Exploring Financial Landscapes

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Relationship between Asset-Backed Securities and Financial Performance of Listed Commercial Banks in Kenya

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Abstract

Purpose: The purpose of this study was to establish the relationship between asset-backed securities and financial performance of listed commercial banks in Kenya.

Methodology: Descriptive survey research design was used. The target population was the listed commercial banks that are in Kenya. Census technique was applied in the study. Data was collected from 11 listed commercial banks in Kenya using closed-ended questionnaire. The required information was provided by all risk managers, finance managers, compliance managers and operations managers. To ensure validity and reliability, questionnaires were pre-tested with non-listed commercial banks in Kenya. The coded data was analyzed quantitatively where mean, percentage and standard deviation were computed while linear and multiple regression analysis were used to test the hypothesis, and information presented using Tables.

Findings: The findings showed that many banks either generally agreed with the statements on the questionnaires. The influence of asset-based securities on financial performance was at a mean 3.8227 and standard deviation of 1.38128. The adjusted R square value of 0.824 implied that asset backed securities predicted 82.4% of the variability in the financial performance. Therefore, asset backed securities could be used to predict financial performance.

Unique Contribution to Theory, Practice and Policy: This study contributed the outcome of the relationship between asset-backed securities and financial performance of listed commercial banks in Kenya. Banks will be able to use securitization to free up with-held bank's capital in loans hence reinvesting the capital in other ventures leading to improved financial performance. Commercial banks are recommended to issue more asset backed securities and there should be policies developed to guide commercial banks on asset backed securities This is because asset backed securities can partake in improving the capital structure of business banks in Kenya, thus, improving benefit and avoiding the base capital guideline edge.

Keywords: *Asset Backed Securities, Financial Performance, Listed Commercial Banks*

INTRODUCTION

Financial performance is the degree of organization's overall financial fitness through fluctuations in its business economic periods (Makkar & Singh, 2017). The financial performance of a bank is crucial towards the stability of the financial sector which has a potential effect on economic growth. The economic aspect of any nation is strengthened more by a well-regulated and managed banking sector. Failure of the banking sector in an economy was the main cause of the financial crisis in 2008 which caused banks' performance globally to decline (Kanwal, 2014).

There have been low post crisis net profit margins and return on equity as compared to pre-crisis levels in America (Weigand, 2016). Inadequate auditing, misstated regulatory reports, operational shortages, congestion, interest rates that are low and weak capital base of less than 19.5 percent relative to the risk-weighted assets had affected Asian banks such as Napal banks and Japan banks; European banks such as Deutsche Bank in Germany and Banco Espirito Santo in Portugal (Economist, 2018; Weigand, 2016; Weigand, 2015).

This led to formulation of laws that allowed banks to transfer risks to depositors. These laws allowed banks default on deposit insurance when a systematic crisis arose and even looked for protection from creditors. This eventually caused financial failure that exposed banks to huge risks (Deloitte, 2019).

Regionally, low income levels in many African countries caused uneven distribution of revenues generated by banking sectors. This made banks in African nations like South Africa, Nigeria, Egypt, Angola, and Morocco account for 68 percent of total Africa banking revenue pool, while, the remaining 49 countries represented only 32 percent (International Monetary Fund (IMF), 2014; African Development Bank Group (AfDB), 2014). Commercial banks in African nations like South Africa, Nigeria, Tunisia, Ethiopia and Rwanda turned to financial innovations such as trade financing, mobile banking, debit and credit card banking and ATM banking (Nguena, 2019; AfDB, 2017). This was done with an aim of boosting their performance and facilitated improvement of income levels among African nations (AfDB, 2017). Ninety percent of commercial banks in East, North, and West Africa were actively engaged in trade finance. South African banks while Central Africa commercial banks accounted for 87 and 82 percent respectively (AfDB, 2017).

In Kenya, low financial performance due to capital, liquidity deficiencies and fraudulent activities was experienced among commercial banks in Kenya (Kamande, Zablon and Ariemba, 2016). This was even further emphasized by (Kaneza, 2016) who indicated that quality of assets had immensely deteriorated the financial results of many commercial banks in Kenya. Return on equity and return on assets decreased significantly in many banks due to increase in non-performing loans (Kaneza, 2016). These issues among others were found to have been compelling banks into replacing traditional banking methods with alternative financial innovations such as securitization of assets to improve their financial performances (Ngari & Muiruri, 2014).

An asset backed security is a type of marketable security issued through notes which are secured by predictable future cash movements from revenue generating pool of underlying assets that were small, illiquid and unable to be sold individually to disperse risk (Giron & Chapoy, 2012; Loutskina & Strahan, 2009).

Business banks have had the option to designate capital successfully, get to various cost agreeable financing sources and oversee credit hazards through utilization of securitization. Non-banks firms, for example, speculative stock investments have given rivalry to business banks as they draw in banks' pieces of the pie and benefit in credit protections making banks to embrace a portion of their practices which are testing and unsafe. This weight put on financial industry to securitize increasingly through starting credits however much as could be expected, puts the business on center to obviously comprehend the advantages and intrinsic dangers related with securitization (Comptroller's Handbook, 1997).

Statement of the Problem

An effective and regulated asset backed security structure usually motivates commercial banks to improve their financial performance (Banco de españa, 2015). This is through true sale of illiquid assets such as long-term loans packaged into tradable securities in the capital markets. By trading illiquid assets, commercial banks held-up capital in the long-term loans is freed to offer more credit to clients (Deloitte, 2018). When there is adequate capital, liquidity is enhanced leading to improved financial performance in commercial banks (Musyoka, 2017).

Unlike that, listed commercial banks' profitability has been low despite presence of asset backed securities sales taking place in Kenya (Banking Act chapter 488, 2015). In 2017, banks such as Standard Chartered Bank profit after tax deteriorated by 38 percent to Ksh4.73 billion. Cooperative bank of Kenya's profit after tax was Ksh 9.57 billion from Ksh 10.54 billion, which was a decline of 9.5 percent, Equity bank's profit after tax was Ksh14.6 billion which was three percent fall. KCB's total profit after tax was the same as the previous year which was Ksh15.072 billion (CBK, 2017).

Likewise, many studies have linked financial performance to various asset-backed securities, however, most of them have shown inconsistencies. For instance, (Kozubovska, 2016; Mawutor, 2014; Shin, 2009) supported that there was financial stability in commercial banks while others like (Jiangli, Pritsker & Raupach, 2007; Demarzo, 2005) complained of financial fragility in commercial banks as a result of introduction of asset-backed securities. Locally, there were no studies done in relation to the topic necessitating this study to look at what influence did asset backed securities have on financial performance of listed commercial banks in Kenya.

Purpose of the Study

To establish the relationship between asset-backed securities and financial performance of listed commercial banks in Kenya.

Hypothesis

H_{01}: Asset backed securities do not significantly influence financial performance of listed commercial banks in Kenya.

LITERATURE REVIEW

Theoretical Review

The study was guided by regulatory arbitrage theory. This theory was propagated by Frank Partnoy in 1997. Partnoy recommended that any managed establishment exploits the contrast between its business hazard and the administrative position. That is, there ought to be money related exchanges drafted to decrease costs brought about by laws. It should be an obligation of any association to decrease costs as most minimal as could reasonably be expected and increment returns while watching the law.

Since laws are uniform to all organizations, foundations ought to consistently guarantee that they think of advancements inside the law that can be utilized by the establishment to have a serious market edge over other comparable foundations. The theory was embraced in guiding investigation in this study since, asset backed securities can partake in improving the capital structure of business banks in Kenya, thus, improves benefit and dodges the base capital guideline edge. Generally, commercial banks with lower capital requirement issue more asset backed securities (Acharya and Schnabl, 2010). By issuing the ABS, commercial banks gain more benefits, which have no influence on their investment decisions. With regards to this investigation, the theory held that the inspiration for business banks to securitize resource supported protections isn't to move chance however to keep away from related guideline (Leland, 2007).

Empirical Review

Initially, securitizations in resources sponsored via car loans and credit card were first evolved by business banks in America in 1980s while credit card securitization developed before the 2008 financial crisis (Xingyun, 2015). As toward the end of 2007, the exceptional obligation balance was 323 billion dollars (Diamond Hill Capital Management (DHCM), 2018). Mastercard issuance was most noteworthy with 95.7 billion dollars in 2007. In 2008, Visa issuance was 55 billion dollars declining to 51.5 billion dollars in 2009 (DHCM, 2018). In 2010, 6.5 billion dollars Visa issuance was the lowermost situation since 1980s (DHCM, 2018).

Accessible writing demonstrated that credit card industry has since recuperated and developed. An ongoing report from DHCM (2018) indicated that an issuance normal of 36.7 billion dollars from 2013 to 2017. By September 2018, it had an issuance of 25.8 billion dollars. Mastercard securitization has started to lead the pack in all classes of benefit sponsored protections with 108 billion dollars remarkable parity as at September 30, 2018 (DHCM, 2018). The Study by Dong in 2017 on impacts of securitization on the activity of business banks in America, Europe and Asia, discovered that normal default rate had critical relationship with securitized resources. This caused banks not to report default rates which in the end came about to methodical hazard.

Studies, for example by World Bank (2017) and European Banking Authority (2017) completely harped generally on the board of benefit sponsored protections neglecting at low issuance of advantages that supported them; for example, charge cards and vehicle credits levels. In Africa, the idea of securitizing vehicle advances and charge cards receivables among other sponsorship resources is as yet developing with certain nations like Ghana not rehearsing it by any stretch of the imagination (Ngwu et al., 2017). This is ascribed for the most part due to non-performing loans hindering development of new loans and low use of charge cards bringing low market for resource sponsored protections in many creating countries (Ngwu et al., 2017).

An investigation by Malak (2014) on the impacts of money related development on the budgetary presentation of business banks in South Sudan which is in East Africa, built up that business banks were building up Visas among other current installment frameworks. The absence of legitimate administration of money related developments by banks, illiquidity and unsafe resources in Kenyan market influenced its development. For instance, few matchings of offers and offers coming about to high value-based expenses constrained CMA to give new rules that guarantee chance moved from vender to purchaser was shared to lessen pool of negative associated resources (CMA, 2018; Mbugua, 2014).

METHODOLOGY

This study adopted descriptive survey research design. It was based at the headquarters offices of listed commercial banks present in Kenya. This is because asset securitization process in a commercial bank is coordinated between accounts department, operations department and risk department (Deloitte 2018; CMA 2018). Most of these departments are only found at the headquarters offices and not at branches (CBK, 2018). Data was provided by all heads of department in risk finance, compliance and operations departments from each of the 11 commercial banks listed at NSE as at 1st September, 2019 through census technique. Due to fairly small population, all listed commercial banks participated in the study.

This study adopted a self-administered questionnaire which had closed-ended questions which were in a Likert scale as recommended by Ngumi (2013). The questionnaires were pre-tested on eight respondents who were officers in risk, finance, compliance and operations departments from non-listed commercial banks in Nairobi. In addition, secondary data was obtained through data collection sheets from the listed commercial banks' financial reports. These reports were readily available from each of listed commercial bank's website.

The researcher searched over the internet the name of the bank, proceeded to download the reports such as balance sheets and income statements for analysis. Analysis of documents such as financial statements was done using horizontal analysis. Horizontal analysis was a method used to compare an organization's two or more year's financial data and expressed in percentage form (Lakada et al., 2017). Linear regression was used to test each hypothesis while multiple regression analysis was used to measure the influence of asset backed securities and financial performance.

FINDINGS

Reliability Statistics

To ensure the reliability of the instrument, Cronbach's Alpha was used on the proposed questions. The acceptable alpha coefficient should be at least 0.70 (Cooper & Schindler, 2014). Pre-test of this study gave the alpha values of all variables which were above 0.70 as shown in Table 1.

Table 1: Reliability Test Statistics

Cronbach's Alpha	No of Items
.967	8

The general reliability result is of 0.967 alpha. This indicates a strong internal consistency among measures of variable items. This implied that the data collection instrument was therefore reliable and acceptable for the purposes of the study.

Response Rate

A total of 44 questionnaires were distributed to the heads of department in risk finance, compliance and operations departments at each of the 11 commercial banks listed at NSE as at 1st September, 2019. All the 44 questionnaires were given back when fully filled by the respondents. This signified 100% on response. This was directly attributable to a high level of confidence and professional rapport that the research assistants created with the head of departments in the listed commercial banks. The note book gifts given to the respondents also partly played towards this high response.

