# Drivers Of Financial Performance Among Primary Marketing Co-Operatives In Nyeri County Kenya

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**A Thesis Submitted to the School of Business Management and Economics in Partial Fulfilment of the Requirement for the award of the Degree of Masters of Business Administration (Finance Option) of Dedan Kimathi University of Technology**

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## DECLARATION

This thesis is my original work and has not been presented in any other University for award of a degree.

**Signature…………………………..** **Date……………………….**

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**B211/02/00070/2015**

## APPROVAL

Thisthesis has been submitted for examination with our approval as University Supervisor(s).

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## DEDICATION

This thesis is dedicated to my entire family, especially my wife Mrs Gladys Wanjau and my children Christine and Collins for their moral support, encouragement and motivation during my period of study. They have been very supportive during the entire period of the study.

## ACKNOWLEDGEMENT

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My appreciation goes to all the staff of Primary Marketing Co-operatives that provided data for use in the completion of this study.

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## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| **GDP** | Gross Domestic Product |
| **GoK** | Government of Kenya |
| **HRM** | Human Resource Management |
| **ICA** | International Co-operative Alliance |
| **IMF** | International Monetary Fund |
| **KNBS** | Kenya National Bureau of Statistics |
| **KUSCCO** | Kenya Union of Savings and Credit Co-operatives |
| **ROA** | Return on Assets |
| **ROE** | Return on Equity |
| **ROI** | Return on Investment |
| **SACCOS** | Savings and Credit Co-operative Societies |
| **SPSS** | Statistical Package for Social Science |
| **WOCCU** | World Council of Credit Unions |

## ABSTRACT

Approximately 63% of the Kenyan population draws their livelihood directly or indirectly from co-operative based activities. Kenyan Marketing Co-operatives provide opportunities for employment, resource mobilization and suitable structured development all aimed at reduction of poverty levels and impacting positively on the lives of people. The above goals are greatly hampered by the myriad of challenges faced by Primary Marketing Co-operatives resulting to slow growth, underperformance and ineffective service delivery. This study therefore sought to establish the drivers of financial performance among Primary Marketing Co-operatives in Nyeri County. The specific objectives of the study were to examine how members characteristics, staff characteristics, commodity characteristics and market characteristics influence financial performance of Primary Marketing Co-operatives in Nyeri County. The study employed four theories that included Agency Theory, Stewardship Theory, Stakeholder Theory and Resource Based Theory. The study took a descriptive research design. Census was done where all the Secretary Managers from 44 Primary Marketing Co-operative Societies in Nyeri County were the respondents. A self-administered, questionnaire was used to collect data from the target respondents. The study achieved a response rate of 79.5%. Data analysis was conducted using statistical package for social sciences (SPSS) to generate descriptive and inferential statistics. Frequencies and percentages were generated from the data and presented using frequency distribution tables while linear regression analysis was done to establish relationship of each parameter of the independent variables in the study. The data was tested for normality, linearity and multicolinearity using normal Q-Q plot, correlation coefficient (r) and Variance Inflation Factor (VIF) respectively. A bivariate linear model was used to assess the influence of each Independent Variable on the Dependent Variable. Multiple Linear Regression was used to investigate the overall model fitness of the study variables. Results for model fitness ($R^2$), ANOVA statistics and regression coefficient were generated and used to interpret the study results. The study findings revealed that members' characteristics, commodity characteristics and market characteristics has positive and significant effects on financial performance of Primary Marketing Co-operatives. Staff characteristics have a positive but statistically insignificant effect of financial performance of Primary Marketing Co-operatives. The study recommends that Primary Marketing Co-operatives should invest on member characteristics, commodity characteristics and market characteristics to improve their financial performance. It also recommends that although the staff characteristics are statistically insignificant they should also be enhanced because they also have a positive effect on financial performance.

# CHAPTER ONE
# INTRODUCTION

## 1.1: Background of the Study

### 1.1.1: Global Perspective of Co-operatives.

The modern Cooperative concept started in 1844 in Rochdale village, Manchester, England when Britain was undergoing the industrial revolution, (Cropp & Truman, 2001). It has since developed globally as a social and economic movement with its own distinct identity, history, structure and purpose. According to the International Co-operative Alliance report 2017, there are over 2.6 million co-operatives in the world with over a billion members and directly employing over 250 million people or 12% of total employed population.

### 1.1.2 Regional Perspective of Co-operatives.

The co-operative theory has been promoted and embraced in virtually all African countries since the colonial era. This has witnessed a significant growth of the co-operative movement in almost all sectors of the economy. Recent statistics show that out of 100 Africans, including children and the elderly, at least seven people are members of a co-operative and the total number of co-operatives in most countries has continued to grow (Develtere, Pollet & Wanyama, 2008). Cooperatives take different structural forms in Africa and are broadly organized at two levels: the primary level and the secondary level. At the primary level are co-operative societies with individual persons as members, while co-operative unions are formed at the secondary level with co-operative societies as the members.

The co-operative sector in Africa is very heterogeneous in terms of its membership. Members of co-operative societies cut across ethnic backgrounds, the rural-urban divide and sometimes professional categories. Whereas members of agricultural co-operatives are largely rural large and small-scale farmers, the majority of the members of non-agricultural co-operatives live in the urban areas. In these settings, there are people from diverse ethnic backgrounds participating in the same co-operatives.

### 1.1.3: The Co-operative Industry in Kenya.

The history of the Co-operative movement in Kenya dates to the beginning of the 20$^{th}$ Century. The first cooperative society was established by white settlers in 1908 at

Lubwa and registered under the Companies Ordinance. Thereafter the Cooperative societies' Ordinance was enacted to govern the registration of co-operative societies in 1931, but was repealed in 1945 to allow Africans to become Cooperative members. Hence the Co-operative movement in Nyeri County started thereafter and especially with registration of coffee Co-operative societies in the 1950s. Although the co-operative movement in Kenya dates long before independence, the emergence of the co-operative movement in the Kenyan economy became dominant after 1963 and the first independent Kenya government enacted the Co-operative Societies' Act in 1966 to give more and direct support to co-operatives through the office of the Commissioner for Co-operative Development (Kenya Government, 1966).

The Co-operative Sector in Kenya has been ranked as number seven worldwide and number one in Africa by ICA in terms of number of enterprises, membership, capital and contribution to national economy. Today, Kenya has about 22,000 registered Co-operatives which can be broadly categorized as financial and non-financial Co-operatives. Financial Cooperatives include Savings and Credit Cooperatives (SACCO societies), Union of SACCOs, Housing and Investment Co-operatives. Non-financial co-operative include trading, produce and marketing Co-operatives, (ICA, 2017).

The co-operatives continued to be registered and expand in their outreach and impact into farm purchase, savings and credit, housing, handicraft, industrial, transport, workers, consumers, multipurpose, unions and National Co-operative Organizations' (NACO's).As at present there are over 22,000 registered Co-operatives Societies in Kenya. The Co-operative movement in Kenya is an important player in the social economic development of this country. Cooperatives cut across all sectors of the economy and provide an important framework for mobilization of both human and capital resources. (Ministry of Co-operative Development and Marketing, 2008).

The co-operative movement in Nyeri County is a vibrant venture and spreads in all sectors of the economy. There exists 166 registered Co-operative Societies in the county with over 442,000 members. A review of the geographical spread of co-operatives shows that by 2013 the performance of the Co-operative Societies in Nyeri County was as shown in the table below:

**Table 1.1: Geographical Spread and Performance of Co-operatives in Nyeri County**

| Sub-county | No. of registered Co-operative societies | Membership | Share capital Millions | Turnover Millions |
|---|---|---|---|---|
| Mathira East | 52 | 50304 | 153 | 676.5 |
| Nyeri Central | 38 | 17057 | 570.6 | 1,449.2 |
| Tetu | 12 | 16875 | 48.7 | 285.6 |
| Nyeri South | 17 | 99721 | 164 | 361.5 |
| Mukurwe-ini | 17 | 50437 | 102.5 | 872.3 |
| Kieni West | 10 | 7197 | 66.7 | 402.5 |
| Kieni East | 15 | 3373 | 22.1 | 57.6 |
| Mathira West | 4 | 14757 | 18.2 | 166.6 |
| **Total** | **166** | **381212** | **1218.5** | **4851.1** |

**Source: Ministry of Cooperative Development and Marketing, 2015**

**Table 1.2: Structure and Status of Primary Co-operative Societies in Nyeri County Activity wise.**

| Activity | Number | Active | Dormant |
|---|---|---|---|
| Coffee | 23 | 23 | 0 |
| Dairy | 24 | 22 | 2 |
| Rural Saccos | 11 | 11 | 0 |
| Urban Saccos | 22 | 22 | 0 |
| Women Saccos | 6 | 6 | 0 |
| Youth Saccos | 5 | 2 | 0 |
| Transport | 53 | 33 | 20 |
| Housing | 8 | 8 | 0 |
| Investment | 8 | 8 | 0 |
| Others | 6 | 6 | 0 |

**Source: Ministry of Cooperative Development and Marketing, 2015**

## 1.2 Statement of the Problem

Primary Marketing Co-operatives are key economic drivers in Kenya with a great potential in eradication of poverty, wealth creation, generation of employment and raising the livelihoods of vulnerable people in the country. Many Primary Marketing Co-operatives in Kenya are faced with imminent danger of collapsing due to poor financial performance leading to decline in members' patronage. The co-operatives also run short of operating capital to pay wages, purchase of equipment, expansion or meeting other operating costs.

Financial underperformance inhibits growth of Primary Marketing Co-operatives by keeping away potential new members and discouraging the already registered members from investing more of their resources. Extensive research has been conducted on co-operative movement in Kenya but specific research work more focused on drivers of financial performance among Primary Marketing Cooperatives remains scanty hence an attempt by this study to fill the knowledge gap. Nyeri County is an epitome of vibrant co-operative activities and leads in numbers of both coffee and dairy cooperatives.

Available information in the county government's co-operative registry reveals deep rooted problems being faced by some Primary Marketing Cooperatives in Nyeri County threatening their sustainability and survival. Two coffee co-operatives have already been liquidated while three dairy co-operatives have ceased operations. This study therefore sought to investigate the drivers of financial performance among Primary Marketing Co-operatives in Nyeri County.

## 1.3 Purpose of the Study

The purpose of this study was to document the key drivers of financial performance among Primary Marketing Co-operatives in Nyeri County.

## 1.4 Objectives of the Study.

### 1.4.1 General Objective.

The main purpose of the study was to investigate the drivers of financial performance among Primary Marketing Co-operatives in Nyeri County.

### 1.4.2 Specific Objectives.

The specific objectives were to;

i. Examine influence of members' characteristics on financial performance of Primary Marketing Co-operatives in Nyeri County.
ii. Explore the role of staff characteristics on financial performance of Primary Marketing Co-operatives in Nyeri County.
iii. Assess effect of commodity characteristics on financial performance of Primary Marketing Co-operatives in Nyeri County.
iv. Evaluate the influence of market characteristics on the financial performance of Primary Marketing Co-operatives in Nyeri County.

1.5 Research questions.

i. What is the influence of members' characteristics on financial performance of Primary Marketing Co-operatives in Nyeri County?
ii. What influence do staff characteristics have on financial performance of Primary Marketing Co-operatives in Nyeri County?
iii. What effect does commodity characteristics have on the financial performance of Primary Marketing Co-operatives in Nyeri County?
iv. Do market characteristics affect financial performance of Primary Marketing Co-operatives in Nyeri County?

### 1.6 Significance of the Study

The findings and conclusions of this study can be of significance to the management of Primary Marketing Co-operatives. They can be able to appreciate how financial performance of their co-operatives is influenced by the study variables. Based on the findings the management can be able to understand the strategies to be taken in order to improve the financial performance of the respective Primary Marketing Co-operatives.

The co-operative members can be able to understand the factors affecting financial performance of their entities and become more informed especially in their contributions on the directions they would desire the management to take in improving profitability and other financial performance indicators. This study shall have policy implications and recommendations which can be used by government policy makers in structuring policies to create an enabling environment to primary marketing co-operatives operations in the country. Scholars and researchers shall find this study of interest due to the gaps for further research that shall be produced at the end of this study.

## 1.7 Delimitation of the Study

This study established drivers of financial performance in Primary Marketing Co-operatives in Nyeri County and conducted a census from the respective dairy and coffee co-operative societies in the county. The scope was also limited to the stated objectives of the study which spelt out the variables studied.

