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INFLUENCE OF CASH MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF DEPOSIT TAKING SACCO'S IN KAKAMEGA COUNTY

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ABSTRACT

This study was on the influence of cash management practices on the financial performance of Deposit taking Saccos in Kakamega County. The theory that guided the study was liquidity management preference theory. The coverage of the study was based on the Saccos registered under SASRA in Kakamega County. The total target population was four Deposit taking Saccos in Kakamega County where it targeted three senior managers (Branch managers, operation managers and loan managers) Shareholders and Board of directors from the four deposit taking Saccos in Kakamega County. The sample size was ninety nine respondents which was formed using stratified random sampling technique. Descriptive research design was employed which demonstrated the relationships between the variables. Closed ended questionnaires was used as data collection instruments and was conveyed to the respondents through drop and pick technique. Data analysis and interpretation was done using quantitative method based on descriptive statistics such as measures of mean and measures of dispersion as well as inferential statistics mainly analysis of variance, multi-linear regression and bivariate Pearson correlation. Data processing and analysis was finally done by use of the SPSS software version twenty four. The correlation between cash management practices and financial performance was significant. The model was fit to predict financial performance using cash management. From the results it was concluded that cash management practices had explanatory power of change in the financial performance of deposit taking Saccos in Kakamega County. The study recommended introduction of other forms of loan guarantees for loan issuance since members‟ investments is on huge risk exposure when left only to members deposit guarantors.

Key Words: *Cash Management Practices, Financial Performance, SACCOs*

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INTRODUCTION

Liquidity is a Sacco's capacity to fund increase in assets and meet both expected and unexpected cash and collateral obligations at a reasonable cost and without incurring unexpected losses. While liquidity risk is the inability of a financial institution to meet such obligations as they become due, without adversely affecting the institutions financial obligation (Mugo,Njeje, Kimathi and Otieno 2015). It is the duty of the financial institutions to reduce liquidity risk within and overall financial system by devising plans for effective management of liquid assets (Tirole 2011). Although all financial institutions face these challenges, sound management and planning hedge them from adverse trends in Business cycle. The efficient management of liquidity and cash flow has always been a core function of any financial institution but in today's complex, fast moving and technology driven environment, it demands for greater attention than ever .Given this increased focus Sacco's need liquidity management practices that will help them increase visibility, reduce risk and improve availability of cash across the sector.

The need for greater liquidity has been met by increasing membership and not by overhauling often highly entrenched business practices. Appropriate policies and procedures should be established to limit and control material sources of liquidity risk (Githaka ,Maina and Gachora 2017).All Sacco's should embrace the concept of liquidity management and thus to ensure and enhance financial performance of Sacco's ,it is important to take into considerations the factors that are associated to liquidity management (Songe 2015).As a financial institutions Sacco's should manage demand and supply of liquidity in an appropriate manner in order to safely run their business and maintain good relation with their stakeholders. Afsd in its study says that most, if not all Sacco's are currently operating high risk models that are prone to liquidity risks. Ademba (2010) postulates that Sacco's in Kenya are faced with problems of negative cash. Further finding (Muthuku 2017) show that strategies are not in place to prevent Cash flow problems in Kenya. The Sacco supervision annual report (2014) reported of Sacco's substantially depending on inefficient contingent liquidity plans.

Kenya has over 5000 registered Saccos with more than sh 501 billion in Savings and asset base of shs 694 billion .An estimated 230 saccos offer front office services activities (Fosas) through 550 outlets ,(FSD 2, 2009)enabling them to compete effectively in the retail banking business and lend members. The government of Kenya estimates that 63 percent of the Kenyan population participates Saccos are seen as better lenders because they are member focused and largely dedicate all the resources to meeting borrowing needs of members. The (FSD,2009) study reckons that despite their financial vulnerability ,most saccos have been using whatever cash is available to pay out dividends even in the apparent insolvency rather than invest in business improvements, Sacco compliance remain superficial, whilst significant number of Saccos are converging to compliance criteria, the regulatory framework introduced has not driven any real change in the Sacco operating model, hence the need to stay afloat has seen many Saccos recruit more members instead of adopting stringent systems of control to guide lending ,making them a ticking time bomb.

