

Analyzing Effect of Internal Financing on Financial Performance of Savings and Credit Co-Operative Societies in Kakamega County, Kenya

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Abstract

Savings and credit Cooperatives are non - profit making organizations but must make reasonable surplus to satisfy payments of dividends, interests and bonuses to members. The insufficient contribution from members in form of savings and deposits which is the major source of funds for cooperatives has resulted in severe liquidity problems for Saccos in Kenya. The purpose of this study was to investigate the relationship between alternative financing and financial performance of Savings and credit Cooperatives in Kenya. The specific objectives of the study were to: analyse the effect of internal financing on financial performance of Saccos in Kenya: This study was undertaken in Kakamega County, Kenya. This study adopted descriptive correlational research design as it seeks to describe and establish the relationship between the study variables of alternative financing and financial performance. This being a census study, all Saccos in Kakamega County registered under the Ministry of Cooperative Development and Marketing as at 31st December 2015 and are categorized as active were studied. Primary and secondary data were used in this study. Primary data was collected mainly through questionnaires which the researcher administered in person to key informants. The measures of independent variable (alternative financing) had Cronbach's alpha coefficient of 0.7541 while those of the dependent variable (financial performance) had Cronbach's alpha coefficient of 0.8701. The study measures were found to be highly reliable in that they all had alpha coefficient greater than the minimum accepted Cronbach's alpha coefficient of 0.70. The study found out that internal financing significantly and positively affected financial performance with 65.7 percent of the financial performance (R squared = 0.657) being explained by internal financing. The study recommends that there is need for Saccos in Kenya to rely more on internal financing as a source of their financing because it has been found by this study that internal financing has the greatest effect on financial performance of Saccos.

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Keywords: Internal Financing, Financial Performance, Savings and Credit Co-operative Societies, Kakamega County

1.0 Background to the Study

This study on alternative financing and financial performance of Saccos was based on pure pecking order theory of financing as advanced by Donaldson in 1960s. It states that companies prioritize their sources of financing, that is, from internal financing to equity according to the cost of financing, preferring to raise equity as a financing means of last resort. Donaldson (1961 and 1969) was the first person to show that firms follow a pecking - order of preference when making decisions on sources of capital, that is, internally generated funds are used first, and when that is depleted, debt is issued, and when it is not sensible to issue any more debt, equity is issued. Donaldson (1961) pointed out that the preference for internal financing is due to the firm's management's unwillingness to be subjected to market scrutiny when raising funds on the capital market and that the cost of

obtaining internal funds is low. The theory was applied in this study with a view of establishing the relationship between alternative financing and Saccos' financial performance. This was necessitated by the fact that cost of financing is an important aspect for any study and was assumed to have a direct effect on financial performance.

Savings and credit Cooperatives have traditionally relied on member funding in meeting loan demands and withdrawal of savings. Members' contributions in form of savings and deposits are the conventional avenues of financing used to fund Sacco operations. Member capitalization or financing or funding of Cooperatives (Saccos) according to FAO (1997); Chaddad and Cook (2002); Ernst and Young (2002) and Greenwood (1996, 1999) include both internal and external sources. The internal sources are membership and service fees, member shares, retention of surplus and creation of institutional capital, accounts payable to members for part or all of their produce and member deposits. According to business dictionary, performance refers to the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. Business dictionary also defines financial performance as measuring the results of a firm's policies and operations in monetary terms. These results are reflected in the firm's return on investment, return on assets, value added among other things. Performance therefore points to real results of activities undertaken in order to achieve organization's goals and can be analyzed as financial results among other measures. Performance of a Sacco according to Smith (1984) is derived from the fundamental motivation of credit unions which is providing financial services to the membership. In particular the financial services include depository for savings and access to consumer credit. Rose (2003) noted that Sacco's performance cannot be measured in terms of profitability as they are nonprofit making organizations. In this study, the following variables were used to measure financial performance: loans advanced to members, members' deposits, BOSA turn-over and FOSA turn-over. In general, an increasing trend in these variables over time represents a better performance and vice versa.

