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**“Analysis Of Financial Mismatch In Co-Operative
Societies: A Case Of Kakamega County, Kenya”**



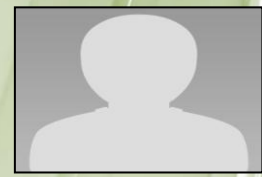
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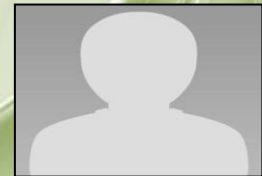
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Abstract

The research was based on the fact that an inadequate fund is the biggest problem facing the Savings and Co-operative (SACCO) in Kenya. Basing on this, the researcher carried out a study on how this financial shortage comes about, its influences on the operations of SACCOs and proposed solutions for handling the problem. The researcher adopted purposive sampling selecting a total of 37 individuals to make it into the sample population. This method of sampling was preferred since it was suitable in selecting individuals who possessed knowledge on the financial issues affecting SACCOs. It employed interview guides and questionnaires as major instruments for data collection. The data collection process was programmed to be completed in a two-week timeframe. Thereafter, data analysis entailed scrutiny of the data with the aim of checking for the level of its accuracy. It was from the results of data analysis that the study drew its conclusions and recommendations. Financial mismatch negatively affect SACCO performance. There is need to ensure sound management practices and policies for SACCOs to perform well.

Key Words

African Confederation of Co-operative Savings and Credit Association (ACCOSCA), Agency for Technical Cooperation and Development (ACTED), Central Management Committee (CMC), Financial Gap, Deposit-taking, Income Generating Activities (IGA), Kakamega Entrepreneurs Savings and Credit Co-operative Society (KEs SACCO), Monetary Mismatch, Research and Development (R&D), Savings and Credit Co-operative Societies (SACCOs), Small and Medium Enterprises (SMEs)

Chapter One

Introduction

1.1 Background to the Study

The SACCO movement in Kenya has been known to experience the problem of inadequate funding. The World Council of Credit Unions and FSD Kenya (2008) supported the above by saying that as SACCOs grow and become regulated, the need to build capital as the most cost-efficient financing option for new products, services, marketing and branch network expansion has emerged as a challenging requirement to many.

The above problem has been brought about by a number of reasons. For instance, a study by SASRA (2011) cites the increased customer-base characterized by the recruitment of new members who contribute for a short-term and apply for long-term loans at low-and-fixed interests. To add, the researcher established that most SACCOs have several cases of unattended loan application forms. This has affected their operations to an extent of failing to pay dividends and interests to members. In cases where efforts have been made to service the interests, very low rates have been offered. Nonetheless, some SACCOs are still operating at very small loan multipliers or low concurrent loans. The challenges are majorly brought about by unavailability of funds to loan when demanded thus contributing to financial mismatch in the loan demanded and the availability of money.

1.1.1 The SACCO Movement in Kenya

Kenyan SACCOS have drastically expanded and thus has emerged as one of the important components of the country's social and economic development. This assertion is supported

by the finding that the SACCO movement in the country accounted for an estimated twenty-per cent of the nation's domestic savings. Moreover, recent research has ranked Kenyan SACCOs as occupying the first position in Africa in terms of the asset and saving portfolios (Cooperative Societies Act Cap 490, 1997).

The rapid growth of the SACCO movement in Kenya can be pinned on the fact that they have for long periods specialized in offering cheap loans at an 'affordable' repayment history to their clients. This gesture has attracted an exodus of clients from the formal financial institutions such as banks seeking their services (ACCOSCA, 2011). With the SACCO Societies Act of 2008 having regularized voluntary and open membership to the previously specialized SACCOs, members of the public have been at liberty to apply and join SACCOS of their choice with their end target resting on securing the long-term cheap loans. Shareholders have also not been left out in this rush though they have differed in their points of interest by seeking increased dividends on their invested capital.

1.1.1.1 SACCOs in Kakamega County

Kakamega County has several upcoming and fast growing SACCOs. Kakamega Teachers Credit Cooperative Society (KATECO), Kakamega Entrepreneurs Savings and Credit Cooperative Society (KES SACCO), and Majani Tea (BT) SACCO are few examples of SACCOs that have grown dramatically for the past three years. In particular, statistics indicate that KES SACCO is showing improvement in performance in the region. It has successfully expanded its financial potential into a very active micro-credit status (Cooperative Societies Act Cap 490, 1997). Members are divided into groups of fifteen with every individual getting loan and encouraged to expand their savings every month. Records indicate that KES SACCO gives an amount estimated to be over 150% micro-credit loans to members with each loan term having an annual interest of 12%. Members receive loans few days after application and make payments without delay (ACCOSCA, 2011).

1.2 Statement of the Problem

Despite the fact that SACCOs command a very large fraction of the economy in terms of financial sector savings, they have encountered a number of operational challenges such as the recruitment of members who contribute on short-term basis and apply for long-term loans at low and fixed interest. The end effect has brought a shortage of funds to service the many pending loan requests.

To address this shortcoming, the management have in other cases resorted to borrowing long-term loans from formal financial institutions (with banks being the preferred mode of lending in most cases). Besides, some SACCO leaders have shown improper behaviour by making moves that are contrary to the ethical operational standards. They have failed to observe the expected accounting standards, the SACCO internal management procedures and policies and have decided to pursue individual goals instead of safeguarding members' interests.

1.3 Objectives

- i. To identify factors that has led to financial mismatch in Kenyan SACCOs.
- ii. To identify the effects of financial mismatch to the growth of SACCOs
- iii. To identify and propose innovative solutions and initiatives that can be used in addressing the financial mismatch

1.4 Research Questions

The following sets of questions were investigated

- i. What are the factors that have led to the financial mismatch in Kenya?
- ii. What are the effects of financial mismatch to the growth of SACCOs?
- iii. What are the innovative solutions and initiatives that can be adopted to facilitate more access to finance for SACCO Societies in Kenya?

1.5 Justification of the Study

It may help management in understanding, setting and improving their policy so as to realize sustainable solution to challenges that affect their organization. It may help to expose challenges that hinder sustainable development of SACCOs. Researchers may find this study very useful when doing future researches. It may be a starting point for future researches. It may help the shareholders by ensuring that they get the best services after recommendations have been made and implemented. It may form the basis for future SACCO decisions. It may help future SACCOs from making the same mistakes that have been made by their predecessors.

1.6 Scope of the Study

This study concentrated on causes of financial mismatch in SACCO societies in Kenya with particular interest to Sacco Societies in Kakamega County.

Chapter Two

Literature Review

2.1 Definition and the characteristics of SACCOs

SACCOs are community-based financial institutions formed by members to promote their interests (Ahimbisibwe, 2007). On its part, the Tanzanian Federation of Cooperatives referred to SACCOs as groups of people who worked in a team set-up to meet their common economic, social or cultural needs through a jointly owned and democratically controlled enterprise (2006). Ahimbisibwe (2007) explains that SACCOs are organized and run on seven basic principles of any co-operative movement. The National Cooperative Business Association (2012) listed these principles as:

- Open memberships to interested persons from a designated area of operation.
- Democratic control by members
- Monetary support/patronage from members
- Independency and autonomy
- Promotion of members' awareness and education through offering regular training or information
- Cooperation with other cooperatives

From the above, it can be implied that SACCOs have three basic characteristics; they are owned by members (no external shareholders), are controlled by members and benefit members.

2.2 Theoretical Review

Kotler and Gary (2005) described theoretical framework as a collection of interrelated concepts such as in a theory to guide a research work as it determines the items for measurement and the statistical relationships being studied. This research will be guided by two theories of financial management: the diversification and the pecking order theories. The former is important since it stresses on the need of the management adopting a diversified

portfolio/collection to reduce risks associated with investing in financial assets just the same way SACCOs have invested in members' contributions and exposed themselves to the risk of the financial mismatch Sambu (2006). The Pecking Order theory is justified because it stresses on internal financing as the best approach for funding new or emerging opportunities (Basker & Powell, 2009).

