

THE INFLUENCE OF FINANCIAL PERFORMANCE DETERMINANTS ON GROWTH OF SAVINGS AND CREDITS COOPERATIVES SOCIETIES IN RWANDA: A CASE STUDY OF UMURENGE SACCOs IN GASABO DISTRICT

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Abstract: Savings and credit cooperative societies have been present in Rwanda for decades, but this sector has not been able to impact positively on the lives of people. Access to finance has been cited as one of the factors hampering economic growth and poverty alleviations. Savings and credit cooperative societies have lagged behind other financial institutions by performing below the members' expectations therefore causing dissatisfaction among the members. The main reason for this research is to fill a gap left by other researchers by way of critically analyzing the factors influencing the performance and growth of SACCOs. Based on the evaluation there is a gap literature to warrant a study to be conducted in this industry. This is what prompted the researcher to carry out a study to investigate the determinants of financial performance on growth of SACCOs in Gasabo District. The target population of this study was drawn from Umurenge SACCOs in Gasabo District, Managers, branch staff and SACCO members. Umurenge SACCO in Gasabo District has 15 branches and each branch has one manager within their respective administrative sectors. These entire branch Saccos have the total managers of 15 managers in all the 15 branches, 105 staffs and 32,100 members from which a sample was drawn. A sample size of 172 respondents which consist of 4 Managers, 8 staffs and 160 SACCOS members was considered and drawn only from the four SACCOs located in rural areas such as Jabana Sacco, Kinyinya Sacco, Bumbogo Sacco and Kozigundu Sacco in which the respondents have been interviewed. Stratified sampling and simple random sampling were used. A Likert scale questionnaire was used to gather primary information while a secondary data collection sheet was used for collecting secondary information regarding SACCO performance. Information was sorted, coded and put into the statistical package for social sciences (SPSS) version 21.0 for production of graphs, tables, descriptive statistics, and inferential statistics. The results have been indicated that whether there was a positive relationship between financial performance determinants and growth of SACCOs notably in the corners of return on investments, saving culture, investment policy and interest rates. The data collection instruments were questionnaires for primary data and on the other hand, the company reports were deeply consulted, for secondary data. The type of validity used by the researcher for this study was the content validity. For the reliability of the data collection instrument, Test- retest reliability has been used. It was a measure of reliability obtained by administering the same test twice over a period of time to a group of individuals. The findings guided the researcher after analyzing data, to assess the influence of financial performance determinants on growth of savings and credit cooperative societies in Rwanda.

Keywords: Financial Performance, Return on investment, Interest rate, Investment policies, Profitability and SACCO financial performance.

1. INTRODUCTION

Globally, cooperative efforts have occurred throughout history (Cobia, 2008). Since the early days, man cooperated with others to help kill large animals for survival and so as to achieve the objectives that they could not reach if they acted individually (Epetimehin, 2006). Cobia (2008) adds that Cooperation has occurred throughout the world. Ancient records show that the Babylonians practiced cooperative farming and that the Chinese developed savings and loan associations similar to those in use today. In North America, clearing land in preparation for the planting of crops, threshing beans, and barn raisings all required cooperative efforts. In the United States, the first formal co-operative business is assumed to have been established in 1752, almost a quarter-century before the Declaration of Independence was signed. In today's society, cooperative financial institutions hold a considerable market share, with the IMF estimates that across all banking sector assets in developing countries, the market share of co-operative finance was equivalent to 14 percent in 2004 (Hesse and Cihak, 2007). Previous research on cooperative finance during crisis indicates that they tended to fare better than investor-owned savings and loans institutions, as they pursue more conservative investment policies (Chaddad and Cook, 2004). For instance, analysis from the IMF indicates that co-operative banks in developed countries tend to be more stable than commercial banks, especially during financial crisis, as their investment patterns tend to be less speculative and returns are therefore less volatile (Hesse and Cihak, 2007).

1.1 Statement of the Problem:

Globally SACCOS are found in almost all sectors of the economy. However, a majority of the SACCOS in Rwanda perform very poorly (Tumwine, 2015). Rwanda is one of the small and poor countries of Africa (Murekezi 2007). For dealing with poverty problem, the Government of Rwanda established different policies and initiatives that include facilitating the creation of Microfinance Institutions. After remarking that most of the Microfinance Institutions are concentrated in towns, the National Dialogue Meeting held in December 2008 recommended the creation of SACCO at the level of each Administrative Sector (Umurenge 2008). Although SACCOS has been present in Rwanda since 2008, this sector has not been able to impact positively on the lives of people. In light of this, the existence and flourishing of SACCOS in Rwanda have not been able to perform well as compared to the other mainstream financial institutions like commercial banks. SACCOS are formed to serve the special needs of its members, but this has not been possible because of the various challenges that impacts on their financial performance. One of the justifications of the advancement of a financial institution is one that is profitable and has financial sustainability.

