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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com

Vol. 6, Iss. 4, pp 650 – 666 October 21, 2019. www.strategicjournals.com, ©Strategic Journals

DETERMINANTS OF FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN SIAYA COUNTY, KENYA

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Accepted: October 18, 2019

ABSTRACT

This study sought to examine the effect of capitalization, core capital, dividend policy and loan security policy on financial performance of SACCOs in Siaya County, Kenya. The study was based on Liquidity theory, Signaling dividend theory and risk aversion theory. The study adopted explanatory design and targeted 153 management staff of 24 registered SACCOs located in Siaya County from where a sample size of 111 was calculated and respondents were selected using stratified random sampling technique. Structured questionnaires were used to collect primary data. Both descriptive and inferential statistics were computed by Statistical Package of Social Scientists version 24. Analyzed data was presented in form of tables. From a total of 111 questionnaires that were dispatched for data collection, 95 questionnaires were returned when completely filled, representing a response rate of 85.6% which was good for generalizability of the research findings to a wider population. Both descriptive and inferential analysis showed that all independent variables (capitalization, core capital, dividend policy and loan security policy) significantly influenced financial performance of SACCOs in Siaya County. The study concluded that first, loan security is a viable measure in ensuring loan repayment and reduction in loan delinquency ratio which then boosts financial performance of Saccos; and two, core capital management significantly influences financial performance of Saccos by ensuring Saccos adhere to core capital requirements as regulated by SASRA. The study recommended that one; SACCOs should formulate feasible loan security policies that limit loan delinquency ratios while at the same time attracting new customers so as to boost saccos' share capital, two; Saccos should adhere to core capital management requirements as stipulated by SASRA so as to avoid liquidation risks and three; Saccos should enact feasible dividend policies that guarantee consistent dividend payouts and reinvestments so as to attract new and retain old customers.

Key Words: *Capitalization, Core Capital, Dividend Policy, Loan Security Policy, SACCOs*

CITATION: Nyonje, D. A., Malenya, A., & Otinga, H. N. (2019). Determinants of financial performance of Savings and Credit Co-operative societies in Siaya County, Kenya. *The Strategic Journal of Business & Change Management,* 6 (4), 650 – 666

INTRODUCTION

SACCOs are in the business of safeguarding money and other valuables for their Members besides providing loans and offering investment financial services (Sasra, 2018). Credit creation is the main income generating activity for the SACCOs. But this activity involves huge risks to both the lender and the borrower. The risk of a member not fulfilling his or her obligation as per the contract on due date or anytime thereafter can greatly jeopardize the smooth functioning of a SACCO's business. On the other hand, a SACCO with high credit risk has high bankruptcy risk that puts the members' funds in jeopardy. Among the risk that face SACCO's, credit risk is one of great concern to most SACCO authorities and government regulators. This is because credit risk is that risk that can easily and will most likely prompt SACCO failure (Boateng, 2008).

SACCOs in Kenya operate under Co-operative societies Act of 2008; SACCOs that operate front office services are licensed, supervised and regulated by SASRA while SACCOs not operating front office services are supervised and regulated by the Ministry of Industrialization. Most SACCOS in urban areas are formed by salary and wage earners who have common bond, and whose employers are ready to effect check-off system from members' monthly contributions and loan repayments. On the other hand, most of SACCOS found in rural areas are community-based with also branches of the national based SACCOs (Mumanyi, 2014).

Further, historically, the first Co-operative Society was Lumbwa Co-operative Society formed in 1908 by the European Farmers with the main objective of supporting agricultural activities and products to take advantage of economies of scale (Kenya Union of Saving and Credit Co-operatives (KUSCCO, 2006). Notably, after independence, the Government of Kenya recognized co-operatives as suitable vehicles with appropriate framework to achieve their aspirations and participate in the economic development of the nation. Accordingly, steps were taken by the Government which saw the rapid growth and expansion of the SACCO Society movement in the country (Gardeklint, 2009). In fact, the SACCO movement is considered by the government as one of the economic pillars of the nation and by the year 2010, Kenya had over 5,000 registered SACCOs with a membership of about 7 million (Ndung'u, 2010).

Therefore, the Sacco industry is part of the cooperative sector in Kenya, which has impacted on lives of many Kenyans over the years. The sector may be categorized into financial and non-financial cooperatives. Non-financial cooperatives deal with the marketing of members' produce and services such as dairy, livestock coffee, tea, handicrafts and many more similar cooperatives. On the other hand financial cooperatives comprise Sacco's, housing and investment cooperatives. The Deposit-taking Sacco Societies (DTSs) is part of the larger Sacco sub-sector in Kenya which comprises the deposit-taking and the non-deposit taking Sacco Societies. The non-deposit taking segment is composed of those Sacco Societies whose business is limited to mobilization of deposits (non-withdrawable) for purposes of lending to members. The deposits are non-withdrawable in that they may be used as collaterals for loans only and can only be refunded upon the member's withdrawal (SACCO supervision annual report, 2016).

Siaya County is one of the 47 counties created under the constitution of Kenya (2010) with economic aspects that favors various business environment, its powers are provided in article 191 and 192 and fourth schedule of the constitution of Kenya and county government Act of 2012, found in the Nyanza region of Kenya (constitution of Kenya, 2010). There are a number of community based registered SACCOs and nationally based SACCOs having branches in the Siaya County. Therefore, this study will investigate whether capitalization, dividend policy, core capital management and loan security policy have significant influence on financial performance of SACCOs in Siaya County.

