

FINANCIAL STRATEGIES AND WEALTH OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN KENYA: A CASE STUDY OF KIAMBU COUNTY**EDWIN BARRACK OTIENO**

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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 loss 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, inappropriate capital structure and imprudent funds allocation strategy. It is against this background that this study assesses the financial strategies as a determinant of wealth of SACCOs with a view of ameliorating the situation for socio-economic development. The specific objectives were to; establish the association of financial stewardship and the SACCOs' wealth, establish the association of capital structure and the SACCOs' wealth, and establish the association of funds allocation strategy and the 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 60 SACCOs in Kiambu 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 financial stewardship, capital structure and funds allocation strategy. 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 growth.

1. INTRODUCTION

1.1 Background of the study

World organization of credit unions (Woccu) statistical report of 2012 shows that there are 55952 savings and credit cooperative societies in the world with total membership of 200,243,841 and savings of over 1trillion US dollars and asset base of over 1.6 trillion US dollars. Research by IMF Hesse and Cihak,(2007) shows that Sacco's in developed countries tend to be more stable in times of economic crisis because their investment patterns employs the capital of members in the best way that serve their long term financial needs they have less tendency to invest in high risk financial markets as compared to other commercial banks Therefore their average comparative stability under both average and extra ordinary conditions can help mitigate impacts on their clients in short term .Competition from micro-finance institutions are increasingly becoming cumbersome features of formal financial institutions in delivery of credits and lending procedures, which have led to development and growth of MFIs.

Financial sector in most developing countries are fragmented in terms of different institutions using diverse methods to serve varied clients hence the spring up of formal and informal segments in financial sector. This fragmentation implies that different market segment faces problems like, poor information, high transaction cost, risk management problems, mobilization of funds, grants and capitalization according to Steel, (1998). Woccu report (2009) indicates that savings in Sacco's across sub Saharan Africa grew by average of 31.9% in 2008, comparable to average savings growth rate of 30.6 % in 2007 and 27.9% in 2006 growth in number has been steady. Donors and partners have channeled fund through Sacco's to target specific clients this practice can harm Sacco's external funding and decreases incentives to mobilize savings this incentive of mobilizing savings has not been managed well in Sacco's according to Woccu report of 2009. Financial sector comprises of players from banking industry, Sacco's, MFI, Capital market, insurance company, Mutual funds premium funds, and Development finance industry according to CBK (2007). Financial sector reforms were adopted in 1989 through Structural Adjustments Programs (SAPS) supported by World Bank credit which includes liberalization of interest rate was attained in July 1991 and exchange rate was allowed in October 1993.

According to SASRA report 2012 Sacco movement in Kenya is billed as the largest in Africa and among top ten globally with over 230 billion shillings in assets and saving portfolio estimated at 190 billion shillings Sacco movement constitute significant proportion about 20% of total domestic savings therefore Sacco's have become vital component of Kenyan economic and social development. Recent development in Kenya economy since introduction of economic liberalization poses greater challenges to Sacco's. Competition and increased demand for improved financial services. Sacco movement in Kenya continues to thrive amid the challenges to the extent that it has captured the interest of many stakeholders like government regulation institutions. During the 2009 national budget reading there was a proposal to amend banking Act, to allow banks to contract Sacco's to offer banking and financial services as agents and distribution outlets for banking services Sacco star, (2009). Strategic management process is based on the belief that organization should continuously monitor internal and external events and trends so that timely changes can be made in order for organization to adapt.

According to Cooper (2009), in today's business environment the only constant is change, successfully organization effectively manage changes by continuously aligning their business strategies and business operation systems, products line and their organization culture and structures to the needs and demands of the ever changing environment, in order to survive market shocks and prosper

from forces that brings competition. Diversification strategies can be related or unrelated to value chain. Those that are related to value chain possess competitively cross business strategic fit. And those unrelated are so dissimilar that no competitive valuable cross business relationships exist. Most business preferred related diversification to capitalize on synergies like technical know-how transferring competitive valuable expertise, other organization capabilities from one business to another, combine related activities of separate business into single operation to achieve lower costs common use of brand name can be easily exploited. Cross business collaborations can creates competitive valuable resources and capabilities David, (2009).

According to Sacco star, (2009) Sacco's have experienced cash flow problems due to non remittance by employers of their members contribution therefore impeding ability of Sacco's to advance loans to their members or implement other functions . Sacco star, (2009) page 28 further identifies Sacco's challenges like poor strategies improper product range insufficient research and development.

According to Rosner (1996), Sacco's are self-managed and democratic organization their structures are made in a way that the directors and committees who manage this Sacco's are elected democratically by members and represent the interest of the members, according to Katz & Bland, (2002) during elections members who are shareholders have the right to vote but are only entitled to one vote. According to Davis, (2003) Sacco's are ideal economic organization whose activities contribute to improving economic and social wellbeing of their members, Sacco members must receive dividends on capital or shares contributed, therefore it's their secondary benefits besides accumulation of savings and loans according to Daly, (2004). He further talked of the need for Sacco's to adopt sustainable growth strategies to increase its membership and gain competitive strength. There are significant difference between Sacco's and micro finance institutions the nature of Sacco's as cooperative credit institution Wanyama (2009) cites the case of Canada where Sacco's offers savings and loans services to their members and also provide other financial services because of strong competition from other financial institutions Davenport, (2006) cites continuous innovation as the most important tool for Sacco's to remain constantly competitive.

Muriungi (2015) notes that Kiambu had around 50 SACCOs but the introduction of SACCOs for the public transport sector have pushed the SACCOs to more than 100. The best know SACCOs in the county include Metro SACCO, Dimkens, KIST, Githunguri Dairy & Community, KAKA Travellers, Tai, Umithio, Chahisco, Chania Travellers, Jijenge (Macadamia), Kangama, Kenya Cannery and Orient (Thika District Teachers) (KUSCCO, 2016).

The SACCOs in the county are in various sectors including agriculture, public transport, business, marketing, teaching, housing, land buying and other formal and informal activities. SACCOs help the members to pool their resources together and perform huge business and social activities that cannot be carried out by individual members. This study sought to establish what influences growth in SACCOs to enable the continued development and growth in SACCOs in this county. Kiambu County was selected due to its Metropolitan nature whereby the findings can be applied to rural as well as urban SACCOs.

1.2 Statement of 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; negative cash (liquidity), poor governance and, lack of members' confidence, while Ndung'u (2010), adds that the SACCOs are encompassed by mismanagement and poor investment decisions. Thabo and Gichira, (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); Capital Structure theories (Ahmed & Hisham, 2009; Flannery & Hankins, 2007); Funds Allocation Strategy theories (Chien, 2006) and Growth theories (Gartner, 2006), stagnation of growth of SACCOs' wealth is attributable to Financial Stewardship, Capital Structure and Funds Allocation Strategy. 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 favorably to National Domestic Savings. It is not clear the exact relationship between Growth of SACCOs Wealth and financial stewardship, capital structure, and funds allocation strategy.

1.3 Objectives of the Study

1.3.1 General Objective

The purpose of the this study was to determine the financial strategies and wealth of SACCOs' in Kenya a case study of Kiambu County.

1.3.2 Specific Objectives

The study had the following objectives

- To establish the relationship of financial stewardship and SACCOs' Wealth.
- 2. To establish the relationship of capital structure and SACCOs' Wealth.
- 3. To establish the relationship of funds allocation strategy and SACCOs' Wealth.

1.4 Research questions

The current study aimed at answering the following questions

- What is the relationship of financial stewardship and SACCOs' wealth?
- How does capital structure impacts on SACCOs' wealth?
- What effect does fund allocation strategy have on SACCOs' wealth?

1.5 Significance of the study

The information acquired from this study is useful to policy-makers both in the government and SACCOs, especially in strengthening policy considerations in this sector. Such policy improvement will 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 SACCOs' wealth are useful in ensuring prudent investment and efficiency in the management of the members' wealth. This will also improve efficiency in financial practice of SACCOs' wealth. This will lead to members' satisfaction and trust in the societies and hence increased share contribution. As a consequence, SACCOs will be on the right track in the achievement of their goals as stipulated in their official and policy documents. The study will open opportunities for further research in the area of co-operative movement in Kenya and especially in SACCOs. It should be noted that especially the low-income group will benefit from this knowledge without having to pay royalty fees. Finally, the study will provide 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 strategies that determine 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 Sacco's wealth. The study chose Kiambu 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 2009 and 2013.

1.7 Limitations of the Study

The study experienced a number of challenges which did not affect the results significantly. First, there were some SACCOs which were located in the interior rural areas which made it difficult for the researcher and research assistants to access them. However, the researcher and assistants were able to reschedule their diary hence overcoming the constraint. Second, the study also experienced a few issues related to the data collection among the SACCOs. The respondents lacked trust but they were assured that the information would only be confidential and would not be released to competitors. Third, the respondents did not have a proper understanding of liquid and illiquid investments. The assistants had to clarify this which led to good responses. Fourth, some managers felt that the results were not beneficial to them and therefore, filling the questionnaire was a waste of time. The researcher and assistants had to create a rapport with such managers which made them to appreciate the value of the study.