What enables a small fraction of the SACCOS to perform well when the majority is performing poorly is not yet well understood. Some studies have associated SACCO performance with return on investment, savings culture from members, investments policy, interest accrued from loan and institutional operating environment amongst many other determinants. Murekezi, (2007) adds that lack of liquidity monitoring system, political interference, investment in non-earning assets and inadequate managerial competences. Tumwine 2015 cited lack of competitive advantage of SACCO products and services as compared to other financial service providers. Kagoyire (2015) shocks impinging on the economic system and the lack of proper policy to mitigate the effects of these shocks.

To date no specific study has focused on what makes some SACCOS in Rwanda performance while others don't. There is therefore a need to clearly identify the actual influence of determinants of financial performance on the growth of the SACCOS in Rwanda. Although the National Dialogue Meeting held in December 2008 recommended the creation of SACCO at the level of each Administrative Sector (Umurenge 2008), with aim of enhancing performance amongst the SACCOS the institution effect has not been realised yet. This study sought to determine the influence of determinants of financial performance on the growth of the SACCOS in Rwanda. Judging from the above-mentioned points it can be concluded that the main reason for this research proposal report is to fill a gap left by other researchers by way of critically analyzing the factors influencing the performance and growth of SACCOS. Based on the evaluation there is a gap literature to warrant a study to be conducted in this industry. This is what prompted the researcher to carry out a study to investigate the determinants of financial performance on growth of SACCOS in Gasabo District.

1.2 Objectives of the study:

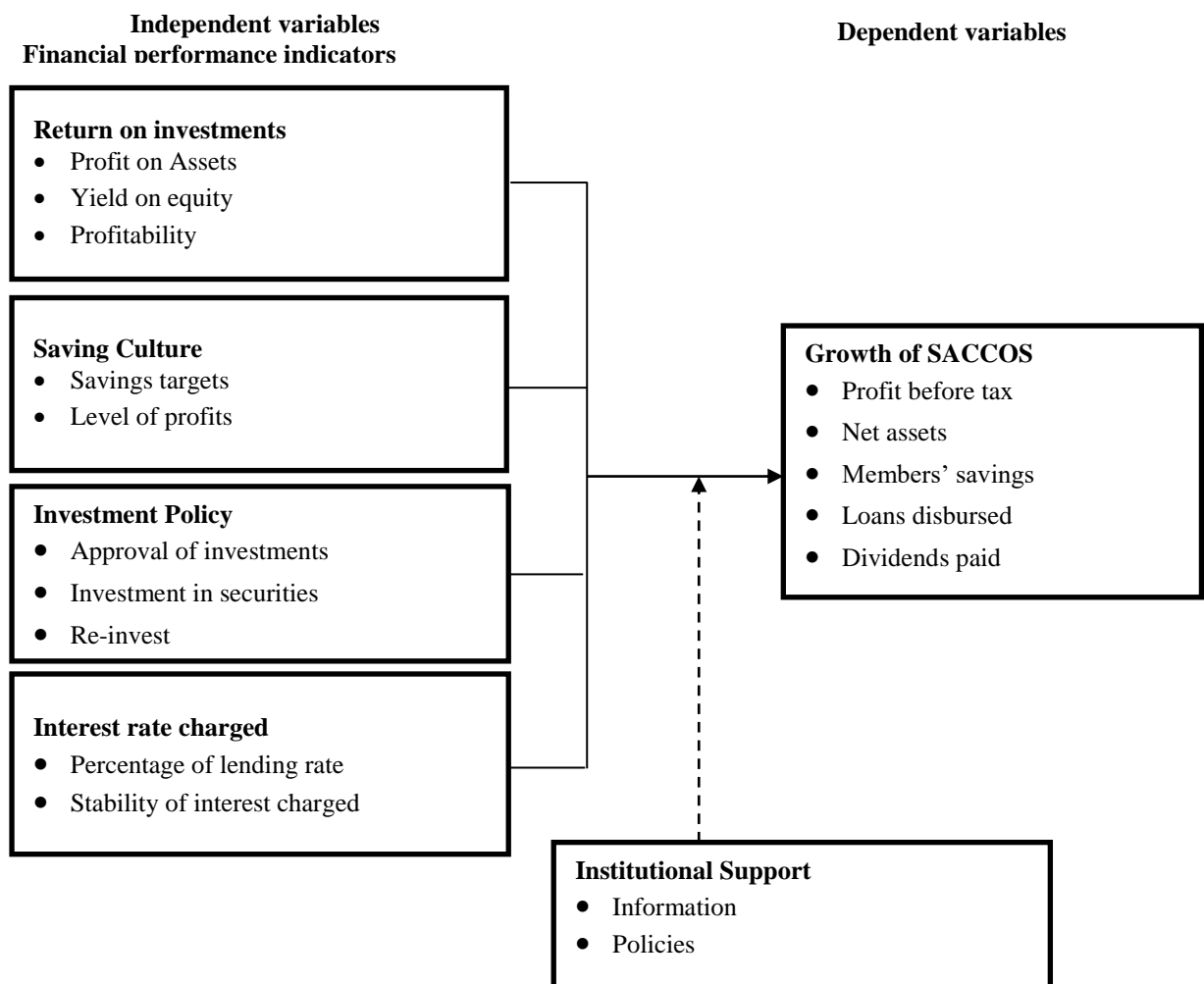
1.2.1 General objectives:

