FACTORS INFLUENCING LOAN PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE IN KENYA: A CASE STUDY OF AFYA SACCO LIMITED

KITHUKA AGNES MUNYIVA

A RESEARCH PROJECT SUBMITTED TO THE SCHOOL OF MANAGEMENT AND LEADERSHIP IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF BUSINESS ADMINISTRATION OF THE MANAGEMENT UNIVERSITY OF AFRICA

SEPTEMBER 2021

DECLARATION

The project is my original work and should not be submitted to any examination body without my approval or that of The Management University of Africa

Sign: .... Date: ....

Kithuka Agnes Munyiva

BML/22/00879/1/19

The project has been approved for examination with my consent as the University Supervisor

Sign: .... Date: ....

Mr. Ouko Onsongo

The Management University of Africa

DEDICATION

The project is dully dedicated to my mother Ms. Veronica Kithuka for the support that she has given me and encouragement to always work hard even when things are tough. Also she worked tirelessly to ensure that I get the best education and even have this project done. Than you mama

ACKNOWLEDGEMENT

First and foremost I would to acknowledge the Almighty Lord for giving me health and strength to do this project. Secondly, researcher acknowledgement my supervisor Mr. Ouko Onsongo for his constant encouragement, interest of the work and confidence on the work that researcher is doing. Thirdly, the researcher acknowledges the staff and management of the organization for their cooperation and sharing of vital information that will contribute towards the success of the research. Finally, to the management and staff of Management of University of Africa for offering a conducive learning environment and having relevant materials to help the researcher and other students succeed in their studies.

ABSTRACT

This study was to determine factors influencing loan performance of savings and credit cooperative organizations in Kenya with reference to Afya Sacco Limited. The study considered the following specific objectives: organization policy, loan defaulting, pricing and competition and how it affect loan performance of Sacco's Limited. This study shall be benefitial to the Afya Sacco Limited, other Sacco's as well as other researchers. The study used descriptive research design for it described the population the way it was. The target population for the study was 84 employees who work in the organization at different levels of management. Stratified random sampling was used as the sampling technique and data was collected through questionnaires while data analysis was informed of qualitative and quantitative techniques. Presentation of findings was done through tables and graphs.

TABLE OF CONTENT

LIST OF TABLES

LIST OF FIGURE

LIST OF ACRONYMS AND ABBREVIATIONS

SACCO's Savings and Credit Cooperative Organizations

OPERATIONAL DEFINITION OF TERMS

Competition	The act of trying to get things or action that another person is also willing to win
Loan Defaulting	This is a situation where one borrower fails to pay his or her debt according to the initial agreement
Organization Policy	These are rules that governs the organization to operate within the required standards
Pricing	Refers to the decision-making process that goes into determining the value for a product or services

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The study chapter shall contain background of the information that relates to loan performance, problem statement, objectives, research questions, beneficial of the study and scope and how they affect savings and credit cooperative.

1.1 Background

Financial institutions especially the Sacco's have a critical role in providing financial support to its members as well as other interested individuals provided they can met the demands required. With the provision of this loan the Sacco's still remain to be less competitive due to more defaulters who do not honour their loan obligations. With the support of the Government and relevant institutions the Sacco's and cooperatives are being supported to improve on their operation through marketing and cooperative development (Gathurithu, 2011).

The growth of the country and society fully depends on this financial institution as well as the Sacco's who provide this loan to the citizens or people and especially the members of the Sacco's. Proper legislation being provided in place to help build on this institutions should be improved so that the people involved can ensure that they operate in a manner that everybody benefits. Lack of adequate loan performance mechanism has led to the collapse of this Sacco's leaving the members who had invested in them to remain bank craft or with debts which they do not understand how to manage them (Labie, 2018).

The small medium enterprises growth and importance in the county has interested the Government and other stakeholder as well as researcher to understand how best the sector can be improved. The most beneficiaries of the sector are the financial institutions and Sacco's at large who offer financial assistance through loan to this SMEs. In Kenya Sacco's strangle a lot in terms of how to ensure that the members who borrowed the loans in the organization to repay. This can be seen by majority of them who are fully financed in the businesses by this Sacco's to propel them to the nest level. The organization and government in general should come clear on the policies that should be in place to ensure that the loans that are borrowed are paid and in time to also assist other individuals and businesses (Ondieki, 2011).

Productivity of the Sacco's especially Afya Sacco Limited cannot be achieved if the defaulters of the loans are not followed to recover that particular money that they owe the organization. The use of collateral policies being implemented in the organization and leading institution can be a key factor to improving loan performance in different organizations. The use of collaterals will help the organizations to recover their loans that the borrowers may have failed to pay (Mvula, 2013). With this in mind Sacco's still remain to be a key component to the economy of the nation and for social development of the county.

Loans performance may fail to be productive but the management of the Sacco's should invest in different ventures to ensure that they secure their operations for the future. These investments are in line with the investment policies that the organization has had over a period of time. The involvement of all the parties in these investments is unanimous to avoid conflicts of interests and the organization taking decisions which may lead to withdrawal of members from the Sacco's. Interest rates for the loans in the Sacco's need to be reviewed for the organization to attract more clients in the organization (Ibid, 2021)

1.1.1 Profile of Afya Sacco Limited

Afya cooperative society is one of the renowned Sacco societies in Kenya that was formed in 1971 with only twenty brilliant members who came together for a noble cause of ensuring that they save for the future. Over the years the society has grown by registering over thirty eight thousand member and over five hundred and fifty million shillings with numerous assets. The main objective for the society was to promote a culture of saving to the members through which loans can be disbursed to them to increase their productivity.

The organization has a free and fear policy for the member who have joined the organization that they may also leave the organization at their own will without any obligations provided that do not have any loans that they need to settle with the organization. This has given the organization a privilege to attract more clientele base for its members and the society itself. The mission of the organization is to enable the member to save for the future while the vision of the society is to grow to different parts of the country and beyond. The core values for the organization are and not limited to honesty, trustworthy, respect, loyal and service oriented

1.2 Statement of the Problem

Financial institutions such as Sacco's play a key role towards facilitation of loans to its clients as well as their members. They also play a big role towards economy and social development of the nation in general. Based on this the societies faces a lot of challenges towards their loan performance in the sector. Most of the loans are of high interest rate based on the time they are given. The high interests rates affects the performance of the Sacco's making most of the borrowers to fail to pay for the loans that they have borrowed.

A study done by Elijah (2013) on challenges affecting loan performance in commercial banks showed that majority of the borrowers failed to pay for their loans due to loss of their jobs leading them to be bankrupts. The study recommended that the management were to collect collaterals from the loan applicants at the point of application of the loans. Another study by Constance (2015) studies factors affecting financial liquidity of the Sacco's where the study recommended that the liquidity of the Sacco's should be done based on the financial capabilities of the societies and the management should invest more.

The study has left some gaps to be filled in relation to loan performance of savings credit and cooperative in Kenya and issues such as organization policies that the organization use is to be evaluated. Loan defaulting, pricing and competition levels are also key factors to be addressed always. This study therefore was to assess factors influencing loan performance of savings and credit societies in Kenya.

1.3 Objectives

The study was to discuss factors that influence loan performance of saving and credit societies in Kenya with reference to Afya Sacco Limited

1.3.1 Specific Objectives

i. To assess the effect of organization policy on loan performance of savings and credit cooperative in Kenya
ii. To establish the effect of loan defaulting on loan performance of savings and credit cooperative in Kenya
iii. To evaluate the effect of pricing on loan performance of savings and credit cooperative in Kenya
iv. To investigate how competition affect loan performance of savings and credit cooperative in Kenya

1.4 Research Questions

i. What is the effect of organization policy on loan performance of savings and credit cooperative in Kenya?
ii. How does loan defaulting affect loan performance of savings and credit cooperative in Kenya?
iii. What is the effect of pricing on loan performance of savings and credit cooperative in Kenya?
iv. To what extent does competition affect loan performance of savings and credit cooperative in Kenya?

1.5 Significance of Study

The organization will benefit from the study if it will be adopted it in that the organization will be able to highlight some of the issues that were not taken seriously about loan performance of Sacco's in Kenya and by applying the found solutions, helped to boost the organizations services to its customers.

The study shall be beneficial to other scholar and academicians as well as scientist who would like to further their knowledge on the issue at hand that relate to loan performance in the societies. This will also act as an insert to further this study to other sectors and enable them know how best they can improve the performance of this organizations for the future.

1.6 Scope

Objective of the study was to determine factors influencing loan performance of Sacco's in Kenya using a case study of Afya Sacco's Limited which is situated in Nairobi along Tom Mboya Afya Center Building. The data was collected from a target population of 84 employees from the organization which was limited to the staff of the organization from different levels of the management and will take a period of four months that is from June to September 2021.

1.7 Chapter Summary

This chapter captured the background of information that relates to the study and highlighting some of the problems that affects the study. It also looked at the objectives, research questions, justification of the study, scope as well as chapter summary. The next chapter shall discuss the contribution of other scholars based on the study variables in relation to the study theories.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Literature review is the overall analysis of the contribution of different scholars towards the study at hand. The chapter also discussed different theories that shall contribute to the study, empirical literature based on the variables of the study, summary and gaps to be filled, conceptual framework, operationalization of variables as well as chapter summary.

2.1 Theoretical Literature Review

2.1.1 Liquidity Theory

According to Keynes (2011) liquidity theory states that investors demand more interest in terms of rates that they get on their securities with long term loans. The theory evaluates the credit rationalization of the firm or organization that may apply the use of credits to empower their members or organization to stick with them. For loan performance to be effective the institution needs to understand the financial position of those who need to borrow loan (Mvula, 2013). Sacco's in Kenya are highly affected with the amount they spent on those who default on loans that they have borrowed from the organization. The main point of the theory is that when the organization has to facilitate its members or individuals it they come in to provide the cover by offering financial support to the societies. Not always that the financial sector of the societies will have money, they may use the liquidity levels of the organization to sustain the operations of the organization by getting trade credits form other institutions.

2.1.2 Agency Theory

The theory enumerates relationship is between two persons that one party is the principle and the agent so that they can perform the same service. The theory involves delegating some of the decisions making authorities from the principal to the agent (Jensen, 2016). In this case the agent is employed by the principal to act on behalf of the principal without the third party knowing the principal.

The theory is related to the study since it informs the organization structure variable. The managers of the society are the key agents in the business with respect to the principles who are the shareholders/members. With this in mind organization management needs to act on the interest of the principal not on their own and this makes the Sacco to be strong and influence how the loans are paid by the borrows (Wright, 2012).

2.2 Empirical Literature Review

2.2.1 Organization Policy

According to Oswald (2017) some of policies that should be implemented in an organization include; ensuring that an organization has a general duty to provide adequate change programs, there should be the legislation to inform all employees when they are at their workplace, assessment of the risk of the change used, implementing appropriate measures to control or ensuring that control measures are used, that procedures are observed and also involved in regular maintenance. In case of a known adverse effect of a particular substance, there should be regular surveillance of the employees involved to undertake precaution. Employees need to be trained further in their area of specialization.

A policy is a legal framework that the management of the organization should look at to ensure that the organization operates in a proper way. The policies being implemented in the organization in relation to loan performance for the societies has to be reviewed always to ensure that the business is okay. This regulation for them to be implemented in the organization may take different forms which can be those that are government oriented, organizational oriented which influences the societies, trade associated and other businesses (Levi, 2012). The societies are regulated with different statutes which enable them to work within the government structures that regulate the societies in general.

