DETERMINANTS OF FINANCIAL DISTRESS AND THEIR INFLUENCE ON PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN MIGORI COUNTY, KENYA

BY

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DECLARATION

I declare that this project is my original work and that it has never been presented to any University for examinations purpose as fulfillment for a ward of degree.

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DEDICATION

I wish to dedicate this research project to my wife Mary Reagan for all her support and secondly to my Son Reinhardt Reagan Duro.

ABSTRACT

Savings and Credit Cooperative Society (SACCO) refers to an autonomous association of persons, united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprises. They are generally useful in stimulating socio-economic benefits for their members. Despite the notable contribution of SACCOs, most of them particularly in Migori County are currently facing financial distress as evidenced by declining turn-over between the year 2012 and 2013 as in the case of Migori Teachers SACCO from Ksh.18,846,647 to Ksh.13,886,618 and Sony Sugar SACCO Ksh. 6,908,420 to Ksh. 4,031,523 by their inability to meet financial obligations of their clients. These obligations are exemplified by client loan disbursements, front office transactions, reimbursement on withdrawal of membership among others. Although the causes of financial distress are overt, there is no empirical study that has revealed their influence on performance of the SACCOs. The main objective of the study was to determine influence of the determinants of financial distress on performance of SACCOs in Migori County of Kenya. Specifically the study sought to assess the extent to which competition, board members' competence, technology and legal framework influence performance of SACCOs in Migori County. The study was guided by descriptive research design, and based on a self-conceptualized framework which showed a priori relationship between determinants of financial distress and performance of an entity. The unit of analysis was 47 SACCOs in Migori County, where a population of 188 staffs were targeted. A total of 128 respondents were selected through stratified random sampling technique. Primary data was collected using questionnaires of both closed and open ended questions. Pilot study of 47 employees was done prior to actual data collection to determine the reliability and validity of the questionnaires. A pre-test of 47 questionnaires was conducted which resulted to reliability coefficient of 0.83. The results were above the threshold of 0.7 indicating that the data collection instrument was valid and reliable. The data were analyzed using descriptive statistics that yielded mean responses on perceived relationships. The findings were presented using tables, figures and narrations. The study revealed that competition, technology and legal framework influenced performance of SACCOs to a great extent depicted by 3.74, 3.53 and 4.04 respectively while board members' competence was to a moderate extent (3.33). It is recommended that SACCOS need to enhance their competition strategies, board members' composition should be based on managerial skills, adoption of modern technology and to abolish sections of legal framework increasing costs of SACCOs' operations. Future research should be conducted on categories of financial distresses and also influence of financial distress on performance of SACCOs based on time series data.

ABBREVIATION AND ACRONYMS

ADM	:	Annual Delegate Meeting
AGM	:	Annual General meeting
AMT	:	African Microfinance Transparency
ATM	:	Automatic Teller Machine
FOSA	:	Front Office Savings Account
GDP	:	Gross Domestic Product
ICA	:	International Cooperative Associations
KUSCCO	:	Kenya Union of Savings and Credit Cooperatives
KWFT	:	Kenya Women Finance Trust
MFIs	:	Micro Finance Institutions
MIFU	:	Micro Finance Institutions of Uganda
MIS	:	Management Information System
MOCD	:	Ministry of Cooperative Development
MSE	:	Micro and Small Enterprises
PM	:	Performance Management
PMP	:	Performance Management Practice
SACCOs	:	Savings and Credit Cooperative Societies Ltd
SPSS	:	Statistical Package for Social Sciences
USA	:	United States of America

DEFINITION OF OPERATIONAL TERMS

Determinants of financial distress: In this study, the determinants of financial distress were Competition political environment, technological environment, board members competence, legal framework and members' demands.

Financial distress: In this study, the term indicates the condition when the promises to creditors or members of a SACCO are not met or honored with difficulty.

Performance: In this study, performance refers to the ability of SACCOs to carry out or accomplish their actions, tasks or functions depicted by liquidity level, institutional capital, delinquency and return on investments or members' savings.

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CHAPTER ONE: INTRODUCTION

This chapter looked at the background of the study and the statement of the problem; it also presented the objectives of the study and the research questions, justification of the study and the scope of the study.

1.1 Background of the study

Savings and credit co-operative societies have a number of principles one of which is the belief in cooperative and mutual self-help for the uplifting of the standards of living (KUSCCO, 2006). Members with common bond join hands to form those quasi-banks institutions. With finances mobilized through such joint efforts the savings and credit co-operative society members build up the capital which they can use through local arrangements to finance their own social as well as economic development. The primary purpose of savings and credit co-operative society is to meet the common needs of members (Savings Plus, 2010).

Co-operatives are perceived to be organization which are mobilized and controlled largely by small producers, workers and other less economically endowed members of the society who own and obtain service and other benefits from them. The statement of co-operative identify from International Cooperative Associations defines a cooperative as “an autonomous association of persons united voluntarily to meet their common economic social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.” The traditional form of co-operatives involved working together on farms, hunting and gathering. All people have basic needs of food, shelter, security and belonging. People would invite neighbors to come and give a hand. Also people did not have money and resources to employ people or machinery to do the work for them (Branch, 2005).

In any community, co-operative usually exists in the form of associations of people who come together as a group driven by their social and economic needs in order to cope with their problems and improve their conditions of living (MOCD, 2006). The associations are either traditional or modern. Traditional form of cooperatives involved working in farms, hunting and gathering. Modern cooperatives are involved mostly in providing financial services to its members. Financial distress can be defined as a situation in which an institution is having an operational, managerial and financial difficulty (Adeyemi, 2011). It is a condition where a firm or an organization cannot meet or has difficulty in paying off its financial obligations to its creditors. The chance of financial distress increases when a firm has high fixed costs, illiquid assets, or revenues that are sensitive to economic downturns. Financial distress is a tight cash situation in which a business, financial institutions, household or individual cannot pay the owed amounts on the due date. The organization faced by the situation may be forced into bankruptcy or forced liquidation share (Natalia, 2007).

During the period of financial distress, the value of any business or organization reduces through the costs it undergoes both direct and indirect costs. Direct costs of insolvency include auditor's fees, legal fees, management commissions, and other payments while indirect costs are those costs related to action of employees, suppliers, investors and shareholders (Pandey, 2005). Financial distress decreases the incentives of the employees to work hard and stimulates them to negotiate their compensation packages or to leave the company. Both declining productivity and replacement of employees are costly the company's value. Although Pandey (2005) argues that legal framework imposes many costs to firms in financial distress contributing to their downfall, the extent to which the legal framework influences performance of such firms is lacking and particularly among SACCOs in Migori County.

Competitors may also pursue an aggressive marketing and price strategy in order to attract customers of the vulnerable company and therefore, squeeze the troubled competitor out of the market. As a consequence, the distressed company suffers losses in sales leading to a loss of the market share (Natalia, 2007). When a firm is under financial distress, the situation frequently sharply reduces its market value, suppliers of goods and services usually insist on cash on delivery terms, and large customer may cancel their orders in anticipation of not getting deliveries on time. An organization under financial distress can incur costs related to the situation, such as more expensive financing, opportunity costs of projects and less productive employees. The organization's cost of borrowing additional capital will usually increase, making it more difficult and expensive to raise the much needed funds.

Financial distress is destructive not only for the financial system of the organization but also it impairs the organizational structure, its relationship to external partners and negatively affects the attitudes of the employees towards their work. The loss of sufficient amount of financial and human resources is dangerous and can cause the organization to liquidate (Natalia, 2007). Thus, financial distress is a huge wastage of funds either directly or indirectly which needs to be detected earlier and possible be eliminated completely.

Over time, SACCOs have been trying to address members' demands by mobilizing funds and granting credit to members. However, they have not been able to grow their wealth sufficiently through accumulation of enough institutional capital to finance non-withdrawable capital funded assets, provide cushion to absorb losses and impairment of members' savings. However, previous studies (Agrawal et al., 2002; Adeyemo & Bamire, 2005; Deji, 2005; Asher, 2007; Ogsi, 2001) have shown that lack of Growth of SACCOs' Capital has threatened their sustainability such that they have not been able to absorb their operational losses. This has led to the losses being absorbed by members' savings and share capital which leads to their impairment.

The impact of co-operative in the world economy is both extensive and impressive. It is estimated that there are 800 million people globally, who are members of the co-operatives and 100 million are employed by co-operatives. In nearly all developed countries, they have been the main contributors to economic growth and poverty alleviation. Europe has 58,000 co-operatives, with a membership of 13.8 million. In the US, there are an estimated 72,000 co-operatives with over 140 million members, including 90 million members of SACCOs (Kobia, 2011).

In Africa context, SACCOs continue to be formed to widen the financial inclusions. Recent researches show that cooperatives in Africa and developing countries are experiencing renaissance. For instance there were 554 registered co-operatives in Uganda in 1995 but recent estimates indicate more than 7500. Savings and credit co-operatives, housing, consumer and cottage industries are fast growing. However, SACCOs in Africa are still crawling as they are newcomers, among those offering savings and credit. In fact they have small share in providing financial services, their market share is insignificant when compared to other players in financial service provision (Mwakajumilo, 2011). There are 28 countries in Africa that have established SACCOs (Savings Plus, 2010).

In Kenyan context, (Ademba 2010) postulates that SACCOs are faced by such problems as; poor governance and, lack of members' confidence, among others, while (Ndung'u 2010), adds that the SACCOs are encompassed by mismanagement and poor investment decisions. Earlier, (Thabo, et al. 2003) note that SACCO societies have problems generating wealth due to poor financial stewardship, under-capitalization of co-operative enterprises, high cost of funds, and delayed member payments. (Munyiri 2006) says that such challenges would hinder the achievement of the said objectives and even lead to decline in growth of SACCOs' wealth.

According to National Micro and Small Enterprises (MSE) baseline survey (1999/2000), Kenya had about 387 savings and credit co-operative societies. Service provided by savings and credit cooperative organizations (SACCOs) and other major financial institutions play a crucial role in improving the reach and access of financial services (currently only 19% of Kenyans have access to formal financial services). It is notable that the financial services contribute about 4 per cent to GDP and its assets contribute equivalent to about 40 per cent of GDP. In the vision 2030, there will be development of vibrant and stable financial system to mobilize savings, and to allocate these resources more efficiently in the economy, where the participation of SACCOs will be very crucial (Government of the Republic of Kenya, 2008). The sustenance of SACCO would widen the financial inclusion 'net' to include the excluded majority (those regarded as poor in the society). As Mudibo (2005), posts, the objective of SACCO Societies is member empowerment through savings mobilization, disbursement of credit and ensuring SACCOs' long-term sustainability through prudent financial practice.

