

EFFECT OF RISK MANAGEMENT PRACTICES ON THE FINANCIAL GROWTH OF SAVINGS AND CREDIT COOPERATIVES IN NAKURU COUNTY, KENYA

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Abstract

Globally, financial institutions have been facing various degrees of risk management; and SACCOs are not exceptional. The study examined the effect of risk management practices on the financial growth of SACCOs in Nakuru County, Kenya. Particularly, the study investigated the effect of risk function and risk analysis on the financial growth of SACCOs in this county. A survey design was adopted in this study. The study targeted all the 156 credit, finance and management staff. A sample of 61 respondents obtained through stratified random sampling participated in the study. A structured questionnaire was employed which was pilot tested to assess its reliability and validity. The collected data were analyzed by SPSS using frequencies, percentages, means, standard deviations and Pearson's correlation coefficient. Study findings were presented in form of statistical tables. The study found that risk analysis had significant effect on financial growth while risk function profile had a positive but not substantial effect on financial growth. It was recommended that risk function profiling should be upheld and that SACCOs should continue analyzing the levels of risk of prospective borrowers.

Keywords: Financial growth, risk analysis, risk function, risk management practices, savings and credit cooperatives

INTRODUCTION

Risk management process entail four key steps. These include risk identification, risk analysis and measurement, selection of appropriate combination of techniques to treat loss exposures, and lastly implementation and monitoring risk management program (Rejda, 2011). It is posited that risk managers can get information that can enable them to identify loss exposures from historical loss data, financial statements and risk analysis questionnaires amongst other sources. The rationale of measuring and analyzing the loss exposures is in order to quantify them with the aim of managing them properly. The risk managers formulate techniques that can effectively be employed to effectively manage risk exposures. Such techniques include risk controls such as avoidance, loss prevention and loss reduction; risk financing techniques such as retention, non-insurance transfers and commercial transfers. Risk managers then ensures that the risk management program is implemented and monitored accordingly.

Financial institutions across the world have been facing various degrees of risk management (Anil, 2010). It is exemplified that estimates preceding the demise of Lehman Brothers indicated that the United States banks and investment banks stood to lose up to \$250 billion from their exposure to residential mortgage securities (Dudley, 2008; IMF, 2008). The global economic crunch of late 2008 worsened the risk exposure and indeed the losses emanating from the same rose considerably. Anil (2010) reasoned that the proximate cause of the credit crisis was the interplay between two choices made by banks. First, substantial amounts of mortgage-backed securities with exposures to subprime risk were kept on bank balance sheets; and second, banks (both investment and commercial banks) financed these and other risky assets with short-term market borrowing.

Statistics indicate that by 2009, Africa had a membership of 16 million which makes it third in membership size after North America and Asia which have 102 million and 36 million members in that order. In the same light, the Africa's membership constitutes 8 per cent of the entire world membership of 183 million. It is further noted that Africa mobilizes about US\$ 1.1 trillion which translates to 0.4 per cent of the global savings. In the same light, loans advanced to SACCO members in Africa account to US\$ 912 billion. However, Africa with 14,404 SACCOs is second in the world in as far as the number of SACCOs is concerned (SASRA, 2010).

Kurui and Kalio (2014) assessed the influence of credit risk management practices on loan performance of MFIs in Baringo County, Kenya. The authors inferred that credit risk management practices indeed significantly affected loan performance of the aforesaid financial institutions. In that respect, it was recommended that there ought to be a more stringent policy on credit risk management practices in MFIS as a way of enhancing financial performance of MFIs. In Kenya, the cooperative movement which led to formation of Savings and Credit

Cooperatives (SACCOs) started in 1931. The SACCOs are registered and regulated in line with the stipulations of Co-operative Societies Act, Cap 490 of the Laws of Kenya.

SACCOs have recorded remarkable growth with the current annual growth rate in terms of deposits and assets averaging at 25 per cent. They have also grown tremendously in terms of membership and several of them have been offering diverse Front Office Service Activities (FOSA) such as deposit taking, saving facilities among other services. Bisasi and Pagano (2001) had earlier noted that financial liberalization witnessed in 1990s in Kenya has resulted in many borrowers facing challenges in repaying loans borrowed from financial institutions. Given the fact that SACCOs are the major lenders in the financial sector and have limited conditions required to be fulfilled by potential borrowers, it is needless to say, that they have ever since been facing huge bad debts. The foregoing challenge has been a huge debacle in the financial growth of these financial institutions.

