

**THE RELATIONSHIP BETWEEN FINANCIAL MANAGEMENT  
PRACTICES AND FINANCIAL PERFORMANCE OF SAVINGS  
& CREDIT CO-OPERATIVES SOCIETIES IN NAIROBI COUNTY-  
KENYA.**

**BY**

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THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF  
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## DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

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## **DEDICATION**

I wish to dedicate this work, first and foremost, to the almighty God, for the gift of life, his grace and endless love.

And

To my wife lilian and my daughters, Sharlottee and Shantel, for your patience, tolerance and understanding. Also to all my friends, thank you very much.

And

To mother for your parental love and support and to all my brothers for your understanding, support and encouragement, it means a lot to me. Thank you for being there for me during the long hours of struggle while doing this work. I love you all and God bless you abundantly.

## **LIST OF ABBREVIATIONS**

IT :	Information Technology
KUSCCO:	Kenya Union of Savings and Credit Cooperative
SACCOS:	Savings and Credit Cooperative Societies
SASRA:	SACCO Society Regulation Authority
WOCCU:	World Council of Credit Unions

## **ABSTRACT**

The study was set to establish the relationship between financial management practices and financial performance of savings and credit cooperative society (SACCOS) in Nairobi County, Kenya. The study adopted survey design and primary data was collected using questionnaires. The data was analyzed using frequencies, percentage means, and regression and correlation analysis.

The study found out that most Saccos have financial management policies that they use in their day to day operations. These policies were related to how profitable these Saccos were depending on how the management has applied them. It was noted that Saccos have emphasized on profitability and most of them have put the best policies that have led to growth in the stakeholder's wealth. Cash management and investing in profitable venture like real estates and marketable securities have become common in the Saccos in their endeavor to create wealth.

The study used regression analysis to find the relationship between financial planning, control, working capital management, segregation of duties in finance function, Sacco management philosophy on operating styles and Sacco profitability. Forecasting model was developed of this significant ( $R^2 = 78.9\% >70\%$ ). All the independent variables were also individually linearly related with the dependent variable thus a model of four predictor variables was used to rate the profitability of saccos in Nairobi county in Kenya. The study found out that the key policies on optimal cash utilization and investments played a major role in good financial performance of Saccos.

The study concluded that Sacco financial management practices are closely related to the Sacco financial performance. Several policies which are varied depending on the nature of the Sacco are in place to ensure better financial results of the institution. From the study it was recommended that further research should look at the relationship between Sacco financial management practices and the Sacco movement growth in Kenya.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

#### **1.1.1 Financial Management Practices**

Financial management comprises the processes, systems, internal controls and practices relating to the way the institutions manage revenues, expenses, assets, liabilities and contingencies. This also involves managing risks and monitoring the financial performance; including budgeting and reporting on these functions both internally and externally (Queens land financial Practice Manual, 2012). Financial management culture of an organization starts with the actions of executive director, but it is fully realized in the design of the business process that the organization adopts (Rosenberg, 2003).

Financial management is one of the basic functions practiced in all organizations .it is the way forward and represent the best practice in the organizations that want to add value to their stakeholders. Financial plans determines cash flow and outflows of the treasury, at time some organization have merged the finance management and administration functions hence titles like Finance and administration manager (Brock et al, 1990).

#### **1.1.2 Financial Performance**

The Business results related to an organization financial health, such as revenues, expenses, and profits constitute the financial performance (harvard.wsi.com). A measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a

general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms.

There are many different ways to measure financial performance, but all measures should be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used, as well as total unit sales. Furthermore, the analyst or investor may wish to look deeper into financial statements and seek out margin growth rates or any declining debt.

Measuring the financial performance can be done by evaluating various aspects of the organization. It involves computing various ratios and analyzing to come up with a comparative data for given period, the measures includes, liquidity measure, profitability measures, solvency measures, repayment capacity, financial efficiency among other critical financial aspects.

It has been said that you must measure what you expect to manage and accomplish. Without measurement, you have no reference to work with and thus, you tend to operate in the dark. One way of establishing references and managing the financial affairs of an organization is to use ratios. Ratios are simply relationships between two financial balances or financial calculations. These relationships establish our references so we can understand how well we are performing financially. Ratios also extend our traditional way of measuring financial performance; i.e. relying on financial statements. By applying ratios to a set of financial statements, we can better understand financial performance (Matt,2000)

### **1.1.3 Financial Management Practices and Financial Performance**

The two concept work in tandem, the result of any organization will always be measured in financial terms and for that organization to achieve the best result the best practices of financial management must come into play.

The net multiplier represents the actual revenue generated by the firm, expressed as a percentage of total direct labor. Therefore when the net multiplier is greater than the break-even rate, the firm is earning a profit else the firm will be losing revenue (Wintner, 2006). The overall financial success of the organisation will always rely on how the financial policies and practices are put in place.

Financial literature reviews suggest that optimal application and commitment towards financial management practices result in an increased organization performance which usually equated to the financial results. The financially well managed organizations are operationally efficient (Jensen, 1976).

Investment appraisal is one of the important areas of financial management practices (Sangster, 1993). When the organization chooses the best technique of investment appraisal it will lead to better financial performance.

#### **1.1.4 SACCOS Financial Management Practices and Financial Performance.**

According to Session Paper No. 6 of 1997 on “Cooperatives in a Liberalized Economic Environment”, Financial Management policies and practices of Savings & Credit Cooperatives (SACCOS), like any other cooperative, are generally subsumed within the cooperative principles such as voluntary and open membership, Democratic Control, Economic Participation, and concern for community among others.

The Principle of Democratic Control requires that the affairs of the SACCO be administered by persons elected or appointed in a manner agreed by members. Thus, in directing and managing the affairs of the SACCOS, management committees hold positions of trust; they are expected to account for all the funds and other resources in their care by keeping accurate records and accounts (Kenya economic survey, 1999).

Savings and credit cooperatives in Kenya emerged in the 1970's, initially in the main urban centers, with a major objective of mobilizing savings of their members and enabling them to get loans. Today SACCOS act as small Savings Banks, except they don't accept general deposits, and are among the most successful cooperatives in the country.

These institutions play a crucial role towards mobilization of domestic financial resources for general economic development and poverty alleviation. By the close of 1998 they accounted for 38.10% of the total number of cooperatives in the country; they recorded a whopping 41.30%



growth between 1991 and 1998, with an average growth rate of 5.10% per annum (Session Paper No. 6, 1997). As at year 2010, kshs. 210 billion Kenyan shillings in total assets.

The Kenya Sacco sector has come of age ready to effectively play its role of financial provision to Kenyans. The Sacco subsector form part of the massive Kenyan co-operative movement comprising of both financial and non-financial cooperative. Saccos represent the financial cooperatives whole non financial cooperatives include dairy, livestock, coffee, fishermen, housing, multipurpose and many others which have made their indelible mar to the lives of Kenyans (Kenya economic survey, 1966).

Being the largest in Africa, Saccos control 67% of the total geographical distribution across Kenya. In all the 47 counties there exist numerous Saccos providing financial access to hitherto financially excluded Kenyans. As envisioned in Kenya's development blueprint, vision 2030, Saccos are already playing their critical role of savings mobilization for investment. Many rural and urban Kenyans now own homes and other business enterprises courtesy of funds through their SACCOS (Kenya development plan, 2001).

These statistics reflect the important role played by SACCOS in the mobilization of domestic savings and in the provision of credit to its members. SACCOS encourage thrift, promote creation of local financial networks, and increase availability of credit and market information to small entrepreneurs and other medium and low- income employees. By encouraging entrepreneurial activity they stimulate local multipliers, mobilize capital and develop business innovation and enthusiasm in its members (Session Paper No. 6, 1997).

SACCOS are legally constituted body corporate organizations under the Cooperative Societies Act. They are created to meet the basic financial needs of the primarily low and middle-income citizens, who generally cannot obtain these services through the existing banking system. They provide the means to learn the value of regular savings and wise use of credit. They are a form of economic empowerment based on the individual members' ability to control and manage their own financial affairs (Sekaren, 1999).

Membership eligibility in a SACCO is usually defined in terms of some common affiliation such as employment, business or residence. All members are owners of the enterprise and have equal privileges, opportunities and responsibilities. Typically, the SACCO only accepts deposits from and grants loans to members. Each member has one vote in the election of management committee members, who serve in an unpaid voluntary capacity (Sekaren, 1999).