2.1.1 Theories of Financial Management

The theory of a diversified firm (i.e. the diversification theory on investment)

This theory holds that it is beneficial for firms to practice diversification in different ways including asset diversification, strategy diversification, and geographical diversification amongst others to ensure a sustained business advantage in this competitive business environment. On his part, Zhou (2012) defined diversification as a way of reducing risks by investing in a variety of business ventures or business assets. While presenting a paper on the benefits that accrued to a diversified firm, Matsusaka and Nanada (1994) argued that diversification allowed firms to the flexibility of responding to scholastic relative profit opportunities in either of its diversified divisions or markets.

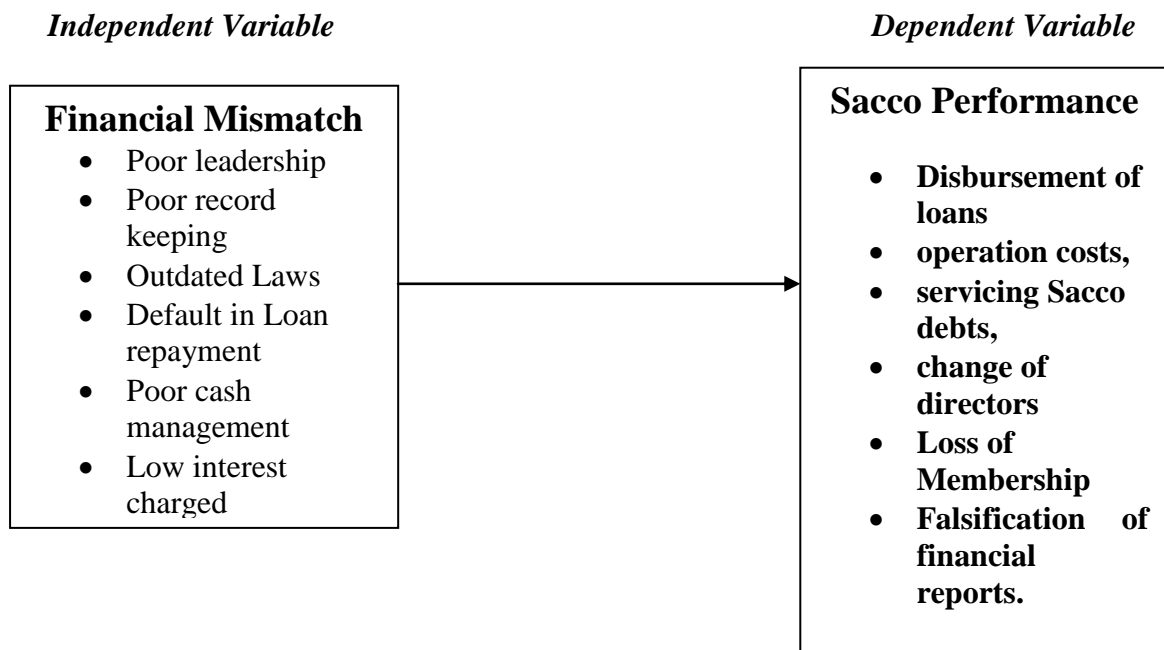
Factors facilitating diversification can be inferred from past research findings which have shown that with stiffening competition, the margin of businesses diminish over a given period. It is therefore important that companies make constant innovations that lead to growth in opportunities. To boost their existing lines of businesses, companies can diversify geographically in its R & D and products. It can also diversify vertically to accommodate some of the business roles run by its rivals. Likewise, horizontal diversification can be adopted to allow the business expand into new markets. To obtain optimal strategy from the above types of diversification, risks associated with particular business ventures must be well defined. Other than reducing the risk exposure, this will help in increasing efficiency, flexibility and reliability Sambu (2006).

2.1.1.1 The Pecking Order Theory

This theory is based on the approach to defining the capital structure of a company, as well as providing guidelines on how a firm goes about the process of making financial decisions. Baker and Powell (2009) posted that a company that preferred to be at the top of the pecking order has to apply suitable strategies reliant on internal financing. The theory seeks to explain how companies go about the process of prioritizing their financing sources. The general idea behind the Pecking Order Theory is that companies will tend to take the course of least resistance, obtaining financing from sources that are readily available and then steadily moving on to sources that may be more difficult to utilize.

2.2 The Conceptual Framework

According to Balachander and Soy (2003), a conceptual framework refers to a group of concepts that are systematically organized in providing a focus, rationale and a tool for interpretation and integration of information. This is usually achieved in pictorial illustrations.



(Source: Author 2013)

Figure 1.1: The conceptual framework: Financial mismatch and SACCO performance

The above framework identifies three variables:

Independent variables are factors that cause the financial mismatch. Intervening or dummy variable reveals the effects of the financial mismatch (shortage of funds) encountered by SACCO's. Dependent variables show the ultimate effect that the mismatch is likely to have on the operational function. These existing literatures on these variables were reviewed underneath as follows.

2.3 Empirical Review

2.3.1 Financial Mismatch

According to London School of Economics (2012), this is the gap in the provision of money for medium-sized, fast growing organizations. These organizations are fast growing to the extent that they cannot sufficiently serve their members for additional funds nor obtain sufficient bank funding. At the same time, they lack the capability to launch their operations on the stock exchange. According to the Citizen (2010), the rate in most cases has been below 30 percent as opposed to the recommended 70 percent repayment rate. Non remittance and delayed remittance of cooperative dues by employers has led to inconveniences and loss of income by the societies (Wanyama, 2007).

2.3.1.1 The Effects of the Financial Mismatch

There are a number of effects that are brought about as a result of the financial mismatch. These include inability to disburse loans to qualifying members on demand, inability to meet operation costs, inability to service Sacco debts, unstable board of directors due to frequent reshuffle as disgruntled members vote officials out, quitting of members to competitors, falsification of financial reports.

The can cause the voting out of elected officials on accusations of fraud, financial mismanagement practices (Wasike, 2012). In addition, dissatisfied members can quit in large numbers to join alternative and emerging micro-finance institutions for fear of losing their savings if the situation deteriorates.

2.3.1.2 Savings Culture

Cooperative societies have played a major part in instilling the savings culture in Kenyans. SACCOs have re-modified themselves as one of the greatest entrants in the economic development agenda. While analysing and scrutinizing SACCO roles in saving culture it is critical to be informed that cooperative societies' model targets at mobilizing capital in a practical approach, which is more meaningful to members (Principles of corporate Governance in Kenya, 2000).

ACTED has made good use of the innovativeness in SACCOs through making transfers for CFW infrastructure restoration and putting in place cash grants and projects for IGA across Kenya. Besides this, ACTECD is also offering capacity building skills to SACCO staff with an aim of efficiency, coverage and transparency as well as safeguarding some assets e.g. safes that will ensure an accountable and successful financial management and disbursing funds as budgeted. Capacity building entails several topics, inter alia, cash handling system, customer care, monitoring, management, and control support to both managers and the staff (Principles of corporate Governance in Kenya, 2000).

Ahimbisibwe (2007), argued that savings was a key component in any development endeavours both in Kenya and other countries globally. This is justified by the reason that it constitutes a surest way of boosting productivity and increasing income all geared towards reducing poverty. Kotler and Garry (2005), say that though savings were not an end in themselves, they carried out a significant role of sustaining growth and development in almost all societies.

The savings culture was first and highly embraced in developed countries such as the United States and Germany. Here, governments, via relevant institutional frameworks educated and encouraged citizens to invest their savings in stock markets, commercial banks, and other micro-finance institutions. This witnessed high saving economies that accumulated assets faster hence growing at a faster pace (ACCOSCA, 2011). As such, the statistics have established that the twentieth and twenty-first centuries have both been characterized by the upsurge in the trend of individuals saving money with the aim of accessing small loan (Deutscher, 2005).

