

**EFFECT OF TRANSFORMATIONAL LEADERSHIP AND HUMAN RESOURCE
MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF DEPOSIT-
TAKING SACCOS IN KENYA**

BY

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MASTER OF SCIENCE IN COMMERCE (FINANCE AND INVESTMENTS)

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October, 2017

DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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And have approved it for examination.

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ABSTRACT

The Sacco Societies Regulatory Authority (SASRA) is a statutory state corporation established under the Sacco Societies Act (Cap 490) of the Kenyan law. The regulatory body from then standardized the operations by setting guidelines for operations and regulatory requirement that the Deposit Taking SACCOS must adhere for their operating licenses to be granted. The objective of this study was to establish the effect of transformational leadership and human resource practices on financial performance of Deposit Taking SACCOS in Kenya. Few or no studies have been done on areas around transformational leadership and human resource practices and financial performance of SACCOS in Kenya and therefore this study sought to link that knowledge gap. The study type conducted was a census focusing on SACCOS licensed to provide deposit taking services in Kenya in 2017. Both primary and secondary data was used for this study and data was analysed using Statistical packages for social sciences software (SPSS). Descriptive data analysis was conducted using linear regression model to analyse data. The study focused on four independent variables (transformational leadership practices, training and development practices, recruitment practices and compensation) whose effect on the dependent variable (return on assets) was predicted. The results of the data analysis indicates that transformational leadership, recruitment and training and development practices have significant positive effect on the return on assets for SACCOS. While compensation had a negative effect on the return on assets for SACCOS. The study indicated that the variables under study are correlated to one another. The expectation is that the findings of this research will assist in filling that knowledge gap and contribute to further research by considering the inclusion of SACCO characteristics such as common bond and duration of licensing by SASRA. The study also recommends that future research may focus on financial performance over different time periods for the same deposit taking SACCOS.

Key words: Transformational leadership, Huma resources practices, financial performance

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TABLE OF CONTENTS

DECLARATION	iii
ABSTRACT	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
DEDICATION	vii
LIST OF TABLES	viii
LIST OF FIGURES	ix
ACRONMYS AND ABBREVIATIONS	x
OPERATIONAL DEFINITION OF TERMS	xi
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background to the Study	1
1.2 Problem Statement	6
1.3 Objectives of the Study	8
1.4 Significance of the Study	8
1.5 Scope of the Study	9
CHAPTER TWO	10
LITERATURE REVIEW	10
2.1 Introduction	10
2.2 Theoretical Literature	10
2.3 Empirical Review	14
2.4 Conceptual Framework	23
2.5 Operationalization of Study Variables	24
CHAPTER THREE	25
RESEARCH METHODOLOGY	25
3.1 Introduction	25
3.2 Research Design	25
3.3 Target Population and Sampling	26
3.5 Data Collection Methods	26
3.6 Pilot Study	27
3.7 Data Processing and Analysis	29
CHAPTER FOUR	32
FINDINGS AND DISCUSSION	32

4.1 Introduction	32
4.2 Response Rate	32
4.3 General Information.....	32
4.4 Transformational Leadership Practices.....	35
4.5 Recruitment Practices	36
4.6 Training and Development Practices	37
4.7 Compensation Practices	37
4.8 Correlation Results	38
4.9 Regression Results.....	39
4.10 Discussion of Results	41
CHAPTER FIVE	45
CONCLUSIONS AND RECOMMENDATIONS	45
5.1 Introduction	45
5.2 Summary of Findings.....	45
5.3 Study Conclusions	46
5.4 Recommendations of the Study.....	47
5.5 Areas for Further Research	48
REFERENCES	49
APPENDIX I: QUESTIONNAIRE.....	58

DEDICATION

I dedicate this thesis to my lovely son, Carlin Muchina for being the source of inspiration and joy especially during the research period.

LIST OF TABLES

Table 1	Internal consistency results	28
Table 2	Age of respondents	33
Table 3	Gender of respondents	33
Table 4	Level of education	33
Table 5	Length of tenure.....	34
Table 6	Operating as Deposit Taking SACCO	34
Table 7	Common bond	35
Table 8	Transformational leadership practices	36
Table 9	Recruitment practices.....	37
Table 10	Training and development practices	37
Table 11	Compensation practices	38
Table 12	Bivariate correlation matrix.....	39
Table 13	Coefficient of determination.....	39
Table 14	Significance of the regression model	40
Table 15	Test of significance of independent variables	41

LIST OF FIGURES

Fig 1:Conceptual Framework.....	23
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ACRONMYS AND ABBREVIATIONS

CAMEL	Capital adequacy, Asset quality, Management, Earnings and Liquidity
CEO	Chief Executive Officer
FOSA	Front Office Service Activities
GDP	Gross Domestic Product
HRM	Human Resource Management
ICT	Information and Communications Technology
MFI	Micro-Finance Institution
PEARLS	Protection, Effective financial structure, Asset quality, Rates of return and cost, Liquidity and Signs of growth
RBV	Resource Based Theory
ROA	Return on Assets
SASRA	SACCO Societies Regulatory Authority
SACCOS	Savings and Credit Cooperative Societies
WOCCU	World Council of Credit Unions

OPERATIONAL DEFINITION OF TERMS

Transformational leadership	This is a style of leadership where a leader works with subordinates to achieve the needed change
Recruitment practices	This is the process of attracting, selecting and appointing suitable candidates for a job within an organization
Training and development practices	These are activities aimed at bettering the job performance of individuals in an organisation
Compensation practices	This is the cash and non-cash payments to an employee in exchange of work done
Financial performance	expressed as profitability of financial institutions being a function of internal determinants with SACCOS
Return on assets	expressed as surplus (before interest on deposit and tax) as a percentage of total assets to measure the earnings rate
Deposit Taking SACCOS	SACCOS licenced by SASRA to offer front office service activities as set out in the SASRA ACT of 2008 and 2010 SASRA regulations

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

There has been tremendous growth of SACCOS in the world. The World Council of credit Unions (WOCCU) report of 2014 shows that there were more than 57,000 SACCOS providing services to 217 million people in 106 countries by December 2013 (WOCCU, 2014). This is compared to the 2010 statistics showing that there were 53,000 SACCOS serving 188 million members in 100 countries. This shows a 15% increase in number of members served, 7% increase in number of SACCOS and 6% increase in number of countries over the 5 year period (WOCCU, 2010).

SACCOS have been cited to have significantly contributed to improvement of people's livelihoods. The contribution of these SACCOS to economic development in terms of Gross Domestic Product, financial inclusion, poverty reduction, creation of employment and general improvement of livelihoods of youth and women in developing countries has largely been documented. For instance, it is estimated that SACCOS contribute to more than 40% of Tanzania's GDP while Kenya, the home of SACCO movement in East Africa, has over 45% of her GDP emanating from the SACCO sector (Mwakujonga & Bwana, 2013). It is also noted that the subsector has mobilized over Ksh 200 billion and over Ksh 210 billion in assets (Ministry of Industrialization and Enterprise Development, 2014). In Rwanda the Umurenge SACCO has been positively associated with improved social economic status of the residents of Nyagatare District (Bosire et al, 2014). SACCOS have also been linked to significant reduction of levels of unemployment in developing countries. For example, Pangisa SACCO in Uganda is credited for significantly reducing levels of unemployment by providing capital for the start of business ventures within Arua Municipality (Drani, 2010). It

has also been that SACCOS in Tanzania employ more than 90% of the school leavers every year (Mwakujonga & Bwana, 2013). This is supported by a finding that SACCOS in Dodoma region (Dodoma Rural and Kongwa districts) have positively contributed to the lives of members by proving them with micro-credit for purchasing assets, building of houses and accessing clean water by providing them with water tanks (Anyelwisye, 2007).

A study done in the four sub-counties of Kisumu county (Nyakach, Kisumu East, Muhoroni and Kisumu) involving 45 SACCOS with a membership of 42,183 showed that the expenditure of 95% of the SAACO members were above Kshs 100 per day. The SACCOS thus help in addressing the needs of members as regards Education and healthcare. However, it has been disclosed that unfavorable legislation and policies slowed down the pace at which SACCOS move towards achievement of this objective (Obwanga, 2012). SACCOS also play a significant role in mobilizing saving which is considered a key ingredient in any development effort which directly contributes to increased income and improved productivity, thus reducing the levels of poverty (Cheruiyot, 2012). Though SACCOS are touted to be positively contributing to poverty reduction, the extent to which this happens is still an issue under debate (Chemin, 2008; Nawaz, 2010).

Savings and credit co-operative societies have also been cited to play a significant role in financial inclusion in developing countries. The proportion of people accessing and using financial services remains low in sub-Saharan Africa with only 34.2% accessing services in a formal financial institution compared to developed economies like the United States that stands at more than 93% and Germany standing at more than 98% (World Bank, 2014). However, the persistent growth of SACCO movement regionally has for instance seen Rwanda achieve high rates of financial inclusion with 22% with Kenya standing at 9% (FinAccess, 2009).