Statement of the problem

SACCOs in many developing countries has been known to boost economic status of both rural and urban dwellers. However, the financial performance of many SACCOs especially based in Kenya's rural settings has been dwindling in the recent years (SASRA, 2014). Few researches have been done to address factors that could be contributing to the dismal performance of SACCOs but the research findings are either inconsistent or elicit inconclusive empirically based outcomes.

In Kenya, according to the Sacco Society Regulations, 2010, establishing a core capital for deposit taking Sacco's will improve the efficiency and effectiveness of how SACCOS conduct their deposit taking business. But researches by Mbogo (2010); Murungi (2014;) Kahuthu, Muturi and Kiweu (2015); Kioko (2016) found inconsistent results on the influence of cost of operations and core capital on financial performance of SACCOs in Kenya, and therefore recommended further researches on what really determines financial performance of SACCOs especially based in rural Kenya. Further, Petit (2007), Karanja (2007), Iminza (2011) and Kioko (2016) studied on the effect of dividend policies on financial performance of financial lending institutions and found both significant and insignificant results thus recommending further research on the dividend policies.

Most researches on loan policies have also been based in banks and Micro finance institutions which have even yielded inconclusive study results (Tengey, 2014). More so, most of the studies on what determines financial performance of SACCOs have been studied in foreign countries (Saunders and Cornet, 2007) or in SACCOs based in urban setting in Kenya (Kahuthu & Muturi, 2015); with inconsistent and inconclusive empirical results. This study thus sought to fill this gap by examining the effect of loan security policy, core capital management, dividend policy and capitalization on financial performance of registered SACCOs in Siaya County, Kenya.

Objectives of the Study

The general objective of the study was to investigate the determinants of financial performance of SACCOs in Siaya County, Kenya. The specific objectives were;

- To determine the influence of loan security policy on financial performance of SACCOs in Siaya County, Kenya
- To assess the influence of core capital management on financial performance of SACCOs in Siaya County, Kenya.
- To examine the influence of dividend policy on financial performance of SACCOs in Siaya County, Kenya.
- To examine the influence of capitalization on financial performance of SACCOs in Siaya County, Kenya.

The rresearch hhypotheses were;

- **H_{01}:** There is no significant relationship between loan security policy and financial performance of SACCOs in Siaya County, Kenya.
- **H_{02}:** There is no significant relationship between core capital management and financial performance of SACCOs in Siaya County, Kenya.
- **H_{03}:** There is no significant relationship between dividend policy and financial performance of SACCOs in Siaya County, Kenya.
- **H_{04}:** There is no significant relationship between capitalization and financial performance of SACCOs in Siaya County, Kenya.

LITERATURE REVIEW

Signaling dividend theory

This signaling theory of dividends by Bhattacharya in1979, states that managers use dividend policy to send signals about the firm's future earnings (Al-Malkawi, 2007).The intuition underlying this signaling theory of dividends is based on the information asymmetry between managers (insiders) and outside investors, where managers have private information about the current and

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future fortunes of the firm that is not available to outsiders. In order to bridge this gap, management use dividends as a tool to convey private information about a firm's future prospects to shareholders (Al-Malkawi, 2007).

Risk aversion theory

This risk aversion theory by Fischer (1972) asserts that risk aversion is an investor's general desire to avoid participation in "risky" behavior or, in this case, risky investments. That is Investors typically wish to maximize their return with the least amount of risk possible. When faced with two investment opportunities with similar returns, good investor will always choose the investment with the least risk as there is no benefit to choosing a higher level of risk unless there is also an increased level of return. Insurance is a great example of investors' risk aversion. Given the potential for a car accident, an investor would rather pay for insurance and minimize the risk of a huge outlay in the event of an accident (Fischer, 1972).

Therefore, given the risky nature of taking SACCO loans by the borrower and the credit risks associated with non-performing loans on the part of the SACCOs this theory connects to this study by investigating whether risks from loan portfolios, core capital requirements, dividend policies or information technology affect financial performance of SACCOs in Siaya County, Kenya.

Liquidity theory

Liquidity theory was crafted by Emery (2013) and the theory proposes that credit rationed companies use more trade credit than those with normal access to financial intermediaries. That is, the central point of this liquidity theory is that when there is a restricted monetary policy, the offer of trade credit can make up for the reduction of the credit offer from financial intermediaries. In accordance with this theory, large firms, presenting good liquidity or better access to capital markets can finance those constrained by the policy. Many approaches have tried to obtain empirical evidence to support this theory; for instance, Nielsen (2012) using small financial lending firms as a proxy for credit rationed companies found that in monetary contraction they react by borrowing more from their suppliers.