The decisions in relation to policies of the organization should be communicated to all the levels of the management in the organization for it has an impact on the organization development. The regulatory environment is now considered an important factor in determining the performance of the organization. The review of the organization in relation to where the organization is key for the loan policies should be effective and well policed (Levi, 2012). While government plays a role in the policy formation on loan performance mechanism the organization has also to have their policies that are in line with the policies that the government has laid. Government policies are inevitably made mandatory through legislation (Levi, 2012).

In the words of Armstrong (2013), policy is a valuable asset that the organization has to evaluate on regular basis. This should be in lined with the culture of the organization that promotes the ideas of the employees in relation to the policies of the organization that the management should follow. The main objective of the policy is to declare some of the intentions of the staffs of the organization for them to protect their well-being in the organization whenever there is any form of change of management. It should emphasize four fundamental points; that organizational transformation is of paramount importance, that change takes precedence over expediency, that every effort will be made to involve all managers, team leaders and employees in the development and implementation of change procedures, that the organization's legislation during its transformation will be compiled with in the spirit as well as the letter of the law.

2.2.2 Loan Defaulting

Loan default is defined as the failure to pay back a loan when due from the institution or organization that loaned you out. Loan defaulting can take different sharps and reasons based on the situations on how they occurred. Most SACCOs either have no loan policy and procedures or what exists is not very clear and comprehensive. There are cases where loan-aging analysis is hardly practiced, there are no provision for loan write offs and losses. No guidelines exist as to what to do in cases where a member defaults in loan repayment. Where they exist they are inadequate to serve the purpose as to why it is intended. Practice like risk analysis management is therefore made impossible (Mekonnen, 2015).

According to Mekonnen (2015) argues that if the business plan of the creditor is profitable, it will contribute to timely repayment of loan. Hence, this variable is expected to have a positive sign. Loan default is a major issue of concern on the performance of Sacco’s. She argues that timeliness of loan release has a significant influence on loan repayment performance of the respondents. The time between loan application and disbursement has an impact on loan repayment. This factor has a positive impact on the borrower's loan repayment performance. Timely disbursement of loan increases significantly loan repayment performance. The chances that loan would be used for intended purpose is increased when loan is disbursed at the right time. Borrowers may become impatient if loan is delayed; opportunity will be lost and therefore leads to misallocation of loan. This will eventually affect the borrower's repayment performance. The procedures followed to process loan determine the period when loan would be released to the borrowers. When the procedures are long, it will extend the time taken to release loan.

Tundui (2013) examined how household income affects loan repayment and concluded that the higher the income, the lower the default rate. They attributed to the increase ability of earning more by venturing into diverse business opportunities which eventually enable the borrower to repay loan when fall due. Loan defaulting cannot be measured by how wealthy an individual is of poor they are for them to default on loans. Further, the more dependent the borrower is on income from the enterprise supported by the greater they are to pay their loans in the organization. Defaulting of loans affect the loan performance of the organization and the management of the organization has to approach this situation in a more professional way.

In addition, women have more motivation for loan repayment in order to continue remaining in village groups and to be allowed to borrow more next time, whereas men have many more opportunities for social contact that can lend them money. Due to women tendency to stay closer to their homes rather than going out to work, women are easy to monitor and follow by the lender. As opposed to men, posited that women have more at stake when enrolling in a credit programs because of the limited access to credit from other formal or informal channels. Therefore, women repay their loans to ensure continued access to credit. Loan size affects the repayment of loan. Smaller loan are likely to be repaid on time on group based scheme while large loan are repaid on time by individual borrower (Tundui, 2013).

This could be because of the individual socio-economic position of the borrower in different schemes. Individual borrowers are relatively better endowed and have higher income levels. They assumed that individual borrower invest in expensive projects which boost their incomes. However, it is argued that larger loans are unlikely to be repaid than smaller loans. Larger loans may encourage unwise spending than small loans where caution is observed by the spender. Most of the farmers are unused to handling of large funds and once given such funds could easily be misapplied (Tundui, 2013).

The major goal of Sacco's in Kenya and across the globe is to support the members of the groups or societies to give them loans to expand their operations of their business as well as their personal growth (Bystrom, 2017). The society's faces numerous challenges when it comes to loan defaulting where not all the borrowers have collaterals to be recovered when they fail to pay the loans that they borrowed in the organization. Sacco's have to have proper strategies to help them recover the loans even when the collaterals cannot be used to recover the loans. The availability of these societies has been turned to be one of the leading credit points for individuals to get funding for this businesses and operations.

2.2.3 Pricing

According to Kotler (2014) stated that pricing can be defined as who the products or services can be sold. For loan performance to be effective the pricing of the organization has to be in line with the prices that the government has put in place. These prices are the interest rates that the organization needs to take care for them when the agreement for the loan is being made. It should not be the duty of the management to set the pricing for the products and services in the organization but also that of the stakeholders in the society also to be involved in the decision making when it comes to pricing. This will reduce conflict of interests between the stakeholder of the organization and policy makers.

According to Keller (2014) argues that the prices of the products or services rises of falls down based on the demand that is there on the buyers or the sellers of those commodities. The nature of pricing should be based on the organization policy of loan repayment mechanism that ensures that loan are priced and cannot increase based on the times that the organization want. From this the organization management can recall all the operations and streamline these prices to attract more members in the organization. When the prices increase they normally deter a blow to the sales of the organization which has an impact to the performance levels of the organization. The time is very not and may be unobtainable unless the organization evaluates the pricing mechanisms of the organization. Buyer's reaction to prices changes also vary with their perception of the products cost in relation to their total expenditures.

An organization normally modifies its prices as the product passes through the product life cycle. The introductory stage is especially challenges. We can distinguish between pricing a genuine product innovation that is patent protected and pricing a product that imitates existing products. Pricing an innovative product that an organization chooses was between marketing skimming and market penetration pricing. Magali (2013) states that market skimming pricing, is when an organization invent new patent protected products set high prices with intention of skimming in the market. The more the prices of the commodities it gives the other product prices to either increase or reduce in relation how commodities trend.

To implement well loan performance in the organization should follow the different pricing mix in the logic of setting on a product in the market for it to be marketed well and effective. The use of different pricing mix will enable the organization to understand how to improve the pricing of their loans and this shall improve the market value of the shares in the organization. Pricing can be based differently based on the fact that products and services behave differently with the nature of competition that they get in the market. Optional product pricing is when the organization sells different products that have options on the future in reference to the main product that the organization is offering (Gathurithi, 2011)

Management can price these options high to make them independently profitable or price them low to act as a traffic builder. Captive product pricing is as when companies in certain industries produce products that must be used with the main product. From this point of though the companies can look at the big competitors and react on the services and products the organization is offering and make competition to be more engaged than the way it was there before. Loan pricing should not be under estimated in the organization for other societies and organization is also working hard towards ensuring to age out the organization out of competition (Jain, 2015).

2.2.4 Competition

According to Eagan (2018) competition is a set of alternative firms providing a product to satisfy a market needs. Competition will increase with introduction of other firms offering the same services in the market and the process of essential services. Competition can also be defined as the set of alternative firms that could provide a product to satisfy specific needs. Financial times in collaboration with instead. He states that companies do not operate in vacuum and nor should their marketers. Understanding the competitive strategy is a critical part of marketing. Strategy is to gain in the market place. Competitive advantage has two dimensions superior customer vale when it satisfies the needs of its customer better than its competitor value delivery tools include: pricing, communication and delivery. No one is immune to competition at least in the long run.

Porter (2012) points out that a useful way of gaining insight to competitors is offering better service than those that they are offering. Looking at this in mind competition can be positive that ensures that all the parties are involved in a healthy competition. The competition mechanisms should be invested by the organization to ensure that it meets the needs of the organization. The return of the organization can only be done when the organization is involved in proper competitive methods that will make them gain their investments that they have make. The organization can analyses the five key competitive market analysis such as threat of new entrance, threats of a new substitute or services, the bargaining power of suppliers, the negotiation power of buyers as well as competitive rivalry between current members of the industry as depicted below. Intimidation harassment and violence are experiences that influence the supply due to competition. He noted that the worked has scarce resources which have therefore created struggle and maximization for the little that is there.

According to Mvula (2013) there exist five forces of competition as indicated above. Somebody innovative in the industry comes up with a better product or service other seeing the popularity of the new products, imitates the products in order to take part of the market. A new product or service does not have a ready market; a market is created for its customers have to be told of the qualities and benefits of a product and its superiority to the competitors and in the process the whole society gains it is a system that rewards the best. Business must have a clear vision and mission strategies goals with appropriate strategy cost leadership and or differentiation. The competitive strategy will enable the business position on itself in its external environment. Without this strategies fit, the growth of the business will be stifled with rapid changes and loss of opportunities in its external environment.

Organization should realize what competition it is facing and the position of the competitor in order to protect its current position and increase sales through defensive and offensive action. The nature of competition based on the analysis is to mainly categorize into two main parts that are having major information that related to their competitors and also use the information to predict the future of the competitors (Porter, 2012). The goal of any competitive analysis in the organization is to enable the organization understand the nature of competition, the strategies that are being used, how the competitors react to different marketing strategies, and actions to take when the competitors are not using the strategies that you are using.

Marketing techniques is the organization enables the organization to handle the competitiveness of the organization in different ways. Having enough information about organization competitors give the organization an up hand in the marketing of their products and services that they are offering. Competition without understanding the competitors business models will make the organization fail even before it pick in the market. The management of the organization has to strategies well on how the business needs to be done always. The competition should not only look at the present but also the future of the organization (Labie, 2018).

The organization management needs to view the competition in a more diverse way to ensure that they are met at all levels. The organization management should also train their employees on the importance of positive competition in the organization that will not down grade the objectives of the society in general. Building on the positive level of competition in the organization will enable the organization to meet the needs of the shareholders and members of the society fully. Believing in the organization production level will make the organization to meet new and more maintain the current clients that they have (Ibid, 2021).

The use of proper advertising methods in the organization will make the organization to gain a more competitive advantage of the organization and to its competitors in the industry. Marketing strategies will enable the society to age out the competitors and met the needs of the shareholders in the organization. The marketing strategies should be in line with the regulations that the organization is using and the once that the government has instructed to be used to make the market fear to all the players (Labie, 2018).

2.3 Summary and Research Gaps

Organization policy play a vital role in the implementation of loan performance strategies in Kenya and the management of the organization has to have proper policies that will improve the member confidence in the organization. These policies should be in line with the rules and regulations that the government has also put in place to the improvement of the organization productivities. Regulatory authority of the societies has to monitor the policies that this saving and credit cooperatives have to ensure that members of this societies are not extorted at long last.

