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Factors Affecting Financial Performance of Savings and Credit Societies in Kilifi County- A Case Study of Imarika Sacco

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Abstract:

Financial performance is one of the key objectives for all organisations (including SACCOs). Financial performance is measured by use of many ratios and models like the return on investment, profit margin, efficiency ratios, liquidity ratios etc. All organizations strive to utilize its resources effectively so as to achieve higher financial performance. Competition in the market affects the level of performance in an organisation. For an organization to survive in the competitive market, it has to invest in research to analyze the market dynamics and interpret them well and timely towards adopting strategies to cope with in the market. Credit management as well as the extent that an organisation embraces technology towards financial innovation contributes to the performance of an organisation. Credit management, financial innovation and liquidity management defines the financial performance of a SACCO and as a result, many SACCOs are initiated but growth potential remains a dilemma. With the constant change in technology, an organization needs to be very innovative and adopt technological changes in order to retain customers. Use of technology leads to convenience and efficiency which implies brings about repeat business and customer loyalty. Customer loyalty drives higher performance in an organization. Many studies have focussed on other financial institutions like banks ignoring SACCOs. The main objective of this study was to establish the relationship between credit management, financial innovation and liquidity management and their effects towards SACCO's financial performance. This research problem was studied through the use of a descriptive and quantitative research design. The population of interest of this study was 397 members selected from a stratified sampling method based on the branch where they belong. The SACCO has its head office at Kilifi and branches in Malindi, Mariakani and Mtwapa, with a membership of 53,503. Stratified random sampling technique was used to draw participants proportionally from the branches, hereby referred to as the strata. Using a confidence and interval levels of 95% and 0.05% respectively, Slovin formula was used to determine the study sample and in this case, 397 study participants were involved and a response rate of 89.92% was registered. Data was collected from primary sources using structured questionnaires with open and close ended questions using a five scale Likert questionnaire format. Data analysis was done using a statistical package for social scientists (SPSS) version 20, and results hereof was interpreted in a brief and meaningful manner using tables and charts. Frequencies and percentages mean, standard deviation, coefficient of determination was used to describe the relationship between the factors affecting financial performance of SACCOs as perceived by respondents herein. The results of the study indicated a strong positive correlation between the independent variables and the dependent variables, thus indicating that financial innovation, credit management and liquidity management affects financial performance of SACCOs in Kilifi County. The regression model summary indicated a 0.770 as R, meaning that 77% of the financial performance was explained by the relationship. The study recommended further studies on other factors other than the ones in this study that affects financial performance of SACCOs.

1. Introduction

1.1. Background of the Study

In many organizations, the most common measure of financial performance is profitability. Generally, accounting profits are the difference between revenues and costs. Profitability is considered to be the most difficult attributes of a firm to conceptualize and to measure (Ross, Westerfield, and Jaffe, 2005). These ratios are used to assess the ability of the business to generate earnings in comparison with its all expenses and other relevant costs during a specific time period. More specifically, these ratios indicate firm's profitability after taking account of all expenses and income taxes, the efficiency of operations, firm pricing policies, profitability on assets and to shareholders of the firm (Van Horne 2005). Financial performance of any organization gives, at a glance, how well or poor an organization is performing in the industry and over a period of time.

1.2. Financial Performance

Financial performance is the results of a firm's policies and operations in monetary terms. Financial performance is the results of any of many different activities undertaken by an organization. Common examples of financial performance include return on investment, operating income, earnings before interest and taxes, and net asset value (Cole, G. (2004). There are two major reasons as to why organizations should have financial performance measurement. The first one is to produce financial statements at the right time. Secondly, financial statements should be analyzed to produce information about the performance of the organization, which must be used to improve that performance, (Johnson, G & Scholes, K. (2007).

There are varied measures of financial performance. In traditional management studies, ratios are used and are classified according to the following performance aspects measured: profitability, liquidity, leverage, and efficiency (Mwaura D., 2005). These ratios can be computed directly using financial statement information. Valuation ratios are added with the traditional classification of ratios, which incorporate more current assessments by the market of the company's "worth". Simple balance sheet and income statement items are used to compute ratios to analyze financial statements of the financial institutions. It is important to note that no one measure of financial performance should be taken on its own. Rather, a thorough assessment of a company's performance should take into account many different measures as there are several factors that determine the performance of economic organization including asset base, leverage, performance of the loan book, corporate governance and the quality of staff and regulations in the industry. The essence of financial performance measurement is to provide the organization with the maximum return on the capital employed in the business (Ngui, A. N., 2010).

Financial performance is one of many different measures to evaluate how well a company is using its resources to generate income. Common examples of financial performance include operating income, earnings before interest and taxes, and net asset value (Ngui, A. N., 2010)

1.3. Savings and Credit Cooperative Societies (SACCOs)

A Co-operative Society is an association of persons who have come together with a common purpose of pooling their resources together for mutual economic and social benefit. A cooperative is an autonomous association of persons united voluntarily to meet their common economic cultural needs and aspirations through a jointly owned and democratically controlled enterprise. The key idea behind a co-operative society is to pool the scarce resource, eliminate the middlemen and to achieve a common goal or interest (Ministry of Cooperative Development and Marketing, 2007).

The first Co-operative Society in the world was formed in 1844 in a village in England known as Rochdale, by a group of people referred to as the Rochdale Pioneers, when Britain was undergoing industrial revolution. The Rochdale Pioneers was composed of a group of working-class people who came together to change the unfair society they were living in, after being fed up with dishonest and corrupt shopkeepers selling poor quality products at high prices. For this reason, they decided to take matters into their own hands and pooled the few resources they had and got enough money to open their own shop and pledged to only sell quality, unadulterated products, sharing the profits fairly with their customers (Holyoake, 2014).

Rochdale pioneers decided to draw up some principles which guided the operations of co-operative societies. The seven principles known as Co-operative principles are currently used all over the world (Holyoake, 2014). The seven Co-operative Principles are: open and voluntary membership; democratic member control; member economic participation; autonomy and independence; education, training and information; cooperation among co-operators and concern for community. In Kenya, the co-operative movement started in 1908 when a society known as Lumbwa Co-operative Society was formed by some European farmers. It was not until 1931 when the cooperative society's ordinance became law that these societies could formally be registered as cooperatives. The first society to be registered under the new Act was the Kenya Farmers Association (KFA) which started as a company in 1923. In 1945, a new Co-operative Ordinance was passed in the legislative Assembly which allowed Africans to form Co-operative Societies. After independence, this ordinance was replaced by the Co-operative Societies Act of 1966. By independence time, there were over 600 primary cooperatives in Kenya with the Kenya National Federation of Cooperatives (KNFC) formed in 1964 (Maina, and Kibanga, 2004).

Primary cooperatives comprise groups of individuals who are actual producers of products such as tea, sugar, milk, coffee or consumers who join up to save and obtain credit most conveniently (Njoroge, 2003). Most primary cooperatives operate at the village level, district level and a few at national levels. Secondary cooperative societies, also referred to as unions are generally composed of primary cooperatives as their members. All cooperative societies are affiliated to a national apex body called the Cooperative Alliance of Kenya (CAK) while individual SACCOs are affiliated to the Kenya Union of Saving and Credit Cooperative society (KUSCCO) (Ministry of Cooperative Development and Marketing, 2007). The co-operative movement in Kenya is an important player in the social economic development as envisaged in Kenya's Vision 2030. Cooperatives cut across all sectors of the economy and provide an important framework for mobilization of both human and capital resources.

To ensure an enabling environment for cooperatives to prosper in Kenya, the Ministry of Cooperative Development and Marketing established the Sacco Societies Regulatory Authority (SASRA) to regulate deposit taking Saccos, the Ethics Commission for Cooperative Societies (ECCOS) to address governance matters, revitalized the Cooperative Alliance of Kenya (CAK) which is the apex body of cooperatives, to enable it play a more critical role in modernization of the cooperative sector including participation in serious investments.

Further, The Ministry ensured a review of policies in line with the new constitutional requirements on the devolved government and the revision of the Cooperative Development Policy and the Cooperative Societies Act Cap 490 alongside revitalizing key commodity cooperatives in areas such as coffee, dairy and horticulture. (Ministry of Cooperative Development and Marketing, 2007.)