Despite the paramount contribution of SACCOS to the various aspects of economic development, a contrary position as regards to this exists. According to Maghimbi (2010), no significant contribution is made by SACCOS to the promotion of people's livelihoods in rural regions. It is further noted that a number of SACCOS are inefficient, poorly operated and unsustainable (Maghimbi, 2010). The main cause of these has been identified as poor leadership, non-adherence to governance practices and a poorly managed human resource (Churk, 2015).

1.1.1 Organization of SACCOS in Kenya

Kenya's SACCO subsector is composed of deposit taking and non-deposit taking SACCOS. Whereas the former are licensed and regulated SASRA, the latter are regulated and supervised by the Commissioner for Cooperatives stationed under the Ministry of Industrialization and Enterprise Development. The running of deposit taking SACCOS is based on the principles of member representation and participation in the democratic control, proper structure of the board, exercise of the powers and functions of the board as stipulated by the law and by-laws, clear separation of powers between chair and CEO, clearly spelled terms of engagement for directors, effective induction of new directors, risk management, compliance programs and code of conduct and ethics, the nature of compensation made to directors, sound internal control, risk management, regular board meetings, positive relationship between board and management, planning, governance of information technology resources, transparency and disclosure, accountability to members and responsibility to stakeholders, adherence to good corporate governance principles and practices, corporate social responsibility and comprehensive evaluation of a SACCO's governance policies, practices and procedures(SASRA,2008)

Deposits taking SACCOS accept savings from the members and provide loans to them .They are owned and operated by members with the principle objective of service

maximization to the members. This is similar to the role played by credit unions in the United States (Fried et al, 1993). The success of Deposit taking SACCO in terms of service provision to the members is anchored on the nature of resources the firm has at its disposal, specifically the human resources.

Given the globalized business environment, the deposit taking SACCOS do not operate in an environment devoid of competition from both banking and micro-finance institutions. This competition is associated with interest rates, length of time taken to process loan applications, hiring of qualified staff, mode of disbursement of funds and collateral requirements. The banking sector in particular has developed products meant to entice members of SACCOS to move to banks. Among them is the provision of salary advance and provision of non-secured loans. It is also noted that retention of members and thus better performance of SACCOS is dependent on among other factors the quality and performance of staff members. The consequence of poor quality of staff is the exodus of members to competitors that include banks, MFIs and self-help groups (Onwonga & Mwangi, 2013). This could be the reason why SACCOS in Kenya offer inferior customer care experience as compared to their formidable competitors – the banks and micro-finance institutions (Kotler, 2002). The success of the deposit taking SACCOS can therefore be expectedly linked to how well the human resources are managed.

In an endeavour to provide service to their members, Kenya's SACCO sector like others in the regions is affected by poor leadership, governance issues, poor human resource practices and limited products and services and non-remittance of deductions by employees (Mudibo, 2005). In terms of leadership, it is evident that a number of Kenyan SACCOS have continued to experience leadership wrangles occasioned by corruption, mismanagement, nepotism and interference from politicians (Baka, 2013). As regards governance, it has been established that majority of SACCO boards lack diversity of gender, independence of

directors and frequent independent audit (Wandabwa, 2014). The SACCOS face a supply shortage of well trained and motivated workforce equipped with appropriate ICT and customer relations skills (Ademba, 2012). The consequence of absence of a trained and motivated staff is cause of the exodus of members to competitors that include banks, MFIs and self-help groups (Onwonga & Mwangi, 2013).

1.1.2 Transformational leadership, human resource management practices and financial performance

A number of studies theorize that that leadership and particularly transformational leadership contributes to organisational performance (Howell and Avolio, 1993). Transformational leadership seeks to engage subordinates and motivate them to beyond expectations (Burns, 1978). This kind of leadership is said to be embedded with visionary and inspirational skills which in turn motivate followers to work towards excellent performance (Nicholls, 1988). Moreover, it is established in decades of research that transformational leadership has a positive effect on the financial performance of organisations (Parry, 2000). For instance, a study done in Malaysia revealed that there was a direct relationship between transformational leadership and financial performance mediated by best practices (Idris and Ali, 2008). However, not much has been done to establish the relationship between transformational leadership and financial performance of SACCOS in Kenya.

Human resource management practices have been a subject of significance in management studies. The past three decades have seen tremendous research focusing on the influence of human resource management practices on organizational performance .The result being that there is a direct relationship between HRM practices and the performance of organizations (Qureshi et al., 2010).

The desire by shareholders to have financially performing firms has seen more attention paid to research on how HR practices influence financial performance of organizations. Among the HR practices cited to influence financial performance of firms

include training, recruitment and selection, employee relations, reward and compensation (Cole, 2004). More research has shown how HRM practices that include employee training, job description, employee participation, career planning ,compensation, selection and performance appraisal influence the financial performance of organizations (Quresh et al., 2010; Adebayo,2014). More other studies have established that investment in progressive HRM practices brings substantial financial returns to the firm (Flamholtz, 1985; Cascio, 1991). In singling out recruitment as one of the HRM practices, it is noted that a more systematic recruitment and selection process contributes to better financial performance of the firm as hiring and retaining of good employees reduces turnover and the need for continuously recruitment which potent high cost to the firm (Suruchi & Deep, 2015). However, few other studies seek to point to the opposite scenario with the position that there is no relationship between HRM practices and performance of the organization (Delaney et al, 1989; Kelley & Schmidt, 1996). This is in concurrence with the finding that human resource management practices need to be treated as dependent and not independent variables (S, Schuler, Susan E, Jackson, 1992). It is also noted that HRM practices do not benefit SMEs that operate in local markets as the labor costs incurred always surpass the slight increase in productivity obtained from engaging in these HR practices (Batt, 2002).

1.2 Problem Statement

SACCOS are credited to have not only significantly contributed to Kenya's GDP but also led to a reduction in poverty levels, improved livelihoods and increased financial access for the marginalized thus spurring social and economic development in the country (FinScope, 2014). In spite of these tremendous positive contributions; the SACCOS are confronted with a number of challenges that include poor governance and leadership, inadequate human resource capacity, limited product and services and low marketing (Mudibo, 2005; Mwangi, 2006; Ondieki, 2011; Mvula, 2013). These challenges negatively impact not only on the

financial performance of the SACCOS but also their ability to provide services to the members.

A study focusing on the Muvikima SACCOS' contribution to people livelihoods in rural regions in Tanzania confirms that the SACCOS make no significant contribution to the promotion of people's livelihoods in rural regions. This is attributed to the weaknesses of the SACCOS that include limited human resources, high interest rate and insufficient financial capital (Churk, 2015). The biggest challenge facing SACCOS is the quality of staff which is a product of the HRM practices of the SACCOS. The consequence of poor quality of staff is not only poor decisions, weak supervision and control but also exodus of members to competitors that include banks, MFIs and self-help groups and this goes a long way to affect the financial performance of the SACCOS (Onwonga & Mwangi, 2013). It has been noted that the success of SACCOS is pegged on their ability to effectively manage their human resources, embrace good governance and have a visionary and inspirational leadership (Stavrou- Costes, 2005). It is therefore clear that human resource management practices such as training, recruitment and selection, performance appraisal, compensation and career development determine the quality of staff working for SACCOS and this has a direct influence on their financial performance (Lee, 2007). Additionally, the nature of leadership impacts on the financial performance of firms (Mudibo, 2005).

Despite the evidence linking transformational leadership and human resource practices to financial performance firms, not much has been documented on the link between the same and financial performance of SACCOS. A number of studies have investigated various challenges facing SACCOS such effect of financial leverage (Gweyi & Karanja, 2014), credit risk (Essendi, 2013), SASRA regulations (Kilonzi, 2012), financial stewardship (Olando et al, 2013), core capital and membership (Kahuthu *et. al.*, 2015), rural outreach (Owen, 2007), and corporate governance (Mudibo, 2005);, but not much has said about

specific leadership styles, and human resources practices and their effect organizational outcomes such as financial performance. This study seeks to investigate the effect of transformational leadership and human resource practices on the financial performance of SACCOS in Kenya.

1.3 Objectives of the Study

The study is based on the following specific objectives;

- i) To examine the effect of transformational leadership on financial performance of deposit taking SACCOS
- ii) To determine the effect of recruitment practices on financial performance of deposit taking SACCOS
- iii) To determine the effect of staff training and development practices on financial performance of deposit taking SACCOS.
- iv) To evaluate the effect of staff compensation on the financial performance of deposit taking SACCOS

1.4 Significance of the Study

The findings of this study are intended to benefit the SACCO management and researchers. The SACCO management will understand how human resource practices impact on the financial performance of the SACCOS while the findings and recommendations of this study will be used by the researchers to inquire more on human resource practices and financial performance of SACCOS in Kenya.

1.5 Scope of the Study

The study was limited to SACCOS licensed by SASRA to conduct deposit taking services in Kenya in the year 2017. The front office service activities (FOSA) present the SACCOS with challenges on leadership, recruitment, training and development and staff compensation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents an assessment of related literature on the subject under study presented by various researchers, scholars, analysts and authors. The specific areas covered here include the theoretical foundations of the study such as Resource-based theory and transformational leadership theory; the empirical review on transformational leadership, training influences, compensation and career development and finally a section on the conceptual framework of the study.