Majority of the Sacco's are facing rising rate of loans default. Though Sacco's take necessary action to appraise loan and use methods like credit rationing, rate of default is still growing. Sacco's incur huge funds to monitor and make loan recovery which in turn will affect its efficiency providing finance. The use of collateral mechanism will help the organizations especially savings and credit cooperatives to recover their loans in time and not loss money when the borrowers fail to honor their loans

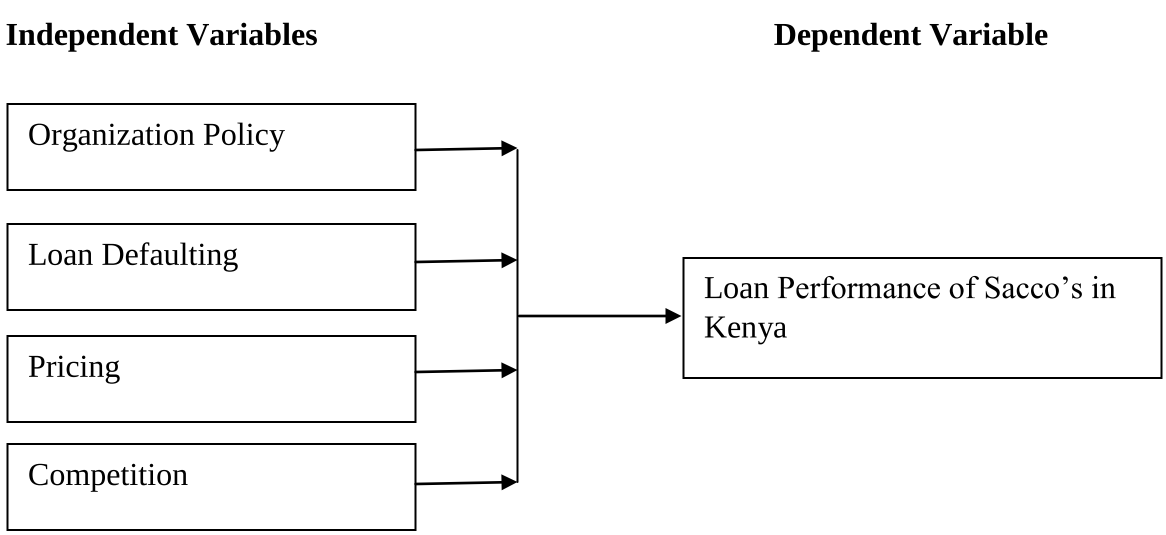
Pricing a key factor that hinders the performance of loans in the savings and credit societies has to be monitored not only to the societies alone but also other financial institutions. This department has to report either to the marketing department or top management so that there is regular monitoring of prices of items in the organization. Other who exerts an influence finance managers. The organization management has to improve all the interest rates being charged on the loans being taken by the members in the organization to ensure that the do not loss an edge in the services that they are offering.

No organization can survive without competition in any service that they are offering or the products that they are selling. The organization should implement different marketing mix to ensure that they can meet the needs and wants of the organization clients and members. Competition propels the organization to the next level and this make the loan performance levels to improve by ensuring that societies offer better services and attract more who want to join the organization. Organization experiences competition with organization offering the same or similar products and services of the same price.

2.4 Conceptual Framework

This is a pictorial representation of information by showing the relationship between independent variable as well as dependent variables

Figure 2.1 Conceptual Framework



2.5 Operationalization of Variables

Table 2.1 Operationalization of Variables

Research Objectives	**Variable**	**Indicator**	**Measurement**	**Level of Scale**	**Data Collection**
To assess factors influencing loan performance of Sacco's in Kenya	**<u>Dependent</u>** Loan performance of Sacco's	-Profitability -Revenue Growth	-Efficient loan Repayment -Optional loan repayment	Nominal Interval	Questionnaire
To determine the effect of organization policy on loan performance of Sacco's in Kenya	**<u>Independent</u>** Organization Policy	Policies	-Existence of sound Sacco regulation -management influence on policies	Nominal Interval	Questionnaire
To establish the effect of loan defaulting on loan performance of Sacco's in Kenya	**<u>Independent</u>** Loan Defaulting	-Number of defaulters -Bad debt	-Steps followed to deal with loan defaulters -Regulation concerning loan defaulters	Nominal Interval	Questionnaire
To evaluate	**<u>Independent</u>**	-Rate of	-Market	Nominal	Questionnaire

the effect of pricing on loan performance of Sacco's in Kenya	Pricing	interest -duration of payment	Behavior Patterns -Temporary Dimensions	Interval	
To investigate the effect of competition on loan performance of Sacco's in Kenya	**Independent** Competition	-Concentration -Barriers to entry	-Concentration Ratio -Economies of scale	Nominal Interval	Questionnaire

2.6 Chapter Summary

This chapter contained literature based on the study on factors influencing loan performance of Sacco's in Kenya. The next chapter will be concern with methodology that the research will consider.

CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.0 Introduction

Research methodology enabled the researcher to analyze how the study was done overall. The section also highlighted the basic design that the researcher did use, sampled the target population, the sampling techniques that the researcher considered, data collection instruments, and how the data was analyzed by the researcher

3.1 Research Design

According to Mugenda and Mugenda (2009) a research design is a systematic way of analyzing data thata can be used to answer questions that relates to the research questions. The research considered a descriptive research design as it gives facts the way they are based on the nature of the research that is being carried out. Descriptive study was undertaken to certain and is able to describe the features of the variables of interest in a situation.

3.2 Target Population

These are the individuals that need to be involved in the research and are working in the organization or where the research is to be carried out (Gay, 2018). This study considered a target population of 84 employees who are staff of the organization from different levels of management. The essence of target population was to enable the researcher to collect accurate and reliable information that relates to the study at the present

Table 3.1 Target Population

Category	**Target Population**	**Percentage (%)**
Top Management	3	4
Middle Management	8	10
Lower Level Staff	73	86
Total	**84**	**100**

3.3 Sample and Sampling Technique

Sample is a representation of the whole population that the researcher would like to collect the required data that shall support the study (Gay, 2018). The researcher considered stratified random sampling for this study for the study has different characteristics and the researcher wanted each stratum to have an equal opportunity for participation. The sample size was picked by use of stratified random sampling where the population was divided into stratums that were sixty percent of the population.

Table 3.2 Sample Size

Category	Target Population	Sample Size	Percentage (%)
Top Management	3	2	4
Middle Management	8	5	10
Lower Level Staff	73	44	86
Total	**84**	**51**	**100**

Source: Author (2021)

3.4 Instruments

An instrument is a tool that the researcher used to measure variables or items of interest during data collection process (Mugenda and Mugenda, 2009). It was no long related to design, selection, construction as well as assessment only but also the state in which the designated instrument was administered. The researcher considered both qualitative and quantitative instruments to support the study, where the researcher considered questionnaire as the main instrument.

3.5 Pilot Study

Piloting is the study that is carried out even before the actual study and is a way of testing the effectiveness of the researcher's data collection instruments (Mugenda and Mugenda, 2003). The pilot study was done to the a few colleges at my work place to ascertain the validity and reliability of the questionnaires that was issued to the respondents. A sample of the sample size was considered but the researcher never used them in the analysis of the information

3.6 Data Collection Procedure

Before the questionnaires were administered by the researcher she gave out an introductory letter from the institution to the respondents to show the purpose of the study. This letter was certified by the University for this enabled the respondents have confidence in sharing the information and also being assured it was not malicious for any nature. Once the questionnaires were issued the respondents filled in the questionnaire without indicating their names and afterwards the researcher coordinated with the informant for collection to enable analysis to be done.

3.7 Data Analysis and Presentation

The collected data was analyzed and presented by use of tables and the use of summarized percentages and proportions. The collected data was edited, coded, classified and analyzed using Microsoft excel 2013. Data was then presented by use of table and charts. This enabled the researcher to analyze the information in a proper way.

3.8 Ethical Considerations

The researcher will enhance ethics by keeping the shared information by the respondents very confidential and assuring them for the same. The researcher will avoid asking personal questions that may seem to be invading into the respondent’s privacy. The researcher will get permission from both the University and the management of the organization to collect the data for this will bust the confidence level of the respondents.

3.9 Chapter Summary

The chapter entailed the research design and methodology that the research considered for the study. The next chapter will contain data summary and presentation of findings.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.0 Introduction

From the analysis the chapter was to discuss the presentation of findings and how the researcher collected from the respondents who were given the questionnaires.

4.1 Presentation of Research Findings

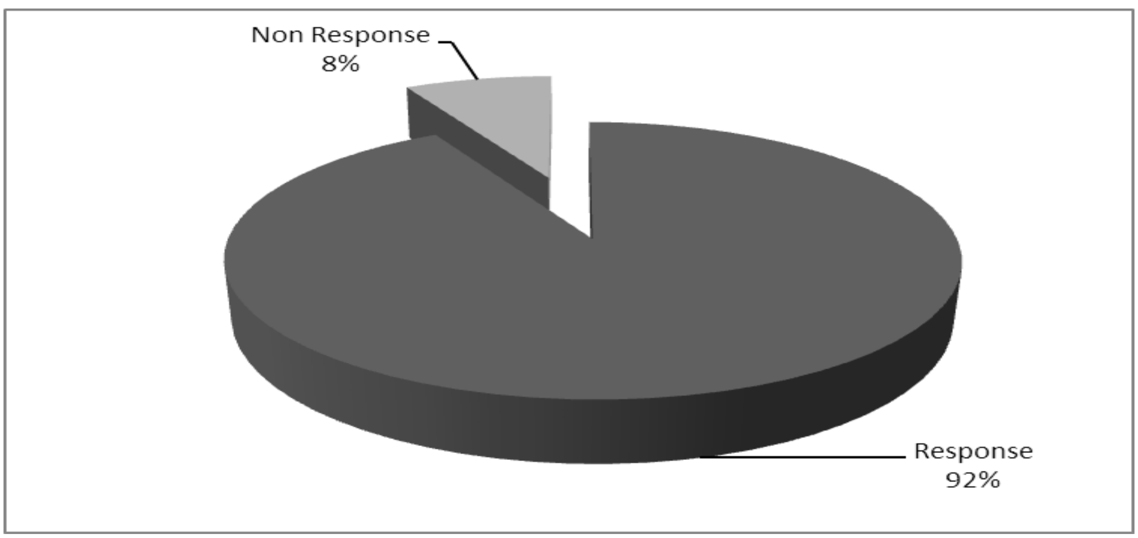
4.1.1 Response Rate

Table 4.1 Response Rate

Response	**Frequency**	**Percentage**
Response	47	92
Non Response	4	8
Total	**51**	**100**

Source: Author (2021)

Figure 4.1 Response Rate



Source: Author (2021)

Analysis in table 4.1 and figure 4.1 indicate that response rate for the respondents where 92% of them responded while 8% represented non response. This showed that majority of the respondents did respond to the questionnaires given to them