During the initial period of their establishment, SACCOS can be operated using relatively unsophisticated administrative and financial practices, so that costs are very small and practically all interest income from loans may either be distributed to the members, re-invested in the society within a capitalization program, or both. When combined with member confidence this allows the SACCOS to mobilize considerable amounts of capital from the apparently capital scarce environment (Pandey, 1999).

Due to their small size, SACCOS at the initial stage have proved to have a comparative advantage over other financial intermediaries due to their access to "inside" information about their members. This information serves to control the transactions costs related to the credit

decisions and has allowed them to effectively serve their low and middle-income members with credit services, which the commercial banking institutions are unable to serve (Puxty et al, 1991).

As SACCOS expand their membership and capital base, more sophisticated operating and lending practices must be introduced because the SACCOS can no longer rely on the preferential access to the members' "inside" information. Their business becomes highly technical and requires the application of modern business and financial management concepts and approach. The cooperative will require a strong, enlightened and committed leadership capable of applying modern business practices based on transparency and accountability to all its stakeholders. Further, it must invest in more sophisticated financial technologies or to any other financial intermediary since the source of its principal competitive advantage disappears with growth (Mac Menamin, 1999).

In addition, decision-making processes must be made more efficient and relatively large investments must be made in information technology (IT). Additional investments must be made in the development of financial products and services, as well as in human capital in order to remain competitive as the private commercial banking and micro-finance institutions begin to penetrate the Sacco's traditional market segments. Saccos must however, operate in a manner that does not compromise cooperative rules and concern for the community (Mac Menamin, 1999).

The national organization for Urban SACCO societies is the Kenya Union of Savings and Credit Cooperatives (KUSCCO). The union promotes the growth and development of the SACCO movement through the various mandates given to it by the members. To encourage the spirit of financial cooperation among its members, KUSCCO, through its Central Finance Fund provides access to secure savings and credit to member SACCOS on mutually agreed concessionary terms and conditions (Dixon et al., 1984).

The SACCOS in turn provide credit to its individual members at equally reasonable terms. In so doing the SACCO movement enables its members to avoid dependence on money lenders and permanent indebtedness. KUSCCO further provides insurance services to members through its Risk Management Programme. SACCOS are of particular importance to women because they allow them to manage their own financial affairs and obtain credit for their own business ventures and emergencies. In a nutshell SACCOS play a major role in the country's financial sector, hence the need for prudent financial and other resources management (Dixon et al., 1984).

## **1.2 Research Problem.**

Good financial management practices of an organization can enhance its liquidity, performance and improve profitability. The management must maintain a balance between the amount of the various financial resources in order to achieve stability, performance and profitability. This study will endeavor to define financial management, planning and controls, discuss the various financial management models and establish the extent to which these models are used by SACCOS in Kenya. The study will also attempt to ascertain whether there is a relationship between a SACCOS financial management practices and its performance (Gibbs, 1976).

Amongst the financial management models to be discussed and whose extent of use in SACCOS is to be ascertained include: Baumol Model (1952); Miller-Orr Model (1966); Beranek Model (1963); Lockyers Model (1973); and Simulation Models. This is important because SACCOS basically hold financial resources either in cash deposits, loans balances, short-term securities, and tangible assets, which require to be well managed. It is through prudent financial management practices and policies that SACCOS will be in a position to effectively discharge the financial services to its members (Horngren, 1986).

According to SASRA, Kenya SACCOS have total asset of 210 billion and continues to play a major role in financial provision. The uniqueness of the SACCOS is its geographical distribution in all the 47 counties in Kenya. This enables the SACCO to provide the services essential financial services to the poor and middle class Kenya. It's through the SAACOS that this class of people now owns homes and other investments. Kenya being the home for 67% of SACCO's assets in Africa, it will play a major role in economic transformation of Kenya as envisioned in vision 2030 blue print. There is need to have the best financial management practices that will ensure profitability. SACCOS, though not entirely for profit need financial models that will ensure positive return on assets.

SACCOS, contribute a lot to the Kenyan economy. The past research has shown that SACCOS are very important to this country. Literature review reveals that other related studies have been done especially on evaluation of financial performance of SACCOS (Oyoo, 2002). Others related to financial practices, the one on financial management practices by small scale institutions

(Nzirwa, 1997). There is no specific research done on the relationship between financial management practices of SACCOS and their financial performance in Nairobi County. It is for this reasons that researcher set out to establish what the relationship between the financial management practices and the performance of the SACCOS in Nairobi County, Kenya. This study tries to address the problem by answering the question: What is the relationship between the financial management practices of SACCOS and their financial performance?

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

To establish whether financial management practices of SACCO Societies in Kenya affect their financial performance.

#### **1.3.1 Specific Objective**

1. Identify the financial management policies and practices of SACCO in Nairobi County.
2. Establish the relationship between the financial management policies/practices of SACCO Societies in the same County and their financial performance.

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

The results of the study will be useful in the following ways:-

Provide the benefits of prudent financial management policies and practices to management committees and staff of SACCOS who will use the results to improve their society's financial performance.

This research will also assist the policy makers in the governments to come up with more elaborate policies that we lead to a more profitable SACCOS in Kenya.

Scholars and consultants/researchers will use the results as a source of reference in their bid to carry more research in financial management and performance in other sectors of finance.

The study will further stimulate interest among academicians, thus encouraging further research in the subject with a view of building the body of knowledge in the SACCOS which have become major financial intermediaries in the contemporary society.

# **CHAPTER TWO**

## **LITERATURE REVIEW**

### **2.1 Introduction**

This chapter on literature review discusses the nature of financial management practices in relation to financial performance of the SACCOS, various theories on financial management practices and models. It also details the empirical literature review and conclusions drawn.

### **2.2 Theories of Financial Management**

#### **2.2.1 Agency Theory**

Agency theory suggests that the firm can be viewed as a nexus of contracts (loosely defined) between resource holders. An agency relationship arises whenever one or more individuals, called principals, hire one or more other individuals, called agents, to perform some service and then delegate decision-making authority to the agents. According to Bamberg (1987), the primary agency relationships in business are those between stockholders and managers. Norman (1992) adds to include, between debt holders and stockholders.

These relationships are not necessarily harmonious; indeed, agency theory is concerned with so-called agency conflicts, or conflicts of interest between agents and principals. This has implications for, among other things, corporate governance and business ethics. When agency occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship (e.g., offering management performance bonuses to encourage managers to act in the shareholders' interests). Accordingly, agency theory has emerged as a



dominant model in the financial economics literature, and is widely discussed in business ethics texts.

### **2.2.2 Signalling Theory**

This theory involves interpretation and transfer of information about business to capital market. This theory states that cash flow between an organization and capital market depends entirely on flow of information between the two entities (Bamberger, 2008). It is the theory that involves strategies to for organizations and enterprises to effectively demonstrate their capabilities to potential investor. Signaling theory is really effective for business expansion and growth.

### **2.2.3 Pecking Order Theory**

It is the theory that suggests that entrepreneur for business finance needs first utilize retained earnings, then debts and convertible loans (Stewart, 1984). Equity with bankruptcy cost should be the considered as the last option to be selected for capital structure policy. It is estimated that 75% of organizations use pecking order framework to take financial decisions. It is also evaluated that most of the entrepreneurs used retained profit for financial needs of their business. These theories of financial management are applicable and effective to run an organization.

## **2.3 Empirical Literature Review on SACCOS Financial Management Practices and Financial Performance.**

Organization performance encompasses three specific areas of firm outcomes; financial performance (profits, return on assets, return on investment, among others), product market performance and shareholders return. (Richard et al, 2009). In their study the found that the bottom line of all other measures of the financial performance is the financial performance since

it measure the value added to the wealth of the shareholders. Poor or “careless” financial management practices are a major cause of small business failures (Berryman, 1983).

Berryman found out that when reviving the financial practices applied by small organization in United Kingdom, where he discovered that majority lacked the best financial management practices. According to (Peel and Wilson, 1994), if financial management practices in firms could be improved, then fewer firms would fail. In their study they found that only 10% of the organization never used cash budgeting, whereas 33% used .This inefficient in cash management resulted in huge credit balances at the end of the month.

