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THE EFFECT OF FINANCIAL MANAGEMENT PRACTICES ON THE PERFORMANCE OF SACCOS IN HOSPITALITY INDUSTRY: A CASE STUDY OF FIVE STAR HOTEL SACCOS IN NAIROBI

BY

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Research project report submitted to the Chandaria School of Business in partial fulfillment of the requirement for the degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY AFRICA

SPRING 2016
STUDENTS DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University – Africa for academic credit.

Signed: ___________________________ Date: ___________________________

Chege E. Muthoni (ID. No. 642894).

This project report has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________ Date: ___________________________

Mr. Kepha Oyaro

Signed: ___________________________ Date: ___________________________

Dean, Chandaria School of Business
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I acknowledge with gratitude the respondents who participated in this research and took time in filling the questionnaire which provided information necessary to complete this project.

In addition, I would like to appreciate my colleagues, friends and family for their contribution and participation.

Finally, I would like to specially thank my husband Josphat Gathua, my daughters Chenelle and Aimee for their support, encouragement and understanding. They had to adjust themselves to cope with my absence as I worked day and night to complete this project.
DEDICATION

I dedicate this project to my husband Josphat Gathua, my daughters Chenelle and Aimee.

Above all, I specially dedicate this project with thanksgiving to my Almighty God, the Ebenezar. His grace was sufficient.
## LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>SACCOS:</td>
<td>Savings and Credit Cooperative Societies</td>
</tr>
<tr>
<td>SASRA:</td>
<td>SACCO Society Regulation Authority</td>
</tr>
<tr>
<td>WOCCU:</td>
<td>World Council of Credit Unions</td>
</tr>
<tr>
<td>KUSCCO:</td>
<td>Kenya Union of Savings and Credit Cooperative</td>
</tr>
<tr>
<td>CVP:</td>
<td>Cost- Volume- Profit</td>
</tr>
<tr>
<td>ACCOSSCA:</td>
<td>Africa Confederation of Cooperative Society Savings and Credit Association</td>
</tr>
<tr>
<td>NPL:</td>
<td>Non Performing Loans</td>
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ABSTRACT

The purpose of this study was to investigate the effect of financial management practices on the performance of SACCOs in the hospitality industry. The study was aimed at achieving three specific objectives; First, to evaluate the effect of cash management on the performance of SACCOs in hospitality industry; second, the effect of credit risk management on the performance of SACCOs in hospitality industry and lastly, to evaluate the effect of dividend policy on the performance of SACCOs in the hospitality industry.

The study used descriptive research methodology. The target population was the 169 SACCO management committees from the 13 five star hotel SACCOs and a sample size 119 respondents was used. This study was guided by stratified random sampling technique and a structured questionnaire was used for data collection. The questionnaire was administered to the respondents through drop and pick method and once collected the data was analyzed using Microsoft Excel to calculate the frequency percentages, mean score as a measure of central tendency and standard deviation as a measure of data dispersion. Statistical Package for Social Science (SPSS) was used to perform correlation analysis that was used to establish the degree of relationship between respondents' opinion on the three research objectives. The findings were presented in tables and figures.

The study found that majority of the SACCOs had adopted financial management practices that contribute to the performance of the SACCOs. Cash management policies have contributed to enhancing the liquidity of the SACCOs, ensuring loans are disbursed upon approval resulting to increase in profitability through the interest. The study also revealed that only a few SACCOs invested excess cash on marketable securities. The study found that most SACCOs have a credit management policy which is crucial in laying down guidelines and procedures on how to manage the variety of loan products offered by the SACCOs and minimize credit risk. Major findings also revealed that the SACCOs mainly used guarantee and members shareholding as securities to mitigate credit risk.
The study concluded that SACCOs have an established dividend policy with an overwhelming majority using residual dividend policy and paid dividends annually. A large percentage of the respondents confirmed that SACCOs used previous year’s dividend, liquidity state of the SACCO, legal requirements and stability of earnings as determinants of dividend payable. The study also concluded that payment of dividends minimized agency cost and maximized shareholders which supported the agency theory. On the other hand, the study went against the Miller and Modigillian irrelevancy theory where a large percentage of the respondents disagreed that payment of the dividend is irrelevant.

In the light of the findings the researcher recommends that in order to ensure the few SACCOs without financial management policies implement to protect the wealth of the members, the government and policy makers should implement policies that would extend incentives to SACCOs with good cash management skills in order to improve the service delivery of the SACCO. SACCOs should also create avenues to learn from each other which will help the SACCOs with poor financial management practices to acquire knowledge from the SACCOs that are excelling. Cash management systems should also be introduced to develop financial discipline. SACCOs should also extend securities to assets and collateral to protect the members who are also the guarantors. The researcher also recommended that SACCOs should be encouraged to retain earning in order to reinvest and increase the growth of the SACCOs which will lead to high profits in the future. The study also recommends that shareholders should also understand that, payment of dividends only marginally reflects good subsequent periods earning prospect, there are many other factors that influence future earnings including Sacco’s investment policy, operating environment and taxes. Thus they also need to pay attention to these factors when analyzing performance. SACCOs may therefore defer payment of dividends so as to increase profitability for the SACCO in order to have good dividend policy in future.
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Problem

Financial management is one of the several functional areas of management but it is the center to the success of any business. Inefficient financial management, combined with the uncertainty of the business environment often led Business Enterprises to serious problems (Lakew & Rao, 2014). According to Kwame (2010), careless financial management practices are the main cause of failure for business enterprises. Regardless of whether it is an owner-manager or hired-manager, if the financial decisions are wrong, profitability of the company will be adversely affected. Consequently, a business organization’s profitability could be damaged because of inefficient financial management.

According to Lakew and Rao (2014), business enterprises have often failed due to lack of knowledge of efficient financial management. Moreover, the uncertainty of the business environment causes business enterprises to rely excessively on equity and maintain high liquidity and these financial characteristics affect profitability.

Paramasivan and Subramanian (2009) argued that financial management helps to improve the profitability position of business organizations with the help of strong financial control devices such as budgetary control, ratio analysis and CVP analysis. Lakew and Rao (2014) pointed out that financial managers are crucial to the profitability, survival and well being of small business enterprises.

Kieu (2004) in his study on small business in Vietnam found out that efficiency in financial management practices such as accounting information system, financial reporting and analysis, working capital management, fixed asset management and financial planning and good performance in financial characteristics such as liquidity and business activity has a positive impact on performance of an organization. In addition, the study conducted by Chung & Chuang (2009), also reveals efficiency in capital structure management, working capital management, financial reporting and analysis; capital budgeting and accounting information system has a positive impact on profitability of business organizations.

As cited by kieu (2004) Walker and Petty defined the main areas of financial management
to include financial planning that is cash planning, fixed asset planning and profit planning, investment decision-making, working capital management that is cash, receivable and inventory management plus sources of financing (short-term and long-term financing, intermediate financing and going public). According to Mohd, Harif, Osman & Hoe (2010), the components of financial management includes financial planning and control, financial accounting, financial analysis, management accounting, capital budgeting and working capital management.

Savings and Credit Cooperative societies (SACCOs) are voluntary associations or cooperative financial institution owned and controlled by their members and operated for the purposes of promoting savings, credit at low interest rates and providing other financial services to its members (Waweru, 2011). SACCOS are the important micro-financing institutions for mobilization of financial resources for various development activities. Generally, the idea behind establishment of SACCOS is to promote savings and make credits available to the members (Mumanyi, 2014).

Generally, co-operatives are organized into service and producer cooperatives (Branco, 2005). According to Branco (2005), the producer co-operatives objectives are to promote the use of modern technology and contribute to national development through production. The service co-operatives are responsible for procurement, marketing and extension services, loan disbursement, sale of consumer goods and member’s education.

More so, SACCOs are able to advance loans at interest rates lower than those charged by other financial providers. In addition, SACCOs have the ability and opportunity to reach clients in areas that are unattractive to banks, such as rural or poor areas (Branch, 2005). This has made SACCOs more attractive to customers, thus deeply entrenching themselves in the financial sectors of many countries (Munyiri, 2006). In fact, the core objective of SACCOs is to ensure members empowerment through mobilization of savings and disbursement of credit (Ofei, 2001).

In Africa, the idea of saving and credit societies was first described and discussed in 1955 in Jipara, a small town the upper west town of Ghana. The idea was brought by the Roman Catholic priest, Father John McNulty from Ireland. He decided to assist this village to form a saving and co-operative and he trained 60 people mainly teachers.
The success Jipara story has been widely replicated throughout the African continent (Mumanyi, 2014). Co-operative societies are characterized by the intrinsic values and principles on which they are founded. They are based on the values of self-help, self-responsibility, democracy, equality, equity, and solidarity (Mumanyi, 2014). The end product of these co-operatives is to attain the high living standards of its members.

English speaking nations were the first to adopt SACCOs. The first entrants into SACCO community include Ghana, Uganda, Nigeria, Tanzania, and Kenya. Most of the Non-English speaking nations in Africa started appreciating SACCOs in 1960s, with major influx into SACCO community in 1970s (Mwakajumilo, 2011).

The formation of SACCO in Africa grew tremendously to the extent that the African countries formed a continental association of SACCOs, Africa Confederation of Cooperative Society Savings and Credit Association (ACCOSSCA), in 1965. ACCOSSCA was formed with the principal objective of promoting the SACCO principles, offer SACCO insurance, and educate members on SACCO issues (Ng’ombe & Mikwamba, 2004). There are 28 countries in Africa that have established SACCOs (Savings Plus, 2010).

In Kenya, 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 Cooperatives [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. By the year 2010, Kenya had over 5,000 registered SACCOs with a membership of about 7 million. These SACCO societies had mobilized savings of over Ksh.200 billion (Republic of Kenya [RoK], 2008; Ndung’u, 2010).

In Kenya SACCOS operate under Co-operative societies Act of 2008, but they are not regulated by the central bank. However, under the new regulation, SACCOS that operate front office services are licensed, supervised and regulated by SASRA. 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, and their main activities is agriculture (Mumanyi, 2014).

World over, systems in these organizations vary from slightly to significantly in terms of total system assets, average institutions' asset price and regulatory control. This ranges from volunteer operations with a few members' organizations to the institutions with several billion asset value (Mumanyi, 2014). The world council of credit unions (WOCCU) defines a credit union as a non-profit making cooperative institution. In real practice however legal provisions relating to these institutions vary by jurisdiction (WOCCU, 2011).

These institutions have a relatively unique structure in that agency problems exist given that the owners of the institutions and users of the services are the same people. The members who hold accounts in the SACCOs are at the same time the owners, and they conduct their voting mandate on the one member-one vote basis irrespective of the members' shareholding. This means that only the members of these institutions can deposit and borrow from them.

Kenyans have started living with the administrative reforms as power shifts from the central government to the 47 counties (Mumanyi, 2014). The radical changes are likely to be more tangible to the man on the street but it raise question to whether the country is prepared to navigate this brave new system. It is expected that they will have systems of checks and balances to curb abuses by senior public officers. The number of ministries too was reduced to 18, having the former Ministry of Co-operative and development, where all SACCOs were registered is engulfed in the now, Ministry of Industrialization as a Department. All these are expected to have an impact to the SACCOs.

Further, the Vision 2030 strategy among other things requires the financial services sector to play a critical role in mobilizing the savings and investments for development of the country by providing better intermediate between savings and investments than at present.
This sector will assist the mobilization of investment funds required to implement the projects of Vision 2030 (Mumanyi, 2014). Service provided by savings and credit cooperative organizations (SACCOs) and other major financial institutions will play a crucial role in improving the reach and access of financial services.

Ombado (2010) observed that some cooperatives in Kenya were finding it difficult to operate largely because of their poor financial state. According to Agarwal and Mohtadi (2004), profitability is not the primary concern for credit unions. It stated that credit unions sought to generate profits in order to directly benefit the owners as they serve as both the owners of the credit union and the recipients of the cooperative services.

Maingi (2012) pointed out that low profitability in SACCOs was not only due to governance issues but also to poor costing in order to make the loans attractive to the members; partly due to lack of know how or relatively high operating costs. Many if not all SACCOs had experienced considerable difficulties in realizing collateral for loans. Beck, Demirgu and Kunt, (2006) maintained that the loan evaluation system and ability of members to repay within a specified timeframe had not always been considered sufficiently in the loan application process and that the cooperative model of finance relied to a certain extent on the common bonds shared by members, which fostered a trust between members.

Savings mobilization should be backed by adequate institutional capital which ensures permanency, provide cushion to absorb losses and impairment of members’ savings (Evans, 2001). The institutional capital which comprises the core capital and less share capital is mainly accumulated from appropriation of the surpluses. Therefore, SACCOs should strive to maximize on the earnings to build the institutional capital (Branch & Cifunentes, 2001; Ombado, 2010). This institutional capital ensures the permanence and growth of the SACCOs even in turbulent economic times (Evans, 2001). In fact, it helps the SACCOs to grow and, remain economically and financially viable (Gijselinckx & Devetere, 2007). Such growth is enhanced by effective financial practices.

Imperatively, each SACCO needs to generate income which is adequate to cover all its operational costs, enhance the institutional capital, dividends and rebates. In this regard, financial practice is based on sound financial stewardship, solid capital structure, and prudent funds allocation strategy (Maina, 2007).
It is in this regard that there are financial management theories that explain the growth of wealth in terms of financial stewardship or governance (Abdullah & Valentine, 2009).

Financial stewardship being the routine financial decision-making of the SACCO, should embrace sound business practices. This should also revolve around the SACCOs’ financial discipline with a profound influence on the success of all businesses conducted by the SACCOs (Mudibo, 2005). The major financial decisions involved in financial stewardship, for instance, include decisions on finance staff, loan management, asset management and product innovation (Horne, 2003) and (Mudibo, 2005). The financial stewardship should be capable of working to increase SACCOs’ wealth, sustain the SACCOs’ value and satisfy the shareholders’ demands. Further, the financial stewardship aspect is also responsible for updating accounts, ensuring correctness of accounts, advance planning and reporting to members.

SACCOs in Africa are still crawling as they are newcomers, among those offering savings and credit. In fact they have small share in providing financial services, their market share is insignificant when compare to other player in financial service provision (Mwakajumilo, 2011).