2. LITERATURE REVIEW

2.1 Introduction

This chapter reviewed the existing literatures, theories and models related to the variables used in the study and past studies done on financial practice as a determinant of growth of SACCOs' wealth, critical review and the research gaps.

2.2 Theoretical frame work

This study as any research study was based on theoretical concepts that guided the design, methodology and the procedures that was applied in the study. The theories that were used to guide this study include;

2.2.1 Modern Portfolio Theory

In investment, modern portfolio theory management is a critical theory. It was developed by Harry (1952) and it tries to look for the most efficient combinations of assets to maximize portfolio expected returns for given level of risk. Alternatively, minimize risk for a given level of expected return. Portfolio theory is presented in a mathematical formulation and clearly gives the idea of diversifying the assets investment combination with a purpose of selecting those assets that will collectively lower the risk than any single asset. In the theory, it clearly identifies this combination is made possible when the individual assets return and movement is opposite direction. An investor therefore needs to study the value movement of the intended asset investment and find out which assets have an opposite movement. However, risk diversification lowers the level of risk even if the assets' returns are not negatively or positively correlated (Omisore et al., 2012).

Risk is defined as the standard deviation of return, i.e., to what extent is the actual return deviating from the expected return. Therefore, portfolio being a combination of assets, the model becomes a weighted combination of these assets' returns. When different assets are combined and whose returns are not perfectly positively correlated, then portfolio theory leads to reduction of the total variance of such asset combination returns over a given period of investment. The return is calculated by getting the change in value of the assets plus any distribution received during a given period over which the assets are held and expressed as a fraction of the initial outlay. From this theory, it is evident that the level of risk in a portfolio depends on risk of each asset, proportion of resources allocated on each asset and the interrelationship between the assets making up the portfolio. The major assumptions in portfolio theory in managing risk are that the investors are rational and the market is efficient and perfect (Chijoriga, 2007).

2.2.2. The Capital Asset Pricing Model Theory

The development of CAPM was first done by Sharpe (1964) and has been a milestone in financial decision making especially in assets pricing and makes it more possible in quantification and pricing. The CAPM model is an equilibrium pricing model, which views the equilibrium rates of return on all risky assets as a function of their covariance with the market portfolio. It explains how the required rate of return of an asset depends on the risk that cannot be eliminated through diversification. Extended by Harry Markowitz's portfolio theory, the notions of systematic and specific risks are decomposed. Systematic risk is the risk of holding the market portfolio. When the market moves, the individual asset is more or less affected to the extent that any asset participates in the general market moves, that asset entails systematic risk. On the other hand, specific is that risk which is unique to an individual asset. It

represents that component of an asset's return which is uncorrelated with the general market movement (Glen, 2005).

The specific risk is that risk to an asset which may arise due to the internal factors such as change of operating systems, strategy taken, and change of management or business reengineering process. These specific changes within the organization may lead to positive or negative impacts which may lower or increase the overall risk in the institution. The unsystematic risks can therefore be diversified and it will always depend on the institution's approach. Different organizations have different specific risks depending on how they approach them i.e., the asset, ideas, policies, personnel, etc., whose total output may differ (French, 2003).

Un-diversifiable or systematic risk is that which cannot be eliminated through diversification. They are mostly the variation of assets values due to unpredictable macro factor movements in the financial environment caused. Systematic risks are a must adopt by investors as they are necessary. It doesn't matter whether or not an institution has employed the best human resource, the most efficient system or not, hence factoring them in decision making becomes of essence. For example, an institutions' performance is influenced by economic trends. In CAPM, the risk associated with an asset is measured in relationship to the risk of the market as a whole (French, 2003).

In view of this case, with assumptions that investors are homogenous and risk averse, they have to be motivated to invest, they need a rate of return that will compensate them for taking on the risk at the end of period of holding given asset(s). Since it is impossible to eliminate risk in totality, CAPM helps investors to calculate the possibilities of various expected returns on investments and make more informed decisions. This model has major assumptions, that there exists a risk free asset such that investors may save or lend unlimited amounts at the risk free rate, efficient market with fixed quantities, perfectly divisible assets, no transaction cost and taxes (Glen, 2005).

2.2.3 Arbitrage Pricing Theory

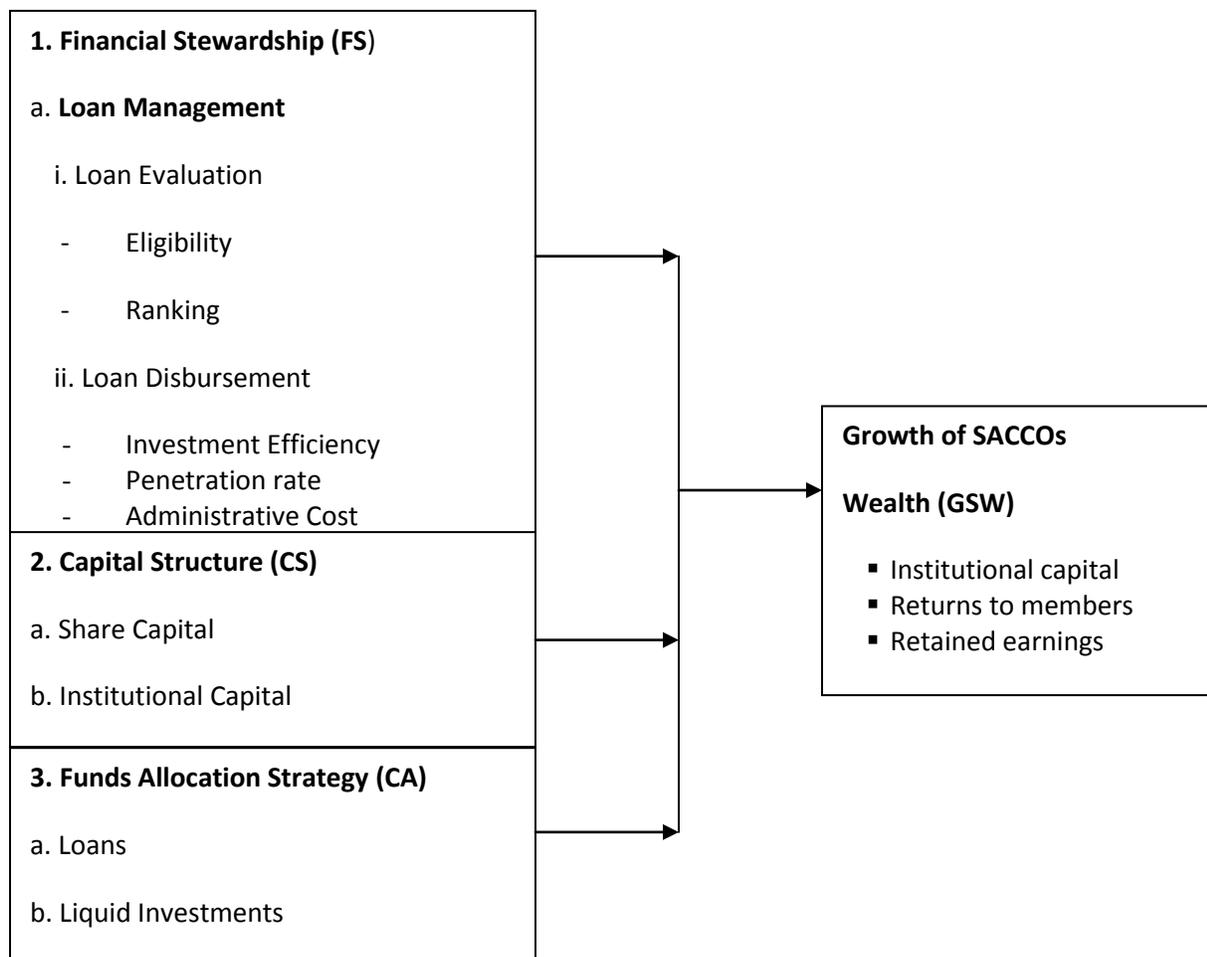
The first empirical study of APT was done by Brennan (1971) in which he concluded that two risk factors must represent return as opposed to single factor of CAPM. However, the first published work on APT was made by Gehr (1975) in which he carried out similar version of factor analysis approach. There were no further studies until Ross and Roll (1980) carried out their own empirical investigation of APT. The APT is based on the assumptions and insights developed in ICAPM3 and Efficient Market Hypothesis (EMH) and like CAPM it is a linear model though of multiple betas rather than single beta as in CAPM (Chen et al. 1986). Ross' (1976) criticism of earlier studies is that they are mainly tests of hypothesis that stock-index is mean-variance efficient, hence empirical tests of asset pricing models would hold only if true market portfolio (which is unattainable) can be calculated. However, some studies such as that of Shanken (1987) and Kandel and Stambaugh (1987) show less rigorous measures under which CAPM can be tested. Unlike Mean-variance portfolio where firm-specific risks can be diversified away the APT states that there are systematic risks in the economy that subject all the available stocks to same degree. The APT suggests that prices of risky assets abide by the law of no arbitrage.

