Factors Affecting the Financial Performance of Savings and Credit Co-Operative Society in Kenya: A Case of Mwalimu Savings and Credit Co-Operative Society

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Abstract: Although SACCOs has been present in Kenya since 1970s, this sector has not been able to impact positively on the lives of people. In light of this, the existence and flourishing of SACCOS in Kenya have not been able to perform well as compared to the other mainstream financial institutions like commercial banks. The most critical challenges facing Mwalimu SACCO Co-operatives are among others, lack of standardized accounting and prudential standards, lack of concessory credit facilities previously given by Government with donor contributions, high capital cost brought about by liberalization of financial sector, high farm input cost as a result of liberalization of International trade and also liberalization of market players and decontrol of marketing of local commodities such as agricultural produce. As a result of these changes high competition has been experienced. This study sought to establish the factors affecting the financial performance of Sacco’s in Mwalimu National Sacco. The study sought to establish the role of competition, capital adequacy, corporate governance, and liquidity management and how they influence the performance Mwalimu National Sacco. The research study was studied through the use of a case study method. This method was preferred because it allowed for generalization of research findings. Target population was all employees in the performance Mwalimu National Sacco in Nairobi that was 200 drawn from various departments. The study used a stratified random sampling where 60 respondents were selected as the sample population. For this study, both qualitative and quantitative techniques were used. Pilot testing of the research instruments was conducted using staff working on a similar savings and credit co-operative society (SACCOS) who did not match my respondents. 10 questionnaires were administered to the pilot survey respondents who were chosen at random. Reliability of the questionnaire was evaluated through administration of the said instrument to the pilot group. The researcher used the most common internal consistency measure known as Cronbach’s alpha (α). The study used content validity to ascertain the validity of the questionnaires. Quantitative data was analyzed by descriptive analysis. Finally, data was presented in tables and graphs while the explanation to the same was presented in prose. In addition, the study also employed inferential statistics in the form of multiple regressions to establish factors that influence the performance of savings and credit co-operative society. The study revealed that that competition, capital adequacy, corporate governance and liquidity management are statistically significant in explaining performance of Mwalimu National SACCO in Kenya.

Key words- Savings, Co-operative Society

1. Introduction

A Savings and Credit Society is a co-operative financial institution that is owned and controlled by its members and operated for the purposes of promoting thrift, providing credit at low interest rates and providing other financial services to its members. Savings and credit co-operative societies have a departure from other financial institutions a majority of whom are banks in that, the members who hold accounts in the Sacco’s are at the same time the owners, and they conduct their voting mandate on the one member- one vote basis irrespective of the member’s shareholding. This means that only the members of these institutions can deposit and borrow from them (CBK, 2011).

FOSA is an activity or section of the society, which provides (further) basic banking services to meet the members need or requirements. Traditionally Savings and Credit Societies facilitated provision of affordable loan facilities to its members. Majority of these Savings and Credit Societies usually loan their members three times the shares they hold with the society. These types of loans are categorized as school fees loan, emergency loans or quick loan and development loans. The loan repayment period is usually between twelve and thirty-six months (Birchall, 2010).

Cobia (2008) indicates that cooperative efforts have occurred throughout history. Since the early days,
man cooperated with others to help kill large animals for survival and so as to achieve the objectives that they could not reach if they acted individually. Cooperation has occurred throughout the world. Ancient records show that the Babylonians practiced cooperative farming and that the Chinese developed savings and loan associations similar to those in use today. In North America, clearing land in preparation for the planting of crops, threshing beans, and barn raisings all required cooperative efforts. In the United States, the first formal co-operative business is assumed to have been established in 1752, almost a quarter-century before the Declaration of Independence was signed.

In today’s society, cooperative financial institutions hold a considerable market share, with the IMF estimates that across all banking sector assets in developing countries, the market share of cooperative finance was equivalent to 14 percent in 2004 (Hesse and Cihak, 2007). Previous research on cooperative finance during crisis indicates that they tended to fare better than investor-owned savings and loans institutions, as they pursue more conservative investment policies (Chaddad and Cook, 2004). For instance, analysis from the IMF indicates that co-operative banks in developed countries tend to be more stable than commercial banks, especially during financial crisis, as their investment patterns tend to be less speculative and returns are therefore less volatile (Hesse and Cihak, 2007).