However, the saving trend is quite low in developing countries such as Kenya and Uganda. This owed much to the poorly developed infrastructure that led to location of commercial banks in urban areas, lack of educational and sensitization programmes with regards to stock markets, and the presence of non-regulated microfinance institutions in the country. To counter the above challenges, Savings and Credit Cooperative Societies were introduced in the mid-19th century as an alternative savings mode in developing countries (Weston & Brigham, 2000).

In assessing the role of Savings and Credit Cooperatives in micro-financing, former United Nations Secretary General Koffi Annan emphasized the fact that sustained access to microcredit (small) loans-had assisted in reducing poverty by enabling the undertaking of

best possible decisions to improve peoples' lifestyles (Deutscher, 2005). Some of these decisions include among others availing the capital for business, availing funds to educate the children, and subscribing to the medical care insurance systems.

In an attempt to encourage the SACCO savings culture in Kenyans, many saving mobilization campaigns have insisted on blending several prime accounts that comprises the features of both salary and savings accounts. Major recommendations directed towards easing the saving procedure involved in the making of a simpler inclusive account application forms, banking documents made up of both cheque and cash deposits and withdrawals is very lengthy and prone to errors. It could be better if all this procedure will be replaced by a simpler phone banking system, which will reduce the probability of errors and serve more customers efficiently and conveniently (Weston & Brigham, 2000). In essence to this, there is need of ensuring that the products offered by cooperative societies are designed and presented in proper alignment with the changes in the ever dynamic information and communication technology (Mwaura, 2005).

SACCO management has been advised to adopt good leadership structure that will encourage members to save and claim better returns from their investment. Several SACCO organizations are trying to meet the management standard set for cooperative societies in the ministry of cooperative development and marketing. In the next three to five years all cooperative societies are expected to such administrative issues as capital and asset size, service profile, assessment of competition, systems and technology, human resource plan, marketing strategy, facility requirements, organizational structure & culture, and Service Delivery Systems (Mwaura, 2005). The top management is expected to develop both short and long-term strategies that will propel the societies into realizing improved investment culture. In reality, if this development strategy is left to the management alone, it might not be fully effective. Just as pointed out earlier, financial mismatch is not due to acts of poor management wholly. There are some other strong influential factors that need to be considered. It is therefore, important that the whole system be checked (Weston & Brigham, 2000).

Literature has given figures on SACCOs that indicate that there is too much disparity between several enterprises in Kenya in regard of membership, savings deposits and share capital in registered cooperative societies. Nevertheless, it should be noted that the recording culture is hardly used in Kenyan African culture thus implying that reliable sources of the operations of SACCOs in the past can hardly be availed. It is therefore very challenging to check the validity and accuracy of data on this enterprise (Mwaura, 2005). Despite the fact that cooperatives in Kenya have this unreliable background, useful data has been availed from 2005. It is therefore important that the recording culture be instilled in management of SACCOs if feasible steps to counter financial mismatch is to be realized (Weston & Brigham, 2000).

Generally, personal economic and social differences and inequalities exist in individuals united with a common goal. In Kenya, citizens are united but the fact that we have different socio-cultural existence still exists. Such differences have been recorded in cooperative societies with possible solutions provided (Weston & Brigham, 2000). It is expected that this existing differences cannot be a platform of intimidating members. On the contrary, many SACCOs in Kenya have experienced several cases where some members have been treated unequally (Mwaura, 2005).

2.3.1.3 The effect of socio-economic status on the savings culture

Just like any other society, SACCOs have the social aspect in them. Our social life is one of the fundamental aspects that dictate our trend of life. Social factors therefore have a big role to play in the making and sustaining SACCOs. They determine our demand for good values, expectations, perception, and quality services. It dictates our perception of cultural diversity, cooperative leaders, community funds, and non-remittance of SACCOs (Cole, 2004). Kenyan SACCOs embody members of different cultural backgrounds. If this cultural differences is not perceived positively they can retard our savings culture and generally the development of individuals and SACCOs at large. Some socio-cultural aspects experienced in SACCO management are dependency syndrome, poor entrepreneurial culture, and failure to have confidence in the management, non-risk taking behaviour, ignorantly sticking to barbaric cultural values and norms, and poor ethnic integrity. On the other hand economic factors, which is the greatest factor hindering the development of SACCOs, can easily be identified through inadequate resources, low economic liberalization, price decontrol, and failure to control businesses.

Whether assessed by education, occupation, or income socio-economic status has a lot of effects to our saving culture. Poor economic status reduces ones potential in making viable investment. Poor people have barely anything to save since a very big portion of their income is spent on daily basic needs. In case of any excesses, it is spent in cheap investments whose output is so low that one sees no sense of saving.

Materialist modes have concentrated basically on personal income as a criterion to gauge economic inequality and thus essential in understanding the tendency of families or individuals invests or saves. On the other hand, social literature use structural, cultural, and institutional non-economic, which contribute to social class inequality to gauge our saving cultures (Cole, 2004). Those of high social class tend to have a better saving culture than individuals or families from low social classes. A combination of social class and materialistic economic perception might uncover factors that moderate and mediate people's saving culture.

2.3.1.4 Distinctive Challenges Facing SME finance

Potential providers of external debts to SMEs have always wanted to monitor them after the issuance of the loans to determine whether they are still fulfilling the initial clauses contained in the loan contract (Organisation for Economic Co-operation and Development, 2006). The upholding of the stringent requirements has proved problematic to SMEs since failure to implement some of the clauses makes their access to additional financing a challenge as formal financial institutions are likely to advance credit rationing to them.

Past studies also reveal that the SME sector is characterized by varying growth and profitability when compared to large enterprises. The survival rate of an SME is lower than that of a large firm (London School of Economics, 2012).

It is always very difficult to differentiate between the financial situation and positioning of a firm from that of the owners. Whereas large firms observe recognised standards of corporate governance, SMEs tend to be described more based on the personalities of their owners (London School of Economics, 2012).

2.3.2 Performance of SACCOs

Many managers in SACCOs have found it very difficult to develop an efficient performance indicator. There are several reasons behind this the major one being most indicators offer a good but partial view of the whole enterprise. Most indicators assume qualitative approach while the challenging quantitative approach of judging performance is dominated by financial performance. Efforts to cope up with this heterogeneous state, has forced SACCOs to use balanced scores to identify key measures (Armstrong, 2006). This approach has successfully combined quantitative and qualitative measures, identify expectations from members, and engage a performance assessment in choosing strategies.

Pandley (2005) argues that operational controls give a post action test and gives better control over short periods. To be more effective, this control should take four important steps that are insisted in post action control, inter alia, set performance standards, measure real performance, and point out deviations from the set standards, and finally initiate corrections. In this case, the question is not all about achieving the set goals as emphasized in management by objective practice. Competence and quality of performance has to be considered. Mwaura (2005) insists that lack of credit follow up, credit analysis, and hostile lending of money are some of the factors that have contributed to financial gap and poor performance.

2.4 Summary

SACCOs should make better efforts to find a sustainable solution to challenges they face (Armstrong, 2006). Financial mismatch being a major challenge to many fast growing SACCOs might not be fought independently. It is advised that business oriented minds should be high risk takers and should be prepared for a gain or loss from any investment (Armstrong, 2006). The diversified investment theory discussed above encourages business minds to diversify their investment. This is because the outcomes from investments can be sometimes very unpredictable and thus concentrating ones all risk in a single investment might an economic suicide.

2.5 Research gaps

This study seeks to identify how such like factors contribute to financial mismatch and thus the growth of SACCOs.