Existing literature already supports the notion that SACCOS serve poor people, even though middle income clients are also among their membership. Varied SACCOS have their own unique financial practices, empirically; studies have shown that the success of a Sacco is measured by its ability to satisfy the member’s financial needs. According to Jonyo (1999), in his study on the urban Sacco’s failure in Nairobi, out of a sample of 200 SACCOS about 60% are financially mismanaged hence cannot meet the member financial needs as an when the fall due.

Survey done by Kamau (2010), found that various SACCOS bench mark their financial performance with other SACCOS. The value of better financial performance by SACCOS has been fully emphasized and the need to ensure the best financial practiced that will ensure optimal financial results. The financial practices show how well that mangers in the organizations are able to integrate various aspects of the organization to come up with best financial performance.

Liquidity is one of the most important consideration of a viable SACCO, according to (WOCCU, 2008) in their survey on the SACCOS best practices, the assert that the most successful Sacco have well managed cash systems which ensures that the members are able to get their service and earn their dividend on their savings. The dynamic changes in the financial world calls for well thought of financial management practices (Kamau, 2010). He argues that the most promising SACCOS have very dynamic financial practices that help them to deal with the volatile financial sector. The best practices of financial management practices need to be well viewed as the cornerstone of the success of any institution (Oyoo, 2006).

Financial performance of the SACCO sector had not been the best for years, though the command over 70% of the saving population in the world. There is still much to do on the better financial practices that will lead to better financial performance. According to Spathis (2002), firm with low profitability have not employed the most efficient financial management practices. The study shows at time the SACCOS pay higher interest rate on the borrowed funds than what the members are charged when they borrow from the SACCOS. This results in poor financial performance.

Loan repayment is a major determinant of how well the Sacco will be able to achieve the best financial results (Nyakundi, 2010). The Sacco that had the best policies on lending was the best in terms of it financial performance. This illustrated by the optimum utilization of members saving for the purposes of generating maximum revenue.

According to ministry of Cooperative of Kenya, as of 2011, the SACCOS had mobilized savings of Ksh. 230 billion in the country and had an asset base in excess Ksh. 250 billion. Statistics of up to June of 2012, held by the SACCO Society Regulatory Authority (SASRA), indicates SACCO members with active loans number about 1.8 million people, compared to the 1.9 million people with bank loans in Kenya.

Capital adequacy in line with best practices for deposit taking financial institutions. The capital is a key measure of safety and soundness of a Sacco and serves to protect or cushion member deposits and creditors against losses resulting from business risks that the SACCO, as a financial institution faces. It there therefore promotes public confidence in the institution (Ademba, 2012). Management information system, which in addition to automating regular Sacco operations facilitates performance monitoring and decision making, regulatory reporting and enforcement of risk management and internal controls will ensure better performance.

The best financial management practice will lead to better operating environment for the organization (Nzirwa, 1997). This was in his study on the selected financial practices of small enterprise based in Nairobi, where he looked at a case of Kenya institute of education. This proves that there is need to integrate the performance of the financial part with the overall performance of any organization.

Evaluating the financial performance of SACCOS is a major concern of the entire stakeholder in the sector. According to Oyoo (2002), in his study on the evaluation of the performance of SACCOS IN Nairobi he found that about 40% of the SACCOS were not active at this was

attributed to the way they coordinate their financial affairs. The practices led to fraudulent issues that led to poor financial performances.

World has continued to enjoy growth in SACCOS. According to the WOCCU, there are close to 200 million members of SACCOS. This continues to grow in more than 100 countries in the world mobilizing billions of dollars in savings. The SACCOS control major resources that have uplifted the life of the poor in the mostly developing world (Richardson, 2002).

According to Lumumba (1994), he noted that on his case study of Mwalimu Saving and Credit Co-operative Society Ltd, Nairobi where a sample of 150 was used. A questionnaire was used in collecting data. The data collected were analyzed by way of tabulation, mean scores, percentages and semantic differential profiles. From the study it was found that, depending on the lending policy in question, members' attitudes varied from positive to negative. Further, it was established that members' satisfaction or dissatisfaction with particular lending policies was not influenced by either salary scale or number of year one had been with the society.

From the findings it was recommended that those policies to which members held negative attitudes be dropped and that the government should withdraw its involvement in the running of day-to-day operations of the savings and credit cooperative societies. This could ensure autonomy of such societies and members' full participation in their management could enhance high savings.

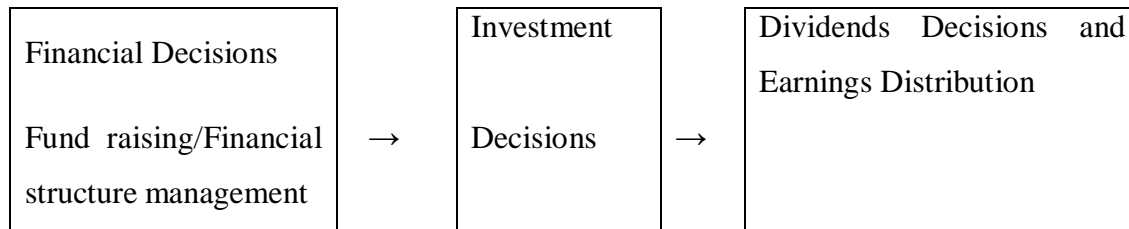
## **2.4 Financial Management Practices**

Financial management is concerned with the management of the financial aspects of an enterprise. It is a management function which encompasses a wide variety of tasks. In carrying out these tasks, the financial function must be integrated carefully with the rest of management functions; it cannot be considered in isolation from the external financial environment (Hulme et al, 1996).

Financial management is defined by the functions and responsibilities of financial managers and it includes the following functions: - Monitoring and analyzing financial condition of the firm, and managing the accounting systems. Managing the accounting systems involves Preparing financial statements and reports, Planning and budgeting; and managing the funds and other resources of the firm (Weston & Copeland, 1992).

Financial management function is concerned with decisions and control over the financial affairs of the enterprise in a crucial, constantly changing and complex environment. According to them the functions can be classified in various ways: - Strategic & operational decisions, Division between Financing and Capital-budgeting decisions, External and internal decisions (Puxty & Colin, 1991).

Thus, financial management may be defined as a process of generating funds, the allocation of these funds to investment opportunities and finally the distribution of the resulting surplus to the owners. This can be presented diagrammatically as hereunder:-



Every business enterprise will seek desirable opportunities that require financial resources. These resources can be acquired by raising or retention of funds by the enterprise. The two aspects of financial management will therefore be the selection of projects in which the enterprise invests and the provision of funds to these projects, i.e. Project evaluation and raising capital.

Several ways of raising capital exist. These are equity, long-term debt and short-term debt. Should the firm raise funds through new equity or on re-invested earnings? If new funds are required, in what form should they be? This will be determined by the desirable level of gearing or leverage.

The other issue to consider is whether the firm should invest in a particular project. This will depend on whether the project would be profitable or not, based on expected economic or cash value. Value maximization will be the optimization of the discounted cash flows from the project assuming either risky or risk-free world.

### **2.4.1 Financial Planning and Control practices**

Financial planning is evaluating the investing and financing options available to an entity. Planning includes attempting to make optimal decisions, projecting the consequences of these

decisions for the firm in the form of a financial plan, and then comparing future performance against that plan (Campbell, 2012).

This is the process of determining a people or entity's financial needs or goals for the future and the means to achieve them. Financial planning involves deciding what investments and activities would be most appropriate under both personal and broader economic circumstances. All things being equal, short-term financial planning involves less uncertainty than long-term financial planning because, generally speaking, market trends are more easily predictable in the short term. Likewise, short-term financial plans are more easily amendable in case something goes wrong as a result of the short time frame (Farlex financial dictionary, 2012).

Planning is useless unless an organization has a control system that ensures implementation of the policies and provides information feedback which permits rapid adjustments as market conditions change. The basic tools of financial controls are budgetary control and financial statements analysis.

Budgetary controls will target annual operating budgets and capital budgets. On the other hand financial statement analysis will involve the assessment of the organizations past, present and future anticipated financial condition. The objectives are to identify any weaknesses in the firm's financial position that could lead to future problems and to determine any strength, which the firm may capitalize on (Van Horne, 1997).



