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Managerial Capability, Funds Allocation Strategy and Financial Performance of Deposit Taking SACCOs in South Rift Region in Kenya

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Abstract: ***This paper investigates the effect of managerial capability and funds allocation strategy on financial performance of Deposit taking saccos in South Rift Region in Kenya.First,individual managerial characteristics explain a substantial part of financial performance. Independent variables have a significant effect on financial performance. Second, the study finds that funds allocation strategy has moderating effect toward financial performance. Third,turning to financial performance and its effect on protection, effective financial structure, asset quality rate of return, liquidity status and signs of growth of DTSs. PEARLS system influences the financial performanceof DTSs. This reflects the association between managerial capability and funds allocation strategy towards financial performance. Data was analysed SPSS. The F-test, coefficient of determination, multiple regression and ANOVA test were used to determine whether there is a significant relationship among managerial capability, funds allocation strategy and financial performance. The daunting task of DTSs is not mapping to the competency of saccos' managerial staff. It resulted in mismanagement of most saccos in Kenya.A legal framework relating to qualifications of managerial staff and Board of Directors should be put in place. This will go a long way in solving the prevailing problems of DTSs in Kenya.***

Keywords: Managerial capability, Management rules and system, Experience, Financial performance, Strategic asset, funds allocation

1. Introduction

This study examines the effect of managerial capability moderated by funds allocation strategy toward financial performance of the deposit taking saccos in South Rift Region in Kenya. Deposit taking saccos was introduced by Sacco Societies Act (2008).The Act also created Sacco Societies Regulatory Authority (SASRA). The Authority is mandated to license, supervise and monitor deposit taking saccos in Kenya. These societies do not have competent managers.Competent managers are believed to be one of the crucial attribute in improving the financial performance of the firm. According to Massie(2010), Mintzberg's decision roles include the following attributes. First, managers as entrepreneurs are initiators, innovators, problem discoverers and designers of improvement. They can initiate projects that direct and control change in the firm. Second, managers as disturbance handlers they react to situations that are unexpected such as resignations of subordinates, firings or losses of customers. Third,they are resource allocators and finally they are negotiators. At times, this role can be partially delegated. However, managers assume it when conflicts arise.

The characteristics of a good manager may be explained in terms of initiating, dependability, intelligence, judgment, good health, integrity and perseverance. However,they are not very useful in describing how a given individual can develop into a better manager. Two more useful approaches provide conceptual help to those aspiring to managerial positions. Skill and knowledge factors influence the position progression. According to Katz (1955), there are three skills which can be developed by an organization. They are technical, human and conceptual skills. Summer (1956) considered knowledge factors as a critical factor in developing managers. Knowledge factors refer to ideas, concepts or principles that are conscious and accepted because they are subject to logical proof.

It is true that some people may be born leaders while others may be able to learn as apprentices while working with a mature manager. Others may become successful managers with education in the professional courses, business management, law, engineering, medicine and so on. These managers with innate abilities,long-term experience,informal training and education could become dependable managers if they attained the requisite knowledge and attitudes in the most efficient manner.In modern complex organizations the demand for competent managers is so crucial that most firms depend on expatriates to manage their firms.

According to Robbins and Coulter (2004),systematic procedure rule and policy are very important in making decision in a firm. A procedure is a series of interrelated sequential steps that a manager can use in making any decision.A rule guides a manager on what to do for the benefit of the firm. A policy is a guideline which gives a manager specific direction on handling a given problem. It establishes parameters for the decision maker rather than specifically stating what should or should not be done.

Funds allocation strategy of a firm is important to achieve the overall sacco objectives. The objectives are to keep the organization in business and to create a greater prospect for future opportunities to their county. The managerial capability and funds allocation strategy play an important role in the financial performance of the DTSs.

Performance is the end result of an activity. Managers deal with organizational performance. It relates to accumulated

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end results of all the organization's work processes and activities (Robbins and Coulter 2004).Managers have to comprehend the factors that contribute to high organizational performance. They expect their saccos, operating units, or overall organizations to achieve the anticipated level of performance no matter what mission, strategies or goals are being pursued.Managers measure and control organizational performance. It results in better asset management, an increased in ability to provide customer value and in improving measures of organizational knowledge. Good organizational performance has an impact on an organization's reputation.