In China, agricultural and rural cooperatives have experienced various challenges and changes as a micro-economic firm model. The road of development has been full of twists and turns since the founding of the People’s Republic of China in 1949. Chinese agricultural and rural cooperatives also include rural credit cooperatives, rural community cooperative organizations, and new farmer specialized cooperatives. The history of China’s SMCs can be divided into three main periods: the flourishing and growth period from 1949 to 1957, the zigzag and slow development period from 1958 to 1981, and the reform period from 1982 to present. The "Golden Age" of SMCs at the beginning of the Republic, from 1949 to 1957, SMCs developed smoothly and successfully.

This period is called the "Golden Age" of SMCs in history. On November 1, 1949, the Central People’s Government of the People’s Republic of China set up the State Administration of Cooperative Business with responsibility for organization, guidance, and promotion of the development of supply and marketing, consumer, credit, transportation, fishery, and handicraft industry cooperatives for the whole country. In July of 1950, the State Administration of Cooperative Business held the first national soviet of cooperative staff, at which the United Headquarters of the Chinese Cooperatives was created and took charge in leading and controlling all types of cooperatives.

The SACCO sub-sector is part of the larger cooperative movement in Kenya. There are two broad categories of co-operatives: Financial co-operatives (Savings & Credit Co-operative Societies-SACCOs) and Non-financial cooperatives (includes farm produce and other commodities marketing cooperatives, housing, transport and investment co-operatives). In the recent past Savings and Credit Cooperatives (SACCOs) have witnessed faster growth than other co-operatives. The establishment of SACCO Societies Act 2008 places the licensing, supervision and regulation of deposit taking under the armpit of the SACCO Societies Regulatory Authority (SASRA). Through this new legal framework, prudential regulations have been introduced to guide SACCO’s growth and development (Barrales, 2012).

As at 31st December 2012, the total number of deposit taking SACCOs was 215 of which 124 had been licensed. The remaining 91 SACCOs were at different levels of compliance with the provisions of the law. All deposit taking SACCOs were in operation prior to establishment of SASRA in 2009 and have applied to be considered for licensing as undertaking deposit taking SACCOs business. They are spread across the various counties in the country and are categorized as follows: Government based SACCOs (87); Farmers based SACCOs (74); Private institutions based SACCOs (24); and, Community based SACCOs (30), (Bhole, 2014).

Some of the measures the Ministry has undertaken to create an enabling environment for co-operatives to prosper include; the establishment of the SACCO Societies Regulatory Authority (SASRA) to regulate the large financial SACCOs and the establishment of the Ethics Commission for Cooperative Societies (ECCOS) to address governance matters. The SACCO Societies Act, 2008 and SACCO Societies (Deposit-Taking SACCO Business) Regulations, 2010 provide legal, regulatory and supervisory framework commensurate to the risks in deposit taking business conducted by SACCO Societies (Bhole, 2014). SACCO societies serve largely the personal loans market lending on a guarantee system, with credit risk perceived to remain high and hence posing the greatest risk to the SACCO movement. This is largely manifested in high borrowing from commercial banks, which has resulted in low liquidity and solvency margins in many SACCO Societies (Mwaura 2005).
2. Statement of the Problem

The most critical challenges facing Mwalimu Sacco Co-operatives are among others, effectiveness of loan guarantor ship in loan processing and loan prorata, Competition of low interest rates from other Sacco’s like Stima Sacco, lack of concessory credit facilities previously given by Government with donor contributions, high capital cost brought about by liberalization of financial sector, high farm input cost as a result of liberalization of International trade and also liberalization of market players and decontrol of marketing of local commodities such as agricultural produce (Mwalimu Sacco, 2015).

The main objective of any Sacco is to promote thrift among its members by affording them an opportunity for accumulating their savings, and thereby create a source of funds from which loans can be made available to them exclusively for provident and productive purposes (Njagi et al., 2013). However, if the determinants of efficiency are not properly enhanced, then SACCOs will be unable to adequately advance loans to members which will have an adverse effect on efficiency. If this extends over long periods of time, the eventual result is liquidation (Njagi et al., 2013).

Unique to the high 51% failure rate of SACCOs in Kenya, none of the SACCOs in the banking sector has failed (GOK 2011). SACCOs in the banking sector in Kenya are unique in that, bank employees enjoy many employment perks including highly concessional and discounted internal employer loans. They also compete for the same savings with the commercial banks who happen to be the employers of the SACCO members. This poses the question, “why do SACCOs in the banking sector continue to thrive and flourish in an environment and economy which at the same time has a 51% failure rate of SACCOs?”