SACCOs face numerous challenges that hinder the exploitation of their full potential. Mudibo (2005) raised concerns on the caliber of leaders who run SACCOs noting that since these are voluntary organization, members can elect anybody they like, who may not necessarily have the skills to run a SACCO. He suggested that before a member is elected he should have certain number of shares so that he has something to lose if he mismanages the SACCO. SACCOs have been trying to address members' demands by mobilizing funds and granting credit to members. However, they have not been able to grow their wealth sufficiently through accumulation of enough institutional capital to finance non-withdrawable capital funded assets, provide cushion to absorb losses and impairment of members' savings.

According to Financial distress theories, inertia of growth of SACCOs' capital is attributable to financial distress (Zetsche, 2007). While the purpose of SACCOs as put by Branch (2005), Munyiri (2006) and Ofei (2005) is to mobilize members' funds and grant credit for the members' development, this stagnation has made it difficult for the SACCOs to grow their mammon, achieve this objective and contribute favorably to National Domestic Savings. Preceding research (Deji, 2005; Asher, 2007; Ogsi, 2001) show that lack of Growth of SACCOs' Capital has threatened their sustainability such that they have not been able to absorb their operational losses. This has led to the losses being absorbed by members' savings and share capital which leads to their impairment. While the purpose of SACCOs as put by (Branch 2005), (Munyiri 2006) and (Ofei 2005) is to mobilize members' funds and grant credit for the members' development, this stagnation has made it difficult for the SACCOs to grow their wealth, achieve this objective and contribute favorably to National Domestic Savings. Competition in the financial sector in Kenya is growing more intense and fierce (Ndung'u, 2010). However, empirical evidence on the influence of competition on performance of the SACCOs is lacking.

In Migori County, there are approximately 47 registered savings and credit co-operative societies and despite the government efforts to register, promote and develop these SACCOs for the purpose of uplifting the standards of living of the residents, little seemed to have been achieved as the SACCOs have not fully met the members' needs to their satisfaction and expectations. They have a long string of pending loan applications; some SACCOs pay little or no dividends /interests on members' savings. Some have low multiplying factor and a number of them have not computerized their services for the purposes of efficiency and accuracy in their delivery of services (Mwaura, 2004).

Most SACCOs in Migori County have multiple problems to their clients of which most of them pay little or no dividends/ interests on members' savings. The SACCOs in Migori County also face a number of challenges in promoting quality financial management such as limited capital funding sources, loan delinquency and management of risks. They are faced by such problems as; poor governance and lack of members' confidence in the staff members that serve them, among others due to their financial distress, SACCOs in the county are also encompassed by mismanagement and poor investment decisions. Such challenges hinder the achievement of the said objectives and even lead to decline in growth and performance of SACCOs in Migori County. The data below is an indication of poor performance and decline in growth of some of the well-known SACCOs in Migori County.

Table 1.1 Growth and Performance of SACCOs in Migori County

Name of SACCO	Year	Members deposits	Dividend Rate	Turnover
MITECO	2011	201,333,081	-	23,982,329
	2012	194,664,091	-	18,846,647
	2013	189,165,849	-	13,886,618
STANCOM	2011	37,631,500	7%	4,121,751
	2012	31,803,500	6.8%	3,065,400
	2013	24,944,500	6.8%	2,891,460
SUNA J/KALI	2011	4,840,200	-	565,961
	2012	4,369,500	-	755,123
	2013	4,008,597		477,459
ROSME	2011	18,557,116	-	3,739,062
	2012	18,311,108	-	2,914,164
	2013	15,334,473	-	2,328,086
SONYGAR	2011	48,352,600	5.2	7,154,068
	2012	47,156,110	-	6,908,420
	2013	39,417,359	-	4,031,523

Source; Migori County Co-orperative Audit Report (2013)

1.2 Statement of the problem

Savings and Credit Cooperative Societies (SACCOs) are useful in stimulating socio-economic benefits for their members. However, a number of the SACCOs are unable to meet the demands of their clients for loans and withdrawal of savings among others. This is evident in Migori County where most of the popular SACCOs continue to register a decline in the members' contributions and low dividend rates. Some studies have alluded to ineffective competition strategies, management incompetency and failure to apply the laid down legal procedures governing operations of the SACCOs as the main causes of the financial problems facing them. Although the causes are documented, there is no empirical study that has revealed the influence of each of the factors on performance of the SACCOs in Migori County.

1.3 Objectives of the study

1.3.1 Main Objective

The main objective of the study was to assess the determinants of financial distress and establish their influence on performance of Savings and Credit Cooperative Societies in Migori County of Kenya.

1.3.2 Specific Objectives

The specific objectives of the study were:

i) To determine the extent to which competition influence performance of SACCOs in Migori County.
ii) To establish the extent to which board members' competence influence the performance of SACCOs in Migori County.
iii) To determine the extent to which technology influence performance of SACCOs in Migori County.
iv) To establish the extent to which legal framework influence performance of SACCOs in Migori County.

1.4 Research questions

This research was guided by the following research questions:

1 To what extent does competition influences performance of SACCOs in Migori County?
2 To what extent does board members' competence influence the performance of SACCOs in Migori County?
3 To what extent does technology influences performance of SACCOs in Migori County?
4 To what extent does legal framework influences performance of SACCOs in Migori County?

1.5 Scope of the study

This study focused on the determinants of financial distress and performance of SACCOs in Migori County. The study focused on Migori County owing to its diversity in the type of SACCOs. The region has SACCOs with large, medium and small membership. The study collected data from all categories of SACCOs for the period between 2013 and 2014.

1.6 Significance of the study

It is anticipated that the findings of this study was important to: The management and directors in regulated SACCOs as it was to provide an insight into the various determinants of financial distress and performance in their various SACCOs, how effectively they would cater for the same and influence financial performance. The management had an essential role to play in ensuring high performance of their organizations even in a highly competitive environment like the one being experienced by SACCOs in Kenya.

The government in the developing policy papers, policy making regarding taxation and other regulatory requirements of SACCOs in the country. The policy maker gained insight how well to incorporate the sector effectively to ensure effective justification of financial distress for the regulated credit unions to achieve high financial gains and SACCOs' performance. The researchers used this study as a basis for discussions on savings and credit cooperatives (SACCOs) business in Kenya and the factors that would influence their performance. The academicians would be furnished with relevant information regarding determinants of financial distress and performance of various SACCOs. The study would contribute to the general body of knowledge and form a basis for further research.

1.7 Conceptual framework

Independent Variables

Determinants of Financial Distress

Competition

- Competition from Banks
- Competition from MFIs

Board members' competence

- Management skills and knowledge
- Awareness of the SACCO laws
- Decision making ability

Technology

- Knowledge on new technology
- Adoption of Up-to-date technology

Legal framework

- Regulations on elections
- Regulations on management
- Regulations on operations

Dependent Variables

Performance of SACCOs'

- Liquidity Level
- Return on Investments

Figure1: Relationship between the determinants of financial distress and performance of SACCOs

Source: Modified from Betker (1997)

Independent variables are determinants of financial distress which are measured by competition, board members' competence, technology and legal framework and these affects the performance of SACCOs which is measured by liquidity level, institutional capital, delinquency and the returns on investment.

The indicators of financial distress include; inability to maintain market share, over-reliance on borrowed funds, inadequate capital base, lack of cash flow forecasting, difficulties on paying creditors and continual capital/ loans injection.

CHAPTER TWO: LITERATURE REVIEW

This chapter presents theories related to financial distress and performance relationship. The theories anchoring this study included; Resource based view theory, cash management theory and public interest theory.

2.1 Theoretical Review

2.1.1 Resource- Based View Theory

The resource-based view stipulates that in strategic management the fundamental sources and drivers to firms' competitive advantage and superior performance are mainly associated with the attributes of their resources and capabilities which are valuable and costly- to- copy (Peteraf & Bergen, 2003). Firm resources include all assets, capabilities, organization processes, firm attributes, information, knowledge, etc., controlled by a firm that enable the firm to conceive and implement strategies that improve its efficiency and effectiveness.

Resource- Based View theory will be adopted by this study based on its relevance on strategic management in financial distress period. The theory will see resources as key drivers to performance of any organization including SACCOs. In this study, resources including technology and board members competence are key resources to performance of SACCOs. According to this theory, failure to have up to date technology and competent management, firms might remain in financial distress and continue to experience financial distress and poor performance. The theory further shows the need of competing with other competitors by use of available resources. Hence, resource- based view theory seems to support the idea that technology and board members competence have effect on the performance of SACCOs.

2.1.2 Cash Management Theory

Cash management theory is concerned with the managing of cash flows into out of the firm; cash flows within the firm and cash balances held by the firm at a point of time by financing the deficit or investment surplus cash. Proper management of cash balances is a major concern of every firm. This is so because it is difficult to predict cash flows accurately, particularly the inflows, and there is no perfect coincidence between cash outflows and inflows (Aziz & Dar, 2006). According to the Cash management theory, an imbalance in cash flow cannot be evaded by firms. An imbalance between cash inflows and outflows would mean failure of cash management function of the firm. Persistence of such an imbalances may cause financial distress to the firm and, hence, business failure (Aziz & Dar, 2006).

This theory was adopted by this study as it emphasizes on the role of management in controlling cash flows both inflows and outflows. SACCOs intensively deal with cash management and hence poor management of cash flows may result to prolonged financial distress and poor performance. The relevance of the cash management theory to this study suggested that competent board members can positively contribute towards better management of cash in financial institutions such as SACCOs.

2.1.3 Public Interest Theory

Public interest theory suggest that government regulations is a response to public demands for government rectify situations of market failure through imperfect competition, market disequilibria, information asymmetry or markets that are undesirable for social reasons (Hertog, 2007). This theory assumes that; the market outcome represents a "failure" of some sort, and the market is not capable of fixing the problem itself, the government is capable of fixing the failure so that the optimal efficient outcome will be achieved, and that the benefits of doing so will outweigh the additional costs created by the intervention.

This theory was adopted due to its efforts to justify the existence of legal framework to govern SACCOs. Hahn (2006) notes that financial regulations happen in response to market failure, with regulations correcting the efficiency while Dale (1997) argues that the theoretical underpinning for public intervention in economic matters is a traditionally based on the need to correct market imperfections and unfair distributions of resources. From this theory it was argued that legal framework has a consequence on the performance of SACCOs.

