

The Contribution of Sacco Financial Stewardship to Growth of Saccos in Kenya

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Abstract

Savings and Credit Co-operative Societies (SACCOs) in Kenya have been investing over the years with the objective of maximizing their wealth. As is the case with all investments, wealth maximization is a key objective whenever SACCOs have chosen an investment avenue from a universe of possible investment vehicles. Studies have shown that lack of sufficient Growth of SACCOs' Wealth has made it difficult for them to absorb their operational losses, which has threatened their sustainability. This has led to the losses being absorbed by members' savings and share capital, hence lose of members' savings. While the purpose of SACCOs is to mobilize members' funds and grant credit for the members' development, this has made it difficult for the SACCOs to grow their wealth, achieve this objective and contribute favorably to National Domestic Savings. This failure to build enough SACCOs' wealth, through accumulation of institutional capital, is attributable to weak financial stewardship. It is against this background that this study assesses the financial practice as a factor influencing growth of wealth of SACCOs with a view of ameliorating the situation for socio-economic development. The specific objectives were to; establish the association of loan management and the growth of SACCOs' wealth, establish the association of institutional strengths and the growth of SACCOs' wealth, and establish the association of Innovativeness of SACCO Products and the growth of SACCOs' Wealth. This study used descriptive design in soliciting information on the determinants of growth of SACCOs' wealth. Data was collected from the census of 44 SACCOs in Meru county using a questionnaire and document review tool, and analyzed using both descriptive and inferential statistics. The study findings indicated that Growth of SACCOs wealth depended on loan management, institutional strengths, and Innovativeness of SACCO Products. The study further found that SACCOs inadequately complied with their by-laws; incomes from investments did not adequately cover their costs. The study recommends that SACCO should; continuously review credit policies, establish irrecoverable loan provision policies, develop staff recruitment policies, use appropriate financing mix. Other recommendation is that the Government should review legal framework to ensure that institutional capital is used to grow SACCOs wealth. This study will empower SACCOs with knowledge to ensure their sustainability from within, hence support vision 2030 by widening financial inclusion.

Keywords: Financial stewardship, Growth SACCOs, institutional strengths, Loan Management, Innovativeness

Introduction

1.1 Background Information

According to Munyiri (2006), Savings and Credit Co-operative Societies (SACCOs), which are started locally, are more attractive to customers thus deeply entrenching themselves in the financial sectors of many countries. In fact, they have solid bases of small saving accounts constituting a stable and relatively low-cost source of funding and low administrative costs (Branch, 2005).

More so, SACCOs are able to advance loans at interest rates lower than those charged by other financial providers. In addition, SACCOs have the ability and opportunity to reach clients in areas that are unattractive to banks such as rural or poor areas. The core objective of SACCOs is to ensure members empowerment through mobilization of savings and disbursement of credit (Ofei, 2001). SACCOs in Kenya in their struggle to achieve this objective have been able to mobilized over Kshs.200 billion in savings (Co-operative Bank of Kenya, 2010).

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

Imperatively, each SACCO needs to generate income which is adequate to cover all its operational costs, enhance the institutional capital, dividends and rebates. In this regard, financial practice is based on sound financial stewardship, solid capital structure, and prudent funds allocation strategy (Maina, 2007). It is in this regard that there are financial management theories that explain the growth of wealth in terms of financial stewardship (governance) (Zetche, 2007; Annas, 2003; Abdullah & Valentine 2009; (Flannery & Hankins, 2007; DeMarzoy, Fishman, Hex & Wang, 2010). These theories have pointed to the lack of strong financial stewardship as leading to stagnation of growth of wealth.

Relevant theories on financial stewardship emphasize on value maximisation leading to growth of wealth. These theories include; the stakeholder theory which emphasises on corporate decisions (Sundaram & Inkpen, 2004), virtue ethical theory which encourages stewards to conduct themselves appropriately (Zetsche, 2007), agency theory which suggests that the stewards should make financial decisions for maximisation of shareholders value (Daily, et al., 2003; Clarke, 2004), stewardship theory that requires the stewards to ensure maximisation of financial performance (Abdullah & Valentine 2009). Other theories include; transaction cost theory which stresses for highly qualified stewards for maximisation of wealth (Abdullah & Valentine 2009), finance theory which states that the stewards must act in a manner to maximise shareholders' wealth (Blair, 1995; Keasey, et al., 2004) taking into consideration agency costs (Jensen & Meckling, 1976), and myopic market model which states that the the stewards should make short term decisions to increase share value (Keasey, et al., 2004).

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

Further, The Vision 2030 strategy among other things requires the financial services sector to play a critical role in mobilizing the savings and investments for development of the country by providing better intermediate between savings and investments than at present. This sector will assist the mobilization of investment funds required to implement the projects of Vision 2030. SACCOs are among the financial services strategies to be implemented in this exercise. Service provided by savings and credit cooperative organizations (SACCOs) and other major financial institutions will play a crucial role in improving the reach and access of financial services (currently only 19% of Kenyans have access to formal financial services). It is notable that the financial services contribute about 4 per cent to GDP and its assets contribute equivalent to about 40 per cent of GDP. In the vision 2030, there will be development of vibrant and stable financial system to mobilize savings, and to allocate these resources more efficiently in the economy, where the participation of SACCOs will be very crucial (Government of the Republic of Kenya, 2008). The sustenance of SACCO would widen the financial inclusion 'net' to include the excluded majority (those regarded as poor in the society).

SACCOs in Africa are still crawling as they are newcomers, among those offering savings and credit. In fact they small share in providing financial services, their market share is insignificant when compare to other player in financial service provision (Mwakajumilo, 2011). There are 28 countries in Africa that have established SACCOs (Savings Plus, 2010).

1.2 Statement of the Problem

As Mudibo (2005), posits, the objective of SACCO Societies is member empowerment through savings mobilization, disbursement of credit and ensuring SACCOs' long-term sustainability through prudent financial practice. However, there are a number of challenges in promoting quality financial management such as limited capital funding sources, loan delinquency, and assessment and management of risks. Ademba (2010), postulates that SACCOs in Kenya are faced by such problems as; poor governance and, lack of members' confidence, among others, while Ndung'u (2010), adds that the SACCOs are encompassed by mismanagement and poor investment decisions. Earlier, Thabo, et al., (2003) note that SACCO societies have problems generating wealth due to poor financial stewardship, under-capitalization of co-operative enterprises, high cost of funds, and delayed member payments. Munyiri (2006) says that such challenges would hinder the achievement of the said objectives and even lead to decline in growth of SACCOs' wealth.

Over time, SACCOs have been trying to address members' demands by mobilizing funds and granting credit to members. However, they have not been able to grow their wealth sufficiently through accumulation of enough institutional capital to finance non-withdrawable capital funded assets, provide cushion to absorb losses and impairment of members' savings. However, previous studies (Agrawal et al., 2002; Adeyemo & Bamire, 2005; Deji, 2005; Asher, 2007; Ogsi, 2001) have shown that lack of Growth of SACCOs' Wealth has threatened their sustainability such that they have not been able to absorb their operational losses. This has led to the losses being absorbed by members' savings and share capital which leads to their impairment. According to Financial Stewardship theories (Zetsche. 2007) stagnation of growth of SACCOs' wealth is attributable to Financial Stewardship. While the purpose of SACCOs as put by Branch (2005), Munyiri (2006) and Ofei (2005) is to mobilize members' funds and grant credit for the members' development, this stagnation has made it difficult for the SACCOs to grow their wealth, achieve this objective and contribute favourably to National Domestic Savings. It is not clear the exact relationship between Growth of SACCOs Wealth and financial stewardship.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of the study was to investigate the contrition of the financial stewardship on the growth of SACCOs' wealth with a view to improving their operations for the benefit of the members and the country.

1.3.2 Specific Objectives

- i. To establish the association of loan management and the growth of SACCOs' Wealth.
- ii. To establish the association of institutional strengths and the growth of SACCOs, Wealth.
- iii. To establish the association of Innovativeness of SACCO Products and the growth of SACCOs, Wealth

1.4 Research Hypotheses

- i. H_0 : There is no dependence between growth of Sacco's wealth and loan management.
 H_a : There is dependence between growth of Sacco's wealth and loan management.
- ii. H_0 : There is no dependence between growth of SACCO's wealth and institutional strengths.
 H_a : There is dependence between growth of SACCO's wealth and institutional strengths.
- iii. H_0 : There is no dependence between growth of SACCO's wealth and Innovativeness of SACCO Products.
 H_a : There is dependence between growth of SACCO's wealth and Innovativeness of SACCO Products.

1.5 Significance of the Study

The information acquired from this study will be useful to policy-makers both in the government and SACCOs, especially in strengthening policy considerations in this sector. Such policy improvement may be handy in enhancing the guidelines on how to improve the performance and effectiveness of SACCOs in an effort to enhance their efficiency for the benefit of the members.