The need to develop a model with fewer assumptions unlike CAPM arose and this is how (Arbitrage Pricing Model) APT became. The major assumptions in APT are that the capital markets are perfectly competitive, preference of more wealth to less wealth with certainty by investors and the stochastic process generating asset returns can be expressed as a linear function of a set of the number of factors or indexes. APT brought a clear presentation on how to estimate risk. It uses the risky asset's

expected return and the risk premium of a number of macroeconomic factors. The basis of APT is the idea that the price of a security is driven by a number of factors which can be classified into two categories: macro and company specific factors. The linear relationship is therefore necessary condition for equilibrium in a market where market players maximize certain types of utility. A linear relation between the expected returns and the betas is critical in identification of the stochastic discount factor (SDF). Like the CAPM, APT asserts a linear relation between assets' expected returns and their covariance with other random variables. Apt relates the price of security to the fundamental factors driving it and do not rely on measuring the performance of the market (French, 2003).

2.3. Conceptual Framework

The study proposes that the growth of SACCOs' wealth is determined by financial stewardship, capital structure and funds allocation strategy as capture in figure 2.1.



Independent Variables

Dependent Variable

Figure 2.1: Conceptual Framework

2.3.1 Financial Stewardship and Growth of 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 (Home, 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).

2.3.2 Capital Structure and Growth of Wealth

SACCOs need to establish stable and consistent capital structure because they require finances to invest in capital and operational expenses for the achievement of their objectives. In performing this function of sourcing for funds, the management team determines the most optimal capital structure to be employed. The capital structure of the SACCOs comprises members' shares and debt capital, savings/deposits and retained surpluses, (Mama, 2007). SACCOs are generally concerned with invested funds, institutional and debt funding. Their equity capital can be obtained by combining direct investment, retained patronage and surpluses, per unit capital, retained sales of common or preferred stock and net profits (Evans, 2001). With regard to share capital, the total finance required is divided into a number of monetary units called shares and sold to the prospective investors competitively. The number

of shares held by each investor reflects the degree of his/her claim on the net assets of the SACCOs. In this case, shares represent the member's relative ownership position of the total investment of the co-operative society (Republic of Kenya, 2008).

Contrarily, debt capital is funds borrowed from other institutions or individuals such as banks, non-bank financial institutions and well-wishers. It normally carries a fixed rate of interest payable at specified times of the year. Debt capital requires some prudent management and the purpose of the loan must be clear. Importantly, debt capital is a cheaper source of finance though it involves a considerable risk in case the society is unable to meet the set obligations of repayment and financial payments (KUSCCO, 2006). Disposal of assets is also a source of funds to the SACCO Society. More so, donations or grants to co-operatives may come from friends or donors to boost the SACCO's financial kitty.

Further, SACCO societies can draw finances from internal sources such as institutional capital where, for instance, the society utilizes the surplus retained in its earlier years of operation. Institutional capital is a cheaper source of co-operative financing since they do not involve floatation costs. They are also more flexible sources of financing as there are no conditions imposed upon the society on their utilization (KUSCCO, 2007). Similarly, SACCOs can also draw their finances from reserves and provisions. The latter is the surplus set aside to cater for the SACCOs' specific purposes and such funds may be reinvested into the society. Examples of such sources include sinking funds.

In some cases, accrued expenses can be used by SACCOs as spontaneous sources of financing in the course of running the SACCOs' business. Pragmatically, resources are conserved for sometime before the expenses are eventually cleared, usually when the SACCOs' cash flow has improved. In such instances, the SACCO Society may utilize such funds as a source of financing. In fact, this is a cheaper source of financing for SACCOs though care should be taken in case of failure to pay the expenses on time is misinterpreted as the society having financial liquidity problems (Pandey, 2010). At another level, trade credit can also be used as a source of financing SACCOs. This kind of scenario happens where the society finances the acquisition of short-term assets through credit facility availed by the supplier. In such transactions, the society is able to conserve cash which is invested before the creditors are paid. In addition, the co-operative society can use leasing as a source of financing the SACCOs' activities.

This involves the use of services from assets without having any ownership rights. This is a long-term financial obligation where the SACCO Society obtains the possession and use of assets without full payment of the value of the assets (Home, 2003). Thus, the funds which would have been spent to acquire the assets are conserved and invested by the co-operative society.

Sometimes the co-operative society may need to dispose surplus assets. In such situations, the surplus assets such as bonded vehicles are normally sold after examining their levels of depreciation and the funds accruing invested. Similarly, deposits and savings can also act as sources of financing for SACCO societies. In this regard, SACCO society members and third parties may put funds into the co-operative in form of savings or short-term investments. These funds can be invested by the SACCO Society to generate returns which can be used in repaying the deposits and interest with any surplus re-invested in the SACCOs (Evans, 2001). Finally, SACCOs can also use hire purchase as a financial strategy to implement their projects. Ideally, this involves the acquisition of assets payable in installments over a stipulated period of time. The extra funds which could have been spent in acquiring the asset on cash basis are invested in an area of high growth by the SACCO Society to ensure surpluses for the

benefit of the members. In this strategy, the asset will generate returns which can be able to finance the repayment of the hire purchase installments (Ofei, 2001).

The capital structure which optimizes the requirements of the shareholders and the financial requirement of the society needs to be maintained and should be compatible with the interest of other stakeholders such as creditors, employees, government, customers and the general public. Capital structure should be in a position to maximize returns without additional costs. The best optimal capital structure is the one that yields the minimum weighted average cost of capital (WACC) (Pandey, 2010). The computation of WACC requires the sum of the cost of each individual source capital and its relative weight where the weight is the relative strength of each source with respect to the total amount contributed. Capitalization can be determined using the Net Operating Income (NOI) approach which states that the value of the firm and the weighted average cost of capital (WACC) are independent of capital structure. The cost of debt and the cost of equity are independent of capital structure (i.e. they remain constant). Therefore, the cost of capital declines and the share value increases with debt. The shareholders would receive the same cash flows regardless of the capital structure (Pandey, 2010).

The traditional approach to valuation and leverage argues out that a moderate degree of debt can lower the overall cost of capital. This will, therefore, increase the share value. This is to say that the SACCO Society can lower its cost of capital and raise its total value through leverage. There is an initial increase in the cost of equity which is offset by lower cost of debt. As the debt increases, there is an increase in risk and a rise in the cost of equity. This continues until the lower cost of debt benefit is more than offset by more expensive equity. Thus, in the traditional approach, the cost of capital is not independent of the capital structure of the SACCO Society and there is no optimal capital structure (Home, 2003).

2.3.3 Funds Allocation Strategy and Growth of Wealth

Efficient allocation of capital is the most important financial practice function in any SACCO Society and it involves decisions of committing the co-operative funds to SACCOS' assets. Such decisions determine their value and size by influencing their growth, surpluses and risk. The investment decisions are the capital budgets or capital expenditure decisions. SACCOS should make decisions to invest their current funds more efficiently in long-term assets in anticipation of expected flow of benefits over a series of years. Such investment decisions generally include expansion, acquisition, modernization and replacement of long-term assets (Home, 2003). The SACCOS' value will increase if investments are profitable and add value to the SACCOS' wealth.

These investments should yield benefits in excess of the minimum benefit as per the opportunity cost of capital. Thus, before an investment is made, the co-operative should be able to determine its economic viability. The methods used to determine the economic viability of a project include Net Present Value (NPV); Internal Rate of Return. (IRR); Payback period (Payback) and Surpluses index (Pandey, 2010).

NPV is the excess of present value of the future cash flows over the initial outlay of the project. Thus, $NPV = \text{Present Value} - \text{Initial Outlay}$. The project is accepted when the NPV is equal to or greater than zero. It recognizes the time value for money.

It also correctly shows that cash flow arising at different time periods differs in value and is comparable only when their equivalent "present value" is found. The IRR refers to a point at which the

present value of future cash flow is equivalent to the initial outlay. It is the rate that equates the present value of cash flow to the initial outlay.

Surpluses index on the other hand, is the ratio of the projects present value of its cash flow to its initial outlay. The decision criterion is that a project will be accepted if it has a surpluses index of one or more. It gives the same result as NPV. The Payback Period refers to the period of time that a project takes to recover its initial outlay. The shorter the payback period, the better it is for the co-operative society. However, the method does not consider all the cash flow as it is interested in the cash flow in the initial years before the recovery of the initial outlay. It ignores all other cash flows arising after recovery of the initial outlay (Home, 2003). Finally, distribution shows how profits made during the year are utilized. Some of the surplus may be transferred to specific accounts to be utilized in the future.

2.3.4 Growth of SACCOs' Wealth

The Savings and Credit Co-operative Society (SACCOs) system encompasses a mutual membership organization involving pooling voluntary savings together from co-operators 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.

The basic models for this concept are;

$GSW = f(LE, LD, LR, LP, DS)$ for Financial stewardship.

$GSW = f(F1, F2, F3, F4)$ for Capital Structure.

$GSW = f(U1, U2, U3, U4)$ for funds allocation strategy.

