

# Effect of Financial Management Practices on Performance of Savings and Credit Co-Operative Societies in Mombasa County, Kenya

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**Abstract:** The study sought to establish effect of financial management practices on financial performance of Saccos in Mombasa county, Kenya. The study used descriptive research design and data was collected by administering questionnaires to a sample of target population. Data analysis was done using correlation and regression analysis. The research used regression analysis to investigate the association of cash management, financial planning, financial reporting and analysis and number of Sacco members on financial performance of Saccos in Mombasa county. Based on correlation matrix, cash management had a huge effect on financial performance of Saccos with the highest score of 0.637 followed by financial reporting and analysis at 0.299. In this study, cash management practices were found to have big effect in the financial performance of Saccos as was demonstrated by a strong regression coefficient. The regulator should also ensure all Saccos embrace financial reporting and analysis throughout their operations as per financial reporting standards. Number of Sacco members was also found to have an effect on profitability of Saccos. Sacco management should come up with ways of registering more members to join their Saccos through vigorous campaign. To attract more members, management can consider issues like proper loan policies, better returns in the form of dividends, and open membership to any adult citizen. The study recommended that researchers and scholars should carry out a research on other factors affecting financial performance of Saccos in Kenya not covered in this study.

**Key words:** Financial management practices, cash management, financial planning, financial reporting and financial performance

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## I. Background of the Study

Savings and Credit Cooperative Societies (Saccos) have a crucial role to play in the provision of financial services to a wide range of customers. According to [3] Saccos have the ability and opportunity to reach clients in areas that are unattractive to banks, such as rural or poor areas. To ensure Saccos remain vibrant in provision of services to their members, sound financial management practices are very critical. This study focused on Saccos in Mombasa county and investigated the extent to which they applied financial management practices in their operations. The study sought to establish if those Saccos which employ financial management practices had better financial performance compared to those which did not practice.

Mombasa county has witnessed growth of Cooperative societies in recent times with some of them offering Front Office Services Activity (FOSA). The majority of Saccos in Mombasa county draw their membership from salaried employees of the government, shipping companies, transport and logistics companies, industries, government state owned corporations and the informal sector. According to data from ministry of industrialization and enterprise development, Mombasa county had 204 active Cooperative Societies as at the end of year 2017 which justified the importance of taking the study at this point in time.

## II. Financial Management Practices

Financial management can be defined as an area in business management, committed to prudent utilization and diligent selection of capital sources, in order for an organization to move towards achieving its goals (Gitman, 2010). [2] define financial management as managerial activities, concerning the acquisition of financial resources and the assurance of their effective and efficient uses. In other words, financial management involves directing, organizing, planning, controlling the financial activities like how firms utilize funds of an enterprise and procurement. Brigham and According to [13] financial management involves planning for the future of an enterprise in order to achieve a positive cash flow.

The concept of financial management is important for any business entity because by employing good financial management practices, it is likely to improve on financial performance. Proper Financial management

is key to the success of organizations in achieving the financial objectives. Financial management is composed of working capital management and is further subdivided into inventory management, cash management, and receivables management. Other components of financial management are financial reporting and analysis, financing decisions, investment decisions and accounting information system. Financial management components commonly practiced by the small and medium enterprises include, financial analysis, capital budgeting and management accounting [15].

### **III. Financial Performance**

Financial performance is general measure of an organization's financial wellbeing over a specified time period and can therefore be used to make comparison between similar business entities across the same sector or different sectors in a country or region. Financial performance measures a firm's operations results and policies in monetary value. It is therefore used to measure the overall financial status of firms for a defined period of time as well as comparing similar firms across the same industry or sectors in aggregate [16]. Generally financial performance is a measure of how well an enterprise uses assets from its business activities to generate revenues. The concept of financial performance is significant in all forms of business because it has implications to the organization's health status and its survival.

Organization's financial performance is usually measured by a variety of tools like benchmarking, ratio analysis, and measuring the performance against budget or a mix of methodologies. Financial performance of firms can be determined by use financial analysis tools. These tools are in the following categories: liquidity, profitability, solvency, financial efficiency, and repayment capacity. Liquidity is used by businesses to measure their ability to meet financial obligations when they fall due without causing disruption to the business. Profitability is a measure of how an enterprise generates profit by use of factors of production. Solvency is a measure of borrowed capital amount by an enterprise relative owner's equity capital amount invested in the business.