The general objective of the study was to establish the influence of determinants of financial performance on the growth of the SACCOS in Rwanda.

1.2.2 Specific objectives:

1. To establish the extent to which the return on investment influences the financial performance of savings and credit cooperative societies in Rwanda.
2. To establish how savings culture of SACCO members influences the financial performance of savings and credit cooperative societies in Rwanda.
3. To establish the extent to which investment policies influence the financial performance of savings and credit cooperative societies in Rwanda.
4. To determine how interest rate charged influence financial performance of savings and credit cooperative societies in Rwanda.

2. CONCEPTUAL FRAMEWORK



3. RESEARCH METHODOLOGY

- **Research Design:** The study adopted descriptive research design
- **Target Population:** The population was drawn from Umurenge SACCOs in Gasabo District Managers, staff and SACCO members. Umurenge SACCO in Gasabo District has 15 branches and each branch has one manager within their respective administrative sectors. These branches SACCOs have 15 managers in all the 15 branches, total staffs of 105 and 32,100 members from which a sample was drawn.
- **Sample size:** A sample size of 110 respondents has been selected to represent the entire population
- **Data Collection Instruments:** Data were collected using questionnaires.

4. SUMMARY OF RESEARCH FINDINGS

Correlation Analysis on Return on investment:

Table 1

		Return on investment	Performance
Return on investment	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	172	
Performance	Pearson Correlation	.681**	1
	Sig. (2-tailed)	.000	
	N	172	172

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

Table 1 indicate that Return on investment is significantly correlated to the SACCOs financial performance ($r=0.681$, $p<0.01$). There is a Strong positive relationship between Return on investment and Financial Performance of SACCOs as indicated by correlation of 0.681. This shows that the sampled data can be applied to the general population across SACCOs at 95% confidence level. The results show that financial performance was positively correlated with return on investment as a determinant with a weak correlation coefficient of 0.681. This reveals that any positive change in return on investment led to improved financial performance.

Table 2: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.442 ^a	.301	.312	.65724

a. Predictors: (Constant), Return on investment

Result revealed that profits on assets are statistically significant in explaining financial performance of SACCOs in Rwanda. An F statistic of 5.020 indicated that the combined model was significant. From the analysis, a p-value less than 0.05 (p-value =0.0000) was obtained. This implies that the simple linear model with profits on assets as the only independent variable is significant.

Table 3: ANOVA results showing the effect of Return on investment on financial performance ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.14	1	12.14	5.020	.000 ^a
	Residual	28.684	49	.476		
	Total	40.824	50			

b. Dependent Variable: Financial Performance
 c. Predictors: (Constant), Return on investment

Correlation coefficients show that Return on investment (X1) is significant (p-value = 0.0000) in influencing financial performance (Y). The results of the analysis are shown in Table 3 and the fitted model from this analysis is shown below:

$$Y = 2.487 + 0.342X_1$$

Table 4: Coefficient results showing the relationship between Return on investment and Financial Performance Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.487	.270		7.169	.000
	Profits on assets	.342	.062	.444	2.241	.000

a. Dependent variable: Financial performance

Table 5: Correlation Analysis on savings culture

		Savings culture	Performance
Savings culture	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	172	
Performance	Pearson Correlation	.581**	1
	Sig. (2-tailed)	.000	

	N	172	172
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 5 indicate that Savings culture is significantly correlated to the SACCOs financial performance ($r=0.581$, $p<0.01$). There is a Strong positive relationship between savings culture and Financial Performance of SACCOs as indicated by correlation of 0.581. This shows that the sampled data can be applied to the general population across SACCOs at 95% confidence level. The results show that financial performance was positively correlated with savings culture with a weak correlation coefficient of 0.581.

