

**EFFECT OF INVESTMENT DECISION ON FINANCIAL
PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVES
IN KITUI CENTRAL SUB-COUNTY, KENYA**

MULI ABEDNEGO MUSAU

**A RESEARCH PROJECT REPORT SUBMITTED TO THE
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DECLARATION

This project report is my original work and has not been presented for a degree in any other university.

Signature.....

Date.....

MULI ABEDNEGO MUSAU

D61/KTI/20457/2014

This project report has been submitted for examination with our approval as a University Supervisors.

Signature.....

Date.....

Dr. Jared Ariemba

School of Business and Economics

South Eastern Kenya University

Signature.....

Date.....

Mr. Zablon Evusa

School of Business and Economics

South Eastern Kenya University

DEDICATION

This project report is dedicated to my parents who have taught me the virtue of believe in overcoming every obstacle in life step by step. I also dedicate it to my siblings who are following up in the same field of academics. It is also my wish to dedicate this work to all upcoming researchers in our country with an interest in corporate sector.

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LIST OF ABBREVIATIONS

SACCOS	Savings and Credit Cooperative Societies
KUSCCO	Kenya union of Savings and Credit Cooperatives Ltd
WOCCU	World Council of Credit Unions
DTS	Deposit Taking SACCOs
SASRA	SACCO Society Regulatory Authority
MFIs	Micro Finance Institutions
R & D	Research and Development
KTS	Kitui Teachers SACCO
SEU	South Eastern University
ED	Expansion Decision
RD	Replacement Decision
MD	Modernization decision
D	Dividends
S & D	Surplus and Deficits

ABSTRACT

This research work focused on determining the effect of investment decisions on financial performance of Savings and Credit Cooperatives in Kitui Central Sub-County. This is was due to the observed decline in performance of SACCOS in Kenya due to a low investment culture. The research adopted four objectives as a drive towards the results as follows; to assess the effect of Replacement decision on Financial Performance of SACCOS in Kitui Central Sub-County, to find out the effects of Expansion Decision on Financial Performance of SACCOS in Kitui Central Sub-County, to investigate the effect of Renewal or modernization Decision on financial performance of SACCOS in Kitui Central Sub-County, and to evaluate the effects of Research and Development Decision on Financial Performance of SACCOS in Kitui Central Sub-County. The study adopted an empirical study design for a time-series data of a ten year period from 2006-2015. The research was undertaken on all twelve (12) SACCOS located in Kitui Town thus utilizing a Census technique in selection of respondents. Simple multivariate analysis was used for data analysis, while Karl Pearson's correlation was used in determining the correlation within variables. The results of study were produced using data analysis workbook; the statistical package for social sciences (SPSS-version 21). Data presentation was done using tables. The study findings indicated that replacement decision, renewal decisions and research and development decisions positively contributed to SACCO performance as measured by dividends while expansion decisions had a negative contribution. On the other hand, expansion decision, modernization decision and research and development decision had a positive contribution to SACCO financial performance as measured by surplus or deficits while replacement decision had a negative effect. The study concluded that only research and development decision had a significant effect to SACCO performance while expansion decision, replacement decision, and research and development decision had no significant effects to SACCO financial performance. Thus, not all of investment decisions affect financial performance in SACCOS. The study recommended that SACCOS should invest more in research and development decision as it had a significant effect to SACCO financial performance, the least variation to the expected results and the highest contribution to financial performance in respect to SACCOS.

DEFINITION AND OPERATIONAL DEFINITION OF TERMS

Investment: An investment operation is one which, upon thorough analysis promises safety of principal and an adequate return (Mukesh & Dinesh 2014). In the study, investment was used in reference to the act of investors transferring their ownership to SACCOS for a return on invested amount after an investment period.

Wealth Maximization: Paramasivan & Subramanian (2006) Argues that wealth maximization is an approach by management aimed at achieving the highest return to all individuals who are involved in a business concern. In this study, wealth maximization was used to refer to the highest gain an investor will be able to obtain from investing in any given SACCO rather than investing the funds elsewhere.

Investment vehicles: It is stated by Pandey (2008) that investment vehicles consist of a group of financial assets such as shares, stocks, bonds, debt instruments, mutual funds, cash equivalents etc., planned with a goal of stabilizing the risk of non-performance of various tools. Investment vehicles in this study were used to refer to the number of channels upon which investors' money was deposited in for a return on investment.

Investment Culture: McKenzie (1958) argues that Culture is a complex and a broad set of relationships, values, attitudes and behaviors that bind a specific community consciously and unconsciously. Investment culture was used to explain the nature of the behavior adopted by investors in their investment practices. This was in reference to changes in their investment portfolio.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

This chapter focused on the background of the research by reviewing the topic broadly and narrowly, the problem statement, objectives, significance of the study, the scope and foreseen limitations and their delimitations. It is stated by Simeyo, Bernard, Patrick & Francis (2013) that an investment is the outlay of a sum of money in the expectation of a future return which more than compensates for the original outlay plus a premium to cover inflation, interest foregone and risk. According to Pandey (2008) investment decisions entail a firm's decisions to invest its current assets most efficiently in the long-term assets in anticipation of an expected flow of benefits over a series of years. The investment decisions require very special attention as they influence a firm's growth, risk; they are difficult, and they are irreversible and involve commitment of large volume of funds.

Investment decisions entail expansion decision, replacement decision, renewal decision and research and replacement decisions. The expansion decisions entail addition of new products and line of operation, and addition of capacity or diversification of operations (James and John, 2010). Replacement decisions on the other hand focus on improving operating efficiency and cost reduction by replacing obsolete products with new ones in respect to environmental changes (Pandey, 2008). Renewal decisions are aimed at a change in operations in terms of products offered, methods of delivery and efficiency of operations. Finally research and development

decisions aim at creating new technology or information to improve the effectiveness of the products or make the production of the products more efficient.

Investment decision functions are performed by the management level in a firm since they are financial management roles (James *et al.* 2010). In a Cooperative it's the duty of Cooperative management to ensure that investment decisions are done to the success of members' ownership. Cooperative management is made up of several committees which are composed of the management committee, the special meeting committee, the credit committee, the executive committee, and the supervisory committee (SEU Budget Report, 2015).

