

**EFFECT OF FINANCIAL CHALLENGES ON PERFORMANCE OF
SACCOS IN KIAMBU COUNTY, KENYA: CASE OF P.C.E.A
RUIRU SACCO SOCIETY LIMITED**

BY

PHYLIS WAITHIRA GACHAU

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA

SUMMER 2019

**EFFECT OF FINANCIAL CHALLENGES ON PERFORMANCE OF
SACCOS IN KIAMBU COUNTY, KENYA: CASE OF P.C.E.A
RUIRU SACCO SOCIETY LIMITED**

BY

PHYLIS WAITHIRA GACHAU

**A 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)**

SUMMER 2019

STUDENT'S 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.

Signature.....

Date

Gachau, PhylisWaithira (ID No.645449)

This research has been submitted for examination with the approval as the university supervisor.

Signature.....

Date

Supervisor: Dr. Agnes Ogada (Phd)

Signature.....

Date

Dean, Chandaria School of Business

COPYRIGHT

No part of this report may be produced or transmitted in any form or means, electronic, mechanical, including photocopying, recording or any information storage without prior permission from the author. All rights reserved.

Copyright © Gachau, PhylisWaithira, 2019.

ABSTRACT

The study sought to investigate the effect of financial challenges on performance of SACCOs in Kiambu County, Kenya. The specific objectives were to determine the effect of loan default on performance of the Presbyterian Church of East Africa Ruiru savings and credit Society, to determine the effect of dividend policy on performance of the Presbyterian Church of East Africa Ruiru savings and credit Society, and to determine the effect of liquidity on the performance of the Presbyterian Church of East Africa Ruiru savings and credit Society in Kenya.

The study adopted a descriptive research method which sought to evaluate the effect of financial challenges on the performance of savings and credit co-operative society. The target population was comprised of 3522 management, employees and members of the Presbyterian Church of East Africa Ruiru saving and credit co-operative society. Simple random sampling techniques was used to select a random sample of 97 respondents. The data collection was through a structured questionnaire based on the research objectives. The data collected was coded, keyed in and edited accordingly by use of Statistical Package for social science. Appropriate descriptive statistics such as central tendencies: mean and standard deviation was applied, distribution of the data was also analyzed through frequencies and inferences were made.

The findings were: Majority agreed that SACCO should use credit management experts in formulating loan policies. It was also established that majority strongly agreed that SACCO Should reviews its loan policy often. It was also established that a majority strongly agreed that SACCOs should monitor their loan default risk exposure to minimize the risks. The study also established that the SACCOs should evaluate and analyze their loan default often.

The findings were: Majority agreed that payment of dividends leads to increase in member's savings. Results also show that dividend payment is a strong indicator of the SACCOs performance. It was also agreed that the SACCOs should retain profits to invest in profitable projects.

The findings as per the last objective established that the SACCO often meets its short term obligations due to increased liquidity and there is protection of members deposit by SACCO management. Findings also show that majority strongly agreed that higher

liquidity levels arising from adherence to liquidity regulations in the SACCO has enhanced customer product portfolio.

The study concluded that the SACCO relies on credit management experts in formulating loan policies although respondents felt that the SACCO needs to reviews its loan policy often. The study also concluded that high default rates were caused by economic condition and poor commitment among members. The study also concluded that dividend policy affect performance of SACCO's and when the firm affords to pay dividends to members it leads to an increase in member's being motivated towards savings. Lastly, the study concluded that the SACCO often meets its short term obligations thus implying that shareholders deposits are well protected by SACCO management.

The study recommends that SACCO should continuously utilize the services of credit management experts in order to ensure the process of granting credit, setting the terms and ensure compliance with the firm's credit policy. Through the Annual General Meetings (AGM) members should raise issues that need reviews. Secondly, the study recommended that in order to generate more income, SACCOs should retain profits to invest in profitable projects or alternatively create products to supplement the firm's income. Lastly, in circumstances where the firm is unable to meet its financial obligations, external borrowing may be pursued to enhance firm's activities. More education and training workshops should be undertaken to ensure members become aware of the firms liquidity levels.

It is study also recommended that further studies be done on other Sacco's in Ruiru and other major towns to determine whether there is any effect of loan, dividend policy and liquidity on the performance.

ACKNOWLEDGEMENT

First and foremost I want to thank the Almighty God for giving me the opportunity to advance my studies, provided finances and gave me the strength to finish this research work. Special gratitude goes to my supervisor Dr. Agnes Ogada for her guidance and constructive critics throughout this process with utmost diligence, expertise and inspiration in the process of preparing this project. To my dear Husband Stephen, I greatly appreciate your kindness and support in preparing this research. For the times I was absent at home, thanks for your understanding, you are my inspiration.

DEDICATION

I dedicate this thesis to my family, My dear husband and lovely children, Stacey and Faith for their great sacrifice they have made especially during the process of my studies at United States International University – Africa.

TABLE OF CONTENT

STUDENT’S DECLARATION	ii
COPYRIGHT	iii
ABSTRACT.....	iv
ACKNOWLEDGEMENT.....	vi
DEDICATION.....	vii
TABLE OF CONTENT.....	viii
LIST OF TABLES	x
LIST OF FIGURES	xi
LIST OF ABBREVIATIONS AND ACRONYMS	xii
CHAPTER ONE	1
1.0 INTRODUCTION.....	1
1.1 Background to the Study.....	1
1.2 Statement of the Problem.....	5
1.3 Objective of the Study	6
1.4 Specific Objectives	6
1.5 Justification of the Study	7
1.6 The Scope of the Study	8
1.7 Definition of Terms.....	8
1.8 Chapter summary	9
CHAPTER TWO	10
2.0 LITERATURE REVIEW	10
2.1 Introduction.....	10
2.2 Effect of Loan Default on the Performance of the Sacco	10
2.3 Effect of Dividend policy on the Performance of the Sacco`s.....	15
2.4 Effects of Liquidity on the Performance of Sacco.....	21
2.5 Chapter Summary	28
CHAPTER THREE.....	29
3.0 RESEARCH METHODOLOGY	29
3.1 Introduction.....	29

3.2 Research Design.....	29
3.3 Population and Sampling Design.....	29
3.4 Data Collection Methods	32
3.5 Research Procedures	32
3.6 Data Analysis Methods	33
3.7 Chapter Summary	33
CHAPTER FOUR.....	34
4.0 RESULTS AND FINDINGS	34
4.1 Introduction.....	34
4.2 Demographic Information.....	34
4.3 Effect of Loan Default on the Performance.....	37
4.4 Effect of Dividend Policy on the Performance	41
4.5 Effect Of Liquidity on the Performance	46
4.6 Chapter Summary	52
CHAPTER FIVE	53
5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS	53
5.1 Introduction.....	53
5.2 Summary	53
5.3 Discussion.....	55
5.4 Conclusion	62
5.5 Recommendations.....	63
REFERENCES.....	65
APPENDICES	
APPENDIX I: INTRODUCTORY LETTER	
APPENDIX II: QUESTIONNAIRE	
APPENDIX III: NACOSTI PERMIT	

LIST OF TABLES

Table 3.1: Population	30
Table 3.2: Sample Distribution	32
Table 4.1: Response Rate.....	34
Table 4.2: Descriptive Statistics of Loan Default	37
Table 4.3: Use of Credit Management Experts In Formulating Loan Policies.....	38
Table 4.4: Review of Loan Policy	38
Table 4.5: Monitor Loan Default Risk Exposure.....	39
Table 4.6: Analyzing Loan Default	39
Table 4.7: Low Rate of Loan Default	39
Table 4.8: Loan Default and Return On Assets	40
Table 4.9: Reasons of Loan Default	41
Table 4.10: Descriptive Statistics of Dividend Policy	42
Table 4.11: Dividend Payment and Saving Growth	43
Table 4.12: Dividend payment an Indicator of the SACCOs Performance.....	43
Table 4.13: Retaining Profits	44
Table 4.14: Dividend Payment and Cash Availability.....	44
Table 4.15: Effect of Dividends on Shareholders Wealth	45
Table 4.16: Dividend and Sacco Value.....	45
Table 4.17: Correlation Analysis	46
Table 4.18: Descriptive Statistic of Liquidity.....	47
Table 4.19: SACCO Meets Short Term Obligations	48
Table 4.20: Protection of Members Deposit by SACCO Management.....	48
Table 4.21: Liquidity Levels and Adherence to Liquidity Regulations.....	49
Table 4.22: SACCO Raises Liquidity Holdings	49
Table 4.23: Liquidity Regulations And Loan Disbursement	50
Table 4.24: SACCOs Rely On External Borrowing to Finance	50
Table 4.25: Reasons Behind Delay of Loan Disbursement	51

LIST OF FIGURES

Figure 4.1: Respondents Gender.....	35
Figure 4.2: Respondents Age.....	35
Figure 4.3: Respondents Education	36
Figure 4.4: Membership.....	36
Figure 4.5: Members Default on the Loans Disbursed.....	40
Figure 4.6: Delay on Issuance of Loan	51

LIST OF ABBREVIATIONS AND ACRONYMS

AGM	Annual General Meeting
ILO	International Labour Relations
KUSCCO	Kenya Union of Savings & Credit Co-operatives
LED	local economic development
MM	Miller and Modigliani
P.C.E.A.	Presbyterian Church of East Africa
ROE	Return on Equity
RSA	rate sensitive assets
RSL.	rate sensitive liabilities.
SACCOs	Savings and Credits Cooperative Societies
SASRA	Sacco Societies Regulatory Authority

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

Cooperative societies are autonomous associations of persons joined voluntarily to meet a common goal such as economic, social and cultural needs through jointly owned and democratically controlled enterprises (International Cooperative Alliance (ICA, 2010). They play an important role in growth of the economy and development of countries by enabling members to achieve their common goal and provision of employment opportunities (Mwangi, 2010). They exist in the sectors such as finance, agriculture and housing among others and have unique advantages based on the common goal of the members.

Co-operative Societies through its process of acquisition of funds incur various charges and interest, such cost include: cost of shares, cost of debt and capital reserves which constitute the cost of finance of co-operative societies (Kumar & Gena 2015). However the financial performance of co-operative Society is highly interconnected to the decisions based on the capital budgeting thus enable appropriate estimate of finance expected which is very crucial (Kasali, 2013).

Knowledge on financial challenges and how it influences the performance is useful in financial management of saving and credit cooperative societies. Financial management is very crucial in an organization. Companies are mainly exposed to credit and operational risks leading to uncertainty regarding the company's investments and investment opportunities due to product markets dynamics (Maina, 2015). Risks in the market influence financial performance of individual companies and the entire economy at large. Chandresh (2012) asserted that financial performance can beadequately realized if appropriate risk management practices are employed to safeguard organization from unexpected volatility of returns.

Cooperative societies ought to study the trend of the interests' rates on the loans offered by financial institutions to their members before making recommendation on the same. Moreover, the amount that the members are seeking should be convenient for the organization and they should be advised to utilize such funds for purposes that are likely to generate returns that can benefit the members economically and also repay the

loan as required (Muriuki, 2014). Financial management is also enhanced by proper documentation and appropriation of earnings of saving and credit cooperative societies since it contributes to efficient financial management.

Savings and credit cooperative societies play an important role in economic development of most countries worldwide. However, members encounter various obstacles in a bid to raise their living standards whose solutions can be found in strong cooperative societies (Kumar, 2015). 85% of the co-operatives which is composed by small and medium scale saving and credit Cooperative societies have helped their members to raise their living standard by generating more income that has improved their livelihoods. They have also benefited through increased efficiency of various agricultural inputs and making better profit through the efforts of cooperatives.

Kristina (2014) noted that cooperative societies are very significant in the economy of Sweden. She indicated that the agriculture sector employs 56,900 full time workers and is focused on milk production, pig production, wheat and barley thus greater emphasis on financial performance of these organizations was important. Co-operatives are by nature concerned with democratic and human values caring for the environment, enhancing sustainable development, employment and creating awareness according to International Labour Relations (ILO, 2003). Although, the primary objective of forming group farming cooperatives is to increase agricultural outputs, it has been possible to get them involved in marketing of their produce as well.

Akira (2014) asserted that cooperative societies had taken diverse development paths in different sectors of Japan which required application of appropriate methods in order to understand them and promote good financial performance in those organizations. He further argued that government systems such as institutional credit systems had a significant impact on cooperative societies as farmers pressed government to adjust price beyond equilibrium which stimulated overproduction and influenced financial performance. Farmers are the single largest group of users and managers of land, water, and other ecological resources throughout Japan. Most small-holder farmers require services and information obtainable through agricultural cooperatives. Adoption of appropriate technology and innovative ideas increase agricultural productivity and incomes of the farmers.

In Africa, it has been widely acknowledged that cooperative societies make an important contribution to sustainable economic growth by making markets function better for the poor. Khumalo (2014) found that cooperative societies were supported by local economic development (LED) but some members were excluded in the major initiatives concerning the same. Therefore, they were denied the opportunities associated with LED for job creation in the agriculture and housing sectors. The low capacity and educational levels in cooperatives is the main reason for financial challenges, weak management, poor governance and inability to effectively run their enterprises on sound business practices.

Rwekaza and Mhihi (2016) noted cooperative societies in Tanzania are promoted through cooperative development policy. The biggest challenge is how to determine how the effects of policies are reflected in the cooperative development putting into consideration the actions of cooperative movement in the country. Therefore, members should be involved in the formulation, implementation, monitoring and evaluation of policies. Cooperatives promote equality in the dimension of access to services and goods depending on the needs of the time because they have strength of penetrating and grabbing the available opportunities in services and businesses than an individual person can do in Tanzania. However, Tanzania cooperatives have failed to promote equality in the sense of ownership, control and benefits accrued from the businesses undertaken by these organizations.

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 Sacco Societies Regulatory Authority (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).

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 raises question as 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 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.

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. 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.

P.C.E.A. Ruiru Sacco Society Ltd was registered on 25th July 2004 by the Commissioner of Cooperative Development. A committee was put in place to start the mobilization process of potential members' savings. From July 2004 the first Board of Directors set out to offer services to the general membership. The common denominator and bond for all members was that they were from P.C.E.A Church or any other member of other churches that are not in conflict with Presbyterian practices. The Board of Directors set out its agenda to ensure that every member had equal opportunity in the society.

The society is currently poised for greater growth and has already laid strategies to achieve the required growth these include loan policy, investment policy, Human resource policy.

This ability to continue with this growth momentum will be dependent on member's confidence, financial management and support given by the members in terms of their savings and commitment in loan repayment and participation of how the society is run.

The vision of P.C.E.A Ruiru Sacco is to ensure there is continued rejuvenation of members psyche to save. This is done in tandem with creation of organizational structures, services, facilities, systems and partnerships that create a dynamic environment, this enable the SACCO to compete with other financial service providers within the same business line.

The Sacco vision statement is to be a unique financial service provider. The mission statement is the promotion, mobilization of savings, and provision of affordable credit facilities through market research and quality training of members, social and economic empowerment.

As noted above PCEA Ruiru Sacco is a non-check off system whereby members are supposed to remit their monthly contribution and loan payment unlike check-off system whereby contributions and loan repayment usually deducted from the members' salaries and remitted to Sacco. Due to that the system may pose financial challenges such as loan default, liquidity and dividend policy decisions, therefore these challenges may affect the performance of the Sacco.(PCEA Ruiru Sacco By-laws, 2007).

1.2 Statement of the Problem

SACCOs have been present in Kenya since 1970s, Although this sector has not been able to impact positively on the lives of people.Sacco Movement in Kenya has faced various challenges that need to be addressed in order to enable them improve on; soundness and stability, effective and efficient corporate governance, product diversity and competition as well as integration to the formal financial system. The major challenges in the cooperative movement in Kenya include; inadequate financing or adoption of financing models, poor governance and limited transparency in the management of cooperatives, lack of capacity in management, market intelligence and market research,weak capital base and infrastructure weaknesses, high deployment and maintenance costs , among others (KUSCCO 2010).

Today there are many Saccos being formed across the country as members seek to pool funds together for better lives and also tap on the support offered to Saccos by the two tiers

of the government and non-governmental organisations. Therefore, in pursuit of serving the members, contribution to the economic growth and provision of employment opportunities, SACCOs should ensure they record positive financial performance in terms of return on assets, liquidity and also generate revenue to pay dividends to shareholders (Ngui, 2010). However, this has not been the case since information in the public domain is that most Saccos are grappling with the challenge of continuous losses despite the existing legal and regulatory framework hence the need to undertake a study to establish the cause of these challenges. Several studies have been done locally on the factors affecting the growth and performance of SACCOs. For instance, Wasike (2012) did a research on factors affecting performance of SACCOs and pointed out that inadequate capital, poor asset quality and poor liquidity were the key factors affecting the SACCOs. In his study, Mathuva (2016) established that inadequate marketing strategies, limited product and services, and poor image as the factors affecting the performance of SACCOs in Kenya.

Odhiambo (2013) study on factors affecting performance of SACCOs found out that the issues affecting performance are membership size, poor profitability and loan defaulting. Despite the various studies being conducted, insufficient literature exists to link up the variables identified in this study such as loan default, dividend policy and liquidity and the performance of Savings and Credit Cooperative Societies hence creating a research gap which this study seeks to fill. The study therefore fills this gap by determining the financial challenges that affects financial performance of Saccos in Kiambu County, Kenya.