## 1.8 Limitations of the Study

The study was focused on Primary Marketing Co-operatives in Nyeri and also considered only four variables as the drivers of financial performance whereas there could be other factors.

## 1.9 Assumptions of the study

The researcher assumed that the respondents would be honest, cooperative, factual and trustworthy in their responses to the research instruments and would be available to respond to the research instruments in time. It was also assumed that the size of co-operatives would not influence results and that measurement scale was adequate.

## 1.10 Definition of significant terms

**Financial performance:** The accomplishment of a given task measured against present known standards of accuracy, completeness, cost and speed. Financial Performance is deemed to be the fulfillment of total asset increase, increased profits and increased membership in primary co-operatives. Financial performance guides management on the strategies and policies to adopt to improve sustainability of the organization (Almazari, 2011).

**Cooperative:** An autonomous association of persons united voluntarily to meet their common economic and social needs (Co-operative Society act, 1997)

**Primary Marketing Cooperatives:** The International Cooperative Alliance (ICA 2004) defines a cooperative as "…an autonomous Association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly owned and democratically controlled enterprise". Primary Marketing Co-operatives in Kenya restrict their membership to individual persons and are mainly formed by individuals within a given locality or common bond. They are mainly service provision co-operatives with the core objectives being bulking or aggregation and selling of members' produce as well as input supply, processing, credit provision, training and member education.

## 1.11 Chapter Summary

The chapter highlighted reasons behind the study by discussing not only local but also regional and global perspectives of co-operatives. It went ahead to state the research problem and the underlying variables and concluded by defining the significant terms used in the study.

# CHAPTER TWO
# LITERATURE REVIEW

## 2.1 Introduction

The chapter discusses theories significant to this study. The study's concept is as well developed under the section of conceptual framework and lastly empirical studies reviews that have been carried out previously on the performance area of primary co-operatives were done.

## 2.2 Theoretical Review

The term theoretical framework is defined as the structure which can support or hold a research study theory. It describes as well as introduces the theory which gives details why the problem of the research under study exists. Theories are devised to predict, explain and comprehend phenomenon and, in various cases, to dispute as well as expand existing knowledge, within the critical assumptions limits (Torraco, 1997). The theoretical framework has to reveal theories and concepts understanding which are significant to the research topic and that will relate to the broader knowledge fields in the study being undertaken. The theory selection must depend on its ease of application, explanatory power and appropriateness. Kennedy, (2007) also stated that theoretical framework links the researcher to knowledge that is existing.

### 2.2.1 Agency Theory and Financial Performance.

According to Hoskisson et al. (1999) Agency Theory states that, owing to the division of control and ownership in current corporations, there is frequently a interests deviation between the involved parties: the agent and the principal. Jensen and Meckling (1976) revealed that action of management depart from maximizing returns of the shareholders therefore resulting to the organization problem.

In the relationship of principal agent there are two major concerns. The first one is the expense implicated in examining the behavior of the agents and regular actions whereas the second one is the different attitudes held by the agent and principal towards risks (Eisenhard 1989). These problems lead to organization costs which are incurred by the owner or principal in an effort to make sure that managers work in the principal interest (Jensen 1976). Control and ownership separation is vital to guarantee excellent financial performance of corporate which maximizes proceeds to share holder. In relation to the theory, in the presence of information asymmetry the agent (directors as well as the managers) might pursue interests that are divergent from the owners. This was supported by Fama (1983) and Ross (1973).

### 2.2.2 Stewardship Theory and Financial Performance.

Stewardship Theory was developed by Davis (1993) and Donaldson (1991) and it's a new viewpoint to understand the existing relations between company's management and ownership. The theory arises as a significant counterbalance to theory of Agency. The theory suggests that the agents are dependable as well as good stewards of resources trusted to them under their care thus making monitoring useless (Donaldson & Davis, 1991, Schoorman & Donaldson, 1997). The theory holds a different view from the agency theory which presumes that managers act in their own self interest rather than of the organization.

According to Donaldson and Davis (1991) managers and board of directors are satisfied and motivated when the organizational objectives are achieved. Stewards desire a greater utility by satisfying organizational objectives than in self serving behavior and are concerned about personal reputation. This drives them to achieve better financial performance for their organizations. According to the theory personal satisfaction gained through achievement of organizational goals, respect for authority and work ethics of the organization influences steward actions.

The theory contends that inside directors contribute to superior financial performance as opposed to external directors. Inside directors are better placed to serve the organization since they understand it better. They make sound financial decisions which leads to higher financial performance (Donaldson, L., & Davis, J. H. 1991). According to the traditional legal view a corporation is a lawful body where directors have a duty of fiduciary to shareholders. The steward theory contend that managers behave like stewards to provide the interest of the shareholders as well as work industriously to achieve higher levels of return .The separation of ownership promotes managerial profession development which is useful for performance of corporate and wealth of shareholders. Thus when managers are empowered to exercise creative responsibility and authority it leads to corporate profit maximization and value of shareholders (Donaldson & Davis 1994 ).

### 2.2.3 Stakeholder Theory and Financial Performance.

The stakeholder theory popularized by Freeman, (1994) is underpinned by the assumption that values are necessarily and clearly part of conducting business and put pressure on administration to articulate the manner in which they want to conduct business with what brings core stakeholders together in mind. Beneath this stakeholder theory performance as well as behavior of an organization is believed to be explained and predicted based on its stakeholders, their relative influence on decisions, their values and the situation of an organizational (Brenner & Cochran, 1991), cited in Jones and Wicks, (1999).

This theory demands managers to settle the wants of every key stakeholder in the way they run business making it even more attractive to the set up of an organization where stakeholders are differing in objectives as well as wants together with those of a social nature together with the motives of the profit. Donaldson & Preston, (1995) states that even though this theory seeks to explain and describe precise behaviors and characteristics of the corporate, it suffers from not recognizing the fact that stakeholders might be numerous and have interests which are conflicting. In such a condition it's important for all stakeholders' interests in a usual organization to be well reconciled in so as to attain a continued performance of an organization.

### 2.2.4 Resource Based Theory and Financial Performance.

The Resource Based Theory was popularized by amongst others by (Hamel &Prahalad, 1994) who depicted organizations as resources bundles which, depending on how they are combined uniquely makes one organization perform better as compared to the other. Dependable with such a proposal, Grant, (1991) states that resources of an organization are its primary good performance source. Literature confirms that resources offer a divergent competitive advantage mechanism to good organizational performance (Makhija, 2003).

A good number of authors, Wernerfelt, (1984), Hoskisson et al, (1999), Makhija, (2003) and Caldeira, (2003) are in accord that resources of an organization (both intangible and tangible) are drivers of significant organization performance only if they are rare, valuable, not perfectly substitutable and imperfectly imitable. Makhija,

(2003) emphasizes on what he refers to as ‘competitive capability’, this, the researcher explains that it’s comprised of three primary components including Entrepreneurial ability and Institutional networks of a firm, administrative heritage and Knowledge of underlying efficiency.

### 2.3 Empirical Literature Review

This part reviews studies conducted previously on drivers of financial performance in the co-operative movement. Empirical literature review refers to a directed search of published work including periodicals and books (Zikmund et al., 2010). It’s an inclusive survey of earlier inquiries concerned to the questions of the research. The researchers stated that by the utilization of a systematic approach to earlier scholarly work, review of literature permits a researcher to put his work of research into a historical and intellectual context, thus enabling the researcher affirm why his study is important.

#### 2.3.1 Members’ Characteristics and Financial Performance.

Members of a Primary Co-operative are essentially the principle owners of the entity and in pursuit of their common objective must fulfill their individual responsibilities such as; attending meetings, serving on committees, involvement in recruitment and patronage as observed by Osterberg and Nilson, (2009). The members’ participation in Co-operative governance is what distinguishes co-operatives from other organizations of the businesses. Participation is a significant indicator in development of members in understanding and appreciating of the co-operative (USDA, 2005). The literature proposes that participation of members enthused by values of cooperative is vital for co-operative sustainability. Several researchers have disputed that sustainability of co-operatives depends on identity sense of members, cohesion as well as commitment (Birchall et al 2004).

Directors of primary co-operative societies in Kenya are usually elected by the members from amongst themselves to serve for a period of three years. They are usually referred to as committee members and the Co-operative Societies Act No. 12 of 1997 directs that the committee must consist of between five and nine members and shall be the society’s governing body. According to Akinwunmi (2006), leadership is a critical element affecting financial performance of Co-operatives. He asserts that if leaders are transparent, truly serving and dedicated, if there is determined leadership, the Co-operative Society will be successful adding that true leaders don't cut corners, don't increase contracts in order to receive kickbacks, don't have favorites amongst members as well as don't misuse the available resources. The concerns on the leaders' caliber who manage SACCOs were raised and it was noted that because these are voluntary organizations, members could appoint anyone they prefer, who might not essentially have the skills to manage a SACCO (Mudibo, 2005). This in most cases results to election of people whose integrity is questionable but who are able to influence electors through bribes. The researcher proposed that prior to the election of a member, he/she must have a certain shares number in order that he/she has something to lose if he/she mishandles the SACCO.

Increased member patronage as noted by Jensen *et al (*1976) provides an important source of Co-operative capital adding that the more members use and benefit from the Co-operative services, the more surplus funds the Co-operative will generate. It is therefore important to try and increase member patronage through training of members and also offering better services.

### 2.3.2 Staff Characteristics and Financial Performance

Nyoro and Ngugi (2007) in their study concluded that triumphant cooperatives had management and staff committee, with comparatively senior qualifications than failed cooperatives. They also noted that management with needed skills enables strategizing on product type, quality of the product and business volume; as well as for competing with other players within the market. Sufficient empirical proof to the effect exists that among the basic challenges facing an institution in the performance area is their incapability to establish approaches able to recruiting proficient workers and keeping them to attain goals of an organization (Gberevbie, 2008; Cascio, 2003). Corruption in nepotism form in employees hiring is one of the major problems facing Kenyan co-operatives. Co-operatives which try to draw personnel without reference to values as well as identity of co-operative are risking unsuitable activities (Wanyama, 2009).

A research on practices of human resource management (HRM) and performance of firms revealed that practices of HRM have a huge association with performance of an organization (Koca & Uysal, 2009). In addition, investigation on the effects of human resource management practices showed a positive important association between performance of organizations and practices (Khan, 2010).

### 2.3.3 Commodity Characteristics and Financial Performance.

Primary Marketing Co-operatives in Nyeri County carry out bulking and marketing of the members' produce. Some commodities like milk are highly perishable and may contribute to losses if not well handled and has to be sold at the prevailing market prices only a few hours after collection. Other commodities such as coffee can be dried and stored awaiting stabilization of prices.

Bolo *et al*., (2011) reported that farmers face lack of market access for their surplus milk during the high season when the sector experiences overproduction of the commodity. Because fresh milk is highly perishable, losses of milk within the informal sector are high owing to lack of gluts as well as milk collection throughout the season of rains. Agricultural commodities are dependent on weather patterns meaning that production is seasonally distributed hence high and low seasons.

The vital factors of success in the sector of agribusiness includes globalization, value addition, profitability achievement, defining capabilities of an organization, dealing with technological innovation, adapting to change, securing intellectual and competence capital and attaining transformation of an organization and are the major factors which will influence the sector of agribusiness in future (Boehlje *et al*., 2002). The addition of value (amongst other things) in rural agriculture must be improved so as to promote market oriented agriculture of smallholder within the developing countries (Omitti *et al*., 2007: Okello *et al*., 2009).

Commodities being marketed or dealt with differs from one Co-operative to another with agriculture Marketing Co-operatives dealing with the respective farm produce. Many Kenyan Co-operatives function at the lower value chains end engaging only in bulking and marketing of members' farm produce. To break the existing cycle, a number of the Co-operatives have come up several innovative undertakings to get better their performance. For instance, roughly twenty dairy Co-operatives in Nyeri

County have set up their own cooling plants of milk, so as to add value to produce of farmers as well as maximize profits. Roughly 9 Coffee Co-operatives have set up facilities of hulling to mill coffee. Other three are in the process of building their own independent facilities of milling to make clean coffee. A total of four Co-operative Societies have obtained marketing licenses to allow them carry out direct coffee marketing (Nyeri County Co-operative Annual Reports).

