Research Article

Influence of Management Style on Financial Performance of Saccos in Kisumu County, Kenya

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Abstract

In Kenya Saccos contribute 45% of the country's gross domestic product (GDP), the sector has effectively mobilized deposits and assets totaling kshs 200 billion and 210 billion respectively. However, the successes and rapid growth of Saccos reveals a number of basic flaws in the products they offer. Liquidity problems of many Saccos has led to raising of additional voluntary Savings from members and non-members in Front Office Saving Activities (FOSAs). Further, the Poor financial performance of Saccos has caused Saccos not to achieve their desired objectives of corporations and stakeholders. This research was aimed at assessing the influence of corporate governance practices on financial performance of Saccos in Kisumu County. The specific objectives is to determine the influence of management styles on financial performance. A correlational survey research design was employed, the data was collected by use of interview schedules, Questionnaires and document analysis. The targeted respondents were finance officers, credit officers, administrative officers and shareholders from each Sacco. The target population was 5 Sacco's and sample size was 20 respondents. The data was analyzed using descriptive statistics and presented by use of tables. Reliable coefficient was calculated by use of Cronbach's formula and a value of 0.795 was obtained. Karl Pearson's coefficient of correlation was used to establish the relationships between variables of the study and the correlation coefficient between Management styles and financial performance r = 0.936. The study realized that corporate governance is key in the financial health of Saccos and firms in general. The Research showed that the firms' performance was dependent on management styles.

Keywords: SACCOs; Financial Performance; Management style; Correlational survey.

Introduction

Financial performance of a firm is a function of underlying factors and organization which work cohesively to produce results. These aspects include but limited to board size, powers and functions of the board, board management relationship, transparency and disclosure, board composition, organization values, leadership styles and terms of appointment of directors [1]. leadership is the process of influencing others to understand and agree on what needs to be done and how to do it, and the process of facilitating individual and collective efforts to accomplish shared objectives. The author in [2] defines leadership as a process whereby an individual influences a group of individuals to achieve a common goal. The literatures contend that leadership and corporate governance affect the financial performance of cooperatives.

In [3] they asserted that the cooperatives reform and modernization program admitted that cooperatives in Tanzania have suffered from poor leadership and bad management where leaders associated with lack of accountability to members were deceitful and corrupt [4]. Deceit and corruption are related with poor credit risk management since corrupt staff might issue loans contrary to the SACCOs regulations. Best practice leadership skills and approaches positively influence the financial performance of SACCOs [5]. Economic value added is also an attribute of financial performance whereby shareholders value is evaluated after the total cost of capital is taken into account, (Higgs, 2004).

This may require that managers be hired to make the critical management decisions. The specialization of decision management increases the organization's ability to operate in an entrepreneurial manner by hiring professional expertise. Yet this separation of ownership and decision making leads to principal-agent problems. In order to protect owners from the opportunistic actions of decision makers, a mechanism for management or supervision is needed. Where ownership is dispersed among many, such as in a SACCO, it is costly for all members to frequently monitor the decision makers. Most of the individual owners lack the skills and information required to oversee managerial actions, and find it more efficient to delegate management to protect their interests. Accordingly, owners vote for representatives to serve on the management board [5]. The board delegates decision making functions to internal management. The board retains ultimate control to approve and monitor major policy initiatives and the general direction of the institution. The board also has the power to hire and fire and set the compensation of the manager. Board members are liable for penal sanctions if they fail to uphold their fiduciary responsibility in decision control [6]. Decision rules are defined by the SACCO by-laws, cooperative and banking laws, commercial contract code, accounting norms, prudential regulations, and organizational budgeting systems. All these factors constrain the decision behavior of agents, help shape the monitoring functions, and specify the performance criteria that determine rewards. SACCOs add the supervisory committee as a further element of decision monitoring and member control [7].

In theory, the principal-agent problem is controlled by checks and balances within the process of decision making and decision monitoring. However, in practice, governance problems often occur when the rules of decision making and decision control are not clearly or properly specified or are not adequately enforced. A variety of definitions of firm's performance have been proposed in the literature [8]. Stakeholder views regard firm performance as being the total wealth generated by the firm before distribution to the various stakeholders rather than the accounting profit allocated to the shareholders [9]. There are many ways to measure firm's performance, but all measures should be taken in aggregation. These include return on assets (ROA), return on equity (ROE), earning per share and dividend pay-out. Measuring firm's performance using accounting ratio is common in the corporate governance literature [10]. Many studies have been carried out on corporate governance and firm's performance within and without Kenya, but little has been done on the Sacco sector. In Kenya the studies done in financial service sector have focused on other companies other than the Sacco sector. For instance, [11] did a study on the relationship between corporate governance mechanisms and performance of firms quoted on the NSE, [12] researched on corporate governance and organization performance the case of companies quoted at the NSE while [13] did a study on the relationship between corporate governance practices and performance; the case of banking industries in Kenya.