2.2 Theoretical Literature

This study is anchored on the resource based theory, Upper Echelons theory and transformational leadership theory. The three theories are discussed as follows:

2.2.1 Resource-Based theory

According to Barney (1991), firms can be conceptualized as bundles of resources (and capabilities) that are heterogeneously distributed among the firm and are imperfectly mobile. The differences in resource endowments across firms over time thereby allows for a resource-based competitive advantage. The fundamental proposition for organizational actions from this perspective is that firms select strategies to generate rents based upon their resource capabilities and a fit with environment opportunities (Grant 1991; Hunt and Morgan 1995; Mahoney 1995). 'For the firm, resources and products are two sides of the same coin' indicates that firms can earn above normal returns by identifying and acquiring resources that are critical to develop market-demanded products (Wernerfelt, 1984). Therefore, firms seek to acquire and develop unique sets of resources and capabilities as a means to gain a better competitive position in the market.

The acquired and developed unique sets of resources for SACCOS relate to the organizational leaders who have a transformative leadership style and the organizational HR practices that enhance retention of the staff through effective recruitment, training and development and compensation. Thus through the RBV the SACCOS competitive advantage manifests in the leadership style and human resources practices.

2.2.2 Upper echelons theory

This theory states that organizations are a reflection of their top management teams and are amenable to their intuitions and behaviors (Mason, 1984). The theory posits that the actions of top management are based on their personal interpretations of the situations they face and such personal interpretations are a function of the manager's experience, values and personality (Hambrick 2007) The theory further asserts that it is by considering the biases and dispositions of the top management team in an organisation that we will be able understand why organisations perform in a certain way or do things as they do (Hambrick 2007). This supports Child's (1972) earlier view that the top management of an organisation has paramount discretion in determining the future strategic direction of the firm.

In supporting the top echelons theory, Nielsen (2010) observed that certain top management characteristics that include age, experience and level of education have a direct impact on organisational outcomes in terms of company's competitive strength ,extent of innovation, level of diversification and ultimately performance

The theory seeks to link the age of top management team with organisational success with managerial youth being closely associated with the growth of the firm (Child, 1974; Hart and Mellons, 1970).There is a direct link between change in sales and earnings is with the youthfulness of the manager (Ogutu, 2011). This is because there are cognitive abilities like learning, reasoning and memory that weaken with age (Botwinick, 1977). However this

may not necessarily be the case as old managers are going back to school and are more experienced.

The theory also links the level of education of Top managers is positively linked to the receptive to innovation (Hambrick and Mason 1984). It is noted that academic qualifications translates to creative decision making by the top managers (Irungu, 2007). The performance of the managers who have attended management class is different from those relying on intuition to make decisions. However, Mintzberg (2007) notes that education only serves sharpen the capabilities of those with managerial abilities.

To apply this theory effectively to examine organizational performance, the issue of causality is an important consideration (Hambrick & Mason, 1984). First, those managers with significant professional experience within an organization or industrial context come to act in accordance with these previous experiences more so than on the basis of their individual attributes. Strategies employed in organizational life as a function of executive decision making are often a function of macro forces driving the pursuit of organizational goals. For example, an executive who is newly hired from an outside firm may bring a different perspective to the decision making process than an individual promoted from within the organization to the position of manager. Thus, identifying the forces most directly driving the decision making process are important in this theory.

Similarly, the industrial context in which the organization is operating may directly impact the type of managers in positions of decision making authority. As this study focuses on the deposit taking SACCOS context, many individuals occupying prominent management roles have a background that includes time spent performing as a junior officer in the SACCO. As a result, differences in approaches or strategies with respect to strategy development and implementation may appear less frequently than in a context in which managers demonstrate more diverse backgrounds. As most top managers demonstrate at least

a minimal level of playing experience in their previous roles, it is anticipated that these experiences will push these individuals towards a more traditional approach to managing their organization.

In conclusion, the theory maintains that top management play a major role in defining the route an organization takes. This role again directly translates to a transformational leader as the management transfers the experiences to the followers and therefore affecting the organization performance.

2.2.3 Transformational leadership theory

This theory came into existence in the late years of the 20th century. The theory has received enormous attention spanning over three decades. It was first put forth by Burns (1978) and later supported by Bass (1985, 1998) and others (Avolio, 1994; Tichy & Devanna, 1986). Burns (1978) underscored the role of transformational leadership in motivating followers to the extent of them performing more than the expected level (Krishnan, 2005). The theory underlines idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration as the four main components of transformational leadership (Bass, 1985).

A transformational leader helps the follower align their values with the objectives of the organisation (Burns, 1978). The theory emphasizes on the need for commonality in the value system of the follower and that of the leader (Krishnan, 2002). There is a direct association between transformational leadership and both organisational and personal outcome (Bass, 1988; Schyns, 2004). This theory is important for this study as it underlines the contribution of a transformational leader to employee outcomes which in turn have a bearing on the outcomes of the organisation.

It is argued that transformational leadership behaviour enhances positive subordinate behaviour which in turn positively affects followers' performance (Paine, & Bachrach, 2000) which directly influences organizational performance (Bloodgood, 2002).

Applying the four main components of transformational leadership together with the attributes, the transformational leaders are able to increase the level of enthusiasm, instil the organization mission and purpose to the employees and emphasize the use of employees intelligence which will as a result benefit the organization performance since employees are at the heart of organization performance (Mutahar et al, 2015).

2.3 Empirical Review

This study reviews empirical studies on transformational leadership and human resource practices, as well as how these variables influence performance of organizations.

2.3.1 Transformational leadership

A study by Walid (2011) involving 120 managers of four telecoms companies sought to establish the influence of leadership style on financial performance of telecommunication companies in Jordan. The study revealed that among the three leadership styles transformational, transactional and situational leadership, only transformational significantly affects financial performance of telecommunication firms in Jordan. A similar study by Flanigan et. al. (2013) determined the influence of transformational leadership and transactional leadership styles on the financial performance of an industrial distributor in terms of sales and profit margin. The study found that a leader's self-reported transformational leadership was positively associated with sales and profit margin performance at the local level of an industrial distributor, while followers' ratings of a leader's transactional leadership style was negatively associated with sales performance.

A sample of 419 managers in the hospitality industry in Thailand was involved in a study whose aim was to establish the influence of leadership styles on organisational

performance. The data obtained was analysed using hierarchical multiple regression and the results obtained showed a positive link between transactional leadership and Organisational Performance but this was almost four times less powerful as compared to the influence transformational leadership (Udchachone, 2014).

A survey to establish the effects of leadership style on performance of selected small scale enterprises in ikosi-ketu council of Lagos state in Nigeria considered transformational and transactional leadership styles. It was evident that while transactional leadership style had significant positive effect, a positive but insignificant effect was associated with transformational style of leadership. This indicated that transactional style of leadership highly influences the performance of small scale enterprises as compared to transformational style of leadership (Okwu, 2011)

A descriptive survey involving middle and senior managers in thirty (30) state owned corporations in Kenya to determine the influence of laissez-fair, transactional and transformational leadership styles on organizational performance was done. The study showed a high correlation between transformational leadership and performance of an organisation and a low correlation between transactional leadership and organisational performance. There was no significant correlation recorded between laissez-faire leadership style and performance of state corporations (Koech & Namusonge, 2012)

Other studies like that of Ndisya (2012) focused on the influence of transformational leadership on employee performance at Safaricom Limited showed a direct link between two variables (transformational leadership and performance of employees). Datche (2015) sought to find out the effect of transformational leadership on employee engagement at the civil service in Kenya revealed a positive relationship. However individualized consideration, inspirational motivation and idealized influence were found to have a negative association with employee engagement .Additionally, Tiri (2015) conducted a study on the influence of

transformational leadership on performance of virtual project teams recording a positive relationship between transformational leadership styles and virtual team performance at Safaricom Limited. Finally, Onyango (2015) studied the effect of transformational leadership styles on Talent Management in Micro, Small and Medium Size Enterprises in Migori County, Kenya. It was established in this study that positive and significant relationship exists between leadership style and talent management

The above studies have clearly highlighted the link between various leadership styles and performance of organisations. Of concern is the link between transformational leadership and organisation performance which has been clearly articulated. It is however clear that not much has been done locally on transformational leadership and financial performance specifically in the SACCO sector. The current study will therefore seek to establish the link between transformational leadership and financial performance of SACCOS in Kenya

2.3.2 Recruitment practices

The identification of people needed for short term and medium-term survival and success of a company is determined by recruitment and selection (Elwood & James, 1996). A number of studies done on these two human resource management practices are discussed as follows;

There is evidence to show the relationship between recruitment and selection and organisational performance is positive and significant (Gamage, 2014). A study by Sang (2005) established a direct positive association between recruitment and selection and organisational performance. The same outcome was arrived at by studies by Katou (2006), Shaw (1999), and Wright (2005). Additionally, a study by Jama (2012) equally found out that there is a positive relationship between implementation of an effective recruitment and selection process and organizational performance.