Overview of Savings and Credit Cooperatives

Ashraf (2012) states that a cooperative is an autonomous association of people united voluntarily to meet their common economic, social and cultural needs and aspirations through jointly owned and democratically controlled enterprise. As per Sacco Society Regulatory Authority (SASRA) report 2010, Cooperatives can broadly be categorized as; Financial Co-operatives (SACCOS) and Non-financial Co-operatives. SACCOS further comprise both deposit and non-deposit taking SACCOs. In the year 1973, a regulatory body, the Kenya Union of Savings and Credit Cooperatives Ltd (KUSCCO) was formed as an umbrella organization that speaks and represents all Cooperatives in Kenya (KUSCCO, 2015). In the current legal framework a Deposit Taking Sacco (D.T SACCO) is that Sacco operating a front office savings activity (FOSA) which is a quasi-Banking activity undertaken by all licensed Savings and credit Cooperatives. The other SACCOs which are not DTS SACCOs are regulated under the ministry of cooperatives (Mulwa 2013).

SACCOs in Kitui Central sub-County

Cooperatives in Kitui Central Sub-County have been growing at a very slow phase as indicated in the SASRA reports of 2010-2013 with only an increase of two registered Savings and Credit Cooperative in the whole sub-county. The SACCOs in the region can be grouped in to three groups made of financial SACCOs and a non-financial SACCO group consisting of agricultural and transport SACCOs (Ministry of Cooperatives Kitui County report, 2015). The financial Cooperatives are Kitui Teachers Sacco, Mwalimu National Sacco, and Universal traders SACCO, Best rock Sacco and Fundi net SACCO; the transport cooperatives consist of KINATWA SACCO, MBIKISA SACCO, and JARIBU SACCO, while agricultural cooperatives entail Kitui Central Dairy Farmers cooperative, Kitui Tobacco Farmers cooperative, and Kitui Horticultural Farmers cooperatives.

Table 1.1 Classifications of Cooperatives in Kitui Central Sub-County

Classification of Cooperatives	Number in Kitui Central Sub-County
Financial Cooperatives	6
Non-Financial Cooperatives- Agricultural Cooperatives	3
Transport Cooperatives	3
Total	12

Source: Ministry of trade and Cooperatives-Kitui County (2016)

Financial Performance in Cooperatives

Amalendu, Somnath and Gautam (2011) points out that, financial performance means a firm's overall financial health over a given period of time. Savings and Credit Cooperatives are unique in their operations and every decision made in them has to be approached in a unique way and so is their measure of their financial performance (Momanyi, 2014). Unlike other financial institutions, SACCOs use dividends declared and surplus or deficits announced as a measure of their financial performance (Momanyi, 2014) as will be adopted in this research.

1.2 Problem Statement

The Cooperative sector plays a key role in Kenyan Financial Sector. According to Njeru, Agnes, Florence, and Ondabu (2015), it is estimated that 63% of Kenyans participate directly or indirectly in the cooperative development enterprises hence classifying it as an avenue of increasing access to financial services in the country. If the Kenya SACCO sector which is ranked number one in terms of performance in Africa and number seven in the world (WOCCU Statistical Report, 2014); would successfully operate to overcome the challenges in the sector, it will be a key drive in realizing vision 2030 strategy (Njeru *et al.*, 2015).

Investment decisions made by Cooperative management should lead to their increased growth, reduced risks and high survival rate. However, of critical concern to both practitioners and academia is that the investment culture for the Cooperative sector in Kenya is very low (Onchangwa, Ongoncho, Onchonga, & Njeri 2013)).

It is pointed out by Clement, Martin, & Ambrose (2012), that SACCOs have been faced with the challenge to build enough wealth, through accumulation of institutional

capital, which has been attributed to weak financial stewardship, inappropriate capital structure and imprudent funds allocation strategy. Onchangwa *et al.*, (2013) have also noted that, most SACCOs in Kenya lack or have inadequate investment policy for SACCO member investment thus making member uptake to decline according to SASRA reports of 2009-2013. It is as a result of this that the researcher studied the effects of investment decision on the financial performance of Savings and Credit Cooperatives in Kitui Sub-County

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to assess the effect of investment decisions on financial performance of SACCOs in Kitui Sub-County.

1.3.2 Specific Objectives

- i. To assess the effect of expansion decision on financial performance of SACCOs in Kitui Central Sub-County
- ii. To find out the effect of replacement decision on financial performance of SACCOs in Kitui Central Sub-County
- iii. To determine the effect of renewal decision on financial performance of SACCOs in Kitui Central Sub-County
- iv. To ascertain the effect of research and development decision on financial performance of SACCOs in Kitui Central Sub-County

1.4 Research Questions

- i. What is the effect of expansion decision on financial performance of SACCOs in Kitui Central Sub-County?
- ii. What is the effect of replacement decision on financial performance of SACCOs in Kitui Central Sub-County?
- iii. What is the effect of Renewal decisions on financial performance of SACCOs in Kitui Central Sub-County?
- iv. What is the effect of research and development decision on financial performance of SACCOs in Kitui Central Sub-County?

1.5 Significance of the Study

The study was set to be of help to several groups as stated below. The government on how to streamline its operational roles so as to gain from the sector while promoting the whole sector which is beneficial in attaining vision 2030. It was also set to benefit the government in its regulatory role through SASRA so as to determine the effectiveness of its regulatory guidelines. The study also was to benefit SACCO stock-holders in ensuring that they participate towards attaining maximum wealth from their investment portfolio. This intended to improve living standards and the whole economy and thus motivate an increase in membership to SACCO sector since the membership rate of increase has been declining as noted above (SASRA, 2010-2013)

The researcher intended to assist SACCO board members who play a key role in SACCO performance and thus help in reducing the agency problem.

The study was also to benefit individual SACCOS in improving their operations so as to overcome competition from other players in the financial sector like banks, and

Micro Finance Institutions (MFIs). The study was also set to be of a greater help to scholars as it helps in adding knowledge to what has been already researched and also assist in answering the unresolved gaps.

1.6 Scope of the Study

This study was carried out in Kitui Central Sub-County and covered all SACCOs in the location. The Cooperatives were made up of three Agricultural Cooperatives, and three Transport Cooperatives (under financial Cooperatives) and six Financial Cooperatives totaling to twelve Cooperatives in number as earlier stated. The study involved targeting all of the twelve (12) SACCOs as they were not many in number and thus targeting all SACCOs would result into a valid outcome good for generalization.

1.7 Limitations and Delimitations of the Study

The researcher was faced with several limitations in course of the study upon which several solutions were adopted to solve them. Of these included; limitation of geographical coverage since the study was only done in Kitui Sub-County. The researcher eliminated this challenge through a focus on all SACCOS in Kitui Town so as to attain good information which for generalization since the Town had several SACCO classifications.

The researcher encountered lack of willingness by the respondents to provide required information in fear that the information may be used to disclose performance was resolved through issuing of an introduction letters from the university and County Ministry of Trade, ICT and Cooperatives respectively.

