

**RELATIONSHIP BETWEEN COST EFFICIENCY AND FINANCIAL  
PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT CO-  
OPERATIVE SOCIETIES REGISTERED IN SASRA IN KENYA**

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THE REQUIREMENT OF THE AWARD OF MASTERS DEGREE OF  
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## **DECLARATION**

I hereby declare that this project is my own work and effort and that it has not been submitted anywhere for any award.

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This research project has been submitted for examination with my approval as the candidate's University Supervisor.

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## **DEDICATION**

This research project is dedicated to my dear parents Gilbert Okebiro and Alice Nyariki. You gave me the tools and values necessary to be where I am today. Your believe in richness for learning is inspiring.

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

D/E:	Debt-to-Equity Ratio
DEA:	Data Envelopment Analysis (DEA)
DFA:	Distribution Free Approach
DMU:	Decision Making Units
FDH:	Free Disposal Hull
GDP:	Gross Domestic Product
ICA:	International Co-Operative Alliance
M&A:	Merger and Acquisition
P/E:	Price Earnings Ratio
ROA:	Return on Assets
ROE:	Return on Equity
SACCO:	Savings and Credit Co-operative.
SFA:	Stochastic Frontier Analysis
SPA:	Stochastic Production Approach
TFA:	Thick Frontier Approach

## ABSTRACT

In Kenya's money related scene SACCOSs assume a basic part of monetary intermediation. They generally concentrate on self-awareness, little and small scale undertaking division of the economy. Investment funds and Credit Co-agent Societies are part possessed budgetary organizations that offer reserve funds and credit to individuals. They acknowledge regularly scheduled installments for shares from individuals which shape a pool of assets to serve the credit needs of individuals. Investment funds and Credit Co-agent Societies speak to a significant part of the money related division in appreciation to access to credit, reserve funds activation and riches creation. Taken a toll Efficiency is key idea in organizations. Productivity estimation is one part of an organization's execution, additionally a measure of an association's general money related wellbeing over a given timeframe and can be utilized to analyze comparative firms over the same business or to look at ventures or divisions in conglomeration. The target of the study was to set up the relationship between cost Efficiency and monetary execution of store assuming funds and praise co-agents in Nairobi County. This study utilized a quantitative methodology. The objective populace was all the 45 Deposit assuming Savings and Acknowledgment Co-agents in Nairobi County as at 30th June 2013. The study connected auxiliary information which was separated from the Savings and Credit Co-agent's yearly reports and money related proclamations for the five-year time frame initiating 2009 up to 2013 Numerical information gathered utilizing polls will be coded and entered and examined utilizing a PC Statistical Package for Social Scientists (SPSS) program. Recurrence tables with shifting rates will be utilized to show the finding. The study set up that Financial Performance has a negative connection with aggregate resources at - 0.308, capital sufficiency at - 0.242, and return on resources at - 0.612, however a positive relationship with both Management quality at 0.153 and liquidity at 0.041. Low Financial Performance implies high productivity and the other way around, in this way all variables with a negative association with Financial Performance contribute to high efficiency while variables with a positive relationship with Financial Performance contribute to low efficiency levels

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

The increases of the genuine segment rely on the execution of monetary segment and it contributes monetary development by giving money related assets properly and auspicious to the beneficial parts of the economy. Among monetary go-between's reserve funds and credit co-agents assume a fundamental part to draw in investment funds from open and activate the same to advancement exercises. A persevering and proficient money related part gives a base to successful adjustment arrangements and speculation prospects to accomplish veritable income for creating economy (Rangarajan, 1997).

Productivity tended to in writing is in term of scale and scope or as far as Efficiency or both. As per Limam (2010), Scale proficiency helps in deciding the probability of a firm lessening its normal expenses. The distinction of the aggregate of generation of various sorts of yield and the expense of joint creation measures scope proficiency. Taken a toll Efficiency allude to how close an association's real cost are to the expense of best-practice firm delivering same yield.

Taken a toll Efficiency goes for driving down creation costs, controlled for yield volumes and information value levels. Taken a toll wastefulness may emerge in light of the fact that directors utilize more contribution than would a best-rehearse firm (specialized wastefulness) or on the grounds that they utilize an info blend that does not minimize cost for a given information vector (allocative wastefulness) (Berger,2000). An association's

execution can be influenced by numerous components. Fetched Efficiency is guessed to be one such element. The study plans to set up the relationship of cost Efficiency and money related execution of store assuming funds and praise co-agents.

As indicated by Limam (2001), Scale productivity addresses the topic of whether a firm is working at the base of its long-run normal cost bend. Then again, scope effectiveness is measured by the distinction between the expense of joint generation and the whole of delivering the diverse yields independently. Fetched Efficiency alludes to how close a company's genuine expenses are to the expenses of a best-hone firm delivering the same yields. Taken a toll wastefulness may emerge in light of the fact that chiefs utilize a larger number of contributions than would a best practice firm (specialized wastefulness) or on the grounds that they utilize an info blend that does not minimize costs at a given information cost vector (allocative wastefulness) (Berger, 2000).

### **1.1.1 Cost Efficiency**

Taken a toll Efficiency is key idea in Companies (Cinca et. al 2002). Effectiveness estimation is a key idea of the execution of an organization. Proficiency can be learned as for yield augmentation, cost minimization and benefit expansion. Productivity by and large is critical to organizations themselves as it has direct association with gainfulness (present and future), intensity, and dissolvability. Likewise, administrative powers request the same from organizations in arrangement of financially savvy administrations and items. The various partners' interests in a firm should be fulfilled. Partner hypothesis portrays that riches amplification is center motivation behind a business (Cho, and Pucik, 2005).

Productivity of individual reserve funds and credit co-agents in conveying merchandise and administrations and conditions in the outside environment decide the proficiency of the particular areas, which impacts the viability of the monetary development. Furthermore, they were lingered behind worldwide guidelines of presenting PCs and item developments. Investment funds and credit co-agents themselves had little control over their sources of info and yields. Accordingly, wild aggregation of nonperforming resources, expanding working costs and decay in benefit and effectiveness turn out to be a vital part of funds and credit co-agents' operations (Kumbhakar and Sarkar, 2004). In recognizable proof of developing diseases in investment funds and credit co-agents' division and to make them more beneficial, focused and proficient.

The idea of profitability is firmly connected with the issue of productivity. On the off chance that a firm is proficient, it is said to work on the creation boondocks i.e. it is accomplishing best practice. Rising effectiveness would subsequently infer rising profitability (Rogers, 1998). Gascon and Adenso-Diaz (1997) called attention to that additions in efficiency can add to expanding business income and demonstrated this by breaking down Spanish budgetary establishments for the year 1987-1994. Productivity change is made critical by the expanding worry about environmental and social issues, disguise, advancement of business sectors and expanded aggressiveness.

Limam (2001) is of the perspective that Efficiency measures the capacity of a budgetary foundation to minimize costs and amplify incomes through ideal use and designation of assets. As far as costs, wastefulness delineates from these two ranges, specialized wastefulness which emerges when given the picked inputs, yield misses the mark

concerning the inputs and allocative wastefulness, which emerges from imperfect information decisions given costs and yield. Specialized wastefulness (the contrast amongst yield and maximal yield) is viewed as "immaculate" since the source can be singled out. Taken a toll wastefulness, conversely, is a mix of the two sources, specialized and allocative wastefulness (Green, 2006).

### **1.1.2 Financial Performance**

Budgetary execution is an idea that decides the results of an association's approaches and operations in financial terms. It is likewise a measure of an association's aggregate money related overwhole over a given particular time and can be utilized as a part of correlation with same budgetary organizations over the same business or to think about ventures or segments in conglomeration (Metcalf and Titard, 2008). Era of significant worth for its proprietors is likewise measured by money related execution. The more proficient the monetary framework is, the better the economy and hence the target of riches augmentation of shareholders of firms is accomplished. Money related execution can be assessed through different monetary measures, for example, After Tax Profit, Return on Financial Assets, Return on Equity, Earnings per Share and some other proportion that is acknowledged. To get the monetary execution of a firm, a careful examination of the budgetary articulations is done in a manner that it embraces full finding of the productivity and money related soundness of the business.

The investigation of money related articulations is a procedure of assessing the relationship between segment parts of budgetary proclamations to get a superior comprehension of the association's position and execution. Store Taking Financial

Institutions are required to record evaluated money related articulations each monetary year and despite the fact that Deposit Taking Financial Institutions consent to this prerequisite, there has been an inadequacies including non-accessibility of budgetary proclamations on normal premise. To advance money related straightforwardness, Deposit Taking Savings and Credit Co-Operative's ought to give auspicious monetary overhauls. The Sacco Societies Act (2012) states that each Sacco society ought to keep appropriate books of records and the bookkeeping data and records ought to show a genuine and reasonable condition of position, characterize all exchanges and monetary position which ought to agree to the universal money related reporting models.