It is therefore important that the recruitment procedures provide a large pool of qualified applicants and that the selection regime is valid and has substantial influence on the quality and type of skills possessed by new employees. This is in support of a study by Sarkar

and Kumar (2007) that linked recruitment and selection approach to organizational performance. It is a clear indication that if selection practices are properly designed, they will help in identifying competent candidates and accurately matching them to the job. This also points to the fact that the probability of choosing right person to fill a slot is also enhanced leading to an increase in productivity (Gamage, 2014). This is in concurrence with a study by Okoh (2005), which noted that in addition to organizational selection practices determining who is to be hired, using proper selection criteria gives the organisation the organisation the right staff and improves overall organisational performance.

Masood (2010) analysed the relationship between employee selection and financial performance in the banking sector. The study recorded a high positive effect of employee selection on the financial performance of banks. These results agreed with the findings of Qureshi et al. (2007) and Khalumba (2012) that there is a strong positive ($r = 0.794$, $p < 0.01$) correlation between recruitment and selection and financial performance. The previous studies have exhaustively shown how recruitment and selection influences performance of organisations with a handful of them linking recruitment and selection to financial performance in the banking sector. This study seeks to establish the link between recruitment and selection practices and the financial performance of SACCOS.

2.3.3 Training and development practices.

The staff development practices that seek improve the performance of an organisation include training, employee empowerment and career development. A number of studies that have been done to link the various staff development practices and organisational performance are as follows;

A study by Maria (2014) revealed that a well organised and properly financed training program contributes to Competitive Economic Advantage of Companies and positive financial turnover. A further study by Ojera (2015) investigated the relationship between

Human Resource Management Practices and Performance of Manufacturing Firms in Kenya. The study established a negative correlation between a regular training program for staff and rate of staff turnover which in turn negatively affects the performance of organisations. Busungu (2015) was also able to establish that the nature and frequency of training conducted by the management greatly influences the performance of organisations. In another study by Matofari (2015), training directly influences the performance of hotels with much emphasis being put on on-the-job training.

Cheng (2013) using longitudinal data established that there is positive and significant association between training and financial performance. This validates with a study by Masood (2010) and Qureshi et al. (2007) indicating that training has a high positive effect on the financial performance of banks. Khalumba (2012) sought to establish the relationship between human resource management practices and financial performance of commercial banks in Kenya. Her findings concurred with those of other scholars by the indication that there is a strong positive correlation between training and the financial performance of the banks. It is concluded for the above that the concept of employee training and organisational performance has been adequately studied. However the issue of training and financial performance has not been adequately studied with none of studies captured exploring SACCO sector. This study therefore seeks to establish whether there is a link between training and financial performance of SACCOS

A study by Abdul (2015) to establish the Impact of Employee Empowerment on the Automobile Industry in Chennai city of Tamil Nadu in India revealed that employee empowerment positively influences the performance of organisations.

A study by Chepkosgey (2015) to establish the influence of career development on employee performance in the six (6) KCB branches in the North Rift region revealed that there is a direct relationship between employee career development and performance.

A study by Khalumba (2012) to determine the association between human resource management practices and the financial performance of commercial banks in Kenya revealed a strong positive correlation between career planning and the financial performance of the banks. The study however noted that most of the banks lacked most banks lacked effective employees career development opportunities .Similarly, Namusonge (2012) sought to establish the association between career management and the performance on firms listed in Nairobi Security Exchange. A Regression analysis to empirically determine whether career management was a significant determinant of organization performance was done and a positive association was established (career management and organizational performance).

2.3.4 Compensation practices.

A number of studies of studies touching on compensation rewards and benefits and organisational performance are discussed as follows;

A study by Maurer (2001) identifies rewards as an essential ingredient for enhanced employee job satisfaction and work motivation which is directly associated to organizational achievement. A further study by Khan (2010) examining the relationship between rewards and employee motivation in commercial banks of Pakistan showed that rewards correlate significantly with organizational performance. This confirms the position of Rhoades (2001) that an organization's reward system plays a critical role in motivating employees to perform. Agwu (2013) also established that that rewards enhance employees' ability to better organizational performance .This indicates that that a proper employee reward system is an ingredient for comprehensive performance management program which can help in enhancing performance and productivity in the workplace (Mujtaba & Shuaib, 2010). Similarly, a study by Kassa (2016) revealed that Compensation system based on expectancy of employees, comparable with market packages, competency based, and performance based, benefit sharing based mechanism, covering both financial and non-financial dimensions, is positively correlated with perceived organizational performance. A further study Massod (2010) in the

banking sector noted that employee compensation has a high positive effect on the financial performance. This agreed with the outcome of a study by Qureshi et al. (2007) which concluded that employee compensation is a major factor influencing the performance of banks. It is however emphasised by Chen et al., (2009) and Gamage (2011) that performance-related compensation is critical in enhancing performance.

Locally, Shitsama (2011) established from a study on the influence of human resource management practices on firm performance in the Kenyan banking industry that reward affects performance of commercial banks. This study however did not clearly articulate the aspect of performance being measured. A further study by Sopiah (2013) seeks to establish a link between employee compensation to job satisfaction, motivation and employee performance. Sopiah further notes that financial compensation results in meaningful improvement in performance particularly for new and employees at the lower level of management (Sopiah, 2013). Nevertheless, financial compensation to employees is considered to be of paramount importance as it helps them meet their direct day to day needs (Simamora, 2004).

Another study by Murude (2012) assessing the impact of compensation on the performance of Kenya Ports Authority showed a positive and significant association between the two variables (Compensation organizational performance). A study with a theme close to the current study was done by Busungu (2015) to establish the association between rewards and performance of SACCOS in Vihiga County, Kenya. It was determined that there was a positive and significant association between the two variables.(Rewards and performance). This study and other related studies both locally and internationally as considered above do not clearly address the influence of employee compensation practices on financial performance of SACCOS and area that this study seeks to adequately address.

2.3.5 Financial performance measures

Measurement of financial performance among financial institutions has given rise to common rating tools namely PEARLS and CAMEL ratios. PEARLS in full meaning the protection, effective financial structure, asset quality, rates of return and cost, liquidity and signs of growth is a methodology that incorporates a set of 45 financial ratios developed by World Council of Credit Unions (WOCCU) to evaluate and monitor the financial stability of credit unions within WOCCU. CAMEL is an acronym for capital adequacy, asset quality, management, earnings and liquidity is a methodology mainly applied by micro finance institutions. CAMEL is a preferred rating tool used by financial institutions in Kenya including SACCOS. CAMEL has adequately served as an evaluation tool to assess SACCOS for financial vulnerability and direct need for increased supervisory attention. CAMEL applies return on assets (ROA) which is expressed as surplus (before interest on deposit and tax) as a percentage of total assets to measure the earnings rate.

Financial performance expressed as profitability of financial institutions is a function of external and internal determinants within a SACCO (Anathasoglou, 2005). The external determinants are influenced by external factors that are out of the span of control of management. These include the factors such as market environment, legal and economy. Kaplan and Norton (1992) noted that it would be not appropriate to use market based methods like share prices to evaluate financial performance since they incorporate external market factors that are beyond the manager's control. Security prices would be applicable in measuring financial performance where the markets are efficient. The internal determinants of profitability are precise to the financial institution and originate from the financial statements.

In assessing financial performance, Pandey (1997) describes the process of financial analysis as critically examining the accounting information provided in the financial statements and reports, bringing out the relationship and interpreting the results. Financial

analysis makes use of ratios as a mean of expressing financial performance. This arguments are supported by (Brigham and Ehrhardt, 2005) that financial ratios provide a useful tool of evaluating financial performance.

One way of identifying weaknesses and problem areas of financial institution is through application of financial ratio analysis (Cornett *et. al.*, 1999). Two approaches to financial have been proposed for financial statement analysis. The first approach considers evaluation of financial ratios of an institution over to tract down its performance over time while the second approach considers a comparison of the financial ratios of a financial institution relative to its' peers at a particular point in time.