### **IV. Research Problem**

Financial management remains a key pillar for any organization wishing to perform well financially including Saccos. Organizations which demonstrate financial management skills in their daily operations are on the right path to better financial performance. Saccos get most of their cash flow from member's contribution for onward lending to their members. If the funds of Saccos are not managed well, members' contributions are likely to be at risk. Lack of effective financial management skills contributes to some of the factors of business failure for many Saccos. To remain relevant in today's business environment, wise decision making is very critical to the success of business. [19] suggested that managers need to have effective financial management as well as information technology (IT) skills to help them in making effective financial decisions.

Saccos like other business entities are faced with problems of financial management in their daily activities. In Mombasa county, data of registered Saccos showed that 203 Saccos out of 407 were inactive as at end of 2017. This already shows there is a problem with Sacco management which needs to be investigated. The issue of financial management becomes even more critical in Saccos because the funds being managed are from members contribution. Secondly, membership to Saccos is voluntary and if any member is not satisfied can deregister from the Sacco and join another one of his/her choice. This has been made easy because some Saccos nowadays have opened doors to any member of the public like Bandari Sacco.

[10] studied the relationship between financial management practices and financial performance of savings and credit co-operatives societies in Nairobi county. The findings of the study showed that Sacco financial management practices were closely related to SACCO's financial performance. [12] studied effects of financial management practices on the financial performance of small and medium enterprises in Kenya. [9] investigated the relationship between financing structure and growth of Saccos' wealth in Machakos county. [20] studied how liquidity management affected the financial performance of deposit taking Saccos in Nairobi county. None of these studies have investigated on the effect of financial management practices on performance of Saccos in Mombasa county. Therefore this study tried to answer the question: What is the effect of financial management practices on the financial performance of Saccos in Mombasa county?

### **V. Research Objective**

To determine the effect of financial management practices on the financial performance of Saccos in Mombasa county.

### **VI. Empirical Literature Review**

[17] studied effects of working capital management on SME profitability. The study used a sample of Spanish with a panel data of 8,872 small to medium-sized enterprises (SMEs) for the period 1996-2002. Panel data methodology was used to study how SME profitability was affected by management of working capital.

The findings of the study demonstrated that by reducing inventories and the number of days in which their accounts remained outstanding, managers could create value. A firm's profitability can be improved if management can reduce cash conversion cycle. The study could not establish if the number of days of accounts payable affects return on assets of SME's

[10] studied the relationship between financial management practices and financial performance of savings and credit co-operatives societies in Nairobi county. The target population was all registered SACCOS in Nairobi county as at 2012. A sample size of 50 SACCOS was taken from the target population. The population was stratified into three strata namely: transport based, employee based and community based SACCOS. Stratified sampling was done through administration of questionnaires in each of the stratum. Data analysis was done by use of descriptive statistics, correlation and regression. The findings of the study showed that Sacco financial management practices were closely related to SACCO's financial performance. One of the limitation of the study was that some SACCO managers withheld some useful information for fear of tax returns compliance and this impacted on the results.

[12] studied effects of financial management practices on the financial performance of small and medium enterprises in Kenya. This study used descriptive research design. The study used a target population of 520 respondents who were registered SMEs in Nairobi area. A total of 52 respondents were selected which was 10% of the target population. This means 10% of respondents were selected from each stratum using stratified random sampling. The study found that there was inadequate financial record keeping at majority of companies. The results showed that there was a positive significant relationship between financial performance and accounting information systems, capital structure, planning and control, working capital management and Capital budgeting. The limitations of the study was the research was limited to SMEs in Nairobi and therefore did not incorporate views from other regions. Another weakness was that some respondents were reluctant to complete the questionnaires as required.

[8] studied the relationship between financial planning and financial performance of small and medium enterprises in Nairobi city centre. The study targeted 332 SMEs which operated within Nairobi CBD. Data was collected by use of a questionnaire-based survey. The sample size was 99 SMEs which were interviewed from the population using stratified sampling. The study covered a period of 5 years from 2009 to 2013. Data which was mainly quantitative in nature was collected by questionnaire and analyzed using descriptive Statistics while inferential Statistics was analyzed by use of regression analysis and ANOVA. The findings of the study showed that most SMEs embraced financial planning such as periodical budget estimations, financial analysis and activity-based budgeting. The practices had a significant positive effect on the performance of the SMEs. Financial planning was found to ease financial crisis, reduced losses due to human errors, and act as a frame work to guide the activities of the businesses. The study had the following limitations. First, the results are difficult to compare because of the differences in SMEs in terms of type of enterprise e.g. industry, etc. Second, the study was limited to the SMEs surviving at that time, and thus did not consider failed enterprises.

