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Effect of Risk Management on the Performance of Projects Initiated by Deposit-Taking SACCOs in Meru County, Kenya

Zakary Gitonga Njeru
Student, Department of Management Science, Kenyatta University, Kenya
Dr. David M. Nzuki
Lecturer, Department of Management Science, Kenyatta University, Kenya

Abstract:
Compliance challenges to the set business regulatory environment have been experienced in the management and performance of SACCOs projects. This has seen an increased desire by SACCOs to embrace corporate governance practices when they are carrying various marketing, capacity development, new product development and infrastructural projects. In Kenya, Savings and Credit Cooperatives Societies (SACCOs) are popular as forms of investment and mobilization of resources, this is because of their ability to bring about equitable development and justice. Despite these accolades, the Kenyan SACCOs have experienced mixed results as regulators have noted that they have not been meeting their members' needs and requirements as well as failing to service loans extended to them by commercial banks and other international lenders. To ensure the objectives of enhancing shareholders value have been achieved, corporate governance comes into play. Thus the main objective of this study is to determine the effect of project governance factors on performance of Deposit Taking SACCOs in Meru County. Specifically, the study focused on establishing the effect of risk management on the performance of projects instituted by deposit taking SACCOs in Meru County. The present study was premised on Agency theory, Stakeholder theory and Shareholders' theory. Structured questionnaire were administered on the target population. The 11 Deposit-Taking SACCOs regulated by SASRA formed the study target population. The study adopted a descriptive research design and made use of a census in to establish the status of project governance. The study unit of analysis was the 11 deposit taking SACCOs while the units of observation were board of directors, chief executive officers and finance and marketing managers of the SACCOs. The number of respondents involved in the census was 55. The study adopted descriptive and simple regression model. Study's results showed risk management practices had a positive and significant effect on the performance of the Deposit Taking SACCOs. The study recommends the upgrading risk management system in order to keep pace with emerging and dynamic risks being experienced in the financial sector. This study was meant to benefit financial institutions especially on the relevance of observing project governance factors.

Keywords: *Project management, risk management, SACCOs performance*

1. Introduction

The success of modern projects is hinged on good project governance implemented with intention of injecting competitiveness to the whole organization (PMI, 2016). Project governance is intended to address the accountability, transparency and guide in decision making of the managers overseeing the implementation of the projects (APM, 2012). The allocation of resources, duties and responsibilities and authority flow within the project is also a key element of project governance in organizations. According to Anderson and Gupta (2009) corporate guidelines and regulations vary from continent to continent and from nation to nation but with common goal of securing the survival of the organization. In the United States of America, The Principles of Good Corporate Governance and Best Practice Recommendations, and the Sarbanes- Oxley Act of 200 safeguard the investors' investment and protect them from corporate scandals (Bhatt & Bhatt, 2017). In the Asian continent a country like Malaysia has based its corporate governance guidelines and legislations on the American Sarbanes- Oxley Act to develop their Malaysian Code of Corporate Governance (MCCG, 2012). This code is geared towards establishing specific roles for the organizations board as well as their responsibilities, process of board composition, upholding integrity and transparency in financial reporting, management of risks and recognize the role and relationship between the organization and its shareholders (MCCG, 2012)

Therefore, this study focusses on establishing the following specific objective; To establish the effect of risk management on the project performance of Deposit Taking SACCOs in Meru County

Management of different kinds of risks is critical for the stability and survival of financial institutions (FIs) (Mutua, 2016). It is for this that FIs need to identify the numerous risks that have a chance of affecting their businesses. Mutuku (2016) lists down the various types of risks that are associated with SACCOs, these include; premium risks, operational risks, business risks, bankruptcy risks, reeling risks and trade risks. This list is confirmed by Gweyi (2018) who explains the additional risks like liquidity risks, interest rate risks and credit risk. The management of these different kinds of risks not only reduces the probability of occurrence of unexpected and costly events but also ensures effective and efficient allocation of resources (Saleem&Abideen, 2017). In case of SACCOs the importance of risk management is highly regarded due to their perceived effect that usually results from the behaviour of clients and the characteristic of environment in which they operate in (Mukanzi&Musiega, 2016).