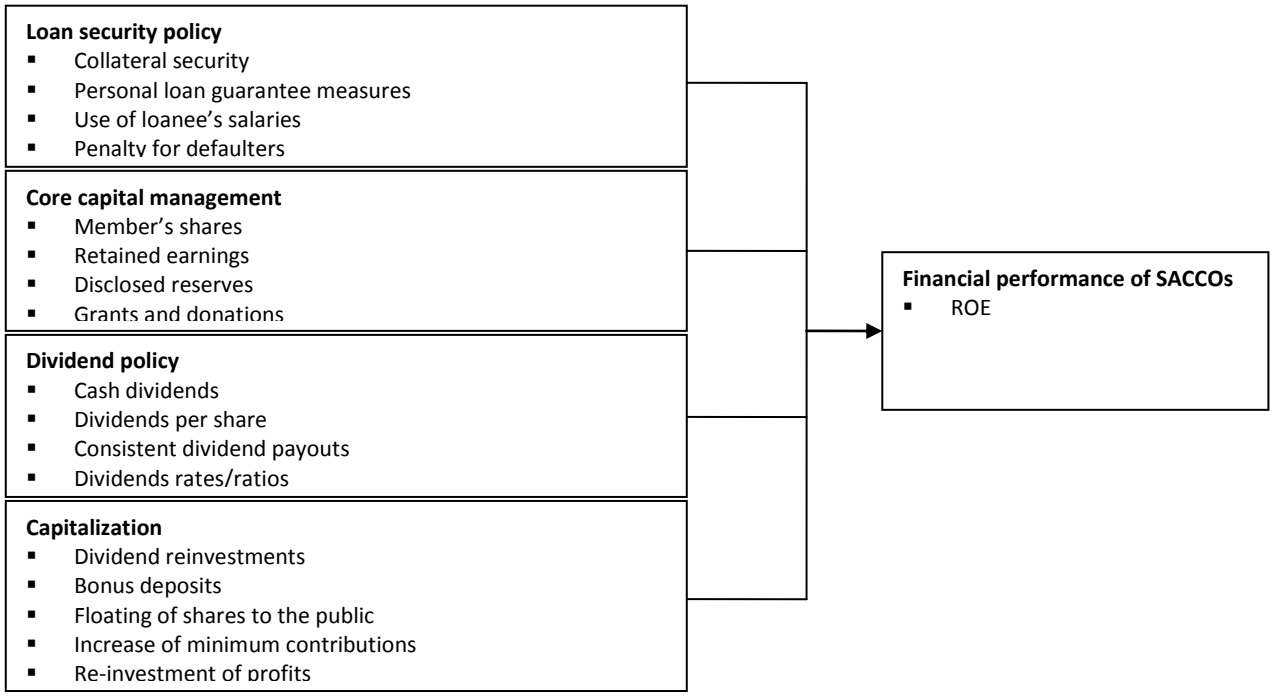

Figure 1: Conceptual Framework

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Empirical Review

First, Central Bank of Sudan (2007) asserts that the international and local experience has demonstrated that the best type of guarantee is a viable project, a good client and close follow-up. Hence any recommendations advocating the adoption of lenient collaterals as a form of extending outreach must be supported by the implementation of best practice in terms of loan analysis, loan product design, risk and delinquency management procedures, actions before and after loan disbursement, and close monitoring. To adopt such practices, banks interested in financing SACCOs should restructure their services in an efficient manner and adopt mechanisms, which make them nearer to the targeted clients (Sasra, 2018). Intensive training to the sales force will be crucial for ensuring proper assessment of projects' viability and client's credibility. To further advance this argument, most SACCOs also craft loan security measures to ensure they do not experience financial losses accrued from high loan delinquency ratio.

In India, Muslim Funds, registered under the Charitable Trust Act of the Government of India, are not entitled by rule to invest depositors ' money. Furthermore, these Muslim Funds do not practice any of the Islamic principles of financing such as mudaraba, musharaka or murabaha. The study has shown that as inferred by the afforested information, Muslim Funds in India are heavily dependent on the collateral for their existence. Since they operate under the rules of the Charitable Trust Act rather than the banking laws of India, they are required to collect collateral or any type of special security (Segrado, 2005).

With the regulation of the SACCO sector especially SACCOs operating FOSAs by SASRA, dividend policy has to be developed to guide distribution of surpluses. The SACCO Societies Act, 2008 Section 14(4)(d), 68 (2) (a), SACCOs are prohibited from declaring dividends if they have not met the liquidity provisions which stipulate that a SACCO should at a minimum retain 15% of its savings deposits and short term liabilities in liquid assets and if they have not met other administrative requirements. The liquidity has a direct relationship with dividend policy which stipulates when and how much to distribute and the effects of cash outflows (Kioko, 2016).

Petit (2007) asserted that clientele effect is the tendency of a firm to attract the type of investor who like its dividend policy. Research show that retired individuals prefer current dividends to future capital gains hence they require a firm to pay out a higher percentage of its earnings. This is contrary to your investors who would prefer future capital gains to current dividends and argues that a firm that changes its dividend policy may lose some shareholders to other firms with a more appealing policy. They may in turn cause a temporary reduction in share price. However, empirical data was required to prove the assertion

Core capital is defined as completely paid up retained earnings, member's shares, grants and donations and disclosed reserves that a SACCO should expand unless they are faced with liquidation. According to the Sacco Society Regulations, 2010, establishing a core capital for deposit taking Sacco's will improve the efficiency and effectiveness of how SACCOS conduct their deposit taking business. The improved effectiveness will result into better productivity thus improved financial performance which is a key measure of productivity in monetary terms (SACCO society's regulations, 2010).

McGuigan, Kretlow and Moyer (2009), in their book of Contemporary Corporate Finance, they assert that successful firms generate net operating profits after taxes. Thus a firm's growth opportunities and replacement requirements, identified through capital budgeting and financial planning determine the amount that should be invested in operating capital. Subtracting the investment in operating capital from net operating profits after taxes results in free cash flows, which is the amount of cash flow available for distribution to investors after paying expenses and taxes and making the necessary

investments in operating capital which boosts core capital.