1.3 Objective of the Study

The main objective of this study was to investigate the effect of financial challenges on performance of SACCOs in Kiambu County, Kenya, using a case of P.C.E.A Ruiru Sacco Ltd registered under cooperatives Societies Act.

1.4 Specific Objectives

Specific objectives are;

- 1.4.1** To determine the effect of loan default on the performance of the Presbyterian Church of East Africa Ruiru savings and credit co-operative society in Kenya.

1.4.2 To investigate the effect of dividend policy on the performance of the Presbyterian Church of East Africa Ruiru savings and credit Society in Kenya.

1.4.3 To determine the effect of liquidity on the performance of the Presbyterian Church of East Africa Ruiru savings and credit Society in Kenya.

1.5 Justification of the Study

1.5.1 Committee Members and Board of Directors

The above govern the affairs of the SACCOS`. Therefore, this study will be beneficial to them in improving the financial performance of SACCOS` by making sure they pay much attention and emphasis on the established factors and prioritize the implementation of respective recommendations. This will help the SACCOS` to compete globally.

1.5.2 Members of the Public

Members of the public who are likely future members of the SACCOS` will be able to establish the benefits of joining, which are not only material but also their activities, extend to social cultural and education services. They will also be able to identify the best and suitable SACCOS` to join after doing their analysis.

1.5.3 Government

The study and recommendations given will be of importance to the government and especially the department of cooperatives in strengthening policy consideration regarding SACCOS`. The Government with its agents will use the findings of the research to monitor, review and make appropriate decisions and adjustments in regards to operations and management of SACCOS`.

1.5.4 Staff and Members of the Cooperative Societies

The study recommendations will push towards implementation of a staff and members' training and development programs that will contribute towards equipping the staff and members with more knowledge and skills particularly on the matters of Sacco by laws and other operations. This will lift the level of competency amongst the staff and hence contribute towards the delivery of better services to the SACCO members. Members too will be able to monitor their SACCO operations and investments in order to eliminate some of the challenges like disputes and funds misappropriation.

1.5.5 Researchers

The study will also open opportunities for future researchers who would want to carry out further research on SACCOS`. The report will act as reference and stimulate the interest among academicians and thereby encouraging further researches on financial challenges affecting Sacco performance in Kenya.

1.6 The Scope of the Study

This Study was carried out in Kiambu County, in Nairobi Kenya a case study of PCEA Ruiru Sacco. The target population will be members, employees of the Sacco, Board members.

1.7 Definition of Terms

1.7.1 Cooperative Society - Cooperative society is an autonomous associations of persons joined voluntarily to meet a common goal such as economic, social and cultural needs through jointly owned and democratically controlled enterprises (International Cooperative Alliance (ICA, 2010).

1.7.2 Credit Risk - Kibui & Moronge (2014) defined Credit risk simply as the potential that borrower or counterparty will fail to meet its obligations in accordance with the agreed terms. It refers to the risk that a lender may not receive the owed principal and interest, which results in an interruption of cash flows and increased costs for collection

1.7.3 Savings -Savings are the amount of money contributed by each individual member and mobilized into a deposit pool of funds from which members get credit or loans for development and meeting financial obligations (Cheruiyot, 2012).

1.7.4 Credit- Credit means the loans taken or the amount of money borrowed by the members from the SACCO at any one time (Cheruiyot, Kimeli & Ogendo, 2012). Credit is a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some date in the future, generally with interest.

1.7.5 Profit- This is the ability of an institution to use its resources to generate revenues in excess of its expenses. It is the entities capability of generating profits from its operations. Profitability is mainly measured using ratios (Ngugi & Afande, 2007).

1.7.6 Credit Management - Credit management is the process of risk identification, measurement, assessment, monitoring and control. It involves the identification of potential risk factors, estimating their consequences, monitoring activities exposed to the identified risk factors and putting in place control measures to prevent or reduce the undesirable effects (Kibui & Moronge, 2014).

1.7.7 Interest- Interest means the financing cost charged by the SACCOs for the credit or fund borrowed by the members which is also shared by the members according to their savings or deposits after being declared distributable by the AGM (Maina, 2007).

1.7.8 Guarantors - Guarantors mean the security the member has to offer as collateral for the credit or loan granted to him by the SACCO. This is given by other members who by offering the guarantee promise to pay in case the member defaults to pay the loan (Maina, 2007).

1.8 Chapter summary

This chapter has introduced the study that seeks to investigate on the effect of financial challenges on the performance of savings and credit co-operative Society in Kiambu County, Kenya, using a case of Presbyterian Church of East Africa Ruiru Savings and credit Co-operative Society Ltd. It has laid down the background, specific objects of the study, the scope and its significance. Chapter two will cover the literature review this involves critically review of the literature relating to the specific objectives which include: - loan default, dividend policy and liquidity how they affect the performance of Savings and Credit Co-operative Society Ltd. Chapter three will describe the methodology that will be used, chapter four will contain the research results and finally chapter five will comprise of the discussion, conclusion, and recommendation of the study.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter discusses the literature review of the study. The Literature is from different previous research studies carried out from various sources such as journals, seminars, books, working papers, report, periodicals and Government of Kenya Legislations in relation to the objectives of the study with the hope of providing more insight concerning the financial challenges affecting the performance of Presbyterian Church of East Africa Ruiru savings and credit cooperatives societies in Kenya. These financial challenges include but not limited to loan default, dividend policy and liquidity.

2.2 Effect of Loan Default on the Performance of the Sacco

2.2.1 Loan Default

According to Nicholas (2010) default occurs when a debtor has not met his or her legal obligations according to the loan contract, e.g. has not made a scheduled payment, or has violated a loan covenant (condition) of the debt contract. A default is the failure to pay back a loan. Default may occur if the debtor is either unwilling or unable to pay his or her loan. This can occur with all debt obligations including bonds, mortgages, loans, and promissory notes. Defaulting on debt obligation can place a SACCO in financial trouble. The lender will see a default as a sign that the borrower is not likely to make future payment. Njiru (2006) carried a study on a list of non-performing loans including all relevant details which he assessed case by case basis in order to determine if the situation is reversible exactly what can be done to improve repayment capacity and whether or not worked out collections plans have been used, provision level should be used to determine SACCOs capacity to withstand loan default. Gachara (1990) studied investment practices of reserve funds in SACCOs, the study found out that the criteria of investing on reserve funds could affect the performance of SACCOs by reducing the financial problem and risk brought about by the defaulters.

When a Sacco grants credit to its customers, it incurs the risk of default. 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 default

(Naceour & Goaid, 2008). Kibui & Moronge (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 (Osoro & Muturi, 2015). Many small businesses have neither the resources nor the expertise to operate a sound credit management system (Osoro & Muturi, 2015).

Among the risk that face SACCOs, default risk is one of great concern to most SACCO authorities and government regulators. This is because default 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).

2.2.2 Effect of loan default on performance of the Sacco

According to Johnson and Scholes (2007), many managers find a process for developing a useful set of performance indicators for their organizations difficult. One reason for this is that many indicators give a useful but only partial view of the overall picture. Also some indicators are qualitative in nature, whilst the hard quantitative end of assessing performance has been dominated by financial analysis. In an attempt to cope with this very heterogeneous situation, balanced score cards have been used as a way of identifying a useful, but varied set of key measures. Balanced score cards combine both qualitative and quantitative measures, knowledge expectations of different stakeholders and relate an assessment of performance to choice of strategy.

According to Kibue and Moronge (2014) 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. In response to these crises, significant reformations have been carried out in the SACCO regulatory system. A critical review of past literature show that several conceptual and contextual research gaps existed in the effects of credit risk management practices on the financial performance of Saccos.

For instance, the studies by Soke Fun Ho and Yusoff (2009), in their study on credit risk management strategies of selected financial institutions in Malaysia the majority of financial institutions and banks losses stem from outright default due to inability of customers to meet obligations in relation to lending, trading, settlement and other financial transactions default risk emanates from a bank's dealing with individuals, corporate, financial institutions or Sovereign entities. A bad portfolio may attract liquidity as well as credit risk.

Ogboi & Unuafe (2013) conducted a study on how credit risk management and capital Adequacy impacted financial performances of Nigerian commercial banks. The study aimed to establish the extent to which huge scarce resources invested in loan management by commercial banks was affecting their financial performance. Investigation into the extent to which credit risk, along with capital adequacy, affected financial performance of banks in Nigeria was conducted using regression analysis. Six out of the twenty -one commercial banks operating as at 2009 were the sample for this study. The evidence provided in this study, revealed that a comprehensive credit management procedure, and adequate capital are recipes for profitability .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).

Friends Consult Ltd (2013) reported that failure of the SACCOs' board of directors to establish a proper loan policy, inefficient loan committees review and approval, poor organizational policies and strategy, inability of the staff to discharge their duties and roles as per the institutional rules and policies, poor sensitization by the field staff and failure of the clients to understand the institution's policies were some of the reasons which led to loans delinquency for Umurenge SACCO in Uganda. The study asserted that the application of corporate governance rules were essential for mitigation of loan default risks. The study also recommended for appointment of a Knowledgeable credit committee and credit department staff that can be able to monitor and evaluate properly the loan applications before disbursement. 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 & Moronge, 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 non performing loans (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).

Mikes and Kaplan (2014) in their study 'Towards a contingency; Theory of enterprise risk management, they noted that organizations are concerned with risk management practices of their organizations thus lay a great emphasis on this matter in order to balance between debt and equity for good financial performance. Cooperative societies are not an exception hence have to manage their risk exposure and conduct proper analysis to avoid losses and other financial problems. Muriuki (2014) however, asserted that most cooperative societies do not undertake proper risk analysis thus their returns are negatively affected and the members incur a lot of losses which makes them to remain in poverty. Credit risk management activities are influenced by the risk behavior of managers in cooperative organizations and if they adopt appropriate strategies for risks mitigation, financial performance can be enhanced. The study lacks detailed statement on the risk policy that should guide the organization.

A study by Ondieki (2011) sought to find out the effects of external financing on the performance of Cooperative societies in Kisii District. He found out that poor governance, lack of transparency and weak Information technology infrastructure influenced risk management thus financial performance of cooperative societies. Organizations utilize credit risk management practices to mitigate risks as a basis for objective credit risk appraisal by relying on the discretion and ability of portfolio managers for effective credit risk management practices (Chirwa, 1997). Borrowing from external sources alone did not cover the issue of financial performance of cooperative societies in regard to risk management.

Karuga (2014) found that loan defaulting influences Sacco's performance Most of the respondents (70%) reported that loan defaulting affect their SACCO overall performance almost always. However, when asked whether members in their SACCO default loans,

most of the respondents (41%) reported rarely. Inflation affected loan repayment capacity of SACCO members almost always according to 23% of the respondents, further study established that Sacco's should put in place loan recovery strategies and introduce collateral securities as a way of eliminating or reducing loan defaulting rate.

According to a study done in KIFI SACCO (Kibaigwa Financial Services and Credit Co-operative) in Tanzania in 2011, it was observed that Management leniency on loan follow ups seemed to have been going on for some time. In 2006 the Board extended the repayment time for a year to all agricultural loan debtors. One of the key factors that is likely to influence performance in Sacco's, Microfinance Institutions and Commercial Banks is loan defaulting. The lending modality is one reason influencing loan repayment. There are more factors that have an effect on settling loans which include; inadequate loan follow ups by the management, inadequate collateral verification, bad repayment system and members' failure to honor their obligations (Karumuna & Akyoo, 2011).

Muriuki (2010) did a study on factors affecting Sacco performance in Meru South district: a case of Tharaka Nithi Teachers Sacco. The broad objective of the study was to investigate the effects management variables on Sacco's performance in the TNT Sacco. Descriptive research design was used in this study. Since the population was not homogeneous, stratified random sampling design was used as a technique to draw a sample from the sampling frame. The total population was stratified into the Sacco members, management committee members and staff sub-samples. Questionnaires were used as data collection instruments and the data was analyzed using the SPSS. The results show that governance has enormous effects on the performance of the Sacco. Further, the results also indicate that the aspects of education and training play a major role on influencing governance structures. The researcher recommends that the Sacco diversifies its products to take into account the needs of the members and the available market as a means for resource mobilization. Banking sector worldwide has been severely challenged in an extreme financial crisis, causing some to fail and others to be taken into various degrees of national ownership.

2.2.3 Theory of Credit Default

Melton introduced the Credit risk theory/structural theory. Melton (1974) refers to credit risk theory as which the event of default originates from an evolution of asset by entities

that diffusion process has modeled with continuous parameters. Early literature on credit employs actuarial approaches of credit risk that are traditional, whose main hardship rests in their whole reliance on historical data. To date, there are three quantitative methods in the analysis of credit risk: structural approach, incomplete information approach and reduced form appraisal (Chijoriga, 2011). Such models are normally defined “structural model” and established on variables associated with a particular issuer.

Cantor and Frank (1996) posit that credit risk theory is the main freely existing portfolio model for credit risk assessing. The credit risk method allows gives room for a company to combine credit risk across its whole company, and gives a statement of value-at-risk(VaR) as a result of credit resulting from upgrades, downgrades, and defaults. However theory of credit default does not represent a systematic understanding of the causes which directly lead to the effects which are associated with credit defaults. Such a theory is required to provide direct causal connections between macroeconomic causes of changing financial environment and their microeconomic effects on changing personal or corporate financial conditions, leading to possible credit defaults (Kenan,1999).

2.3 Effect of Dividend policy on the Performance of the Sacco`s

2.3.1 Dividend Policy

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 & 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 ground breaking 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 and 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.

Quraishi and Mahtab (2014) found out in their research on dividend payout of companies in Bangladesh that insider trading activities bring inequity in the market and dividend policy is used to convey information of the market but dividends may not be a perfect signal if markets don't understand the information, act timely and accordingly.

Enekwe, Innocent and Mike (2014) did a research on the effects of dividend payment on the market price of shares for quoted firms in Nigeria and found by use of Exposit Facto research design which mean the use of historical data with a sample size of 17 quoted firms under the period of study 2003-2011 that dividend per share has a positive and significant effect on the market prices of shares and supports the theory of dividend relevance. In the research done on the relationship between certain Economic Theories and Dividend payout ratio done in Iran by the use of descriptive-correlation model on the population that consisted of all firms listed in Tehran Stock Exchange during the period of 2004-2010. It was found out that firms operating in the same industry usually have similar dividend payout policy which could be due to imitation or similar structures (Jahanshad, Poorzamani & Ghauomi 2013).

Another study was done by Zanjirdar and Seif (2012) to review the relationship between dividend policy and performance of firms evidence from Iran capital market that made use of a sample size of 93 companies whose required information was available in study period between 2004-2009. The findings were that there is a positive relationship between Economic and accounting performance indexes and dividend policy. Also, Accounting performance indicators have more explanatory power than Economic performance indicators in predicting dividend in Iranian market (Zanjirdar & Seif 2012). Abrahamsen and Balchen (2010) found out in their research on whether dividends predict future firm performance on private firms in Norway in the period (1994-2007) that non-listed firms are highly flexible in their dividend policy whereas engage in smoothing of their dividends.

Enekwe, Innocent and Mike (2014) did a research on the effects of dividend payment on the market price of shares for quoted firms in Nigeria and found by use of Exposit Facto research design which mean the use of historical data with a sample size of 17 quoted firms under the period of study 2003-2011 that dividend per share has a positive and significant

effect on the market prices of shares and supports the theory of dividend relevance. Chinedu and Ikechukwu (2015) study on The Effect Of Dividend Payout On Performance Evaluation evidence of quoted cement companies in Nigeria showed at least one policy implication, the fact that dividend payout is still important determinant of financial performance by increase in the rate of dividends payout. In other words, the management of quoted cement companies in Nigeria should use more of Return on Capital Employed (ROCE) in the valuation of financial performance, as it improve the value of the firm financial performance.

2.3.2 Effect of Dividend Policy on the performance of the Sacco

Monogbe (2015) study on Dividend Policy on Financial Performance: extracted and computed data for better analysis. The result of the analysis shows that firm's dividend policies have a positive and significant relationship with earnings per share, profitability and investments. It is therefore right to conclude that investment, profitability and earnings of a firm a revival in enhancing the dividend policy of a firm. Ademola and Oyefemi (2015) study on dividend payout policy and firm financial performance .The result of the study showed firms paying dividends when its due recorded an increase in their profitability and those who didn't recorded a decrease. The proper conclusion from the study is that dividend payment by firms portrays some information. It is common for shareholders to invest in dividend paying firms and would prefer to dispose their shares from low or poorly paying firms and reinvest on better dividend paying firms.

Chumari (2014) study on the relationship between dividend payout on listed firms and financial performance in Kenya found that there was a positive relationship between cash flow and dividend payout and a negative relationship between the following two financial performance variables namely ,sales growth and market book value and dividend payout.

Dongo (2014) study on the relationship between earnings volatility of firms listed at Nairobi Securities Exchange and dividend pay-out found that there was a negative significant relationship among the variables. His study also established that there were other variables significantly correlated with dividend pay-out.