Little research has been done on alternative financing as past studies focused mostly on the external sources of financing which attract high rates of interest, Mwaura, (2005). Members' contributions to Saccos in form of savings and deposits are not sufficient to finance their operations and meet members' loan demands. Saccos in Kenya are therefore facing severe liquidity problems and are unable to meet demands of their members for both loans and withdrawal of savings, FSD (2009). It is a known fact that KUSCCO brought Saccos together in the year 2012 to explore alternative financing options available so as to ease financing shortfall challenges experienced by Saccos (www.coopsummit.com). What is still in doubt is whether some Saccos in Kenya have adopted alternative financing, that is, using inter - Sacco lending, share loans as well as public private partnerships in raising finances for their operations among others. The performance of Saccos that have adopted alternative financing as compared to those using member funding is also in doubt. Since member funding is limited resulting in loan backlog by Saccos, it was necessary to explore other affordable sources of financing to cover for the shortfall, FSD (2009).

According to Ouma (1980), the history of Cooperatives can be traced to Rochdale pioneers. They formed the first successful consumer Cooperative Society in 1884 when Britain was undergoing industrial revolution. As a result of the revolution, a lot of people lost their jobs in the factories as machines were introduced to replace them. There was general lack of credit and supply of essential commodities like salt, sugar, flour and cooking fat. Businessmen also took advantage of this situation and started offering impure products at high prices. It is against this background that Rochdale Pioneers decided to draw up some sort of principles which would guide their operation as a Cooperative society. These principles were intended for the regulation of the Cooperative and for adoption by other types of Cooperatives. The International Cooperative Alliance (ICA) Commission of 1966 adopted the following principles for the running of a genuine Cooperative society based on the Rochdale Pioneers ideas: - Open and voluntary membership, democratic administration (one man, one vote), limited interest on share capital, payments of dividends and bonuses to members, promotion of education and cooperation with other Cooperatives at local, national and international levels.

The urban and agrarian distress associated with the industrial revolution in Germany saw the birth of two distinguishable Cooperative financial models (Birchall, 1997: 11). One model served the needs of those in rural agriculture and the other served the needs of urban dwellers. They belong to a group of cooperatives that are commonly called Raiffeisen cooperatives due to the German originator of this movement in the 1800s (Tache, 2006). From 1848 onwards Raiffeisen began to be involved in finance in rural Germany. Raiffeisen's initiatives were motivated by agrarian distress and the indebtedness of smallholder agriculturalist. In rural areas, shortage of capital was making farmers vulnerable to takeovers and exploitation from high input costs. Initially Raiffeisen sought to provide loans to farmers through raising capital from philanthropists. It was not until 1862 that the farmers themselves became members of the credit Cooperatives (the General Union of Rural Cooperative Societies) (Birchall, 1997: 13). In 1850 Schulze - Delitzsch pioneered Cooperative urban finance, after realising that lack of access to credit, especially access on favourable terms, was a major problem for the workers and the self-employed, Chisholm, Hugh, (1911), Tchami (2007: 7). Large industry and lack of access to finance was squeezing the self-employed out of the market. In this model members provided the Cooperative

with working capital, Tchami (2007: 7). Tchami (2007: 7) notes that these 'Cooperatives were based on self-help in its purest form which means there is no outside intervention at all, not even from the State.' The idea of Cooperatives based on these principles spread to other parts of the world including Africa. A recent research in the sector indicates that approximately seven per cent of the African population is affiliated to Cooperatives (Pollet, 2009).