These results are concurrent with Raychaudhuri et al. (2010) who collected 332 responses out of the intended 332 from students. The results were as a result of issuing gifts to the students after responding to the survey. Mugenda and Mugenda (2003) pinpointed results above 70% were termed to be very good, 60% is good and above 50% is adequate for a descriptive study.

Background Profiles of the Respondents

The study sought to establish how long the respondents had worked in the listed commercial banks in Kenya. The study considered this information relevant given that the longer the period they had worked, the more they would be able to understand the relationship between asset securitization and financial performance. The work duration (in years) information is given in Table 2.

Table 2: Work Duration

Years	Frequency	Percent	Cumulative Percent
Less 10	18	40.9	40.9
11-20	14	31.8	72.7
21-30	8	18.2	90.9
Above 30	4	9.1	100.0
Total	**44**	**100**	

The results as presented in Table 2 showed that 18(40.9%) of staff had worked for less than 10 years, 14 (31.8%) for a period between 11-20 years, 8 (8.2%) for 21-30 years while only 4 (9.1%) had worked for more than 30 years. This implies that majority of the respondents had worked less than 10 years due to continuous job shifting in the banking sector. The second category which was 14 (31.8%), had worked more than 10 years.

This showed that they were experienced due to their long service in the commercial banks having worked for more than 10 years. It was therefore expected that the respondents had in-depth information regarding the research topic and would be able to rate the variable under consideration effectively. Similar results were also reported by Obiero (2014) who established that high job shift was due to control, freedom, conducive environment to attain targets, salary and job satisfaction.

Descriptive Analysis of Asset-Backed Securities

The main purpose of the study was to establish the relationship between asset-backed securities and financial performance of listed commercial banks in Kenya. Head of departments were asked through various statements and measured by establishing the extent of agreement. The rating scale was5; Agree symbolized by 4; Neutral symbolized by 3; Disagree symbolized by 2; Strongly Disagree symbolized by 1, on the level of influence. The study was specifically interested to know how asset backed securities had impacted on gross profit, net income, cost of credit, total equity capital, and total assets of the bank. The results obtained are presented in Table 3.

Table 3: Descriptive Analysis of Asset Backed Securities

Statements N=44	Mean	Std. Dev
Asset backed securities improved gross profit of the bank	3.8864	.96968
Asset backed securities Automobile securities had a positive effect on increasing net income of the bank	3.8636	1.19283
Asset backed securities lowered cost of credit	3.7273	1.22690
Asset backed securities led to overall total equity capital growth of the bank	3.8409	1.03302
Asset backed securities expanded total assets of the bank	3.7955	1.26821
Aggregate Mean& Std. Dev	**3.8227**	**1.38128**

The findings in Table 3 show a mean of 3.8227 and standard deviation of 1.38128. The listed commercial banks concurred significantly that asset backed securities improved gross benefit. This result had the most elevated mean of 3.8864. The banks nearly differ that asset backed securities reduced expense of credit which had the least mean of 3.7273 in this segment. Most reactions in Table 3 indicate that, they either firmly concurred or concurred with the entirety of the sentiments.

These outcomes showed that sales of securities had assumed an essential job in upgrading gross benefit; were financially savvy and had less consumption ascribed to them, subsequently improving the net benefit. Recorded business banks had the option to accomplish their objective of guaranteeing that the investor's riches were augmented; and recorded business banks were guaranteed of their banks a going worry for a considerable length of time to drop by selling vehicle securities. Past examination, for example, Dong (2017) additionally settled that income of business banks expanded because of banks participating in securitization of vehicle loans.

Abdikadir (2017) comparatively found that when banks put resources into territories that developed their financial performance, this came about to improved ownership values and higher dividend installments.

Financial Performance Indicators

The study assessed the financial performance of listed commercial banks. The financial performance indicators such as return on equity, return on assets and net interest margin rates for a period between 2014-2018. The rates were analyzed and their means derived as indicated on Table 4.

Table 4: Financial Performance Indicators

Variable	N	Mean	Std. Dev
Return on equity	11	3.6246	1.9038
Return on assets	11	2.9872	1.7284
Net interest margin	11	3.1544	1.7761
Average	**4**	**3.2554**	**1.8028**

The findings demonstrated that the financial performance pointers had a normal mean of 3.2554 and a standard deviation of 1.8028. Return on equity had the most elevated mean of 3.6246 while return on assets had the least mean of 2.9872. The outcomes showed that recorded business banks execution lied between low to medium performance. The results are consistent with Muia (2017) and Irungu (2019) who got comparable outcomes when the investigation found a low profit for resources, return on equity and a normal exhibition on net premium edge.

Hypothesis Testing

In establishing the relationship between asset-backed securities and financial performance of listed commercial banks in Kenya, the hypothesis WAS tested accordingly. The study hypothesized that asset-backed securities did not significantly influence financial performance of listed commercial banks in Kenya. The results in Table 5 show R value of .910 which indicates a strong positive correlation. The P value of constant is insignificant (.128), hence the adjusted R square value was used instead as indicated in Table 6. The adjusted R square value of 0.824 implied that asset backed securities predicted 82.4% of the variability in the financial performance. The rest of the variability can be explained by factors beyond the asset-backed securities.

Table 5: Asset Backed Securities Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.910[a]	.828	.824	.48338

a. Predictors: (Constant), Asset backed securities

The finding therefore indicates that there is a very strong positive relationship between asset-backed securities and financial performance in listed commercial banks in Kenya. A report by African Development Bank Group (2014) indicated that it has always been a concern for any bank to have reliable operational activities, innovations, resources and finances that would place them into a road-map of always being in business throuought the economic cycles. In the report, African banks were highly advised to originate asset-backed securities in order to have more income.

ANOVA for Linear Relationship between Asset-Backed Securities and Financial Performance

The output in Table 5 indicates that the *p*-value was 0.000 which was less than 0.05 significance level. This implied that the relationship between the asset backed securities and financial performance was statistically significant and the model could be used to predict the dependent variable. The study therefore rejected the null hypothesis and concluded that asset backed securities are an important determinant of financial performance in listed commercial banks.

Table 6: ANOVA for Asset-Backed Securities and Financial Performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	47.368	1	47.368	202.730	.000[b]
	Residual	9.813	42	.234		
	Total	**57.182**	**43**			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Asset backed securities

This finding in Table 6 is consistent with the study by Capital Market Authority (2018) and Mbugua (2014) noted that by investors accepting to buy asset-backed securities in the Nairobi securities exchange, there was more provision of new loans in future that would be used to issue more securities in the capital market. In the long run, this would positively affect financial performance of the banks.

Regression Coefficients

The regression coefficients presented in Table 7 indicate that asset backed securities statistically and significantly influenced financial performance of listed commercial banks in Kenya ($\beta = 0.910$, $t = 14.238$, $p<.05$). The study used standardized coefficients beta score and not the unstandardized coefficient because the P value of constant is insignificant (.128).

Table 7: Asset-Backed Securities Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
	(Constant)	-.258	.166		-1.554	.128
	Asset backed securities	.962	.068	.910	14.238	.000

a. Dependent Variable: Financial Performance

The beta values of asset = 0.910 indicated that asset backed securities positively influenced the financial performance of the listed commercial banks in Kenya. This finding indicates that, for every increase of one unit of asset backed security, there was a statistically significant increase of financial performance by 0.910. Chen (2018) also got similar outcome when the study realized that loans that had less risks when securitized proved to be efficient and effective.

SUMMARY, CONCLUSION AND RECOMMENDATION

Summary of the Findings

The main objective was to assess if asset backed securities had any influence on financial performance of listed commercial banks in Kenya. The findings showed that many banks either generally agreed with the statements on the questionnaires. The influence of asset-based securities on financial performance was at a mean 3.8227 and standard deviation of 1.38128. The adjusted R square value of 0.824 implied that asset backed securities predicted 82.4% of the variability in the financial performance. Therefore, asset backed securities could be used to predict financial performance.

Conclusion

The study established a positive relationship and statistically significant between that asset backed securities and financial performance. That meant that listed commercial banks in Kenya were able to achieve their goal of ensuring that the shareholder’s wealth is maximized and assurance of their banks a going concern for years to come by selling asset backed securities. Continuous sale of asset backed securities in the capital markets by banks makes their profitability improve hence placing them at a significant position towards developing the economy.

Recommendations and Contributions of the Study

The relationship between asset-backed securities and financial performance of listed commercial banks in Kenya is vital in ascertaining the future of economic growth in the banking sector. Understanding the relationship has implications on establishing of policies that will guide and protect the quality of asset backed securities issued by banks in Kenya. This paper has shown the extent of the impact that asset backed securities have on financial performance of listed commercial banks in Kenya. This point out need for more customized asset-backed securities in order to boost financial performance in listed commercial banks in Kenya. Commercial banks are recommended to issue more asset backed securities and there should be policies developed to guide commercial banks on asset backed securities This is because asset backed securities can partake in improving the capital structure of business banks in Kenya, thus, improving benefit and avoiding the base capital guideline edge.. The study suggests future studies to focus on customized asset-backed securities, such as, how bancassurance securities can be incorporated to improve financial performance in the listed commercial banks in Kenya. The study also suggests that future researcher can focus on challenges of operationalizing asset backed securities in the listed commercial banks in Kenya.

Emerging Issues and Controversies

Risk Management and Quality of Assets: One key concern is the quality of the underlying assets in ABS. If the assets, such as loans or mortgages, are of poor quality or have a high default rate, it can lead to lower cash flows to support ABS payments. Commercial banks need to ensure proper risk assessment and management of the assets before packaging them into ABS.

Market Perception and Investor Confidence: If there is a lack of transparency in the ABS market or if investors perceive that the information provided about the underlying assets is inadequate, it can erode investor confidence. Controversies related to misrepresentation or inadequate disclosure can lead to legal and reputational risks.

Liquidity and Secondary Market Trading: Liquidity issues in the secondary market for ABS can impact the financial performance of commercial banks. If there's a lack of buyers for ABS in the secondary market, banks might face challenges in raising funds. Additionally, changes in interest rates or economic conditions can affect the trading value of ABS.

Regulatory Oversight and Compliance: Regulatory bodies may have concerns about the issuance and trading of ABS. There might be ongoing debates about the appropriate level of regulation and oversight to ensure investor protection while also promoting market growth.

Macroeconomic Factors: Economic conditions can impact the performance of underlying assets and, consequently, the performance of ABS. For instance, economic downturns can lead to higher default rates, affecting the cash flows supporting ABS payments.

Credit Rating Agencies and Ratings: Controversies surrounding credit rating agencies' assessments of ABS can impact their attractiveness to investors. Disagreements over the accuracy of ratings or concerns about potential conflicts of interest can arise.

Legal and Regulatory Changes: Changes in local or international regulations regarding ABS can introduce uncertainty and potential controversies. Regulatory shifts might impact the terms, issuance process, or reporting requirements for ABS.

Impact of Technological Advancements: The emergence of fintech and digital lending platforms might influence the way assets are originated and assessed for ABS. This could lead to debates about the accuracy and reliability of digital lending data.

Environmental, Social, and Governance (ESG) Considerations: Increasing attention to ESG factors can impact investor preferences. If the underlying assets in ABS do not align with ESG criteria, it might affect investor demand.

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The Challenges of Savings on Credit Unions in Creating Wealth: A Case Study of Zambia Army Savings and Credit Union

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Abstract

Purpose: The aim of this study was to identify the challenges of savings on Zambia Army Savings and Credit Unions in creating wealth and recommend possible solutions.

Methodology: The study used mixed research methods to collect qualitative and quantitative data, as both could not give the satisfactory results due to weaknesses in each method. Eighty (80) respondents were sampled of which seventy were sampled from members of ZASCU in survey questionnaire and the other ten (10) were for in-depth interview from management. Top management of six (6) respondents and four (4) respondents from operation level were purposively sampled for expert sampling and in-depth interviews were used as a data collection technique. The other respondents were randomly sampled selected using probabilistic sampling, where every individual had an equal chance of being selected. Quantitative data was analyzed using SPSS version 21 and qualitative data was analyzed using thematic content analysis and document review. The research study's results collected through the questionnaire, in-depth interviews and document review showed that ZASCU had challenges of savings in creating wealth.

Findings: The results showed the following challenges: 26% of participants cited delay in disbursing of money, 14% respondents identified inadequate online system and 19% was for lack of skilled personnel. Members had another concerned of limitation in loan facility as 21% of the respondents cited it and 20% had a concern for underutilization of funds at ZASCU. ZASCU needs to be as strategic in the market as it faces stiff competition from other lending institutions providing similar services.