The performance of SACCOs in Kenya depends on how efficient they are so that they can be able to cover all expenses as well as give something back to its shareholders. The most affected are the members of Mwalimu Sacco who are the major shareholders and customers, concern by the various stakeholders who have an interest in these Cooperative Societies is whether they are operating efficiently. Given the important role that SACCOs play in any economy, it is therefore crucial to understand efficiency and its determinants so that the management can be able to know how to improve efficiency and hence Sacco performance which will in turn ensure sustainability of the Co-operative movement in Kenya (Mwalimu Sacco, 2015).

Though studies have been done on efficiency, most of them have concentrated in the banking sector and very few in other areas. Therefore, there exists a gap in which it is important to know the factors that determine efficiency in SACCOs as well as other financial institutions. This study therefore sought to fill this gap by finding out the factors affecting the financial performance of Sacco’s in Kenya case of Mwalimu SACCO.

2.1. Theoretical Review

2.1.1. Financial literacy theory

Financial literacy theory is an emerging theory that draws theoretical perspectives from other theories including economics, psychology, sociology and management to explain the financial behavior of individuals. Financial literacy as a construct was first championed by the Jumpstart coalition for personal financial literacy in its inaugural study of financial literacy among high school students (Hastings et al., 2013). As operationalized in academic literature, financial literacy is a multi-dimensional construct comprising of knowledge of financial products, knowledge of financial concepts, having the mathematical skills or numeracy necessary for effective financial decision making and financial behavior such as financial planning (Wise, 2013).

Early literature on financial literacy began by documenting important links between financial literacy and several economic behaviors such as money management, debt and saving behaviors, retirement planning, asset ownership and participation in financial markets (Xiao, 2008a, van Rooij et al., 2011). Economic psychologists posited that factors associated with retirement saving and asset ownership behaviors are both economic and psychological (DeVaney et al., 2001; DeVaney, et al., 2007). Several behavior theories have also been used in the study of financial literacy and financial behaviors.

Hilgert et al, (2003) formed a financial practices index based upon self-benefiting behavior in cash-flow management, credit management, saving and investment practices and established that there was a positive correlation between financial literacy scores and Financial Practices Index scores thus confirming that financial knowledge is related to financial practices. The theory of planned behavior, often used to understand and predict human behavior, has been applied to online shopping behavior, investment behavior and debt reducing behaviors (Xiao, 2008b).

2.1.2. Stewardship Theory
The stewardship theory has its roots from psychology and sociology and is defined by (Davis, Schoorman & Donaldson, 2011) as a steward who protects and maximizes shareholder’s wealth through firm performance, because by so doing, the steward’s utility functions are maximized. In this regard, stewards are company executives and managers working for the shareholders, who protect and make profits for the shareholders. Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization.

According to Davis, Schoorman, and Donaldson (2011), a steward protects and maximizes shareholder’s wealth through firm performance, because by so doing, the steward’s utility functions are maximized. In this perspective, stewards are managers working to protect and make profits for the shareholders. Therefore, stewardship theory emphasizes on the role of management being as stewards, integrating their goals as part of the organization (Davis et al., 211). The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained.

The theory recognizes the importance of governance structures that empower the steward and offers maximum autonomy built on trust (Donaldson & Davis, 2012). It stresses on the position of employee to act more autonomously so that the shareholders’ returns are maximized. Indeed, this can minimize the costs aimed at monitoring and controlling employee behavior (Davis et al., 2011). Daily et al. (2013) assert that in order to protect their reputations as decision makers in organizations, managers are inclined to operate the firm to maximize financial performance as well as shareholders’ profits. In this sense, the theory recognizes the contribution of human resource in ensuring success of the business. The theory therefore supports the decision-making role of the top management to ensure SACCOS adopt the best financing strategies and optimally utilize the resources within the organization to enhance liquidity for the SACCOS.

2.1.3. Agency Theory

Agency theory addresses the relationship where in a contract ‘one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent’ (Jensen & Meckling, 2009). This happens because of the separation of ownership and control, when the owner of the company or the board of directors (the ‘principals’) have to employ managers (‘agents’) to run the business and need to monitor their performance to ensure they act in the owner’s interest (Lan & Heracleous, 2010).