The savings and credit cooperatives (Sacco's) are defined as cooperatives who provide their members with convenient and secure means of saving money and obtaining credit at affordable interest rates (Bailey,2001).Their objective is to empower members through savings mobilization ,disbursement of credit and ensuring Sacco's long-term sustainability through prudent financial practice .The government estimates that 63 percent of the Kenyan population participates directly or indirectly in cooperative based enterprises. As at the end of 2010, there were 13,256 Cooperatives with a membership of 10.2 million .Sacco's accounted for 47 percent of the total number

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of cooperatives with a total membership of over 6 million and funds mobilized amounting to about 378 billion shillings equivalent to 31 percent of National savings .The Sacco subsector of the Cooperatives is the fastest growing registering an average annual growth of 25 percent during the period 2000 to 2010 (Government of Kenya, 2011).

According to the Sacco Review (2017), in Kakamega County, Figures indicate that there are over 151 Cooperative Societies spread across 12 sub counties of Kakamega County and the total asset base of all the Saccos in the area is shs 7 billion. 152 Saccos has since been registered in Kakamega County with 115 of these Saccos being active and 39 remaining dormant. The Kakamega County Minister for Agriculture and Cooperative development said that cooperatives Societies including Saccos can be crucial economic transformers in the County .He made these remarks while launching the formation of Shinyalu Ikolomani and Khwisero tea Cooperatives in Kakamega County.

Statement of the Problem

Cash is critical when it comes to the financial management of an organization. To manage cash flows three issues are important cash outflow, cash inflows and policies that guide cash flows. Figures from Sacco Societies regulatory authority database shows that the ratio of total loans to total deposits for the entire Sacco sector stood at 108.39 percent in 2016 which is a marginal improvement from 108.74 percent in 2015 and 110.95 percent in 2014. The liquidity rating for 2015 as per the analysis shows an improvement in the overall liquidity of the Sacco's with a marked increase from 47.32 percent in 2014 to 55.99 percent registered in 2015 against the prescribed minimum of 15 percent. This distribution of compliance levels with liquidity ratios as at 2015, shows that only 14 Sacco's did not meet or maintain the prescribed minimum threshold ratio of 15 percent. However in the same Sacco supervision Annual report (2015) it is observed that despite the impressive liquidity measurement being registered in successive years over and above the prescribed minimum, 95 percent of Sacco's are often unable to meet their short term obligations to their members particularly the disbursement of loans.

As per the regulatory authority, this irony calls for a review of the prevailing regulatory definition of liquidity ratio of 15 percent as provided in the regulation of 2010, and in their annual report (2015) the authority indicated of the need to engage the stakeholders to find a practical and realistic regulatory definition that addresses the needs of the industry .Sasra has revoked the licenses of eight credit unions, effectively barring them from taking deposits from the public due to serious liquidity problems they were facing .In 2011-2013, the cooperative movement was in a crisis caused by the huge interest on loans and this was because Sacco's relied on commercial banks for loans to bridge illiquidity, this evidently threatened financial stability of Sacco's. This economic crisis which affected banks in turn affected the cooperatives.

The Sacco supervision annual report (2014) reported of Sacco's substantially depending on inefficient contingent liquidity plans. All this interconnected issues caused liquidity crisis and resolving them required sector wide resolution, and thus by understanding the landscape and the options available to them ,cooperatives were better placed to position themselves to resolve their liquidity issues by incorporating this liquidity management practices in their Restructuring ,strategy and operations. It is on this backdrop that this research aims at examining the nature of relationship between liquidity management practices and financial performance of Sacco's in Kakamega County. Njeru (2016) in their study of effect of liquidity management on the financial performance of deposit taking Savings and Credit co-operative societies in Kenya, their results revealed that even though Sacco's undertake strict cash flow forecast, there are external variables that

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can affect cash management which poses a greater risk in the operations of the institutions hence the need to critically review in-depth on the cash management factors both in the external and internal environment that can affect cash management in the institution and establish mitigation factors.