[1] studied how SMEs in western districts of Uganda employed financial management practices. The study investigated the extent to which financial management practices were employed by SMEs in regards to the following dimensions: management of working capital, accounting information systems, investment, financing and financial reporting and analysis. The study administered 335 questionnaires to the respondents and analysis was done. The results of the study showed there was low usage of computers among many SMEs which made decision making process and timely reporting of financial performance hard. The findings also showed financial management practices usage was low among majority of the SMEs in the selected districts. Pecking Order theory (Myers 1984) which claims that management prefers to use internal financing as opposed to external financing was proved in this study in regards to SMEs adopting to use funds generated internally in comparison with borrowed funds. The limitation of this study was that it was conducted in western Uganda only and not the whole region.

[9] investigated the relationship between financing structure and growth of SACCOS' wealth in Machakos county. The study used a descriptive survey approach in getting information of financing structure and growth of SACCOS' wealth. The researcher sought to get data from all active SACCOS in Machakos county in the year 2012. At the time of study, Machakos county had 39 SACCOS of which 33 were operational and because of this the population of study was 33 SACCOS which operated in Machakos county. The findings of the study showed that when internal financing was increased, growth of SACCOS' wealth increased and vice versa. The study also revealed that when external financing was increased Saccos' wealth increased as well. The study revealed a predictable relationship between growth of SACCOS' wealth and external financing. The study had some limitations. First; the study focused on Machakos county alone. Secondly, some respondent's answers were not honest and this created biases.

[20] studied how liquidity management affected the financial performance of deposit taking SACCOS in Nairobi county. The target population of the study was all the deposit taking saccos which had existed for five years or more by December, 2014. Nairobi county had 41 deposit taking SACCOS by December, 2014, but the

study concentrated only on 27 which had existed for a period of five years or more. The findings of the study showed that liquidity, quick ratio, operational efficiency, funding liquidity risks, and size influenced the financial performance of deposit taking SACCOS in Nairobi county. The study established that size of the Sacco had a significant influence on the financial performance of deposit taking SACCOS in Nairobi county as larger Saccos have the ability to spread the fixed costs of offering financial services to big customer base leading to reduced average costs. One of the limitation of this study was that it focused on Nairobi county SACCOS alone. Another limitation of this study was that the officers tasked with custody of SACCO files were initially reluctant to release information.

[5] studied how financial management practices affected performance of dairy industry in Kenya. The researcher took a sample size of 15 milk processors, which was 25% of the total population. The study covered the period 2012-2015. Both financial reporting analysis and working capital management practices were found to have a significant positive impact on the company's financial performance. The study also found that some company's financial statement preparations did not conform to the required international accounting standards in preparation of statements of activities, cash flow statement, etc. so as to arrive at the financial position as a whole. The limitations of the study included personal biases because primary data was collected with the help of structured questionnaire where respondents were asked the extent to which they agreed with financial management practices used by processors.

[11] studied the impact of financial management practices and competitive advantage on loan performance of microfinance institutions (MFIs) in Kampala, Uganda. The survey covered 70 MFIs in Kampala, Uganda and used cross sectional study. In order to reduce the number of factors and also identify key elements which captured financial management practices, the study used principal component analysis. The researchers used principal component analysis to reduce the number of factors and identify the key elements that captured financial management practices, loan performance of SMEs and competitive advantage. Data was analyzed by use of SPSS. The study found that good loan performance of MFIs was associated with prudent financial management skills. The limitation of this study was that despite a lot materials of literature on performance of loans, competitive advantage, and financial management practices, literature regarding their effective conceptualization was scarce. More research needs to be done to improve on the qualitative concepts applied in this study.

## VII. Research Methodology

This study used descriptive research design. Descriptive research design is a scientific study conducted to describe a phenomena or an aspect [14]. In this study, the phenomena was effect of financial management practices of SACCOS and how they affect their financial performance. Descriptive survey was done through collecting data by way of administering questionnaires to a sample of the target population under study. The target population of the study was 204 registered SACCOS in Mombasa county which were active as at the end of 2017. The findings of the study were therefore used to give a general picture of the entire population.

According to [7] a sample size of 30 items is considered to be a representative sample of the population under study. Out of a population of 204 active and registered Saccos in Mombasa county, a sample size of 36 was considered to be representative of the population and provide basis for valid and reliable conclusions. Stratified sampling was used in administering of the questionnaires. The sample size was divided into two strata depending on the category of Sacco namely; transport based and employee/community based Saccos. A representative sample based on proportion of each stratum was taken to make a sample size of 36.

