International Journal of Economics, Commerce and Management
United Kingdom Vol. III, Issue 7, July 2015
http://ijecm.co.uk/ ISSN 2348 0386

EFFECT OF INTERNAL FACTORS ON PERFORMANCE OF SACCOs IN KENYA: A CASE OF KISII COUNTY

Ronald Obure Hezron
MBA, Jomo Kenyatta University of Agriculture and Technology, Kenya
Ronaldhezron@Gmail.com

Willy Muturi
Jomo Kenyatta University of Agriculture and Technology, Kenya

Abstract

Kenyan Sacco sector constitutes a significant proportion of the country's savings and this has spurred the economy and social development. It has been established that internal environment has a great bearing on the performance of SACCOs. The purpose of this study was to assess the effects of internal factors on performance of SACCOs in Kenya. Specifically, the study determined the effect of managerial abilities on performance of SACCOs in Kenya; evaluate the effect of technology on performance of SACCOs in Kenya and find out the effect of internal capital on performance of SACCOs in Kenya. Descriptive research design was applied. Stratified random sampling technique was used to select a sample of 69 respondents from a target population of 234 staff of 78 registered SACCOs in Kisii County, Kenya. Data was analyzed using descriptive statistics involving mean, standard deviation and correlation analysis with the aid of SPSS and presented using tables and bar graphs. The research findings were useful in formulating requisite policies to build confidence to the SACCO. From the findings the study established that with borrowed capital, SACCOs were able to increase their loan portfolios. The study further established that SACCOs in Kenya have invested in IT to achieve sustainable competitive advantage over rivalry; the management therefore should put funds in areas where investment is not liquid leading to good performance.

Keywords; Internal capital, Technology, Managerial abilities, organizational performance, SACCOs, Kenya

INTRODUCTION

The modern co-operative concept began in 1844 in Rochdale village, Manchester in England. It has since developed globally as a socio-economic movement with its own distinct identity, history and purpose (Tache 2006). In 1864 the first rural credit union was established by Raiffeisen in German to cater for the needs of the rural people. The rural communities were deemed nonbank able owing to very small, seasonal flows of cash and shortages of human resources (WOCCU 2008). Since this period there has been a rapid growth in the cooperative movement worldwide premised upon the organizational methods of Raiffeisen. Tache (2006) reveals that the cooperative movement spread all over Europe, Northern America, Latin America and Asia from 1900 to 1930 and thereafter to Ghana by a catholic Bishop.

In Africa, the farmers promoted and registered cooperatives towards the end of 1950s for cash crops like pyrethrum and coffee. Mumanyi (2014) asserts that the success of the cooperative movement in Ghana has been widely replicated throughout the African continent.

The earliest co-operative was established by white settlers in 1908 at Kipkelion in Kenya. It was registered under the companies' ordinance and was geared towards dispensing dairy and agricultural support for white settlers (Kobia 2011). Since then regulatory reforms have been instituted to help streamline the SACCO operations for maximum returns for members. However, SACCO movement in Kenya has faced a number of challenges that need to be addressed in order to enable it to improve on: soundness and stability, effectiveness and efficiency, corporate governance, product diversity and competition as well as integration to formal financial system (KUSCC 2010). These challenges are inherent in the financial world in relation to the co-operative movement.

In India, co-operatives are unique as they were initiated and supported by common business needs and aspirations. They are basically welfare driven rather than profit-oriented and are legal institutions supported by the government. Despite all this, these cooperatives are dogged by problems such as inadequate capital, poor member participation, absence of common brands, inadequate managerial skills, corruption and frauds. This has engendered inefficiency and lack of competitiveness of these institutions (Siddaraju 2012).

In Malaysia, cooperatives are community-based, have democratic roots, flexible and have participatory involvement which makes them well suited for economic development. They promote community spirit, identity and social organization as well as help in poverty alleviation, job creation, economic growth and development. However, cooperatives in Malaysia are facing many issues such as lack of capital, improper governance, poor financial performance, managerial inadequacies and non-compliance with cooperative societies Act of 1993 and its related legislations (Tehrani *et al* 2014).

In Tanzania, SACCOs draw membership from the local community or a similar employer (Klinkhamer 2009). Their members share a geographical area, a community, an employer or other affiliations (CGAP, 2005). The members are the sole beneficiaries, sole savers and sole decision-makers (Mwakajumilo 2011). The SACCO funds emanate from members` saving deposits (Shrestha 2009). SACCO members registered high increases of incomes, assets, food consumption, education expenditure, improved housing and decline of health expenditures compared to non-members (Sharma et al 2005). However, many co-operatives and SACCOs in Tanzania face problems of poor management, embezzlement, lack of working capital, poor business practice and high loan delinquency rates (Maghimbi 2010; Mwakajumulo 2011).