This theory is based on the assumption that the interests of the agent and principal diverge. However, the principal may limit the divergence from his interests by establishing appropriate interests for the agents. An agent must be motivated and monitored to create wealth; this arrangement portrays agents as potentially fraudulent and principals as policemen enforcing the law (Arthurs & Busenitz, 2013). The managers are rewarded financially for maximizing shareholder interests. Such schemes typically include plans whereby senior executives obtain shares, perhaps at a reduced price, thus aligning financial interests of executives with those of shareholders. Other similar schemes tie executive compensation and levels of benefits to shareholders returns and have part of executive compensation deferred to the future to reward long-run value maximization of the corporation and deter short-run executive action which harms corporate value (Jensen & Meckling, 2009).

This theory informs the current study in that, the management of the SACCOS acts as the agent out to maximize owner’s wealth (members/stakeholders) while at the same time enhancing their utility. Better performance of the SACCOS translates to better pays for the management and employees of the SACCOS. In fact, since the executive managers are shareholders, their financial interests are aligned to those of shareholders. Further, this performance also translates to higher dividend payouts to stakeholders. This relationship indicates that the management and the employees in a SACCOS thus become the agents and the stakeholders the principles. It is therefore in their line of duty the SACCOS management would formulate financial strategies effective in enhancing liquidity and therefore enhances performances (Kimathi, 2014).

2.1.4. Liquidity Theory

This theory was suggested by (Emery 2013) and proposes that credit rationed companies use more trade credit than those with normal access to financial intermediaries. The central point of this idea is that when there is a restricted monetary policy, the offer of trade credit can make up for the reduction of the credit offer from financial intermediaries. In accordance with this theory, large firms, presenting good liquidity or better access to capital markets can finance those constrained by the policy. Many approaches have tried to obtain empirical evidence to support this theory.

Nielsen(2012) using small firms as a proxy for credit rationed companies found that in monetary contraction they react by borrowing more from their
suppliers. As a result, trade credit tends to be less used in countries where companies have good relations with banks. As liquid firms are less likely to demand trade credit and more likely to offer it, a negative relation between buyer’s access to other sources of financing and trade credit use is expected, as Petersen and Rajan (2009) found. Another expected negative association, also found by these authors is between proxies for the strength of bank relationships and trade credit demand.

Liquidity, being in the eye of the beholder, may have a dynamic of its own. For instance, liquidity may breed liquidity. This simple observation helps to rationalize some key puzzles that have become evident in financial crises. For instance, the Acceleration phenomenon, namely, the fact that capital inflows increase in the run-up of Sudden Stop. This phenomenon is very disconcerting and may even suggest deep-rooted irrationality on the part of market participants. However, if liquidity breeds liquidity, there is nothing else to explain: individuals are attracted to those liquid assets because they see that others are employing those assets as collateral, for example. I have labeled this phenomenon “inverse bank run” (Calvo2013).

3. Methodology

The research study was conducted through a case study method. This method was preferred because it allows for generalization of research findings. Case study is an in-depth investigation of an individual, institution, or a phenomenon. It involves a careful and complete observation of social units or a phenomenon (Bhattacherjee, 2012). It also offers a comprehensive understanding of the social units or phenomenon under study. Case study is a method of in-depth study rather than breadth and places more emphasis on the full contextual analysis of the limited number of events or conditions and other inter-relations, which relies on qualitative data (Cooper and Schindler, 2005).

Mwalimu National Sacco currently had eleven departments and an entire population of two hundred staff in the departments to be studied. Kombo and Tromp (2009), refers to population as an entire group of persons or elements that have at least one thing in common. They further assert that it is important for the researcher to find out as much as possible about the study population. The target population in this study was 200 Mwalimu National Sacco staff.

This study adopted the stratified sampling technique. From the possible 200 target population, stratified random sampling was employed to select a total of 60 sample population. This is 30% of the total population. Mugenda and Mugenda (2003) states that in stratified sampling where population within each strata is known, a sample of 10-30% is adequate representation for data collection.

Quantitative and qualitative data was collected using structured questionnaire containing closed and open ended questions. Kuter and Yilmaz (2001) define a questionnaire as a method for the elicitation, recording and collecting of information. Reliability of the questionnaire was evaluated through administration of the said instrument to the pilot group. Validity was ensured by having objective questions included in the questionnaire. The researcher employed both qualitative and quantitative data analysis techniques. Quantitative data on responses from questions in the questionnaire was coded for ease in systematic data tracking.