**Table 1: Sample Size**

Section	Population(frequency)	Sample ratio	Sample
Transport based	17	8.3%	3
Employee/Community based	187	91.7%	33
Total	204	100%	36

The research used primary and secondary data. To ensure all respondents had standard set of questions, semi-structured questionnaires were used to collect primary data. Audited financial statements containing report on annual earnings of the SACCOS in Mombasa county were used to collect secondary data. The study covered a period of five years from 2013 to 2017.

The study data was first tested for normality before it estimated the model. The study tested for normality by use of Shapiro Wilks because the population sample was less than 50. The study data was considered to be normally distributed if each of the research variables had a p-value greater than 0.05. Multicollinearity is a condition where more than one of the independent study variables are highly correlated. The study tested presence of multicollinearity among the independent variables in order to ensure that no variables in the model were measuring the same relationship with any of the other variables in the model. Multicollinearity was to exist if the Variance Inflation Factor (VIF) was going to be greater than 10 and a

Tolerance of less than 0.1. Descriptive statistics was used to analyze quantitative and qualitative data in respect of financial management practices and their effect on the Saccos financial performance. Descriptive statistics was used to capture general trends. The financial management practices and financial performance for a period of five years from 2013 to 2017 was analyzed.

The analytical model is shown below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

Y – Financial performance of SACCOS as measured by profit after tax.

X<sub>1</sub>- Cash management

X<sub>2</sub> – Financial planning

X<sub>3</sub> – Financial reporting and analysis

X<sub>4</sub> – Number of Sacco members (size)

β<sub>0</sub>, β<sub>1</sub> – Regression Coefficients

e - Error term

To test the overall strengths of the regression model as well as the significance of each of the independent variables, correlation analysis was used. To find the significance of the relationship between independent and dependent variables, coefficient of variation (R<sup>2</sup>) was used. The impact of each one of the variables on the SACCO's financial performance was determined and results provided.

### VIII. Response rate

A total of 36 questionnaires were distributed to the target population. Out the 36 questionnaires used in the sample, 30 were completed. Editing of completed questionnaires was done to ensure consistency and completeness. The returned questionnaires represented a response rate of 83.3%, which was considered adequate for data analysis in this study.

**Table 2:** Distribution by Class

Section	Frequency	Percent	Cumulative percent
Transport based	3	10%	10
Employee/Community based	27	90%	100
Total	30	100%	

### Reliability Tests

Data reliability is a condition which exists when data collected for analysis is considered complete and free from errors to be used to produce reliable results. In addition of data being reliable, it must also fulfil other conditions or tests for evidence. It also relates to consistency and repeatability of the results. In this case, the reliability of the measurement scales was assessed by computing Cronbach's alpha coefficient. The reliability tests results are presented in Table 3.

**Table 3:** Cronbach's Alpha Reliability test

Questionnaire	Variable	Number of Items	Cronbach's Alpha
Section B	Cash Management	8	0.752
Section C	Financial Planning Techniques	5	0.801
Section D	Financial Reporting and Analysis	15	0.936
Section E	Sacco Performance	5	0.980

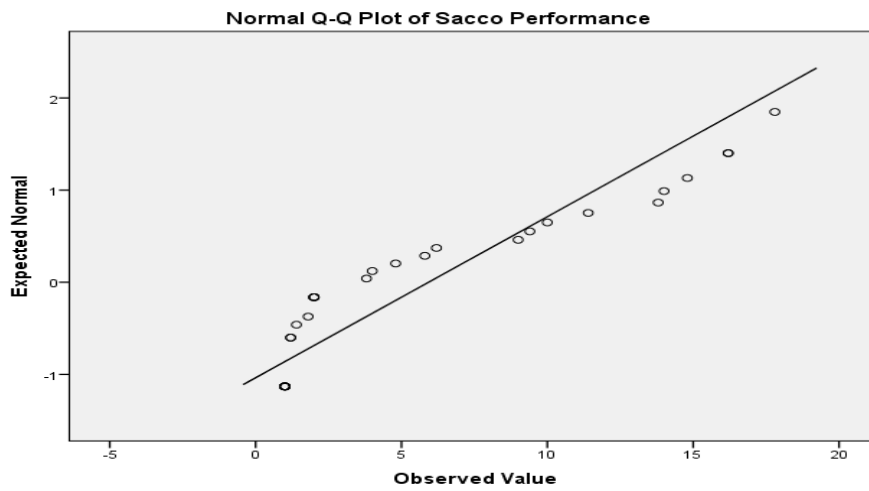
Table 3 shows that the highest reliability was observed in Sacco performance at 0.980, followed by financial reporting and analysis with 0.936. The lowest alpha was observed in cash management at 0.752. Therefore all variables were found reliable.