Information on the use of financial resources and their influence on the growth of SACCOs' wealth will be useful in ensuring prudent investment and efficiency in the management of the members' wealth. This may also improve efficiency in financial practice of SACCOs' wealth. This may lead to members' satisfaction and trust in the societies and hence increased share contribution. As a consequence, SACCOs may be on the right track in the achievement of their goals as stipulated in their official and policy documents. The study may open opportunities for further research in the area of co-operative movement in Kenya and especially in SACCOs. The study findings will propose some proprietary financial practice to the SACCOs. It will be noted that especially the low-income group will benefit from this knowledge without having to pay royalty fees. Finally, the study provides information on the vision 2030 as regards SACCOs and the role of SACCO in ensuring achievement of this vision's objectives.

1.6 Scope of the Study

The study focused on the financial stewardship as a factor influencing growth of SACCOs' wealth. It should be noted that in the SACCO Society movement, a distinction is made between shareholders and SACCOs' wealth. Growth of shareholders' wealth focuses on empowerment of members through accumulation of savings and provision of credit at low interest while growth of SACCOs' wealth focuses on accumulation of non-withdrawable funds in the form of institutional capital and share capital. The aim of this study was to assess the determinants and establish how they influence the growth of SACCOs' wealth. The study chose Meru County owing to its diversity in the type of SACCOs. This region has the three classification of SACCOs; rural, urban and transport. Additionally, the region has SACCOs with large, medium and small membership. The study collected data from all categories of SACCOs; rural, urban and transport for the period between 2005 and 2009. The SACCO societies are a sub-sector of the co-operative movement.

Literature Review

2.1 Theoretical Literature

2.1.1 The Basis of Growth in SACCOs' Wealth

The Savings and Credit Co-operative Society (SACCOs) system encompasses a mutual membership organization involving pooling voluntary savings together from cooperators in form of shares. SACCOs are user-owned institutions with savings accumulated to act as SACCOs' wealth. The shareholders share a common bond based on a common area of interest or purpose, namely; their geographical area, employment, community or any other affiliation. The principal services of SACCOs include savings and credit but other services such as money transfers, payment services, insurance and member development are also offered (Maina, 2007). Indeed, in the words of Branch (2005), SACCO societies are playing a very key role on savings mobilization for the benefit of the members.

The prime concern of a SACCO Society is to build the financial strength that would ensure continued service to members. Apparently, the SACCOs' wealth needs to be well-managed for the achievement of the SACCOs' objectives. In fact, the concern of this study was that the growth of SACCOs' wealth is grounded on financial stewardship (decision-making aspect), capital structure and funds allocation strategy.

2.1.2 Financial Stewardship and Growth of SACCOs' Wealth

Financial stewardship is meant to increase and sustain SACCOs' value and satisfy the needs and interests of all the members. Accordingly, the financial manager is expected to provide information which will assist in decision-making concerning the investment of the SACCOs' capital. The major financial decisions involved in corporate governance include laying down basic objectives to be met, evaluation of the objectives, establishment of the budget, budget approval, deciding on capital structure, cost of finance, fund raising, investment and distribution of returns (Horne, 2003 and Mudibo, 2005).

In this context, the financial practice team needs to set up the objectives of the co-operative. They should come up with alternative options to invest available funding and evaluate the core objectives by costing them. The alternatives are ranked based on cost and benefit analysis and the best fit is selected. Once the team is satisfied with the selection, a budget is established for the selected objectives. This incorporates a plan to show how much would be incurred in carrying out the chosen alternative. The common budgets include working capital, revenue, cost of mobilizing funds, cash, and disbursement budgets.

These budgets are forwarded to the management committee for approval. The possible capital structure to invest in the selected objectives is identified once the budget is approved. In this case, the management should identify the required start-up capital and long-term finance in order to achieve its objectives. A decision is taken on the mix with respect to optimum capital structure and considerations are made on the returns and risks of such sources (Singh, 2003). The cost of capital for each different funding is evaluated because different types of capital carry different rates of return. For instance, loans without full security or with a high risk usually carry higher rates of interest. The Return on Capital Employed (ROCE) is determined as well and expressed as a percentage of the capital employed in the co-operative business. The funds to be used in the investment are raised from the sources identified during the mobilization of financial resources (Ross, 1998).

After the required funds have been raised, they are then applied to generate income. This is the utilization of the finance raised by the society in the selected objectives. This marks the implementation stage of the investment identified by the SACCO Society. However, after income has been obtained, the agent measures the results from the investment by preparing a statement of comprehensive income which shows the surplus, statement of financial position indicating the financial state of affairs as at that time and cash flow statements. The management committee determines whether the appropriate returns. The dividends and rebates are paid according to the SACCOs' policy where the focus may be to distribute profits or set up reserves to pay debt in future or set sinking funds for retirement of debts (Pandey, 2010).

The financial stewardship theories set the SACCOs' objectives as value maximisation which is complemented by the SACCOs' vision. Key among these theories is the stakeholder theory which says that corporate decisions should consider the interest of shareholders (Sundaram & Inkpen, 2004). However, the theory is not a legitimate contender of value maximisation (Jensen, 2001). Another theory, virtue ethical theory of corporate governance states that SACCOs' agents and shareholders should conduct themselves appropriately. The theory suggests an ethical approach towards economic situations such as when there is less wealth or when there is competition (Zetsche, 2007). The theory involves effectiveness and intellectual aspects of the steward and virtues can be instilled with education (Annas, 2003; Abdullah & Valentine 2009). This theory is very useful to this study in that it will help to relate the staff ability to ability to growth of SACCOs' wealth. Agency theory reduces the SACCO Society to two participants; steward, and the shareholders (Daily et al., 2003; Clarke, 2004). According to the theory, shareholders expect the stewards to act and make financial decisions in the interest of the shareholders (Padilla, 2002) with the aim of maximizing shareholders value. This theory provides a separation of ownership and control (Bhimani, 2008).

In the Stewardship Theory, stewards protect and make profits for the shareholders and they are satisfied and motivated when SACCOs' objective is attained (Abdullah & Valentine 2009). It stresses that the executive management are stewards who ensure they operate the SACCO Society to maximize financial performance as well as shareholders' profits (Daly et al., 2003). Donaldson & Davis (1991) contend that this theory appreciates the importance of structure which empowers the agents and it allows for the stewards' autonomy built on trust. This theory will assist in identifying the role of the finance staff in growing the SACCOs' wealth. Transaction cost theory recognises that the organization and structure of a SACCO Society can determine its profitability. This theory helps to establish the need for qualified staff in the SACCO Society for maximisation of the SACCOs' wealth (Abdullah & Valentine 2009).

As with agency theory, the finance theory is concerned with ensuring that managers act to maximise shareholders' wealth. The theory is an efficient market model (Blair, 1995; Keasey et al., 2004) which actually recognizes the agency costs (Jensen & Meckling, 1976). The myopic market model shares a common view with the agency theory where the firm should serve shareholders' interests only. According to the model, short-term performance are encouraged thereby sacrificing long-term value and competitive capacity of the SACCO society (Moreland, 1995). According to the model, earnings can provide a clue as to the firms value (Stein, 1988). This model argues out that maximization of shareholder welfare does mean share price maximization. This is owing to the fact that the market system tends to undervalue long-term expenditures which may lead to the increase of the shareholder welfare. Owing to myopic nature in the governance structure, the agents are forced to take short-term decisions in increasing share prices (Keasey et al., 2004).

2.2 Growth of Wealth Theories

Growth can be based on endogenous growth theory or neo-classical growth model.

The neo-classical growth theory argues that the rate of growth is exogenously determined using the Harrod Damar model or Solow model. Solow-Swan class growth theory which focuses on capital and labour indicates that capital is added when SACCOs invest but is lost due to depreciation. The indication is that there is capital growth in wealth only when the investment exceeds depreciation (Gartner, 2006). The investment should insist on keeping the capital growing to achieve capital growth. That increase in capital yields leads to an increase in growth of SACCOs' Wealth. The theory explains growth as a factor of accumulation of capital. This model is strongly supported by Harrod Damar Model of development economics (1946) which explains the growth rate in terms of saving and productivity of capital. It explains that increase in investment leads to accumulation of capital.

2.3 Empirical Literature

Studies have been carried out global, regional or local on growth of wealth explaining financial stewardship and an influencing factor. The present study considered the various studies identifying found beneficial. The study sought the relevant information on previous studies from university libraries, private libraries, and public library and through the internet search. Such material was in journals, research papers and working papers.

In 1998, Mrema carried out a study on Tanzanian Women and Progress in Tuke Consumers' Marketing Co-operative. The study found that the SACCO Society had increased profits. It had also continued to pay dividends to members. However, it faced challenges of illiteracy, lack of training, and business. It was recommended that through economic power, members can meet their economic ends that act as motivation for other members to join the societies. The study by Mrema (1998) showed that there were increased surpluses but it failed to show how the retained earnings increased as profits increased. There was also no clear definition of the economic power needed to grow the economic levels.

In another study, Beck et al., (2000) examined the causal impact of financial development on growth and its sources where they found that there was a significantly positive causal impact of financial development on real per capita growth and productivity per capita growth. The study then recommended that positive repercussions for long-run economic growth improve resource allocation and accelerate productivity growth. In the year 2001, Davies conducted a study to review the contemporary debate on governance within the co-operative sector and make an analysis of the traditional approach taken by the movement. This study found that professional management was inevitably gaining ground against lay directors. The study then recommended that when people identify with co-operative purpose and values, they would want to be involved. Good governance in co-operatives was more a problem of management culture. Beck et al., (2000) study emphasized on growth of sources but lacked to indicate how these sources impact on the growth of wealth.