As indicated by SASRA Sacco Report 2013, the power requires Deposit Taking Financial Institutions to hold fast to a base capital limit of Ksh 10 million that must be controlled at all times while the proportion of center money to aggregate resources ought to remain at 10%.The power necessity gives that monetary foundations offering stores consent to capital amplex to aggregate stores proportion of 8%.Deposit Taking Savings And Credit Co-Operative's are required to watch the directions on arrangements of danger resources and provisioning thereof, that is, advance chances to its individuals to be assembled in light of execution opposite terms of credit according to advance contract. Store Taking Savings And Credit Co-Operative's are likewise required to coordinate the liquidity level of assets to the fleeting Front Office Service Activity (FOSA) stores and different liabilities so as liquidity is kept up and the base administrative necessity proportion is 15%. Further to upgrade proficient administration on liquidity, store taking Deposit Taking Financial Institutions can just get outer borrowings to the degree of 25% with respect to aggregate resources.

### **1.1.3 Cost Efficiency and Financial Performance of Savings and Credit Co-operative's**

Specialized proficiency in investment funds and credit co-agent undertakings alludes to the degree that reserve funds and credit co-agents could minimize input costs for a given level of yield (info introduction) or augment yield for given levels of sources of info (yield introduction). The separation to an ideal creation or cost outskirts measures Technical proficiency. It could be deterministic or stochastic and gives the maximal yield that can be achieved for a given level of information, or the negligible expense for a given level of yield and information costs. The second segment of Efficiency is allocative productivity. It alludes to the conceivable minimization in cost that investment funds and credit co-agents can achieve as an aftereffect of utilizing the distinctive contributions as a part of ideal extents or identically to work on the minimum cost development way (Limam, 2001). Profitability is firmly connected with effectiveness. An effective investment funds and credit co-agent is one working on the creation wilderness i.e. it is accomplishing best practice. Rising effectiveness consequently suggests rising profitability (Rogers, 1998).

Gascon and Adenso-Diaz (1997) called attention to that additions in efficiency have the capacity to prompt an expansion in business income from their study examining monetary foundations in Spain for the year 1987-1994. The relative proficiency speculation presupposes that bigger firms as far as resources are more effective than littler ones, and are more productive as a consequence of their predominant effectiveness (Clarke et al., 1984). Baumol (1959) propositioned that huge firms have the greater part of the alternatives of little firms and what's more can put resources into lines requiring such scale that little firms are barred as referred to in Mehrjardi (2012).



Concentrates on show there is a positive relationship amongst execution and proficiency of monetary establishments. Limam (2001) found that bigger bank size, higher offer of value capital in resources and more noteworthy benefit are connected with better proficiency. Thinks about by Kirkpatrick et al (2002) and Kising'u (2007) were predictable with Limam (2001), this study tried to test this relationship in reserve funds and credit co-agents. Effectiveness is essential to individuals from investment funds and credit co-agents since proficient reserve funds and credit co-agents have a tendency to have lower administration charges, better advance and store rates and better quality administrations (Limam, 2001).

Profitability is firmly connected with proficiency. A proficient investment funds and credit co-agent is one working on the generation wilderness i.e. it is accomplishing best practice. Rising effectiveness along these lines infers rising 5 efficiency (Rogers, 1998). Efficiency level greatly affect measuring the budgetary execution tolerating stores from its individuals.

#### **1.1.4 Deposit taking Savings and Credit Co-operatives**

ICA (2005) characterized Cooperatives as ventures that are claimed collaborately and controlled endeavors where individuals meet up to accomplish their shared social, cultural and financial necessities through the primary of agreeable. The crucial objective of cooperatives was to ease destitution through money related consideration. The cooperatives development has advanced after some time to investment funds and credit co-agents which now covers more extensive society and has more monetary administrations to offer to individuals. The plan of action of reserve funds and credit co-agents is not quite the same as that of traditional benefit driven ventures. Here the

individuals from the general public who are avoided from the standard saving money will meet up intentional to assemble sparing from which they will obtain credits to lift themselves financially, socially and social. It's from this idea that the monetary foundations are in the matter of making liquidity.

From the impact of advancement, the opposition has been steep in the budgetary business sector where reserve funds and credit co-agents have not been saved. To adapt to this dynamic business sector environment, reserve funds and credit co-agents through innovativeness and advancement has presented more sorted out and client arranged items. This items incorporates sparing and credit, Deposits, Insurance and ventures. It's from the scenery of this that has seen interest of liquidity in Deposit Taking funds and credit co-agent's expansion.

At their beginning stages reserve funds and credit co-agents used to work on arranged instead of business sector driven environment. They were controlled by the administration (Kuscco, 2006) preceding progression in 1997(Oyoo, 2002) which was circle headed by world bank. Later in 2004 government through enactment switched its part in supervision and observation of the undertakings of budgetary establishments that offer credit and acknowledge stores to shield the individuals support and to augmentation the whole economy. Funds and credit agreeable social orders are enlisted and directed under the Co-agent Societies Act, Cap 490 of the laws of Kenya - as revised in 1997.

In Kenya we have more than 17,000 enrolled cooperatives with more than 200 store taking budgetary institutions (Sasra, 2014). The development is evaluated to have over sh500 billion in investment funds and over sh. 650 million in capital while utilizing

around 500,000 specifically and another 1 million in a roundabout way. Reserve funds and credit co-agents contribute around 4% to GDP with 1 out of 2 getting their work from investment funds and credit co-agent development. Administration of liquidity of money related establishments in Kenya is directed by Savings and Credit Co-agent Society Act; 2008. It requires Financial organizations for credit and investment funds to keep up fifteen for every penny of its stores in reserve funds and liabilities that are fleeting in nature in resources that are fluid to acquire controlled and effective running of their issues.

### **1.2 Statement of the Problem**

As indicated by the Kenya Financial Stability report 2011, investment funds and credit co-agents have kept on assuming a basic part in Kenya's money related area as far as access, reserve funds activation and riches creation. They speak to an extensive part of the Kenya monetary area; they are part construct associations centering in light of addressing budgetary needs of individuals for individual and venture advancement. Lyaga (2006) watches that a proficient and easily running installment framework is an important precondition for business improvement in Kenya as well as the entire world on the loose. Monetary Institutions as real players in the installment framework in Kenya in this manner assume a critical part in the financial improvement of the nation and are famous for arrangement of credit at lower rates than standard business Banks.

Different experimental studies have been directed that deliberate the adjustment in cost Efficiency in as an aftereffect of variables, for example, impact of Merger and Acquisition (M&A), freedom, corporate administration, proprietorship structure, universal cross posting, board arrangement, aggressive procedure, administrative

aptitudes and numerous others. The center of their studies was whether taken a toll Efficiency changes happened as an aftereffect of the variables being contemplated and not whether the cost Efficiency changes had any relationship to monetary execution. The Banking business and Insurance industry have been the most loved ventures of the study and at times fabricating recorded organizations.

Past studies in regards to Efficiency and how it in a roundabout way identifies with firm execution utilizing both DEA and SFA execution have as often as possible gave blended decisive results. Alam and Sickles (1998) relate effectiveness in DEA developments to stock execution utilizing a board of 11 carrier associations and find that DEA proficiency advancement in a quarter is connected with securities exchange execution in the accompanying two months. Cummins and Xie (2008) use DEA and demonstrate a positive connection between firm productivity and securities exchange responses to acquisitions and divestitures in the US property-risk protection industry.

Demerjian et al. (2009) utilize an extensive example of firms crosswise over businesses and exhibit that administrative capacity scores got from DEA are decidedly and essentially connected with present and past stock returns, official pay, and speculation open doors. Utilizing information reported by government funded school areas, Dopuch and Gupta (1997) utilize SFA to gauge benchmark execution measures in relative execution assessment. Utilizing both SFA and DEA, Dopuch et al. (2003) gauge the relative proficiency of review creation and find that wasteful aspects in review generation are connected with lessened review expenses, reliable with expense of wastefulness being in part borne by the bookkeeping firm. Greene and Segal (2004) contend that "cost

wastefulness influences benefits and development through the negative impact of squandered assets on income and money streams." This suggests all the more operationally productive firms ought to be more beneficial. Greene and Segal (2004) use SFA and record a contemporaneous relationship between benefit (ROE and ROA) and productivity in the US extra security industry. Greater part of the studies done concentrated on changes to cost Efficiency because of impacts of the variables being concentrated yet neglected to show how these cost Efficiency would influence money related execution.