Statement of the Problem

Savings and Credit Cooperative Societies (SACCOs) play a very fundamental role in the Kenya's financial sector. Needless to say, these organizations assist members in saving their money while at the same time advance credit facilities to interested members. The conditions of lending loans are the most lenient in SACCOs as opposed to other financial institutions. This is underscored by the fact, unlike other financial institutions such as commercial banks that demand for collateral as one of the prerequisite of accessing credit facilities, SACCOs simply require the guarantee of other SACCO members who are mostly three in number before loaning out credit to borrowers (Kurui & Kalio, 2014). The foregoing exposes SACCOs to considerable risk of default given that there cases of borrowers who can default in loan repayment in spite of having guarantors. The situation leaves SACCOs with the sole option of pursuing the members who had guaranteed the defaulter for the outstanding arrears. The foregoing problem has the potential of making SACCOs skeptical when advancing credit facilities. More so, there may arise bad blood amongst SACCO members in the event some defaults in loan repayment and the guarantors are obliged to take up the responsibility of clearing the outstanding loan balances. It was, therefore, paramount to examine the risk management practices and financial growth of SACCOs.

General Research Objective

To examine the effect of risk management practices on the financial growth of Savings and Credit Cooperatives in Nakuru County, Kenya.

Specific Research Objectives

- i. To assess how risk function profile affects financial growth of SACCOs in Nakuru County
- ii. To examine the role of risk analysis in the financial growth of SACCOs in Nakuru County

Research Hypotheses

H₀₁: Risk function profile does not significantly affect financial growth of SACCOs in Nakuru County

H₀₂: Risk analysis does not play any significant role in the financial growth of SACCOs in Nakuru County

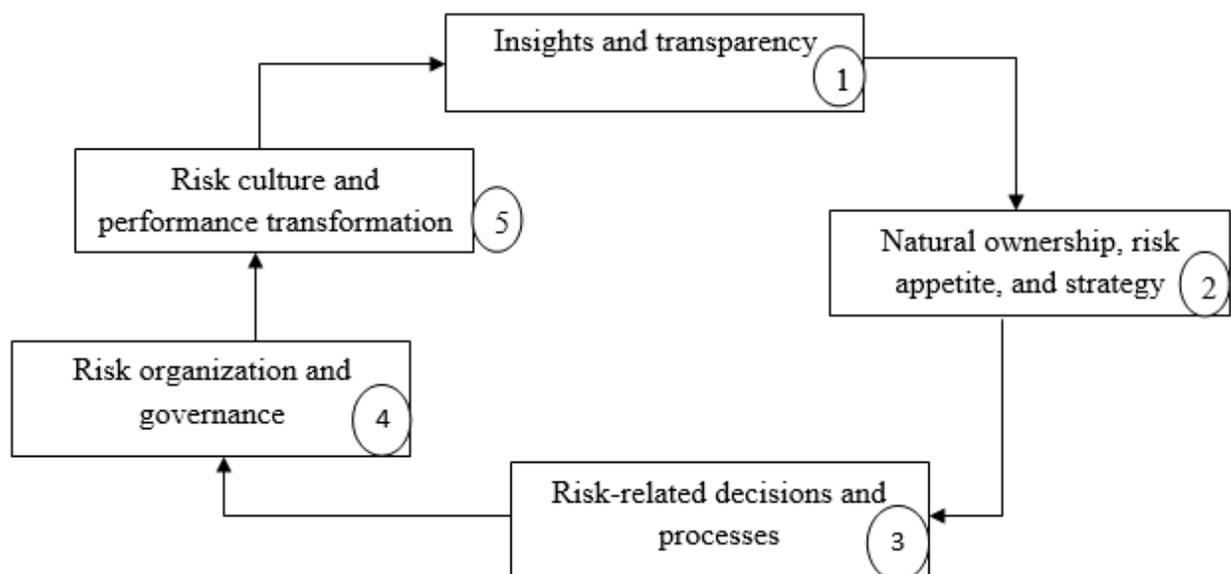
THEORETICAL FRAMEWORK

This study reviews theories that can be employed to explain the concepts of risk management and financial growth. In this respect, therefore, the study reviews both the enterprise risk management framework and the theory of finance and growth.