SACCOs are offshoots of Co-operative Societies. They are autonomous associations of persons united voluntarily to meet their common economic and social needs through a jointly owned and democratically controlled enterprise. It is a member owned financial co-operative society whose primary objective is to mobilize savings and afford member access to loans on affordable terms as a way of enhancing their socio-economic wellbeing. SACCOs are important financial intermediary in Kenya providing savings, credit and insurance services to a large portion of the population (KUSCCO, 2003)

SACCOs are established under the Co-operative Societies Act Cap 490. They are important form of financial intermediaries, which over the years have played vital role in provision of financial services to their members. SACCOs provide an avenue for savings and offer affordable credit facilities to its own members. They are known to offer loans in multiplicity of long term deposits commonly referred to as shares. Members deposit money in form of savings and shares and the SACCO uses this to advance loans and other credit facilities to the members. SACCOs use the member guarantee as security besides the member's shares to award a credit facility to a member i.e. a member who wants a loan should be guaranteed by other members. In the recent past, however, SACCOs have adopted the use of collaterals like title deeds log books as security for loans (SASRA Sacco supervision report, 2013).

SACCOs need to perform well and grow like the other financial intermediaries if the number of people in Kenya living below the poverty line is to reduce. The financial system in Kenya consists of commercial banks, development banks, mortgage companies, building societies, finance companies, MFIs, insurance companies and SACCOs. Kenya has a total of 43 commercial banks with total bank deposits of Ksh. 705.2 billion and total loans and advances of Ksh. 951.2 billion (CBK Statistical bulletin, December 2011).

The SACCO movement has evolved in the past 45 years into a formidable force for the social and economic transformation of Kenyan people. The sub sector has a membership of over 3 million making it the largest in Africa, with total deposits for the sector standing at Kshs. 213 billion and loans to members at Kshs. 221 billion (SASRA, 2010).

In Kenya we have 7,400 registered SACCOs equivalent to 42% of all co-operatives. Out of the 7,400 SACCOs, 3800 are active and 215 have FOSAs offering basic banking services across the country, with 124 SACCOs licensed (SASRA, 2011). The SACCO movement has mobilized over Ksh. 150 billion in savings (more than 30% of the National Domestic savings) and loans amounting to Ksh. 120 billion (MOCDM, 2012).

Kilifi County has a total of 88 SACCOs, with only two licensed deposit taking SACCO by SASRA. Imarika SACCO, being one of the two SACCOs licensed by SASRA was registered in 1974 with pioneer members being less than 100 members, all of them being primary school teachers. In 1998, the SACCO opened its common bond and started transacting business with the non-teacher's fraternity. In 2006, the SACCO introduced the Micro Savings and Credit Activity (MSCA) for small savers coming in as groups to save and borrow. To date, the SACCO has 53,503 members classified as; 18,251 MSCA members, 20,667 FOSA members and 14,585 BOSA members (Imarika Sacco, 2015).

1.4. Statement of the Problem

Kenya continues to enjoy the fastest growing economy in East Africa despite the current decline in some sectors of its economy; the financial sector in Kenya has been performing better than any other sector in the economy. Many commercial banks and other financial institutions continue to grow day by day and some have even crossed borders to offer services in the neighboring East African States with plans to explore West Africa. SACCOs are financial institutions which offer similar services and products like commercial banks. Most SACCOs are older than some of the commercial banks and some SACCOs are bigger of asset base than some commercial banks but their growth, financial performance and expansion level is not something to be proud of commercial banks and other financial institutions. Further, the financial performance varies among different SACCOs thus the concern of what could be affecting the financial performance of SACCOs.

Athanosoglou, Brissimis, and Delis (2005) investigated, in a single-equation framework, the effect of capital adequacy on MFIs profitability. Using dynamic estimation technique, Goddard, Molyneyx, and Wilson (2004) studied the determinants of profitability of European MFIs. They found a significant persistence of abnormal profits from year to year and a positive relationship between the capital-asset ratio and profitability. Higher leverage or a low equity/asset ratio reduces the agency costs of outside equity and increases its value by constraining or encouraging managers to act more in the interest of shareholders. Hence, capital regulations on risk taking can mitigate conflicts between shareholders and credit union managers concerning the choice of investment and improve credit union financial performance

Previous studies have focused on credit risk management and in SACCO financial performances. Gisemba (2010) undertook a study on the relationship between credit risk management practices and financial performance of SACCOs in Kenya. The study concluded that the management of the SACCOs were involved in the management of the credit risk through making credit risk decision through standardization of process and documentation watch over loan portfolio's degree of concentration and exposure for credit risk management. Gaitho (2010) carried out a study on survey of credit risk management practices adopted by SACCOs in Nairobi. There has therefore been little study on financial performance on SACCOs in Kenya.

Kilifi County has a total number of 146 registered co-operatives comprising of 88 SACCOs, 23 dairy co-operatives, 6 housing co-operatives, 10 marketing co-operatives and 19 farming co-operatives. Out of the 88 SACCOs, 40 are active leaving the other lot of 48 still hovering with the problem of performance and growth. Kilifi County has 6 districts namely Bahari, Ganze, Rabai, Kaloleni, Malindi and Magarini with a population of 1.1 million (according to the 2009 census); 48% male and 52% female.

With 135 licensed deposit taking SACCOs in Kenya, Kilifi County has only two. Many SACCOs are initiated but the level at which they pick up and grow is of great concern. The trend of the performance for the deposit taking SACCOs for the years 2007, 2008, 2009 and 2010 has been 12%, 16%, 10% and 28% of deposits respectively. In 2013, the growth in assets was 16.5%, as assets stood at Kshs. 242 billion. The growth in total assets over the years 2007, 2008, 2009 and 2010 has been 10%, 16%, 9% and 17% respectively.

Kilifi County's total turnover for SACCOs was 538 million with total assets of 3.07 billion, while the turn over for Imarika SACCO only was 519 million with total assets of 2.9 billion in 2013 (SASRA Sacco supervision report, 2013). Thus, this shows a great concern on the performance of SACCOs signifying need for survey. This study seeks to fill the existing knowledge gap to determine the factors affecting financial performance of SACCOs.

1.5. Objectives

1.5.1. General Objectives

The general objective of this study is to analyze the factors affecting financial performance of SACCOs in Kilifi County.

1.5.2. Specific Objectives

In line with the general objective, the specific objectives are:

- i. To determine the role of financial innovation on the financial performance of SACCOs in Kilifi County.
- ii. To establish the effect of credit management on financial performance of SACCOs in Kilifi County.
- iii. To find out how working capital management affects the financial performance of SACCOs in Kilifi County.

1.6. Research Questions

- i. What effect does financial innovation have on the financial performance of SACCOs?
- ii. What impact does credit management have on the financial performance of SACCOs?
- iii. What impact does working capital management have on the financial performance of SACCOs?

1.7. Justification of the Study

The SACCO movement in Kenya is billed as the largest in Africa and among the top 10 globally. Kilifi County has 88 SACCOs (40 are active and 48 are inactive). This research was able to investigate what affects the financial performance of SACCOs. The key challenge for managers and Directors of SACCOs is to perform well in the industry (Sacco Review, 2012).

The policy makers will obtain knowledge of the Co-operative movement's dynamics and the responses that are appropriate. They will therefore obtain guidance from this study in designing appropriate policies that will regulate the credit management in the SACCO. This will further aim at achieving sound financial performance of the SACCO.

The study provides information to potential and current scholars with regard to performance of SACCOs. In addition, the study provides researchers with additional knowledge from the study given that it is focused on SACCOs that are engaged in deposit taking. The management was able to identify how financial innovation affects the operation of SACCOs as well as determine the extent to which this and other factors affect the financial performance of other SACCOs in Kenya. The study identifies and links other impediments that affect financial performance of SACCOs.

SACCO's financial performance is affected by working liquidity strategies. The study exhibited an understanding for staff working in SACCOs to identify how liquidity management affected financial performance.

This research is intended to benefit the SACCO management in formulation of strategies aimed at enhancing financial innovation, formulation of efficient credit management policies and liquidity management strategies in order to achieve better financial performance.

1.8. Scope of the Study

Out of the 88 registered SACCOs in the County, this study focused on one of the SACCOs, Imarika Sacco. Imarika Sacco started as a teacher based SACCO which opened its common bond in 1998. It has its head office in Kilifi and branches in Malindi, Mariakani and Mtwapa, with over 53,503 members (Imarika SACCO, 2015). This study focused on the factors affecting the financial performance of SACCOs. Specifically, it narrowed down on financial innovation, credit management and liquidity management as the factors (dependent variables) of financial performance.

1.9. Limitation of the Study

This study is subject to the following limitations:

- i). The main area that limited the study was the willingness of the target population to participate freely in the provision of data.
- ii). Lack of information on some respondents limited the study especially while handling unstructured questions.
- iii). The level of literacy within the area of study affected the study findings. Specifically, the Micro- Saving and credit groups had difficulties in understanding and ultimately affected the results of the study. The researcher had to do some oral translations in order to enhance the understanding.
- iv). Language barrier: Sacco members include people from different tribes. Cross- cultural and language diversity posed as a challenge to the researcher during data collection. In this case, there was need to administer questionnaires in common languages i.e. English and Kiswahili.
- v). Generalization limitation: Case study research has often been criticized on the grounds that its findings are not generalizable, especially by comparison with those of survey research. However, the results of this study opened more research opportunities to potential researchers who are in a position to replicate in bigger studies.

