THE RELATIONSHIP BETWEEN EFFECTIVENESS OF THE
ACCOUNTING FUNCTIONS AND THE FINANCIAL
PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE
SOCIETIES IN NAIROBI COUNTY

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“A research Project submitted in partial fulfillment of the requirements for
the award of the Degree of Master of Business Administration, University of
Nairobi”

OCTOBER 2014
DECLARATION

This Research Project is my original work and has not, wholly or in part, been presented for an award of a degree in any other university.

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This research project has been submitted for examination with my approval as University Supervisor

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To my almighty God for seeing me through the entire MBA programme, without the help of God I would not have made it. His grace was sufficient all through, Glory and Honor to him.

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DEDICATION

I wish to dedicate this research project to my family and in particular my spouse Monicah for her support and encouragement, my daughters Sally and Victoria, and my son Ryan for giving me the reason to study and work hard. Finally to all who have contributed in many ways to the success of this MBA programme, for their efforts, support and encouragement.
ABSTRACT

In the recent past Savings and Credit Co-operatives (SACCOs) have witnessed faster growth than other co-operatives. Most Sacco’s, especially during their early years of operation, employ Semi skilled personnel in the finance department and this is partly due to the low scale of remuneration. Consequently, Poor record keeping and accounting information makes it difficult for financial institutions to evaluate potential risks and returns (World Bank 1978). The purpose of this study was to determine the relationship between financial performance and Accounting functions of deposit taking Sacco’s in Nairobi. Accounting practices examined in the study include those that facilitate budgeting, review of balance sheet, internal audit function, working capital management and credit management. In this study, Causal research design was used. The population of study comprised all deposit taking Sacco’s in Nairobi County. Primary data was collected using questionnaires that were dropped at the respondent’s premises and collected thereafter. Regression analysis was used to analyze the relationship. The study found a positive relationship between ROA and all other accounting functions studied except internal audit function that has a negative relationship. The relationship was however found to be insignificant. The study therefore concluded that there is no significant relationship between ROA and accounting practices of deposit taking Sacco’s in Nairobi County.
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<th>Description</th>
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<tr>
<td>ADM</td>
<td>Annual Delegates meeting</td>
</tr>
<tr>
<td>ATM</td>
<td>Automated Teller Machine</td>
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<td>BOSA</td>
<td>Back office service Activity</td>
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<td>BS</td>
<td>Balance Sheet</td>
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<tr>
<td>FOSA</td>
<td>Front office Service Activity</td>
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<tr>
<td>GAAP</td>
<td>Generally Accepted Accounting Principles</td>
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<td>GDP</td>
<td>Gross Domestic product</td>
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<tr>
<td>IRR</td>
<td>Internal Rate of Return</td>
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<td>IS</td>
<td>Income Statement</td>
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<tr>
<td>KSH</td>
<td>Kenyan Shilling</td>
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<td>KPI's</td>
<td>Key Performance Indicators</td>
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<td>KUSCCO</td>
<td>Kenya Union of Savings and Credit Cooperatives</td>
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<tr>
<td>MAGFOSA</td>
<td>Magereza front office service Activity</td>
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<td>MFI's</td>
<td>Micro finance institutions</td>
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<td>NPV</td>
<td>Net present value</td>
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<td>OP</td>
<td>Office of the President</td>
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<td>SACCO's</td>
<td>Savings and Credit cooperative societies</td>
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<td>SASRA</td>
<td>Sacco Societies Regulatory Authority</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

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 co-operatives (includes farm produce and other commodities marketing co-operatives, housing, transport and investment co-operatives). In the recent past Savings and Credit Co-operatives (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. Procasur Africa, (2012).

Savings And Credit Co-operative (SACCO) can be defined as an association of likeminded individuals, registered under the Ministry of Cooperatives (In Kenya), and authorized to take deposits from and lend to its members. SACCOs are governed by the SACCO bylaws which state the objectives, membership, share capital, organization structure, management and lending regulations. Once one is a member of a SACCO, they are allowed to borrow within the limits of their savings. The standard is a member can borrow up to three times their savings, provided other members give them guarantees or they give a form of security. SACCOs have various products, such as emergency loans which are processed within a day, school fees loans and development
loans. Most Sacco’s, especially during their early years of operation, employ Semi skilled personnel in the finance department and this is partly due to the low scale of remuneration. Consequently, Poor record keeping and accounting information makes it difficult for financial institutions to evaluate potential risks and returns (World Bank 1978), making them unwilling to lend to the Sacco’s and other sectors in the economy with similar difficulties (for example in the informal sector). The misuse and inaccuracy of accounting information in some Sacco’s causes them to inaccurately assess their financial situation, and make poor financial decisions, this makes them prone to high risk and susceptibility to fraud.

Just like Banks and other financial institutions, Sacco’s operate in a dynamic environment composed of forces that create opportunities and threats. These forces shape the nature of operations and as such the investors in these Sacco’s need to stage a good approach to management dimensions of their organizations. Against all odds, the success of any business rests in the strategies employed in the management of such enterprises. Informal business owner rarely have ready access to all of the information and skills one might regard as ideal for conducting all aspects of their businesses. Recent studies in Kenya have indicated that practicing accountants are an important source of advice to Sacco’s. However, few studies have specifically addressed the relevance of accounting information for economic decision making by Investors in the Sacco’s, or the amount and/or type of advice actually sought by investors in these businesses from their accountants.
Banks and Other financial institutions are incorporated and are in more less the same industry with the Sacco’s. Book-keeping and financial reporting being at the centre stage of management of Sacco’s need to be appreciated with great concern as business enterprises move towards achieving their objectives. Several accounting controls have been employed to facilitate accountability and effectiveness in running these business enterprises. Book keeping has been put in to ensure that transactions that take place in the business are recorded so that unnecessary errors and frauds are deterred. Preparation of financial statements at the end of every year is of great importance to these businesses as they depict the state of affairs of the business as at that particular date. Statement of Financial position (Balance sheet) shows the financial position of the business in terms of assets and liabilities as at the final day of the financial year. On the other hand, the Income statement shows the level of profit or loss arrived at for the year ending at a particular date. Auditing is another practice necessary for Sacco’s. Financial statements are verified as to whether they present a true and fair view of the businesses’ state of financial affairs as at a particular date. This paper will seek to identify whether there is a relationship between the effectiveness of the Accounting function and the financial performance of Sacco’s in Nairobi County.

1.1.1 Effectiveness of the Accounting function

Effectiveness is the degree to which objectives are achieved and the extent to which targeted problems are resolved. The researcher will discuss the major accounting functions/practices in the finance department of Sacco’s and analyzing the various aspects of their effectiveness. These are discussed below.
1.1.1.1 Working Capital Management

Implementing an effective working capital management system is an excellent way for many companies to improve their earnings. The two main aspects of working capital management are ratio analysis and management of individual components of working capital. A few key performance ratios of a working capital management system are the working capital ratio, collection ratio, Accounts payables payment period. Ratio analysis will lead management to identify areas of focus such as cash management, accounts receivable and payable management. Effective management of accounts receivable presents important opportunities for companies to achieve strategic advantage through improvements in customer service, cash management and reductions in costs. As a rule of thumb, businesses are encouraged to delay payables without necessarily affecting the service and collect as quickly as possible to have an healthy working capital.