1.2 Statement of the problem

According to WOCCU, Statistical Report 2011, there were notable challenges affecting operations of SACCOs which consequently tainted its image towards the mode of service delivery. In Kenya various types of financial organizations including micro finance organization, banks, non-bank financial institutions and cooperatives have collapsed (Maingi, 2012). As of 2009, SACCOs in Kenya were not performing very well and hence were not playing the expected vital and vibrant role in the economic growth and development of Kenya, (Kimeu, 2008).

Among the major problems hindering good financial performance in SACCOs was lack of proper investment decisions, poor finance management policies, lack of investment opportunities, delayed cash flow from members and dubious investments which had very little or no gain to the members capital due to under regulation (Mudibo, 2005). Most previous researchers have focused SACCOs operating front office services.
Although they provided much descriptive and empirical evidence on describing the behavior of SACCOs in practicing financial management practices, there seems to be little study examining the effect of financial management practices on performance of SACCOs in the hospitality industry particularly hotels. The hotel SACCOs are unique in that they are employee-based back office SACCOs where membership is limited to the employees from one employer. According to Maingi (2012) most empirical evidences have came from the developed economies such as the United States of America and therefore there seems to be a lack of sufficient evidence from less developed countries like Kenya. The purpose of this study is therefore to evaluate the effect of financial management practices on the performance of the SACCOs in the hospitality industry in particular five star hotels in Nairobi Kenya.

1.3 Purpose of the Study

The purpose of the study was to investigate the effect of financial management practices on the performance of SACCOs in the hospitality industry.

1.4 Specific Objectives

The following specific objectives will guide the study:

1.4.1 To evaluate the effect of cash management on the performance of SACCOs in the hospitality industry

1.4.2 To evaluate the effect of credit risk management on the performance of SACCOs in the hospitality industry

1.4.3 To evaluate the effect of dividend policy on the performance of SACCOs in the hospitality industry

1.5 Significance of the Study

The study will be significant to the following parties.

1.5.1 Management of the hospitality industry SACCOs

The management of SACCOS will use this study to get a deeper understanding of the financial management practices and their impact on the performance of their SACCOs.
1.5.2 SACCO members

The study will be a source of information to the members to understand the effect of financial management practices on the performance of the SACCOs and therefore elect managements who have knowledge on financial management.

1.5.3 Policy makers

The study will help the policy makers in formulating policies that will contribute to the growth and development of SACCOs which as a result will improve the economic development of the country.

1.5.4 Researchers

The findings of this study will encourage further studies in the area of performance of SACCOs and provide a reference point to researchers.

1.6 Scope of the Study

The study covered SACCOs in the hospitality industry focusing on five star hotel SACCOs in Nairobi. The research data was collected from the executive committee (Chairpersons, Vice chairpersons, Treasurers and Secretaries), credit committee, Supervisory committee, education committee and accountants who have the responsibility to manage the activities of the SACCOs. The study was done during the year 2015, from September – December.

1.7 Definition of Terms

1.7.1 Financial Management

This is the application of general managerial principles to the area of financial decision making (Paramasivan and Subramanian, 2009).

1.7.2 Fund Mobilization

It involves the formulation of approaches that are geared towards compelling member of the society to make contribution to a common kitty (Mungai, 2015).
1.7.3 Cooperative

Is a legal entity owned and democratically controlled by its members. Member often have a close association with the enterprise as producers or consumers of its products or services, or as its employees (Mungai, 2015).

1.8 Chapter Summary

This chapter has introduced the study that seeks to investigate on the effect of financial managements practices on the performance of SACCOs in the hospitality industry. It has laid down the specific objects of the study, the scope and its significance. Chapter two will cover the literature review, chapter three will describe the methodology that will be used, chapter four will contain the research findings and finally chapter five will comprise of the discussion, conclusion, and recommendation of the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter is to review the past literature in relation to financial management practices and establish a theoretical framework in the area of the study. The review will be guided by the three specific research objectives: To evaluation of the effect of cash management, credit risk management and dividend policy on performance of SACCOs.

2.2 Cash Management on Performance of SACCOs

According to Pandey (2010), cash refers to money which an organization or firm can disburse immediately without restriction. He asserts that sometimes, near cash items such as marketable securities or bank deposits are also included as cash. Akinbuli (2009) asserted that cash is absolutely essential to business stressing that without cash; operations will grind to a halt.

As suggested by Gallagher (2000), implementation of a good cash management system will ensure better control of financial risk, increase the opportunity for profit, strengthen the company’s balance sheet, ensure increased confidence in the company and improve operational efficiency. Kesseven, 2006 argued that the key to successful cash management lies in tabulating realistic projections, monitoring collections and disbursements, establishing effective billing and collection measures, and adhering to budgetary parameters because cash flow can be a problem to the business organization.

Kesseven (2006) submitted that most managers are faced with the challenge of achieving a desired trade-off between liquidity and profitability in maximizing the value of the firm. He therefore warned that too much focus on profitability may cause asset–liability mismatch resulting in increased profitability in the short run at a risk of insolvency.

2.2.1 Approaches to cash management

Kytonen (2004) identified three approaches to cash management. The approaches are discussed subsections below:
2.2.1.1 Monetary theoretic approach to cash management
According to Kytonen (2004), monetary economists are interested in the cash management of firm; their objective has been to describe the mechanism of the demand for money by firms, because it differs from the behavior of other economic agents. He explained how Attanasio, Giuso & Japalli (2002) used microeconomic data on households to estimate the parameter of the demand for currency derived from a generalized Baumol-Tobin model.

2.1.1.2 Operations Research Approach to Cash Management
Numerous operational models have been developed to optimize the split between cash and marketable securities based on the firm’s needs for cash, the predictability of these needs, the interest rate on marketable securities, and the cost of a transfer to cash and vice versa (Kytonen, 2002). The two basic transaction models most commonly accepted in the financial literature are the deterministic Baumol-Tobin (1952) and the stochastic Miller-Orr inventory models (1966).

2.1.1.3 Financial theoretic approach to cash management
Kytonen (2002) argued that in financial theory, researchers are interested in how cash and other liquid assets affect firm value and the optimal capital structure of a firm.

2.2 Motives for holding cash
According to the notable economist, Keynes (Abioro, 2013) there are three main motives for holding cash and they are as follows:

2.2.2.1 Transactionary Motive
This is the major reason why corporate bodies hold cash. Cash is held in the ordinary course of business for day to day operation. This motive requires a firm to hold cash to conduct its business, the need to hold cash for this purpose rests on the fact that there is no perfect synchronization between cash receipts and payments (Abioro, 2013).

2.2.2.2 Precautionary Motive
Cash is held to provide cushion or buffer to withstand unexpected emergency cash outflows. Cash held serves as safety margin against occasional unforeseen but compelling contingent payments in the future (Abioro, 2013).
2.2.2.3 Speculative Motive
The speculative motive relates to holding of cash to seize an advantage of investment opportunities which may arise from time to time. Cash is required for taking advantage of unusually profitable opportunities which may suddenly occur. According to Van Horne (2002), firms must decide the quantum of cash to be held for motives identified above. Igbinosun (2002) asserted that since business firms do not engage in speculations, motives to hold cash and marketable securities are mainly transactionary and precautionary motive.

2.2.3 Cash Management Techniques
According to Pandey (2010), there is need for proper management of cash, since it is the most important current asset for the operation of business. The firm should keep sufficient cash, neither more or less. Cash shortage will disrupt the firms operations, while excessive cash will simply remain idle, without contributing anything towards the firm’s profitability. He suggested the following as factors of cash management.

2.2.3.1 Cash Planning and Budgeting
This includes the preparations and implementations of cash budget. Gitman (2008) stated that, a cash budget is a statement of the firm’s planned inflows and outflows of cash. It is used by the firm to estimate its short term requirement with particular attention being paid to planning for surplus cash or for cash shortages.

Vanhorne (2001) says that, a common cash management tool found in companies is a cash budget. Creating several smaller budgets, can help managers determine which operations use more cash and struggle to stay on the projected budget amounts. This discovery gives managers an idea of when improvements needed to correct the company’s cash flow problems.

According to Udojung (2010), Cash planning is not a science but rather an on-going, iterative process that involves many parts of the organization. It can be done on daily, weekly, or monthly basis. Pindado (2004) argued that, cash budgets, whether prepared on an annual, monthly, weekly or daily basis, can only be estimates of cash flows. Even the best estimates will not be exactly correct, so the deviations of the cash budgets are inevitable.
2.3.2 Managing Cash flows
Once cash budget has been approved, and appropriate net cash flow established, the financial manager should ensure that there does not exist a significant deviation between projected cash flows and actual cash flows (Abioro, 2013). To achieve this, there will have to be proper control of cash collections and disbursements (Abioro, 2013).

2.2.4 Determining the target cash balance
There are two main cash management models that is, the Baumol –Allouis –Tobin (BAT) model (Tobin, 2006). The aim of this model is to calculate the optimal amount of securities to be liquidated whenever the concern requires cash. Another cash management model suggested by Miller (2001) is the Miller Orr Model, which is a stochastic model that aims at determining the amount of marketable securities to be sold or purchased whenever there is need for cash. A stochastic model is a model based on real life assumption that cash use is random. Gallagher (2000) opined that cash management involves a trade-off between the need for liquidity and desire for profitability.

2.2.4.1 Baumol cash management model
Jarrad (2000) explaining the treatment of cash management problem by Baumol in 1952, noted that Baumol treated cash management problem as an inventory management problem where he applied techniques developed for inventory optimization to the problem of covering transactions demand for cash. Having optimal cash balance basically involves a trade-off between the opportunity costs of holding too much cash and the transaction costs of holding too little cash.

Marsh (2009) acknowledged that although the model is simple to use and understand, it might be difficult to accurately predict cash required over future periods as the model assumes that firm faces a constant demand for cash. Pandey (2010) also stressed that the major limitation of the Baumol model is that it does not allow the cash flows to fluctuate. In practice, firms does not use their cash balances uniformly neither are they able to predict accurately daily cash inflow and outflows.

2.3.4.2 Miller-Orr Cash Management model
Pandey (2010) stressed that Miller Orr model overcame the shorting comings of Baumol model as it allows for daily cash flow fluctuation and assumes that net cash flow are
normally distributed. Unlike the Baumol Model, this model allows for uncertainty cash flows and safety stocks (precautionary balance). According to Marsh (2009), the Miller-Orr model imposes upper and lower limits which trigger securities buy or sell actions in order to bring cash balances back to an optimal return point. In doing this, it constrains the upward and downward movements of cash to within acceptable limit. The model allows the company to set the lower control limit while the model determines the higher control limit and the average cash balance.

2.2.5 Investing Idle Cash
Companies may have surplus or idle fund. Pandey (2010) described surplus cash as excess amount of cash held by firm to meet its variable cash requirement and future contingencies and advised that such money should be temporarily invested in marketable securities. Once the firm has determined the optimal cash balance, the residual asset or surplus cash it should not be left idle. It should be properly invested to earn profit for the company. Berk & Demarzo, (2011) also advised that once a firm need to hold cash is reduced, funds should be invested in short term investment securities.

Allman-Ward and James (2003) noted that the cash manager has three objectives when investing funds in short term instruments, which are; retaining value, raising cash quickly and realizing income. They stated that cash surplus may arise from; variable sales pattern, sale of assets or investments, raising capital or debt.

They further categorize the instruments for short term investing in three as follows; Government instruments: Treasury bills, bonds, revenue securities, general obligation securities etc. Bank instruments: Time deposits, Certificates of Deposit (COD), Bankers Acceptance (BA), repurchase agreements and sweeps.

2.3 Credit Risk Management on Performance of SACCOs
When a Sacco grants credit to its customers, it incurs the risk of nonpayment. Credit risk management refers to the systems, procedures and controls which a Sacco puts in place to ensure the efficient collection of customer payments and minimize the risk of non-payment (Naceour and Goaied, 2008). Kibui and Maroge (2014) defined Credit risk simply as the potential that borrower or counterparty will fail to meet its obligations in accordance with
agreed terms. Credit risk or default risk involves inability or unwillingness of a customer or counterparty to meet commitments in relation to lending, trading, hedging, settlement and other financial transactions (Richardson, 2002). Many small businesses have neither the resources nor the expertise to operate a sound credit management system (Richardson, 2002).

Among the risk that face SACCOs, 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, 2011). The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any banking organization (Nelson & Schwedt, 2006). Credit risk management incorporates decision making process; before the credit decision is made, follow up of credit commitments including all monitoring and reporting process (Bessis, 2008).

Various issues such as the capital adequacy levels in the SACCO system, the role of rating agencies in financial regulation and the fair-value assessment of SACCO assets are the most debated ones (Kibui and Maroge, 2014). In response to these crises, significant reformations have been carried out in the SACCO regulatory system.

However, several issues such as lack of risk sensitive measures of the creditworthiness and weak incentives for SACCOs to strengthen risk management system emerge as shortcomings (Porvali, 2013).

Contrary to the popular belief that default rate in SACCOs is negligible, the statistics from the Ministry of Industrialization and Enterprise Development indicate a considerable increase in the amount defaulted by Sacco Members each year (Kibui and Maroge, 2014). Given this background, it is surprising to observe that not much is known about the extent by which SACCOs engage in the practice of credit risk management.

Loans that are in default or close to being default become NPLs. The terms of the default rate in loans are defined by each SACCO. NPL report shows the proportion of the default or near to default loans to the actual performing loans. It indicates the efficiency of the credit risk management employed in the SACCO. Therefore, the less the ratio the more effective the credit risk management (Gorter & Bloem, 2002).
2.3.1 Portfolio Theory
The basic portfolio model was developed by Harry Markowitz in the 1950s. Markowitz is considered the father of modern portfolio theory since he originated the portfolio model that underlies modern portfolio theory. He derived the expected rate of return for a portfolio of assets and the expected risk measure. Since then, many theoretical and practical criticisms have been developed against it.

Markowitz established that under reasonable assumptions, the variance (or standard deviation) of the expected rate of return was a meaningful measure of portfolio risk. From his model, the expected rate of return of a portfolio is the weighted average of the expected return for the individual assets in the portfolio.