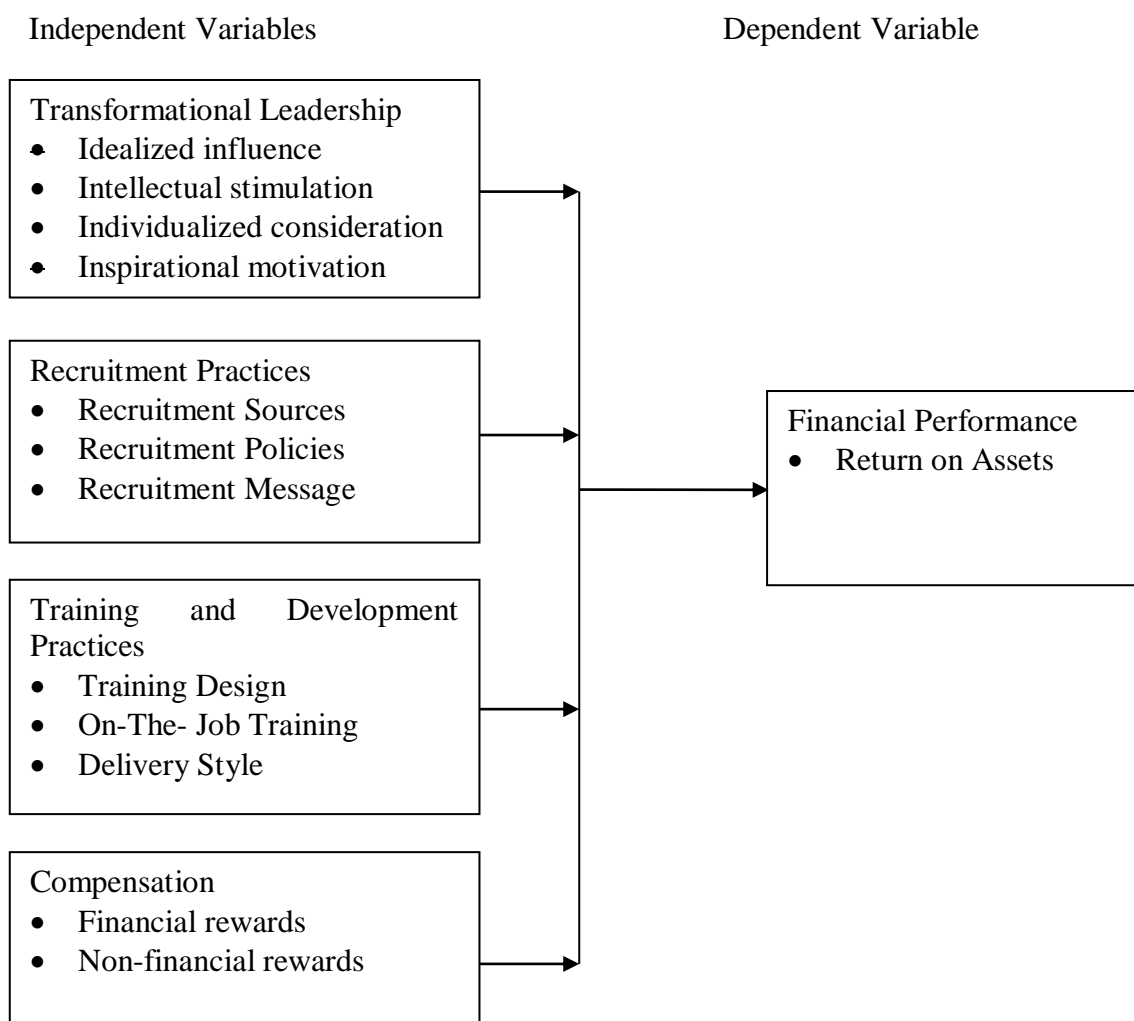
The above approaches have been applied by various studies in measuring performance of financial institutions (Athanasoglou *et. al.*, 2005, Dogan, 2001 and Sebhatu, 2011). These studies posit that return on assets (ROA) reflects the ability of a financial institution's management to generate profits from their assets.

In modelling financial performance in SACCOS, Fried *et. al.*, (1993), argue that it is appropriate to apply the profit maximization to SACCOS since it does not negate the principal of maximizing the benefit to members. Members desire to earn dividends and the amount is determined by how well the management has utilised the assets of the organization to generate revenue and how the costs elements have been managed. Members of SACCOS are the ultimate owners and they receive a stake by borrowing below market rate and earn dividends or interest above market rates. To offer the subsidies the SACCOS should build more capital by increasing the retained earnings. The figure for net earnings is equivalent to retained profit figure of a bank that is financed by shareholder equity (Wilcox, 2006a; Bauer, 2007).

2.4 Conceptual Framework

In the conceptual framework below, transformational leadership, recruitment and selection, staff training and development and staff compensation practices are independent variables for the study; while the dependent variable is financial performance of SACCOS measured in terms of members' savings, loans disbursed and dividends paid.

**Fig 1:
Conceptual Framework**



Source: Author (2017)

2.5 Operationalization of Study Variables

Variable	Definition	How it will be measured
Transformational Leadership	This is a style of leadership where a leader works with subordinates to achieve the needed change	Multi-factor questionnaire (MLQ) on 5 point Likert scale
Recruitment Practices	This is the process of attracting, selecting and appointing suitable candidates for a job within an organization	Questionnaire on 5 point Likert scale
Training and Development practices	These are activities aimed at bettering the job performance of individuals in an organisation	Questionnaire on 5 point Likert scale
Compensation	This is the cash and non-cash payments to an employee in exchange of work done	Questionnaire on 5 point Likert scale
Financial performance	Financial performance expressed as profitability of financial institutions being a function of internal determinants within a SACCO	Return on Assets (ROA) which is expressed as surplus (before interest on deposit and tax) as a percentage of total assets to measure the earnings rate

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this study is to understand the effect of transformational leadership and human resource management practices on financial performance of deposit-taking SACCOS in Kenya. The research methodology will therefore define the appropriate research design, study population, sampling frame technique and the resultant sample size. This chapter will also highlight how data was collected by formulating appropriate research instruments as well as procedures in the field. Lastly, it will also indicate how the data collected will be analyzed with the aim of answering the research objectives promoted.

3.2 Research Design

According to Saunders, Lewis and Thornhill (2009) a research design includes among others the purpose of the research, the research strategy, time horizons under which the research is chosen, techniques and procedures of analyzing data. The purpose of this research is to investigate the effect of transformational leadership and human resource practices on the financial performance of SACCOS in Kenya. The study adopted descriptive research design. Robson (2002), postulates that the purpose of descriptive research design is to portray an accurate profile of persons, events or situations. Descriptive study design enables the researcher to establish how things are currently in the field of study and reports them as they are without any effort to influence them or change their status. It is therefore clear that the study design enables a researcher to report situations as observed (Mugenda and Mugenda, 2003). The use of this research design therefore enabled the researcher establish the definite effects of transformational leadership and human resource management practices on financial performance of deposit-taking SACCOS.

3.3 Target Population and Sampling

Target population refers to the entire group of objects in which the researcher is interested in making a conclusion (Creswell, 2003). The target population for this study comprises of all SACCOS in Kenya licensed by SASRA to offer deposit taking services. According to SASRA, there are one hundred and sixty four (164) SACCOS which have been licensed to carry out deposit-taking business in Kenya in 2017. The unit of enquiry for this study is the licensed SACCOS for deposit taking in Kenya and the study aimed at collecting responses from the most senior non-management staff in the accounting department of the SACCO. Due to the population size, the research conducted a census for all SASRA licensed SACCOS in Kenya. Thus the entire population was taken as the sample for the study. This eliminates sampling and error and provides data on all the individuals in the population (Mugenda and Mugenda, 1999).

The sampling frame is one hundred and sixty four (164) SASRA licensed SACCOS. The most senior non-management accounting (Senior Accountant) staff were the respondents on behalf of the SACCO. This is so because the study sought to understand transformational leadership, human resources practices and financial performance and it is these staff who have knowledge of the SACCO's performance and their performance greatly affects the SACCO's performance.

3.5 Data Collection Methods

In order to adequately explore the effect of transformational leadership and human resource management practices on financial performance the study used both primary and secondary data.

Primary data was obtained through structured questionnaire. The questionnaire was used to elicit responses from senior accountants of the licensed SACCOS in relation to effect of transformational leadership and human resource management practices. Specifically, this

questionnaire sought data on idealized influence, inspirational motivation, intellectual stimulation and individualized consideration for transformational leadership. On human resource management practices, recruitment, training and development and compensation practices. The researcher and her assistant self-administered the questionnaire where appointments were sought with the respondents, employed a drop and collect method of administration and others were sent via courier to the far flung counties.

Secondary data was obtained from the SACCOS financial records and from the regulator (SASRA). This data relates to the audited financial reports of all licensed SACCOS in Kenya which were used to compute the financial performance measures.

3.6 Pilot Study

The pilot study served the dual purpose; as a feasibility study done in preparation for the major study and a pretesting or ‘trying out’ of a particular research instrument (Baker, 1994). The aim being to refine the questionnaire so that respondents do not face challenges in answering the questions and thereby eliminating problems in recording the data. Piloting assessed the questionnaire’s validity and the likely reliability of the data that will be collected.

3.6.1 Internal validity

According to Saunders et al. (2009) this refers to the ability of a questionnaire measure what it is intended to measure. In this study, validity was measured in the form of content and construct validity. Content validity refers to the extent to which the measurement instrument provides adequate coverage of research questions. Construct validity is concerned with the ability of the measures to capture the concepts they are intended. The content and construct aspects of the questionnaire were validated through consultation of the dissertation supervisor.

3.6.2 Reliability

Reliability according to Saunders et al. (2009) is concerned with the robustness of the questionnaire and whether or not it will produce consistent findings at different times and under different conditions, such as with different samples or, in the case of an interviewer-administered questionnaire, with different interviewers. Mitchell (1996), advises that reliability can be assessed by measuring internal consistency. This involves correlating the responses to each question in the questionnaire with those to other questions in the questionnaire. It therefore measures the consistency of responses across either all the questions or a sub-group of the questions from the questionnaire. This study measured internal consistency, using Cronbach's alpha. The overall Cronbach's Alpha for the study variables of 72.6% was obtained indicating the questionnaire passed the reliability test. The results are presented in table 3.1 below.