Table 6: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.209 ^a	.172	.282	.65724
b. Predictors: (Constant), Savings culture				

Result review that Savings culture is statistically significant in explaining financial performance of SACCOs in Rwanda. An F statistic of 5.15 indicated that the combined model was significant. From the analysis, a p-value less than 0.05 (p-value =0.0000) was obtained. This implies that the simple linear model with Savings culture as the only independent variable is significant.

Table 7: ANOVA results showing the effect of Savings culture on financial performance ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.14	1	12.14	4.17	.000 ^a
	Residual	28.684	49	.476		
	Total	40.824	50			
b. Dependent Variable: Financial Performance						
c. Predictors: (Constant), Savings culture						

Correlation coefficients show that Savings culture (X2) is significant (p-value = 0.0000) in influencing financial performance (Y). The results of the analysis are shown in Table and the fitted model from this analysis is shown below: $Y = 0.755 + 0.342X_2$

Table 8: Coefficient results showing the relationship between Savings culture and Financial Performance Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.755	.698		6.365	.000
	Savings culture	.342	.152	.308	2.663	.000
b. Dependent variable: Financial performance						

Table 9: Correlation Analysis on Investment Policy and Financial Performance

		Investment Policy	Financial performance
Investment Policy	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	172	
Financial performance	Pearson Correlation	.656 ^{**}	1
	Sig. (2-tailed)	.000	
	N	172	172
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 9 indicate that Investment Policy is significantly correlated to SACCOs financial performance ($r=0.656$, $p<0.01$). There is a Strong positive relationship between Investment Policy and Financial Performance of SACCOs as indicated by correlation of 0.656. This shows that the sampled data can be applied to the general population across commercial banks at 95% confidence level. Regression analysis was conducted to empirically determine whether investment policy was a significant determinant of financial performance. Regression results indicate the goodness of fit for the regression between Investment Policy and Financial Performance was satisfactory in the linear regression. An R squared of 0.285 indicates that 28.5% of the variances in financial performance of SACCOs are explained by the variances in investments policy in the linear model. The correlation coefficient of 65.6% indicates that the combined effect of the predictor variables has a positive correlation with financial performance.

Table 10: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.321 ^a	.294	.285	.65724
c. Predictors: (Constant), Investment Policy				

Result review that Investment Policy is statistically significant in explaining financial performance of SACCOs in Rwanda. An F statistic of 4.845 indicated that the combined model was significant. From the analysis, a p-value less than 0.05 (p-value = 0.0000) was obtained. This implies that the simple linear model with Investment Policy as the only independent variable is significant.

Table 11: ANOVA results showing the effect of Investment Policy on financial performance ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.14	1	12.14	4.845	.000 ^a
	Residual	28.684	49	.476		
	Total	40.824	50			
b. Dependent Variable: Financial Performance						
c. Predictors: (Constant), Investment Policy						

Correlation coefficients show that Investment Policy (X3) is significant (p-value = 0.0000) in influencing financial performance (Y). The results of the analysis are shown in Table and the fitted model from this analysis is shown below:
 $Y = 3.078 + 0.245X_3$

Table 12: Coefficient results showing the relationship between Investment Policy and Financial Performance Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.078	.698		6.365	.000
	Investment Policy	.245	.152	.308	2.663	.000
c. Dependent variable: Financial performance						

Table 13: Correlation Analysis on interest rates

		interest rates	Financial performance
interest rates	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	172	
Financial performance	Pearson Correlation	.789**	1
	Sig. (2-tailed)	.000	
	N	172	172
**. Correlation is significant at the 0.01 level (2-tailed).			

Table 13 indicate that interest rates is significantly correlated to the commercial banks financial performance ($r=0.789$, $p<0.01$). There is a Strong positive relationship between interest rates and Financial Performance of SACCOs as indicated by correlation of 0.789. This shows that the sampled data can be applied to the general population across SACCOs at 95% confidence level.