Performance measurement covers all responsibility centre.It can be a cost, profit or investment centre. The performance can only be evaluated by comparing results against expected results. According to Lal (2008),the best way to encourage managers to act in the firm's best interest is to measure their performance in relation to budgeted or targeted results.

1.1 Problem Statement

The problem statement to be examined in this study is : Does managerial capability affects financial performance of deposit taking SACCOs in South Rift Region in Kenya?

Since the introduction of deposit taking business commenced in 2013 there is evidence of declining trend of DTS in Kenya. In 2014,2015 and 2016 the numbers of deposit taking entities licensed were 215,176 and 164 respectively. To establish the cause of the declining trend, objectives of the survey have been developed to unravel the mystery. The managerial capability of managers may not be matching with the new daunting tasks. Research has not be conducted in this areas.

1.2 Objectives of the Study

The study focuses on the effect of managerial capability, funds allocation strategy and financial performance of deposit taking SACCOs in South Rift Region in Kenya. The components of managerial capability include educational and qualification, formal and informal training, experience and management rules and system. These components are investigated to establish the effect of these variables on financial performance.

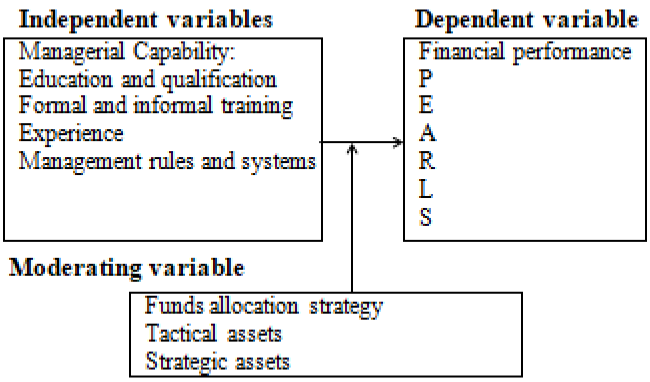
The main objectives are as follows:
1) To find out the effect of education and qualification on financial performance
2) To establish the relationship between formal and informal training and financial performance
3) To find out the relationship between experience and financial performance
4) To find out the effect ofmanagement rules and systems on financial performance
5) To establish the moderating effect of funds allocation strategy towards financial performance
6) To draw conclusion about the relationship among managerial capability, funds allocation strategy and financial performance

1.3 Hypotheses of the study

Since the objective of the study is to examine the relationship among managerial capability and funds allocation strategy towards financial performance.The following hypotheses were formulatedin order to achieve the study objectives:

H_1: There is no significant relationship between education and qualification and financial performance of deposit taking SACCOs
H_2:There is no significant relationship between formal and informal training and financial performance
H_3: There is no significant relationship between experience and financial performance
H_4: There is no significant relationship between management rules and systems and financial performance
H_5: There is no moderating effect between managerial capability and funds allocation strategy towards financial performance

1.4 Conceptual Framework of the Study



Conceptual framework generates an idea about the relationship among variables in the study.

It is a diagrammatic presentation showing the relationship between the independent variable, moderating variable and dependent variable.The moderating variable is one that has a strong contingent effect on the independent variable and dependent variable relationship.That is the presence of a third variable (moderating variable) modifies the original relationship between the independent and dependent variables (Sekaran,2006). The conceptual framework of this study is based on an idea that the managerial capability and funds allocation strategy influence financial performance of deposit taking Saccos in South Rift Region in Kenya.After introduction of deposit taking business by SASRA in 2013,DTS have been facing challenges in mapping the new tasks with current managerial capability.The societies should initiate ways to overcome these challenges. Professional managers are required to run these firms. They are capable of exploiting the opportunities that come with the deposit taking business.

1.5 Significance of the Study

Managerial capability aspects determine the performance of business entity. Deposit taking societies were caught unaware of the emerging responsibility. Licensing of DTS should have taken competence mapping into account so that they could have competent managers in place before introducing the deposit taking business. Competency mapping helps to identify an individual strengths and weaknesses in order to better match his/her competency with the job(Gupta,2008).Mapping may allow a firm to invest in training needs or education of the individual for professional progression. It will allow a manager to prepare for a higher roles such as general manager. Incompetent managers result in deteriorating of financial stability of firms. The study will help detect abnormality early. As a result, policies will be introduced to minimize financial loss.This study will formulate the level of academic and professional qualification required for each sectional heads. The findings will be useful to both academician and researchers.