2. Literature Review

2.1. Introduction

This chapter covers a review of literature to the topic of study. Literature is reviewed so as to establish what exists in relation to the area of study and to identify gaps that exist, hence justify the need to carry out the study. Further data is evaluated and present all relevant information from text books, government publications, reports from other researches, journals and the internet.

2.2. Theoretical Review

There are many theories proposed to explain the concept of financial performance. This study shall focus on three theories which relate to the concept of financial performance.

2.2.1. Administrative Theory

This theory was developed by Henri Fayol (1841-1925). He argued that management was an activity common to all human undertakings in business, in government, and even in the homes. Fayol believed that managerial practices were the key to predictability and efficiency in organizations. This theory views communication as a necessary ingredient to successful management. Management has five principle roles; to forecast and plan, to organize, to command, to co-ordinate and to control. Forecasting and planning is the act of anticipating the future and acting accordingly. Organization is the development of the institution's resources, both material and human. Commanding is keeping the institution's actions and processes running. Co-ordination is the alignment and harmonization of the group's efforts. Finally, control means all the above activities are performed in accordance with appropriate rules and procedures.

This theory emphasized management functions and attempted to generate broad administrative principles that would serve as guidelines for rationalization of organizational activities.

Based on the principle roles of management, Fayol concluded that all activities that occur in business organizations could be divided into six main groups namely technical, commercial, financial, security, accounting and managerial. This brings us to a conclusion that the six groups of activities are interdependent and that it is the role of management to ensure all six activities work smoothly to achieve the goals of an organization.

2.2.2. Systems Theory

The systems theory defines a system as a set of interrelated and interdependent parts arranged in a manner that produces a unified whole. An organization is a system that interacts with and depends upon its environment. The managers' job is to coordinate all resources so as to achieve the organization's goals. Founded in 1950 by Ludwig Von Bertalanffy, this theory views organization as a system composed of interconnected and thus mutually dependent sub systems linking processes and goals. It views an organization as an interconnected purposive system that consists of several business sections. The entire system can be broken into four parts namely input, process, output and feedback (Waweru, 2009).

A system is made of different subsystems: internal and external. These subsystems are interconnected and influence each other. Each of the subsystem interacts with the adjacent subsystem and they work in synergy for the betterment of the entire system. The limits within which the internal subsystems function are determined by the system boundary. The external subsystems, on the other hand are those which lie outside the boundary limits, but still influence the system (Overton, 2010).

Organizational survival depends on successful interactions with the external environment. These interactions need to be analyzed and interpreted so that an organization may design suitable models to adapt and cope with the environment for survival. Where an organization does not interpret the environment well enough, it may face difficulties in operating in that environment and may be compelled to exit. This theory tries to look at how organizations function and operate as a system that is a subsystem of a much bigger system (Overton, 2010)

2.2.3. Agency Theory

Founded by Stephen Ross and Barry Mitnick in the early 1970s, the agency theory points out that separation of control from ownership imply that professional managers manage a firm on behalf of the firm's owners (Kiel & Nicholson, 2003). Conflicts arise when a firm's owners perceive the professional managers not to be managing the firm in the best interests of the owners. The agency theory is concerned with analyzing and resolving problems that occur in the relationship between principals (owners or shareholders) and their agents or top management. The theory rests on the assumption that the role of organizations is to maximize the wealth of their owners or shareholders (Bowie, 2009).

The agency theory holds that most businesses operate under conditions of incomplete information and uncertainty. Such conditions expose businesses to two agency problems namely adverse selection and moral hazard. Adverse selection occurs when a principal cannot ascertain whether an agent accurately represents his or her ability to do the work for which he or she is paid to do. On the other hand, moral hazard is a condition under which a principal cannot be sure if an agent has put forth maximal effort (Bowie, 2009).

According to the agency theory, superior information available to professional managers allows them to gain advantage over owners of firms. The reasoning is that a firm's top managers may be more interested in their personal welfare than in the welfare of the firm's shareholders (Cortenraad, 2012). Parker (2002) argued that managers will not act to maximize returns to shareholders unless appropriate governance structures are implemented to safeguard the interests of shareholders.

Historically, definitions of corporate governance also took into consideration the relationship between the shareholder and the company, as per “agency theory”, i.e. director-agents acting on behalf of shareholder-principles in overseeing self-serving behaviors of management. However, broader definitions of corporate governance are now attracting greater attention (Solomon and Solomon, 2004). Indeed, effective corporate governance is currently understood as involving a wide number of participants. The primary participants are management, shareholders and the boards of directors, but other key players whose interests are affected by the corporation are employees, suppliers, customers, partners and the general community. Therefore, corporate governance, understood in these broadening social contexts, ensures that the board of directors is accountable not only to shareholders but also to non-shareholder stakeholders, including those who have a vested interest in seeing that the corporation is well governed.

Therefore, the agency theory advocates that the purpose of corporate governance is to minimize the potential for managers to act in a manner contrary to the interests of shareholders. Proponents of the agency theory opine that a firm’s top management becomes more powerful when the firm’s stock is widely held and the board of directors is composed of people who know little of the firm. The theory suggests that a firm’s top management should have a significant ownership of the firm in order to secure a positive relationship between corporate governance and the amount of stock owned by the top management (Mallin, 2004). Wheelen and Hunger (2002) argue that problems arise in corporations because agents (top management) are not willing to bear responsibility for their decisions unless they own a substantial amount of stock in the corporation.

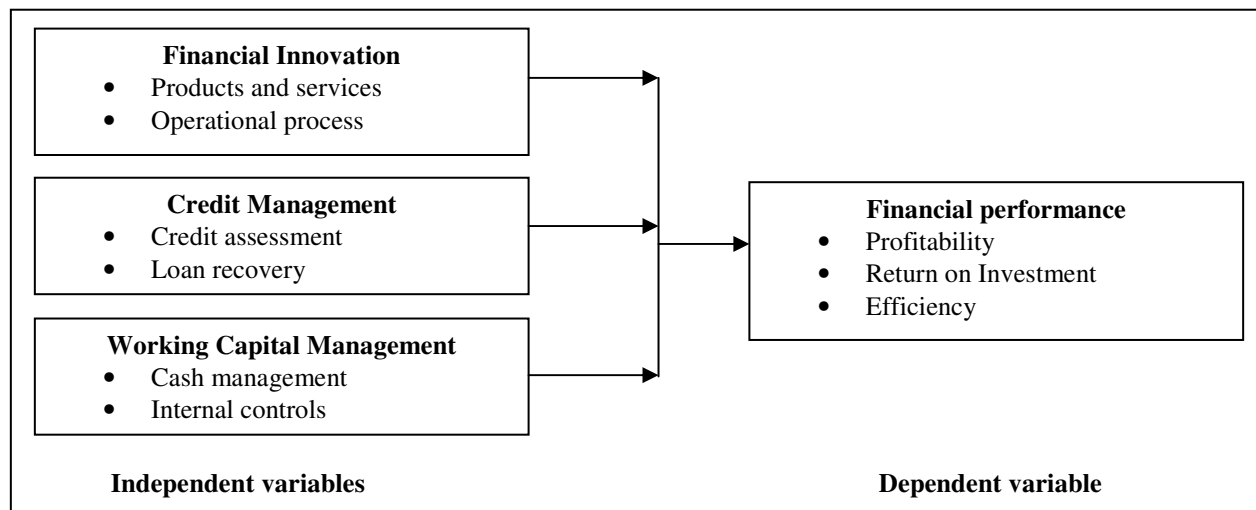


Figure 1: Conceptual Framework

2.3. Conceptual Framework

Financial performance is affected by many factors. This study shall focus on a few of these factors and connect their effect to financial performance.

2.3.1. Financial Innovation

Galbraith, J.K (1967) defines technology “as a systematic application of scientific or other organized knowledge to practical tasks.” Technology includes inventions and innovations. It affects the manner in which the resources of the organization are converted into output.

According to Chidambaram, K and Alagappan, V (2006), technological changes affect production methods, processes and the way of doing business. Information technology enables a firm achieve its objectives or threaten the existence of the firm. A firm which is not able to cope with changing technology may not survive. For a firm to survive therefore, financial innovation is essential.