2.2 Empirical Review

2.2.1 Competition

According to (Andualem2011), firms market characteristics such as market concentration and competitors' financial conditions determine to what extent financial distress affects performance. Same sentiments are raised by (Opler and Titman 2004) in their study on financial distress and corporate performance. Their findings indicate that highly levered firms lose substantial market share to their more conservatively financial competitors in industry downturns. According to these authors, firms in the top leverage decile which experience output contractions see their sales decline by 26 percent more than do firms in the bottom leverage decile. A similar decline takes place in the market value of equity. These findings are consistent with the view that the indirect costs of financial distress are significant and positive. (Opler and Titman2004) further attribute the lower performance of troubled firms to the aggressiveness of competitors and the costs of financial distress.

Andualem (2011) while stressing on effect of competition on firms performance, argues that in competitive markets, firms need to generate positive profits in order to survive and that firm profitability is linked to financial distress. Andualem (2011) further argues that the performance decline is exogenous and driven by customers, competitors, and the management. According to (Hambrick and Schecter 1983), firms compete in the marketplace by means of actions that aim at maximizing firm performance; they further argue that global competition and other nettlesome factors will cause more and more businesses to face occasional hard times. The average expected return on a direct distressed investment varies and depends on the degree of competition, the number of opportunities, and the general development of the market. Competitors also may pursue an aggressive marketing and price strategy in order to attract customers of the vulnerable company and, therefore, squeeze the troubled competitor out of the market. As a consequence, the distressed company suffers losses in sales leading to a loss of the market share (Natalia, 2007).

Ferrier, et. al. (2002) investigated the effect of financial distress on competitive aggressiveness as measured by the number and nature of firms' competitive actions. Ferrier, et. al.(2002) thereby finds evidence that the effect of distress on competitive behavior is moderated by industry characteristics and the educational and functional heterogeneity of top management teams. The Authors further note that most of the previous researches make the explicit or implicit assumption that financially distressed firms sell at lower prices than their healthier competitors. (Busse 2002) supports this contention though it lacks consistent theoretical and empirical support. Ferrier et al. (2002) relate past financial distress to competitive aggressiveness they argue that that poor-performing firms are less likely to exhibit aggressive competitive behavior when looking at the direct relationship between performance distress and competitive aggressiveness.

A review of the work of (Munyiri 2006) indicates that SACCOs face considerable competition from banks and MFIs. The primary competition is from banks reason being banks also seen by clients to be more transparent, and having better governance, operational systems and strategic directions and are able to make quick operational decisions to adapt to market changes. Through change in their policies, banks have attracted more clients as a result of providing loans quicker, with less paperwork, less charges and less collateral requirements (Mwaura, 2004).

While the SACCOs have focused mainly on the male heads of households, competitors such as Equity Bank targets both men and women (Ofei, 2005). SACCO's competitive situation in Kenya is also complex because they are both competitors and clients to the banks. SACCOs partner with the many banks to use their financial products and services, but compete for the same clients. In general, SACCOs have been slow in increasing their competitiveness by correcting operational and governance issues, developing new products and services, and pricing them competitively (KUSCCO, 2009).

Dawley et al. (2003) argues that because of slack resources, larger companies have a greater probability of surviving financial distress and they should have shorter recovery times from than smaller companies. This suggests that large firms have resource advantage such as updated technology which can be utilized toward enhancing performance in times of financial distress. (Francis and Desai2005) supported this argument that the availability of up to date technology can determine the ability of companies to turnaround. According to (Hambrick and Schecter 1983), technological turbulence causes more and more businesses to face occasional hard times.

Lack of good computerized systems is a major constraint in efficient operations (Asher, 2007). In its absence, it is very difficult to track loan-delinquencies, aging and provisioning and loan write offs, and ensure that accountants and financial managers apply business rules consistently. Availability of technology can allow staff and managers to generate the necessary types of reports for proper loan monitoring and recovery management (Volpe et al., 2002). (Bibeault 1983) while surveying of 81 companies revealed that 15% companies experience declining performance as a result of technological change. The overall survey states that 80% of all cases of financial distress happen because of the management factor, namely managerial incompetence. However, empirical evidence on the effect of competition on performance of the SACCOs is lacking.

2.2.2 Board members' competence

(Liew, Jayaraman, Shankar and Ally2011) on reviewed the performance of Malaysian companies after suffering from a financial distress condition. The findings suggest that to be able to show positive results after emergence, companies must improve their performance compared to previous financial results which led to downturn. The results show that management change, successful company reorganization and management change affect performance of distressed firms positively. These findings suggest that board members competence is key to improving performance of firms in financial distress. Management inadequacy is also reported by (Altman 1983) as the main source of financial distress.

(Ooghe and Prijcker 2008) point out the causes of firm's failures or bankruptcy to be the characteristics of management which they site as inappropriate management qualities and skills, and corporate policy and poor strategies. (Scherrer 2003) noted that often management does not recognize the internal signals of failure and blame external changes for their business's decline. (Hotchkiss 1995) examined the relationship between management changes and post-bankruptcy performance. Her results show that retaining pre-bankruptcy management is strongly related to worse post-bankruptcy performance.

According to (Francis and Desai 2005), the impact of management change towards the improvement of company performance is significant. When there are management changes in the company which was suffering from a distress condition, the performance will improve. This is because new management team will bring in new ideas and strategies to improve the company and ultimately improve performance. Poor management and negligence can lead to poor performance. Liew, Jayaraman, Shankar and Ally (2011) argues that Businesses due to management not recognizing their failings and not seeking help, followed by insufficient relevant business experience, not delegating properly and hiring the wrong people are additional major contributing factors to business failure.

According to Noebere, (2000) and Mwaura (2005), all studies of business failure points to poor management as the main cause of poor performance. The success of a firm is measured by its profitability which depends on the efficiency of its management hence need to embrace good corporate governance and the by-laws to provide for minimum qualification standards for both the board members and delegates for efficient and sound management (KUSCCO, 2003). (Sambu 2005) and (Mudibo 2005) raised concern on the caliber of leaders who run SACCOs. Since they are voluntary organizations, members can elect anybody they like, who may not necessarily have the skills to run a SACCO. To address this, he further pointed out that SACCO members are required through their by-laws to provide for minimum qualifications for their managers.

Decision-makers are obliged to search for opportunities that will best support the strategy (Seitz & Ellison, 1999). Therefore, it the strategy decided upon directly influences and assists the company where to search for investment ideas. In addition, (Butter et al, 1993) and Seitz and (Ellison 1999) argue that top management must cultivate a culture which will encourage managers to search for and identify investment ideas. After studying eight large international enterprises, (Maccarrone 1996) found that control, performance measurement and reward systems influence the decisions taken by managers. (Butler et. al. 1993) warns against decision-makers and their political self-motivations. These could influence investment ideas taken by decision-makers.

Pandey (2005) argues that the managers generally have a tendency to expropriate the firm's resources in the form of perquisites and avoid risk. He notes that When a firm is under distress, they may have higher temptation to pocket firm's resources or start making decisions keeping in mind short–term rather than long–term interests of the company. They may cut costs that affect the quality of the products and sell productive assets to improve the short – term liquidity of the company. They may pass up profitable investment opportunities to avoid any sort of risk. Pandey (2005) affirms that these sub – optimal decisions will further deepen the problem of a distressed firm, and ultimately cause its liquidation.

Where other companies have undertaken management succession planning for key roles and identified high potential s in their company's employee's, usually firms in financial distress do not prepare at all for top management succession (Galloway & Jones, 2006). This could lead to recruiting unbalanced management team which lack essential skills to steer the company ahead. Any wrong investment decision made may plunge the company to financial distress since some of the decision s involve huge cash outlay and irreversible.

According to (Branch and Baker 1998), where SACCO ownership is diffused among a large number of members, governance problems may take a form opposite to that of excessive operational interference by the management board. With such ownership spread over a large group, only a few members may actually carry out the responsibilities of monitoring the performance of the SACCO by attending the annual general meeting or by monitoring their elected representatives to the management board. Members may fail to closely examine the prudential actions of the board because the influence of any one member on the operations of a SACCO that serves so many may be very limited (Lumby & Jones, 2001). Therefore, potential forms of the appearance of bad management are the absence of a sense of a need for change, inadequate communication, over-expansion, unintentionally improper handling of projects, or fraud. Despite of all these arguments, there is lack of clear evidence on how board members' competence influences performance of organizations especially SACCOs in Migori County.

2.2.3 Technology

(Dawley et al. 2003) argues that because of slack resources, larger companies have a greater probability of surviving financial distress and they should have shorter recovery times from than smaller companies. This suggests that large firms have resource advantage such as updated technology which can be utilized toward enhancing performance in times of financial distress. Francis and Desai (2005) supported this argument that the availability of up to date technology can determine the ability of companies to turnaround. According to (Hambrick and Schecter 1983), technological turbulence causes more and more businesses to face occasional hard times.

Lack of good computerized systems is a major constraint in efficient operations (Asher, 2007). In its absence, it is very difficult to track loan-delinquencies, aging and provisioning and loan write offs, and ensure that accountants and financial managers apply business rules consistently. Availability of technology can allow staff and managers to generate the necessary types of reports for proper loan monitoring and recovery management (Volpe et al., 2002). (Bibeault 1983) while surveying of 81 companies revealed that 15% companies experience declining performance as a result of technological change. However, the overall survey states that 80% of all cases of financial distress happen because of the management factor, namely managerial incompetence.

Many SACCOs have invested large amounts of money to upgrade their technology capabilities although the investments have not in general been very successful. According to (inscope2009), lending technology, risk management, and MIS are not well developed in most SACCOs. This is a significant challenge for the sector, given that large SACCOs have several thousand clients and a wide variety of products. Most SACCOs have manual or simple spreadsheet-based accounting and MIS systems. Even in the SACCOs which have computerized systems, these are not integrated between front and back office. A key factor constraining the adoption of computerized systems is the limited capacity of SACCO boards and managements (KUSCCO, 2009).

2.2.4 Legal Framework

Also relate certain managerial decisions to the way in which firms react to a situation of financial distress. Previous literature emphasizes the investment and employment policies as the most important mechanisms to deal with a crisis (Khurana & Lippincott, 2000). Khurana and Lippincott further notes that the employment and investment policies limit firms' responses to financial distress, which can have a dynamic impact on the current performance of the firm.