The standard deviation is a function of:

a) Standard deviations for individual assets in the portfolio
b) The Covariance between the rates of return for all paired assets in the portfolio

He derived the following formulas for computing the expected rate of return and the variance (standard deviation) of a portfolio

1) Expected rate of return for a portfolio \( ER_p = \sum Wi \cdot ER_i \)
2) The Variance & Standard deviation \( \delta_p = \sum Wi \cdot \delta_i + \sum \sum Wi \cdot Wj \cdot COVi \cdot j \)

Where \( i \neq j \)

From the formulas, Markowitz determined how to diversify effectively and the importance of diversification of investments in order to reduce total risk of a portfolio. The theory asserts that the risk of a portfolio returns is influenced by three factors

a) The risk or standard deviation of individual securities that constitute the portfolio

b) The weights or proportions of individual securities in the portfolio

c) The correlation of returns between the securities in the portfolio

The value of the loan portfolio depends not only on the interest rates earned on loans but also on the likelihood that interest and principal will be paid (Jansson, 2002). Lending is the principal business activity for most commercial banks, the loan portfolio is typically the largest asset and the predominate source of revenue (Petersson and Wadman, 2010). As such, it is one of the greatest sources of risk to a financial institution’s safety and soundness.
Whether due to lax credit standards, poor portfolio risk management, or weakness in the economy, loan portfolio problems have historically been the major cause of losses and failures (Kibui and Maroge, 2014). Effective management of the loan portfolio and the credit function is fundamental to a Sacco’s safety and soundness (Petersson and Wadman, 2010).

According to Alexandra (2006), performance of a Sacco depended so much on the quality of its portfolio. Further studies by Chipembere (2009) assert that performance of Saccos mainly is determined by the management and governance structures. Apart from the financial deficiencies, the provision of loan products to profitable low-risk borrower members, the appropriate risk management is more nebulous.

On the one hand Sacco managers need to reduce the risk of loan default because the institutions financial viability is weakened by the loss on principle and interest, the cost of recovery and the opportunity cost of management time taken to recover (Lagat, Mugo & Otuga 2013).

The full spectrum of investments must be considered because the returns from all these investments interact hence the relationship between the returns for assets in the portfolio is important (Reilly & Brown, 2011).

2.3.2 Risk Identification
These are the methods and mechanism which SACCO has in place to identify the existing and potential risk inherent in a SACCO’s loan and lending activities, it also includes the development and implementation of clearly defined policy that sets out the lending philosophy of the SACCO that effectively manages and controls risk (Langat, Mugo, & Otuya, 2013).

According to Essendi (2013), the first step in risk identification is identifying and prioritizing key risks which are reviewed and approved by the management committee. There is also need to determine the degree of risk the Sacco should tolerate and to conduct assessments for each risk of the potential negative impact if it is not controlled. Finally analyze the risk faced by the Sacco in the areas of interest rates risk, liquidity, credit, operations and strategic risks.

2.3.3 Risk analysis and Evaluation
These are the methods that are used to calculate the credit worthiness of a member borrower.
It involves an analysis or examination of sources of repayment as well as credit history of the member borrower (Langat, Mugo, & Otuya, 2013). Before any approval is made the Sacco will look for all factors with primary emphasis on the borrower ability, various policy requirement and judgmental discretions. Risk analysis also includes the management's policies and the activities conducted during loans granting, that highly influence whether the loan will be a good or a bad loan. (Langat, Mugo, & Otuya, 2013).

A typical risk analysis process consists of two components; financial analysis quantitative analysis and qualitative analysis (Fatemi & Glaum, 2010). Financial analysis consists of analysis of financial; data available for the credit applicant, the analysis of annual financial statements has a central position in this context. Mostly financial analysis is carried out by credit analysts, there should be a general guideline stipulating that the analysis is confirmed by the person in charge of the organizational unit supplying the module for credit analysis when this module is handed over to the credit officer managing the exposure (Eldelshain, 2005).

2.3.4 Credit Approval

Clear established processes of approving new creditors and extending the existing credits has been observed to be very important while managing credit risks in Saccos (Essendi, 2013). Credit unions must have in place written guidelines on credit approval processes and approval authorities.

The board of directors should always monitor loans, approval authorities will cover new credit approvals, renewal of existing credit changes in terms and conditions of previously approved credits particularly credit restructuring which should be fully documented and recorded (Mwisho, 2001).

2.3.5 Credit Risk Control and Monitoring

These are the constant and timely processes that effectively monitor and control the credit function and carefully control loans with members, the risk monitoring variables are the established continuous procedures and guidelines to effectively monitor and control the characteristics and quality of its credit portfolio (Langat, Mugo, & Otuya, 2013).

The procedures involve identifying problem accounts, frequent review and follow up for appropriate corrective action taken from the time a loan is granted, repayments and diagnostic indicator of incidences of delinquency (Langat, Mugo, & Otuya, 2013).
Implementation and designing of policies, procedures and systems will integrate line staff into the internal control processes, thus providing feedback on the Sacco’s ability to manage risk without causing operational difficulties. The committee and the manager should receive and evaluate the results on an ongoing basis. Most risk management guidelines in Saccos will be contained in the policy manuals of the credit manual (CBK, 2010).

2.3.6 Credit Risk Management Measurement
Operating and financial ratios have long been considered as tools for determining the condition and the performance of a firm. Modern warnings models for financial institutions gained popularity when Sinkey (1975) utilized discriminant analysis for identifying and distinguishing banks in financial distress. The procedures to identify financial institutions approaching financial distress vary from country to country, they are designed to generate financial soundness ratings and are commonly referred to as the Capital Adequacy, Asset Quality, Management Quality, Earnings and Liquidity (CAMEL) rating system (Gasbarro, Sadguna & Zumwalt, 2002). In Kenya the central bank applies the CAMEL rating system to assess the soundness of financial institutions (CBK, 2010).

2.3.6 Risk Mitigation
They are the established procedures and techniques that are used to reduce and prevent the occurrence of credit risk associated with loan exposures (Langat, Mugo, & Otuya, 2013). The commonly applied is the guarantee system where the reduction of the credit exposure is derived by the undertaking of third party to pay an amount in the event of a default of a borrower (Langat, Mugo, & Otuya, 2013).

2.4 Dividend Policy on Performance of SACCOs
Dividend policy occupies a major role in the financial management of an organization and serves as a mechanism for control of a managerial opportunism (Yegon, Cheruiyot and Sang 2014). Mitton (2004) defined dividend policy as a firm's policy with regards to paying out earnings as dividends versus retaining them for reinvestment in the firm.

It is the division of profit between payments to shareholders and reinvestment in the firm (Caneghem & Aerts, 2011).
Since the publication of the groundbreaking seminar article by Miller and Modigliani (MM) (1961) that introduced the dividend irrelevance theory, a lot of studies have been conducted in the area of determinants of dividend payout around the world over. MM argued that in a perfect market condition, the dividend decision is irrelevant since it has no impact on the value of the firm or on the shareholders’ wealth. However, the presence of market imperfections has provided the basis for the development of various theories which undermined the dividend irrelevance theory (Maladjian & Khoury, 2014).

According to La Porta, Lopez & Shleifer (2000) the policy of dividends practiced by a corporation is a robust signal of a firm’s performance, even though relationship between the two variables does not meet unanimity of theoretical and empirical research.

2.4.1 Dividend Theories
At the heart of the dividend policy theories discussion are two opposing schools of thought: One side holds that whether firms pay dividends or not is irrelevant in determining the share price and hence the market value of the firm and ultimately its weighted cost of capital. In retrospect, the opposing side holds that firms which pay periodic dividends eventually tend to have higher stock prices, market values and cheaper Weighted Average Cost of Capital. The existence of these two opposing sides has spawned vast amounts of empirical and theoretical research.

2.4.2 Dividend Irrelevance theory
This was founded by Miller and Modigliani (1961) when they published a theoretical paper showing the irrelevance of dividend policy in a world without taxes, transaction costs or market imperfections.

They suggested that a firm's value is determined by its investment policy and thus the manner in which earnings are split between retained earnings and dividends does not affect the firm’s value (Nissim and Ziv, 2001). However, MM's (1961) theory has heavily been criticized for being unrealistic in the real world where there are a lot of imperfections (Kioko, 2006).

2.4.3 Dividend Relevance Theories

2.4.3.1 Tax Differential Dividend Theory
Taxation is one of the critical factors that affect firm value and future expected profits.
Brennan (1970) was the first researched who investigated the relationship between dividend yields and risk adjusted returns in the context of taxation. According to La Porte et al, (2000) individual investors pay higher ordinary income taxes on dividends but lower tax rates on long term capital gains. A shilling worth of tax today is more in value than the shilling in the future hence capital gains in future are preferred to dividends today.

2.4.3.2 Information Content/ Signaling Dividend Theory
The signaling theory of dividends states that managers use dividend policy to send signals about the firm’s future earnings (Bhattacharya, 1979; Malombe, 2011). The intuition underlying this argument is based on the information asymmetry between managers (insiders) and outside investors, where managers have private information about the current and future fortunes of the firm that is not available to outsiders (Shisia, Sang, Sirma and Maundu, 2014). 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).

2.4.3.3 The Agency Theory
Jensen (2006) explained that managers do not always run the firm to maximize returns to the shareholders. The agency theory was developed from this explanation and the principal-agent problem was taken into consideration as a key factor to determine the performance of the firm. Easterbrook (1984) argued that dividends reduce the over investment problem because it reduces free cash flow available and increases the frequency with which firms have to go to equity markets in order to raise additional capital. In the process of attracting new equity, firms subject themselves to the monitoring and disciplining of these markets. This lowers agency cost.

2.4.3.4 Bird-in-Hand Theory
The “Bird in Hand” theory of Gordon (1961, 1962) argues that outside shareholders prefer a high dividend policy. In a world of uncertainty and information asymmetry, dividends are valued differently from retained earnings (capital gains): “A bird in hand (dividend) is worth more than two in the bush (capital gains)” (Maladjian & Khoury, 2014).
2.4.3.5 Clientele Effect Theory
Pettit (1977) showed that older investors or retired persons were more likely to hold high dividend shares because they pay lower income tax. In this case we call it the tax clientele effect. The clientele effect is a theory which describes the intention of investors to invest in firms which suits their factor endowments; among the most common ones is their tax circumstance and also firms make their dividend policy decision based the customers they would like to attach to themselves (Shisia et. Al., 2014).

2.4.4 Types of Dividend Policies
2.4.4.1 Constant payout ratio
This is where the firm pays a fixed dividend rate. Dividends are directly dependent on the firm's earnings ability and if no profits are made, no dividends are paid. The dividend per share would therefore fluctuate as the earnings per share changes (Pandey, 2008).

2.4.4.2 Constant amount per share (fixed dividend per share)
The dividend per share is fixed in amount irrespective of the earnings levels thus creating certainty and it is therefore preferred by shareholders who have a high reliance on dividend income (Pandey, 2008). The dividend per share can be increased to a higher level if the earnings appear relatively permanent and sustainable (Pandey, 2008). It protects the firm from periods of low earnings by fixing dividend per share at a low level.

2.4.4.3 Constant dividend per share plus extra /surplus
In this policy, a constant dividend per share is paid every year and extra dividends are paid in years of supernormal earnings. It gives the firm flexibility to increase dividends when earnings are high and participate in supernormal earnings. The extra dividends are given in such a way that it is not perceived as a commitment by the firm to continue the extra dividend in the future (Pandey, 2008).

2.4.4.4 Residual dividend policy
Dividends are paid out of earnings left after all viable investment decisions have been financed. Dividends will only be paid if there are no profitable investment opportunities available. The policy is consistent with shareholders wealth maximization (Pandey, 2008).
2.4.5 Determinants of Dividend Policy
In the literature of dividend payout policy, there is a wide range of factors that have been pointed out by many scholars as the determinants of dividend payout ratio.

2.4.5.1 Liquidity
Liquidity is measured by the current ratio, which is equal to current assets divided by current liabilities (Deshmukh, 2005). According to the signaling theory, firms with higher cash accessibility are able to pay higher dividends than firms with insufficient cash (Malombe, 2011). Residual dividend policy theory also suggests that a firm pay dividends if all the acceptable investment opportunities for those funds are currently unavailable (Lease, Kose, Kaly Loewenstein & Sarig, 2000).

2.4.5.2 Company Size
Large companies tend to be more competitive, with access to capital, better credit rating, and more customers, which will enhance their profitability and increase their ability to pay higher dividends (Zeng, 2003). Fama and French (2001) found out that payers and non-payers differ in terms of three key fundamentals: profitability, investment opportunities and size.

2.4.5.3 Stability of Earning
Baker and Smith (2006) assert that a major determinant of dividend payment was the anticipated level of future earnings. Healthy dividend payouts thus indicate that companies are generating real earnings rather than cooking books (Baker and Smith, 2006). A firm that has relatively stable earnings is often able to predict its future earnings.

2.4.5.4 Previous year’s dividends
In the real world, it is often believed that companies pay a steady stream of dividends because investors perceive firms with stable dividends as stronger and more valuable. Brav, Graham, Harvey & Michaely (2005) also concluded that the previous year’s dividends positively affect the current dividend payout ratio of a company.

2.4.5.5 Investment Opportunities
Firms with higher growth opportunities are likely to retain a greater portion of their earning, resulting in lower dividend payout ratio and use the available funds to finance the investments with positive NPV (Shisia et. Al., 2014).
Amidu and Abor (2006) study results indicate that there is significant negative relationship between firm growth and dividend payout.

2.4.5.6 Legal, contractual and internal constraints and restrictions
Legally, dividends should be paid from earnings, either from the current or retained earnings in the past years. Similarly, they cannot be paid from capital because this will be distributing investments as opposed to earnings (Malombe, 2011).

2.4.6 Forms of Dividends
2.4.6.1 Cash Dividend
This is the commonly paid form of dividend and most firms pay it in two phases; interim and final dividend. SACCOs in Kenya have over the period adopted annual dividend payout (Malombe, 2011).

2.4.6.2 Share Dividend or Bonus Share
This form of dividend is paid in the form of additional shares of share rather than in cash, in addition to the cash already paid out. They are similar to share splits in that they divide the pie into smaller slices without affecting the fundamental position of the current shareholders (Malombe, 2011).

2.4.6.3 Share Repurchase
This is when the firm buys back some of its outstanding shares instead of paying out cash dividends. The shares that have been bought back are not deregistered or cancelled, but kept in the firms treasury and resold when the firm needs the money (Malombe, 2011).

2.5 Chapter Summary
This chapter has covered in details the literature review relevant to this project’s objectives. The review concentrated on the cash management policies, the relevance of free cash in business organization, motives of holding cash and models used to determine cash level to be maintained.