Locally different analysts have looked into the productivity of organizations over specific ventures and particularly in the saving money industry and protection industry. Simiyu (2006) concentrated on the relationship between the impact of monetary advancement on the Efficiency of funds and credit co-agents in Kenya; Nzioka (2007) led an exact investigation of the relationship between administrative aptitude and specialized productivity of reserve funds and credit co-agents in Kenya; Njuguna (2007), The experimental examination of the funds and credit co-agents' effectiveness and stock returns in Kenya; while Maringa (2008) set up the relationship between interest in data correspondence innovation and corporate execution at Kenya Revenue Authority. Sakina (2006) looked to research on the Efficiency of funds and credit co-agents in Kenya and to set up whether the Efficiency of these banks is influenced by economies of scale. None of these scientists concentrated on the impact of cost Efficiency to money related execution. Taken a toll Efficiency would be relied upon to assume a key part in the money related execution of a firm. Exact proof unmistakably demonstrates that there are a few studies concentrating on cost Efficiency of monetary foundation and budgetary execution as a

result to other money related establishments however there is inadequate and few studies did essentially to reserve funds and credit co-agent's and thus the requirement for further examination of the impact of the same on store assuming investment funds and praise co-agents. This concentrate in this manner looks to fill the information hole by setting up what part cost Efficiency would have on the execution of organizations store assuming reserve funds and acknowledgment co-agents. This study will consequently try to answer the inquiry; what is the relationship of cost Efficiency on organization execution of store assuming reserve funds and acknowledgment co-agents?

### **1.3 Objectives of the Study**

The goal of the study is to set up the relationship between cost Efficiency and budgetary execution of store assuming funds and acknowledgment co-agents in Nairobi County.

### **1.4 Value of the Study**

Observational proof plainly demonstrates that there are a few studies concentrating on cost Efficiency of money related establishment and budgetary execution essentially to other monetary organizations however there is insufficient and few studies did in actuality to funds and credit co-agent's and henceforth the requirement for further examination of the impact of the same on store assuming reserve funds and praise co-agents.

This study observing is required to be important to approach creators both in the concerned government organizations, for example, SASRA, Vision 2030 secretariat, and investment funds and credit co-agents, particularly in reinforcing strategy contemplations

in the subsector. Such arrangement change would be convenient in upgrading the rules on the most proficient method to enhance the execution and cost Efficiency impacts of reserve funds and credit co-agents with an end goal to improve their effectiveness.

This study will add to the current assemblage of information on cost Efficiency and monetary execution of store assuming reserve funds and praise co-agents and subsequently shape a premise for further research. The exploration discoveries add to the abundance of information on cost productivity in the money related administrations part and in addition give experimental proof on size and proficiency particularly in investment funds and acknowledge co-agents as business undertakings. This study gives an establishment to further research on cost effectiveness in the funds and credit co-agent part.

This study is additionally anticipated that would be a springboard to proficiency in Savings and Credit Co-agent's administration through appropriation of its proposals. Further, the discoveries would engage chiefs on cost Efficiency relief open doors in mission of enhancing the reserve funds and credit co-agent development in Kenya or whatever other field identified with danger alleviation. To the economy, reserve funds and credit co-agents are among the real supporters of the economy henceforth the use of this exploration finding will help facilitate their commitment to the economy.

This study will likewise be an aide in settling on a choice on whether to hold reserve funds and acknowledge co-agents for a National viewpoint notwithstanding the new allotment of lapsing administration to the areas which may ring for breaking of National investment funds and credit co-agents into littler units at district level.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The section covers hypothetical structure and observational studies that have been performed in the territory of Cost Efficiency and Financial Performance. It is partitioned into four areas: 2.1 Introduction, 2.2 Theoretical Literature, 2.3 Empirical Literature and 2.4 Summary of writing audit.

#### **2.2 Theoretical Literature**

A few speculations have been outlined by various researchers to clarify cost Efficiency and money related execution. This study was guided by two noteworthy speculations. These incorporate The Efficient Structure Theories by Thoraneenitiyan (2010), Expense-inclination conduct hypothesis created by Williamson in 1963 and refined by Rees (1974) and Market Power Theory.

##### **2.2.1 The Efficient Structure Theories**

Thoraneenitiyan (2010) watched that Financial organization productivity contemplates concentrate on scale and extension effectiveness, others inspect Efficiency or outskirts. The Efficiency theory contends that money related organizations with better administration and practices control expenses and increment benefit, moving the organizations to best-hone, lower bound cost bend. The scale-productivity speculation contends that money related foundations accomplish better size of operation and in this way bring down expenses. Lower costs lead to higher benefit and quicker development for the scale-proficient banks.



Berger (1995) censured most earlier trial of Market-force hypotheses since they don't control for productive structure speculations. He gave a synchronous test to the four contending theories. Two business sector power speculations and two productive structures by including measures of Efficiency and scale proficiency to the standard tests. He discovered backing for just two of the four speculations the relative business sector power and the Efficiency theories. His confirmation does not bolster the SCP and scale productivity theories. Smirlock (1985) tried the effective structure hypothesis utilizing information set of more than 2700 banks and found no relationship between business sector fixation and bank benefit, a huge positive connection between bank productivity and piece of the overall industry was available.

This hypothesis challenges chiefs to reevaluate some of their major presumptions about how to accomplish the objectives of their associations, about what they consider gainful activities, and about the genuine motivation behind cost administration. Stressing the need to boost the destinations and incomes earned through deals hypothesis of imperatives, spotlights on comprehension and dealing with the requirements that stand between an association and the accomplishment of its objectives. That is, better administrations and practices lead to higher benefits and that better execution then prompts rising piece of the overall industry and focus after some time.

### **2.2.2 Expense Preference Behaviour Theory**

Cost inclination conduct hypothesis was produced by Williamson in 1963 and refined by Rees (1974). This hypothesis places singular inclinations of chiefs of a firm as utility boosting, instead of benefit augmenting. In Market power speculations and the productive

structure hypotheses, gainfulness of budgetary establishments is taken as an intermediary for execution. Elective hypotheses have different components other than productivity as measures of execution. It predicts that under helpful conditions, for example, the division of control and proprietorship, expensive observing of administrative conduct, absence of viable rivalry in yield and info markets, or powerful direction in those business sectors, chiefs spend more on different essentials than is steady with benefit expansion conduct (Gropper and Oswald, 1996)

Edward (1977) completed the primary observational work on the Expense Preference hypothesis. Utilizing accumulated bank information for 44 banks in 1962 and 1964 and all out wages and pay rates, all out representatives as needy variables, he found the coefficient on the three bank fixation proportion to be certain and altogether connected with both the bank's aggregate work power and the banks complete pay bill. He reached the determination that cost inclination conduct is a noteworthy power that reduces benefit boost in numerous Banks. Other observational works predictable with this perspective incorporate Hannan (1979) and Arnould (1985).

This hypothesis expresses that for association to be focused organizations need to diminish their expenses and this can be refined by keeping the expenses of stocking stock to a sensible least which will be tried in this study.

### **2.2.3 Market Power Theories**

As per Berger (1995) market power speculations incorporate two theories specifically the customary structure conduct execution (SCP) and the relative –market power theory. SCP is characterized as the relationship between business sector structure, firm lead and firm

execution. It accepts that the presence of section boundaries is the real determinant of association's benefits. More prominent expenses of section make it less demanding for existing firms to keep up imposing business model benefits. New participants diminish the level of benefits. Market fixation diminishes the expense of conspiracy amongst firms and results in irregular benefits for existing firms in the business sector. The relative business sector power theory affirms that lone firms with substantial pieces of the pie have the ability to set costs and in this way win supernormal benefits. Firms with littler pieces of the pie are compelled to work as though under immaculate rivalry and can't win the same supernormal benefits. The SCP is the most tried speculations in the modern associations writing.

Observational studies on the execution of the keeping money industry have focused on the standard examination of 14 the relationship between business sector structure and bank execution. Kaufman (1966) scrutinized Iowa managing an account market from 1959-1960 and discovered measurably critical solid positive relationship between focus level of the business sector and execution of banks working in that business sector. From his examination he proposed that the relationship between business sector fixation and bank gainfulness is of nonlinear structure. Rhoades (1985) reviewed every one of the studies discharged before 1982. Fifty-three out of Sixty five observational tests affirmed the hypothesis about presence of positive relationship between business sector fixation and bank productivity. In simultaneousness with Kaufman (1966) a powerless relationship was seen in every one of the cases. Smirlock (1985) had clashing results and discovered irrelevant connections between the measures of business sector structure and bank execution.

## **2.3 Determinants of Financial Performance**

The different determinants of money related execution of SACCO's incorporated into this study incorporate speculation direction, administration rehearses, capital ampleness and credit arrangement and advance misfortune provisioning.