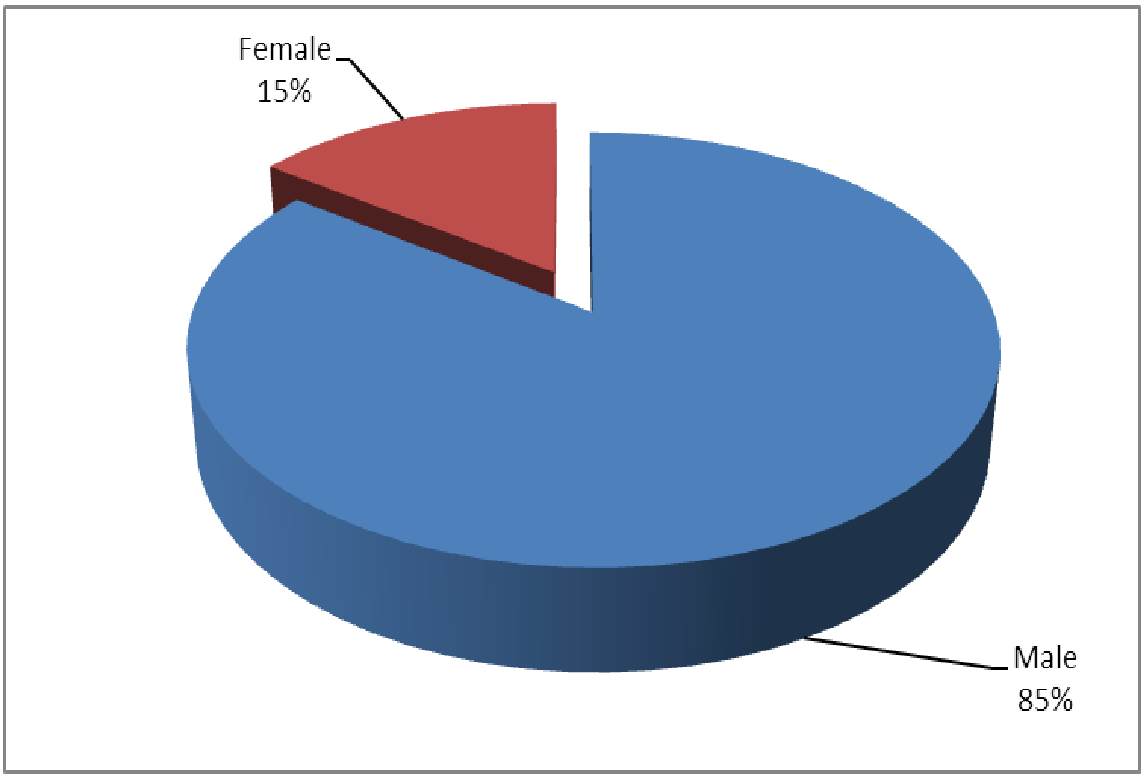
4.1.2 Gender Response

Table 4.2 Gender Response

Gender	Frequency	Percentage
Male	40	85
Female	7	15
Total	**47**	**100**

Source: Author (2021)

Figure 4.2 Gender Response



Source: Author (2021)

The findings indicated the response rate based on the gender of the respondents were the male counterparts were the majority with a representation of 85% while female counterparts were represented by 15%. This showed that most of the respondents were male and the organization is fairly distributed on gender basis.

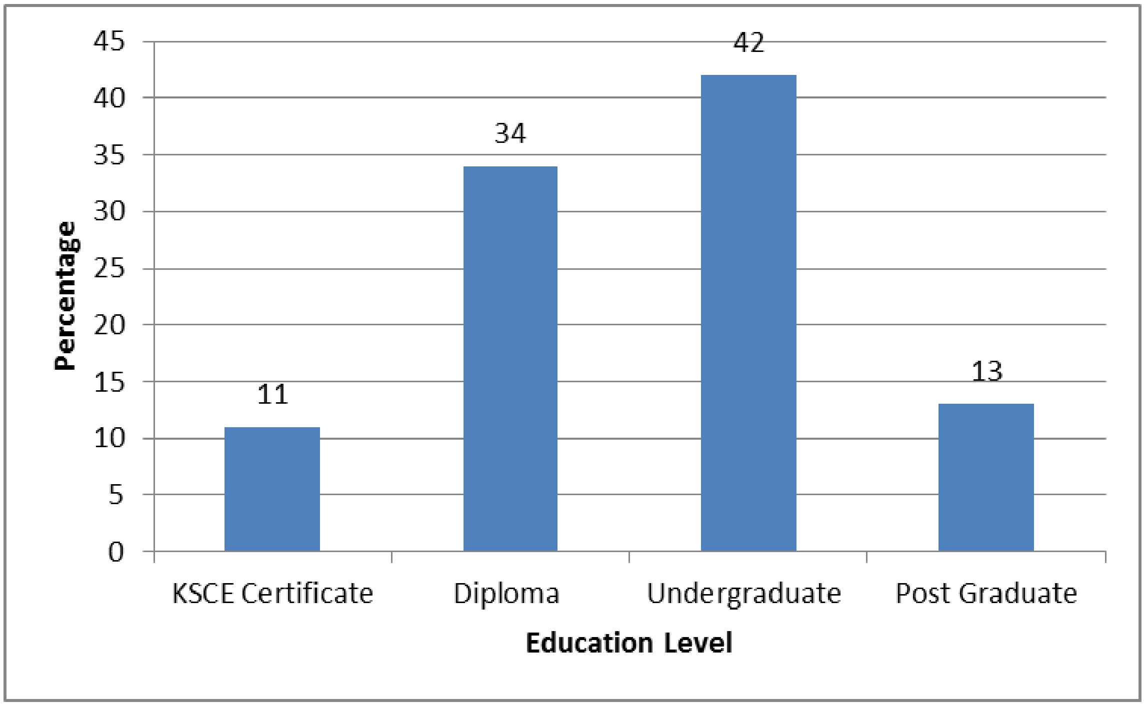
4.1.3 Education Level

Table 4.3 Education Level

Education Level	Frequency	Percentage
KSCE Certificate	5	11
Diploma	16	34
Undergraduate	20	42
Post Graduate	6	13
Total	**47**	**100**

Source: Author (2021)

Figure 4.3 Education Level



Source: Author (2021)

Based on the findings on the level of education, those who had KCSE were represented by 11%, diploma was represented by 34%, undergraduate 42% and they were the majority while post graduate were represented by 13%. This showed that the organization has a well-educated work force that offers better services in the organization.

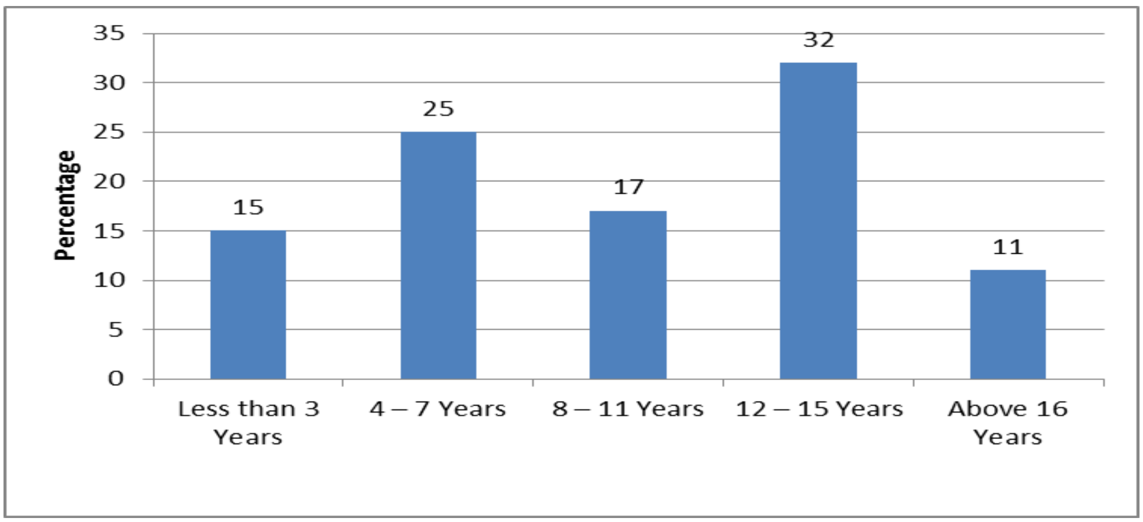
4.1.4 Number of Years of Service

Table 4.4 Number of Years of Service

Number of Years of Service	Frequency	Percentage
Less than 3 Years	7	15
4 – 7 Years	12	25
8 – 11 Years	8	17
12 – 15 Years	15	32
Above 16 Years	5	11
Total	**47**	**100**

Source: Author (2021)

Figure 4.4 Number of Years of Service



Source: Author (2021)

Analysis indicated the number of years of service where less than 3 years was represented by 15%, 4 -7 years indicated 25%, 17% represented 8-11 years, 12 – 15 represented those who have worked for 32% while above 16 years was represented by 11%. This showed that the respondents in the organization are well qualified in terms of their experience levels.

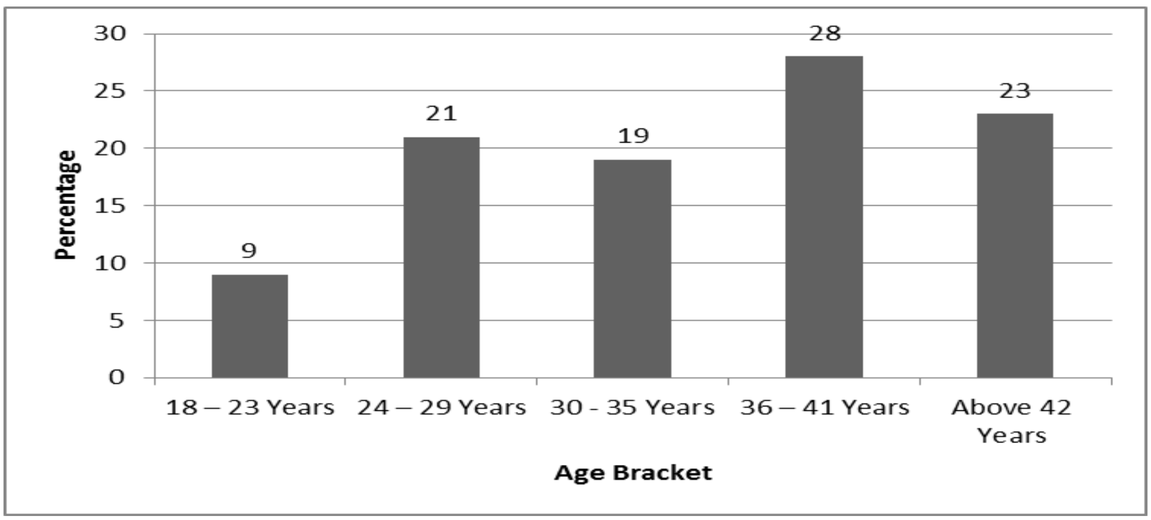
4.1.5 Age Bracket

Table 4.5 Age Bracket

Age Bracket	Frequency	Percentage
18 – 23 Years	4	9
24 – 29 Years	10	21
30 - 35 Years	9	19
36 – 41 Years	13	28
Above 42 Years	11	23
Total	**47**	**100**

Source: Author (2021)

Figure 4.5 Age Bracket



Source: Author (2021)

Analysis showed that the employees in the organization are well experienced where those who were in the ages of 18 – 23 years was represented by 9%, 24 – 29 years indicated 21%, those of 30 – 35 years was represented by 19%, 36 – 41 years indicated 28% while those who have ages for above 42 years was represented by 23%. This showed that the respondents are mature enough to handle the operations in the organization especially those that relate to loan performance.