Betker (1997) analyzed the effect of costs imposed by the legal framework. From his analysis, he argues that financial distress plays a significant role in a firm's operation and profitability through the influence of cost implications, such as administrative and legal costs associated with the bankruptcy process (i.e., direct financial distress costs) or increased costs of debt. Karels and Prakash (1987) on the other hand indicate that inefficiencies in regulatory development are key determinants of financial distress and this result to poor performance of firms. Although Pandey (2005) argues that legal framework imposes many costs to firms in financial distress contributing to their downfall, the extent to which the legal framework influences performance of such firms is lacking and particularly among SACCOs in Migori County.

Studies conducted on the effectiveness and management of SACCOs has also shown that corruption reduced their efficiency and effectiveness. The avenues of corruption included manipulation of the regulation process by the senior cartels (for example in SACCO committee selection and exclusion of majority); election of SACCOs offices bearers, gender bias; tribalism and nepotism in the election of officials; lack of transparency in allocation and use of disbursed funds; funding of non-priority projects; lack of serious monitoring and evaluation, bribery to secure contracts, location of SACCOs offices at the politicians houses or rented premises at exorbitant and unrealistic monthly rates (Fredrick, 2013).

2.2.5 Performance of SACCOs

Kaplan, and Norton, (1992) suggested a performance measurement system which enables managers to examine the accomplishment of the business from four different perspectives: financial perspective; customers' perspective; internal business perspective; and innovating and learning perspective. They further argued that Performance Management establishes goals but assumes that people will adopt whatever behaviors and take whatever actions are necessary to arrive at those goals.

According to Yaron (1992), growth of the microfinance institutions involves: A permanent increase in the size, scale, and complexity in activities and various results being achieved by MFIs overtime. This includes increases in number of clients, outstanding loan portfolio and turnover, size of savings, etc. The other most important meaning of growth is the one signifying changes in character of institutions itself. This would mean the transformation of the institution (graduation of the organizations and to become regulated financial organization, improving and upgrading the capacity of the institution and obtaining high level of sustainability.

Growth in SACCOs and the microfinance industry is desirable to reduce poverty and attain operational and financial sustainability. Although growth or outreach has risk, unless planned and managed very well, it has also positive implications for SACCOs and financial institutions. First, growth enables the microfinance institutions to reach large number of clients. Hence, it is the key to make sound impact on reducing poverty. Second, growth reduces average operating cost for the MFIs. It reduces or eliminates losses, not by increasing lending interest rates, but by reducing operating costs. Third, growth improves operational and financial sustainability of MFIs. Fourth, it helps institutions to satisfy their client's need through various services. Fifth, it gives better image of the institutions to attract loadable fund form banks for further expansion and increases the borrower's willingness to repay.

Branch & Baker (1998) noted that the basis for a self-sufficient or balanced financial intermediary comes as a result of the simultaneous presence of savers and the borrowers of funds. However, the conflicts of interest are inherent in this balance as borrowers want 22 low loan rates, low transaction costs and lax discipline while savers demand high deposit rates and strong prudential disciplines because savers have strong incentives to see the institutional viability strengthened by profitability yet the borrowers' short-term incentives favor conditions – lax discipline, low loan rates, easy access to loans – which adversely affect the financial stability of the credit union.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter covered the methods the researcher used to collect and analyze the data for the study. It also covered the research design, description of the study area, population and sample size, reliability and validity of the data collection instrument.

3.1 Research Design

The study employed correlation research design. Correlational studies generally use correlation statistical test to describe and measure the degree of association (or relationship) between two or more variables or sets of scores (Creswell, 2002). The current study used the research design to advance the understanding of bivariate association between the study variables and to examine the relationship between the determinants of financial distress and the performance of the SACCOs.

3.2 Study Area

The study was conducted in Migori County, Kenya. The county has 8 constituencies namely Rongo, Awendo, Uriri, Suna East, Suna West, Nyatike, Kuria East and Kuria West. It measures 16,162 km² with a population of 4,392,196 (1999- Census) geographically placed at coordinates 1º4´0´´ South 34º 28´0´´ East. It boarders Homa-Bay County to the North, Lake Victoria to the West, Narok County to the East while to the South of it lies Tanzania. It comprises of 47 SACCOs.

3.3 Target Population

According to Cooper and Schindler (2000), target population was the total collection of elements about which we wished to make inferences. The target population of this study was 188 SACCOs' employees in Migori County, Kenya.

3.4 Sample and Sampling Procedure

According to Cooper and Schindler (2000), a sample is a subgroup of the target population chosen in a way to ensure representation of the entire population. It is part of the target (or accessible) population which has been procedurally selected to represent it. The research adopted Yamane (1967) formula to obtain the appropriate sample size for the study. The choice of the formula was justified for application due to its convenience for usage in case of both small and large population as it gave a representative sample.

The Yamane (1967) formula is given by: $n = \dfrac{N}{1+e^2 N}$ ……………………………………………(i)

Where n – Desired sample size

N - The total population

e – Error term = 0.05

The sample size will be:

$$n = \frac{188}{1 + 0.05^2(188)} = 128 \quad \text{............} \quad \text{(ii)}$$

The sample size in respective strata was given by the following formula:

$$n = (\frac{K}{N})S \quad \text{............} \quad \text{(iii)}$$

Where n – Sample size

K – Total population in strata

N - The total population

S – Desired population size

Table 3.1 Population and Sample Size:

	No. of Respondents (n)	Sample (n)
Senior Staff	47	32
Middle Staff	141	96
Total	**188**	**128**

Source: Preliminary Survey (2015)

The research adopted stratified random sampling method among 188 employees whereby 47 of them were senior staff while the remaining 141 were middle staff.

3.5 Data Collection

3.5.1 Data Sources

The researcher used questionnaires with both open and closed questions to collect primary data. There were both primary and secondary data. Primary data was administered though questionnaires. This study further reviewed available secondary information related to the topic from among other sources such as books, journals, from university libraries, internet, and relevant ministries and agencies reports. The questionnaires were administered by dropping and picking method to the SACCOs senior and middle staffs. However, for those respondents who were unable to complete their questionnaires immediately, the researcher left the questionnaires with them and picked them later. This was aimed at giving the respondents adequate time for filling the questionnaires.

3.5.2 Collection Procedure

Data was collected through the use of questionnaires. Questionnaires were administered to the sample SACCO's employees who remitted their savings or dividends. It was the intention of the research to succeed in administering the research at neutral state. The researcher assured confidentiality for the respondents on the exercise and the immunity of the subject who could read and write on their own and showed interests in filing in the questionnaires on their own. Questionnaires were developed for those favoring financial distress on performance of SACCOs of their interest.

3.5.3 Data Instruments

One type of questionnaire was used to collect data from the respondents. There were self-administered questionnaires as research tools to collect data from the respondents. This approach was considered to be the most appropriate for this research because enabled the researcher to collect as more data as possible (Fisher, 2004). In addition to questionnaires, document analysis was used to collect secondary data from some documents which were available from the SACCOs.

The questionnaire consisted of both structured and non-structured questions. The structured questions were on a five-point Likert scale for easy analysis.

3.5.4 Reliability Tests

According to Ngechu (2004) reliability refers to the consistency of measurement and is frequently assessed using the test–retest reliability method. Reliability was increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. In order to test the reliability of the questionnaire to be used in the study, the internal consistency technique was employed, using the Cronbachs Alpha. The score of Cronbach's Alpha was used to confirm the reliability of the instrument. A commonly accepted rule of thumb was that an α of 0.6-0.7 indicated acceptable reliability and 0.8 or higher indicated good reliability (Cronbach, Lee & Richard, 2004). Thus, the reliability of questionnaire was confirmed by the result generated from Cronbach alpha test. The researcher picked 10 employees from the

SACCOs to test how reliable the questionnaires were. The questionnaires were subjected to overall reliability analysis by comparing with Cronbach alpha of 0.70 whereby coefficients of 0.70 or more implied high reliability.

Table 3.1: Reliability Analysis

Scale	Cronbach's Alpha	Number of Items
Competition,	0.722	6
Board Members' Competence	0.817	9
Technology	0.782	7
Legal Framework	0.751	7

Source: Researcher (2015)

The study tested the reliability of the questionnaires prior to the actual data collection. This was done through a pilot study. Reliability analysis was subsequently done using Cronbach's Alpha which measured the internal consistency by establishing if certain item within a scale measures the same construct. Gliem and Gliem (2003) established the Alpha value threshold at 0.7, thus forming the study's benchmark. Cronbach Alpha was established for every objective which formed a scale. The Table 4.1 shows that board members' competence had the highest reliability (α=0.817), followed by technology (α=0.782) then legal framework (α=0.751) and finally competition (α=0.722). This illustrates that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.7. Table 4.1 presents the reliability analysis

3.5.5 Validity Tests

Pilot study was carried out among 47 staffs prior to actual data collection so as to determine the reliability and the validity of the research instruments. As noted by Harper (1998), questions contained in a questionnaire must be, relevant, valid and reliable in order to gather useful information. According to Berg and Gall (1989) validity is the degree by which the sample of test items represents the content the test is designed to measure. In this study, validity was assessed through content and construct validity. Content validity is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Further, to establish the validity of the research instrument the researcher sought opinions of experts in the field of study especially the supervisor and other lecturers.

3.6 Data Analysis and Presentation

The data were analyzed using descriptive statistics (mean and standard deviation). Statistical Package for Social Sciences (SPSS) version 21 was used in enhancing the handling of the data. The findings were presented using tables, pie charts and narration.

CHAPTER FOUR: RESULTS AND DISCUSSIONS

This chapter presents the results and discussions on the determinants of financial distress and their influence on performance of SACCOs in Migori County, Kenya. The study aimed at establishing the extent to which competition influences performance of SACCOs in Migori County as well as technology, board members' competence and legal framework. Quantitative data was analyzed using descriptive Statistical Package for Social Sciences (SPSS) for windows software.

4.1 Response rate

The targeted respondents in this study were 128 out of which 109 respondents filled in and returned the questionnaires giving a response rate of 85.2%. This response rate is excellent as based on the assertion by Mugenda and Mugenda (2003) assertion that response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

Figure 4.1 Response rate.