Unique Contribution to Theory, Practice and Policy: The study recommended that ZASCU needed to have modern technologies for online system, skilled personnel, prudence in financial management, paying on time and increase on loan disbursements. The challenges of savings are affecting negatively on ZASCU in creating wealth and this has caused loss of confidence by stakeholders, and the sooner the solutions to mitigate the saving challenges are found and implemented the better.

Keywords: *Saving Challenges, Savings, Credit Unions, Wealth Creation.*

INTRODUCTION

Savings and Credit Cooperatives (SACCOs) are established when a group of people with a common bond (e.g. work place, religion, location, community, profession) decide to save their money together for a commonly agreed purpose (Adekunle, 2011). Financial Cooperatives are member-owned Cooperatives with the mandate to mobilize savings and provide access to affordable credit to members as a way to assist their socioeconomic well-being (ICA, 2013). In financial Cooperatives, the members are simultaneously owners and clients and the Cooperatives are formed on common bonds, either community bonds or occupational/association bonds (ICA, 2013).

The common bonds are used as security because they ensure that members have a sense of identity, mutual concern, cooperation, loyalty and trust (Cheruiyot et al., 2012). This innovation mostly results in members engage in more income generating activities and consequently improves on their economic and social development. Borzaga and Galera (2012) state that the rise of the Financial Cooperatives model and its success globally, is attributed to its not-for-profit making nature as it strives to meet the needs of its clients and community at large.

Savings according to Kazi (2012) is the scheme intended to encourage customers to deposit more cash with the SACCOs and this money in turn will be used by the firms to disburse more loans and generate additional revenue for them. Savings are valuable to lower income households as a buffer against unexpected changes in income or expenditure (Paxton, 2002). Credit Unions offer the benefits that arise from this form of ownership in economic and social wellbeing (Nef, 2013). Methods of saving include putting money aside in, for example, a deposit account, a pension account, an investment fund, or as cash.

Savings and Credit Cooperatives (SACCOs) have solid bases of small saving accounts constituting of relatively low-cost source of funding and low administrative costs. Cooperative ensures the permanence and growth of the SACCOs even in turbulent economic times (Evans, 2001). This encourages more savings and the pooled funds are then used to extend loans and other services to members. They provide reasonable rates of interest and provide financial services to enable members improve their economic and social well-being. This saving effort and reduced current welfare is compensated with interest paid by Cooperatives to members. Cooperative members are encouraged to save as they receive an interest higher than the market offer.

Background

The potential of Cooperatives to respond to the social and economic needs of communities, and to constitute a distinctive and dynamic sector of the economy has been recognized internationally (Theron, 2010). Two social entrepreneurs named Hermann Schulze-Delitzsch and Friedrich Raiffeisen) first introduced the innovation of the savings and credit Cooperative model in the 1850s in Germany (Birchall, 2013). The Zambian government embarked on promotion of Cooperatives throughout the country immediately after independence.

Zambia Army embraced the importance of these institutions and it resulted in the formation of Zambia Army Savings and Credit Union (ZASCU) in 1983, which had the objective of creating wealth for serving members. SACCOs have been centered on providing loans to financially excluded people in the past, while savings have been neglected (Mwelukilwa, 2001). Zambia Army Savings and Credit Union (ZASCU) is a member Co-operative Societies of Zambia and its operations are enshrined in the revised Cooperative Societies Act of 1998. Military Personnel of Zambia Army used to access finance primarily through commercial banks, moneylenders, traders, friends and relatives at undesirable conditions. These economic challenges led Zambia Army into establishing ZASCU so that it mitigates those financial constraints faced by the employees.

The Statement of the Problem

Savings and Credit Cooperatives (SACCOs) are one of the most viable and sustainable institutions to provide accessible and affordable financial services to the vast majority of Poor people (Aregawi, 2014). They are the main financial solution of the people who have low income level. Zambia Army established ZASCU in order to encourage officers, soldiers and civilian employees (CEs) to pool together funds. However, wealth creation for some members of ZASCU is still low as there is a general concern on the challenges of savings. Membership levels have reduced at a faster rate in the last 10 years despite ZASCU having low interest on loans and high interest on savings. The driving force for undertaking this study is that little is known about the challenges of savings that ZASCU faces for its growth and sustainability of wealth creation.

Aim of the Study

The study aimed at investigating the challenges of savings on ZASCU in creating wealth and providing possible solutions. The study was done at Zambia Army Headquarters in Lusaka where the headquarters of ZASCU are located.

Research Objectives

- i To identify the existing challenges of savings on ZASCU at Zambia Army headquarters in Lusaka.
- ii To examine the current challenges of savings that ZASCU faces in creating wealth for members.
- iii To determine possible solutions to the challenges of savings on ZASCU, in creating wealth for the members and the institution.

Research Questions

- i What are the current challenges of savings that ZASCU is facing in creating wealth?
- ii Why is ZASCU facing these challenges of savings in creating wealth?
- iii How can ZASCU overcome these challenges of savings in creating wealth?

Significance of the Study

This study will help ZASCU management and members to understand how savings, credit and financial advisory services contribute to the creation of wealth. The study will help to serve as a basis for further research by institutions and other scholars, having contributed to its literature and

LITERATURE REVIEW

The contributions of various write-ups are reviewed and analyzed to establish their contributions and as well as getting a backup literature on the study on this pertinent area and identified the gaps in knowledge that this study proposed to fill.

Credit Unions

These Credit Unions are Cooperative financial organizations owned and operated by and for its members, according to democratic principles (ICA, 2012).Such institutions are created as extensions of their members' economies and aim to provide them with financial services (Barroso et al,2010).The basis of instituting a Cooperative organization includes common business interest, location, professional goals and objectives, need for social interaction on common interest, exploitation of common resources through group scheme (Kassali et al, 2013).

Wealth

Wealth maximization is the process that increases the current net value of business or shareholder capital gains, with the objective of bringing the highest possible return (Jones, 2013). Cooperative Unions are influential institutions in both industrialized and developing countries that contribute to socioeconomic development, support employment growth, and sustain a more balanced redistribution of wealth (Borzaga and Galera, 2012).

Savings

Savings according to Kazi (2012) is the scheme intended to encourage customers to deposit more cash with the SACCOs and this money in turn will be used by the firms to disburse more loans and generate additional revenue for them. Savings are valuable to lower income households as a buffer against unexpected changes in income or expenditure (Paxton, 2002. The amount to borrow is often a multiple of the members' current savings.

Challenges of SACCOs the Global Perspective

A challenge is a difficulty that bears within an opportunity for development. Once we triumph over a challenge, we rise up to a higher level than before (Kluss, 2016). The following are some of the challenges faced by Cooperatives in different countries in creating wealth:

Challenges of SACCOs in Brazil

The member-owner management of Credit Unions is characterized by low levels of professionalism and agency problems. McKillop and Wilson (2011) claimed that there were over 49,330 Credit Unions in 98 countries, totaling over 184 million members in 2009.Despite their importance, the number of Credit Unions have dropped. These Cooperatives are exposed to damaging political involvement and unbridled self-interest, almost no planning, which leads to staffing deficiencies and an inadequate support structure (Mckillop et al, 2011). These factors have caused dissatisfaction in stakeholder benefits resulting in low membership.

Challenges of SACCOS in India

The Cooperative movement in India was formed in 1904 under the auspices of British government. In India, co-operatives are unique as they were initiated and supported by common business needs and aspirations. Despite all the success there are challenges that SACCOs face in creating wealth .These Cooperatives are dogged by problems such as inadequate capital, poor member participation, absence of common brands, inadequate managerial skills, corruption and frauds (Siddaraju, 2012).

Challenges of SACCOs in Ethiopia

Saving and credit Cooperatives have been playing a distinct and important role in providing various financial services in rural areas of Ethiopia. However, the performance of financial Cooperatives in mobilization of saving and provision of credit has been inadequate (Kifle et al, 2013).The most critical challenges facing SACCO Co-operatives are among others, lack of standardized accounting and prudential standards, lack of concessionary credit facilities previously given by Government with donor contributions (Olga etal,2017).

Challenges of SACCOs in Zambia

The Co-operative business models maintain the livelihood of communities in which they operate, support the development of SACCOs, create sustainable employment and improved social standing of the members and their families (Von Ravensburg, 2011).The government and other development agencies in Zambia acknowledge the importance of not only strengthen the capacity of small-scale farmers but also facilitate the growth of SACCOs (USAID/Zambia, 2011-2015).The Cooperative sector have challenges that are affecting creation of wealth to stakeholders. Bonger and Chileshe (2013) survey reports, that Zambian Cooperative environment is characterized by lack of finance, imperfect market, modern technology constraints, and inadequate education and profession of staff. These challenges cause a lot of mistrust among members and lack of confidence in the services being rendered to clients.

Theoretical Framework

Theoretical framework was based on stakeholder theory, Ricardian theory and growth theory. This study was hinged on the Stakeholders theory which advocates for treatment of all stakeholders with fairness, honesty, and even generosity (Harrison et al., 2015). Ricardian theory of production and growth states that increasing either of the factors of production in this case capital, while holding the other constant and assuming no technological change, will increase output, (Bjork, 1999).The exogenous growth models largely pioneered by Solow (1956) postulate that productivity growth can only be explained through direct investment, population growth and technological progress. The study was hinged on productivity, stakeholder interests and the growth in operations of the institutions with the objective of satisfying members and meeting the set targets.

Conceptual Framework

The Conceptual framework shows that the independent variables in the study are SACCOs' services conceptualized as savings, credit and the advisory services have an impact on the dependent variable (wealth creation).

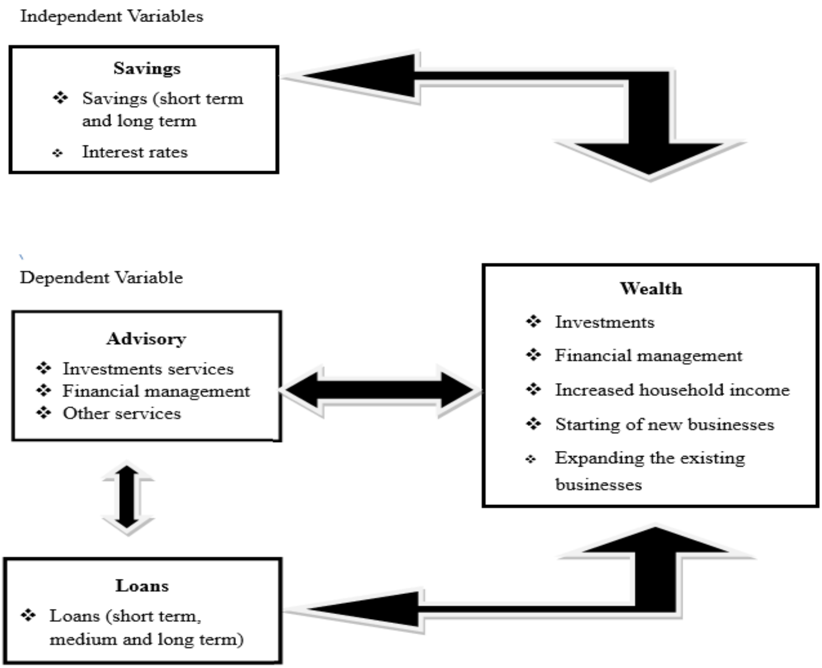

Figure 1: Conceptual Framework

Source: Nassazi (2013) and Modified by the Researcher

METHODOLOGY

The research study used a cross sectional correlation and survey designs and employed both quantitative and qualitative approaches or mixed method research.

Sample Size

The sample size used was eighty (80) people and these were selected from branches and directorates of Zambia Army headquarters. Ten (10) members of ZASCU management from were used for key informant interviews. Seventy (70) respondents from general membership of ZASCU were used for the questionnaire.

Sampling Techniques

The study used stratified, purposive, and simple random sampling methods to select respondents. The purposive sampling method was preferred for this study as it provided for the researcher to make a personal judgment on the most appropriate sample composition to meet the needs of the research question (Saunders and Lewis, 2012). Stratified sampling was adopted to classify the staff of ZASCU according to their departments. Then simple random sampling was used to select members from different branches at Army headquarters and Arakan barracks.

Data Collection Methods

A survey was carried out and the data collection techniques that included the following; key informants' interview, survey and document review were used. These were carried out using tools such as an interview guide and a questionnaire whereby a questionnaire was administered to the respondents with semi structured questions with regards to the subject matter.