The review also focused on management of credit risk, identification, assessment and control of credit. Finally, it reviewed literature on dividend policy, its theories, and forms of dividend
and determinants of dividend policy. Chapter three will discuss the research methodology to be adopted including the research design, population, sampling method, sample size, data collection method, data analysis and presentation of the research.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methodology that was used to carry out this study. It explains how data was collected, analyzed, interpreted and presented. It also includes the target population, sample size, sampling frame and sampling technique that was used in the study.

3.2 Research Design

According to Cooper and Schindler (2014), research design constitutes the blueprint for the collection, measurement and analysis of the data. They further add that research design is the plan and structure of investigation so conceived as to obtain answers to the research questions and aids the researcher in the allocation of the limited resources by posing crucial choices in methodology.

This study adopted a descriptive research design. Descriptive research design seeks to find out the who, what, where, when, or how in a topic (Cooper and Schindler, 2014). According to Sekaran & Bougie (2013) descriptive studies may help the researcher to: Understand the characteristics of a group in a given situation, think systematically about aspects in a given situation, offer ideas for further probe and research and finally help make certain simple decisions.

The descriptive research design will be appropriate in this study since its purpose is to evaluate the effect of financial management practices on the performance of SACCOs in the hospitality industry. A stratified random sampling design and a structured questionnaire based on the research questions will be used to collect the information from the respondents.

3.3 Population and Sampling Design

3.3.1 Population

Target population is defined by Mugenda and Mugenda, (2003) as a well-defined collection of individuals or objects known to have similar characteristics. A population is a precisely defined body of people or objects under consideration for statistical purposes (Collins & Hussey, 2009).
The target population was 169 respondents comprising of the Chairpersons, Vice chairpersons, Treasurers, Secretaries, credit officials, Supervisory officials, education officials and accountants of the five star hotel SACCOs in Nairobi.

Table 3.1: Target Population

<table>
<thead>
<tr>
<th>Committee</th>
<th>Number of individuals</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Committee</td>
<td>52</td>
<td>31%</td>
</tr>
<tr>
<td>Credit Committee</td>
<td>39</td>
<td>23%</td>
</tr>
<tr>
<td>Supervisory Committee</td>
<td>39</td>
<td>23%</td>
</tr>
<tr>
<td>Education Committee</td>
<td>26</td>
<td>15%</td>
</tr>
<tr>
<td>Accountants</td>
<td>13</td>
<td>8%</td>
</tr>
<tr>
<td>Total</td>
<td>169</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Author (2015)

3.3.2 Sampling Design

3.3.2.1 Sampling Frame

A list of elements from which the sample may be drawn is called a sampling frame. The sampling frame is also called the working population because these units will eventually provide units involved in the analysis (Zikmund, Babin, Carr & Graffin, 2010).

3.3.2.2 Sampling Technique

According to Collins & Hussey (2009), the sampling technique is the process of selecting the specific methodology to use in deciding the entities in the study. This study will adopt stratification and simple random sampling. Stratification is the process of segmenting the members of the population into homogenous subgroups before the sampling starts. Simple random sample is considered a special case in which each population element has a known and equal chance of selection (Copper & Schidler, 2014).

The various committees and accountants represented the stratas. Simple random sampling was used to select proportionate representation from each strata.
Simple random sampling involves you selecting the sample at random from the sampling frame using random tables, a computer or an outline random number generator (Saunders, Lewis and Thornhill, 2003).

One way to select a random sample is to allocate a number to every member of the population and select a sample based on the numbers given in a random number table or random numbers created by a computer (Collins & Hussey, 2009).

### 3.3.2.3 Sample size

According to Quinlan (2011), one principle of sample size is, the smaller the population, the bigger the sample ratio has to be for an accurate sample. Zikmund et. al., (2010) adds that the following factors are required to determine sample size: Heterogeneity of the population, magnitude of the acceptable error and the confidence level.

This study will use the following formula to calculate the sample size:

\[ n = \frac{N}{1+N(e)^2} \]

Where: \(n\) is the sample size, \(N\) is the size of the population and \(e\) is the sampling error at 95% level of confidence (Israel, 2010: Messah, 2011)

The sample size is

\[ n = \frac{169}{1+169(0.05)^2} \]

\[ n = 169/(1+169(0.0025)) \]

\[ n = 169/1.4225 \]

\[ n = 119 \]

### Table 3.2: sample size

<table>
<thead>
<tr>
<th>Number of individuals</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Committee</td>
<td>37</td>
</tr>
<tr>
<td>Credit Committee</td>
<td>27</td>
</tr>
<tr>
<td>Supervisory Committee</td>
<td>27</td>
</tr>
<tr>
<td>Education Committee</td>
<td>18</td>
</tr>
<tr>
<td>Accountants</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>119</td>
</tr>
</tbody>
</table>
3.4 Data Collection Methods

The data collection method was questionnaire. According to (Saunders et. al., 2009), questionnaire is used as a general term to include all technique of data collection in which each person is asked to respond to the same set of questions in a predetermined order. The structure of the questionnaire was dictated by the research objectives. The questionnaire contained an introduction of the purpose of the study, demographic questions and questions based on the research objectives. It also upheld anonymity of the respondent.

Likert scale which consists of statements that express either favorable or unfavorable attitude toward the object of interest Copper & Schindler (2014) was used in this study. The participant was asked either to agree or disagree with each statement and each response was given a numerical score to reflect its degree of attitudinal favorableness and the scores may be summed to measure the participants overall attitude (Copper & Schindler, 2014).

3.5 Research Procedures

This study used primary data which is also called original data. According to Quinlan, (2011), primary source provide original information or evidence and are the first evidence of a phenomenon being observed and recorded. Data was collected through questionnaires that contained the relevant questions that guided the respondent and a brief introduction of the purpose of the study. The questionnaire was administered to the respondents through drop and pick method.

3.6 Data Analysis Methods

Data analysis involves the drawing of inferences from raw data. It is important that raw data be managed well for ease of analysis (Boeije, 2010). According to Adre, Mellenbergh, and Hand (2007), data analysis is carried out in order to inspect, clean, transfrom and model data with the aim of identifying and highlighting useful information that can be used to support the decision making process.

The quantitative data collected from the questionnaire was coded, keyed in and edited accordingly. Data coding involves assigning a number to the participants’ responses so that they can be entered into a database (Sekaran & Bougie, 2013). Data that is collected is edited to ensure completeness, coded and a code book developed, then entered into Statistical
Package for the Social Sciences (SPSS) and Microsoft Excel for analysis. Appropriate descriptive statistics such as central tendencies: mean, mode and median as well as frequencies was used for analysis. Also included was measures of dispersion: standard deviation, variance and range as well as linear regression. Figures, tables, graphs and charts were used to present the analysed data for ease of understanding.

Inferential statistics was used to make valid conclusions from the data. Statistical inference uses the data gained on a sample population to draw conclusions about the population from which the sample was drawn (Quinlan, 2011). Regression analysis was used to come up with the model expressing the relationship between the dependent variable (performance of SACCOs) and independent variables (cash management, credit risk management and dividend policy).

3.7 Chapter Summary

This chapter has discussed the research methodology; the population, sampling frame, sample size, data collection and methods of data analysis. Methods of data collection applied in this study are mentioned in detail and justified accordingly. The next chapter presents the finding and analysis of the study.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter describes the results and findings of the study based on the three research objectives. A total of 119 questionnaires were distributed out of which 81 were returned representing 68% response rate. According to Mugenda and Mugenda (2003) a response rate of 70% is excellent, 60% is good and 50% is adequate for analysis. Thus a response rate of 68% was considered reliable and appropriate for the study.

4.2 General Information

Characteristics of the respondents: gender, age, level of education, position in the SACCO, and work experience was examined.

4.2.1 Gender Distribution

As shown in Figure 4.1 62% of the respondents were male while 38% were female. The gender of the respondents was relatively well represented.

![Gender Distribution Chart]

Figure 4.1 Gender Distribution

4.2.2 Age of Respondents

Figure 4.2 below shows the age brackets of the respondents. 37% were of the age between 26 to 35 years, 33% between the ages of 36 to 45 years, 24% were above the age of 46 years and 6% were below the age of 25 years. This implies that the respondents were within the most productive age bracket.
4.2.3 Level of Education

According to Figure 4.3 58% of the respondents had attended university degree, 38% a college 4% were professional accountants. None of the respondents had secondary as the highest level of education. This indicates that the respondents were well qualified to perform their duties.

4.2.4 Respondent’s Position in the SACCO

Table 4.1 below shows the position the respondents occupy in the SACCOs. 40% were executive committee (11% treasurer, 10% Vice Chairperson, 10% Secretary and 9% Chairperson), 20% Credit Officer, 16% supervisory, 15% education officer and 10% accountant. The findings show that the all positions were well represented.
Table 4.1 Respondents position in the SACCO

<table>
<thead>
<tr>
<th>POSITION</th>
<th>RESPONDENTS</th>
<th>PERCENTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairperson</td>
<td>7</td>
<td>9%</td>
</tr>
<tr>
<td>Vice Chairperson</td>
<td>8</td>
<td>10%</td>
</tr>
<tr>
<td>Secretary</td>
<td>8</td>
<td>10%</td>
</tr>
<tr>
<td>Treasurer</td>
<td>9</td>
<td>11%</td>
</tr>
<tr>
<td>Executive Committee</td>
<td>32</td>
<td>40%</td>
</tr>
<tr>
<td>Credit Officer</td>
<td>16</td>
<td>20%</td>
</tr>
<tr>
<td>Supervisory</td>
<td>13</td>
<td>16%</td>
</tr>
<tr>
<td>Education Officer</td>
<td>12</td>
<td>15%</td>
</tr>
<tr>
<td>Accountants</td>
<td>8</td>
<td>10%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>81</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4.2.5 Work Experience

The findings of the study as presented in figure 4.4 shows that 57% had worked between 1 to 5 years, 27% for 6 to 10 years, 12% below 1 year and 4% above 11 years. The study indicates that majority of the respondents had 1 to 5 years working experience.

![Figure 4.4: Work experience](image-url)
4.3 Effect of Cash Management

In this section, the research assessed the effect of cash management. The respondents were asked questions relating to the cash management in the SACCO and express their view on whether they agree or disagree with each statement based on the five point likert scale which had two extremes with 5 representing strongly agree and 1 representing strongly disagree. The respondent’s response is discussed below.

4.3.1 Cash Management Policy

The researcher requested the respondents whether the SACCO has a cash management policy or not. The results as per the figure below indicated the 80% of the respondents said yes, the SACCOs had a cash management policy and 20% said no, the SACCOs did not have a cash management policy.

Figure 4.5: Cash Management Policy

4.3.2 Cash level maintained in the SACCOs

The researcher sought to find out the level of cash that is maintained by SACCOs. As per figure 4.6 below, 44% of the respondent indicated that the SACCO maintained a cash level of above Kenya shillings 1,000,000, 41% maintained cash level of between Kenya shillings 500,000 to 1,000,000, 15% maintained cash level between Kenya shillings 100,000 to 500,000 and none maintained a cash level of below Kenya shillings 100,000.
4.3.3 Cash Budget

The study aimed at establishing whether the SACCOs use cash budgets. Respondents were asked if their SACCOs prepare a cash budget or not. As indicated in the figure 4.7 below, 81% of the respondents said yes while 19% said no.

4.3.4 Preparation of Cash position

The researcher asked the respondents to indicate if the SACCO prepares cash positions or not and if yes, how often.
According to the figure 4.8 shown below, 69% said yes while 31% said no. As per figure 4.9, out of the yes respondents, 50% prepared daily, 32% weekly, 11% twice a week and 7% monthly.

Figure 4.8: Cash position preparation

<table>
<thead>
<tr>
<th>Cash position preparation frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAILY</td>
</tr>
<tr>
<td>50%</td>
</tr>
</tbody>
</table>

Figure 4.9: Cash position preparation frequency

4.3.5 Cash flow forecast

The researcher aimed at establishing whether SACCOs prepare cash flow forecasts or not. According to Figure 4.10, 69% of the respondents said yes SACCOs prepare cash flow forecast and 31% said no.
4.3.6 Use of excess cash

The study sought to establish how the excess cash was used in the SACCOs. According to the respondents as indicated in the table 4.2 below, 39% of the idle cash kept in a current account, 31% in a savings account and 30% was invested in marketable securities.

Table 4.2: Uses of excess cash

<table>
<thead>
<tr>
<th>Use of excess cash</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keep the money in a current account</td>
<td>32</td>
<td>39%</td>
</tr>
<tr>
<td>Deposit in a savings account</td>
<td>25</td>
<td>31%</td>
</tr>
<tr>
<td>Invest in marketable securities</td>
<td>24</td>
<td>30%</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4.3.7 Reasons for holding cash.

The study examined the motive for the SACCOs holding cash. Table 4.3 shows that, 79% held cash for transactional purposes, 15% for precautionary purposes and 6% for speculative purposes.
Table 4.3: Reasons for holding cash

<table>
<thead>
<tr>
<th>Reason for holding cash</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transactional purposes</td>
<td>64</td>
<td>79%</td>
</tr>
<tr>
<td>Precautionary purposes</td>
<td>12</td>
<td>15%</td>
</tr>
<tr>
<td>Speculative purposes</td>
<td>5</td>
<td>6%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4.3.8 After how long does the SACCO start recovering loans

The study sought to establish how fast the SACCOs are in collecting the loan repayments. Table 4.4 below shows that, 77% of the respondents indicated that the loans were recovered within the month of disbursement, 21% after one month and 2% after two months.

Table 4.4: How long the SACCO takes to start recovering the loans

<table>
<thead>
<tr>
<th>How long the SACCOs take to start recovering loans</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within the month of disbursement</td>
<td>62</td>
<td>77%</td>
</tr>
<tr>
<td>After one month</td>
<td>17</td>
<td>21%</td>
</tr>
<tr>
<td>After two months</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4.3.9 Efficient cash management ensures approved loans are honored

The researcher wanted to know from the respondents to what extent they agree that efficient cash management ensures that loans are honored immediately after approval which is one of the major objective of the SACCO. As per table 4.5 below, 53% of the respondent strongly agreed while 26% agreed that cash management ensures that loans are disbursed upon approval. 15% of the respondents were neutral while 6% disagreed. A mean of 4.26 and a standard deviation of 0.93 supported this opinion.
Table 4.5: Efficient cash management ensures approved loans are honored

<table>
<thead>
<tr>
<th>Percentage</th>
<th>n=81</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>Agree</td>
</tr>
<tr>
<td>Efficient cash management ensures approved loans are honored</td>
<td>53%</td>
</tr>
</tbody>
</table>

4.3.10 Cost of holding idle cash is the profit or interest not earned

The respondents were asked to state the extent to which they agreed that the cost of holding idle cash is the profit or interest not earned in invested. According to the table 4.6 below, strongly agree was 43%, agree 30%, Neutral 15%, disagree 7% and strongly disagree was 5%. A mean of 3.99 and a standard deviation of 1.16 supported these findings.