The final challenge encountered entailed financial constraints which was resolved through conducting of the research at the shortest time possible to avoid over expenditure on the activity.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focused on the theoretical review, empirical review, conceptual framework, research gap and conclusion. The empirical Review covered several studies which have been conducted in reference to the study variables highlighting the study outcome and areas for further study.

2.2 Theoretical Review

The critical theories in the study were the Transaction Cost Theory, The Modigliani Miller Theory, The Accelerator Theory of Investment, and The General Theory of Employment, Interest and Money.

2.2.1 The Transaction Cost Theory

This theory was developed by Coase (1937). According to him, transaction cost refers to cost of providing for goods or services through the market rather than having it provided from within the firm. Coase explained that without taking into account transaction costs it is impossible to understand properly the working of the economic system and have a sound basis for establishing economic policy. According to transaction cost theory, firms seek to expand in a cost effective manner to insure profitability. A key challenge to transaction efficiencies is uncertainty about the future in the firm's environment. Uncertainty increases the firm's transaction costs, especially with regard to research, information processing, and adaptation (Inge, Steen Kamp, and Kumar (2006).

2.2.2 The Modigliani-Miller Theorem

Modigliani and Miller (1958) demonstrated that under conditions of perfect capital markets, the cost of investment to firms is the same regardless of which of the three methods of finance it chooses; that is matching approach, conservative approach or aggressive approach. The Modigliani-Miller theorem shows that under some conditions the decision about how much to invest is independent of the decision about how to finance that investment, since the value of the firm is the same regardless of whether the firm issues bonds (becoming highly levered) or uses accumulated profit or the proceeds from issuing new equity. This theory states that investment means has no contribution to change in firm's value due to ever present market imperfections (Parker, 2009).

2.2.3 The Accelerator Model of Investment

This theory is one among the earliest empirical investment models. The accelerator is a simple model that incorporates the kind of feedback from current output to investment that Keynes saw occurring through the effect of current output on investors' expectations. The accelerator model begins with an assumption that firms' desired capital-output ratio is roughly constant. This implies that the desired capital stock for any period t is proportional to the level of output in t , $Kt^* = \sigma Yt$, where σ (the lower-case Greek letter sigma) is the desired capital-output ratio. Thus, the simplest accelerator model predicts that investment is proportional to the increase in output in the coming period. In conclusion, this theory indicates a direct proportional relationship between investment capital and output (Parker, 2009).

2.2.4 The General Theory of Employment, Interest and Money.

This theory was developed by Keynes (1935) during the era of great depression in Europe and America. Under conditions where markets do not clear, he argued that, a shortage of aggregate demand may prevent the economy from producing at full capacity. Since investment is the component of aggregate demand that falls most strongly in business-cycle downturns, it was a natural candidate for Keynes in his search for the causes of these declines in demand. This theory asserts that investment is the result of firms balancing the expected return on new capital (marginal product of capital) with the cost of capital, which depends primarily on the real interest rate. Keynes believed that the large fluctuations in investment were due to shifts in the investment-demand curve itself rather than to movements along the curve. According to Keynes's theory, the investment-demand curve is volatile because it depends on firms' expectations of the profitability of investment. This theory argues that, investment is a function of interest rate, expected profits and fluctuations in the market (Pavlina, 2008).

2.2.5 The Performance Feedback Theory

Christopher, Martin, and Steven, (2013), argue that this theory is based on the continuous perspective of the organization of the organizational decision process as described by behavioral theory of the firm. The process can be described in three ways; performance evaluation, search and decision making. According to this theory, organizational members attend specific organizational goals, reflected in aspiration level, and observe feedback from the environment as to whether the goal is achieved or not. If the goal is not achieved; search is conducted to find a solution.

2.3 Empirical Review

This topic focused on researches done by other researchers on variables of study and their relation to the performance of those firms in context. This was to aid in the comparison of the results with the outcome of this study.

2.3.1 Expansion Decisions

The desire for economies of scale drives cooperatives to operate towards expansion so as to gain the benefits which accrue hence forth. Business expansion signifies growth which is a key goal to a firm in course of wealth maximization. Business expansion is prone to risks due to firms getting open to new markets, new competition, new costs and new assets investment. Business expansion should result to success in any business operation and has many factors which drive businesses towards it. SACCOs expand to attain more customer coverage, increase on surpluses and reduce on deficits and at the same time working towards increasing customer wealth through issuing of more dividends. Several researches have been done explaining the reasons as to why businesses expand and the resultant outcome.

According to Roger (2010) in his study “The Importance of Asset Allocation”, he states that Asset Allocation Policy explains the 40, 90 and 100 percentage of fund performance. As a result, the manner on which a firm allocates funds among investment channels matters most on total performance of each channel of investment.

A study conducted by Richard, Jonathan, and Sharon (2014), examined how Business Climate influences International Franchise Expansion. Adopting a panel regression model they conducted a study on firms undertaking international franchise business using different specifications. Their study concluded that, a country’s business climate is an important predictor of foreign firm’s expansion into that country.

It is stated by Rose (2003) that modern day credit unions have expanded their investments in services so as to rise more funds; Some sell life insurance, others act as brokers for group insurance plans where state permits. Many credit unions are now active in offering 24 hour automated services, financial planning services, retirement savings, home equity and fast mortgage loans and payment services, all with a view to increasing their income reserves. However, Credit unions' permissible investments in securities are however limited to a list prescribed by state regulations.

In a study by Farok *et al.* (2007) on the Nature of the Relationship between International Expansion and Performance: The case of emerging market on 269 Indian firms composed of both manufacturing firms and service firms over a period of five years covering between 1997-2001. The study found out that, service sector firms tend to get the gains of international expansion sooner than manufacturing firms.

In a study conducted by Vishal *et al.* (2007) on the Effects of Firm Size and Sales Growth Rate on Inventory Turnover Performance in the U.S. Retail Sector for 353 public listed US retailers for the period between years 1985-2003 and found a strong evidence of diminishing returns to scale with reference to firm size. They also found with respect to sales growth rate that inventory turnover increases with sales growth rate

2.3.2 Replacement Decisions

If a channel of investment or asset investment does not attain the foreseen benefits, it's the duty of management to replace the investment so as to attain the goals. Top management is vested with the decision making duty in an organization and therefore they will be concerned with replacement decision in a SACCO. Cooperatives invest member funds to different investment avenues upon which returns ought to accrue

back. They also invest on employees, member education and management welfare. If employees perform below expected level new employees are acquired but at a cost; the same will apply to management staff which can be obtained through internal promotions or external recruitment. As per Pandey (2008), replacement investment involve making of replacement decisions which involve recommitting funds when an asset becomes less productive or non-profitable and this will be achieved at a cost.