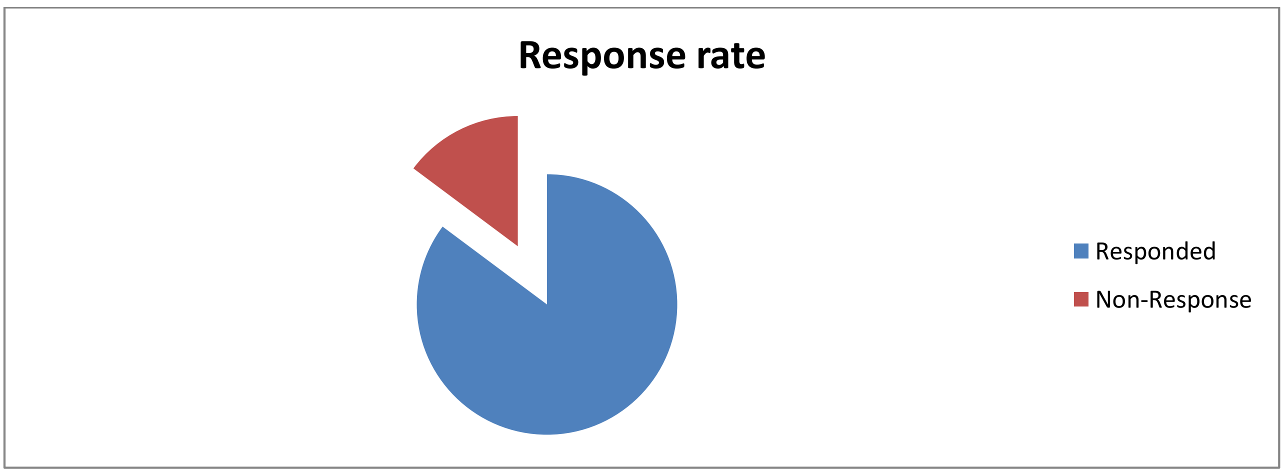


Figure 4.1: Response Rate

Source: **Field data (2015)**

4.2 General Information

The study sought to establish the demographic information of the respondents so as to establish how conversant they were with the subject under study. The information inquired from the respondents was their gender, position held at the SACCO and the years of membership.

4.2.1 Gender Distribution

The inquiry on the gender of the respondents valuable to the study as it aimed at ensuring that both genders were fairly represented. The findings are presented in the Figure 4.2 below.

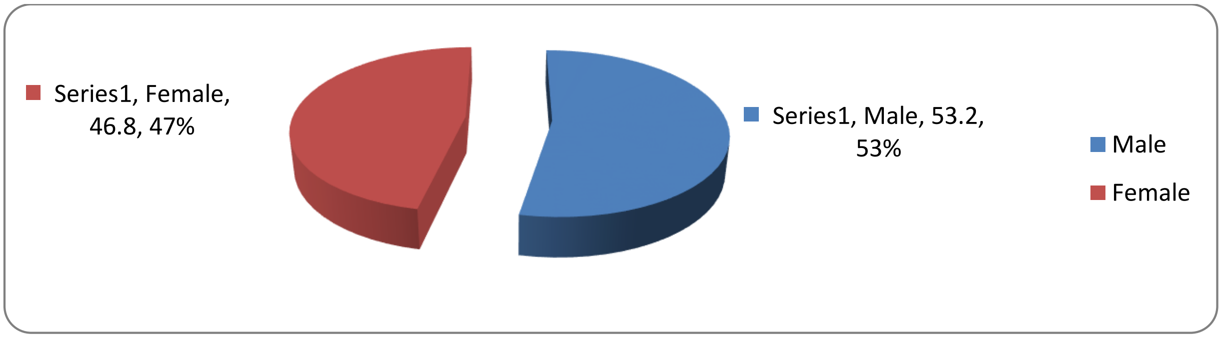


Figure 4.2: Gender Distribution

Source: **Field data (2015)**

According to the study findings, majority of the respondent as shown by 53.2% were male whereas 46.8% of the respondents were female. This is an indication that both male and female were involved in this study and thus the study did not suffer from gender bias, thus representative information was obtained.

4.2.2 Position Held

The study inquired on the position held by the respondents. The findings are presented in Figure 4.3 below.

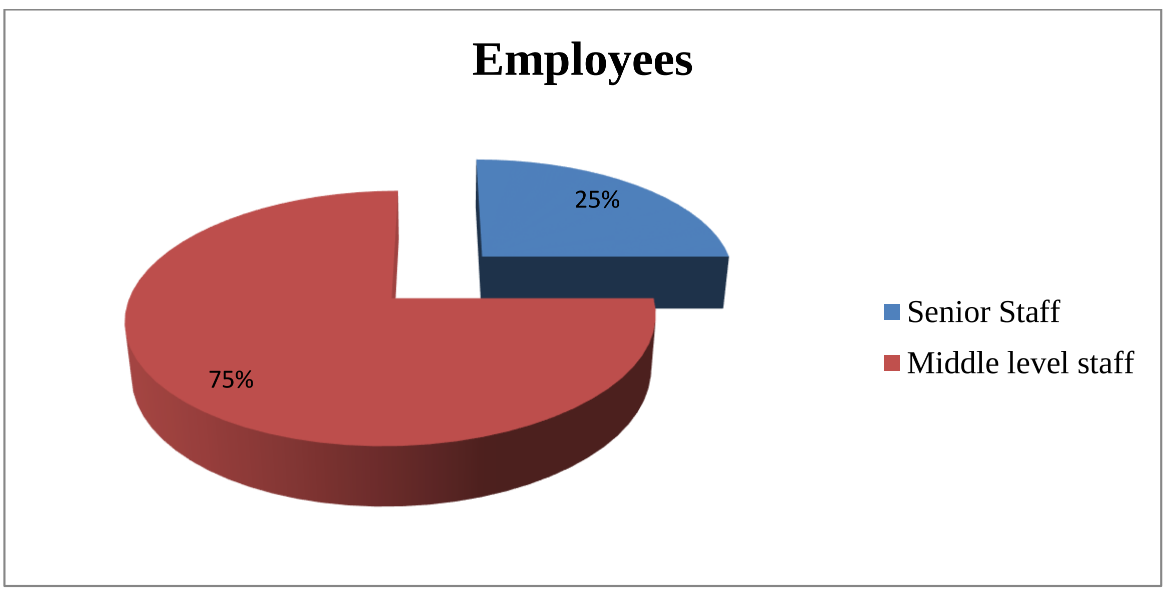


Figure 4.3: Position Held

Source: Field data (2015)

From the study findings, members were the majority respondents as shown by 42.2% whereas middle level management and senior level management were 33.0% and 24.8% respectively. This is an indication that various positions of management were represented hence enhancing the reliability and credibility of the information obtained.

4.2.3 Years of Experience

The study requested respondents to indicate the number of years they had been employee of their SACCOs. The findings are presented in Table 4.1 below.

Table 4.1: Years of employment

	Frequency	Percent
Less than 3 years	9	8.3
3 -5 years	12	11.0
6 -7 years	20	18.3
8 – 10 years	27	24.8
Above 10 years	41	37.6

Source: Field data (2015)

From the findings, majority of the respondents had been employees of their SACCOs for a period of 3 years and above, accounting for 91.7%% of all the respondents. Those who had been employees for less than three years were 8.3%. This is an indication that the respondents had been employees of their SACCOs for a period long enough to have adequate knowledge on financial distress- SACCOs performance relationship which could be relied upon by this study.

4.3 Influence of Determinants of Financial Distress on the Performance of SACCOs

4.3.1 Competition

The first objective of the study was to determine the extent to which competition influences performance of SACCOs in Migori County. The researcher inquired from the respondents on the extent of this influence. Figure 4.4 below presents the findings.

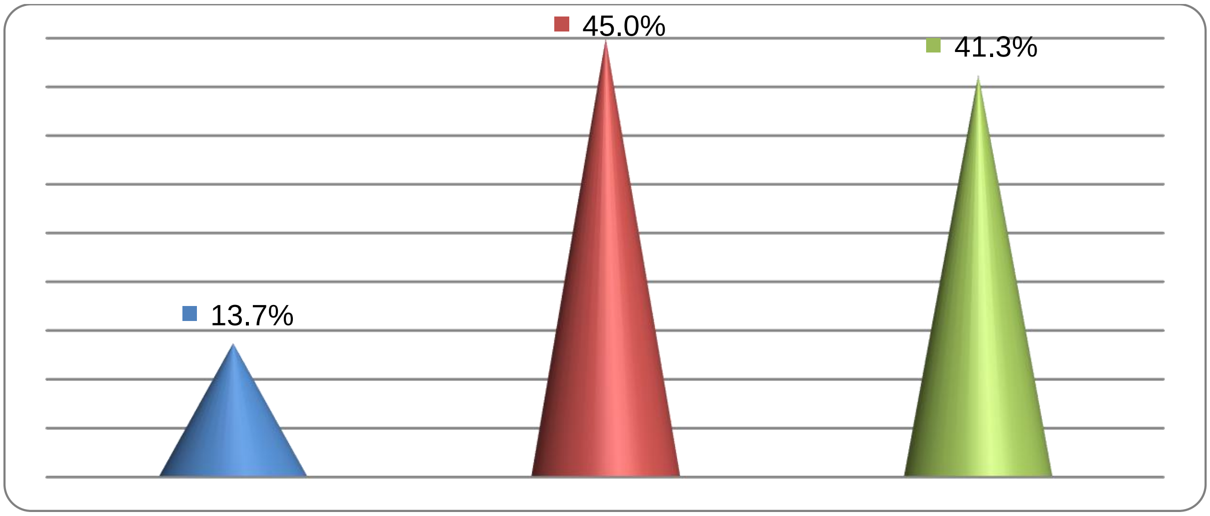


Figure 4.4: Extent to which Competition influences Performance of SACCOs
Source: Field data (2015)

The data findings indicated that competition influences performance of SACCOs to a great extent as indicated by 45.0% of the respondents, 41.3% of the respondents indicated to a very great extent whereas 13.7% indicated to a moderate extent. This is an indication that competition influences performance of SACCOs to a great extent. These findings agree with Hambrick and Schecter (1983) who affirms that global competition and other nettlesome factors cause more and more businesses to face occasional hard times.

Further, the respondents were requested to indicate the extent to which they agreed with the following statements related to competition and its perceived influence on performance of SACCOs. A scale of 1 to 5 was provided as follows: 1= strongly disagree, 2 = disagree, 3=indifferent, 4 = agree and 5= strongly agree. The findings are presented in table 4.3 below.