Table 4.6: Cost of holding idle cash is the profit or interest not earned

<table>
<thead>
<tr>
<th>Percentage</th>
<th>n=81</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>Agree</td>
</tr>
<tr>
<td>Cost of holding idle cash is the profit or interest not earned if invested</td>
<td>43%</td>
</tr>
</tbody>
</table>

4.3.11 SACCOs should invest excess cash in short term marketable securities

As per table 4.7 below 38% of the respondents strongly agreed and 36% agreed that SACCOs should invest excess cash in short term marketable securities. 14% were neutral while 12% disagreed. A mean of 4.00 and a standard deviation of 1.01 were obtained.
Table 4.7: SACCOs should invest excess cash in short term marketable securities

<table>
<thead>
<tr>
<th>n=81</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly agree</td>
</tr>
<tr>
<td>SACCOs should invest excess cash in short term marketable securities</td>
<td>38%</td>
</tr>
</tbody>
</table>

4.3.12 SACCOs should always maintain a buffer cash balance

The respondents were asked the extent to which they agreed that SACCOs should maintain a buffer cash balance. As shown in table 4.8, 35% of the respondents strongly agreed, 46% agreed, 12% were neutral, 6% disagreed while 1% strongly disagreed. A mean of 4.06 and a standard deviation of 0.91 supported the findings.

Table 4.8: SACCOs should always maintain a buffer cash balance

<table>
<thead>
<tr>
<th>n=81</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly agree</td>
</tr>
<tr>
<td>SACCOs should always maintain a buffer cash balance</td>
<td>35%</td>
</tr>
</tbody>
</table>

4.3.13 Effective cash management has a strong impact on performance of the SACCO

The study sought to find out to what extent the respondents agreed that effective cash management has a strong impact on the performance of the SACCO. The results are shown in
Table 4.9 where 44% of the respondents strongly agreed, 36% agreed, 17% were neutral, while both disagree and strongly disagree had 1% respectively. The results had a mean of 4.21 and a standard deviation of 0.86.

Table 4.9: Effective cash management has a strong impact on performance of the SACCO

<table>
<thead>
<tr>
<th>n=81</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly agree</td>
</tr>
<tr>
<td>Effective cash management has a strong impact on performance of the SACCO</td>
<td>44%</td>
</tr>
</tbody>
</table>

4.3.14 Correlation Analysis on the Effect of Cash Management

In addition to the tables and figures provided in the previous subsections, the significance of relationships between variables were summarized using Pearson correlation coefficient as presented on table 4.10. The correlation results indicated that there was significant positive relationship between effective cash management ensures approved loans are honored and education level (r=0.63, p<0.000), position in the SACCO (r=0.75, p<.000) and work experience (r=0.64, p<0.000) of the respondents. The cost of holding idle cash is the profit or interest not earned if invested and education level (r=0.45, p<0.010), position in the SACCO (r=0.58, p<.000) and work experience (r=0.73, p<0.000) of the respondents. SACCOs should invest excess cash in short term marketable securities and education level (r=0.65, p<0.000), position in the SACCO (r=0.52, p<.000) and work experience (r=0.55, p<0.000) of the respondents. SACCOs should always maintain a buffer cash balance and education level (r=0.59, p<0.007), position in the SACCO (r=0.65, p<.000) and work experience (r=0.48, p<0.000) of the respondents.

A positive correlation was also observed between effective cash management has a strong impact on performance of the SACCO and education level (r=0.53, p<0.000), position in the SACCO (r=0.55, p<.000) and work experience (r=0.61, p<0.000) of the respondents.
### Table 4.10: Pearson's Correlation Results for Effect of Cash Management

<table>
<thead>
<tr>
<th></th>
<th>Education Level</th>
<th>Position in the SACCO</th>
<th>Work Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pearson’s Correlation</td>
<td>0.63*</td>
<td>0.75*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2 tailed) n</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>81</td>
<td>81</td>
</tr>
<tr>
<td>2</td>
<td>Pearson’s Correlation</td>
<td>0.45*</td>
<td>0.58*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2 tailed) n</td>
<td>0.010</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>81</td>
<td>81</td>
</tr>
<tr>
<td>3</td>
<td>Pearson’s Correlation</td>
<td>0.65*</td>
<td>0.52*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2 tailed) n</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>81</td>
<td>81</td>
</tr>
<tr>
<td>4</td>
<td>Pearson’s Correlation</td>
<td>0.59*</td>
<td>0.65*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2 tailed) n</td>
<td>0.007</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>81</td>
<td>81</td>
</tr>
<tr>
<td>5</td>
<td>Pearson’s Correlation</td>
<td>0.53*</td>
<td>0.55*</td>
</tr>
<tr>
<td></td>
<td>Sig. (2 tailed) n</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>81</td>
<td>81</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level (2-tailed)

### Table 4.11: Variable Definition - Effect of Cash Management

<table>
<thead>
<tr>
<th>Definition</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Efficient cash management ensures approved loans are honored</td>
</tr>
<tr>
<td>2</td>
<td>The cost of holding idle cash is the profit or interest not earned if invested</td>
</tr>
<tr>
<td>3</td>
<td>SACCOs should invest excess cash in short term marketable securities</td>
</tr>
<tr>
<td>4</td>
<td>SACCOs should always maintain a buffer cash balance</td>
</tr>
<tr>
<td>5</td>
<td>Effective cash management has a strong impact on performance of the SACCO</td>
</tr>
</tbody>
</table>

#### 4.4 Effect of credit risk management

In this section, the researcher sought to evaluate the effect of credit risk management. The respondents were asked questions relating to the credit risk management in the SACCO and to express their views on the extent to which they agree or disagree with each statement based on the five point likert scale. The respondent’s response is discussed below.

#### 4.4.1 Types of Loans offered by the SACCO

The respondents were asked the type loans their SACCOs offered to their members. As per table 4.12 below, 69% offered all three loans, that is, development loan, emergency loan and
education, 19% offered development and emergency loans and 12% offered the three loans plus another loan called instant loan.

Table 4.12: Types of Loans offered by the SACCO

<table>
<thead>
<tr>
<th>Type of loans</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development, Emergency and Education Loan</td>
<td>56</td>
<td>69%</td>
</tr>
<tr>
<td>Development and Emergency</td>
<td>15</td>
<td>19%</td>
</tr>
<tr>
<td>Development, Emergency, Education Loan and others (Instant loans)</td>
<td>10</td>
<td>12%</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.4.2 Does your SACCO have a specific loan management policy?

The study sought to find out if the SACCOs had a loan management policy. As per figure 4.11 below, 75% had a loan management policy while 25% said did not have a loan management policy.

Figure 4.11: Loan management policy

4.4.3 Does your SACCO request for security before approving a loan?

As per figure 4.12, 91% of the respondents said their SACCOs ask for security before approving for a loan while 9% said their SACCOs did not request for security.
4.4.4 Type of Securities requested by SACCO

As per the results shown in table 4.13 below, according to 80% of the respondents, their SACCOs requested for member shares and guarantors as securities while 20% requested for shares, guarantors and assets as securities for loans issued.

Table 4.13: Type of Securities requested by SACCO

<table>
<thead>
<tr>
<th>Types of Securities</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares and Guarantor</td>
<td>65</td>
<td>80%</td>
</tr>
<tr>
<td>Shares, Guarantors and Assets</td>
<td>16</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.4.5 Does the SACCO evaluate the credit risk?

The respondents were asked to state whether their SACCOs evaluated credit risk. From the figure 4.13 below, 72% of the respondents acknowledged that their SACCOs evaluated credit risk while 28% said no.
4.4.6 Does the SACCO have laid down policies and procedures for monitoring its credit risk?

According to figure 4.14, 70% of the respondents agreed that their SACCOs had laid down policies and procedures for monitoring its credit risk while 30% said their SACCOs did not have.

Figure 4.13: Credit risk evaluation

Figure 4.14: Policies and procedure for monitoring credit risk
4.4.7 What action has the SACCO taken to minimize credit risk?

The researcher wanted to find out what action SACCOs have taken to mitigate credit risk. According to table 4.14 below, 79% had insured loans and had guarantee, 21% had insured loans, took collateral as security and had guarantee.

Table 4.14: Action taken by SACCO to minimize credit risk

<table>
<thead>
<tr>
<th>Credit risk mitigation</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insure loans and guarantee</td>
<td>64</td>
<td>79%</td>
</tr>
<tr>
<td>Insure loans, collateral security and guarantee</td>
<td>17</td>
<td>21%</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.4.8 Default reminder period

The respondents were asked to state the period the SACCO takes to send a reminder to a defaulter. As observed in table 4.15 below, 60% of the respondents indicated that the send reminder 2-3 months after default, 25% one month after default and 15% 4-12 months after default.

Table 4.15: Default reminder period

<table>
<thead>
<tr>
<th>Period</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 month after default</td>
<td>20</td>
<td>25%</td>
</tr>
<tr>
<td>2-3 months after default</td>
<td>49</td>
<td>60%</td>
</tr>
<tr>
<td>4-12 months after default</td>
<td>12</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.4.9 Recovery of defaulted loans

The researcher sought to establish how SACCOs recover default loans. As per table 4.16, 63% of the respondents indicated that their SACCOs recovered default loans through securities, insurance, guarantors and legal action, 27% indicated their SACCOs used Insurance, guarantors and legal action, 10% used insurance and guarantors while none used public auction.
Table 4.1: Recovery of defaulted loans

<table>
<thead>
<tr>
<th>Recovery of default loans</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>From the securities, Insurance, guarantors and legal action</td>
<td>51</td>
<td>63%</td>
</tr>
<tr>
<td>From the Insurance, guarantors and legal action</td>
<td>22</td>
<td>27%</td>
</tr>
<tr>
<td>From the Insurance and guarantors</td>
<td>8</td>
<td>10%</td>
</tr>
<tr>
<td>Public auction</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

### 4.4.10 Factors considered when reviewing credit policy

The respondents were asked to indicate the factors their SACCOs consider when reviewing credit policy. According to table 4.17, 44% of the respondents indicated that the SACCOs considered the current credit policy, trend of creditors and liquidity of the SACCO, 25% considered current credit policy and liquidity of the SACCO, 17% considered current credit policy and trend of creditors, 7% considered the current credit policy only, 6% considered the liquidity of the SACCO only and none considered the state of the economy.

Table 4.17: Factors considered when reviewing credit policy

<table>
<thead>
<tr>
<th>Factors considered when reviewing credit policy</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current credit policy, Trend of creditors and liquidity of SACCO</td>
<td>36</td>
<td>44%</td>
</tr>
<tr>
<td>Current credit policy and Liquidity of the SACCO</td>
<td>20</td>
<td>25%</td>
</tr>
<tr>
<td>Current credit policy and trend of creditors</td>
<td>14</td>
<td>17%</td>
</tr>
<tr>
<td>Current credit policy</td>
<td>6</td>
<td>7%</td>
</tr>
<tr>
<td>Liquidity of the SACCO</td>
<td>5</td>
<td>6%</td>
</tr>
<tr>
<td>State of the economy</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

### 4.4.11 Risk identification processes minimizes credit risk

The researcher sought to evaluate to what extent the respondents they agree that risk identification processes minimizes credit risk. As per table 4.16 below, 38% of the respondent strongly agreed and 40% agreed that risk identification process minimizes credit risk. 22% of the respondents were neutral while none of the respondents disagreed or strongly disagreed. A mean of 4.18 and a standard deviation of 0.77 were obtained.
Table 4.1: Risk identification processes minimize credit risk

<table>
<thead>
<tr>
<th>n=81</th>
<th>Percentage</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly agree</td>
<td>Agree</td>
<td>Neutral</td>
<td>Disagree</td>
<td>Strongly Disagree</td>
<td>Mean</td>
<td>Standard Deviation</td>
</tr>
<tr>
<td>Risk identification processes minimize credit risk</td>
<td>38%</td>
<td>40%</td>
<td>22%</td>
<td>0%</td>
<td>0%</td>
<td>4.16</td>
<td>0.77</td>
</tr>
</tbody>
</table>

4.4.12 SACCO should use credit management experts in formulating loan policies

As per table 4.19, 38% of the respondents strongly agreed and 41% agreed that SACCOs should use credit management experts in formulating loan policies. 14% were neutral, 14% disagreed and none of the respondent strongly disagreed. A mean of 3.84 and a standard deviation of 0.99 were obtained.

Table 4.19: Use of credit management experts in formulation of loan policies

<table>
<thead>
<tr>
<th>n=81</th>
<th>Percentage</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly agree</td>
<td>Agree</td>
<td>Neutral</td>
<td>Disagree</td>
<td>Strongly Disagree</td>
<td>Mean</td>
<td>Standard Deviation</td>
</tr>
<tr>
<td>SACCO should use credit management experts in formulating loan policies</td>
<td>28%</td>
<td>41%</td>
<td>17%</td>
<td>14%</td>
<td>0%</td>
<td>3.84</td>
<td>0.99</td>
</tr>
</tbody>
</table>

4.4.13 Review of credit policy

The study sought to establish to what extent the respondent agreed that SACCOs should review their credit policy often. 16% of the respondents strongly agreed, 52% agreed, 28% were neutral, 4% disagreed and none strongly disagreed. A mean of 3.80 and a standard deviation of 0.75 supported the results. These findings are shown in table 4.20 below.
Table 4.20: Review of credit policy

<table>
<thead>
<tr>
<th>n=81</th>
<th>Percentage</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly agree</td>
<td>Agree</td>
<td>Neutral</td>
<td>Disagree</td>
<td>Strongly Disagree</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SACCO should review its credit policy often</td>
<td>16%</td>
<td>52%</td>
<td>28%</td>
<td>4%</td>
<td>0%</td>
<td>3.80</td>
<td>0.75</td>
</tr>
</tbody>
</table>

4.4.14: Monitoring of credit risk

As shown in table 4.21, a total of 86% of the respondents supported that SACCOs should monitor their credit risk exposure to minimize risk. Out of these, 30% of strongly agreed and 56% agreed. On the other hand 12% of the respondents were neutral and 2% disagreed while none of the respondents strongly disagreed.