Lack of sound corporate governance has enabled bribery, acquaintance and corruption to flourish and has suppressed sound and sustainable economic decisions [14]. It is also important to remember that although corporate governance has emerged as a way to manage modern joint stock corporations. It is equally significant in a state owned enterprise, cooperatives and family business. Regardless of the type of venture; only good governance can deliver sustainable good business performance, [15]. Poor governance arrangements set the framework within which the organization systems and processes fail to detect or anticipate serious service and financial failures. The main idea of this study is to examine whether or not the factors (independent variables) taken into consideration at this study would determine the effect of financial performance of Sacco's through corporate governance, the independent variable being management styles. Kisumu County has many SACCOSs in operation in financial services sector, transport and agricultural sectors. The study seeks to find out the influence of corporate governance practice on financial performance of SACCOs in Kisumu County [16].

Different managers use different management styles [17]. Management support, work delegation and organization communication can show a type of management style employed by a manager. A manager who gives support to and delegates work to junior

employees and support good communication is likely to achieve more than one who does not. The diversity of a board is usually seen as its strength. A good board should consist of members with different professions. These members should also be visible in their professions. The board should also contain both genders. The members of the board should also be a mix of members with different experiences. Both the young and the old should be accommodated.

Research methodology

This section presents the research methodology techniques that were used to carry out the research. It contains the research design, target population, data collection, instruments and procedures, reliability and validity of instruments that was used as well as the data processing and presentation method.

Research design

The study used correlational survey research design. The study adopted a survey so as to capture data that will represent the entire Sacco membership of Kisumu County. The study selected five Sacco's which have open membership and form a significant membership of the Sacco's. The study targeted the Sacco's within Kisumu town Central Business District. The study used a questionnaire as a research instrument.

Target population

A target population is that group of SACCOs from which the study is designed and generalizations of the findings are to be made from [6]. The target population of the selected Saccos in Kisumu County are: Maseno University Sacco ltd, Kite Sacco Society ltd, Kiwasco Sacco, Kibuye juakali Sacco and Mek Sacco.

Sample size

A survey was conducted on all the five SACCOs in Kisumu County. A sample size of 20 respondents targeting finance officers, credit officers, administrative officers and shareholders from each Sacco. The study mainly utilized the primary data to be collected by use of self-administered questionnaires to minimize non-response. Secondary data from relevant publications will be used to supplement the primary data.

Sampling procedure

Stratified random sampling was used which involve dividing the population into strata's than taking a simple random sample in each group. A sample was drawn from each subgroup and this will comprise of all the five Sacco's.

Data Collection method

Self-administered questionnaires were used. Primary data was collected using questionnaires administered to the respondents by the researcher and secondary data was obtained from the various records of the Sacco's. Data was collected from the finance officers, credit officers, administrative officers and Shareholders of Sacco's through self-administered questionnaires at the respective places of operations. The research administered interviews to the informants. Data was collected using questionnaires that were administered to the respondents in the study area. The selection of this tool was guided by the nature of data collected and time availability. The questionnaires were distributed to 15 respondents and were collected two weeks for analysis.

Reliability and validity

Reliability of measurement concerns the degree to which a particular measuring procedure gives similar results over a number of repeated trials [3]. Reliability is an extent to which a questionnaire or any measurement procedure produces the same result on repeated trials [15]. A pilot survey was undertaken to obtain the effectiveness of corporate governance practices in Sacco's in Kisumu county using pretest questionnaires. It was found that Cronbach alpha value of 0.795 was obtained from the analysis of the pilot study data obtained. This value falls with the standard acceptable value of at least 0.7 and above which indicated the instrument was likely to yield valid and reliable results during the subsequent research undertakings. The validity for data collection instrument shows the extent at which the content of the questionnaire actually measures the concept. Content validity was adopted in the study where the data collection instruments were scrutinized by experts that are the supervisors to determine any omissions or additions for purposes of improvement beside the results from the pilot study.

Data analysis

After all the raw data obtained from the field was first coded into categories, cleaned for the purposes of identifying any incomplete, inaccurate or unreasonable data for the purpose of improving on quality through correction of detected errors and omissions. Coding of the data thereafter followed and the codes were entered into a computer for the purpose of analysis. Data collected from the field was analyzed using Pearson correlation coefficient and the results were presented in frequency tables and regression models incorporating Pearson Correlation Coefficients. An alpha of 0.05 was used, the alpha was used in the test for hypothesis.