Ndirangu and Mwengi (2017) in their study of influence of liquidity management policies on operational efficiency of savings and credit cooperative Societies in Kenya, revealed that majority of the Sacco's do not have a well-known liquidity risk tolerance levels and neither do they maintain liquidity based on a policy guidelines and had failed to meet financial obligations to outsiders at least once within six months. There is very little literature in the field of liquidity management practices for deposit taking Sacco's .Many researches in this area have written in depth about liquidity management and Bank performance .Based on the available studies and the varying gaps in literature ,there is need to conduct similar study in Kenya Kakamega county. The research thus aimed at providing more knowledge and formed the bases for further researches, and also provided a solution to the inefficient contingent cash management plans hence the need to study the relationship of cash management practices on the financial performance of Sacco's in Kakamega County.

Objectives of the Study

The objective of this study was to evaluate the influence of cash management practices on the Deposit taking Sacco in Kakamega County.

Research Hypothesis

Ho_1: Cash Management practices has no statistically significant relationship with financial performance of deposit taking Saccos in Kakamega County.

LITERATURE REVIEW

Theoretical Framework

Liquidity Management Preference Theory

This theory says that the demand for money is not to borrow money but the desire to remain liquid. In other words, the interest rate is the 'price' for money, Prateek (2018). This theory was put forward by John Maynard Keynes (2011). Liquidity preference refers to the amount of money the public is willing to hold given the interest rate. Keynes argued that there are three reasons for holding liquid assets. First, they act as ordinary transactions, second the act as a precaution against a rainy day, and third they are used for speculative purposes. Keynes showed that transaction deposits vary inversely with the rate of interest. The main argument in this theory is that at very low interest rate, an increase in the money supply does not encourage people investment but instead increases cash balances. The reason is that people expect the interest rate to rise later.

There are many factors that affect banks own liquidity and in turn affect the amount of liquidity they can create. These factors have a varying degree of influence on the balance between liquidity risk and liquidity creation, or Sacco liquidity management. Saccos's assets and liabilities play a central role in their balancing of liquidity risk and creation. Sacco's liabilities include all the Saccos sources of funds. Saccos have three main sources of funds: deposit accounts, borrowed funds, and long term funds. The amounts and sources of funds clearly affect how much liquidity risk a Sacco has and how much liquidity it can create. The easier a Sacco can access funds the less risk it has and the higher amount of funds it holds the more liquidity it can create, if willing to do so. Deposit accounts are made up of transaction deposits, also known as demand deposits, savings deposits, time deposits, and money market deposit accounts. The borrowed funds of a Sacco come from loans from other Saccos via the Federal Funds market, loans from the Federal Reserve Bank, repurchase agreements, and Eurodollar borrowings.

Saunders and Cornett (2011) advocate for the prudential planning of cash flows by matching

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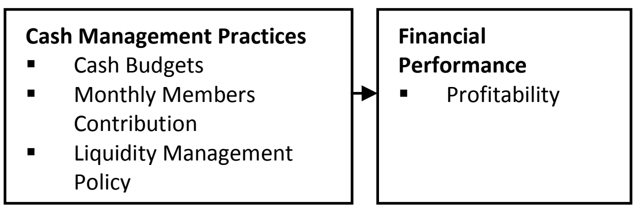
maturities of assets against maturities of liabilities. For an organization to operate in a positive cash flow the maturity of asset must be earlier than the maturity of liabilities. Government of Kenya (2008), SACCO Societies Act advocates for 15% Liquidity ratio which is computed as total cash and cash equivalent divided by the summation of short term deposits and short term liabilities. The ratio encourages SACCOs to be liquid always to enable them meet daily cash requirements for the members and a similar view was shared by Ruth (2001)

Conceptual Framework



Independent Variables Dependent Variable

Figure 1: Conceptual Framework

Source: Author (2019)

Review of Literature Study Variables

Cash Management Practices

Cash management is a broad term that refers to the collection, concentration, and disbursement of cash. The goal is to manage the cash balances of an enterprise in such a way as to maximize the availability of cash not invested in fixed assets or inventories and to do so in such a way as to avoid the risk of insolvency. Ross et al. (2008), as cited by Nyabwanga (2011) asserts that efficient cash management involves the determination of the optimal cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little.