1.6 Scope of the Study

This survey covers 23 DTS in South Rift Region in Kenya. Three DTS were excluded because they were delicensed. The remaining twenty, only fourteen responded to the questionnaires.The recommendations and conclusion drawn from the study are beneficial in making informed decision in formulating human resource policy.

1.7 Justification of the study

The study was undertaken to establish the cause of declining trend of deposit taking saccos in Kenya. According to Chandan(2006),managerial skill is an acquired and learned ability to translate learned knowledge into performance. In a field where workers have required skill, the competency will allow for superior performance. However,DTS managers do not possess the required skills. They need to acquire technical, interpersonal, conceptual, diagnostic, communicational and political skills. These skills are very crucial for any successful manager. It is the sole responsibility of managers to achieve the overall objectives through prudent usage of its human and material resources. According to Robbins and Coulter(2004),managers measure and control organisational performance because it leads to better asset management,to an increased ability to provide customer value and to improve measures of DTS knowledge. Besides measures of DTS performance they have an impact on a SACCO's reputation.

2. Literature Review

This area covers the managerial characteristics and theories underpinning the study. It identifies research gap. Managerial capability characteristics include education and qualification, formal and informal training, experience and management rules and systems. The theories underpinning the study are: Goal setting theory, Max Weber's theory and Agency theory.

2.1 Managerial Capability Characteristics

The managerial capability characteristics are elaborated as follows:

Education and Qualification

Managerial capability of any firm is anchored on education and qualification. The educational background and formal qualifications of managers and Board of directors should be a guiding principle. According to Bosworth and Wilson (2002),qualifications are measure of capability. It should be a requirement when recruiting managers. Managers should have business administration related degrees and CPA(K).The academic qualification will give them first hand weapon to promote organization effectiveness. Organizational effectiveness depends upon individual effectiveness, group effectiveness and other factors related to organization. According to Rudani (2011),organizational factors can significantly contribute to organizational effectiveness. These factors include but not limited to organizational climate, organizational culture, organizational structure, technology, processes, strategies and many others.

The development of any organization needs professionally qualified managers. Behind the success story of any firm, group efforts have potential contribution. For deposit taking saccos to be successful, they must recruit professional managers. It is also crucial that Board of Directors should be degree holders so that they can direct the organization to prosperity.

Formal and informal training

Formal and informal training is a continuous process in all organization. It facilitates the achievement of the organizational goals. It is the responsibility of every firm to ensure that all employees are professionally sound and technically expert. They should be well equipped to handle any business activity. A firm has sole responsibility to arrange training session of all the employees every year so that the quality of human skills is maintained. To ensure professional excellence, it should be mandatory to update employee skill every year. It is also prudent to embrace management of global environment (Kondalkar,2009).Most deposit taking saccos have problem in developing their staff. Staff is the engine of the organization. They require to be updated every now and then. The training will modify individual behaviour and implement change of a permanent nature. Any intervention to solve prevailing problem, it needs to diagnose the cause. It is critical to select appropriate intervention and implement it till desired outcomes are realized. It could be repetitive in nature. Its objective is to understand human behaviour and modify various organizational processes for desired results.All the saccos should embrace employee development so that their societies can be run professionally.Hence,members can benefit from their societies financially.

Experience

According to(Rudani,2011).learning is a crucial psychological process that determine one's behaviour. Words of Costello and Zalkind suggests that every aspect of human behaviour is responsive to learning experience, knowledge, language, skills, attitudes, value system, personality characteristics and others need to be learned. All employee activities in the firm are learned. These include loyalty, awareness of organisational goals, job performance and others. Dynamic learning contributes to better understanding. It also provides good prediction and control of organisational behaviour in any organization. According to Rudani (2011),Robbins and Sanghi argue that "Learning is any relatively permanent change in behaviour that occurs as a result of experience". Learning is a process of acquiring knowledge through conscious and systematic efforts that affect one's subsequent behaviour for a long time.

The government of Kenya should lay a legal framework to facilitate recruitment of professional managers in all the SACCOs.This will go a long way in managing and investing members\ funds judiciously. Bad managers ruin good firms. Good managers manage funds professionally.