Kariuki (2014), in her study of the relationship between dividend and financial performance of Sacco's registered by Sasra in Nairobi County found out that there were actors such as dividends ,leverage and growth which influenced positively the financial performance of registered Sacco's in Nairobi County. Matendechere (2015) in a study on the relationship

between dividend payout and financial performance of registered Sacco's in Nairobi County by collecting data through questionnaire and use of secondary data. She used regression model to analyze the outcome, the study findings indicate a high and strong correlation between the performances of Sacco's in Nairobi County, with its dividend payout growth rates and asset growth rates. The findings show a positive correlation between profitability and dividend payout.

Odhiambo (2016), in his study of the effect of dividend payout ratio on market capitalization of firms listed at the Nairobi securities exchange found out that dividend payout ratio affects the value of shares of a firm in the long run and that the relationship was positive and significant. This clearly shows how relevant dividend policy is in affecting the share price of a firm hence its value contrary to theories that view dividend policy as irrelevant.

Malombe (2011) also studied the effect of dividend policy on profitability of Sacco's with Fosa's in Kenya and found out that there is a positive but insignificant relationship between dividend policy and profitability of Sacco's with Fosa's in Kenya. Maingi (2014) in his studies found that there is correlation between dividend policy and financial performance showed that there was a strong positive correlation. The regular dividend can be maintained only by the company of long standing and stable earnings. A company should establish the regular dividend at a lower rate as compared to average earnings of the company. Due to increase in demand for dividends from the increasing number of customers, there is need for the Sacco's to actively open up new avenues for funding its activities.

Adediran and Alade (2013) conducted another study and explored the associations between the dividend policy and return on equity and return on asset of the firms listed on NYSE. According to their study, both are positively related to each other. Mokaya, Nyangara, and James (2013) found positive association of dividend policy and shareholders wealth. Anandasayanan and Thirunavukkarasu (2016) conducted a re-search on dividend policy and corporate profitability. They found positive association of both variables. Osamwonyi and Lola-Ebueku (2016) conducted a study on dividend policy and firm's earning and found negative association of variables. Ozuomba, Anichebe, and Okoye (2016) explored the effect of dividend policies on wealth maximization and found significant relationship among variables.

Shah and Mehta (2016) tested a relationship between dividend payments and share prices and found positive relationship between both variables. Widyastuti (2016) conducted a study to investigate the influence of dividend policy on firms value and showed positive relationship between both variables. Chaabouni (2017) researched the impact of dividend announcement on stock return and found a positive relationship among variables. Swarnalatha and Babu (2017) also found the positive association between dividend policy and share prices. Dividend policy is a very important factor in measuring the Sacco performance. The behavior of dividend policy is one most debatable issue in the corporate finance literature and still keeps its prominent place both in developed and emerging markets (Hafeez & Attiya, 2009).

Many researchers have tried to uncover issues regarding the dividend dynamics and determinants of dividend policy but we still don't have an acceptable explanation for the observed dividend behavior of firms (Black, 1976) and (Brealey & Myers, 2005). Dividend policy has been analyzed for many decades, but no universally accepted explanation for companies' observed dividend behavior has been established. It has long been a puzzle in corporate finance. (Samuel & Edward, 2011). Miller and Modigliani (1961) argued that under certain simplifying assumptions, the dividend decision does not affect the value of a firm and is, hence, unimportant. Yet, traditional wisdom with changed postulations advocates that a properly managed dividend policy is vital to shareholders because it can affect share prices and shareholder's wealth.

Nevertheless, while several prior empirical studies from developed economies have shed light on the relationship between firm performance and dividend payout in companies, the same may not be true in Sacco. Dividend policy in relation to SACCO's performance has remained one of the controversial issue, Murekefu, (2012). Kyendo confirms that most SACCOs have been providing loans to members at 12% per annum, which is lower than what banks offers, the basic functions of SACCOs is to provide credit facilities at lower cost Saunders & Cornet,(2007),this is done through pooling together members savings through their share deposits. SACCOs have been pooling together members savings hence this the SACCO's capital base, this has improved services delivery to its members including making available cheap loan at an affordable interest rates hence this boosts the investment culture which is low in Kenya (Lawrence, 2009).

Several theories have been proposed to explain the dividend policy and how it affects the SACCOs performance, but there has not been a universal agreement Stulz, (2010). Despite SACCO's effort to strengthen the dividend policy mechanisms, the services currently available to assist the customers are not adequate. Unless the level of the sector capacity and cooperation in the development of SACCO plan(s) and appropriate implementation action(s) improves, they will soon be unable to sustain their operations causing them to go against the principle of providing quality services. Member's contributions are a direct income to the SACCOs and without adequate finances and facilities to recapitalize the income; SACCOs will suffer the consequences (KUSCCO, 2010).

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). Another study conducted by Tahir, Sohail, Qayyam, and Mumtaz (2016) tested the effect of dividend policy on firm performance and concluded that there is positively significant association between performance of firm and their respective dividend payout policy.

2.3.3 Dividend Policy Theories

Dividend theories have been widely researched on by Modigliani and Miller (1961), Rose (1979), and Gordon and Linter among others. These researches used the basis of corporate entities. Dividends theories in the SACCO sector has not been researched on widely and therefore a close application of these theories will be applied in the understanding of dividend decisions in SACCOs.

MM (1961) contents that a firms value is determined solely by its investment decisions and that the dividend payout ratio is a mere derail. They maintain that the effect of any particular dividend policy can be exactly offset by other forms of financing. They further argued that investors' reaction to a change in dividend policy does not necessarily mean investors prefer dividends to capital gains; rather the fact that a price change follows a dividend action simply indicates that there is important information or signaling content in the dividend announcement.

Ross (1977) observed that there is a strong relationship between dividend payment and share prices. This theory states that investors regard dividends as signals of management's forecasted future earnings. Sherfrin and Statman (1984) argue that apart the tax aspects, there is need to recognize the positive dividend effects. This is the possibility of a preference for dividends on the part of the shareholder for behavior related reasons. Dividends payment is useful for diversification of investments in an uncertain world. Sherfrin and Statman (1984) argue that some investors are reluctant to sell shares because they suspect that they may regret if share prices rise.

In year 1961 Merton Miller and Franco Modigliani raised their theory about dividend irrelevance. The theory was based on a number of assumptions; there are no transactional costs that are associated with converting shares into cash, issuing shares by firm incurs no flotation or transaction costs, there are no taxes (both on corporate and personal level), capital market is perfectly efficient, access to information is costless and rational behavior on the part of participants in the market, valuing securities based on the discounted value of future cash flows accruing to investors. They argue that the dividend a firm pays does not affect the value of its shares or the returns to shareholders because the higher the dividend, the less the shareholder receives in capital appreciation, no matter how the firm's decisions turn out.

This assumes that a firm dividend paid does not affect the firm's decision; it either reduces the amount of cash equivalents held or increases the amount of money raised by issuing securities. MM stated that a firm's value is dependent on its expected cash flows and risk class which are subsequently determined by a firm's investment policy. If then this holds, there is no optimal dividend policy because dividend policy does not affect the value of the firm.

2.4 Effects of Liquidity on the Performance of Sacco

2.4.1 Liquidity

Liquidity is the ability of a business entity to honor all cash payment commitments as they fall due (Kimathi, 2014). Funding liquidity is the ability to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses (The Basel Committee on Banking Supervision, 2008). Effective liquidity risk management helps ensure a SACCO's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agent's behaviour (Song'e, 2015). Liquidity risk

management is of paramount importance because a liquidity shortfall at a single institution can have system wide repercussions (Muraguri, 2014).

Liquidity reflects a financial institution's ability to fund assets and meet financial obligations. Liquidity is essential in all SACCOs to meet customer withdrawals, compensate for balance sheet fluctuations, and provide funds for growth (Njeri, 2014). Liquidity is an important indicator of financial stability in a SACCO society as it shows the SACCO's ability to meet obligations as they fall due (Kimathi, 2014). As financial institution, SACCOS should manage the demand and supply of liquidity in an appropriate manner in order to safely run their business, maintain good relations with the stakeholders and avoid liquidity problem (Njeri, 2014).

Liquidity is the degree to which debt obligation coming due in the next 12 months can be paid in cash or assets will be turned into cash. Van (1995) the firms credit policies are the chief influence on the level of debtors, measuring the manager's position to invest optimally in its debtors to be able to trade profitably with increased revenue.

The essential part in the management of an organization's investments is to ensure that they bring in the expected returns. The concept of portfolio in financial literature relates to a combination of assets or investments that can be financial and/or physical assets. Portfolio management is the effective and efficient mix of assets or investment for the purpose of minimizing risk and maximizing return.

2.4.2 Effects of Liquidity on the Performance

Mwangi, (2013) undertook a study on the effects of liquidity on performance of deposit taking micro financial institutions in Kenya. He asserted that organizations ought to have policies in place that determine the amount to borrow and the appropriate time to do the same based on the loaning laws and regulations. Financial institutions such as microfinance are mostly concerned with the ability of the cooperative societies to repay the amount borrowed with all terms and conditions adhered to. Therefore, they have to work hard to raise their credit ratings as well as improving the confidence of the creditors.

Baliwen (2009) established that almost all cooperative societies in Nigeria had policies concerning credit and were well implemented; Share capital and collaterals were put into

consideration for borrowing loans. However, not all cooperative members have those requirements thus it would have been more clear if it was explained how the management handles such members in regard to loan acquisition. Liquidity is used to determine the financial health of a business or personal investment portfolio. Three liquidity ratios are often used for this purpose, namely the current ratio, the quick ratio and the capital ratio. Liquidity not only helps ensure that a person or business always has a reliable supply of cash close at hand, but it is a powerful tool when it comes to determining the financial health of future investments as well (Clementi, 2001).

Firms that present good liquidity or better access to capital markets can finance those that are credit rationed. Several approaches have been used in an attempt to provide empirical evidence to support this assumption. Nielsen (2002), using small firms as a proxy for credit-rationed firms, finds that when there is a monetary contraction, small firms react by increasing the amount of trade credit accepted. An organization with good asset quality, strong earnings and sufficient capital may fail if it is not maintaining adequate liquidity in its portfolios. A financial institution that delays in providing funds to its members will look distrustful and unsafe; clients and other potential investors soon begin to lose confidence in such an organization (Arif & Nauman, 2012).

Liquidity has a greater impact on the tradable securities and portfolios. Broadly, it refers to the loss emerging from liquidating a given position. An organization with liquidity problems loses a number of business opportunities; this places the firm at a competitive disadvantage (Chaplin, Emblow & Michael, 2000). In the SACCOs subsector, liquidity management is an essential component of the overall risk management framework (Majid, 2003). SACCOs should therefore manage liquidity in an applicable manner in order to safely run their business, maintain good relations with the stakeholders and avoid liquidity problem. In his study on co-operative failures in Limpopo province, Van der Walt (2005) indicates that poor management, lack of training, conflict among members, and lack of funds contribute toward the failures.

Asiedu-Mante (2002) asserts that very low deposits and high default rates have plunged some rural banks into serious liquidity problems, culminating in the erosion of public confidence in these banks. He further indicates that a combination of poor lending practices and ineffective monitoring of credit facilities extended to customers has contributed to high

loan delinquency in some banks. Among the African countries, Uganda is considered to be one of the leading countries in co-operative movement by African confederation of cooperative savings and credit associations (ACCOSCA, 2011). There are 10,800 SACCOs with a participation of 6 million members in the country. SACCOs have created approximately 250,000 direct jobs and 5.9 million individuals have benefited from it. The sector holds 31% of aggregate national savings and contributes about 46% to the national GDP. It has 76% dairy and 70% of the coffee market, (Ochanda, 2013). The rise of cooperativeness in Uganda began in the traditional societies where people cooperated in several activities such as constructing houses, hunting, farming on a rotational basis, thatching new member's huts, grazing cattle communally among many others. Wazalendo was the first formal savings cooperative society in Uganda at Wazalendo in 1908.

Wazalendo SACCO was founded by European settlers to enable its members bargain for better fertilizer and seeds prizes (Chebor, 2008). The SACCO was also to provide services to members and allow them to seek competitive markets, but the members did not collectively sell their products. The SACCO was however restricted to the white settlers only, and no person of African or Asian persuasion could join. In 1946, there was the formation of the department of cooperative development later known as Commission of Cooperatives Development, which advocated for agriculture based SACCOs. By 1954, there were over 500 SACCOs in central province patronizing over 170,000 members with a turnover of two hundred and eighty thousand shillings; the most successful being Makueni Settlement SACCO which paid a dividend of 7% on member's savings (Biwott,2014).

The cooperatives also played a significant role in the liberalization of Kenya through political mobilization against colonialism. Cooperatives can be categorized into primary SACCOs consisting groups of individuals who are either original producers of products like tea, coffee and sugar or consumers who join up to save and obtain credit conveniently (Njoroge, 2003). Secondary cooperatives are composed of a primary cooperative. Cooperatives in Uganda have made remarkable progress in agriculture, banking, credit, agro- processing, storage, marketing, dairy, fishing, and housing. In 2013, the Cooperative Movement in Uganda commanded a substantial portion of the Nation's wealth with over 11,200 registered cooperative societies country-wide and a total of approximately 600,000 active members.

The movement has mobilized domestic savings estimated at over shs. 125 billion with a membership of over 6.1 million (Mulwa, 2013) Profitability is the most widely recognized measure of corporations' performance. Its measures are utilized to evaluate how well administrators are contributing to the organizations' aggregate capital and improving its assets performance. Profitability is, for the most part, the most imperative to the company's aggregate shareholders. Profits help in turbulent times against unfavorable conditions, for example, misfortunes on credits, or misfortunes caused by unforeseen changes in loan fees (Gitogo & Kasimolo, 2013). Return on Equity (ROE) is the measure of net wage as a rate of shareholders' value. It measures a firm's profitability by revealing how much profit a company generates with the money shareholders have invested (Pagach & Warr, 2010). The higher the ratio, the better for a firm. A definitive measure of the quality of any monetary organization is not its advantage estimate, the quantity of branches, or the incapability of its gadgets rather the genuine measure, its return on unit holders (ROE).

Globalization and internationalization have exacerbated business challenges for firms in the developing nations such as Uganda. These have increased competition both internally and externally by, directly or indirectly through access to global trade. Organization of fiscal risk has been a major emphasis for budgetary authorities, specialists, managers and shareholders around the world. Organizations are looking for strategies to improve their operational performance and boost their profitability. The intense pressure from emerging technology pushes organizations to reduce their operational costs while enhancing their profitability (Mahour, 2010).

Kendall and Rollins (2003) list four broad issues related to an absence of performance, in particular; an excessive number of productive activities, projects with no value addition, ventures not connected to important objectives and a lopsided portfolio. Other common issues incorporate an absence of coordination between projects, clashing project targets, unforeseen asset bottlenecks, late conveyance of undertakings, lack of duty from business pioneers, the lack of the cross functional working, frustration with certain project benefits, and imperiousness to authoritative change. These issues might be credited to poor speculation choices, poor hazard administration and poor liquidity administration among Saccos. These have been believed to influence the powerful performance of SACCOs.

Prosperous projects need more than a tight control, good planning, strict budget control and proper risk management (World Bank, 2013). The way to progress lies in income generating projects and taking care of energy needs, responsibility and inattentiveness of individuals so that more intricate task can be realized with less coordination (Williams, Klakegg, Walker, Andersen & Magnussen, 2012). Unlike SACCOs, commercial banks are advantaged by the fact that they have the Central Bank as a lender of last resort. In turbulent times SACCOs may find it difficult to meet their obligations. This may subject them to liquidity shortage which may cause great damage to a savings institution (Monnie, 2009). The failure of SACCOs to meet their obligation due to lack of sufficient liquidity and low risk management, will result in poor creditworthiness and loss of member's confidence.

Karagu and Okibo (2014) have also established that investment decisions made by SACCOs influence their performance and that there is need to invest in prudent projects in order to achieve better returns. Investing in prudent investments, diversification of risks and the general liquidity of the organization are among the objectives of portfolio management. It is prudent for this reason that this study seeks to determine the relationship between investment portfolio management and financial performance of SACCO in Fort Portal. In Uganda, SACCOs remain the most essential players in providing of money related services and have broader outreach than some other financial sectors (ICA, 2005). They constitute financial organizations that offer comparative if not similar items like banks and the greater part of them were shaped long time back before most commercial banks, yet their performance is quite wanting compared to other businesses in the same sector (Gathurithu, 2011).

Factors like financial management and capital levels challenge SACCOs as they struggle to serve their member's financial needs (Osoro & Muturi, 2015). SACCOs do not have access to the lender of last resort, like commercial banks have the Central Bank. In turbulent times, they may find it difficult to meet their obligations. This makes them prone to the liquidity shortage, which may cause adverse repercussion to the SACCOs (Monnie, 2009). The failure of SACCOs to meet their obligation due to lack of sufficient liquidity and low risk management, will result in poor creditworthiness and loss of member's confidence. This poor performance may be attributed to poor investment decisions, poor risk management and illiquidity among SACCOs. In their study on effect of internal factors on

performance of SACCOs, Obure and Muturi (2015) established that internal environment has a significant bearing on the performance of SACCOs and that with borrowed capital, SACCOs were able to increase their loan portfolios.

Another study by Micheni (2011) on effects of portfolio management strategies on financial performance of investment companies revealed that individual security selection strategies were not positively correlated to the leverage and yield spread strategies. It concluded that portfolio managers should periodically verify that investment performance reports are accurate, policy compliance statements are followed and updated and that there should be random reviews of investment activities. About the reviewed literature, no study had strictly dealt with investment portfolio management and financial performance of SACCOs in Fort portal. It is precisely for this reason that the research sought to study the relationship between investment portfolio management and financial performance of SACCOs in Fort portal, Uganda.