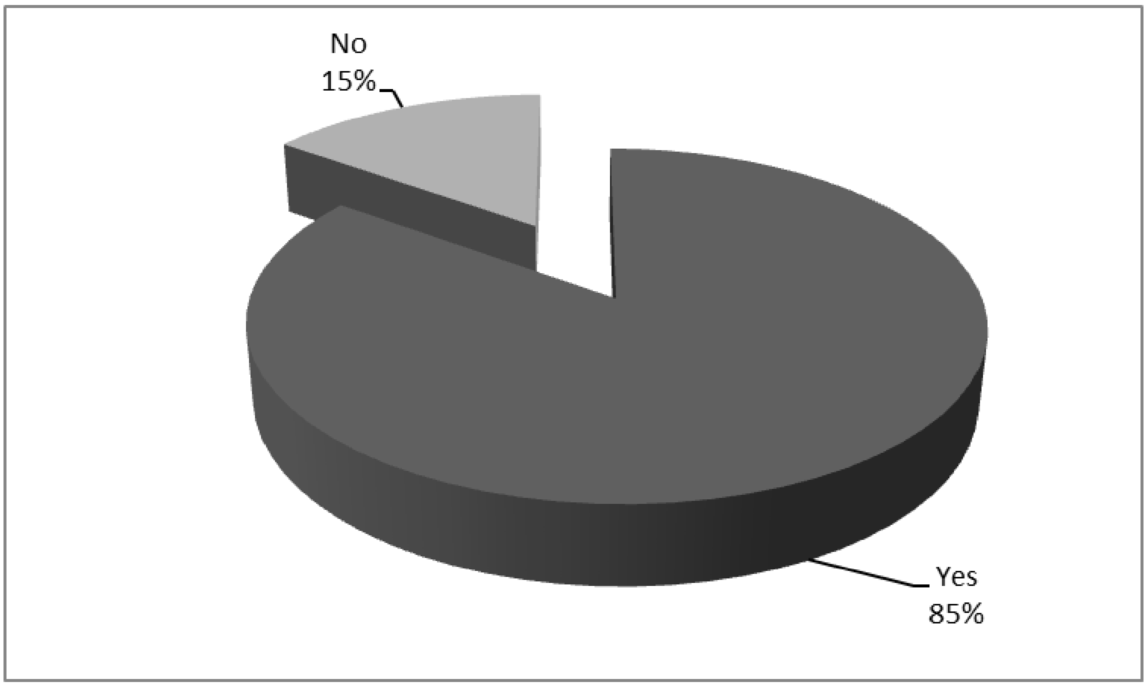
4.1.6 Organization Policy

Table 4.6 Effect of organization policy on loan performance of Sacco's in Kenya

Effect	Frequency	Percentage
Yes	40	85
No	7	15
Total	**47**	**100**

Source: Author (2021)

Figure 4.6 Effects of organization policy on loan performance of Sacco's in Kenya



Source: Author (2021)

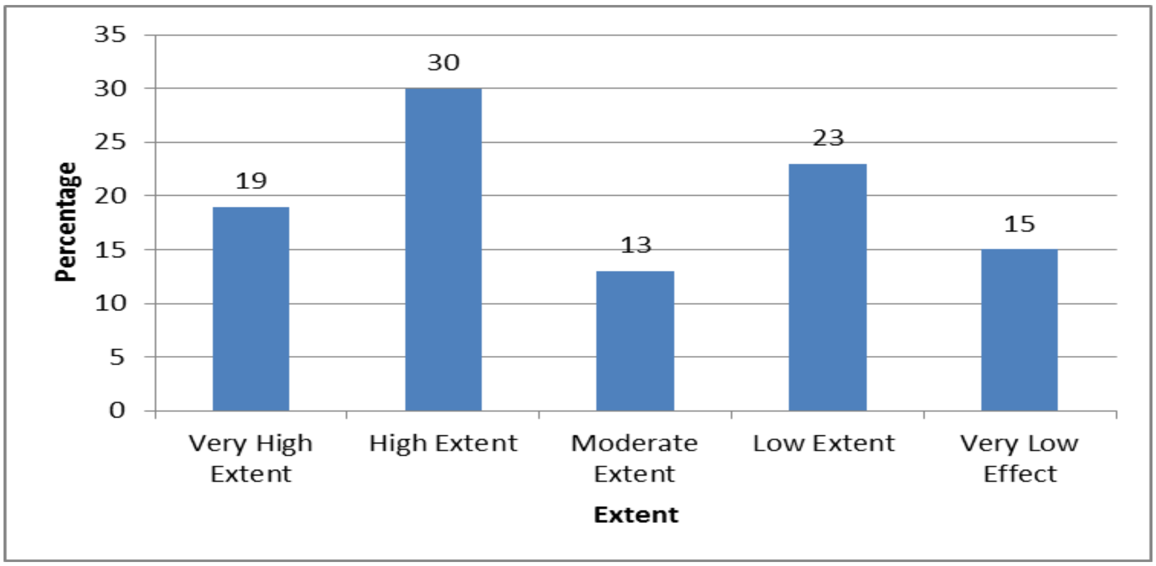
Table 4.6 and figure 4.6 indicated the effects of organization policy on loan performance where those who agreed were represented by 85%, while those who disagreed were represented by 15%. This show that organization policy does affect how the loans of the organization are being paid and the effect they have in the organization. Policies being implemented in the organization has to be in line with those of the government especially the once that relate to loan payment.

Table 4.7 Extent of organization policy on loan performance of Sacco's in Kenya

Extent	Frequency	Percentage
Very High Extent	9	19
High Extent	14	30
Moderate Extent	6	13
Low Extent	11	23
Very Low Effect	7	15
Total	**47**	**100**

Source: Author (2021)

Figure 4.7 Extent of Organization policy on loan performance of Sacco's in Kenya



Source: Author (2021)

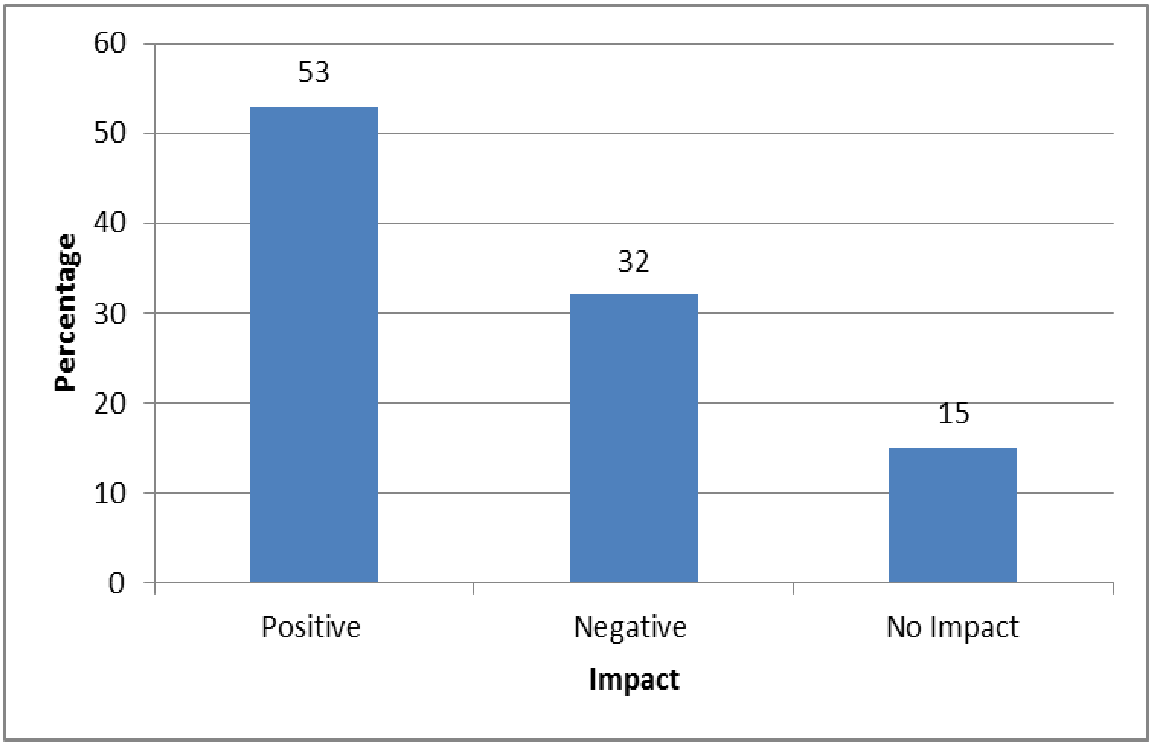
Findings in table and figure 4.7 showed the extent at which organization policy affect loan performance where very high extent was represented by 19%, high extent was represented by 30%, moderate extent was represented by 13%, and low extent indicated 23% while very low effect was represented by 15%. This showed that organization policy affect loan performance of savings and credit cooperatives highly extent and should be evaluated on regular basis.

Table 4.8 Impact of Organization policy on loan performance of Sacco's in Kenya

Impact	Frequency	Percentage
Positive	25	53
Negative	15	32
No Impact	7	15
Total	**47**	**100**

Source: Author (2021)

Figure 4.8 Impact of organization policy on loan performance of Sacco's in Kenya



Source: Author (2021)

From the analysis it indicated the impact of organization policy on loan performance where those who represented positively were 53% and they were the majority, negatively was represented by 32% while no impact was represented by 15%. This showed that organization policy should be evaluated regularly for it has a positive impact in the organization especially on loan performance.

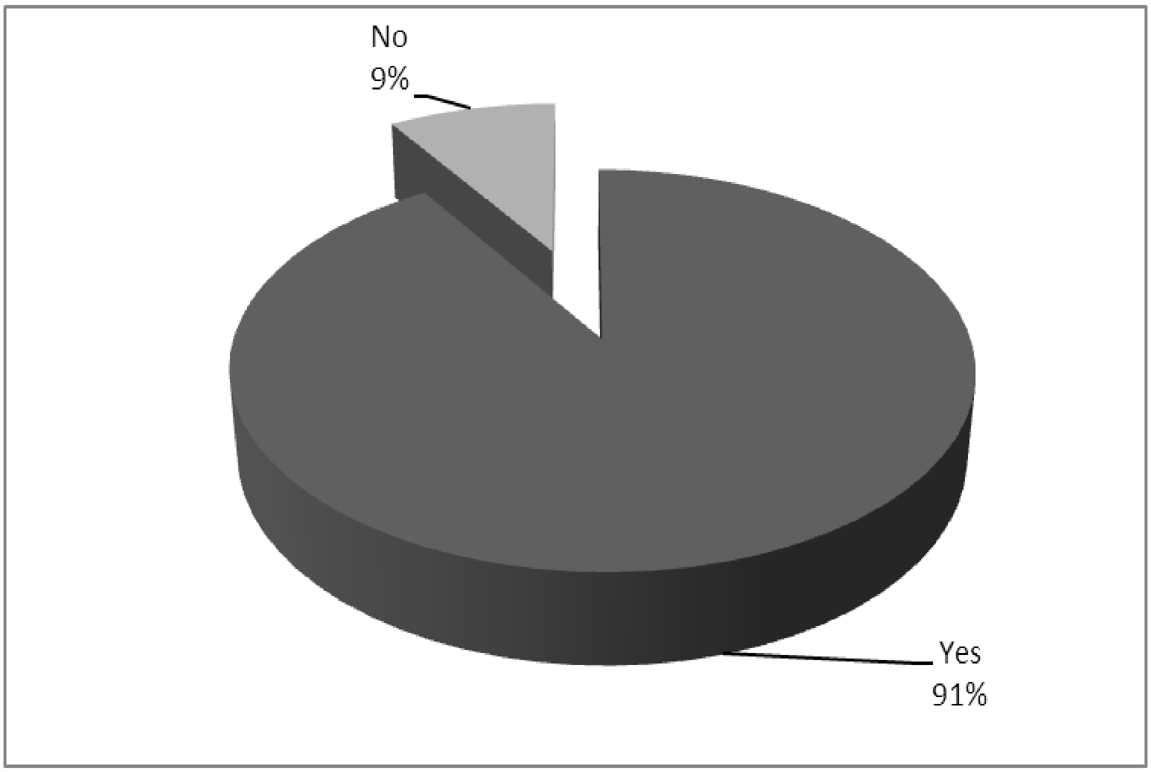
4.1.7 Loan Defaulting

Table 4.9 Effects of loan defaulting on loan performance of Sacco's in Kenya

Effect	Frequency	Percentage
Yes	43	91
No	4	9
Total	**47**	**100**

Source: Author (2021)