### 2.3.4 Market Characteristics and Financial Performance

Pricing of commodities by the Co-operative is the key factor that determines whether members remain loyal to the entity. While payment of competitive rates to the members attracts new membership, retention of surplus should also be done in order to improve the Co-operatives liquidity and also fund development. In their research examining the market structure effect on organizational performance, Perevalov et al, *(*1999), ascertained competition as a performance determinant; specially that competition can be harmful to organization performance. A great majority of modern Co-operatives that succeed in addressing competitive situations choose to adapt and innovate so as to have a competitive advantage. Many have automated their operations as a cost saving measure and also advance in use of new technology such as Mobile money transfers.

Sessional Paper number six of 1997 on “Co-operatives in a Liberalized Economic Environment” (Kenyan Republic, 1997a) offers the existing framework of policy for Kenyan co-operative development. The policy was devised after the economy liberalization, necessitating the state control withdrawal over the co-operative movement, the objective being to make Co-operatives self-reliant, independent, self-controlled as well as commercially practical organizations. The monopoly of co-operatives in the sector of agriculture, which had made them the only cash crops marketers within Kenya, was eliminated. The cost of this meant that Co-operatives now had to compete with other private enterprises in the agricultural produce marketing.

### 2.3.5 Financial Performance Measures

Among the common rating tools of financial institutions performance are CAMEL and PEARLS ratios. The World Council of Credit Unions (WOCCU) developed the

PEARLS methodology for evaluating and monitoring financial stability of credit unions. PEARLS is an acronym name for Protection, Effective financial structure, Asset quality, Rates of return and cost, Liquidity and Signs of growth. It is a set of 45 financial ratios used to evaluate and check the financial constancy of credit unions in WOCCU.

CAMEL is an acronym for five aspects of microfinance institutions performance namely; Capital adequacy, Asset quality, Management, Earnings and Liquidity. It’s a preferred rating tool used by financial institutions in Kenya including SACCOSs. It has been adopted as an offsite evaluation tool to identify SACCOSs that are financially vulnerable and need increased supervisory attention.

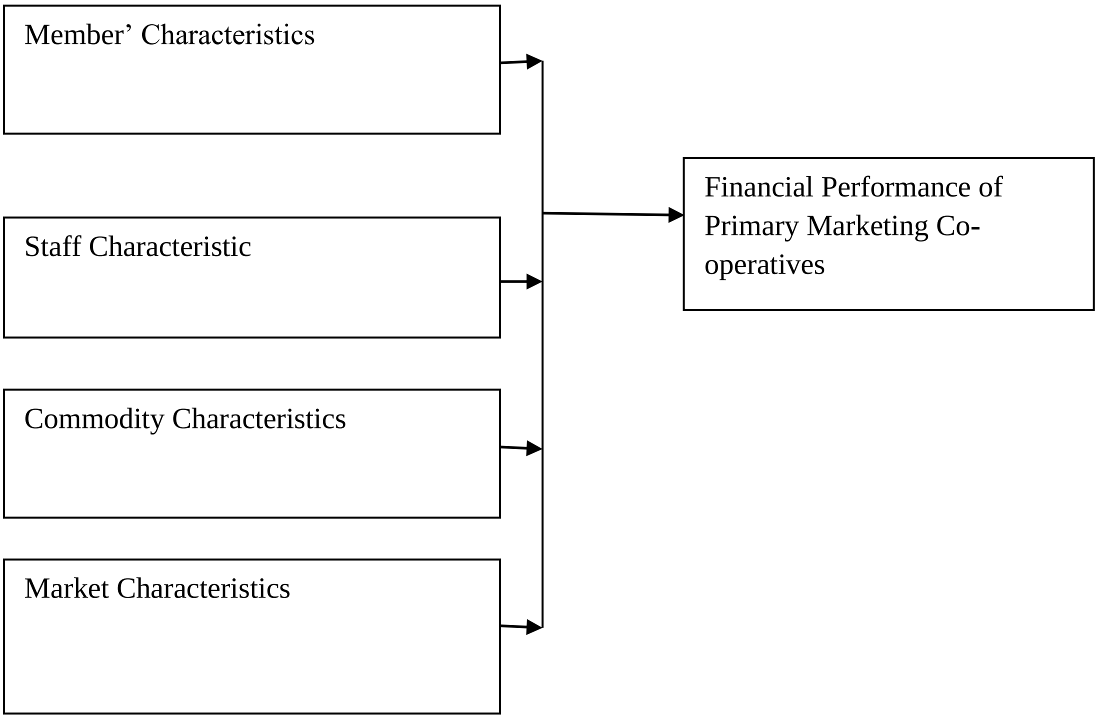
CAMEL uses return on assets (ROA) which is expressed as surplus (prior to interest on deposit and tax) as a percentage of whole assets to measure the earnings rate. The external determinants are caused by external factors which are beyond the management control. They include the market environment, legal and economic factors. Kaplan and Norton (1992) observed that it would be unfair to use market based methods like share prices to evaluate financial performance since they incorporate external factors of market which are beyond the control of managers.

Several researches have measured performance in dissimilar ways, with a few focusing on profitability and productivity (Xu, L.C, Zhu, T and Lin, Y, 2001). An attempt to combine both efficiency and profitability measures by defining performance in terms of Profitability, Capital Productivity (Asset Turnover), Return on Assets, Created value per equity, productivity of labour (Revenue per employee) and efficiency of operations (days of creditor and debtor) had been made while other measures such as satisfaction of customer, delivery on social aims and access to services rate would have been more perfect.

## 2.4 Conceptual Framework

Conceptual framework refers to a brief phenomenon description under research accompanied by visual or graphical depiction of the study's chief variables (Mugenda, 2008). It is also defined by Kombo and Tromp, (2009) as broad ideas set as well as principles taken from pertinent enquiry fields and utilized to structure a successive presentation.

Bell, (2010) goes ahead to describe a conceptual framework as a diagrammatical representation showing the association between independent and dependent variables. The figure below is a diagrammatical representation of the conceptual framework showing financial performance of Primary Marketing Co-operatives being dependent on directors', staff, commodities' and market characteristics.




Independent Variables Dependent Variable.

**Figure 2.1: Conceptual Framework**

## 2.5 Operational Framework

The operational framework presents the measuring parameters of the dependent and independent variables indicating how the researcher will measure the existence or the degree of the concept and variables. The framework explains how various variables affect the financial performance among Primary Marketing Co-operatives in Nyeri County. The conceptual framework is presented in Figure 2.2.

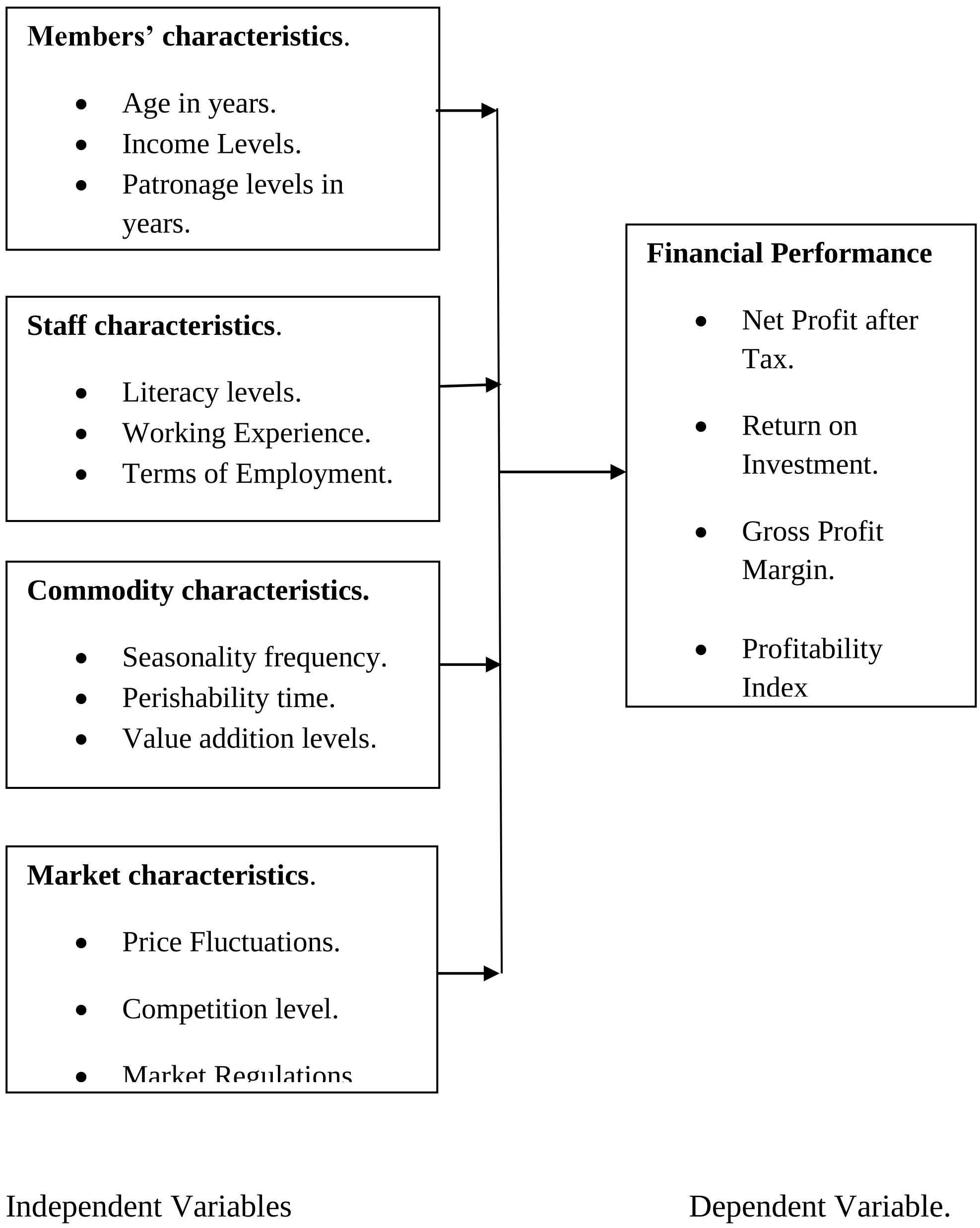



**Figure 2.2: Operational framework**

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

The chapter discusses the methodology of research that was utilized in the research. It examines and justifies the design of research that was applied in the research. It also states the population of interest for the research. The data collection methods that were used are provided. The data analysis technique that was applied is also provided.

## 3.2 Research Design

This research took a descriptive design of research with an aim of establishing drivers of financial performance among Primary Marketing Co-operatives in Nyeri County. According to Mugenda & Mugenda (2003), a descriptive study is mainly concerned with finding out the where, how and what of an occurrence. A descriptive research of survey sought to acquire information which explains existing phenomenon by questioning people about their attitude, perceptions, values or behavior. A descriptive design of study was believed to be the most excellent design to the study's objectives. According to Saunders, Lewis & Thornhill, (2012) research design refers to the universal plan of how an individual goes about answering the question of the study.

## 3.3 Target Population

Kothari (2004) defines population as the whole group of items or people under contemplation in any field of investigation and have a universal quality. The study's target population was the 44 Primary Marketing Co-operatives in Nyeri County. The Secretary Managers of the 44 Primary Marketing Co-operative Societies formed the group of respondents from whom opinion was sought through filling of questionnaires.

**Table 3.1: Marketing Co-operatives Population Distribution in Nyeri County**

| No. | Sub- County | Frequency |
|---|---|---|
| **1** | Kieni East | 8 |
| **2** | Tetu | 8 |
| **3** | Othaya | 2 |
| **4** | Mathira West | 3 |
| **5** | Mathira East | 5 |
| **6** | Nyeri Central | 5 |
| **7** | Kieni West | 7 |
| **8** | Mukurweini | 6 |
| **Total** | | **44** |

**Source:** Nyeri County Co-operative Directorate 2016.

### 3.4 Sampling Technique and Sample Size

Mugenda and Mugenda, (2003) defines a sample as a small group taken from the available population whereas sampling refers to the process of choosing a number of objects or individuals from a population such that the chosen group contains representative of elements of the characteristics found within the whole population (Orodho and Kombo, 2002). Trochim (2006) also describes sampling as a procedure of choosing units from a interest population so that by examining the chosen sample, a researcher might generalize fairly findings and attribute it to the population from which the units were selected. Due to the small number of Primary Marketing Co-operatives in Nyeri County, the researcher used census instead of sample size.

### 3.5 Data Collection Instruments

Data collection is defined as the accurate, systematic information gathering significant to the purpose of research (Burns and Grove, 2002). In this research the questionnaires were utilized to get the relevant data aimed at answering the research questions. Both secondary and primary data were utilized. Primary data was gathered by use of the survey technique so as to seek opinions of the Primary Marketing Co-operative managers concerning the financial performance of their respective organizations. Secondary data was collected from Co-operative Department in the County Government.