The basic inputs to **financial analysis** are the firm's income Statement and Balance sheet. Financial ratios comprise the principal tool of financial analysis and provide relative measure of the company's performance. The objective is to standardize financial information to facilitate meaningful comparisons.

The comparisons may use cross-sectional (i.e. different ratios at the same point in time) approach or Time-series analysis (or performance over time).

#### **2.4.2 Working Capital Management practices.**

Working capital management is concerned with the management of the firm's current accounts (i.e. current assets and current liabilities) which is considered as one of the most important aspects of the firm's overall financial management. This is so because if a firm fails to maintain a satisfactory level of working capital it can easily become insolvent and most likely may go into bankruptcy. In order to maintain a reasonable margin of safety, the firm's current assets should be large enough to cover current liabilities (Baumol, 1952).

The goal of working capital management is to manage each of the firm's current assets and current liabilities in such a way that an acceptable level of working capital is maintained. To achieve this goal, each of the current assets must be managed efficiently to maintain the firm's liquidity. At the same time each of the current liabilities must be cautiously managed to ensure that they are obtained and used in the best way possible.

Underlying the use of liquidity ratios to measure the firm's liquidity is the belief that the greater the margin by which the current assets cover short-term obligations the more the firm will be

able to pay its bills as they fall due. However, a problem arises because each current asset and current liability has a different degree of liquidity associated with it leading to the need for some level of net working capital.

### **2.4.3 Cash Management practices**

Cash management is concerned with the management of cash flows (inflows and outflows) and the cash balances held by the firm at one point in time.

Proper cash flow management implies the speeding up of collections and slowing disbursements. On the other hand cash balances management is concerned with the determination of optimal cash balances which involves risk/return considerations. While maintenance of inadequate cash level has the prospect of technical insolvency excessive holding of cash will result to fewer returns because cash held in current accounts will ordinarily not earn interest.

According to Pandey (1999) cash is the basic input needed to keep the business running and the ultimate output realized by selling the services or products by the firm. And according to Weston (1998), the existence of short-term investment and the relatively high interest rates on such investments has increased the opportunity of holding cash balances.

The management of cash is closely related to management of marketable securities which are regarded as near – cash assets. Marketable securities serve as a back-up to the cash account and can easily be converted into cash. When a firm has excess cash it invests it in marketable securities. This contributes to the profits of the firm. Marketable securities can be converted to cash at low transactions cost. A careful analysis is required when making decisions regarding cash and marketable securities so as to achieve optimal holding.

Several models have been evolved in attempt to determine the optimal cash balances to hold and the amount to invest in marketable securities. These are classified into two: - Deterministic model; where cash demand and associated costs are known well in advance. Stochastic model; where costs of holding cash are known well in advance, while cash flows are unpredictable. Some of these models together with new techniques take analytical approach while others follow simulation approach.

## **2.5 Discussion of the Models**

All the models discussed here have made useful contributions to cash management. However each model has its own weaknesses which hamper their ability in providing an optimal cash solution although when strictly applied the firm may get a near optimal solution to its appropriate cash balances.

Each model differs in its emphasis as to the various costs. The Baumol and the Miller –Orr Models gives critical emphasis to the costs arising from transfers between the cash account and the investment portfolio. They do not give regard to the alternatives available such as borrowing. They instead concentrate on liquidation of marketable securities to meet the needs for cash outflows. On the other hand, the Beranek Model gives a critical emphasis on the costs arising from the shortage of cash and considers the cost of borrowing (Hulme et al., 1996).

In the latter models, transaction costs are only indirectly considered while alternatives of liquidating investments to meet cash needs are ignored. Lockyer's Model gives emphasis to

transaction costs, the cost of overdraft needed to replenish the cash balance, and holding costs for precautionary cash balances or alternatively costs related to the line of credit required in the absence of precautionary cash balance. The other models emphasizes holding costs, costs of long-term or costs of short-term borrowing depending on which one is used or how they are combined, and the cost of investment in marketable securities.

## **2.6 Conclusion**

Financial management practices of SACCOS in Kenya are very important. The best financial practices will lead to more poor people saving in the SACCOS, since most of the members are poor. The managers of the SACCOS are aware of the fact that the best practices will lead to better life for the members. The main purpose why the SACCOS exist is to ensure that their members get the financial services like loans without much restriction.

Studies worldwide have proves that, SACCOS have to ensure they remain financially sound to create confidence in the members and therefore be able to mobilize the savings. Financially stable SACCOS will lead to more savers and mostly the poor and middle class being able to engage in the investment activities .This will be assisted by well managed SACCOS with dynamic financial management practices. These will create a more innovative environment for both members and the SACCOS.

There has been no clear, comparison between the financial management practice and the financial performance of SACCOS. Historical data show that, SACCO management has faced challenges and this has led to failure of these institutions both locally and globally. There is need

to draw a clear relationship on the two variable and determine what are the best practices that will lead to better financial performance in the SACCO subsector of financial intermediary.

There has been much growth in the SACCOS in Kenya. This has led to government coming with new regulations to safeguard the members' funds. There still need to be clear financial practice that will lead to better financial performance that will lead to members getting better dividend. Generally SACCOS contribute to 45% of the GDP in the world and therefore there is need for more emphasis to be drawn on their financial performance and practices.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter deal with the research design and methodology used in study which were used in identifying the financial management practises and policies of urban SACCOS in Nairobi County and how this affected their overall performance. It include, research design, population of the study, sample design and size, data collection and the procedure.

#### **3.2 Research Design**

Descriptive research design was used, this is scientific study done to describe a phenomena or an aspect (Orotho, 2003). In this case the phenomenal was the relationship between financial management practices of SACCOS and how this influences the financial performance of these institutions. Descriptive survey, involves collecting data by interviewing or administering questionnaires to sample of the population. This design was appropriate for this study because it allowed the researcher to get the information more easily from the Finance managers of the selected SACCOS. The SACCO finance managers were literate and most of them were at ease to fill the questionnaires.

#### **3.3 Population of the Study**

The target population was all registered SACCOS based in Nairobi county. There 2460 SACCOS registered in Nairobi County as per SASRA. The focus on the SACCO's operating in Nairobi was based on the presumption that they have adopted Financial Management practices

which would be related to their financial performance. The result therefore represented the entire population.

### **3.4 Sample Design**

The sample was made up of 50 SACCOS from the target population. The sampling technique was stratified random sampling method. The researcher stratified the population into classes and administered the questionnaires to them. Stratification is the process of dividing members of a population into homogeneous subgroups before sampling. The strata should be mutually exclusive: every element in the population must be assigned to only one stratum. The strata should be exhaustive to ensure representativeness (Bailey, 1987). There were three strata; Employee based, Transport based and community based SACCOS.

According to Dixon and Leach (1984), the size of a sample should be determined by adequacy and resources considerations. Adequacy means that the sample should be large enough to enable reasonable estimated of variables to be obtained, to capture variability of responses, and to facilitate comparative analysis.

Since the research conducted the interviews alone and with limited time and other resources, a sample of fifty (50) was considered adequate to give a general view of the extent to which SACCO's had implemented professionally accepted Financial Management systems, thus providing the basis for valid and reliable conclusions. Nzule (1999) used a sample of 35 in his study. The respondent for each of the SACCO was the Finance Manager. This is the person with all the information about the financial policies/practices and its financial performance.

### **3.5 Data Collection Method**

The study used primary data. Questionnaires were used to collect the data. A Semi-Structured Questionnaire with both open-ended and closed-ended questions covering the four independent variables (financial planning, control working capital management, duties segregation in finance section, management operating style) that were used to obtain responses from the SACCOS finance managers. Issues covered were sequenced to make the data collected systematic.

#### **3.5.1 Data Reliability and Validity**

This is the extent to which a questionnaire, test, observation or any measurement procedure produces the same results on repeated trials (Allen and Yen, 1979). The results were numbered as the questionnaire were sent out and then grouped into two groups to measure the score of each group. The two groups, the results were evaluated for internal consistency. The time constrain didn't allow to repeat questionnaires to determine repeatability of the study, however, some of the questions in questionnaire were repeated with some slight different in wording to evaluate the repeatability of the study.

Validity is the extent to which the instrument measures what it purports to measure (Allen & Yen, 1979). Content validity pertains to the degree to which the instrument fully assesses or measures the construct of interest. This helped the ratters to review all items for clarity and come to some level of agreement as to which item was included to the final report.