Results and discussion

This section presents the findings, interpretation and discussion of the study. It is sequenced into seven main sections comprising response rate, profile of the Sacco, demographic information of the respondents and influence of management style on financial performance

Response rate

The study targeted 20 respondents with all the 20 responding, indicating 100% response rate (Table 1). This return rate was good enough for the study because [11] stated that a return rate of more than 50% was acceptable in research. The reason for the high response rate from respondents was that the researcher administered the questionnaires in person and collected on the sport

Table 1. Response return rate

	F	%
Targeted sample	20	100
Number that participated	20	100
Number that failed to participate	0	0

Sacco profiles

Table 2 below summarizes the responses obtained from the question that sought year of establishment and current number of employees of the Sacco and level of adoption of corporate governance practice. When categorized by year of establishment, table 2 shows that the oldest Sacco had been in existence since 1972 while the most recent came to being in 2006. It is also evident that 8(40.0%) of the respondents stated the Saccos were established in the 1970s,

another 8(40.0%) wrote in 2000s while 4(20.0%) stated the Sacco was established in 1990. It can be deduced from these findings that whereas the interval of establishment of the saccos between 1970s and 1990s ranged between five years and thirteen years, the interval had reduced from the year 2004 to 2006 which is attributable to fact that many Sacco's were formed between the year 2000 and 2010.

With regard to current number of employees all the 20(100.0%) indicated their respective Sacco had employees' numbers that were below twenty. This is an indicator of lean staffing in the various Sacco's. This finding thus evince a general trend in cost cutting measures adopted by the Sacco's. On the level of adopting corporate governance practice, 20(100.0%) of the respondents stated most high an indicator on how this had been deeply enshrined in the operations and management of the Sacco's.

Table 2. Sacco's profiles

Profile of the Sacco	F	%
Year of establishment		
2006	4	20.0
2004	4	20.0
1990	4	20.0
1977	4	20.0
1972	4	20.0
Current number of employees		
Below 20	20	100.0
Level of Adoption of corporate governance practices		
Most high	20	100.0

Demographic information of the respondents

On the questions that sought job titles, age, gender, level of education, work experiences and terms of employment, table 3and 4 captures their responses.

Table 3 shows that when distributed by job title or membership, 5(20.0%) of the respondents were managers, 4(20.0%) were accountants, 3 (15.0%) were secretaries, 2(10.0%) each were shareholder and admin assistants respectively, 1(5.0%) were FOSA Supervisors, 1(5.0%) were loans officers while another 1(5.0%) were Internal Auditors. When distributed by age, table 4 shows that 8(40.0%) of the respondents were aged between 40-44

years, 4(20.0%) each were aged between 35-39 years and 30-34 years respectively, 2(10.0%) ranged between 45-49 years, 1(5.0%) were aged between 25-29 years while another 1(5.0%) was aged 50-59 years. From these findings, it is evident that most, (85.0%) of the respondents were aged between 25-44 years while 15.0% were aged between 45-59 years.

Table 3. Distribution of respondents by job title/membership

Job title	F	%
Manager	4	20.0
Secretary	3	15.0
Accounts Clerk	2	10.0
Accountant	2	10.0
Shareholder	2	10.0
Admin Assistant	2	10.0
Loans Officer	1	5.0
Loans Clerk	1	5.0
FOSA Supervisor	1	5.0
Internal Auditor	1	5.0
Assistant Manager	1	5.0
Total	20	100.0

Table 4. Distribution of respondents by age

Age bracket	F	%
40-44	8	40.0
35-39	4	20.0
30-34	4	20.0
45-49	2	10.0
25-29	1	5.0
50-59	1	5.0
Total	20	100.0

Table 5 above shows that when categorized by gender 10(50.0%) were male while another 10(50.0%) were female. From these findings it is evident that the sample was evenly distributed between the two genders. The sacco thus seems to have embraced affirmative action in terms of employment.

When the respondents were categorized by their level of education, table 6 shows that 6(30.0%) of the respondents had attained a degree, 4(20.0%) stated diploma, another 3(15.0%) had certificate such as CPA part I, 3(15%) had college qualifications, 2(10.0%) had attained Masters ,1(5.0%) had attained form four and secretarial college qualifications while 1(5.0%) had a certificate.

From table 7 indicates that when the respondents were distributed by work experience, 4(20.0%) stated they had worked for over ten years, 3(15.0%) each had worked for nine and three years respectively, 2(10.0%) each had worked for periods spanning seven years, four years and two years respectively, 1(5.0%) each had worked for eight years, six years and five years respectively while 1(5.0%) did not comment.