### **2.3.1 Investment Regulation**

The leading body of SASRA is constitutes the Commissioner of cooperatives, the Governor of Central Bank who speaks to treasury and the Ministry of account, and four individuals from the general population. SASRA is subsidized by the exchequer (treasury). Salary is created through expenses that are constantly required Fees charged for enlistment of CFI are; License expense per branch USD 250, License/Registration expense USD 700 and Renewal charge of USD 250. SASRA watches that amongst all CFIs, FOSA controls 70% of stores. A portion of the difficulties confronted are by CFIs incorporate; Credit Risks, Lenders of final resort, Risk in Central Bank Liquidity, Solutions to issues are not gave inside CFIS in view of irreconcilable circumstance, lastly, systemic danger. Skillful outside control and supervision can distinguish, maintain a strategic distance from and resolve numerous venture issues experienced by Deposit assuming Savings and Acknowledgment Co-agent's and credit unions Brian (2005).

### **2.3.2 Management Practices**

As per Cole (2004) there is no for the most part acknowledged meaning of "Administration" as an action, however the definition by Henri Fayol still stands. His general definition concerning administration is as per the following: "Administration is determining and arranging, sorting out, summoning, organizing and controlling. Administration is along these lines a social procedure. The idea organizations arranging,

controlling, planning and rousing. The entire procedure is operation at first established by examination of administrative capacities. Managerial capacities that are crucial are: Organization, Staffing, Directing and controlling (Koontz and O'Donnell 1984). The center capacities mirror the significance of associations making proficient or powerful utilization of the assets (work force, capital and so forth.) that are accessible to them.

### **2.3.3 Capital Adequacy**

Capital amplex alludes to a measure that is relative: it exhibits the greatest level of influence that a monetary foundation is permitted to reach on its operations (Johnson, 2007). It is measured by the proportion of danger weighted resources in respect to administrative value, which has been universally prescribed to be equivalent to 12.5 times, or usually known as a capital sufficiency proportion of 8% (Johnson, 2007). By and by, it must be recalled that this prudential standard proposed by the Basel Committee was planned to be connected to universal and extensive keeping money organizations from created nations, and that it has been meant a few budgetary frameworks in creating nations regardless of the outstanding contrasts in institutional danger profile, size of operations and national monetary situations (Guidotti et al, 2004; Jansson, 1997).

### **2.3.4 Credit Classification and Loan-loss**

Provisioning maybe more than some other prudential guidelines, the ones with respect to credit danger are recommended to be customized as close as could be allowed to the particular qualities of the microfinance loaning. These prerequisites ought to be connected to each establishment occupied with microfinance operations; notwithstanding their institutional structure (Christen and Rosenberg, 2000). Likewise, it is proposed that

these controls be as basic as could reasonably be expected, so as to be perfect with potentially future developments in the Deposit assuming Savings and Praise Co-agent's (Jansson et al, 2004).

## **2.4 Empirical Literature Review**

Various studies have been led on cost Efficiency in monetary foundations over the world; however, the greater part of the studies have been founded on the US business banks took after by European banks. There are just few studies on budgetary organization's Efficiency in less created nations (Kosak and Zajc, 2004). Rangan et al (1988) directed a study on specialized productivity of a specimen of U.S. banks utilizing a non-parametric boondocks methodology and relapse examination. The outcomes showed that the monetary organizations could have delivered the same level of yield with just 70% of the information sources really utilized. What's more, the vast majority of this wastefulness was observed to be because of immaculate specialized wastefulness (squandering inputs) as opposed to scale wastefulness (working at non-steady comes back to scale). Relapse investigation demonstrated that the specialized productivity of the banks is identified with size emphatically, adversely identified with item differing qualities, and not in any way identified with the degree to which branch keeping money is permitted. Bog et al (2003) assessed specialized proficiency on business banks directed by the US Federal Reserve System for the year 1990 to 2000 utilizing a Bayesian variety of a stochastic wilderness model. The outcomes showed that specialized wastefulness was diminishing after some time and that bigger banks are more productive than littler banks.

Edward (1977) did the principal experimental work on the Expense Preference hypothesis. Utilizing accumulated bank information for 44 banks in 1962 and 1964 and absolute wages and pay rates, complete workers as needy variables, he found the coefficient on the three bank fixation proportion to be sure and essentially connected with both the bank's aggregate work power and the banks all out compensation bill. He made the determination that cost inclination conduct is a huge power that brings down benefit boost in numerous Banks. Other exact works predictable with this perspective incorporate Hannan (1979) and Arnould (1985).

Limam (2001) evaluated specialized proficiency of Kuwaiti Banks utilizing a stochastic cost outskirts approach. Gaining resources spoke to yield and settled resources, work and monetary capital were the data sources. The study found that banks produce winning resources at steady comes back to scale and thus have less to pick up from expanding size of generation quite, through converging with different banks, than from lessening their specialized wastefulness. With the exception of the biggest two banks, the study found that there was a vast space for enhancing specialized effectiveness of a large portion of the banks. The study demonstrated that bigger bank size, higher offer of value capital in resources and more noteworthy gainfulness are connected with better proficiency.

Yao and Han (2007) investigated the effectiveness of 15 substantial business banks in China amid the period 1998-2005 utilizing a parametric methodology. The outcomes demonstrated that Chinese Commercial banks don't have generous contrasts in specialized proficiency. In spite of the fact that the normal scores of productivity were high, the total crevices in specialized proficiency were observed to be low at just 15%.

The outcomes additionally demonstrated that the enormous four banks could enhance all out element profitability for the most part through enhancing specialized effectiveness, rather than mechanical advancement.

Kirkpatrick et al (2002) utilized the translog stochastic cost and benefit wilderness way to deal with measure the level of wastefulness in a board of 89 business banks drawn from nine Sub-Sahara African nations, covering the period 1992-99. The study demonstrated the determinants of wastefulness as far as bank-particular elements and general macroeconomic variables. Kirkpatrick et al (2002) found that benefit wastefulness is somewhat higher than cost x-wastefulness, which recommends that income wastefulness is fairly little. The proof likewise demonstrates that the level of cost wastefulness is exacerbated by terrible credits, high capital proportions and budgetary advancement. Conversely, it is demonstrated that bigger banks are more proficient and the level of remote bank infiltration decreases x-wastefulness.

Ikhide (2000) concentrated on Namibia's bank proficiency for period from 1996 to 1998 utilizing Econometric Cost Frontier approach and working proportions. The study found that business Banks were not delivering at the purpose of least normal cost and recommended that banks can encourage bring down their working expenses as they extend yield. Productivity measures by gross edges, return on resources and profit for value proportions were not exceptionally corresponded with working.

Kising'u (2007) examined the relationship between specialized productivity of business banks in Kenya and administrative abilities to be specific instruction, involvement in years and recurrence of preparing. The concentrate additionally inspected the substitution



potential outcomes between an administrator's level of training and years of involvement in connection to specialized effectiveness. The theories of the study were that a positive relationship exists between administrative aptitude attributes and specialized effectiveness and that there are substitution potential outcomes between years of experience and instruction level. The study depended on an example of 39 banks and utilized a stochastic creation wilderness and relapse investigation to test the relationship. Kising'u (2007) found that there is a positive relationship between specialized effectiveness and the level of instruction, years of experience, and recurrence of preparing. The outcomes likewise demonstrated that bigger bank size, higher capitalization and more noteworthy gainfulness are connected with higher specialized proficiency. Further there were no substitution conceivable outcomes between a supervisor's level of training and years of involvement in connection to specialized productivity. The study presumed that, banks should select supervisors with abnormal amounts of instruction and encounter and enhance them through constant preparing as this prompts higher specialized effectiveness.

Lyaga (2006) concentrated on the Efficiency of 33 business banks in Kenya and utilized the Stochastic Econometric Cost Frontier Analysis. The study found that the level of Efficiency in Kenya's business banks is 18%. Proof was found that the normal little bank is moderately more wasteful than the normal vast bank. Mutanu (2002) examined the proficiency scores of profoundly and humble promoted banks. The study utilized the productive cost outskirts approach. In view of an example of eight cited business banks, it was found that the low promoted banks were more proficient than profoundly promoted banks.

Kongiri (2012) considered impacts of CAMEL variables on Bank Efficiency of 37 Kenyan business Banks. The study utilized different straight relapses to examine the information. The study observed that medium estimated banks were more proficient than huge and little measured banks. Further the study found that capital sufficiency, Earnings and Liquidity proportion have a negative relationship to FP (ER) while administration quality and resource quality have a positive relationship. The study proposed that administrative powers ought to locate an ideal point on administrative capital sufficiency proportion and liquidity proportion at which level banks would not hang on a lot of capital and liquidity without trading off on their productivity.