Enterprise Risk Management Framework

Enterprise Risk Management (ERM) framework was proposed by Heiligtag, Schlosser and Stegemann (2014). The framework was created with the aim of facilitating the assessment of ERM practices. The framework encapsulates five dimensions as outlined in Figure 1.

Figure 1 Enterprise Risk Management Framework (Heiligtag et al., 2014)



The first phase of the ERM framework outlines the insights and transparency in a firm. It addresses risk taxonomy which establishes common vocabulary for various risks; risk register that characterizes and prioritizes risk-based probability, impact, and preparedness; and risk insight and foresight that employ business-specific scenarios, stress tests and early indicators to comprehend risks and opportunities. In addition, the framework illustrates risk models that facilitate making of business decisions; and also risk reporting whose focus is on key risks and provides clarity on the same in order to allow actionable measures.

The second stage of the ERM framework delves into natural ownership, risk capacity, risk appetite and strategy. Risk ownership outlines the natural owners of given risks. Risk capacity emphasizes on how one ought to understand how much risk they can take. Risk appetite expounds on the extent of risk that one can comfortably take. Lastly, risk strategy revolves around the decision on actions that should be taken to transform risk profile, such as trade-offs with corresponding costs.

The third stage describes risk-related decisions and processes. It is advised that risk ought to be embedded in business decision making rather than a pure compliance-oriented activity. The risk optimization should then be ensured. This emphasizes on embedding risk optimization in each major strategic decision before its launch. Finally, the framework addresses risk processes. Interpretatively, core business processes and operations should be designed and executed on a risk-informed basis.

The fourth phase examines both risk organization and governance under which risk archetypes, risk organization and risk-function profile are addressed. Risk archetype involves defining ERM mandate of the risk function. Risk organization involves designing risk structures across entire organization and also ensuring buy-in of top management. Lastly, risk-function profile revolves around establishing clear allocation of responsibilities between risk taking and controlling units.

The fifth and final stage focuses on risk culture, norms and skill building. Risk culture insists on ensuring that there is soundness of culture across entire organization that is, performing culture diagnostic. New risk norms should then be embedded across various corporate processes and governance. Lastly, a skill-enhancement program for key role ought to be implemented. The ERM model can be employed to explain the best approaches that can be employed to effectively manage risks in SACCOs.

Theory of Finance and Growth

The theory of finance and growth is clarified by Trew (2006). This theory was developed parallel to the cross-section empirics and with the object of explaining why finance may cause growth in

a firm. The author stated that, in line with this theory, it has been illustrated in a comparative sense, that financial institutions (say SACCOs) can play a pivotal role in the level of sustained growth. However, it has been noted that many theoretical considerations of the finance-growth nexus do not rigorously confront theory with data.

Trew (2006) delves into deeper into aspects of finance-growth nexus which have hitherto not been addressed in previous research work such as in by Levine (2005). It is argued that growth theory and growth empirics have become disconnected particularly relative to the question of finance and growth. Trew observes that theoretical models of the finance-growth nexus differ along three aspects. These are endogenous growth, finance mechanism, and the treatment of asymmetric information. It is asserted that, regardless of the source of endogenous growth, the primary feature that influences growth in most models is some financial constraint on the acquisition of either knowledge through education or technology through entrepreneurship.

The finance and growth theory further states that greater financial efficiency in pooling resources, screening entrepreneurs or monitoring borrowers among others, minimizes incentivizes entrepreneurship or the accumulation of human capital thus increasing the rate of technological progress and consequently the long-run growth rate of the economy. The theory of finance and growth, therefore, can be used to explain the various factors that could enhance financial growth in SACCOs and how the same could be of economic benefit to the society and the nation at large.

CONCEPTUAL REVIEW

This section covers studies that have so far been conducted in respect of risk management practices in general, and particularly, studies on risk function profile and risk analysis. These studies are reviewed in light of financial growth of entities specifically of SACCOs.