### **3.6 Data Analysis**

Descriptive statistics was used to analyze both qualitative and quantitative data in respect of use or non-use of the respective Financial Management Models and their effect on the SACCO's



which used them. The same was used to capture general trends. The financial performance and financial management practices for the last five years were analyzed.

The model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

Y – Financial performance of SACCOS as measured by net operating profits.

X1- Financial planning and control practices

X2 – Working capital management practices

X3 – Segregation of duties in finance section

X4 – Sacco management philosophy on operating Style.

$\beta_0, \beta_1$  – Regression Coefficients

e – Error (stochastic term); this includes other factors that affecting SACCO financial performance, not covered by the study.

Correlation was used to check the overall strengths of the established regression model and the individual significance of the independent variables. The  $R^2$  was used to measure the significance in relationship between the dependent and independent variables in the study. The specific impact of each variable on the SACCO profitability was determined various questioned that were administered.

## CHAPTER FOUR

### DATA ANALYSIS, FINDINGS AND DISCUSSION

#### 4.1: Introduction

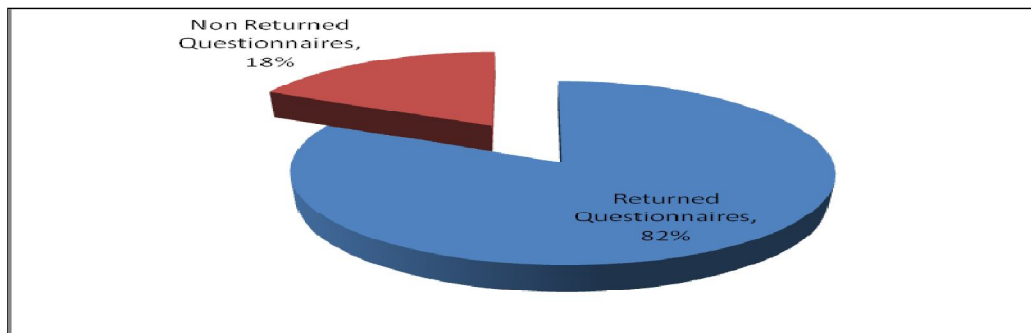
This chapter presents the analysis and findings with regard to the objective and discussion of the same. The findings are presented in percentages and frequency distributions, mean, standard deviations, graphs and tables.

#### 4.2: Characteristics of Respondents

##### 4.2.1: Response Rate

A total of 50 questionnaires were issued out. The completed questionnaires were edited for completeness and consistency. Of the 50 Questionnaires used in the sample, 41 were returned. The remaining 9 were not returned. The returned questionnaires' represented a response rate of 82%, which the study considered adequate for analysis.

**Figure 4.2.1: Response Rate**



Source: Research findings, 2012

#### **4.2.2 Distribution by Sacco Class.**

The finance managers were asked to state the class of the Sacco. As shown in table 4.2.1, 48.8% of the respondents were from employee based Sacco while 26.8% was from community based, the remaining 24.4% were from transport sector.

**Table 4.2.1: Distribution by Class.**

	Frequency	Percent	Cumulative Percent
Employee based	20	48.8	48.8
Community based	11	26.8	70.8
Transport based	10	24.4	100
Total	41	100.0	

Source: Research findings, 2012

#### **4.2.2: Years in Operation.**

The respondents were asked to state the years their Sacco's has been operating. The results are as shown in table 4.2.2

**Table 4.2.2: Distribution of Sacco's by Years in Operation.**

	Frequency	Percent	Cumulative Percent
Less than 25 Years	17	41.5	41.5
26-35 years	12	29.3	70.9
36-45 years	8	19.5	90.3
More than 45 years	4	9.7	100.0
Total	41	100.0	

Source: Research findings, 2012

As shown in table 4.2.2, 41.5% of the Saccos that data was collected have been in operation for less than 25 years, 29.3% were between 26-35 years of operation, 19.5% were between 36-45 years in business and the rest (9.7%) were over 45 years. Generally the Sacco movement has gained prominence and many Saccos have been established in the last 30 years.

### **4.2.3: Distribution by Branches.**

The respondents were asked to state the number of branches of their Sacco. The results are as shown in table 4.2.3

**Table 4.2.3: Distribution by Branches**

	Frequency	Percent	Cumulative Percent
One branch	15	36.6	36.6
2-5 branches	19	46.3	82.9
6-10 branches	3	7.3	90.2
Over 10 branches	4	9.8	100.0
Total	41	100.0	

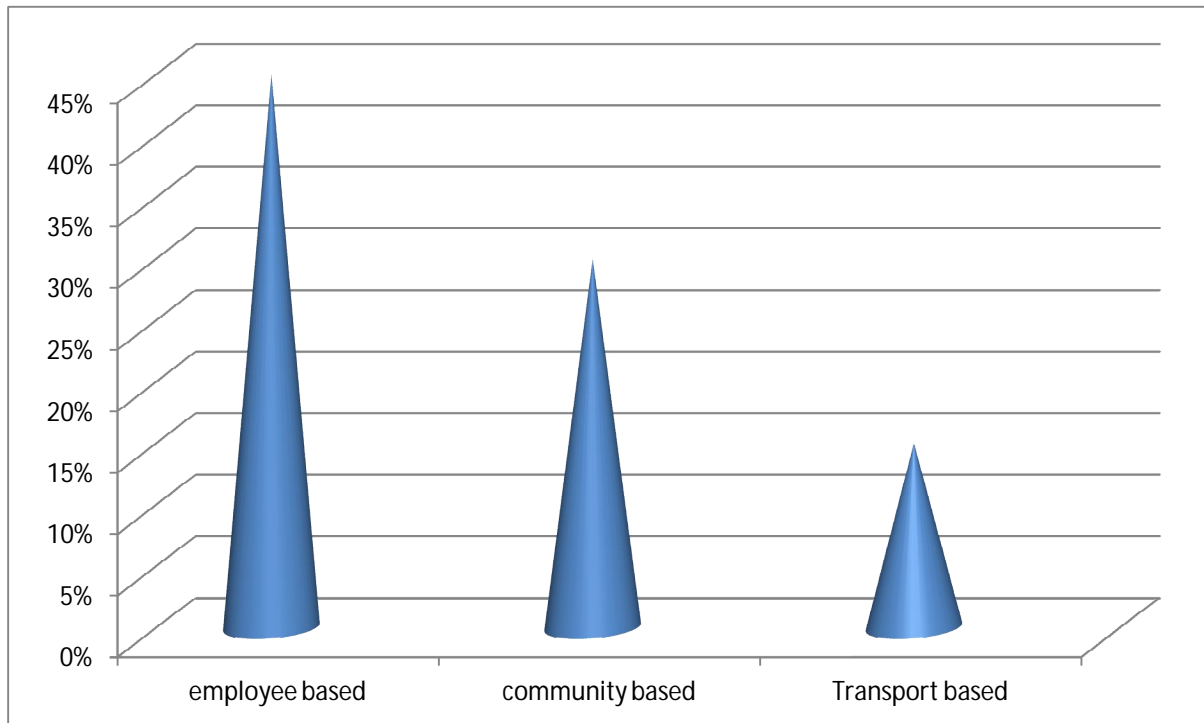
Source: Research findings, 2012

As shown in table 4.2.3, most of the respondents (46.3%) have 2-5 branches, 36.6% have one branch, 9.8% have over 10 branches and 7.3% have 6-10 branches. This shows that some Saccos have branches while others do not have depending on the nature of their member.

#### 4.2.4: Distribution by Sacco Members

The respondents were asked to state the number of members they serve. The results presented in figure 4.2.2.

**Figure 4.2.2: Sacco Members Per Class.**



Source: Research findings, 2012

As indicated in figure 4.2.2, majority (45%) of the respondents member were from employee based Saccos, 30% from the community Saccos and 15% were from transport Saccos.

#### 4.2.5: Distribution by Constituency.

The findings presented in table 4.2.4, indicates that the respondents were drawn from all the areas of the county considered in the study. More so majority of the SACCO are in the city centre starehe constituency (24.4%), Westland area (17.1%), lang'ata area (14.6%), Kasarani and makadara (12.2%).