### 3.6 Data Collection Procedure

Permission for collection of data was first sought from the supervisor and once granted, the questionnaire was administered to the respondents. Due to the sensitive information needed for the study, self administered questionnaire was deemed more effective than mail questionnaire because this would give assurance to respondents that their privacy would be protected and that the data acquired would be handled and protected in such a way that they will not be associated with them personally (Cooper & Schindler, 2008). This method was used by researchers in upholding confidentiality and anonymity of respondents when information is regarded as sensitive.

### 3.7 Pilot Testing

To test the questionnaires' reliability as well as validity, a pilot study was conducted. Pilot testing was done to find out the appropriateness and accuracy of the design of research and research instrument (Bryman, 2007; Zikmund, G.W., Babin, B.J., Carr,C.J. and Griffin, M. 2010). They indicated that field piloting is important and that it can't be exaggerated since you will most likely find that there are questions that respondents fail to interpret or understand. During the pilot test respondents don't have to be chosen statistically when testing the instruments reliability and validity (Cooper and Schindler, 2006). In this research, instrument of data collection, which is a questionnaire, was examined on 10% of the accessible target population to make sure that the instrument would be effective as well as relevant.

#### 3.7.1 Reliability of the Data Collection Instrument

Nachmias and Nachmias (2008), define reliability as the degree to which an instrument of measurement contains inaccuracies that appear erratically from one observation to another throughout any one attempt of measurement or that differ each time given that the unit is measured by use of the similar instrument. Nachmias, (2008), points that researchers could utilize numerous approaches to establish the particular instrument of data collection reliability. Two of the mainly common approaches entail utilization of repeated measures, to be precise, test-retest and form of parallel, and internal consistency calculation, to be precise, Cronbach alpha coefficient or Kuder-Richardson formulas (Nachmias, 2008).

Cooper & Schindler, (2006) assessed reliability using Cronbach alpha Coefficient because it has the most usefulness for scales of multi-item at the interval measurement level, needs barely a solitary administration and offers an exclusive quantitative internal consistency estimate of a scale. Cronbach's alpha ranges between zero (signifying no internal reliability) and one (signifying perfect internal reliability (Bryman, 2007). The closer the coefficient is to 1.00, the more reliable the measurement. Zikmund, Babib, Carr and Griffin (2010) observes that Cronbach's alpha between 0.8 and above are considered to have very good reliability and those between 0.7 and 0.8 good; while those between 0.6 and 0.7 signify fair and satisfactory reliability.

The research used likert scale in measuring various variables, members, staff, commodity and market characteristics. Gay, Mills and Airasian (2009) view that when utilizing likert type scales, it's very important to analyze as well as report the Cronbach's alpha coefficient for reliability of internal consistency for every scales or sub scales that one might be utilizing. Pilot test of this study gave the alpha values of all variables which were greater than 0.70 as shown in Table 3.2.

**Table 3.2: Reliability Statistics**

| **Determinants** | **Number of items** | **Cronbach's Alpha** |
|---|---|---|
| Member characteristics | 3 | .763 |
| Staff characteristics | 3 | .900 |
| Commodity characteristics | 3 | .716 |
| Market characteristics | 4 | .709 |

Member characteristics had 0.763, Staff characteristics had 0.900, Commodity characteristics had 0.716 and Market characteristics had 0.709. This signifies internal consistency which is strong amongst variable items measures. This means that the instrument of data collection was consequently acceptable and reliable for the study's purposes.

### 3.7.2 Validity of Data Collection Instruments.

Nachmias and Nachmias (2008), argued that validity mainly is concerned with the question

“Am I measuring what I intend to measure?” In social sciences, researchers are most of the times uncertain that they are measuring the variables for which they planned their procedure of measurement. Therefore, validity is the meaningfulness and accuracy of inferences founded on the findings of the research. Findings attained from data analysis in fact represent the phenomena under research to the degree. It’s the correctness and reasonability of the data as it refers to getting result that accurately reflects the concept being measured. Based on this study, the questionnaires were designed to measure specific objectives under study.

**3.8: Data Analysis and Presentation.**

Data analysis refers to the process of bringing structure, order as well as interpretation to the gathered data mass (Marshal and Rossman, 2011). The gathered data, with the aid of questionnaire was systematically organized specifically to facilitate analysis. Descriptive statistics was utilized to analyze the collected data by use of the Statistical Package for Social Science (SPSS) version 20.0 by first coding the responses. Raw data was then entered into SPSS computer software and analyzed by use of descriptive statistics for instance the percentages, means as well as frequencies.

Central tendency mean (x) measure and standard deviation was used in the case of descriptive analysis. The data was tested for regression assumption of normality using Q-Q plot, linearity using correlation coefficient, multicollineality using Valiance Inflation Factor (VIF) and for autocorrelation using Durbin Watson statistics.

Likert scale was applied to analyze qualitative data by identifying patterns and themes. In addition, the correlation was assessed using correlation (r).For inferential statistics, regression analysis was done. For Model Fitness, Coefficient of Determination ($R^2$), Analysis of Variance (ANOVA) as well as regression coefficient were generated to find out the association between the independent variables and the dependent variable. Multi Regression was utilized to analyze the combined effect of Members, Staff, Commodity and Market characteristics on financial performance of primary marketing co-operatives in Nyeri County. The model of multiple linear regression is;

$$Y=\beta o+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4 X_4 +e$$

Where:

$Y$ = Financial performance of Primary Marketing Co-operatives

$\beta o$ = Autonomous factor

$\beta_{1,}\ \beta_2\ \beta_{3,}\ \beta_4$ = are beta coefficients

$X_1$ = Members characteristics

$X_2$ = Staff characteristics

$X_3$ = Commodity characteristics

$X_4$ = Market characteristics

$e$ = The error term.

After data analysis, the result was presented with the aid of percentages and frequency tables. The findings were presented as well as discussed as indicated by the study's objectives.

# CHAPTER FOUR

# RESEARCH FINDINGS AND DISCUSSION

## 4.1 Introduction

Chapter four contains data analysis, interpretation and presentation of findings. The study sought to establish drivers of financial performance among Primary Marketing Co-operatives in Nyeri County. The specific independent variables were the effect of members' characteristics, staff characteristics, commodity characteristics and market characteristics on financial performance among Primary Marketing Co-operatives.

Questionnaires were used to collect data from the respondents in Co-operatives in Nyeri County. Data was coded, analyzed and the results obtained using descriptive and inferential statistics guided by the research objectives and questions. The findings were presented in form of frequency tables and their implications explained. Bivariate and multiple regression analysis were used to determine the extent of the relationship between the dependent and independent variables.

## 4.2 Response Rate

The researcher administered 44 questionnaires of which 35 responses were received giving a response rate of 79.5 % of the target sample as shown in Table 4.1 below.

**Table 4.1: Results for Response Rate**

| | **Frequency** | **Percentage (%)** |
|---|---|---|
| Responses | 35 | 79.5 |
| Missing questionnaires | 9 | 20.5 |
| **Total** | **44** | **100** |

### 4.2.1 Response by Nature of Business Undertaken

The researcher sought to establish the nature of business undertaken by respective Primary Marketing Co-operative Society. The results of findings are analyzed in Table 4.2 below.

**Table 4.2: Results for Nature of business**

| Nature of business | Frequency (n) | Percent (%) |
|---|---|---|
| Dairy marketing | 17 | 48.6 |
| Coffee marketing | 18 | 51.4 |
| **Total** | **35** | **100.0** |

From Table 4.2, the results indicate that 48.6% and 51.4% of the respondents were derived from Dairy Marketing and Coffee marketing respectively. The study revealed that both cooperatives were adequately represented in this study.

### 4.2.2 Age of Respondents

The researcher sought to establish the age category of the respondents.

**Table 4.4: Results for Age of Respondents**

| Range (years) | Frequency (n) | Percent (%) |
|---|---|---|
| Below 30 years | 2 | 5.7 |
| 30 to 50 years | 31 | 88.6 |
| Over 50 years | 2 | 5.7 |
| **Total** | **35** | **100.0** |

Majority of the respondents (88.6 %) were in the age bracket of 30 to 50 years. This is a clear indication that they are in their productivity stage in life and if properly managed which leads to increased performance for the entire organization.

### 4.2.3 Gender of the Respondents

The researcher sought to establish gender distribution of the respondents.

**Table 4.5: Results for Gender of the Respondents**

| Gender of the Respondents | Frequency (n) | Percent (%) |
|---|---|---|
| Female | 13 | 37.1 |
| Male | 22 | 62.9 |
| **Total** | **35** | **100.0** |

A third of the respondents were female while two third were male. The indication was that Primary Marketing Co-operative Societies have adhered to a third gender rule as promulgated by the Kenya Constitution.

### 4.2.4 Education Qualification of Respondent

The study sought to establish the level of education of the respondents. Table 4.3 presents the academic profile of the respondents.

**Table 4.6: Results for Educational Qualification**

| Educational Qualification | Frequency (n) | Percent (%) |
|---|---|---|
| Certificate | 9 | 25.7 |
| Diploma | 25 | 71.4 |
| Degree | 1 | 2.9 |
| **Total** | **35** | **100.0** |

The findings indicates that majority of the staff working with Primary Marketing Co-operatives were Certificate or Diploma holders which accounted for 25.7% and 71.4% respectively. This is a clear indication that Primary Marketing Co-operative Societies are properly equipped with appropriate personnel at the managerial level and were therefore able to articulate issues prompted by this questionnaire.

### 4.2.5 Respondents' Position within the Co-operative Society

The researcher sought to establish the position held by the respective respondents. The Table 4.7 below gives the positions held by respondents.

**Table 4.7: Results for Respondents' Position in the Co-operative Society**

| Position in the Society | Frequency (n) | Percent (%) |
|---|---|---|
| Manager | 20 | 57.1 |
| Assistant manager | 15 | 42.9 |
| **Total** | **35** | **100.0** |

The respondents of this questionnaire were in managerial positions which indicate that they had the requisite authority to fill the questionnaire.

### 4.2.6 Work Experience of the Respondents

The researcher sought to know the number of years worked by respective respondents and ascertain to what extent their responses could be relied upon in making conclusions for the study. The results were analyzed in the table below:

**Table 4.8: Results for Work Experience**

| Range (Years) | Frequency (n) | Percent (%) |
|---|---|---|
| 0 - 5 years | 3 | 8.6 |
| 6 - 10 years | 12 | 34.3 |
| Over 10 years | 20 | 57.1 |
| **Total** | **35** | **100.0** |

Most respondents were equipped with the appropriate experience with 57.41% frequency having worked in the organization for over 10 years. This indicates that experienced personnel are in place that is able to fully understand and respond to the questionnaire accordingly.

### 4.3 Descriptive Analysis for Study Variables.

The researcher carried out descriptive analysis for the dependent and the independent variables of the study. The results were discussed below

#### 4.3.1 Descriptive Analysis for Financial Performance

Performance is referred to the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. Dixon et al (1990) said that appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. They noted that performances measures includes; ROI, profitability and goal attainment. This study sought to establish the performance of Primary Marketing Co-operatives.

**Table 4.9: Financial Indicators of the Primary Marketing Co-operatives.**

| | N | Mean | Std. Error | Std. Deviation |
|---|---|---|---|---|
| NEPAT (Kshs) | 35 | 63325.6457 | 4221.7764 | 24976.3658 |
| ROI (%) | 35 | 11.7886 | .7590 | 4.4902 |
| Gross profit margin (%) | 35 | 13.8114 | .3912 | 2.3146 |
| Profitability index (Ratio) | 35 | 1.0933 | .0119 | .0702 |
| Valid N (listwise) | 35 | | | |

The finding of the study revealed that average net profit after tax for the cooperative societies was 63,325.65 with a std dev = 24976.37. The average return on investment was 11.79 with a std dev = 4.49, mean gross profit margin was 13.81 with a std dev = 2.32 while average profitability index was 1.09 with a std dev = 0.07. The finding indicate that the mean return on investment is 11.79 and the Primary Marketing Co-operatives are viable since profitability index is greater that one.

### 4.3.2 Descriptive Analysis for Members Characteristics

Objective one of the study sought to examine influence of members' characteristics on financial performance of Primary Marketing Co-operatives in Nyeri County. Descriptive statistics were done to determine the effect of various factors of members' characteristics. Table 4.10 to 4.14 shows the effect of each factor of members' characteristics on financial performance among Primary Marketing Co-operatives.