In addition, the study also employed inferential statistics in the form of multiple regressions to establish factors affecting the financial performance of savings and credit co-operative society.

The regression equation is:

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon \]

Where \( Y \) presented performance of savings and credit co-operative society, \( \beta_0 \) is a constant term, \( X_1 \)- Competition, \( X_2 \)- Capital Adequacy, \( X_3 \)- Liquidity Management, \( X_4 \)- Corporate Governance, \( \epsilon \)- Error term

3.1 Factors affecting the financial performance of Mwalimu SACCO

The study was aimed in establishing the factors affecting the financial performance of SACCOS in Kenya with a special focus on Mwalimu SACCO. The study findings are as presented in subsequent subheadings

3.1.1 Competition

The study sought to establish the effect of competition on the performance of Mwalimu savings and credit co-operative society. The responses were rated on a five point likert scale where 1=Not at all 2=Little 3=Neutral 4=Agree 5=strongly agree. The results were as illustrated in Table 3.1

<table>
<thead>
<tr>
<th>Banks</th>
<th>microfinance</th>
<th>Institution</th>
<th>continue to compete with cooperative societies for the same savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>NA</td>
<td>L</td>
<td>N</td>
<td>A</td>
</tr>
<tr>
<td>0</td>
<td>3</td>
<td>0</td>
<td>49</td>
</tr>
</tbody>
</table>

Table 3.1: Competition
From the results in Table 3.1, the respondents strongly agreed that good competition brings about quality goods and services, innovation and efficiency in provision of goods and services (mean=4.192308). In addition, respondents agreed that banks and micro-finance Institution continue to compete with cooperative societies for the same savings from the employees (mean=3.884615), and that superior performance can be achieved in a competitive industry through pursuit of generic strategies (mean=3.653846). This implies that good competition brings about quality goods and services, innovation and efficiency in provision of goods and services and that banks and micro-finance Institution continue to compete with cooperative societies for the same savings from the employees. In tandem with the findings, Mudibo, (2009) observed that banks and micro-finance Institution continue to compete with cooperative societies for the same savings from the employees. This competition is very intense and as such, each has to come up with superior products to attract more deposits. This has led to banks giving unsecured loans unlike in the past when collateral security was necessary. Cooperative societies on the other hand have opened up their lending by refinancing old loans and new innovative loans on household equipments and furniture. This competition has brought new innovations and created opportunities to members to enhance their well-being (Mudibo, 2009).

In addition, Anangwe, (2014) did a study on the effect of competition and technology on growth of micro-finance institutions in Kenya and established that both competition and ICT use in MFIs influence their performance thereby affecting their growth. Competition was found to have negative effects on the organizational performance while ICT adoption and application in organizational operations was found to have a positive effect on growth. Thus, the competitiveness of microfinance systems relates positively to the number of branches (networks) established in the country. The study recommended that; to ensure competitiveness of the microfinance sector, policies should be implemented which shall ensure fair competition to the young micro finance institutions hence facilitating their growth as well that advanced information system supported by a superior mechanism control is required to make certain that an information system has achieved the required processes.

### 3.2 Capital Adequacy

The study sought to establish how capital adequacy affects the performance of Mwalimu savings and credit co-operative society. The responses were rated on a five point likert scale where 1- Strongly disagree, 2 - Disagree, 3- Neutral, 4 - Agree and 5 - Strongly agree. The results were as illustrated in Table 3.2

<table>
<thead>
<tr>
<th>N L A S</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>SACC0 face the problem of low capital base thus causing SACCO members to seek financial services from other financial service providers</td>
<td>3.7</td>
<td>0.43</td>
</tr>
<tr>
<td>credit risk influence the performance of Mwalimu National SACCO</td>
<td>4.0</td>
<td>0.88</td>
</tr>
<tr>
<td>capital risk affects the performance of Mwalimu National SACCO</td>
<td>4.2</td>
<td>0.75</td>
</tr>
<tr>
<td>capital Adequacy affects the performance of Mwalimu National SACCO</td>
<td>4.0</td>
<td>0.23</td>
</tr>
</tbody>
</table>