It is argued by Siddika *et al.* (2007) in their study on investigating the Impact of Boiler Aging in Replacement Decisions that there is no single critical criterion that determines if a boiler is too old for operations such as its age. A combination of the performance characteristics, structural integrity and environmental performance of the boiler should be evaluated before replacement decisions are made.

James (2015) did a study on Financial Performance Outcomes Following System replacement in the Insurance Industry by examining financial impact of enterprise policy administration system replacement in the property and casualty insurance industry by comparing financial performance results for companies that performed policy administration system replacements with those that did not. The results showed that enterprise system replacement was not financially significant for revenue growth or operational efficiency.

Jan *et al.* (2014) did a study on How Performance Expectations Affect Managerial Replacement Decisions by approximating performance expectations based on professional bookmaker betting odds in professional soccer, thus capturing the effect on dismissal probability of team coaches. It was found out that a one standard deviation increase of performance expectation nearly doubles the coaches' dismissal probability.

Mark and Robert (2008), in their study; The Effect of Managerial succession on firm financial performance by comparing the benefits of replacing management from inside the business versus external hiring, argue that relative performance improvements are positively related to institutional shareholding and are greater when successor CEOs are hired from outside the firm than when they are hired from outsiders.

2.3.3 Renewal Decisions

In this study, renewal decisions were used to also mean modernization decisions; they entail decisions aimed towards “re-energizing” an organizational capability; both on asset operations, employee performance, and goal attainment. Given today’s frequent changes in the business environment, businesses have to change their operations so as to retain operation edge and keep up to date with their competitors.

In a study conducted by Yiming, Siqi, Thomas, and Thomas (2011) on whether banks adjust their loan interest rates and consider loan renewal decisions in reference to borrower’s financial performance by conducting a multivariate regression analysis on Chinese public industrial companies between years 200-2005, they found a negative relation between loan renewal and the financial performance of borrowers.

It is stated by Jeffrey and Jeffrey (2012) in their study on Accounting for Lease Renewal Options: The Informational Effects of Unit of Accounts Options that the adoption of renewal options has a negative effect on lender’s willingness to lend to a firm with renewal options.

René, Ursula, and Mariëlle (2010) on their topic, Continuity and renewal at the top: Performance Effects of the Level, Extend, and Type and Frequency of the top

Management Team Changes; found out that the level of change in terms of CEO versus non- CEO and the extend of change in terms of the proportion of managers entering or exiting the team do not influence subsequent firm performance.

It is pointed out by Martin *et al.* (2013) study; A Behavioral Theory of Strategic Renewal: The Impact of Performance Feedback and Organizational Learning on Strategic Renewal Actions that renewal decisions partially support for the impact of performance feedback on strategic renewal.

2.3.4 Research and Development Decisions

Research and development decisions concern investigative activities aimed at discovering new products or improving the existing one. For a company to experience growth, R&D are very key to it thus a major line of success. Given the business environment's dynamic nature, successful businesses have to embrace these decisions. Cooperatives will have to focus on the products they are offering versus customer perspective on them together with what others offering the same services have. The dynamic nature of customer needs will also have to be put into consideration as customers change every day.

This study focused on identifying the effects R&D has on financial performance of the firm by comparing the funds which were utilized in every financial period of cooperatives versus financial performance measured by Dividends or deficits/surpluses.

Li and Atuhene (2001) points out in their study on The Impact of Interaction Between R&D and Marketing on new product performance: an empirical analysis of Chinese high technology firms, that information exchange and marketing influence on product

decisions have significantly positive impacts on new product performance, thus as per the results, the impact of R&D marketing interactions depends on product newness and project formalization.

Shrihari *et al.* (2013) argues in their research on Dynamic Relationships among R&D, Advertising, Inventory and firm Performance using a vector auto regression model of a panel of publicly listed U.S. high technology manufacturing firms that, research and development does not increase firm sales.

A research conducted by Milkovich *et al.* (1990) on the Effects of Research and Development Intensity on Managerial Compensation in Large Organizations. Using a data from 110 organizations for a five year period and controlling for organizational differences in employee and job characteristics. The study found out that high R&D intensity organizations tended to have higher relative base pay, higher relative bonus pay and greater relative eligibility for long-term incentive payments.

Hassan, and İbrahim (2014), did a study on The Effects of Research and Development Investment on Firm's Financial Performance on Manufacturing Firms in Turkey. The research found out that investment in R&D has a positive impact on firm's financial performance.

According to a research done by Boem *et al.* (2013) on The Impact of Government R&D Subsidy on firms overall performance conducted from Korean Small and Medium Enterprises (SMEs); upon which performance was measured by value added-productivity. The research found a significant evidence for positive productivity effect of the public R&D subsidy in that, the subsidy successfully raised R&D expenditure and value added productivity of the SMEs

In a research conducted by Lawrence (2011) on the influence R&D investment has on a firm's profitability on 16 top pharmaceutical firms in the United States using regression analysis. The study found a positive and a significant relationship between research and development expenditures and market value in the pharmaceutical industry. On the other hand, Kenneth (2010); in his study on whether current performance influences firm's incentive to disclose qualitative R&D related information that current performance is negatively related to qualitative disclosure.

2.4 Research Gap

Several studies conducted have had conflicting results concerning investment decisions. Some researchers have argued for while others have argued against in support of whether these decisions have an impact on firm performance. An example is a research done by Shrihari *et al.* (2013) on Dynamic Relationships among R&D, Advertising, Inventory and firm Performance which found out that, research and development does not increase firm sales. On the other hand, Hassan *et al.* (2014) did a study on The Effects of Research and Development Investment on Firm's Financial and found out that investment in R&D has a positive impact on firm's financial performance.

In another study by Trevor (2015) on Financial Performance Outcomes Following System replacement in the Insurance Industry, showed that enterprise system replacement was not financially significant for revenue growth or operational efficiency. On the other hand, Mark *et al.* (2007) study on the Effect of Managerial succession on firm's financial performance established that, relative performance improvements are greater when successor CEOs are hired from outside the firm than when they are hired from outsiders.

It is stated in Roger (2010) research on “The Importance of Asset Allocation”, that the rate at which a business invests as it expand on investment finance matters most on total performance of each investment made. This conflicts with the Modigliani – Miller Theorem on investment which states that irrespective of the method adopted by a firm in financing its investment, the value of the firm remains the same.

It is as a result of the above differences in study outcomes that the researcher focused on determining the effect Investment decision have on SACCO Financial Performance by focusing on Cooperatives in Kitui-Central Sub-County.