The history of Cooperatives in Kenya can be traced to the European settlers who formed the first Cooperative called Lumbwa Cooperative Society in 1908 and by 1930s Africans were allowed to form Cooperatives, Ouma (1980). The formation of Cooperatives was aimed at helping Kenyans adopt the culture of savings and work together on the basis of the Cooperative principles, goals and values. These values include self help, self responsibility, democracy, equality, equity, solidarity and the ethical values of honesty, openness, social responsibility and caring for others.

The Ministry of Cooperative Development was formed in the year 1914 and in the year 1966 the Cooperative Societies act (cap 490) was enacted. However, several amendments have been made to the Act and rules developed in line with the Act. Some of the changes in the sector include the enactment of the 2008 Sacco Societies Act introducing prudential regulation of all deposit taking Saccos. The Act gave birth to the Sacco Societies Regulatory Authority (SASRA) in the year 2009 and also established Ethics Commission for Cooperative Societies (ECCOS) to address governance matters (ethical and integrity issues) in the year 2011. The Ethics commission works closely with the national anti-corruption agency to minimise losses occasioned by graft, and recover all assets, including land and buildings that have been taken away from Saccos illegally. The Cooperative Movement is also in the process of revitalizing the Cooperative Alliance of Kenya (CAK). CAK is the apex body of Cooperatives charged with modernization in the sector and participation in serious investments issues. This follows the collapse of the Kenya Federation of Cooperatives Union in the year 2009. CAK's mandate is to promote Cooperative development, unite the movement and represent the Cooperatives' interests on all matters of policy and legal framework, revise and review the Cooperative Development policy in line with the new constitutional requirement on the devolved Government Policy of 2010. The other change in the sector is the Cooperative Societies Amendment Bill of 2004 which sought to re-introduce some degree of government control.

1.1 Statement of the Problem

Savings and credit Cooperatives are non - profit making organizations but must make reasonable surplus to satisfy payments of dividends, interests and bonuses to members, Jensen and Meckling (1976), Rose, (2003). A study conducted by FSD (2009) revealed that Saccos are facing severe liquidity problems and most Saccos in Kenya are unable to meet loan demands and withdrawal of savings of their members. This was attributed to insufficient contributions from members in form of savings and deposits which is the major source of funds for cooperatives. Saccos need to source for funds other than members contributions to cover for the financing shortfall occasioned by high loan demand and low savings from members. The readily available option to cover for the financing deficit is the commercial bank loans, SASRA (2011). KUSCCO Ltd. as the umbrella body for Saccos is unable to meet financing demand of over 1,700 Saccos using Central finance fund as the lending facility is only worth Kenya shillings Four (4) Billion, (sasra.go.ke). Saccos in Kenya have an annual absorption capacity of over Ksh 280 Billion, (www.coopsummit.com). However, Saccos borrowed slightly over Ksh120 Billion shillings in 2011 to cover for financing deficit. This resulted in a financing gap of over Ksh160 Billion based on the annual absorption capacity of Kshs 280 Billion and a massive loan requests backlog was reported (www.coopsummit.com, www.sasra.org).

The constantly changing macro-economic environment leading to high inflation and increased interest rates has undermined the capacity of Saccos to a crisis point. Commercial Bank loans to Saccos have become unbearable to maintain as interest rates range between 20 to 27 per cent per annum but Saccos advance loans to their members at 12% per annum on reducing balance (www.sasra.go.ke). The high interest expense will reduce amounts available to be paid out as dividends and bonuses to members. Mwaura (2005) noted that lack of proper credit analysis and weak credit follow-ups as well as hostile lending are the key factors that contribute to poor performance in loan lending by Sacco societies in Kenya. According to SASRA (2011), total external borrowing by Saccos reduced from Kenya shillings 15.3 billion in 2010 to Kenya shillings 5.6 billion in 2011 resulting in a decrease of 63 per cent. This decline in borrowing was attributed to the sharp increase in the commercial bank's cost of credit during the year from an average 11.0 percent to 25.0 per cent per annum. Andrew and Euclid (2009) in a study on internal versus external financing of acquisition in British companies' concluded that, there is a negative impact on investments financed by external sources on long run profitability. This effect is attributed to the high cost of interest on long-term loans and expenses of additional management needs associated with the external funds. The study recommends the use of internal sources of finance such as retained profits to make investments especially those of long term nature. The research is important to Saccos as they rely mainly on member funding which is insufficient to meet loan demands from members while at the same time

external borrowing attract high interest rates, Mwaura (2005).