In Kenya, SACCOs are important agents of job creation and savings by members. Some SACCOs compel their members to save and then lock-in their savings until it is their turn in the rotation to be paid or when they leave the organizations (Mutebi, 2007) and currently, most SACCOs are encouraging their members to reinvest their dividends. This will therefore assess whether capitalization issues such as capitalization of dividends/bonus deposits, floating of shares to the public, increase of minimum contributions, re-investment of profits significantly influence performance of SACCOs in Siaya County, Kenya.

In this regard, Porteous, Collins and Abrams (2010) assertion that supervision of SACCOs is ensuring that customers' savings are safeguarded especially when they are invested for income; and The Center for Financial Training (2010) argues that inefficiencies or frustrations by these entities can lead to a disincentive to save by capitalization among the citizens thereby affecting the levels of investments adversely and impacting financial performance negatively.

Mutebi (2007) also asserted that many studies have shown that savings is one of the most crucial financial needs of SACCOs since it provides seed capital which is an indication of their usual lack of access to formal institutional credit. Thus with an improved financial system, SACCOs savings is boosted which is vital for their expansion and growth. In Kenya especially, SACCOs are important agents of job creation and official policy that provides impetus for savings cannot be overemphasized. Some SACCOs compel their members to save and then lock-in their savings until it is their turn in the rotation to be paid or when they leave the organizations (Mutebi, 2007).

Economist Intelligence Unit (2011) also posits that while proximity to SACCO facilities is of the essence in savings mobilization, confidence in the SACCOs' financial system is also crucial and recently, SACCOs have collapsed with the savings of Kenyans which fails to promote the saving culture since. The argument however is that, these financial collapses, affect only the locally owned financial institutions and not the foreign owned financial institutions, thus SACCOs in Kenya have come up with capitalization strategy to attract and retain customers through dividend recapitalization.

Further, Wright (2015) found that Kenya withholding tax is charged on the interest on savings leads to high operational costs to the SACCOs due to the extra volume of records that must be maintained. This it is not economical to operate a large number of small accounts. Proximity to of SACCO services greatly increases the willingness to save an expanded network of SACCO branches will encourage savings with formal institutions due to the reduction in the transactional costs of acquiring deposits. However the SACCOs must take the local conditions into account so as to maximize on deposit mobilization (Wright, 2015).

METHODOLOGY

The study employed explanatory survey research design. The target population of the study was 153 respondents comprising of senior and middle management staff of 24 major registered Saccos in Siaya County, Kenya. A sample size of 111 was used for this study. Sample was drawn randomly from the 24 major registered SACCOS in Siaya County. The study employed stratified sampling technique which guided how senior officers in registered SACCOS in Siaya County were to be selected. Primary data was collected by means of self-administered structured questionnaires; that is, the questionnaires had structured (close ended) questions. The researcher used ten respondents of a registered SACCO in Kisumu County to establish the reliability of the research instrument (questionnaire). Data collected from the field was coded, cleaned, tabulated and analyzed using both descriptive and inferential statistics with the aid of specialized Statistical Package for Social Sciences

(SPSS).version 24 software. Study conceptualized Regression Model;

$Y = \beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+ \beta_4X_4 + \varepsilon$

Y = Financial Performance of SACCOs in Siaya County

β_0 = Constant

X_1 = Loan security policy

X_2 = core capital management

X_3= dividend policy

X_4 = Capitalization

$\{\beta_0-\beta_4\}$ = Beta coefficients

ε = the error term

RESULTS

Loan security

This summarized responses on whether loan security influences financial performance of Saccos in Siaya County. The descriptive results were presented in table 1.

Table 1: Loan Security

	Frequency and percentages (%)						
Statement	**5**	**4**	**3**	**2**	**1**	**mean**	**Std.dev**
The use of loanee's salaries enhances loan recovery.	6(6.3)	49(51.6)	7(7.4)	23(24.2)	10(10.5)	3.59	0.880
Use of household goods & livestock as loan security improve loan repayment.	5(5.3)	47(49.5)	10(10.5)	27(28.4)	6(6.3)	3.37	0.904
Use of land title deeds as loan security enhances customers commitment to loan repayment	7(7.4)	43(45.2)	9(9.5)	28(29.5)	8(8.4)	3.44	0.772
The use of customer's logbooks improves loan repayment.	9(9.5)	46(48.3)	11(11.6)	22(23.2)	7(7.4)	3.48	0.847
Imposing personal loan guarantee measures is viable loan security method.	13(13.7)	49(51.6)	8(8.4)	16(16.8)	9(9.5)	3.51	0.809
On overall, use of collateral security is a key loan security method.	15(15.8)	51(53.7)	5(5.3)	18(18.9)	6(6.3)	3.54	0.858
Valid listwise 95							
Grand mean = 3.488							

From table 1, most respondents agreed (51.6%) and strongly agreed (6.3%) that the use of loanee's salaries enhances loan recovery. This implied that use of salaries allowed for check off system of loan repayment, which minimizes loan delinquency ratio, thus boost financial performance of the Sacco. Secondly, most respondents agreed (49.5%) and strongly agreed (5.3%) that use of household goods and livestock as loan security improved loan repayment. This implied use of collaterals like household goods and livestock encouraged loan applicants to struggle to clear outstanding loans for fear of humiliating repossession of their household goods and livestock.