1.1.1.2 Balance Sheet Reviews

Balance sheet reviews entails a detailed analysis of items stated as company assets and liabilities at a particular point in time. Other than Debtors, Creditors and Cash, there are other balance sheet items that should be analyzed. Assets are used in the business to generate revenues and they must be properly analyzed to evaluate their usefulness into the business. Obsolete Assets should be scrapped and disposed off and fully depreciated Assets should be revalued in order to reflect their current market values. Other Current Assets such as Prepayments should be review to check the status of their amortization into the income statements. Liabilities represent obliga-
tions in the business and must equally be reviewed monthly to evaluate their validity and ensure that repayment terms are complied with. Long and short term loans must always be reviewed monthly to assess the effects of macroeconomic factors such as inflation and foreign exchange differences. Accruals must also be checked that they are valid and complete.

1.1.1.3 Internal Audit function

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. By providing assurance on the risk management, control, and governance processes within an organization, internal auditing is one of the key cornerstones of effective organizational governance. In this study, the researcher will collect information the reporting structure of the internal audit function in order to assess the effectiveness of this department. In most companies, the internal auditor traditionally reported to either the Chief Financial Officer or the Chief Risk Officer. Today, the internal auditor may either report directly to the Audit Committee, or the Audit Committee will have a role in hiring, firing, evaluating and compensating the Chief Audit Officer. The Audit Committee’s increasing role with regard to the internal audit is being undertaken to help ensure the internal auditor’s independence and objectivity. This will enhance this department’s effectiveness.
1.1.1.4  Budgeting

A budget is an estimate of costs, revenues, and resources over a specified period, reflecting a projection of future financial conditions and goals. Almost all businesses prepare budgets at the beginning of the financial year. Budgets are a critical performance control tool because management will possibly have a measure of performance by comparing targeted results with actual results achieved. Before the end of the financial year, remedial measures may be instituted and implemented to correct anomalies associated with under performance. Budget review process, through variance analysis, helps management assess if they are on track in terms of projected performance track on not. In most companies, budget committees are established and entrusted with responsibilities of management of budgets in the organization. Variance Analysis is usually done by the finance department and the results communicated to the entire management.

1.1.1.5  Credit Risk Management

Credit risk is most simply defined as the potential that a bank of a Sacco borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank’s risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Banks and other financial lending institutions need to manage the credit risk inherent in the entire portfolio as well as the risk in other individual credits or transactions. Sacco’s should also consider the relationships between credit risk and other risks in their operations. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any financial institution. Most banks and other financial institutions concentrate more on collateral, credit records, and ability to pay including liquidity and cash flow in risk evaluation. They concentrate less on conditions, purpose and product. Since exposure to credit risk continues to be the leading source of problems in lending institutions world-wide, these institutions and their supervisors
should be able to draw useful lessons from past experiences. Sacco’s should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred. The researcher shall evaluate the procedures on credit risk management and evaluation in the Sacco in order to establish the effectiveness of the process and relate it to the overall financial performance.

1.1.2 Financial Performance of Sacco’s in Kenya

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. In recent times Sacco’s are facing cut throat competition stemming from the new players that have entered the market for financial services. The report by Sacco Society Regulation authority (SASRA) evaluates the performance of the Sacco subsector based on the financial data and information extracted from audited financial statements and reports for the period 2006 to 2013. It is a legal requirement that the audited accounts of a Sacco society be registered with the Commissioner for Cooperatives Development before presentation to members at the annual general meeting. However, not all active Sacco societies comply with this requirement (SASRA Report, 2012). The total assets for the Sacco subsector stood at Ksh.227 billion in August 2013, a growth of 8% from the Ksh.210 billion recorded in 2012. The growth in assets was funded mainly by member deposits and share capital at Ksh.206 billion comparing favorably with loans and advances which accounted for 83% (or Ksh.170 billion) of the total assets. This reinforces the fact that SACCOs’ core business is to lend to their members. The balance of the funds is financed by retained earnings and loans from commercial banks, KUSCCO and other financial institutions.
According to Maingi S M (2013), in his study which aimed at providing and understanding of the factors affecting the financial performance of Sacco’s in Kenya, indicated that there was a strong correlation between dividend policy and financial performance, while a correlation between increased surplus and performance shows that there was a strong negative correlation. The study concluded that lending is the principal business activity for most Sacco’s and that loan portfolio is typically the largest asset and the predominate source of revenue. It was also concluded that of the three factors that affect the financial performance of Sacco’s, dividend policy has the highest impact on the financial performance of the Sacco. The study did not address the effectiveness of the finance function in the financial performance of the Sacco.

### 1.1.3 Effect of Accounting Functions on Financial Performance

Financial Accounting function includes the role of reporting. It looks at historical performance with the primary responsibility of the Accounts department being the preparation of annual financial statements and reporting the Sacco’s monthly results. A centralized accounting function is responsible for processing all accounts receivable and payable transactions, Interest income, managing working capital and also for the maintenance of the fixed asset registers. The accounting function provides day-to-day support the management of the Sacco. Treasury and tax experts employed by the Sacco in the finance department ensure compliance with tax laws and make sure the company has sufficient cash flow and appropriate finance controls in place in order to meet business needs. Payroll staff are responsible for the accounting and payment of wages to all Sacco staff. Management Accounting in the Finance department enables a predominantly forward-looking focus, and involves analyzing past financial performance in order to project and
improve future results and aid decision-making. Key to the decision making process is information about competitors and the market environment. The Finance team in the Sacco helps define and measure several key targets known as Key Performance Indicators (KPIs) which a Sacco must achieve in order to succeed in its business strategy. Although these indicators are both financial and non-financial to ensure a balanced scorecard approach, the Finance team concentrates on the results of the financial KPIs.

1.1.4 Savings and Credit Cooperative Societies in Nairobi County

In Nairobi County, there are twenty six (26) Sacco’s that are registered with SASRA. Most Sacco’s in Nairobi county have started as a result of the need by a group of persons working together to mobilize funds for lending within themselves. Most of these Sacco’s have experienced huge growth in terms of membership and Asset base and they end up expanding membership eligibility to employees of other companies, business owners.

1.2 Research Problem

Savings and Credit Cooperative Societies operate under the SASRA (2008) principles and there operations are governed by these principles. Sacco’s, just like the commercial banks have a responsibility to support the country’s economy through mobilization of savings and provision of credit for business expansion.

Onsase, Okioga, Okwena & Ondieki (2013), undertook a study on “Effects of Performance Management practices on the performance of SACCOs, a case study of Gusii Mwalimu Sacco in
Kisii. The study was prompted by the fact that the membership of the Sacco was declining faster. The study concluded that SACCO management should put specialization into practice for efficiency and effectiveness.