Financial innovation refers to the advances over time in the financial instruments and payment systems used in the lending and borrowing of funds. These changes, which include innovations in technology, risk transfer and credit and equity generation, have increased available credit for borrowers and given financial institutions new and less costly ways to raise equity capital. Financial innovation can be defined as the act of creating and then popularizing new financial instruments as well as new financial technologies, institutions and markets. It includes institutional, product and process innovation (Frame and White, 2002).

Frame and White (2002) define financial innovation as something new that reduces costs, reduces risks or provides an improved product/service/instrument that better satisfies participants’ demands within a financial system. Innovations can emerge due to technological changes, as well as a response to increased risk or to new regulations. When defining financial innovation, the usual approach is to categorize it into three groups, according to where innovations occur.

Financial innovations are facilitated by information communication technology adoptions. Information technology refers to all forms of technology applied to processing, storing and transmitting information in electronic form. The investment on information technology in the service sector has been criticized by economists Hackett (1990) and Roach (1991) for not showing a corresponding improvement in productivity similar to that observed in the manufacturing industry.

Schwalbe (2013), note that to use information technology effectively, one must invest in human resources as well as technology. Concerning the effect of information technology on the operations of service firms, Heskett et al. (1990) points out that the use of information technology will affect both the customer and the provider of services.

Porter and Millar's (1985) study asserts that utilization of information technology changes the production process, reduces costs, widens the arena of competition and facilitates the creation of new business. Jackson (1990) holds a similar view, closely relating information technology and performance and argued that developing nations should use information technology to improve on service delivery and compete effectively.

Bonk (1996) states that management of SMEs must utilize computer technology, information resources, and telecommunications in operating their firms in order to survive in the era of globalization. This is to enhance financial innovation for their products and services as well as operational processes. For SACCOs to become niche players, they must use information technology to offer superior products and services thus contributing to financial performance.

According to Courtland & Thill (2014), communication is the process of sending and receiving messages. The essence of communication is sharing, i.e. providing data, information and insights in an exchange that benefits both one and the people with whom one is communicating. This is very essential especially in service providers such as SACCOs. Effective communication helps in numerous ways including stronger decision making and faster problem solving. Effective communication strengthens the connection between a company and all of its stakeholders, suppliers, neighbours, the community and the nation.

However, taking advantage of technology requires time, energy and frequent improvement of skills. If the level of technical expertise does not keep up with that of your colleagues and co-workers, the imbalance can put you at a disadvantage and complicate the communication process.

The growth and development of information and communication technology has led to wide diffusion and application, increasing economic and social impact. According to Armstrong and Philip Kotler (2008), through ICT, Bank of America executives have been letting employees order supplies from their desktop computers.

As the global economy become increasingly reliant on ICT to receive, process and send out information, the SACCOs within the developing countries have yet to reap these benefits evenly. This is because obtaining such opportunities rests largely upon the ability of the SACCO to engage in the regional and if possible global economic business networks which, in turn demand provision of a prerequisite level of access to and use of ICT (Dixon et al, 2002). Unless these prerequisites are in place, these SACCOs are set to lose out on opportunities to integrate into the global supply chain and increase their internal productivity and efficiency.

The production or service method of an organization depends so much on how innovative the organization is. An organization can be innovative when it embraces technology in line with the changing needs of the market. SACCOs need technology to innovate new products and services as well as operational processes for convenience and efficiency. Operational convenience leads to member loyalty for SACCOs and operational efficiency saves on resources. All these components contribute to the financial performance of the SACCO (Alvarez, 2007).

2.3.2. Credit Management

Credit management is the process of controlling and collecting payments from customers. A good credit management system will help an entity reduce the amount of capital tied up with debtors and minimize an entity's exposure to bad debts. Credit management therefore refers to all activities that an organization is engaged in when dealing with issuance of service, recording of the transaction, analyzing and collecting payments for services rendered to debtors or customers (Mukherjee, 2014). Organization cannot arbitrarily leave the above functions without any controlling policy. Extending services to customers for payment to be received in future leads to the recognition of such owing as debtors or accounts receivables in the organization. Managing accounts receivables is important for any firm because it is directly linked to the sales.

Bieniasz and Golas, (2011) defined the term receivables as the number of days from the moment of sale (issuing of invoice) until receiving of the payment. Credit sales create account receivable allowing a reasonable credit period for their customers. Credit sales increase the sales volume of the company. However, this may lead to an increase in the bad debts (Bhattacharya, 2003). Therefore, it is essential for firms to implement a suitable collection policy. Increased average collection period generally reflects poor collection efforts, delays in customer payments and customers financial distress (Bernstein & Wild, 2008).

Organizations need to extend credit to increase sales volumes and at the same time, they need to collect back the debts for reinvestment. The ability of an organization to effectively collect back all its debts in time for reinvestment has a relationship with its financial performance. Organizations which are able to collect back debts and minimize the level of bad debts shall increase their profitability (Bagchi & Khamrui, 2012). This is why, many researchers have focused on the study of this variable as one of the factors that affect working capital management and financial performance in an organization. Credit management in financial institutions will entail procedures and policies governing the loan assessment and recovery. Loans to customers must be assessed accurately and in line with the organization's credit policy. Further, the loans have to be collected to avoid loan defaulting. This introduces back funds for further lending.

2.3.3. Liquidity Management

Working capital management is considered to be a very important element when analyzing organization's performance while conducting day to day operations, by which balance can be maintained between liquidity and profitability. Maintaining liquidity on daily basis is very essential for smooth operations. This ensures that an organization runs smoothly and meets its obligations as and when they fall due. Maintaining this position is a crucial part required in managing working capital. (Filbeck.2005)

An organization's financial performance can be affected by the liquidity management practices. This requires the establishment of the relationship between liquidity and organization performance considering Return on assets (R.O.A) and Return on Equity (R.O.E). This shall help the financial Manager to set a tradeoff between their liquidity and their financial performance. Imarika Sacco was registered to mobilize member's funds and granting loans to the members for provident needs and expansion of individual business as well as groups. The primary role of this Sacco was to accept deposits from the members through cash deposit and cheque off system and use the same to grant loans to the members.

Liquid funds plays an important role in financial performance of the organization, as the company needs such funds for its day to day running of the organization. Good working capital management reveals higher returns of current assets than the current liabilities to maintain a steady liquidity position of a company (Philip Kotler, 2008),

Otherwise; working capital is a requirement of funds to meet the day to day working expenses. So a proper way of liquidity management is highly essential to ensure a dynamic stability of the financial position of an organization. Liquidity is considered as part of a company's operating capital, referring to current asset such as cash in hand cash at bank.

To measure the efficiency of a company's working capital, people often use net working capital which is defined as the difference between current assets and current liabilities. If current assets are higher than current liabilities, an organization has working capital efficiency, explaining the company's ability to continue its operations and to have sufficient funds to satisfy both the needs of the members and upcoming operational expenses. On the other hand, an organization may experience inefficiency on its working capital when current liabilities are more than current asset.

Reheman, N (1994) noted that liquidity management involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet due short-term obligations. There is a combination of policies and techniques for the management of company's working capital. The policies involve debtor's management (credit policy) and short term financing management's popular measure of working capital management is the cash conversion cycle, which tells us how cash moves through a company in terms of duration.

Liquidity management entails a combination of many aspects like cash management and internal controls in an organization. Cash is the most liquid asset in any organization. For an organization to be able to manage its working capital, it should be able to manage its cash in an efficient manner. By managing cash, an organization shall be managing its liquidity, which has a direct impact on the organization's profitability and financial performance in general (Deloof, 2003).

Internal controls refer to the controls, financial and otherwise, instituted in an organization's processes, procedures, assets and operations for the aim of safeguarding its resources. Organizations need to maintain proper books and records for all transactions and dealings of the organization. These records and dealings must be complete and accurate and in line with the policies of the organization. Internal controls are fundamental to all organizations because they provide a mechanism to align organizational goals and aspirations with employee's capabilities, activities and performance (Dirsmith, 2004).

2.3.4. Measurement of Financial Performance

Financial performance is a subjective 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 across the same industry or to compare industries or sectors in aggregation (McConnell, 2007). Financial performance may be measured in many various ways depending on the type of the organization and the needs of the users of the financial reports.

Profitability being one of the ways to measure financial performance, is the ability of management to utilize an organization's resources to create profits and cash flows. This is measured through various ratios like net profit margin, return on investments, return on assets, etc. Financial performance can also be measured by liquidity of the entity. The most common liquidity ratio is the current ratio, which is the ratio of current assets to current liabilities. This ratio indicates a company's ability to pay its short-term bills. A ratio of greater than one is usually a minimum because anything less than one means the company has more liabilities than assets. A high ratio indicates more of a safety cushion, which increases flexibility because some of the inventory items and receivable balances may not be easily convertible to cash. Companies can improve the current ratio by paying down debt, converting short-term debt into long-term debt, collecting its receivables faster and buying inventory only when necessary (Mbui, 2010).