**Table 4:** Shapiro-Wilk Test Statistic

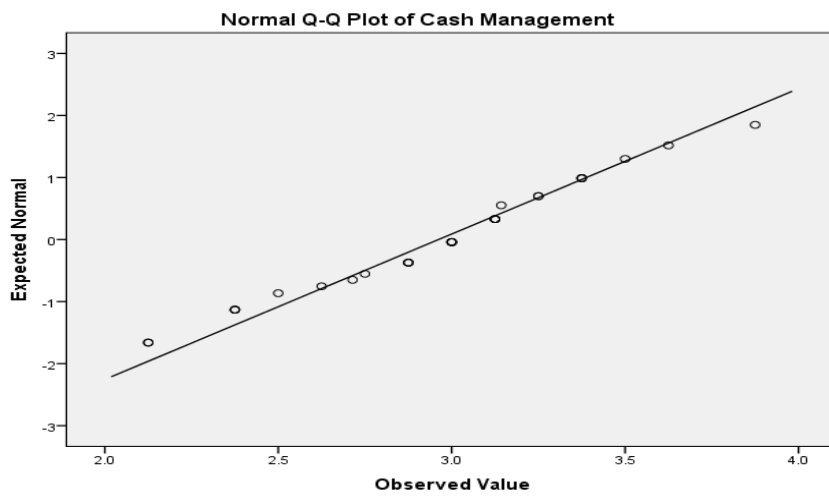
	Statistic	Shapiro-Wilk	
		df	Sig.
Sacco Performance	.807	30	.000
Cash Management	.972	30	.582
Financial Planning	.965	30	.410
Financial Reporting Analysis	.886	30	.004

Review of Table 4 show the p-values for cash management and financial planning were above 0.05 hence were considered normal distributions. However, the p-values for Sacco performance and Financial Reporting and Analysis at 0.000 and 0.004 respectively were found not to be normally distributed. Further investigation was done by use of Q-Q plots as shown below.

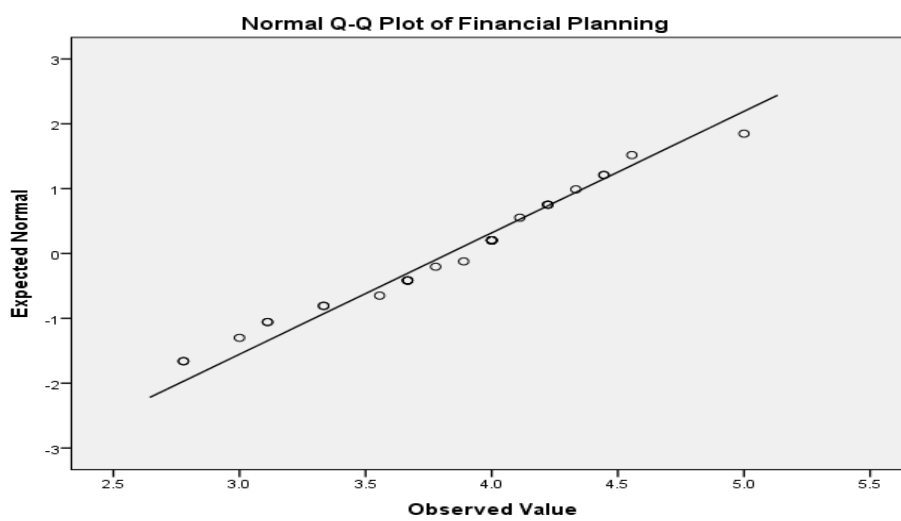
**Figure 1:Q-Q Plot of Sacco Performance**