Mwau (2013), looked at the effects of financial sector liberalization in Kenya and the financial performance of Sacco’s. Financial sector liberalization coincided with a period of good performances for a number of Sacco’s. However, he concluded that there is no certain indication of a link between the good performance and financing diversification. Notably, most of these studies on the performance of Sacco’s have not been done on the Sacco’s in Nairobi County. Looking back at the history of formation of Sacco’s, one clear point is that at inception, Sacco’s are usually started by likeminded businessmen with the common objective of making profits through lending of deposits to its members. Others, for example, Harambee Sacco would start as welfare (Merry-go round) organizations but grow to become multi-billion shilling institutions. Initially or at inception, the Sacco would be managed by the immediate members who have come up with the idea of starting it. In most cases, these Sacco’s thrive and become huge lenders and providers in the financial services sector. So far, there has been no specific study which has tried to establish any relationship between the effectiveness of the accounting function and the financial performance of Sacco’s. The businessmen are not financial experts and therefore lack the necessary skills and knowledge on accounting functions hence, the researchers found a need to determine whether effective accounting functions contribute to the success in the financial performance of Sacco’s. This is the gap that the current study seeks to fill. Therefore this study seeks to answer the following questions:

i) Are there effective Accounting functions in place?
ii) Is there any relationship between the effectiveness of the Accounting function and financial performance of the Sacco?

1.3 Research Objective

The objective of this study shall be to evaluate and report on the relationship between the effectiveness of the Accounting function and the financial performance of the Sacco.

1.4 Value of the Study

The finding of this study will help potential investors and shareholders to identify the best investment opportunity available to them so that they can make the best investment decisions. The finding will enable management to focus on a competitive strategy with the aim of improving shareholders wealth and finally the research finding will stimulate further research by future researchers who may want to look at other aspects of financial performance of Sacco’s.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents an in-depth literature on relevant theories of performance and its application to Sacco’s. It discusses performance indicators and the evaluation of factors affecting financial performance in financial lending institutions. The chapter provides empirical reviews on determinants of financial performance.

2.2 Theoretical Reviews

There are various theories to explain determinants of financial institutions performance and its profitability. As Athanasoglou, Sophocles and Mattaios (2005) observed, a more organized application of industrial organization models to ban performance started in the late 1980s (as cited in Olweny & Shipho, 2011). These theories are discussed as follows;
2.2.1 Market Power Theory

The Market power (MP) theory states that the performance of the bank is influenced by the market structure. The hypothesis suggests that only firms with large market share and differentiated portfolios can win their competitors and earns monopolistic profits. The market structure matters for the banks power irrespective of the nature of banks, whether Islamic, Microfinance institutions or conventional, as it can directly affect the bank performance. There are two distinct approaches within the MP theory; the traditional structure conduct performance and the relative market power theories as discussed below.

2.2.1.1 Structure Conduct Performance

The traditional structure-conduct-performance (SCP) hypothesis developed by (Bain, 1956) states that increased exogenous market forces in banks conduct influences its profitability. The SCP paradigm assumes that higher level of bank concentration allows for higher degree of cooperation between banks or financial institutions thus result to set of higher prices and consequently gains substantial profits through oligopolistic behavior and collusive argument. The SCP hypothesis states that bank performance depends on various elements of market concentration, market structure, number and size of banks and collusion. The more concentrated the market, the less the degree of competition and hence the higher the profitability.
2.2.1.2 The Relative Market Power

Shepherd (1986) formulated relative market power (RMP) theory, which states that earning supernormal profits are due to firms with well differentiated products that can increase market share and exercise their market power in pricing their products. Consequently, under the RMP hypothesis, individual market shares accurately determine market power and market imperfections. The RMP hypothesis is empirically proved when concentration introduced in the explanatory equations of performance is found non significant in contrast to market share which should be positively and significantly correlated with price and/or profitability. Therefore, the bank with a strong position in the market may either reinforce its domination over the market or achieves a higher efficiency.

2.2.2 The Efficiency Structure Theory

Demsetz (1973) formulated the efficiency structure theory (ES) which states that a bank which operates more efficiently than its competitors gains higher profits than its competitors resulting from low operational costs. The same bank holds an important share of the market. Consequently, differences at the level of efficiency create an unequal distribution of positions within the market and an intense concentration. The efficiency theory further suggests that enhanced managerial capability and scale efficiency level leads to higher concentration and higher profitability. Among these capabilities, the bank should be skilled in areas of knowledge sets which includes; the talent to reinforce the training process and the relational network, its ability to master the sense of prediction, selection and rely on human capital and its capability to minimize costs and
while seeking adjustment of costs based on quality and product volumes in order to be efficient. The efficiency structure hypothesis is usually divided the X-efficiency and scale efficiency hypothesis.

2.2.3 The Balanced Portfolio Theory

The Portfolio theory approach formulated by Nzongang and Attemnkeng as cited in Olweny and Sipho (2011), so far, was the most relevant and outstanding theory, as it plays an important role in the banks or financial institutions performance studies. According to this theory of Asset diversification, the optimum holding of each asset in a wealth holders portfolio is a function of policy decision determined by a number of factors such as the vector of rates of return on all assets held in a portfolio, a vector of risk associated with the ownership of each financial Assets and the size of the portfolio. Therefore, it implies that portfolio composition of a bank or a financial institution, its profit and the return to the shareholders is the result of the optimum assets utilization, prudent management and overall policy decisions of the board of directors.

2.3 Determinants of Financial Performance

The evaluation of determinants of financial performance can be classified into Sacco specific (Internal) and Macro economic factors (External)). The relationship of these factors to financial performance is discussed below;
2.3.1 Sacco Specific (Internal) Factors

Internal factors are the Sacco’s specific characteristic, which affects the Sacco financial performance. These factors are influenced by decisions of the management and the board strategy. The relevant variables are discussed as follows;

2.3.1.1 Capital Adequacy

In this study, the capital adequacy of the Sacco is measured using the ration of equity to total assets. It assists the Sacco management to understand the shock captivating capabilities during times of adverse development in the market. This variable is an indicator of the Sacco’s capital strength. The rationale is that the higher equity ratio/total assets ratio, the better it will aid the Sacco in providing a strong cushion to increase its credit undertakings leading to better profitability.

2.3.1.2 Credit Risk or Asset Quality

Asset quality will help the management to understand the risk with respect to the exposure of a Sacco to its borrowers. It is measured as the ratio of nonperforming loans to total loan portfolio outstanding. The loan portfolios are main source of revenue for the Sacco. It is equality considered as the largest source of credit risk due to the problem of adverse selection. Asset quality
theory suggests that increased non performing loans can lead to credit risk hence decline in profitability.