Where GSW means Growth of Sacco's Wealth, LE is Loan Evaluation, LD is Loan Disbursement, LR is Loan Recovery, LP is Loan Protection, DS is Default Risk. F1 is Share Capital, F2 is Savings, F3 is Institutional Capital, F4 is Debt Capital, U 1 is Loans, U2 is Liquid Investments, U3 is Illiquid Investments and U4 is Non-earning Fixed Assets

2.4 Empirical Review

Most research studies on financial management of SACCOs have been done globally, regionally and locally. These studies only addressed issues of governance, SACCOs' financial health capital structure, loan default, loan management, capital structure, outreach and SACCOs' sustainability. Other studies addressed such issues as financial stewardship (e.g. effects of governance on wealth, loan default), funds allocation strategy (for example investment), capital structure (e.g. effects of external debt) and growth of wealth independently. Although these studies have been done on growth of SACCOs' wealth,

none has addressed the financial stewardship, capital structure and funds allocation strategy as determinants of growth of SACCOs' wealth especially in Kenya.

For instance, 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. Beck et al., (2000) study emphasized on growth of sources but lacked to indicate how these sources impact on the growth of wealth. The main concerns of the study by Davies (2001) were on governance. However, it failed to even link. This governance to growth of wealth, it only talked of need for good governance which would make members identify with the SACCOs. Ofei (2001) related growth to interest rates and self-generated funds. The study failed to show how these interest rates related to growth of the wealth and what rates should be charged. Further, the study failed to show a relationship between sources of funds and growth of wealth. The study only talked of sustainability. 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. This delivery was not particular and never related to the three determinants; stewardship; capital structure and funds allocation strategy to growth of wealth.

In a study by Agrawal et al., (2002), emphasis was on the usefulness of share capital but it failed to show how the management of the members' funds, other sources of funds and funds allocation strategy would result to growth of wealth. 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. 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. 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). The same was echoed by Sundaram-Stukel (2006), Nanka-Bruce (2006), Grell (2007), Wieland (2007), Ochoki (2007, Muruana (2007). The study by Kaloi (2004) only shallowly dwelt with issues that affected liquidity; financial stewardship, capital structure and allocation of capital. 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.

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. Although the CGAP (2005) study emphasized on good governance, it did not show how the wealth would grow. 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. 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. 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-the main considerations in the study by Kaupelyte and McCarthy (2006) was risk management but not how the growth of SACCOs' wealth can be ensured in totality.

According to the Archer and Karim's (2006) study, the reserves were only needed for covering fees not paid for service instead of using it to grow the firm. The study by Baral (2006) sincerely

evaluated the SACCO's performance. The findings failed to introduce the stewardship as a measure of growth of wealth. 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 leave alone showing the determinants of growth of SACCOs' wealth. The main interest on Fiorillo's (2006) study was the effect of external lending. Instead of the study encouraging alternative ways of sourcing funds, they still emphasized on wholesale lending. The study did not at all consider the determinants of growth of wealth. The study by Ogbimi (2006) was very important to educate SACCO members on how to manage their wealth but did not show how the firm's wealth could grow. 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.

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. Nair and KloeppingerTodd'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. 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. Wanyama's (2007) study highlighted the current trends on the performance of SACCOs in Kenya. In fact, the study did not show how growth was enhanced and the determinant of growth. 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.

According to WOCCU (2007), growth and sustainability of SACCOs was related to the stewardship and legal framework. The study did not explain how growth of wealth would be related to capital structure and funds allocation strategy. According to Financial Sector Development Secretariat (2007), growth and sustainability of SACCOs was related to the economic environment but there was no relation to capital structure and allocation. The study by Huyssteen (2007) showed that growth and sustainability was related to the stewardship and legal framework. The study did not explain how growth of wealth would be achieved.

Ogsi et al., (2007) study showed that sustainability of SACCOs was related to the capital structure. The study did not explain how growth of wealth would be achieved.

The study by Azhagaiah and Sabari (2007) indicates that growth of SACCOs was related to the capital structure. The study did not explain how growth of wealth would be influenced by stewardship and funds allocation strategy. 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. 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.

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. 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. 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. The study by Margaritis and Psillaki (2007) investigated the relationship between firm efficiency and leverage but failed to show how growth could be achieved. The study by WOCCU (2007) showed that sustainability of SACCOs was related to the marketing. It did not explain how growth of wealth would be achieved.

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. The study by Baker et al., (2008) did not at all talk about growth of wealth depending on financial stewardship, capital structure and funds allocation strategy. The growth according to (2008) was related to product diversity. The study did not show any other determinants of growth. The main consideration in the study by Chava and Roberts (2008) was allocation of funds but the study failed to consider the other factors of growth. In the study by Lari (2008), the main considerations were capital structure which was considerably addressed but the study failed to consider the other factors of growth. The study by Papias and Ganesa (2009) examined the factors contributing to credit repayment behavior among the members of savings and credit co-operative societies in rural Rwanda.

2.5 Critique of Literature

From the studies it shows that the modern portfolio theory indicates how a portfolio should be constituted to have optimum returns. However, in SACCO situations where there are market imperfections, the modern portfolio theory, Arbitrage pricing theory and the capital asset pricing model may be of little value to a manager. This is because these theories have some assumptions which rarely apply to the SACCO environment (Kandel & Stambaugh, 1987).

Moreover, the studies that have been reviewed have been conducted in different countries (for example Azhagaiah & Sabari, 2007; Agrawal & Chadha, 2005) some of which may have factors that are completely different from what we expect in Kenya. It is hence important to establish what affects SACCO's wealth in Kenya thereby desisting from applying results of studies that have been received elsewhere. Lastly, most of the studies were conducted more than five years ago (for example Wanyama, 2007) and the context under which they were conducted may have completely changed thus requiring new findings under current circumstances.

2.6 Summary

The chapter has provided the theoretical and empirical literature relating to financial management and growth of SACCOs wealth. Various theories (CAPM, APT and MPT) that explain the relationship has also been reviewed while there has been various empirical studies, both local and global that have been reviewed. The studies reviewed have indicated that there are many factors that can influence growth of Sacco's wealth some of them controllable and others that cannot be controlled by management of SACCOs. This therefore has cleared the way for provision of the study gaps that this study sought to fill.

2.7 Research Gap

There are various gaps that previous studies have left in assessing growth of Sacco's wealth. For instance, the study by e study by Papias and Ganesa (2009) examined the factors contributing to credit repayment behavior among the members of savings and credit co-operative societies in rural Rwanda. However, this study failed to address the factors that determined growth in SACCO's wealth. This gap left by this study underscores the need for further research. This study, was therefore, set to fill the gap

that existed in this area considering the fact that wealth maximization is the main objective of financial management.

Further, there are other factors which cannot be controlled by the SACCOs but could intervene in the growth of SACCOs' wealth these include competition, political environment, technological environment, economic forces, legal framework, members' demands and board members' competence are some uncontrollable variables which the previous studies did not look into. The researcher felt that further research should be undertaken to determine the effect of these on the growth of Sacco's wealth in order to fill the missing knowledge on the intervening variables on growth of Sacco's wealth.

Lastly, a lot of research had been done on financial strategies and practices by SACCOs in Kenya and most research studies have reviewed governance, market risk and financial stewardships as factors affecting Sacco growth. Little research has been carried out about loan management, capital structure and funds administration on growth of SACCO wealth in Kiambu County.

3. RESEARCH METHODOLOGY

3. Introduction

This chapter presented the design that was used in the project, target population, sampling procedure, study site, area of study, research data collection instruments and procedures, empirical model, measurement of variables and how data was analyzed. It explained why specific techniques and methods were used in design, analysis and data collection.

3.1 Research Design

This study used descriptive survey (Describing the characteristics of existing phenomenon) in soliciting information on the determinants of growth of SACCOs' wealth in Kiambu 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 Population

According to Cooper and Schindler (2006), a population is the total collection of elements about which we made some inferences. The target population was all SACCOs in Kenya with special interest in Kiambu County which has been in existence for over two years in the year 2013

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 have existed for at least two (2) years since inception. The respondents were the Chief Executive Officers (CEOs) of these SACCOs.

3.3 Sampling Frame and sample size

The sampling frame was the list of all the members of the population that a study is interested in (Mugenda and Mugenda, 2003). The study used census study methodology which enabled the researcher to gather more information to assist in analysis and arriving at accurate results. The 60 CEOs

(respondents) participated in the study. Further, all the SACCOs were accessible and they have different common bonds which make census more appropriate in sampling.

3.4 Data Collection

Data was collected from primary and secondary sources. Primary data was collected using semi structured questionnaires which had both open and closed-ended questions.

Secondary data was collected from the SACCOs' financial statements and other records using document review guide.

3.5 Data Collection Procedure

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 confirm any issues arising out of the data supplied

3.6 Pilot test

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 data was 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 the 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.

3.7 Data Analysis

Collected data was checked for errors of omission and commission. The data collected was classified, operationalized, analyzed and interpreted to establish how and when they determine the growth of SACCOs' wealth. The data collected was 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 provided 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 was presented in form of tables and charts.

The study used correlation analysis to test relationship between growth of SACCO's wealth and 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) 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.

The model is given as:

$$GSW = \beta_0 + \beta_1 FS + \beta_2 CS + \beta_3 FAS + e$$

Where β_0 - the constant term,

$\beta_1 - \beta_3$ – coefficients of the independent variables and

e - Error term

4. DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presents results and their presentation in Tables and charts. First the response rate is presented. Then follows presentation of the research results based on the research objectives. The findings are presented based on descriptive and inferential analysis.