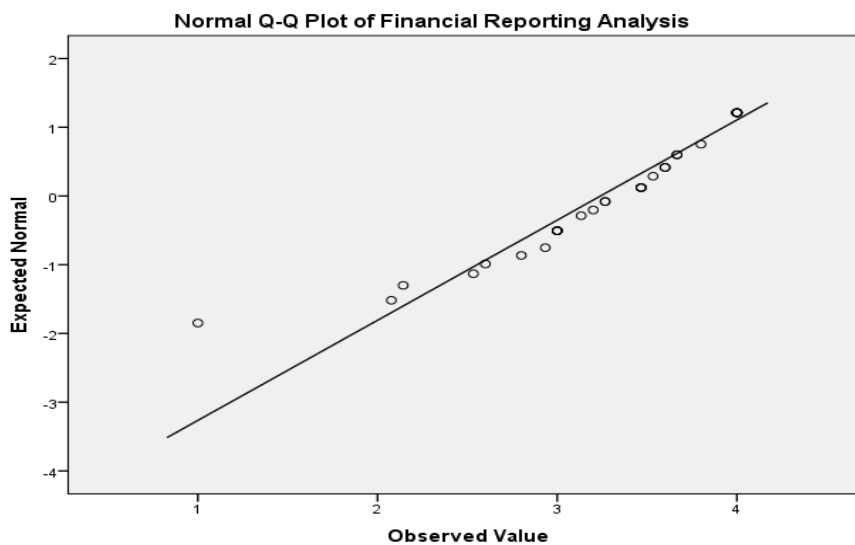
**Figure 2:Q-Q Plot of Cash Management**



**Figure 3: Q-Q Plot of Financial Planning**



**Figure 4: Q-Q Plot of Financial Reporting Analysis**



From the above Q-Q plots for the variables, it's observed that the values were found to merge along the line of best fit implying that they approached normality. Multicollinearity is the condition of two or more of the independent variables being highly correlated. When the degree of correlation among independent variables is very high, there can be problems when someone fits the model and consequently tries to interpret the results. In this case, to test for multicollinearity, the variance inflation factors (VIF) were used to identify correlation between variables and the strength of the correlation. All the independent variables were regressed against each other.

**Table 5: Multicollinearity Statistics**

Model	Collinearity Statistics		
	Tolerance	VIF	
Cash Management	.865	1.156	1.156
Financial Planning	.865	1.156	1.156
Cash Management	.940	1.064	1.064
Financial Reporting Analysis	.962	1.040	1.040

a. Dependent Variable: Sacco Performance

The results of the Table 5 show that no multicollinearity exists, checking on the VIF column, the three independent values are 1.156 between cash management and financial planning, 1.064 between cash management and financial reporting and analysis, and 1.040 between financial planning and financial reporting and analysis. In summary, no multicollinearity was observed from the tests above. This is evident from the table 4.5 since no VIF was above 10.

**Statistical Analysis**

Table 6 shows relationship between Sacco performance (the dependent variable) and four independent variables. It is evident that there exists positive corrections between the variables. The correlations between the independent variables were low positive since the size of correlation coefficients were below 0.5 except for cash management which had a score of 0.637. Cash management contribution to Sacco performance was the highest at 0.637 followed by financial reporting and analysis, financial planning and number of Sacco members respectively.

**Table 6: Pearson Correlation Coefficients**

	1	2	3	4	5
Sacco Performance	1				
Cash Management	.637	1			
Financial Planning	.023	.003	1		
Financial Reporting & Analysis	.299	.445	.098	1	
Number of Sacco Members	.008	.042	.103	.023	1

**Table 7: Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.637 <sup>a</sup>	.406	.332	.28899

a. Predictors: (Constant), Financial Reporting Analysis, Financial Planning, Cash Management

Review of Table 7 show  $R^2 = 0.406$ .  $R^2$  shows how much of the total variation in Sacco performance (the dependent variable) can be explained by cash management, financial planning, and financial reporting and analysis (the independent variables). In this case the independent variables explained 40.6% of the variability in Sacco Performance and 59.4% variation in Sacco Performance being explained by other factors that were not captured by this research.

**Table 8: ANOVA of Independent Variables**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.372	3	.457	5.477	.005 <sup>b</sup>
Residual	2.004	24	.084		
Total	3.377	27			

a. Dependent Variable: Sacco Performance

b. Predictors: (Constant), Financial Report and Analysis, Financial Planning, Cash Management

The regression model was significant at  $F = 5.477$  with  $p\text{-value} = 0.005$  which was smaller than  $p\text{-value} = 0.05$  which was the cut-off point meaning the model is valid.

**Table 9: Coefficients of Independent Variables**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.479	.544		2.718	.012
Cash Management	.479	.134	.627	3.564	.002
Financial Planning	.012	.080	.023	.146	.886
Financial Report and Analysis	.018	.140	.022	.127	.900

a. Dependent Variable: Sacco Performance

The regression model that explains the variation of Sacco Performance as a result of influence by the independent variables (Cash management, Financial Planning and Financial reporting and analysis) can therefore be stated as follows  $Y = 1.479 + 0.479X_1$  since Financial Planning and Financial reporting and analysis are insignificant. Denoting the two do not contribute to performance

**Table 10: Model Summary with Control Variable**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.638 <sup>a</sup>	.407	.304	.29495

Table 10 shows effect of control variable when introduced in the model. Before the introduction of the control variable (Number of Sacco members), the model could explain 40.6 %. From Table 10,  $R^2 = 0.407$  which represents 40.7%. This explains the variation in Sacco performance after the introduction of the control variable which is significant at  $p\text{-value} = 0.014$ . This implies that the Sacco Size has a significant influence on the Sacco performance.

