malpractice is for the response indicated in bold

Findings for Procurement Management Practices

Table 3 shows the frequencies of procurement management practices, among which practices are ranked. The most frequent practices in procurement identified were SACCOS not having a procurement committee, not purchasing in bulk and not tendering for goods and services and purchasing from a particular supplier. These practices are windows for manipulating procurement procedures and are likely to impact on the financial performance of the SACCOS.

Table 3: Procurement management practices in sample SACCOS (n=32) within Nakuru municipality

Procurement management practice	Response		Ranked common management practice*
	% Yes	% No	
Does SACCO have a procurement committee?	28.1	71.9	1
Does SACCO purchase in bulk?	28.1	71.9	1
Are purchases tendered for?	40.6	59.4	2
Does SACCO purchase from a particular supplier?	43.8	56.2	3
Are goods verified on receipts?	71.9	28.1	4
Does SACCO negotiate for goods?	84.4	15.6	5
Are payments made by cheque?	93.8	6.2	6

* Ranking of malpractice is for the response indicated in bold

Regression Analysis Results

To establish relationship between loaning management practices and procurement management practices and financial performance of SACCOs regression analysis is done.

Effect of procurement management practices on financial performance

Table 4 presents the regression coefficients estimated for effects of procurement management practices on financial indicators. The model fit was good and purchasing from a particular supplier consistently had significant impact on all the three indicators of financial performance. SACCOs that purchased from particular suppliers paid 4.3% less (P<0.005) dividends to members, were unable (P<0.1) to service 16.1% of the loan requested by members and their expenditure was 32.3% above the budgeted estimate (P<0.05). The results have implications on procurement, implying that purchasing from particular suppliers seems to be unfavourable for good financial performance of SACCO. This may arise from a coalition with suppliers to inflate prices of goods and services, consequently depriving SACCOs of the much needed revenue.

Table 4: Effect of procurement management practices on financial performance

Procurement management practice	Dividend paid (%)	Loan deviation from actual applied (%)	Expenditure deviation from budgeted estimate (%)
Constant	1.20 ± 2.30	35.88 ± 11.96	9.72 ± 17.64
SACCO has a procurement committee (yes=1, no=0)	-2.88 ± 1.83	-6.46 ± 9.50	-12.81 ± 14.00
SACCO purchases in bulk (yes=1, no=0)	1.56 ± 2.43	5.51 ± 12.63	-17.23 ± 18.62
Purchases tendered for (yes=1, no=0)	3.449 ± 3.05	-8.23 ± 15.84	17.57 ± 23.35
SACCO purchase from a particular supplier (yes=1, no=0)	-4.35 ± 1.70**	16.14 ± 8.84*	-32.34 ± 13.03**
Goods are verified on receipt (yes=1, no=0)	2.32± 2.11	-5.32 ± 10.94	-.91 ± 15.13
SACCO negotiates for goods (yes=1, no=0)	-2.43 ± 1.89	-10.14 ± 9.83	20.29 ± 14.50
Payments are made by cheque (yes=1, no=0)	3.15 ± 2.60	-15.12 ± 13.50	24.04 ± 19.90
Model P value	0.021	0.367	0.338
F value	3.002	1.149	1.205
Adjusted R square	0.311	0.033	0.044

* P<0.1; ** P<0.05 ***0.001

Effects of loaning management practices on financial Performance of SACCOs

Table 5 presents the regression coefficients for the impact of loaning management practices on financial performance of SACCOS. SACCOS that had a loaning management practice of availing loan forms throughout the month paid 5.32% more (P<0.1) dividends to their members. Availing loans throughout the month would allow members to access loans and from these loans the SACCO would generate income from interests. This may explain why the loaning practice impacted positively on the dividends paid to members. Some SACCOS allow for longer loan repayment period at higher interest, which generates income for SACCOS. This could explain why longer loan repayment period was associated (P<0.05) with 4.4% more dividends paid to members. Immediate release of cheques to members also impacted positively (P<0.1) on the dividends paid to members. Earlier release of cheques means earlier recovery of loans and quicker earning of income on the loans, which can then translate into dividends to members. This would explain why immediate release of cheques was associated with 2.77% more dividends to members.