Chapter Three

Methodology

3.1 Research Design

The study used quantitative approach as it helped the researcher to analyse statistics as well as establish causal and correlation relationships amongst study variables (Terry 2011: 68). Again, the design allowed the researcher to test theoretically derived hypothesis or assumptions to arrive at logical outcomes that possessed scientific validation. Haberfeld e.t.l (2009) documented the same justification by explaining that quantitative research studies allowed application of statistical analysis toward the collected data, thus providing a clear picture on the findings or results. This study analysed the several primary and secondary sources of data on SACCOs concerning financial mismatch and came up with a conclusive statement of the situation as it stood.

3.2 Study Population

Kakamega Teachers Cooperative Society members, its staff and the management committee (KATECO) formed the population. KATECO is the single largest cooperative society in the Kakamega County which is the second largest county in Kenya. KATECO members are evenly distributed in the county hence making it easier for the researcher to collect data.

3.3 Sampling Design and Procedure

KATECO served as a sample unit which had different sampling frames in terms of its staff, members and management committee.

3.3.1 Sampling frame

A sample of 37 chosen and comprised of the staff, members of the Sacco and members of the management committee (Table 3.1)

Groups	Number Of Members
Staff Members	50
KATECO Members	3000
KATECO Management Committee Members	20
Total	3070

(KATECO October, 2012)

Table 3.1: Target population

3.3.2 Sample and sampling techniques

A sample is a set of respondents selected from a larger population for the purpose of determining parameters or characteristics of the whole population, (Kombo, 2006). The study utilized stratified random sampling technique. This involved sub-dividing the population into homogenous sub-groups, called strata (subsets of the population that shares at least one common characteristic). In this study, the strata consisted of the categories identified above (Sacco staff, Sacco members and members of the managing committee). Within each stratum a random sample was selected using simple random sampling technique in order to ensure that the sub-groups in the population are represented in the sample.

In each stratum, 10 percent of the total population was selected to form the study sample apart from the Sacco members' stratum where 30 members were randomly selected due to their huge number.

Groups	Number of members	Selected members (10%)
Staff members	50	5
KATECO members	3000	30 (convenient percentage of 3)
KATECO management committee members	20	2
Total		37

Table 3.2: Different strata for sampling

3.4 Sources of Data

To achieve the stated objectives, the study utilized both qualitative and quantitative data. Both primary and secondary data were collected. Primary data was obtained from the field where key informants, SACCO management committees, and members were the main source. Key informants included Kakamega District Cooperative Society's officer and several officers from The Cooperative Development Ministry in the district. They provided relevant information on several topics, inter alia, background information on SACCOs, the challenges they face including financial mismatch, possible solutions implemented to solve such challenges, and finally the public expectations from SACCOs.

3.5 Instruments/Data collection tools

This data was collected through interviews and questionnaire. Secondary sources that were employed.

3.6 Data Collection Procedure

The survey was administered through various means depending on the available contact information of the respondents. Those with email were sent an email on the study and their requested participation together with an attached questionnaire. Those without email were sent mail giving the same information and with an attached printed questionnaire together with a stamped return envelope.

3.7 Pilot test

The researcher conducted a pilot study on the questionnaire and scheduled the day for distributing the questionnaires.

3.8 Data processing and analysis

Data analysis employed content analysis. This technique was used to help make inferences by objectively and systematically identifying specified characteristics of messages. In this approach, the analysis of documents and texts that sought to quantify content in terms of predetermined categories and in systematic and replicable manner was done. After presenting findings, data was analyzed for easy comprehension.

Chapter Four

Data Presentation, Analysis And Interpretation

4.1 Introduction

The aim of this study was to assess the impacts of financial mismatch to the continued success of SACCOs. It gives a detailed analysis on the causes of financial mismatch and suggests possible measures to be taken in order to make these cooperative solvent and capable of dispensing loans to customers in time and as required by the customer. For that case, the main research objective of the study was to examine the impacts of the financial mismatch to cooperative societies. As such, it looked at factors that result to financial mismatch in Kenyan cooperative societies. Moreover, it sought to identify the effects of financial mismatch to the growth of cooperatives. Furthermore, the study also identified and proposed innovative solutions and initiatives that can be used in addressing the financial mismatch. Both primary and documentary sources were consulted in helping to generate data and information that helped to understand the impacts of financial mismatch to cooperative societies. Triangulation methodological approach was used in data collection where various related documents to the study topic were reviewed, Survey Research Questionnaire and

Structured Interviews were also used. These methods were centered on data collection relating to the impacts of financial mismatch to cooperative societies.

4.2 Secondary Sources of information - Factors Leading to Financial Mismatch

According to Owojori & Oladejo (2009) it was established that most of the cooperative societies in the developing countries are faced with various problems. These problems serve as constraints that have continued to affect effective and efficient performance of cooperative societies in national building that they are supposed to contribute to. As such, these factors have resulted to for poor performance, decline and in some cases death of some the cooperative societies. These problems in most cases are attributed to poor leadership of the cooperative societies (Owojori & Oladejo, 2009). Purposeful leadership that is transparent, dedicated and truly serving can help cooperative societies to be financial stable and eliminate financial mismatch. Top management are involved in cornering as they inflate contracts so as to receive kick backs from them, practice favoritism in the recruitment of staff members who then go ahead to serve their interests through mismanagement resulting to financial mismanagement. Financial mismatch which included poor business techniques and liability. Poor business techniques originate from poor leadership and management as the people who are given the mandate to run and manage these cooperative societies in most cases are ill educated. They cannot develop good business techniques that are robust in the competitive environment that they operate in.

Financial mismatch is exacerbated by the practice of poor record keeping and shortage of supervisory of staff. This reduces accountability leading to financial mismanagement.

Outdated cooperative laws; Most of cooperative societies' laws were adopted in the initial stages of societies' formulation and that they have taken long before being reviewed and revised. As a result, the current sets of laws are not well formulated to handle factors that contribute to financial mismatch in these societies.

Corruption and embezzlement; leadership problem was identified as a major setback to the performance of cooperative societies. This is so since with the problem in management, it becomes a major problem in coordinating the activities of the societies thus presence of a vacuum that encourages mismanagement that eventually results to financial mismatch.

According to Agricultural Support Programme (2012), financial mismatch that is caused by their top leadership. Agricultural Support Programme went ahead to postulate that cooperative societies in almost all parts of the world face numerous crises which are not limited to crisis of capital, crisis of ideology, crisis of credibility and crisis of management.

Financial mismatch results to competition risks which usually take different forms. Cooperative societies' projects is likely to be delayed which leads to cost overruns, non completion in some cases and completion with performance deficiency. Most cooperative societies' operations, technologies are required to be intensively applied just like any other financial institutions such as commercial banks. However, risks arise when technology that is intended to be used in the financial management proves to be inapplicable in the operation. The acquisition of that technology is taken to waste, it is ineffective and leads to inefficient management of the Sacco's activities perpetuating further the financial mismatch of the cooperative societies. Financial mismatch reduces the Sacco operating efficiency affecting its economic feasibility. Interruption of operations due to availability of finances, excess

operating and maintenance loans that are incurred throughout its operation, management and maintenance are incurred. As such, a vicious cycle of insolvency is experienced hence creating a state of economic instability. Financial mismatch may be setback in terms of members investment and memberships; most members withdraw and join other financial institutions that seem to be performing better free from problems of the financial mismatch.

4.3 Survey Research Questionnaire (SRQ) Results

This part discusses the results obtained from the Survey Research Tools which were analyzed by SPSS Statistics 17.0 that are presented just below the discussion and goes ahead to interpret the results. The Survey Research Questionnaire was divided into four parts with various questions in each of them.

In Section A, it was designed to generate general information that helped to understand the knowledge of the respondents. In Section B, SRQ was desired to generate information to help understand factors for financial mismatch of cooperative societies in Kenya; C was designed to help in understanding the effects of financial mismatch to the growth of cooperative societies

Given the already existing knowledge on the financial mismatch from earlier studies, it was established that the financial mismatch to cooperative societies is rampant to the Kenyan societies. Figure 4.1, the highest composition of 80 percent was established to be the cooperative society members while 14.3 percent comprised of the cooperative Sacco staff and

5.7 percent formed the managing committee members.