4.2 Response Rate

A sample of 60 Chief Executive Officers from the SACCOs in Kiambu County was selected to participate in the study. Out of the 60 sampled respondents, 55 returned their responses which resulted to 92% response rate. Babbie (2011) observed that a response rate of above 70% is sufficient for a paper based questionnaire. The response rate for this study was therefore considered adequate and the findings presented relate to the 55 responses received. All the collected questionnaires were found fit for analysis.

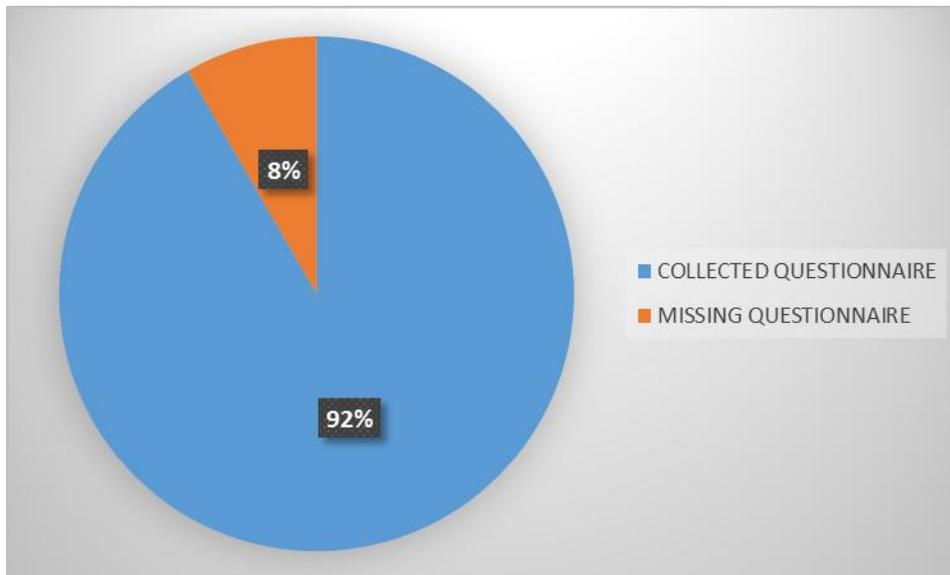


Figure 4.1: Response Rate

4.3 Demographic Information of the SACCO's

The study established the year when different SACCO's were formed. This was to determine the period different Sacco's had been in operation. The results were presented in Table 4.1. The findings indicate that majority 42 % (n=23) of the CEO's indicated that their Sacco's were formed in between 1990 and 1999, followed by 22% (n=12) of the CEO's whose Sacco's were formed before 1990. The results indicate that only 14% (n=8) of the CEO's indicated that their Sacco's were formed in the period 2011-2014. These results point out that majority of the Sacco's in Kiambu County have been in operation for more than 10 years.

Table 4.1: Inception of the Sacco

Year	Frequency	Percent
Earlier than 1990	12	22
1990 - 1999	23	42
2000 - 2010	12	22
2011 – 2014	8	14
Total	55	100.0

The researcher sought to find out the type of Sacco's dominant in Kiambu County. The results indicated that majority 49% (n=27) of the respondents showed that their Sacco's were Rural, followed by 36% (n=20) respondents who indicated that their Sacco's were urban, only 15% (n= 8) of the respondents showed that their Sacco's were Transport. These results show that majority of Sacco's in Kiambu County are Rural while the minority are Transport. These results are as indicated in Table 4.2.

Table 4.2: Type of Sacco Society

Type	Frequency	Percent
Urban	20	36
Rural	27	49
Transport	8	15
Total	55	100

Table 4.3 indicates different responses from the CEO's on how they determine how surplus is distributed as dividends, rebates and institutional capital. Majority 40% (n=22) of the respondents showed that no specific method is used, 27% (n=15) indicated that they use standard methods, while 11% (n=6) indicated that the method they use depends on volume of profits, funds allocation strategy and they also use other means. This results show that majority of Sacco's in this area of study do not use any specific method to determine surplus distributed as dividends, rebates and institutional capital.

Table 4.3: Determination of Surplus Distributed as Dividends, Rebates and Institutional Capital

Method	Frequency	Percent
No specific method is used	22	40
We use standard proportion	15	27
Depends on volume of profits	6	11
Depends on funds allocation strategy	6	11
Others	6	11
Total	55	100.0

The researcher sought to find out the qualification of the finance staff in terms of qualification. Majority 55% (n=30) of the CEO's indicated that their finance staff had undergraduate degree, 25% (n=14) had master's degree, 15% (n=8) had gone up to secondary school level while just 5% PHDs. The results indicate that majority of the finance staff in the Sacco's had an undergraduate degree while just a few had PhDs. These are as shown in Table 4.4.

Table 4.4: Academic Qualification of the Finance Staff

Qualification	Frequency	Percent
Secondary school	8	15
Undergraduate degree	30	55
Master's degree	14	25
PHD	3	5
Total	55	100

Table 4.5 shows the professional qualification of the finance staff. The results show that majority 35% (n=19) of the respondents indicated that the finance staff in their Sacco's were technicians, 33% (n=18) indicated that their finance staff had diploma, the minority 4% (n=2) indicated that their finance staff had professional level III. This clearly indicates that majority of the finance staffs in the SACCOs in Kiambu County were technicians and the minority had professional level I, professional level II and professional level III.

Table 4.5: Professional Qualification of the Finance staff

Professional Qualification	Frequency	Percent
None	8	15
Technician	19	35
Diploma	18	33
Professional level I	4	7
Professional Level II	4	7
Professional level III	2	4
Total	55	100.0

The researcher sought to find out how long the target oriented training takes. The results were that majority 38% (n=21) of the respondents indicated that they give 10 weeks, 36% (n=20) give below 5 weeks, while minority 26% (n=14) indicated that they give more than 10 weeks for target oriented training to their staff. These results show that majority of Sacco's give 10 weeks period for the target oriented training to its staff. Table 4.6 shows these.

Table 4.6: Period for Target Oriented Training

Period	Frequency	Percent
Below 5 weeks	20	36
10 weeks	21	38
Above 10 weeks	14	26
Total	55	100.0

Table 4.7 indicates the retention period for the finance staff in the Sacco societies in Kiambu County. Majority 46 % (n=25) of the respondents showed that the retention period in their Sacco's is 10 years, 40% (n=22) has five years retention period, while only 15% (n=8) of the CEO's indicated that they give a retention period of above 10 years. The results clearly indicate that majority of the SACCO's in Kiambu County give 10 years retention period with the minority giving above 10 years.

Table 4.7: Retention Period for the Finance Staff

Period	Frequency	Percent
5 years	22	40
10 years	25	46
Above 10 years	8	15
Total	55	100

4.4 Data Analysis and Presentation

4.4.1 Financial Stewardship

4.4.1.1 Loan Evaluation

The first objective of the study was to establish the relationship of financial stewardship and SACCO's wealth. To achieve this objective, the researcher looked in to the loan evaluation, loan disbursement, loan recovery, loan protection and default risk. First loan evaluation was analyzed. A number of statements on loan evaluation were listed and respondents were required to indicate their level of agreement. The results were as presented in Table 4.8. The study results indicate that the CEO's agreed that 'loan applications are approved by special committee in the SACCO' with a mean of (2.07), 'their SACCO by laws are the basis of loan evaluation' with a mean of (2.07), 'loan application on the SACCO are ranked according to by-laws' with a mean of (2.69) and that 'their SACCO staff sometimes do not rank loan application at all' with a mean (2.76). These results indicate that the respondents agreed to the statements.

Table 4.8: Loan Evaluation

Statement	Mean
loan applications are approved by credit committee in the SACCO	2.07
Our Sacco by laws are the basis of loan evaluation	2.18
Loan application in our SACCO are ranked according to by-laws	2.69
Our SACCO staff sometimes do not rank loan application at all	2.76

4.4.1.2 Loan Disbursement, Recovery, Protection and Default Risk

The researcher further wanted to establish how loan disbursement, recovery, protection and default had effect on financial stewardship. To do this a number of statements were listed and respondents were required to fill them whether they agreed or not. Results are as presented in Table 4.9. The results indicate that the respondents agreed to all the statements that were put forward. Specifically, respondents agreed to the statements that 'loan delinquency has been minimized in the last five years' with a mean value of (2.18), and also 'where default risk is high the SACCO awards loan depending on borrower's ability to pay' with a mean value of (2.25), followed by that 'loan borrowers always honour loan repayment on due date' with a mean value of (2.33), and 'loan pay-out has been increasing in our SACCO the last four years' with a mean of (2.44), and 'loan delinquency is always avoided at all costs' with a mean of (2.47), and 'loans with lower default risks are paid in full in the SACCO' with a mean of (2.51), followed by 'SACCO always disburses loans as they fall due' with a mean of (2.58), and 'SACCO has a provision for irrecoverable loan' with a mean of (2.62), ' moreover, 'members of our Sacco are eager to repay their loans promptly', (2.65) and finally 'all irrecoverable loans over one year are written off (2.73). These results indicate that SACCOs in Kiambu County have members who obey the rules on loan disbursement, recovery, protection and default.