Table 4.2: Influence of Competition on performance of SACCOs

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std deviation
SACCOs face considerable competition from banks and Micro Finance Institutions leading to lower performance	41	37	21	9	1	3.99	0.10
Highly levered SACCOs lose substantial market share to their more conservatively financial competitors	37	43	19	6	4	3.95	1.03
Pursuit of aggressive marketing and price strategy attract more customers from competitors and hence increasing market share.	27	42	29	6	5	3.73	1.04
SACCOs loose clients to banks due to perception that banks are more transparent, have better governance, operational systems, strategic directions and quick operational decisions to adapt to market changes	13	31	36	19	10	3.17	1.13
More paperwork, higher charges and collateral requirements make SACCOs loose clients to banks in financial distress periods.	38	33	26	10	2	3.87	1.05
Aggregate score						**3.74**	**0.87**

Source: Field data (2015)

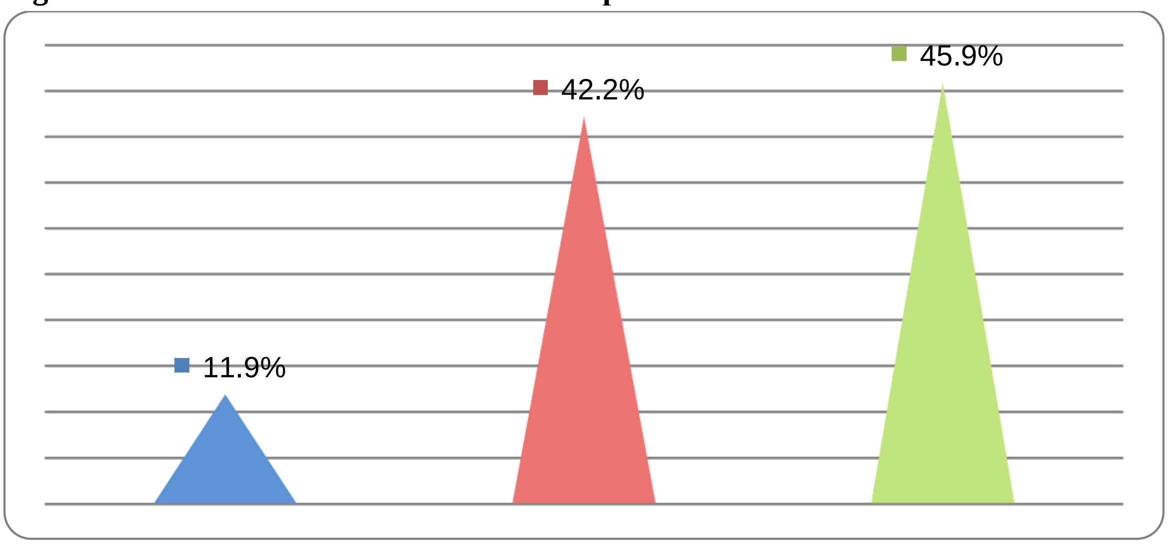
From the study findings, as presented in Table 4.2, an aggregate score of 3.74 was obtained which demonstrates that the respondents were in agreement with the position that competition influences performance of SACCOs. The respondents agreed that SACCOs faced considerable competition from banks and Micro Finance Institutions leading to lower performance as shown by a mean score of 3.99 and that highly levered SACCOs lost substantial market share to their more conservatively financial competitors as shown by a mean score of 3.95. The findings agree with Munyiri (2006) who indicates that SACCOs face considerable competition from banks and MFIs. The findings are consistent with Opler and Titman (2004) who argue that highly levered firms lose substantial market share to their more conservatively financial competitors in industry downturns.

The respondents further agreed with the statement that more paperwork, higher charges and collateral requirements made SACCOs loose clients to banks in financial distress periods as shown by a mean score of 3.87. In addition, the respondents agreed that pursuit of aggressive marketing and price strategy attracted customers from competitors and hence increasing market share as shown by a mean score of 3.73. However, the respondents were indifferent with the statement that "SACCOs loose clients to banks due to perception that banks are more transparent, have better governance, operational systems, strategic directions and quick operational decisions to adapt to market changes" as shown by a mean score of 3.17. These findings contradict with Mwaura (2004), that through change in their policies, banks have attracted more clients as a result of providing loans quicker, with less paperwork, less charges and less collateral requirements.

4.3.2 Board Members' Competence

The third objective of the study was to establish the extent to which board members' competence influences the performance of SACCOs. Aimed at achieving this objective, the study requested that respondents to indicate the extent of the influence. The findings are presented in Figure 4.5.

Figure 4.5: Extent of Board Members' Competence's influence on Performance SACCOs



Source: Field data (2015)

The data findings indicated that board members' competence influence the performance SACCOs to a very great extent as reported by 45.9% of the respondents, 42.2% of the respondents indicated to a great extent whereas 11.9% indicated to a moderate extent. This is an indication that board members' competence influences the performance SACCOs to a very great extent.

The study also sought to establish the respondents' level of agreement with statements on the influence of board members' competence on performance of SACCOs. The findings are presented in Table 4.3 below.

Table 4.3: Influence of board members' competence on performance of SACCOs

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std deviation
Board members competence is key to improving performance of SACCOs' in financial distress	18	53	30	8	0	3.74	0.82
SACCOs' management change and successful reorganization affect performance of distressed SACCOs positively	26	46	26	9	2	3.78	0.97
SACCOs management have appropriate management qualities and skills	10	27	46	16	10	3.10	1.06
Inappropriate management qualities and skills leads to SACCOs failures or bankruptcy	19	52	30	8	0	3.75	0.83
Board members search for opportunities and strategies that improve the performance of distressed firms positively	19	22	48	12	8	3.29	1.11
Transparency and goodwill from Board members enable firm to enhance its performance despite being in financial distress	39	59	15	1	0	4.16	0.68
The current management has a sense of a need for of change.	0	4	59	38	8	2.54	0.69
The current management has put in place adequate communication, and proper handling of projects, or fraud.	4	20	17	27	41	2.26	1.24
Aggregate score						**3.33**	**0.92**

Source: Field data (2015)

From the study findings, the respondents strongly agreed that transparency and goodwill from board members played a key role in enabling firm to enhance its performance despite being in financial distress as shown by a mean score of 4.16. The respondents agreed that SACCOs' management change and successful reorganization affected performance of distressed SACCOs positively and that inappropriate management qualities and skills led to SACCOs failures or bankruptcy as shown by mean scores of 3.78 and 3.75 respectively. These findings are in agreement with Liew, Jayaraman, Shankar and Ally (2011) who argue that management change, successful company reorganization, and management change influence performance of distressed firms positively. The respondents also agreed that board members competence was key to improving performance of SACCOs' in financial distress as shown by a mean score of 3.74. These findings concur with Altman (1983) that board members competence is key to improving performance of firms in financial distress and that management inadequacy is the main source of financial distress.

From the study findings, the respondents were indifferent with the statement that "board members searched for opportunities and strategies that improve the performance of distressed SACCOs positively" as shown by a mean score of 3.29. This suggested that their board members could be up to personal interests other than the interest of the SACCOs. Further, asked if SACCOs' management had appropriate management qualities and skills, there was indifference among the respondents as shown by a mean score of 3.10. The respondents were further indifferent that the current management had a sense of a need for of change as shown by a mean score of 2.54. Finally, the respondents disagreed that the current management had put in place adequate communication, and proper handling of projects, or fraud as shown by a mean score of 2.26. The above results agree with Ooghe and Prijcker (2008) and Scherrer (2003) who noted that the causes of firms failures or bankruptcy to be the characteristics of management which they site as inappropriate management qualities and skills, and corporate policy and poor strategies. The findings further agree with Noebere (2000) and Mwaura (2005) that business failure points to poor management as the main cause of poor performance.

4.3.3 Technology

In quest of addressing the third objective, this study inquired from the respondents on the extent to which technological environment influenced performance of SACCOs. The findings are presented in the Figure 4.6 below.

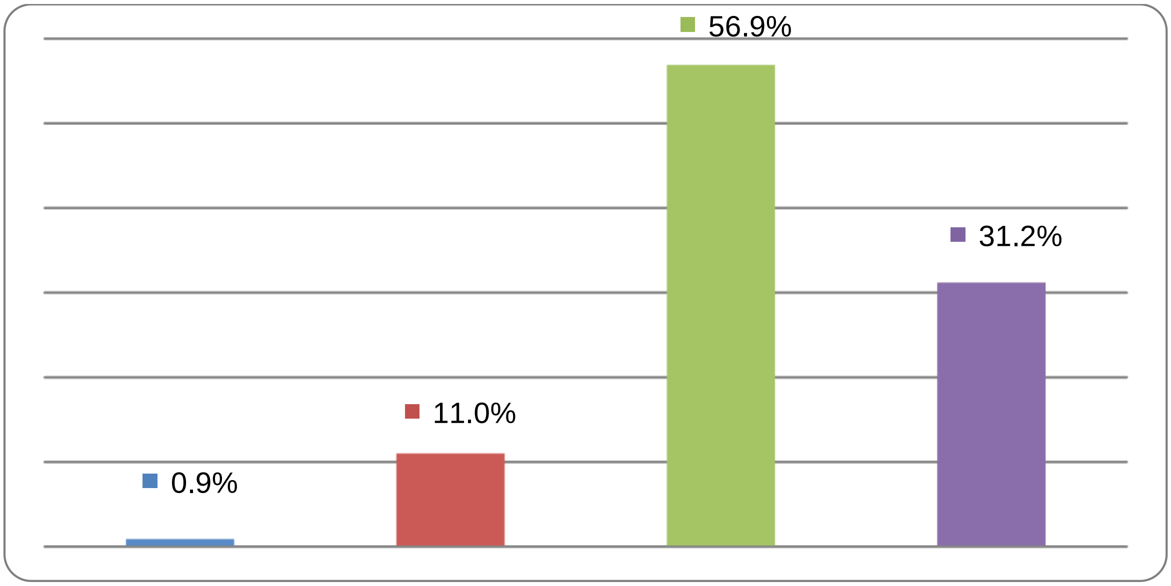


Figure 4.6: Extent to which Technology influences Performance of SACCOs
Source: Field data (2015)

According to the findings, majority (56.9%) of the respondents indicated that technological environment affected performance of SACCOs to a great extent, 31.2% indicated to a very great extent, 11.0% indicated to a moderate extent whereas 0.9% of the respondents indicated to a little extent. This is an implication that technological environment affects performance of SACCOs to a great extent. The findings conform to Hambrick and Schecter (1983) that technological turbulence causes more and more businesses to face occasional hard times.