- **Average Age of Cooperative Society Members**

The researcher sought to establish the average age of members in Primary Marketing Co-operative Societies.

**Table 4.10: Results for Age of Cooperative Members**

| Range (years) | Frequency (n) | Percent (%) |
|---|---|---|
| 20 years and below | 1 | 2.9 |
| 21-30 years | 3 | 8.6 |
| 31-40 years | 20 | 57.1 |
| 41-50 years | 9 | 25.7 |
| Above 50 years | 2 | 5.7 |
| Total | 35 | 100.0 |

The finding of the study revealed that majority of the members' are aged between 31 to 50 years which accounted for 82.8%. The finding indicate that most of the members are within their productive age where they are expected to generate more revenue as a result of various responsibilities pertaining to providing for the families with basic needs and education.

- **Member's Average Monthly Income**

The researcher sought to establish the average monthly incomes of members in Primary Marketing Co-operative Societies.

**Table 4.11: Results for Member's Average Monthly Income**

| Range (Kshs) | Frequency (n) | Percent (%) |
|---|---|---|
| 5000 and below | 7 | 20.0 |
| 5,001 - 10,000 | 24 | 68.6 |
| 10,001 - 20,000 | 3 | 8.6 |
| 20,001 - 30,000 | 1 | 2.9 |
| Total | 35 | 100.0 |

As shown in Table 4.11, majority of the members' earn a monthly income of below 10,000. The monthly income of members is of low factor that might lead to members' reluctance in coffee production which causes low financial performance. Similarly, income from milk production was also noted to be low. Most of the members had a low production in kilogram and this affects the profitability of the societies.

- **Average Annual Member's Production**

The researcher sought to establish the average annual production of members in primary Marketing Co-operative Societies.

**Table 4.12: Results for Average Annual Member's Production**

| Range (Kgs) | Frequency (n) | Percent (%) |
|---|---|---|
| 2,000 and below | 8 | 22.9 |
| 2,001 - 3,000 | 17 | 48.6 |
| 3,001 - 4,000 | 6 | 17.1 |
| 4,001 - 5,000 | 3 | 8.6 |
| Above 5,000 | 1 | 2.9 |
| Total | 35 | 100.0 |

The results from Table 4.12, revealed that the average annual member's production level from coffee/milk is between 2000 and 3000 kilograms. This is justified by the seasonal nature of the produce and failure of members to undertake these activities as commercial undertakings. Nonuse of modern farming technology could also be the cause of low production.

- **Members Patronage**

The researcher sought to establish the percentage of members who fully patronize the Primary Marketing Co-operative Societies.

**Table 4.13: Results for Member's Patronage**

| Range (%) | Frequency (n) | Percent (%) |
|---|---|---|
| 21 - 30% | 7 | 20.0 |
| 31 - 40% | 10 | 28.6 |
| 41 - 50% | 18 | 51.4 |
| Total | 35 | 100.0 |

The study revealed that the level of members' patronage to the co-operatives activities is between 41-50%. This indicates that member patronage levels are low due to competition with middlemen which in effect reduces production and overall financial performance of the Primary Marketing Co-operative Societies.

**Table 4.14: Descriptive Statistics for Members Characteristics**

| | N | Mean | Std. Error | Std. Deviation |
|---|---|---|---|---|
| Income level of members affects performance of primary marketing co-operatives | 35 | 4.31 | .187 | 1.105 |
| Age of the member is a factor that affect performance of cooperative | 35 | 3.74 | .185 | 1.094 |
| level of member patronage in the co-operative activities affect performance | 35 | 3.11 | .168 | .993 |
| Valid N (list wise) | 35 | | | |

As shown in Table 4.13, Income level of members was ranked as the most important factor that influence performance of Primary Marketing Co-operatives (mean = 4.31) with a (stdv = 1.105). Age of the member was ranked as the second factor that affect performance of cooperative (mean = 3.74) with a (stdv = 1.094). The level of members patronage in the co-operatives activities had a mean of 3.11 (stdv = 0.993). Therefore the study revealed that members age and level of income has a major role to play on performance of Primary Marketing Co-operatives.

### 4.3.3 Descriptive Analysis for Staff Characteristics.

Objective two of the study sought to explore the role of staff characteristics on financial performance of Primary Marketing Co-operatives in Nyeri County. Descriptive statistics was done to determine the effect of various factors of staff characteristics. Table 4.15 to 4.17 shows the effect of each factor of staff characteristics on financial performance among Primary Marketing Co-operatives.

### a. Education Level of Staff

The researcher sought to understand the education level of staff members who are serving the society.

**Table 4.15: Results for Education Level of Staff**

| Education level | Frequency (n) | Percent (%) |
|---|---|---|
| Secondary | 13 | 37.1 |
| Certificate | 17 | 48.6 |
| Diploma | 3 | 8.6 |
| Degree | 2 | 5.7 |
| Total | 35 | 100.0 |

The finding of the study revealed that majority of the staff had secondary and certificate qualification which accounted for 85.7%. The indication was that they possess the basic skills required to undertake clerical work as Primary Marketing Co-operative whose main objective is to act as a link between the processors and the farmers.

### b. Staff Experience

The researcher sought to establish the average number of years staff have worked in the cooperative society

**Table 4.16: Results for Staff Experience**

| Range (Years) | Frequency (n) | Percent (%) |
|---|---|---|
| Less than 1 year | 1 | 2.9 |
| 1 - 5 years | 9 | 25.7 |
| 6 - 10 years | 23 | 65.7 |
| 11 - 15 years | 2 | 5.7 |
| Total | 35 | 100.0 |

The results from Table 4.16, revealed that members of staff have worked for a period between 1 – 10 years. This indicates that they possess the necessary work experience and that there is security of tenure which in effect may improve efficiency and financial performance of the society.

**Table 4.17: Descriptive Statistics for Staff Characteristics**

| | N | Mean | Std. Error | Std. Deviation |
|---|---|---|---|---|
| Working experience affects performance of cooperatives | 35 | 4.14 | .193 | 1.141 |
| Literacy level of employees enhances performance of cooperatives | 35 | 3.57 | .175 | 1.037 |
| Terms of employment is a factor that affect performance of cooperatives | 35 | 2.60 | .093 | .553 |
| Valid N (list wise) | 35 | | | |

As shown in Table 4.17, staff working experience was ranked as an important factor that influence performance of Primary Marketing Co-operatives (mean = 4.14) with a (stdv = 1.141). Literacy level of employees was ranked as the second factor that affect performance of cooperative (mean = 3.57) with a (stdv = 1.037). Terms of employment as a factor that affect performance of Co-operatives had a mean of 2.60 (stdv = 0.553).The study revealed that staff members working experience and literacy level of employees plays a major role on performance of Primary Marketing Co-operatives.

### 4.3.4 Descriptive Analysis for Commodity Characteristics.

Objective three of the study sought to assess effect of commodity characteristics on financial performance of Primary Marketing Co-operatives in Nyeri County. Descriptive statistics was done to determine the effect of various factors of commodity characteristics. Table 4.18 to 4.20 shows the effect of each factor of commodity characteristics on financial performance among Primary Marketing Co-operatives.

#### a. Commodity Seasonality

The researcher sought to establish the number of months in a year the commodity was traded.

**Table 4.18: Results for Commodity Seasonality**

| Range (Months) | Frequency (n) | Percent (%) |
|---|---|---|
| 1 - 3 months | 1 | 2.9 |
| 4 - 6 months | 12 | 34.3 |
| 7 - 9 months | 20 | 57.1 |
| 10 - 12 months | 2 | 5.7 |
| Total | 35 | 100.0 |

The result of the study revealed that the commodity is traded for a period of four to nine months which is an indication that the commodities are not evenly traded across the year.

**b. Shelf Life of the Commodity**

The researcher sought to establish the shelf life of commodity

**Table 4.19: Results for Shelf Life of the Commodity**

| Level | Frequency (n) | Percent (%) |
|---|---|---|
| Very low | 1 | 2.9 |
| Low | 16 | 45.7 |
| Moderate | 12 | 34.3 |
| High | 6 | 17.1 |
| Total | 35 | 100.0 |

As shown in Table 4.19, the commodity Shelf life within the Co-operative Society is low. The indication was that some processes had to be undertaken to prevent the commodity from being perishable.

**Table 4.20: Descriptive Statistics for Commodity Characteristics**

| Parameter | N | Mean | Std. Error | Std. Deviation |
|---|---|---|---|---|
| Perishability time of the product | 35 | 4.43 | .160 | .948 |
| Seasonality of the products | 35 | 3.69 | .182 | 1.078 |
| Value addition level of the product | 35 | 2.77 | .130 | .770 |
| Valid N (list wise) | 35 | | | |

Table 4.20, revealed that perishability time of the product was ranked as an important factor that influence performance of Primary Marketing Co-operatives (mean = 4.43)

with a (stdv = 0.948). Seasonality of the products was ranked as the second factor that affect performance of Cooperative (mean = 3.69) with a (stdv = 1.078). Value additional level of the product as a factor that affect performance of Cooperatives had a mean of 2.77 (stdv = 0.770). The study revealed that perishability and seasonality of the products plays a major role on performance of Primary Marketing Co-operatives.

Coffee production was found to be seasonal while low milk was recorded as highly perishable. This affects the financial performance of Primary Marketing Co-operatives adversely. Value addition was not considered by the Co-operative Societies due to the fact that the Co-operative act as a collection point where the commodity is further channeled to processing companies which initiate value addition.

### 4.3.5 Descriptive Analysis for Market Characteristics.

Objective four of the study sought to examine the influence of market characteristics on the financial performance of Primary Marketing Co-operatives in Nyeri County. Descriptive statistics was done to determine the effect of various factors of market characteristics. Table 4.21 shows the effect of each factor of members' characteristics on financial performance among Primary Marketing Co-operatives.

**Table 4.21: Results for Descriptive Statistics on Market Characteristics**

| Parameter | N | Mean | Std. Error | Std. Deviation |
|---|---|---|---|---|
| Prices fluctuations | 35 | 4.60 | .124 | .736 |
| Cash payment per kg delivered | 35 | 4.20 | .173 | 1.023 |
| Level of market regulations | 35 | 2.97 | .139 | .822 |
| Competition levels | 35 | 2.60 | .093 | .553 |
| Valid N (list wise) | 35 | | | |

Table 4.21, revealed that Prices fluctuations was ranked as an important factor that influence performance of Primary Marketing Co-operatives (mean = 4.60) with a (stdv = 0.736). Cash payment per kg delivered was ranked as the second factor that affect performance of co-operative (mean =4.20) with a (stdv = 1.023). Level of market regulations as a factor that affect performance of co-operatives had a mean of 2.97 (stdv = 0.822) while Competition levels had a mean of 2.60 (stdv = 0.553). The study revealed that fluctuations of commodity prices and cash payout per kg delivered are the market major factors that affect performance of Primary Marketing

Co-operatives. This has led to adverse effect not only on profitability but also on return on investment, profit margin and overall performance of Primary Marketing Co-operatives.

### 4.4 Test of Regression Assumption

Prior to running a regression model, pre-estimation and post estimation tests were conducted. The pre-estimation tests conducted in this case were the multicollinearity test and Pearson correlation while the post estimation tests were normality test. This is usually performed to avoid spurious regression results from being obtained.

#### 4.4.1 Normality Test for Financial Performance

The normal Q-Q plot (quantile-quantile) is an alternative graphical method of assessing normality using histogram. Q-Q plot is a test for assessing if data is normally distributed. An assessment of the normality of data is a prerequisite for many statistical tests because normal data is an underlying assumption in parametric testing. This kind of probability plots the quantiles of a variable's distribution against the quantiles of a test distribution.

If the data is approximately normally distributed, the points will be on or close to the line (Thode 2002). Q-Q plots produce a scatterplot with the quantiles of the variable on the horizontal axis and the expected normal distribution on the vertical axis. Quantiles are values that divide the cases into a number of equal-sized groups. A plot of variables against the expected normal variables reveals a straight line. If the data are normally distributed, the data points will be close to the diagonal line (Royston 1991).