**Table 11: ANOVA of Independent Variables with Control Variable**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1.376	4	.344	3.954	.014 <sup>b</sup>
Residual	2.001	23	.087		
Total	3.377	27			

a. Dependent Variable: Sacco Performance

b. Predictors: (Constant), Sacco Members, Financial Report Analysis, Financial Planning, Cash Management

**Table 12: Coefficients of Independent Variables with Control Variable**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.461	.563		2.596	.016
Cash Management	.480	.137	.628	3.497	.002
Financial Planning	.010	.083	.020	.121	.905
Financial Report & Analysis	.018	.143	.022	.123	.903
Sacco Members	.014	.068	.033	.201	.842

a. Dependent Variable: Sacco Performance



Table 12 shows the coefficients of independent variables and the control variable of the regression model used to predict the Sacco performance. Constant=1.461, shows that if cash management, financial planning, financial reporting and analysis and number of Sacco members were all rated as zero, the Sacco financial performance as measured by profit after tax would be 1.461. From the results of regression equation a variation in cash management will impact a change of 0.480 in Sacco's financial performance. Financial planning impacts a change of 0.010, financial reporting and analysis impacts a change of 0.018 while number of Sacco members impacts a change of 0.014 on Saccos financial performance. Cash management, financial planning, financial reporting and analysis and number of Sacco members had positive coefficients. This implied they had a direct proportional relationship to Saccos' financial performance. This means that an increase or decrease in cash management, financial planning, financial reporting and analysis and number of Sacco members will lead to an increase or decrease in Saccos' financial performance. However, the multiple linear regression equation becomes  $Y = 1.461 + 0.480X_1$  since only the coefficients for the constant and cash management are significant.

### **IX. Discussion of Findings**

Majority of the respondents agreed that their Saccos had specific policies on cash balance levels with a score of 60%. Descriptive analysis on Sacco policies showed cash budgeting as an important practice in most of the Saccos with a mean score of 3.60. Majority of the respondents also agreed that Saccos should set minimum cash balance levels with a mean Score of 3.27. It is also evident that most of the Saccos had a policy on investing in marketable securities with a mean score of 2.57. According to [10] Saccos need to maintain optimum cash balances to make profits and this was related to investment that gave good returns and could be converted to cash easily with a mean of 3.00. The study findings showed that majority of the Saccos recorded their business transactions with a mean score of 4.60 and reviewed their budgeting annually with a score of 53.3%.

Majority of the respondents agreed with the following financial planning decisions, the creation of Financial statements (Mean score = 4.33), periodical estimation of budget (Mean score = 4.13) and also financial analysis practice (Mean score = 4.23). Creation of business proforma in Saccos obtained the lowest mean score of 3.00 implying that majority of the Sacco members are not for this financial planning decision. The overall mean score of business activities undertaking was 3.77. Recording of business transaction had the highest mean score of 4.60 followed by activity of setting profit target periodically with a mean score of 3.67. Comparing cost and selling prices before buying stocks and monitoring stock levels registered the lowest mean score of 3.40. The study findings show majority of the Saccos review budgeting annually (53.3%) whereas 10% of the Saccos review the business technique monthly. it is clear 53.3% of the respondents were for the opinion of monthly review of income statement creation, followed by 30% respondents for annual review. 10% were for quarterly review and the smallest percentage of 3.3 were for biennially. According to [10] SMEs to a great extent recorded their transactions with a mean score of 4.1. This helped them in maintaining their records up to date. The findings of her study also showed budgeting was done annually by majority of the SMEs in Nairobi county at 60%.

Majority of respondents agreed with financial reporting and analysis by registering a mean score of 3.0 and above. Majority of the respondents agreed that the finance manager was involved in preparations of financial statements (Mean score = 3.27), majority of the respondents also agreed that their Saccos prepare income statement, prepare cash flow statement, follow accounting principles, prepare balance sheet, perform financial analysis with mean scores of 3.30, 3.43, 3.63, 3.57 and 3.37 respectively. According to Abanis et al. (2013), majority of the respondents agreed that the finance manager was involved in preparations of financial statements with a mean score of 2.52.