All these studies point to the need for affordable financing sources in order to improve Saccos financial performance and it was what the study sought to establish. The sourcing for affordable sources of finance by Saccos is critical and mandatory for any significant change in the sector in terms of members satisfaction is to be realized. This is in recognition of the fact that Saccos need to access affordable and reliable financing for capitation and lending to members to bridge the financing gap due to low savings and high loan demands, FSD (2009). The major problem experienced is the unavailability of much needed cash to lend, when it is required. This therefore causes a mismatch in the availability of funds and the demand for loans. If this situation is not addressed, it may result in stagnation and eventual demise of Saccos which will affect the Kenyan economy as a whole as Sacco members will be unable to access quality education and medical care, get funds for enterprise development as well as make home purchases and many other financial benefits, (Ngaira 2008).

Despite the use of funds from members, Sacco's still face financial crisis as they are unable to meet loan demand and withdrawal of savings. Hostile lending rates also hinder most Saccos' accessibility to financing to cover for any shortfall. It is not known whether some Saccos have adopted alternative financing, that is the use of inter- Sacco lending and public private partnership among others. The financial performance of Saccos that use alternative financing and those that use member funding to finance their operations is also still in doubt. The study therefore sought to investigate the alternative financing sources available to Saccos and their relationship to financial performance of Saccos in Kenya. The study was conducted in Kakamega County.

1.2 Purpose of the Study

The purpose of this study was to investigate the relationship between internal financing and financial performance of Savings and credit Cooperatives in Kakamega County, Kenya.

1.3 Hypotheses for the study

The study tested the following hypothesis

H₀₁: Internal financing has no statistically significant effect on financial performance of SACCOS in Kakamega County, Kenya.

1.4 Conceptual Framework

Figure 1.1 below shows the presumed relationship that exists between the study variables. Alternative financing is the independent variable while the dependent variable is financial performance of Saccos.