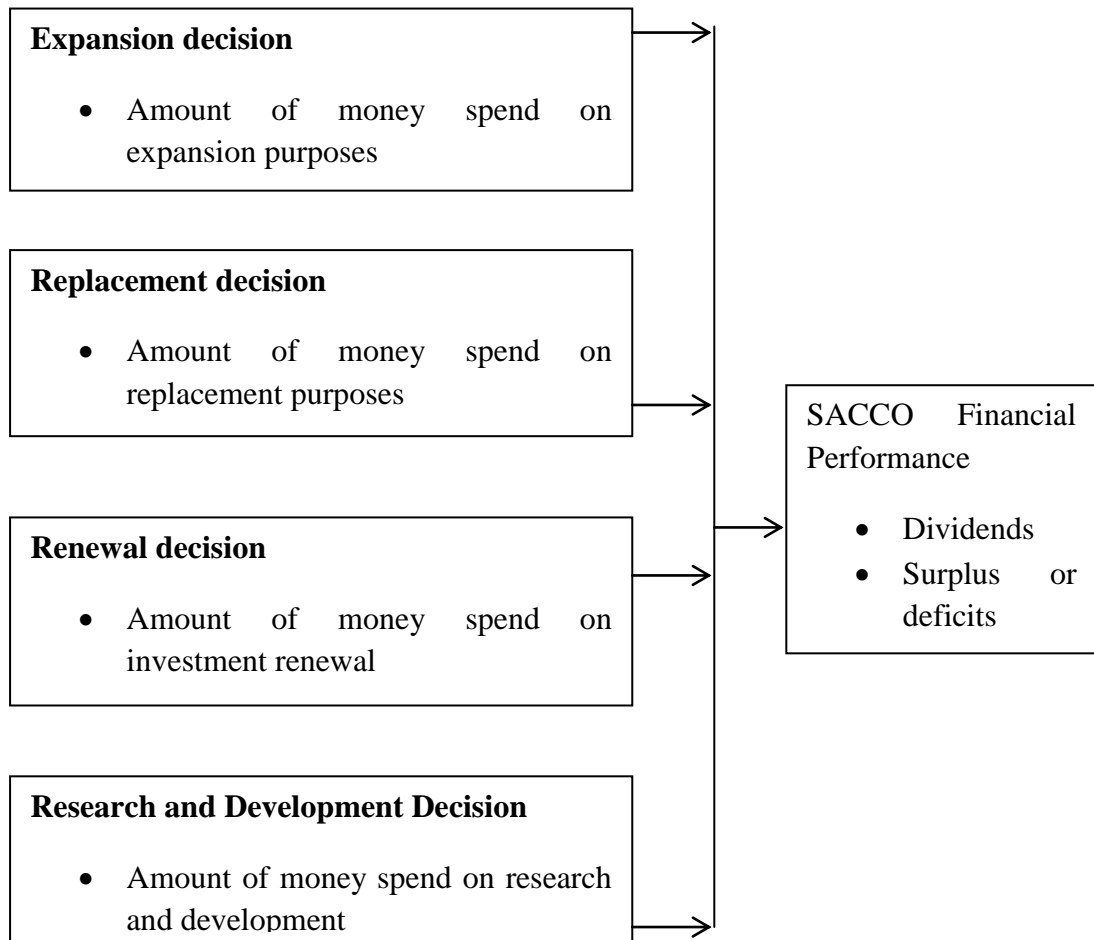
2.5 Conceptual Framework

A conceptual framework involves forming an idea about the relationship between variables in a study and showing the relationship graphically or diagrammatically (Mugenda and Mugenda 2003)

2.5.1 Conceptualization

The independent variables were replacement decisions, expansion decisions, renewal decisions and research and development decisions. In the course of the study, replacement decisions was measured by an evaluation of the amount of money allocated for replacement investments, expansion decision was measured by the amount of money spend on expansion investment, renewal decisions was measured by the amount of money allocated to renewal investment and finally research and development decision was measured by the amount of money allocated to research and development investments.

The dependent variable on the other hand was SACCO financial performance which was measured by Cooperative surplus or deficit, and dividends.



Independent variables

Dependent variable

Figure 2.1 Conceptual framework

Source: Author (2016)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focused on the methodology which was adopted in the study by outlining the research design, population of the study, sampling technique, sample size, sources of data, data collection technique, data analysis and presentation

3.2. Research Design

This research adopted an empirical study design as adopted by Ambrose and Vincent (2014) by employing scientific methods to explain the phenomenon the way it is. Time-series data was collected for the periods 2006-2015. This helped in integrating research with practice and helped in identifying the dynamics of the situation. Observations were obtained for a ten (10) year timeline data from the population of study and analyzed.

3.3. Population of Study

The population of study consisted of twelve (12) SACCOS in Kitui Central Sub-County, which were located in Kitui Town as per the list obtained from the Ministry of Cooperative report (2016). These SACCOS were grouped into two groups; Financial Cooperatives and Non-financial cooperatives

3.4. Sample size and Sampling Technique

Since the targeted population was made of twelve SACCOs, the researcher targeted all SACCOs thus adopting a census technique. Intended data was collected from the finance officer from each SACCO in the targeted population.

3.5. Sources of Data and Data Collection Technique

This study used secondary data which was sourced from all the twelve SACCOs in the population of target. Collected data entailed the amount of funds which has been spend on various investment for a ten year period from 2006-2015. The researcher distributed a data tablet to the respondents which was researcher administered to save on time.

3.6. Data Analysis and Presentation

Collected data was sorted and grouped. It was then analyzed by the use of Simple multivariate analysis so as to determine the nature of relationship between investment decision and SACCO performance, whereas Karl Pearson's correlation method was also adopted to determine the direction of relationship. The outcome of the study was achieved through adoption of data analysis work book; the statistical package for social sciences (SPSS-version21). Analyzed data was presented by use of tables.