Risk Function Profile

According to Rothstein, Huber and Gaskell (2006), when looking into the theory of risk colonization, noted that in England institutions are required to have in place risk management as a governance tool. Their reasoning was founded on the argument that risk is not the object of regulatory policy making, rather, it is a way of facilitating decision making. It is further noted that the alteration of risk functionality is reflected in the recent developments of regulations in England. In the same perspective, it is observed that risk management prioritizes activities and events in tandem with their effect and probability. This in turn is supposed to enhance both the efficiency and accountability of decision making.

Lessons from the financial crisis for risk management in the United States were put into perspective (Anil, 2010). The author had looked into the role of risk management whereby the genesis behind firms incurring significant losses was analyzed. It was noted that such firms exhibited two major risk management weaknesses. The first revolved around weak controls over potential balance sheet growth such as ineffective limits on the growth of business lines and poor monitoring of off-balance sheet exposures. Secondly, these firms exhibited inadequate communications among senior management, business lines and risk management functions. The author acknowledges that risk management function requires that there ought to be understanding of a great deal about the entire enterprise.

When quoting an empirical survey by Earns and Young, Kimani (2012) acknowledged that financial performance is greatly influenced by the level of integration and coordination across risk function, control function and compliance functions. Lagat et al. (2013) in their analysis of credit risk management practices on lending portfolio amongst SACCOs in Kenya stated that there should be timely processes that effectively monitor and control the credit function. They further described the risk monitoring variable as the established continuous procedures and guidelines to effectively monitor and control the characteristics and quality of its credit portfolio.

Risk Analysis

Claessens, Fan and Wong (2003) analyzed the relationship between the independent director system and the operating performance of business in Taiwan. The authors attributed risky financing patterns and weak performance of business entities to poor corporate governance. It is from the same perspective that Donaldson (2003) pointed out that good corporate governance is crucial in enhancing investors' confidence and market liquidity. In further support of the foregoing are Brown and Caylor (2004) who opine that indeed firms with weaker corporate governance perform poorly in contrast to entities whose corporate governance is stronger in terms of profitability, riskiness, stock returns, and payments of dividends.

In addition, Ellul and Yerramilli (2010) conducted an empirical study on risk controls in the U.S. bank holding companies. Their study involved collection of data from on 74 of the top 100 bank holding firms in the country in order to analyze the link between bank risk-taking and the structure of risk management in the organization. It was later acknowledged that the scholar's study was the only one that employed systematic data to analyze the role of risk management weaknesses in a crisis. Nonetheless, even their study was highly constrained since the firms under study limited their disclosures according to Anil (2010). Ellul and Yerramilli's (2010) risk management index presents several other results. These include the

ability to explain year to year changes in risk taking, illustrating that firms with better risk management had better operating performance during crisis times, and documenting that the aforementioned patterns are robust to controlling for a host of other influences.

It is indicated that risk analysis is viewed from the same perspective as risk assessment. Ademba (2011) reported on the challenges that SACCO regulations in Africa face. When citing the SACCO regulations model, Ademba noted that as SACCOs approach maturity stage, regulations concentrate on prudential standards which seek to establish a risk assessment process that focuses on liquidity, capital and governance among other vital issues. Magali (2013) further conducted a study on the influence of rural SACCOs' variables on loan default risks in Tanzania. The results of the study revealed that the large size loan had a higher risk of default than the small one. In that respect, the study recommended that SACCOs ought to offer large size loans to their members after conducting a deep analysis of credit risks mitigation techniques.

Mwirigi (2006) examined the credit risk management techniques adopted by microfinance institutions (MFIs) in Kenya. The author inferred that many MFIs have developed distinct credit risk management departments with the aim of credit appraisal. Lagat et al. (2013) studied the effect of credit risk management practices on lending portfolio among SACCOs in Kenya. The study observed that, most of these financial institutions have adopted risk management practices as one way of managing their portfolio. In this case management processes address risk identification, evaluation, analysis, monitoring and mitigation.