Table 1
Internal consistency results

	n	Cronbach's Alpha
Transformational Leadership Practices		
The managers go beyond self-interest for the good of the staff and the SACCO	101	.708
The managers talk about their most important values and beliefs	101	.713
The managers consider the moral and ethical consequences of decisions they make.	101	.698
The managers specifies the importance of having a strong sense of purpose in their work	101	.708
The managers emphasizes on the importance of having shared sense of mission	101	.744
The managers talks optimistically about the future of the SACCO	101	.714
The managers expresses confidence that goals set in the SACCO will be achieved	101	.713
The managers expresses a compelling vision of the future	101	.744
The managers talks enthusiastically about what needs to be accomplished.	101	.715
The managers suggest new ways of looking at how to complete assignments	101	.705
The managers get the staff to look at problems from many different angles	101	.724
The managers seeks differing perspectives when solving problems	101	.710
The managers re-examine critical assumptions to question whether they are appropriate	101	.731

The managers spends time teaching and coaching others in order develop their strengths	101	.722
The managers treats the staff as individuals rather than just as a member of a group	101	.712
The managers consider individuals as having different needs, abilities and aspirations different from others	101	.737
The mangers supports others to develop their strengths	101	.694
Recruitment Practices	101	
All job vacancies are advertised for interested persons to apply	101	.717
The SACCO has a formal policy for the recruitment and selection of employees	101	.721
Vacancy notices provide sufficient information or provide a channel to seek the same	101	.731
Job analysis exercise is carried out prior to recruitment of staff in the SACCO	101	.726
The SACCO considers staff career growth by prioritizing internal candidates	101	.706
Training and Development Practices	101	
The SACCO provides training opportunities related to your job	101	.714
The SACCO provides a formal structured on-the-job training for new employees	101	.740
The trainings are designed to meet objectives related to employees' current or future jobs	101	.725
The SACCO has a process of assessing the training needs for the staff	101	.710
Formal training evaluation methods are used to assess the effectiveness of the trainings	101	.730
Compensation Practices	101	
The SACCO provides reasonable salary packages according to the work/job description	101	.752
The SACCO provides other financial rewards over and above the salary	101	.706
The employees get appreciation if the desired work/targets are accomplished	101	.690
The SACCO has clearly defined salary structure and scale	101	.704
The SACCO celebrates performance for outstanding employees	101	.724
Overall Cronbach's Alpha		.726

Source: Author (2017)

3.7 Data Processing and Analysis

Quantitative surveys like the case in point lay a lot of emphasis on the kind of data collected, its measurement, and the model used to explain the relationships between the variables. This section therefore takes time to describe each variable while prescribing its measurement, and

explains how descriptive and inferential statistical tools will be used to achieve the research objectives.

Descriptive statistics are essential in portraying the characteristics of a data set and this will be the case in this study. The study computed the means and standard deviation of the various variables in order to show how they are characterised in terms of central tendency and the extent of their dispersion. Descriptive statistics serve to summarise the symmetrical and kurtosis behaviours of the variables of interest.

Inferential statistics are important to this study and were used to determine the association between the independent and dependent variables that is the correlation through a correlation matrix. The correlation matrix also show the direction of the relationship that is whether it is positive or negative. The study will apply regression analysis which will help explain the relationship between variables and the coefficients in respect to each variable. The main model in the study depicts the regression between financial performance and transformational leadership, recruitment practices, training and development practices and compensation practices.

This is shown below;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu_i$$

Where: Y = Financial Performance (dependent variable)

X_1 = Transformational leadership

X_2 = Recruitment practices

X_3 = Training and Development practices

X_4 = Compensation

$\beta_1, \beta_2, \beta_3$ and β_4 = Coefficients of the independent variables X_1, X_2, X_3 and X_4 respectively

α = constant term

μ_i = error term

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter outlines the descriptive and inferential analysis of data and its presentation. Presented first is the response rate and the demographic characteristics. The presentation of results is then made of the research results based on the research objectives. These findings are presented based on descriptive and inferential analysis

4.2 Response Rate

A sample of 164 respondents from 164 licensed deposit taking SACCOS in Kenya were selected to participate in the study. The sample consisted of senior level employees. Out of these 164 sampled respondents, 101 questionnaires were sent out and returned their responses which was a 62 % response rate. Babbie (2011) suggested that a response rate of 60% is good while a response rate of 70% is very good. The response rate for this study was good and the findings presented relate to the 101 responses received. All these received questionnaires were found to be fit for analysis

4.3 General Information

Demographic features of respondents was sought these included age, gender, education level of the respondents and years of service at the SACCO.

4.3.1 Age of respondents

This study sought to responses from non-management staff in the accounts department to understand the age groups of the respondents. The study found out that 31.7 percent were in the age group of 36-40 years, 19.8 percent in age group 26-30 years, and 16.8 percent in age group 41-45 years. The results are indicated in table 2 below.

Table 2
Age of respondents

	Frequency	Percent
20-25 years	5	5
26-30 years	20	19.8
31-35 years	16	15.8
36-40 years	32	31.7
41-45 years	17	16.8
>45 years	11	10.9
Total	101	100

Source: Author (2017)

4.3.2 Gender of respondents

Among the enquiries made to the respondents, gender was among them the study found out that 53.5 percent of the non-management staff were male and 46.5 percent were female.

These results are presented on table 3 below.

Table 3
Gender of respondents

	Frequency	Percent
Female	47	46.5
Male	54	53.5
Total	101	100.0

Source: Author (2017)

4.3.3 Education qualifications of respondents

The study asked respondent to provide their level of education. The study found that 41.6 percent have a master's degree, 28.7 percent have a diploma and 25.7 percent have a bachelor's degree. These results are indicated in table 4.

Table 4
Level of education

	Frequency	Percent
Certificate	3	3.0
Diploma	29	28.7
Bachelor's degree	26	25.7
Master's degree	42	41.6
Phd	1	1.0
Total	101	100.0

Source: Author (2017)

4.3.4 Years of service

The study also sought to understand the length of tenure of the respondent in the deposit taking SACCO. The study found that 38.6 percent had served for 5-10 years, 19.8 percent for 5-10 years while 15.8 percent had served for 15-20 years. These results are presented in table 5.

Table 5
Length of tenure

	Frequency	Percent
<1 year	10	9.9
1-5 years	20	19.8
5-10 years	39	38.6
10-15 years	16	15.8
15-20 years	6	5.9
>20 years	10	9.9
Total	101	100.0

Source: Author (2017)

4.3.5 Licensed SACCO as Deposit Taking

The study sought to also understand characteristics specific to the deposit taking SACCOS. The study investigated the number of years a SACCO has been licensed as deposit taking. The study found that 79.2 percent have held licence for deposit taking for > 5 years, 15.8 percent for 3-5 years while 5% for less than 3 years. These results are shown in table 6.

Table 6
Operating as Deposit Taking SACCO

	Frequency	Percent
< 3 years	5	5.0
3-5 years	16	15.8
>5 years	80	79.2
Total	101	100.0

Source: Author (2017)

4.3.6 Common Bond of SACCO

The study also sought to understand the unifying factor of the SACCOS licensed as deposit taking. The study found that 36.6 percent of SACCOS are government based, 16.8 percent

are farmer based and the same proportion private based. These results are shown in table 7 below.

Table 7
Common bond

	Frequency	Percent
Government based	37	36.6
Private based	17	16.8
Teacher based	10	9.9
Community based	11	10.9
Farmer based	17	16.8
Other	9	8.9
Total	101	100

Source: Author (2017)

4.4 Transformational Leadership Practices

Examining the effect of transformational leadership on financial performance of SACCOS was the first objective of the study. The study applied a set of seventeen (17) questions on transformational leadership attributes based on 5 point Likert scale with the rating as 1 - strongly disagree, 2 - disagree, 3 - neutral, 4- agree and 5 – strongly agree. The mean scores of less than 1.5 meant strongly disagree, 1.5 to less than 2.5 meant disagree, above 2.5 but below 3.5 meant neutral, above 3.5 but below 4.5 meant agree, while above 4.5 meant strongly agree.

The study results show that the respondents rated the statement ‘the managers talk optimistically about the future of the SACCO’ (4.56) strongly agree. The respondents rated the remainder of the statements as agree. These results are shown in table 8.