An organization has to operate efficiently for it to achieve sound financial performance levels. Efficiency refers to an organization's ability to utilize the limited resources at hand to generate the most of revenue by minimizing wastages thus making savings. A SACCO has to be efficient for it to achieve sound financial performance standards (Muriuki, 2010).

2.4. Empirical Review

Many studies focused on the MFIs and main stream commercial banks on their financial performance. Many others on SACCOs have focused on regulation and image. In Kenya, several studies have been done on the effect of corporate governance on financial performance. Muriithi, (2004) studied the relationship between corporate governance mechanisms and performance of firms quoted on the NSE and found that the size and the composition of the board of directors together with the separation of the control and the management have the greatest effect on the performance. Ngugi (2007) did a study on the relationship between corporate governance structures and the performance of insurance companies in Kenya and found that inside directors are more familiar with the firm's activities and they can act as monitors to top management especially if they perceive the opportunity to advance into positions held by incompetent executives. The study also found that the effectiveness of a board depends on the optimal mix of inside and outside directors concluding that an optimal board composition lead to better performance of the companies.

Gatauwa (2008) studies the relationship between corporate governance practices and stock market liquidity for firms listed on the Nairobi Stock Exchange. The study found that greater disclosure enhances stock market liquidity, thereby reducing the cost of capital. The commitment of management teams to increase the level of disclosure also lower the information asymmetry between managers and shareholders and lower the cost of capital. Matengo (2008) also conducted a study on the relationship between corporate governance practices and performance the case of banking industries in Kenya. The study found that good corporate governance will lead to lower firm risk and subsequently to a lower cost of capital. The study also found that separation of ownership and control maximizes shareholder's wealth.

2.5. Critique

Many researchers and scholars have emphasized on the study of factors affecting the financial performance of corporate entities and main stream financial institutions like commercial banks. However, little has been focused on SACCOs. This has led to very little information on the financial performance of SACCOs. Less information on Sacco's financial performance means scholars and SACCO stakeholders, including their management, have less to refer to as a basis to formulate policies geared at sound financial performance. As a result, the researcher identified the need for this research to be conducted so as to add to the literature on factors affecting financial performance of SACCOs.

2.6. Summary

This study focused on the factors affecting performance and growth of SACCOs. Few other studies done which relate to this study were reviewed with a view to enable this study to be successful.

The theories discussed herein show that organizations need to understand the expectations from the point of view of investors. This therefore requires that organizations should manage the affairs of an entity with a view on the bottom line of the organization. In order to achieve this, organizations need to understand what factors determine a sound financial performance. The literature explored herein has revealed that financial innovation, credit management and liquidity management play a key role in determining an organization's financial performance.

Credit management plays a key role in an entity, particularly a financial institution whose core business is lending. Loans are supposed to be guided by efficient credit policies covering their assessment, disbursement and recovery procedure. This helps to reduce the chances and degree of delinquency and bad debts. Loans need to be collected for money to be reintroduced back to the cycle for further investment and lending (Mukherjee, 2014).

Liquidity management has been a concept which has affected the financial performance of many organizations (Van Horne, 2005). This has attracted many scholars and researchers to focus on this area so as to increase knowledge and deepening on this subject. Padachi (2006) indicates that cash management and internal controls are the most fundamental concerns in managing liquidity in an organization.

Financial innovation is necessary to introduce new and competitive products and services together with operational processes which can match the dynamic needs of the customers. This is possible through constant and consistent adoption of new trends in technology (Schwalbe, 2013).

2.7. Research Gaps

According to the above reviews, banks and MFIs have been analyzed but much has not been touched on factors affecting the performance of SACCOs. SACCO's issues have been touched somehow but still much has not been done. Much focus has been directed on players in the financial market, mainly the mainstream financial institutions. SACCOs have not been a subject of study by many researchers but just come in as incidental subjects since they are in the financial market as players alongside other players.

Ndubi (2006) conducted a study on strategic responses of SACCOs to changing operating Environment: a study of Nairobi Province KUSCO. The objectives of the study were; to determine the changes that have occurred in the SACCO sub-sector with the onset of the liberalization; to determine what adjustments in products, process, promotion, distribution, costs structures, market research, staff development and market predisposition the SACCOs have adopted. Primary data was collected using open and closed-ended questionnaires distributed to senior managers in the selected SACCOs. The data was thereafter, analyzed using descriptive statistics and an appropriate computer package. The analysis revealed that SACCOs have made various changes in their traditional, resource mobilization and lending methods in an attempt to cope with the changed operating environment.

Muriuki (2010) did a study on factors affecting Sacco performance in Meru South district: a case of Tharaka Nithi Teachers Sacco. The broad objective of the study was to investigate the effects management variables on SACCO's performance in the TNT SACCO. Descriptive research design was used in this study. Since the population was not homogeneous, stratified random sampling design was used as a technique to draw a sample from the sampling frame.

The total population was stratified into the SACCO members, management committee members and staff sub-samples. Questionnaires were used as data collection instruments and the data was analysed using the SPSS. The results show that governance has enormous effects on the performance of the SACCO. Further, the results also indicate that the aspects of education and training play a major role on influencing governance structures. The researcher recommends that the SACCO diversifies its products to take into account the needs of the members and the available market as a means for resource mobilization

From the above literature, it is evident that a sound financial performance is very essential for the survival of an entity in business. Many studies have associated financial performance with competitive advantage and as such many studies have been done on the significance of organization's performance. In order to achieve sound and desirable financial performance, the key factors affecting

the financial performance must be known and well managed. These factors herein are explored to assist the management of the SACCOs towards achieving desirable financial performance. This research therefore was able to find out how the above variables affect the financial performance of SACCOs.

3. Research Methodology

3.1. Introduction

This chapter includes information on the research design, location of the study and gives information on the target population. It also gives information on the sampling design, data collection, data collection instruments and the procedures to be used as well as data processing and analysis.

3.2. Research Design

This study involved the use of descriptive research. According to Cooper and Schindler (2003) a descriptive study is concerned with finding out the what, where and how of a phenomenon. A descriptive research design was used in preliminary and exploratory studies to allow the researcher to gather information, summarize, present and interpret for the purpose of clarification. A research design was used as a strategy for collection and analysis of the data. The data collection instrument used was a questionnaire; it had both structured and unstructured questions that was used to gather information from the members of Imarika Sacco. The research design was considered the most appropriate for this study because the data collection process involves collection of information from people through the use of questionnaires.

3.3. Study Population

Imarika SACCO operates in the Kilifi County. The Sacco has a membership of 53,503 members (Imarika Sacco, 2015). The study population was therefore the general membership of the Sacco. These members are the end users of the SACCO products and services (BOSA, FOSA and MSCA) therefore were better placed to evaluate the key factors affecting financial performance. The study population was sampled from this target.

3.4. Sampling Frame

This is a list that defines a researcher's population of interest. The study entailed collecting data from the study population which was obtained from the general membership of the Sacco. With a study population of 53,503, the total participants were a manageable representation to the researcher since the entire population of 53,503 was not accessible to the researcher. Through the Slovin formular ($n=N/(1+Ne^2)$), the study population (N) of 53,503 members with a confidence level of 95% which was the most acceptable and with a margin of error (e) of 5% (Rees, 2001), the sample size (n) was 397 participants.

3.5. Sample and Sampling Technique

The researcher used the stratified random sampling method. Under this technique, strata were formed based on members' branch of service. A sample was then taken from each stratum in a number proportional to the size of the stratum as compared to the entire population. The researcher used the membership distribution in to branches as strata and then randomly selected the final subjects proportionally from the different strata. The proportions were as follows:

Branch	Population	Percentage	Sample
Kilifi	18,066	33.8	134
Malindi	16,410	30.7	122
Mariakani	10,125	18.9	75
Mtwapa	8,902	16.6	66
Total	53,503	100%	397

Table 1: Sampling

3.6. Data Collection Instruments and Procedure

The researcher will use questionnaire as data collection instrument. The questionnaires were given to the respondents for the purpose of filling the appropriate and reliable information. The questionnaire had structured as well as unstructured questions. The structured questions entailed respondents giving answers based on pre-defined set of answers. The unstructured questions gave the respondents an opportunity to freely give their feelings and opinions about the organization without restrictions. The Likert scale questionnaire format was used to collect data from respondents. This format of questionnaires had five scale fixed choice response format and were designed to measure opinions (Brace, 2008). These ordinal scales measure levels of agreement/disagreement. Data was collected by the researcher with the assistance of some nominated members of staff from all the Branches. BOSA and FOSA members was handled at the offices in all the branches through the use of Customer Care Officers and MSCA Field Officers were used to collect data from MSCA members in the field during their MSCA weekly meetings.