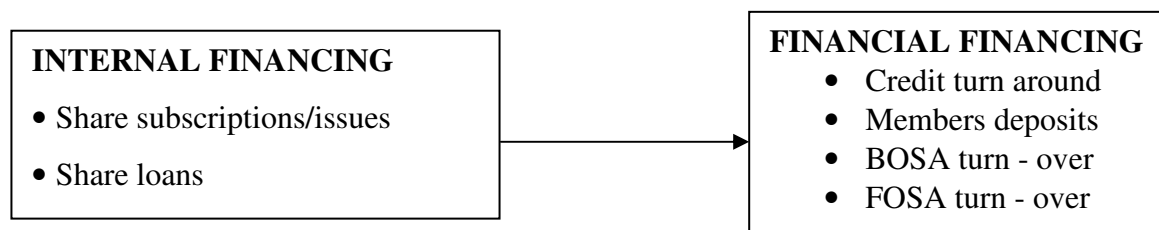


Figure 1.1 Conceptual Framework
Source; Research data, 2016

2.1 Literature Review

Operating and financial ratios have long been used as tools for determining the condition and the performance of a firm, Ogilo (2012). A savings and credit society also known as a credit union is a cooperative financial institution that is owned and controlled by its members and operated for the purposes of promoting thrift, providing credit at low interest rates and providing other financial services to its members, Nyambere (2013). Parast & Fini (2010) argued that in the pursuit of better operational performance and profitability, organizations are looking for strategies to improve their operational performance and boost their profitability. As competition intensifies due to changes in the industry structure and the emergence of new technologies, organizations are determined to reduce their operational costs while at the same time look for ways of enhancing their profitability, Nyambere (2013). According to Herrmann (2008) when analyzing a firm's profitability, we are concerned with evaluating a firm's earnings with respect to a given level of sales / assets / owners' investment or share value. In doing so, the common profitability measures include Return on total assets (ROA), Return on equity (ROE), Earnings per share (EPS) and Price/Earning (P/E) ratio. Return of total assets (ROA) takes into consideration the return on investment (ROI) and indicates the effectiveness in generating profits with its available assets. Return on equity (ROE) indicates the return on owners' equity while Earnings per share (EPS) indicate the dollar amount earned on behalf of each common share. Price/earnings (P/E) ratio is the amount investors are willing to pay for each dollar of earnings, in other words it indicates investors' confidence (Herrmann, 2008). The other

measures include gross margin, operating margin and profit margin where Gross margin is the percentage of each sales dollar remaining after the firm has paid the direct cost of goods sold (COGS). Operating margin is the percentage of each sales dollar remaining after the firm has paid all expenses (excluding financing expenses and taxes) and Profit margin is the percentage of each sales dollar remaining after the firm has paid all expenses (including interest and taxes). A higher ratio in any of the above variables indicates a firm's better performance and vice versa.

Performance of a Sacco according to Smith (1984) is derived from the fundamental motivation of credit unions which is providing financial services to the membership. In particular the financial services include depository for savings and access to consumer credit. Rose (2003) noted that Sacco's performance cannot be measured in terms of profitability as they are nonprofit making organizations. In this study, the following variables are used to measure financial performance: Loans advanced to members, Members' Deposits, BOSA turn – over and FOSA turn – over. In general, the higher the variables, the better the Sacco is said to be performing and vice versa.

3.0 Research Methodology and Design

This study adopted descriptive correlational research design as it sought to describe and establish the relationship between the study variables of alternative financing, financial performance and organizational factors. Specific predictions, narration of facts and description of characteristics of the study variables was done using descriptive research based on empirical evidence. The use of this design is justified as it permits description and evaluation of the relationship between the study variables under study. Correlational research design was used to measure the research variables by asking questions to the respondents and then examining their relationship (O'Connor, 2011). The research design was used due to its economy, rapid data collection and flexibility. Simple regression analysis was used in the determination of the strength and the direction of the relationship between alternative financing and financial performance. The strength and the direction of the relationship between organizational factors and financial performance were done using simple regression. Karl Pearson's first order partial coefficient was used in the determination of the effect of organizational factors on the relationship between alternative financing and financial performance of Saccos in Kenya.

3.1 Study Area

The study was conducted in Kakamega County which is one of the forty seven (47) Counties in Kenya. The County borders Vihiga County to the North, Nandi and Uasin Gishu Counties to the North West, Siaya County to the North East, Busia County to the East and Bungoma County to the South (appendices 2 and 3). The County has a number of tourist attraction and destination areas, Commercial banks, Microfinance Institutions, governmental and Non-governmental organizations that support its economic activities. The study therefore tried to analyse how the economic activities in the County support alternative financing of Saccos and that was the reason why the County was chosen for the study.

3.2 Target Population

This being a census study, all Saccos in Kakamega County registered under the Ministry of Cooperative Development and Marketing as at 31st December 2015 and are categorized as active were studied. A list of registered and active Saccos obtained from the Ministry of Cooperative development and Marketing indicated that there were forty one (41) Saccos in Kakamega County, Kenya (appendix 4). Chief Executive Officers (CEOs)/Managers or Finance Managers/ Accountants or Treasurers and or any other executive BOD of all the Saccos in the County were the key informants. This is because they are the ones involved in decision making and implementation of financial policies at the Sacco. This makes them well conversant with all financial affairs of the Sacco and is better placed to respond appropriately for the study. The Sacco sector in the County was chosen for the study as access to affordable financing has been cited in a number of studies as a major challenge in Sacco operations. Therefore the need to source for affordable alternative financing sources for Saccos is paramount and this is what the study sought to establish.