A study by USAID (2001) found that co-operative autonomy was associated with success; governance structures need to be strong, transparent and honest; co-operatives needed to perform well to survive, endure and thrive; and support to co-operative development that creates dependency undermined the mutual self-reliance that is central to cooperation. This led to their recommending that co-operatives needed to develop professional management in order to adapt, innovate, and take rational risks to satisfy the expectations of their owners; and co-operatives succeeded when they consistently delivered value to their owners. The study by USAID (2001) very well showed the need for good stewardship but it did not emphasize on how growth should be achieved. It only said that they needed to deliver effectively..

Remezani et al., (2002) conducted a study associating corporate performance and SACCOs value creation to growth in earnings and found that; EVA, ROE and ROI would rise earnings and sales growth; firms with moderate growth in earnings showed highest rates of returns and value creation for their shareholders. In their recommendations, they said that; growth should not be the input to strategic planning but an outcome of sound investment strategy that is geared towards accepting value creating projects; and managers needed to shift their strategic goals from creating growth at the moment and waiting for surpluses later to enhancing profitable growth now. The study findings by Remezani et al., (2002) were very much concerned with growth of wealth. It, however, only singled out the method of achieving this wealth (stewardship) but failed to include sources of funds and funds allocation in the findings.

Agrawal and Chadha (2005) and Agrawal and Cooper (2007) conducted another study to examine whether certain corporate governance mechanisms were related to the probability of a firm restating its earnings.

In this study, they found that the key governance characteristics such as independence of boards and audit committees, and the provision of non-audit services by outside auditors were unrelated to the probability of a company restating earnings. They recommended that independent directors with financial expertise were valuable in providing oversight of a firm's financial reporting practices. The study by Agrawal and Chadha (2005) and Agrawal and Cooper (2007) related the growth of surpluses to the stewardship. It neither touched on the capital structure nor the allocation of funds.

Other studies were carried in the year 2004 on growth of wealth. For example, Brown (2004) carried out a study to measure corporate governance and firm performance. Brown then found that better-governed firms were relatively more profitable, more valuable, and paid out more dividends to their shareholders. This study noted that good governance was associated with the firm performance. In another study, Det-Wet (2004) found that sales growth minus sustainable rate of growth did not contribute significantly to SACCOS' value; there was significant correlation MVA and Estimated Value Added (EVA); and that there was a weak correlation between the Market Value Added (MVA) and main drivers of (EVA). His recommendation was that managers needed to use the finding to optimize their approach to SACCOS' value management. Isabel (2004) carried out another study and found that EVA performance was influenced by effective management (stewardship). Isabel then recommended that EVA was not very sensitive to the changing betas. The study by Bowen (2004) related the growth of surpluses to good stewardship. It, however, never associated this growth to other factors such as the capital structure or the allocation of funds. The findings were similar to those of Det Wet (2004) and Isabel (2004).

Kaloi (2004) in another study found that there were delays in remittance; loan default; low monthly earnings and failure to invest in illiquid investments led to losses hence no growth of wealth. The study recommended that Ministry of Co-operative Development and Marketing should introduce sound remittance policies. The study by Kaloi (2004) only shallowly dwelt with issues that affected liquidity; financial stewardship but failed to show their contribution to growth of SACCOS.

In the study by Mbaabu (2004), it was found that poor management of business; delays in approval; project under financing; and lending not based on security, among others, affected growth of wealth. The study recommended that there was need for; information system implementation; segmentation of non-performing loans and reassignment of loans to respective risk departments; and quality appraisal of applicants. The main concern of this study by Mbaabu (2004) was on loan delinquency. The study, therefore, failed to identify other factors that lead to growth of wealth. It never said what led to growth of wealth. Adeyemo and Bamire (2005) in their study found that unavailability and inadequacy of credit was a major problem; loan repayment and amount of money borrowed were significant variables that influenced saving patterns; and fund borrowed significantly influenced investment patterns. This led to their making recommendation that saving and investment level could be enhanced if loans were adequately made available and proper supervision and monitoring of funds were put in place. The study by Adeyemo and Bamire (2005) identified lack of funds and poor stewardship and the challenges to growth of wealth. It did not identify the allocation as a determinant of growth of wealth.

In another study, CGAP (2005) found that donors participated in SACCOS to provide funds for growth of their wealth. In this regard, they recommended that the donor needed to; invest in building capacity instead of injecting external funds for lending; encourage sound governance policies; keep financial standards at the core of internal management and external supervision and support competent, independent external supervision of SACCOS. The study by Deji (2005) showed how members would benefit from the SACCOS which is the main objective. However it never showed how the SACCOS' wealth would grow.

In the study conducted by Karki (2005), it was found that in developing countries, co-operative was one of the income sources of their rural economy whereas in developed countries, it took a sustainable business. This is where it was recommended that strategic plans were necessary to bring about the internal improvement in co-operative societies, provide quality services through skill, trained and educated manpower, and e-commerce. The study by Karki (2005) failed to show how growth of wealth comes about. It only touched on the stewardship but not on the capital structure and funds allocation strategy. Finally, Rintaugu (2005) study found that poor lending practices; cash flow problems experienced by debtors; lack of follow-up and unharmonized debt recovery statutes affected the growth of wealth. This study recommended that the firm should increase level of commitment; harmonize existing legal statutes; intensify follow-up; intensive valuation of loanees; increase guarantors; and award loan based on merit. The findings in the study by Rintaugu (2005) were very scattered and were not based on the main indicators of growth, financial stewardship, capital structure and funds allocation strategy

In the year 2006, other studies on growth of wealth were also carried out. A study by Chege (2006) found that loan default was subjected to changes in interest rates; demographic changes, credit scores effect, loan default; and values of collateral to security. The recommendations were that there should be; lower interest rates; participatory involvement in regulating monetary policy; introduction of new loan products; and issue of loans of low value for growth to be experienced. The main concern of the study by Chege (2006) was loan default. The study never even showed how this default affected the growth of wealth alone showing the determinants of growth of SACCOs' wealth. In a study by Kaupelytė and McCarthy (2006), it was found that risk management related to credit union development stages such that as a SACCO Society matures, higher standards of risk management should be implemented. In some cases, these changes were accompanied by shifts in the regulatory framework. The study recommended that the regulatory regime was not always aligned with the stage of credit union development and indeed, reflected the economic policies of the country in which they operate. Nanka-Bruce (2006) conducted another study where it was found that good corporate governance practices positively impacted on performance and recommended that firms needed to impose effective good governance to grow.

Lastly, Tache (2006) conducted a study which found that farmers were convinced and decided to have their own financial institution to empower themselves. They showed their readiness and commitment to help themselves by good contribution of registration fees. The study recommended that support was needed to be given to the SACCOs to start computer-based accounting and financial management system; and technical training and monitoring support was needed to promote the SACCOs. Tache's (2006) study very heavily needed for formation of SACCOs and the usefulness of common bond but it never showed how growth can be enhanced by the financial stewardship, capital structure and funds allocation strategy. Substantial studies on growth of SACCOs' wealth were carried out in the year 2007. Ashers (2007) study found quality of governance and regulation as well as professionalism and modernization were the main factors to development of firms. The governance and regulatory structures needed to be brought in conformity with prospective economic structure; and relevant laws modernized. This study proposed that better understanding of the reasons for differences between well-governed and financially sound firms and those that were not was possible through further research. Asher (2007) shows that sustainability was related to the stewardship. The study did not at all say how growth of wealth was related to the three determinants; financial stewardship, capital structure and funds allocation strategy.

Another study was by Nair and Kloppinger-Todd (2007) which found that Sri Lanka and Kenya had the weakest regulatory environments in which neither prudential regulation nor financial supervision for SACCOs existed. Burkina Faso had a special law for SACCOs, prudential regulation requirements, and arrangements for financial supervision, but had inadequate resources and capacity for effective supervision. In contrast, Brazil presented a case of well-developed regulation and effective supervision. This study recommends that SACCOs would provide financial services in rural areas in developing countries and be profitable if they operate better in environments with prudential regulation and financial supervision. Nair and Kloppinger-Todd's (2007) study shows that sustainability of SACCOs was related to the stewardship and legal framework. The study did not explain how growth of wealth would be achieved through the three main determinants; financial stewardship, capital structure and funds allocation strategy. The study by World Bank (2007) found that failure came where financial co-operative systems were unsustainable, subject to political influence or used by governments for their own purposes.

This then led to recommendation that for financial co-operatives to be sustainable, governments needed to provide an enabling environment, not exercise excessive control that restricts growth and consolidation, and not use them as channels to provide subsidized credit. Integration enabled improved governance and the ability to provide a wide range of services. According to the World Bank (2007), growth and sustainability of SACCOs was related to the stewardship and legal framework but not also to capital structure and funds allocation strategy. Overseas Co-operative Development Council, Arlington (OCDC) (2007) in their study found out that success factors for co-operatives were; legal framework; an economy that permitted all types of competitive businesses; membership that is open to users; equity; high equity/debt ratio; Member-centered services; board of directors elected by and from members only; organization around a resource base and service sufficient to sustain the co-operative as a viable business; Professional management; access to markets; accountability of all employees to the co-operative; management training; membership education; and willingness to use modern technology.