Table 5: Effects of loaning management practices on financial Performance of SACCOs

Loaning management practices	Dividend paid (%)	Loan deviation from actual applied (%)	Expenditure deviation from budgeted estimate (%)
Constant	-1.07 ± 2.303	35.76 ± 13.30	34.30 ± 18.86
SACCO maintain a register for normal loans	2.77 ± 2.59	-15.31 ± 14.95	7.43 ± 21.20
Loan forms are serialized	-2.10 ± 1.82	-0.90 ± 10.53	-28.16 ± 14.93*
Loan forms available for all members throughout the month	5.32 ± 2.00*	-2.18 ± 11.57	8.75 ± 16.40
Loans approved per the register	1.58 ± 1.49	12.16 ± 8.63	-16.41 ± 12.23
It is common for members to ask for a longer loan repayment period	4.36 ± 1.53**	-7.01 ± 8.83	0.27 ± 12.52
Cheques are released to members immediately after loan approval	2.77 ± 1.56*	-9.00 ± 9.02	9.46 ± 12.79
Model p value	0.004	0.609	0.328
F value	4.396	0.758	1.222
Adjusted R square	0.513	0.049	0.041

* P<0.1; ** P<0.05 ***0.001

SUMMARY

Kenya's cooperative sector has effectively mobilised private resources, predominantly through Savings and Credit Cooperatives (SACCOS). The SACCOS are run by committees who govern in accordance with the Co-operative Acts, Rules, Commissioners circulars and the By-laws put in place to check practices aimed at enhancing financial performance. However, reports of financial mismanagement cases are frequent in the print and electronic media involving loss of millions of shillings leading to collapse of SACCOS. To understand better the underlying reasons, this study aimed to determine the management practices impacting on the financial performance of SACCOS within Nakuru Municipality for the 2006 period. The indicators of financial performance were dividends paid (%) and loan and expenditure variances expressed as deviations from budgeted targets in loans serviced and expenditure. Relevant data was obtained using a systematic random sampling technique from 32 out of 77 registered SACCOS.

Results of the financial indicators indicated that the sample SACCOS experienced poor financial performance. The dividend paid was low (< 5%) and on average 23% of the amount of loans requested could not be serviced, but expenditure was 13.7% within the budgeted estimates, indicating attempts to check on spending. Practices in procurement related to not having a procurement committee, not purchasing in bulk, not tendering for goods and services and purchasing from a particular supplier. SACCOS that had a loaning management practice of availing loan forms throughout the month could pay more dividends to their members. Allowing for longer loan repayment period and immediate release of cheques to members impacted positively on the dividends paid to members. On the other hand,management practices that impacted negatively on financial performance were serialising of loan forms and purchasing from particular suppliers which impacted negatively on the dividends, loans and expenditure.

CONCLUSION AND RECOMMENDATIONS

The financial performance was poor and the management practices that were identified to impact negatively included serialising of loan forms and purchasing from particular suppliers. Management practices impacted negatively were fewer than those impacting positively. Those identified to impact positively on the financial performance of SACCOS included procurement management practices, educating SACCO members and availing loan forms to members throughout the month.

To improve financial performance in SACCOS, procurement and loaning procedures require review because they showed the greatest impact on financial performance. It is advisable for SACCOS to have a procurement committee and streamline purchases to have them tendered for and be in bulk. Educating members and availing loan forms freely to them stand out as strategies for better financial performances.

LIMITATIONS OF THE STUDY

The research had a limited study area that focused only on Nakuru Municipality. Other SACCOs in other municipalities in Kenya may have diversified opinions from the ones found. Some respondents took long time than expected by the researcher citing busy work schedules as the reasons for delay. Some respondents were adamant to fill the questionnaires and the researcher struggled in explaining to them sole academic purpose of the same. The research was time limited; it was to be undertaken within stated period of time as per the requirements of the University.

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