3.3 Data Collection Instruments

Primary and secondary data were used in this study. Primary data was collected mainly through questionnaires which the researcher administered in person to key informants. The key informants are the forty one (41) top management (CEOs/Managers or Finance Managers/Accountants or Treasurers/any other executive BOD) of all the Saccos since they are the ones concerned with financing decisions. They were therefore able to evaluate the study variables and respond accordingly. The questionnaire had both open ended and closed ended questions. The questionnaire contained simple and straight forward directions for the respondents so that they can answer the questions without any difficulty. The method has the advantages of low costs, freedom from bias, convenience in reaching the respondents, and large data can be collected to give a more dependable and

reliable information. In addition to questionnaire, the primary data was obtained through interview methods and observations. Secondary data was also obtained from the published data. These are existing literature on the Sacco sector aimed at cross checking the consistency of the questionnaire responses. This was done through a comprehensive desk-based literature review from authoritative sources such as publications, manuals, policy papers, annual audited accounts and documents relevant to the topic of study. Background information was obtained from documentary analysis of related literature relevant to the study such as books, supervision reports, trade journals, magazines, publications of the Ministry of Cooperative Development and Marketing as well as reports of other scholars and researchers in the Cooperative sector.

3.4 Data Analysis and Presentation

Both qualitative and quantitative techniques (descriptive and inferential statistics) were used to analyse data. Data presentation was done using frequency distribution and contingency tables. Statistical Package for Social Sciences (SPSS) version 21.0 software was used in data entry and analysis. The package is widely used in research as it is easy to use and permits the analysis of multi- response questions, cross section and time series analysis as well as cross tabulation. It is also compatible with Microsoft Excel and Word packages and therefore can be used together. Quantitative data was analyzed using descriptive statistics such as mean, percentages, tabulation and frequency distribution. Descriptive statistics were used to make inferences of any patterns, averages and dispersions in the variables under study. Mean was used as a measure of location while standard error mean was the measure of dispersion. Inferential statistics such as correlation and regression analysis were used to determine the relationship between the study variables. The relationship between the study variables was analyzed by use of correlation and tested at 95 percent confidence level (level of significance, $\alpha= 0.05$) and all the hypotheses also tested at 95 percent confidence level (level of significance, $\alpha= 0.05$). Simple regression analysis was used in the determination of the strength and the direction of the relationship between alternative financing and financial performance as well as the relationship between organizational factors and financial performance. Karl Pearson's first order partial coefficient ($r_{xy.z}$) was used in the determination of the effect of organizational factors on the relationship between alternative financing and financial performance as shown in Table 3.2 below. The relationship between alternative financing and financial performance was expected to follow a regression model of the nature $P=\beta_0+\beta_1AF+\varepsilon$.

Where;

- P= Financial performance
- α = Intercept term
- β_0 and β_1 = Beta coefficients
- AF= Alternative Financing and ε = Error term

3.5 Internal Financing

To assess the role of internal financing on the financial performance of Saccos in Kakamega County, the respondents were asked to fill in questionnaires indicating their view on how internal financing affects financial performance of Saccos in Kakamega County. The findings were as shown on table Table.4.1. (Where 5 = the greatest extent and 1 is the lowest extent).