It recommended that success of co-operatives would be by; creating an enabling legal and regulatory environment, accessing markets (Local, Regional and Global), moving from government to member control, and reaching scale and emerging from dependency. The study by OCDC (2007) touched very lightly on the two determinants, stewardship and capital structure and totally failed to show how funds allocation strategy would contribute to success.

Roselyne (2007) conducted a study which found that factors that influenced repayment of loans in SACCOs were salary, nature of loans, and control recovery measures that the SACCO Society has in place to check defaulters. The study recommends that there was need for SACCOs to implement sound management, sound control and loan recovery measures. Loan advance should be based on past repayment history of the borrower, salary levels and contributions; and there should be diverse loan products. Roselyne's (2007) study showed that growth of SACCOs was related to the control of loan default by the stewards. The study did not explain how growth of wealth would be achieved. Adekunle and Henson (2007) in their study found that entrepreneurial alertness was predicated upon being a member SACCO Society and members of SACCOs were better entrepreneurs than non-members. They recommended that government needed to develop policies that would create an enabling environment for the development and proper operation of SACCOs. SACCOs would serve as mechanism for the support of entrepreneurs. The main concern by Adekunle and Henson (2007) in their study was how SACCOs would benefit the members but not how the SACCOs' wealth would grow.

Kinuthia (2007) carried out a study which found that SACCOs were incurring losses due to loan default which affected the wealth of members. The study recommended that SACCOs should provide guidelines on loan policy and credit extension to members; need for integration of SACCOs' information system to employers; and need for Ministry of Co-operative Development and Marketing to liaise with Ministry of Immigration and Registration of Persons to be able to instantly access information on departing employees. The study by Kinuthia (2007) reported that growth of SACCOs was related to the control of loan default by the stewards. The study did not explain how growth of wealth would be achieved. The study by Gaita (2007) shows that the lending institutions were not growing significantly due to poor lending practices. It recommended that lending institutions should make products and services more available; stakeholders should be trained; and favourable regulatory and legal framework is important for the growth of the institution. Gaita's (2007) study showed that failures in SACCOs were related to lending. Growth and sustainability was related to the stewardship and legal framework. The study did not explain how growth of wealth would be achieved.

In another study by Kimani (2007), it was found that the main causes of inefficiency and ineffectiveness in credit administration were unqualified staff in SACCOs; inadequate funds to lend; inadequate training; lack of effective technology; weak internal control systems; and credit management committee is very powerful and able to manipulate the lending. The study recommends that the SACCOs should, therefore, increase the funds for lending through external borrowing; employ competent staff; restructure the organizational structure; funds should be allocated to investment with high returns; increase the loan products (diversify) to satisfy members; embrace teamwork; adopt modern technology; change interest rates to attract members; ensure competition with other financial institutions; ensure networking with other SACCOs; provide education and training to members and staff; change location of office; participate in corporate social responsibility. The study by Kimani (2007) identified the causes of inefficiency and ineffectiveness in credit administration in SACCOs; and growth and sustainability of SACCOs was related to the stewardship and legal framework. The study did not explain how growth of wealth would be achieved.

In another study, Ochoki, (2007) found that there was lack of laws to govern FOSA; lack of qualified FOSA staff; lack of planning and inadequate capital in SACCOs which affected growth. Accordingly, SACCOs should ensure sound business practices and consider safety and liquidity. In a study by Muruana, (2007) it was found that failing loan portfolio; erosion in value of members' shares and loss of value affected SACCOs' wealth.

The study recommended that SACCOs should make adjustment on lending rate in line with inflation, adjust interest rates; and Ministry of Co-operative Development and Marketing (MOCD& M) should develop a policy on how to counter inflation in SACCOs.

Hein (2008) conducted a study where it was found that increasing shareholder power would either have positive (finance-led), negative (normal) or intermediate (profits without investment) effects on capacity utilization, profits and capital accumulation. In the medium run, the positive (finance-led) effects may have to be maintained in a stable environment under very special conditions, whereas the negative (normal) and the intermediate (profits without investment) effects turn into cumulative disequilibrium processes with falling rates of capacity utilization, profits and capital accumulation and rising debt and rentiers' equity-capital-ratios. The study recommends that increasing shareholder power was associated with decreasing managements' animal spirits, on the one hand, and increasing dividends distributed to shareholders, on the other hand. According to Hein (2008), the growth of members' wealth was determined by shareholders' power. The study did not relate growth to the three factors; capital structure, stewardship and funds allocation strategy.

Lastly, Papias and Ganesa (2009) study found out that age, gender and size of the household, purpose for credit, interest rate charges and number of official visits to the credit societies, had a strong effect on loan repayment performance (statistically significant at $p < 0.05$) whereas size of credit disbursed, credit processing and disbursing time, borrowers' market place and income transfer from relatives and friends are more or less statistically significant at $p < 0.20$ level. The remaining factors have logical and explainable signs but are not statistically significant. This study recommends that an understanding of the socio-economic factors affecting repayment behaviour of rural clients was essential for the outreach and sustainability of the mushrooming co-operative societies in the country. The study by Papias and Ganesa (2009) examined the factors contributing to credit repayment behaviour among the members of savings and credit co-operative societies in rural Rwanda. However, it failed to address the factors that determined growth in wealth.

2.4 Conceptual Framework

The study proposes that the growth of SACCOs' wealth is determined by financial stewardship indicators; loan management, institutional strengths, and Innovativeness of SACCO Products as capture in figure 1.

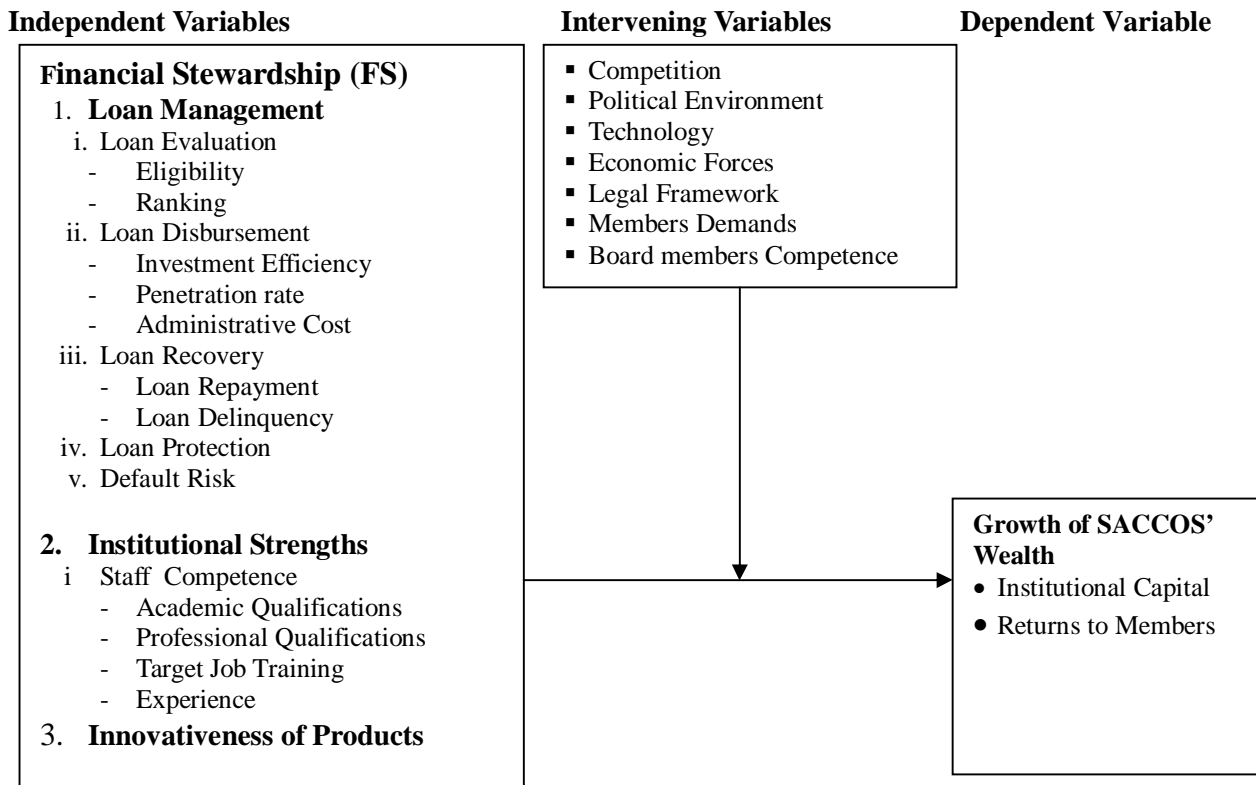


Figure 2.1: Conceptual Framework
Source: Researcher (2010)

Further, there are other factors which cannot be controlled by the SACCOs and can also, in a way, determine the growth of SACCOs' wealth. Competition, political environment, technological environment, economic forces, legal framework, members' demands and board members' competence are some uncontrollable variables, which invariably create barricades and hinder smooth translation of the independent variable into the growth of SACCOs' wealth. In this study, these factors will be treated as the intervening variables in the growth of SACCOs' wealth. These intervening variables will moderate the cause effect relationship between the dependent and independent variables in the study.