Understanding of this information was important as it helped to know the background of the all stakeholders of the Sacco which in turn was helpful in understanding various areas of interests of these different groups in the management of cooperative societies.

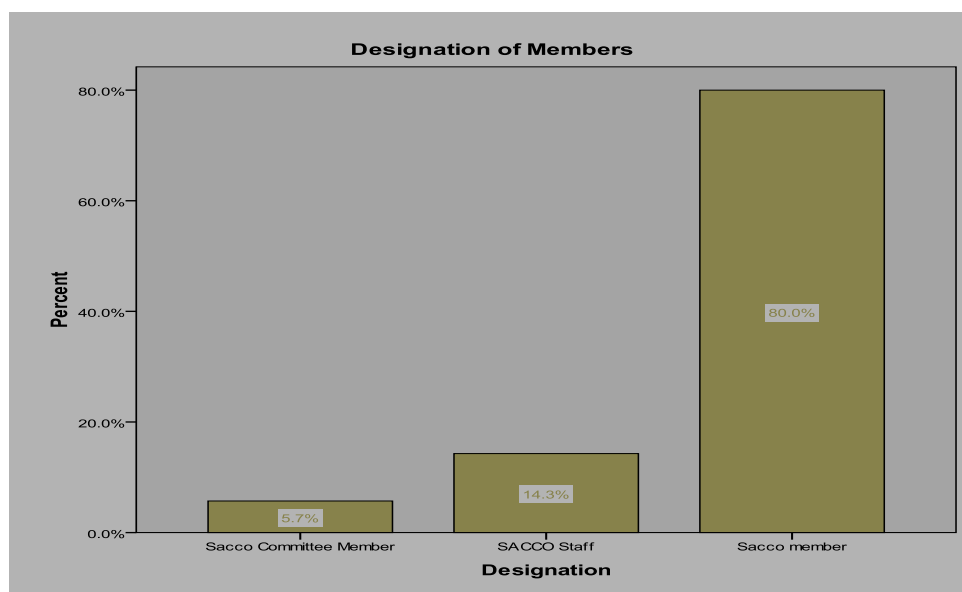


Figure4.1: Designation of KATECO members' representation in the study

It was important to understand the period that the respondents have been members to the KATECO in order to understand the level of members' retention of the Sacco. A question was posed to the period to which they have been the members of KATECO, the results as presented in figure 4.2 was obtained. The results showed that members who have been with the Sacco for one to two years were at 14.3 percent which was same to those who have been with the Sacco for less than two years. On the other hand, members who have been with the Sacco for three to four years stood at 22.9 percent while those that have been with the Sacco for more that five years was at 48.6 percent. With respect to these results, despite the data of the members who have been with the Sacco for more than five years being placed at the highest of 48.6 percent, membership retention rate is said to be low given the fact that KATECO has been in existence for more than 20 years. Furthermore, according to the interview conducted to one member of the board of directors, he alluded this low rate of members' retention to the withdrawal of members to other competitors. In the interview, the member of the board of directors continued to affirm that when Sacco members request for loans and the same loans are not provided due to insufficient funds due to financial mismatch, the members become irritated thus their reason for withdrawal from the Sacco. Therefore, this makes it impossible to have higher members' retention rate.



Figure 4.2: Membership period of the Sacco members

ANOVA analysis was done to determine the influences of both the independent and dependent variables amongst these three categories. As such, as represented in table 4.1 of the results of one way anova analysis of the financial mismatch, effects of membership duration against various stakeholders that comprised of the Sacco committee members, Sacco staff and Sacco members was determined. For that case, it was established that the mean of the Sacco committee member was at 4.0, Sacco staff was at 2.6 and Sacco member at 3.0. However, in order to establish whether differences exist between these three groups, it was imperative to get their sig value using various criteria. With respect to this, the sig value on homogeneity of variance, anova analysis and group means were established to be at 0.1, 0.3 and 0.2 respectively as shown in table 4.2, table 4.3 and table 4.4. Therefore, it can be affirmed that there is no significant differences between the three groups of KATECO stakeholders that is the Sacco managing committee members, Sacco staff members and Sacco

members since all of them are equally affected by the financial mismatch of their society. For that reason, it can be affirmed that the changes in financial management of the cooperative societies will always affect the three groups of stakeholders in the same manner.

Descriptives Analysis of one way anova

Membership period

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
Sacco Committee Member	2	4.0000	.00000	.00000	4.0000	4.0000	4.00	4.00
SACCO Staff	5	2.6000	1.14018	.50990	1.1843	4.0157	1.00	4.00
Sacco member	28	3.0714	1.11981	.21162	2.6372	3.5056	1.00	4.00
Total	35	3.0571	1.10992	.18761	2.6759	3.4384	1.00	4.00

Table 4.1: One way anova analysis of the financial mismatch effects of membership duration against various stakeholders

Test of Homogeneity of Variances

Membership period

Levene Statistic	df1	df2	Sig.
2.333	2	32	.113

Table 4.2: Sig value on homogeneity of variance

(Source: Author 2013)

Membership period

	Sum Squares	df	Mean Square	F	Sig.
Between Groups	2.829	2	1.414	1.159	.327
Within Groups	39.057	32	1.221		
Total	41.886	34			

Table 4.3: Sig value of Anova analysis

(Source: Author 2013)

Homogeneous Subsets

Membership period

Designation	N	Subset for alpha = 0.05
Tukey HSD ^{a,b} SACCO Staff	5	2.6000
Sacco member	28	3.0714
Sacco Committee Member	2	4.0000
Sig.		.183

Table 4. 4: Sig value on group means

a. Uses Harmonic Mean Sample Size = 4.078.