### 2.3.1.3 Management Efficiency

This ratio measures the superiority of the management performance through cost efficiency operations. Cost to Income ratio is used to measure quality of management efficiency. It can be calculated by dividing total operating costs by total operating income. The smaller the ration, the greater the management efficiency and the higher the profits.

### 2.3.1.4 Liquidity Ratio

This performance determinant measures the ability of the Sacco to quickly meet its financial obligations arising from unforeseen circumstances that can result to insolvency risk. Liquidity means the ability to readily convert assets into cash for utilization without extraneous conditions. The ration of liquid assets (Cash and bank balances) to customer deposits is employed to measure liquidity. Financial institutions normally hold liquid assets to meet adverse shocks. This therefore means that the higher the ratio the lesser liquid the bank and hence the higher expected profitability.

### 2.3.1.5 Interest Spread

This is calculated as the difference between the average yield a Sacco receives from loans and other interest accruing activities and the average rate it pays on customers’ deposits and bor-
borrowed funds. The net interest rate spread is a key determinant of the Sacco’s profitability. The greater the spread, the more profitable the financial institution.

2.3.1.6 Size of the Institution

The Sacco’s total Assets is a measure of its size. Sacco Assets consist of Current and Noncurrent Assets. The use of Logarithm of total assets as a proxy for the institutions size is paramount in order to capture possible non linear relationship between size and profitability. The justification for this is that the larger the Sacco, it will most likely benefit from economies of scale than small ones. The bigger the Sacco size, the higher the profitability is the assumption adopted in this study.

2.3.2 Industry Specific Factors

These are industry wide factors that affect profitability of the financial sector performance as a whole. The Sacco sector development and the financial markets developments are considered. Sacco Sector development refers to financial resources provided to private sector. It is calculated as total domestic credit to private sector as a percentage of the GDP. It is expected that a robust and a well structured sector development is due to improved macroeconomic performance and hence positively affects the Sacco’s financial performance. On the other hand, financial market development is the ratio of stock market capitalization to GDP. The stock market plays a crucial role in a country’s economic development through provision of short and long term funding to enhance productivity. The higher the ratio, the higher the profitability.
2.3.3 Macroeconomic Factors

These are country wide external factors beyond the control and influence of management that affects the Sacco’s financial performance. The factors are discussed below.

2.3.3.1 Growth in Gross Domestic Product (GDP)

The index measures the country’s economic performance, that is, the total country’s outputs in a single year. The real GDP growth rate is expected to have a positive relationship with the Sacco’s financial performance such that when the country experience high growth rate, the Sacco’s profits are expected to be higher.

2.3.3.2 Inflation Rate

Inflation rate is measured by percentage change in the price of goods and services in a country. Inflation rate affects the Sacco’s pricing of its products and services. The general understanding is that Sacco’s continuously adjust its prices with changes in inflation rate. But this is Sacco’s is not seen on the face of the lending rate as this is usually constant, it is rather depicted in the reward or interest paid on deposits which is not highly regulated. The return on customer deposits varies from one Sacco to another. Inflation premium is accounted for here and therefore affect the interest rate spread.
2.4 Summary of Empirical Review

Lafourcade, Isern, & Brown (2005), investigated the financial performance of Micro Finance Institutions in Africa. They sampled 63 MFIs and analyzed in terms of returns for the period 2003. Their study revealed that thirty (30) out of 63 selected earned positive returns in 2003. Compared with other global regions, MFIs in Africa report the lowest average return on assets. In addition, they also found out that Across African region, MFIs in East Africa are the most profitable and those in West Africa also generate positive returns, whereas MFIs in the Central Africa, Southern Africa, and Indian Ocean regions generate negative returns.

Jaffari and Manarvi (2011) directed a study on the financial performance of Islamic banks and conventional banks in Pakistan. The study included a sample of five (5) banks from each group for a period covering 2005-2009. The study reveals that Islamic banks performed well in terms of capital adequacy and liquidity compared to conventional banks which also performed better in earnings and management quality. However, the study observed that asset quality has no impact in both banks.

Magali J (2013), conducted a study on thirty seven (37) rural SACCOS in Morogoro, Dodoma and Kilimanjaro regions in Tanzania to assess the influence of credits risk management on rural SACCOS’ profitability. The study period was 2011-2012. The study applied univariate regression model where Return on Assets and Return on Equity were the proxies for profitability and
Non Performing Loans ratio (NPL) was used as the proxy for credit risks management. This study found out that 70% of rural SACCOS were making loss because they lacked effective credits risk mitigation techniques. The findings also noted the maximum and average loss of 315 and 5 million Tshs respectively. The study further revealed that the credit risk management significantly influenced the profitability of rural the SACCOS. Based on the findings of this study the researcher recommended that rural SACCOS should apply the effective credit risks mitigation techniques, be keen in credits’ processing, monitoring and follow-up, issue loans only to qualified borrowers and establish insurance cover for loans. Furthermore, he recommended that the government should continue to regulate and supervise the rural SACCOS in Tanzania.

Onsase, Okioga, Okwena & Ondieki (2013), undertook a study on “Effects of Performance Management practices on the performance of SACCOs,” a case study of Gusii Mwalimu Sacco in Kisii. There study covered year 2012. At the point of the study, reports from Kenya Union of Savings and Credit Cooperative Society indicated that membership in that particular SACCO was declining due to various issues namely; delay in loan disbursements, poor Automate Teller Machine (ATM) services, inadequate variety of Front office service activity (FOSA) services, inefficient Back office service activity (BOSA) services, and inadequate credit facilities. The study adopted a descriptive research design. The target population comprised of 1012 (one thousand and twelve) members of the SACCO. The study used stratified and random sampling criteria to obtain a sample of 152 (one hundred fifty two) respondents from the target population. Semi-structured questionnaires were used to collect both quantitative data and qualitative data. Data was analyzed using descriptive statistics such as frequencies and percentages. Regression analysis and Pearson Correlation were used to establish the strength, direction and significance of the relationship between performance management practices and provision of financial ser-
VICES. The study concluded that SACCO management should put specialization into practice for efficiency and effectiveness.

Mwau (2013), Carried out a research to establish the effect of financing diversification on the performance of Sacco’s by answering the question; does financing diversification affect the performance of a Sacco? The study used a descriptive co relational design with the study population being all Kenya Union of Savings and Credit Cooperatives (KUSCCO) member Sacco’s registered in Kakamega County. Data was collected from a key informant in every Sacco using a questionnaire and analyzed using both descriptive and inferential statistics. Descriptive analysis was done to identify any trends and dispersions in the data while Karl Pearson’s zero order coefficient of correlation was used to determine the nature of relationship between financing diversification and Sacco performance. Regression analysis was done to model the relationship between financing diversification and Sacco performance. The study found out that financing diversification had a significant positive effect on Sacco performance.