This study mitigated these intervening variables. For instance, competition was to some extent moderated in innovativeness where the study addressed diversity, attractiveness and effective marketing of SACCO products. These factors greatly influence members to join and remain in a SACCO. Financial stewardship which is governance addressed the political environment for the more competent the stewards are, the more they can moderate the political pressure. Elsewhere, technological environment was absorbed by financial stewardship. Highly qualified stewards who have more short-term courses can comfortably and easily adopt current technology. The informational theory assisted to address the economic factors that might moderate the dependent variable. Lastly, loan management helped address the members' demands.

Growth of SACCOs' Wealth was represented by the value of its net assets and an increase in these assets translates to growth of wealth. For sustainable growth to happen, the SACCO Society should grow its institutional capital since the only other non-withdrawable capital is share capital. Sustainable growth in different financial aspects is important to surpluses and is the key to the success of the SACCOs. So funds invested by the members of the SACCOs should generate enough surpluses to contribute to institutional capital as they provide for dividends and rebates. So, for the growth of wealth to be visible, the surpluses generated should be enough to contribute to capital levels which maintain institutional capital and provide for shareholders dividends and rebates. The institutional capital consists of the capital reserves and accumulated surpluses which the SACCO Society has generated through retained surpluses. The indicators of growth of wealth are: Dividends (G1), Rebates (G2), and Growth of Institutional Capital (G3), Growth in Membership (G4), and Growth in Deposits (G5), Growth in Shares (G6). The institutional capital, which is a plough back of the income from investments, reflects the surpluses of SACCOs. In this regard, declining growth rate indicates a problem with earnings and sustainable growth rate shows the robustness of a SACCO Society.

The rationale behind the selection of these variables is that first, financial stewardship is viewed, in this study, as the key ingredient in making financial decisions. Thus, the direction given by sound investment decisions determines the future of the growth of SACCOs' wealth. In addition, the capital structure adopted by a SACCO Society may also affect the growth of SACCOs' wealth. In fact, the way funds are used is of great importance to the growth of the SACCOs' wealth.

Financial Stewardship is concerned with the accountability of the management as regards the financial decision making processes. Accordingly, the main aspects which are considered to affect the growth of SACCOs' wealth include the level of staff knowledge and skills, techniques used in decision-making on asset management and the SACCOs' product diversity (innovativeness). The proposition is that when the staff making financial decision lack appropriate qualifications, experience, and training, the decisions made may not lead to substantial growth in SACCOs wealth. In this regard, the staff need to have requisite skills and uphold professionalism among other competencies to arrive at a sound working investment solution(s). The main components of financial stewardship are Loan Management (LM) and Institutional Strengths (IS).

Loan Management is characterized by Loan Evaluation (LE), Loan Disbursement (LD), Loan Repayment (LR), Loan Protection (LP), and Default Risk (DS). Loan Evaluation is the assessment of loan application which provides information on the eligibility of the application with regard to the standards set in the SACCOs' by-laws. The loan assessment team (supervisory committee) must ensure that the loan application complies with the by-laws' requirement for it to be approved otherwise it is rejected. So, loan evaluation being the first step in loan processing, must be done according to the laid down rules and regulations (i.e. by-laws of the SACCO Society). The considerations of an effective evaluation include application eligibility (V1) and ranking (V2). Ineligible applications would lead to losses caused by failure to recover the loan since some of the loanees do not have capacity to repay the borrowed funds and others lack sufficient security.

Ranking involves sequencing of approved loan applications. Failure to rank the loan application means lack of assurance on when an applicant would expect to get a loan which leads to members' dissatisfaction and loss of trust. Eventually, as a result, the members end up reducing their share contribution and/or seeking for loan advances from other sources. This reduces the borrowing as well as the capital base and thereby affecting the SACCOs' wealth. Effective decisions on loan disbursement influence the growth potential of SACCOs' wealth while ineffective decisions weaken the earning capacity. The indicators of these loan disbursement decisions include, the efficiency of investment (D1), which is the ratio of loan portfolio to the total assets. This is where an efficient loan disbursement grows the loan portfolio which is the core investment which leads to growth of SACCOs' wealth. Another indicator is the Loan Penetration Rate (D2) which is the loan coverage ratio. The higher the penetration rate, the higher the availability of loans hence satisfaction of members. A high penetration rate is an indication of spread of risk and hence reduction of delinquency rate and reduced losses. This would also lead to growth of wealth since there is no loss in principal and interest. The last indicator of loan disbursement is Administrative Efficiency (D3). This is the total cost of administration to loan amount disbursed. The lower, the administrative costs, the lower the amount spent from the earnings and the higher the growth of SACCOs' wealth. On the other hand, the higher the administrative costs, the higher the expense meaningless earnings and less growth of SACCOs' wealth. The administrative costs should be as low as possible, even to being negligible, for the growth of SACCOs' wealth to be recognized.

As regards loan recovery, the SACCO societies should ensure high earning capacity from investments on loans to reflect growth in SACCOs' wealth. This is shown by the Loan Recovery Rate (LR1) where a high recovery rate indicates growth of SACCOs' wealth and low recovery rate the opposite. This recovery of the principal and interest should be done in compliance with a SACCOs' by-laws on loan requirements. Delays in servicing the loan repayment would affect the SACCOs' liquidity in that, the funds traded (principal) and the interest are withheld at no additional profitable gain. Such delay would, therefore, cause loss in the investment resources. Loan repayment being the average collection period of the loan is used to measure the quality of loans in which case a shorter collection period indicates better quality loans and a longer period is an indicator of low quality loans. High quality loans are an indication of growth in SACCOs' wealth. When a SACCO Society efficiently manages loans, there is high quality loan management and the average collection period is short leading to growth of SACCOs' wealth. The other aspect of loan recovery is loan delinquency in that the loan portfolio occupies the largest proportion of the total assets of the SACCOs, it holds the largest source of risk. As such, the risk of the SACCOs largely depends on the quality of loan portfolio. Where the collaterals to loan advance are strong, the loan can be recovered by selling out the collaterals. The loan portfolio is measured in terms of Loan Delinquency (LR2).

Loan Protection which means safety of shareholders' funds, involves loan loss provision. Inadequate loan loss provision results in inflated asset value (overstatement) and fictitious earnings. Overstatement of loan assets would lead to losses when these non-performing loans are not paid. Loan protection provides safety of the SACCOs' wealth by provisioning for losses on loans disbursed. This being the protection of the SACCOs' assets is made by providing sufficient allowances for loan losses. Since loan loss provision is deducted from the gross loan, lack of adequate provision for loan loss in a SACCO Society leads to inflated asset value and reporting of fictitious earnings. However, realistic protection leads to reduced overstatement which enhances shareholders' confidence retention, attraction of prospective members, and prevention of potential crises. Such is an indication of growth of SACCOs' wealth. A healthy SACCO Society should have adequate provision allowances for non-performing loans. Any loan not performing for more than 12 months is considered a bad debt.

The last aspect of loan management is default risk assessment which measures the loan default probability. It should be noticed that default risk analysis is the assessment of loans in order to avoid or reduce the probability of loan default. When the default risk analysis is effective then risk prone loans would be identified and then means of avoiding these risks are established thereby reducing or avoiding the probability of default. This would increase the growth of SACCOs' wealth by avoiding loan losses. It should be noted that loan recovery is a very critical factor in financial sustainability and growth of the SACCOs where failure to recover loans (loan default) affects the growth of the SACCOs' wealth by causing losses of funds invested and profits to be earned.

The Institutional Strength involves decisions on; Staff competence (SA), Asset Management (AM) and Innovativeness (TEC).

The staff competence, which determines the financial decision-making abilities, is indicated by the finance staff Academic Qualifications (Q1), Professional Qualifications (Q2), Short-Term Target Oriented Training (Q3) and experience (Q4). Staff competence has a considerable contribution to the growth of SACCO's wealth in that finance staff without the relevant qualifications and adequate experience would not make quality financial decisions for the SACCOs. The financial decisions made by such staff do not lead to the optimal capital structure or even viable investments. Such decisions would, therefore, lead to losses in the investment hence failure to have considerable growth of SACCOs' wealth. Highly qualified finance staff makes viable strategic decisions on the SACCOs' financial practice. The other aspect of institutional strength is technology which is innovativeness on loan products. It involves quality of loan products and diversity of these products. A wide variety of SACCOs' products attracts more borrowing from the members and non-members thereby drawing more clientele which leads to increased trading hence growth of SACCOs' wealth.

Research Methodology

3.1 Research Design

This study used a descriptive survey (Describing the characteristics of existing phenomenon) in soliciting information on the determinants of growth of SACCOs' wealth in Meru County. Descriptive survey design was used since it provides insights into the research problem by describing the variables of interest. It was used for defining, estimating, predicting and examining associative relationships. This helped in providing useful and accurate information to answer the questions based on who, what, when, and how. Historical research was used to relate events that have occurred in the past to current events. It also enabled the researcher to relate the research problem to the missing gaps of other research work which have been covered and also show what the other researchers overlooked possibly due to time differences or economics and social factors (Kombo & Tromp, 2006).