Table 4.21: Monitoring credit risk

| n=81 | Percentage |            |            |            |            |      |                   |
|------|------------|------------|------------|------------|------------|------|                   |
|      | Strongly agree | Agree | Neutral | Disagree | Strongly Disagree | Mean | Standard Deviation |
| SACCOs should monitor their credit risk exposure to minimize the risk. | 30% | 56% | 12% | 2% | 0% | 4.21 | 0.71 |

4.4.15 Evaluating and analyzing of credit risk

The researcher sought to establish to what extent that respondents agreed that SACCOs should evaluate and analyze its credit risk often. 41% of the respondents strongly agreed,
46% agreed, 14% were neutral while none disagreed or strongly disagreed. A mean of 4.27 and standard deviation of 0.69 was obtained. Table 4.22 below contained these findings.

Table 4.22: Evaluating and analyzing of credit risk

<table>
<thead>
<tr>
<th>n=81</th>
<th>Percentage</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly agree</td>
<td>41%</td>
</tr>
<tr>
<td></td>
<td>Agree</td>
<td>46%</td>
</tr>
<tr>
<td></td>
<td>Neutral</td>
<td>14%</td>
</tr>
<tr>
<td></td>
<td>Disagree</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Strongly Disagree</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>Mean</td>
<td>4.27</td>
</tr>
<tr>
<td></td>
<td>Standard Deviation</td>
<td>0.69</td>
</tr>
</tbody>
</table>

SACCOs should evaluate and analyze their credit risk often.

4.4.16 Correlation Analysis on the Effect of Credit Risk Management

In addition to the tables and figures provided in the previous subsections, the significance of relationships between variables were summarized using Pearson correlation coefficient as presented on table 4.23. The correlation results indicated that there was significant positive relationship between Risk identification process minimizes credit risk and education level (r=0.47, p<0.008), position in the SACCO (r=0.53, p<0.000) and work experience (r=0.65, p<0.000) of the respondents. SACCO should use credit management experts in formulating loan policies and education level (r=0.63, p<0.000), position in the SACCO (r=0.59, p<0.010) and work experience (r=0.61, p<0.000) of the respondents. SACCO should reviews its credit policy often and education level (r=0.78, p<0.000), position in the SACCO (r=0.55, p<0.004) and work experience (r=0.66, p<0.000) of the respondents. SACCOs should monitor their credit risk exposure to minimize the risk and education level (r=0.56, p<0.007), position in the SACCO (r=0.72, p<0.000) and work experience (r=0.67, p<0.000) of the respondents. A positive correlation was also observed between SACCOs should evaluate and analyze their credit risk often and education level (r=0.77, p<0.000), position in the SACCO (r=0.63, p<0.000) and work experience (r=0.59, p<0.000) of the respondents.
Table 4.23: Pearson's Correlation Results for Effect of Credit Risk Management

<table>
<thead>
<tr>
<th></th>
<th>Pearson’s Correlation</th>
<th>Sig. (2 tailed)</th>
<th>Education Level</th>
<th>Position in the SACCO</th>
<th>Work Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.47*</td>
<td>0.008</td>
<td>0.53*</td>
<td>0.000</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td>81</td>
<td></td>
<td>81</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>0.63*</td>
<td>0.000</td>
<td>0.59*</td>
<td>0.010</td>
<td>0.61*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>81</td>
<td></td>
<td>81</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>0.78*</td>
<td>0.000</td>
<td>0.55*</td>
<td>0.004</td>
<td>0.66*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>81</td>
<td></td>
<td>81</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>0.56*</td>
<td>0.000</td>
<td>0.72*</td>
<td>0.000</td>
<td>0.67*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>81</td>
<td></td>
<td>81</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>0.77*</td>
<td>0.000</td>
<td>0.63*</td>
<td>0.000</td>
<td>0.59*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>81</td>
<td></td>
<td>81</td>
<td></td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level (2-tailed)

Table 4.24: Variable Definition- Effect of Credit Risk Management

<table>
<thead>
<tr>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Risk identification process minimizes credit risk</td>
</tr>
<tr>
<td>2 SACCO should use credit management experts in formulating loan policies</td>
</tr>
<tr>
<td>3 SACCO should reviews its credit policy often</td>
</tr>
<tr>
<td>4 SACCOs should monitor their credit risk exposure to minimize the risk.</td>
</tr>
<tr>
<td>5 SACCOs should use evaluate and analyze their credit risk often.</td>
</tr>
</tbody>
</table>

4.5 Effect of dividend policy

The third research objective sought to find out the effect of dividend policy on the performance of SACCOs in hospitality industry. The respondents were asked questions related to dividend policy in their SACCOs and also to rate their views on the extent to which they agree or disagree with each statement based on the five point likert scale. The findings are analyzed below.
4.5.1 Does your SACCO have a dividend policy

The study wanted to establish whether the SACCOs have a dividend policy. According to the results represented in figure 4.15 below, 83% of the respondents indicated the SACCO had a dividend policy while 17% of the respondents said the SACCO did not have a dividend policy.

![Dividend policy](image)

**Figure 4.15: Dividend policy**

4.5.2 Types of dividend policy maintained by SACCOS

The researcher sought to establish the dividend policy used by SACCOs. As per the table 4.25, an overwhelming 93% of the respondents indicated that the SACCO used residual dividend policy while only 7% indicated that they used constant amount per share.

**Table 4.25: Type of dividend policy**

<table>
<thead>
<tr>
<th>Type of dividend policy</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant payout ratio</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Constant amount per share</td>
<td>6</td>
<td>7%</td>
</tr>
<tr>
<td>Residual dividend policy</td>
<td>75</td>
<td>93%</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4.5.3 Determinants of dividend payable

The respondents were asked to state the determinants of dividend payable in their SACCOs. As per table 4.26, 41% of the respondents stated that the SACCO considered the previous
year’s dividend, legal requirement and liquidity state of the SACCO. 33% considered the liquidity state of the SACCO only, 14% considered the legal requirement and the liquidity state of the SACCO, 12% considered the liquidity state of the SACCO and stability of earning. None considered opportunities available for investment and size of the SACCO.

Table 4.26: Determinants of dividend payable

<table>
<thead>
<tr>
<th>Determinant of dividend payable</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous year's dividend, legal requirement and Liquidity state of the SACCO</td>
<td>33</td>
<td>41%</td>
</tr>
<tr>
<td>Liquidity state of the SACCO</td>
<td>27</td>
<td>33%</td>
</tr>
<tr>
<td>Legal requirement and Liquidity state of the SACCO</td>
<td>11</td>
<td>14%</td>
</tr>
<tr>
<td>Liquidity state of the SACCO and stability of earnings</td>
<td>10</td>
<td>12%</td>
</tr>
<tr>
<td>Opportunities available for investment</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Size of the SACCO</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4.5.4 How often does SACCO pay dividend

The study sought to find out how often the SACCOs pay dividends. All the respondents 100% said their SACCOs paid dividend yearly.

Table 4.27: How often does SACCO pay dividend

<table>
<thead>
<tr>
<th>How often SACCOs pay dividends</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yearly</td>
<td>81</td>
<td>100%</td>
</tr>
<tr>
<td>Twice a year</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4.5.5 Does SACCOs retain earnings instead of distributing to members as dividend?

The respondents were asked to state if the SACCOs retained earnings instead of distributing to members as dividends. As shown in table 4.28, 73% of the respondents indicated that the SACCOs do not retain earnings while 27% indicated that SACCOs retain earnings.
Table 4.28: Retaining earnings

<table>
<thead>
<tr>
<th>Does SaccoS retain earning</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>22</td>
<td>27%</td>
</tr>
<tr>
<td>No</td>
<td>59</td>
<td>73%</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.5.6 Payment of declared dividends

The researcher sought to find out how the SACCOs pay the declared dividend. As per table 4.29, 85% of the respondents indicated that the SACCOs paid cash dividends while 15% indicated the SACCOs used both cash dividends and bonus share.

Table 4.29: Payment of declared dividends

<table>
<thead>
<tr>
<th>Payment of declared dividend</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash dividend</td>
<td>69</td>
<td>85%</td>
</tr>
<tr>
<td>Cash dividend and bonus share</td>
<td>12</td>
<td>15%</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.5.7 Does withholding tax affect dividend policy?

The study wanted to find out whether withholding tax affect dividend policy. As shown in table 4.30, 83% of the respondents stated that the withholding tax affects the dividend policy while 17% indicate that the withholding tax does not affect the dividend policy.

Table 4.30: Withholding tax and dividend policy

<table>
<thead>
<tr>
<th>Does withholding tax affect dividend policy</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>67</td>
<td>83%</td>
</tr>
<tr>
<td>No</td>
<td>14</td>
<td>17%</td>
</tr>
<tr>
<td>Total</td>
<td>81</td>
<td>100%</td>
</tr>
</tbody>
</table>

4.5.8 Percentage of dividend distributed to members

The researcher sought to find out the annual percentage distributed to members as dividend. 57% of the respondent indicated a 5-10%, 20% indicated a 7-10%, 12% indicated an 8% while 11% of the respondents indicated an 9% as shown in table 4.31.
Table 4.31: Percentage of profit distributed to members as dividend

<table>
<thead>
<tr>
<th>Percentage of dividend distributed to members</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-10%</td>
<td>46</td>
<td>57%</td>
</tr>
<tr>
<td>7-10%</td>
<td>16</td>
<td>20%</td>
</tr>
<tr>
<td>8%</td>
<td>10</td>
<td>12%</td>
</tr>
<tr>
<td>9%</td>
<td>9</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4.5.9 Payment of dividends leads to increase in member’s savings

The study sought to establish to what extent the respondent agreed that payment of dividends lead to increase members savings.40% of the respondents strongly agreed, 28% agreed, 21% were neutral, 10% disagreed and none strongly disagreed. A mean of 3.98 and a standard deviation of 1.01 supported the results. These findings are shown in table 4.32 below.

Table 4.32: Payment of dividend and membership

<table>
<thead>
<tr>
<th>n=81</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image.png" alt="Table" /></td>
<td><img src="image.png" alt="Table" /></td>
</tr>
</tbody>
</table>

4.5.10 Dividend payment is a strong indicator of the SACCOs performance

The respondents were asked to what extent they agreed that dividend payment is a strong indicator of the SACCO performance.30% of the respondents strongly agreed, 41% agreed, 16% were neutral, 14% disagreed and none strongly disagreed. A mean of 3.86 and a standard deviation of 1.00 supported the results. These findings are shown in table 4.33 below.
Table 4.33: Dividend payment and performance

<table>
<thead>
<tr>
<th>n=81</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly agree</td>
</tr>
<tr>
<td>Dividend payment is a strong indicator of the SACCOs performance</td>
<td>30%</td>
</tr>
</tbody>
</table>

4.5.11 SACCOs should retain profits to invest in profitable projects

The respondents were asked to what extent they agreed that SACCOs should retain profits to invest in profitable projects. As per the findings in table 4.34 below, 15% of the respondents strongly agreed, 33% agreed, 27% were neutral, 19% disagreed and 6% strongly disagreed. A mean of 3.32 and a standard deviation of 1.13 supported the results.

Table 4.34: SACCOs should retain profits to invest in profitable projects

<table>
<thead>
<tr>
<th>n=81</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Strongly agree</td>
</tr>
<tr>
<td>SACCOs should retain profits to invest in profitable projects</td>
<td>15%</td>
</tr>
</tbody>
</table>

4.5.12 Agency problem and maximizing of shareholders wealth

The respondents were asked to what extent they agreed that payment of dividends minimizes the cash available to the management hence minimizing agency problem and maximizing the shareholders wealth. As shown in table 4.35 below, 17% of the respondents strongly agreed, 38% agreed, 25% were neutral, 11% disagreed and 9% strongly disagreed. A mean of 3.44 and a standard deviation of 1.16 supported the results.
Table 4.35: Agency problem and maximizing of shareholders wealth

<table>
<thead>
<tr>
<th></th>
<th>n=81</th>
<th>Percentage</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Strongly agree</td>
<td>Agree</td>
<td>Neutral</td>
<td>Disagree</td>
<td>Strongly Disagree</td>
<td>Mean</td>
</tr>
<tr>
<td>Payment of dividends minimizes the cash available to the management hence minimizing agency problem and maximizes the shareholders wealth</td>
<td></td>
<td>17%</td>
<td>38%</td>
<td>25%</td>
<td>11%</td>
<td>9%</td>
<td>3.44</td>
</tr>
</tbody>
</table>

4.5.13 Dividends are irrelevant in improving the SACCOs value

The researcher sought to establish to what extent the respondent agreed that dividends are irrelevant in improving the SACCOs value. 64% of the respondents strongly disagreed, 17% disagreed, 15% were neutral, 4% agreed and none strongly agreed. A mean of 1.58 and a standard deviation of 0.88 supported the results. These findings are shown in table 4.36 below.

Table 4.36: Irrelevance of dividend in improving the SACCOs value

<table>
<thead>
<tr>
<th></th>
<th>n=81</th>
<th>Percentage</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Strongly agree</td>
<td>Agree</td>
<td>Neutral</td>
<td>Disagree</td>
<td>Strongly Disagree</td>
<td>Mean</td>
</tr>
<tr>
<td>Dividends are irrelevant in improving the SACCOs value</td>
<td></td>
<td>0%</td>
<td>4%</td>
<td>15%</td>
<td>17%</td>
<td>64%</td>
<td>1.58</td>
</tr>
</tbody>
</table>
4.4.16 Correlation Analysis on the Effect of Credit Risk Management

In addition to the tables and figures provided in the previous subsections, the significance of relationships between variables were summarized using Pearson correlation coefficient as presented on table 4.37. The correlation results indicated that there was significant positive relationship between Payment of dividends leads to increase in members savings and education level (r=0.61, p<0.000), position in the SACCO (r=0.59, p<0.000) and work experience (r=0.57, p<0.000) of the respondents. Dividend payment is a strong indicator of the SACCOs performance and education level (r=0.53, p<0.010), position in the SACCO (r=0.72, p<0.000) and work experience (r=0.65, p<0.000) of the respondents. SACCOs should retain profits to invest in profitable projects and education level (r=0.68, p<0.000), position in the SACCO (r=0.58, p<0.004) and work experience (r=0.63, p<0.000) of the respondents. Payment of dividends minimizes the cash available to the management hence minimizing the shareholders wealth and education level (r=0.53, p<0.000), position in the SACCO (r=0.67, p<0.000) and work experience (r=0.54, p<0.000) of the respondents. A positive correlation was also observed between Dividends are irrelevant in improving the SACCOs value and education level (r=0.59, p<0.000), position in the SACCO (r=0.65, p<0.000) and work experience (r=0.73, p<0.000) of the respondents.