Olando, Mbewa, & Jogongo (2012), undertook a study to assess the financial practice as a determinant of growth of wealth of SACCOs with a view of improving the situation for socio-economic development. They sampled 44 (Forty fours) Sacco’s in Meru County. The period covered was the year 2011. Their study used descriptive design in soliciting information on the determinants of growth of SACCOs’ wealth. Data was collected from the census of 44 (Forty four) SACCCOs in Meru County using a questionnaire and document review tool, and analyzed using both descriptive and inferential statistics. The study findings indicated that Growth of SACCOs wealth depended on financial stewardship, Capital structure and Funds allocation strat-
egy. The study further found that SACCOs inadequately complied with their by-laws; incomes from investments did not adequately cover their costs.

2.5 Summary of Literature Review

Financial performance of Sacco’s and its relationship with the effectiveness of the accounting function is an area that has not quite been explored by scholars and researchers. It is evident from the Literature review that Strong financial performance of Sacco’s has been attributed to a combination of several factors. Determinants of financial performance of Sacco’s may be Internal, Industry related and or External. Financial ratios have been commonly applied in the analysis. In the literature review above, it is also evident that most researchers have selected Sacco’s which are out of Nairobi County and in most cases the population may not represent the selection which may have invested in Accounting systems as they are based in the rural areas. Therefore this research aims to analyze the relationship between the effectiveness of the Accounting function in the financial performance specific to Nairobi County Sacco’s which are expected to have invested in financial systems in the management of the Sacco’s.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines how the research shall be conducted. It presents the research design and the population under study. It also offers direction on the suitable sample of the study and the sampling technique. Ultimately, it illustrates the types of study variables and measurement scales.

3.2 Research Design

According to (Mugenda et al, 2003), research design is a conceptual structure within which research will be conducted. This study adopted the Causal research design and attempts to establish the existence of a relationship between two or more aspects of a situation. According to Mahoney, J (2001), correlation analysis is the basis for much explanation in contemporary (Mahoney, 2001). Thus to seek to establish the relationship between effectiveness of Accounting function and financial performance of Sacco’s in Nairobi county, a causal design is appropriate as the aim is to establish and understand better the relationship between financial performance and effectiveness of accounting functions.
3.3 Population

A population can be defined as an entire set of relevant units of analysis or data. It can be referred to as the aggregate of all the cases that conform to some designated set of specifications. There are Ninety six (96) deposit taking registered Sacco’s with SASRA in Kenya. Out of these, twenty six Sacco’s are in Nairobi County. The target population therefore shall be all the twenty Six (26) deposit taking registered Sacco’s with SASRA in Nairobi County.

3.4 Data Collection

The study is based on both primary and secondary data collection. The data collection instruments for this study are questionnaires. A questionnaire has been distributed to the Sacco and collected later, i.e. “drop-and-pick later method”. This gave the respondents ample time to be able to respond to the question efficiently and effectively. The questionnaire targeted to gather the information about the effectiveness of the Accounting function and relating it to the financial performance of the Sacco.

3.5 Data Analysis

The researcher used both qualitative and quantitative techniques in analyzing data. After receiving the questionnaires from respondents, the responses were edited, classified, coded and tabulated to analyze quantitative data using Statistical Package for Social Science (SPSS). Tables and charts were used to present the data findings. Regression model was used to establish the relationship between variables. Content Analysis on Qualitative issues was adopted to generalize results. Regression Analysis is a statistical technique that can be used to develop a mathematical equation showing how the variables are related. In regression methodology, the variable that is
predicted is called the dependent variable while the variable used to predict the value of the dependent variable is called the independent variable. The Intervening variable is one that would influence the outcome. In this study, the dependent variable is the financial performance of the Sacco while the independent variable is the Accounting functions. In order to examine the relationship between effectiveness of Accounting functions and financial performance of the Sacco, the regression equation of the form given below shall be applied;

\[ Y = \beta_0 + \beta_1(X_1) + \beta_2(X_2) + \beta_3(X_3) + \beta_4(X_4) + \beta_5(X_5) + \alpha \]

where;

- \( Y \) is the Financial Performance which is measured by Return on Assets (ROA).
- \( X_1 \), is Budgeting
- \( X_2 \), is Balance sheet review
- \( X_3 \), is Internal Audit function
- \( X_4 \), is Credit Risk Management
- \( X_5 \), is Working Capital Management

\( \beta_1 \text{ – } \beta_5 \), are coefficients of independent variables

\( \beta_0 \), is the constant term, \( \alpha \), is the error term
CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter looks at data analysis and findings, summary of findings and interpretations. Specifically, it gives a breakdown of how deposit taking Sacco’s in Nairobi has embraced accounting practices mainly budgeting, review of balance sheet, internal audit, credit management, and management of working capital. It finally provides an analysis of the relationship between the financial performance of these Sacco’s and accounting practices.

4.2 Data Analysis and Findings

4.2.1 Findings on Accounting functions and Financial Performance

The table below summarizes findings on accounting practices and financial performance of deposit taking Sacco’s in Nairobi. There are twenty six deposit taking Sacco’s in Nairobi who formed the population of study. Out of these, 19 Sacco’s responded to questionnaires administered to them representing 73% response rate. For purposes of protecting confidentiality, the individual names of the Sacco’s have been shelved.
Table 1: Mean Scores for Various Accounting functions

<table>
<thead>
<tr>
<th>Sacco</th>
<th>Mean Score for Various Accounting Function</th>
<th>Financial Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budgeting</td>
<td>Review of Balance Sheet</td>
</tr>
<tr>
<td>1</td>
<td>0.32</td>
<td>0.41</td>
</tr>
<tr>
<td>2</td>
<td>0.41</td>
<td>0.34</td>
</tr>
<tr>
<td>3</td>
<td>0.26</td>
<td>0.85</td>
</tr>
<tr>
<td>4</td>
<td>0.58</td>
<td>0.47</td>
</tr>
<tr>
<td>5</td>
<td>0.87</td>
<td>0.68</td>
</tr>
<tr>
<td>6</td>
<td>0.42</td>
<td>0.14</td>
</tr>
<tr>
<td>7</td>
<td>0.89</td>
<td>0.69</td>
</tr>
<tr>
<td>8</td>
<td>0.60</td>
<td>0.52</td>
</tr>
<tr>
<td>9</td>
<td>0.47</td>
<td>0.65</td>
</tr>
<tr>
<td>10</td>
<td>0.30</td>
<td>0.44</td>
</tr>
<tr>
<td>11</td>
<td>0.45</td>
<td>0.51</td>
</tr>
<tr>
<td>12</td>
<td>0.71</td>
<td>0.82</td>
</tr>
<tr>
<td>13</td>
<td>0.15</td>
<td>0.47</td>
</tr>
<tr>
<td>14</td>
<td>0.36</td>
<td>0.26</td>
</tr>
<tr>
<td>15</td>
<td>0.52</td>
<td>0.45</td>
</tr>
<tr>
<td>16</td>
<td>0.23</td>
<td>0.14</td>
</tr>
<tr>
<td>17</td>
<td>0.47</td>
<td>0.23</td>
</tr>
<tr>
<td>18</td>
<td>0.84</td>
<td>0.63</td>
</tr>
<tr>
<td>19</td>
<td>0.32</td>
<td>0.21</td>
</tr>
</tbody>
</table>
4.2.2 Balance Sheet Review Function.