Financial Growth

It is stated that financial growth is one of the parameters of organizational performance (Koontz & Donnel, 1993). This implies that financial growth and financial performance of an entity are viewed from the same perspective. Ariffin and Kassim (2008) studied risk management practices and financial performance of Islamic banks in Australia. The empirical analysis revealed that there exist a strong relationship between risk management practices and financial performance of these financial institutions. Against this backdrop, nonetheless, risk measurement was found to correlate negatively with financial performance.

A study on challenges facing SACCOs in Africa indicated that, on the continent there has been a challenge of growing these financial institutions as a strong tool to meet the financial needs of the populace Ademba (2011). The writer notes that SACCOs just like any other business enterprises in Africa, are faced by challenges in their strife towards survival and growth. It is noted that these challenges are both internal and external. Internal challenges include amongst others, deficiency in contemporary skills and inadequacy of financial

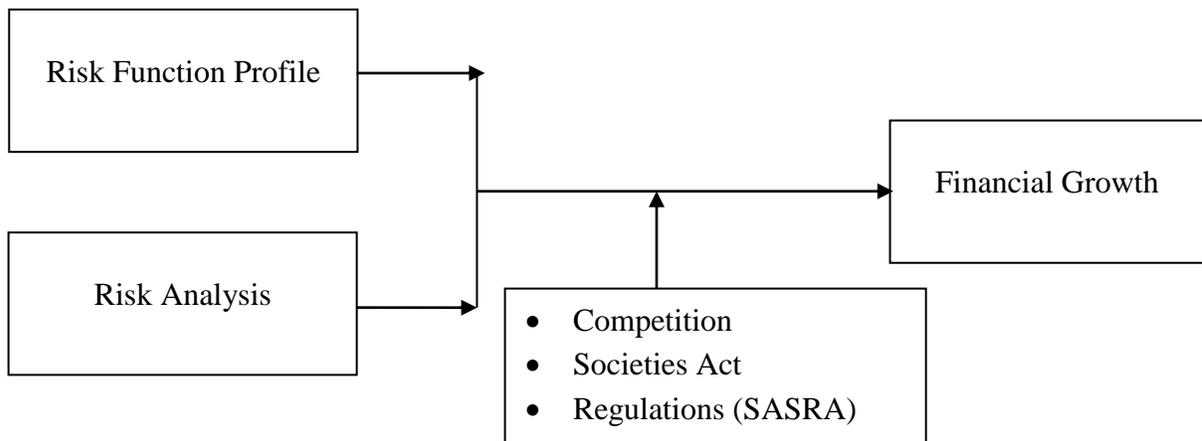
resources. On the other hand, external challenges include economic liberalization and regulation of business, price decontrol, competition for scarce resources, and indeed competition from commercial banks. In the same breadth, survival strategies have been suggested. The major ones are proper management of scarce financial resources and avoidance of corruption while simultaneously advocating for transparency and accountability.

A study was conducted on corporate government practices and performance at Elimu SACCO which is based in Kenya (Wasike, 2012). The study noted that SACCOs in the country have registered a remarkable growth since 1970s and currently, they have achieved an average growth of 25% per year in terms of deposits and assets. In terms of membership, these financial institutions have grown at a highly rate with close to 3.7 million members at the time of the study. The SACCOs have also diversified the financial services they offer to their members and customers which include back BOSA and FOSA. Olando, Martin and Jagongo (2012) analyzed financial practice as a determinant of growth of SACCO's wealth. The authors found out that growth of wealth of SACCOs depended upon financial stewardship, capital structure and funds allocation strategy. More so, Olando, Jagongo and Mbewa (2013) examined the contributions of financial stewardship to growth of SACCOs in Kenya. They noted that the growth of SACCOs' wealth depended on loans management, institutional strengths and innovativeness of SACCO products. In addition, a study on the role of SACCOs in growth of youth entrepreneurship in Kenya, it was noted that these firms contributed to the growth of capital, entrepreneurship and business management skills among the Kenya youths (Mwangi & Wanjau, 2013).

Conceptual Framework

A conceptual framework outlines the perceived relationship between the study variables as shown in Figure 2.