Data Analysis Methods

The Statistical Package for Social Sciences (SPSS version 21) was used for data analysis by using descriptive statistics comprising of Tables, graphs, frequencies, means, standard deviations, and percentages for ease of interpretation. Quantitative data was analyzed in SPSS version 21 while qualitative data was analyzed using thematic and content analysis.

Ethical Issues

The research was conducted within an ethical framework as suggested by Creswell (2014). This included obtaining informed consent from all participants, protection of their identities and allowing them to withdraw from the study at any time. Approval to use the data for research purposes was obtained from Zambia Army, while ethical clearance to conduct the study was obtained from the University of Zambia.

FINDINGS

This chapter presents the findings of the study, analysis and results of data collected from the participants on both the quantitative part as well as the qualitative part.

Table 1: The Existing Challenges at ZASCU

Challenges	Frequency	Valid Percentage
Delay in disbursing Money	18	26
Lack of online system	10	14
Lack of skilled personnel	13	19
Loan facility limitation	15	21
Underutilization of funds	14	20
Total	**70**	**100.00**

Table 1 above shows the identified challenges faced by ZASCU in creating wealth. The results found that 18 (26%) of participants cited delay in disbursing of money as a challenge. 10(14%) respondents identified inadequate online system as another major issue at ZASCU and 13(19%) said lack of skilled personnel. Members had another concerned of limitation in loan facility as 15(21%) of the respondents cited it and 14(20%) of the participants had a concern for underutilization of funds at ZASCU.

Table 2: Shows the Usage of Dividends by Respondents

Dividend Usage	Frequency	Valid Percentage
New business	14	20
Household income	16	23
Investment	17	24
Financial management	10	14
Expanding existing business	13	19

The results in the Table 2 above show the participants who received dividend and how they used it. Respondents that used dividends for starting new businesses were 14(20%) and those that used dividends as household income were 16(23%). Respondents that used dividends as an investments were 17 (24%) and those who it as financial management were 10 (14%). The last category that used it for expanding existing businesses was 13(19%). The Table 2 shows that majority of members used their dividends for investment purposes and the least was for financial management.

Table 3: Participants That's Received Loans from Other Lending Institutions

Loans	Frequency	Valid Percentage
Yes	58	83
No	12	17
Total	**70**	**100**

From the Table 3, it was found those participants who got loans from other lending institutions were 58(83%) and other category which did not receive loans from any lending institutionswas12 (17%). The Table 3 shows that more members prefer getting loans from other lending institutions than ZASCU and this is causing liquidity problems at the institutions.

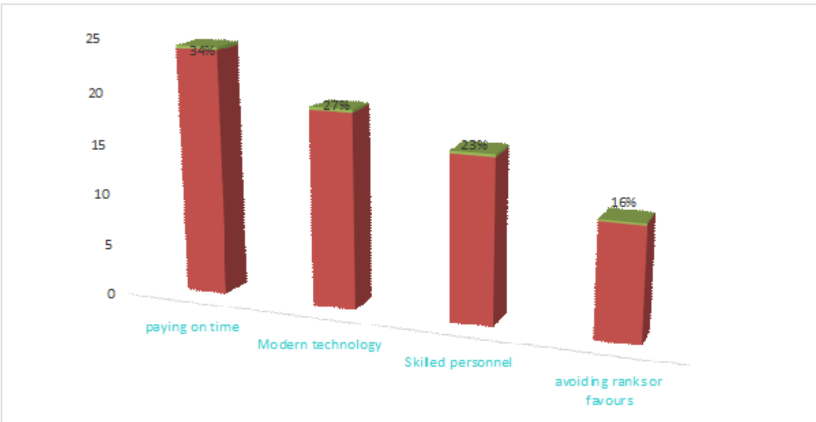

Figure 2: Measures to Put in Place at ZASCU

From the figure 2 above the respondents suggested the following measures: 34% of the respondents suggested paying on time, 27% were for modern technology. 23% of the respondents pointed the need for skilled manpower and 16 % suggested avoiding of ranks or favoritism. The statistics show that members were so concerned for the above measures to be implemented for the benefit of the institution and members.

The Current Challenges of Savings That ZASCU is Facing in Creating Wealth

From the findings depicted in Table 1 describes what respondents perceive to be current challenges of saving with ZASCU. The identified challenges are, delay in disbursements of loans and withdraws, lack of online system, lack of skilled personnel, limitation in loan facilities and underutilization of resources.

Delays in Disbursement of Loans and Withdraws

The results of the study showed that delay in disbursement of loans and emergency withdraws was a major factor as 26 respondents constituting 26% cited it. Table 1 also shows 29% of the respondents could not access their emergency fund withdraw in 24 months. The findings of this study are in line with a study by (Gu and Lee, 2009) that proved to be cumbersome for Savings and Credit Cooperatives to meet clients demand. SACCOs have seen increasingly strong competition from commercial banks which have also developed the same products.

Lack of Online System

The results from Table 1 shows that 14% of respondents found that lack of system are another factor that has been impending ZASCU from achieving set objectives. Most of the tasks are done manually making it difficult for staff to keep tracking of the records of transactions. Lack of modern technology at ZASCU as resulted in the failure to implement the online services. In a study by Sivaprakasam (2003) he narrated that online system enhances the ability of customers to conduct business transactions anytime and anywhere, faster and with lower fees compared with using traditional manual.

Lack of More Skilled Personnel

From the results in Table 1 it was suggested from 19% of the respondents that more skilled personnel is need at ZASCU for efficient and effective delivery of services to clients. Personnel of ZASCU are mostly uniformed and they occupy all management levels. Therefore, the finding of this study is in line with a study by (Dahlberg, 2008) that the contribution of the human resource depends on the various factors like organizational environment, policies and qualification and other personal factors

Limitation in Loan Facility

From the results depicted in Table 1 it has been found that ZASCU as a Credit Union does not offer adequate loans as compared to other institution. This is cited by 21% of the respondents who advocated for increase in loans in line with member savings. The study is also in line with the study of Muheebwa (2018) who stated that SACCOs must ensure that it has a reliable supply of cash at hand to meet demands in loans and this determines financial health of future investments

Underutilization of Resources

On the other hand, the result depicted in Table 1 found that underutilization of the resources at ZASCU is another issue that has affected client satisfactions. It was found those clients were complaining of the frequent management staff changes which has highly attributed to inconsistence in policies and objectives. Prudence in management of resources at ZASCU every time there is change in command results in changes of system and operations. The findings are supported by (Luarn, 2005) who narrated that without prudent management of resources in an organization, there is redundant growth to prosperity. The other determinant factor is dividend paid to members.

Why is ZASCU Facing These Challenges of Savings in Creating Wealth?

The results from the questionnaire, in-depth interviews and document review highlighted the challenges ZASCU faces. The dearth of skilled personnel heightened by the poor conditions of services affect the performance of Credit Unions. From the results it was found that underutilization of resources at ZASCU is one of the factors that have been affecting the institution from its growth and soundness. This study is supported by chitungo (2013) that underutilization of resources continues as one of the major reasons for financial distress at ZASCU characterized by inept management and instability in the tenure of office of key management staff.

How Can ZASCU Overcome the Challenges of Savings in Creating Wealth?

From the results depicted in figure 2 above shows the respondents' response were measured against some suggestions that can be implemented in order to overcome these challenges ZASCU is facing.

Payments on Time

The results also showed that 34 % of the respondents cited that improvements in paying of loans and emergency withdraw as one of the measures to success of ZASCU. As Credit Unions adequacy of liquidity is important to satisfy emergency withdrawals of savings made by clients. In the words of Luo (2010) stated that understanding, measuring and tracking access to finance among the clients is a vital thing in determining how financial markets operate to facilitate financial services for the poor. The importance of dividends to members and how they invest cannot be overemphasized as members depend on it for investments. The study is supported by Adera (2015) who emphasized on the importance of dividend. Income from operations is retained as profit from interest earned on the lending operation to pay dividend to the members on the basis of the shares owned.

Improvement in Modern Technology System

From the results in figure 2, it was found that 27% of the respondents suggested improvement in modern technology that would bring efficiency in operations at ZASCU. The Cooperative needs to have good system where most of the works can be done by automated machinery rather than manual.

The finding is supported by (Santhosha, 2011) who narrated those systems in a banking/lending institution plays a very significant role because it facilitates online activities for the organization growth

More Skilled Personnel

In every organization human resource play a vital role in the growth for efficiency, ability and skills of the human beings for the growth and success of an institution? The results in figure 2 show a 23% of respondents who advocated for skilled and competent staff. Therefore, the findings of this study are in line with a study by Ramu (2008), who cited that the contribution of the human resource depends on the various factors like organizational environment, policies and qualification and other personal factors.

Avoiding of Ranks or Favors

ZASCU management needs to be fair in its dealing with members and provide equal services. It is for this fact that too much ranks in the Union results in favoring of the people with higher ranks to get the loans compared to junior ranks in the Union. The findings of this study are in line with (Santhosha, 2011) who reviewed that avoiding of seniority can lead to fair distribution of funds in terms of loans among the combatants.

Members Being Equipped with Financial Management Information

The results also found that if ZASCU as a Credit Union should take time to equip its members on the financial matter could lead to great improvement in the organization. It is for the fact that if members are educated on financial matters, it can lead to financial transparency in the Union. (Ramu, 2008) supports this on the values of organization transparency in bringing development in financial matters of organizations.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The study presented the qualitative and quantitative evidence using data on Savings and Credit Cooperatives in Lusaka. A mixed method research design was applied to investigate insight in to the challenges of savings on ZASCU in Lusaka. In relation to research objectives and questions, the results of data analysis provide descriptive findings of the challenges of savings in wealth creation a case study conducted at ZASCU.

The literature review indicated several gaps that are of concern for wealth creation, hence this study aimed to fill this gap. Savings, loans and financial advisory were found to be directly linked to accumulation of wealth creation of an institution. The objective of this study is to identify current challenges of savings on Credit Unions in creating wealth. The identified challenges faced by ZASCU were delays in disbursement of funds, Lack of online system, Lack of skilled manpower, Limitation in loan facilities and underutilizations of resources.

These findings are supported by the findings of Getachew (2013) which showed that all SACCOs have challenges across the SACCO industry that detracts from their ability to attain the desired goal of providing inclusive financial services to its members and the community. This makes the SACCO less competitive than competitors and need to design strategic solution to change.

The research’s second objective was to find out why ZASCU faces these challenges of savings in creating wealth. It was found that challenges are as result of frequent management reshuffles or change, lack of adequate accountability of resources, Late payments, lack of education on Cooperative matters by members The study is also supported by Carilus (2013) who identified the following challenges faced by Savings and Credit Cooperatives such as: poor governance and leadership, lack of skilled and educated manpower, small membership size, limited lines of products.

Recommendations

This can only be achieved if ZASCU invest massively in modern technology in order to implement online services. The online system will culminate in reduction of costs and time required to serve clients. The study found that the rank structure in the Army is vital and always observed by all. Fair treatment of all ranks in service delivery results in more productivity, harmony and transparency in operations from ZASCU and its members. ZASCU need time to equip its members on the financial matter, could lead to great improvement in the organization. To ensure accountability, prudence, transparency, and objectivity in resource utilization, management needs strategic policies that would help in withstand competition from other lenders.

Emerging Issues and Controversies

Financial Education and Awareness: One challenge credit unions might face is the lack of financial literacy and awareness among their members. Without a strong understanding of savings and investment principles, members may struggle to effectively manage their finances and make informed decisions to create wealth.

Member Engagement and Participation: Encouraging consistent saving behavior among members can be a challenge. Credit unions need to find ways to engage members actively and motivate them to save regularly, which can impact their ability to accumulate wealth over time.

Economic Uncertainty: Economic fluctuations, inflation, and currency devaluation can affect the purchasing power of savings. Members may find it difficult to grow their wealth if their savings are eroded by economic challenges.

Loan Demand and Competition: Credit unions often offer loans to members using the pooled savings of the members. Balancing the demand for loans with the need to maintain sufficient savings reserves can be complex. Additionally, competition from other financial institutions can impact the credit union's ability to attract and retain members' savings.

Investment Options and Returns: Credit unions typically invest the accumulated savings to generate returns for their members. However, selecting appropriate investment options that balance risk and return can be challenging. Controversies might arise if the chosen investments do not yield the expected results.

Regulation and Compliance: Regulatory changes or requirements can impact the way credit unions operate and manage their savings programs. Staying compliant while offering attractive savings products can be a balancing act.