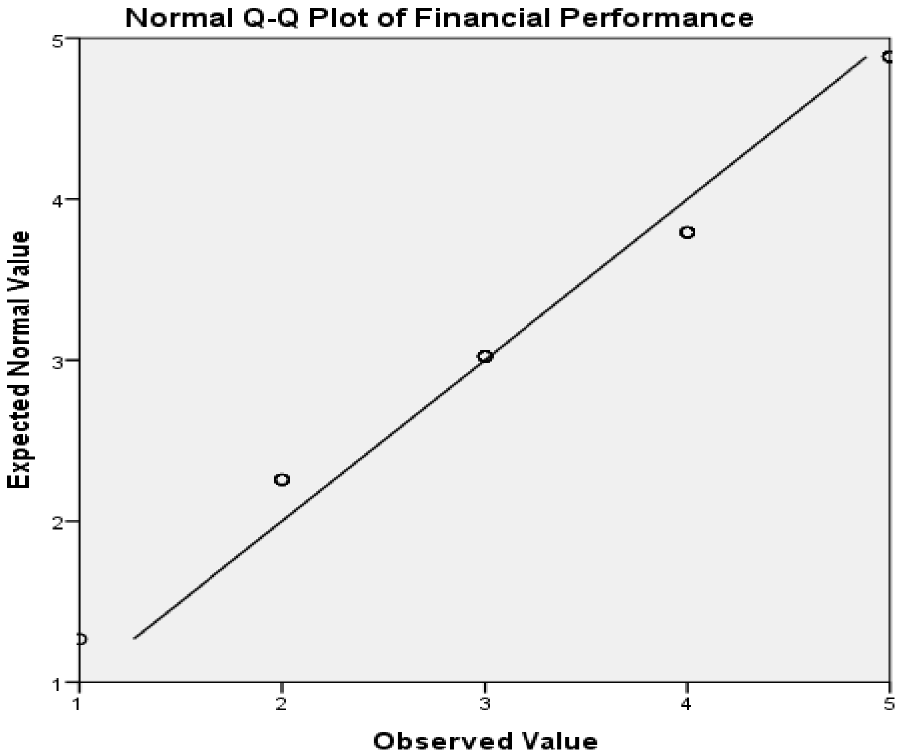



**Figure 4.1: Normality Q-Q plot of regression standardized**

From Figure 4.1, Normality Q-Q plot reveals a straight line and the data points are close to the diagonal line. Therefore financial performance appears to be normally distributed.

### 4.4.2 Linearity Test.

To establish the nature and magnitude of the relationships between the variables and to test the hypothesized relationships, the researcher used Pearson's Product Moment Coefficient Correlation (r) to establish any linear associations among the variables in the study, as well as their nature and strength. This measure, usually symbolized by the letter (r), varies from ranging from -1 to +1, with 0 indicating no linear association. In order to conduct correlation analysis the set of items that measured each variable were aggregated by computing the average. The findings of the analysis are as indicated in Table 4:22 below.

**Table 4.22: Correlation Analysis**

| Correlation analysis | | Performance | Member | Staff | Commodity | Market |
|---|---|---|---|---|---|---|
| Member Characteristics | Pearson Correlation | .341* | 1 | | | |
| | Sig. (2-tailed) | .045 | | | | |
| Staff Characteristics | Pearson Correlation | .086 | -.117 | 1 | | |
| | Sig. (2-tailed) | .622 | .501 | | | |
| Commodity Characteristics | Pearson Correlation | .393* | .435** | -.077 | 1 | |
| | Sig. (2-tailed) | .019 | .009 | .659 | | |
| Market Characteristics | Pearson Correlation | .337* | .577** | -.068 | .622** | 1 |
| | Sig. (2-tailed) | .048 | .000 | .699 | .000 | |

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

From the correlation matrix, all the independent variables had a positive relationship with the dependent variable. Member characteristics was positively and significantly related to financial performance of primary cooperatives r = 0.341, p value 0.045 < 0.05 at 0.05 significance level. Staff characteristics was positively but insignificantly related to financial performance of Primary Marketing Co-operatives r = 0.086, p value 0.622 > 0.05 at 0.05 significance level.

Commodity characteristics was positively and significantly related to financial performance of Primary Marketing Co-operatives r = 0.393, p value 0.019 < 0.05 at 0.05 significance level. Market characteristics was positively and significantly related to financial performance of Primary Marketing Co-operatives r = 0.337, p value 0.048 < 0.05 at 0.05 significance level.

### 4.4.3 Test of Multicollinearity

Multicollinearity occurs when more than two predictor variables are inter-correlated, Kothari (2004). This is an undesirable situation where the correlations among the independent variables are strong as it increases the standard errors of the coefficients. To test for multicollinearity, Variance Inflation Variable (VIF) or tolerance, a diagnostic method was used to detect how severe the problem of multicollinearity is in a multiple regression model. VIF statistic of a predictor in a model indicates how much larger the error variance for the unique effect of a predictor (Baguley, 2012).

Using the VIF method, a tolerance of less than 0.20 and a VIF of more than 5 indicates a presence of multicollinearity. If two or more variables have a Variance Inflation Factor (VIF) of 5 or greater than 5, one of these variables must be removed from the regression analysis as this indicates presence of multicollinearity (Runkle et al., 2013). From Table 4.23 there is no VIF with a value of 5 or greater than 5 and therefore no presence of multicollinearity.

**Table 4.23: Multicollinearity Test Results**

| Model | Independent variables | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| | (Constant) | | |
| | Member characteristics | .870 | 1.149 |
| | Staff characteristics | .649 | 1.540 |
| | Commodity characteristics | .594 | 1.683 |
| | Market characteristics | .515 | 1.940 |

### 4.5 Influence of Members' Characteristics on Financial Performance.

A bivariate linear regression analysis was done by regressing the weighted scores of the members characteristics on financial performance. The results are presented in Tables 4.24 to 4.26

**Table 4.24: Model Summary for Members Characteristics**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .341[a] | .116 | .089 | 1.18662 |

a. Predictors: (Constant), Member

From the regression results in Table 4.24, the R value was 0.341 indicating that there is a relationship between members' characteristics on performance of Primary Marketing Co-operatives. The R squared ($R^2$) value of 0.116 shows that 11.6 percent of the performance of Primary Marketing Co-operatives is explained by members' characteristics all other factors held constant. The remaining 88.4 percent is explained by other factors.

**Table 4.25: ANOVA for Members Characteristics**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 6.105 | 1 | 6.105 | 4.336 | .045[b] |
| | Residual | 46.467 | 33 | 1.408 | | |
| | Total | 52.571 | 34 | | | |

a. Dependent Variable: Performance

b. Predictors: (Constant), Member

The model was significant with the F ratio = 4.336 at p value 0.045< 0.05. This is an indication that members' characteristics when considered singly have a statistically significant effect on financial performance of Primary Marketing Co-operatives.

**Table 4.26: Regression Coefficients for Members Characteristics**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2.232 | .674 | | 3.311 | .002 |
| | Member | .378 | .182 | .341 | 2.082 | .045 |

a. Dependent Variable: Performance

Members' characteristics had positive and significant effect on performance of Primary Marketing Co-operatives with $\beta = 0.378$ at p value 0.045 which is less than 0.05. From Table 4.17, the bivariate linear regression model fitted using unstandardized coefficients is; $Y= 2.232 + 0.378X_1 + e$. In this model 2.232 is an exogenous variable in the regression model and $X_1$ is members' characteristics index.

This means that members' characteristics are positively and significantly influencing performance of Primary Marketing Co-operatives. It also means that an increase of one unit of $X_1$ increases Y by 0.378. The indication was that members' characteristics can be adopted when evaluating performance of Primary Marketing Co-operatives.

The finding of the study revealed that members characteristic had positive and significant effect on performance of Primary Marketing Co-operatives when considered singly and when combined with other variables supports earlier findings by Osterberg & Nilson (2009), who noted that members of a Primary Co-operative are essentially the principle owners of the entity and in pursuit of their common objective must fulfill their individual responsibilities such as; attending meetings, serving on committees, involvement in recruitment and patronage. The literature suggests that a membership participation inspired by co-operative values is crucial for co-operative sustainability.

According to USDA (2005), participation is an important indicator in developing members in understanding and appreciating of the cooperative. A number of writers have argued that co-operatives' sustainability depends on members' sense of identity, commitment and cohesion (Birchall et all 2004). However membership loyalty and commitment depend on co-operatives' ability to meet members' needs and demands.

### 4.6 Role of Staff Characteristics on Financial Performance.

A bivariate linear regression analysis was done by regressing the weighted scores of the staff characteristics on financial performance. The results are presented in Tables 4.27 to 4.29

**Table 4.27: Model Summary for Staff Characteristics**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .086[a] | .007 | -.023 | 1.25746 |

a. Predictors: (Constant), Staff

From the regression results in Table 4.27, the R value was 0.086 indicating that there is a weak relationship between staff characteristics on performance of Primary Marketing Co-operatives. The R squared ($R^2$) value of 0.007 shows that 0.07 percent of the performance of Primary Marketing Co-operatives is explained by staff characteristics all other factors held constant. The remaining 99.3 percent is explained by other factors.

**Table 4.28: ANOVA for Staff Characteristics**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| | Regression | .392 | 1 | .392 | .248 | .622[b] |
| 1 | Residual | 52.179 | 33 | 1.581 | | |
| | Total | 52.571 | 34 | | | |

a. Dependent Variable: Performance

b. Predictors: (Constant), Staff

The model was significant with the F ratio = 0.248 at p value 0.622 > 0.05. This is an indication that staff characteristics when considered singly have an insignificant effect on performance of Primary Marketing Co-operatives.

**Table 4.29: Regression Coefficients for Staff Characteristics**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 3.370 | .456 | | 7.384 | .000 |
| | Staff | .119 | .240 | .086 | .498 | .622 |

a. Dependent Variable: Performance

Staff characteristics had positive and insignificant effect on performance of Primary Marketing Co-operatives with β = 0.119 at p value 0.622 which is greater than 0.05. From Table 4.29, the bivariate linear regression model fitted using unstandardized coefficients is; $Y = 3.370 + 0.119X_1 + e$ where 3.370 is the constant the place where the regression equation crosses the Y-axis and $X_1$ is staff characteristics index. This means that staff characteristics are positively but insignificantly influencing performance of Primary Marketing Co-operatives. It also means that an increase of one unit of $X_1$ increases Y by 0.119. The indication was that staff characteristics can be adopted when evaluating performance of Primary Marketing Co-operatives. Staff characteristics had positive but insignificant effect on performance of Primary Marketing Co-operatives.

The finding of this study contradict earlier study by Koca&Uysal (2009), who found out that HRM practices have a strong relationship with organizational performance. Nyoro and Ngugi (2007) in their study concluded that successful cooperatives had staff and management committee, with relatively higher qualifications than unsuccessful cooperatives. Additionally, Khan (2010) investigated the effects of HRM practices and found a positive significant relationship between practices and organizational performance. The finding of this study may differ from other cooperatives on the premise that primary cooperative societies act like conduit where they carry out bulking and marketing of the members' produce without further processing hence expertise knowledge may not be a key consideration.

### 4.7 Effects of Commodity Characteristics on Financial Performance.

A bivariate linear regression analysis was done by regressing the weighted scores of the commodity characteristics on financial performance. The results are presented in Tables 4.30 to 4.32

**Table 4.30: Model Summary for Commodity Characteristics**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .393[a] | .155 | .129 | 1.16041 |

a. Predictors: (Constant), Commodity

From the regression results in Table 4.30, the R value was 0.393 indicating that there is a relationship between commodity characteristics on performance of Primary Marketing Co-operatives. The R squared ($R^2$) value of 0.155 shows that 15.5 percent of the performance of Primary Marketing Co-operatives is explained by commodity characteristics all other factors held constant. The remaining 84.5 percent is explained by other factors.

**Table 4.31: ANOVA for Commodity Characteristics**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 8.135 | 1 | 8.135 | 6.042 | .019[b] |
| | Residual | 44.436 | 33 | 1.347 | | |
| | Total | 52.571 | 34 | | | |

a. Dependent Variable: Performance

b. Predictors: (Constant), Commodity

The model was significant with the F ratio = 6.042 at p value 0.019 < 0.05. This is an indication that staff characteristics when considered singly have a significant effect on performance of Primary Marketing Co-operatives.

**Table 4.32: Regression Coefficients for Commodity Characteristics**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2.427 | .505 | | 4.803 | .000 |
| | Commodity | .393 | .160 | .393 | 2.458 | .019 |

a. Dependent Variable: Performance

Commodity characteristics had positive and significant effect on performance of primary marketing co-operatives with $\beta = 0.393$ at p value 0.019 which is less than

0.05. From Table 4.32, the bivariate linear regression model fitted using unstandardized coefficients is; $Y= 2.427 + 0.393X_1 + e$ where 2.427 is the constant the place where the regression equation crosses the Y-axis and $X_1$ is commodity characteristics index. This means that commodity characteristics are positively and significantly influencing performance of Primary Marketing Co-operatives. It also means that an increase of one unit of $X_1$ increases Y by 0.393. The indication was that commodity characteristics can be adopted when evaluating performance of Primary Marketing Co-operatives.