**Table 4.2.4: In Which Constituency is Your SACCO?**

	Frequency	Percent	Cumulative Percent
Kasarani	5	12.2	12.2
Lang'ata	6	14.6	26.8
Westlands	7	17.1	43.9
Kamukungi	1	2.4	46.3
Embakasi	3	7.3	53.6
Makadara	5	12.2	65.8
Dagorreti	4	9.8	75.6
Starehe	10	24.4	100
Total	41	100	

Source: Research findings, 2012

#### 4.2.6: Distribution of SACCOS by Average Net Profits Generated.

As can be observed, in table 4.2.5, 31.73% of the respondent's made an average of 5 million in profits, followed by 6-10 million at 29.3%, 11-25million at 22.2%, 50-100million at 9.8% and more than 100 million at 7.3% respectively.

**Table 4.2.5: What are Average Yearly Profits?**

	Frequency	Percent	Cumulative Percent
Below 5 million	13	31.7	31.7
6-10 million	12	29.3	61.0
11-25 million	9	22.0	82.9

50-100 million	3	7.3	90.2
More than 100 million	4	9.8	100.0
Total	41	100.0	

Source: Research findings, 2012

#### **4.2.6: Distribution of Respondents by Yearly Expenditure Range.**

As can be observed, in table 4.2.6, most (31.7%) of the respondents spend 1-2million per year, 26.8% have expenditure of above 5 million, 24.4% spends between 2.5-5 million and only 17.1% spend less than one million in a year.

**Table 4.2.6: What is your SACCO Yearly Expenditure Range?**

	Frequency	Percent	Cumulative Percent
More than 5 million	11	26.8	26.8
2.5-5 million	10	24.4	51.2
1-2 million	13	31.7	82.9
Less than 1 million	7	17.1	100.0
Total	41	100.0	

Source: Research findings, 2012

#### **4.3: Sacco Profits and Cash Planning and Control.**

This section covers the question posed to the respondents on the SACCO financial practices interims of; cash management, controls and cash balance and investments, nature of investment, mode of financing projects and the income from the investments and the appraisal of the projects. Tables, frequencies and percentages were used to present the findings.

### **4.3.1: Mode of Investing Cash in the Sacco**

The respondents were asked to state how they invest the SACCOS cash. The results are as shown in table 4.3.1

**Table 4.3.1: Do Your Sacco Invest Cash in Marketable Securities, Real Estate or Other Securities?**

	Frequency	Percent	Cumulative Percent
Marketable securities	26	63.4	63.4
Real estate	14	34.1	97.6
Other	1	2.4	100.0
Total	41	100.0	

Source: Research findings, 2012

As shown in table 4.3.1, majority (63.4%) of the respondents invests their cash in marketable securities, 34.1% are in real estate and 2.4% are in other investments projects. Sacco invests in real estate to help the members and other general public to own homes and at the same time make profits. The marketable securities are easily convertible to cash and more SACCO invests in it.

### **4.3.2: Nature of Cash Planning and Control.**

The respondents were asked to state whether they have a formal way of carrying out the cash management and control both for working capital and budgeting. It was evident that most (61%) of SACCOS have way in which they do the planning of their cash and investments while at the same time significant proportion of 39% of all have not embraced the issue of control and cash planning formerly.



**Table 4.3.2: Do Your SACCO Carry Out Cash Planning?**

	Frequency	Percent	Cumulative Percent
Yes	25	61.0	61.0
No	16	39.0	100.0
Total	41	100.0	

Source: Research findings, 2012

**4.3.3: Cash Planning and Control Cycle.**

As shown in table 4.3.3, of the Saccos that do cash planning, 48% do it monthly, 20% weekly and 12% semi annually.

**Table 4.3.3: Do You Carry Your Cash Out Cash Planning\*If YES, What is the Length of Your Period? Cross Tabulation**

Do you carry out cash planning?		If the answer for No. 20 above is YES, what the length of planning period?				Total
		Weekly	Monthly	Quarterly	Semi annually	
Yes	Count	5	12	5	3	25
	%	20.0%	48.0%	20.0%	12.0%	100.0%

Source: Research findings, 2012

### **4.3.3: Average Sales Turnover in Sacco.**

The respondents were asked to state Average to various investments. As indicated in table 4.3.4, 40% of the Saccos that carry out cash planning made sales less than 5 million while the remaining 60% accumulated sales worth more than 5 millions.

**Table 4.3.4: What is Your SACCO Yearly Turnover Range?**

	Frequency	Percent	Cumulative Percent
Less than 5 million	10	40.0	40.0
More than 5 million	15	60.0	100.0
Total	25	100.0	

Source: Research findings, 2012

### **4.4: Sacco Profits and Duty Segregation in Finance Function.**

This section covers the question posed to the respondents on Sacco financial management practice in terms of; who has the authority to approve financial transactions and make crucial investments decisions and the nature of the decisions made at each level. Tables, frequencies and percentages were used to present the findings.

#### **4.4.1: Approval of Sacco Transactions.**

The respondents were asked to state how the investments decisions are made in their Saccos. The results in table 4.4.1 indicated that most of the decisions are made by the committee that is stewarding the Sacco (39%), in 19.5% of respondent the investments decisions were made by finance managers, 17.1% were by chairman while the remaining 24.4% were by other specific group assigned different tasks.

**Table 4.4.1: Who Sanctions the Investments Decisions in Your SACCO?**

	Frequency	Percent	Cumulative Percent
Chairman of the SACCO	7	17.1	17.1
Management Committee	16	39.0	56.1
Finance manager	8	19.5	75.6
Others	10	24.4	100.0
Total	41	100.0	

Source: Research findings, 2012

**4.4.2: Nature of Decision Made by the Sacco Board.**

The respondents were asked to state the nature of the main decisions made by the management committee of their Saccos. The findings shows that 68.3% of the main decisions made by the board are of investments nature, 24.4% were budgeting and 7.3% were cash management.

**Table 4.4.2: Which Decisions are Made by Board Members of Your Sacco?**

	Frequency	Percent	Cumulative Percent
Investment	28	68.3	68.3
Budgeting	10	24.4	92.7
Cash Management	3	7.3	100.0
Total	41	100.0	

Source: Research findings, 2012

#### **4.4.3: Rating of the Following Predetermined Statements with Respect to Sacco Financial Practices and Performance.**

The respondents were asked to state the extent to which various cash and investment variables influenced their decision. The results are shown in table 4.4.3. From the findings to agree/strongly agree; the investing cash and maintaining an optimum balance was key to profitability. (Mean of 3.0000) and Profit was the main factor I considered before the Sacco started applying optimal formula for cash balance. (Mean of 2.7805).

On strongly disagree/disagree extent; my Sacco maintains daily cash balance (mean of 2.1220) and huge cash balance affect my Sacco efficiency (mean of 2.4146).

**Table 4.4.3 Extent to Which Various Sacco Financial Policies Relate to Profitability**

Statements	Mean	Std. Dev
My Sacco maintains daily cash balance.	2.1220	.52239
Huge cash balance affect my Sacco efficiency	2.4146	.80547
My Sacco maintains optimal cash balance	2.7805	.81426
My Sacco sole motive for investing cash is to make profit.	3.0000	.74018

Source: Research findings, 2012

#### **4.4.4 Sacco Financial Performance and Operating Style**

The respondents were asked to state the operating styles are applied in their Saccos. The results are shown in table 4.4.4. The respondents unanimously agreed/strongly agreed that the financial

statement should be prepared twice in a year. (Mean of 3.6098) and other Saccos believed on one statement per year. (Mean of 3.3902).

**Table 4.4.4 Extent to Which Various Operating Style Influence Sacco Financial Performance.**

	Mean	Std. Dev
Sacco account should be prepared once per year	3.3902	.83301
Financial account for the Sacco should be prepared twice	3.6098	.58643

Source: Research findings, 2012

**4.4.5: Sacco Profitability and Internal Control.**

The respondents unanimously agreed that; most profitable saccos will have a very independent audit that report to the management committee (mean 3.4390) and at the same time the team should comprise of more than two people for effect operation of the section (mean 2.8780).