Management Rules and Systems

Management rules and systems are critical for effective functioning of the organization's various operations. The management rules built into organizational structure are means which influence the behaviour of managers. It can influence and develop managerial capability in the long-run. According to Kondalkar (2009),Max Weber introduced the concept of bureaucracy as the best, most efficient way to organize people.He believed and practised a strong hierarch of authority,division of labour, impersonal rules and strict procedures as the best way of running an organization. One of the Weber's principles is systems of rules and procedures. They should be embraced by firms in decision making. They guide business entities to make consistent decisions. The consistency will lead to realizing objectives or goals of a firm. Firms will become efficient and rational in their ventures.

Even though the government has passed laws which guide saccos, most of them have failed. The societies are being mismanaged by management. Board of directors influences them to invest in unviable projects. Political leaders are not behind. They are involved in mismanagement of members' funds.

2.2 Theoretical Framework

Goal Setting Theory

In 1968,Edwin Locke introduced the Goal setting theory. Goals are major source of work motivation. Goal setting is a crucial instrument in motivating efforts of management and employee's motivation to work. They give direction to the employees on what to be done and how much effort to be made. Employees put more efforts to achieve the organizational goals. Hence, it accomplished the expected performance in a given period. Motivation is anchored on value and value judgement. They are related to goals. According to Rudani (2011), person's emotions and desires determine what they want. Goals should be clear and brief. It has direct impact on performance. Employees' participation in goal setting results in better performance.

Max Weber's Theory

He introduced administrative management in organizations. He analysed functioning of church, government, military and business organization and suggested bureaucratic structure for all organizations (Rudani,2011).Bureaucratic structure is a vital means which facilitate supervision and control over human beings at work. The system directs the coordination of efforts of many people in large organization.Bureaucratic principle includes the following: administrative class, specialization, hierarchy of authority, official rules, impersonality, trained employees and official records. However, the bureaucratic has a lot of challenges. They include the followings but not limited to poor efficiency, overemphasis on rules and procedures, lack of clear responsibility, rigidity, slow decisions, goal displacement, impersonal approach, evil of nepotism and favourism, lack of professionalism and so forth.

Agency Theory

According to this theory, SACCO is seen as a network of contracts between the owners and agents. A SACCO's owners are the principals and managers are its agents.The principal hires a group ofagents to carry out certain tasks and formulates a contract that links the agents' performance to their rewards(Jhingan and Stephen,2011).A firm with different types of contracts will give the agents incentives to behave in different ways. The agents should make contract efficient. In this way they are serving the interest of the principal. According to Prof. E. Fama contract tend to be specified which force agents to direct their energies towards profit maximizing activities. Pressure from principal above and manager below in a firm tends to drive employees in that direction. Pressure from above may link financial performance with rewards to them and competition from below for seniority and position may reinforce their rewards.

2.3 Funds Allocation Strategy

Funds allocation is what make a firm either successful or failure. Organizations may invest their funds in strategic or tactical assets. It depends on the preference of various firms. According to Sharpe, Alexander and Bailey(2010),funds allocation attempts to time the market but, in doing so, focus on total return instead of current income. A diversified common stock fund invests most of its assets in common stocks, although some short-term money market instruments may be held to accommodate irregular cash flows or to engage in market timing.

The success and growth of any firm depends upon judicious utilization of available resources.Funds allocation is a crucial factor in the management of an economic entity.It facilitates expanding of existing plant and equipment.It also helps in introducing advanced technology which will improve the processes of a firm. Technology is an important factor in economic growth. It contributes to increased productivity. As an entity expands, it will force the enterprise to invest in fixed assets so as to increase the volume of production or business activities.

2.4 Financial Performance

Performance management is essentially a set of management processes. It is often supported by technology which enables organisations todefine and execute their strategies. It is applied in measuring and analyzing performance in order to inform strategic decision-making. The main issue with performance management is to improve an organization's performance (ACCA,2013).

PEARLS is performance management system which help deposit taking saccos to measure their performance. It is a plan, with set guidelines and targets. It helps DTSs to measure how efficiently goals are being met. Areas with weaknesses can be identified and corrective action can be taken so that the performance can be improved.

3. Research Methodology

From the list of deposit taking saccos licensed since the introduction of deposit taking business and the current DTSs still doing the business in 2015.The areas covered are in South Rift Region in Kenya. There were 23 DTSs licensed in this region at the inception. Only 20 DTSs were still operational when the study was carried out. The respondents were 14 out of 20. The CEO, sectional heads and Board of Directors filled the questionnaires. The total sample size of valid questionnaires of the DTSs responded was 91.