The literature revealed that agricultural commodities are dependent on weather patterns meaning that production is seasonally distributed hence high and low seasons. The findings support Bolo *et al*., (2011) report that farmers are faced with lack of market access for their excess milk during the high season when the sector experiences overproduction of the commodity.

It also goes ahead to reinforce the findings of Omitti *et al*. (2007) and Okello *et al*. (2009) who argued that value addition (among other things) in rural agriculture should be enhanced in order to promote market oriented smallholder agriculture in the developing countries.

### 4.8 Influence of Market Characteristics on Financial Performance.

A bivariate linear regression analysis was done by regressing the weighted scores of the market characteristics on financial performance. The results are presented in Tables 4.33 to 4.35

**Table 4.33: Model Summary for Market Characteristics**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .337[a] | .113 | .087 | 1.18846 |

a. Predictors: (Constant), Market

From the regression results in Table 4.33, the R value was 0.337 indicating that there is a relationship between market characteristics on performance of Primary Marketing Co-operatives. The R squared ($R^2$) value of 0.113 shows that 11.3 percent of the performance of Primary Marketing Co-operatives is explained by market characteristics all other factors held constant. The remaining 88.7 percent is explained by other factors

**Table 4.34: ANOVA for Market Characteristics**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 5.961 | 1 | 5.961 | 4.220 | .048[b] |
| | Residual | 46.610 | 33 | 1.412 | | |
| | Total | 52.571 | 34 | | | |

a. Dependent Variable: Performance

b. Predictors: (Constant), Market

The model was significant with the F ratio = 4.220 at p value 0.048< 0.05. This is an indication that market characteristics when considered singly have a significant effect on performance of Primary Marketing Co-operatives.

**Table 4.35: Regression Coefficients for Market Characteristics**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 2.592 | .517 | | 5.009 | .000 |
| | Market | .323 | .157 | .337 | 2.054 | .048 |

a. Dependent Variable: Performance

Market characteristics had positive and significant effect on performance of Primary Marketing Co-operatives with β = 0.323 at p value 0.048 which is less than 0.05. From Table 4.35, the bivariate linear regression model fitted using unstandardized coefficients is; $Y= 2.592 + 0.323X_1 + e$ where 2.592 is the constant the place where the regression equation crosses the Y-axis and $X_1$ is members' characteristics index. This means that market characteristics are positively and significantly influencing performance of Primary Marketing Co-operatives. It also means that an increase of one unit of $X_1$ increases Y by 0.323. The indication was that market characteristics can be adopted when evaluating performance of Primary Marketing Co-operatives.

Market characteristic had positive and significant effect on performance of Primary Marketing Co-operatives. In their study investigating the effect of market structure on organizational performance, Perevalov et al, *(*1999), established competition as a determinant of performance; specifically that competition can be detrimental to organization performance. A great majority of modern co-operatives that succeed in addressing competitive situations choose to adapt and innovate so as to have a competitive advantage. Many have automated their operations as a cost saving measure and also advance in use of new technology such as Mobile money transfers. Sessional Paper No. 6 of 1997 on "Co-operatives in a Liberalized Economic Environment" (Republic of Kenya, 1997a) provides the current policy framework for co-operative development in Kenya.

### 4.9 Drivers of Financial Performance among Primary Marketing Co-operatives.

A multiple linear regression analysis between the independent and dependent variables of the study was done. In order to conduct multiple regression analysis the set of items that measured each independent variable were weighted. Multiple linear regression analysis was then used to test whether there existed interdependency between independent variables (Members, Staff, Commodity, and Market characteristics) and dependent variable (performance of Primary Marketing Co-operative Societies). The findings of the multiple regression analysis for each of the four independent variables are discussed in Table 4.36 to Table 4.38.

**Table 4.36: Model Summary for Drivers of Financial Performance**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .725[a] | .526 | .463 | .91128 |

a. Predictors: (Constant), Market, Member, Staff, Commodity

From the regression results in Table 4.36, the R value was 0.725 indicating that there is a relationship between Members, Staff, Commodity, and Market characteristic on performance of Primary Marketing Co-operatives. The R squared ($R^2$) value of 0.526 shows that 52.6percent of the performance of Primary Marketing Co-operatives is explained by drivers of performance under this study when all other factors were held constant. The remaining 47.4 percent is explained by other factors.

**Table 4.37: ANOVA for Drivers of Financial Performance**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| | Regression | 27.658 | 4 | 6.915 | 8.326 | .000[b] |
| 1 | Residual | 24.913 | 30 | .830 | | |
| | Total | 52.571 | 34 | | | |

a. Dependent Variable: Performance

b. Predictors: (Constant), Market, Member, Staff, Commodity

The model was significant with the F ratio = 8.326 p value 0.000 < 0.05. This is an indication that members, staff, commodity, and market characteristic when combined together had a significant effect on performance of Primary Marketing Co-operatives.

**Table 4.38: Regression Coefficients for Drivers of Financial Performance**

| Model | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | t | Sig. |
| (Constant) | -2.031 | 1.588 | | -1.279 | .211 |
| Member characteristics | .558 | .125 | .600 | 4.451 | .000 |
| Staff characteristics | .383 | .390 | .153 | .982 | .334 |
| Commodity characteristics | .387 | .185 | .341 | 2.093 | .045 |
| Market characteristics | .551 | .245 | .393 | 2.243 | .032 |

a. Dependent Variable: Performance

From the regression coefficient table, members, commodity, and market characteristic had a positive and significant effect on performance of Primary Marketing Co-operatives with $\beta_1$ = 0.558 at p value 0.000, with $\beta_3$ = 0.387 at p value 0.045, and $\beta_4$= 0.551 at p value 0.032 which is less than 0.05 respectively. Staff characteristics had positive but insignificant effect on performance of Primary Marketing Co-operatives with $\beta_2$ = 0.383 at p value 0.334 which is greater than 0.05. The regression equation for this study can be stated as: $Y= -2.031+ 0.558X_1 + 0.383X_2 + 0.387X_3 + 0.551X_4 + e$. where $X_1$ is Member characteristics index, $X_2$ is Staff characteristics index, $X_3$ is Commodity characteristics index and $X_4$ is Market characteristics index.

The study revealed that members, commodity, and market characteristic had a positive and significant effect on performance of Primary Marketing Co-operatives. The study considered net profit after tax, return on investment, gross profit margin and profitability index. The finding supports Xu, L.C, Zhu, T and Lin, Y (2001), who noted that there are different ways to measure performance. A good number of authors (Wernerfelt, (1984), Hoskisson et al, (2000), Caldeira, 2001, Makhija, (2003) etc) are in agreement that tangible and intangible firm resources are meaningful firm performance drivers.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents the summary of the research work undertaken, discusses the research findings, the conclusions that were drawn, recommendations made, knowledge gained and the suggested areas of further research based on the analyzed data related to the general and specific objectives of the study.

## 5.2 Summary of the Finding

The general objective of the study was to investigate the drivers of financial performance among Primary Marketing Co-operatives in Nyeri County. The study specifically sought to assess the effect of Members characteristics, Staff characteristics, Commodity characteristics and Market characteristics on financial performance of Primary Marketing Co-operatives in Nyeri County. Overall, the findings of the study revealed the following;

### 5.2.1 Members' Characteristics and Financial Performance.

The first objective of the study was to examine influence of members' characteristics on financial performance of Primary Marketing Co-operatives in Nyeri County. In order to ascertain the relationship between members' characteristics and financial performance of Primary Marketing Co-operatives, the researcher carried out both descriptive and bivariate regression analyses. The study accentuates that at 5% level of significance the regression results indicated a positive and significant relationship between members' characteristics and financial performance of Primary Marketing Co-operatives when considered alone and when combined with other factors.

The results revealed that Income level of members and the age of the members were major factor that affects performance of Primary Marketing Co-operatives. The indication was that as income increases the percentage of reserve to the Co-operative will increase hence boosting the financial position. In addition, the age of the member determine whether they are in early thirties when they are expected to generate more revenue as a result of various responsibilities hence increasing production. The level of member patronage in the Co-operatives activities was found to have minimal effect on performance.

### 5.2.2 Staff Characteristics and Financial Performance

The second objective of the study was to explore the role of staff characteristics on financial performance of Primary Marketing Co-operatives in Nyeri County. In order to ascertain the relationship between staff characteristics and financial performance of Primary Marketing Co-operatives, the researcher carried out both descriptive and bivariate regression analyses. The study accentuates that at 5% level of significance the regression results indicated a positive and insignificant relationship between staff characteristics and financial performance of Primary Marketing Co-operatives when considered alone and when combined with other factors. The results revealed that staff working experience was found to be more crucial than the literacy level of employees. That can be support by the fact that most of the employees in Primary Co-operative Societies undertake clerical work apart from the manager who should possess managerial skill.

### 5.2.3 Commodity Characteristics and Financial Performance.

The third objective of the study was to assess effect of commodity characteristics on financial performance of Primary Marketing Co-operatives in Nyeri County. In order to ascertain the relationship between commodity characteristics and financial performance of Primary Marketing Co-operatives, the researcher carried out both descriptive and bivariate regression analyses. The study accentuates that at 5% level of significance the regression results indicated a positive and significant relationship between commodity characteristics and financial performance of Primary Marketing Co-operatives when considered alone and when combined with other factors. The study revealed that perishability and seasonality of the products plays a major role on performance of Primary Marketing Co-operatives. This is because the commodity Shelf life within the Co-operative Society was low hence some processes had to be undertaken to prevent the commodity from being perishable though the Primary Co-operatives do not have the capacity.

### 5.2.4 Market Characteristics and Financial Performance

The fourth objective of the study was to determine the influence of market characteristics on the financial performance of Primary Marketing Co-operatives in

Nyeri County. In order to ascertain the relationship between market characteristics and financial performance of Primary Marketing Co-operatives, the researcher carried out both descriptive and bivariate regression analyses. The results of the regression analysis highlight that at 5% level of significance the regression results indicated a positive and significant relationship between market characteristics and financial performance of Primary Marketing Co-operatives when considered and when combined with other factors. The study revealed that fluctuations of commodity prices and cash payout per kg delivered are the market major factors that affect performance of Primary Marketing Co-operatives.

### 5.2.5 Financial Performance of Primary Marketing Co-Operatives

The study revealed that the financial performance of Primary Marketing Co-operative Societies is weak based on members' characteristics, commodity characteristics and market characteristics. Most of the societies deal with coffee and milk marketing where the prices keep on fluctuating. Their production and income levels per member are also very low resulting to the overall poor financial performance of the respective Co-operative Societies. The finding of the study revealed that financial performance of Primary Marketing Co-operatives mainly depends on Income level of members, Age of the member, staff Working experience, perishability and seasonality of the commodity. In addition, fluctuations of commodity prices and cash payout per kg delivered are the market major factors that affect performance of Primary Marketing Co-operatives.

## 5.3 Conclusions of the Study

The studies revealed that majority of the respondents had worked with Primary Marketing Co-operative societies for over 10 years. This indicates that respondents are experienced personnel who can articulate issues relating to drivers of financial performance among Primary Marketing Co-operatives. Both Dairy marketing and Coffee marketing Co-operatives were adequately represented in this study where the managers and assistance manager were the respondents of the study. The results of study revealed that members' characteristics had positive and significant effect on financial performance of Primary Marketing Co-operatives in particular the level of income was found to be the main factor. Therefore the study concludes that Primary

Marketing Co-operatives should lay emphasis of ensuring that members improve their level of output with the aim of increasing the level of income.

Staff characteristics had positive and insignificant effect on financial performance of Primary Marketing Co-operatives. The study conclude that Primary Marketing Co-operatives should not put more emphasis on the staff qualification but the experience in the field of co-operative movement as majority of them normally undertake clerical work.

Commodity characteristics had positive and significant effect on financial performance of Primary Marketing Co-operatives in particular perishability and seasonality nature of the products. This study therefore concludes that Primary Marketing Co-operatives should establish specific period when the production is low and seasonal to devise ways in which they can cut on operational cost.