Table 3.2 indicates that the respondents strongly agreed that capital risk affects the performance of Mwalimu National SACCO (mean=4.2115), SACCO face the problem of low capital base thus causing SACCO members to seek financial services from other financial service providers (mean=4.0769) and...
that capital adequacy affects the performance of Mwalimu National SACCO (mean=4.0577). In addition, respondents agreed that credit risk influence the performance of Mwalimu National SACCO (mean=3.75). This implies that capital risk affects the performance of Mwalimu National SACCO, SACCO face the problem of low capital base thus causing SACCO members to seek financial services from other financial service providers and that capital adequacy affects the performance of Mwalimu National SACCO. This is consistent with Berg, (2010) who noted that a key part of SACCO regulation is to make sure that firms operating in the industry are prudently managed. The aim is to protect the firms themselves, their customers, the government (which is liable for the cost of deposit insurance in the event of a bank failure) and the economy, by establishing rules to make sure that these institutions hold enough capital to ensure continuation of a safe and efficient market and able to withstand any foreseeable problems.

Contrary to the study findings, Kabure, (2014), found that liquidity had a positive impact on the return on investments in the Saccos while capital adequacy had a negative influence on the returns. Given this positive effect of liquidity on the returns in investment, the study recommended that the regulations regarding management of liquidity in the deposit-taking Saccos be reviewed to allow the Saccos diversify their investments in high earning portfolios such as listed companies. In addition, the study recommended that a central depository fund for Saccos be set up to help Saccos have a cheaper avenue for short term borrowing to help address seasonal liquidity challenges.

### 3.3 Corporate governance

It was the aim of the study to establish the influence of corporate governance on the performance of Mwalimu savings and credit co-operative society. The responses were rated on a five point likert scale where 1- Strongly disagree, 2 - Disagree, 3- Neutral, 4 - Agree and 5 - Strongly agree. The results were as illustrated in Table 3.3

<table>
<thead>
<tr>
<th>Composition and Board Size influence the performance of Mwalimu National SACCO</th>
<th>N</th>
<th>L</th>
<th>N</th>
<th>A</th>
<th>S</th>
<th>Me</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Size and Composition influence the performance of Mwalimu National SACCO</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>4.2</td>
<td>0.957</td>
</tr>
</tbody>
</table>

Based on the study, majority of the respondents strongly agreed that independence of committees influence the performance of Mwalimu National SACCO (mean= 4.5000), board size and composition influence the performance of Mwalimu National SACCO (mean= 4.2885), and that independence of directors influence the performance of Mwalimu National SACCO (mean= 4.0769). Further, respondents agreed that independence of directors influence the performance of Mwalimu National SACCO (mean= 3.6923). This indicates that independence of committees influence the performance of Mwalimu National SACCO, board size and composition influence the performance of Mwalimu National SACCO, and that independence of directors influence the performance of Mwalimu National SACCO. Contrary to the study findings, Otieno, (2013) used four dimensions of corporate governance practices i.e. Board composition (gender diversity), Education level of the board members, CEO duality and number of the board members as independent variables and percentage of annual net changes in loan divided by total loans as growth measurement as the dependent variable in study to examine the relationship between corporate governance practices and the growth of SACCOs in Nairobi County. The overall findings confirmed that there is no relationship between corporate governance practices and the growth of SACCOs in Nairobi County

### 3.4 Liquidity Management

It was the interest of the study to establish the influence of liquidity management on the performance of Mwalimu savings and credit co-
operative society. The responses were rated on a five point likert scale where 1- Strongly disagree, 2 - Disagree, 3- Neutral, 4 - Agree and 5 - Strongly agree. The results were as illustrated in Table 3.4.

Table 3.4: Liquidity Management

<table>
<thead>
<tr>
<th>N</th>
<th>L</th>
<th>N</th>
<th>A</th>
<th>S</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>L</td>
<td>N</td>
<td>A</td>
<td>S</td>
<td>Mean</td>
<td>Std. Deviation</td>
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<tr>
<td>N</td>
<td>L</td>
<td>N</td>
<td>A</td>
<td>S</td>
<td>Mean</td>
<td>Std. Deviation</td>
</tr>
<tr>
<td>N</td>
<td>L</td>
<td>N</td>
<td>A</td>
<td>S</td>
<td>Mean</td>
<td>Std. Deviation</td>
</tr>
</tbody>
</table>

Liquidity Risk influence the performance of Mwalimu National Sacco
Liquidity policy influence the performance of Mwalimu National Sacco
Minimum cash reserves influence the performance of Mwalimu National Sacco
Liquidity Management affects the performance of Mwalimu National Sacco