3.2 Study Locale

The study was conducted in Meru County of the Eastern Province, Kenya. The study was conducted in Meru County owing to its being cosmopolitan in various SACCOs. It has diverse SACCOs accommodating the three types of SACCOs (rural, urban and transport) and SACCOs of different common bonds.

3.3 Target Population

The target population was all SACCOs in Meru county which had been in existence for over two years in the year 2010. Although there were 45 SACCOs in Meru County by 2010, the study focused only on 44, because one did not meet the threshold, since it did not qualify for the target population. It should, however, be noted that the study used all SACCOs including dormant SACCOs to avoid survivorship bias. The unit of analysis in the study was the SACCOs which had existed for at least two (2) years since inception. The respondents were the Chief Executive Officers (CEOs) of these SACCOs.

3.4 Sample Design

The study used census study methodology which enabled the researcher to gather more information to assist in analysis and arriving at accurate results. The 44 CEOs (respondents) who are more than the threshold of 30 were to participate in the study. Further, all the SACCOs were accessible and they had different common bonds which make census more appropriate in sampling.

3.5 Data Collection Instruments and Procedure

Data were collected from primary and secondary sources. Primary data were collected using a semi structured questionnaire which had both open and closed-ended questions. Secondary data were collected from the SACCOs' financial statements and other records using document review guide. To effectively collect the data, the study employed the services of two research assistants (RAs) who were first degree holders. The RAs were adequately trained to understand the questionnaire before commencement of the data collection. During data collection, the researcher first sought an appointment with the SACCOs' CEOs (Respondents). Arrangements were then made on when and how to conduct the data collection. When collecting primary data, the RAs assisted the CEOs to fill the questionnaire and at the end confirmed any issues arising out of the data supplied.

3.6 Reliability and Validity Testing

The study conducted a pilot test of the study tools on SACCOs that did not participate in the study before administering the research tools. Pilot testing was conducted in an attempt to test the reliability and validity of the research tools. The research tool was administered to the respondents who were allowed ample time to respond. The respondents were 5 CEOs from five SACCOs selected using simple random from the neighbouring Meru South County.

The data were tested for reliability to establish issues such as data sources, methods of data collection, time of collection, presence of any biasness and the level of accuracy. The test for reliability established the extent to which results were consistent over time. Reliability test was carried out to test the consistency of the research tools with a view to correcting them. The researcher improved the instrument by reviewing or deleting items from the instrument. To test for reliability, the study used the internal consistency technique by employing the Cronbach Coefficient Alpha test for testing the research tools. Internal consistency of data is determined by correlating the scores obtained from one time with scores obtained from other times in the research instrument. The result of correlation is the Cronbach Coefficient Alpha which is value between -1 and 1. The coefficient is high when its absolute value is greater than or equal to 0.7 otherwise it is low. A high coefficient implies high correlation between these items which means there is high consistency among the items and such items should be retained in the tools. This study correlated items in the instruments to determine how best they relate. Where the coefficient was very low, then the item was reviewed by either removing it from the tool or correcting it.

Validity of instrument which is the accuracy and meaningfulness of inferences was measured using content validity test. Content validity measures the degree to which data collected using a particular instrument represent a specific domain of indicators or content of particular concept. The assessment of content validity of a measure is carried by two professional experts. This study assessed the content validity by using experts from the MoCD and M (Staff of MoCD & M who have experience in SACCOs' financial data) as well as financial consultants. The MoCD & M staff determined whether the sets of items accurately represent the determinants of growth of SACCOs' Wealth. The financial consultants assessed the tools to establish what concept the instrument is trying to measure.

3.7 Data Analysis

Collected data were checked for errors of omission and commission. The data collected were classified, operationalized (see Appendix V), analyzed and interpreted to establish how and when these determine the growth of SACCOs' wealth. The data collected were analyzed, with respect to the study objectives, using both descriptive and inferential statistics. Univariate analysis which is the distributional properties of a variable was carried out first for each variable to describe that variable and as a preparation for multivariate analysis. This is a quantitative analysis where each variable was analyzed independently. It is the first step of data analysis and it provides a convenient way to producing the most useful statistics. This analysis was achieved using descriptive statistics which is the assessment of central tendency (convergence), and of dispersion (divergence). The data were presented in form of tables and charts.

The study used chi-square test to test dependence of growth of SACCOs wealth on financial stewardship, capital structure and funds allocation strategy. Thus, the study employed multiple linear regressions in its multivariate analysis. Software Package for Social Sciences (SPSS) software was used to analyze data. Multiple regression was done in order to establish the nature of the relationship between financial stewardship, capital structure and funds allocation Strategy.

Data Analysis, Presentation And Interpretation

4.1 Introduction

This chapter presents findings of the study. Data collected were both qualitative and quantitative. Data were analyzed using descriptive statistics such as mean and standard deviation, and inferential statistics such as chi-square test and regression. Data were presented using tables, graphs and charts.

4.2 Response Rate

A total of 44 questionnaires were given out to CEOs of the 44 SACCOs that had been in operation for more than two years in Meru County out of which 36 were returned giving a response rate of 81.82%. According to Mugenda and Mugenda (1999), a 50% response rate is adequate, 60% good and above 70% rated very good.

Based on this assertion the response rate for this study can be said to be very good at 81.82%. Although the results may be interpreted to indicate a very good response rate, but a failure of 18.18% to respond may be explained by inaccessible records of some of the dormant SACCOs. Some of these dormant SACCOs did not maintain up-to-date record hence the difficulty in responding to the questionnaire.

4.4 Demographic Information

In assessing Financial Practice Determinants of Growth of Savings and Credit Co-operative Societies' wealth, it was considered important to find out the background information of the SACCOs which was the basis under which the interpretations are made. The respondents were CEOs from SACCOs that had been in operation for more than two years in Meru County. The study sought to find out the year in which the SACCO societies had been started and the findings revealed that the oldest SACCO was started in 1972 with majority of them (59.3%) having been started after 1999.

Having found out the year when the SACCOs were started, it was considered important to find out the number of employees that the SACCOs societies had each year from 2005 to 2009 and the findings were as shown in table 4.3

Majority of SACCOs in Meru County had less than two accounts staff in the years 2005 to 2007 as indicated by a mean of less than 2 while in the years 2008 and 2009 majority had less than four accounts staff as indicated by a mean of less than 4. The majority of the SACCOs had less than seven members of staff in other departments in the years 2005 to 2009 as indicated by a mean of less than 7.

The study established that staff establishment is relatively low. This may be attributable to poor staffing levels, weak decision making coupled with liquidity constraints which hinder growth of SACCOs' wealth in Meru. SACCOs therefore, need to improve on staff establishment capacity if they have to achieve sustainable growth. It was also considered important to find out the classification of the SACCO societies as either urban, rural or transport and the findings were as illustrated in figure 4.1.

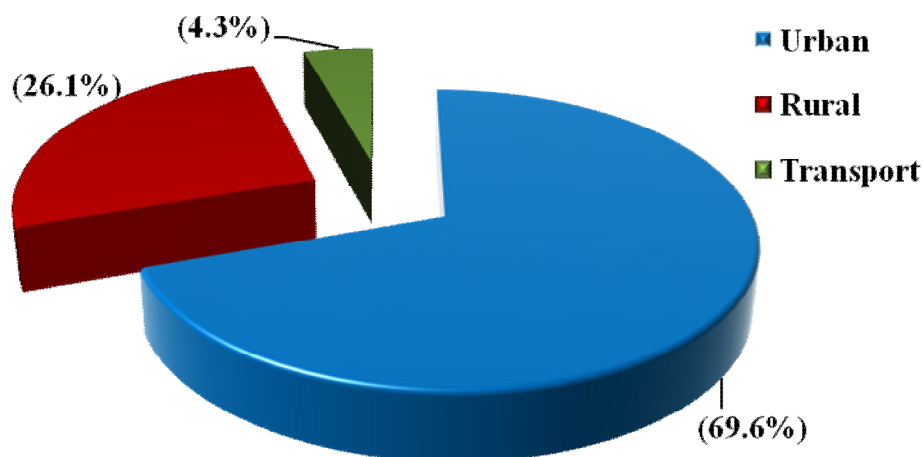


Figure 4.1: Classifications of SACCO Societies

Figure 4.1 above illustrates that majority (69.6%) of the SACCO societies were urban societies while only (26.1%) were rural with (4.3%) being in the transport category. The reason for this phenomenon is due to urban SACCOs being patronaged by regular income earners who also embrace the saving culture. The minimal number of SACCOs in transport based sector is because it is a new investment vehicle which is evolving due to government efforts to streamline the sector.

4.5 Growth of SACCOs Wealth

To assess Financial Practice Determinants of Growth of Savings and Credit Co-operative Societies' wealth it was considered important to find out the indicators of growth of SACCOs' wealth. To accomplish this, it was considered of primary importance to establish the profitability and distribution of income in the SACCO societies and the findings were as shown in table 4.3.