2.4.3 Liquidity Theory

This theory was first proposed by Emery in 1984. It suggests that companies that have cash flow challenges use more credit than those with normal access to credit through the financial institutions. It continues to suggest that when there are restricted monetary policies in the economy, the offer of credit can account for the reduction of credit being offered by financial institutions. And according to his view, large firms which do not have liquidity challenges and have a wide access of funds from Capital markets can actually fund the firms which are affected by the monetary policy. The idea behind this theory is that firms with better liquidity position and have access to capital markets can advance credit more easily than firms that are constrained in accessing the financial markets.

The researchers that have explained this assumption include (Nielsen, 2002) which used small firms to act as credit rationed firms. He noted that small firms responds by accepting credit but reduces on the amount that they advance to their customers hence they adopt a tight and stringent credit policy to reduce on the default rates and bad debts.

On the other hand as discovered by (Petersen and Rajan, 1997), firms which do not face liquidity constraints are less likely to demand for credit but instead offer more credit to its customers. This theory informed this study in that when Deposit Taking SACCOs have

favourable liquidity positions, they will find ease in processing loans and granting credit to credit worthy borrowers and be able to pay out legitimate withdrawals.

2.5 Chapter Summary

This chapter has covered in details the literature review relevant to this project's objectives. The review concentrated on the Loan default, dividend policy and Liquidity. The review also focused on identification, assessment and control of credit. Also, it reviewed literature on dividend policy, its theories. 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 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 & Schindler, 2014). According to Sekaran and 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 was appropriate in this study since its purpose was to evaluate the effect of financial challenges on the performance of Presbyterian Church of East Africa Ruiru savings and credit co-operative society.

3.3 Population and Sampling Design

3.3.1 Population

A population is a precisely defined body of people or objects under consideration for statistical purposes (Collins & Hussey, 2009). The target population was comprised of management, employees and members of the Presbyterian Church of East Africa Ruiru saving and credit co-operative society.

Table: 3.1 population

Component	Population	Percentage
Employees	10	0.3
Managements	12	0.3
Members	3500	99.4
Total	3522	100

Source: Manager, PCEA Ruiru Sacco Society Ltd.

3.3.2 Sampling Design

Sampling Design is the framework, or road map, that serves as the basis for the selection of a survey sample and affects many other important aspects of a survey as well (Derrickson, 2015).

3.3.2.1 Sampling Frame

A sample frame represents the comprehensive list of study subjects from which the research draws the sample size (Cooper & Schindler, 2014). For a sample frame to be valid, it has to contain holistic representation of the entire population. This study adopted a sample frame from the human resources office and officers from the Sacco office. The 3522 members included employees, managements and members of the sacco.

3.3.2.2 Sampling Technique

According to Collins and Hussey (2009), the sampling technique is the process of selecting the specific methodology to use in deciding the entities in the study. This study adopted a stratification, purposive and simple random sampling. Stratification is the process of segmenting the members of the population into homogenous subgroups before the sampling starts. For this study the stratification was done based on the three cadres of target audience which included employees, managements and members.

A purposive sample is a non-probability sample that is selected based on characteristics of a population and the objective of the study. Due to the few employees and managers the study purposively sampled all employees and managers.

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 members will

represent the stratas Simple random sampling was used to select representation from members. Simple random sampling involves 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

Sample size is a representation of the whole population that seeks to present the qualities of the whole population (Kothari 2007). The sample size was obtained using the following Naissuma, (2000) formulae;

$$n = \frac{NC^2}{C^2 + (N-1) e^2}$$

Where;

n = is the sample size

N = is the population size

C = is the coefficient of variation

e = is the standard error

$$\begin{aligned} n &= \frac{3500(0.3)^2}{(0.3)^2 + (3500-1) (0.03)^2} \\ &= 97.2492359 \end{aligned}$$

Nassiuma (2000) asserts that in most surveys, a coefficient of variation in the range of $21\% \leq C \leq 30\%$ and a standard error in the range $2\% \leq e \leq 5\%$ is usually acceptable. Therefore, a coefficient variation of 30% and a standard error of 3% was used. The higher limit for coefficient of variation and standard error was selected so as to ensure low variability in the sample and minimize the degree or error = 97.2492359.

Table 3.2: Sample Size

Component	Sample	Percentage
Employees	10	11
Managements	12	13
Members	75	79
Total	95	100

3.4 Data Collection Methods

The data collection method was a questionnaire. According to (Saunders, 2009), questionnaire is used as a general term to include all techniques 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.

Likert scale which consists of statements that express either favorable or unfavorable attitude toward the object of interest Copper and Schindler (2014) was used in this study. The participants were 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

Before the data was collected the researcher got an authorization letter from the institute of research and thereafter was able to attain a NACOSTI research permit. This study used primary data (original data). According to Quinlan (2011) primary sources 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. To ensure a high response rate the researcher was able to inform the respondents that the research was purely for academic purpose, secondly the respondents were promised

anonymity. Lastly the researcher was also able to use the members to distribute the questionnaires to fellow colleagues.

3.6 Data Analysis Methods

Data analysis involves the the process of making 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, transform 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 deviatio an means. Also to determine the relationship between the dependent and independent variable a Pearson correlation analysis was done to determine the effect of effect of loan default, dividend policy and liquidity on the performance. Figures, tables 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).

3.7 Chapter Summary

This chapter discussed the research methodology; the population, sample size, data collection and methods of data analysis. Methods of data collection that was used 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

In this section the researcher present the findings of the study. This chapter aims at providing the data analysis and interpretation of the data collected from the questionnaires filled during the study. The findings are based on the research questions which include to determine the effect of loan default, effect of dividend policy and effect of liquidity on the performance of the Presbyterian Church of East Africa Ruiru savings and credit Society in Kenya. This information is presented in tables and figures so as to enable comparative discussion and interpretation

4.2 Demographic Information

4.2.1 Response Rate

The data was collected using a structured questionnaire. The questionnaire was issues to 97 respondents and only 73 responded resulting in 75% response rate as indicated in Table 4.1.

Table 4.1: Response Rate

Variable	Frequency	Percentage
Filled and returned	73	75
Non-response	24	25
Total	97	100

4.2.2 Respondents Gender

To analyse the gender of the respondents the result established that majority of respondents accounting for 54.8% were female while only 45.2% were males as shown in Figure 4.1 below. This implies that the data received represented the views of all the genders.

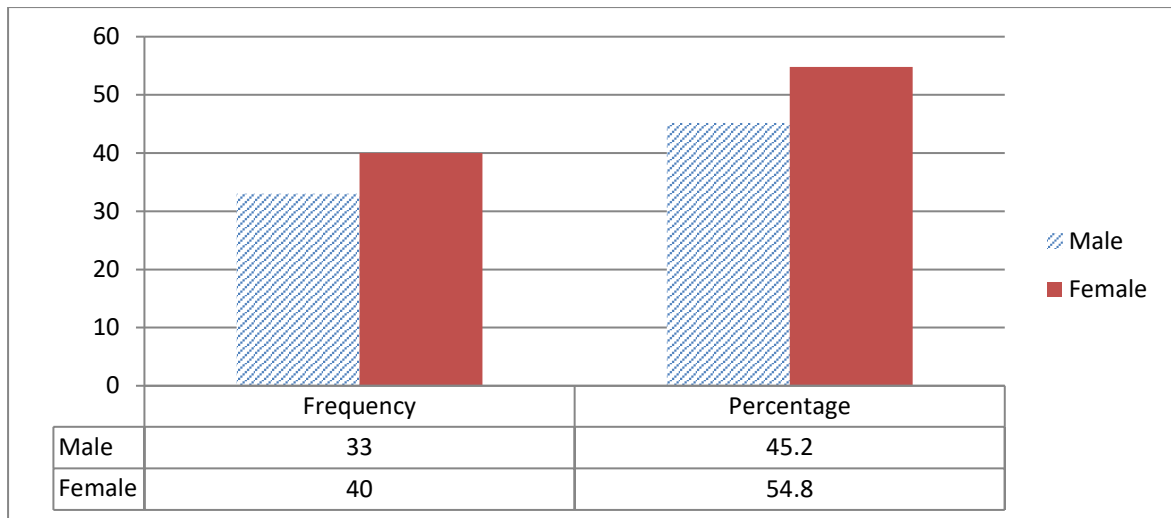


Figure 4.1: Respondents Gender

4.2.3 Respondents Age

An analysis of the respondents age revealed that majority of respondents accounting for 67.1% were aged 35 years and above while those aged 26-35 were 28.8%, and those aged below 25 years represented 4.1%. This implies that P.C.E.A Ruiru Sacco Ltd has a diverse age group and majority are still young thus able to serve the sacco longer.

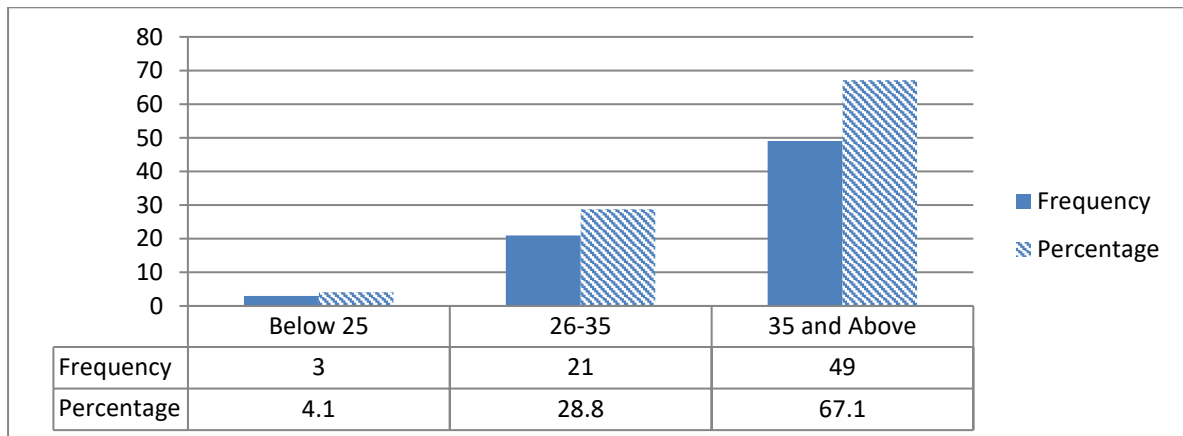


Figure 4.2: Respondents Age

4.2.4 Respondents Education

An analysis of the respondents education revealed that majority of respondents accounting for 60.3% had college education and 31.5% had university education while 8.2% had secondary education. This implies that P.C.E.A Ruiru Sacco Ltd has members who have a high literacy to understand the questions asked in the questionnaire.

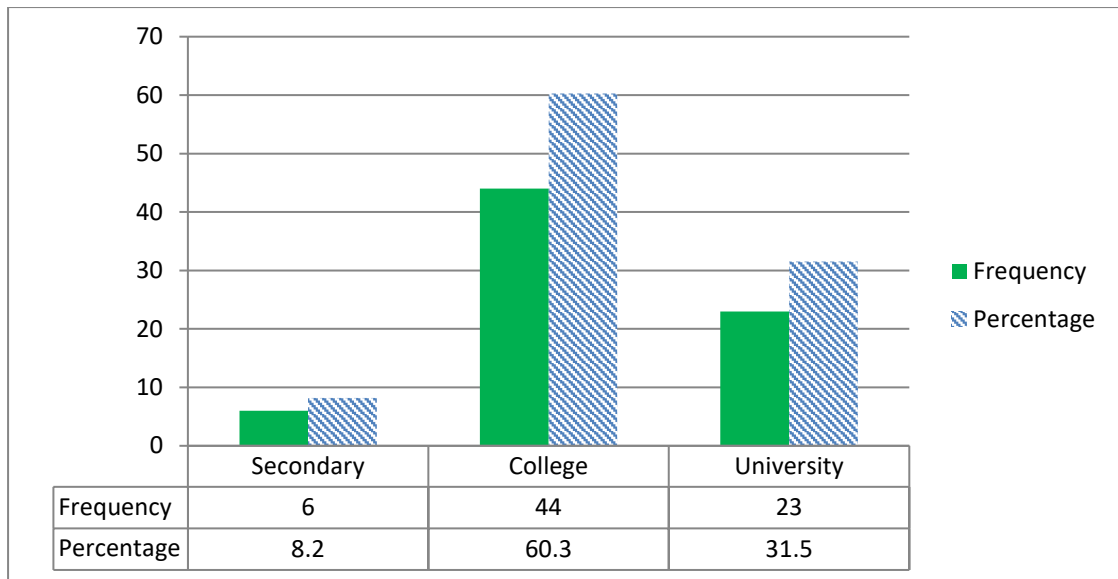


Figure 4.3: Respondents Education

4.2.5 Membership

An analysis of the respondents membership revealed that majority of respondents accounting for 67.1% had been members at the sacco for over 5 years, and 30.1% had 2-5 years’ experience while 2.7% had a year or less. This implied that P.C.E.A Ruiru Sacco Ltd has members who have been in the firm, long enough to understand the financial challenges affecting the performance of the SACCO.

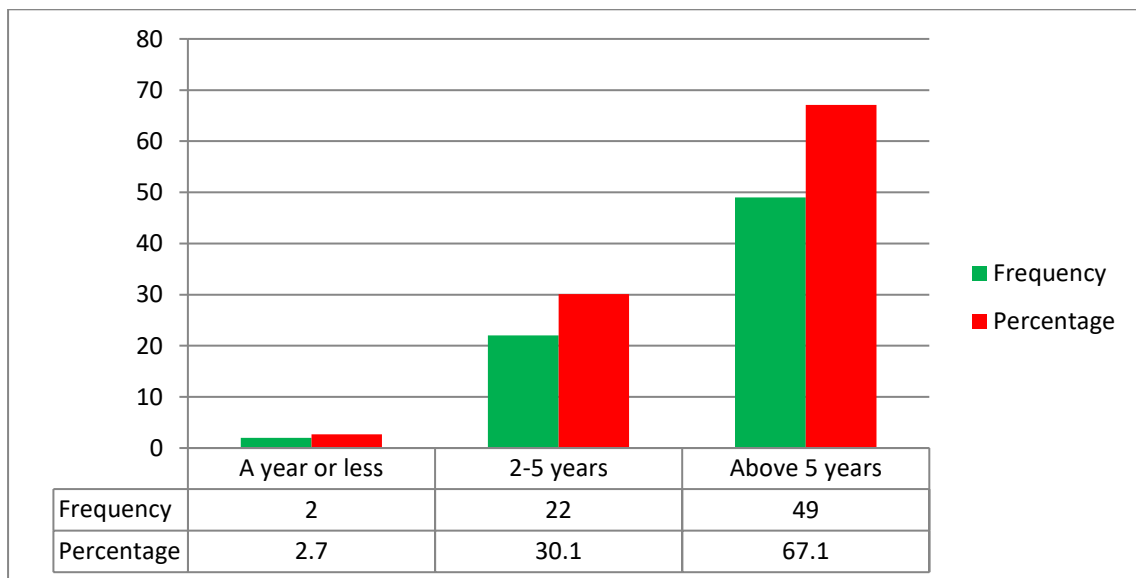


Figure 4.4: Membership

4.3 Effect of Loan Default on the Performance

The first objective set to establish effect of loan default on the performance. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agreed.

4.3.1 Descriptive Statistics of Loan Default

The study sought to establish if SACCO Should use credit management experts in formulating loan policies and majority agreed (M=4.51, SD=.604). It was also established that respondents agreed that SACCO Should reviews its loan policy often (M=4.42, SD=.644). It was also established that that SACCOs should monitor their loan default risk exposure to minimize the risks (M=4.23, SD=1.124). The study also established that the SACCOs should evaluate and analyze their loan default often (M=4.59, SD=.761). The findings also indicated that the rate of loan default in the SACCO is minimal (M=3.64, SD=1.218) while members also agreed that loan default affect the return on assets (M=4.11, SD=.792).

Table 4.2: Descriptive Statistics of Loan Default

Variable	M	SD
Should SACCO use credit management experts in formulating loan policies.	4.51	.604
Should SACCO reviews its loan policy often.	4.42	.644
Does SACCOs monitor their loan default risk exposure to minimize the risk.	4.23	1.124
Does SACCOs evaluate and analyze their loan default often.	4.59	.761
The rate of loan default in the SACCO is minimal	3.64	1.218
Loan default affect the return on assets.	4.11	.792
Average	4.25	

4.3.2 Frequency of Loan Default

4.3.2.1 Should SACCO use credit management experts in formulating loan policies.

The study sought to establish if SACCO Should use credit management experts in formulating loan policies and 56.2% strongly agreed, 38.4% agreed and 5.5% were neutral. This indicated that majority were for SACCO using credit management experts in formulating loan policies.

Table 4.3: Use of Credit Management Experts In Formulating Loan Policies

	Frequency	Percentage
Strongly Agree	41	56.20%
Agree	28	38.40%
Neutral	4	5.50%
Disagree	0	0%
Strongly Disagree	0	0%

4.3.2.2 SACCO Should Reviews its Loan Policy often

It was also established that 50.7% strongly agreed that SACCO Should reviews its loan policy often, 41.1% agreed and 8.2% were neutral.