Balance sheet review is one of the key accounting practices. In this study, five aspects of balance sheet review practices were studied. They include; structured review of the balance sheet, review of assets and liabilities, monitoring of the effect of inflation and foreign exchange fluctuations, analysis and interpretation of balance sheet ratios and revaluation of assets. On a scale of 0-1, where 0 means no review at all on the balance sheet and 1 means review is done on the balance sheet the study found the following results.

Table 2: Mean Scores on Elements of balance sheet reviews

<table>
<thead>
<tr>
<th>Element of Balance Sheet Review</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structured Review of Balance Sheet</td>
<td>0.33</td>
<td>0.49</td>
</tr>
<tr>
<td>Review of Assets and Liabilities</td>
<td>0.33</td>
<td>0.49</td>
</tr>
<tr>
<td>Monitoring Inflation and Foreign Exchange Fluctuations</td>
<td>0.50</td>
<td>0.51</td>
</tr>
<tr>
<td>Analysis and Interpretation of Balance Sheet Ratios</td>
<td>0.39</td>
<td>0.50</td>
</tr>
<tr>
<td>Revaluation of Assets</td>
<td>0.61</td>
<td>0.50</td>
</tr>
</tbody>
</table>
4.2.3 Budgeting Function

Budgeting practices of Sacco’s was studied along seven key elements. They include; preparation of budgets, establishment of budget committees, approval of budgets, analysis of budget variance, number of times budget variances are analyzed, communication of budget variances to budget holders and lastly implementation of action points of budget variances. On a scale of 0-1, the study found the following.
Table 3: Mean Scores on elements of budgeting

<table>
<thead>
<tr>
<th>Element of Budgeting</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structured Preparation of Budgets</td>
<td>0.50</td>
<td>0.51</td>
</tr>
<tr>
<td>Presence of Budget Committees</td>
<td>0.55</td>
<td>0.51</td>
</tr>
<tr>
<td>Approval of Budgets</td>
<td>0.58</td>
<td>0.50</td>
</tr>
<tr>
<td>Analysis of budget variances</td>
<td>0.50</td>
<td>0.50</td>
</tr>
<tr>
<td>Communication of budget variances</td>
<td>0.51</td>
<td>0.51</td>
</tr>
<tr>
<td>Implementation of action points on budget variances</td>
<td>0.51</td>
<td>0.51</td>
</tr>
</tbody>
</table>

Chart 2: Budgeting function results
4.2.4 Internal Audit Functions

The aspects of internal audit practices studied were; the presence of internal audit function and internal audit committee. The findings are summarized in the table below.

Table 4: Mean scores on elements of Audit functions

<table>
<thead>
<tr>
<th>Element of Internal Audit Function</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Presence Internal Audit function</td>
<td>0.50</td>
<td>0.51</td>
</tr>
<tr>
<td>Presence of Internal audit Committee</td>
<td>0.38</td>
<td>0.50</td>
</tr>
</tbody>
</table>

Chart 3: Elements of Internal audit Function
4.2.5 Working Capital Practices

Working Capital practices were measured based on two aspects; whether the Sacco has credit terms for its products and whether it provides for bad and doubtful debts/provisions on non-performing loans. The findings are summarized below.

Table 5: Mean Scores on elements of Working Capital practices

<table>
<thead>
<tr>
<th>Working Capital Practice</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities have well defined credit terms</td>
<td>0.50</td>
<td>0.51</td>
</tr>
<tr>
<td>Provisions are made for doubtful debts/Non-performing Loans.</td>
<td>0.38</td>
<td>0.50</td>
</tr>
</tbody>
</table>

Chart 4: Elements of Working Capital practices
4.2.6 Credit Management Practices

The study focused on four aspects of credit management namely: availability of credit control department, credit evaluation committee, insistence on full guarantee of loans, and performance of checks on ability to repay loans. The findings are summarized as shown below.

**Table 6: Mean scores on Credit Management Practices**

<table>
<thead>
<tr>
<th>Credit Management Practices</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of Credit Control Department</td>
<td>0.52</td>
<td></td>
</tr>
<tr>
<td>Availability of Credit Evaluation Committee</td>
<td>0.54</td>
<td></td>
</tr>
<tr>
<td>Insistence on full guarantee of the loan</td>
<td>0.55</td>
<td></td>
</tr>
<tr>
<td>Checks on ability to repay loan</td>
<td>0.44</td>
<td></td>
</tr>
</tbody>
</table>

**Chart 5: Elements of Credit Management Practices**
4.2.7 Comparison of Practices among various Accounting Functions

The table below gives a summary of how Sacco’s practice various accounting functions.

Table 7: Comparison of Various elements of the function

<table>
<thead>
<tr>
<th>Accounting Function</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of Balance Sheet</td>
<td>0.43</td>
</tr>
<tr>
<td>Internal Audit Function</td>
<td>0.44</td>
</tr>
<tr>
<td>Credit Management</td>
<td>0.51</td>
</tr>
<tr>
<td>Working Capital Management</td>
<td>0.44</td>
</tr>
<tr>
<td>Budgeting Function</td>
<td>0.33</td>
</tr>
</tbody>
</table>

Chart 6: Comparison of Various elements of the functions
4.3 Results of Regression Analysis

The study sought to determine the relationship between financial performance and Accounting functions/practices. The dependent variable was financial performance measured by Return on Assets (Y) while the independent variables were the various accounting functions that are namely; Budgeting ($X_1$), Review of Balance Sheet($X_2$) internal audit function ($X_3$), Credit management practices ($X_4$) and Working Capital Management Practices($X_5$). The results of regression analysis are summarized in the table below.

**Table 8: Results of Regression Analysis**

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Sig (p-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>0.45</td>
<td>1.78</td>
</tr>
<tr>
<td>Budgeting ($X_1$)</td>
<td>0.59</td>
<td>0.64</td>
</tr>
<tr>
<td>Balance Sheet Review ($X_2$)</td>
<td>0.01</td>
<td>0.73</td>
</tr>
<tr>
<td>Internal Audit ($X_3$)</td>
<td>-0.48</td>
<td>0.78</td>
</tr>
<tr>
<td>Working Capital Management($X_4$)</td>
<td>0.39</td>
<td>0.93</td>
</tr>
<tr>
<td>Credit Management ($X_5$)</td>
<td>1.61</td>
<td>1.39</td>
</tr>
</tbody>
</table>

**Model Summary**

<table>
<thead>
<tr>
<th>R</th>
<th>R-Square</th>
<th>Adjusted R-Square</th>
<th>Standard Error of Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.46</td>
<td>0.21</td>
<td>0.01</td>
<td>0.43</td>
</tr>
</tbody>
</table>
Anova Table

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig (P-value)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.657</td>
<td>5</td>
<td>0.13</td>
<td>0.71</td>
<td>0.63</td>
</tr>
<tr>
<td>Residual</td>
<td>2.410</td>
<td>13</td>
<td>0.19</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>3.066</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.4 Summary of Findings and Interpretation

4.4.1 Accounting Practices by Deposit Taking Sacco’s in Nairobi

The study sought to determine the relationship between financial performance and accounting practices among deposit taking Sacco’s in Nairobi. Accounting functions studied were budgeting, review of balance sheet, internal audit, credit management, and management of working capital.