The study further sought to establish the respondents' level of agreement with the following statements regarding the influence of technology on performance of SACCOs. The findings are tabulated in Table 4.4below.

Table 4.4: Influence of technology on performance of SACCOs

Statement	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std deviation
Technology improves efficiency and SACCOs probability of surviving financial distress with shorter recovery times	32	41	30	4	2	3.89	0.94
SACCOS have updated technology which are utilized toward enhancing performance in times of financial distress	3	2	24	42	38	1.99	0.95
The availability of up to date technology can determine the ability of SACCOS to Improve their performance in financial distress situations	27	41	29	8	4	3.72	1.04
Improved Technology Reduces errors and creates more confidence within SACCOs	34	55	6	10	4	3.96	1.04
Availability of improved technology allow SACCOs to generate the necessary reports for proper loan monitoring and recovery management	30	47	18	6	8	3.78	1.13
Communications infrastructure and capacity of SACCO boards and managements are a constraining factors in adoption of computerized systems	19	62	20	6	2	3.83	0.85
Aggregate score						**3.53**	**0.99**

Source: Field data (2015)

From Table 4.4 above, an aggregate score of 3.53 implies that the respondents were in agreement to the presumption that technology influences performance of SACCOs. Of specific concern, respondents agreed that improved technology reduced errors and created more confidence within SACCOs as shown by a mean score of 3.96. Further, the respondents agreed that technology improved efficiency and SACCOs probability of surviving financial distress with shorter recovery times as shown by a mean score of 3.89. These findings are consistent with Francis and Desai (2005) who argue that the availability of up to date technology can determine the ability of companies to turnaround. In addition, the respondents agreed that communications infrastructure and capacity of SACCO boards and managements were constraining factors in adoption of computerized systems as shown by a mean score of 3.83.

The findings of this study revealed that availability of improved technology allowed SACCOs to generate the necessary reports for proper loan monitoring and recovery management as shown by a mean score of 3.78. Further, the respondents were in agreement that the availability of up to date technology could determine the ability of SACCOS to improve their performance in financial distress situations as shown by a mean score of 3.72. The findings concur with Asher (2007) that lack of good computerized systems is a major constraint in efficient operations. The findings further concur with Dawley *et. al*. (2003) that because of slack resources such as technological advantage, larger companies have a greater probability of surviving financial distress and having shorter recovery times from than smaller companies. However, of importance, was the finding that SACCOS didn't have updated technology for utilization toward enhancing performance in times of financial distress as shown by a mean score of 1.99. This could suggest prevalence of inability by SACCOs to purchase up-to-date technology.

4.3.4 Legal Framework

In bid of establishing the extent to which the existing legal framework affected performance of SACCOs, the study inquired from the respondents. The findings are presented in Figure 4.7 below.

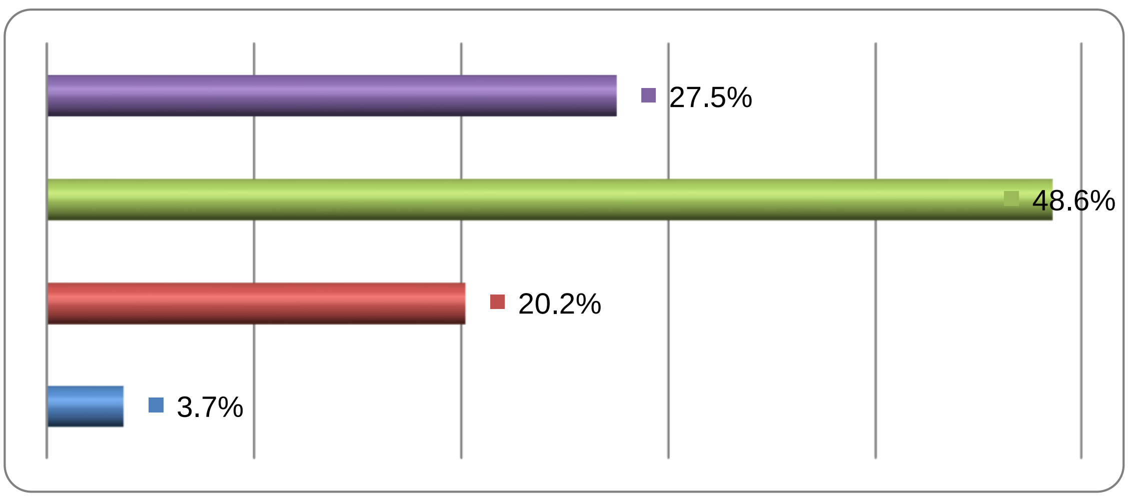


Figure 4.7: Extent of the influence of Legal Framework on Performance SACCOs
Source: Field data (2015)

According to the findings, majority (48.6%) of the respondents indicated that legal framework affected performance of SACCOs to a great extent, 27.5% indicated to a very great extent, 20.2% indicated to a moderate extent whereas 3.7% of the respondents indicated to a little extent. This is an implication that legal framework affects performance of SACCOs to a great extent. The findings conform to Betker (1997) argument that financial distress plays a significant role in a firm's operation and profitability.

Further, the study inquired on the respondents' level of agreement with the following statements on the perceived effects of legal framework on performance of SACCOs. The findings are presented in Table 4.5.

Table 4.5: Influence of Legal Framework on performance of SACCOs

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std deviation
Existing legal framework limit SACCOs' responses to financial distress, and hence affecting their current performance of the firm	28	57	21	3	0	4.01	0.75
Costs imposed to SACCOs by the legal framework influence firm's operation and profitability.	2	68	32	5	2	3.58	0.70
Inefficiencies in regulatory development are a key determinants of financial distress and this results to poor performance of SACCOs	53	41	14	1	0	4.34	0.74
Legal framework that imposes many costs to firms in financial distress contributes to their downfall.	32	42	35	0	0	3.94	0.80
The absence of a regulatory framework that includes prudential regulations and financial supervision results bring several weaknesses in SACCOs	51	35	23	0	0	4.26	0.79
Absence of rules that specify qualifications of board members results in them being selected based upon popularity rather than on appropriate skills resulting to poor management and performance	37	53	13	6	0	4.11	0.82
Aggregate score						**4.04**	**0.77**

Source: Field data (2015)

From the study findings, as presented in table 4.6, an aggregate score of 4.04 was obtained which demonstrates that the respondents were in agreement with the position that legal framework influences performance of SACCOs. From the study findings, the respondents strongly agreed that inefficiencies in regulatory development were key determinants of financial distress and this resulted to poor performance of SACCOs as shown by a mean score of 4.34. The respondents further strongly agreed that the absence of a regulatory framework that includes prudential regulations and financial supervision results brought several weaknesses in SACCOs as shown by a mean score of 4.26. In addition, the respondents strongly agreed that absence of rules that specify qualifications of board members resulted in them being selected based upon popularity rather than on appropriate skills resulting to poor management and performance as shown by a mean score of 4.11.

From the study findings, the respondents agreed that existing legal framework limited SACCOs' responses to financial distress, and hence influencing their current performance of the firm as shown by a mean score of 4.01. Further, the respondents agreed that legal framework that imposed many costs to firms in financial distress contributed to their downfall as shown by a mean score of 3.94. Finally, the respondents agreed that costs imposed to SACCOs by the legal framework influenced firm's operation and profitability as shown by a mean score of 3.58.

These findings agree with Prakash (1987) who argues that inefficiencies in regulatory development are key determinants of financial distress and these results to poor performance of firms. The findings further agree with Pandey (2005) argues that legal framework that imposes many costs to firms in financial distress contribute to their downfall.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the detailed summary of findings, conclusion and recommendations of the study on the effect of financial distress on performance of SACCOs in Migori County. It also gives the limitations of the study and suggestions for further analysis.

5.1 Summary of the Findings

Regarding effect of competition on the performance of SACCOs, the study established that competition influences performance of SACCOs to a great extent as indicated by 45.0% of the respondents with 41.3% indicating the extent to be very great extent. It was revealed that SACCOs face considerable competition from banks and Micro Finance Institutions leading to lower performance and that highly levered SACCOs lost substantial market share to their competitors. The pursuit of aggressive marketing and price strategy attracted customers from competitors and hence increasing market share as shown by a mean score of 3.73. However, the study revealed indifferent regarding whether SACCOs loose clients to banks due to perception that banks are more transparent, have better governance, operational systems and strategic directions.

Pertaining board members' competence, the study revealed that it influenced the performance SACCOs to a very great extent as indicated by 45.9% of the respondent's whereas 42.2% of the indicated to a great extent. The study found out that transparency and goodwill from board members played a key role in enabling firm to enhance its performance despite being in financial distress as shown by a mean score of 4.16. It was revealed that the respondents were indifferent with the statement that "board members searched for opportunities and strategies that improve the performance of distressed SACCOs positively" and the statement that "SACCOs' management had appropriate management qualities and skills". The respondents were further indifferent that the current management had a sense of a need for of change and that it had put in place adequate communication, and proper handling of projects, or fraud.

On technological environment, the study found out that technological environment influenced performance of SACCOs to a great extent as indicated by 56.9% with 31.2% indicating to a very great extent. It was deduced that improved technology reduced errors and created more confidence within SACCOs. Further deductions were made that technology improved efficiency and SACCOs probability of surviving financial distress with shorter recovery times. However, the finding reveled that SACCOS didn't have updated technology for utilization toward enhancing performance in times of financial distress as shown by a mean score of 1.99 and further correlation coefficient of 1.000.

With regard to legal framework the study deduced that majority of the respondents as shown by 48.6% were in agreement that it influenced performance of SACCOs to a great extent. Further deductions were that inefficiencies in regulatory development were key determinants of financial distress and this resulted to poor performance of SACCOs as shown by a mean score of 4.34. The study established that absence of a regulatory framework that includes prudential regulations and financial supervision results brought several weaknesses in SACCOs and the absence of rules that specify qualifications of board members resulted in them being selected based upon popularity rather than on appropriate skills resulting to poor management and performance. Legal framework that imposed many costs to firms in financial distress contributed to their downfall. An aggregate score of 3.27 indicated that performance of SACCOs was constant.