Table 8
Transformational leadership practices

Statements	Mean
The managers go beyond self-interest for the good of the staff and the SACCO	4.20
The managers talk about their most important values and beliefs	3.70
The managers consider the moral and ethical consequences of decisions they make.	4.17
The managers specifies the importance of having a strong sense of purpose in their work	4.01
The managers emphasizes on the importance of having shared sense of mission	4.37
The managers talks optimistically about the future of the SACCO	4.56
The managers expresses confidence that goals set in the SACCO will be achieved	4.16
The managers expresses a compelling vision of the future	4.31
The managers talks enthusiastically about what needs to be accomplished.	4.11
The managers suggest new ways of looking at how to complete assignments	4.17
The managers get the staff to look at problems from many different angles	3.84
The managers seeks differing perspectives when solving problems	3.59
The managers re-examine critical assumptions to question whether they are appropriate	3.72
The managers spends time teaching and coaching others in order develop their strengths	3.84
The managers treats the staff as individuals rather than just as a member of a group	3.81
The managers consider individuals as having different needs, abilities and aspirations different from others	3.83
The managers supports others to develop their strengths	4.04

Source: Author (2017)

4.5 Recruitment Practices

The second study objective was to determine the effect of recruitment practices on financial performance of SACCOS. The study investigated the recruitment practices with the help of five set of statements that best describe a SACCOS recruitment practices. The study results indicate the respondents rated the statement ‘vacancy notices provide sufficient information or provide a channel to seek the same (4.51) strongly agree. The respondents rated the rest of the statement as agree. These results are presented in table 9.

Table 9

Recruitment practices

Statements	Mean
All job vacancies are advertised for interested persons to apply	4.04
The SACCO has a formal policy for the recruitment and selection of employees	4.25
Vacancy notices provide sufficient information or provide a channel to seek the same	4.51
Job analysis exercise is carried out prior to recruitment of staff in the SACCO	4.26
The SACCO considers staff career growth by prioritizing internal candidates	4.02

Source: Author (2017)

4.6 Training and Development Practices

The third objective of the study was to determine the effect of staff training and development practices on financial performance of SACCOS. To understand the staff training and development practices the study respondents to rate five statements based on a five point Likert scale. The study found that respondents rated the statements as agree. These results are presented in table 10 below.

Table 10
Training and development practices

Statements	Mean
The SACCO provides training opportunities related to your job	3.84
The SACCO provides a formal structured on-the-job training for new employees	4.13
The trainings are designed to meet objectives related to employees' current or future jobs	3.71
The SACCO has a process of assessing the training needs for the staff	3.85
Formal training evaluation methods are used to assess the effectiveness of the trainings	3.62

Source: Author (2017)

4.7 Compensation Practices

The fourth and last objective of the study was to evaluate the effect of staff compensation on the financial performance of SACCOS. The study required the respondents to give their rating for five statements that describe the compensation practices in the SACCOS. The study found that the respondents rated the statement 'the SACCOS has clearly defined salary

structure and scale' (4.11) agree while for the remainder of the statements as neutral. These results are presented in table 11.

Table 11
Compensation practices

Statements	Mean
The SACCO provides reasonable salary packages according to the work/job description	2.89
The SACCO provides other financial rewards over and above the salary	3.01
The employees get appreciation if the desired work/targets are accomplished	2.87
The SACCO has clearly defined salary structure and scale	4.11
The SACCO celebrates performance for outstanding employees	2.97

Source: Author (2017)

4.8 Correlation Results

To empirically assess the associations between the dependent and independent variables and further, the associations between the predictor variables, the study performed Pearson's pairwise correlation analysis. The analysis also presents the sign of the direction of movement of the variables. The study thus assessed the degree of association between transformational leadership, recruitment, staff training and development, compensation and financial performance. The strength of association (ρ) is interpreted based on (0.9 - 1) very high correlation, (0.7 - 0.89) high correlation, (0.5 - 0.69) moderate correlation, (0.3 - 0.49) low correlation and (0.0 - 0.30) little if any correlation (Qie, 2011). The study results indicate that there are significant positive correlation between the dependent variable that is financial performance measured as return on assets (ROA) and independent variables transformational leadership practices ($r = .774$; $p < .05$), recruitment practices ($r = .593$; $p < .05$) and training and development ($r = .632$; $p < .05$). The study also found that there is significant negative correlation between ROA and compensation practices ($r = -.35$; $p < .05$).

Table 12
Bivariate correlation matrix

		1	2	3	4	5
1.Transformatio nal leadership	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	101				
2.Recruitment	Pearson Correlation	.0890	1			
	Sig. (2-tailed)	.000				
	N	101	101			
3.Training and development	Pearson Correlation	.0949	.0862	1		
	Sig. (2-tailed)	.000	.000			
	N	101	101	101		
4. Compensation	Pearson Correlation	.0440	.0373	.0506	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	101	101	101	101	
5. Return on Assets	Pearson Correlation	.774**	.593**	.632**	-.350**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	101	101	101	101	101

** . Correlation is significant at the 0.01 level (2-tailed).

4.9 Regression Results

The regression analysis was carried out with the independent variables being transformational leadership, recruitment, training and development and compensation. The mean ratings obtained for each of the independent variables were regressed against each SACCOS' ROA. The coefficient of determination (R-squared) was obtained as .651. The results indicate that the study model accounts for 65.1 % variations in financial performance of deposit taking SACCOS. These results are presented in table 13.

Table 13
Coefficient of determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.807 ^a	.651	.637	.06326

a. Predictors: (Constant), Transformational leadership, Recruitment, Training and development and Compensation

The study sought also to test for the significance of the overall model in providing any predictive value. The study employed the F-test and the results obtained were (F=44.861; p<.05). These results are shown in table 14.

These findings indicate that the four independent variables used in the regression have a predictive value on the financial performance of deposit taking SACCOS. This implies that transformational leadership and human resources practices can be used to predict the financial performance measure through return on assets of deposit taking SACCOS.

Table 14
Significance of the regression model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.718	4	.180	44.861	.000 ^b
	Residual	.384	96	.004		
	Total	1.102	100			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), Transformational leadership, Recruitment, Training and development and Compensation

Further to the test of significance of the overall model, the study carried out the t-test to test for statistical significance of the coefficients in the model. The study achieved this through test of the null hypotheses that the coefficients $(\beta_0, \beta_1, \beta_2, \beta_3, \beta_4) = 0$. The study coefficient $(\beta_0 = -.509; t= -6.242; p<.05)$ the intercept in the model was not equal to zero, thus the null hypothesis was rejected hence the coefficient was found to be statistically significant in the model. Similarly the coefficients for the regressors transformational leadership practices $(\beta_1 = .106; t= 5.608; p<.05)$, recruitment practices $(\beta_2 = .085; t= 3.935; p<.05)$, training and development $(\beta_3 = .116; t= 4.423; p<.05)$ and compensation practices $(\beta_4 = -.049; t= -2.666; p<.05)$ were not equal to zero, thus rejecting the null hypotheses.

The model for the study is presented as follows and in table 15 below:

$$Y = -.509 + .106 X_1 + .085 X_2 + .116 X_3 - .49 X_4$$

Where Y = financial performance (ROA)

X₁, X₂, X₃ and X₄ are transformational leadership, recruitment, training and development, and compensation practices.

Table 15
Test of significance of independent variables

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
	(Constant)	-.509	.082		
	Transformational leadership	.106	.019	.542	5.608
1	Recruitment	.085	.022	.380	3.935
	Training and development	.116	.026	.386	4.423
	Compensation	-.049	.018	-.209	-2.666

a. Dependent Variable: Return on Assets

4.10 Discussion of Results

The primary aim of this research was to investigate the effect of transformational leadership and human resource management practices on financial performance of deposit-taking SACCOS in Kenya. To arrive at this purpose, four objectives were studied. This section discusses the findings of the study based on the objectives.

4.10.1 Objective one

To examine the effect of transformational leadership on financial performance of deposit taking SACCOS was the study's first objective. The study results indicate that the respondents rated the multi-factor statements used by the study describing the transformational leadership practices or behaviour as 'agree' representing a mean score of between 3.5 and 4.5 on a 5 point Likert scale. The study also observed a statistically significant positive correlation ($r=.774$; $p<.05$) between transformational leadership practices and financial performance as measured through the proxy return on assets (ROA). On the regression model the study found that the coefficient for transformational leadership practices ($\beta_1 = .106$; $t= 5.608$; $p<.05$) was statistically significant.

The correlational results indicate that there is positive relationship between transformational leadership practices and financial performance. The regression results indicate that for every one unit increase in the transformational leadership practice measure, there is .106 increase in the financial performance. These findings are consistent with those of Flanigan *et. al.* (2013) who determined the influence of transformational leadership on the financial performance of an industrial distributor found that a leader's self-reported transformational leadership was positively associated with financial performance at the local level of an industrial distributor. Further these results are congruent with the findings of (Datche (2015), Onyango (2015), Tiri (2015), Udchachone (2014), Koech & Namusonge (2012) and Ndisya (2012)) who found high correlation between transformational leadership and performance of an organisation.

4.10.2 Objective two

The second objective of the study was to determine the effect of recruitment practices on financial performance of deposit taking SACCOS. The study results indicate that respondents rated the four out of five statements on recruitment practices as 'agree' a mean score of between 3.5 and 4.5 on 5 point Likert scale and above 4.5 for the other statement. On the relationship between recruitment practices and financial performance proxy variable return on assets (ROA), the correlation results ($r = .593$; $p < .05$) present statistically significant positive correlation. On the significance of independent variable – recruitment practices in the study model the study found that the coefficient for recruitment practices was statistically significant ($\beta_2 = .085$; $t = 3.935$; $p < .05$).