b. The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

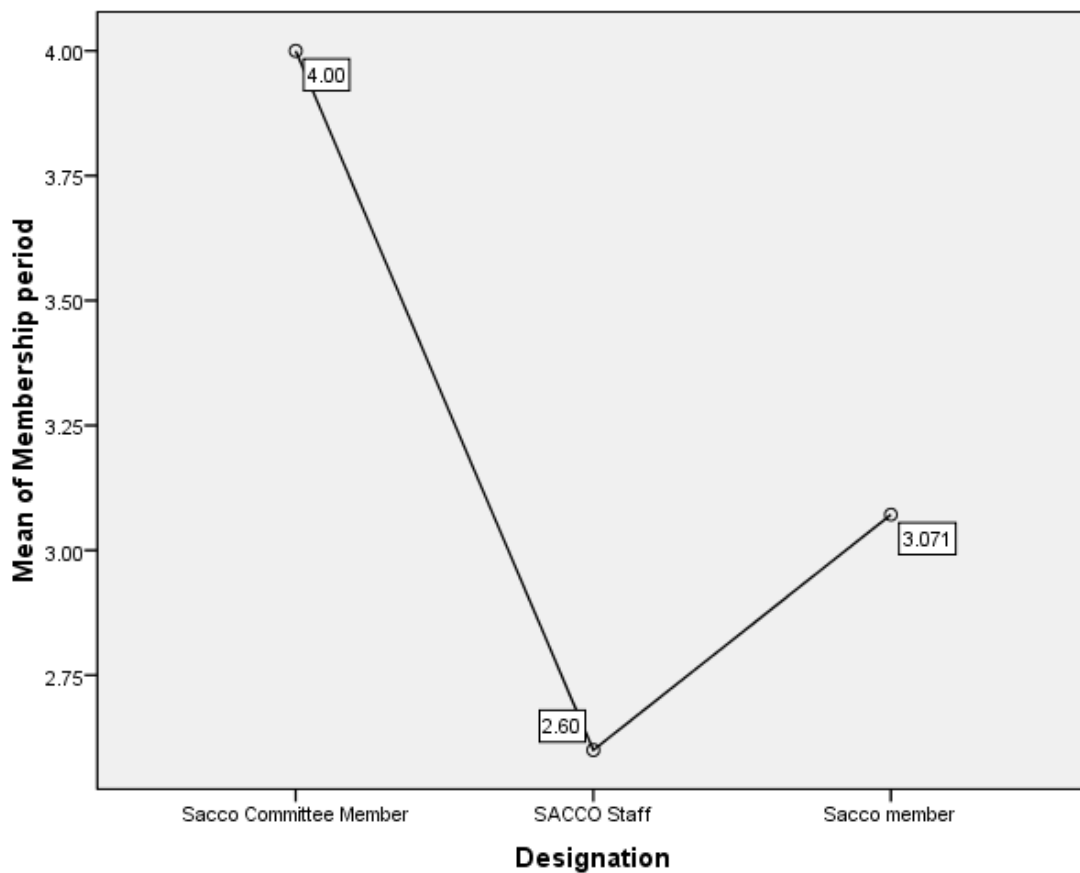


Figure4.3: Means of the financial mismatch effects of membership duration against various stakeholders

Nonetheless, the aim of the study was to carry out analysis of the financial mismatch to cooperative societies. Therefore, it was important to establish whether the financial mismatch exist in the first place. As such, the second part of the Survey Research Questionnaire (SRQ) was tailored to understand factors for Sacco financial mismatch in Kenya. To this end, question one of this part questioned whether KATECO as a cooperative society experience financial mismatch, the results as presented in graph 4 were obtained. From the graph, it is indicated that 96.9 percent of the population concurred that the Sacco has at one point experienced financial mismatch while only 3.1 percent of the population were not aware of the mismatch with zero percent disputing this fact. As such, it can be affirmed from the results that this is a recurrent problem that is even known to the newly admitted members who have been with the Sacco for less than two years. Furthermore, this fact was affirmed by the member of board of directors who pointed out in the interview that financial mismatch in KATECO is a problem to the Sacco that it even threatens its operations. As such, it was imperative to go ahead to determine the causes of the financial mismatch that could help in determining possible strategies to mitigate this rampant problem.

Experience of financial mismatch

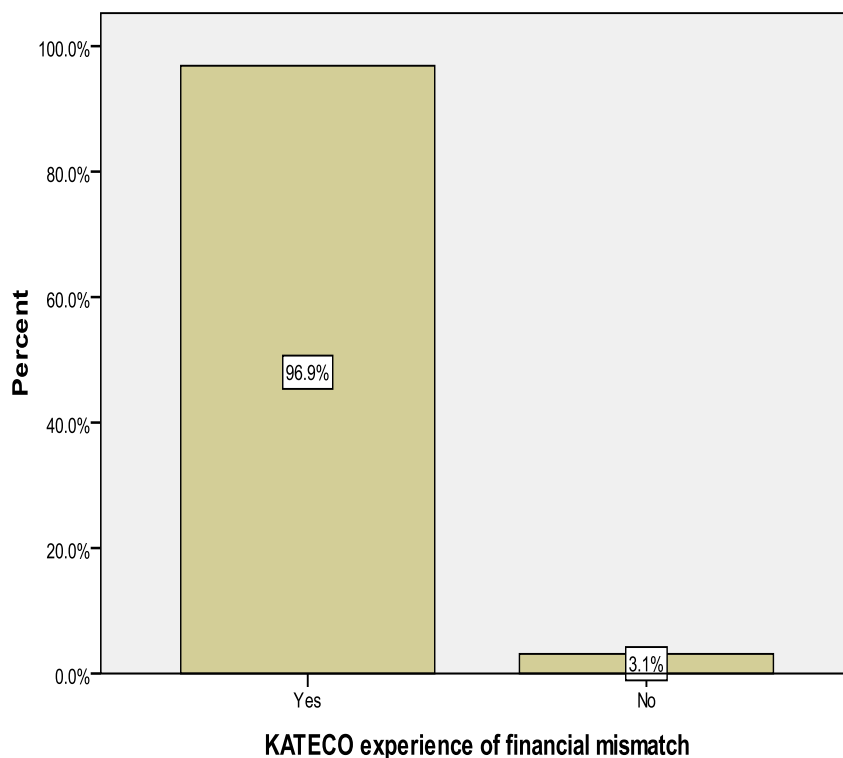


Figure4. 4: Experience of financial mismatch by KATECO (Source: Author 2013)

On factors that have contributed to the financial mismatch of the Sacco. A question as to whether there are factors that have contributed to the financial mismatch was asked table 4.5, the 88.6 % concurred to the financial mismatch ,11.4 % didnt. From the interview of the member of the board of directors, it was established that there exists a wide variety of factors that contribute to the financial mismatch to cooperative societies.

Presence of factors for mismatch: Case Processing Summary^a

	Cases					
	YES		NO		Total	
	N	Percent	N	Percent	N	Percent
Presence of factors that contribute to financial mismatch	31	88.6%	4	11.4%	35	100.0%

a. Limited to first 100 cases.

(Source: Author 2013)

Table 4.5: Availability of factors for financial mismatch to cooperative societies

T-Test as a measure of Hypothesis SACCO’s experience of financial mismatch

Two hypotheses were formulated to help determine if financial mismatch exist within cooperative societies. A null hypothesis (Ho) was formulated that; cooperative societies do not experience financial mismatch in their operations. An alternative hypothesis (Ha) was formulated that; cooperative societies experience financial mismatch in their operations. Both hypotheses were tested for the data analyzed and the results were as follows;

One-Sample Test

	Test Value = 0					
	T	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Financial mismatch on KATECO	11.623	34	.000	1.34286	1.1081	1.5777

Table4.6: T- Test for hypothesis on experience financial mismatches Sacco’s operations

A one sample T-Test was conducted where a test value of 0 and of 95% confidence of difference yielded the results shown in the table 6. From the results, P value (Sig. (2 tailed)) is 0.000 which means that cooperative societies experience financial mismatch and therefore the NULL Hypothesis (Ho) was rejected, and the alternative Hypothesis (Ha) accepted.

It was imperative to determine the exact factors that contribute to the mismatch. Tables 4.7 illustrate some of these factors and extend of their effects.

Factors for financial mismatch: Case Processing Summary^a

	Cases					
	Included		Excluded		Total	
	N	Percent	N	Percent	N	Percent
Poor cash flow management	25	71.4%	10	28.6%	35	100.0%
Declaration of inappropriate dividends	16	45.7%	19	54.3%	35	100.0%
High sacco loan defaulting rates	26	74.3%	9	25.7%	35	100.0%
Low interest loan on members	17	48.6%	18	51.4%	35	100.0%
Other factors	10	28.6%	25	71.4%	35	100.0%

a. Limited to first 100 cases.

Table 4.7: factors for financial mismatch

The highest causation of financial mismatch at 74.3 percent. Therefore, the financial bases of these cooperative societies are depleted making operation of some of their business activities a problem to be performed. Poor cash flow management results to financial mismatch at 71.4 percent. Most of the cooperative societies usually face a problem of recruiting unqualified and non-competent employees as a result of social vices such as corruption and tribalism of some of its top management. People tasked with the responsibility of managing resources are rarely up to the task. Low interest loans given to members at 48.6 percent. According to the interview with the director, this was attributed to the fact that cooperative societies offers low interest rate loans to their members while at the same time, the loans that are given to these societies by commercial banks are usually at higher rate. As such the financial mismatch is easily created. Furthermore, it was established that cooperative societies in most cases declare inappropriate dividends as a way of appeasing members in order to retain them and to attract more clients. This according to results of the study was considered to be at 45.7 percent. Moreover, there are also other factors such as embezzlement of the funds that were rated to be at 28.6 percent that contribute to financial mismatch of the cooperative societies.