Budgeting practices studied were preparation of budgets, establishment of budget committees, approval of budgets, analysis of budget variance, number of times budget variances are analyzed, communication of budget variances to budget holders and lastly implementation of action points of budget variances. The study found that the most widely practiced element of budgeting is approval of budgets which was practiced by 58% of the respondents. 55% of the Sacco’s have budget committees while 51% of the Sacco’s communicate budget variances to budget holders. The study also found that 51% of the Sacco’s implement action points on budget variances. The study however found that only 50% of the Sacco’s prepare formal budgets.
Structured review of the balance sheet, review of assets and liabilities, monitoring of the effect of inflation and foreign exchange fluctuations, analysis and interpretation of balance sheet ratios and revaluation of assets were the practices examined under the balance sheet function. The study found that 61% of the Sacco’s carry out revaluation of Assets, 50% monitor inflation and foreign Exchange fluctuations while 39% Analyze and interpret balance sheet ratios. The least practices embraced by Sacco’s were performing a structured review of balance sheet and review of assets and liabilities. These were practiced by 33% of the respondents respectively.

Internal audit function was studied by examining two key elements; presence of internal audit function and internal audit committee. The study found that 50% of the deposit taking Sacco’s in Nairobi had internal audit functions. However, only 38% of the Sacco’s with internal audit functions had internal audit committees. The study also examined working capital practices and found that 50% of the Sacco’s had ell defined credit terms while only 38% of them made provisions for doubtfull debts/non-performing loans.

In terms of credit management practices the study found that 55% of the Sacco’s insist on full guarantee for the loan while 54% had credit evaluation committees in place. 52% of the respondents said they have credit control department while 44% perform checks on ability of loanees to repay the loan.

In general, deposit taking Sacco’s in Nairobi was found to embrace credit management practices the most with a performance mean index of 0.51. internal audit function and working capital management had a performance mean index of 0.44. The least embraced accounting practice was found to be budgeting with a mean performance index of 0.33. Review of balance sheet had a mean performance index of 0.43.
4.4.2 Regression Analysis

The purpose of the study was to determine the relationship between accounting practices and financial performance of deposit taking Sacco’s in Nairobi County. The dependent variable was financial performance measured by Return on Assets (Y) while the independent variables were the various accounting functions that are namely; Budgeting (X₁), Review of Balance Sheet (X₂), internal audit function (X₃), Credit management practices (X₄) and Working Capital Management Practices (X₅).

The study found a positive relationship between ROA and budgeting, balance sheet review, working capital management and credit management functions of accounting. The study however found that internal audit functions have a negative relationship with ROA. Despite there being a relationship between ROA and all the accounting functions under study, the relationship was found to be insignificant at 5% level of significance.

The study found $\beta_0$ to be 0.45 implying that Sacco’s would generally achieve a ROA of 0.45% without embracing any of the accounting practices. An improvement in budgeting practices by a mean performance index of 1 would increase ROA by 0.59% as indicated by a $\beta$eta of 0.59. The $\beta$eta values for balance sheet review, internal audit, working capital management and credit management are 0.01, -0.48, 0.39 and 1.61 respectively. This implies that an improvement in balance sheet review practices, working capital management practices and credit management practices would increase ROA by 0.01%, 0.39% and 1.61% respectively. An improvement in internal audit function by 1 performance index would however reduce ROA by 0.48%. The p-value for the variables were found to be 0.37, 0.99, 0.55, 0.68 and 0.27. These p-values are all greater than
0.05 which is the level of significance. This means that the relationship between ROA and all the studied accounting functions are insignificant at 5% level of significance.

The model summary shows that Square is 0.21 implying that only 21% of the changes in ROA can be attributed to changes in the practice of accounting functions studied. The equation for the model is summarized below.

\[ Y = 0.45 + 0.59X_1 + 0.01X_2 - 0.48X_3 + 0.39X_4 + 1.61X_5 + \varepsilon \]
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary, conclusions of the study and recommendations, limitations of the study and suggestions for further research.

5.2 Summary of the Study

The purpose of this study was to determine the relationship between financial performance and Accounting practices of deposit taking Sacco’s in Nairobi. Accounting practices examined in the study include those that facilitate budgeting, review of balance sheet, internal audit function, working capital management and credit management. Budgets are a critical performance control tool because management will possibly have a measure of performance by comparing targeted results with actual results achieved. Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Balance sheet reviews entails a detailed analysis of items stated as company assets and liabilities at a particular point in time. Other than Debtors, Creditors and Cash, there are other balance sheet items that should be analyzed. Effective management of accounts receivable presents important opportunities for
companies to achieve strategic advantage through improvements in customer service, cash management and reductions in costs. Credit risk is most simply defined as the potential that a bank or a Sacco borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize a bank’s risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters.

In this study, Causal research design was used. The population of study comprised all deposit taking Sacco’s in Nairobi County. Primary data was collected using questionnaires that were dropped at the respondent’s premises and collected thereafter. Regression analysis was used to analyze the relationship.

The study found that most widely practiced element of budgeting is approval of budgets which was practiced by 58% of the respondents. 55% of the Saccos have budget committees while 51% of the Sacco’s communicate budget variances to budget holders. 61% of the Sacco’s carry out revaluation of Assets, 50% monitor inflation and foreign Exchange fluctuations while 39% Analyze and interpret balance sheet ratios. Other findings were that 50% of the deposit taking Sacco’s in Nairobi had internal audit functions out of which only 38% of the Sacco’s with internal audit functions had internal audit committees. The study also examined working capital practices and found that 50% of the Sacco’s had well defined credit terms while only 38% of them made provisions for doubtful debts / non-performing loans. In terms of credit management practices the study found that 55% of the Sacco’s insist on full guarantee for the loan while 54% had credit evaluation committees in place. 52% of the respondents said they have credit control department while 44% perform checks on ability of loanees to repay the loan. Regression analysis found a positive relationship between ROA and all other accounting functions studied except internal au-
dit function that has a negative relationship. The relationship was however found to be insignifi-
cant.

5.3 Conclusions and Recommendations

5.3.1 Conclusions

The study sought to determine the relationship between financial performance and accounting
functions of deposit taking Sacco’s in Nairobi County. Financial performance as measured by
ROA was the dependent variable while accounting functions as measured by practices in budget-
ing, balance sheet review, internal audit function, credit management and working capital man-
age ment comprised the independent variables. Regression analysis found no significant relation-
ship between ROA and the studied accounting functions. The study therefore concludes that ac-
counting functions are not significant determinants of financial performance of deposit taking
Sacco’s in Nairobi County.