Figure 4.9 Effect of loan defaulting on loan performance of Sacco's in Kenya



Source: Author (2021)

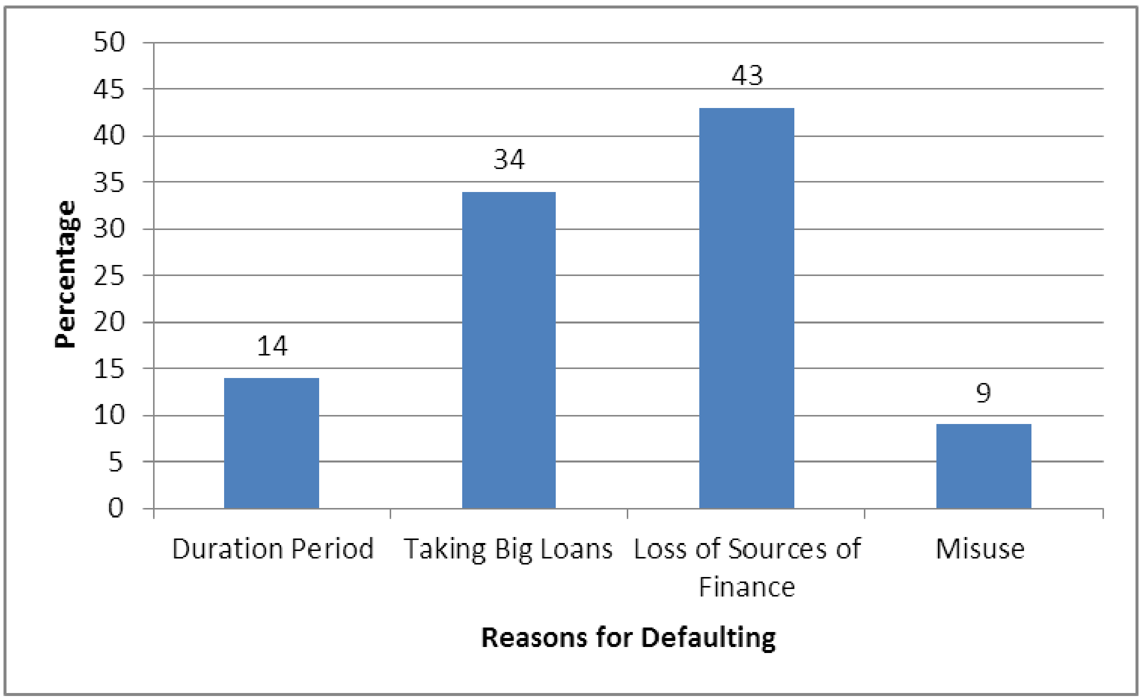
Analysis in table 4.9 and figure 4.9 indicated the effect of loan defaulting on loan performance where majority of the respondents indicated that it does affect with a representation of 91% while 9% disagreed it does not affect the organization. Therefore the organization needs to evaluate how they can reduce the level of loan defaulting by use of collaterals that can be used when the borrowers fail to pay their loans.

Table 4.10 Reasons for defaulting loans

Reasons for Defaulting	Frequency	Percentage
Duration Period	7	14
Taking Big Loans	16	34
Loss of Sources of Finance	20	43
Misuse	4	9
Total	**47**	**100**

Source: Author (2021)

Figure 4.10 Reason for defaulting loans



Source: Author (2021)

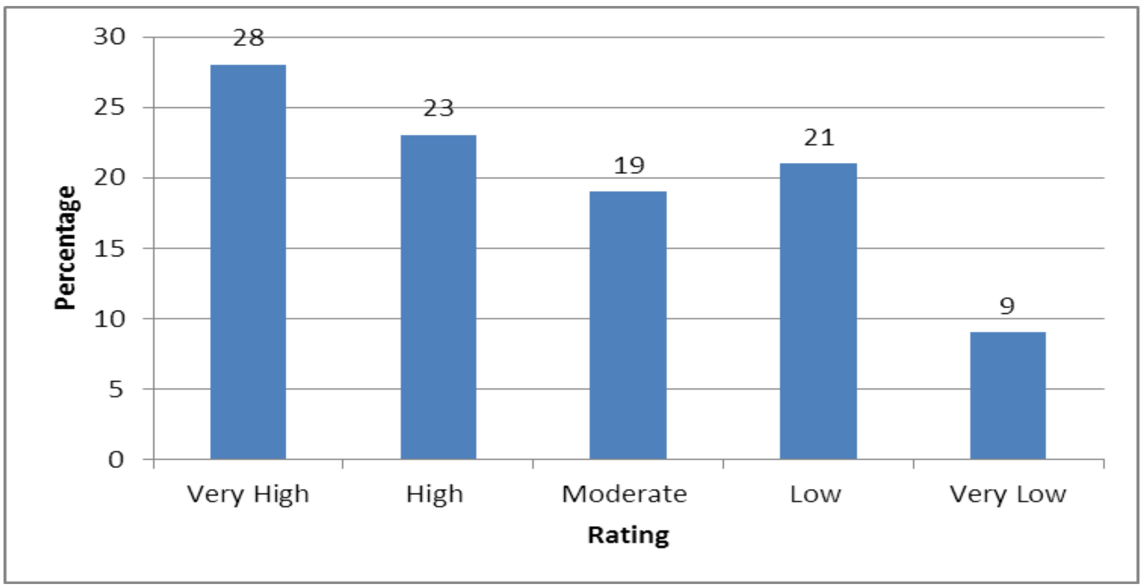
The study indicated the reasons why most of the borrowers default their loans where 14% indicated they default due to loans duration period, 34% indicated taking big loans, loss of sources of finance was represented by 43% while misuse was represented by 9%. Findings indicated that loss of sources of finance has led to failure of them to pay their loans and this has led to majority of members to be loan defaulters.

Table 4.11 Rating of loan defaulting on loan performance of Sacco's in Kenya

Rating	Frequency	Percentage
Very High	13	28
High	11	23
Moderate	9	19
Low	10	21
Very Low	4	9
Total	**47**	**100**

Source: Author (2021)

Figure 4.11 Rating of loan defaulting on loan performance of Sacco's in Kenya



Source: Author (2021)

Based on the analysis it indicated the rating of loan defaulting were majority of the respondents agreed that it does affect very highly with a representation of 28%, highly was represented by 23%, 19% indicated moderate, low was represented by 21% while very low indicated 9%. Loan defaulting does affect the organization very highly and need to be evaluated regularly to help improve the organization performance and help sustain the operations of the organization.

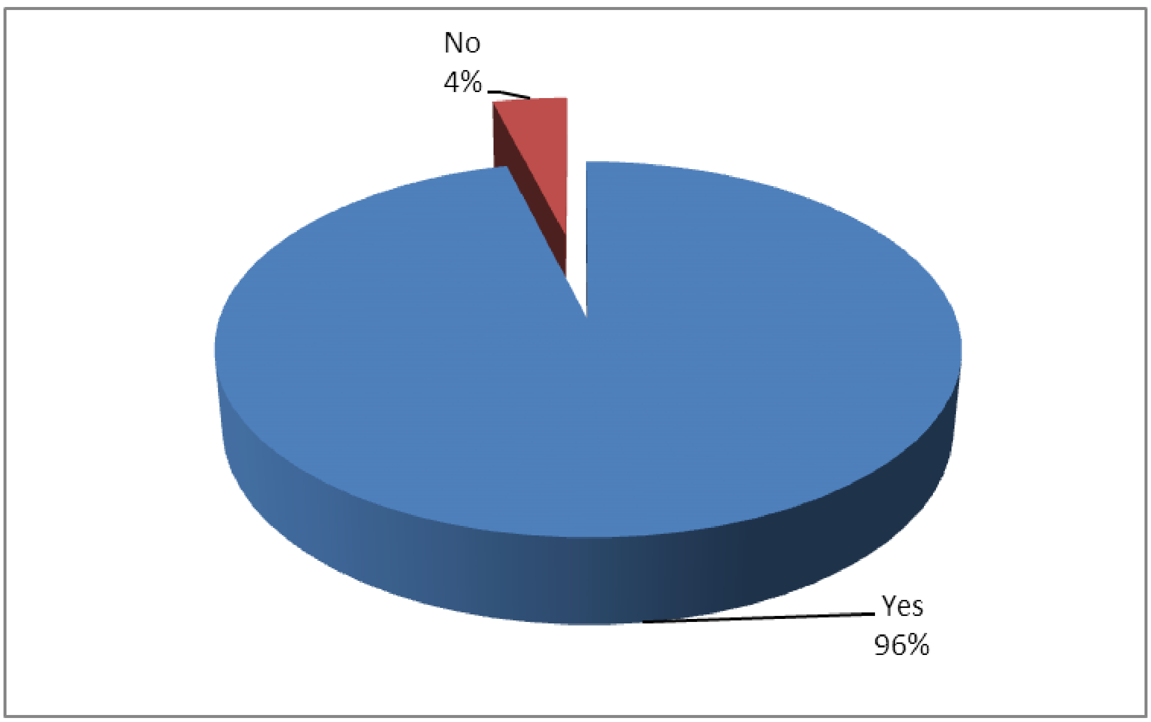
4.1.8 Pricing

Table 4.12 Effect of pricing on loan performance of Sacco's in Kenya

Effect	Frequency	Percentage
Yes	45	96
No	2	4
Total	**47**	**100**

Source: Author (2021)

Figure 4.12 Effect of pricing on loan performance of Sacco's in Kenya



Source: Author (2021)

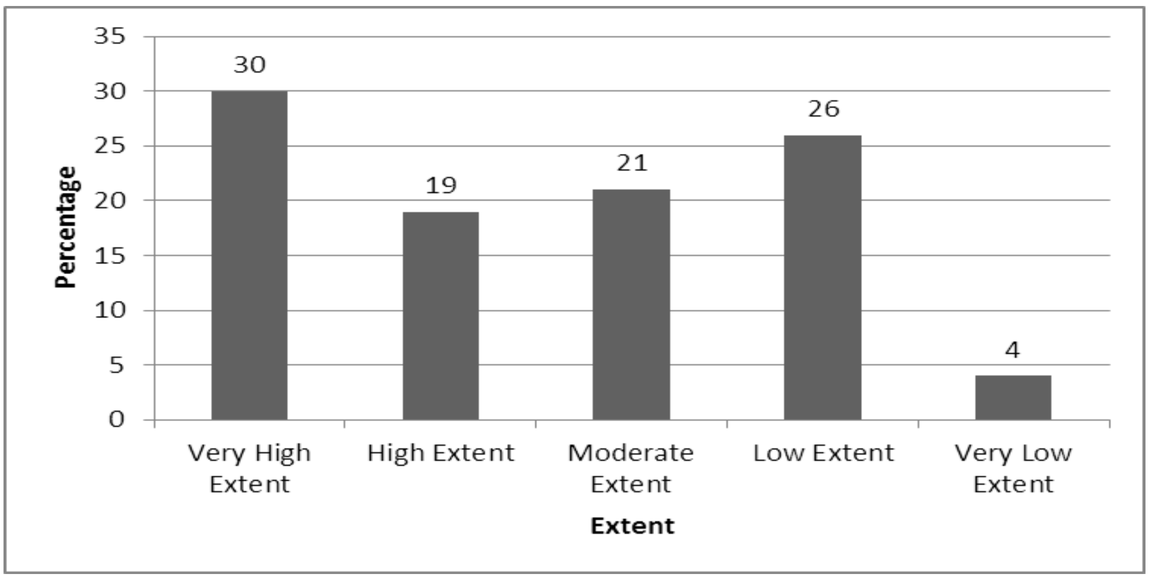
Based on the analysis in table 4.12 and figure 4.12 showed the effects of pricing on loan performance where 96% agreed that it does affect while those who disagreed were represented by 4%. Analysis showed that pricing has an effect on loan performance and the pricing should be fair to attract more clients in the organization.