Table 4.1 Internal Financing

Internal Financing Measures	Mean	t-value	Sig. (p-value)
All Sacco members contribute towards Share Capital of the Sacco which is nonrefundable but transferable	2.423	52.654	0.000
Share capital of the Sacco forms a sizeable percentage of the Sacco financing and is sufficient to meet the Sacco's financing needs	2.024	49.814	0.000
The Sacco gives loans to members to boost their shareholding in the Sacco	2.084	43.452	0.000
The Sacco relies on member funding in form of shares and deposits and has not adopted alternative financing (inter-Sacco lending etc)	2.391	36.291	0.000
The Sacco members are more than willing whenever called upon to contribute towards the Sacco Share Capital	2.029	34.891	0.000
Overall mean score=2.190			

Source; Research data, 2016

Overall, the intensity of internal financing on financial performance of Saccos in Kakamega County is considerably low with the mean of 2.190. This is because the overall score is less than 2.5 which is the half of the maximum score of 5.

4.6 Financial Performance of Saccos

To assess the financial performance of Saccos in Kakamega County, the respondents were asked to fill in

questionnaires indicating their view on how alternative financing affects the financial performance of Saccos in Kakamega County. The findings were as shown on table 4.2.

Table 4.2 Performances

Performance Measures	Mean	t-value	Sig. (p-value)
The loans advanced to members over the last five (5) years has been increasing steadily	3.423	52.654	0.000
The Sacco has the ability to meet members loan demands as per the credit policy	3.024	49.814	0.000
The Sacco pays reasonable rates of interest on deposits in order to encourage members to save more in the Sacco	3.084	43.452	0.000
Total earnings of the Sacco from BOSA section has been increasing over the last five (5) years	3.391	36.291	0.000
Total earnings of the Sacco from FOSA section has been increasing over the last five (5) years	3.929	34.891	0.000
The Sacco's financial performance is affected by the source of capital used for funding	3.770	27.372	0.000
Overall mean score=3.436			

Source; Research data, 2016

The relevant result shows that on the scale of 1 to 5 (where 5 = the greatest extent and 1 is the lowest extent), Overall, the intensity of financial performance of Saccos in Kakamega County was moderately high with a mean of 3.436 as indicated in table 4.2.

4.7 Correlation for Internal Financing and Financial Performance

The strength of the relationship between financial performance which was the dependent variable of the study and internal financing was assessed using Pearson product moment correlation. As shown in Table 4.3, there was a positive correlation between internal financing and financial performance which was statistically significant ($p < 0.05$). On the other hand, there is a positive and significant correlation between share capital of the Sacco forms a sizeable percentage of the Sacco financing and is sufficient to meet the Sacco's financing needs and financial performance which was statistically significant ($r = .532, p < 0.05$). The Sacco relies on member funding in form of shares and deposits and has not adopted alternative financing (inter-Sacco lending etc) and financial performance had also a statistically significant. The research findings also show that there is a positive relationship between all the measures of internal financing and financial performance and the measures had positive and significant relationship among themselves as well.

Table 4.3 Correlation for Internal Financing and Financial Performance

Scale	1	2	3	4	5
1 All Sacco members contribute towards Share Capital of the Sacco which is nonrefundable but transferable	1				
2 Share capital of the Sacco forms a sizeable percentage of the Sacco financing and is sufficient to meet the Sacco's financing needs	.532*	1			
3 The Sacco gives loans to members to boost their shareholding in the Sacco	.498*	.642*	1		
4 The Sacco relies on member funding in form of shares and deposits and has not adopted alternative financing (inter-Sacco lending etc)	.398*	.543*	.396*	1	
5 The Sacco members are more than willing whenever called upon to contribute towards the Sacco Share Capital	.294*	.438*	.473*	.356*	1

*Correlation is significant at the 0.05 level (2-tailed).

4.8 Regression Analysis

The following section presents the regression analysis of the study variables against financial performance.

4.8.1 Regression Analysis of Internal Financing on Financial Performance

The first objective of the study was to analyse the effect of internal financing on financial performance of Saccos in Kenya. The study predicted that the effect of internal financing on financial performance of Saccos in Kenya was not statistically significant. In order to analyse the effect of internal financing on financial performance of Saccos in Kenya the study had to test the first null hypothesis shown below:

H_{01} : Internal financing has no statistically significant effect on financial performance of Saccos in Kenya.