5.3.2 Recommendations

The study sought to determine the relationship between financial performance and accounting
functions of deposit taking Sacco’s in Nairobi County. The analysis found no significant rela-
tionship between ROA and the studied accounting functions. With this finding in mind, the re-
searcher recommends that managers of deposit taking Sacco’s in Nairobi county need to review
their emphasis and amount spent in strengthening accounting functions since they do not signifi-
cantly influence the financial performance of these Sacco’s.
5.3.3 Limitations of the Study

The researcher used questionnaires to obtain primary data on ROA and accounting practices of the deposit taking Sacco’s under study. While measures were taken to secure the credibility of the data, the researcher acknowledges that the accuracy of the data was largely dependent on the respondent’s honesty.

The researcher further acknowledges that there are many practices in performing accounting functions and that due to time and resource constraints all of these practices were not examined in the study. In fact the study focused only on the year 2013. Had this been included and duration of the study increased in the study, the findings would probably be different.

5.3.4 Suggestions for Further Research

The study sought to determine the relationship between financial performance and accounting functions of deposit taking Sacco’s in Nairobi County. The study found no significant relationship between financial performance and accounting functions. The researcher however focused on the year 2013 only as the duration of study. The researcher therefore recommends that the study be replicated but the duration of study be increased to five years.
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APPENDICES

APPENDIX 1: QUESTIONNAIRE

APPENDIX2: DEPOSIT TAKING SACCOS IN NAIROBI
APPENDIX 1: QUESTIONNAIRE

This questionnaire is designed to collect information on the effectiveness of the accounting function and relates it to the financial Performance of this SACCO. The information obtained will only be used for academic purposes and shall be treated with confidence.

We shall evaluate the following accounting functions of your SACCO which will enable the researcher to measure the effectiveness of the accounting department

- BALANCE SHEET REVIEWS
- WORKING CAPITAL MANAGEMENT
- INTERNAL AUDIT FUNCTION
- BUDGETING
- CREDIT RISK MANAGEMENT

BALANCE SHEET REVIEW

1. Do you have a structured balance sheet review process in your organization
   Yes ( )  No ( )

2. Who is in charge of the balance sheet process?

3. Do you review all the Assets and Liabilities in your balance sheet?
   Yes ( )  No ( )

4. Do you revalue Assets that are fully depreciated to reflect Current Market value?
   Yes ( )  No ( )

5. Do you asses and monitor the effects of inflation, forex fluctuations on outstanding loans in your records?
   Yes ( )  No ( )

6. Is there someone responsible for analyzing and interpreting all the balance sheet ratios in your organization
   Yes ( )  No ( )

WORKING CAPITAL MANAGEMENT

1. What are the credit terms with your customers?
   a) 30 days  b) 45 days  c) 60 days  d) None
2. Kindly indicate the balance in your Aged Debtors reports under the following categories;
   a) Current
   b) 30 days
   c) 60 days
   d) 90 days
   e) 91 days +

3. Do you have provide for Bad and doubtful debts (Non Performing Loans) in your books?
   Yes (   )   No (   )

4. If yes, how much is it in KSH as per your latest Audited Accounts?

5. What are the Credit terms with your Creditors?
   a) 30 days   b) 45 days   c) 60 days   d) None

6. Kindly indicate the balance in your Aged Creditors reports under the following categories;
   a) Current
   b) 30 days
   c) 60 days
   d) 90 days
   e) 91 days +
INTERNAL AUDIT FUNCTION

1. Do you have an internal Audit function in your Sacco?
   Yes (  )    No (  )

2. If yes, do you have an Internal Audit Committee?
   Yes (  )    No (  )

3. If an Internal Audit exists, what is the title of the most senior person in Internal Audit?

4. Who does this person report to in your organization?

5. Who is responsible for hiring and firing the head of Internal Audit?

BUDGETING

1. Do you prepare budgets in your Sacco?
   Yes (  )    No (  )

2. If yes, do you have a budget committee?
   Yes (  )    No (  )

3. Who is responsible for Budget preparation in your Organization?

4. Are these budgets approved or not?
   Yes (  )    No (  )

5. If yes, who is responsible for approval of the budgets?
6. Do you perform an analysis of Budget Versus Actual results (Variance Analysis)?
   Yes (   )     No (   )

7. If yes, who prepares the variance Analysis reports?
   __________________________________________________________

8. How often are these variance analyses done?
   __________________________________________________________

9. Are the variances communicated by the most senior person in the Sacco to budget holders and Action sought?
   Yes (   )     No (   )

10. Are these Action points followed up in the subsequent periods to see if they are implemented?
    Yes (   )     No (   )

CREDIT RISK MANAGEMENT

1. Do you have a Credit Control department in your Sacco?
   Yes (   )     No (   )

2. If yes, do you have a credit evaluation committee in your Sacco?
   Yes (   )     No (   )

3. What is the title of the most senior person in credit control department?
   __________________________________________________________

4. To whom does this person report to?
   __________________________________________________________
5. Do you insist on full guarantees before approving loans?
   Yes ( )        No ( )

6. Do you check the ability of the borrower to repay loans if granted?
   Yes ( )        No ( )

7. Do you check their pay slips before approving the loan?
   Yes ( )        No ( )

8. If yes, how many months’ pay slips would you request the borrower to provide?

9. What is the amount of Total Customer deposits in your books?

10. What is the amount of Total Loans to Customers in your books?

11. What is the amount of Non Performing Loans in your books (if any)?

   Thank you for the time you took to answer the questions in this Questionnaire.
APPENDIX 2: List of Licensed Deposit Taking SaccoS by SASRA
As at December 2013 in Nairobi County

1. Stima Sacco, Nairobi
2. UN Sacco, Nairobi
3. Wakenya Pamoja Sacco, Nairobi
4. Chai Sacco, Nairobi
5. Nacico Sacco, Nairobi
6. Mwito Sacco, Nairobi
7. Comoco Sacco, Nairobi
8. Mwalimu National Sacco, Nairobi
9. Wanandege Sacco, Nairobi
10. Kenya Police Staff Sacco, Nairobi
11. Nation Staff Sacco, Nairobi
12. Orthodox Development Sacco, Nairobi
13. Kingdom Sacco, Nairobi
14. Afya Sacco, Nairobi
15. Harambee Sacco, Nairobi
16. Jamii Sacco, Nairobi
17. Sheria Sacco, Nairobi
18. Asili Sacco, Nairobi
19. Safaricom Sacco, Nairobi
20. Kenpipe Sacco, Nairobi
21. Airports Sacco, Nairobi
22. Chuna Sacco, Nairobi
23. Ukulima Sacco, Nairobi
24. Wana-Anga Sacco, Nairobi
25. Naku Sacco, Nairobi
26. Waumini Sacco, Nairobi