Simiyu (2009) conveyed a study on the impact of budgetary advancement on the Efficiency of business banks in Kenya. The study conjectured that there exists a positive relationship amongst advancement and Efficiency of business banks in Kenya. The study utilized auxiliary information that was gotten from the reviewed money related articulations of the business banks and in addition the Banks' Supervision Department of the Central Bank of Kenya (CBK). The specimen time frame was 1986 to 2007. The examination depended on stochastic cost outskirts investigation approach. The key discoveries of the study were as per the following: First, after budgetary progression, business banks had set up cost escalated measures to improve their yields (benefits) through vital advancements, branch development, development of capital base, and measures to experience focused contention. Amid the same time frame, the sudden watched shift by business banks far from the best cost enhancement wilderness inferred that budgetary progression of the managing an account segment scarcely accomplished

the fancied impacts of improving the cost effectiveness of organizations in the saving money division. Also, the three time frames' cross-sectional evaluations of Efficiency for enormous banks were lower than for little banks, recommending that huge banks as a gathering were more productive than little banks. Thirdly, the discoveries taking into account the Pearson's connection coefficient measure of steadiness showed that a huge direct relationship existed amongst Efficiency and Financial Liberalization. At long last, the discoveries showed that the normal cost productivity appraisals were fundamentally diverse between the post-money related progression period and the pre-and amid advancement. All in all, money related advancement in Kenya prompted a decrease in cost effectiveness over the inspected banks.

A few studies have utilized relapse examination to test the relationship amongst size and cost proficiency in money related organizations as saw in Rangan et al (1988) and, Kongiri (2012). Rivulets (2008) contends that relapse investigation is the most critical device at the econometrician's transfer. It is worried with depicting and assessing the relationship between a given variable and one or more different variables. It can be seen as an inclination to illuminate variable developments utilizing referrals where one or more different variables move (Brooks, 2008). This system was utilized to test the relationship amongst size and cost effectiveness of money related establishments with FOSAs in Kenya. FP is the needy variable and the autonomous variables contain absolute resources (Proxy of Size) while capital ampleness, administration quality (Staff costs), return on resources (ROA) and liquidity are control variables.

Musyoki (2010) contrasted quality change of banks and money related execution trying to set up if there is any connection between quality change and bank gainfulness. Utilizing an example of 46 business banks for the period 1998 to 2002, he discovered that quality change has a fleeting impact on budgetary execution and that there are without a doubt different advantages picked up from enhanced quality, however they might be hard to quantify. After two years, Njihia (2012) tried to decide the determinants of gainfulness of business banks in Kenya. The example information was contained 36 banks over a time of six years, from 2004 to 2010. Utilizing different relapse examination procedure, built up that the basic variables influencing benefit of business banks in Kenya are: non-performing advances and advances, premium cost on clients' stores, working costs, arrangement for dicey obligations and aggregate resources (Njihia, 2012). Productivity in cost administration (cost proficiency) was a standout amongst the most noteworthy determinants of business bank gainfulness.

At long last, Sakina (2013) tried to examine on the Efficiency of business banks in Kenya and to set up whether the X productivity of these banks is influenced by economies of scale. Effectiveness is characterized as the general proficiency of a firm judged on administrative and innovative criteria in changing contributions at least expenses into most extreme benefits. It incorporates intra-bank financial effectiveness; intra-bank motivational proficiency singular identity; and outside motivational productivity - emerging from administration impetuses and nature. The information set comprised of yearly operation expenses of banks including premium cost. Stores and obtained assets were dealt with as the information sources while the advances to clients, speculations,

and different earnings were dealt with as yields. The example included 33 banks for the period 2005 to 2010. A stochastic econometric cost wilderness was utilized to gauge Efficiency level of business banks in Kenya. The observational results acquired built up that Efficiency existed in the Kenya's business banks industry at 18% and it was observed to be influenced by economies of scale. In an offer to build up whether the perseverance of Efficiency was identified with bank size, Sakina (2013) further discovered that normal substantial banks have a tendency to be more diligent than normal little banks at the level of 23%. Furthermore, bank size influences Efficiency for huge banks.

## **2.5 Summary of Literature Review**

Discoveries in worldwide and territorial studies in Rangan et al (1988), Limam (2001), Marsh et al (2003), and Kirkpatrick et al (2002), were predictable in their discoveries that expansive banks are more proficient than little banks. Nearby studies on cost effectiveness by Lyaga (2006) Kising'u (2007) were steady with discoveries of past outside nations that expansive bank size is connected with higher proficiency than littler bank size. Discoveries in Mutanu (2002) that the low promoted banks were more productive than exceedingly promoted banks were however in strife with the vast majority of the studies both all around and locally. As can be seen business banks have ruled studies on cost Efficiency inside the budgetary organizations division, assist despite the fact that the vast majority of the studies are predictable in their discoveries there is strife on the relationship amongst size and effectiveness as prove by Mutanu (2002) and Kongiri (2012). Literature indicates that Hays, et al (2009) ER is a fundamental ratio in evaluating financial institution efficiency and was noted to have been used locally in Kongiri (2012).

Koch and Scott MacDonald (2003) as referred to by Forster and Shaffer (2005) state that ER is viewed as the most prominent proportion to assess a money related establishments execution since it ponders operations both and off the accounting report. From the above writing none of the studies have tended to the relationship between cost Efficiency and budgetary execution. The concentrate subsequently looks to give more experimental confirmation in perspective of the contention from existing studies on the relationship between cost Efficiency and monetary execution. This subsequently tries to fill the exploration hole.

Experimental studies in Kenya (Musyoki, 2013; Njihia, 2012; and Sakina, 2013) have concentrated on the proficiency changes in the Kenya keeping money industry while setting up that business banks are productive from alternate points of view. Musyoki (2013) in his study specified that there are without a doubt different advantages picked up by quality change however perhaps hard to gauge. Taken a toll Efficiency would be one. Njihia (2012) took a gander at determinant of productivity in bank. Sakina (2013) took a gander at Efficiency of business banks which was influenced by economies of scale. In any case, none of these and different studies have taken a gander at cost Efficiency and set up the relationship between firms cost Efficiency and impact on store assuming reserve funds and acknowledgment co-agents monetary execution. The present study looks to fill the hole on the relationship between cost Efficiency and budgetary execution of store assuming investment funds and acknowledgment co-agents in Nairobi County.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This part exhibited the examination procedure utilized as a part of this study. Area 3.2 depicts the Research plan; Section 3.3 portrays the study Population and Sample; Section 3.4 blueprints the information accumulation strategies and sources; and Section 3.5 depicts the exploration model and the information investigation apparatuses to be connected.

#### **3.2 Research Design**

The quantitative way to deal with examination included numerical information, and the subjective methodology includes printed information (Symonds and Gorard, 2010). A third technique for examination that uses components from both the subjective and the quantitative methodologies is arranged as blended strategies (Symonds and Gorard, 2010). The quantitative methodology was chosen for its reasonableness to the motivation behind creating research addresses and is suitability for the kind of numerical information required in the study (Schweitzer, 2009). Creswell (2009) expressed that the quantitative methodology is most proper for the examination of numerical information.

To test the Relationship between Cost Efficiency and Financial Performance of Deposit Taking Savings and Loan Associations, utilized as a part of the test was a PC bundle SPSS (Statistical bundle for Social Sciences) form 16 and a various straight relapse model to tackle the relapse Equation utilized as a part of the study. The outcomes are exhibited in tables and diagrams where essential. to quantify Cost Efficiency of store

assuming Savings and Acknowledgment Co-agents in Kenya. The point is to set up the level of cost Efficiency and its influences Financial Performance of store assuming Savings and Praise Co-agents in Kenya.

### **3.3 Research Population**

The number of inhabitants in interest was all the 45 Deposit assuming Savings and Acknowledgment Co-agents in Nairobi County as at 30th June 2013. An enumeration review will be done because of the little populace size and conglomeration of optional information will be utilized as a part of the study.

### **3.4 Data Collection**

The study connected auxiliary information which was removed from the Savings and Credit Co-agent's yearly reports and monetary articulations for the six-year time frame beginning 2009 up to 2014. The information was gathered with the guide of an uncommonly composed information accumulation sheet to fit the data required. The period was chosen in light of the fact that consistent monetary information might be accessible for the organizations over the whole time frame. This was acquired from the distributed money related report. The information removed from the budgetary proclamations incorporated the accompanying: Total Assets, inner administrative costs (pay rates and wages), Income and the Profit earned before duty.

### **3.5 Data Analysis**

Information examination is the way toward bringing request, structure and understanding of the mass of gathered information (Marshall and Rossman, 1999). As per Cooper and Schindler (2003) the entire procedure which begins promptly after information accumulation and finishes at the purpose of elucidation and preparing information is



information examination. To test the Relationship between Cost Efficiency and Financial Performance of Deposit Taking Savings and Loan Associations, utilized as a part of the test was a PC bundle SPSS (Statistical bundle for Social Sciences) variant 16 and a various direct relapse model to illuminate the relapse Equation utilized as a part of the study. The outcomes are exhibited in tables and charts where important.