In Uganda, the position of SACCOs has been heightened by the launch of government "Bonna Baga ggawale" ("Prosperity for all") program intended among other interventions to address the inadequate access to financial services. This program is designed to use a SACCO –per-sub county strategy to channel both agricultural and commercial loans at below market rates to borrowers (Mugenyi 2010). Micro capital monitor (2009) reveals that the government of Uganda set aside the equivalent of US Dollars 133.7 million for subsidized loans to individuals and small businesses through government-owned microfinance support Centre to SACCOs. Nevertheless, the SACCOs are bedeviled by corporate governance challenges which include; existence of volunteer board of directors, limited individual influence despite "one person one vote" decision making system and volunteer staff (Labie *et al* 2008). These challenges and others are said to be handicapping the operations of SACCOs (Kakungulu *et al* 2010)

In Kenya SACCOS contribute 45% of the country's GDP and to date the sub sector has effectively mobilized over Ksh 200 billion deposits and assets totaling to Ksh210 billion (MCD &M 2010). These enormous resources should give SACCOs a basis to compete in a liberalized environment. Wanyama (2009) posits that the new economic environment that Africa experienced in the 1990s propelled Kenya to devise new policies and regulations in 1997 in order to liberalize co-operatives. SACCOs were generally controlled by the government before liberalization in 1997 (Oyoo 2002). In the legislation the co-operative societies Act of 2004 guides the formation and management of co-operatives in Kenya. Nevertheless, the SACCOs in Kenya are confronted by myriads challenges that include poor record keeping, loan backlogs, high illiteracy level among the SACCO members, audit arrears, managerial deficiency, inadequate capital and heavy taxation. A study by WOCCU (2008) revealed that SACCOs are facing severe liquidity problems and majorities are unable to meet the demands of their clients for loans and withdrawal of savings. Ondieki *et al* (2011) contend that inadequate managerial skills and knowledge have adversely affected SACCOs in Kenya

Statement of the Problem

Kenyan Sacco sector is the largest in Africa and the seventh worldwide (Ademba 2010). With over Ksh 230 billion in assets and a savings portfolio estimated at Ksh 190 billion, the SACCO movement in Kenya constitutes a significant proportion of about 20% of the country's savings (Makori *et al* 2013). It's crystal clear that SACCOs have increasingly become vital components of Kenya's economy and social development. However, inadequate capital is the biggest problem bedeviling SACCOs in Kenya (Chahayo *et al* 2013).The SACCOs have insufficient funds to be able to meet members' requirements i.e. their credit needs are left unmet and thus to a large extent discourages members. In addition inadequate capital compromises SACCOs' ability to service loans from commercial banks, ability to recruit qualified and competent employees as well as leads to loss of members share value and lack of cushion for further losses arising from poor cash flow management and employee turnover in the corporations (Mvula 2013).

Various researchers in Kenya have explored the dynamics of SACCOs in light of sustainability, poverty alleviation; resource mobilization for investment and socio-economic growth and development among the poor. However, little research has been undertaken on the effects of internal factors on performance of SACCOs. Locally, studies that have been conducted on SACCOs include: Maingi (2014) evaluated factors affecting financial performance of SACCOs in Kenya, but the variables used were not exhaustive; Ondieki *et al* (2011) assessed the effects of external financing on financial performances of SACCOs in Kisii Central but did not consider internal financing which is an integral part of capital to be evaluated under this study; Nkuru (2015) who evaluated factors affecting growth of SACCOs within the Agricultural sector in Kenya, a case of Meru farmers SACCOs was not able to determine the effect of technology on the performance of SACCOs which is one of the variables in this study. It is thus against this backdrop that this study sought to assess the effects of internal factors on performance of SACCOs in Kenya.

Research objectives

This study was guided by the general and specific objectives.The general objective of the study was to**;** assess the effects of internal factors on performance of SACCOs in Kenya. The specific objectives of the study were:

i. To examine effect of internal capital on performance of SACCOs in Kenya.

ii. To determine the effect of technology on performance of SACCOs in Kenya.

iii. To evaluate the effect of managerial abilities on performance of SACCOS in Kenya.

THEORETICAL REVIEW

Agency theory

According to Abdullah et *al* (2009), agency theory explains the relationship between the principals and agents. In this theory members who are the owners (principals) of the SACCO hire by electing the management board as their agents (Mitnick 2006). Principals delegate the stewardship of the business to the management board which in turn hires and bestows authority upon managers (Clark 2004). The theory narrows the firm to two participants- principals (owners) and agents (managers). In this regard shareholders anticipate the agents to act and make decisions in the best interest of the principals (Padilla 2002).

However, the agent may yield to self-interest, opportunistic behavior and violate the contract between the interests of the principals and the agents' ends (Odhiambo 2012). Agents are likely to have different motives to principals. They may be influenced by factors such as financial rewards, labor market opportunities, and relationships with other parties that are not directly relevant to principals. This can, for instance, result in a tendency for agents to be more optimistic about economic performance of the SACCO or their performance under contract than the reality would imply. Agents may also be more risk averse than principals and as a result of these differing interests, agents may have an incentive to bias information flows. Principals may also express concerns about information asymmetries where agents are in possession of particular information to which principals do not have access (Institute of Chartered Accountants 2005).

Implicit in this theory is that different motivations and information asymmetries lead to the reliability of information, which impacts on the level of trust that principals will have in their agents. The SACCOs have a variety of mechanisms that may be used to try to align the interests of the agents with the principals' and to allow the principals to measure and control the behavior of their agents and reinforce trust in agents. However, the less trust is in an agent the more likely it is that principals will opt for certain performance related pay measures and incentives that will align interests. In such scenario, SACCOs are likely to set basic salary at a relatively low level but this would go hand in hand with a package of other benefits which might include bonuses and share options. Such mechanisms, however, create potential new agency problems related to the measurement of performance. These agency problems may conspire against the SACCO's performance thereby warranting the need for structural transformation to reverse this trend. Duties can be captured in contracts and be made the subject of enforcement and penalties for any perceived deviation from the SACCO's objectives (Institute Chartered Accountants 2005).