Figure 2: Conceptual Framework



As Figure 2 illustrates, the independent variables include risk function profile, risk strategy, and risk analysis. On the other hand, financial growth of SACCOs is the dependent variable. Competition in the financial sector is the intervening variable. It is hypothesized that financial growth of SACCOs is affected by risk management practices: risk function profile, risk strategy and risk analysis. Conspicuously, competition in the financial sector particularly amongst the SACCOs in Nakuru County determines the risk management practices and financial growth of SACCOs

RESEARCH METHODOLOGY

Research Design

A research design is the blueprint of conducting a study (Burns & Grove, 2001). A survey research design was adopted in this study. The choice of this design was based on the argument that, the data collected were quantitative in nature and the study cut across respondents working with different SACCOs in Nakuru County, Kenya. More so, the study was conducted at a specific point in time; a fact that characterizes survey studies (Kothari, 2004).

Target Population

Target population refers to the population to which the study findings are generalized. The characteristics of the members of the target population are similar. The study targeted all the 156 credit, finance and management staff working with SACCOs in Nakuru County.

Sample Size

A sample is a sub-set of the target population and should be a suitable representative of the study population (Kothari, 2004). Therefore, the study considered a sample that appropriately represented the credit, finance and management employees of SACCOs in Nakuru County. Nassiuma's (2000) formula was adopted to calculate the sample size as illustrated below

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

n = sample size;

N = target population size;

C = coefficient of variation (0.5)

e = margin of error (0.05)

Calculating the sample size,

$$n = \frac{156 \times 0.5^2}{0.5^2 + (156 - 1) 0.05^2}$$

$$n = 61.18$$

$$n = 61 \text{ respondents}$$

Sampling Technique

In order to draw the 61 sampled respondents from the target population, stratified random sampling method was used. This was due to the fact that, there existed three distinct strata namely credit, finance and management staff whose representation was not equal. Stratified random sampling method ensured that there was no bias in selecting representatives of each category (strata) of the target population.

Research Instrument

The study employed a structured questionnaire to collect data from the sampled respondents. Questionnaires are highly recommended data collection tools in survey studies (Mugenda & Mugenda, 2003). The questionnaire contained close-ended questions which were on a 5-point Likert scale. The questionnaire was structured in such a way that it facilitated collection of data pertinent to the study variables namely risk function profile, risk strategy, risk analysis, and financial growth.

Reliability of the Research Instrument

Reliability refers to the consistency of the research instrument when administered to different populations with similar characteristics (Kimberlin & Winterstein, 2008). The Cronbach alpha (α) was used to test the instrument's reliability where the reliability of all the study variables was found to exceed threshold $\alpha \geq 0.7$ as shown in Table 1

Table 1: Reliability Test Results

i.	Variable	Items Tested	Alpha Value
ii.	Risk function profile	5	0.761
iii.	Risk analysis	6	0.779
iv.	Financial growth	4	0.0764

Validity of the Research Instrument

A valid instrument, on the other hand, is one that measures what it purports to measure. Given that there are various types of validity, in this study content validity was determined by seeking

expert opinions of the University supervisors since this validity could not statistically be determined (Kimberlin & Winterstein, 2008).

Data Analysis

The collected questionnaires were grouped and then cleaned in order to eliminate non-responses and extreme outliers. The clean data was edited and coded into the Statistical Packages for Social Science (SPSS) software so as to be analyzed. Both descriptive and inferential data analyses were carried out. The descriptive analysis constituted frequencies, percentages, means, and standard deviations while inferential analysis was in form of Pearson's correlation coefficient.

ANALYSIS AND FINDINGS

Descriptive Findings

This part presents the descriptive findings in line with the study variables that include risk function profile, risk analysis, and financial growth. The findings are presented in form of means and standard variation.