The mean scores of profit after tax for the five years were between 5.37 and 6.93 with standard deviations between 5.744 and 6.059. The 5 years had a high standard deviation which implied that the average after tax profit earned by the Saccos were spread out over a wide range of values. In the year 2013, majority of the Saccos earned after tax profit of below Ksh 250,000 which represented 36.7 percent followed by 20 percent of the Saccos earning between Ksh 250,000 and Ksh 500,000. Only a few Saccos earned after tax profit of between Ksh 50,000,000 and 100, 000,000 which represents 3.3 percent. In 2017, 6.7 percent of the Saccos earned profit after tax of between Ksh 50,000,000 and Ksh 100,000,000 and 3.3 percent of Saccos earning profit after tax of over Ksh 100,000,000.

Regression analysis indicated number of Sacco members contribution to Sacco performance was 0.014. Before the introduction of the control variable (number of Sacco members), independent variables explained 33.2% of the variability in Sacco Performance and 66.8% variation in Sacco Performance being explained by other factors that were not captured by the study. After introduction of control variable (number of Sacco members), adjusted R<sup>2</sup> changed from 33.2% to 30.4%. This implies Sacco size has a significant influence on the Sacco financial performance. According to [9] Sacco size had a positive impact on financial performance

because larger Saccos had the ability to spread fixed costs and ultimately lower average costs for their operations.

### **X. Conclusions of the study**

Saccos play a very critical role in the growth of economy of Mombasa county as well as the entire country. Financial management practices play a crucial role in the performance of Saccos as discovered by the research findings. According to the regression model of this study cash management recorded the highest contribution in financial performance of Saccos with a regression coefficient score of 0.480 followed by financial reporting and analysis with a score of 0.018 and finally financial planning with a score of 0.010. However, findings of this study show number of Sacco members had an effect on Saccos' financial performance as revealed by the regression model with a score of 0.014. When number of Sacco members was introduced in the regression model, the value of  $R^2$  changed from 40.6% to 41% and the adjusted  $R^2$  changed from 33.2% to 30.4%. This explains the variation in Sacco performance after the introduction of the control variable (sacco size). This implies Sacco size has a significant influence on the Sacco financial performance.

### **XI. Recommendations of the study**

Financial management practices in Saccos must be carefully applied across the Sacco sector in order to ensure the full benefits are realized in terms of financial performance. This study came up with the following recommendations: The Sacco regulator should come up with financial policies that will guide the sector on how to maintain minimum cash balance at all times. This should be based on the size and nature of Sacco to ensure no idle cash is kept at the expense of investing in profitable ventures. The regulator should also come up with financial policies that will help the sector on how to apply financial planning practices in their day to day activities. In this study, financial planning practices were found to have big impact in the financial performance of Saccos as was demonstrated by a regression coefficient. The regulator should also ensure all Saccos embrace financial reporting and analysis throughout their operations as per financial reporting standards. Sacco financial books should be audited from time to time to ensure members are not at risk of losing their savings through mismanagement by Sacco officials.

Number of Sacco members was also found to have an effect on profitability of Saccos. Sacco management should come up with ways of registering more members to join their Saccos through vigorous campaign. To attract more members, management can consider issues like proper loan policies, better returns in the form of dividends, and open membership to any adult citizen. The government should also consider offering incentives to those Saccos which have sound financial management policies to motivate them to perform even better. Saccos should also benchmark their financial management practices with those that are doing well and borrow some of the best financial management practices which when implemented will spur their Saccos to greater financial performance.

### **Limitations of the study**

Some finance managers were unhappy when they discovered they had to complete questionnaires regarding their Saccos. This caused some of them to withhold vital information for fear of tax return implications and this had an impact on the study process. Some finance managers were not very conversant with finance policies employed by their Saccos and this affected the quality of their responses and thereafter the research findings. Some Sacco finance managers lacked competent finance knowledge and this affected data quality received from them. Some finance managers never returned the questionnaires and this affected response rate.

### **Suggestions for Further Research**

Scholars and researchers should carry out a study on the effect of financial management practices on Saccos' financial performance across Kenya since this study was restricted to Mombasa county. Researchers and scholars should carry out a study on other factors affecting Saccos' financial performance in Kenya not covered in this study. During data collection exercise quite a number of Saccos were dormant and therefore researchers should also do a study to find out why some Saccos were in dormant/inactive status. Researchers should also carry out a study on the management practices of the best performing Saccos in counties across the country and find out the factors contributing to their success. The findings could be used by poor performing Saccos as a benchmarking tool to improve their financial performance.

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