Table 4.13 Extent of pricing on loan performance of Sacco's in Kenya

Extent	**Frequency**	**Percentage**
Very High Extent	14	30
High Extent	9	19
Moderate Extent	10	21
Low Extent	12	26
Very Low Extent	2	4
Total	**47**	**100**

Source: Author (2021)

Figure 4.13 Extent of pricing on loan performance of Sacco's in Kenya



Source: Author (2021)

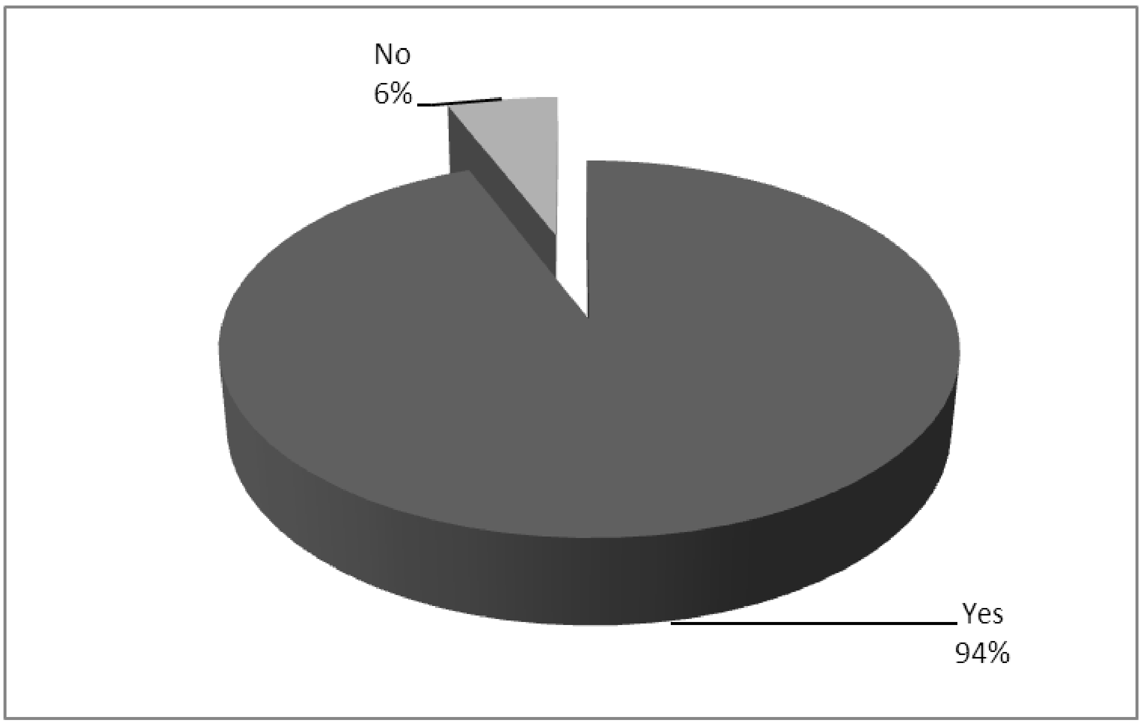
From the analysis in the above table and figure has indicated the extent to which pricing does affect loan performance where very high extent was represented by 30%, high extent indicated 19%, 21% indicated moderate extent, low extent indicated 26% while very low extent was represented by 4%. Pricing does affect loan performance at a very highly extent and should not be neglected at any cost by the management of the organization

Table 4.14 Whether pricing influence the financial performance of the Sacco's

Pricing	Frequency	Percentage
Yes	44	94
No	3	6
Total	**47**	**100**

Source: Author (2021)

Figure 4.14 Whether pricing influence the financial performance of Sacco's



Source: Author (2021)

On whether pricing influence financial performance in the organization, the analysis showed that majority of the respondents agreed that it does affect with a representation of 94% while those who disagreed were represented by 6%. This showed that pricing of the loans influence the performance of the organization.

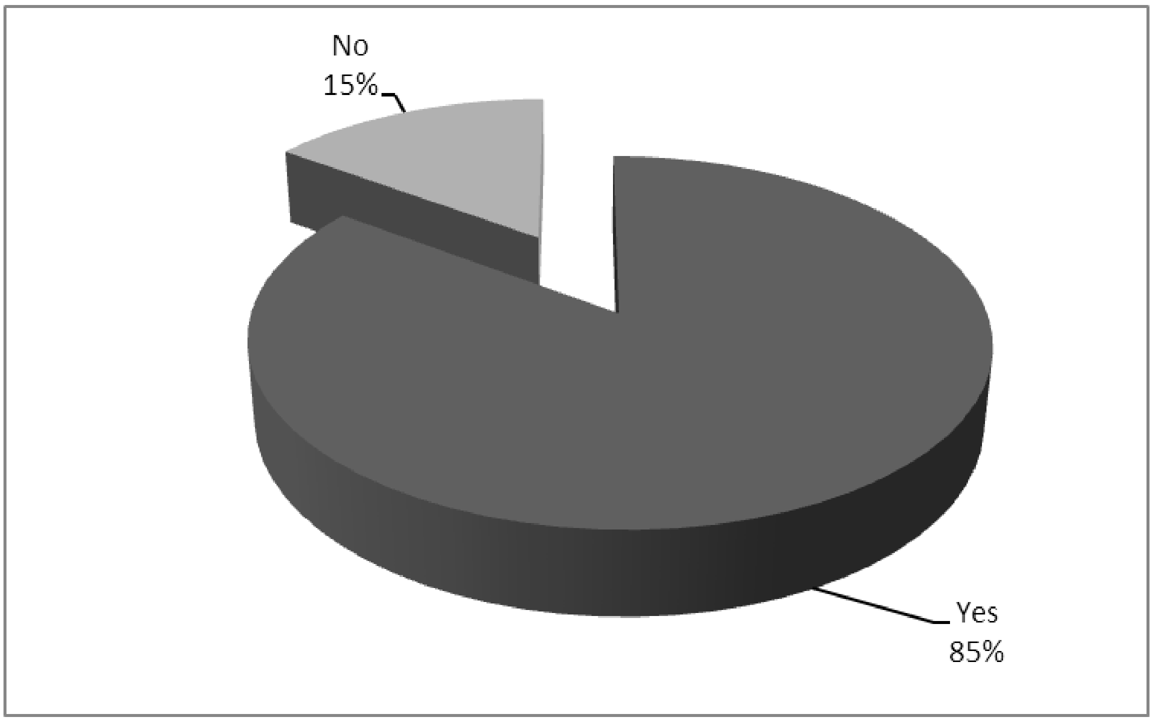
4.1.9 Competition

Table 4.15 Effect of competition on loan performance of Sacco's in Kenya

Effect	Frequency	Percentage
Yes	40	85
No	7	15
Total	**47**	**100**

Source: Author (2021)

Figure 4.15 Effects of competition on loan performance of Sacco's in Kenya



Source: Author (2021)

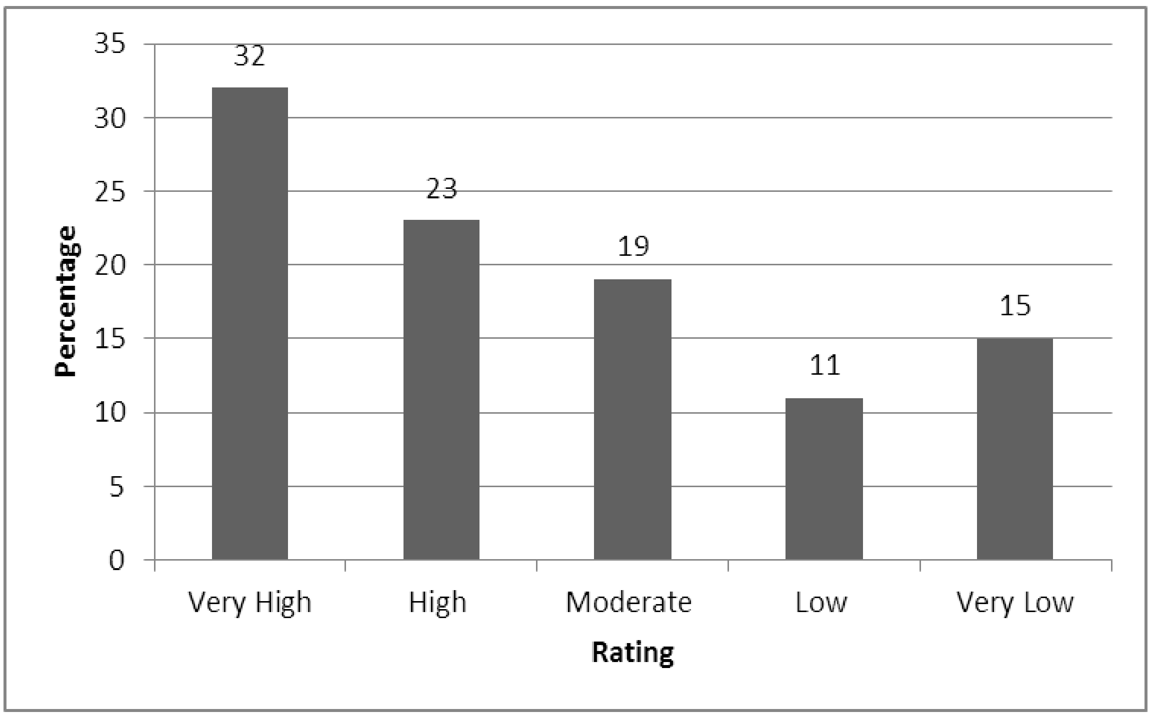
From the findings in table 4.15 and figure 4.15 indicated the effect of competition on loan performance where 85% agreed that it does affect while 15% disagreed that it does not affect the organization. Based on the findings it indicated that competition has an effect on loan performance

Table 4.16 Rating of competition on loan performance of Sacco's in Kenya

Rating	Frequency	Percentage
Very High	15	32
High	11	23
Moderate	9	19
Low	5	11
Very Low	7	15
Total	**47**	**100**

Source: Author (2021)

Figure 4.16 Rating of competition on loan performance of Sacco's in Kenya



Source: Author (2021)