Primary management data was collected using structured questionnaires, which were pre-tested and administered through direct interviews of the respondents on different characteristics. The variables are independent, moderating and dependent. Independent variables included education and qualification, formal and informal training, experience and management rules and systems whereas moderating variables were strategic and tactical assets. Dependent variable comprises PEARLS system.

4. Data Analysis, Results and Discussions

Data on the managerial capability, funds allocation strategy and financial performance was coded, summarized and descriptive statistics were generated. SPSS version 20 was used to analyze data.

4.1 The Respondents

Position	F	%	Cum.%
CEO	14	15.4	15.4
Credit Controller	11	12.1	27.5
Finance Manager	14	15.4	42.9
Internal Auditor	11	12.1	54.7
ICT Manager	7	7.7	62.6
HRM	1	1.1	63.7
Chairman	10	11.0	74.7
Treasurer	11	12.1	86.8
Secretary	12	13.2	100
Total	91	100	

The researcher sought to establish the positions which were not filled in the saccos. It was established that not all DTSs had position of Credit Controller, Internal Auditor, ICT Manager and HRM. It means that one officer may handle more than one task. As a result, the efficiency and effectiveness of operations are not guaranteed. Competency mapping is lacking in most of the deposit taking saccos.

4.2 Employees' Qualification

Qualification	F	%	Cum.%
Certificate	33	36.3	36.3
Diploma	9	9.8	46.2
Degree	15	16.5	62.6
Master degree	10	11.0	73.6
CPA	23	25.3	98.9
CPS	1	1.1	100
Total	91	100	

A total of 36.3% of the respondents showed that most of the employees are certificate holders. The degree holders were only 16.5%.It indicates that managerial capability is a challenge in deposit taking saccos.

4.3 Correlations

Correlation	Position	Qualification
Position: Pearson correlation Sig.(2-tailed) N	1 91	
Qualification: Pearson correlation Sig.(2-tailed) N	-0.767 0.000 91	1 91

From the finding, it shows that there is significant relationship between position and qualification because the p-value (0.000) is less than 0.05. However, their relationship is negative. It means that as one increase the other decreases. They move in different direction.

4.4 Managerial Capability Characteristics

Descriptive Statistics

To assess managerial capability which influence financial performance of deposit taking saccos. The managerial capability characteristics include; education and qualification,formal and informal training,experience and management rules and systems.

Variables	Mean	Std.Dev.	N
Financial performance	1.67	.473	91
Education and Qualification	4.57	.635	91
Formal and informal training	3.70	1.188	91
Experience	4.42	.776	91
Management rules and systems	4.20	.687	91

From the above table,it shows that majority of the respondents agreed that education and qualification (mean=4.57) are drivers of good financial performance of deposit taking saccos in Kenya.The findings also indicate that experience(mean=4.42) and management rules and systems(mean=4.20) determine financial performance. Formal and informal training has a mean of 3.70 which is the lowest.

4.5 Results of Regression of managerial capability characteristics against financial performance indicators

Predictor variable	Coefficient	Significance
Constant	0.740	0.453
Education and qualification	0.379	0.144
Formal and informal training	0.062	0.752
Experience	-0.049	0.735
Management rules and system	-0.195	0.334

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From the table above, it shows that education and qualification and formal and informal training have positive coefficients. It means that the variables correlate to financial performance positively. An increase in the two variables will lead to an increase in financial performance. Experience and management rules and systems have negative coefficients.It means that these variables are inversely proportional to financial performance. An increase in one of these variables leads to decrease in financial performance.

4.6 Summary of Tests of Hypotheses

Objective	Hypotheses	Regression Coefficient	Sig (1-tailed)	Result
Objective 1 To find out the relationship between education and qualification on financial performance	H0 :There is no significant relationship between education and qualification and financial performance	0.379	P=0.144 (Greater than 0.050)	Rejected
Objective 2 To find out the relationship between formal and informal training on financial performance	H0 : There is no significant relationship between formal and informal training and financial performance	0.062	P=0.752 (Greater than 0.050)	Rejected
Objective 3 To find out the relationship between experience on financial performance	H0 : There is no significant relationship between experience and financial performance	-0.049	P=0.735 (Greater than 0.050)	Rejected
Objective 4 To find out the relationship between management rules and systems on financial performance	H0 : There is no significant relationship between management rules and systems and financial performance	-0.195	P=0.334 (Greater than 0.050)	Rejected

Considering the results from the above table, the p-values were more than 0.050 for all variables. Therefore, the hypotheses were accepted with reliability of 95%. The null hypotheses were rejected. It was established that managerial capability influence financial performance of deposit taking saccos in Kenya.