Further, most respondents agreed (45.2%) and strongly agreed (7.4%) that use of land title deeds as loan security enhances customers commitment to loan repayment. This implied that since most loan applicants valued their land title deeds they would struggle to clear outstanding loan amounts for fear of auctioning of their most valued asset-land or commercial plot. In this connection, most respondents also agreed (48.3%) and strongly agreed (9.5%) that the use of customer's logbooks improves loan repayment. This reinforces the idea that perceived humiliating repossession of customers' property (vehicle) is really avoided by commitment to clear outstanding loan amounts, which makes the Sacco reduce loan delinquency

ratio, thus boosts financial performance of the Sacco. More so, 51.6% and 13.7% of respondents agreed and strongly agreed respectively that imposing personal loan guarantee measures is a viable loan security method. This is because the in case the loan applicant fails to service the loan, the risk will be passed on the guarantors. Lastly, 53.7% and 15.8% of respondents agreed and strong agreed respectively that the use of collateral security is a key loan security method.

In summary, the grand mean was 3.488 rounded off to 4 which agreed on the likert scale used in the measurement which generally means that most respondents agreed that loan security significantly influence financial performance of Saccos. This is supported by Miller (2008) who asserted that a financial lending institution should have written loan or credit security policy because it limits bad debts, improves cash flow, and assures a degree of consistency in loan repayments, which definitely boost Sacco financial performance.

Core capital management

This summarized responses on whether core capital management influences financial performance of Saccos in Siaya County. The descriptive results were presented in table 2.

Table 2: Core capital management

	Frequency and percentages (%)						
Statement	**5**	**4**	**3**	**2**	**1**	**mean**	**Std.dev**
The SACCO has adequate share capital inform of members' shares	7(7.4)	42(44.2)	13(13.7)	23(24.2)	10(10.5)	3.41	0.782
The SACCO has enough retained earnings	10(10.5)	44(46.3)	9(9.5)	25(26.3)	7(7.4)	3.46	0.878
The SACCO has adequate disclosed reserves	5(5.3)	41(43.2)	11(11.6)	28(29.4)	10(10.5)	3.44	0.871
The SACCO attracts grants and donations from investors	6(6.3)	43(45.3)	11(11.6)	27(28.4)	8(8.4)	3.45	0.951
SACCO engages in savings mobilization from old & new members	9(9.5)	52(54.7)	7(7.4)	19(20.0)	8(8.4)	3.52	0.858
Generally, SACCO's share capital influence its ROE	11(11.6)	53(55.8)	6(6.3)	16(16.8)	9(9.5)	3.55	0.982
Valid listwise 95							
Grand mean = 3.472							

From table 2, 44.2% and 7.4% agreed and strongly agreed respectively that the SACCO had adequate share capital inform of members' shares, implying that most SACCOs in Vihiga County ensured that they had adequate share capital to enable them smoothly run the loaning function. This was supported by most respondents who also agreed (46.3%) and strongly agreed (10.5%) that the SACCO had enough retained earnings. More so, 43.2% and 5.3% of respondents agreed and strongly agreed that the SACCO had adequate disclosed reserves; while a further 45.3% and 6.3% of respondents agreed and strongly agreed respectively that the SACCO attracted grants and donations from investors which were thus meant to boost the Saccos core capital.

Further, most respondents agreed (54.7%) and strongly agreed (9.5%) that the SACCO engaged in savings mobilization from old and new members. This implied that most SACCOs in Siaya County attracted new customers and retains old customers through viable savings mobilization initiatives.

On overall response, most respondents agreed (55.8%) and strongly agreed (11.6%) that generally, SACCO's share capitals influence its ROE. This was also shown by the grand mean which was 3.472

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rounded off to 4 which was agreed on the likert scale used in the measurement which generally means that most respondents agreed that SACCO's core capital management influence its financial performance as measured by ROE. This was supported by SACCO society's regulations, (2010), emphasis that establishing a core capital for deposit taking Sacco's improved the efficiency and effectiveness of how SACCOs conduct their deposit taking business. The improved effectiveness was assumed to result into better productivity thus improved financial performance which is a key measure of productivity in monetary terms. That is, core capital is one of the components of capital and is defined as completely paid up retained earnings, member's shares, grants and donations and disclosed reserves that a SACCO should expand to avoid liquidation risks.

Dividend policy

This summarized responses on whether a SACCOs dividend policy influences financial performance of Saccos in Siaya County. The descriptive results were presented in table 3.