Table 4.4: Review of Loan Policy

	Frequency	Percentage
Strongly Agree	37	50.70%
Agree	30	41.10%
Neutral	6	8.20%
Disagree	0	0%
Strongly Disagree	0	0%

4.3.2.3 Monitor Loan Default Risk Exposure

The study sought to establish if the SACCOs monitor their loan default risk exposure to minimize the risk. It was also established that 56.2% strongly agreed that SACCOs should monitor their loan default risk exposure to minimize the risks, 26% agreed and 8.2% were neutral however 4.1% disagreed and 5.5% strongly disagree .

Table 4.5: Monitor Loan Default Risk Exposure

	Frequency	Percentage
Strongly Agree	41	56.20%
Agree	19	26%
Neutral	6	8.20%
Disagree	3	4.10%
Strongly Disagree	4	5.50%

4.3.2.4 Analyzing Loan Default

The study sought to establish if the SACCOs evaluate and analyze their loan default often. The study also established that 67.1% strongly agreed that SACCOs should evaluate and analyze their loan default often while 30.1% agreed while 2.7% strongly disagreed.

Table 4.6: Analyzing Loan Default

	Frequency	Percentage
Strongly Agree	49	67.10%
Agree	22	30.10%
Neutral	0	0%
Disagree	0	0%
Strongly Disagree	2	2.70%

4.3.2.5 Low Rate of Loan Default

The study sought to establish if the rate of loan default in the SACCO is minimal. The findings indicated that 30.1% strongly agreed that the rate of loan default in the SACCO is minimal and 26% agreed however 31.5% were neutral.

Table 4.7: Low Rate of Loan Default

	Frequency	Percentage
Strongly Agree	22	30.10%
Agree	19	26%
Neutral	23	31.50%
Disagree	2	2.70%
Strongly Disagree	7	9.60%

4.3.2.6 Loan Default and Return on Assets

The analysis done to establish if Loan default affect the return on assets revealed that 27.4% strongly agreed that loan default affect the return on assets while 63% agreed and 5.5% were neutral, at the same time those who disagreed were 1.4% and 2.7% strongly disagreed.

Table 4.8: Loan Default and Return On Assets

	Frequency	Percentage
Strongly Agree	20	27.40%
Agree	46	63%
Neutral	4	5.50%
Disagree	1	1.40%
Strongly Disagree	2	2.70%

4.3.3 Members Default on the Loans Disbursed

An analysis to establish if members default on loan disbursed revealed that majority of respondents accounting for 72.6 % indicated that members at the sacco default on loan while 27.4% disagreed. This implies that P.C.E.A Ruiru Sacco Ltd has had members default on loans

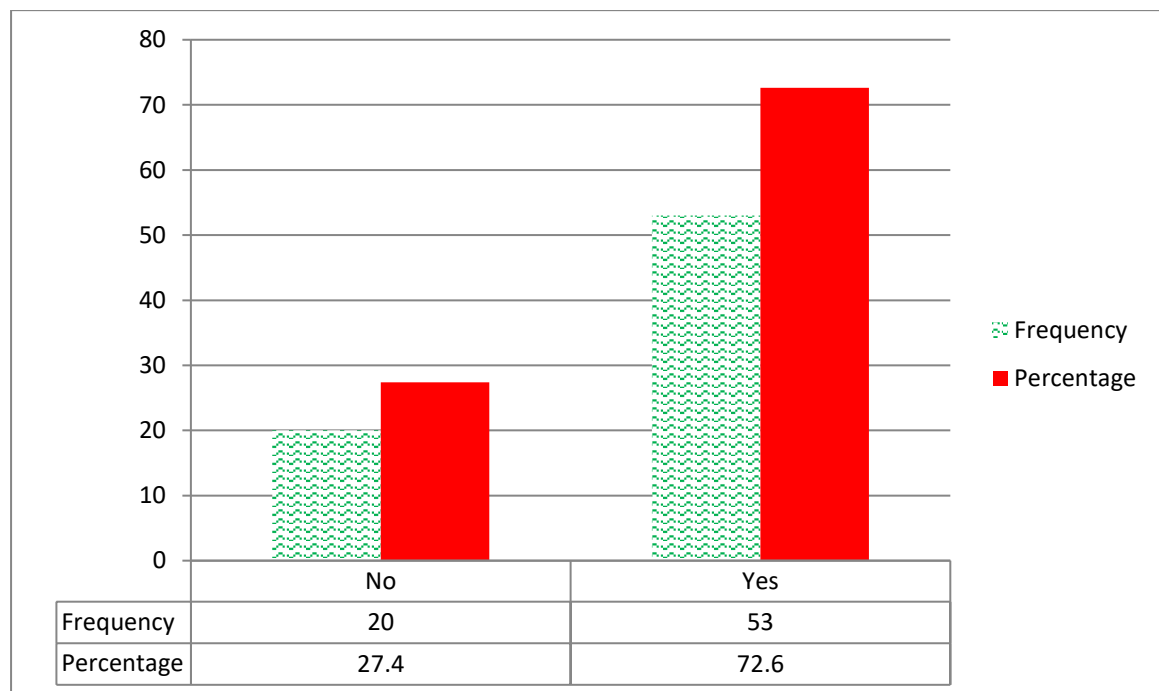


Figure 4.5: Members Default on the Loans Disbursed

4.3.4 Reasons Of Loan Default

The study sought to investigate reasons for loan default and results show that 26% had no comments while 15.1% indicated economic condition and poor commitment, 6.8% of defaults was attributed to loss of property while 5.5% indicated high loans and a lack of plan. The results also indicated that 4.1% attributed the default to business failure, illness and unemployment while 2.7% indicated the default to be associated with conflict of interest, investment type and job loss.

Table 4.9: Reasons of Loan Default

Variable	Frequency	Percent
No comment	19	26.0
economic conditions	11	15.1
poor commitment	11	15.1
loss of property	5	6.8
high loans	4	5.5
lack of plan	4	5.5
business failure	3	4.1
illness	3	4.1
unemployment	3	4.1
conflict of interest	2	2.7
investment type	2	2.7
job loss	2	2.7
low return	1	1.4
mismanagement of funds	1	1.4
sickness	1	1.4
unwillingness to pay	1	1.4
Total	73	100.0

4.4 Effect of Dividend Policy on the Performance

The second objective was set to establish effect of dividend policy on the performance. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agreed.

4.4.1 Descriptive Statistics of Dividend Policy

The study revealed that majority agreed that payment of dividends leads to increase in members savings (M=4.25, SD=.641). Results also show that majority strongly agreed that dividend payment is a strong indicator of the SACCOs performance (M=4.63, SD=.486). It was also established that that SACCOs should retain profits to invest in profitable projects (M=3.12, SD=1.353). The study also indicated that majority disagreed that payment of dividends minimizes the cash available to the management hence minimizing agency problem (M=2.77, SD=1.242). At the same time the results indicated majority were uncertain about payment of dividends maximizing the shareholders wealth (M=3.34, SD=1.315). Final results also indicated that it was strongly disagreed that dividends are irrelevant in improving the SACCOs value (M=1.97, SD=1.080).

Table 4.10: Descriptive Statistics of Dividend Policy

Variable	M	SD
Does Payment of dividends leads to increase in members savings.	4.25	.641
Dividend payment is a strong indicator of the SACCOs performance.	4.63	.486
Should SACCOs retain profits to invest in profitable projects.	3.12	1.353
Payment of dividends minimizes the cash available to the management hence minimizing agency problem.	2.77	1.242
Payment of dividends maximizes the shareholders wealth.	3.34	1.315
Dividends are irrelevant in improving the SACCOs value.	1.97	1.080
Average	3.35	

4.4.2 Frequency of Dividend Policy

4.4.2.1 Dividend Payment and Saving Growth

The study sought to establish if Payment of dividends leads to increase in members savings. The study revealed that 35.6% strongly agreed that payment of dividends leads to increase in members savings, 53.4% agreed and 11% were neutral.

Table 4.11: Dividend Payment and Saving Growth

	Frequency	Percentage
Strongly Agree	26	35.60%
Agree	39	53.40%
Neutral	8	11.00%
Disagree	0	0%
Strongly Disagree	0	0%

4.4.2.2 Dividend payment an Indicator of the SACCOs performance

The study sought to establish if Dividend payment is a strong indicator of the SACCOs performance. Results show that 50.7% were in strong agreement that dividend payment is a strong indicator of the SACCOs performance, 41.1% agreed and 8.2% were neutral.

Table 4.12: Dividend payment an Indicator of the SACCOs Performance

	Frequency	Percentage
Strongly Agree	37	50.70%
Agree	30	41.10%
Neutral	6	8.20%
Disagree	0	0%
Strongly Disagree	0	0%

4.4.2.3 Retaining Profits

The study also sought to establish if SACCOs should retain profits to invest in profitable projects. Results also indicated that 63% strongly agreed that SACCOs should retain profits to invest in profitable projects and 37% agreed (M=3.12, SD=1.353).

Table 4.13: Retaining Profits

	Frequency	Percentage
Strongly Agree	46	63.00%
Agree	27	37%
Neutral	0	0.00%
Disagree	0	0.00%
Strongly Disagree	0	0.00%

4.4.2.4 Dividend Payment and Cash Availability

The study also sought to establish if payment of dividends minimizes the cash available to the management hence minimizing agency problem. The study also indicated that 15.1% strongly agreed that payment of dividends minimizes the cash available to the management hence minimizing agency problem, and 34.2% while 16.4% disagreed or were neutral respectively, at the same time 17.8% strongly disagreed.

Table 4.14: Dividend Payment and Cash Availability

	Frequency	Percentage
Strongly Agree	11	15.10%
Agree	25	34.20%
Neutral	12	16%
Disagree	12	16%
Strongly Disagree	13	17.80%

4.4.2.5 Effect of Dividends on Shareholders Wealth

The study also sought to establish if payment of dividends maximizes the shareholders wealth. The results indicated that 20.5% strongly agreed that payment of dividends maximizes the shareholders wealth, 31.5% agreed while 24.7% were neutral with 8.2% disagreed and 15.1% strongly disagreed.

Table 4.15: Effect of Dividends on Shareholders Wealth

	Frequency	Percentage
Strongly Agree	15	20.50%
Agree	23	32%
Neutral	18	24.70%
Disagree	6	8.20%
Strongly Disagree	11	15.10%

4.2.2.6 Dividend and Sacco Value

The research was aimed at determining if dividends are irrelevant in improving the SACCOs value. Final results also indicated that 17.8% agreed that dividends are irrelevant in improving the SACCOs value, 2.7% were neutral and 38.4% disagreed while 41.1% strongly disagreed .

Table 4.16: Dividend and Sacco Value

	Frequency	Percentage
Strongly Agree	0	0.00%
Agree	13	18%
Neutral	2	2.70%
Disagree	28	38.40%
Strongly Disagree	30	41.10%

4.4.3 Correlation Analysis

A Pearson correlation analysis was done to establish the relationship between the dependent variable (firm performance) against loan default, Dividend policy and Liquidity of the SACCO. The result established a positive relationship between firm performance and Loan default ($r=0.701$, $p\ value=0.00$), dividend policy ($r=0.575$, $p\ value=0.000$), and Liquidity ($r=0.362$, $p\ value=0.002$). Therefore, an increase in combined variables of loan default, dividend policy and liquidity of the SACCO led to an increase in firm performance.

Table 4.17: Correlation Analysis

		Performance	Loan Default	Dividend Policy	Liquidity
Performance	Pearson Correlation	1	.701**	.575**	.362**
	Sig. (2-tailed)		.000	.000	.002
Loan	Pearson Correlation	.701**	1	.313**	.257*
Default	Sig. (2-tailed)	.000		.007	.028
Dividend	Pearson Correlation	.575**	.313**	1	.392**
Policy	Sig. (2-tailed)	.000	.007		.001
Liquidity	Pearson Correlation	.362**	.257*	.392**	1
	Sig. (2-tailed)	.002	.028	.001	
	N	73	73	73	73

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

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

4.5 Effect Of Liquidity on the Performance

The last objective was set to establish effect of liquidity on the performance. Respondents were asked a set of questions to indicate to what extent they agree or disagreed with statement using a five point Likert scale where 1 - Strongly Disagree 2 - Disagree 3 - Neutral 4 - Agree 5 - Strongly Agreed.

4.5.1 Descriptive Statistic of Liquidity

The findings indicated that 17.8% strongly agreed that the SACCO often meets its short term obligations due to increased liquidity (M=4.01, SD=.634). It was also established that there is protection of members deposit by SACCO management (M=4.18, SD=.733). Findings also show that higher liquidity levels arising from adherence to liquidity regulations in the SACCO has enhanced customer product portfolio (M=3.84, SD=.667).

The results also show that SACCO raises liquidity holdings hence reducing liquidity risks due to adherence of liquidity regulations (M=3.47, SD=.987). To establish if the SACCO's increased liquidity arising from adherence to liquidity regulations has enhanced loan disbursement to members a majority agreed (M=3.89, SD= .843). Results also show that majority disagreed that SACCOs rely on external borrowing to finance their activities 37%

disagreed and 60.3% who formed the majority had a strong disagreement with the statement (M=1.45, SD=.646).

Table 4.18: Descriptive Statistic of Liquidity

Variable	M	SD
Our SACCO often meets its short term obligations due to increased liquidity.	4.01	.634
There is Protection of members deposit by SACCO management.	4.18	.733
Higher liquidity levels arising from adherence to liquidity regulations in our SACCO has enhanced our customer product portfolio.	3.84	.667
The SACCO raises liquidity holdings hence reducing liquidity risks due to adherence of liquidity regulations.	3.47	.987
The SACCO's increased liquidity arising from adherence to liquidity regulations has enhanced our loan disbursement to members	3.89	.843
SACCOs rely on external borrowing to finance their activities.	1.45	.646
Average	3.47	

4.5.2 Frequency of Liquidity

4.5.2.1 SACCO Meets Short Term Obligations

The study sought to establish if the SACCO often meets its short term obligations due to increased liquidity. The findings indicated that 17.8% strongly agreed that the SACCO often meets its short term obligations due to increased liquidity, 68.5% agreed and 11% were neutral while 2.7% disagreed.

Table 4.19: SACCO Meets Short Term Obligations

	Frequency	Percentage
Strongly Agree	13	17.80%
Agree	50	68.50%
Neutral	8	11.00%
Disagree	2	3%
Strongly Disagree	0	0%

4.5.2.2 There is Protection of Members Deposit by SACCO Management

There was also a need to establish if protection of members deposit by SACCO management. It was established that 31.5% strongly agreed that there is protection of members deposit by SACCO management, 60.3% agreed and 2.7% were neutral while 5.5% disagreed (M=4.18, SD=.733).

Table 4.20: Protection of Members Deposit by SACCO Management

	Frequency	Percentage
Strongly Agree	23	31.50%
Agree	44	60.30%
Neutral	2	2.70%
Disagree	4	6%
Strongly Disagree	0	0%

4.5.2.3 Liquidity Levels and Adherence to Liquidity Regulations

The study also sought to determine if higher liquidity levels arise from adherence to liquidity regulations in the SACCO has enhanced our customer product portfolio. Findings showed that 15.1% strongly agreed that higher liquidity levels arising from adherence to liquidity regulations in the SACCO has enhanced customer product portfolio, those who agreed were 53.4% while 31.5% were neutral (M=3.84, SD=.667).

Table 4.21: Liquidity Levels and Adherence to Liquidity Regulations

	Frequency	Percentage
Strongly Agree	11	15.10%
Agree	39	53%
Neutral	23	31.50%
Disagree	0	0.00%
Strongly Disagree	0	0.00%

4.5.2.4 SACCO Raises Liquidity Holdings

The results also show that 8.2% strongly agreed that SACCO raises liquidity holdings hence reducing liquidity risks due to adherence of liquidity regulations, 50.7% agreed and 27.4% were neutral while 6.8% disagreed or strongly disagreed respectively (M=3.47, SD=.987).

Table 4.22: SACCO Raises Liquidity Holdings

	Frequency	Percentage
Strongly Agree	6	8.20%
Agree	37	50.70%
Neutral	20	27%
Disagree	5	7%
Strongly Disagree	5	6.80%

4.5.2.5 Liquidity Regulations and Loan Disbursement

To establish if the SACCO's increased liquidity arising from adherence to liquidity regulations has enhanced loan disbursement to members, 23.3% strongly agreed with the statement, 49.3% agreed while 20.5% were neutral and at the same time 6.8% disagreed.

Table 4.23: Liquidity Regulations And Loan Disbursement

	Frequency	Percentage
Strongly Agree	17	23.30%
Agree	36	49%
Neutral	15	20.50%
Disagree	5	6.80%
Strongly Disagree	0	0.00%

4.5.2.6 SACCOs Rely On External Borrowing to Finance

Results also show that only 2.7% agreed that SACCOs rely on external borrowing to finance their activities 37% disagreed and 60.3% who formed the majority had a strong disagreement with the statement ($M=1.45$, $SD=.646$).