In a study conducted in Kakamega County by Mukanzi and Musiega (2016) whose main intention was to investigate the association between operational risk management processes and financial performance of Deposit Taking SACCOs found a positive relationship. The selected number of respondents were 56 from the four licensed deposit taking SACCOs in Kakamega County. The study by Mukanzi and Musiega (2016) made use of a descripted research design and involved the whole population of the study. The present study is similar to the study conducted in Kakamega County in terms of the choice of the sampling methodology and the research design. The present study will include the board of management that had been ignored in the Kakamega County Study and will focus beyond the financial risk management.

The results established by Mukanzi and Musiega (2016) are similar to those of the study conducted by Mwaniki and Wamioro (2018) who established that risk management practices associated with credit had an effect on financial performance of SACCOs in Mombasa County - Kenya. The effect of credit risk management process on performance of SACCOs was established be a positive and significant. Mwaniki and Wamioro (2018) study had made use of descriptive research design adopting the Nassiuma (2000) formula of establishing the sample size. The number of respondents who comprised of credit managers administered the research instrument were 90 and the study generated a response rate of 55 per cent. The present study departures from Mwaniki and Wamioro study due to its focus on top management of SACCOs regulated by SASRA, whereas the elements of study are not limited to the credit risk management aspects and the study is not only based on theories focussed on maximizing shareholders' wealth rather than the portfolio management theories as applied in the Mwaniki and Wamioro study.

This study is premised on the shareholder's theory whose main proponent was Friedman (1979). The theory being a governance oriented one tends to explain the principal-agent relationship thus shedding light on the obscure managerial practices in the organization. The principal-agent relationship should be based on the social drive perspective of maximizing the shareholders' wealth (Coelho *et al.*, 2003). According to Jeffers (2005) the concept of principal-agent relationship refers to a system that ensures shareholders' interests are of high priority and therefore requires the management maximize value for their investments. This has influenced the development of robust risk management frameworks that safeguards business operations and supports shareholder's wealth maximisation.

2. The Conceptual Framework of the Study

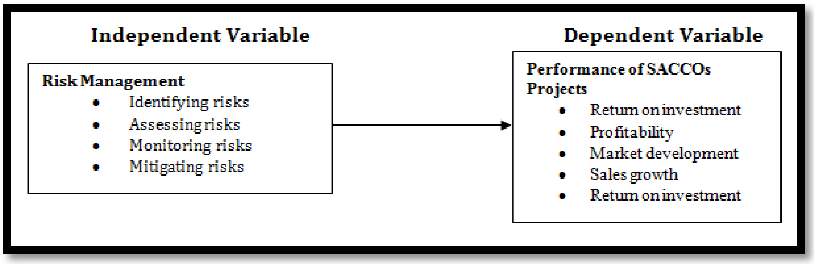

Figure 1: Conceptual Framework

Risk management is a process instituted within the firm for safeguarding it from unexpected happenings and risks. The system put in place identifies, assess and prioritizes risks either for elimination or mitigation thus reducing their effects on the projects designed by the organization. The risk management activities tend to control financial risks among other risks in order to limit financial losses.

3. Research Methodology

The study was designed to examine the relationship between projects' risk management and performance of DT-SACCOs projects in Meru County, Kenya. To attain the above objective the study adopted a descriptive research design due to its versatility in describing the study's phenomenon and collecting the target's population attitude, views and opinions and putting them into perspective (Kipchumba, 2015). The target population comprised of the 55 management staff working in the 11 Deposit Taking SACCOs regulated by SASSRA in Meru County. The study made used first a cluster sampling methodology where Deposit Taking SACCOs were clustered according to regions they were located then all the SACCOs within that region were subjected to the study. The Meru County had 11 DT-SACCOs and all the management staff participated in the study. The study's data was collected through a questionnaire which was deposited to the population of interest and then collected later for data analysis.

4. Study's Results

The study's population of interest comprised of 55 Management level staff within the Deposit Taking SACCOs. The response rate for the study stood at 87.27 % as 48 of the 55 respondents administered with a questionnaire returned it. According to Kumar (2017) this response rate is admissible for data analysis and thus fit for inferential analysis. In terms of gender distribution the male respondents comprised of 62.5 per cent while the female respondents had a share of 37.5 per cent of the total number of respondents. To establish their skill level and ability to respond to the issues of focus the study tested their education level and it was found out that majority of the respondents were well educated as they had Degree qualifications which stood at 77.1%. Those with College qualifications stood at 18.8% while those with Secondary School Certificate represented 4.2% of the total population under study. This is a good indicator that the respondents had the requisite skills to make informed decisions concerning projects' implementation within the SACCOs. The results are consistent with those of Ndung'u (2016) who found that SACCO's employees in Nairobi County were well educated with more than 50% being graduates.