4.7 Managerial Capability and Financial Performance Coefficient of determination

Model	R	R^2	Adj. R^2	Std error of Estimate	Sig.
1	0.409	0.167	0.128	0.441	0.003

The above table indicates the coefficient of correlation between managerial capability and financial performance. The variation of financial performance is explained by R^2 which is 16.7%. However, the remaining 83.3% variation of financial performance is explained by other factors.

4.8 Funds Allocation-Investment enhancing Financial Performance

Strategies	Frequency	%	Cumulative %
Tactical Assets	25	27.5	27.5
Strategic Assets	66	72.5	100
Total	91	100	

It is evident from the above table that majority of the respondents agreed that strategic assets have enhanced financial performance of deposit taking saccos. It represents 72.5%.

4.9 Managerial Capability, Funds Allocation Strategy and Financial Performance Coefficient of Determination

This technique shows the individual contribution of variables in the model.

Model	R	R^2	Adj.R^2	Std Error of the estimate	Sig
1	0.409	0.167	0.128	0441	0.003
2	0.491	0.244	0.199	0.423	0.004

From the findings,24.4% of financial performance variation is attributed to the combination of independent and moderating variables examined in this survey. This means that 75.6% of the financial performance variation is explained by others factors not investigated in this study. When funds allocation strategy was introduced in the first regression,16.7% of financial performance variation was explained by independent variables.

Analysis of Variance (ANOVA)

The ANOVA technique indicates whether the model results in a significantly good degree of prediction of the outcome variable.

Model	Sum of Square	df	Mean Square	F	Sig
1 Regression Residual Total	3.361 16.749 20.110	4 86 90	 0.840 0.195	4.315	0.003
2 Regression Residual Total	4.901 15.209 20.110	5 85 90	 0.980 0.179	5.479	0.000

The F-ratio in the first model is 4.315 which is significant at p< 0.050 (0.003).This result shows that there is less than a 5% chance that a F-ratio would happen if the null hypotheses were true. In case of the second model, the F-ratio is higher than the first model. Its significant value is less than 0.050 (0.000).Hence, it can be concluded that regression model results in significantly better prediction of financial performance. The regression model overall predicts financial performance significantly well.

Multiple Regression Coefficients

Model	B	Sig
1		
Constant	0.740	0.453
Education and qualification	0.379	0.144
Formal and informal training	0.062	0.752
Experience	-0.049	0.735
Management rules and system	-0.195	0.334
2		
Constant	0.264	0.783

Education and qualification	0.643	0.016
Formal and informal training	0.080	0.674
Experience	-0.065	0.637
Management rules and system	-0.147	0.447
Funds allocation strategy	-0.534	0.004

The values of regression coefficient B represent the change in the outcome resulting from a unit change in the predictor variables. If a predictor has a significant impact on the ability to predict the outcome then this B should be different from zero. In the first model, the constant value is 0.740 whereas in the second, it is 0.264.The constant value means that when all the values of the predictor variables are zero, the financial performance will be 0.740 in the first model. It will be 0.264 in the second model. Education and qualification and formal and informal training coefficients in both models are positive. This means that the two variables are positively correlated with financial performance. As they increase, the financial performance increases. The other predictor variables are negatively correlated with the outcome. Introduction of the moderating variable increases the values of B. It can be concluded from the findings that funds allocation strategy moderates managerial capability towards financial performance.

5. Conclusion

Results indicate that education and qualification and formal and informal training enhance financial performance of deposit taking saccos. They are positively correlated with financial performance. However, experience and management rules and system are negatively correlated with the financial performance.

Funds allocation strategy has enhanced financial performance. The findings showed that 72.5% of the respondents agreed that strategic assets have improved financial performance. From the data analysis, it is evident that managerial capability and funds allocation strategy influence sacco's performance.

6. Recommendations

There is need for government to introduce legal framework to guide deposit taking saccos when recruiting employees. Education and qualification should be taken into account at all time.This will reduce mismanagement of members' funds. However, there is need for further studies to determine risk management in terms of sustainability and establishing fund to cater for financial risk.

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