Table 4.37: Pearson's Correlation Results for Effect of Dividend Policy

<table>
<thead>
<tr>
<th></th>
<th>Education Level</th>
<th>Position in the SACCO</th>
<th>Work Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Pearson’s Correlation Sig. (2 tailed) n</td>
<td>0.61* 0.000 81</td>
<td>0.59* 0.000 81</td>
</tr>
<tr>
<td>2</td>
<td>Pearson’s Correlation Sig. (2 tailed) n</td>
<td>0.53* 0.010 81</td>
<td>0.72* 0.000 81</td>
</tr>
<tr>
<td>3</td>
<td>Pearson’s Correlation Sig. (2 tailed) n</td>
<td>0.68* 0.000 81</td>
<td>0.58* 0.000 81</td>
</tr>
<tr>
<td>4</td>
<td>Pearson’s Correlation Sig. (2 tailed) n</td>
<td>0.53* 0.000 81</td>
<td>0.67* 0.000 81</td>
</tr>
<tr>
<td>5</td>
<td>Pearson’s Correlation Sig. (2 tailed) n</td>
<td>0.59* 0.000 81</td>
<td>0.65* 0.000 81</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level (2-tailed)
Table 4.38: Variable Definition- Effect of Dividend Policy

<table>
<thead>
<tr>
<th></th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Payment of dividends leads to increase in members savings</td>
</tr>
<tr>
<td>2</td>
<td>Dividend payment is a strong indicator of the SACCOs performance</td>
</tr>
<tr>
<td>3</td>
<td>SACCOs should retain profits to invest in profitable projects</td>
</tr>
<tr>
<td>4</td>
<td>Payment of dividends minimizes the cash available to the management hence minimizing agency problem and maximizes the shareholders wealth</td>
</tr>
<tr>
<td>5</td>
<td>Dividends are irrelevant in improving the SACCOs value</td>
</tr>
</tbody>
</table>

4.6 Chapter summary

This chapter provided the results and findings on the effect of financial management on the performance of SACCOs. The chapter was in four sections, guided by the respondent's questionnaire. The first section covered the general information of the respondents, second section provided results on the effect of cash management, third section presented findings on the effect of credit risk management and finally the forth section provided findings on effect of dividend policy on the performance of SACCOs in five star hotels in Nairobi. The next chapter provides the discussions, summary, conclusion, recommendations for improvement and any further research.
CHAPTER FIVE

5.0 DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of the findings, discussions, conclusions and recommendations. This section is guided by the three research objectives and the discussions provide comparison with the literature review.

5.2 Summary

The purpose of this study was to evaluate the effect of financial management practices on the performance of SACCOs in hospitality industry. The study focused on the five star hotel SACCOs in Nairobi and it was guided by the following research objectives: to evaluate the effect of cash management on performance of SACCOs; the effect of credit risk management on performance of SACCOs and the effect of dividend policy on the performance of SACCOs.

In order to evaluate the three research objectives, descriptive research design was used. The study target population was 169 SACCO management committees from the 13 five star hotel SACCOs. Data was collected using a structured questionnaire. Out of the 119 questionnaires distributed to the respondents, 81 were returned representing a 66% response rate. Data analysis was performed by calculating the frequency percentage of the results obtained from the questionnaire and findings were presented through use of tables and charts. Mean was used as a measure of central tendency and standard deviation represented the measure of data dispersion. Microsoft excel package was used as a tool to analyze the data and the statistical package for social science (SPSS) to perform correlation analysis with the objective of identifying the degree of relationship between respondents’ opinion on the three research objectives and the descriptive characteristics of the respondents.

The respondent general information was captured where gender distribution showed 62% male and 38% female respondents which indicated a relatively good gender representation. 70% of the respondents were of the age between 26 years and 45 years which indicated that they were within the productive age bracket. All respondents had a post secondary education. This implied that the respondents were qualified to perform their respective duties. 40% of the respondents were in the executive representing the chairpersons, vice chairpersons, treasurers and secretaries. 20% were credit officers, 16% in supervisory committee, 15% education officers and 10% accountants.
57% of the respondents were in the category of 1-5 years work experience, 27% having 6-10 years, 12% below one year and 4% above 11 years. This indicated that the respondents had relatively good working experience.

The findings revealed that based on research objective one, majority of the SACCOs employed cash management as a one of the financial management practice. The highest mean score on measuring the opinion of the management towards the effect cash management practices was 4.26, agreeing that efficient cash management ensured that the approved loans are honored, followed by a mean score of 4.21 agreeing that effective cash management has a strong impact on performance of the SACCO. Next was a mean score of 4.06 representing the extent of agreement that SACCOs should maintain a buffer cash balance, this was followed by a mean of 4.00 agreeing that SACCOs should invest cash in short term marketable securities and the lowest mean score was 3.99 on the extent of agreement that cost of holding idle cash is the profit or interest not earned if invested.

The respondents also confirmed that a large percentage of SACCOs used credit risk management as a financial management practice. The highest mean score of 4.27 was on the agreement that SACCOs should evaluate and analyze their credit risk often; this was followed by a mean score of 4.21 on the agreement that SACCOs should monitor their credit risk exposure to minimize the risk. The next mean score was 4.16 agreeing that risk identification process minimizes credit risk; this was followed by a mean score of 3.84 on the agreement that SACCOs should use credit management experts in formulating loan policies and lastly a mean score of 3.80 on SACCOs should review their credit policy often.

Based on research objective three, the study found out that majority of SACCOs has an established dividend policy. The highest mean score on measuring the opinion of the management towards the effect of dividend policy was 3.98 agreeing that payment of dividends leads to increase in members savings, followed by a mean score of 3.86 on agreement that dividend payment is a strong indicator of the SACCO's performance. This was followed by a mean score of 3.44 on the agreement that payment of dividends minimizes the cash available to the management hence minimizing agency problem and maximizing the shareholder wealth.

Next was a mean score of 3.32 on the opinion that SACCOs should retain profits to invest in profitable projects and lastly a mean score of 1.58 was obtained from the extent to which dividends are irrelevant in improving the SACCOs value.
5.3 Discussions

5.3.1 Effect of Cash Management

The study showed that a large percentage of respondents indicated that SACCOs had a cash management policy. This is consistent with the importance accorded to cash management by (Chartered Institute of Management Accountant (CIMA), 2002). According to CIMA 2002, cash management is imperative in every business organization as cash is said to be the life blood of any business. According to Pandey 2010, cash is the basic input required to keep the business running on a continuous basis and it is also the ultimate output expected to be realized by selling the services or products of the firm. The findings also indicates that some SACCO do not have a cash management policy which means that this SACCOs are likely to experience challenges in achieving their objective of availing credit to its members. According to Mumanyi 2014, the idea behind establishment of SACCOS is to promote savings and make credits available to the members.

The study revealed that majority of the SACCOs used cash budget and planning being one of the cash management techniques. Chastain (2008) asserted that budgets are the financial road map companies’ use when planning business expenses and tracking the cash flow throughout the business year. The frequency of preparing cash position varied with the which is consistent with (Udojung, 2010). According to Udojung (2010), Cash planning can be done on daily, weekly, or monthly basis. The period and frequency of cash planning depends on the size of the firm and the philosophy of management. On the other hand a few of the SACCOs did not use cash budgets and planning which is contrary to the literature review.

In relation to use of excess cash approximately a third of the SACCOs invested the excess cash in marketable securities. This is contrary to Berk & Demarzo,(2011) who advised that once a firm need to hold cash is reduced, funds should be invested in short term investment securities. Pandey 2010 also asserted that once the firm has determined the optimal cash balance, the residual asset or surplus cash it should not be left idle. It should be properly invested to earn profit for the company.

In response to the motives for SACCOs holding cash, majority held the cash for transactionary and precautionary purposes. According to Abioro, 2013, there are three main motives for holding cash: transactionary, precautionary, and speculative. The findings are consistent with Igbinosun (2002) assertion that since business firms do not engage in
speculations, motives to hold cash and marketable securities are mainly transactionary and precautionary motive.

The study revealed SACCOs start recovering the repayment of loans within the month of disbursement and after one month. This is consistent with the cash management technique of managing cash flows. According to Pandey (2010), cash management in the modern corporation involves two simple rules: Speed up cash collection to minimize collection float, Slow down cash disbursement to maximize disbursement float.

In relation to determining the target cash balance, the findings indicated that respondents supported that SACCOs should a buffer cash balance. This is contrary to Baumol cash management model but consistent with Miller-Orr Cash Management model. Jarrad (2000) explaining the treatment of cash management problem by Baumol in 1952. He noted that Baumol treated cash management problem as an inventory management problem where he applied techniques developed for inventory optimization to the problem of covering transactions demand for cash. Pandey (2010) stressed that Miller Orr model overcame the shorting comings of Baumol model as it allows for daily cash flow fluctuation and assumes that net cash flow are normally distributed. Unlike the Baumol Model, this model allows for uncertainty cash flows and safety stocks (precautionary balance).

### 5.3.2 Effect of credit risk management

The study revealed existence of credit risk though the various types of loans offered by the SACCOs. Majority of the SACCOs offered development loans, emergency loans and education loans. In the others category, 12% of the respondents indicated that they had an additional loan called instant loan. Kibui and Maroge (2014) defined Credit risk simply as the potential that borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Members defaulting on their loan repayment are therefore credit risk.

In relation to the loan management policy and security for the loan approved, majority of the SACCO had a loan management policy and used shares and guarantors to secure the loans.

This is consistent with Langat, Mugo, & Otuya, 2013 study where the commonly applied is the guarantee system where the reduction of the credit exposure is derived by the undertaking of third party to pay an amount in the event of a default of a borrower.
The findings of the study showed that majority of the SACCOs evaluated the credit risk in order to minimize the risk. Clear established processes of approving new creditors and extending the existing credits has been observed to be very important while managing credit risks in Saccos (Essendi, 2013). It involves an analysis or examination of sources of repayment as well as credit history of the member borrower (Langat, Mugo, & Otuya, 2013). However, a small percentage of SACCOs does not evaluate and analyze credit risk which would lead to bankruptcy.

The study indicated that majority of the respondents agreed that the SACCOs had laid down policies and procedures for monitoring their credit risk. Monitoring credit risk is very important in credit risk management since these are the constant and timely processes that effectively monitor and control the credit function and carefully control loans with members, the risk monitoring variables are the established continuous procedures and guidelines to effectively monitor and control the characteristics and quality of its credit portfolio (Langat, Mugo, & Otuya, 2013). According to Essendi 2013, the Saccos play an increasingly important role in local financial economies where competition for customers and resources with Micro Finance Institutions and other commercial banks is high therefore they require effective and efficient risk control and monitoring systems.

In relation to credit risk mitigation, majority of the respondents indicated that SACCOs insure loans against death and use guarantee to minimize credit risk. Mitigating credit risk are the established procedures and techniques that are used to reduce and prevent the occurrence of credit risk associated with loan exposures (Langat, Mugo, & Otuya, 2013). The commonly applied is the guarantee system where the reduction of the credit exposure is derived by the undertaking of third party to pay an amount in the event of a default of a borrower (Langat, Mugo, & Otuya, 2013).

The study also revealed that majority of the respondents agreed that risk identification process minimizes credit risk. Risk identification is vital for effective risk management, for Saccos to manage risks facing them effectively they need to know how to identify the credit risks.

Risk identification is the methods that are used to calculate the credit worthiness of a member borrower. It involves an analysis or examination of sources of repayment as well as credit history of the member borrower (Langat, Mugo, & Otuya, 2013).
5.3.3 Effect of Dividend Policy

The findings of the study showed that Majority of the SACCOs have a dividend policy. The main type of dividend policy adopted by SACCOs was the residual dividend policy. According to Pandey 2008, there are four types of dividend policies namely; constant payout ratio, constant amount per share, Residual dividend policy and constant dividend per share plus extra. Dividend policy occupies a major role in the financial management of an organization and serves as a mechanism for control of a managerial opportunism (Yegon, Cheruiyot and Sang, 2014).

In relation to the determinant of dividend payable, majority of the respondents indicated that SACCOs used previous year’s dividend, legal requirement, and liquidity state of the SACCO and stability of earnings to determine the dividend payable. Brav et. Al., (2005) concluded that the previous year’s dividends positively affect the current dividend payout ratio of a company. According to Malombe 2011, liquidity is an essential factor that affects the dividend policy; firms with higher cash accessibility are able to pay higher dividends than firms with insufficient cash (Malombe, 2011). Baker and Smith (2006) also assert that a major determinant of dividend payment was the anticipated level of future earnings. Legal stipulations do not require a dividend declaration but they specify the conditions under which dividends must be paid. Such conditions pertain to capital impairment, net profit and insolvency (Yegon et. Al., 2014).

The study revealed that majority of the respondents indicated that SACCOs do not retain earnings for reinvestment purposes and growth of the SACCOs. Mitton (2004) defined dividend policy as a firm's policy with regards to paying out earnings as dividends versus retaining them for reinvestment in the firm. The findings implied that SACCOs choose to distribute the profits in form of dividends to the shareholders instead of retaining the profit.

In response to the mode of paying the declared dividends, majority of the SACCOs use cash dividends.

This is in consistent with the literature review. According to Malombe 2011, there are three forms of dividend payments namely cash dividend, share dividend or bonus share and share repurchase. None of the respondents indicated that SACCOs uses bonus share alone.