Table 4.24: SACCOs Rely On External Borrowing to Finance

	Frequency	Percentage
Strongly Agree	0	0.00%
Agree	2	3%
Neutral	0	0.00%
Disagree	27	37.00%
Strongly Disagree	44	60.30%

4.5.3 Delay on Issuance of Loan

The study sought to establish whether the members have experienced cases where members have applied for loan and there is delay on issuance of loan and the results indicated that 56.2% had not experienced such cases while 43.8% have and the results are shown in Figure 4.6

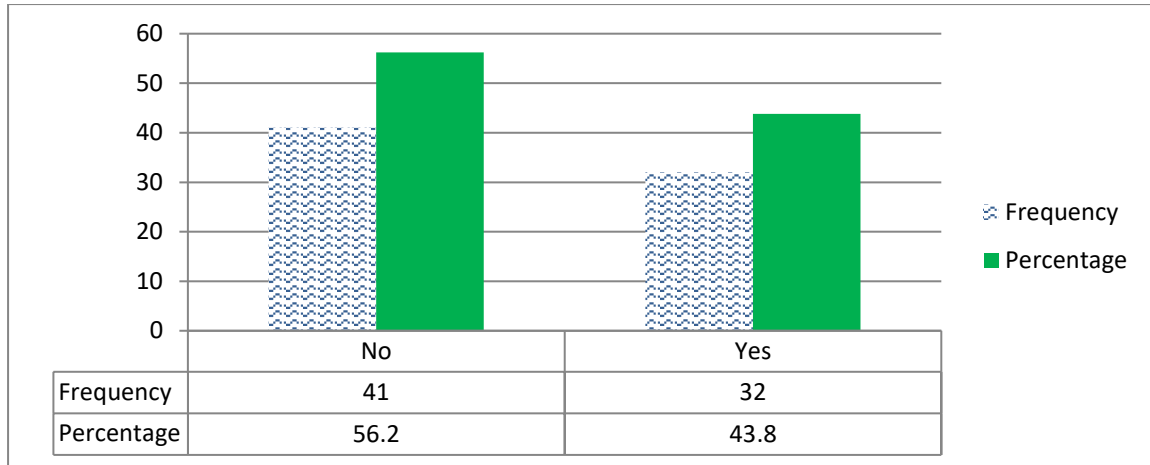


Figure 4.6: Delay on Issuance of Loan

4.5.4 Reasons Behind Delay of Loan Disbursement

The study sought to establish the reason behind the delay in loan disbursement and the results established that out of the total respondents 54.8% did not comment although 12.3% sighted liquidity issues, while 6.8% indicated that the delay was caused by lack of collateral, loan default by the member and poor loan rating. At the same time 5.5% indicated poor credit rating to be the cause of delayed disbursement. The remainder sighted lack communication, lack guarantors, many loan products, no signatories and payment delays, this accounted for 1.4% respectively.

Table 4.25: Reasons Behind Delay of Loan Disbursement

Variable	Frequency	Percent
No comment	40	54.8
liquidity	9	12.3
collateral	5	6.8
loan default	5	6.8
poor loan rating	5	6.8
Credit rating	4	5.5
lack communication	1	1.4
lack guarantors	1	1.4
many loan products	1	1.4
no signatories	1	1.4
payment delays	1	1.4
Total	73	100.0

4.6 Chapter Summary

This chapter presents the results obtained from the data analysis done. This includes results related to the respondents' demography and the specific research objectives of this study based on the research questions which include questions on effect of loan default, effect of dividend policy and effect of liquidity on the performance of the Presbyterian Church of East Africa Ruiru savings and credit Society in Kenya. The research utilised descriptive statistics such as mean and standard deviation as well as frequencies to show data distribution. This information is presented in tables and figures so as to enable comparative discussion and interpretation. In the next chapter the conclusion, discussion and recommendations as per the objectives of this study are presented.

CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This section offers the discussion, conclusions and recommendations arrived at based on the general objective of this study which was to investigate the effect of financial challenges on performance of SACCOs in Kiambu County, Kenya. The specific objective was to determine the effect of loan default, to determine the effect of dividend policy, and to determine the effect of liquidity on the performance of the Presbyterian Church of East Africa Ruiru savings and credit Society in Kenya.

5.2 Summary

The general objective of this study which was to investigate the effect of financial challenges on performance of SACCOs in Kiambu County, Kenya. The specific objective was to determine the effect of loan default, to determine the effect of dividend policy, and to determine the effect of liquidity on the performance of the Presbyterian Church of East Africa Ruiru savings and credit Society in Kenya.

This study adopted a descriptive research design to evaluate the effect of financial challenges on the performance of savings and credit co-operative society. The target population was comprised of 3522 management, employees and members of the Presbyterian Church of East Africa Ruiru saving and credit co-operative society. Simple random sampling techniques was used to select a random sample of 97 respondents. The data collection method used was a structured questionnaire based on the research objectives. The quantitative data collected from the questionnaire was coded, keyed in and edited accordingly by use of Statistical Package for social science. Appropriate descriptive statistics such as central tendencies: mean and standard deviation was applied for the study, distribution of the data was also analyzed through frequencies.

The study sought to establish if SACCO should use credit management experts in formulating loan policies and a majority strongly agreed. It was also established that majority strongly agreed that SACCO should review its loan policy often. It was also established that a majority strongly agreed that SACCOs should monitor their loan default risk exposure to minimize the risks. The study also established that the SACCOs should

evaluate and analyze their loan default often. In addition the findings indicated that rate of loan default in the SACCO is minimal although loan default affect the return on assets. An analysis to establish if members default on loan disbursed revealed that majority of respondents accounting indicated that members at the Sacco default on loan. The study sought to investigate reasons for loan default and results show that majority indicated economic condition and poor commitment, some attributed it to loss of property while others indicated high loans and a lack of plan. The results also indicated that a few attributed the default to business failure, illness and unemployment, conflict of interest, investment type and job loss.

The second objective was set to establish effect of dividend policy on the performance and the study revealed that majority agreed that payment of dividends leads to increase in member's savings. Results also show that dividend payment is a strong indicator of the SACCOs performance. Results also indicated that a majority agreed that SACCOs should retain profits to invest in profitable projects. The study also indicated that payment of dividends minimizes the cash available to the management hence minimizing agency problem and at the same time the results indicated that payment of dividends maximizes the shareholders wealth although dividends are irrelevant in improving the SACCOs value.

The last objective was set to establish effect of liquidity on the performance. The findings indicted that the SACCO often meets its short term obligations due to increased liquidity and there is protection of members deposit by SACCO management. Findings also show that majority strongly agreed that higher liquidity levels arising from adherence to liquidity regulations in the SACCO has enhanced customer product portfolio. The results also show that the SACCO raises liquidity holdings hence reducing liquidity risks due to adherence of liquidity regulations and the SACCO's increased liquidity arising from adherence to liquidity regulations has enhanced loan disbursement to members. Finding also show that majority disagreed that the SACCOs rely on external borrowing to finance their activities. The study sought to establish whether the members have experienced cases where members have applied for loan and there is delay on issuance of loan. The study sought to establish the reason behind the delay in loan disbursement and the results established that respondents sighted liquidity issues, lack of collateral, loan default by the member and poor loan rating. At the same time a few indicated poor credit rating, lack communication, lack guarantors, many loan products, no signatories and payment delays.

5.3 Discussion

5.3.1 Effect of Loan Default on Performance of Savings and Credit Co-Operative Society

The study revealed that the SACCO should use credit management experts in formulating loan policies. This is in line with previous studies like Naceour and Goaid (2008) who indicated that Sacco grants credit to its customers, it incurs the risk of default. Kibui and Maroge (2014) 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). 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).

Johnson and Scholes (2007) also notes that many managers find a process for developing a useful set of performance indicators for their organizations difficult. One reason for this is that many indicators give a useful but only partial view of the overall picture. Also some indicators are qualitative in nature, whilst the hard quantitative end of assessing performance has been dominated by financial analysis. In an attempt to cope with this very heterogeneous situation, balanced score cards have been used as a way of identifying a useful, but varied set of key measures. Balanced score cards combine both qualitative and quantitative measures, knowledge expectations of different stakeholders and relate an assessment of performance to choice of strategy.

When a Sacco grants credit to its customers, it incurs the risk of default. 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 default (Naceour & Goaid, 2008). Kibui & Moronge (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 (Osoro & Muturi, 2015). Many small businesses have

neither the resources nor the expertise to operate a sound credit management system (Osoro & Muturi, 2015).

Among the risk that face SACCOs, default risk is one of great concern to most SACCO authorities and government regulators. This is because default 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).

The findings revealed that SACCO needs to review its loan policy often. Friends Consult Ltd (2013) also reported that failure of the SACCOs' board of directors to establish a proper loan policy, inefficient loan committees review and approval, poor organizational policies and strategy, inability of the staff to discharge their duties and roles as per the institutional rules and policies, poor sensitization by the field staff and failure of the clients to understand the institution's policies were some of the reasons which led to loans delinquency for Umurenge SACCO in Uganda. The study asserted that the application of corporate governance rules were essential for mitigation of loan default risks. The study also recommended for appointment of a knowledgeable credit committee and credit department staff that can be able to monitor and evaluate properly the loan applications before disbursement.

It was also established that a majority strongly agreed that SACCOs should monitor their loan default risk exposure to minimize the risks. This corroborates with Mikes and Kaplan, (2014) in their study 'Towards a contingency; Theory of enterprise risk management, they noted that organizations are concerned with risk management practices of their organizations thus lay a great emphasis on this matter in order to balance between debt and equity for good financial performance. Cooperative societies are not an exception hence have to manage their risk exposure and conduct proper analysis to avoid losses and other financial problems.

It was also noted that the SACCOs should evaluate and analyze their loan default often in order to minimize losses. Muriuki, (2014) concurs and notes that most cooperative societies

do not undertake proper risk analysis thus their returns are negatively affected and the members incur a lot of losses which makes them to remain in poverty. Credit risk management activities are influenced by the risk behavior of managers in cooperative organizations and if they adopt appropriate strategies for risks mitigation, financial performance can be enhanced. The study lacks detailed statement on the risk policy that should guide the organization.

An analysis to establish if members default on loan disbursed revealed that some members do. Karuga (2014) study also found that loan defaulting influences Sacco's performance. Most of the respondents (70%) reported that loan defaulting affect their SACCO overall performance almost always. However, when asked whether members in their SACCO default loans, most of the respondents (41%) reported rarely. Inflation affected loan repayment capacity of SACCO members almost always according to 23% of the respondents, further study established that Sacco's should put in place loan recovery strategies and introduce collateral securities as a way of eliminating or reducing loan defaulting rate.

5.3.2 Effect of Dividend Policy on Performance of Savings and Credit Society

Majority agreed that payment of dividends leads to increase in member's savings. This concurs with Enekwe, Innocent and Mike (2014) who did a research on the effects of dividend payment on the market price of shares for quoted firms in Nigeria and found out that dividend per share has a positive and significant effect on the market prices of shares and supports the theory of dividend relevance. Another study was done to review the relationship between dividend policy and performance of firm's evidence from Iran capital market the findings revealed a positive relationship between Economic and accounting performance indexes and dividend policy. Also, Accounting performance indicators have more explanatory power than Economic performance indicators in predicting dividend in Iranian market (Zanjirdar&Seif 2012).

Results also show that dividend payment is a strong indicator of the SACCOs performance. Abrahamsen and Balchen (2010) concurs and found out in their research on whether dividends predict future firm performance on private firms in Norway in the period (1994-2007) that non-listed firms are highly flexible in their dividend policy whereas engage in smoothing of their dividends. Chinedu and Ikechukwu (2015) study on The Effect Of

Dividend Payout On Performance Evaluation evidence of quoted cement companies in Nigeria showed at least one policy implication, the fact that dividend payout is still important determinant of financial performance by increase in the rate of dividends payout.

Similarly, Kariuki (2014), in her study of the relationship between dividend and financial performance of Sacco's registered by Sasra in Nairobi County found out that there were actors such as dividends, leverage and growth which influenced positively the financial performance of registered Sacco's in Nairobi County. Ademola and Oyefemi (2015) study on dividend payout policy and firm financial performance. The result of the study showed firms paying dividends when its due recorded an increase in their profitability and those who didn't recorded a decrease. The proper conclusion from the study is that dividend payment by firms portrays some information.

Results also indicated that a majority agreed that SACCOs should retain profits to invest in profitable projects. Previous studies done on the same concurs, for instance, Adediran and Alade (2013) study conducted to explored the associations between the dividend policy and return on equity and return on asset of the firms listed on NYSE. According to their study, both are positively related to each other. Mokaya, Nyangara, and James (2013) found positive association of dividend policy and shareholders wealth. Anandasayanan and Thirunavukkarasu (2016) conducted a re-search on dividend policy and corporate profitability. They found positive association of both variables.

Osamwonyi and Lola-Ebueku (2016) conducted a study on dividend policy and firm's earning and found negative association of variables. Ozuomba, Anichebe, and Okoye (2016) explored the effect of dividend policies on wealth maximization and found significant relationship among variables. Shah and Mehta (2016) tested a relationship between dividend payments and share prices and found positive relationship between both variables. Widyastuti (2016) conducted a study to investigate the influence of dividend policy on firm's value and showed positive relationship between both variables.

The study also indicated that payment of dividends minimizes the cash available to the management hence minimizing agency problem. Odhiambo (2015) in his study of the effect of dividend payout ratio on market capitalization of firms listed at the Nairobi securities exchange also established the same results where dividend pay-out ratio affects the value of shares of a firm in the long run and that the relationship was positive and significant.

This clearly shows how relevant dividend policy is in affecting the share price of a firm hence its value contrary to theories that view dividend policy as irrelevant.

Enekwe, Innocent and Mike (2014) did a research on the effects of dividend payment on the market price of shares for quoted firms in Nigeria and found by use of Exposit Facto research design which mean the use of historical data with a sample size of 17 quoted firms under the period of study 2003-2011 that dividend per share has a positive and significant effect on the market prices of shares and supports the theory of dividend relevance. In the research done on the relationship between certain Economic Theories and Dividend payout ratio done in Iran by the use of descriptive-correlation model on the population that consisted of all firms listed in Tehran Stock Exchange during the period of 2004-2010. It was found out that firms operating in the same industry usually have similar dividend payout policy which could be due to imitation or similar structures (Jahanshad, Poorzamani & Ghauomi 2013).

Another study was done by Zanjirdar and Seif (2012) to review the relationship between dividend policy and performance of firms evidence from Iran capital market that made use of a sample size of 93 companies whose required information was available in study period between 2004-2009. The findings were that there is a positive relationship between Economic and accounting performance indexes and dividend policy. Also, Accounting performance indicators have more explanatory power than Economic performance indicators in predicting dividend in Iranian market (Zanjirdar & Seif 2012). Abrahamsen and Balchen (2010) found out in their research on whether dividends predict future firm performance on private firms in Norway in the period (1994-2007) that non-listed firms are highly flexible in their dividend policy whereas engage in smoothing of their dividends.

Chinedu and Ikechukwu (2015) study on the effect of dividend payout on performance Evaluation evidence of quoted cement companies in Nigeria showed at least one policy implication, the fact that dividend payout is still important determinant of financial performance by increase in the rate of dividends payout. In other words, the management of quoted cement companies in Nigeria should use more of Return on Capital Employed (ROCE) in the valuation of financial performance, as it improve the value of the firm financial performance.

5.3.3 Effect of Liquidity on Performance of Savings and Credit Society

The findings indicated that the SACCO often meets its short term obligations. This is a good sign of performance as indicated by Nielsen (2002), using small firms as a proxy for credit-rationed firms, finds that when there is a monetary contraction, small firms react by increasing the amount of trade credit accepted. An organization with good asset quality, strong earnings and sufficient capital may fail if it is not maintaining adequate liquidity in its portfolios. A financial institution that delays in providing funds to its members will look distrustful and unsafe; clients and other potential investors soon begin to lose confidence in such an organization (Arif & Nauman, 2012). In the SACCOs subsector, liquidity management is an essential component of the overall risk management framework (Majid, 2003). SACCOs should therefore manage liquidity in an applicable manner in order to safely run their business, maintain good relations with the stakeholders and avoid liquidity problem. In his study on co-operative failures in Limpopo province, Van der Walt (2005) indicates that poor management, lack of training, conflict among members, and lack of funds contribute toward the failures.

Results show that there is protection of members deposit by SACCO management. This concurs with Mwangi (2013) who undertook a study on the effects of liquidity on performance of deposit taking micro financial institutions in Kenya. He asserted that organizations ought to have policies in place that determine the amount to borrow and the appropriate time to do the same based on the loaning laws and regulations. Financial institutions such as microfinance are mostly concerned with the ability of the cooperative societies to repay the amount borrowed with all terms and conditions adhered to. Therefore, they have to work hard to raise their credit ratings as well as improving the confidence of the creditors. Baliwen (2009) established that almost all cooperative societies in Nigeria had policies concerning credit and were well implemented; Share capital and collaterals were put into consideration for borrowing loans. However, not all cooperative members have those requirements thus it would have been more clear if it was explained how the management handles such members in regard to loan acquisition.

Findings also show that majority strongly agreed that higher liquidity levels arising from adherence to liquidity regulations in the SACCO. Indeed prosperous projects need more than a tight control, good planning, strict budget control and proper risk management (World Bank, 2013). The way to progress lies in income generating projects and taking

care of energy needs, responsibility and inattentiveness of individuals so that more intricate task can be realized with less coordination (Williams, Klakegg, Walker, Andersen & Magnussen, 2012).