Market characteristics had positive and significant effect on financial performance of Primary Marketing Co-operatives in particular fluctuations of commodity prices and cash payout per kg delivered. The study therefore concludes that Co-operative Societies should device mechanism of setting the average price of the commodities.

## 5.4 Recommendations of the Study

Based on the research study, a number of recommendations can be made to improve the financial performance of these Primary Marketing Co-operatives.

i. The societies should look for the ways of improving the number of products dealt with through diversification in order to improve their financial performance
ii. The managers should find ways of improving the membership of these societies to increase the number of members through membership drives and outreach activities.
iii. Staff members should be employed on permanent basis and be motivated to boost their effectiveness. They should also be encouraged to undertake continuous skills development to adopt technological advancement.
iv. Value addition should be given more emphasis to improve the shelf life of the commodities and performance of Primary Marketing Co-operative Societies.

v. Payment per kilogram delivered should be increased through value addition and competitive bargaining to boost the monthly income of the members thus encouraging the Co-operative members to increase production.

vi. Price fluctuations should be controlled through consistent supplies and non reliance on seasonal weather patterns as well as entering irrevocable contractual agreements with buyers.

vii. Primary Marketing Co-operatives should focus on capacity building to empower members to devise strategies of enabling them to maximize the quality and quantity of the output.

## 5.5 Areas of Further Studies

The study confined itself to Primary Marketing Co-operatives in Nyeri County, Kenya while there is need to undertake comparative studies covering other Counties in order to validate whether the findings can be generalized. This study considered four variables, members, staff, commodity and market characteristic. Future researchers should also focus on other characteristics in order to establish their relationship with financial performance of Primary Marketing Co-operative.

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# APPENDICES

## APPENDIX I: LETTER OF INTRODUCTION.

**Charles Wanjau**

**P.O BOX 26-10104**

**Mweiga, Kenya**

**TEL. NO: 0722574851**

**1$^{st}$ August 2017**

**Dear Respondent,**

**REF: REQUEST TO COLLECT DATA FOR MASTERS DEGREE THESIS**

I am a student of Dedan Kimathi University of Technology undertaking a research on Drivers of financial performance among Primary Marketing Co-operatives in Nyeri county. You are therefore asked to fill the questionnaire, provide answers to the questions correctly and honestly by ticking (√) in the right box or filling in the right number in the appropriate box. All information received shall be treated with confidentiality and the findings will be used for academic purposes only. The findings and recommendations of the research if necessary will be availed to you upon completion of the research.

Thank You.

Yours Sincerely,

Charles Wanjau.

## APPENDIX II: QUESTIONNAIRE.

## SECTION ONE: BASIC INFORMATION

**Introduction**

This questionnaire is meant to gather information regarding the drivers of financial performance among Primary Marketing Co-operatives in Nyeri County. Your participation in filling this questionnaire is highly welcome and it will contribute to this research. Your responses to this questionnaire will be handled confidentially and ethically.

1. Name of the Primary co-operative……………………
2. Nature of business undertaken:
    - Dairy marketing [ ]
    - Coffee marketing [ ]
    - Hybrid [ ]
    - Others (Specify) -----------------------------------------------------
3. Year of registration ---------------------------------------------------------
4. Respondent's details;
    a. Age Below 30 years [ ] 30 to 50 years [ ] over 50 years [ ]
    b. Gender Male [ ] Female [ ]
5. Highest educational qualification. Primary [ ] Secondary [ ]
   Certificate [ ] Diploma [ ] Degree [ ]
6. Position within the society ………………………………..…….
   Manager [ ] Assistant Manager [ ] Official [ ]
7. How long have you been working in the society?
   0-5 years [ ] 6-10 years [ ] over 10 years [ ]

## SECTION TWO: MEMBERS' CHARACTERISTICS.

This section has four sub-sections. Each sub-section has statements related to the parameters of the independent variable. Please indicate by a tick your opinion on each statement.

What is the average age of members of your cooperative society?

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Age** | **<20 yrs** | **21 – 30yrs** | **31- 40yrs** | **41- 50yrs** | **>50yrs** |
| **Category** | | | a | b | |

How much is the member's average monthly income from Coffee/Milk proceeds?

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Income** | **<5000** | **5,001 -10,000** | **10,001 – 20,000** | **20,001- 30,000** | **>30,000** |
| **Category** | b | a | | | |

What is the average annual member's production level from Coffee/Milk of your Co-operative Society?

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Production (KGs)** | **<2,000** | **2,001 - 3,000** | **3,001 – 4,000** | **4,001 -5,000** | **>5000** |
| **Category** | **b** | **a** | | | |

What percentage of members fully patronizes the Co-operatives activities?

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Percentage of patronage** | **<20%** | **21 – 30%** | **31 – 40%** | **41- 50%** | **>50%** |
| **Category** | | | **b** | **a** | |

Please indicate the extent to which you agree with the following statements of members characteristic in relation to financial performance among Primary Marketing Co-operatives

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Statement** | **No extent** | **Small extent** | **Moderate extent** | **High extent** | **Very high extent** |
| Age of the member is a factor that affect performance of co-operative | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Income level of members affects performance of Primary Marketing Co-operatives | | | | | |
| The level member patronage the Co-operatives activities affect performance | | | | | |

**SECTION THREE: STAFF CHARACTERISTICS.**

What is the education level of majority of staff in your cooperative society?

| | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| **Level of education** | **Primary** | **Secondary** | **Certificate** | **Diploma** | **Degree** |
| **Category** | | b | a | | |

What is the average number of years staffs have worked in your cooperative society?

| | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| **Period** | **<1yr** | **1 – 5yrs** | **6 – 10yrs** | **11 – 15yrs** | **>15yrs** |
| **Category** | | b | a | | |

Please indicate the extent to which you agree with the following statements of staff characteristic in relation to financial performance among primary marketing co-operatives

| | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| **Statement** | **No extent** | **Small extent** | **Moderate extent** | **High extent** | **Very high extent** |
| Literacy level of employees enhances performance of Co-operatives | | | | | |
| Working experience affects performance of Co-operatives | | | | | |
| Terms of employment is a factor that affect performance of Co-operatives | | | | | |

**SECTION FOUR: COMMODITY CHARACTERISTICS.**

Indicate the number of months in a year that the commodity is traded;

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Months** | **1 – 3** | **4 - 6** | **7 – 9** | **10-12** | **Unpredictable** |
| **Category** | | | a | | b |

What is the shelf life of the commodity under the given levels of processing?

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **level** | **Very low** | **Low** | **Moderate** | **High** | **Very high** |
| **Category** | | a | | | |

Please indicate the extent to which you agree with the following statements of commodity characteristic in relation to financial performance among Primary Marketing Co-operatives

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Statement** | **No extent** | **Small extent** | **Moderate extent** | **High extent** | **Very high extent** |
| Seasonality of the products | | | | | |
| Perishability time of the product | | | | | |
| Value additional level of the product | | | | | |

**SECTION FIVE: MARKET CHARACTERISTICS.**

Please indicate the extent to which you agree with the following statements of market characteristic in relation to financial performance among Primary Marketing Co-operatives

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Statement** | **No Extent** | **Small extent** | **Moderate extent** | **High extent** | **Very high extent** |
| Prices fluctuation | | | | | |
| The level of Market regulations | | | | | |
| Competition levels | | | | | |
| The cash payment per kg delivered | | | | | |

**SECTION SIX: FINANCIAL PERFORMANCE.**

Please record in the table below your Co-operative Society's financial performance indicators for the last five years.

| | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| **Year** | **2012** | **2013** | **2014** | **2015** | **2016** |
| **Financial Measure** | **Ksh** | **Ksh** | **Ksh** | **Ksh** | **Ksh** |
| **Net Profit after Tax** | | | | | |
| **Return on Investments** | | | | | |
| **Gross Profit Margin** | | | | | |
| **Profitability Index** | | | | | |

**Appendix iii: Growth in the number of Co-operative Societies by type in Kenya 2000-2014.**

| Activity | 2000 | 2002 | 2005 | 2008 | 2009 | 2012 | 2014 |
|---|---|---|---|---|---|---|---|
| **Coffee** | 366 | 474 | 523 | 549 | 555 | 595 | 429 |
| **Cotton** | 86 | 71 | 59 | 59 | 59 | 74 | 93 |
| **Pyrethrum** | 73 | 152 | 146 | 146 | 146 | 146 | 146 |
| **Sugar** | 112 | 112 | 152 | 152 | 159 | 170 | 180 |
| **Dairy** | 337 | 332 | 248 | 264 | 273 | 432 | 560 |
| **Multi-Purpose** | 1,560 | 1,608 | 1,818 | 1,883 | 1,894 | 1,503 | 1,350 |
| **Farm Purchase** | 731 | 624 | 111 | 114 | 114 | 114 | 114 |
| **Fisheries** | 82 | 85 | 66 | 67 | 67 | 72 | 86 |
| **Other agric** | 1,002 | 956 | 1,181 | 1,243 | 1,317 | 1,458 | 1,940 |
| **Total Agric** | 4,349 | 4,414 | 4,304 | 4,477 | 4,584 | 4,564 | 4,998 |
| **SACCO's** | 3,627 | 4,020 | 4,678 | 5,350 | 5,628 | 7,767 | 9,560 |
| **Consumer** | 197 | 208 | 181 | 183 | 184 | 184 | 184 |
| **Housing** | 468 | 440 | 512 | 596 | 636 | 1,163 | 2,233 |
| **Craftsmen** | 104 | 102 | 88 | 89 | 89 | 89 | 89 |
| **Transport** | 36 | 32 | 29 | 58 | 64 | 330 | 601 |
| **Other non- Agric** | 573 | 712 | 1,075 | 1,115 | 1,121 | 346 | 250 |
| **Total non Agric** | 5,005 | 5,514 | 6,563 | 7,391 | 7,722 | 8,879 | 12,817 |
| **Unions** | 89 | 89 | 99 | 100 | 101 | 101 | 101 |

**Source: County Annual Reports**

**Appendix iv: List of Primary Marketing Co-operative Societies in Nyeri County.**

| NO | CS/NO | CO-OPERATIVE SOCIETY | NO | CS/NO | CO-OPERATIVE SOCIETY |
|---|---|---|---|---|---|
| 1. | 6422 | Kieni East Gaturiri Dairy | 24 | 7936 | Gikanda Coffee |
| 2. | 949 | Island Dairy | 25 | 7929 | Gakuyu " |
| 3. | 2108 | Lusoi Dairy | 26 | 7934 | Iriaini " |
| 4. | 15015 | Kidagofa Dairy Goat | 27 | 10645 | Kiama " |
| 5. | 904 | Naromoru Dairy | | | NYERI CENTRAL |
| 6. | 1874 | Ngukurani Dairy | 28 | 9178 | Njuriga Coffee |
| 7. | 1025 | Warazo Dairy | 29 | 9175 | Githiru " |
| 8. | 20040 | Orient Snow Dairy | 30 | 10377 | Mutheka " |
| | | TETU | 31 | 3594 | Kirichu Dairy |
| 9. | 155 | Ihururu Dairy | 32 | 1972 | Tetu Dairy |
| 10. | 872 | Ihithe Dairy | | | KIENI WEST |
| 11. | 10376 | Aguthi Coffee FCS | 33 | 968 | Endarasha Dairy FCS |
| 12. | 872 | Gachatha Coffee | 34 | 950 | Mweiga FCS |
| 13. | 9176 | Gathaithi Coffee | 35 | 1071 | Watuka Dairy |
| 14. | 9165 | Thiriku " | 36 | 1248 | Gataragwa Dairy |
| 15. | 9172 | Wachuri " | 37 | 4049 | Lamuria Dairy |
| 16. | 9177 | Giakanja " | 38 | 1194 | Nairotia Dairy |
| | | OTHAYA | 39 | 2778 | Thuruthuru Dairy |
| 17. | 199 | Othaya Coffee | | | MUKURWEINI |
| 18. | 8042 | Othaya Dairy | 40 | 9448 | New Gikaru Coffee |
| | | MATHIRA WEST | 41 | 10375 | Rugi Coffe |
| 19. | 10744 | Tekangu Coffee | 42 | 10379 | Rumukia Coffee |
| 20. | 10644 | Rutuma " | 43 | 10378 | Ruthaka Coffee |
| 21. | | | 44 | 978 | Gakindu Dairy |
| 22. | 10743 | Mathira North " | | | |
| | | MATHIRA EAST | | | |
| 23. | 7915 | Barichu Coffee | | | |

**Source: County Annual Reports**

## Appendix v: Map of Kenya