3.7. Data Processing and Analysis

Data analysis is the process of systematically applying statistical and logical techniques to describe, summarize and compare data. The data which was collected was used to analyze the factors affecting the financial performance of SACCOs. The researcher checked the raw data for legibility, consistency, completeness and uniformity for the answers from the respondents. The aim of this was to assemble or reconstruct the data to a meaningful or compressible fashion (Amaresh, 2014). Statistical Package for Social Scientist (SPSS) was used to analyze the data. Presentation of data was done using graphs and charts while frequencies and percentages were used to describe the factors affecting financial performance of SACCOs as per the respondents.

Quantitative data was analyzed based on Pearson correlation analysis and multiple regression model, which took the form of:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e$$

Where: Y = Financial performance

X₁, X₂ and X₃ = Independent variables

X₁ = Information Communication Technology

X₂ = Competition

X₃ = Management practices

β₀ = Constant term

β₁, β₂, β₃ = Regression coefficients or change included in Y by X values

e = Error term

The dependent variable was the financial performance of the SACCOs while independent variables were Financial Innovation, Credit Management and Liquidity Management.

4. Data Analysis, Results and Discussion

4.1. Introduction

This chapter presents analysis of the data on factors affecting financial performance of SACCOs in Kilifi County, a case study of Imarika SACCO. The chapter also provides the major findings and results of the study and discusses those findings and results against the literature reviewed and study objectives. The data is mainly presented in frequency tables, means and standard deviation.

4.2. Response Rate

The study targeted 397 members of Imarika Sacco in Kilifi County, Kenya. From the study, 357 out of the 397 sample respondents filled-in and returned the questionnaires making a response rate of 89.92%. According to Mugenda and Mugenda (1999) a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent; therefore, this response rate was adequate for analysis and reporting.

4.2.1. Data Validity

The researcher asked experts, three academicians, to assess the scales' content validity. Accordingly, the researcher made changes on the first draft in terms of eliminating, adding or rewording some of the items included in that draft.

4.2.2. Reliability Analysis

Prior to the actual study, the researcher carried out a pilot study to pre-test the validity and reliability of data collected using the questionnaire. The pilot study allowed for pre-testing of the research instrument. The results on reliability of the research instruments are presented in Table 2 below.

Scale	Cronbach's Alpha	Number of Items
Credit Management	0.764	5
Financial Innovation	0.809	5
Liquidity Management	0.723	5

Table 2: Reliability Coefficients

The overall Cronbach's alpha for the three categories which is 0.752. The findings of the pilot study shows that all the three scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Mugenda and Mugenda, 2003).

4.3. Demographic Information

4.3.1. Gender of Respondents

The study sought to know the gender of the respondents. The results showed that majority of respondents were male which was represented by 62.7% of the total response rate while 37.3% of the respondents were female with a mean of 1.37 and a standard deviation of 0.484. This showed that more male than females participated in the study shown in the figure 2 below.

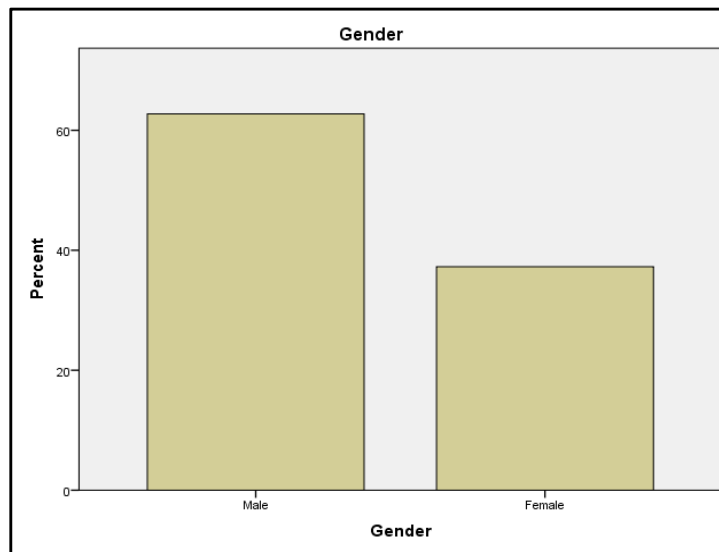


Figure 2

4.3.2. Respondents Age

The study sought to find out the ages of the respondents. The results showed that respondents below 30 years were 11.7%; between 30 and 39 were 35.3%; between 41 and 55 years were 46.3% and 55 years and above were 6.7% of the total respondents with a mean score of 2.48 with a standard deviation of 0.788. This showed that majority of respondents were between 40 and 55 years and below as shown in the figure 3 below.

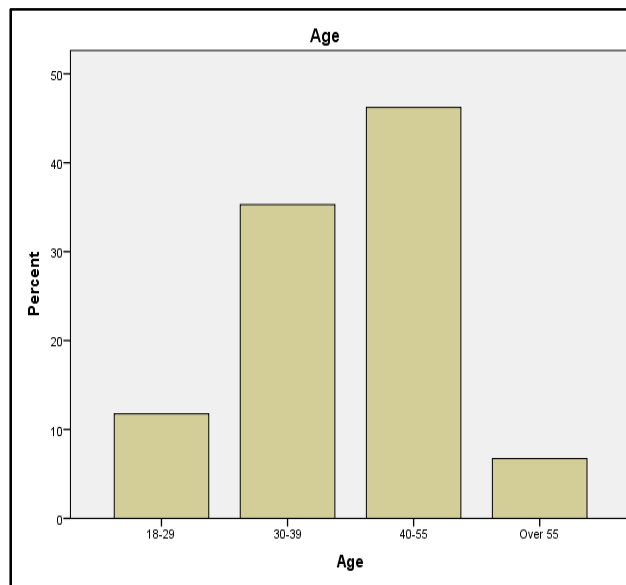


Figure 3

4.3.3. Respondents Length of Membership

The study showed that respondents who have been members in the sacco were as follows: Less than 1 year 6.1%, between 1 and 3 years 14.2%, 4 and 6 years was 8.4% and over 6 years was 70.9% with a mean score of 3.45 and standard deviation of 0.951. Figure 4 shows

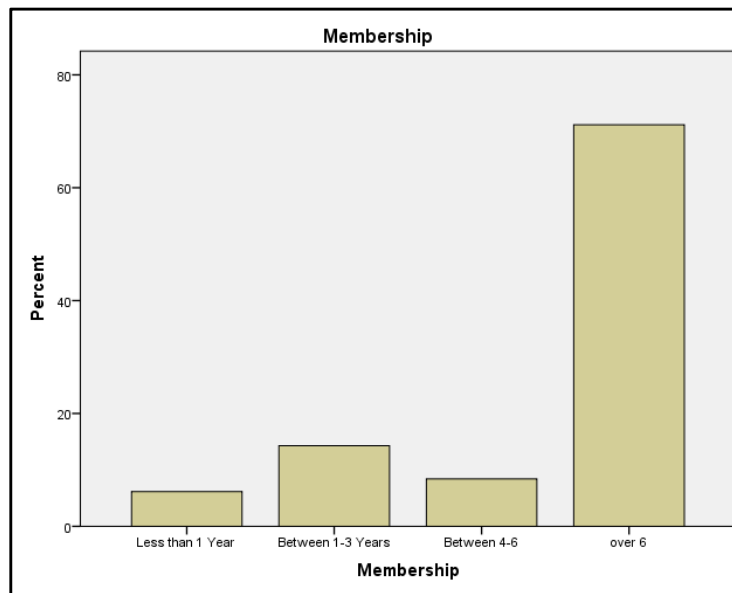


Figure 4

4.4. Factors Affecting Financial Performance of SACCOs

In the research analysis, the researcher used a tool rating scale of 1 to 5; where 5 was the highest and 1 the lowest. Opinions given by the respondents were rated as follows, 5 = Agree completely, 4 = Somehow agree, 3 = Neutral, 2 = Somehow disagree and 1= Disagree completely. The analysis for mean, standard deviation and coefficient of variation were based on this rating scale.