Table 4.9: Loan Disbursement, Recovery, Protection and Default

Statement	Mean
Loan pay-out has been increasing in our SACCO the last four years	2.44
Our SACCO always disburses loans as they fall due	2.58
Loan borrowers always honour loan repayment on due date	2.33
Loan delinquency has been minimized in the last five years	2.18
loan delinquency is always avoided at all costs	2.47
Members of our SACCO are eager to repay their loans promptly	2.65
Our SACCO has a provision for irrecoverable loan	2.62
All irrecoverable loans over one year are written off	2.73
This SACCO awards loans depending on borrower's ability to pay	2.80
loans with lower default risks are paid in full in the SACCO	2.51
Where default risk is high the SACCO awards loan depending on borrower's ability to pay	2.25

These findings concurs with Home (2003), which shows that 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 assists in decision-making concerning the investment of the SACCOs' capital. These findings also agree with the study by Ross (1998) which states that 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.

These results are further in line with the findings by Singh (2003) which show that 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.

4.4.2 Capital Structure

The second objective of the study was to find out the relationship of capital structure and Sacco's wealth. Statements on capital structure were listed and respondents required to indicate their level of agreement. The results are as presented in Table 4.10. The results show that respondents strongly agreed to the statement that, 'Sacco uses cost of capital when determining the source of funds' (1.93). The respondents agreed to the remaining statements which gave a mean between 2.0-3.0. The statement that, 'Sacco makes careful evaluation when deciding sources of funds' (2.22) and 'profitability is a

determinant of the source of fund in the Sacco' and that 'Sacco mobilizes funds after consulting the financial managers' with a mean of (2.47). This indicates that the respondents were familiar with the statements put across as they are practiced in their Sacco's.

Table 4.10: Capital Structure

Statement	Mean
Sacco uses cost of capital when determining the source of funds	1.93
Sacco makes careful evaluation when deciding sources of funds	2.22
Profitability is a determinant of the source of fund in the SACCO	2.47
The SACCO mobilizes funds after consulting the financial managers	2.47

These results concur with the findings by Pandey (2010) which shows that resources are conserved for sometimes before the expenses are eventually cleared, usually when the SACCOs' cash flow has improved. In such instances, the SACCO Society may utilize such funds as a source of financing. In fact, this is a cheaper source of financing for SACCOs though care should be taken in case of failure to pay the expenses on time is misinterpreted as the society having financial liquidity problems.

Further, these results are in line with Evans (2001), who indicates that sometimes the co-operative society may need to dispose surplus assets. In such situations, the surplus assets such as bonded vehicles are normally sold after examining their levels of depreciation and the funds accruing invested. Similarly, deposits and savings can also act as sources of financing for SACCO societies. In this regard, SACCO society members and third parties may put funds into the co-operative in form of savings or short-term investments. These funds can be invested by the SACCO Society to generate returns which can be used in repaying the deposits and interest with any surplus re-invested in the SACCOs.

4.4.3 Funds Allocation Strategy

The third objective of the study was to establish the relationship of funds allocation strategy and Sacco wealthy. Respondents were required to indicate their level of agreement to statements related to funds allocation in their Sacco's. Findings were presented in Table 4.11. The results indicate that respondents agreed to the statements that 'income from loans cover all operations costs' (2.51), 'income from loans in our Sacco maintains retained earnings' (2.84), 'Sacco always pays dividends after profits are announced' (2.58), 'non-financial investments pay their recurrent cost in our Sacco' (2.91), non-financial investments always pay initial outlay in our Sacco' (2.65). However, the respondents were not sure with the statement that 'non-financial investment support other projects on the Sacco' (3.02). The respondents further agreed to the statements that 'buying of fixed asset is always justified using cost/benefit analysis' (2.51), 'illiquid investments pay their recurrent cost in our Sacco' (2.58), 'illiquid investments always pay initial outlay in the Sacco' (2.51), 'illiquid investment providing for sinking fund in the Sacco' (2.95) and 'buying of fixed asset is always justified using cost/ benefit analysis' (2.87). These results indicate that the CEO's agreed to the entire fund allocation strategies which help them in establishing the Sacco's wealth.

Table 4.11: Funds Allocation Strategy

Statement	Mean
Income from loans cover all operations costs	2.51
Income from loans in our SACCO maintains retained earnings	2.84
The Sacco always pays dividends after profits are announced	2.58
Non-financial investments pay their recurrent cost in our SACCO	2.91
Non-financial investments always pays initial outlay in our SACCO	2.65
Non-financial investment support other projects on our SACCO	3.02
Buying of fixed asset is always justified using cost/benefit analysis	2.51
Illiquid investments pay their recurrent cost in our SACCO	2.58
Illiquid investments always pay initial outlay in our SACCO	2.51
Illiquid investment provides for sinking fund in our SACCO	2.95
Buying of fixed asset is always justified using cost/benefit analysis	2.87

4.4.3.1 Innovativeness

On innovativeness, the researcher listed the statements for the respondents to fill the ones they agree with. Table 4.12 indicates the results of the responses. The results show that the CEO's agreed with all the listed statement. This is evident by the fact that all the statements gave out a mean between 2.0-3.0. Specifically, the results were as follows; the respondents agreed to the statement that 'there are difficulties in marketing some loan products in their Sacco', with a mean value of (2.22), followed by 'all loan products are designed to fit members needs in the Sacco' with a mean value of (2.33), and ' all loan products are applied for by borrowers to the Sacco' with a value of (2.55) and finally ' there is regular diversification of products in our Sacco' with a mean value of (2.69). These results indicate that the management of the Sacco's tries to be very innovative as all the statements were agreed on by the respondents.

Table 4.12: Innovativeness

Statement	Mean
All loan products are applied for by borrowers to or SACCO	2.55
There is regular diversification of products in our SACCO	2.69
there are difficulties in marketing some loan products in our SACCO	2.22
All loan products are designed to fit members needs in our SACCO	2.33

These findings are in line with Home (2003) which shows that efficient allocation of funds is the most important financial practice function in any SACCO Society and it involves decisions of committing the co-operative funds to SACCOS' assets. Such decisions determine their value and size by influencing

their growth, surpluses and risk. The investment decisions are the capital budgets or capital expenditure decisions. SACCOs should make decisions to invest their current funds more efficiently in long-term assets in anticipation of expected flow of benefits over a series of years. Such investment decisions generally include expansion, acquisition, modernization and replacement of long-term assets.

4.4.4 Growth of Shareholders' Wealth

This was the dependent variable of the study. In order to achieve this, a number of statements on growth of shareholder wealth were listed and respondents were required to indicate their level of agreement to the statements. The ratings were as follows: 1- strongly agree, 2- agree, 3-neutral, 4- disagree and 5- strongly disagree. Mean scores were used to analyze the responses. Results are presented in Table 4.8. The study results indicate that respondents agreed to the statements that 'Sacco has been making surplus every year from 2009 to 2013' and that 'dividends per share have been increased in the last five years (2.47). The results show that the respondents further agreed that 'retained earnings have been growing annually from 2009 to 2013' (2.65) and also that 'Sacco has been declaring dividends for the last five years' (2.73). However the respondents were not sure of the statement that 'Sacco has been contributing to retained earnings' indicated by a mean of (3.09). This results show that though the CEO's were sure of the growth of the shareholders wealth in the Sacco's they were not sure whether this Sacco's had been contributing to retained earnings or not.

Table 4.13: Growth of the Shareholders' Wealth

Statement	Mean
Sacco has been making surplus every year from 2009 to 2013	2.47
Sacco has been declaring dividends for the last five years	2.73
Dividends per share have been increased in the last five years	2.47
Sacco has been contributing to retained earnings	3.09
Retained earnings have been growing annually from 2009 to 2013	2.65

4.5 Correlation and Regression Results

4.5.1 Correlation Analysis

A correlation analysis was performed to establish the relationship between the variables under study. Pearson partial correlation coefficients were established for all the variables with findings as indicated in Table 4.14. The study results indicate that testing at 5% significance level, any p-value (significant value) less than 0.025 means that there is a significant correlation between the variables. Using Pearson's rank correlation test, any value between 0-0.3 means no correlation, 0.31-0.69 weak correlation, 0.7 and above means strong correlation. From the table, the study gave Pearson correlation values which were above 0.7 implying that there was strong correlation in all the variables.

Specifically, the strength of correlation decreased from funds allocation strategy which had a Pearson's correlation value of 0.826 significant at 5% level as indicated by the p-value 0.001 and it was the strongest correlation of all the variables, followed by capital structure which had a Pearson's correlation of 0.787 significant at 5% level as indicated by p-value 0.005 and the least was financial

stewardship with a Pearson's correlation of 0.751 significant at 5% significance level indicated by p-value 0.003. All the variables were significant at 5% significance level as they were all indicated by a p-value less than 0.025.