3.6.1 Model

According to Bertha and Melody (2013) in their study, adoption of multivariate or multivariable regression, they stated that a multiple or multivariable linear regression model has a continuous outcome and multiple predictors or response variables, and adopts longitudinal data as was adopted in this research. They proposed that a regression model would adopt the format;

$$Y = \alpha + x_1\beta_1 + x_2\beta_2 + \dots + x_k\beta_k + \varepsilon$$

It is on this basis that this study adopted regression model represented in two ways so as to reflect two different measures of financial performance (that is dividends and surpluses/ Deficits) as follows;

$$Y_1 = \beta_0 + \beta_1 ED + \beta_2 RD + \beta_3 MD + \beta_4 R\&DD + \varepsilon$$

$$Y_2 = \beta_0 + \beta_1 ED + \beta_2 RD + \beta_3 MD + \beta_4 R\&DD + \varepsilon$$

Whereby;

Y_1 = SACCO financial performance measured by dividends

Y_2 = SACCO financial performance measured by surplus or dividends

B_0 , = the constant term or the intercept

β_1 , β_2 , β_3 and β_4 = were the Regression coefficients or slope of the regression line of the independent variables 1 to 4. They indicated the relationship between the independent variables and the dependent variable

ED = Expansion decision

RD = Renewal decision

MD =Modernization decision

R&D = Research and development decision

ε = Represents the error term

3.6.2 Operationalization of variables

Table 3.1: Measurement of variables

	Variables	Measures	Notations
Dependent variable	SACCO Financial Performance	Dividends	D
		Surplus or Deficits	S or D
Independent Variables	Expansion Decision	Funds invested in SACCO expansion	ED
	Replacement Decision	Funds SACCO invest in replacement activities	RD
	Modernization Decision	Funds SACCOs invest in Modernization activities	MD
	Research and Development Decision	Funds SACCOs invest in Research and Development	R&D D

Source: Author (2016)

3.7 Ethical Considerations

The researcher obtained an introduction letter from the University for Use in collecting data to increase respondents' confidence on the activity. Another letter was also obtained from the Ministry of Cooperatives (Kitui County) to introduce the researcher by the Ministry.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND PRESENTATION

This chapter presented analysis of data collected from SACCOs operating in Kitui Central Sub-County covering periods 2006-2015. The data was collected using a data table distributed to all of the twelve SACCOs in the area. SACCO's performance was evaluated using Dividends together with Surplus or deficit, which were rated against the independent variable; Investment decisions consisting of expansion, replacement, modernization and research and development decisions and results presented as follows;

4.1 Correlation Analysis

Correlation between investment decisions and SACCO performance was computed using Karl Pearson model on the two regression equations as earlier stated. In the first regression equation, the study focused on determining the direction of relationship between investment decisions and performance as measured by dividends. The results of the analysis were as presented in table 4.1 .

Table 4.1 Correlation between Investment Decisions and Dividends

		ED	RD	MD	RD&D	D
ED	Pearson Correlation	1	.871	.699	.406	.485
	Sig. (2-tailed)		.001	.025	.244	.155
RD	Pearson Correlation	.871	1	.914	.361	.525
	Sig. (2-tailed)	.001		.000	.306	.119
MD	Pearson Correlation	.699	.914	1	.340	.534
	Sig. (2-tailed)	.025	.000		.336	.112
R&D D	Pearson Correlation	.406	.361	.340	1	.953
	Sig. (2-tailed)	.244	.306	.336		.000

The study found the correlation to be positive illustrating that as per the direction of the relationship between investment decision and SACCO performance they were all moving in the same direction. This implied that, an increase in each of investment decision would result to an increase in SACCO performance while a decrease would result to a decrease in SACCO performance by the values 0.485, 0.525, 0.534 and 0.953 respectively.

The regression equation two focused on determining the correlation between the independent variables and SACCO performance as measured by surplus or deficits.

The results were found as in table 4.2.

Table 4.2 Correlation between Investment Decisions and Surplus or Deficits

		ED	RD	MD	R&DD	S&D
ED	Pearson Correlation	1	.871	.699	.406	.738
	Sig. (2-tailed)		.001	.025	.244	.015
RD	Pearson Correlation	.871	1	.914	.361	.637
	Sig. (2-tailed)	.001		.000	.306	.048
MD	Pearson Correlation	.699	.914	1	.340	.547
	Sig. (2-tailed)	.025	.000		.336	.102
R&D D	Pearson Correlation	.406	.361	.340	1	.501
	Sig. (2-tailed)	.244	.306	.336		.140

On measuring the direction of the correlation, all variables were found to possess a correlation with SACCO surplus moving in the same direction. This implied that, an increase in each of investment decision would result to an increase in SACCO performance while a decrease in each of investment variable would result to a decrease in SACCO performance by the values 0.738, 0.637, and 0.501 respectively.

4.2 Model Summary

In the study, two regression equations were used to compute the effect of investment decisions on SACCO performance. This was so as to determine the representation of investment decision in measuring SACCO performance. The first regression equation focused on determining the effect investment decisions have on SACCO performance measured by dividends.

Table 4.3: Regression equation one Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			Sig. F Change
						F Change	df1	df2	
1	.981 ^a	.962	.931	1.25505E7	.962	31.345	4	5	.001

Four predictors for the model consisted of expansion decision, replacement decision, modernization decision, and research and development decision. The study findings stated that, 96.2 % of SACCO performance was explained by investment decision while the other 3.8% is presented by other unexplained variables. The second regression equation focused on determining the effect investment decisions have on SACCO performance as measured by surplus or deficits.

Table 4.4: Regression equation two Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Change Statistics			Sig. F Change
						F Change	df1	df2	
1	.774 ^a	.599	.278	2.09756E7	.599	1.864	4	5	.255

There were four predictors in the model made of expansion decision, replacement decision, modernization decision and research and development decision. According to the equation, 59.9 % of SACCO performance was explained by independent variables while 40.1 % was explained by other factors not covered in the study.

4.3 Model coefficients

The model coefficients for the first regression equation are presented as in the table 4.5.

Table 4.5 Coefficients of Regression Equation one

Model 1	Un standardized Coefficients		Standardized Coefficients		95.0% Confidence Interval for B		
	B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound
(Constant)	8.489E7	7195351.977		11.798	.000	6.640	1.034
ED	-.029	.041	-.152	-.722	.503	-.134	.075
RD	.154	.329	.170	.468	.660	-.691	.999
MD	.086	.119	.182	.728	.499	-.219	.391
R&D D	12.133	1.320	.891	9.194	.000	8.741	15.525

On analysis the study concluded that, if all other variables remained constant, SACCO performance would increase by 8.489. It also found out that, if all factors were constant and given a unit change in expansion decision, SACCO performance would decrease by -0.029. It was also noted that, given all factors were constant and, unit increase in expansion decision would increase SACCO performance by 0.154. The study also describes that if all factors were constant and given a unit increase in modernization decision, SACCO performance would increase by 0.086.

It was also noted from the study that if all factors were constant, given a unit increase in research and development SACCO performance would increase by 12.133.

The model was then presented as follows. From the above table, only research and development was established to be significant.

$$Y_1 = 8.489 - 0.029X_1 + 0.154X_2 + 0.086X_3 + 12.133X_4$$

Whereby Y_1 =Dividends as a Measure of SACCO performance.