4.4.1. Credit Management

Credit Management				
	Statements	Mean	StandardDeviation	Coefficientof Variation
B1	Sacco has well defined credit policy	4.55	0.859	0.1888
B2	Sacco has clear loan assessment procedure	4.66	0.760	0.1631
B3	All loans at the Sacco are issued as per credit Policy	4.45	1.076	0.2418
B4	Sacco has good recovery procedure	4.46	0.961	0.2155
B5	Sacco has good loan default management	3.80	1.449	0.3813

Table 3: Credit Management

The first objective of the study was to establish the factors affecting financial performance of SACCOs. Respondents were required to respond to set questions related to credit management and give their opinions. The opinion that SACCOs have well defined credit policy had a mean of 4.55 a standard deviation of 0.859 and a low dispersion rate of 18.88% signifying that credit policies are important to SACCOs. The opinion that SACCOs have clear loan assessment procedures had a mean score of 4.66 standard deviation of 0.760 and a low dispersion rate of 16.31% signifying an agreement. All loans at the Sacco are issued as per the credit policy had a mean of 4.45 standard deviation of 1.076 and a dispersion rate of 24.18%. The opinion that the Sacco has good loan recovery procedure had a mean score of 4.46 standard deviation of 0.961 and a dispersion rate of 21.55% whereas the opinion that the SACCO has a good loan default management procedure had a mean of 3.80 standard deviation of 1.449 and a dispersion rate of 38.13%. The general view, what can you say about credit management had a mean score of 1.90 standard deviation of 0.756 and dispersion rate of 39.79%.

4.4.2. Financial Innovation

Credit Management				
	Statements	Mean	Standard Deviation	Coefficient of Variation
C1	There is continuous improvement on adoption Of technology on Sacco operations	4.58	0.717	0.1565
C2	New and improved products and services create Value to me	4.51	0.788	0.1747
C3	Modern technology is used to facilitate easy Access to Sacco information, products	4.70	0.688	0.1421
C4	I get services conveniently through adopted Technology on operational procedures	4.55	0.797	0.1752
C5	Technology used has improved efficiency and Performance	4.54	0.859	0.1892

Table 4: Financial Innovation

The second objective of the study was to establish the effect of financial innovation on financial performance of SACCOs in Kilifi County, Kenya. Respondents were required to respond to set questions related to financial innovation and give their opinions. The opinion that there is continuous improvement on adoption of technology on Sacco operations had a mean score of 4.58 standard deviation of 0.717 and a dispersion rate of 15.65% signifying high agreement. The opinion that new and improved products and services create value for me had a mean score of 4.51 standard deviation of 0.788 and a low dispersion of 17.47%. Modern technology is used to facilitate easy access to Sacco information, products, services and processes had a mean score of 4.70, standard deviation 0.668 and a low dispersion rate of 14.21%. I get services conveniently through adopted technology on operational procedures had a mean score of 4.55 standard deviation of 0.797 and dispersion rate of 18.92% signifying a high level of agreement. Technology used has improved efficiency and performance had a mean score of 4.54 standard deviation of 0.859 and a dispersion of 18.92%. The general view of Sacco on financial innovation had a mean of 1.9 standard deviation of 0.845 with a dispersion of 44.47%.

4.4.3. Liquidity Management

Credit Management				
	Statements	Mean	StandardDeviation	Coefficient of Variation
D1	There is efficient cash management	4.32	0.824	0.1907
D2	Sacco has stable cash position	4.60	0.703	0.1528
D3	Sacco has clear & efficient internal controls	4.31	0.934	0.2167
D4	Internal controls are being adhered to consistently	4.23	0.958	0.2265
D5	There is a well-defined level for payments	4.43	0.941	0.2124

Table 5: Liquidity Management

The first objective of the study was to establish the effects of liquidity management on financial performance of SACCOs in Kilifi County. Respondents were required to respond to set questions related to liquidity management and give their opinions. The opinion that there is efficient cash management had a mean score of 4.32 standard deviation of 0.824 dispersion rate of 19.07%. The Sacco has a stable cash position had a mean score of 4.60 standard deviation 0.703 and dispersion rate of 15.28 signifying high level agreement. The opinion that the Sacco has clear and efficient internal control had a mean score of 4.31, standard deviation 0.931 and a dispersion rate of 21.67%. Internal controls are being adhered to consistently had a mean score of 4.23 and a standard deviation of 0.958 and a dispersion rate of 22.65% and the opinion that there are well defined authority levels for payments had a mean score of 4.43 standard deviation of 0.941 and dispersion of 21.24%.

The general comment about the Sacco's liquidity management had a mean score of 1.85 standard deviation of 0.739 and dispersion rate 39.95% signifying relative agreement.

The other general comment, what can you say about the financial performance of the Sacco had a mean score of 1.31 with standard deviation of 0.723 and a dispersion of 55.19 signifying a lukewarm agreement.

4.5. Multiple Regression Analysis

The correlation analysis Table 6 shows the relationship between the independent variables, credit management, financial innovation and liquidity management and the dependent variable financial performance of SACCOs. The analysis indicates the coefficient of correlation; r equal to 0.768, 0.776 and 0.773 for credit management, financial innovation and liquidity management respectively. This indicates a very strong positive relationship between the independent variables, credit management, financial innovation and liquidity management and the dependent variable financial performance of SACCOs.

Model	B	Coefficients ²				Correlations		
		Unstandardized Coefficients Std. Error	Standardized Coefficient Beta	t	Sig	Zero-order	Partial	Part
(Constant)	.658	.136	5.511	.000				
Credit Management	.483	.137	.282	3.194	0.01	.768	.110	.015
Financial Innovation	.496	.121	.485	4.111	.000	.776	.594	.121
Liquidity Management	.451	.145	.391	3.109	0.04	.773	.488	0.92

a. Dependent Variable: Financial performance of Sacco

Table 6: Multiple Regression Analysis Coefficients

➤ Hypothesis 1

→ H_0 : There is no effect of credit management on financial performance of Sacco Imarika.

- $\beta_1=0$,

→ H_1 : There is an effect of credit management on financial performance of Sacco Imarika.

- $\beta_1 \neq 0$,

In relation to the variable documentation process, the results in Table 6 above indicate that credit management has a significant influence on financial performance of Sacco Imarika. This is supported by regression analysis t-value of 3.194 which is greater than the critical value 2.0 and a p-value of 0.01 at 95% level of significance which is less than 0.05. After testing the hypothesis by comparing the scores of calculated t-value and critical t ; Calculated t-values was, 3.194 for credit management, which is greater than the critical $t_{36-1} (0.05) = 2.0$, the study rejected the null hypothesis that there is no effect of credit management on financial performance of Sacco Imarika.

Therefore the study accepted the alternative hypothesis that there is an effect of credit management on financial performance in Sacco Imarika.

➤ Hypothesis 2

→ H_0 : There is no effect of financial innovation on financial performance of Sacco Imarika.

- $\beta_1=0$,

→ H_1 : There is an effect of financial innovation on financial performance of Sacco Imarika.

- $\beta_1 \neq 0$,

In relation to the variable financial innovation, the results in Table 6 above indicate that financial innovation has a significant influence on financial performance of Sacco Imarika. This is supported by regression analysis t-value of 2.95 which is greater than the critical value 2.0 and a p-value of 0.04 at 95% level of significance which is less than 0.05.

After testing the hypothesis by comparing the scores of calculated t-value and critical t ; Calculated t-values was, 2.95 for financial innovation, which is greater than the critical $t_{36-1} (0.05) = 2.0$, the study rejected the null hypothesis that there is no effect of financial innovation on financial performance of Sacco Imarika.

Therefore the study accepted the alternative hypothesis that there is an effect of financial innovation on financial performance of Sacco Imarika.

➤ Hypothesis 3

→ H_0 : There is no effect of liquidity management on financial performance of Sacco Imarika

- $\beta_1=0$,

→ H_1 : There is an effect of liquidity management on financial performance of Sacco Imarika.

- $\beta_1 \neq 0$,

In relation to the variable liquidity management, the results in Table 6 above indicate that liquidity management has a significant influence on financial performance of Sacco Imarika. This is supported by regression analysis t-value of 4.111 which is greater than the critical value 2.0 and a p-value of 0.00 at 95% level of significance which is less than 0.05.

After testing the hypothesis by comparing the scores of calculated t-value and critical t ; Calculated t-values was, 4.111 for liquidity management , which is greater than the critical $t_{36-1} (0.05) = 2.0$, the study rejected the null hypothesis that there is no effect of liquidity management on financial performance of Sacco Imarika.

Therefore the study accepted the alternative hypothesis that there is an effect of liquidity management on financial performance of Sacco Imarika.

4.6. Regression Analysis

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.786 ^a	.773	.770	.15625	.773	179.329	3	32	.000

a. Predictors: (Constant), credit management, financial innovation, Liquidity management.

Table 7: Regression Analysis Summary

Table 7 above indicates an overall P-value of 0.000 which is less than 0.05 (5%). This shows that the overall regression model is significant at the calculated 95% level of significance. It further implies that the studied independent variables namely credit Management, financial innovation and liquidity management have significant effect on financial performance of Sacco Imarika.