**Table 4.4.5: Extent to Which Various Internal Control Issue Relate to Profitability.**

	Mean	Std. Dev
Sacco should have more than two member of audit section	2.8780	1.09989
Internal control team should report to management committee.	3.4390	.92328

Source: Research findings, 2012

## 4.5: Regression Analysis

### 4.5.1: Correlation Analysis

Two predictor variable are said to be correlated if their coefficient of correlations is greater than 0.5. In such a situation one of the variables must be dropped or removed from the model. As shown in table 4.3.1, none of the predictor variables had coefficient of correlation between themselves more than 0.5 hence all of them were included in the model. The matrix also indicated high correlation between the response and predictor variables, that is, working capital and cash management contribution to profitability with the highest correlation followed by planning and control, segregation of duties and operating philosophy respectively.

**Table 4.5.1: Pearson Correlation Coefficients**

	Sacco net profits	Financial planning and control practices	Working capital management	Segregation of financial duties	Sacco management philosophy on operating cycle
Sacco profits	1.000				
Financial planning and control practices	.551	1.000			
Working capital managements	.710	.288	1.000		
Segregation of financial duties	.614	.233	.317	1.000	

Sacco management philosophy on operating cycles	.882	.197	.445	.360	1.000
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Source: Research findings, 2012

#### 4.5.2: Strength of the Model

Analysis in table 4.5.2 shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables)  $R^2$  equals 0.789, that is, financial planning and control, working capital management, segregation of duties, and Sacco management philosophy on operating cycle influence on the profits explain 78.9 percent of Sacco profits leaving only 21.1 percent unexplained. The P- value of 0.000 (Less than 0.05) implies that the model of Sacco financial performance as measured by net profits is significant at the 5 percent significance.

**Table 4.5.2: Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
				R Square Change	F Change	df1	df2	Sig. F Change
.888(a)	.789	.776	.51038	.789	1.242	4	37	.000

Source: Research findings, 2012

Predictors: (Constant), financial planning and control, working capital management, segregation of duties, Sacco management philosophies on operating cycle in relationship with the Sacco financial performance.

Dependent Variable: Sacco financial performance as measured by net operating profits.

**Table 4.5.3: ANOVA**

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	21.772	4	4.354	4.201	.004 <sup>a</sup>
Residual	36.277	36	1.036		
Total	58.049	41			

Source: Research findings, 2012

Predictors: (Constant), financial planning and control, working capital management, segregation of duties, Sacco management philosophies on operating cycle relationships with the Sacco financial performance.

Dependent Variable: Sacco financial performance as measured by net operating profits.

The probability value (p-value) of a statistical hypothesis test is the probability of getting a value of the test statistic as extreme as or more extreme than that observed by chance alone, if the null hypothesis  $H_0$  is true. The p-value is compared with the actual significance level of the test and, if it is smaller, the result is significant.

The smaller it is, the more convincing is the rejection of the null hypothesis. ANOVA findings in table 4.5.3 shows that there is correlation between the predictors variables (financial planning and control, working capital, segregation of financial functions, Sacco management philosophy on operating cycle) and response variable (Sacco financial performance as measured by net operating profits) since P- value of 0.00 is less than 0.05.



### 4.5.3: Regression Equation

The established multiple linear regression equation becomes:

$$Y = 1.808 + 1.353X_1 + 0.661X_2 + 0.035X_3 + 0.975X_4$$

#### Elasticity

Constant = 1.808, shows that if financial planning and control, working capital management, segregation of financial duties, Sacco management philosophy on operating styles were all rated as zero, the Sacco financial performance as measured by operating profits rating would be 1.808

$X_1 = 1.353$ , shows that one unit change in financial planning and control of Sacco results in 1.353 unit increase in net operating profits.

$X_2 = 0.661$ , shows that one unit change in working capital management practices strategy results in 0.661 units increase in Sacco operating profits.

$X_3 = 0.035$ , shows that one unit change in segregation of finance functions strategy results in 0.035 units increase in Sacco net operating profits.

$X_4 = 0.975$ , shows that one unit change in Strategic review of the operating cycle of a Sacco results in 0.975 units increase in net operating profits.

**Table 4.5.4: Coefficients of Regression Equation**

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
(Constant)		1.808	.527		3.428	.002
Financial planning and control practices.	$X_1$	1.353	.470	1.409	2.878	.007
Working capital management practices	$X_2$	.661	.312	.775	2.117	.041

Segregation of duties in financial section.	X <sub>3</sub>	.035	.016	.037	2.160	.004
Sacco management philosophies on operating styles.	X <sub>4</sub>	.975	.265	.992	3.678	.001

Source: Research findings, 2012

Dependent Variable: Sacco financial performance as measured by net operating profits.

#### 4.5.4: Individual Statistical Significance

Hypothesis statement 1:

Financial planning and control practices in a Sacco have relationship with it operating profits.

Hypothesis statement 2:

Working capital management in a Sacco has relationship with it operating profits

Hypothesis statement 3:

Segregation of duties in finance section in a Sacco has relationship with it operating profits

Hypothesis statement 4:

Sacco management philosophy on operating style in a Sacco has relationship with it operating profits.

**Table 4.5.5: Hypothesis Testing**

Hypothesis	P-Value	Significance level	Conclusion

<p>H<sub>1</sub>: There is no significant relationship between Financial planning and control practices in a Sacco and it operating profits.</p> <p>H<sub>1a</sub>: There is a significant relationship Financial planning and control practices in a Sacco and it operating profits.</p>	.007	.05	Reject H <sub>1</sub> ,
<p>H<sub>1</sub>: There is no significant relationship between Working capital management in a Sacco and it operating profits</p> <p>H<sub>1a</sub>: There is a significant relationship between Working capital management in a Sacco and it operating profits</p>	.041	.05	Reject H <sub>1</sub> ,
<p>H<sub>1</sub>: There is no significant relationship between Segregation of duties in finance section in a Sacco and it operating profits</p> <p>H<sub>1a</sub>: There is a significant relationship between Segregation of duties in finance section in a Sacco and it operating profits</p>	.004	.05	Reject H <sub>1</sub> ,
<p>H<sub>1</sub>: There is no significant relationship between Sacco management philosophy on operating style in a Sacco and it operating profits.</p> <p>H<sub>1a</sub>: There is a significant relationship between Sacco management philosophy on operating style in a Sacco and it operating profits.</p>	.001	.05	Reject H <sub>1</sub> ,

Source: Research findings, 2012

Since all the P-Values for the individual predictor variables less than 0.05, there is enough evidence to support  $H_{1a}$  thus there is a significant relationship between the response and each predictor variable.

#### **4.6 Interpretation of Findings**

From the findings, (63.4%) of the respondents invested in marketable securities, 34.1% invested in real estates and 2.4% are in other alternative investments. At the same time 48% of the SACCOS carried out their cash planning every month, 20% did cash planning on quarterly basis and 12% did this semi annually.

The study identified the following as the most significance financial policies that relate to profitability; the saccos need to maintain optimum cash balances to make profits and this was related to investment that have good returns and can be converted to cash easily. (Mean of 3.0000) and The working capital optimization as a way of maximizing profit was also prominent in the saccos and the sole motive is to ensure the Sacco makes good profit. (Mean of 2.7805).

In term of operating styles and cycles the key issues were; The financial statement should be prepared twice in a year to measure the performance in terms of profits (mean of 3.6098) and other said the Sacco account or the financial statement should be prepared only once in a financial year to show the yearly operating profits (mean of 3.3902). In terms of internal controls the main issues were; The Sacco should have an elaborate internal control section manned by more than two people (mean of 2.8780) and the internal audit section should report to the management committee of the Sacco (mean of 3.4390).

All the independent variables were also individually linearly related with the dependent variable thus a model of four predictor variables could be used to relate net operating income in Sacco in Nairobi County, Kenya. The study found out that there exist a significant relationship between financial planning and control, working capital management, segregation of duties in finance function and Sacco management philosophy on operating styles and cycles and the net operating profit of the Sacco.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

In this section we discuss the main findings, draw conclusions and make recommendations.

#### 5.2 Summary

The objective of the study was to establish whether financial management practices of SACCO Societies in Kenya affect their financial performance.