Table 4.3: Profitability and Distribution of Income

Item	Mean	Std. Dev.
Our SACCO has been making a surplus every year from 2005 to 2009	3.35	1.263
Our SACCO has been declaring dividends for the last five years	3.30	1.295
Dividends per share have been increasing in the last five years	3.19	1.241
The SACCO has also been contributing to retained earnings	3.70	1.171
The retained earnings have been growing annually from 2005 to 2009	3.78	0.934

Table 4.3 above shows that majority of the respondents agreed that the retained earnings have been growing annually from 2005 to 2009 and that the SACCO has also been contributing to retained earnings as indicated by a mean of ≈ 4 and a standard deviation of ≈ 1 . It was also revealed that majority of the respondents disagreed that their SACCO had been making a surplus every year from 2005 to 2009, their SACCO had been declaring dividends for the last five years and that dividends per share had been increasing in the last five years as indicated by a mean of ≈ 3 and a standard deviation greater than 1. This is an indicator that SACCOs consistently grew their wealth.

It was further sought to find out how the surplus distributed as dividends, rebates and institutional capital (retained earnings) had been determined and the findings were as illustrated in figure 4.2. The fact that the respondents were neutral on the indicators of growth of Sacco’s wealth shows that SACCOs in Meru on average have been experiencing moderate growth of their wealth. The SACCOs which are able to retain surpluses declare dividends and rebates that grow their equity capital and net assets. Growth in retained earnings cushions SACCOs from heavy reliance on external funding which has forced many SACCOs into financial distress. One can justifiably say that SACCOs should endeavor to minimize their operational costs, grow their surplus and hence be able to build their institutional capital.

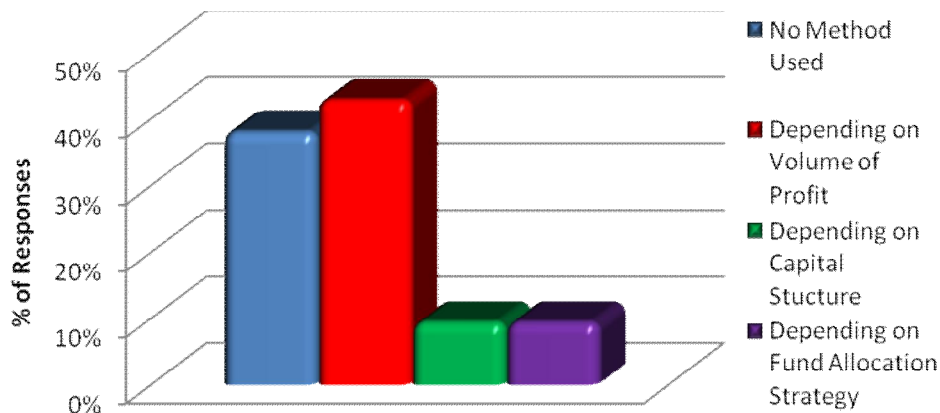


Figure 4.2: Determination of Distributed Surplus

Method used to determine the surplus distributed as dividends, rebates and institutional capital (retained earnings)

Figure 4.2 illustrates that majority of the respondents (42.9%) indicated that surplus distributed as dividends, rebates and institutional capital (retained earnings) was determined depending on volume of profit while (38.1%) of the responses indicated that it was not determined by any method. Only (9.5%) of the responses indicated determination by capital structure and fund allocation each. It was worth noting that none of the responses indicated using standard proportion to determine surplus. This is an indicator that the majority of SACCOs distribute surpluses as dividends, rebates and institutional capital depending on profitability of SACCOs.

The fact that 38.1% of SACCOs have no pre-determined criteria of distribution of profits indicate very weak dividend policy. This may be explained by the weak regulatory framework and human resource capacity.

4.6 Financial Stewardship

Having determined the growth of SACCOs wealth the study also tried to determine the factors that influence the growth. One of the determinants of SACCO's wealth was financial stewardship. Financial Stewardship is concerned with the accountability of the management as regards to the routine financial decision-making process. The findings of the components of financial stewardship were as shown in Table 4.4

Table 4.4: Summary of Responses Concerning Financial Stewardship

Component	Mean	Std. Dev.
Loan Eligibility	4.020	1.0535
Ranking	3.465	1.1525
Loan Disbursement	4.100	0.8790
Loan Repayment	3.635	0.9688
Loan Protection	2.805	1.1355
Default Risk	4.013	0.9113
Innovativeness	3.643	1.0573

From the table 4.4, majority of the respondents agreed that loan applications were approved by special committee in their SACCOs and that SACCOs by-law was the basis of loan evaluation. This is indicated by a mean (≈ 4) and standard deviation (≈ 1). Majority of the respondents were neutral as to whether SACCOs do loan applications ranking or not, this is indicated by the mean (≈ 3) and standard deviation (≈ 1). Majority of the respondents agreed that loan pay-out had been increasing in their SACCO for the last five years and that their SACCO always disbursed loans as they became due. This is indicated by the mean (≈ 4) and standard deviation (< 1). This is a clear indication that higher loan disbursement builds loan portfolio and interest earnings hence contributing to growth of wealth.

Majority of the respondents agreed that loan borrowers always honored loan repayment on due date, loan delinquency had been minimized in the last five years, loan delinquency was avoided at all costs and that members of their SACCO were eager to repay their loans promptly. This is indicated by the mean (≈ 4) and standard deviation (≈ 1). This promotes liquidity hence enhancing growth of SACCOs' wealth.

Majority of respondents were neutral as to whether their SACCO had provision for irrecoverable loans as indicated by the mean (≈ 3) and standard deviation of greater than one.

Majority of the respondents agreed that their SACCO awards loan depending on the borrower's ability to pay, loan with lower default risk are paid in full to the SACCO and that where default risk is high, the SACCO awards loan depending on the borrower's ability to pay. This reduces impairment of the loan assets and interest income hence promoting growth of SACCO's wealth.

Majority of the respondents agreed that all loan products were designed to fit members' needs, there were regular diversification products in their SACCOs as indicated by a mean (≈ 4) and standard deviation (> 1). This is an indicator that products which are inciting, attractive and affordable attract more clientele hence growth in loan portfolio.

4.7 Multiple Regressions of Independent Variables against the Dependent variable

4.7.1 Testing Study variables for Normality

The study tested for normality using Shapiro Wilk test (numerical method) since the sample population was small (less than 50). The results obtained are in Table 4.8.

Table 4.5: Results of Normality tests on Study variables

Variables	Shapiro-Wilk
Growth of Wealth	0.842
Financial Stewardship	0.732
Capital structure	0.898
Funds allocation strategy	0.915

The p-values for respective variables were greater than 0.05 level of significance, indicating that the data were normally distributed.

Absence or presence of heteroscedasticity did not render estimators (coefficients) biased, inconsistent and insufficient, therefore it wasn't diagnosed.

The study didn't focus on the variability of the error term with respect to time, making autocorrelation check not necessary. However, the study tested existence of multi-collinearity and obtained the results in Table 4.5

Table 4.5 Results of Multi-collinearity Tests on Independent variables

Predictor Variables	Tolerance(1-R ²)	VIF(Variance Inflation Factor)
Loan Evaluation(LE)	0.824	1.213
Loan Disbursement(LD)	0.570	1.754
Loan Protection(LP)	0.959	1.042
Default Risk(DS)	0.932	1.072
Innovativeness(TEC)	0.724	1.038
Staff Competence(SA)	0.916	1.092
N=36		

Since the tolerance for all predictor variables were greater than 0.1 or 10%, the study concluded that there is no problem of multi-collinearity among them. So the estimators computed were considered reliable

4.7.2 Regression of Financial Stewardship against Growth of SACCOS Wealth

The study regressed growth of SACCOs wealth against components of the financial stewardship to estimate a model for explaining the Growth of SACCOs in terms of Financial Stewardship. The Growth of SACCOs was the dependent variables and the Financial Stewardship components were independent variables

To achieve this, a multiple linear regression was done on the indicators of financial stewardship i.e. loan evaluation(LE), loan disbursement (LD), loan recovery (LR), loan protection(LP), default risk (DS), staff competence (SA) and innovativeness (TEC) as independent variables of the growth of Sacco's wealth. The assumption is that, mean of wealth index changes at a constant rate as the values of independent variables decreases or increases. The model is given as:

$$GSW = \beta_0 + \beta_1LE + \beta_2LD + \beta_3LR + \beta_4LP + \beta_5DS + \beta_6SA + \beta_7TEC + \varepsilon$$

Where β_0 the constant term

$\beta_1 - \beta_7$ - coefficients of the independent variables

ε - Error term

Table 4.10: Results of Regression of growth of Sacco's wealth against Financial Stewardship Indicators

Predictor Variable	Coefficient	P-Values
Constant	-4.578	0.0001
Loan evaluation	1.159E-05	0.0003
Innovativeness	0.544	0.0001
Loan disbursement	7.028E-09	0.0001
Loan protection	2.347E-07	0.0002
Staff competence	0.119	0.0002
Default risk	-0.046	0.0004
Size=36 R2=0.966 Adjusted R2=0.965		

The estimated equation is:

$$G S W = -4.578+ 1.159E.05LE + 0.554TEC + 7.028E.09LD + 2.347E.07LP.-046DS + 0.119SA$$

Table 4.5 shows that loan evaluation; loan disbursement, loan recovery, loan protection, staff competence and innovativeness have positive coefficients. This implies that the variables are directly proportional to the growth SACCOs' wealth i.e. an increase one or all except default risk lead to an increase in growth of SACCO's wealth.