Unlike SACCOs, commercial banks are advantaged by the fact that they have the Central Bank as a lender of last resort. In turbulent times SACCOs may find it difficult to meet their obligations. This may subject them to liquidity shortage which may cause great damage to a savings institution (Monnie, 2009). The failure of SACCOs to meet their obligation due to lack of sufficient liquidity and low risk management, will result in poor creditworthiness and loss of member's confidence. Karagu and Okibo (2014) have also established that investment decisions made by SACCOs influence their performance and that there is need to invest in prudent projects in order to achieve better returns.

Liquidity reflects a financial institution's ability to fund assets and meet financial obligations. Liquidity is essential in all SACCOs to meet customer withdrawals, compensate for balance sheet fluctuations, and provide funds for growth (Njeri, 2014). Liquidity is an important indicator of financial stability in a SACCO society as it shows the SACCO's ability to meet obligations as they fall due (Kimathi, 2014). As financial institution, SACCOS should manage the demand and supply of liquidity in an appropriate manner in order to safely run their business, maintain good relations with the stakeholders and avoid liquidity problem (Njeri, 2014). Liquidity is the degree to which debt obligation coming due in the next 12 months can be paid in cash or assets will be turned into cash. Van (1995) the firms credit policies are the chief influence on the level of debtors, measuring the manager's position to invest optimally in its debtors to be able to trade profitably with increased revenue.

Firms that present good liquidity or better access to capital markets can finance those that are credit rationed. Several approaches have been used in an attempt to provide empirical evidence to support this assumption. Nielsen (2002), using small firms as a proxy for credit-rationed firms, finds that when there is a monetary contraction, small firms react by increasing the amount of trade credit accepted. An organization with good asset quality, strong earnings and sufficient capital may fail if it is not maintaining adequate liquidity in its portfolios. A financial institution that delays in providing funds to its members will look

distrustful and unsafe; clients and other potential investors soon begin to lose confidence in such an organization (Arif & Nauman, 2012).

Liquidity has a greater impact on the tradable securities and portfolios. Broadly, it refers to the loss emerging from liquidating a given position. An organization with liquidity problems loses a number of business opportunities; this places the firm at a competitive disadvantage (Chaplin, Emblow & Michael, 2000). In the SACCOs subsector, liquidity management is an essential component of the overall risk management framework (Majid, 2003). SACCOs should therefore manage liquidity in an applicable manner in order to safely run their business, maintain good relations with the stakeholders and avoid liquidity problem. In his study on co-operative failures in Limpopo province, Van der Walt (2005) indicates that poor management, lack of training, conflict among members, and lack of funds contribute toward the failures.

Finding also show that majority disagreed that the SACCOs rely on external borrowing to finance their activities. Previous studies encourage borrowing, for instance, Obure and Muturi (2015) in their study on effect of internal factors on performance of SACCOs, established that internal environment has a significant bearing on the performance of SACCOs and that with borrowed capital, SACCOs were able to increase their loan portfolios. Another study by Micheni (2011) on effects of portfolio management strategies on financial performance of investment companies revealed that individual security selection strategies were not positively correlated to the leverage and yield spread strategies. It concluded that portfolio managers should periodically verify that investment performance reports are accurate, policy compliance statements are followed and updated and that there should be random reviews of investment activities.

5.4 Conclusion

5.4.1 Effect of Loan Default on Performance of Savings and Credit Co-Operative Society

The study concluded that the SACCO relies on credit management experts in formulating loan policies although respondents felt that the SACCO needs to reviews its loan policy often. Respondents also agreed that the SACCOs should monitor their loan default risk exposure with the main aim of minimize the risks involved. The study also established that the SACCOs should evaluate and analyze their loan default often. In addition the findings show that rate of loan default in the SACCO has been highly minimized although some

members still default on loan. The study also concluded that high default rates were caused by economic condition and poor commitment among members.

5.4.2 Effect of Dividend Policy on Performance of Savings and Credit Society

The study also concluded that dividend policy affect performance of Saccos and when the firm affords to pay dividends to members it leads to an increase in member's being motivated towards savings. The study also concluded that dividend payment acts as a strong indicator of the SACCOS performance although on the other hand, payment of dividends minimizes cash availability but increases the shareholders wealth.

5.4.3 Effect of Liquidity on Performance of Savings and Credit Society

The study concluded that the SACCO often meets its short term obligations thus implying that shareholders deposits are well protected by SACCO management. The results also show that the SACCO has had an opportunity to raises liquidity holdings as a result been able to reduce liquidity risks due to adherence of liquidity regulations. It was also concluded that the SACCO is financially stable and doesn't rely on external borrowing to finance its daily activities. Some members have experienced cases of loan disbursement loan although a majority indicate liquidity issues and a lack of collateral.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Effect of Loan Default on Performance of Savings and Credit Co-Operative Society

It is recommended that SACCO should continuously utilize the services of credit management experts in order to ensure the process of granting credit, setting the terms and ensure compliance with the firm's credit policy. Through the Annual General Meetings (AGM) members should raise issues that need reviews, however this needs to be set by the laid down rules by Sacco Societies Regulatory Authority (SASRA). Loan default risk exposure should also be fully minimized by ensuring proper vetting of members loan profiles.

5.5.1.2 Effect of Dividend Policy on Performance of Savings and Credit Society

The study recommended that the Sacco should strive to make surplus and the proceeds used to make dividends payments as this encourages membership savings and gaining investors'

confidence. In order to generate more income, SACCOs should retain profits to invest in profitable projects or alternatively create products to supplement the firms income.

5.5.1.3 Effect of Liquidity on Performance of Savings and Credit Society

It was also recommended that the SACCO should strive to ensure it always meets its short term obligations. This should be done by ensuring the firm adheres strictly to the liquidity regulations set by the SACCO has this ensures the availability of loan disbursement to members. In circumstances where the firm is unable to meet is financial obligations, external borrowing may be pursued to enhance firm's activities. Due diligence should be done to ensure minimal cases of loan default among members. More education and training workshops should be undertaken to ensure members become aware of the firms liquidity levels.

5.5.2 Recommendations for Further Research

This study sought to establish the financial challenges facing savings and credit co-operative society in Kenya. The study focused on Presbyterian Church of East Africa Ruiru savings and credit Society. It is therefore recommended that further studies be done on other Sacco's in Ruiru and other major towns to determine whether there is any effect of loan, dividend policy and liquidity on the performance.

REFERENCES

- Abrahamse, S. & Balchen, T.W. (2010). Do dividends predict future firm performance? MSC Thesis from BI Norwegian School of management.
- ACCOSCA (2011). *Attaining Sustainable Sacco Growth Using Regulation Framework*. Retrieved on June 15th2019 from www.ACCOSCA.ac.ke
- Adediran, S. A. & Alade, S. O. (2013). Dividend Policy and Corporate Performance in Nigeria. *American Journal Of Social And Management Sciences* 2(3)1-15.
- Ademola, A. & Oyefemi, O. (2015). Dividend Pay-Out Policy And Firm Financial Performance: Evidence From Nigerian Listed Non-Financial Firms. *International Journal of Economics, Commerce and Management* 3(4)238-251.
- Adre, P. Mellenbergh, R. & Hand, P. (2007) Ownership structure and cash flows as determinants of corporate dividend policy in Pakistan. *International Business Research*, 3(3), 210-221.
- Akira. M. (2014). Effect of capital structure on firms' performance: the Nigerian evidence. *European Journal of Economics, Finance and Administrative Sciences*, 10 (3) 233-243.
- Anandasayanan, P. & Thirunavukkarasu, L. (2016). Dividend policy of publicly quoted companies in emerging markets: the case of Jordan. Doctoral Thesis, School of Economics and Finance, Sydney, AU: University of Western Sydney.
- Arif, A. & Nauman, M. (2012). Determinants of the dividend payout ratio in Ghana. *The Journal of Risk Finance*, 7(2), 136- 145.
- Asiedu-Mante, T. (2002). The perception of dividends by Canadian managers: new survey evidence. *International Journal of Managerial Finance*, 3(1), 70-91.
- Bald. J. (2010). *Treasury Management for SACCOs, Procedure guidelines and training Manual*, New York, NY: Chemonics International Inc.\
- Baliwen, M. (2009). Determinants of corporate dividend policy: A survey of NYSE firms, *Financial Practice And Education*, 10(29), 1082-1098.
- Bessis, P. (2008). The impact of personal taxes on corporate dividend and capital structure decisions. *Financial Management*, 19(2), 21-31.

- Biwott, P. (2014). Fundamental and Ethics Theories of Corporate Governance. *Journal of Middle Eastern Finance and Economics*, 4 (6) 88-96.
- Black, F. (1976). The pricing of commodity contracts, *Journal of Financial Economics*, 3 (4) 167-179.
- Boateng, N. (2011). *Applying International Best Practices to South Africa's Sacco's* Published Dissertation .Johannesburg, SA: De Mont Fort University.
- Brealey, R. & Myers, S. (2005) Principles of Corporate Finance. 8th Edition, London, UK: McGraw-Hill.
- Caneghem, D. & Aerts,, P (2011). Causes of Credit Default within Micro Finance Institutions in Kenya, *Interdisciplinary Journal of Contemporary Research in Business*, 4 (12) 5-36.
- Cantor, R. & Frank, P. (1996). Determinants and impact of sovereign credit ratings. *Economic Policy Review* 6(10) 37-53
- Chaabouni, I. (2017). Impact of dividend announcement on stock return: A study on listed companies in the Saudi Arabia financial markets. *International Journal of Information, Business and Management*, 9(1), 37.
- Chandresh, J.(2012). Dividends, earnings, and stock prices. *The Review of Economics and Statistics*, 1(2) 99–105.
- Chaplin, M., Emblow. P. & Michael, W. (2000). Optimal investment and financing policy. *The Journal of finance*, 18(2), 264–272
- Chartered Institute of Management Accountants. (2014). *Financial management*. London, UK: BPP Learning Media.
- Chebor, P. (2008). An analysis of the relationship between dividend changes & future profitability of companies quoted at the nairobi stock exchange (Unpublished MBA project). University of Nairobi.
- Cheruiyot, K. (2012). The impact of workforce diversity towards employee performance: Evidence from banking sector of Pakistan. *American Journal of Marketing Research*, 2(2), 53–60.
- Cheruiyot, T., Kimeli, M. & Ogendo, S. (2012). Effect of Savings and Credit Co-operative Societies Strategies on Member's Savings Mobilization in Nairobi, KE. MBA Thesis university of Nairobi.

- Chijoriga, M. (2011). Application of various discriminant analysis (MDA) as a credit scoring and risk assessment model. *international Journal of Emerging Markets*, 1(3)132-147.
- Chinedu, B. & Ikechukwu, M. (2015). Dividend payout ratio and firm's profitability. Evidence from Pakistan. *Theoretical Economics Letters*, 5(03), 441.
- Chirwa, B. (1997). Effect of dividend policy on shareholders' wealth: A study of sugar industry in Pakistan. *Global Journal of Management and Business Research Finance*, 13(7), 47-54
- Chumari, N. (2014). Impact of dividend announcement on share prices. *Anvesha*, 9(2), 10-15.
- Clementi, W. (2001). Effect of corporate governance index on dividend policy: An investigation of textile industry of Pakistan. *Journal of Economic and Social Development*, 3(1), 139
- Collis, J., & Hussey, R. (2009). *Business Research. A practical guide for undergraduate and postgraduate students*. 3rd edition. Hampshire, UK: Palgrave Mcmillan.
- Cooper, D. R., & Schindler, P. S. (2014). *Business Research Methods* (10th ed.). New York, NY: McGraw-Hill.
- Dongo, N. (2014). *Dividend policy practices in companies listed at the NSE* (Unpublished MBA Project). University of Nairobi.
- Eijelly, T. (2004). Dividend policy and stock price volatility in Pakistan. In Pide-19th annual general meeting and conference (pp. 13-15).
- Enekwe, L., Innocent, M. & Mike, F. (2014). Does dividend policy affect firm earnings? Empirical evidence from Nigeria. *International Journal of Financial Research*, 7(5), 77-90.
- Friends Consult Ltd (2013). "*Financial Fragilities in Latin America: The 1980's and 1990's.*" Occasional Paper No. 132. Washington DC: International Monetary
- Gachara, K. (1990). *Money Banking and Financial Institutions*" (pg.35), Toronto, CA: MC Graw..
- Gachau, M. (2010). *A survey of credit risk management practices of commercial banks in Kenya*. Unpublished MBA Project). University of Nairobi.
- Gathurithu, M. (2011). Deposit mobilization in developing countries: The importance of reciprocity in lending. *The Journal of Developing Areas*, 20 (4) 425- 437.

- Gorter, P. & Bloem, K. (2002). *Financial Risk Management for Islamic Banking and Finance*, London, UK: Palgrave Macmillan.
- Gweyi, E. (2013). Determinants of Leverage of Savings and Credit Co-operatives Societies in Kenya. *International Journal of Management and Commerce Innovations* 3 (2) 196-207.
- Hafeez, H. & Attiya, D. (2009). Risk Management Practices: An Empirical Analysis of the UAE Commercial Banks, *Finance India*, 15(3) 1045-1057.
- Hoofman, P. (2006). Banks' Risk Management: A Comparison Study of UAE National and Foreign Banks. *The Journal of Risk Finance*. 8(4) 394-409.
- Horne, T. (2003). Loan repayment and technical assistance among smallholder maize farmers in Nigeria", *African Review of Money Finance and Banking. A supplement of Saving and Development Journal*, 1 (6) 64-72.
- ICA (2005). *International Co-operative Alliance Annual Report*. Retrieved June 2019 from <https://www.ica.coop/sites/default/files/publication-files/ica-annual-report-2005-1031559218.pdf>
- ILO (2003). *New ILO Report on Global Employment Trends 2003*. Retrieved from https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_007244/lang--en/index.htm
- International Cooperative Alliance (2010), retrieved from <http://www.ica.coop>, accessed on February, 15th 2019.
- International Monetary Fund (2007): *Poverty Reduction strategy Annual Progress Report 2004/2005*:IMF country report no. 07/159, Washington, DC: International Monetary Fund.
- Jahanshad, R., Poorzamani, T. & Ghauomi, H. (2013). *Making Enterprise Risk Pay Off*. New York, NY: Financial Time Prentice-Hall..
- Joetta, S. (2007). Valuing corporate securities: Some effects of bond indenture provisions". *Journal of Finance*, 31(2) 351 – 367.
- Kalombe, G.M.(2011).*The effect of Dividend policy on profitability of Sacco's with Fosa's in Kenya*.Unpublished MBA project Nairobi, KE: University of Nairobi.
- Karagu, L. & Okibo, R.(2014). *Credit Risk Modeling*, New York. NY: Wiley.
- Karanja, C. (2013). *Effects of financial leverage on financial performance of deposit taking Saccos in Kenya*. Unpublished MBA Project, Nairobi: University of Nairobi.

- Kariuki, F. (2014). Transitions to and from self-employment in Spain", *Oxford Bulletin of Economics and Statistics*, 61(3)315-418.
- Karuga, N. (2014). A Markov model of the term structure of credit spreads". *Review of Financial Studies*, 10 (3) 481-523.
- Karumuna, H. & Akyoo, R. (2011). Pricing derivatives on financial securities subject to credit risk. *Journal of Finance*, 50(6)53-85.
- Kasali, C. (2013). Quantifying credit risk I: default prediction". *Financial Analysis Journal*, 59 (1) 30-44.
- Kenan, L. (1999). A Reexamination of Mean-Variance Analysis of Bank Capital Regulation". *Journal of Banking and Finance*. 12 (6) 69-84.
- Kendall, Y. & Rollins, M. (2003). *Bank Management. Hinsdale*. Orlando, FL, The Dryden Press.
- Kenya Union of Savings & Credit Co-operatives Ltd. (2017). *Annual Report*. Nairobi, KE: Buruj Solutions.
- Khumalo, L. (2014). *Bank Management*. Orlando, FL, The Dryden Press.
- Kibui, N.&Moronge, M. (2014). Effects of credit risk management on financial performance of SACCOS: A case of Harambee SACCO. *International Journal of Social Sciences and Project Planning Management*, 1(3), 157-172.
- Kimathi, P. (2014). A Survey of Credit Risk Mgt Practices by Pharmaceutical Manufacturing Firms in Kenya. Unpublished MBA Project, University of Nairobi
- Kinyanjui M. N., (2010). *Social Relations and Associations in the Informal Sector in Kenya; Social Policy and Development, Programme Paper Number 43*, January 2010, United Nations, Research Institute for Social Development.
- Kothari, C. R. (2007). *Research Methodology: Methods and Techniques*. New Delhi, IN: New Age International Publishers.
- Kothari, C. R. (2008). *Research Methodology: Methods and Techniques* (2nd ed.). Delhi, IN: VikasPublishing House Pvt Ltd.
- Kristina, W. (2014). A Survey of Credit Risk Management by Coffee Cooperatives in Embu district; Unpublished MBA Project. University of Nairobi
- Kumar, D. & Gena, B. (2015). Determinants of loan repayment under the special emergency loan scheme (SEALS) in Niger: a case study in Imo state", *African Review of Money finance and Banking*, 1(3)39-51.