Based on the study, majority of the respondents strongly agreed that liquidity policy influence the performance of Mwalimu National Sacco (mean= 4.1923), liquidity Risk influence the performance of Mwalimu National Sacco, and that liquidity management affects the performance of Mwalimu National Sacco. In addition, respondents agreed that the minimum cash reserves influence the performance of Mwalimu National Sacco (mean= 3.8846). This implies that liquidity policy influence the performance of Mwalimu National Sacco, liquidity risk influences the performance of Mwalimu National Sacco, and that liquidity management affects the performance of Mwalimu National Sacco. Similarly, Mburu, (2010) on the determinants of performance in SACCOs in Kenya deduced that the greatest effect on SACCO performance is by the demand for loans followed by capital adequacy and infrastructure management. This suggests that the greatest utility of SACCOs is in their financial smoothing application. This view is shared by Onunga, (2011) conducted a study on determinants of financial risk faced by SACCOs in Kenya. He concludes that credit risks and liquidity risks are the main determinants of financial risk. He established that fixed asset level, debt ratio and dividends influenced the liquidity risks while governance cost and debt ratio negatively influenced liquidity and risk.

In addition, According to WOCCU (2009), there are three key determinants of investment avenues by Saccos namely; Safety, Liquidity and Yield. Safety means the ability to get back the full principal investment as well as interest earned over the investment period. This can is guaranteed by the presence of regulations on investments to reduce the high risk involved. Other investment risks that Saccos face include: Market risk which denotes the possibility of a reduction in value or cash flows from an investment due to changes in market prices. This can be due to a reduction in currency value, interest rates or other price determinants; Interest rate or maturity risk, which denotes the possibility of a reduction in the value of investments resulting from an increase in market interest rates.

Saccos like other financial institutions therefore need to ensure that they match their sources of funds to the terms of their investments; Credit risk, which is the risk that a party to a financial transaction may default in his obligation to the other party thus causing him financial loss. In Saccos, credit risk is significant in their lending since a borrower may default in their loan repayment. This risk is best controlled by putting in place adequate lending policies and procedures to ensure information about a borrower’s ability and willingness to honor their loan obligations is established before a loan is disbursed to them. Adequate investing policies should also be established detailing how the Sacco will mitigate the credit risk associated with its other investments and ensure the same are followed to the letter.

Sacco management should look out for red flags which may increase its credit risk thus affecting its investments such as decline in the financial condition of parent organization which may lead to layoffs of Sacco members, unfavorable economic environment and skewed loan portfolio concentration in one particular sector; Price-level risk which refers to the possibility of a reduction in the purchasing power of the unit of currency as a result of adverse economic conditions such as inflation.

3.5 Tests of Normality

Use of inferential parametric statistical procedures requires that the assumptions of such tests of normality are tested. This is to assist the graphical tests to be performed about the normality of the data to check for skewness and kurtosis coefficients. This
tests helps to confirm whether the data follows a normal distribution or not. If the normality is not achieved, the results may not depict the true picture relationship amongst the variables. In this study, normality was tested using Kolmogorov-Smirnov Test and the Shapiro-Wilk Test. Shapiro-Wilk Test is more appropriate for small sample sizes (< 50 samples) like in this study. It is a more reliable test for determining skewness and kurtosis values of normality. If it is below 0.05, the data significantly deviate from a normal distribution.

### Table 3.5: Shapiro-Wilk Test of Normality

<table>
<thead>
<tr>
<th>Variables</th>
<th>Kolmogorov-Smirnov</th>
<th>Shapiro-Wilk</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Statis</td>
<td>Statis</td>
</tr>
<tr>
<td></td>
<td>tic</td>
<td>df</td>
</tr>
<tr>
<td>Competition</td>
<td>0.072</td>
<td>312</td>
</tr>
<tr>
<td>Capital adequacy</td>
<td>0.093</td>
<td>312</td>
</tr>
<tr>
<td>Liquidity Mgmt.</td>
<td>0.085</td>
<td>312</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>0.074</td>
<td>312</td>
</tr>
</tbody>
</table>

According to the findings, the significance values for the Shapiro-Wilk tests were 0.428 for competition, 0.219 for capital adequacy, 0.322 for liquidity Management, and 0.274 for corporate Governance. For the Kolmogorov-Smirnov tests, the significance values were 0.200 for competition, capital adequacy, liquidity Management and corporate Governance each. This implies that since the p-value is greater than the chosen alpha level 0.05 then the hypothesis that the data came from a normally distributed population cannot be rejected.