Atrill (2006), there is need for careful planning and monitoring of cash flows over time so as to determine the optimal cash to hold. A study by (Kwame, 2007) established that the setting up of a cash balance policy ensures prudent cash budgeting and investment of surplus cash. Erkki (2004),defined cash management as a part of treasury management, which is defined as a part of the main responsibilities of the central finance management team. Huseyin (2011), highlighted specific task of a typical treasury function such as: cash management, risk management, hedging and insurance management, account receivable management, account payable management, bank relations and investor relations.

Budgeting can be considered as planning since it forecasts the future of events and how activities should be handled. Every organization whether small or big needs a plan or a budget to help it excel. Horngren and Harrison (2008), characterize budget as a quantitative articulation of an arrangement of activity. Atkinson et al. (1997), additionally characterize budget as a quantitative articulation of the cash inflows and outflows to decide if a budgetary plan will meet organization objectives. In the perspectives of Tumwine et al (2014), who characterized budget as a plan of action communicated in quantitative terms. It is a financial and or quantitative statement arranged and endorsed before a defined timeframe for achieving a given organizational target. From the perspective of the scholars it implies that a budget is additionally not only a quantitative expression of a plan of action but a quantitative economic plan. It can equally be attributed that literature posits that a budget is a quantitative expression of a plan of action prepared ahead of time of the budget time frame.

A study by (Kwame, 2007) established that the setting up of a cash balance policy ensures prudent cash budgeting and investment of surplus cash. This finding agree with the findings by (Kotut, 2003) who established that cash budgeting is useful in planning for shortage and surplus of cash and has an effect on the financial performance of the firms. Koech (2015) in his study express that

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organization ought to be managed adequately and productively to accomplish its objectives. The future of budgeting lies in making arrangements for value. Budgeting and financial performance are key financial procedures in Saccos in Kakamega County.

According to (Mwaura, 2010) industry statistics in Kenya show that an estimated 60 SACCOs are way below the required minimum capital levels and are expected to turn to the members for money needed to reach the threshold. Contributing money for the capital build-up will force members to take a portion of their monthly take-home or forego annual dividends in the next four years in support of the initiative. Nation staff SACCO has, for example, asked its members to increase their share capital to Kshs 6,000 from Kshs 1, 000 beginning August 2010.

The liquidity management process is effective in identifying, measuring, monitoring and controlling liquidity risk (Njeri, 2014). Poor liquidity management will expose financial institution to liquidity risk which will have impact on its performance (Song'e, 2015). To realize positive financial education outcomes and ensure checks and balances within the SACCO ranks, it is important that stakeholders get exposed to key financial education tools that include understanding the dynamics of savings, budgeting, borrowing, banking operations and dynamics of long term wealth acquisition and management (Odhiambo, 2013). A SACCO is in a liquid position if it is able to meet its current obligations as they become due, if demands for funds are readily met while balancing the need to earn revenue (Sam, 2015).

Financial Performance

The subject of financial performance has gotten significant consideration from researchers in different regions of business and strategic management. It has additionally been the essential worry of business experts in a wide range of organization since financial performance has an effect on an organization's wellbeing and at last its survival (Onduso, 2013). Financial performance is the degree to which financial goals are being or has been achieved (Pimpong and Laryea, 2016). However, budgeting at the early stage of its development was concerned with preparing and to permit correct performance evaluation and consequently rewards. Finance is continually being ignored in financial decision making since it includes venture and financing in here and now period. Further, likewise go about as a control in financial performance, since it does not add to return on equity.

A very much composed and executed financial management is relied upon to contribute confidently to the formation of a firm's values and beliefs (Padachi, 2006). Broad writings with respect to the company's goals put much stress on the maximization of investor's wealth. Managers are in this manner worried about augmenting investor's wealth as it means future prospects, reflects the relentless development and gives a risk shield. In order to achieve this, Naser and Mokhtar (2004), argue that high performance reflects administration adequacy and efficiently making utilization of organization's assets. A worthy budget will give birth to adequacy and efficient utilization of the firm's assets

According to Ross et al (1996: 61) ROE is a measure of how the shareholders fared during the year. Since benefiting shareholders is the main goal of a company, they are of the opinion that ROE is, in an accounting sense, the true bottom-line measure of performance. ROE is a measure of profit per rand invested in equity. Helfert (1991: 102) prefers to call this ratio "return on net worth" and states that it is the most common ratio used for measuring the return on the owners' Investment.