Regression analysis was conducted to empirically determine whether interest rates was a significant determinant of financial performance. Regression results in Table indicate the goodness of fit for the regression between interest rates and financial performance was satisfactory in the linear regression.

An R squared of 0.402 indicates that 40.2 % of the variances in financial performance of SACCOs are explained by the variances in interest rates in the linear model. The correlation coefficient of 78.9% indicates that the combined effect of the predictor variables has a positive correlation with financial performance.

Table 14: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.411 ^a	.402	.396	.65724
d. Predictors: (Constant), interest rates				

Result review that interest rates is statistically significant in explaining financial performance of SACCOs in Rwanda. An F statistic of 7.658 indicated that the interest rates was significant. From the analysis, a p-value less than 0.05 (p-value =0.0000) was obtained. This implies that the simple linear model with interest rates as the only independent variable is significant.

Table 15: ANOVA results showing the effect of interest rates on financial performance ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	12.14	1	12.14	7.658	.000 ^a
	Residual	28.684	49	.476		
	Total	40.824	50			
b. Dependent Variable: Financial Performance						
c. Predictors: (Constant), Interest rates						

Correlation coefficients show that interest rates (X4) is significant (p-value = 0.0000) in influencing financial performance (Y). The results of the analysis are shown in Table and the fitted model from this analysis is shown below: $Y = 2.107 + 0.174X_4$

Table 16: Coefficient results showing the relationship between interest rates and Financial Performance Coefficients (a)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.107	.698		6.365	.000
	Interest rates	.174	.152	.308	2.663	.000
d. Dependent variable: Financial performance						

Table 17: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.542 ^a	.294	.268	.130
a. Predictors: (Constant), return on investments, Savings Culture, Investment policy, Interest rates				

Table 17 shows that the coefficient of determination R square is 0.294 and R is 0.542 at 0.05 significant level. The coefficient of determination indicates that 29.4% of the variation in the dependent variable SACCOs financial performance is explained by the independent variables (Competition, Savings Culture, Investment policy, Interest rates).

Table 18: ANOVA^a

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.575 ^a	3	.192	11.388	.000 ^b
	Residual	1.379	51	.017		
	Total	1.953	54			
a. Dependent Variable: Financial Performance						
b. Predictors: (Constant), return on investments, Savings Culture, Investment policy, Interest rates						

Table 18 presents the results of Analysis of Variance (ANOVA) on determinants versus SACCOs financial performance. The ANOVA results for regression coefficient indicate that the significance of the F is 0.00 which is less than 0.05. This implies that there is a positive significant relationship between (Competition, Savings Culture, Investment policy, Interest rates) and financial performance and that the model is a good fit for the data.

Table 19: Coefficient results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.347	.231		1.973	.106
	Return on investments	.162	.009	.444	1.815	.009
	Savings Culture	.282	.050	1.231	3.616	.036
	Investment policy	.194	.017	1.075	3.159	.025
	Interest rates	.211	.240	.230	.850	.028

From the data in the above table the established regression equation was

$$Y = 0.347 + 0.162 X_1 + 0.282 X_2 + 0.194 X_3 + 0.211 X_4$$

From the above regression equation, it was revealed that return on investments, Savings Culture, Investment policy, Interest rates to a constant zero, financial performance would be at 0.347. A unit increase on retrun on investments would lead to increase in financial performance by a factor of 0.162, a unit increase in Savings Culture would lead to increase in financial performance by a factor of 0.282, a unit increase in Investment policy would lead to increase in financial performance by a factor of 0.194 and unit increase in Interest rates would lead to increase in financial performance by a factor of 0.211.

5. CONCLUSIONS

The conclusions were arrived at on the influence of the independent variables (Return on investment, saving culture, investment policy, and interest rate charged) on the financial performance of SACCOs in Rwanda based on the findings of the study. The study concludes that Return on investment was countless. This important of Return on investment is very critical to improved financial performance of SACCOs due to their flexibility. It can be concluded from this study that when holding other factors constant return on investment was found to have a positive and significant relationship between return on investment and financial performance. This implies that yielding the return on investment in SACCOs was statistically significant in explaining financial performance of SACCOs in Rwanda. However, when other determinants were introduced in the analysis, return on investment was found to have a positive and significant relationship with financial performance due to dilution effect of other factors.