Default risk has a negative coefficient which shows that it inversely proportional to Growth of SACCOs wealth. I.e. An increase in default risk leads to decrease in growth of SACCO's wealth.

When considering of the growth of SACCOs Wealth and financial Stewardship, table 4.10 shows 96.5% of variation in Growth of SACCOs Wealth is explained by loan evaluation(LE), loan disbursement (LD), loan recovery (LR), loan protection(LP), default risk (DS), staff competence (SA) and innovativeness (TEC). Therefore, financial stewardship indicators are strong determinant of Growth of Sacco's wealth.

Table 4.13 Summary of results of tests of Hypothesis and related objectives

Objective	Hypothesis	Result	Remarks on Hypothesis
Objective 1 To establish the association between loan management and growth of SACCOs' wealth	H ₀ : there is no dependence between loan management and growth of SACCOs' wealth	p=0.000 which is less than 0.05.	Rejected
Objective 2 To establish the association between institutional strengths and growth of SACCOs' wealth.	H ₀ : there is no dependence between institutional strengths and growth of SACCOs' wealth.	p=0.000 which is less than 0.05	Rejected
Objective 3 To establish the association between Innovativeness of SACCO Products and the growth of SACCOs' wealth.	H ₀ : there is no dependence between Innovativeness of SACCO Products and growth of SACCOs' wealth.	p=0.000 which is less than 0.05.	Rejected

Table 4.13 presents the results of hypotheses where the study made the following conclusions:

On hypothesis number one: there is no dependence between loan management and growth of SACCOs' wealth the study accepted the alternative hypothesis and concluded that loan management is an important determinant of Growth of SACCOs' wealth.

Hypothesis number two: there is no dependence between institutional strengths and growth of SACCOs' wealth is rejected. The study accepted the alternative hypothesis and concluded that institutional strengths is an important determinant of growth of SACCOs' wealth.

Hypothesis number three: there is no dependence between Innovativeness of SACCO Products and growth of SACCOs' wealth, the study accepted the alternative hypothesis and concluded that Innovativeness of SACCO Products is an important determinant of growth of SACCOs' wealth.

Discussion Of Findings, Conclusion And Recommendations

5.1 Summary of Findings

This section presents the findings from the study in comparison to what other scholars say as noted under literature review. It looks at the relationship between loan management, institutional strengths, and Innovativeness of SACCO Products and growth of SACCOs' wealth.

5.2.1 Association of loan management on Growth of SACCOs Wealth

The first objective was designed to establish the association of loan management on growth of SACCOs' wealth in Meru County in Kenya. This was established by analyzing the individual components of loan management. It was found that:

5.2.1.1 Loan Evaluation

The majority of respondents agreed that loan applications were approved by special committee and that SACCO by-law was the basis of loan evaluation. Most SACCOs' also ranked applications according to the by-laws. Loan evaluation contributes positively to the growth of SACCOs' wealth as shown by a positive coefficient of regression. This is to mean that SACCOs' wealth increase with the increases in loan evaluation.

5.2.1.2 Loan Disbursement

Most of the respondents were in agreement that the loan payout in SACCOs has been increasing in the last five years and the SACCO always disbursed loans as they became due. Loan disbursement depicted positive influence on growth of SACCOs' wealth. This means that proper loan disbursement increases the growth of SACCOs' wealth.

5.2.1.3 Loan Protection

Most of the respondents were indifferent on whether SACCOs had made provisions for irrecoverable loans as shown by a mean of 3.23. Loan evaluation showed a positive influence on the growth of SACCOs' wealth. This means that as loan protection increases the growth of Sacco's wealth also increases.

5.2.1.4 Default risk

This is the probability of loanees failing to repay the loans. It was observed that the default risk had a negative influence on the growth of SACCOs' wealth. This clearly shows that any increase in default risk negatively affects growth of SACCOs' wealth. This shows that as default risk decreases the growth of wealth increases.

Gaita (2007) showed that the lending institutions were not growing significantly due to poor lending practices and recommended that lending institutions should make products and services more available. He also recommended that favourable regulatory and legal framework is important for the growth of the institution. This agrees with the current study in that when a SACCO society efficiently manages loans, there is high quality loan management and the average collection period is short leading to growth of SACCOs' wealth. In addition, realistic protection leads to reduced overstatement which enhances shareholders' confidence retention, attraction of prospective members, and prevention of potential crises.

5.2.1.5 Staff Competence

It was noted that most of the employees in SACCOs had attained a secondary school qualification as shown by 42.9%. None of the respondents had attained a Ph.D. Most of the employees had attained technician and diploma levels in their professional qualifications. Majority of the respondents agreed that SACCOs did not provide employees with the opportunity to attend short-term target oriented courses as shown by a frequency of 39.3%. Staff turnover was revealed to be very high as shown by a frequency of 42.9%. Most SACCOs therefore, do not have the capacity to retain their staff. The low levels of academic and professional qualifications can be attributable to poor remunerations and poor working conditions in SACCOs. It was observed that staff competence had a strong positive relationship. The SACCOs should aim at employing competent staff who can make prudent decisions to enhance growth of SACCOs' wealth.

5.2.1.6 Innovativeness

The findings showed that most of loan products were applied for by borrowers, were designed to fit members' needs and there was regular diversification of products in SACCOs. This ensures satisfaction of members in meeting their needs. SACCOs should, therefore, design proper mechanisms so as to enhance innovativeness which leads to variety and quality loan products hence growth of Sacco's wealth.

Innovativeness showed a positive relationship with a growth of Sacco's wealth. Having looked at components of financial stewardship, it is therefore important for SACCOs to promote financial stewardship so as to promote growth of SACCOs' wealth. This is based in the fact that financial stewardship showed significant positive relationship with the growth of SACCOs' wealth. According to Mudibo (2005), the major financial decisions involved in financial stewardship include product innovation, Fosa, Bosa activities among others.

Brown (2004) found that better governed firms were relatively more profitable, more valuable, and paid out more dividends to their shareholders. This is in agreement with this study in that the staff making financial decision need to have requisite skills and uphold professionalism among other competencies to arrive at a sound working investment solution. However, he laid more emphasis on the value of governance to the shareholders while this study lays more emphasis on the value to the SACCO.

5.3 Conclusion

In conclusion, the study found that the use of institutional capital as a mode of financing SACCO's activities would ensure their sustainability in the competitive co-operative sector. The study also shows that ;Growth of SACCOs wealth depends on loan management, Growth of SACCOs wealth depends on institutional strengths, and Growth of SACCOs wealth depends on Innovativeness of SACCO Products

5.4 Recommendations

The study finds it prudent to make a few recommendations which are considered important to guide other readers and policy-makers.

5.4.1 Policy and Practical Implications

From the study the following directions for growth of Saccos' wealth are recommended:

- i. SACCO should Continuously Review credit policies. This would enhance the evaluation of loan applications by ensuring that loan applications are evaluated and ranked according to the by-laws. High compliance would lead to growth because the loan eligibility depicted a positive relationship with growth of Sacco's wealth. SACCOs should ensure proper loan disbursement to facilitate loan recovery and minimize administrative costs. Loan disbursement would, therefore, lead to growth of Sacco's wealth.
- ii. SACCOs should Establish Irrecoverable Loan provision policies. They should make adequate loan provisions to promote safety of funds. This will ensure that loan assets are not overstated.
- iii. SACCOs should develop staff recruitment policies. They should employ and retain staff with higher academic and professional qualifications. They should also make arrangements for their employees to attend more short term target oriented courses. The academic, professional and short target courses ensure growth of SACCOs' wealth.
- iv. The SACCOs should apply proper financing mix in their capital structure. This is due to the fact that capital structure showed a strong insignificant relationship with GSW. There should, therefore, be optimum mix between share capital, institutional capital, savings and debt capital since any improper mix does not contribute significantly to the GSW.
- v. The Government should review legal framework to ensure that institutional capital is used to grow SACCOs wealth.
- vi. The study observed that the relationship between non-earning fixed assets and GSW was inversely proportional. SACCOs should minimize investment in the non-earning fixed assets since any increased investment in these assets leads to negative growth.

5.4.2 Recommendation for Further Research

From our study the following directions for future research in growth of SACCOs' wealth are recommended:

- i. Study to be done on effects of board members decisions on Growth of SACCOs wealth
- ii. Study on capital structure methods and Growth of SACCOs wealth
- iii. Study to investigate methods of funds allocation strategy and Growth of SACCOs wealth

5.5 Contribution to Knowledge

The study contributes to the knowledge in the following

1. Sustainability of SACCOs from within using their earnings, hence support vision 2030. Sustainance of SACCOs would widen inclusion in financial sector. The poor who have all through been ignored and excluded in financial services will get a chance to participate in financial services. They will have the opportunity to have access to finance.
2. This the first study in Kenya to identify default risk as a vital indicator in SACCOs' lending
3. The study used county as a unit of making decision. Meru county and others will benefit more from this study.

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