### 3.6 Test for Multi collinearity

Multi collinearity is a test that evaluates whether the independent variables are highly correlated. It occurs when two or more predictors in the model are highly correlated leading to unreliable and unstable estimates of regression coefficients hence causing strange results when attempting to study how well individual independent variables constitute to an understanding of the dependent variable. The consequences of Multi collinearity are increased standard error of estimates of the Betas, meaning decreased reliability and often confusing and misleading results. The test for Multi collinearity was conducted to assess whether one or more of the variables of interest is highly correlated with one or more of the other independent variables. The variance inflation factor (VIF) was used to evaluate the level of correlation between variables and to estimate how much the variance of a coefficient was inflated because of linear dependence with other predictors. As a rule of thumb if any of the VIF are greater than 10 (greater than 5 when conservative) then there is a probability of a problem with Multi collinearity and is harmful to the study (Newbert, 2008). The results for tests of Multi collinearity were as presented in Table 3.6

### Table 3.6: Test for Multi collinearity

<table>
<thead>
<tr>
<th>Variables</th>
<th>Statistics</th>
<th>Collinearity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
<td>VIF</td>
</tr>
<tr>
<td>Competition</td>
<td>772</td>
<td>1.295</td>
</tr>
<tr>
<td>Capital adequacy</td>
<td>698</td>
<td>1.433</td>
</tr>
<tr>
<td>Liquidity Mgmt.</td>
<td>873</td>
<td>1.146</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>725</td>
<td>1.521</td>
</tr>
</tbody>
</table>

The results in Table 3.6 revealed that there was no problem of multi collinearity. The variance inflation factors for the variables were all below 5 meaning that the variables were not highly correlated.

### 3.7 Inferential Statistics

The study further applied general linear model to determine the factors affecting the financial performance of SACCOs. This included regression analysis, the model, analysis of variance and coefficient of determination.

#### 3.7.1 Regression Analysis

In the Endeavour, the study sought to determine the goodness of fit of the regression equation using the coefficient of determination between the overall independent variables and Performance of SACCOs. Coefficient of determination established the strength of the relationship. Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (Performance of SACCOs) that is explained by the competition, capital adequacy, corporate governance, and liquidity management as the independent variables of the firm.

#### 3.7.2 Model Summary

Model summary’s table, provides information about the regression line’s ability to account for the total variation in the dependent variable

### Table 3.7: Model Summary

<table>
<thead>
<tr>
<th>Model R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.921</td>
<td>0.849</td>
<td>0.845</td>
</tr>
</tbody>
</table>

Table 3.7 illustrates that the strength of the relationship between Performance of SACCOs and independent variables. From the determination
coefficients, it can be noted that there is a strong relationship between dependent and independent variables given an R² values of 0.849 and adjusted to 0. 845. This shows that the independent variables (Competition, Capital adequacy, corporate governance, and Liquidity management) accounts for 84.5% of the variations in Performance of SACCOs.

CONCLUSIONS

The study concludes that good competition brings about quality goods and services, innovation and that efficiency in provision of goods and services and that banks and micro-finance Institution continue to compete with cooperative societies for the same savings from the employees. Further, the study concludes that competition is statistically significant in explaining performance of Mwalimu National SACCOs in the micro-finance Institution sector in Kenya.

The study also concludes that capital risk affects the performance of Mwalimu National SACCO, SACCO face the problem of low capital base thus causing SACCO members to seek financial services from other financial service providers and that capital Adequacy affects the performance of Mwalimu National SACCO. Also, the study concludes that capital adequacy is statistically significant in explaining performance of Mwalimu National SACCOs in the micro-finance Institution sector in Kenya.

It was also conclusive that independence of committees influence the performance of Mwalimu National SACCO, board size and composition influence the performance of Mwalimu National SACCO, and that independence of directors influence the performance of Mwalimu National SACCO. Further, the study concludes that in addition, the study concludes that corporate governance is statistically significant in explaining performance of Mwalimu National SACCOs in the micro-finance Institution sector in Kenya.

Moreover, the study concludes that liquidity policy influence the performance of Mwalimu National SACCO, liquidity risk influences the performance of Mwalimu National SACCO, and that liquidity management affects the performance of Mwalimu National SACCO. Further, the study concludes that liquidity management is statistically significant in explaining performance of Mwalimu National SACCOs in the micro-finance Institution sector in Kenya.

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