Table 4.14: Correlation of the Study Variables

Variables		1	2	3	4
Financial stewardship	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	55			
Capital Structure	Pearson Correlation	.661**	1		
	Sig. (2-tailed)	.003			
	N	55	55		
Funds allocation	Pearson Correlation	.001	.007	1	
	Sig. (2-tailed)	.700	.520		
	N	55	55	55	
Growth of Wealth	Pearson Correlation	.751**	.787**	.826**	1
	Sig. (2-tailed)	.003	.005	.001	
	N	55	55	55	55

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

4.6 Regression Analysis

The regression analysis was performed with the independent variables being financial stewardship, capital structure and funds allocation. The ratings on the independent variables (1- Strongly agree, 2-agree, 3-neutral, 4-disagree and 5-strongly disagree) were used as parameters in the regression. The dependent variable was growth of wealth. A weighted average of the growth of wealth in all measures was used.

The adjusted r-square for the regression model was 0.551 as indicated in Table 4.15. The model therefore is explaining 55.1% of the Sacco's wealth using the three independent variables. These findings indicate that the three independent variables selected explain 55.1% of the growth of wealth while 44.9% of the Sacco's wealth is explained by other factors not included in this model.

Table 4.15: Coefficient Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.742	.551	.375	.89797

a. Predictors: (Constant), Financial stewardship, capital structure, funds allocation

The analysis of variance was computed to establish whether the model had any significant predictive power. The results presented in Table 4.16 indicate that the model had predictive power and was useful in predicting Sacco's wealth using the three independent variables applied ($f= 15.340$; $p < 0.05$)

Table 4.16: Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	38.410	4	9.6025	15.340	.000
Residual	31.299	50	.626		
Total	69.709	54			

a. Dependent Variable: Growth of Wealth

b. Predictors: (Constant), Financial stewardship, Capital structure, Funds allocation strategy

The test of the statistical significance of the independent variables in the model was done using t-tests. Results are presented in Table 4.17.

Table 4.17: Test of Significance of Independent Variables

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.766	.394		1.947	.057
Financial stewardship	.646	.204	.577	3.174	.003
Capital Structure	.134	.384	.131	2.956	.005
Funds allocation strategy	.733	.134	.901	5.486	.000

The results in Table 4.14 indicate that Financial stewardship had a positive coefficient when used as a predictor of Sacco wealth ($\beta = .646$; $p < 0.05$) and had a t-statistic of 3.174. This indicates that financial stewardship is a significant factor in determining growth of wealth. These findings imply that improvement in financial stewardship increases Sacco wealth. These concurs with the findings by Home (2003), which shows that 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 assists in decision-making concerning the investment of the SACCOs' capital. These findings also agree with the study by Ross (1998) which states that the Return on Capital Employed (ROLE) 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.

Capital structure had a positive coefficient in the regression model ($\beta = .134$; $p < 0.05$) indicating that an improvement in capital structure would lead to an improvement in wealth growth. The t-statistic was 2.956 which was significant at 5% significant level. This indicates that capital structure is a significant factor determining wealth growth in Sacco's. These results concur with the findings by Pandey (2010) which shows that resources are conserved for sometimes before the expenses are eventually cleared, usually when the SACCOs' cash flow has improved. In such instances, the SACCO Society may utilize such funds as a source of financing. In fact, this is a cheaper source of financing for SACCOs though care should be taken in case of failure to pay the expenses on time is misinterpreted as the society having financial liquidity problems.

Funds allocation strategy was a positive factor in influencing growth of wealth in Sacco's ($\beta = .733$; $p < 0.05$). The t-statistic for fund allocation strategy was 5.486 which indicated that improvement in fund allocation would have a positive and significant effect on Sacco wealth growth. These findings are in line with the study by Home (2003) which shows that efficient allocation of capital is the most important financial practice function in any SACCO Society and it involves decisions of committing the co-operative funds to SACCOs' assets. Such decisions determine their value and size by influencing their growth, surpluses and risk. The investment decisions are the capital budgets or capital expenditure decisions. SACCOs should make decisions to invest their current funds more efficiently in long-term assets in anticipation of expected flow of benefits over a series of years. Such investment decisions generally include expansion, acquisition, modernization and replacement of long-term assets

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The aim of the study was to establish the financial strategies of SACCOs' in Kenya that are applied to grow the Sacco's wealth. This chapter presents the summary of findings from the study, the conclusions drawn and also the recommendations that have been made in the study.

5.2 Summary of the Major Findings

The study focused on the financial strategies that determine 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 Sacco's wealth. The study chose Kiambu 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 2009 and 2013.

The objectives of the study were to; establish the relationship of financial stewardship and SACCOs wealth; establish the relationship of capital structure and Sacco's wealth and finally to establish the relationship of funds allocation strategy and Sacco wealth. The researcher used descriptive survey in soliciting information on the determinants of growth of SACCOs' wealth in Kiambu County. The population of the study was 60 CEOs from the SACCO's in Kiambu County. Census sampling technique was used to select all the CEOs who were used as the respondents for the study. The study used questionnaire as data collection instruments. Primary data was used and analysis was through descriptive statistics and inferential statistics which involved the use of correlation and regression with the aid of SPSS. Presentation of the results was done through tables.

5.2.1 Effects of Financial Stewardship on Growth of Wealth

Financial stewardship had a positive coefficient when used as a predictor of Sacco wealth. This indicates that financial stewardship is a significant factor in determining growth of wealth. These findings imply that improvement in financial stewardship increases Sacco wealth.

5.2.2 Capital Structure on Growth of Wealth in Sacco's

Capital structure had a positive coefficient in the regression model indicating that an improvement in capital structure would lead to an improvement in wealth growth. The t-statistic indicates that capital structure is a significant factor determining wealth growth in Sacco's.

5.2.3 Funds Allocation on Growth of Wealth in Sacco's

Funds allocation strategy was a positive factor in influencing growth of wealth in Sacco's. The t-statistic for fund allocation strategy indicated that improvement in fund allocation would have a positive and significant effect on Sacco wealth growth.

5.3 Conclusion

After considering the study findings, the study makes the following conclusions. First, financial stewardship is an important factor in determining growth of wealth in SACCOs' in Kenya. The management team puts other factors in to action without considering effective financial stewardship which if slightly improved would lead to a growth in SACCOs' wealth, therefore leaders in SACCOs' should put this in to consideration so as to improve their wealth.

Secondly, capital structure is a significant determinant of SACCOs' wealth. A slight improvement in capital structure showed that there is increase in growth of wealth in Sacco. Therefore Sacco's not only in Kiambu but Kenya at large should try and improve their capital structure such as making careful evaluations when deciding sources of funds, consultation of financial managers which helps to mobilize funds among other factors.

Lastly, funds allocation strategy was found to have a positive influence on growth of wealth in Sacco's. Funds allocation strategies among the Sacco's was found to be poor, therefore an improvement in using all income from loans to cover operating costs, using non-financial investments to pay the recurrent cost in Sacco and using illiquid investments to pay initial outlay in Sacco would lead to increase in growth of wealth in Sacco's.

5.4 Recommendations

5.4.1 Policy Recommendations

The study recommends to policy makers to ensure that implementation of financial stewardship in SACCOs', capital structure, funds allocation strategy should be improved. However this does not imply that other financial factors should be overlooked. The policy makers in SACCOs should ensure that all Sacco's implement the financial practices effectively but more focus should be put on the practices that affect the growth of their wealth.

5.4.2 Managerial Recommendations

The study makes the following recommendations to management. First, SACCOs' should focus on increasing the direction and leadership provided by top management in increasing wealth. Leadership in Sacco is critical as it supports employee development; establish a multipoint communication among the employees, managers, and enables use of information efficiently and effectively. In addition, leaders encourage employee participation in decision-making and empower the employees. Financial stewardship in SACCO is very important.

Secondly, empowerment of front-line staff and technicians could be fundamental to achieving and improving the growth of SACCOs. Allocating firm resources to employee empowerment pays off as professional employees know advanced statistical techniques, concepts of quality, basic characteristics of their industry, and the structure and processes of the firm. Furthermore, treating employees as a valuable resource increases their loyalty to the firm, motivates them and makes them proud of their jobs, improves their work-related performances, decreases absenteeism, and reduces intentions to quit.

5.5 Suggestion for Further Studies

The study focused on three financial factors which are financial stewardship, capital structure and funds allocation strategy. Another study focusing on other factors such as managerial should be conducted and assess how these factors influence growth of wealth in Sacco's.

Moreover, the financial factors looked in to in this study do not only affect Sacco's but also other institutions. Studies on the effects of these financial factors on other sectors should be conducted. Such studies will inform on to what should be improved in different organizations.

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Appendix 1 : Questionnaire**Financial Growth of Saving and Credit Co-operative Societies' Wealth.**

This Questionnaire is meant to collect data among the SACCOs in Kiambu County. Any information provided in this Questionnaire will be used for purposes of research only and will not be divulged or availed to unauthorized persons.

Please take a few minutes to complete this questionnaire

Please answer the questions correctly and as accurate as possible

Tick the correct answer in the boxes provided against the questions where provided.

SECTION A: BACKGROUND INFORMATION

1. When was your SACCO Society started? _____

2. Type (classification) of SACCO Society. Please tick the appropriate box. Tick only one

Urban.....	<input type="checkbox"/>
Rural.....	<input type="checkbox"/>
Transport.....	<input type="checkbox"/>

SECTION B: GROWTH OF SHAREHOLDERS' WEALTH

3. Please circle the number corresponding to the correct answer in each statement below as regards profitability and distribution of income in your SACCO Society.