The model coefficients for the second regression equation were represented as per the model 4.6,

Table 4.6 Coefficients of Regression Equation two

Model	Un standardized Coefficients		Standardized Coefficients		95.0% Confidence Interval for B		
	B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1 (Constant)	2.292E7	1.203E7		1.906	.115	7996224.667	5.383E7
ED	.075	.068	.757	1.108	.318	-.099	.250
RD	-.141	.549	-.302	-.257	.808	-1.553	1.271
MD	.053	.198	.215	.266	.801	-.457	.563
R&D D	1.613	2.206	.229	.731	.497	-4.056	7.283

The study found out that, when performance was measured by surplus or deficits, assuming all other variables were constant, SACCO performance would increase by 2.292. It also stated that, if all other variables were constant, given a unit increase in expansion investment, SACCO performance would increase SACCO performance by 0.75. Given a unit increase in replacement and assuming all other variables are constant, SACCO investment would decline by -0.141. It was also found out that, if modernization equation was increased by a unit, assuming all other variables were constant, SACCO performance would increase by 0.53. The study finally concluded that if all variables were constant, an increase by a unit of research and development would result to an increase in SACCO performance by 1.613. None of the four independent variables was found to be significant to SACCO performance. The model was then presented as; $Y_2 = 2.292 + 0.075X_1 - 0.141X_2 + 0.53X_3 + 1.1613X_4$

4.4 Analysis of variance (ANOVA)

The ANOVA analysis between investment decision and SACCO performance measured by Dividend is presented as per below table.

Table 4.7 ANOVA on regression line one

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	1.975E16	4	4.937E15	31.345	.001 ^a
Residual	7.876E14	5	1.575E14		
Total	2.054E16	9			

The first regression equation was found to have a significant effect. However as noted in the regression equation one, only research and development was found to be significant to SACCO financial performance. This significant level also illustrated that; the model can only vary from influencing SACCO financial performance by a margin of 0.001.

ANOVA analysis on regression line two was conducted and results presented as in table 4.8 below;

Table 4.8: ANOVA on Regression format Two

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	3.281E15	4	8.203E14	1.864	.255 ^a
Residual	2.200E15	5	4.400E14		
Total	5.481E15	9			

According to the researcher, the second model presented varying results as compared to the previous model. This was illustrated by the high significant level of variation at 0.255 indicating that the model has a high chance of varying results from the expected results of the study. This is also supported by the small F-test rated at 1.864 thus indicating a small general relationship among variables

4.5 Effect of Expansion decisions on SACCO Financial Performance

The study revealed that, expansion decision had negative contribution to SACCO financial performance as measured by dividends with a -0.029. This indicated that an increase in Expansion investment by one unit would lead to a decline in SACCO financial performance by -0.029 while a decline in expansion investment by one unit would increase SACCO performance by 0.029. This is in line with Modigliani and Miller Theorem of 1958 as the theory stated that increase in investment does not result to an increase firm performance due to ever present market imperfections. As per the study expansion decisions were found to have a positive contribution to SACCO financial performance as measured by surplus with a contribution of 0.075. This indicated that an increase in expansion decision by one unit would result to an increase in SACCO financial performance by 0.075 while a decrease in expansion decision by one unit would decrease SACCO performance by 0.075; this is in support of Roger (2010) who stated that allocation of assets (investment) has a positive influence on the SACCO performance. It was also noted also from the regression tables that expansion decision is not significant to SACCO financial performance.

4.6 Effect of Replacement decision on SACCO Financial Performance

The study results found out that replacement decisions had a positive contribution to performance as measured by dividends presented by the value 0.154. This indicated that, a unit increase in replacement investment would lead to 0.154 increases in SACCO performance while a decrease in replacement expansion would reduce performance by 0.154. This supports Mark and Robert (2008) study which compared managerial replacement decisions and firm performance and concluded that managerial replacement has a positive impact on firm performance. Replacement

decision was found to have a negative effect to SACCO performance as measured by surplus or deficits by -0.041. This indicates that an increase in replacement investment by one unit would lead to a decrease in performance by -0.141. On the other hand, a decrease in SACCO performance by one unit would increase SACCO performance by 0.141. This is in support of Trevor (2015) study on firm financial performance following system replacement which stated that firm replacement decision was not financially significant to firm performance. The study also noted that, replacement decision was not significant to SACCO financial performance.

4.7 Effect of modernization decisions on SACCO Financial Performance

The study found out that modernization decisions had a positive contribution to SACCO performance as measured by both dividends and surplus or deficits with a contribution of 0.086 and 0.53 respectively. This indicated that an increase in modernization investment by one unit would increase SACCO performance as measured by dividends and surplus or deficits by 0.154 and 0.53 respectively. If modernization investments are reduced by one unit SACCO financial performance would also decline by 0.154 and 0.53 respectively. The above results contradicted results by Yiming *et al.* (2011) who found out that modernization decisions had a negative contribution to financial performance of borrowers, and also Jeffrey and Jeffrey (2012) who stated that modernization decisions do not influence firm performance. The study also found that modernization decisions were not significant to SACCO financial performance.

4.8 Effect of Research and Development Decisions on SACCO Financial Performance

The study found out that research and development decisions had a positive contribution to SACCO performance as measured by dividends and surplus or deficits with a contribution of 12.133 and 1.1613 respectively. This indicates that, an increase in research and development investment by one unit would increase SACCO performance as measured by dividends and surplus or deficits by 12.133 and 1.1613 respectively. On the other hand, a decrease in SACCO performance by one unit would result to a decrease in SACCO performance by 12.133 and 1.1613 respectively. This research supports results of other researchers made of Hassan *et al.* (2014) and Boem *et al.*, (2013) who stated that research and development have a positive effect to performance. It however contradicts Shrihari *et al.*, (2013) who stated that increasing a firm's research and development does not increase a firm performance. The study found research and development to have a significant effect to SACCO financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

The researcher adopted this chapter in presenting the summary of the findings, conclusion, and the recommendations of the study to market participants and recommendations for further study.

5.1 Summary of Findings

The study involved determining the effect independent variables (expansion decision, replacement decision, modernization decision and research and development decision have on SACCO performance which was measured by two variables (dividends and surplus or deficits). Due to the above nature of relationship, effect of independent variables on SACCO performance was analyzed in two fold by evaluating the effect each variable has on each measure of SACCO performance. The results were found to be as follows;

The first objective was to assess the effect of expansion decision on financial performance of SACCOs in Kitui Central Sub-County. The study found that expansion decisions had a negative contribution to SACCO performance measured by dividends whereas it had a positive contribution to SACCO performance measured by surplus or deficits. The results of the study also found out that expansion decision was not significant to SACCO financial performance.