The study also showed that withholding tax affected the dividend policy of majority of the SACCOs. According to La Porta et al, (2000) individual investors pay higher ordinary income
taxes on dividends but lower tax rates on long term capital gains. A shilling worth of tax today is more in value than the shilling in the future hence capital gains in future are preferred to dividends today.

The findings indicated dividend payment was a strong indicator of the SACCO performance. This is consistent with the signaling theory of dividends that states that managers use dividend policy to send signals about the firm's future earnings (Bhattacharya, 1979; Malombe, 2011). A reduction in dividends can be regarded by some investors as a sign of financial weakness the firm could be going through (Maladjian & Khoury, 2014).

In regard to agency problem and maximization of shareholders wealth, there were varied responses where approximately half of the respondents agreed that payments of dividends minimize the agency problem while maximizing shareholders wealth. A quarter of the respondents were neutral and approximately another quarter disagreed. The argument of agency theory is that there is an increase in the gap between ownership and control of large organizations arising from a decrease in equity ownership. Jensen (2006) explained that managers do not always run the firm to maximize returns to the shareholders. The agency theory was developed from this explanation and the principal-agent problem was taken into consideration as a key factor to determine the performance of the firm.

In relation to the irrelevance theory founded by Miller and Modigliani (1961) the majority of the disagreed that dividends are irrelevant in improving the SACCO’s value. This was contrary to Miller and Modigliani (1961) theory that stressed on the irrelevance of dividend policy in a world without taxes, transaction costs or market imperfections. They suggested that a firm's value is determined by its investment policy and thus the manner in which earnings are split between retained earnings and dividends does not affect the firm’s value (Nissim and Ziv, 2001). However, it is consistent with Kioko, 2006 study which indicated that MM’s (1961) theory has heavily been criticized for being unrealistic in the real world where there are a lot of imperfections.

5.4 Conclusions

The purpose of this study was to evaluate the effect of financial management practices on performance of SACCOs. The study focused on effect of cash management, credit risk management and dividend policy.
5.4.1 Effect of cash management on the performance of SACCOs.

Cash management is critical for success of any SACCO as its objective is mobilization of savings and disbursement of credit in form of loans. As stated by Gallagher (2000), implementation of a good cash management system ensures better control of financial risk, increase the opportunity for profit, strengthen the company’s balance sheet, ensure increased confidence in the company and improve operational efficiency. The study revealed that most of the respondent acknowledged that majority of the SACCOs have adopted cash management practices. The SACCOs have cash management policy on the level of cash to hold for transactionary and precautionary purposes, they have implemented cash planning and budgeting techniques namely cash budgets, cash forecasts, and preparation of cash position. The findings also confirmed that the SACCOs have cashflow management techniques where majority recovered the loan repayments within the month of disbursement and after one month. The study also revealed that only a few SACCOs invested excess cash on marketable securities.

5.4.2 Effect of credit risk management

The study concluded that most SACCOs have a loan management policy which is crucial in laying down guidelines and procedures on how to manage the loans the variety of loan products offered by the SACCOs and minimize credit risk. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any organization (Nelson & Schwedt, 2006). The findings revealed that the SACCOs mainly used guarantee, shares as securities to mitigate credit risk. Majority of the SACCOs also identified credit risk, evaluated them and had policies and procedures in place to monitor and control the credit risk. The study also concludes that for Saccos to recuperate their loans they send reminders to defaulters with 1-3 months after the default and recovers the defaulted loans mainly from the members’ shareholding and guarantors. Majority of the respondents agreed that SACCOs should review their credit policies often and should use credit management experts.

The study also revealed that SACCOs mainly considered the current credit policy, trends of creditors, and liquidity state of the SACCO.

5.4.3 Effect of dividend policy.

The study concluded that SACCOs have an established dividend policy.
An overwhelming majority used residual dividend policy and paid dividends annually. A large percentage of the respondents confirmed that SACCOs used previous year’s dividend, liquidity state of the SACCO, legal requirements and stability of earnings as determinants of dividend payable. The findings also showed that SACCOs used cash dividend to pay dividends and majority of the SACCOs did not retain earning for reinvestment purposes. Majority of the respondents also confirmed that withholding tax affects the dividend payable and agreed that payment of dividends is a strong indicator of the SACCO’s performance. The study also concluded that payment of dividends minimizes agency cost and maximizes shareholders on the other hand the study went against the Miller and Modigliani irrelevancy theory where a large percentage of the respondents disagreed that payment of the dividend is irrelevant.

5.5 Recommendations

5.5.1 Recommendations for improvement

5.5.1.1 Recommendations on Effect of Cash Management

The study showed that most of the SACCOs have adopted cash management as a one of the financial management practice but a few have not. In the light of the findings the researcher recommends that the government and policy makers should implement policies that would extend incentives to SACCOs with good cash management skills in order to improve the service delivery of the SACCO. 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.

5.5.1.2 Recommendations on Effect of Credit risk management

The study revealed that SACCOs use guarantee and shareholding as securities for the loans issued. The researcher recommends that SACCOs should extend securities to assets and collateral because most of the guarantors suffer financial while defaulters take advantage of the fact that someone else would pay their loans. The researcher also recommends that the
SACCOs should consider economic state of the country while reviewing their credit policy. The study found out that the SACCOs did not consider the economic state of the country while reviewing their credit policy. From the study, some of the SACCOs did not have an established loan management policy, the researcher recommends that the policy makers should enact policies that would ensure that SACCOs have policies in place to avoid cases of bankruptcy and the negative effect it would have on the economy.

5.5.1.3 Recommendation on Dividend Policy

The study found that most SACCOs do not retain earning but distributes them as dividends. The researcher recommends that SACCOs should be encouraged to retain earning in order to reinvest and increase the growth of the SACCOs which will lead to high profits in the future. Companies should register good dividend pay-outs since this will directly have positive impact on retained earnings of the organizations. The study also recommends that shareholders should also understand that, payment of dividends only marginally reflects good subsequent periods earning prospect there are many other factors that influence future earnings including Sacco’s investment policy, operating environment and taxes. Thus they also need to pay attention to these factors when analyzing performance. Therefore SACCOs may defer payment of dividends so as to increase profitability for the SACCO in order to have good dividend policy in future.

5.5.2 Recommendations for Further Studies

The study recommends that a further study should be carried out to investigate the challenges facing SACCOs in successfully implementing financial management practices. The study also recommends further study on the impact of SACCO regulatory bodies on non-performing loans in SACCOs. Finally the study recommends that a further study should be done to determine the risks that are faced by SACCOs in Kenya.
REFERENCES


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Branco, B & CGAP Staff, (2005). “*working with Savings and Credit Cooperatives*” CGAP


APPENDICES

APPENDIX I: INTRODUCTORY LETTER

ESTHER MUTHONI CHEGE
UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA,
P.O. Box 1289 – 00600,
NAIROBI.

Dear Respondent,

RE: RESEARCH STUDY.

In partial fulfillment of a Masters degree in Business Administration at the United States International University (USIU) – Africa I am undertaking a research project with an aim of evaluating the effect of financial management practices on the performance of SACCOs in the Hospitality Industry.

Your contribution to this study will be highly appreciated as it will play a major role in completing the study. Any information provided on the questionnaire shall be treated as confidential.

I take this opportunity to thank you in advance and it is my humble request that you will spare some of your few minutes to fill the questionnaire.

Yours faithfully,

Esther Muthoni Chege
APPENDIX II: QUESTIONNAIRE

Section A: General Information

1. Gender:  
   Male  
   Female

2. Age (years):  
   Below 25  
   26-35  
   36-45  
   Above 46

3. Highest Level of Education
   Secondary
   College
   University
   Other qualification (specify)

4. Your position in the SACCO.
   Chairperson
   Secretary
   Vice-Chairperson
   Treasurer
   Credit officer
   Supervisory
   Education officer
   Accountant
   Others (specify)

5. Work experience
   Below 1 years
   1-5 years
   6-10 years
   Above 11 years
Section B: Effect of Cash Management

1. Does your SACCO have a cash management policy?
   Yes
   No

2. What level of cash does the SACCO maintain?
   Below Kshs. 100,000
   Kshs. 100,000 - 500,000
   Kshs. 500,000 - 1,000,000
   Above Kshs. 1,000,000

3. Does the SACCO prepare a cash budget?
   Yes
   No

4. Does the SACCO prepare cash position?
   Yes
   No
   If, yes, how often?
   Daily
   Weekly
   Twice a week
   Monthly

5. Does the SACCO prepare cash flow forecast?
   Yes
   No
6. How does the SACCO use the excess cash?

- Keep the money in the SACCO current account
- Deposit in a bank savings account
- Invest in marketable securities
- Other (specify) ………………………………………………………………………………………………………………………

7. Tick the reasons why the SACCO holds cash.

- Transactional purposes
- Precautionary purposes
- Speculative purposes

8. After how long does the SACCO start recovering the loans from members?

- Within the month of disbursement
- After one month
- After 2 months
- Others (specify) …………………………………………………………………………………………………………………
9. On a scale of 1-5 please evaluate the extent to which you agree with the statement below. Where 5 is Strongly Agree, 4- Agree, 3- Neutral, 2- Disagree, 1- Strongly Disagree. Please tick the appropriate.

<table>
<thead>
<tr>
<th></th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficient cash management ensures approved loans are honored</td>
<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>The cost of holding idle cash is the profit or interest not</td>
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<tr>
<td>earned if invested</td>
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<tr>
<td>SACCOs should invest excess cash in short term marketable</td>
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<td></td>
</tr>
<tr>
<td>securities</td>
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<td>SACCOs should always maintain a buffer cash balance</td>
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<tr>
<td>Effective cash management has a strong impact on performance of</td>
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<tr>
<td>the SACCO</td>
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</tr>
</tbody>
</table>

**Section C: Effect of Credit Risk Management**

1. Types of loans offered by your SACCO

Development loan [ ]  
Emergency Loan [ ]

Education Loan [ ]

Others (specify) ...........................................................................................................................................
2. Does your SACCO have a specific loan management policy?

Yes

No

3. Does your SACCO request for security before approving a loan?

Yes

No

4. Type of Securities requested by SACCO.

Shares

Guarantors

Assets

Others (specify)…………………………………………………………………………………………………………………………………………………

5. Does the SACCO evaluate the credit risk?

Yes

No

6. Does the SACCO have laid down policies and procedures for monitoring its credit risk.

Yes

No
7. What action has the SACCO taken to minimize credit risk?

- Insure loans
- Get collateral Security
- Through guarantee
- Others (specify)

8. In case of a default, what is the credit reminder period?

- 1 month after default
- 2-3 months after default
- 4-12 months after default

9. How does the SACCO recover the defaulted loans?

- From the securities
- From the insurance
- From guarantors
- Legal actions
- Public auction
- Other (specify)

10. What factors does your SACCO consider when reviewing credit policy?

- Current credit policy
- Trend of creditors
- State of the economy
- Liquidity state of the SACCO
- Others (Specify)
10. On a scale of 1-5 please evaluate the extent to which you agree with the statement below. Where 5 is Strongly Agree, 4- Agree, 3- Neutral, 2- Disagree, 1- Strongly Disagree. Please tick the appropriate.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk identification process minimizes credit risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SACCO should use credit management experts in formulating loan policies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SACCO should reviews its credit policy often</td>
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<tr>
<td>SACCOs should monitor their credit risk exposure to minimize the risk.</td>
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<tr>
<td>SACCOs should use evaluate and analyze their credit risk often.</td>
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</tr>
</tbody>
</table>

**Section D: Effect of Dividend Policy**

1. Does your SACCO have a dividend policy?

   Yes
   
   No
2. Type of dividend policy maintained by the your SACCO

Constant payout ratio
Constant amount per share
Residual dividend policy
Others (specify)

3. What determines the amount of dividends payable? Please tick the ones applicable in your SACCO.

Previous year’s dividend
Opportunities available for investment
Legal requirement
Stability of earnings
Size of the SACCO
Liquidity state of the SACCO

4. How often does your SACCO pay dividend

Twice a year
Yearly
Others (specify)

5. Does your SACCO sometimes retain earnings instead of distributing to members as dividends?

Yes
No

6. How does the SACCO pay the declared dividends?

Cash dividend
Bonus Shares
7. Does withholding tax affect dividend policy?

Yes [ ]
No [ ]

8. What percentage of profit does the SACCO distribute to members as dividends?

9. On a scale of 1-5 please evaluate the extent to which you agree with the statement below. Where 5 is Strongly Agree, 4- Agree, 3- Neutral, 2- Disagree, 1- Strongly Disagree. Please tick the appropriate.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Neutral</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment of dividends leads to increase in members savings</td>
<td></td>
<td></td>
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<tr>
<td>Dividend payment is a strong indicator of the SACCOs performance</td>
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<tr>
<td>SACCOs should retain profits to invest in profitable projects</td>
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<tr>
<td>Payment of dividends minimizes the cash available to the management hence minimizing agency problem and maximizes the shareholders wealth</td>
<td></td>
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<tr>
<td>Dividends are irrelevant in improving the SACCOs value</td>
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Thank you for your time and contribution

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### APPENDIX III: IMPLEMENTATION BUDGET

<table>
<thead>
<tr>
<th>Budget items/activities</th>
<th>Cost (Kshs.)</th>
<th>Total Cost (Kshs.)</th>
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<tr>
<td><strong>Proposal development</strong></td>
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<td>Photocopying</td>
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<tr>
<td>Binding</td>
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<tr>
<td><strong>Data collection &amp; analysis</strong></td>
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<td>Typing and printing</td>
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<td>Dropping and picking</td>
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<td><strong>Completion</strong></td>
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<td>Printing and Binding</td>
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### APPENDIX IV: IMPLEMENTATION SCHEDULE

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<th>JAN 15</th>
<th>FEB 15</th>
<th>MAR 15</th>
<th>SEP 15</th>
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APPENDIX V: LIST OF FIVE STAR HOTEL SACCS IN NAIROBI

1. Safari Park Hotel SACCO
2. Windsor Golf Hotel SACCO
3. Tribe Hotel SACCO
4. Nairobi Safari Club Hotel SACCO
5. Sarova Stanley Hotel SACCO
6. Intercontinental Hotel SACCO
7. Sankara Hotel SACCO
8. Panari Hotel SACCO
9. Ole Sereni Hotel SACCO
10. Laico Regency Hotel SACCO
11. Southern Sun Hotel SACCO
12. Crown plaza Hotel SACCO
13. Nairobi Serena Hotel SACCO