Risk Function Profile

The study assessed the SACCO employees' take on risk function profile in light of financial growth of their firms. The findings are as shown in Table 2

Table 2: Descriptive Statistics for Risk Function Profile

		n	Min	Max	Mean	Std. Dev
i.	Our SACCO is required to have in place risk management as a governance tool	47	2	5	4.57	.801
ii.	Our SACCO is faced with weak risk control over risk exposures	47	1	5	3.38	1.114
iii.	There is inadequate among senior management, business lines and risk management functions	47	1	5	3.38	.822
iv.	Weak controls and inadequate communication enhances degree of risk	47	1	5	4.15	1.063
v.	Risk function is vital in financial performance of SACCOs	47	2	5	4.45	.829

The findings indicated that respondents strongly admitted (mean = 4.57; std dev = 0.801) to the notion that their SACCO was required to have in place risk management as a governance tool. In addition, the respondents were in agreement (mean \approx 4.00) that weak controls and

inadequate communication enhanced degree of risk and that risk function was vital in financial performance of SACCOs. However, the respondents were indifferent (mean ≈ 3.00) regarding the argument that their SACCO was faced with weak risk control over risk exposures and that there was inadequacy among senior management, business lines and risk management functions.

Risk Analysis

Furthermore, the study put into perspective the views of SACCO employees on risk analysis in light of financial growth of these firms as shown in Table 3

Table 3: Descriptive Statistics for Risk Analysis

		N	Min	Max	Mean	Std. Dev
i.	Risk analysis is important to the financial performance of SACCOs	47	4	5	4.79	.414
ii.	Our SACCO analyzes the degree of risk posed when advancing loans to specific members	47	2	5	4.04	.859
iii.	Corporate governance plays a crucial role in risk analysis	47	2	5	4.47	.747
iv.	Risk-taking and risk management are simultaneously addressed in our SACCO	47	2	5	3.87	.924
v.	Our SACCO conducts risk forecasts	47	2	5	3.79	.931
vi.	Risk forecasts facilitate mitigation of risk	47	3	5	4.34	.700

The respondents strongly agreed (mean = 4.79; std dev = 0.414) to the assertion that risk analysis was important to the financial performance of SACCOs. The respondents further admitted (mean 4.00) to the argument that their SACCO analyzed the degree of risk posed when advancing loans to specific members; corporate governance played a crucial role in risk analysis; risk-taking and risk management were simultaneously addressed in their SACCO; their SACCO conducted risk forecasts and that risk forecasts facilitated mitigation of risk.

Financial Growth

The study also analyzed the views of selected SACCO employees on financial growth in their firms. Table 4 puts into perspective the results of descriptive analysis.

Table 4: Descriptive Statistics for Financial Growth

		n	Min	Max	Mean	Std. Dev
i.	Our SACCO has grown significantly in terms of revenue and profitability over the last one year	47	4	5	4.64	.486
ii.	Risk function has played a part in financial growth of our SACCO	47	2	5	4.21	.750
iii.	Risk strategy has been key in the financial growth of our SACCO	47	2	5	4.09	.830
iv.	The financial growth of our SACCO is partly attributed to risk analysis conducted by respective departments	47	2	5	4.06	.791

It was found that participants strongly concurred (mean = 4.64; std dev 0.486) with the view that SACCOs in Nakuru County had grown significantly in terms of revenue and profitability over the last one year. The respondents further admitted (mean \approx 4.00; std dev < 1.000) that risk function had played a part in financial growth of SACCOs; risk strategy had been key in the financial growth of their SACCO and that the financial growth of SACCOs was partly attributed to risk analysis conducted by respective departments.

Inferential Analysis

The section presents findings and discussions on the relationship between risk function profile, risk strategy, risk analysis on one hand and financial growth on the other by the use of correlation analysis.

Effect of Risk Function Profile on Financial Growth

The study analyzed how risk function profile affected financial growth of SACCOs in Nakuru County. Table 5 outlines the relevant inferential findings.

Table 5: Relationship between Risk Function Profile and Financial Growth

Risk Function Profile		Financial Growth
	Pearson Correlation	.208
	Sig. (2-tailed)	.160
	n	47

It was discovered that the relationship between risk function profile and financial growth was weak, positive but statistically not significant ($r = 0.208$; $p > 0.05$). This meant that risk function profile affected financial growth of SACCOs marginally. It further implied that by prioritizing credit worth clients in loan advancement, the institutions would be able to minimize defaults and

hence improve their financial performance and growth. The results led to failure to reject the first null hypothesis.

Effect of Risk Analysis on Financial Growth

Furthermore, the study evaluated how risk analysis affected financial growth of SACCOs. Table 6 shows pertinent correlation analysis results.