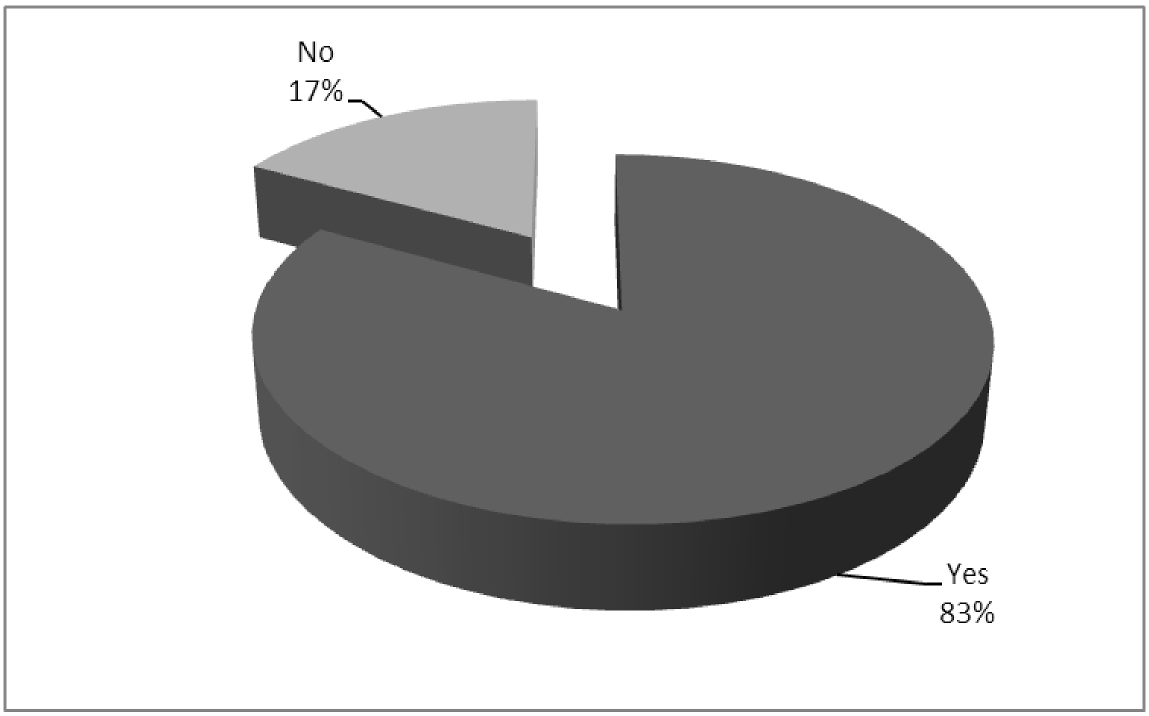
From the analysis on table 4.16 and figure 4.16 indicated the ratings of competition where very high was represented by 32%, highly was represented by 23%, 19% indicated moderate, low indicated 11% while very low was represented by 15%. Competition does affect the performance of the organization very highly.

Table 4.17 How competition from other Sacco's has influence the organization

Category	Frequency	Percentage
Yes	39	83
No	8	17
Total	**47**	**100**

Source: Author (2021)

Figure 4.17 How competition from other Sacco's has influence the organization



Source: Author (2021)

Based on the findings in table 4.17 and figure 4.17 showed that competition from other Sacco's has affected the loan performance in the organization and this can the shown by majority who agreed with a representation of 83% while those who disagreed were represented by 17%. This showed that the organization is influenced by the competitiveness levels of the organization.

4.2 Chapter Summary

The section summarized the data analysis methods based on the data that was collected from the respondents. The following chapter shows the summary and recommendations that should be considered.

CHAPTER FIVE

SUMMARY, RECOMMENDATIONS AND CONCLUSIONS

5.0 Introduction

This chapter shall discuss the summary based on the findings, recommendations and conclusions on the variable of the study

5.1 Summary of Findings

Based on the findings on the extent at which organization policy affect loan performance it showed that very high extent was represented by 19%, high extent was represented by 30%, moderate extent was represented by 13%, and low extent indicated 23% while very low effect was represented by 15%. The organization should institute regulatory frameworks that can help the review all the policies that need to be influence the loan performance of the organization.

Based on the analysis it indicated the rating of loan defaulting were majority of the respondents agreed that it does affect very highly with a representation of 28%, highly was represented by 23%, 19% indicated moderate, low was represented by 21% while very low indicated 9%. Loan defaulting does affect the organization very highly and need to be evaluated regularly.

From the analysis the study has indicated the extent to which pricing does affect loan performance where very high extent was represented by 30%, high extent indicated 19%, 21% indicated moderate extent, low extent indicated 26% while very low extent was represented by 4%. Pricing does affect loan performance at a very highly extent and the interest rates of the loans has to be reviewed

The analysis indicated the ratings of competition where very high was represented by 32%, highly was represented by 23%, 19% indicated moderate, low indicated 11% while very low was represented by 15%. Competition does affect the performance of the organization very highly and it is the duty for the management to ensure that they review their competitive nature of their business.

5.2 Recommendations

The study recommended that proper policies should be in place such are recovery methods for the loan that has not been paid in time and have proper mechanisms to improve the performance of the organization

The researcher recommended that loan defaulting should be improved through use of collaterals which should be attached at the time of applying for the loan so that the collaterals can be used as recovery for the loans that have been borrowed

Pricing for the loans is a major challenge towards loan performance of the organization therefore the researcher recommended that the pricing of loans should not be to high the can hinder the borrowers to come and get loans from the organization

The researcher recommended that the organization competitiveness should be improved through offering better services more than those of the competitors and learns to maintain the clients that the organization already has.

5.3 Conclusions

From the study majority of the respondents agreed that organization policy does affect loan performance of Sacco's in Kenya, therefore the organization has to review the policies on loan performance

Present study has indicated that loan defaulting does affect loan performance of Sacco's and it is in order for the management of the organization to improve different mechanisms for loan recovery

In conclusion of the effect of pricing on loan performance of Sacco's it indicated that it does affect the organization performance and pricing mechanism be done

Competition being a key factor to loan performance in the organization the study concluded that the policies on competitiveness need to be reviewed to ensure that the organization performs better

REFERENCES

Armstrong M (2013) a handbook of Human Resources Management Practice 1st edition Kogan Page London and Philadelphia, USA

Bystrom, J. (2013), *The Theory of Economic Development* 3rd Edition Harvard University Press, Cambridge, MA: USA

Eagan W. (2018) *The AMA Complete Guide to Strategic Planning for Small Business.* American Marketing Association, Chicago USA

Gathurithi, S. A. (2011) *Co-operating out of Poverty in Kenya* 4th Edition Linton Publishers Limited Pretoria South Africa

Jain, G. (2015) *Marketing Management* 4th Edition Tata McGraw Hill Co. limited New York USA

Keller, K. L. (2014) *Brand Synthesis: The Multidimensionality of Brand Knowledge*, 3rd Edition Pearson Education Inc. New Jersey USA

Kotler, P. (2014) *Principles of Marketing* 11th Edition Pittsboro Education Limited Washington DC, USA

Labie, E. (2018) African Cooperatives and the Financial Crisis; Coop AFRICA Working Paper No.3

Levi-Faur, David (2012) *Regulation and Regulatory Governance*, 4th Ed. UN Paper on Regulation and Governance. Genève, Switzerland

Magali, M. (2013) Loan default Pose Risk to Sacco Financial Stability. Business Daily June 2011

Mekonnen, H. M. (2015) *Portfolio Selection: Efficient Diversification of Investments*. 4th Edition John Wiley & Sons. New York: USA

Mugenda, O. M. and Mugenda, A. G. (2009) *Research Methods: Quantitative and Qualitative Approaches*, 3rd Edition Acts Press Nairobi, Kenya

Mvula, J. S. (2013), *The Transformation of the Informal Sector. The Co-operative Perspective*. 6th Edition Shirikon Press, Nairobi Kenya.

Ondieki, M. (2011) *Effectiveness of Guarantor ship in Loan Recovery in Cooperative Societies in Kenya*: Case study of Mwalimu Sacco. Unpublished university of Nairobi

Oswald F (2017) *Management, service quality and satisfaction*, 5th Edition Prentice Hall, New Jersey USA

Porter. M. E. (2012) *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. 3rd Ed, Free Press New York USA

Schreiner, T. K. (2013). Bad Debts Restructuring Techniques and Non-Performing Loans 2nd Edition McGraw-Hill Publishers London: UK

Stearns, J. C (2012) *Financial Management and Policy*, 3rd Edition Prentice Hall Upper Saddle River New Jersey USA

Tundui, D. (2013). *Anticipated and Repeated Shocks in Liquid Markets*, 5th Edition. Allyn & Bacon Boston, USA

APPENDIX I

QUESTIONNAIRE

For the questions provided below, please tick in the bracket and explain where required

SECTION ONE: BASIC INFORMATION

1. Gender Response

Male ☐ Female ☐

2. Education Level

KSCE Certificate ☐ Diploma ☐

Undergraduate ☐ Post Graduate ☐

Others......................................

3. Number of Years of Services

Less than 3 Years ☐ 4 – 7 Years ☐ 8 – 11 Years ☐

12 – 15 Years ☐ Above 16 Years ☐

4. Age Bracket

18 – 23 Years ☐ 24 – 29 Years ☐ 30 – 35 Years ☐

36 – 41 Years ☐ Above 42 Years ☐

SECTION TWO: ORGANIZATION POLICY

5. In your opinion does organization policy influence loan performance of Sacco's in Kenya?

Yes ☐ No ☐

6. To what extent does organization policy influence loan performance of Sacco's in Kenya?

Very High Extent ☐ High Extent ☐ Moderate Extent ☐

Low Extent ☐ Very Low Effect ☐

7. What is the impact of the organization policy on the implementation of loan performance of Sacco's?

Positive ☐ Negative ☐ No Impact ☐

8. What measure should be in place to ensure that the policies institutes are fully implemented?

Explain

....

....

....

SECTION C: LOAN DEFAULTING

9. Does loan defaulting affect loan performance of Sacco's in Kenya?

Yes ☐ No ☐

10. What is the main reason that makes the borrowers to default their loans?

Duration Period ☐ Taking Big Loans ☐

Loss of sources of Finance ☐ Misuse ☐

11. How does loan defaulting affect loan performance of Sacco's in Kenya?

Very High ☐ High ☐ Moderate ☐

Low ☐ Very Low ☐

12. Suggest to the management some of the policies to ensure that borrowers do not default on their loans

………………………………………………………………………………………………

………………………………………………………………………………………………

………………………………………………………………………………………………

SECTION D: PRICING

13. Do you believe that pricing does affect loan performance of Sacco's in Kenya?

Yes ☐ No ☐

14. To what extent does pricing affect loan performance of Sacco’s in Kenya?

Very high Extent ☐ High Extent ☐ Moderate Extent ☐

Low Extent ☐ Very Low Extent ☐

15. Does the pricing charged by the Sacco affect its financial performance?

Yes ☐ No ☐

16. How does the pricing given affect the cash flow of the Sacco’s?

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

SECTION E: COMPETITION

17. Does competition affect loan performance of Sacco’s in Kenya?

Yes ☐ No ☐

18. What is the effect of competition on loan performance of Sacco’s in Kenya?

Very High ☐ High ☐ Moderate ☐

Low ☐ Very Low ☐

19. Has competition from other Sacco affected loan performance of the Sacco?

Yes ☐ No ☐

20. What measures should be in place to ensure that competition is fair among the Sacco’s?

……………………………………………………………………………………………

……………………………………………………………………………………………

……………………………………………………………………………………………

Thank you for Your Cooperation