Technological Advancements: Technological changes can offer opportunities to enhance member services and access, but they can also bring challenges related to data security, privacy, and ensuring that technology is accessible to all members.

Cultural and Social Factors: Cultural attitudes toward money, saving, and wealth creation can influence members' behavior. Addressing cultural factors that might hinder effective saving and wealth creation is important.

Member Demographics: The demographic profile of credit union members can impact the types of services and products they need. Serving diverse groups of members with varying financial goals and challenges can be complex.

Internal Governance and Management: Efficient management of credit union operations, including governance, risk management, and financial reporting, is essential for building trust among members and ensuring the long-term sustainability of the institution.

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Effect of Control Functions on the Financial Performance of Saccos in Meru County

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Abstract

Purpose: To examine the effect of control functions on the financial performance of Saccos in Meru County.

Methodology: The study adopted a cross-sectional mixed design method. The study targeted a sample size of 96 respondents arrived by multiplying 4 respondents in the 24 Saccos as a basis of analysis who were operation managers, senior risk managers, internal auditors and accountants in the 24 Saccos selected Saccos in Meru County. Data was collected through use of closed-ended questionnaires and the output presented descriptively by use of mean and standard deviation. Inferential statistics such as correlation coefficient β, coefficients of determination R and P-values was used from a multiple regression equation to measure the direction, strength and significance of the relationship between control activities and financial performance of Saccos. ANOVA was utilized to verify the goodness of fit of the model.

Findings: The study indicated that there was significant relationship between control functions and financial performance of Saccos in Meru County.

Unique Contribution to Theory, Practice and Policy: The study contributed uniquely that there was a positive effect of control functions on the financial performance of Sacco banks in Meru County. The control functions should be readily available and continually updated by Sacco managers as they are the heart of the Saccos. If the functions are not working then it means the operations will eventually be paralyzed. This can be achieved by ensuring the guiding policies and guidelines are always available at the disposal of the user. Reviews should also be done regularly by Sacco regulators such as SASRA so as to ensure they are not outdated and to match the changing needs of the market and functional requirements. It is also recommended that physical control should always be done by operations heads in Saccos to avoid laxity from the operations. The approach of contingency theory to the study explained how the design and function of organizations are affected by conditional factors such as technology, organization customs, and the external environments. Different organizations have different organizational structure and their effectiveness is determined by a blend of the right type of organizational structure, organization size, environmental volatility, and technology. When the functions are well controlled by Sacco boards, updated performance of the entire system is enhanced.

Keywords: *Control Functions, Financial Performance, Sacco, Meru County*

INTRODUCTION

In the current business world, all businesses are struggling to come up with strategies that enable them outperform their competitors. SACCOs are also not an exception and therefore the reason as to why most SACCOs are adopting internal control systems. Their main aim is to enable them control the activities within the SACCO to enhance their financial performance. In North America, cooperative movement is traced form farmers who teamed up in tilling the land, for plantations as well as during harvesting periods. United States began its first cooperative movement in 1752 nearly a quarter-century before the Declaration of Independence was signed.

Currently, Cooperatives have grown tremendously over the years. International monetary fund estimated the total assets of Cooperatives be 14% of the total banking sector market share in 2004 (Hussaini & Muhammed, 2018). Comparatively Cooperative movements have been ranked fare than commercial banks due to their resilience in times of financial crises (Cook, Chaddad, & Iliopoulos, 2004) This is explained by the fact cooperative banks investments tends to be less predictive and therefore their returns are more stable compare to commercial banks (Da Silva, Leite, Guse & Gollo, 2017).

Cooperatives in developed countries have sustainable source of funding and not significantly affected by monetary policies and prices in the financial. Further, the interest rates by the cooperatives are more favorable compared to commercial banks in the developed countries (Shonubi, 2016; Mary, Albert & Byaruhanga, 2014).

According to Kiaritha (2015) in Africa, Sacco's have grown at least 7% of the African population belongs to a SACCO. However, despite the growth, the SACCOS are faced with challenges i.e. poor representation of people in the society. Pollet (2009) as quoted in (Kiaritha, 2015) noted a division of society by classes due to economic capabilities that acts as hindrance to further growth. However, by 2008 savings in SACCOs entirely in Sub-Sahara Africa grew by 31.9% on average a lower growth compared to past years. The credits given grew by 12% on average a lower level compared to the past years (Bett, 2017).

For example, in 2007 credits offered SACCOs increased by 35.3%; while in 2006 credits increased by 21.2%. There has been low growth in members al this implying that throughout Africa SACCO management has been trying to minimize risk associated with loan request so that they reduce losses (Bickel, 2007).

The Kenya SACCO sub-sector comprises both deposit taking (FOSA operating SACCOs) and non-deposit taking SACCOs. The general trend is that SACCO start as non-deposit taking Sacco business and grow to deposit taking Sacco business (DT-SACCO) to expand the range of financial services to members. SACCOS that operate front office services are licensed, supervised and regulated by Sacco society regulatory authority (SASRA) **(**Kiyieka & Muturi, 2018).

In Kenya SACCO Banks account for 45% of the country's GDP. To date, the sector has managed to mobilize over Ksh 200 billion in deposits and control assets amounting to Ksh210 billion (MCD &M 2010). These vast resources amassed by SACCO banks should allow them to compete in an open environment. Wanyama (2009) asserts that following the change in the economic landscape in Africa in the 1990s saw the development of new policies and regulations in Kenya in 1997 that sought to liberalize co-operatives. Nevertheless, the SACCO banks in Kenya are faced by an array of challenges such as poor record keeping, loan backlogs, high illiteracy level among the SACCO members, audit arrears, managerial deficiency, inadequate capital and heavy taxation.

Most Saccos in Meru are agriculturally based where for instance tea, coffee farmers or daily farmers unite to save and borrow form the cooperatives. Other groups include teachers, hospital staff, business people in organization like transport sector and university among others. Different groups pool together to save and get financing for school fees, business, health and other economic activities. The SACCO Societies Act 2008 established the SACCO Societies Regulatory Authority (SASRA) that carries out the licensing, supervision and regulation of deposit taking institutions. SACCOs are categorized as either deposit-taking that are regulated by SASRA and non-deposit taking that are regulated by the Commissioner for Cooperatives.

For Saccos to get SASRA licenses, they must be registered under the Cooperative Societies Act CAP 490. This regulatory framework guides the development of Saccos. Co-operatives in Kenya play a key role in the development of the country both socially and economically (Kiyieka & Muturi, 2018). According to the Ministry of Co-operative Development and Marketing, Cooperatives encompasses all sectors of the economy and provide a platform for mobilizing resources

Statement of the Problem

The establishment of the SACCO Society Regulatory Authority (SASRA), was in part as a response to growing challenges affecting Sacco banks. Ideally, Sacco banks were established with the aim of improving the living standards of citizens both economically and socially through provision of services at a lower cost as compared to other lending and savings facilities. However, limited returns on investments continue to be a challenge to Sacco banks in Kenya (Chahayo, 2013; Kambura, 2018). Inadequate internal management capacity and operational controls is a major problem in Kenya's Sacco banks. This is heightened by poor structures of control, technological changes, fraud and misuse of assets, leading to revenues losses and poor performance. There is Lack of controls thus making organizations fail to achieve their objectives as corruption has become rife and increased collusion between management and external auditors. Technological advances have brought about challenges in control systems and prompting new ways of controlling organizations.

The Kenya Financial Sector Stability Report, 2010 states some of these challenges include: poor governance structures, competition, low adoption of information and computer technologies, inadequate legislation to accommodate diversified products, weak internal control systems, inadequate performance standards, lack of disclosure requirement standards, poor human resources practices leading to poor quality of staff and high staff turnover (Ibrahim, Diibuzi & Abubakari, 2017). Despite the importance of the internal control structure, an actual measure of its performance within the organization is almost non-existent and the topic remains relatively unexplored by researchers Kinney (2000). This is also true in Kenya as there is little evidence linking internal controls to the profitability levels of the SACCO banks by controlled by SASRA (Kibui, 2014).

Keitany, (2000) studied the implication of internal audit control function on risk assessment by the external auditor while Kibet, (2008) examined how internal audit enhanced corporate governance in state-owned enterprises. (Ondieki, 2013) studied internal control systems effect on financial performance on SACCO's in Nyeri county. (Onyango, 2018) studied effect of capital adequacy on the financial performance of deposit Taking Savings and Credit Societies in Meru County, Kenya. However, no study has focused on effect of internal controls on the financial performance of Sacco sub-sector especially in Meru County. This is therefore the gap this study seeks to fill through examining how internal controls and financial performance of licensed Sacco's in Meru County relate (Mutange & Datche, 2016)

Purpose of the Study

To examine the effect of control functions on the financial performance of Saccos in Meru County.

Hypothesis

H_{01}: Control functions do not significantly affect financial performance of Saccos in Meru County.

LITERATURE REVIEW

Theoretical Review

Contingency theory directed the study. The approach of this theory to the study of organizational behavior is by explaining how the design and function of organizations are affected by conditional factors such as technology, organization customs, and the external environments. The assumption is that there is no one size fits all structure for organizations. Different organizations have different organizational structure and their effectiveness is determined by a blend of the right type of organizational structure, organization size, environmental volatility, and technology. These theories owe their origin from the social theories of the structure of the organization.

An example of these social theories includes "structural approaches to organizational studies" by woods (2009). This theory explains the relationship between the success of the internal control structure and performance of the organization in monetary reporting. Cadez and Guilding (2008) explain that firms achieve organizational effectiveness where the internal auditors refined in roles; they drive the internal control structures to efficiency. They further stated those elements of an organization such as the level of technology, the structure adopted; its size, external environment and strategy affect the systems control and their management. The theory suggests that strategies that harmonize and manage internal activities arise from the increasing demands by the technical task in the organization.

The source of information in an organization with respect to the advents of technology and its surroundings is key in shaping the structure of an organization. Where the situation is unsure, with poor technology then the information is sourced from within whereas where there is certainty coupled with technology, then the source of information is external. Decentralized authority, therefore, works best in an unsure environment whereas, in certain environments, Centralized authority is more appropriate. In contingency theory, the adoption of a particular control system is dependent on the organizational situation with which these controls would operate (Fisher, 1998). This theory, therefore, states that the adoption of a particular system of control is dependent on determinants such as the level of technology, the size of the organization, external surroundings and structure in place.

Empirical Review

Establishing frameworks for the bank activities and different departments of the Saccos alone is not enough for management as they ought to see to it that policy framework is complied with and that these frameworks remain adequate. This role falls under the internal audit arm (Kamande, 2017). According to the study by Kiyieka and Muturi (2018) there is a strong relationship between internal control activities and financial performance in that firms with good control systems are able to assess and mitigate the likely risk therefore improving their Muthusi (2017) noted that control activities ensure that strategies and processes are implemented to reduce the risk in order to achieve organizations growth.

According to Ratcliffe and Landes (2009) control activities include authorization, adequate documents, processing of information, physical controls, duty segregation, information processing, reconciliation, verification, review of operation performance and supervision. All these activities are geared towards minimizing risk to enable achievements of organizations goals (Saidu & Zabedah, 2013) as quoted in (Shabri et al., 2016). The fourth component of internal control is controlled activities, the procedures, and policies that ensure how management directives have executed that help ensures that appropriate corrective and preventive measures are taken to address risks associated to ensure achievement of the organizational goals and objectives (Frazer, 2012; Ndamenenu, 2011).

According to Hussaini and Muhammed (2018) control activities may either be automated or manual but both have the objective of minimizing risk that delays organizational success. The most essential control activity according to audit is performance review processing of information and diversifying of duties. Verifications are done before making payments, reconciliation, review operation, and supervision (Yogo, Marangu, Kiongera & Okaka, 2016).

Among the benefits of control is timely and effective internal and external communication, easy achievement of organizations objectives, communication of objectives, enhanced decision making and use of information's systems to reduce manual inaccurate reports. Among the control activities are, address segregation of duties; establish relevant technology acquisition, development, and maintenance process control activities; establish relevant technology infrastructure control activities; establish relevant security management process control activities; determine dependency between the use of technology general controls and technology in business processes.

According to Hussaini and Muhammed (2018) the control activities must be aligned with organizational policies. The study proposed a control model that encourages re-assessment of policies and procedures, take corrective action; perform promptly; perform using competent personnel; establish accountability and responsibility for executing policies and procedures; and establish policies and procedures to support the deployment of management's directives (Hussaini & Muhammed, 2018; Janvrin et al., 2012).