Pecking Order Theory

Myers *et al* (1984) assert that firms prefer internal sources of finance over external sources due to transaction cost, agency cost and information asymmetry. Donaldson (1961) claimed that firms decide to follow the " financing hierarchy" as posited by the pecking order theory (POT) due to the transaction cost and according to Zurigat (2009) this transaction cost includes compensation for the dealer placing the issue and other expense such as legal, accounting and printing cost as well as registration fees and taxes. Donaldson further explained firms that use internal finance experience less or no transaction cost as compared to the use of external funds POT explains that firms follow up the "hierarchical" ordering due to the existence of information asymmetry which arises out of the fact that management of the SACCOs have more knowledge regarding the investment opportunities and profitability of the business than investors in the SACCO. Myers *et al* (1984) posited that information symmetry would lead to mispricing of a firm's equity which would impact adversely on the existing shareholders wealth. According to this theory SACCOs are not eager in external finance if they don't have sufficient internal finance. If the external funds are inevitable then the SACCOs would like to make choice among external sources of funds, which has less cost of capital as well as cost of uneven information.

POT model predicts that the optimal capital structure was not achieved by SACCOs but the SACCOs would follow a certain principle and select external financing when 'debt capacity' is attained. The pecking order theory asserts that management will finance the activities of the SACCO without control restrictions if the SACCO doesn't possess adequate internal funds. Hence, short-term financing is acquired first because that does not warrant collateral, followed by long-term debt and then equity issuance (Karami *et al* 2014). POT further implies that outside investor is conscious about the debt and equity financing of the SACCO. Thus SACCOs consider retained earnings as the better source of finance than outside financing. Retained earnings are utilized first when possible, but if the SACCO does not possess sufficient amount of retained earnings then it chose debt financing.

Stakeholder Theory

Freeman(1984) states that stakeholders are groups that have legitimate right regarding the organization affairs. According to Donaldson *et al* (1995) this theory exhibits three dimensions; descriptive, instrumental and normative dimension. The descriptive dimension reveals that the firm uses the model to represent and understand its relationships and its roles in internal and external environment; the instrumental dimension is evidenced when the model is used as management tool for administrators; and normative dimension emerges when management recognizes the interests of all the stakeholders bestowing them with intrinsic importance.

SACCOs assume obligations with multiple stakeholders whose demands may not be met in entirety. Stakeholder management is tailor made to curtail the negative effects of interests among the stakeholders which may culminate in stifling meaningful performance of SACCOs. According to Freeman (1984) SACCOs that build better relationships with their primary stakeholders are likely to obtain greater returns. For example, SACCOs seen as socially responsible have greater ability to recruit qualified employees (Turban 2000). The SACCOs with socially responsible activities build moral capital among their stakeholders which promotes a certain type of safety against a loss of the company's reputation during problematic periods (Godfrey 2000). Stakeholder management is part and parcel of a SACCO's strategy and it constitutes a variable that influences financial performance (Berman et al 1999). According to Freeman (1984) stakeholder management involves the SACCOs' ability to identify who its stakeholders are and their respective interests, objectives and ability to influence the SACCO to understand the process that may be used by SACCOs to relate to these stakeholders, and to deduce what decisions best allow the stakeholder interests to be aligned with the SACCO's processes.

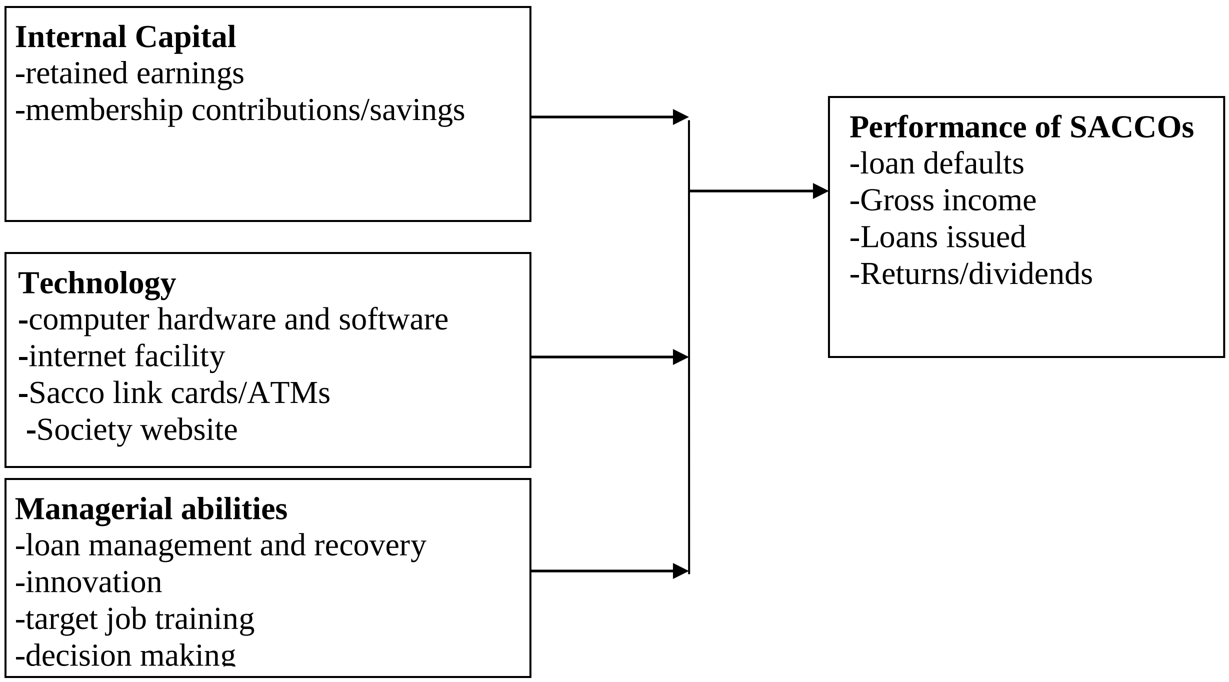
Donaldson *et al* (1995) contend that all groups participate in a business to obtain profits. This implies all SACCO members have pooled their resources together for their mutual gains and these resources should be manned well by managers. Donaldson *et al* (1995) posit that this theory focuses on managerial decision making as well as the interests of all stakeholders. Thus the SACCO managers ought to appreciate their role of decision making such that the decisions made should take cognizance of interests of stakeholders. Suffice it to say stakeholder interests have intrinsic value and no sets of interest are assumed to dominate others in the organization (Odhiambo 2012).