Table 7 shows the regression model summary indicating the coefficient of determination R Square as 0.770. This means that 77.0% of the relationship is explained by the identified three factors namely credit management, financial innovation and Liquidity management. The rest 23.0% is explained by other factors in Imarika Sacco not studied in this research.

In summary the three factors studied namely, credit management, financial innovation and liquidity management explains or determines 77.0% of the relationship while the rest 23.0% is explained or determined by other factors.

The regression equation was:

$$Y = 0.658 + 0.483X_1 + 0.496X_2 + 0.451X_3 + 0.05$$

Where

Y: the dependent variable (Financial performance).

X₁: Credit Management.

X₂: Financial Innovation.

X₃: Liquidity Management.

The regression equation above has established that taking all factors into account (financial performance as a result of credit management, financial innovation, and liquidity management) constant at zero, financial performance will be 0.658. The findings presented also shows that taking all other independent variables at zero, a unit increase in credit management will lead to a 0.483 increase in the scores of financial performance of the SACCO; a unit increase in financial innovation will lead to a 0.496 increase in financial performance of the SACCO, a unit increase in liquidity management will lead to a 0.451 increase in the scores of financial performance of the SACCO.

This therefore implies that all the three variables have a positive relationship with financial performance in the SACCO contributing most to the dependent variable.

4.7. Anova

The study used ANOVA to establish the significance of the regression model. In testing the significance level, the statistical significance was considered significant if the p-value was less or equal to 0.05. The significance of the regression model is as per Table 8 below with P-value of 0.00 which is less than 0.05. This indicates that the regression model is statistically significant in predicting factors affecting financial performance in Sacco a case study of Imarika Sacco.

Basing the confidence level at 95% the analysis indicates high reliability of the results obtained. The overall Anova results indicate that the model was significant at $F = 259.329$, $p = 0.000$.

ANOVA ^a						
	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	352.909	3	8.477	259.329	.000 ^b
	Residual	.763	354	.032		
	Total	353.672	357			
a. Dependent Variable: Financial performance of Sacco Imarika						
b. Predictors: (Constant), credit management, financial innovation, liquidity management						

Table 8: Anova

5. Summary of the Findings, Conclusions and Recommendations

5.1. Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The chapter finally presents the limitations of the study and suggestions for further studies and research.

5.2. Summary

There was 89.92% response on the questionnaires that were administered to respondents. The study showed there were more male respondents than female. The study also revealed that majority of respondents were between the ages of 40 – 55 years and majority have been members for over 6 years.

The independent variable credit management had an overall mean score 21.9216 with a standard deviation of 2.87463 with a dispersion rate of 13.11%, financial innovation had an overall mean of 22.8852 with a standard deviation of 2.72230 and a dispersion of 11.89% signifying a high level of agreement and liquidity management had an overall mean of 21.8852 with a standard deviation of 2.81463 and dispersion of 12.86%.

The correlation analysis indicates the coefficient of correlation; r equal to 0.768, 0.776 and 0.773 for credit management, financial innovation and liquidity management. This indicates a very strong positive relationship between the dependent variables, credit management, financial innovation and liquidity management and the dependent variable financial performance of SACCOS.

After testing the three hypothesis by comparing the scores of calculated t-value and critical t ; Calculated t-values were above 2.0 for all the independent variables studied , which is greater than the critical $t_{36-1} (0.05) = 2.0$, the study rejected all three the null hypothesis accepted all the four alternative hypothesis.

This implies that the studied independent variables namely credit management, financial innovation and liquidity management have significant effect on financial performance of SACCOS Imarika.

5.3. Conclusion

From the research findings, the study concluded all the independent variables studied have significant effect on financial performance of SACCOS as indicated by the strong coefficient of correlation and a p-value which is less than 0.05. The overall effect of the analyzed factors was very high as indicated by the coefficient of determination. The overall P-value of 0.00 which is less than 0.05 (5%) is an

indication of relevance of the studied variables, significant at the calculated 95% level of significance. This implies that the studied independent variables namely credit management; financial innovation and liquidity management have significant effect on financial performance of SACCOs in Kilifi County.

5.4. Recommendation

The study recommended the following:

1. SACCOs should embrace financial innovation in order to attract new business.
2. That credit management limits should be that set by the regulator of SACCOs.
3. That liquidity management limits should be sufficient to cover cash needs of the SACCO.

5.5. Suggestion for Further Studies

The study indicates credit management, financial innovation and liquidity management have significant effect on financial performance of SACCOs in Kilifi County. The researcher further recommends research in related areas in the SACCO business which shall explore other factors that affect financial performance other than credit management, liquidity management and financial innovation. This shall help SACCOs to clearly understand the factors affecting the SACCO business and design appropriate strategies towards achieving sound and desired financial performance levels..

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Appendix 1 – LETTER OF INTRODUCTION

Kennedy Garama Fujoh,
Jomo Kenyatta University of Agriculture and Technology (J.K.U.A.T)
School of Human Resource Development
P.O BOX 81310-80100
Mombasa

Dear Sir/ Madam,

I am a student at Jomo Kenyatta University of Agriculture and Technology, Mombasa Campus, undertaking a Master of Business Administration (MBA) course, Finance Option. I am carrying out an academic research on **FACTORS AFFECTING FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE SOCIETIE IN KILIFI COUNTY, a case study of Imarika SACCO.**

This proposal report is a requirement for any degree qualification. I kindly request you to give me a chance to conduct the research in your organization.

I assure you that the information gathered will be used exclusively for purposes of this study and shall be kept confidential and used only for academic purposes, a copy of the findings will be made available to you on request.

Thank you in advance for your kind support.

Yours sincerely,
Kennedy Garama Fujoh – 0721 460 863
J.K.U.A.T

Appendix II- QUESTIONNAIRE

**Factors Affecting Financial Performance of Savings and Credit Cooperative Societies in Kilifi County
(A Case Study of Imarika Sacco)**

This questionnaire gathers information on factors affecting financial performance of SACCOs. It focuses on how financial innovation, Credit management and Liquidity management strategies are adopted.

Thank you for sharing your opinions.

SECTION ONE: DEMOGRAPHIC INFORMATION

1. Gender Male Female
- 2.
3. Age bracket 18-29 30-39 40-55 55+
4. How long have you been a member?
- Less than a year 1-3 Years
- 4-6 years More than six years

SECTION TWO:**1. Please indicate the extent to which you agree with the following statements in relation to credit management**

	Disagree completely	Somehow disagree	Neither agree nor disagree	Somehow agree	Agree completely
a) The SACCO has a well defined credit policy.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) The SACCO has a clear loan assessment procedure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) All loans at the SACCO are issued as per the credit policy.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) The SACCO has a good loan recovery procedure.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e)The SACCO has a good loan default management procedure.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Generally, what can you say about credit management?

Excellent	Very good	Moderate	Bad	poor

2. Please indicate the extent to which you agree with the following statements on financial innovation

	Disagree completely	Somehow disagree	Neither agree nor disagree	Somehow agree	Agree completely
a) There is continuous improvement on adoption of Technology on SACCO operations.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) New and improved Products and services create value to me	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Modern technology is used to facilitate easy access to SACCO information, products, services and processes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) I get services conveniently through Adopted technology on operational procedures.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Technology used has improved efficiency and performance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

What is your general view of the SACCO on Financial Innovation?

Excellent	Very good	Moderate	Low	Not at all

3. To what extent do you agree with the following statements in regard to liquidity management?

	Disagree completely	Somehow disagree	Neutral	Somehow agree	Absolutely agree
a) There is efficient cash management procedure.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) The SACCO has a stable cash position.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) The SACCO has clear and efficient internal controls.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Internal controls are being adhered to consistently.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) There are well defined authority levels for payments.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

What is your general comment about the SACCO's liquidity management?

Excellent	Very good	Moderate	Bad	poor

4. Generally, what can you say about the Financial performance of the SACCO:

Excellent	Very good	Moderate	Bad	poor

5. Kindly give a general comment about the profitability of the SACCO.

--

6. Kindly give a general comment about the rate of return on investment (Dividend) of the SACCO.

7. Kindly give a general comment about the operational efficiency of the SACCO.

8. Things that the SACCO should do to make it perform better are.....

9. What I like best about this SACCO is.....

Appendix III- WORK PLAN

ACTIVITY	DURATION					
	May 2015	June 2015	July 2015	August 2015	September 2015	October 2015
Selection of a topic and allocation of supervisor						
Chapter one						
Chapter two						
Chapter three						
Data collection						
Chapter four and Five						

Appendix IV- BUDGET

ITEM	AMOUNT (KSH)
Travelling and subsistence	25,000.00
Printing	5,000.00
Communication	3,000.00
Internet cost	5,000.00
Stationery	5,000.00
Photocopy	3,000.00
Contingencies	4,000.00
Total	50,000.00