According to Mary, Albert, and Byaruhanga, (2014) Control Activities are necessary since they enable mitigation of risk through enforcement of organizational directives to address entity's objectives. Further notes that apart from performance review activities such as budgets, forecasts must be monitored to ensure deviations are corrected.

METHODOLOGY

The study adopted a cross-sectional mixed design method. The study targeted a sample size of 96 respondents arrived by multiplying 4 respondents in the 24 Saccos as a basis of analysis who were operation managers, senior risk managers, internal auditors and accountants in the 24 Saccos selected Saccos in Meru County. Data was collected through use of closed-ended questionnaires and the output presented descriptively by use of mean and standard deviation. Inferential statistics such as correlation coefficient β, coefficients of determination R and P-values was used from a multiple regression equation to measure the direction, strength and significance of the relationship between control activities and financial performance of Saccos. ANOVA was utilized to verify the goodness of fit of the model.

FINDINGS

Reliability Statistics

Reliability was conducted in the study as a proxy for internal consistency of the questionnaire measured during the piloting phase of data collection. The reliability test was performed on the 10 pilot study responses in Saccos in

Embu County (Orotho, 2002). Cronbach's Alpha determined the reliability whereby an alpha of 0.7 and above was required to conclude that the questionnaire section was reliable as shown in Table 1.

Table 1: Reliability Test Statistics

Cronbach's Alpha	No of Items
.867	10

The values for control functions was 0.867, which was above 0.7 hence deeming the questionnaire reliable in regards to control functions.

Response Rate

The researcher issued 96 questionnaires to various respondents. The collected 75 questionnaires formed 78 percent of the sample size. According to Mugenda and Mugenda (2003), a response rate of 70% is appropriate for generalizing the sample results to the population.

Demographic Information

The study provided descriptive statistics on academic qualification and work experience information as given in Table 2.

Academic Qualification

The study was interested in knowing how educated respondents were as pertaining to either being holders of certificate/diploma, undergraduate degree or a master's degree. Table 2 indicated the results.

Table 2: Respondent's Highest Academic Qualification

Academic Level	Frequency	Percent
Certificate/diploma	15	20.0
Undergraduate degree	56	74.7
Master's degree	4	5.3
Total	**75**	**100.0**

Table 2 shows that the majority of the respondents (80 percent) had at least an undergraduate degree whereas 20 percent had at most a diploma qualification. This shows that the respondents processed basic qualification to work in the SACCOs and furthermore, they possessed knowledge of the questions asked under this study.

Working Experience

The study also inquired on the number of years the respondents had worked in their respective Saccos. The results were tabulated on Table 3.

Table 3: Working Experience in the Sacco

Period	Frequency	Percent
6 months-1 year	13	17.3
1-2 years	17	22.7
2-3 years	7	9.3
3-4 years	4	5.3
More than 4 years	34	45.3
Total	**75**	**100.0**

According to Table 3, the cluster of experience with the highest number of employees was more than four years that had 45.3 percent of the respondents. Forty percent of the respondents possessed less than 2 years of working experience in the Sacco while 14.6 percent of the respondents had between 2 to 4 years of working experience in the Sacco. Therefore, the working experience for the respondents was adequate for them to provide required information for the study. Gatuguta, Kimotho & Kiptoo (2014) agreed that over time it was established that most of cooperative staff had stayed in their Saccos for long time which was a facilitator towards their development in Kenya.

Descriptive Analysis for Control Functions

This section gives the descriptive statistics for the questionnaire items for control functions. The statistics used are means and percentages presented in form of tables. Table 4 gave the outcome derived.

Table 4: Descriptive Analysis for Control Functions

Statements (N=75)	Mean	Std. Dev
There are policies governing the control systems	4.53	0.86
Reviews on the system is regularly done	4.31	0.65
Physical monitoring on the system is regularly done	4.31	0.65
Information is processed efficiently	4.40	0.72
Duties are well separated as per the roles	4.16	0.48
Aggregate Mean & Std. Dev	**4.34**	**0.67**

Table 4 shows the descriptive statistics for control functions summarized by five questions. All the five questionnaire items addressing control functions had means of more than four out of maximum of five. This indicated that majority of the respondents agreed to the assertions of existence of policies governing control systems, regular monitoring and review of control systems, processing of information was efficient and finally, separation of duties as per the roles. The overall mean was 4.34 out of 5; hence, the overall response was positive in support for proper control systems in the sampled Sacco.

In agreement Njoki (2015) confirmed that monitoring the internal control systems regularly was very important to find out the efficiency and effectiveness of the activities. The study noted that monitoring included regular management and supervisory activities, as well as human resources observe as they perform their activities

Financial Performance

The researcher also inquired on various level of performance level of Saccos had been faring. The results were documented in Table 5.

Table 5: Descriptive Statistics for Financial Performance

Performance level	Frequency	Percent
High	34	45.3
Moderate	25	33.3
Low	10	13.3
Very Low	6	8.0
Total	**75**	**100.0**

Table 5 shows that majority of the Saccos had at least moderate performance with only a few (21.3 percent) performing below average financially. This shows that performance of Saccos in Meru County was good and this trend correlated with the high levels of internal controls observed in Tables 4 on control functions. Kariuki (2017) got similar results whereby the researcher ascertained that there had been moderate performance financially out of practices of credit risk management in Saccos.

Hypothesis Testing

The study measured hypothesis to examine the effect of control functions on the financial performance of Saccos in Meru County. The hypothesis indicated that control functions did not significantly affect financial performance of Saccos in Meru County. Table 6 indicated that R value of .456 which indicates a strong positive correlation. The R square value of 0.208 indicated that control functions predicted 20.8% of the variability in the financial performance. The other 79.2% could be explained by other influences beyond control functions.

Table 6: Control Function Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	0.456[a]	0.208	0.212	0.68720

a. Predictors: (Constant), Control functions

ANOVA for Linear Relationship between Control Functions and Financial Performance

The study analyzed analysis of variance to establish whether there was a linear relationship between control functions and financial performance. The p-value of the coefficient of control functions was 0.000, which was less than 5% (0.05). Therefore, the study rejected the null hypothesis hence concluding that at a significance level of 5%, control functions are significantly related to financial performance of Saccos in Meru County.

Table 7: ANOVA for Control Functions and Financial Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	18.998	4	4.750	10.057	.000[b]
	Residual	29.752	70	.472		
	Total	**48.750**	**74**			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), control functions

The results concur with those of Kiyieka and Muturi (2018) in a study on control activities and financial performance which revealed a significant relationship between the two variables.

Regression Coefficients

Table 8: Control Functions Securities Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	β	Std. Error	Beta		
(Constant)	-1.593	.704		0.080	.936
Control Functions	.053	.057	.059	1.517	.004

a. Dependent Variable: Financial Performance

From Table 8, marginal increase in control functions as an internal control leads to 0.053 increase financial performance of Saccos in Meru County while holding other factors constant.

SUMMARY, CONCLUSION AND RECOMMENDATION

Summary of the Findings

Objective one looked at control functions and majority agreed that reviews were done though at different intervals in different Saccos. This had a variation in terms of how often reviews were done in the respective Saccos. There was physical control as supported by majority of the respondents admitting that there were those in charge of physical controls and operations within the organization. Information on the other hand was processed effectively and efficiently though there were some cases of breakdown here and there due to poor maintenance of the systems or even power related. Duties were distinctively defined and employees were aware of their mandate which to some extent made their work easier as most of them were aware of what was expected of them.

Conclusion

There were policies on the control functions that helped in regulating and ensuring all the functions are controlled and that all what is happening is captured. The operations were regularly reviewed to ensure the systems and functions are up to date. On a normal working day there were people responsible for the physical operational control of functions within the organization to make sure nothing goes unnoticed leading to errors and malfunctioning of the system. Information was timely produced with the help of the standardized systems and updated systems operated by trained personnel. In some cases, there were information breakdowns where wrong data was picked or the system was not up to date or where there were power shortages. Duties were clearly defined where each and everyone knew their roles and what was expected of them. This therefore reduced confusion and improved efficiency and effectiveness in the operations and enhanced performance.

Recommendations and Contributions of the Study

The control functions should be readily available and continually updated by Sacco managers as they are the heart of the Saccos. If the functions are not working then it means the operations will eventually be paralyzed. This can be achieved by ensuring the guiding policies and guidelines are always available at the disposal of the user. Reviews should also be done regularly by Sacco regulators so as to ensure they are not outdated and to match the changing needs of the market and functional requirements. It is also recommended that physical control should always be done by operations heads in Saccos to avoid laxity from the operations. Information should be timely updated in the system by Information Technology (IT) department to avoid working with outdated information thus wrong results and it is very important to separate and define roles very clearly to eliminate cases of role conflicts during duty and function execution. When the functions are well controlled by Sacco boards, updated performance of the entire system is enhanced.

Emerging Issues and Controversies

Governance and Oversight: Effective governance and oversight mechanisms are crucial for the proper functioning of SACCOs. Emerging issues might include discussions about the optimal governance structure, board effectiveness, and the role of external auditors in ensuring financial transparency and accountability.

Risk Management: As SACCOs deal with various risks such as credit risk, liquidity risk, and operational risk, emerging issues might involve debates on the adequacy of risk management practices. Controversies might arise over the identification and assessment of emerging risks or the effectiveness of risk mitigation strategies.

Technology and Digitalization: The adoption of technology and digital tools can impact control functions and financial performance. Emerging issues could involve debates on the cybersecurity of digital systems, data privacy concerns, and the balance between innovation and risk management.

Compliance and Regulation: Changes in regulations or emerging regulatory challenges can influence control functions and financial performance. Controversies might revolve around interpretation of new regulations, compliance costs, and the effectiveness of regulatory oversight.

Internal Controls and Fraud Prevention: Emerging issues related to internal controls might include discussions on the implementation of fraud prevention measures, the use of technology to enhance internal controls, and controversies arising from cases of internal fraud.

Member Protection and Privacy: SACCOs collect and store personal and financial data of their members. Emerging controversies might involve debates on data protection, member privacy rights, and ensuring secure handling of member information.

Social and Environmental Responsibility: Increasingly, organizations are expected to consider social and environmental factors in their operations. SACCOs might face emerging controversies related to how they integrate environmental and social considerations into their control functions and financial decision-making.

Financial Literacy and Education: Educating members about financial management is vital. Emerging issues might involve debates on the effectiveness of financial education programs, the role of SACCOs in member education, and controversies around the impact of financial literacy on financial performance.

Member Engagement and Satisfaction: SACCOs depend on member satisfaction and engagement. Emerging issues might include discussions on how control functions impact member experience, dispute resolution mechanisms, and efforts to improve overall member satisfaction.

Economic Conditions: The economic environment can influence control functions and financial performance. Emerging issues might involve debates on how economic downturns or upturns affect lending practices, risk assessment, and overall financial stability.

Sustainability and Social Impact: SACCOs often have a role in local community development. Emerging controversies could relate to discussions on the social impact of SACCO activities, how control functions contribute to sustainability, and the ethical considerations of financial decision-making.

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Influence of Convertible Bonds on Liquidity Growth of Commercial Banks in Nairobi County Kenya

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Abstract

Purpose: The purpose of this study was to investigate the influence of convertible bonds on liquidity growth of commercial banks in Nairobi county Kenya

Methodology: This research applied descriptive research design when gathering data by closedended questionnaires on 39 commercial banks in Nairobi County Kenya and secondary data from commercial banks dating from 2016-2018. Overall operations managers, marketing managers and general managers were the respondents. Census technique was used. Pre-testing questionnaires was issued to branch marketing managers, operational managers and assistant managers in simple randomly selected five commercial banks located in Meru county Kenya. SPSS data analysis software was be consulted for quantitatively using the descriptive statistics such as mean, percentage and standard deviation. Tables, graphs and detailed explanations was used to present the final results of the study.

Findings: The study found out that there was a statistically significant positive relationship between convertible bonds and liquidity growth of commercial banks in Nairobi county Kenya. Convertible had an R value of .732 and an R square value of 0.536. This proved that convertible bonds predicted 53.6% of the changeability in the liquidity growth. The regression coefficients of convertible bonds had a β=.117, P=010 at 0.00 significance level.

Unique Contribution to Theory, Practice and Policy: The discovery of presence of positive influence of convertible bonds on liquidity growth led to new knowledge contribution by the study. The study recommended that more types of customized bonds should be issued and public awareness should be raised. The study recommended that policies should be developed by government through the central bank whereby bank customers can obtain bonds more often just like the way mobile loan apps are common. This would promote more market for the bonds. Commercial banks should also indemnify various types of bonds with insurance firms so that any misfortune of events like the recent covid-19 pandemic would have minimal impact on the various types of fixed-rate bonds. The study contributed new knowledge when the relationship between corporate bonds and liquidity growth of commercial banks in Nairobi was established.