Table 3: Dividend Policy

	Frequency and percentages (%)						
Statement	**5**	**4**	**3**	**2**	**1**	**mean**	**Std. Dev**
SACCO consistently pays annual cash dividends	5(5.3)	47(49.4)	8(8.4)	26(27.4)	9(9.5)	3.50	0.863
The SACCO reimbursements share dividend as bonus share or additional shares instead of cash	8(8.4)	43(45.3)	9(9.5)	28(29.4)	7(7.4)	3.31	0.967
The SACCO engages members in share repurchase instead of paying out cash dividends.	6(6.3)	44(46.3)	7(7.4)	30(31.6)	8(8.4)	3.38	0.871
The SACCO gives bonus deposits to members who capitalize their dividends	7(7.4)	49(51.6)	10(10.5)	22(23.1)	7(7.4)	3.53	0.927
The SACCO has good dividend pay-out ratio	10(10.5)	50(52.6)	5(5.3)	21(22.1)	9(9.5)	3.51	0.809
The SACCO dividend policy influences its ROE	11(11.6)	49(51.6)	9(9.5)	18(18.9)	8(8.4)	3.49	0.970
Valid listwise 95							
Grand mean = 3.453							

From table 3, most respondents agreed (49.4%) and strongly agreed (5.3%) that SACCO consistently pays annual cash dividends. This implied that SACCOs that consistently pays dividends will be trusted by its customers thus attracts and retains most customers which then boost the Sacco's share capital. Secondly, most respondents also agreed (45.3%) and strongly agreed (8.4%) that the SACCO reimbursements of share dividend as bonus share or additional shares instead of cash; implying that a good number of customers were attracted by the reimbursements of share dividend as bonus share or additional shares. This was also supported by most respondents who agreed (46.3%) and strongly agreed (6.3%) that SACCO engages members in share repurchase instead of paying out cash dividends; thus encourages savings.

More so, 51.6% and 7.4% of respondents agreed and strongly agreed respectively that the SACCO gives bonus deposits to members who capitalize their dividends; implying this practice encourages savings to boost share capital. This is reinforced by 52.6 % and 10.5% of respondents who agreed and strongly agreed respectively that the SACCO has good dividend pay-out ratio, which implies that good dividend payout ratio attracts and retains new customers, making the Sacco raise its share capital

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which then can have a positive bearing on Sacco's profitability.

On overall, most respondents agreed (51.6%) and strongly agreed (11.6%) that the SACCO dividend policy influences its ROE. This was also shown by the grand mean which was 3.453 rounded off to 4 which was agreed on the likert scale used in the measurement which generally means that most respondents agreed that SACCO's dividend policy influence its financial performance as measured by ROE. This was supported by Rigar and Mansouri (2003) assertion that the policy of dividends practiced by a SACCO is a robust signal of a firm's performance, even though relationship between the two variables does not meet unanimity of theoretical research. Indeed, generous distribution of profits in favour of shareholders may be considered as a signal of treasury ease as it can be interpreted as revealing obstacles at the level of investment horizons.

Capitalization

This summarized responses on whether a Saccos capitalization initiatives influences financial performance of Saccos in Siaya County. The descriptive results were presented in table 4.

Table 4: Capitalization

	Frequency and percentages (%)						
Statement	**5**	**4**	**3**	**2**	**1**	**mean**	**Std.dev**
The SACCO has a policy on capitalization of dividends	6(6.3)	42(44.2)	9(9.5)	31(32.6)	7(7.4)	3.29	0.849
The SACCO encourages members to engage in bonus deposits	11(11.6)	53(55.7)	5(5.3)	20(21.1)	6(6.3)	3.57	0.937
The SACCO normally floats shares to members of the public	7(7.4)	43(45.3)	13(13.7)	24(25.2)	8(8.4)	3.38	0.848
The SACCO encourages members to raise minimum contributions	13(13.7)	55(57.9)	4(4.2)	16(16.8)	7(7.4)	3.54	0.945
The SACCO engages in re-investment of profits	12(12.6)	53(55.8)	6(6.3)	15(15.8)	9(9.5)	3.47	0.883
Generally, capitalization policies influence SACCO performance	10(10.5)	51(53.7)	5(5.3)	18(18.9)	11(11.6)	3.45	0.933
Valid listwise 95							
Grand mean = 3.450							

From table 4, most respondents agreed (44.2%) and strongly agreed (6.3%) that the SACCO had a policy on capitalization of dividends; implying that though capitalization was new approach to savings mobilization, a good number of SACCOs in Siaya County had embraced this approach. Secondly, most respondents also agreed (55.7%) and strongly agreed (11.6%) that the SACCO encouraged members to engage in bonus deposits through the capitalization initiative; but there were mixed reactions if SACCO normally floats shares to members of the public. This was because while 45.3% of respondents agreed, 13.7% were uncertain while 25.2% of respondents disagreed. This implied that since capitalization (for example floating shares to members of the public) was a new approach used by Saccos to mobilize savings, some Saccos in Siaya County have not thoroughly utilized it.

Further, most respondents agreed (57.9%) and strongly agreed (13.7%) that the SACCO encourages members to raise minimum contributions. That is, most SACCOs in Siaya County had encouraged their members to increase their shares by encouraging them to increase their monthly contributions by not sticking on minimum contributions, which

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consequently raises the Sacco's share capital base. More so, 55.8% and 12.6% agreed and strongly agreed that The SACCO engages in re-investment of profits, which is a viable savings mobilization initiative to boost Sacco's share capital.

On overall, most respondents agreed (53.7%) and strongly agreed (10.5%) that generally, capitalization policies influence SACCO performance. This was also shown by the grand mean which was 3.450 rounded off to 4 which was agreed on the likert scale used in the measurement which generally means that most respondents agreed that capitalization influences Saccos' financial performance as measured by ROE.

Inferential statistics

Linearity of the study variables was tested using Pearson's product moment correlation coefficient so as to show that independent variables had significant relationships with the dependent variable which were then considered prerequisite for running regression analysis. That is, the correlation analysis in table 5 showed that all independent variables (loan security, core capital management, dividend policy, capitalization) had significant linear relationship with the dependent variable (financial performance of SACCOs in Siaya County as measured by ROE).