From figure4.5, it was established that the mismatch has diverse effects to societies operations as 77.1 % concurred while 11.4 percent were not aware of the effects and 11.4 percent were undecided these cooperative societies have effects to cooperative societies. Hence, financial mismatch has profound effects on the performance and operation of the cooperative societies.

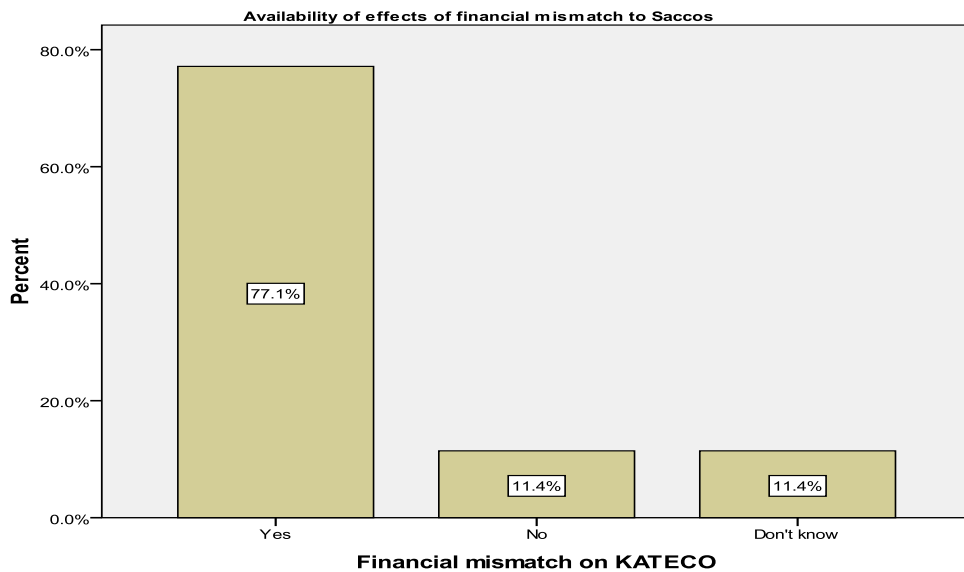


Figure4. 5: availability of effects of financial mismatch to operation of cooperative societies

In figure4.6, it was established that 77.1 percent of the respondents noted that the mismatch has negative effects to these cooperative societies 22.9 percent did not know the kind effects of the mismatch has on Sacco's. Therefore, in the event of financial mismatch, there are only negative effects that are experienced but no positive effects T-Test as a measure of Hypothesis effects of financial mismatch to SACCOs

Furthermore, during the analysis of effects of financial mismatch to cooperative societies, two hypotheses were formulated to help determine the kind of the financial mismatch that exists within cooperative societies. A null hypothesis (H_0) was formulated which hold that; financial mismatch do not have any negative effects to operations of cooperative societies. An alternative hypothesis was also formulated that; financial mismatch have negative effects to cooperative societies in their operations. Both hypotheses were tested for the data analyzed follows;

One-Sample Test

	Test Value = 0					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
How financial mismatch affect the Sacco	30.946	34	.000	2.22857	2.0822	2.3749

Table4.8: T-Test analysis on hypothesis on financial mismatch effects to cooperative SACCO's

A one sample T-Test was conducted at 95% confidence and yielded the results shown in the table 4.8. P value (Sig. (2 tailed)) is 0.000 which means that financial mismatch have negative effects to cooperative societies and hence (Ho) was rejected, and the alternative Hypothesis (Ha) accepted.

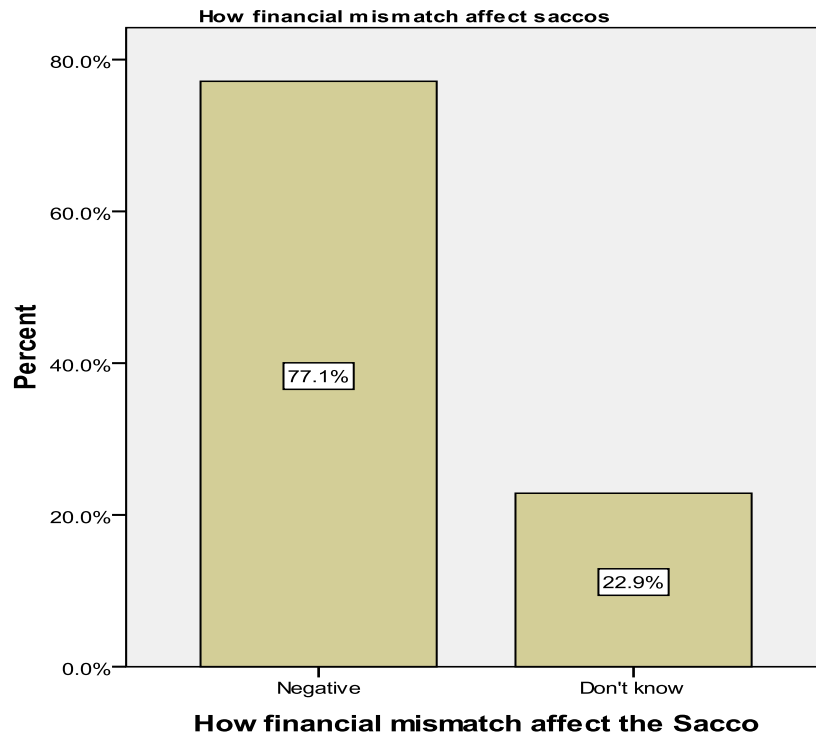


Figure4.6: effects of financial effects

It was imperative to understand the negative effects of financial mismatch to cooperative societies. From table 4.9, it was established inability to disburse loans is one of the biggest effects of the financial mismatch as 62.9 percent concurred. This was attributed to the fact that financial mismatch depletes financial base of the cooperative societies and when their members require loans, finances required are never available. It was established that inability to service loans that cooperative societies have taken from commercial banks has negative effects of financial mismatch. Failure to service these loans was at 54.3 percent affirming that this inability results from the fact that although cooperative societies provide low interest loans to their members, the same is not the case for the loans given to them by the commercial banks. Moreover, with the mismanagement problem of these cooperative societies, most of its financial base is embezzled by the top management. With rampant embezzlement of the societies' capital base, they are incapacitated in servicing their loans which in some cases has resulted to closure of some of them. In addition, it was established that as financial mismatch befalls cooperative societies, most of its members quit to join other cooperative societies that seem to be performing well or other stable financial institutions. This was determined to be at 48.6 percent and according to one of the director interviewed, it was established whenever the financial mismatch occurs, any cooperative society is never in the position to give loans to its members and even dividends becomes a myth. As such, members of these societies opt to quit and join others that seem to be performing well financially or even join other financial institutions that can cater for their needs. Moreover,

unstable board of directors was also established to be another negative effect of financial mismatch as it was put at 28.6 percent. From the information collected from the interview, this effect was ascribed to the fact that the mismatch brings in instability of any cooperative operations and as a result, the board of directors are branded unsuitable for the management of the said society. Therefore, they are ousted in order to try new set of directors. As such, with the continued financial mismatch, this becomes a vicious cycle that in turn makes the management of the cooperative societies unstable. Nonetheless, falsification of financial reports was also found to another negative effect of the financial mismatch among cooperative societies as it was put at 25.7 percent. This effect was attributed during the interview to the fact that in the event of a financial mismatch, cooperative societies will always turn to commercial banks and other financial institutions for loans. As such, for them to be granted these loans, it was affirmed by the director that they are forced to falsify their financial records in order not to appear to be financially insolvent for their requests to be granted.