Keywords: *Convertible Bonds, Liquidity Growth, Commercial Banks, Nairobi County*

INTRODUCTION

Liquidity is defined as the ability of a business entity that had adequate money to meet their financial obligations as they arose (Price water-house cooper, 2020). Commercial banks being business ventures, have encountered various financial obligations in their economic cycles. Their ability to amicably handle the financial obligation have been stunted in the past due to the financial crisis of 2008. The damage caused by the decline in abrupt revenues by the commercial banks have caused them to struggle in attempt made towards regaining their former position in the financial robustness. Commercial bank's liquidity growth in the first world country like America have been inhibited by several issues such as liquidity risks, high leverage unrealistic funding requirements, higher standards for risk reporting (McKinsey & Company, 2015).

In Asia there have been liquidity risks in a country like Pakistan; regulatory tough encounters and poor asset quality in a Singapore and Japan (McKinsey, 2015; Arif & Anees, 2012). In Africa, commercial banks located in countries like Egypt, Algeria, Nigeria and Malawi are experiencing more difficult loan-loss provisioning necessities, intensifying operational expenses and passive corporate development prospects linked to weak financial development; poor asset quality in a country like Ghana (Moody Analytics, 2020; Price waterhouse coopers, 2019). In East Africa, there has been low liquidity and deterioration of the quality of credit offered in a country like Rwanda; abridged profitability in a country like Uganda (Businge, 2017; Ntuite, 2015).

In Kenya, stiff competition from non-banking lenders; low quality of assets whose value keep on declining as time goes on; high loan defaults; high interest rates and unfavorable policies are facing commercial banks in Kenya. This had caused banks to now consider alternative ways of ensuring liquidity growth is enhanced through raising long-term capital such as through derivatives practices, credit card banking; asset securitization, mobile banking and internet banking.

Convertible bond issuance is still not fully utilized in Kenyan commercial banks. This is because of weak covenant protection, weak corporate earnings, high default rate mean (JPMorgan Chase & Co, 2020). A convertible bond is a debt instrument issued to investors to raise funds for financing normal operations of a business entity and have the ability to be changed into shares or money as the bond holder wishes (Standard Bank, 2020).

The normal operations of a bank are prioritized to be internally funded. However, the more their operations grow, the more internal funding becomes insufficient to fully cater for everything hence necessitating external funding through sources such as a convertible bond. A bond as a way of raising equity does not allow bond holders to have stake in form of ownership in the bank but they become creditors who expect to receive periodic payments in form of interests pegged on a specific period of time (Businge, 2017).

The bank that has issued the convertible bonds has prospects that it would benefit from intended project before the bond reaches its maturity date to be able to fulfill its financial obligations to the corporate bond owners (Standard Bank, 2020). Based on different opposing internal and external factors, banks who are corporates in general have been having a rough time in fulfilling their part leading to convertible bonds defaults. This has made them less attractive to investors who are naturally risk averse. Assessment of these bonds has also poised a challenge to many investors who have limited knowledge about the bonds and the business entity as a going concern (Standard Bank, 2020).

Statement of the Problem

A sound firm's capital structure should strike a balance between combining debt and equity options to fund its operations and projects hence able to meet its financial obligations as they arise. Commercial banks issue bonds to investors who are supposed to buy from them through the capital market or directly in order for the bank to raise debt capital. Once cash is received the bank becomes liquid and is able to perform various intended banking functions (Asia Development Bank, 2019).

However, escalating liquidity risks caused by increase in non-performing loans have been a menace to the future of commercial bank's liquidity growth in Kenya (Central Bank of Kenya, 2018). In 2018, non-performing loans increased from 264.6 billion in 2017 to 316.7 billion depicting 19.6 percent increase (Central Bank of Kenya, 2018). This made the asset quality of commercial banks to decline with 0.4 percent between 2017 and 2018. (Central Bank of Kenya, 2018). When the quality of commercial bank's assets declines, the value of convertible bonds which derive their worth from the assets of the bank, deteriorates rendering them worthless hence becoming less attractive to investors.

Previous studies such as Musah and Acquah (2019); Businge (2017); Ntuite (2015); Arif and Anees (2012); Mu, Phelps and Stotsky (2011) have categorically debated on the problems engulfing convertible bonds issuance in various international nations. However, in Kenya, limited study has been done pertaining the influence of convertible bonds on liquidity growth of commercial banks in Nairobi county Kenya. This proves that less is known concerning the convertible bonds issuance. A lot of stakeholders do not clearly comprehend on what exactly happens in the process hence the main motivation of the study.

Purpose of the Study

To investigate the influence of convertible bonds on liquidity growth of commercial banks in Nairobi county Kenya

LITERATURE REVIEW

Theoretical Review

Preferred Habitat Theory

Preferred habitat theory guided the convertible bonds. The preferred habitat theory was developed by Franco Modigliani and Richard Sutch in 1966 (Modigliani & Richard, 1966). The theory stipulates that investors abandon their anticipated maturity sectors if there are comparatively better rates to pay them (Modigliani & Richard, 1966). Meaning that investors are made to relinquish their seamless ideal bond tenures when supply and demand situations in diverse bond markets do not match (Modigliani & Richard, 1966).

The theory has been further advanced by Merton in 1987 and later by Delcey and Sergi (2019) who associated between rational expectations and the efficient market. For instance, investors invest in short-term convertible bonds due to their nature of being risk averse which is a problem to commercial banks need of having capital for longer duration due to their projects causing excess supply of long-term bonds by banks and excess demand of short-term bonds by investors. This theory is used because in any market, investors would wish to change from their current bond plans to other investment options available in a commercial bank such as other types of bonds, cash or even shares due to various economic conditions.

Once they move, this may attract change of accounts, share allocation fees and bank account charges which improves the income status of a commercial bank. When that happens, there is need to have an equilibrium by both demand and supply sides for the market to be perfectly matched. The theory has been criticized because in most cases, investors are enthusiastic to change their partialities if more profit is assured in other investment option which is not normally the case.

Empirical Review

Convertible bonds have been in various phases of development depending on the economic status of a nation. A report made by Fisch asset management (2019) agreed that there were developments such as growing of new convertible bonds issuance anchored on a variety of securities in developed nations. The report pinpointed engulfing concerns in convertible bonds such as increased market unpredictability in America; low growth in China convertible bonds, prospects of global economic depression due to yield curves capsizing, universal demand decelerating and products prices plummeting.

Huerga and Monroy (2019) on mandatory convertible notes as a sustainable corporate finance instrument confirmed that despite the fact that debt securities were an acknowledged source of finance in a corporate, excessive of debts taken was one of the causes of the financial crisis of 2008. The study stipulated that mandatory convertible bonds were a hybrid that was issued and in which they had almost similar characteristics as equity and also conventional bonds.

In addition, a review in Russia done by Karpenko and Blokhina (2019) on convertible bonds for companies' investment processes, reviewed different approaches used by corporations while issuing bonds. The study established that convertible bonds which were currently popular in Russian market were utilized by the corporations with truncated investment prospects for funding investment ventures, lure of inexpensive monetary backing and also for payment of coupon of the previous releases of bonds. Chang et al. (2019), conquered that there were few studies that had been done on the effect of corporations' performances after issuance of corporate bonds in developed nations and the ones that existed painted a negative picture on the bonds. The study informed us that most of the firm's performance declined after issuance of corporate bonds.

Asian Development Bank report (2019) on the great practices for building up a neighborhood cash security showcase hypothesized that by a country not having a local market prompted gigantic money related dangers in the nation. The examination gave a clarification that Asian nearby money security markets were basic to convey a substitute spring of funding to unfamiliar cash designated bank advances in order to lessen the money and development ambiguities that had made the province powerless to the unforeseen hitch of capital streams. This gave this examination motivation to take a gander at the achievement or disappointments of corporate securities which were items exchanged Nairobi protections trade. This examination tied down on business banks corporate securities.

In developing nations, Ecobank Transnational Incorporated (ETI) dispensed $150 million convertible bond on London's International Securities Market (ISM) (London Securities Exchange, 2020). The convertible bond was a five-year period payable twice a year and with a coupon interest rate of 6.46 % annually above three-month U.S. dollar LIBOR. This branded it the foremost African convertible bond to list in an international market such as London. Convertible bond issuance in Africa was generally at its early stages, probably because of valuing difficulty and vagueness on change activated (Liebenberg, Vuuren & Heymans, 2016).

According to Liebenberg et al. (2016), the valuing of convertible bonds was explored and the effect of domestic environments are examined. The investigation set up that the high loan fees and value shakiness likened with the state in cutting edge economies brands convertible bonds for the most part striking instruments for the simultaneous lessening of obligation and the improvement of capital. International Finance Corporation (2017) report on solutions offered in debt market verified that regulation changes in convertible bonds were needed on high issuance charges, local markets experiencing instability in global funding sources and ways of attracting global investors. These problems among others were the motivating factors of this study to look in Kenyan commercial banks whether there was any relationship between corporate bond such as convertible bond and liquidity growth.

Based on the above reviewed studies, the current study acknowledges that there is no significant relationship between convertible bonds and liquidity growth of commercial banks in Nairobi County Kenya. Thus, the current study adopts the following hypothesis.

Hypothesis of the Study

H_{01}: There is no significant relationship between convertible bonds and liquidity growth of commercial banks in Nairobi County Kenya.

Research Gaps

The research gaps noticed in convertible bonds included aspects such as increased market unpredictability in America; low growth in China convertible bonds, prospects of global economic depression due to yield curves capsizing, universal demand decelerating and products prices plummeting. Convertible bonds which were currently popular in Russian market were utilized by the corporations with truncated investment prospects for funding investment ventures, lure of inexpensive monetary backing and also for payment of coupon of the previous releases of bonds; few studies that had been done on the effect of corporations' performances after issuance of corporate bonds in developed nations and the ones that existed painted a negative picture on the bonds.

METHODOLOGY

This research applied descriptive research design when gathering data by closed-ended questionnaires on 39 commercial banks in Nairobi County Kenya and secondary data from commercial banks dating from 2016-2018. Overall operations managers, marketing managers and general managers were the respondents. Census technique was consulted. Pre-testing questionnaires was issued to branch marketing managers, operational managers and assistant managers in simple randomly selected five commercial banks located in Meru county Kenya. SPSS data analysis software was be consulted for quantitatively using the descriptive statistics such as mean, percentage and standard deviation. Tables, graphs and detailed explanations was used to present the final results of the study.

FINDINGS

Reliability Statistics

To ensure that the research instrument used could be depended upon to deliver what it was meant to deliver, the study subjected the pre-test response rates on Cronbach alpha test. The pre-test was done on five randomly selected commercial banks in Meru County which were Family bank, Cooperative bank, Kenya Commercial Bank, Standard chartered bank and Equity bank. These selected banks had their branch marketing managers, operational managers and assistant managers respond to the pre-tests. Table 1 showed the results derived.

Table 1: Reliability Statistics

Instrument	Cronbach's Alpha	N of Items
Questionnaire	.85	15
Average	**0.857**	

Source: Researcher (2020)

The results from the pre-test indicated that the research instruments were reliable since they gathered a Cronbach alpha value of 0.85. Bhattacherjee (2012) conformed that when a study has a Cronbach alpha value of 0.7 to 1, it could be relied upon to deliver when used in the main study.

Response Rate

There were questionnaires which were supposed to be filled by overall marketing managers, overall operations managers and overall general managers in the 39 commercial banks in Nairobi County. The total number of the respondents were 117 as per the study's intention. That notwithstanding, various factors beyond the respondent's capability to handle affected the total number of returned questionnaires. This was because out of 117 issued questionnaires, the total returned questionnaires were 102. That meant that the study had an 87 percent return rate. This was an excellent return rate according Mugenda and Mugenda (2003). According to them when questionnaires returned had a 50-60 percent the return rate was fair; 61-70 percent the return rate was good; 71-80 percent the return rate was very good; while over 81 percent indicated an excellent rate.

Background Profiles of the Respondents

At the commencement of the questionnaires, the researcher had inquired about the length of stay in their current bank. By getting to know how long a respondent had stayed in the bank, gave the researcher the knowledge on whether the respondent would be able to really relate with the inquiries used in the study. The results are indicated in Table 2.