Further, multicollinearity was checked using correlations between all pairs of independent variables (loan security, core capital management, dividend policy, capitalization). In this study, on correlation analysis, the highest correlation coefficient between all pairs of the study's independent variables (loan security, core capital management, dividend policy, capitalization) was 0.802, which was below the threshold of 0.9, thus multicollinearity assumption was checked and met.

Table 5: Correlation analysis

		Loan security	Core Capital Management	Dividend policy	Capitalization	Sacco performance
Loan security	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	95				
Core Capital Management	Pearson Correlation	.617**	1			
	Sig. (2-tailed)	.000				
	N	95	95			
Dividend policy	Pearson Correlation	.628**	.612**	1		
	Sig. (2-tailed)	.000	.000			
	N	95	95	95		
Capitalization	Pearson Correlation	.625**	.621**	.607**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	95	95	95	95	
Sacco performance	Pearson Correlation	.799**	.802**	.739**	.754**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	95	95	95	95	95

**. Correlation is significant at the 0.01 level (2-tailed).

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Multiple Regression Analysis

Linear regression analyses showing both the F values and the corresponding significant values revealed that the study's independent variables (loan security, core capital management, dividend policy, capitalization) were indeed different from each other and that they affect the dependent variable (financial performance of Saccos in Siaya County) in a different manner, hence, the possibility of running multiple regression. The mandatory model assumptions for running multiple regression analysis were also checked and met. The results were shown in table 6.

Table 6: Multiple 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	.866[a]	.751	.740	.60307	.751	67.736	4	90	.000

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	98.540	4	24.635	67.736	.000[a]
	Residual	32.732	90	.364		
	Total	131.273	94			

a. Predictors: (Constant), capitalization, Loan security, dividend policy, Core Capital Management

b. Dependent Variable: Sacco performance

Table 6 showed the multiple regression results of the combined effects of the study's independent variables (loan security, core capital management, dividend policy, capitalization). The multiple regression results showed the F statistics was significant (F = 67.736; significant at *p<.001*), thus confirming the fitness of the model. For an R^2 of 0.751, it showed that the study explained 75.1%% of variation in the financial performance of Saccos in Siaya County, while other factors not in this study model accounted for 24.9%, hence, it is a good study model. All the independent variables (loan security; β = 0.645 (0.122) at *p<0.01*; core capital management; β = 0.544 (0.113) at *p<0.01;* dividend policy; β = 0.314 (0.090) at *p<0.05,* capitalization; β = 0.466 (0.081) at *p<0.01,* significantly predicted financial performance of Saccos in Siaya County (dependent variable). Thus the final multiple regression equation was;

$$y= 0.604 +0.645X_1+0.544X_2 + 0.314X_3 + 0.466X_4$$

Where;

y= financial performance of Saccos in Siaya County

X_1= loan security

X_2= core capital management

X_3= dividend policy

X_4= capitalization

Table 7: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.604	.105		5.721	.000
	Loan security	.645	.122	.612	5.270	.000
	Core Capital Management	.544	.113	.516	4.821	.000
	Dividend policy	.314	.090	.312	3.493	.001
	Capitalization	.466	.081	.433	5.770	.000

a. Dependent Variable: Sacco performance

Hypothesis testing

Study **hypothesis one** stated that there is no significant relationship between loan security policy and financial performance of SACCOs in Siaya County, Kenya. The multiple regression analysis indicated that there exists a positive and significant effect of loan security policy on financial performance of Saccos in Siaya County (β = 0.645 (0.122) at *p<0.01*). **Hypothesis one was thus rejected.** This implied that a single improvement in effective loan security policies would yield 0.645 unit improvement in the financial performance of SACCOs in Siaya County. From secondary data, Taraji Sacco loan to members grew from kshs. 185,640,359/- in the year 2017, to kshs.212,702,345/- in the year 2018, while its total equity grew from kshs.117,247,954/- in the year 2017 to kshs.133,606,647/- in the year, 2018; and generally, most SACCOs reported an increase in short term loans to members and an increase in members deposits, implying the Saccos have feasible loan security measures to encourage more loans uptake with less loan delinquency ratios. The results are supported by a study by Balkenhol (1999), on loan delinquency control practices of primary cooperatives in Nigeria found that almost all of the primary cooperatives had written loan policies which they implemented strictly to their members.