The findings of the study show positive correlation between recruitment practices and financial performance. The coefficient for recruitment practices indicates that a one unit increase in measures of recruitment practices results in .085 increase in financial performance. These findings are similar to those of (Gamage (2014), Jama (2012), Katou

(2006), Sang (2005), Wright (2005) and Shaw (1999)) whose study reported positive association between recruitment practices and organisational performance. Similarly, Masood (2010), Qureshi et. al. (2007) and Khalumba found a positive correlation between recruitment practices and financial performance.

4.10.3 Objective three

The study's third objective was to determine the effect of staff training and development practices on financial performance of deposit taking SACCOS. The study results indicate that respondents rated the five statements on training and development practices as 'agree', thus a mean rating of between 3.5 and 4.5 on a 5 point Likert scale. Correlation results on the relationship between training and development and financial performance ($r = .632$; $p < .05$) indicate a statistically significant positive correlation. The coefficient for the independent variable - training and development in the regression model ($\beta_3 = .116$; $t = 4.423$; $p < .05$) was found to be statistically significant. A one unit increase in the measures of training and development variable in the model results in .116 increase in the dependent variable financial performance.

These findings are consistent with those of ((Maria (2014), Busungu (2015), Matofari (2015), Cheng (2013), Masood (2010), Qureshi et al. (2007), Khalumba (2012), Abdul (2015), Chepkosgey (2015)) on the positive statistically significant relationship between training and development practices and financial performance. These results however do not agree with those of Ojera (2015) who found a negative statistically significant relationship between training and financial performance.

4.10.4 Objective four

The study's final objective was to evaluate the effect of staff compensation on the financial performance of deposit taking SACCOS. The study results show respondents responses to five set of statement on compensation practices rating them on 5 point Likert scale. The respondents rated majority of the statements as 'neutral' with mean rating of between 2.5 and

3.5. On the relationship between independent variable – compensation practices and the dependent variable - financial performance, the correlation results indicated that there is statistically significant negative correlation between financial performance and compensation practices ($r = -.35$; $p < .05$). The study results also tested the statistical significance of the coefficient of the independent variable compensation practices in the study model. The regression results showed a statistically significant coefficient ($\beta_4 = -.049$; $t = -2.666$; $p < .05$).

The study findings are inconsistent with those of (Maurer (2001), Khan (2010), Rhoades (2011), Agwu (2013), Mujtaba & Shuaib, (2010), Kassa (2016), Massod (2010), and Chen et al (2009)) who found a statistically positive correlation between compensation practices and organisational performance. Further also Sopiah, (2013) found statically significant positive correlation between compensation practices and financial performance of banking institutions. Though this findings are not consistent with other studies it is important to note that in modelling financial performance in SACCOS, Fried *et. al.*, (1993), argues that it is appropriate to apply the profit maximization to SACCOS since it does not negate the principal of maximizing the benefit to members. Members desire to earn dividends and the amount is determined by how well the management has utilised the assets of the organization to generate revenue and how the costs elements have been managed.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The general objective of this study is to investigate the effect of transformational leadership and human resource management practices on financial performance of deposit-taking SACCOS in Kenya. In achieving this objective, the study sought to achieve four sub-objectives: to examine effect of transformational leadership on financial performance of SACCOS, to determine the effect of recruitment practices on financial performance of SACCOS, to determine the effect of staff training and development practices on financial performance of SACCOS and to evaluate the effect of staff compensation on the financial performance of SACCOS

In this chapter, the study presents discussion of the research findings, conclusions to the research objectives and recommendations arising from the study. This commences with a summary of the findings after which discussions are made based on each research objective. Conclusions are also made based on the same fashion. The chapter concluded by making recommendations from each objective and for further studies.

5.2 Summary of Findings

The main object of this study was to investigate the effect of transformational leadership and human resource management practices on financial performance of deposit-taking SACCOS in Kenya. The study was based on four objectives that were formulated and findings discussed in detail in Chapter 4 and summary of findings presented under each objective.

On the subject of the effect of transformational leadership on financial performance of deposit taking SACCOS the study also observed a statistically significant positive correlation ($r=.774$; $p<.05$) between transformational leadership practices and financial and on the

regression model the study found that the coefficient for transformational leadership practices ($\beta_1 = .106$; $t = 5.608$; $p < .05$) was statistically significant.

Second, on the effect of recruitment practices on financial performance of deposit taking SACCOS the results indicate a statistically significant positive correlation relationship between recruitment practices and financial performance ($r = .593$; $p < .05$) present. On the significance of independent variable – recruitment practices in the study model the study found that the coefficient for recruitment practices was statistically significant ($\beta_2 = .085$; $t = 3.935$; $p < .05$).

Third, on the effect of staff training and development practices on financial performance of deposit taking SACCOS the results indicate statistically significant positive correlation ($r = .632$; $p < .05$). The coefficient for the independent variable - training and development in the regression model ($\beta_3 = .116$; $t = 4.423$; $p < .05$) was found to be statistically significant.

Lastly, on the evaluation of the effect of staff compensation on the financial performance of deposit taking SACCOS results show statistically significant negative correlation between financial performance and compensation practices ($r = -.35$; $p < .05$) and on the statistical significance of the coefficient of the independent variable compensation practices in the study results showed a statistically significant coefficient ($\beta_4 = -.049$; $t = -2.666$; $p < .05$).

5.3 Study Conclusions

The study was driven by the need to develop understanding in the effect of transformational leadership style, human resources practices and financial performance in deposit taking SACCOS. This study generated four objectives upon which the following conclusions were made.

The study concludes that there is positive effect for the variables transformational leadership practices, recruitment practices and training and development on financial performance of deposit taking SACCOS. Organisational efforts to address improvements in these practices results in increased financial performance these conclusion support those of Datche (2015), Onyango (2015), Tiri (2015), Udchachone (2014), Gamage (2014) and Jama (2012).

On compensation practices the study concludes that efforts to address improvement in the practice results in decreased financial performance of the organisation. This conclusion is supported by the objective of SACCOS in profit maximisation (Fried *et. al.*, 1993).

5.4 Recommendations of the Study

The study recommendation in relation to impacting management decision, policy and industry alike, the study makes the following recommendations

With the consideration of improving financial performance the managers of deposit taking SACCOS should consider developing transformational leadership attributes to enhance their day to day interaction with member of their teams as regards the seventeen elements of a transformational leader.

In relation to human resources practices of recruitment and training and development, the managers of deposit taking SACCOS should consider improvement in the practices and development of policies as they have a positive relationship to financial performance.

In regard to compensation practices, the study recommends that managers of deposit taking SACCOS should be prudent with spending their organisational resources on compensation practices as these have a negative relation to financial performance.

5.5 Areas for Further Research

From a scholar stand point, several enhancements can be made to this findings concerning methodology and empirical evidence some of which are suggested below.

The study considered all the deposit taking SACCOS licenced by SASRA in 2017 and their financial performance from 2016. On the methodology applied by the study of cross-sectional analysis of financial performance the study recommends that future research may focus on financial performance over different time periods for the same deposit taking SACCOS.

The estimated model was able to deliver about 65% of the explanation between financial performance and proposed exponents. What this indicates is that there is still an opportunity to explain the remaining 35% especially considering the inclusion of SACCO characteristics such as common bond and duration of licensing by SASRA.

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d)	The managers specifies the importance of having a strong sense of purpose in their work					
e)	The managers emphasizes on the importance of having shared sense of mission					
f)	The managers talks optimistically about the future of the SACCO					
g)	The managers expresses confidence that goals set in the SACCO will be achieved					
h)	The managers expresses a compelling vision of the future					
i)	The managers talks enthusiastically about what needs to be accomplished.					
j)	The managers suggest new ways of looking at how to complete assignments					
k)	The managers get the staff to look at problems from many different angles					
l)	The managers seeks differing perspectives when solving problems					
m)	The managers re-examine critical assumptions to question whether they are appropriate					
n)	The managers spends time teaching and coaching others in order develop their strengths					
o)	The managers treats the staff as individuals rather than just as a member of a group					
p)	The managers consider individuals as having different needs, abilities and aspirations different from others					
q)	The mangers supports others to develop their strengths					
8. Recruitment practices						
a)	All job vacancies are advertised for interested persons to apply					
b)	The SACCO has a formal policy for the recruitment and selection of employees					
c)	Vacancy notices provide sufficient information or provide a channel to seek the same					
d)	Job analysis exercise is carried out prior to recruitment of staff in the SACCO					
e)	The SACCO considers staff career growth by prioritizing internal candidates					
9. Training and Development practices						
a)	The SACCO provides training opportunities related to your job					
b)	The SACCO provides a formal structured on-the-job					

	training for new employees					
c)	The trainings are designed to meet objectives related to employees' current or future jobs					
d)	The SACCO has a process of assessing the training needs for the staff					
e)	Formal training evaluation methods are used to assess the effectiveness of the trainings					
10	Compensation					
a)	The SACCO provides reasonable salary packages according to the work/job description					
b)	The SACCO provides other financial rewards over and above the salary					
c)	The employees get appreciation if the desired work/targets are accomplished					
d)	The SACCO has clearly defined salary structure and scale					
e)	The SACCO celebrates performance for outstanding employees					