### **3.5.1 Analytical Model**

In light of the writing checked on, the variables of the study included the Cost Efficiency ratio(CXE) of SACCO, as the reliant and free variables contained aggregate resources (Proxy of Size), capital sufficiency, administration quality, return on resources (ROA) and Liquidity. Since administration is typically relegated a composite score by the administering powers the study embraced the Hays, et al (2009) proportion of compensations and advantages to normal resources as an intermediary for administration. Roughages et al (2009) attest that compensations and advantages are for the most part the biggest non-interest cost components of a money related organization's overhead that are controllable by administration. FP as characterized by Hays, et al (2009) was utilized to gauge effectiveness. Subsequently the accompanying relapse Model was connected; the model is reached out from Kongiri (2012).

$$CXFP = + \beta_1 \text{Ln TA} + \beta_2 \text{Cit} + \beta_3 \text{Mgtit} + B_4 \text{ROA it} + B_5 \text{liqit} + E_i$$

Cffit = Cost Efficiency of Deposit assuming Savings and Praise Co-agents i at time t

$\alpha$  = steady

LnTA = Natural log of Total Assets (Applied to institutionalize the estimation of Total Assets)

Cit = Total Equity/Average Assets of store taking i at time t

$Mgt_{it} = \text{Salaries and Benefits} // \text{Average Assets of store taking } i \text{ at time } t$

$ROA_{it} = \text{Net benefit} // \text{Average Assets of store taking } i \text{ at time } t$

$Lid_{it} = \text{Net fluid Asset} // \text{Average Assets of store taking } i \text{ at time } t$

$E_i = \text{Error Term}$

Coefficients  $\beta_1, \beta_2, \beta_3, \beta_4$  and  $\beta_5$  were utilized to quantify the affectability of the needy variable (FPfit) to unit changes in the five informative variables. F-Statistic and t – Statistics were utilized to do trial of essentialness, for the general attack of the Model ( $R^2$ ). Pearson connection coefficients were utilized to test for Multicollinearity.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This part exhibits information investigation, discoveries and talks of the examination discoveries in light of the exploration objective. Area 4.2 portrays the Descriptive Analytic Results; Section 4.3 depicts the Correlation Analysis; Section 4.4 depicts the Regression Analysis Results which are utilized to dissect information to answer the examination objective; Section 4.5 clarifies the Robustness of the Study Model and Section 4.7 clarifies the Discussion of Data Analysis and Results.

Optional information from distributed yearly budgetary explanations of 40 Deposit assuming Savings and Praise Co-agent's for period from 2009 to 2013 was utilized. Comes about have been displayed in type of outline tables.

#### **4.2. Descriptive Analysis Results**

The outcomes (table 4.1) show that a sum of 100 events of every variable were utilized as a part of the study. A general industry Financial Performance of budgetary organizations with stores and advances of 81.60% was acquired.

The business mean characteristic log of aggregate resources (TA), the intermediary for size was 8.4190, industry mean for capital sufficiency (C) was 14.15 %, mean for administration quality (Mgt) spoke to by staff expenses was 1.96%, mean profit for resources (ROA) was 2.02% and mean liquidity (Liq) was 16.93 %.

**Table 4.1: Descriptive Statistics for Deposit taking Savings and Credit Co-operative's**

	Mean	Std. Deviation	N
Financial performance	0.8160	0.2604	100
Natural log TA	8.4190	0.68861	100
Capital Adequacy	0.1415	0.1508	100
Management quality	0.0401	0.0369	100
Return on Assets	0.0196	0.0279	100
Liquidity	0.1693	0.2289	100

Source: Research Data

The outcomes in table 4.2 to 4.4 are elucidating insights of Deposit assuming Savings and Praise Co-agent depends on classifications as talked about in section one. The classes depend on the Cost Efficiency, Financial Performance and Financial Performance of Savings and Credit Co-agents. The primary Category involved Deposit assuming Savings and Acknowledgment establishments with resources above Ksh 1 billion. As at 31st December 2011, there were 03 extensive Deposit assuming Savings and Praise establishments with a normal business sector size of 85% of the authorized Deposit assuming Savings and Acknowledgment foundations all out resources. The second classification included Deposit assuming Savings and Acknowledgment establishments whose benefits are more than Ksh.200 million however under Ksh.1billion. There were 40 Deposit assuming Savings and Praise money related establishments in this classification with a normal business sector size of 13% as far as aggregate resources. The third Category involves Deposit assuming Savings and Praise monetary foundations with resource base of under Ksh.200 million, there were 24 authorized Deposit assuming

Savings and Acknowledgment organizations in this classification speaking to around 2% of the business sector measure (The Deposit assuming Savings and Praise Co-agent's supervision report, 2013).

The outcomes (table 4.2) show that a sum of 50 events of every variable of substantial estimated Deposit assuming Savings and Acknowledgment monetary foundations were utilized as a part of the study. The outcomes demonstrate that a general vast measured Deposit assuming Savings and Acknowledgment establishment's money related execution of 61% was acquired. The huge estimated Deposit taking Savings and credit organizations mean regular log for TA was 9.5501, other sub part mean for capital sufficiency (C) was 14.66%, mean for administration quality (Mgt) was 2.77%, mean ROA was 1.688% and mean liquidity (Liq) was 10.63 %.

**Table 4.2: Descriptive Statistics for Large Deposit taking Savings and Credit Co-operative's**

	Mean	Std. Deviation	N
Financial performance	0.6101	0.19255	50
Natural log TA	9.5501	0.38524	50
Capital Adequacy	0.1466	0.21015	50
Management cost	0.0277	0.03835	50
Return on Assets	0.01688	0.01496	50
Liquidity	0.1063	0.11690	50

Source: Research Data

The outcomes (table 4.3) demonstrate that an aggregate of 55 events of every variable of medium measured Deposit assuming Savings and Acknowledgment Co-agents were utilized as a part of the study. The outcomes demonstrate that a general medium estimated Deposit assuming Savings and Acknowledgment Co-agent's budgetary execution of 85.8% was acquired. The medium estimated Deposit assuming Savings and Praise Co-agent's mean common log for TA was 85.11, sub part mean for capital sufficiency (C) was 13.45%, mean for administration quality (Mgt) was 4.34%, mean ROA was 1.50% and mean liquidity (liq) was 20.15 %.

**Table 4.3: Descriptive Statistics for Medium Deposit taking Savings and Credit Co-operative's**

	Mean	Std. Deviation	N
Financial performance	0.858	0.16351	55
Natural log TA	8.5113	0.26625	55
Capital Adequacy	0.1345	0.08803	55
Management quality	0.0434	0.05112	55
Return on Assets	0.0150	0.0170	55
Liquidity	0.2015	0.26510	55

The outcomes (table 4.4) demonstrate that an aggregate of 60 events of every variable of little Deposit assuming Savings and Acknowledgment Co-agents were utilized as a part of the study. The outcomes demonstrate that a general little Deposit assuming Savings and Praise Co-agent's money related execution of 87.02 % was gotten. The little Deposit assuming Savings and Praise Co-agent's mean normal log for TA was 7. 8603, sub part mean for capital ampleness (C) was 17.85 %, mean for administration quality (Mgt) was 3.35 %, mean ROA was 2.6% and mean liquidity (Liq) was 21.30 %.

**Table 4.4: Descriptive Statistics for Small Deposit taking Savings and Credit Co-operative's**

	Mean	Std. Deviation	N
Financial performance	0.8702	0.38121	60
Natural log TA	7.8603	0.17130	60
Capital Adequacy	0.1785	0.14618	60
Management quality	0.0335	0.0243	60
Return on Assets	0.026	0.0423	60
Liquidity	0.2130	0.2613	60

The outcomes from (table 4.1 to table 4.4) demonstrate that the mean FP was most minimal for huge measured Deposit assuming Savings and Praise Co-operative's, since the lower the FP the more productive a money related establishment is, extensive estimated Deposit assuming Savings and Acknowledgment Co-agent's in the examination time frame were more proficient than both medium estimated and little measured Deposit assuming Savings and Praise Co-operative's.

The outcome (reference section 3) demonstrate the rankings of FP in light of mean qualities for a long time for the 40 Deposit assuming Savings and Praise Co-agent's examined. The two most cost proficient Deposit taking money related establishments were Stima Sacco and Mwalimu SACCO both in extensive size classification with a FP of 0.3660 and 0.453 separately. The two slightest cost effective Deposit taking budgetary foundations were Shirika and Njiwa with a FR of 1.3867 and 1.3662, both were in the little Size class.

### 4.3 Correlation Analysis

Table (4.5) delineates the connection comes about for the needy and free variables. The outcomes show a solid negative relationship between's the Financial execution and the regular log of TA the intermediary for Size, capital ampleness and ROA at, - 0.242, - 0.120 and - 0.612 individually. A solid positive relationship between's the FP and administration quality (Mgt) an intermediary for staff cost (0.153) was watched while a feeble positive connection with liquidity (0.041) was watched.