Conceptual Framework

Conceptual framework involves forming an idea about the relationship between variables in the study and showing the relationship graphically or diagrammatically (Mugenda &Mugenda 2003). The study proposes that the performance of SACCOs is influenced by internal factors. The dependent variable in this study is the performance of SACCOs while the independent variable is made up of internal factors. Thus the researcher will examine the independent variable in relation to internal capital, technology and managerial abilities in order to determine the extent to which these factors impact upon the performance of SACCCOs in Kenya.

The conceptual framework is based on the idea that performance of SACCOs is affected by factors in the internal environment. The SACCOs are obliged to manipulate these factors which are under their control in order to ameliorate their performance. Arguably it is reckoned that the existence of managerial competence, adequate capital and improved technology will spur the SACCOs' ability to enjoy economies of scale hence perpetuate their longevity for the benefits of members.

Figure 1: Conceptual Framework



Knowledge Gap

The researcher observed during the literature review that there is a gap that needs to be filled on the effects of internal factors on performance of SACCOs in Kenya. Mosongo *et al* (2013) conducted a study to investigate whether there was a relationship between technology and financial performance of SACCOs in Nairobi. This study, however, focused on technology and overlooked other variables in the internal environment that might have affected the performance of these SACCOs. Lwanga *et al* (2014) conducted a study to assess the effect of managerial competency on performance of SACCOs in only one region in Uganda. This study was confined to Busoga in Uganda whose business environment could be different from Kenya. Hence the study findings may not bear relevance to business setting in Kisii County.

A study by Nkuru (2015) geared towards investigating factors affecting the growth of SACCOs within the Agricultural sector in Kenya, failed to established the effect of technology on performance of SACCOs yet it is a variable under consideration by this study.

Mang'ana *et al* (2015) conducted a study to examine the extent to which SACCOs operating in Kisii County have invested in IT to achieve sustainable competitive advantage over rivalry. But this study did not realize that IT investment was adversely affected by other factors within the internal business environment of which this study seeks to evaluate.

Maingi (2014) conducted a study to examine factors affecting financial performance of SACCOs in Kenya. The study concluded that dividend policy, loan portfolio and surpluses affected financial performance of SACCOS, yet there are other more internal factors that affected performance of the SACCOs in Kenya. Magali (2014) conducted a study to determine the impact of leadership, corporate governance and regulations on credit risk management of SACCOs in only three regions in Tanzania so the study findings may not be applicable in Kenyan set up due to environmental diversity. Again this study left out other internal factors focused by this research study. Based on this, there is a knowledge gap which this study seeks to fill. Thus this study seeks to determine the effects of internal factors on performance of SACCOs in Kenya.

RESEARCH METHODOLOGY

This research problem was studied through the use of descriptive survey research design. The target population was 234 employees comprised of 78 branch managers, 78 credit managers and 78 accountants of SACCOs in Kisii County. Stratified random sampling design was used to get the number of respondents to participate in the research study. The sample size was 69 employees comprising of 24 employees of Employee based SACCOs, 24 of Rural SACCOs and 21 of Transport based SACCOs as shown in the table below:

Table 1: Sample size determination

Type of SACCOs	Branch managers	Credit managers	Accountants	Total
Employee Based SACCOs	8	8	8	24
Rural SACCOs	8	8	8	24
Transport Based SACCOs	7	7	7	21
Total	23	23	23	69

This study utilized an open and close ended questionnaire that was self-administered to the sampled population of managers and accountants. The study carried out a pilot study to pretest and validates the questionnaire. The researcher determined reliability by use of Cronbach's alpha. If the reliability coefficient is more than 0.7, then data was reliable. Cronbach's alpha measures the average of measurable items and its correlation the study established that managerial abilities had the highest reliability (α= 0.820), followed by technology (α=0. 815) and internal capital (α=0. 812). This illustrates that all the three variables were reliable as their reliability values exceeded the prescribed threshold of 0.7. The pilot study was also taken for pre-testing of the research instruments. The data was represented in tables and bar graphs. The researcher used correlation analysis to determine the strength and direction of the relationship between the independent variable and dependent variable.