Our SACCO has been making a surplus every year from 2009 to 2013.....1.....2.....3.....4.....5

Our SACCO has been declaring dividends for the last five years.....1.....2.....3.....4.....5

Dividends per share have been increased in the last five years.....1.....2.....3.....4.....5

The SACCO has also been contributing to retained earnings.....1.....2.....3.....4.....5

The retained earnings have been growing annually from 2009 to 2013.....1.....2.....3.....4.....5

4. How do you determine the surplus distributed as dividends, rebates and institutional capital (retained earnings)? Please tick the box corresponding to the correct answer to the question. Tick only one box

- No specific method is used
- Using a standard Proportion Specify _____
- Depending of Volume of profits Explain _____
- Depending on Capital Structure Explain _____
- Depending on funds allocation strategy Explain _____
- Others Explain _____

SECTION C: FINANCIAL STEWARDSHIP

Part 1: Loan Evaluation

5. Loan Eligibility. Please indicate the level of agreement or disagreement with each of the following statement as regards loan evaluation in your SACCO Society. Please circle the number corresponding to the correct answer in each statement below

Loan applications are approved by special committee in our SACCO.....1.....2.....3.....4.....5

Our SACCO by laws are the basis of loan evaluation.....1.....2.....3.....4.....5

6. Rankings. Please indicate the level of agreement or disagreement with each of the following statement as regards loan application rankings in your SACCO Society. Please circle the number corresponding to the correct answer in each statement below

Loan applications in our SACCO are ranked according to by-laws.....1.....2.....3.....4.....5

Our SACCO staff sometimes do not rank loan applications at all.....1.....2.....3.....4.....5

PART II: Loan Disbursement

7. Please indicate the level of agreement or disagreement with each of the following statement as regards loan disbursement in your SACCO Society. Please circle the number corresponding to the correct answer in each statement below

Loan pay- out has been increasing in our SACCO the last four years.....1.....2.....3.....4.....5

Our SACCO always disburses loans as they fall due.....1.....2.....3.....4.....5

PART III: Loan Recovery

8. Please circle the number corresponding to the correct answer in each statement below

Loan borrowers always honour loan repayment on due date.....1.....2.....3.....4.....5

Loan delinquency has been minimized in the last five years.....1.....2.....3.....4.....5

Loan delinquency is always avoided at all costs.....1.....2.....3.....4.....5

Members of our SACCO are eager to repay their loans promptly.....1.....2.....3.....4.....5

Part IV: Loan Protection

9. Please indicate the level of agreement or disagreement with each of the following statement as regards loan protection in your SACCO Society. Please circle the number corresponding to the correct answer in each statement below

Our SACCO has a provision for irrecoverable loan.....1.....2.....3.....4.....5

All irrecoverable loan over one year are written off.....1.....2.....3.....4.....5

Part V: Default Risk

10. Default risk assessment. Please circle the number corresponding the correct answer in each statement below

This SACCO awards loans depending on borrower’s ability to pay.....1.....2.....3.....4.....5

Loans with lower default risks are paid in full in the SACCO.....1.....2.....3.....4.....5

Where default risk is high the SACCO awards Loan depending on borrower’s ability to pay.....1.....2.....3.....4.....5

SECTION D: CAPITAL STRUCTURE**11. Please Circle the number corresponding the correct answer in each statement below**

The SACCO uses cost of capital when determining the source of funds.....1.....2.....3.....4.....5

The SACCO makes careful evaluations when deciding sources of funds.....1.....2.....3.....4.....5

Profitability is a determinant of the source of fund in

This

SACCO.....
.....1.....2.....3.....4.....5

This SACCO mobilizes funds after consulting the financial managers.....1.....2.....3.....4.....5

SECTION E: FUNDS ALLOCATION STRATEGY**12. Please Circle the number corresponding the correct answer in each statement below**

Income from loans cover all operating costs.....1.....2.....3.....4.....5

Income from loans in our SACCO maintains retained earnings.....1.....2.....3.....4.....5

The SACCO always pays dividends after profits are announced.....
.....1.....2.....3.....4.....5

13. If you have any non financial investments then please circle the number corresponding the correct answer in each in each statement below

Non- financial investments pay their recurrent cost in our SACCO.....1.....2.....3.....4.....5

Non- financial investments always pays initial outlay in our SACCO.....1.....2.....3.....4.....5

Non- financial investments support other projects in our SACCO.....1.....2.....3.....4.....5

Buying of fixed asset is always justified using cost/ benefit analysis.....1.....2.....3.....4.....5

14. If you have any illiquid investments then please circle the number corresponding the correct answer in each statement below

- Illiquid investments pay their recurrent cost in our SACCO.....1.....2.....3.....4.....5
- Illiquid investments always pay initial outlay in our SACCO.....1.....2.....3.....4.....5
- Illiquid investments provides for sinking fund in our SACCO.....1.....2.....3.....4.....5
- Buying of fixed asset is always justified using cost/benefit analysis.....1.....2.....3.....4.....5

Thank you for your cooperation

Appendix II Document Review Tool**SECTION A : GROWTH OF SACCOS' WEALTH**

- 1. Growth of SACCOS' Wealth. Please fill in the table below correctly. Indicate the value on each of the following items for the years given**

Item	2009	2010	2011	2012	2013	2014
Profits(Kshs)						
Dividend Declared (Kshs)						
Rebates(Kshs)						
Number of shares						
Share Capital(Kshs)						
Opening Institutional capital (Kshs)						

SECTION B: FINANCIAL STEWARDSHIP

2. Innovativeness. Please list the type of loans ever offered by your SACCO Society from 2009 to 2013 and tick corresponding to that product the year it was offered.

2. Loan Evaluation. Please fill the table below with correct number of loan applications for each requirement in the listed years

Loan Products	2009	2010	2011	2012	2013

Item	2009	2010	2011	2012	2013
Number of Loan application Approved					
Number of eligible application Approved					
Number of application correctly ranked					
Number of loan applications paid					

3. Loan Disbursement.

a) Please fill the tables below with correct value for each asset in the listed years

Asset	2009 Kshs	2010 Kshs	2011 Kshs	2012 Kshs	2013 Kshs
Total Loan Disbursed this year					
Total Assets					
Total number of members who received loans					
Total Membership this year					

b) Please fill the table below with correct value for each expense in the listed years

Asset	2009 Kshs	2010 Kshs	2011 Kshs	2012 Kshs	2013 Kshs
Sitting Allowance when processing loans					
Bank charges for loan disbursement					
Traveling allowances for loan processing					
Other expenses on loan processing					

4. Loan Repayment. May you please provide details of all disbursed between 2009 and 2013 monthly repayment amount for each application and borrower's monthly income?**5. Loan Protection: Please fill the below with correct amount for each item in the listed years**

Item Years	2009	2010	2011	2012	2013
Irrecoverable loan (Non-performing loans)	 				
Total loans Balance					
Provision for loan loss	 				

6. Default risk assessment. May you please Provide details of loan disbursement and the loanee earning details

SECTION C: CAPITAL STRUCTURE

7. Source of funds. Please fill the table below with correct amounts for each item in the listed years

Year	2009	2010	2011	2012	2013
Item	Kshs	Kshs	Kshs	Kshs	Kshs
Total Savings					
Total debt Capital					
Return on shares					
Return on savings					
Return on retained earnings					
Return on debt capital					
Cost related to shares					
Cost related to savings					
Cost related to retained earnings					
Cost related to debt capital					

SECTION D: FUNDS ALLOCATION STRATEGY

8. **Financial Investments.** Please fill the table below with correct amount for each item in the listed years on investments on loans

Amount in the	2009	2010	2011	2012	2013
Years	Kshs	Kshs	Kshs	Kshs	Kshs

Item					
Income from loans					
Total operating cost					
Liquid investments					
Total investments					

(b) Please list all the illiquid investments, returns on each investment for the period 2009 to 2013 using the format below:

Amount in the years Item	2009 Kshs	2010 Kshs	2011 Kshs	2012 Kshs	2013 Kshs
Returns Investments					

(c)As regards non-earning fixed assets, please fill the table below for the listed years

Item	Cost Type	2009	2010	2011	2012	2013
	Acquisition Cost (kshs)					
	Depreciation (%)					
	Life span (years)					
	Cost of outsourcing (ksh)					
	Acquisition Cost (kshs)					
	Depreciation (%)					
	Life span (years)					
	Cost of outsourcing (ksh)					
	Acquisition Cost (kshs)					
	Depreciation (%)					
	Life span (years)					
	Cost of outsourcing (ksh)					
	Acquisition Cost (kshs)					
	Depreciation (%)					
	Life span (years)					
	Cost of outsourcing (ksh)					
	Acquisition Cost (kshs)					
	Depreciation (%)					
	Life span (years)					

	Cost of outsourcing (ksh)					
	Acquisition Cost (kshs)					
	Depreciation (%)					
	Life span (years)					
	Cost of outsourcing (ksh)					
	Acquisition Cost (kshs)					
	Depreciation (%)					
	Life span (years)					
	Cost of outsourcing (ksh)					
	Acquisition Cost (kshs)					
	Depreciation (%)					
	Life span (years)					
	Cost of outsourcing (ksh)					