Negative effects of financial mismatch to sacco: Case Processing Summary^a

	Cases					
	Included		Excluded		Total	
	N	Percent	N	Percent	N	Percent
Inability to disburse loans	22	62.9%	13	37.1%	35	100.0%
Inability to meet operation costs	15	42.9%	20	57.1%	35	100.0%
Inability to service sacco debts	19	54.3%	16	45.7%	35	100.0%
Unstable board of directors	10	28.6%	25	71.4%	35	100.0%
Quitting of members to competitors	17	48.6%	18	51.4%	35	100.0%
Falsefication of financial reports	9	25.7%	26	74.3%	35	100.0%
Others	4	11.4%	31	88.6%	35	100.0%

a. Limited to first 100 cases.

(Source: Author 2013)

Table 4.9: Negative effects of financial mismatch to cooperative societies

To solve financial mismatch in cooperative societies table 4.10 presented the results on the best solutions form respondents. Low interest loans to these societies so as to be friendly and affordable to socially established societies. Cooperative societies are established to serve social functions by helping their members to take care of the social need in addition economic emancipation. As such, they pride themselves with their social responsibility while commercial banks are concerned with their economic growth through high profit turnover. It was suggested that commercial banks should understand the social responsibility of the cooperative societies in the community and help them in advancing it rather than maximizing profit from loans offered to them. There should be medium interest rates on loans offered to cooperative society members at 74.3 percent. Interests on Sacco members be raised to a relatively medium level. Interest rate on cooperative society members should make social and economical sense to enable these societies to carry out their business operations without financial constraints.

That loans provided by cooperative societies should have effective securities as 68.6 percent is be a solution to financial mismatch. Currently cooperative societies provide loans without effective securities which have resulted to a lot of bad debts

Solutions to financial mismatch of saccos: Case Processing Summary^a

	Cases					
	Included		Excluded		Total	
	N	Percent	N	Percent	N	Percent
Medium interestson loans given to members	26	74.3%	9	25.7%	35	100.0%
Low interest charged on sacco loans	27	77.1%	8	22.9%	35	100.0%
Effective securities on sacco loans	24	68.6%	11	31.4%	35	100.0%

a. Limited to first 100 cases.

(Source: Author 2013)

Table 4.10: Solutions to financial mismatch facing cooperative societies

On remedies to financial mismatch, table 4.11, 68.6 percent established that having stiff laws on loan defaulters is likely to help in preventing the problem of loan defaulting. Board of directors should be professionals were at 65.7 percent. Most of the boards of directors lack career or professional training hence raising issues of professional competence in the management of these societies. 57.1 percent established that professionalism in staffing will help to prevent financial mismatch. Vices such as favoritism, tribalism and corruption characterize recruitment process of the societies resulting to incompetent people being recruited. 54.3 percent indicated that good records management practice would prevent financial mismatch as records management was believed to be a key component of a sound

management as it promotes transparency, accountability and integrity of organization business processes.

Preventive measures for financial mismatch: Case Processing Summary^a

	Cases					
	Included		Excluded		Total	
	N	Percent	N	Percent	N	Percent
Professional board of directors	23	65.7%	12	34.3%	35	100.0%
Stiff laws on loan defaulters	24	68.6%	11	31.4%	35	100.0%
Good records management practice	19	54.3%	16	45.7%	35	100.0%
Professionalism in staffing	20	57.1%	15	42.9%	35	100.0%

a. Limited to first 100 cases.

Table 4.11: preventive measures for financial mismatch of cooperative societies

Chapter Five

Summary Of Findings, Conclusions And Recommendations

5.1 Introduction

The aim of this study was to assess the impacts of financial mismatch to ensure continued success of SACCOs. It gives a detailed analysis on the causes of financial mismatch and suggests possible measures to be taken so that cooperative societies will be able to dispense loans to customers in time and as required by the customer. The main research objective of the study was to examine the impact of the financial mismatch to cooperative societies. The study looked at factors; identified the effects of financial mismatch to the growth; identified, proposed innovative solutions and initiatives that can be used in addressing the financial mismatch in cooperative societies. Both primary and documentary sources were consulted. The following are the summary of the findings.

5.2 Factors Leading to Financial Mismatch to cooperative societies

The factors include poor leadership that is characterized by favoritism in staff recruitment, who serve their interests through mismanagement of the resources resulting to financial mismanagement. Poor record keeping which eliminate accountability and transparency completely; resulting to financial mismatch experienced by most societies.

Outdated cooperative laws adopted in the initial stages of societies’ formulation and that they have taken long before being reviewed and revised. This makes the current set of laws ill prepared to handle factors that contribute to financial mismatch in these societies.

Defaulting in repaying the loans that depleted the financial base making operation of some of their business activities a problem to be performed. Poor cash flow management due to recruiting unqualified and non competent employees; corruption and tribalism of some of its top management lead to financial mismatch

Low interest loans given to members and declaring inappropriate dividends as a way of appeasing members in order to retain them and to attract more clients cause financial mismatch.

5.3 Effects of financial mismatch to Cooperative Societies

Low rate of members' retention was ascribed to the fact that some members withdraw to join other competing financial institutions. This becomes common a cooperative is not able to meet its financial obligations like issuance of loans to its members.

Inability to disburse loans is one of the biggest effects of the financial mismatch as finances required to provide these loans are never forthcoming. Inability to service loans as they provide low interest loans to their members while loans given to them by the commercial banks is at high interests. Rampant embezzlement of the societies' capital base which in turn makes it incapacitated in servicing loans which in some cases has resulted to closure of some of them. Unstable board of directors brings in instability of any cooperative operations and as a result, the board of directors is branded unsuitable for the management. Falsification of financial reports order not to appear to be financially insolvent for their requests from commercial banks to be granted.

5.4 Innovative solutions and initiatives for financial mismatch for SACCO Societies in Kenya

5.4.1 Solutions

Regular monitoring and reporting of risk associated or that causes financial mismatch. It ensures full understanding of the current and projected risk position of the cooperative society. Provision of low interest loans to these societies by commercial banks which in most cases is never friendly and affordable to social established societies; provision of medium interest rates to enable these societies to carry out their business operations without financial constraints and loans provided by cooperative societies should have effective securities.

5.4.2 Preventive initiatives

Stiff laws on loan defaulters is likely to help in solving the problem of loan defaulting; board of directors should be professionals; professionalism in staffing and good records management practice are key components of a sound management as it promotes transparency, accountability and integrity of organization business processes.

5.5 Conclusions

Cooperative societies are faced with financial mismatch caused by poor leadership, record keeping practices, outdated cooperative laws; poor cash flow management and low interest loans that are given to members.

Financial mismatch affects disburse loans their members due to depleted financial base, inability to service their loans from commercial banks, unstable board of directors.

Solutions include regular monitoring and reporting of risk associated/that causes financial mismatch, commercial banks should provide low interest loans; the loans provided to

members should have effective securities; there should be professionalism in staffing and good records management practice need to be put in place to promote transparency, accountability and integrity of organization business processes.

5.6 Recommendations

The cooperative societies need to enter into agreement with the commercial banks for them to be provided with low interest loans as this will reduce interests that Sacco repay on the loans they get from commercial banks hence helping in cutting on financial mismatch.

SACCOs to provide medium interest rates on loans to make social and economical sense to enable these societies to carry out their business operations without financial constraints.

SACCOs to only provide loans to members with effective securities to cutting down on defaulting. Stiff laws on loan defaulters. Board of directors to professionals to have people with some professional background to steer the management of the Sacco.

Staffing and recruitment to done professionally to ensure employees are up to the task and that professional ethics are instilled in the operation and management of the Sacco's. There should be good records management practice that promotes transparency, accountability and integrity of organization business processes to control corruption, tribalism and other multi-practices.

5.5 Further Research

There is need for research on the independent variable factors; investigate the effect of leadership on performance of SACCOs; effect of record keeping on Performance, the impact of laws on SACCO performance, How loan repayment affect the performance of SACCOs, the effect of cash management on SACCO performance, the impact of interest charged on performance of SACCOs.

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