ANALYSIS AND FINDINGS

Inferential statistics was used to discuss the findings of the study. The study targeted a sample size of 69 respondents from which 66 filled in and returned the questionnaires making a response rate of 95.7%, this response rate was satisfactory to make conclusions for the study as Cooper and Schindler (2003), states that a response rate of between 30 to 80% of the total sample size can be used to represent the opinion of the entire population.

Internal Capital

Table 2: Statements relating to effect of internal capital on performance of SACCOS

Statement	Strongly agree	agree	moderate	disagree	Strongly disagree	Mean	standard deviation
Capital adequacy is a challenge to our SACCO	17	40	8	1	0	1.91	0.25
Retained earnings helps to improve SACCO wealth	20	43	2	1	0	1.71	0.28
The SACCO has enough funds to recruit qualified and competent employees	15	47	3	1	0	1.86	0.31
Members savings have improved the SACCO wealth	17	45	4	0	0	1.83	0.30
The SACCO has sufficient funds for members withdrawals	18	38	9	1	0	1.87	0.29

The study sought to determine the extent to which respondents agreed with the above statements relating to internal capital, from the finding majority of the respondents agreed that retained earnings helps to improve SACCO wealth as shown by a mean of 1.71 and standard deviation of 0.28, Members savings have improved the SACCO wealth as shown by mean of 1.83 and a standard deviation of 0.30, the SACCOs also have enough funds to recruit qualified and competent employees as shown by mean of 1.86 and a standard deviation of 0.31, the

SACCOs have sufficient funds for members withdrawals as shown by mean of 1.87 and a standard deviation of 0.29 and finally that capital adequacy is a challenge to our SACCO as shown by mean of 1.91 and a standard deviation of 0.25. The above findings concurs with study findings by Alexandria (2006) he asserts that with the borrowed capital, SACCOs were able to increase their loan portfolios thus generating more income from interests earned on loans. In addition, with the increased capital SACCOs were able to expand their outreach thus attracting new members and retaining current membership.

Technology

Table 3: Statements relating to effect of technology on performance of SACCOS

Statement	Strongly agree	Agree	moderate	disagree	Strongly disagree	mean	Standard deviation
Technology adoption should be a top priority for Sacco management	18	42	4	1	1	1.86	0.28
Reports produced by our information systems are accurate and reliable	18	44	4	0	0	1.74	0.27
Computerization has improved loans disbursement and recovery	14	46	5	1	0	1.86	0.28
Our members have SACCO link cards/ATMs to help them make withdrawals.	16	44	5	1	0	1.87	0.29
Members issues and statement requests are responded to promptly	17	45	3	1	0	1.89	0.26
Our society is connected to the internet to permit fast communication	18	43	5	0	0	1.90	0.29

The study sought to determine the extent to which respondents agreed with the above statements relating to technology, from the finding majority of the respondents strongly agreed that Reports produced by our information systems are accurate and reliable as shown by mean of 1.74 and a standard deviation of 0.27, Computerization has improved loans disbursement and recovery and Technology adoption should be a top priority for Sacco managementas shown by mean of 1.86 and a standard deviation of 0.28 in each case, Our members have SACCO link cards/ATMs to help them make withdrawals as show by mean of 1.87 and a standard deviation of 0.29, Members issues and statement requests are responded to promptly as show by mean of 1.89 and a standard deviation of 0.26, and finally that Our society is connected to the internet to permit fast communication as show by mean of 1.90 and a standard deviation of 0.29, the above findings concurs with the study finding by Mang'ana (2015). Mang'ana asserts that SACCOs in Kenya have invested in IT to achieve sustainable competitive advantage over rivalry. The study found that members of SACCOs were satisfied with the role of information technology (IT) in enhancing sustainable competitive advantage. However, it was established that the SACCOs in Kisii County have not adequately invested in IT, a scenario that explains the finding that SACCOs have not adopted the use of many forms of information technology such as e-banking, m-banking, ATMs and many others. It was further ascertained that SACCO membership has been declining over years and the SACCOs have not been effectively pursuing the market share strategy.

Managerial Abilities

Table 4: Statements relating to effect of managerial abilities on performance of SACCOS

Statement	strongly agree	agree	moderate	disagree	strongly disagree	mean	Standard deviation
Target job training helps improve performance of SACCOs	21	40	3	2	0	1.83	0.26
The budget allocation in our society is adequate to cater for training expenses for management committee	20	44	1	1	0	1.76	0.29
We often introduce product innovation and process innovation as members' demands change to ensure growth and member retention.	16	45	4	1	0	1.80	0.28
Loan management and recovery has improved our Sacco's performance.	14	49	2	1	0	1.80	0.30
Decisions must be made fast to enable the SACCO to tap opportunities in the market	17	42	7	0	0	1.85	0.27

The study sought to determine the extent to which respondents agreed with the above statements relating to managerial abilities, from the research findings the study established that majority of the respondents agreed that; The budget allocation in our society is adequate to cater for training expenses for management committee as shown by mean of 1.76 and a standard deviation of 0.29, We often introduce product innovation and process innovation as members' demands change to ensure growth and member retention. Loan management and recovery has improved our Sacco's performance as shown by a mean of 1.80 and a standard deviation of 0.28 and 0.30 in each case, Target job training helps improve performance of SACCOs as shown by a mean of 1.83 and a standard deviation of 0.26 and finally Decisions must be made fast to enable the SACCO to tap opportunities in the market as shown by a mean of 1.85 and a standard deviation of 0.27, the finding above concurs with the study findings by Slade, (2000), that Poor timing by business people is dangerous for one will find himself doing business when cost of raw materials is high and price of finished goods low hence lead to losses. Managerial flexibility is therefore important especially during harsh economic times, like closing business doors and then reopens when economic conditions improve, investments with high managerial flexibility experience low funds flow and high performance hence high returns. The management is therefore able to put funds in areas where investment is not liquid which will lead to high persistence in good performance.