The outcomes in Table 4.5 additionally demonstrate the connection relationship between the autonomous variables. TA and liquidity were adversely associated at - 0.218, capital ampleness had a solid positive connection with liquidity at 0.300. Administration quality was seen to have a solid positive connection with liquidity of 0.311; ROA had a positive relationship with capital ampleness of 0.250 while liquidity had a frail positive relationship with ROA of 0.090.



**Table 4.5: Correlation Statistics for Financial Performance and Capital Adequacy, Management Quality, Liquidity and Return on Assets**

	Correlations	FP	Natural log TA	Capital Adequacy	Management quality	Return on Assets	Liquidity
Pearson Correlation	Financial performance	1	-0.236	-0.113	0.166	-0.606	0.039
	Natural log TA	-0.236	1	-0.143	-0.153	-0.134	-0.218
	Capital Adequacy	-0.242	-0.143	1	0.102	0.250	0.300
	Management quality	0.153	-0.153	0.102	1	-0.045	0.311
	Return on Assets	-0.612	-0.242	0.253	-0.045	1	0.097
	Liquidity	0.041	-0.209	0.309	0.311	0.090	1
Sig. (1-tailed)	FP	.	0	0.05	0.008	0	0.287
	Natural log TA	0	.	0.018	0.014	0.023	0.001
	Capital Adequacy	0.06	0.018	.	0.07	0	0
	Management quality	0.007	0.012	0.06	.	0.255	0
	Return on Assets	0	0.025	0	0.256	.	0.073
	Liquidity	0.285	0.001	0	0	0.076	.
N	Observations	100	100	100	100	100	100

Source: Research Data

#### 4.4 Regression Analysis Results

The relationship between cost proficiency and money related execution of Deposit taking Financial Institutions in Kenya was researched utilizing numerous direct relapse investigation. The outcomes are as introduced in table 4.6 beneath. The study built up an

industry model for Deposit bringing Financial Institutions with FOSAs in Kenya as takes after.

$$Y=1.905X_1+ -0.130X_2+0.015X_3 + 0.550X_4$$

From the relapse condition built up, taking all variables at Zero in FP will be sure at 1.967. At 5% level of essentialness and 95% level of certainty, the analyst built up that Total Assets (TA), was very huge, capital sufficiency was noteworthy at 0.01, administration quality was critical at 0.106, return on resources was exceedingly huge, and liquidity was huge at 0.001.

**Table 4.6: Regression Results for Dependent and Independent Variables**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95 Confidence Level
	B	Std. Error	Beta			
(Constant)	1.905	0.184		10.669	0	1.967
Natural log TA	-0.130	0.021	-0.308	-5.908	0	-0.162
Capital Adequacy	-0.015	0.094	-0.007	-0.134	0.001	-0.198
Management quality	0.550	0.364	0.087	1.624	0.004	-0.126
Return on Assets	-6.197	0.505	-0.643	-12.277	0	-7.192
Liquidity	0.015	0.066	0.012	0.221	0.001	-0.116

a. Dependent Variable: Financial Performance of Deposit Taking Savings And Credit Co-Operative

#### **4.4.1 Financial Performance and Total Assets**

From table 4.6 over the exploration set up that there is a negative relationship between monetary execution and aggregate resources of - 0.130. This implies the higher the aggregate resources esteem the lower the Cost Efficiency, since the lower the Cost Efficiency the higher the level of effectiveness, there is a positive relationship between a greater Deposit taking Financial Institutions in size as measured with aggregate resources and the level of proficiency. This finding was reliable with Limam (2001).

#### **4.4.2 Financial Performance and Capital Adequacy**

From table 4.6 over the exploration built up that there is a powerless negative relationship between monetary execution and capital sufficiency of - 0.015. This implies the higher the aggregate value in a Deposit assuming Savings and Acknowledgment Co-agent's benefits, the lower the Financial execution, since the lower the Cost Efficiency the higher the level of proficiency, there is a powerless positive relationship between a high value level in a Deposit assuming Savings and Praise Co-agent's and the level of effectiveness. This finding was reliable with Limam (2001) discoveries that a higher offer of value capital in resources is connected with better proficiency.

#### **4.4.3 Financial Performance and Management quality**

From table 4.6 over the exploration set up that there is a positive relationship between budgetary execution and Management nature of 0.550. This implies the higher the staff costs the higher the Cost Efficiency, since the higher the Cost Efficiency the higher the level of wastefulness, there is as a result a negative relationship between a higher staff costs and the level of productivity, this finding was steady with Kongiri (2012).

#### **4.4.4 Financial Performance and Return on Assets**

The outcomes in table 4.6 demonstrate that the exploration set up that there is a solid negative relationship between budgetary execution and profit for resources of - 0. 197. This implies the higher the arrival on resources the lower the Financial execution, since the lower the Financial execution the higher the Financial execution, there is along these lines a solid positive relationship between an exceptional yield on resources and the Financial execution. This finding was predictable with Limam (2001).

#### **4.4.5 Financial Performance and Liquidity**

Discoveries from table 4.6 above demonstrate that the exploration built up a positive relationship between the monetary execution and liquidity of 0. 015, the relationship is however noted to be frail. This implies the higher the liquidity level, the higher the Cost Efficiency, since the higher the Cost Efficiency the higher the level of wastefulness, there is a negative relationship between a liquidity level and the Financial execution, this finding was conflicting with Kongiri (2012) who found a negative relationship amongst FP and liquidity, however Kongiri (2012) watched that there is an ideal liquidity level above which a budgetary organization would be wasteful, this clarifies the feeble positive association with FP saw in Deposit taking Financial Institutions.

#### **4.5 Robustness of the Study Model**

Strength of the model was tried by testing the 'integrity of fit' of the model to the genuine information and the degree to which the autonomous variables clarified the variety in the needy variables. Table 4.7 demonstrates that the balanced R<sup>2</sup>, the coefficient of assurance measuring the extent of variety in FR is 0.50.51, this implies around 50.5 % of variety in the needy variable in the relapse model are because of the autonomous variables while 49.5% are because of chance, mistake term or are unexplained.

**Table 4.7 Model Goodness of Fit Results**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.710a	0.5051	0.454	0.197452	0.477	37.943	5	205	0

Source: Researcher 2016

a. Predictor:(Constant), Liquidity, Return on Assets, Natural log TA, Management quality, Capital Adequacy

b. Dependent Variable: Financial performance

**4.6 Analysis of Variance**

**4.6.1 Results of Analysis of Variance**

ANOVA <sup>b</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	7.560	3	1.399	34.640	.003 <sup>a</sup>
	Residual	7.703	40	0.420		
	Total	15.202	43			

a. Predictor:(Constant), Liquidity, Return on Assets, Natural log TA, Management quality, Capital Adequacy

b. Dependent Variable: Financial performance

#### **4.7 Discussion of Data analysis and Results**

Money related proclamations of 40 Deposit assuming Savings and Praise Financial Institutions were acquired out of an example of 45 and perceptions for a long time were accessible for Deposit assuming Savings and Acknowledgment Financial Institutions while 40 Deposit assuming Savings and Acknowledgment Co-agent's had documented returns for a long time in the objective time frame. The general reaction rate was hence 95%. The information was investigated utilizing graphic examination, relationship examination and various straight relapse investigation to answer the exploration question utilizing SPSS rendition 16. The study built up an industry FP of 81.60%, the littler the size the more effective a budgetary establishment is. Substantial Deposit taking Savings Loan Associations perform well at FP of took after by medium Sized Deposit assuming Savings and Acknowledgment Co-agent's at 85.8% with the most proficient Deposit assuming Savings and Praise Co-agent's by and large little measured at 87%.

There was a major uniqueness between the business FP of 80.95% and both the most productive Deposit assuming Savings and Acknowledgment Financial Institutions and the slightest effective Deposit assuming Savings and Praise Co-operative's. The most cost effective Deposit assuming Savings and Praise Co-agent's was Stima Sacco in extensive measured classification with a FP of 0.3660 and the slightest cost proficient Deposit assuming Savings and Acknowledgment organizations was Njiwa in the little Size class at FP of 1.3662. This infers the administration over the Deposit Taking Savings And Credit Co-Operative's Sector Apart from The Most Efficient Deposit

Taking Savings And Credit organizations has a major space for 35 change in overseeing controllable expenses, towards the plausible FP level of 37.39% of the most productive Deposit Taking Savings And Credit establishments. The study built up that FP has a negative relationship with aggregate resources at - 0.308, capital ampleness at - 0.242, and return on resources at - 0.612, however a positive connection with both Management quality at 0.153 and liquidity at 0.041. Low FP means high proficiency and the other way around, along these lines all variables with a negative association with FP add to high productivity while variables with a positive association with FP add to low effectiveness levels. This infers at approach level extensive estimated Deposit assuming Savings and Praise Institutions ought to be urged instead of little measured Deposit assuming Savings and Acknowledgment Institutions.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This part displays the synopsis of the study, key discoveries, conclusion, proposals, and confinement of the study and recommendations for further research. Segment 5.2 presents the synopsis of the study including key Findings, segment 5.3 presents the conclusion, proposals from the study are exhibited in area 5.4, segment 5.5 presents the confinements of the study and segment 5.6 presents recommendations for future exploration.