- Kumar, D. (2015). Assessing inherent risk during audit planning; the development of a knowledge based model, *Accounting, Organizations and Society* 14(4)359-78.
- KUSCCO. (2010). The Sacco Family Union Newspaper. Nairobi, Kenya Union of Savings Credit Co-operative Unions [KUSCO].
- Lawrence, T. (2009). *Risk Management*, New York, NY: Wiley.
- Mahour, R. (2010). Determinants of successful loan repayment; An application of Tunisia, *Journal of sustainable development in Africa*, 10(2) 776-792.
- Maina, H. (2015). *Relationship between the Liquidity and Profitability of Oil Companies in Kenya*. Nairobi, KE: University of Nairobi.
- Maina, R. (2007). A Survey of Credit Risk Management. Practices by Micro-Finance Institutions in Kenya. Unpublished MBA Project. University of Nairobi
- Maingi, S. M. (2014). Factors Affecting the Financial Performance of Saccos in Kenya: A Case of Selected Sacco's. *The International Journal Of Business & Management*, 2(8), 180-184.
- Majid, T. (2003). Determinants of Demand for Microcredit among the Rural Households in South-Western States, *Nigeria. Journal of Agricultural and Social sciences*, 7(2), 41-48.
- Maladjian, L. & Khoury, P. (2014). *Ethics and Agency Theory: An Introduction*. New York, NY: Oxford University Press.
- Malombe, O. (2011). Extended family and kinship networks: Economic insights and evolutionary directions. *Handbook of Development Economics*, 4(3),3049-4036.
- Matendechere, V. (2015). Credit accessibility of SACCO's and Performance in Kenya. Institute of Policy Analysis & Research (IPAR) Discussion Paper 019/99, Nairobi.
- Mathuva. H. (2016). Determinants of Successful Group Loan Repayment. Application to Kenya (Doctoral Dissertation) USIU.
- Mertens, F. (1998). Analysis of Factors Influencing Access to Credit Services by Women Entrepreneurs in Kenya. *Research Journal of Finance and Accounting* 5, (11) 35-41.
- Micheni. D. (2011). Management of Savings and Credit Cooperatives Perspective of Outreach and Sustainability. *Research Journal of Finance and Accounting* 2, (7), 11-23
- Mikes, H. & Kaplan, V. (2014). Portfolio Management Approach in Trade Credit Decision. *Romanian Journal of economics forecasting* 3(2) 42-53.

- Miller, M. H. & Modigliani, F. (1961). Dividend Policy, Growth, and the Valuation of Shares. *Journal of Business*, 1(3) 411-433.
- Miriti, J. (2014). *Factors influencing financial performance of savings and credit cooperative Societies: A case of Capital SACCO, Meru County*, Unpublished MSc Project, Nairobi: University of Nairobi.
- Mishkin, K. & Eakins, E. (2011). Evaluation of the Performance of Savings and Credit Cooperative Societies; Kenya. *International Journal of Management & Information Technology* 3(6)1-15.
- Mitton, V. (2004). Determinants of credit repayment performances in SACCO's. *International Journal of Business and Social Science*, 1(2) 1-15.
- Mokaya, N. Nyangara, T. & James, L. (2013). *An evaluation of human capital factors that enhance access to credit among retailers in Nairobi*. USIU Nairobi, Kenya
- Monnie, R. (2009). Determinants of micro event repayment in Malaysia; *Journal of humanity and special sciences* 4(1), 45-52.
- Monogbe, L. (2015). *Formal and informal credit markets and rural credit demand in India*; Ph.D. diss. (Uppsala University).
- Mudibo K. (2005). *The savings mobilized by SACCOs in Kenya, and the cases of fraud and corruption including Co-operative Societies*. -Governance Issues; The Case Of Kenya; Kuscco Limited retrieved March 15th 2019 from www.ifc.org/ifcext/.../Edward+K.+Mudibo-HCo-opsLdoc.
- Mugenda, O. M., & Mugenda, A. G. (2003). *Research methods. Quantitative and qualitative*. Nairobi, KE: Acts press.
- Mulwa, A. (2013). Factors that Influence the Demand for Credit for Credit among Small-Scale Investors: a case study of Meru Central District, Kenya. *Research Journal of Finance and Accounting*, 2 (2) 1-15.
- Mumanyi, E. (2014). Opportunities and Challenges faced by Sacco's in the current devolved system of government of Kenya: a case of Mombasa County. *Social Sciences and Entrepreneurship International Journal*, 1(9) 2-3.
- Muraguri, S. (2014). Determinants of loan repayment by small holders in South East Nigeria. *International Journal of Agriculture Management & Development* 2(3), 167-178.
- Murekefu, T. (2012). Determinants of micro event repayment in Malaysia; *Journal of humanity and special sciences* 4(1), 45-52.

- Muriuki, L. (2014). *Factors Affecting Sacco Performance in Meru South district: A case of Tharaka Nithi Teachers Sacco*. Unpublished MBA project, Kenyatta University.
- Muriuki, T. (2010). *Investigation into the Cash Balance Management Approaches in Saving and Credit Cooperative Societies (SACCOS) in Nakuru County, Kenya. Research proposal*. MBA project Nairobi, KE: University of Nairobi
- Mwangi, G. N. (2013). The Effect of Credit Risk Management on the Financial Performance of Banks in Kenya. *Journal of Economics*, 3(2) 1-69.
- Mwangi, K. (2010) *Effect of credit risk management on the financial performance of Commercial Banks*. MBA project Nairobi, KE: University of Nairobi.
- Myers, M. (2004) *Decomposing time frequency relationship between interest rates and share prices in India through wavelets*. Financial Paper No. 39693.
- Naceour, T. & Goaid, T. (2008). *Introductory econometrics regression analysis with cross sectional data*. Michigan, State University, Cengage Learning.
- Naissuma, D. K (2000) *Survey and Sampling Methods*. Nairobi, KE: University of Nairobi press.
- Nelson, M. & Schwedt, P. (2006). The Effect of Capital Market Deepening on Economic Growth in Kenya. *Journal of Applied Finance & Banking*, 4(1), 141-159.
- Ngugi, S. & Afande, F. (2007). *Raising Finance in the Kenyan Bond Market (A Case of Listed Companies on the Nairobi Stock Exchange)* Retrieved from .
<https://www.semanticscholar.org/paper/Raising-Finance-in-the-Kenyan-Bond-Market>.
- Ngui, A. N. (2010). *A survey of the Use of Financial Performance Indicators by SACCOs in Kenya*, (Unpublished Master's Thesis) University of Nairobi, Nairobi, Kenya.
- Nicholas, T. (2010). The Market Corporate Control: The Scientific Evidence. *Journal of Financial Economics*, 11(3), 5-50.
- Nielsen, P. (2002). The Theory of the Firm: Managerial behavior, Agency costs and Ownership Structure. *Journal of Financial Economics*, 3(1)305-360.
- Njeri, K. (2014). The Costs and the Benefits of Ownership: A Theory of Vertical and Lateral Integration. *Journal of Political Economy*, 94 (1) 691~719.
- Njiru, L. (2006). An Empirical Test of the Impact of Managerial Self-Interest on Corporate Capital Structure. *Journal of Finance*, 43 (6) 271~281.

- Nyamwange, G. P. (2010). *The relationship between credit risk management practices and financial performance of SACCOS in Kenya*. MSc Project, Nairobi: University of Nairobi.
- Obure, T. & Muturi, G. (2015). Large Shareholders, Monitoring, and The Value of the Firm. *The Quarterly Journal of Economics*, 112(1) 693~728
- Ochanda, W. (2013). An analysis of the effect of corporate governance on performance of commercial state corporations in Kenya. *International Journal of Business and Public management*, 1(1), 36-41
- Odhiambo, O.(2015). Corporate Governance problems of SACOs. *International Journal of Academic Research in Business and Social Sciences*, 2 (11)1-10.
- Ogboi, H. & Unuafe, G. (2013). An Empirical Test Of Competing Corporate Theories on The Performance Firms Listed at The Nairobi Securities Exchange. *European Scientific Journal*, 9 (13), 107-137
- Oloo, P. (2013). *Relationship between Loan Default and the Financial Performance of Sacco "s in Kenya*. Unpublished MBa Project, Nairobi: University of Nairobi.
- Ondieki, A. N.. (2011). *Assessment of effect of external financing on financial performance of Savings and Credit Cooperative Societies in Kisii Central District, Kenya*. JKUAT Annual Scientific Conference Nairobi, KE: JKUAT.
- Osamwonyi, I. & Lola-Ebueku, I. (2016). Does Dividend Policy Affect Firm Earnings? *Empirical Evidence from Nigeria*. 7(5)1-15.
- Osoro & Muturi, 2015 Osoro, K. & Muturi, W. (2013). The Role of Micro Financial Institutions on the Growth of SMEs in Kenya: A case study of Micro Financial Institutions in Kisii Town. *IOSR Journal of Humanities and Social Science (IOSR-JHSS)*, 16(1), 83-93.
- Ozuomba, C. Anichebe, A. & Okoye, P. (2016). The effect of dividend policies on wealth maximization – a study of some selected plcs. *Cogent Business & Management*, 3 (1)1-15.
- Pagach, D. & Warr, R.(2010). The Effects of Enterprise Risk Management on Firm Performance. 24 (6) 521 – 531.
- Paul, G. & Isaac, K. (2010). *Evolution, Growth and Decline of the Cooperative Sector. A Paper Prepared For The Centre For governance And Development*. Nairobi, KE: Longman Publishers

- Quraishi, N. & Mahtab, M. (2014). Real Estate Investment in Bangladesh: A Preliminary Study. *Asian Journal of Finance & Accounting* 6 (2)1-5.
- Republic of Kenya (2008): *Ministry of Cooperative Development and Marketing, Annual Report*. Nairobi, KE: Government Printer.
- SACCO Societies Regulatory Authority. (2013). *Sacco supervision annual report 2013*. Retrieved from [http://www.sasra.go.ke/index.php/resources/publications?Download 64:sacco-supervision-annual-report-2013](http://www.sasra.go.ke/index.php/resources/publications?Download%2064%3Asacco-supervision-annual-report-2013).
- Samuel, T. & Edward, W. (2011). Comparison Among Some Well-Known Control Schemes With Different Tuning Methods. *J. Applied Res. Technol.*, 13 (1) 409-415.
- SASRA (2013). A peek into Kenyas Sacco subsector. [http://www.sasra.go.ke/index.php?option=com_content & view=article&id=90:subsector & catid= 44: press & Itemid=108](http://www.sasra.go.ke/index.php?option=com_content&view=article&id=90:subsector&catid=44:press&Itemid=108)
- SASRA. (2010). *Kenya Financial Sector Stability Report*. Nairobi, KE: Government Press.
- SASRA. (2011). *SACCO Annual Supervision Report, 2010*. Available from www.sasra.go.ke accessed on 20th March 2019.
- SASRA. (2012). *SASRA supervision Reports*. Nairobi, KE: Government Press.
- Saunders, A., & Cornett, M. M. (2011). *Financial Institution Management: A Risk Management Approach*. New York, NY: McGraw-Hill.
- Saunders, M., Lewis, P. & Thornhill, A. (2003) *Research Methods for Business Students*. New York, NY: Pearson.
- Sekaran, U. & Bougie, R. (2013) *Research Methods for Business A Skill-Building Approach*. 6th Ed., New York, NY. Wiley.
- Shah, L. & Mehta, P. (2016). *Financial Management*. Delhi, IN: UBS publishers Modern Printers.
- Swarnalatha, R. & Babu, R. (2017). Comparison of Different Tuning Methods for pH Neutralization in Textile Industry. *Journal of Applied Sciences* 17(3)142-147.
- Tahir, S., Sohail, S. Qayyam, I., & Mumtaz, K. (2016) Effect of Corporate Governance Index on Dividend Policy: An Investigation of Textile Industry of Pakistan. *Journal of Economic and Social Development*. 1(2)1-15.
- The Basel Committee on Banking Supervision (2008). Principles for Sound Liquidity Risk Management and Supervision.

- Waithera, H. K. (2015). *Determinants of financial performance of SACCOs in the banking sector in Kenya*. Unpublished PhD Thesis, Juja: Jomo Kenyatta of Agriculture and Technology.
- Wanjiru, N. A., & Muturi, W. (2015). Factors Affecting Financial Performance of Savings and Credit Co-Operative Societies: Case Study Kiambu County. *International Journal of Management and Commerce Innovations*, 3(2), 13-27.
- Wanyama F., (2009). *Surviving Liberalization: The cooperative movement in Kenya 2009*; Coop-AERICA Cooperative Facility for Africa. Cooperative Programme (EMP/COOP) Nairobi, KE: ILO Office for Kenya.
- Wasike, J. (2012). *Corporate governance practices and performance at Elimu Sacco in Kenya*, Unpublished MBA project, University of Nairobi.
- Widyastuti, P. (2016). Financial development and economic growth: the experience of 10 Sub Saharan African countries revisited. *The review of Finance and banking*, 2 (1), 17-28.
- Williams, T. Klakegg, N. Walker, P. Andersen, R. & Magnussen, W. (2012). *Factors Affecting Economic Development and Growth. Demand Media, Houston Chronicle*. Retrieved from <http://smallbusiness.chron.com/factors-affectingeconomic-development-growth-1517.html>
- WOCCU. (2009). *SACCO Growth Program. Safeguard wealth through financial education*. SACCO CAP NEWS; Newsletter
- World Bank (2013). *Annual REPORT 2013*. New York, NY: World Bank.
- World Council of Credit Unions (February, 2013). *Member statistics*. Retrieved from <http://www.woccu.org/about/intlcusystem>
- World Council of Credit Unions. (Data as of December 2015). *2015 Statistical Report*. Washington, DC: World Council of Credit Unions, Inc.
- Yegon, C., Cheruiyot, J. & Sang, J. (2014). The Effects of Capital Structure on Firm's Profitability: Evidence from Kenya's Banking Sector. *Research Journal of Finance and Accounting* 5(9)1-14.
- Zanjirdar, M. & Seif, R. (2012). The relationship between earnings per share forecast error and abnormal stock return of new accepted corporation: Evidence from Iran's capital market. *African journal of business management* 6(10) 1-18.

APPENDICES

APPENDIX I: INTRODUCTORY LETTER

PHYLIS WAITHIRA GACHAU

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 challenges on the performance of Sacco in Kiambu County, Kenya.

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,

Phylis Waithira Gachau.

APPENDIX II: QUESTIONNAIRE

Section A: General Information

1. Gender Male Female

2. Age (years): Below 25 26-35

35 and above

3. Level of Education

Secondary

College

University

Other qualification (specify)

4. Membership period

1 year or less

2-5 years

Above 5 years

Section B: Effect of Loan default

5. 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.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Should SACCO use credit management experts in formulating loan policies.					
Should SACCO reviews its loan policy often.					
Does SACCOs monitor their loan default risk exposure to minimize the risk.					
Does SACCOs evaluate and analyze their loan default often.					
The rate of loan default in the SACCO is minimal					
Loan default affect the return on assets.					

6. Do members default on the loans disbursed?

Yes []

No []

7. If yes, please explain various reasons of loan default.

.....

.....

...

Section C: Effect of dividend policy

8. 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.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Does Payment of dividends leads to increase in members savings.					
Dividend payment is a strong indicator of the SACCOs performance.					
Shoul SACCOs retain profits to invest in profitable projects.					
Payment of dividends minimizes the cash available to the management hence minimizing agency problem.					
Payment of dividends maximizes the shareholders wealth.					
Dividends are irrelevant in improving the SACCOs value.					

Section D: Effect of Liquidity

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.


	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Our SACCO often meets its short term obligations due to increased liquidity.					
There is Protection of members deposit by SACCO management.					
Higher liquidity levels arising from adherence to liquidity regulations in our SACCO has enhanced our customer product portfolio.					
The SACCO raises liquidity holdings hence reducing liquidity risks due to adherence of liquidity regulations.					
The SACCO's increased liquidity arising from adherence to liquidity regulations has enhanced our loan disbursement to members					
SACCOs rely on external borrowing to finance their activities.					


10. Do you experience cases where members have applied for loan and there is delay on issuance of loan? Yes () No ()

11. If yes, please explain various reasons behind the delay of loan disbursement

.....


APPENDIX III: NACOSTI


REPUBLIC OF KENYA


NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY & INNOVATION


Ref No: 265838 Date of Issue: 09/September/2019

RESEARCH LICENSE




This is to Certify that Ms. PHYLIS GACHAU of United State International University - Africa, has been licensed to conduct research in Baringo, Bomet, Bungoma, Busia, Elgeyo-Marakwet, Embu, Garissa, Homabay, Isiolo, Kajiado, Kakamega, Kericho, Kiambu, Kilifi, Kirinyaga, Kisii, Kisumu, Kitui, Kwale, Laikipia, Lamu, Machakos, Makeni, Mandera, Marsabit, Meru, Migori, Mombasa, Muranga, Nairobi, Nakuru, Nandi, Narok, Nyamira, Nyandarua on the topic: Effect of Financial challenges on performance of SACCOs in Kiambu County, Kenya. A case study of PCEA Ruiru Sacco Society Ltd. for the period ending : 09/September/2020.

License No: NACOSTIP/19/1029

265838 

Applicant Identification Number Director General
NATIONAL COMMISSION FOR
SCIENCE, TECHNOLOGY &
INNOVATION

Verification QR Code



**NOTE: This is a computer generated License. To verify the authenticity of this document,
Scan the QR. Code using QR scanner application.**