Table 5. Distribution of respondents by gender

Gender	F	%
Male	10	50.0
Female	10	50.0
Total	20	100.0

Table 6. Distribution of respondents by level of education

Level of Education	F	%
Degree	6	30.0
Diploma	4	20.0
CPA Part I	3	15.0
College	3	15.0
Masters	2	10.0
Form 4 and Secretarial College	1	5.0
Certificate	1	5.0
Total	20	100.0

Table 7. Distribution of respondents by work experience

Work Experience	F	%
Over ten years	4	20.0
Nine Years	3	15.0
Three years	3	15.0
Seven years	2	10.0
Four years	2	10.0
Two years	2	10.0
Eight years	1	5.0
Six years	1	5.0
Five years	1	5.0
Not stated	1	5.0
Total	20	100.0

Table 8 above shows that when categorized by terms of employment 17(85.0%) stated they were on permanent employment terms, 2(10.0%) were on contract while 1(5.0%) did not comment. From these findings it can be deduced that most of the Sacco employees were on permanent terms.

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Table 8. Distribution of respondents by terms of employment

Terms of Employment	F	%
Permanent	17	85.0
Contract	2	10.0
Not stated	1	5.0
Total	20	100.0

Management styles

Table 9 summarizes the response obtained from the questions that sought to determine the extent of agreement or disagreement with statements on management styles. Table 9 shows that majority 13(65.0%) of the respondents agreed that The average human being prefers being directed, wished to avoid responsibility and had very little ambition, 4(20.0%) disagreed while 3(15.0%) were neutral. With regard to leadership depending on having the right inborn traits and abilities, the findings indicate that majority, 13(60.0%) of the respondents were in agreement this was the case, 6(30.0%) disagreed while 2(10.0%) were neutral.

Table 9. Extent of agreement/disagreement with management style

Statement on Management Style	Extent of Agreement of Disagreement										Total
	A		SA		N		D		SD		
	F	%	F	%	F	%	F	%	F	%	
The average human being prefers being directed, wishes to avoid responsibility and has very little ambition.	10	50.0	3	15.0	3	15.0	4	20.0	-	-	100.0
Leadership depends on having the right inborn traits and abilities.	10	50.0	2	10.0	2	10.0	6	30.0	-	-	100.0
The use of rewards and punishment is the best way to get subordinates do their work.	6	30.0	6	30.0	3	15.0	4	20.0	1	5.0	100.0
In a work situation, if your subordinates can influence you, you lose your influence.	10	50.0	2	10.0	6	30.0	2	10.0	-	-	100.0
A good leader gives detailed and complete instructions to subordinates rather than giving them general directions and depending on their initiative to work out details.	14	70.0	4	20.0	2	10.0	-	-	-	-	100.0
A superior should give subordinates only the information necessary for them to do their immediate tasks.	6	30.0	1	5.0	2	10.0	9	45.0	2	10.0	100.0
A superior's influence over subordinates in an organization is primarily economic.	10	50.0	-	-	7	35.0	3	15.0	-	-	100.0

On the use of rewards and punishment as the best way to get subordinates do their work, the table depicts majority, 12(60.0%) were in agreement, 5(25.0%) disagreed while 3(15.0%) were neutral. The table 9 further indicates that majority, 12(60.0%) of the respondents agreed that in a work situation, if your subordinates can influence you one was likely to lose their influence, 6(30.0%) were neutral while 2(10.0%) disagreed. In relation to a good leader giving detailed and complete instructions to subordinates rather than giving them general directions and depending on their initiative to work out details, the findings indicates that most, 18(90.0%) of the respondents agreed this was the case while 2(10.0%) were neutral.

The table 9 is also indicates that majority, 10 (50.0%) of the respondents were in agreement that a superior's influence over subordinates in an organization is primarily

economic, 7(35.0%) were neutral while 3(15.0%) disagreed. The table 9 however shows that majority, 11(55.0%) of the respondents disagreed with the notion that a superior should give subordinates only the information necessary for them to do their immediate tasks, 7(35.0%) agreed while 2(10.0%) were neutral.

Conclusions

The outcomes from this study also indicated that management styles will positively contribute to the performance of the Sacco, the study thus concludes that management styles positively influences the financial performance of Sacco's. The study found that management style is a factor that affects the financial performance of Sacco's. It therefore recommends that for good management the staff working in the Sacco's should be directed well for better performance in Sacco's. While choosing leaders in the Sacco's, members should choose those leaders with inborn traits and abilities of good leadership. Rewards should also be used to motivate staff to work harder, the staff that perform poorly or do not follow the laid down regulations should be punished. Leaders should also not be influenced by their subordinates because they may lose their influence over them and this may negatively affect the performance of the organization.

Conflicts of interest

Authors declare no conflict of interest.

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