Performance of SACCOs

Table 5: Statements relating to trend of performance in the business

Trend	**Greatly improved**	**Improved**	**Constant**	**Decreasing**	**Greatly decreasing**	**Mean**	**Standard deviation**
Loans default control	24	34	5	2	1	1.75	0.23
Gross income	27	33	4	1	1	1.72	0.25
Share capital	22	40	2	1	1	1.78	0.27
Rate of dividends/returns	20	43	1	1	1	1.75	0.27
Loans issued	26	36	2	1	1	1.73	0.26

The study sought to determine the respondent's level of agreement with the above statements relating to trend of performance in the business. From the research findings the study established that majority of the respondents agreed that Gross income as shown by a mean of 1.72 and a standard deviation of 0.25 affects performance of SACCOs, Loans issued as shown by a mean of 1.73 and a standard deviation of 0.26 affects performance of SACCOs, Rate of dividends/returns and Loans default control as shown by a mean of 1.75 in each case and a standard deviation of 0.27 and 0.23 respectively affects performance of SACCOs, Share capital as shown by a mean of 1.78 and a standard deviation of 0.27 affects performance of SACCOs, the above findings concurs with the findings by (Waweru, 2011) he made an investigation into the cash balance management challenges in savings and credit cooperative societies in Nakuru County, Kenya with a target population of one hundred and forty three savings and credit cooperative societies which was sampled to thirty eight through stratified random sampling method. Results of this study showed that significant difference exists between cash management challenges in savings and credit cooperative societies managed by employees and those managed by associations plus no relationship exists between cash management challenges and cash management practices employed by savings and credit cooperative societies.

CONCLUSION AND RECOMMENDATIONS

From the findings the study established that internal capital is positively significant to influence internal factors thus the study concludes that internal capital had positive influence on performance of SACCOs in Kisii County.

The study established that the SACCOs in Kisii County have not adequately invested in IT, a scenario that explains the finding that SACCOs have not adopted the use of many forms of information technology such as e-banking, m-banking, ATMs and many others. Thus the study concludes that technology had a positive effect on performance of SACCOs in Kisii County. The study revealed that managerial flexibility is important especially during harsh economic times, like closing business doors and then reopens when economic conditions improve, investments with high managerial flexibility experience low funds flow and high performance hence high returns thus the study concludes that managerial abilities has a positive impact on performance of SACCOs in Kisii County.

Based on the findings, the study recommends that the management on SACCOs should consider adopting new technologies. This will allow the management to create a comprehensive understanding that can be leveraged to influence stakeholders and create better decisions. The study also recommends that is very crucial that the organization evaluates managerial abilities as this will help the organization to gather valuable information that will provide valuable insights in the strategy and the necessary input to find effective responses to optimize Sacco's performance. The study recommends that the management keeps on monitoring as well as re-assessing the effect and frequency of internal capital adopted. This will help to identify whether the adopted counteractive measures are making any acceptable difference.

The study recommended that SACCO managers should embrace and incorporate IT use in their efforts to gain competitive advantage over their rivals in the market. It was further recommended that budgetary allocations of the SACCOs be increased on various forms of IT so as to provide their members a variety of services effectively and efficiently

IMPLICATIONS FOR FURTHER STUDIES

This research had intended to assess the effects of internal factors on performance of SACCOs in Kenya. Other researcher may focus on the relationship between external factors like competition, political stability, government policies and inflation infrastructures and financial performance SACCOs in Kenya

REFERENCES

Abdullah, H.& Vallentin, B.(2009). *Fundamental and Ethics theories of Corporate Governance*. Middle Eastern Finance and Economics (7) 88-96

Adeyemo, R.& Bamire, A .S .(2005). Saving and Investment Patterns of Co-operative farmers in Southwestern Nigeria. *Journal of Social Science, 11(3):183-192*

Alexandria,F. (2006). *Effect of wholesale lending to SACCO in Kampala, Uganda*. Available from http://Ruralfinance network.org/pages. Retrieved on 23/03/2015

Bailey,T. (2001). *Applying International Best Practices to South Africa's SACCOs*: Published Dissertation. South Africa: De Mont Fort University

Barney,J. (2005). *Gaining and Sustaining Competitive Advantage.* New Jersey: Prentice Hall Person

Bhimani,A. (2008). Making Corporate Governance Count: The Fusion of Ethnic and Economic Rationality. *Journal of Management and Governance 12(2),135-147*

Borg,R.W.& Gall,M.D. (1989). *Education/Research; An introduction to theory and practice*. London; Alley and Bcon.

Bruton,G.,Fired,V.& Hirsch,R.D.(2000). *CEO Dismissal in Venture Capital Based Firms* :Further evidence from an agency problem, entrepreneurship theory and practice 24 (4),69-77

Chahayo, S.A.,Bureti, P., Juma, Maende, M.C., Douglas, M. & Aketch, R.A (2013). Analysis of Financial Mismatch in cooperative societies in Kakamega County,Kenya. *International Journal for management science and technology Vol. 1 Issue 5*

Clark,T.(2004). *Theories of Corporate Governance*: The Philosophical Foundations of Corporate Governance , London and New York: Routledge.