The study sought to establish the extent which saving culture influence financial performance of SACCOs in Rwanda. The study concludes that there were effective policies that guided the saving culture of the SACCOs. This is because the SACCOs have annual savings target for the members and SACCO performs well because members have huge savings. It can be concluded from this study that there exists a positive and significant relationship between saving culture and financial performance. This implies that managing saving culture in SACCOs was statistically significant in explaining financial performance of SACCOs in Rwanda. The study sought to establish the extent which investment policy influences the financial performance of SACCOs in Rwanda. The study concluded that there were good and effective investment policies which led to increased financial performance of SACCOs in the banking sector. It was possible to infer that holding other factors constant investment policy was found to have a positive and significant relationship with financial performance. The study shows that investment policy was statistically significant in explaining financial performance of SACCOs in Rwanda. However, when other factors were introduced in the analysis investment policy was found to have a negative and insignificant relationship due to the dilution effect by other factors. Interest rates charged is the obligation of members to ensure that SACCOs have adequate cash to meet new members interest rate charged. The researcher noted there was huge credit risks encountered among different SACCOs, hence the need for managements to ensure there are improved policies on credit terms and this will reduce liquidity risk and improve financial performance of the SACCOs. With the SACCOs regulator on board, there is need to introduce compliance of International Financial Reporting Standards (IFRS) to ensure that all Saccos have a standard way of reporting and it will be easier to monitor loan obligation among different Saccos since interest rate have a ripple effect on the performance of the economy in relation to inflation rate and gross domestic product of the country

6. RECOMMENDATIONS

The recommendations were made regarding the influence of the independent variables; Return on investment, saving culture, interest rate charged and investment policy on the financial performance of SACCOs in Rwanda based on the findings of the study. The study sought to establish the influence of Return on investment on the financial performance of SACCOs in Rwanda. The study recommends that the SACCOs should emphasize and enhance that the Return on investment is managed well. They should also ensure that they engage the employees views whenever making changes in the systems so that there will be smooth operations of the activities. The SACCO should also ensure that all employees are well trained about the policies governing the SACCOs to enlighten the employees on their knowledge about SACCO and their profitability. The study sought to establish the extent to which saving culture influences the financial performance of SACCOs in Rwanda. From the study conclusions, there were good and effective policies on saving culture of SACCOs. The study recommends that the SACCO should emphasize on setting targets on the members on the amounts to save to help improve the financial performance of SACCOs. The government should make it easier for organizations that want to open up SACCOS this is because it will bring close service delivery and financial assistance closer to the public. The study sought to establish whether investment policy influences the financial performance of SACCOs in Rwanda. The study recommends the SACCOs to establish and enhance policies for investing so as to attract

and encourage large institutional and foreign investors to participate. This would be achieved by increasing investor confidence through establishing relevant policies to enhance the efficiency of the SACCOs. Since Institutional and international investors have a greater capacity to conduct extensive security analyses they will help improve availability of relevant financial information and the overall quality of the information environment of the SACCOs to members and hence improved performance.

The study recommends that management should put tighter internal controls system for cash management. Also, there was recommendation on commercial banks members to have a graduated increase on their deposit on annual basis to enhance cash flow for the better service of loan services. The study also recommends to the BNR regulator to introduce cash ratios to be deposited within the commercial banks. This will enable control of liquidity in the commercial banks and also help on overnight borrowing to assist the commercial banks assess the regulator during cash shortage and release cash surpluses when there is excess funds

Areas for further research:

Arising from the findings and the gaps in the study, a replica study is recommended for SACCOs in other sectors in order to test whether the conclusions of this study will hold true. Another study could be carried out using other factors that may influence the

Recommendations

- The study recommends that RSSB through the government should allocate adequate finances to support in strategy implementation to improve the quality of their services to the Rwanda citizens.
- The study recommends that the government should carry out regular training and development programs to improve employee skills and knowledge and encourage them to participate in implementation of strategic plans. This will create a positive culture and minimize resistance to change.
- The study also recommends that the top management executives should act as role models by setting good examples that can inspire and encourage the employees to work hard towards realizing strategic goals. They should be careful in the manner in which they present themselves to the employees and how they make decision since they are held accountable and responsible in the manner in which they conduct themselves.
- Rwanda Social Security Fund should consider adopting a flexible organizational structure whereby decisions and functions of the organization can be decentralized to enhance flexibility and efficiency that contributes positively toward improved performance.
- The study also recommends that RSSB should formulate strategic policies that can provide a clear direction to develop and implement an effective performance management system that can integrates all the stakeholders of organization to ensure everyone including the end-users is part of the strategic plan to ensure that the interests of all the stakeholders are well represented.

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