Profitability gives an indication of the profit generated for every rand of sales. A relatively high profit margin is desirable as it corresponds to low expense ratios relative to sales. A smaller margin is not necessarily bad, for example, lowering a sales price will usually increase unit volume, but profit

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margins will shrink. Total profit may still increase due to the increase in volume.

Empirical Review

Influence of Cash Management Practices on Financial Performance

Relationship between working capital management and financial performance of deposit taking savings and credit co-operative societies licensed by SACCO societies regulatory authority in Nairobi county (Odhiambo, 2013). Interest rate on members‟ deposits as a measure of financial performance was used as the dependent variable. The independent variable (working capital management) was measured by cash conversion cycle, current ratio, and debt ratio and turnover growth. The findings indicated that efficient working capital management leads to better financial performance of a SACCO; hence a positive relationship existed between efficient working capital management and financial performance variable.

According, to Ondieki (2011), in his study , he observed that major challenges inherent in the cooperative movement in Kenya included: poor governance, limited transparency in management of cooperatives, weak capital base and infrastructure weakness including ICT. The same opinion is shared by (Karim, 2012) whereby he observed that leadership or governance of a CFI determines to a large extent how the CFI responds to regulatory issues and how it operates within the regulatory framework. This requires that the BOD members file personal information return with the regulators.

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 found out that the key policies on optimal cash utilization and investments played a major role in good financial management, the study recommended that, further research should look at the relationship between SACCO financial management practices and the SACCO movement growth in Kenya. A study by (Kwame, 2007) established that the setting up of a cash balance policy ensures prudent cash budgeting and investment of surplus cash. This finding agree with the findings by (Kotut, 2003) who established that cash budgeting is useful in planning for shortage and surplus of cash and has an effect on the financial performance of the firms. Koech (2015) in his study express that organization ought to be managed adequately and productively to accomplish its objectives. The future of budgeting lies in making arrangements for value. Budgeting and financial performance are key financial procedures in Saccos in Kakamega County.

METHODOLOGY

The study adopted the descriptive research design and as acknowledged by Kothari (2011) the use of the descriptive research design in a particular survey ensured participants are accurately depicted and the association between variables (i.e. independent and dependent variables) is established. Target population consisted of all members of a real or hypothetical set of people, events or objects from which a researcher wishes to generalize the results of their research while accessible population consists of all the individuals who realistically could be included in the sample (Mbui, 2016)). The target population comprised of the senior management of the deposit taking Saccos in Kakamega County who were from the 4 selected deposit taking Saccos in Kakamega County. The target population was 132 senior managers (branch managers, board of directors, shareholders, operation managers and loan managers) where the 3 senior management were selected from 4 selected Saccos in Kakamega County. Primary data was collected by way of questionnaires consisting of closed ended questions which are standardized to allow for comparisons of results among the various respondents. Secondary data was also obtained from Sacco's policies, documents,

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reports, national newspapers and journals to supplement and validated the primary data that was collected. The responses to questionnaire was analyzed using SPSS version 24 software and the hypothesis testing done at 5% level of significance.

FINDINGS

Descriptive Results in Relation to Empirical Review

Table 1: Cash Management Practices

	SA	A	N	D	SD	Mean	Std
The Sacco undertakes regular cash budget to avoid liquidity issues	5(39.4)	4 (5.8)	17(24.64)	3(18)	7(10.14)	4.81	.394
The Sacco has streamlined better liquidity management policies in place	5(69.7)	3(4.35)	21(30.43)	37(53.62)	8(11.59)	4.70	.697
The competitive of the Sacco is a result of the streamlined proper cash budgets	5(72.5)	2(2.9)	26(37.68)	35(50.72)	5(7.25)	4.54	.725
The Sacco has established better policy for monthly members contribution	5(16.3)	5(7.25)	22(11.88)	34(5.28)	8(11.59)	4.97	.163
The competitive position of the Sacco is measured through better liquidity management policies set up	5(39.4)	7(10.14)	3(12.7)	2(12)	7(24.1)	4.81	.394