The second objective was to find out the effect of replacement decision on financial performance of SACCOs in Kitui Central Sub-County. The study found out that replacement decision had a positive contribution to SACCO performance as measured by dividends while it had a negative contribution to SACCO performance as measured by surplus or deficits. The study found out that, replacement decision was not significant to SACCO financial performance.

The third objective focused on determining the effect of renewal decision on financial performance of SACCOs in Kitui Central Sub-County. The findings of the study stated that renewal or modernization decisions had both positive contributions to SACCO performance as measured by dividends and surplus or deficit. It was also established from the study that modernization decision was not significant to SACCO financial performance.

The fourth objective focused on ascertaining the effect of research and development decision on financial performance of SACCOs in Kitui Central Sub-County. The findings of the research stated that, research and development decisions had positive contributions as related to SACCO performance measured by dividends and surplus or deficits. The study found out that research and development decision was significant to SACCO financial performance.

5.2 Conclusion of the Study

The results of the study implied that of all the four predictors of the multiple regression, only research and development was found to be significant to SACCO performance while expansion decision, replacement decision, and renewal decision not significant to SACCO performance.

5.3 Recommendations

As per the findings of the study, the following recommendations were made;

The board members should also focus on investing more in research and development decisions as they have the highest contribution to performance and also the least variations from expected results as compared to expansion decision, replacement decision, and renewal decision which were portrayed as not significant to SACCO performance.

The government should focus on ensuring that its regulations cover SACCO reporting of performance to ensure that SACCOs report performance using both dividends and surplus or deficits. This is because; a SACCO may not portray true performance by a focus on surplus or deficits alone as it has portrayed all investment decisions as not significant to SACCO financial performance.

It is also recommended that, great attention be given to investment decision when stakeholders are evaluating SACCO performance since investment decisions affect a large percentage of SACCO performance as compared to other non-explained variables.

5.4 Suggestions for Further study

The study focused only on investment decision and thus a research can be done on other finance functions including financing decisions, dividend decisions and liquidity decisions so as to determine their effect on performance. The study also focused on financial factors in investment leaving other non-financial variables in investment decisions like board composition, upon which a study should also be done to

determine their effect to SACCO performance. The study can also be applied to the other areas in financial sector apart from the SACCO sector and compare its results.

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Appendix I: Introduction letter

MULI ABEDNEGO MUSAU

SOUTH EASTERN KENYA UNIVERSITY

P.O BOX 170-90200, KITUI

14th January, 2016

TO, WHOM IT MAY CONCERN


RE: REQUEST FOR PROJECT RESEARCH DATA

I hereby take the opportunity to request for data on the research topic; Effects of Investment Decisions on SACCO Financial Performance in Kitui Central Sub-County. The information is intended to understanding the role the above decisions have on SACCO performance. As a result the information will be solely used academically. The results of the study will also be an aid to developing SACCO sector in the county if implemented. Any assistance granted is highly appreciated.

Thanks in advance

Muli AbednegoMusau

Appendix II: Introduction Letter from the University


SOUTH EASTERN KENYA UNIVERSITY
OFFICE OF THE DIRECTOR
BOARD OF POST GRADUATE STUDIES

P.O. BOX 170-90200
KITUI, KENYA
Email: info@seku.ac.ke

TEL: 020-2413859 (KITUI)
020-2531395 (NAIROBI)
E-mail: directorbps@seku.ac.ke

Our Ref: D61/KIT/20457/2014
Date: Wednesday, February 03, 2016

Muli Abednego Musau
Reg: D61/KIT/20457/2014
Master of Business Administration
C/O Dean, School of Business and Economics

Dear Muli,

RE: PERMISSION TO PROCEED FOR DATA COLLECTION

This is to acknowledge receipt of your Master in Business Administration Proposal document entitled, *"Effects of investment decisions on financial performance of savings and credit cooperatives in Kitui Central Sub-County"*.

Following a successful presentation of your Master Proposal, the School of Business and Economics in conjunction with the Directorate, Board of Post graduate Studies (BPS) have approved that you proceed on and carry out your research data collection in accordance with your approved proposal.

During your research work, you will be closely supervised by Dr. Jared Ariemba and Mr. Zablon Evusa. You should ensure that you liaise with your supervisors at all times. In addition, you are required to fill in a Progress Report (**SEKU/ARSA/BPS/F-02**) which can be downloaded from the University Website.

The Board of Postgraduate Studies wishes you well and a successful research data collection as a critical stage in your Master of Business administration.

For Kitui
Prof. Cornelius Wanjala
Director, Board of Postgraduate Studies


Copy to: Deputy Vice Chancellor, Academic, Research and Students Affairs
Dean, School of Business and Economics
Chairman, Department of Business & Entrepreneurship
Dr. Jared Ariemba
Mr. Zablon Evusa
Director, Kitui Campus
BPS Office- To file

ARID TO GREEN TRANSFORMING LIVES

**Appendix III: Introduction letter from Ministry of Trade and
Cooperatives- Kitui County**

THE COUNTY GOVERNMENT OF KITUI

Email:
kituicounty@kenya.go.ke
When replying please quote



CHIEF OFFICER'S OFFICE
KITUI COUNTY
P. O. Box 58 - 90200
KITUI

COUNTY MINISTRY OF TRADE, INDUSTRY, ICT AND COOPERATIVES

REF NO: MTIIC/3/7/VOL. 1/312 Date: 22nd January 2016

TO WHOM IT MAY CONCERN

RE: INTRODUCTION LETTER

We hereby certify that **MULI ABEDNEGO** Reg. No:
D61/KIT/20457/2014, ID NO.27734712 is a student at
South Eastern Kenya University (SEKU) doing his MBA project
in Kitui Central -Sub County.

Any assistance accorded to him will be highly appreciated.

Sincerely,

ASSISTANT DIRECTOR
COOPERATIVES

SIGN:.....

22 JAN 2016

GOVERNMENT OF KITUI
P. O. Box 33 - 90200, KITUI

NELSON MUSYOKA,
ASSISTANT DIRECTOR – COOPERATIVES,
KITUI COUNTY.

Appendix IV: Data collection table

Years	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
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Funds

Investment

Expansion

Replacement

Modernization

Research and
development

Measures of

SACCO

performance

Dividends

Surplus or

Deficits

Appendix V= A list of SACCOs in Kitui Central sub-county

Financial Cooperatives (SACCOs)

Non- financial Cooperatives

Kitui Teachers SACCO

Kitui Horticultural Farmers Cooperative

Mwalimu SACCO

Kitui Central Dairy Farmers Cooperative

Universal Traders SACCO

Kitui Tobacco Farmers Cooperative

Fundi Net SACCO

Best Rock SACCO

Biashara Traders SACCO

Kinatwa SACCO

Mbikisa SACCO

Jarib SACCO