Clarkson,M.B.E.(1995). *A Stakeholder Framework for Analysis and Evaluation Corporate Social Performance*. Academy of Management Review 20(1), 92-117

Cole, A.(2004). "*A Test of Agency Theory of Managerial Ownership , Corporate Leverage and Corporate Dividends*." Financial Management 18,UK Winter36-46

Cooperative Bank of Kenya (2010). *Co-operative Movement in Kenya.Nairobi*. Co-operative Bank of Kenya

Creswell, J.W. (2005). *Educational Research: Planning,conducting and evaluating qualitative and quantitave research (2nd ed)* : New Jersey: Pearson Merrill prentice Hall.

Daily,C.M.,Dalton,D.R & Canella,A.A (2003).*Corporate Governance. Decades of Dialogue and Data*. Academy of Management Review 28(3),371-382

Davies, P. (2005). The Governance of Co-operatives under competitive conditions: Issues, Processes and Culture. *Journal of Corporate Governance, 1, 28-29*

Davis,J.H., Schoorman , F.D and Donaldson , L. (1997). *Towards a Stewardship Theory of Management* .Academy of Management Review 2(2),20-47

Donaldson,G. (1961). *Corporate Debt Capacity*. A study of corporate debt policy and the determination of corporate debt capacity.Washington,D.C. Beard books 2000

Donaldson,L.& Davis , J. (1991).*A Stewardship Theory or Agency Theory. CEO Governance and Shareholder Returns*. Academy of Management Review 20 (1) ,65

Donaldson,L.& Preston,L.E. (1995). *The Stakeholder Theory of Corporation: Concepts, Evidence and Implications*. Academy of Management Review 20 (1), 65-91Economic Review,62,772-795.

Gardner, B. & Lerman, Z .(2006). Agricultural Co-operative Enterprise in Transition From Socialist Collective Farming. Journal of Rural Cooperation 34(1), 1-8

Gottschalk, P. & Solli-Saether , H .(2005). *Critical Success factors from Information Technology theories:* An empirical study. Industrial Management and Data Systems 105(6), 685-702. Available from http://dx.doi.org/10.1108/02635570510606941 .Retrieved on 04/04/2015

Gweyi,M.O .(2014). Effects of financial Leverage on Financial Performance of Deposit Taking SACCOs in Kenya. *International Journal of Academic Research in Accounting , Finance and Management Sciences, Vol.4 No.2 page 180-188*

Hafeez, K., Malak,N.,& Zhang,Y. B .(2007). *Outsourcing non-core assets and competencies of a firm using analytic hierarchy process. Computers and Operations, 34, 3592.* Available on http://dx.doi.org/10.1016/j.cor.2006.01.004

Haquel,M.S., Akter, R . and Laoubi, K . (2011). Effectiveness of community Based Organization (CBO) Microcredit Programme of Concern Worldwide: A Case Study of Bangladesh. *African Journal of Bussiness Management Vol. 5(24), Pp.10101-10107,14 October ,2011*

Homes,V.& McMahon,E .(2009). *Understanding Small business*: Practice, theory and research. 6th Edition Adelaide: Scarman Publishing

Institute of Chartered Accountants (2005). *Audit Quality, Agency theory and the role of Audit in England and Wales*. ICAEW, the Audit and Assurance Faculty, ISBN 1841524042

Jensen, M.C. & Meckling ,W.(1976). Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure. *Journal of Financial Economics ,3, 305-360*

Kakungulu,Y., Muzingiti, G .& Schmidt, O.(2010). The state of business and operations of Rural Microfinance Institutions in Ruwenzori Region, Portal unpublished

Labie,M.&Perilluex,A.(2008). *Corporate Governance in Microfinance: Credit Unions , Centerfor European Research in Microfinance* . Solvay Business School. ULB. Brussels, Belgium.

Leedy, R. & Ormond, J.E (2005). *Practical Research: planning and design*. New Jersey: Pearson Education.

Magali,J. J.(2013). Impacts of Rural Savings and Credit Co-operative Societies(SACCOs) Loans on Borrowers in Tanzania. *International Journal of Management Sciences and Business Research , 2013 ISSN(2226-8235), Issue 12*

Magali,J.J.(2014). *The Influence of Leadership, Corporate Governance and Regulations on Credit Risk Management of SACCOs in Tanzania*. Management and Administrative Sciences Review e-ISSN:2308-1368; P-ISSN:2310-8727 Vol.3 Issue 2, Page 262-281

Maghimbi, S.(2010). *Cooperatives in Tanzania Mainland: Revival and Growth. Coop Africa Working Paper No.14 Series on the Status of Cooperative Development in Africa*. International Labour Organisation Office in Dar es Salaam , Tanzania

Maingi,M. S. (2014). Factors Affecting the Financial Performance of SACCOs in Kenya. *International Journal of Business and Management, Vol. 2 Issue 8, ISSN 2321-8916*

Makori, J.,Munene, C. & Muturi, W. (2013). Challenges Facing Deposit Taking SACCOs. Regulatory Compliance in Kenya. *Interdisciplinary Journal of Contemporary Research in Business, Vol. 4, No.12, 2013*

Mang'ana,E.M.,Nyaboga,B.Y., Momanyi, C .&Makone, M . S .(2015). Extent to which SACCOs Have Invested in Information Technology to Achieve Sustainable Competitive Advantage Over Their Rivals in Kenya. *International Journal of Innovative Research and Development , Vol 4 Issue2, February 2015*