The aggregate mean score of financial performance measures (dependent variable) were regressed on the aggregate mean score of the internal financing (Independent variable) and the relevant results presented in Table 4.4. The regression results revealed a statistically significant positive linear relationship between internal financing and financial performance among Saccos ($\beta = .238$, p -value = 0.000). The relationship was statistically significant because the p -value is less than the set value of 0.05 (p -value = 0.000). The regression results also showed that internal financing had explanatory power on financial performance of Saccos in Kenya in that it accounted for 65.7 percent of its variability (R square = 0.657).

The hypothesis test criteria was that the null hypothesis H_{01} should be rejected if $\beta \neq 0$ and p -value ≤ 0.05 otherwise fail to reject H_{01} if the p -value > 0.05 . From the above regression results, $\beta = 0.238 \neq 0$ and p -value = 0.000 < 0.05 , the study therefore rejects the null hypothesis since $\beta \neq 0$ and p -value < 0.05 and concluded that internal financing had a statistically significant and positive effect on financial performance of Saccos in Kenya.

Table 4.4 Regression Results of Financial Performance against Internal Financing

Goodness of fit analysis: Model Summary

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.238(a)	.657	.479	1.08606

a Predictors: (constant), Internal financing

b Dependent variable: Financial performance

Overall significance ANOVA (F-test)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	13.189	1	13.189	10.241	.000(a)
	Residual	96.140	26	1.785		
	Total	109.329	27			

a Predictors: (constant), Internal financing

b Dependent variable: Financial performance

Individual significance (T-test) Coefficients(a)

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	T	
1	(Constant)	1.182	.566		11.124	.000
	Internal financing	.249	.751	.238	4.491	.002

Dependent variable: Financial performance

Level of significance, $\alpha = 0.05$

Source; Research data, 2016

Arising from the results in Table 4.4, the resulting simple linear regression model that can be used to predict the level of financial performance of Saccos in Kenya for a one standard deviation improvement in the internal financing can be expressed as:

$$FP = 1.182 + 0.238IF$$

Where:

1.182= y-intercept constant

0.238 = an estimate of the expected increase in financial performance corresponding to an increase in internal financing.

FP= Financial performance

IF = Internal financing.

5.0 Research Findings

The first objective was to establish the effect of internal financing on financial performance of Saccos in Kenya. The study found out that internal financing significantly and positively affected financial performance with 65.7 percent of the financial performance (R squared = 0.657) being explained by internal financing. This is in agreement with proposition of Belgrave, Craigwell and Moore, (2002) who indicated that credit unions' growth over time exceeded that of both banks and mortgage institutions. This is especially during the 1980s when a combination of Central Bank restrictions on the Commercial Banking Sector and tax incentives for credit unions

led to credit union loans as a proportion of Commercial Bank loans expanding from 0.8 per cent in 1980 to around 10.0 per cent in 1990. Alleyne (1997) stated that education and training in cooperative principles and the interpretation of financial information for all members of primary and secondary societies is the most important ingredient for healthy growth. Credit unions differ from many financial intermediaries in that they are nonprofit, mutually-owned institutions, Jensen and Meckling (1976). The mutual form of ownership has theoretical implications regarding the increased risk-taking hypothesis. Since Jensen and Meckling (1976), it has been widely accepted that organizational form (mutual versus stock) influences operating behavior, as it defines the nature of residual claims and, thus the incentives of the firm's owners. Feinberg (2001, 2002) provided some evidence that credit unions in rural and small metropolitan area markets do provide some competitive discipline to bank pricing.

5.1 Conclusion

Based on the findings and conclusions; the study recommends that there is need for Saccos in Kenya to rely more on internal financing as a source of their financing because it has been found by this study that internal financing has the greatest effect on financial performance of Saccos in Kenya. Members should be encouraged to save more in the Sacco.

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