Study **hypothesis two** stated that there is no significant relationship between core capital management and financial performance of SACCOs in Siaya County, Kenya. The multiple regression analysis indicates that there exists a positive and significant effect of core capital management on financial performance of Saccos in Siaya County (β = 0.544 (0.113) at *p<0.01*). **Hypothesis two was thus rejected.** This implied that a single improvement in effective core capital management measures would yield 0.544 unit improvement in the financial performance of Saccos in Siaya County. From secondary data analysis, Ugunja women enterprise Sacco, total equity grew from kshs.476,648/- in the year 2017 to kshs.510063/- in three year 201,; Ramba People of Virtue Sacco total equity grew from kshs.384,690/- in the year, 2016 to kshs.559,544/-in the year, 2017; while its total assets also grew from khs.3,720,196/- in the year 2016 to kshs.5874066/- in the year, 2017. Further, Maseno West Sacco, total revenue grew from kshs.453,254/- in the year 2017 to 520,026/- in the year 2018; while the Saccos' retained earnings grew from kshs. 8092/- to in the year 2017 to kshs.56,725/- in the year, 2018, implying good capital management practices. The results are supported by Kioko (2016) studied the effect of core capital regulations on SACCOs in Kenya; focusing on three questions namely: Why is it necessary for SACCOs to adhere to core capital adequacy regulations? What challenges had SACCOs faced in complying with core capital adequacy requirements and what strategies have SACCOs undertaken to meet the requirements for core capital adequacy? The population under study was the Front office Savings Activity, FOSA, operating SACCOs within Nairobi County whereby a census was taken of all 35 of these SACCOs operating within the county. The study concluded that SACCOs had benefited significantly from the core capital regulations in various ways such as, managing credit risk, improved public confidence, providing a safety net for members' deposits, provision of operating capital, increased lending capacity, providing a base for future growth, and preventing insolvency. SACCOs had faced various challenges in complying with core capital regulations. These were reduced pay-out on members' funds, recruitment of new members, restricted avenues for investment, and reduced lending capacity. The study recommended that a review of SACCOs lending rates via cost pricing methods to ensure that though the rates remain competitively low they yield adequate revenue to offset costs involved in provision of these products

Study **hypothesis three** stated that there is no significant relationship between dividend policy and financial performance of SACCOs in Siaya County, Kenya. The multiple regression analysis

indicates that there exists a positive and significant effect of dividend policy on financial performance of Saccos in Siaya County (β = 0.314 (0.090) at *p<0.05*). **Hypothesis three was thus rejected.** This implied that a single improvement in viable Sacco dividend policies would yield 0.314 unit improvement in the financial performance of Saccos in Siaya County. From secondary data, Ngi'ya Elite traders Sacco, share capital grew from kshs.614,396/- in the year 2017 to kshs.1,170,396/- in the year 2018, members deposits grew from 3,792,491/- in the year 2017 to kshs.6,197,066/ in the year 2018, while interest on members deposits proposed grew from, kshs.227,550/- to kshs.464,780/- in the year 2018; Bondo teachers Sacco's interest on members deposits grew from kshs.5,651,202/- in the year 2017 to kshs.5,862,745/- in the year, 2018;while its total equity grew from kshs.38,025,336/- to 51,746,015/- in the year, 2018; implying that viable dividend payouts encourage members to reinvest their dividends to boost members deposits as well as attracting new members to the Sacco which boosts share capital; and consequently boosting the Saccos' return on equity. The results were supported by Bhana (2001) who examined the share market response to substantial changes in dividend policies by Japan Stock Exchange firms during the period 1970-1988. The results provided a strong support for the information content of dividend policies. The empirical evidence suggests that large dividend changes on the Japan Stock Exchange convey valuable information to investors over and above that contained in the earnings announcements and that investors revise their expectations in response to announcement of significant dividend changes (signaling effect).

Lastly, study **hypothesis four** stated that there is no significant relationship between capitalization and financial performance of SACCOs in Siaya County, Kenya. The multiple regression analysis indicates that there exists a positive and significant effect of capitalization on financial performance of Saccos in Siaya County (β = 0.466 (0.081) at *p<0.01*). **Hypothesis four was thus rejected.** This implied that a single improvement in effective Sacco capitalization measures will yield 0.466 unit improvement in the financial performance of Saccos in Siaya County. From secondary data analysis, Ramba People of Virtue Sacco members' deposits grew from kshs.2, 967,547/- to kshs. 4614,747/- in the year 2017; also, First community Sacco members' deposits also grew from kshs.1,437,518/- in the year 2017 to kshs.15,310,582/-, while its total equity grew from 5,368,973/- in the year 2017 to kshs.5,929,369/- in the year, 2018; implying savings mobilization through capitalization initiatives motivated old members to make deposits while also possibly attracting new members to the Saccos. The results were supported by Porteous, Collins and Abrams (2010) assertion that supervision of SACCOs is ensuring that customers' savings are safeguarded especially when they are invested for income through sound capitalization measures.

CONCLUSIONS

First, the study concluded that loan security is a viable measure in ensuring loan repayment and reduction in loan delinquency ratio which then boosts financial performance of SACCOs. Secondly, core capital management significantly influences financial performance of Saccos by ensuring Saccos adhere to core capital requirements as regulated by SASRA. Thirdly, dividend policy is a significant predictor of financial performance of Saccos, since it helps in savings mobilizations by attracting new and retaining old customers. Fourthly, capitalization as a new initiative to boost Saccos' share capital has a significant bearing on Saccos' financial performance.

RECOMMENDATIONS

First, Saccos should formulate feasible loan security policies that limit loan delinquency ratios while at the same time attracting new customers so as to boost SACCOs' share capital.

Secondly, SACCOs should adhere to core capital management requirements as stipulated by SASRA

so as to avoid liquidation risks. Thirdly, SACCOs should enact feasible dividend policies that guarantee consistent dividend payouts and reinvestments so as to attract new and retain old customers. Fourthly, SACCOs should embrace viable capitalization initiatives as possible savings mobilization strategy meant to boost Saccos share capital.

Areas for further research

First, a similar study can be done using purely secondary data so as to compare results. Secondly, a panel study can be done using time series data for a span of like 5 years of SACCO financial performance so as to compare empirical data.

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