#### **5.2 Summary**

The target of the exploration was to set up the relationship between Cost Efficiency and Financial Performance of Deposit Taking Savings and Loan Associations in Kenya and in this way tried to answer the inquiry, what is the relationship amongst size and cost effectiveness of Deposit assuming Savings and Acknowledgment Institutions in Kenya? The examination utilized clear and connection research plan. Numerous relapse examination of the FP in light of yearly optional information, from distributed money related articulations recorded with the CCD and SASRA was utilized. The populace comprised of 45 Deposit Taking Savings and Credit Institutions authorized by SASRA as at 31st December 2013.

The target of the exploration was to set up the relationship between Cost Efficiency and Financial Performance of Deposit Taking An overview of 45 Deposit Taking Savings And Credit Institutions social orders was chosen and budgetary explanations from 40 Deposit Taking Savings And Loan Associations were gotten, just five Deposit assuming



Savings and Praise Institutions did not have money related proclamations for the full time of 5 years however had filled returns for 3 to 4 years subsequently an aggregate of 100 perceptions were made. This constitutes a reaction rate of 95%. Store Taking Savings And Credit Co-Operative's particular variables which incorporated the common log of aggregate resources, Capital sufficiency proportion, staff costs speaking to administration quality, return on resources, and liquidity were the free variables while the Financial Performance (FR) was the reliant variable.

The examination found that the FP has a solid negative connection at - 0.612, however a positive relationship with both Management quality at 0.153 and liquidity at 0.041. Low FP implies high effectiveness and the other way around, in this manner all variables with a negative association with FP add to high proficiency while variables with a positive association with FP add to low productivity levels. From writing investigated the lower the FP the higher the level of proficiency, in this manner for every one of the variables with a negative association with the FP have on the other hand a solid positive association with the level of effectiveness and hence add to high productivity levels.

The exploration set up that there is a positive relationship amongst FP and Management quality at 0.153 and liquidity at 0.041. This implies for variables that are emphatically corresponded with FP lead to a higher FP, the higher the FP the higher the level of wastefulness. There is in this way a negative relationship between these variables and the level of effectiveness.

The exploration further found that the business FP for proficient Deposit assuming Savings and Praise Co-agent's was Stima Sacco in vast measured class with a FP of 0.3660 and the minimum cost productive Deposit assuming Savings and Acknowledgment Co-agent's was Njiwa in the little Size classification at FP of 1.3662.

### **5.3 Conclusion**

The exploration presumes that FP is together affected by aggregate resources, return on resources, administration quality, and liquidity. The examination infers that there is a powerless positive relationship amongst FP and both administration quality and liquidity. The examination further infers that there is a solid negative connection amongst FP and both aggregate resources and profit for resources, since the lower the FP the more effective a Deposit Taking Savings And Credit Co-Operative's is, there is a solid positive relationship amongst proficiency and both aggregate resources and profit for resources. The examination in this manner met its goal, which was to build up the Relationship between Cost Efficiency and Financial Performance of Deposit Taking Savings and Credit Co-Operative.

### **5.4 Recommendations for Policy from the Study**

The study prescribes to the Government and to Sasra; the Deposit Taking Savings and Credit Institution's controller that there is have to keep up Deposit assuming Savings and Acknowledgment Co-agent's with a national viewpoint as single substances instead of lapsing them into littler units at area levels. This is on the grounds that the examination found there is a positive connection between's Cost Efficiency, all out resources proficiency level and Financial execution, vast measured Deposit assuming Savings and

Acknowledgment Co-agent's as far as aggregate resources were observed to be more proficient than both medium estimated and little size Deposit taking Savings and Loan Associations. In perspective of the finding that there is a positive connection amongst proficiency and Size of a Deposit Taking Savings And Credit Co-Operative's the examination suggests that little wasteful Deposit assuming Savings and Acknowledgment Co-agent's be converged to shape huge Deposit assuming Savings and Praise Co-agent's that can exploit greater size which comes about into economies of scale.

The two most cost effective Deposit taking Financial Institutions were Stima Sacco's Deposit taking Savings in expansive size class with a FP of 0.3660. The slightest cost productive Deposit assuming Savings and Acknowledgment Co-agent's were Njiwa with a FP of 1.3662, in the little Size classification. This implies there is a huge opportunity to get better of cost effectiveness for administration in the majority of the Deposit assuming Savings and Acknowledgment Co-agent's not just towards the business normal level of 0.8998 however to the level of the most productive Deposit Taking Savings And Credit Co-agent's of with a Financial Performance of 0.439.

### **5.5 Limitation of the Study**

Various impediments from the study can be referred to. To begin with the study concentrated on five free variables to be specific; absolute resources, capital sufficiency, administration quality as got from staff costs, return on resources and liquidity. The understanding of the outcomes as for FP and on the other hand Cost Efficiency ought to be confined to the variables utilized as a part of the study. It was unrealistic to evaluate the effect of benefit quality on Financial Performance since a large portion of the Deposit

assuming Savings and Praise Institutions did not reveal their level of nonperforming advances while most Deposit assuming Savings and Acknowledgment Institutions were not making arrangements for advance misfortune.

Besides the study utilized one and only measure of Cost Efficiency to be specific the FP, other bookkeeping proportions, for example, return on capital utilized and degree of profitability among others can likewise be utilized to gauge firm Cost Efficiency (Ikhide, 2000). There are likewise different procedures of measuring Cost Efficiency, for example, parametric system for the most part being the Stochastic Frontier Approach (SFA) and The Distribution-Free Approach (DFA) and non-parametric strategies, for example, information envelopment examination (DEA) and the free expendable body (FDH).

At long last the information utilized was removed from monetary proclamations utilizing bookkeeping proportions, for example, return on resources. A set back in utilizing strategies taking into account bookkeeping proportions is that distinctions in capital structure, business blend and bookkeeping benchmarks crosswise over firms may influence these proportions and render likeness deficient (Ikhide, 2000). The specialist additionally noticed that there was no uniform arrangement of bookkeeping things and order depended on subjective choices with respect to individual Deposit assuming Savings and Praise Co-operative's. At times money expenses were dealt with as operational expenses and advances to individuals as present resources posturing challenges in equivalence.

## **5.6 Suggestions for Further Research**

The target of the study was to build up the Relationship between Cost Efficiency and Financial Performance of Deposit Taking Savings and Loan Associations. This exploration can be enhanced by testing different variables that affect the FP, for example, resource quality measured by taking Non performing advances net of arrangements for advance misfortune isolated by the gross advances of a given Deposit assuming Savings and Praise Financial Institutions.

The study can likewise be repeated in future since as indicated by SASRA Annual report (2013), SASRA has executed a uniform outline of records for all Deposit assuming Savings and Praise Financial Institutions in Kenya from 2009. A uniform outline of records will enhance the study by improving likeness of information extricated from distributed budgetary proclamations of Deposit assuming Savings and Acknowledgment Financial Institutions. At last, the relapse model system utilized as a part of the study could be joined with a variety of option strategies for assessing effectiveness. This would vouch for the power of the outcomes against option effectiveness estimation strategies.

Future studies ought to likewise consider utilizing essential wellsprings of information to gather information for their studies. This would spare incredibly a great deal of time and would likewise encourage point by point data gathered from unique sources which would too give solid and precise results that clarify the subtle elements of the subject being referred to.

Studies ought to likewise be embraced on ranges of the determinants of the Savings and Credit Co-agents' development and in addition the variables influencing its proficiency in administration conveyance and operations.

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## APPENDICES

### Appendix I: List of the Deposit Taking Savings and Credit Co-operatives

Name of the Deposit Taking Savings and Credit Co-operative
1.Nacico
2.Kenya bankers
3.Kenversity
4.Comoco
5.Elimu
6.Chai
7.Asili
8.Jamii
9.Ardhi
10.Afya
11.Kingdom
12.Fundilima
13.Magereza
14.Wanandege
15.Nassefu
16.Stima
17.Sheria
18.Harambee
20.United nation
21.Ufundi
22.Nation staff
23.Tembo
24.Ufanisi
25.Mwalimu

26.Chuna
27.Kenya police
28.Ukristo na ufanisi
29.Waumini
30.Ukulima
31.Maisha bora
32.Wana anga
33.Orthodox development
34.Transcom
35.Reli
36.PCEA
37.Lenga tumaini
38.Mater
39.Gurudumu
40.Nasca
41.Finnlemm
42.Shirika
43.Njiwa
44.Nest
45.Teleposta