The study used regression analysis to find the association between financial planning and control, working capital management, segregation of duties in finance function and Sacco management philosophy on operating styles and cycles and the net operating profit of the Sacco. Forecasting model was developed and tested for accuracy in obtaining predictions. The finding of the study indicated that the model was significant. This is demonstrated in the part of the analysis where  $R^2$  for the association between financial planning and control, working capital management, segregation of duties in finance function and Sacco management philosophy on operating styles and cycles and the net operating profit of the Sacco was 78.9% >70%.

#### 5.3 Conclusion

SACCOS plays a major role in this country's economy as revealed in the research. The United Nations Assembly has declared year 2012 as the international year for cooperative movement due to its support for social economic developments (SASRA). In Kenya SACCO subsector

alone has mobilized over 230 billion in member's deposits. The growth of the sector has been immense, recording a 15% growth in the year 2012 alone and reducing their borrowing from banks by 62.7% to a meager 5 billion.

Sacco's profitability needs are related to financial planning and control in Kenya Saccos. The need to make more and more profits has pushed Saccos to come up with very clear financial management policies to ensure the best financial performance. The study reveals that there is need to be self reliant by Saccos. This has led to major policy guidelines on Saccos. These finance control policies have led to tremendous growth in this subsector.

The study reveals that the working capital management and the overall functioning of the finance department in the Sacco sector contribute to how profitable that Sacco will be. The optimal utilization of funds which is the main trading element in the Sacco yield more revenue to the organization. This clear cut duty segregation reduce misuse of funds and ensure sound investment decisions are made leading to better profitability of saccos.

The study found out Saccos use a combination of financial policies and plans to maximize on their member equity. These when well implemented have led to better profitability of the saccos and better management of the resources. The Sacco sector is booming in that especially due to the affordable loans from the saccos. This has helped the Saccos to come up with the best policies for finance management to ensure profitability. This has therefore led to the sector making major steps in regulations due to the growing interest in this financial sector.

## **5.4 Recommendations for Policy**

Therefore, Sacco financial management practices and financial performance must be carefully related to ensure the best financial results of the Saccos, which have become an integral part of the economy. The following recommendations were advanced from this study:-

The Sacco subsector should have a vibrant regulator that will ensure clear financial policies and standards are in place. This because most Saccos emphasize more on profits and therefore the need to have a body that will ensure the Saccos report the correct profits.

SACCOS Should have ways to benchmark their financial management policies, with those that are performing well in the sectors in order to borrow the best financial practices that will ensure better financial results for the individual saccos and the entire sub sector. Government should implement policies that will give incentives to the Saccos that have the best financial management policies. This will help spur growth in this sector since this will go well to promote better management of Saccos that translate to better profits.

The members of the Saccos should interrogate the financial management practices of their Saccos and be cautious of any policies that will be against the growth of the financial results of their institution.

## **5.5 Limitation of the Study**

The research found that some SACCO managers did not know clearly what finance policies they employ in their organizations.

SACCO Manager withheld some vital financial information for fear of the tax returns, and this affected the research process.



There were instances where, Finance managers in some Saccos didn't have the requisite finance qualification and this affected the quality of data collected from them.

## **5.6 Areas for Further Research**

Researchers and scholars should carry out a research on the comparison between Sacco financial management practices and the growth of the Sacco movement in Kenya, to find out whether these policies have an impact on how the sector is growing.

Further research should also be carried out to determine the factors that affect the use of the various financial management policies in SACCOS in Kenya.

Researchers also need to examine the relationship between SACCOS Financial performance and their Asset portfolio base.

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If yes, what is the amount? ..... and what factors do you consider in deciding on the minimum balance?

**PLEASE CIRCLE THE CHOICE THAT CORRESPONDS TO YOUR SACCO POLICIES IN EACH OF THE FOLLOWING:**

	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Agree</b>	<b>Strongly Agree</b>
.....				
6. Sacco should have specific policy				
On cash balance levels.	1	2	3	4
7. Sacco should set minimum				
Cash balance values.	1	2	3	4
8. Huge cash balances in my SACCO				
Affect it cash efficiency.	1	2	3	4
9. My SACCO has set an optimum				
Cash balance for efficiency operation	1	2	3	4
10. Cash budgeting is an important practice				
In my Sacco	1	2	3	4
11. My SACCO invest Cash in Short				
Term marketable security.	1	2	3	4
12. The SACCO Maintain daily cash				
Cash balances schedules	1	2	3	4
13. The SACCO has a set policy on				
Investing in marketable securities.	1	2	3	4
14. My SACCO always maintain a buffer				
Cash balance.	1	2	3	4

**SECTION C: FINANCIAL PLANNING AND CONTROL**

15. What is your SACCO yearly members deposit range?

- a) Ksh. 100,000- 500,000      ( )
- b) Ksh. 1,000,000- 2,000,000      ( )
- c) Ksh. 2,500,000- 5,000,000      ( )
- d) Ksh. 5,000,000 and above      ( )

16. What is your SACCO yearly expenditure range?

- a) Ksh. 100,000- 500,000      ( )
- b) Ksh. 1,000,000- 2,000,000      ( )
- c) Ksh. 2,500,000- 5,000,000      ( )
- d) Ksh. 5,000,000 and above      ( )

17. What is the yearly Dividend percentage payable to the Members?

- a) 1-4%      ( )
- b) 5-10%      ( )
- c) 11-15%      ( )
- d) 16%      ( )

18. How would you describe the pattern of deposits in your organization?

- a) Continuous      ( )
- b) Concentrated to a specific time      ( )
- c) Certain      ( )
- d) Uncertain      ( )
- e) Others (Specify) .....

19. How is the pattern of your SACCO's expenditure?

- a) Continuous.....( )
- b) Concentrated to a specific time.....( )
- c) Certain..... .( )
- d) Uncertain..... ..( )

e) Others (Specify).....

20. Do you carry out cash planning?

Yes ( ) No ( )

If 'yes' what is the length of your cash planning period?

- a) Weekly .....( )
- b) Monthly.....( )
- c) Quarterly.....( )
- d) Semi-annually.....( )
- e) Annually.....( )
- f) Other (specify) .....

21. When does your SACCO invest in marketable securities?

- (a) When decision is made..... ( )
- (b) At beginning of period..... ( )
- (c) As receipts exceed expenditure..... ( )
- (d) When either of the situations exist ..... ( )
- (e) Others (Specify).....

22. When do you convert marketable securities to cash?

- (a) As minimum cash balance is reached .....( )
- (b) When expected payments exceed available cash.....( )
- (c) When either situations above exist..... ( )
- (d) When decision is made.....( )
- (e) Other (Specify).....



23. What is the average range of Yearly balances of the following items in your SACCO)?

(Figures in millions of Kshs.)

	<b>Below 5</b>	<b>about 10</b>	<b>about 50</b>	<b>100 and above</b>
.....				
<b>Savings</b>	( )	( )	( )	( )
<b>Loans</b>	( )	( )	( )	( )
<b>Assets</b>	( )	( )	( )	( )
<b>Reserve</b>	( )	( )	( )	( )
<b>Profits</b>	( )	( )	( )	( )
<b>Cash</b>	( )	( )	( )	( )
<b>Dividend</b>	( )	( )	( )	( )

**SECTION D: SEGREGATION OF DUTIES IN FINACE SECTION**

24. Who draws cheques in your SACCO?

- (a) Cashier ( )
- (b) Finance manager ( )
- (c) Treasure ( )
- (d) Other (Specify).....

25. Who sanctions the investment decisions in your SACCO?

- (a) Managements committee ( )
- (b) SACCO Chairman ( )
- (c) Finance Manager ( )
- (d) Other (Specify).....

26. Which decisions are made by board members?

- (a) Investments ( )
- (b)Cash management ( )
- (c) Budgeting ( )

(d) Other (Specify).....

27. How many officers are signatory to cheque and other finance instrument in your SACCO?

(a) One

(b) Two

(b) Three

(c) Others (Specify).....

## **SECTION E: MANAGEMENT PHILOSOPHY OPERATING STYLE**

28. How often does your SACCO prepare profit and loss account?

(a) Once a year

(b) Twice a year

(c) Quarterly a year

(d) Other (Specify).....

29. How many members belong to internal control team?

(a) Two

(b) Three

(c) Four

(d) Others (Specify).....

30. Internal audit team report to whom in your SACCO?

(a) Finance manager

(b) Treasurer

(c) Managing committee

(d) Others (Specify).....

**THANK YOU FOR YOUR CO-OPERATION**