5.2 Conclusion

This study deduces that competition influences performance of SACCOs to a great extent. The pursuit of aggressive marketing and price strategy attracts customers from competitors and hence increasing market share. The study concludes that clients are lost by SACCOs to banks due to perception that banks are more transparent, have better governance, operational systems and strategic directions are insignificant.

Regarding Board members' competence, the extent their competence influences the performance of SACCOs very great. Most board members are reluctant in search for opportunities and strategies that improve the performance of distressed SACCOs which suggest that they lack goodwill. Also, not all SACCOs' management has appropriate management qualities and skills. The study notes that some of the board members have sense of a need for change while others don't have and the measures to ensure adequate communication and proper handling of projects, and fraud prevention is still low.

Technological environment influences performance of SACCOs to a great extent whereby adoption of up-to-date technology and knowledge on new technology by the SACCO members enhances the performance of the SACCOs. Technology improvement influences performance through reducing errors, increasing efficiency and increasing confidence. The study deduces that majority of SACCOS don’t have updated technology for utilization toward enhancing performance in times of financial distress.

Legal framework influences performance of SACCOs to a great extent. The absence of a regulatory framework that includes prudential regulations and financial supervision results lead to several weaknesses in SACCOs and the absence of rules that specify qualifications of board members resulted in them being selected based upon popularity rather than on appropriate skills resulting to poor management and performance. Also, legal frameworks that drive SACCOs into more costs of operation affect their performance negatively.

5.3 Recommendations

5.3.1 Recommendations for Policy

The study revealed that the pursuit of aggressive marketing and price strategy attracted customers from competitors and hence increasing market share. Based on this finding, the researcher strongly recommends that SACCOS need to review their marketing and pricing strategies in order to attract more customers to enhance their competition in the market. This would play a key role in boosting their efforts of enhancing their performance in periods of financial distress.

The study deduced that most board members were reluctant in search for opportunities and strategies that improve the performance of distressed SACCOs. This study recommends for goodwill from the board members and commitments to bringing change. The study further recommends that SACCOs’ management need to be selected based on management qualities and skills and the selected members should put in place measures to ensure adequate communication and proper handling of projects, and fraud prevention. The study found out that lack of appropriate regulations on appointment of board members resulted to selection based upon popularity rather than on appropriate skills resulting to poor management and performance. The researcher strong recommends for development of regulations governing the appointments. This will lead to more competent board members who can govern SACCOs better.

The study revealed that that majority of SACCOS didn’t have updated technology for utilization toward enhancing performance in times of financial distress. This could be due to financial constraints. The researcher hence recommends for support of the SACCOs by the Government and other stakeholders so as to capacitate them financially.

Further, the section of legal framework increasing the costs of running SACCOs should be abolished.

5.3.2 Recommendations for Further Studies

The study was limited to SACCOs. However given that banks as well as Microfinance institutions are also affected by financial distress, the researcher recommends that a similar study be done focusing on banks and micro finance Institution. The resulting findings will complement this study and add to the existing knowledge on financial distress and performance relationship.

The researcher further recommends for more research on other determinants of financial distress apart from competition technological environment, board members' competence and legal framework. The findings complement the findings of this study.

5.4 Limitations of the Study

The study largely depended on descriptive statistics which has the curvet of not giving the size direction and magnitude of influence of determinant of financial distress on SACCO performance. The information gathered was majorly on the perception of respondent which could vary from one person to the other.

Subjective view may not produce consistent results with vigorous studies that involve time series data.

5.5 Suggestions for Further Research

A study should be done on the influence of financial distress on performance of SACCOs in the country in order to generalize the results. Future research should be conducted on categories of financial distresses.

Future studies on financial distress on performance of SACCOs could be based on time series data Further research could be conducted based on various financial distresses since such areas may have variations hence comparisons could be done to check on the similarity of the results or if there are any variations. Further research could be done on other sectors of the economy in order to make a comparison of the results since the study tested only SACCOs.

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APPENDICES

APPENDIX 1: QUESTIONNAIRES

Dear respondent,

I am Duro George, a student at Maseno University pursuing a Master's course in Finance in partial fulfillment for the qualification for the award of Masters, I am to carry a research and write a thesis. My research focuses on, **"Influence of financial distress on performance of SACCOs in Migori County".** Kindly respond to the questionnaire with ultimate honesty and possibly accurate. The information will be held with confidence and will be used for academic purposes only.

Thank you for supporting this study.

<u>QUESTIONNAIRES:</u>

SECTION 1: GENERAL INFORMATION:

1. Kindly indicate your gender ……….. Male: [ ] Female: [ ]
2. Name of your organization: ………………………………………………………..
3. Your title/position: ………………………………………………
   - Senior Level Management [ ]
   - Middle level Management [ ]
   - Member [ ]
4. How many years have you worked or been a member in the Company?
   - Less than 3 years [ ]
   - 3 -5 years [ ]
   - 6 -7 years [ ]
   - 8 – 10 years [ ]
   - Above 10 years [ ]

SECTION 2: INFLUENCE OF FINANCIAL DISTRESS DETERMINANTS ON THE PERFORMANCE OF SACCOS

2. To what extent does competition influences performance of SACCOs in Migori County.

Not at all [ ] Little extent [ ]

Moderate extent [ ] Great extent [ ]Very great extent [ ]

3. Below are statements on the effects of competition on performance of SACCOs. Using a scale of 1-5 (where 1= strongly disagree, 2=disagree, 3= neutral, 4= agree and 5= strongly agree), please rate your level of agreement with each of the following statements.

	1	**2**	**3**	**4**	**5**
My SACCO face considerable competition from banks and Micro Finance Institutions leading to lower performance					
Our highly levered SACCOs lose substantial market share to our more conservatively financial competitors					
Our aggressive marketing and price strategy has attracted more customers from competitors and hence increasing market share.					
Our SACCO loose clients to banks due to perception that banks are more transparent have better governance, operational systems, strategic directions and quick operational decisions to adapt to market changes.					
More paperwork, higher charges and collateral requirements make our SACCO loose clients to banks in financial distress periods.					

4. To what extent does board members’ competence affect performance of SACCOs in Migori County?

Not at all [ ] Little extent [ ]

Moderate extent [ ] Great extent [ ]

Very great extent [ ]

5. Below are statements on the effects of board members' competence on performance of SACCOs. Using a scale of 1-5 (where 1= strongly disagree, 2=disagree, 3= neutral, 4= agree and 5= strongly agree), please rate your level of agreement with each of the following statements.

Statements	**1**	**2**	**3**	**4**	**5**
Board members competence is key to improving performance of our SACCO.					
Our SACCO's management change and successful reorganization affect performance of distressed SACCO positively					
Our SACCO's management has appropriate management qualities and skills					
Inappropriate management qualities and skills leads to our SACCO's failures or bankruptcy					
Our Board members search for opportunities and strategies that improve the performance of distressed firms positively					
Transparency and goodwill from Board members enable our firm to enhance its performance despite being in financial distress					
The current management of our SACCO has a sense of a need for of change.					
The current management of our SACCO has put in place adequate communication, and proper handling of projects, or fraud.					

6. To what extent does technology influences performance of SACCOs in Migori County.

Not at all [ ] Little extent [ ]

Moderate extent [ ] Great extent [ ]

Very great extent [ ]

7. Below are statements on the effects of technology on performance of SACCOs. Using a scale of 1-5 (where 1= strongly disagree, 2=disagree, 3= neutral, 4= agree and 5= strongly agree), please rate your level of agreement with each of the following statements.

Statements	**1**	**2**	**3**	**4**	**5**
Technology improves efficiency and our SACCO's probability of surviving financial distress with shorter recovery times					
Our SACCO has updated technology which are utilized toward enhancing performance in times of financial distress					
The availability of up to date technology can determine the ability of our SACCO to improve their performance in financial distress situations					
Improved Technology reduces errors and creates more confidence within our SACCO.					
Availability of improved technology allow our SACCO to generate the necessary reports for proper loan monitoring and recovery management					
Communication infrastructures and capacity of our SACCO's board and management are a constraining factors in adoption of computerized systems					

8. To what extent does legal framework affect performance of SACCOs in Migori County?

    Not at all [ ] Little extent [ ]

    Moderate extent [ ] Great extent [ ]Very great extent [ ]

9. Below are statements on the effects of legal framework on performance of SACCOs. Using a scale of 1-5 (where 1= strongly disagree, 2=disagree, 3= neutral, 4= agree and 5= strongly agree), please rate your level of agreement with each of the following statements.

Statements	**1**	**2**	**3**	**4**	**5**
Existing legal framework limit our SACCO's responses to financial distress, and hence affecting their current performance of the firm					
Costs imposed to our SACCO by the legal framework influence firm's operation and profitability.					
Inefficiencies in regulatory development are a key determinants of financial distress and this results to poor performance of our SACCO.					
Legal framework imposes many costs to our firm in financial distress which contributes to its downfall.					
The absence of a regulatory framework that includes prudential regulations and financial supervision results bring several weaknesses in our SACCO.					
Absence of rules that specify qualifications of board members results in them being selected based upon popularity rather than on appropriate skills resulting to poor management and performance					

Thank you for your cooperation in filling this questionnaire

APPENDIX 2: RESEARCH WORK PLAN

Activity	April	May	June	July	Aug	Sept	Oct
3 <u>Preparation.</u> • Identification and development of research focus. • Develop data collection tools							
4 <u>Data collection.</u> • Literature review • Present research proposal • Pre-test questionnaires • Data collection. • Statistical analysis of the data.							
5 <u>Report writing</u>. • 1st and 2nd draft report generation. • Final report compilation							
6 <u>Report submission</u>.							

APPENDIX 3: THE RESEARCH BUDGET

ITEM AVERAGE COST(Ksh)		
1. Stationery, Supplies and Equipment		
a) Printing	10,000	
b) Photocopying and Binding	10,000	
c) Stationery	5,000	25,000.00
2. Transport Expenses		
Travelling Allowance for the Researcher (Ksh 400 @ 10 days)		4,000.00
3. Subsistence Allowance		
a) Accommodation @ Ksh 1000 for 10 days	10,000	
b) Food (@Ksh 950 for 10 days)	9,500	19,500.00
4. Communication and Postage		3,500.00
5. Literature Search (Maseno University and Other Libraries)		
Transport Cost		15,000.00
TOTAL COST		**65,000.00**

SOURCE OF FUNDS

Personal savings/ Own contribution	45,000.00
Research grant (Maseno University)	20,000.00
TOTAL REVENUE	**65,000.00**