Mitnick,B.M.(2006). *Origin of the theory of Agency; an account by one of the originators, Social Sciences Research Network; Working Paper Series*, University of Pittsburg: http://www:ssrn.com/abstract=1020378 website retrieved on 20/04/2015

Mosongo,E.,Gichana,I.,Ithai,J.&Munene,N.(2013).Financial Innovation and Financial Performance. *International Journal of Research in Management, Vol. 5, Issue 3 , ISSN 2249-5908, September 2013*

Myers, S.C& Majiluf,N.(1984). Corporate financing and investment decisions when firms have informations that investors do not have. *Journal of Financial Economics Vol. 13 pp 221*

Nkuru ,F.G. (2015).Factors Affecting Growth of Saccos Within The Agricultural Sector in Kenya ,a case of Meru Farmers SACCOs. *Global Journal of Commerce & Management Perspective, Vol. 4(1):34-45, ISSN :2319-7285, Jan - Feb 2015*

Odhiambo,O.(2012). Corporate Governance problems of SACOs. *International Journal of Academic Research in Business and Social Sciences, Vol. 2 No. 11*

Okelo,N.B., Raburu,G.& Sirma,J.(2015). Security Breach incidences of SACCOs with or without Security Policy with a Broad Scope in Kenya. *International Journal of Research and Development Organisation ,Vol. 2 Issue 3 March 2015, paper 19*

Olando,C.O.,Jagongo,A.&Martin,O.M.(2013).The Contribution of SACCO Financial Stewardship to Growth of SACCOs in Kenya. *International Journal of Humanities and*

of Information Systems

Rintaugu,E. M. (2005). An *evaluation of factors affecting non-recovery of debt owed to National Housing Corporation*. MBA thesis, Moi University Eldoret, Kenya

Sebhatu,K.T.(2011). Management of SACCOs from Perspective of outreach and Sustainability: Evidence from Southern Tigrai of Ethiopia. *Research Journal of Finance and Accounting Vol.2 No. 718, 2011 ISSN 222-1697*

Sharma,N., Simkhada,N.R. & Shrestha, R(2005). *Impact Assessment of SACCOs in Nepal's Hill Districts*. Centre for Microfinance Ltd, Kathmandu

Shrestha,S.M.(2009).*State of Microfinance in Nepal*. Retrieved March 24, 2015 from http:www.inm.org.bd/saarc/document/Nepal.pdf

Thaimuta, J.M.(2014).Factors Affecting Performance of Matatu Paratransit Venture in Small and Medium Enterprises in Nairobi County. *International journal of current business and socal sociences Vol. 1(2), 1-17*

Uluma,P.U. (2013). *Assessment of the Determinants of Growth of SACCOs in Dagoretti District , Kenya*. Unpublished MBA Project, Kenyatta University

Wanjala, S . N .(2015). Effects of cash Management Practices on the growth of Matatu SACCO in Kimilili sub - county, Bungoma County, Kenya. *International Journal of Business and Management Vol. 3, Issue 1, January 2013*

Wanyama,F.O.(2009). *Surviving Liberalization: The Co-operative movement in Kenya. Coop Africa working paper No.10, Dar es Salaam, Tanzania* : International Labour Organisation

WOCCU (2008). *Statistical Report*. Available at www.woccu.org retrieved on 25/04/2015

APPENDIX: QUESTIONNAIRE

Internal Capital

Indicate your level of agreement with the following statements relating to the effect of internal capital on performance of SACCOs (scale 1= Strongly agree, 2= Agree, 3 = Moderately agree, 4= Disagree, 5 = Strongly disagree)

STATEMENT	1	2	3	4	5
Capital adequacy is a challenge to our SACCO					
Retained earnings helps to improve SACCO wealth					
The SACCO has enough funds to recruit qualified and competent employees					
Members savings have improved the SACCO wealth					
The SACCO has sufficient funds for members withdrawals					

Technology

Indicate your level of agreement with the following statements relating to the effect of technology on performance of SACCOs (scale 1= Strongly agree, 2=Agree, 3= Moderately agree, 4= Disagree, 5= Strongly disagree).

STATEMENT	1	2	3	4	5
Technology adoption should be a top priority for Sacco management					
Reports produced by our information systems are accurate and reliable					
Computerization has improved loans disbursement and recovery					
Our members have SACCO link cards/ATMs to help them make withdrawals.					
Members issues and statement requests are responded to promptly					
Our society is connected to the internet to permit fast communication					

Managerial Abilities

Indicate your level of agreement with the following statements relating to the effect of managerial abilities on performance of SACCOs (Scale 1 = strongly agree, 2 = agree 3= moderately agree, 4= disagree, 5= strongly disagree)

STATEMENT	1	2	3	4	5
Target job training helps improve performance of SACCOs					
The budget allocation in our society is adequate to cater for training expenses for management committee					

We often introduce product innovation and process innovation as members' demands change to ensure growth and member retention.					
Loan management and recovery has improved our Sacco's performance.					
Decisions must be made fast to enable the SACCO to tap opportunities in the market					

Performance of the SACCOs

What is the trend of the following in your business for the last five years? Please tick as appropriate

TREND	Greatly improved	Improved	Constant	Decreasing	Greatly decreased
Loans default control					
Gross income					
Share capital					
Rate of dividends/returns					
Loans issued					