Table 6: Relationship between Risk Analysis and Financial Growth

		Financial Growth
Risk Analysis	Pearson Correlation	.496**
	Sig. (2-tailed)	.000
	n	47

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

The results indicated that risk analysis had a moderately strong, positive and significant relationship ($r = 0.496$; $p < 0.01$) with financial growth. This implied that risk analysis largely influenced the financial growth of SACCOs in Nakuru County. The significance of risks analysis depicted that risk analysis was crucially important in the financial growth of the SACCOs. Further, it implied that risk analysis through analysis of the degree of risks posed by clients, risk forecasts and mitigation of risk laid were positive pointers of SACCOs' financial growth. The findings led to the rejection of the third null hypothesis.

Summary

It was absolutely agreed that their SACCO was required to have risk management in place as a governance tool. In addition, it was agreed that weak controls and inadequate communication enhanced degree of risk and that risk function was vital in financial performance of SACCOs. However, it remained unclear on whether their SACCO was faced with weak risk control over risk exposures and that there was inadequate among senior management, business lines and risk management functions. Further analysis revealed that there existed a weak, positive and statistically insignificant relationship between risk function profile and financial growth ($r = 0.208$).

It was strongly admitted that risk analysis was important to the financial performance of SACCOs. It was also agreed that their SACCO analyzed the degree of risk posed when advancing loans to specific members; corporate governance played a crucial role in risk analysis; risk-taking and risk management were simultaneously addressed in their SACCO and

that their SACCO conducted risk forecasts and that risk forecasts facilitated mitigation of risk. The results further indicated that risk analysis had a strong, positive and significant relationship ($r = 0.496$; $p < 0.01$) with financial growth.

Respondents strongly concurred that their SACCO had grown significantly in terms of revenue and profitability over the last one year. It was also agreed that risk function had played a part in financial growth of their SACCO; risk strategy had been key in the financial growth of their SACCO and that the financial growth of their SACCO was partly attributed to risk analysis conducted by respective departments

CONCLUSIONS

The study concluded that it is imperative for SACCOs to have risk management in place to guide as a governance tool. In addition, the existence of weak controls and inadequate communication in an organization enhances degree of risk and that risk function is vital in financial performance of savings and credit co-operatives. It was further inferred that risk function profile is important in an attempt to achieve financial growth of the organizations.

The study concluded that risk analysis is important to the financial performance of SACCOs. It was also inferred SACCOs analyzed the degree of risk posed when advancing loans to specific members and that corporate governance plays a crucial role in risk analysis. Moreover, risk-taking and risk management were simultaneously addressed in the organizations and that risk forecasts facilitate mitigation of risk. In addition, risk analysis is crucially important in the overall financial growth of the organizations

RECOMMENDATIONS

The study recommends that risk function profiling should be upheld and that the risk management and risk control measures should be emphasized in the organizations. By observing and implementing risk control and management practices, financial performance would likely improve.

The study recommended that risk analysis should be upheld, enhanced and prioritized in the whole process of risk management. Further, corporate governance should be enhanced in order to support risk analysis. Elements such as risk forecasts should not be ignored and should be further enhanced.

This study suggests areas to be further investigated in Kenya. The areas include; the effect of risk management strategies on financial growth of deposit taking microfinance institutions; an assessment of the role of risk analysis on financial growth of savings and credit

co-operative societies; the effect of risk management practices on profitability of commercial banks.

LIMITATIONS

Given that SACCOs are not obligated to make any public disclosures, some respondents were not willing to divulge the required information. The researcher had to convince them that the study was basically for academic purposes and that the identity of their firms was to remain confidential. The research instrument was not able to get some data given that it was limited to close-ended questions. Regarding this limitation, it was ensured that the instrument facilitated collection of comprehensive data possible.

SUGGESTIONS FOR FURTHER STUDIES

Drawing from the study findings, this study suggests areas to be further investigated in Kenya. The areas include; the effect of risk management strategies on financial growth of deposit taking microfinance institutions; an assessment of the role of risk analysis on financial growth of savings and credit co-operative societies; the effect of risk management practices on profitability of commercial banks.

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