The objective of the study was to determine the effect of cash management practices on the financial performance of deposit taking Saccos in Kakamega County. Cash management is critical in a financial institution. Cash is the engine of business and hence its management is crucial on measuring performance of a SACCO. The researcher had a number of parameters to determine management of cash in Deposit taking SACCOS namely cash budgets, member's monthly contribution and liquidity management policies. The results were in line with empirical review Kwame (2007) who asserted that having cash balance policy ensures prudent cash budgeting and investment of surplus. Most of the respondents strongly agreed that the Deposit taking Saccos undertake regular cash budget to avoid liquidity issues with a mean score 4.81 and standard deviation of 39.4%. The results implicated that regular cash budgets played a significant role of ensuring that liquidity levels of the Deposit taking Sacco is within the required threshold. These results were in line with Njeru (2016) who asserts that Saccos who have proper liquidity levels is a reflection of better regular cash budgets put in place. Most of the respondents strongly agreed that the competitive position of the Sacco is measured through better liquidity management policies set up with a mean score of 4.81 and standard deviation of 39.4%. The results replicated that Deposit taking Saccos management and key players have a significant objective to play when it comes to better liquidity management policies. The Sacco management should formulate better policies that ensure that liquidity of the Deposit taking Saccos is not influencing the financial performance in any negative way.

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Correlation Analysis Results

Hypothesis Testing

The study sought to test the hypothesis relating the independent variable to the dependent variable. The hypothesis was stated as follows.

H01; cash management has no effect on financial performance of deposit taking saccos in Kakamega County - **Rejected**

To test the hypothesis, the researcher made use of Analysis of Variance (ANOVA) at a level of Significance of 0.05. The hypothesis presumed that cash management has no effect on financial performance of deposit taking SACCOs in Kakamega County. To ascertain this hypothesis, ANOVA was used to either reject or fail to reject the hypothesis.

SUMMARY

The objective sought to establish the influence of cash management practice on the financial performance of deposit taking Saccos in Kakamega County. The indicators of cash management practices taken into consideration were regular cash budgets, liquidity management policies and monthly member's contribution. According to the study results, reliability of the data was conducted for cash management practice using Cronbach's Alpha test and was within acceptable measures. The descriptive statistical methods were used to reach at the results. Most of the respondents strongly agreed that the Deposit taking Saccos undertakes regular cash budget to avoid liquidity issues with a mean score 4.81 and standard deviation of 39.4%. The results implicated that regular cash budgets plays a significant role of ensuring that liquidity levels of the deposit taking Saccos is within the required threshold. The correlation between cash management and loan portfolio management indicated that there is a significant correlation between the two variables with coefficient correlation.

CONCLUSIONS

The management need to ensure there are adequate internal cash management controls to ensure that there is optimal cash, strategies are in place during minimal cash and surplus cash since either of the side will contribute to liquidity risks to the institution.

RECOMMENDATIONS

Since the cash management practice is found to have significant influence on the financial performance of deposit taking SACCOS in Kakamega County, it was recommended that the top leadership and other policy makers in SACCOS should engage the cash budgeting models to improve their financial performance of deposit takings. SACCOs should also create avenues to learn from each other which will help the SACCOs with poor cash management practices to acquire knowledge from the SACCOs that are excelling. Cash management systems should also be introduced to develop financial discipline.

The study recommended to the SASRA regulator to introduce cash ratios to be deposited within the SACCO regulator. This will enable control of liquidity in the deposit taking SACCOs and also help on overnight borrowing to assist the SACCOS during cash shortage and release cash surpluses when there is excess funds.

Areas for Further Research

There is need to do further research on the dividend policy of deposit taking SACCOs since for the last six years, it did not affect SACCOs profitability. Future studies could also focus on a comparative study among various sectors. Future studies should apply different research instruments like focus group discussions and primary data only to involve respondents in discussions in order to generate detailed information which would help improve financial performance of Deposit taking SACCOs.

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