Table 2: Demographic Profile of the Respondents

Category	Frequency	Percent	Cumulative Percent
Less than 1 year	43	41	41
2-5 years	52	50	91
Over 6 years	10	9	100
Total	**105**	**100**	

Source: Researcher (2020)

The results in Table 2 indicated that many respondents had stayed in their banks for a period of 25 years which had the highest number of 52 (50%). This was followed by respondents who has stayed in their banks for a period of less than a year who were 43 of them translating to 41%. The last group of 10 (9%)

respondents showed that they stayed in their current banks for more than 6 years. These results further explained elaborated that most bankers had not stayed long in their banks. The reason could partly be attributable to bankers always shifting from one bank to another to look for a better payment structure.

This was confirmed by Dolnicar et al. (2018) who explained as a result of market segmentation, firms such as banks, insurance firms and forex firms were in need of new fresh ideas to remain competitive in the job market. As a result, they tended to offer the best bargain when tapping new experienced personnel. This increased shift of jobs withing the same field or different similar fields by employees.

Descriptive Analysis of Convertible Bonds

The main objective was to measure the influence of convertible bonds on liquidity growth of banks. Convertible bonds had several indicators such as Vanilla, mandatory, reversible, packaged, contingent and foreign currency. There were statements that the respondents were required to either 1-Strongly disapprove, 2-disapprove, 3- Neutral, 4- Approve, 5- Strongly approve on what influence convertible bonds had on liquidity growth of banks. Table 3 showed the response rates of the respondents.

Table 3: Descriptive Statistics of Convertible Bonds

Statements (N=102)	1	2	3	4	5	Mean	Std.Dev
Vanilla convertible bonds have had a positive effect on current ratios the bank	0(0%)	36(42.9%)	0(0%)	48(57.1%)	0(0%)	4.37	1.116
There has been improved quick ratio due to huge income derived from Mandatory convertible bonds have reduced liabilities of the bank	3(3.6%)	34(40.5%)	0(0%)	45(53.6%)	2(2.4%)	4.73	0.72
Reversible convertible bonds have led to overall cash growth of the bank hence boosted cash ratio	32(38.1%)	16(19.0%)	12(14.3%)	11(13.1%)	13(15.5%)	4.54	0.951
Sales ratio has advanced due to presence of packaged convertible bonds	34(40.5%)	16(19.0%)	8(9.5%)	14(16.7%)	12(14.3%)	3.63	1.304
Contingent convertible bonds have boosted the long-term net working capital ratio of the bank	5(6.0%)	32(38.1%)	0(0%)	46(54.8%)	1(1.2%)	4.1	0.917
Foreign currency convertible bonds have improved income of the bank	5(6.0%)	32(38.1%)	0(0%)	46(54.8%)	1(1.2%)	3.31	1.289
Average Mean						**4.94**	**1.26**

Source: Researcher (2020)

Convertible bonds results had an average mean of 4.94 and a standard deviation of 1.26. This showed that most of the respondents had interacted with these types of bonds and they had seen the influence they had on various aspects of liquidity growth. The most agreed statement in the convertible bonds sections was that there has been improved quick ratio due to huge income derived from mandatory convertible bonds which reduced liabilities of the bank.

It had a mean of 4.73 and a standard deviation of .72. Fisch asset management (2019) agreed that convertible bonds were a major source of revenue since they gave bond holders the liberty to change them to shares whenever they wanted to. This attracted more investments especially from investors who did not want their investment to be held constantly in one portfolio of a bank.

In the same section of convertible bonds in the questionnaires, there seem to be a disagreement by respondents whether the foreign currency convertible bonds had in any way improved income of the bank. This query had a mean of

4.94 and a standard deviation of 1.26. Chang et al. (2019) shed more light on this when they identified that local investors were always cautious of investing in foreign firm's bonds that they knew the originating bank well. This was because over recent times, most firms were suffering from lack of finances which caused them to pay very low returns on convertible bonds.

Liquidity Growth of Commercial Banks

The study analyzed reports from commercial banks dating from 2016-2018. The specific indicators of liquidity growth that the researcher assessed were the current ratio, quick ratio, cash ratio, net working capital ratio and sales ratio. Table 4 gives the results gotten.

Table 4: Liquidity Growth Indicators

Variable	N	Mean	Std. Dev
Current ratio	39	3.94	1.98
Quick ratio	39	4.98	2.23
Cash ratio	39	3.45	1.86
Net-working capital ratio	39	3.63	1.91
Sales ratio	39	4.21	2.05
Average		**4.04**	**2.01**

Source: Researcher (2020)

According to Table 4, liquidity growth indicators had an average mean of 4.04 with a standard deviation of 2.01. Most of the reports derived indicated that quick ratio had the highest mean of 4.98 while cash ratio had the lowest mean of 3.45. The results indicated that the liquidity of the 39 commercial banks were ranging between high and medium. This is to confirm that by the 39 commercial banks being located in a very busy environment where bank customers were highly engaging in monetary transactions, this turned out to be a boost to the banks.

Another fact was that these commercial banks engaged in all types of bonds scrutinized in this study implying that there was a high likelihood that bonds played a significant-roles towards ensuring liquidity growth was stable enough in Nairobi County. A report by Kenya Bankers Association (2019) agrees to that various commercial banks in Nairobi County had a medium liquidity growth as compared to other banks in the Kenya banking industry.

Inferential Statistics

The main hypothesis stated that there was no significant relationship between convertible bonds and liquidity growth of commercial banks in Nairobi County Kenya. Convertible had an R value of .732 and an R square value of 0.536. This proved that convertible bonds predicted 53.6% of the changeability in the liquidity growth. The results are given in Table 5.

Table 5: Model Summary of the Variables

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Convertible bonds	732[a]	.536	.533	2.308

Predictors: (Constant), Convertible bonds

Source: Researcher (2020)

ANOVA for Linear Relationship between Asset-Backed Securities and Financial Performance

ANOVA was used to evaluating the exact relationship between convertible bonds and liquidity growth of commercial banks. The researcher considered the significance value which were gotten for various variables. For example, convertible bonds had a significance value of 0.000. These values were indicated in the ANOVA Table 6. Therefore, since all the convertible bond had a significance value of less than 0.05, the researcher rejected all the null hypotheses and accepted alternate hypothesis that there was no significant relationship between convertible bonds and liquidity growth of commercial banks in Nairobi County Kenya.

Table 6: ANOVA for Linear Relationship of the Variables

Model		Sum of Squares	Df	Mean Square	F	Sig.
Convertible bonds	Regression	732.913	1	732.913	17.071	.000[b]
	Residual	415.410	100	4.154		
	Total	**486.324**	**101**			

a. Dependent Variable: Liquidity Growth

A. Predictors: (Constant), Convertible Bonds

Source: Researcher 2020

Regression Coefficients

The regression coefficients of convertible bonds had a β=0.117, P=0.01. That was to indicate that separately the four study's variables were vital however combining them together they all became insignificant and only fixed-rate bonds was significant. The results are indicated in Table 7

Table 7: Regression coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		β	Std. Error	Beta		
1	(Constant)	7.445	2.222		3.351	.001
	Convertible bonds	.117	.114	.141	1.020	.010

a. Dependent Variable: liquidity growth

Source: Researcher (2020)

The multiple model of the study was liquidity growth = CO + β3CVBi, t + Ɛi,t where CVB was convertible bonds. Replacing them with the values from Table 7, the model was: Liquidity growth=7.445CO+0.117CVB. The model showed that by growing a unit of convertible bonds, liquidity growth increased by 7.445+ 0.117

Hypothesis Testing

Determining the influence of convertible bonds on liquidity growth of banks, hypotheses were quantified. The study's hypothesis stated that there was no significant relationship between convertible bonds and liquidity growth of commercial banks in Nairobi County Kenya. Convertible bonds had a regression coefficient significance p-value of 0.01 and analysis of variance of 0.000 which was less than 0.05. The study thus rejected all the null hypotheses and accepted alternate hypothesis that there was significant relationship between convertible bonds and liquidity growth of commercial banks in Nairobi County Kenya.

SUMMARY, CONCLUSION AND RECOMMENDATION

Summary of the Findings

The main objective of the study was to investigate the influence of convertible bonds on liquidity growth of commercial banks in Nairobi County Kenya. Convertible bonds had several indicators such as Vanilla, mandatory, reversible, packaged, contingent and foreign currency. Convertible bonds results had an average mean in this study of 4.94 and a standard deviation of 1.26. This showed that most of the respondents had interacted with these types of bonds and they had seen the influence they had on various aspects of liquidity growth. The most agreed statement in the convertible bonds sections was that there has been improved quick ratio due to huge income derived from mandatory convertible bonds which reduced liabilities of the bank. It had a mean of 4.73 and a standard deviation of 0.72. The main hypothesis stated that there was no significant relationship between convertible bonds and liquidity growth of commercial banks in Nairobi County Kenya.

Convertible had an R value of .732 and an R square value of 0.536. This proved that convertible bonds predicted 53.6% of the changeability in the liquidity growth. Convertible bonds had a β of 0.117 and a significance p-value of 0.010. A significant value implies that the variable outcome being predicted does not happen by chance while Beta value implies that there is a certain direction/magnitude of measurement. The beta value of 0.117 implies that a unit increase in convertible bonds increases the liquidity growth by 0.117 because of the positive nature of the value (vice versa is true).

Conclusion

The study rejected null hypothesis that there was no significant relationship between convertible bonds and liquidity growth. It was established that there was a statistically significant strong relationship between convertible bonds and liquidity growth. By commercial banks being able to sell vanilla, mandatory, reversible, packaged, contingent and foreign currency and other types of convertible bonds, revenue was heavily generated. Banks in Kenya are able to improve their incomes hence eventually growing their liquidity status by selling various types of convertible bonds to their clients.

Recommendations and Contributions of the Study

The recommendations given on convertible bonds was that Kenyan commercial banks should have a massive drive towards improving the types of convertible bonds. There should be training once in a while for stakeholders to fully understand why convertible bonds are important. This is because, these types of bonds showed potential to fully boost liquidity growth in our Kenyan banks through this study. Commercial banks should maximize on the types of bonds that are working to make them even better. Since the study was only done in Nairobi County, future studies may take advantage and explore the relationship between various convertible bonds not just in banking field but also other firms in different areas of Kenya.

Emerging Issues and Controversies

Liquidity Management: Convertible bonds can impact a bank's liquidity position, especially if a significant number of bondholders choose to convert their bonds into equity. This might raise concerns about the bank's ability to manage its liquidity effectively.

Impact on Equity Base: When convertible bonds are converted into equity, they can dilute the ownership stake of existing shareholders. Controversies might arise if the conversion leads to shifts in control or changes in the bank's ownership structure.

Interest Expense and Debt Levels: Convertible bonds carry interest payments like traditional bonds. Emerging issues might include discussions on the impact of these interest payments on a bank's overall debt levels and its ability to service the debt while maintaining liquidity.

Market Perception and Investor Confidence: If convertible bonds are issued at a time when market conditions are uncertain, controversies might arise regarding investor confidence in the bank's financial stability and growth prospects.

Convertible Bond Terms and Conversion Ratio: The terms of the convertible bonds, such as the conversion ratio and the conversion price, can influence investor behavior and the potential dilutive effects on existing shareholders.

Impact on Capital Adequacy: Converting convertible bonds into equity can impact a bank's capital adequacy ratios. Controversies might arise if the conversion affects the bank's ability to meet regulatory capital requirements.

Share Price Volatility: If a large number of convertible bonds are converted into equity, it could lead to increased trading activity and potential volatility in the bank's stock price.

Investor Relations and Communication: Effective communication with investors about the purpose and implications of issuing convertible bonds is crucial. Controversies might arise if there are discrepancies between the bank's communication and the actual outcomes.

Economic Conditions and Market Timing: The timing of issuing convertible bonds can impact their attractiveness to investors. Emerging issues might include debates about whether issuing convertible bonds during certain economic conditions is more advantageous for banks.

Regulatory Considerations: Regulatory authorities might have specific requirements and guidelines for the issuance of convertible bonds. Emerging controversies might involve discussions about the bank's compliance with these regulations.

Alternatives to Convertible Bonds: Controversies might arise over whether issuing convertible bonds is the best option for raising capital compared to other methods such as traditional debt issuance or equity financing.

Industry Trends and Peer Comparisons: Comparing the use of convertible bonds by different banks in Nairobi County might lead to debates about the strategies employed by different institutions and their impact on liquidity and growth.

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