The reliability and validity of the research instruments and the study were established through Cronbach Alpha Coefficient (α) and expertise review of the instruments respectively. The αgenerated was 0.894 after administering and collecting the responses from a pilot study in neighboring Tharaka-Nthi County with similar business environmental conditions. This was more than the recommended Alpha coefficient of 0.5 by Cooper and Schindler (2013). The level of association between the two constructs; risk management and performance of SACCOs was established utilizing the Pearson's Correlation Analysis. This was found to be at $r = 0.307$, $p< 0.05$.

The study sought to establish the contribution of the risk management on performance of DT-SACCOs projects in Meru County. The regression model is indicated as $Y=\beta_0 + \beta_1X_1 + \varepsilon_i$, where Y represents projects performance, X_1 the independent variable representing risk management, β_0 and β_1 are coefficient of regression coefficients while ε_i is the error term.

4.1. Regression Analysis of Risk Management and Projects Performance

The model as indicated above is taken through a simple regression analysis and the results are presented in the Table 1, 2 and 3. The Table 1 below indicates the amount of variation on the dependent variable explained by the independent variable demerger.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.630[a]	.397	.376	.40893
a. Predictors: (Constant), Risk Management				

Table 1: Coefficient of Determination (R2) for Risk Management

The Table 1 indicates that the independent variable (Risk Management) generated adjusted R square value of 0.376 which meant that 37.6 % of corresponding variation in project performance of DT-SACCOs could be explained by risk management while the rest could be as a result of other variables that were not considered in the study.

Model		**Sum of Squares**	**Df**	**Mean Square**	**F**	**Sig.**
1	Regression	3.189	1	3.189	19.068	.000[b]
	Residual	4.849	46	.105		
	Total	8.038	47			
a. Dependent Variable: Projects Performance						
b. Predictors: (Constant), Risk Management						

Table 2: ANOVA for Risk Management

From the Table 2 we realize that F test gave a value of $F (1, 46) = 19.068$, $p < 0.001$) which is relatively large enough to support the goodness of fit model explaining the variations in the dependent variable. This validates that risk management is a valuable predictor of DT-SACCOs projects performance.

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	*Std. Error*	*Beta*		
1	(Constant)	1.147	.462		2.486	.017
	RM	.633	.115	.631	5.511	.000
a. Dependent Variable: DT- SACCOs Project Performance						

Table 3: Regression Coefficient for Risk Management

The results indicated presence of positive and significant relationship between risk management and DT-SACCOs project performance ($\beta=0.633$, $p< 0.001$). This implies that the application of risk management strategies in the DT-SACCOs projects will lead to improved performance.

The generated regression model is represented as; $Y =1.147 + 0.633X_1$. Where Y is DT-SACCOs Projects Performance and X_1 is risk management aspects.

The results of this study were similar to those established by Kakamega County by Mukanzi and Musiega (2016) who established a positive and significant relationship between operational risk management and SACCO's performance. The study indicated that each of the SACCOs project had to have a risk management system and policy to safeguard it from unforeseen risks. The two studies also had similarities in research design as both made use of descriptive research design. This study is also similar in design and result to that of Mwaniki and Wamioro (2018) who established that risk management practices associated with credit had an effect on financial performance of SACCOs in Mombasa County - Kenya.

5. Conclusions and Recommendations

One of the study's objective was to assess the effect of risk management on the performance of DT - SACCOs. To attain this objective, Likert type scale data was applied in order to determine the nature of relationship. After running the regression analysis it was established the presence of a positive causal link between risk management and financial performance. The indicators of risk in this study were identification of risks, project risk analysis and review and monitoring of project risks coupled with communication of risk effect to the management of the organization. The empirical results generated from the data analysis and the literature review conducted, leads to a conclusion project risk management practices are pertinent to the performance of SACCOs.

The study recommends that the risk management practices within the SACCOs projects to be addressed and upgraded due to the pertinent role that they play in the performance of the SACCO. SACCOs should explore better methods of communication with their stakeholders to safeguard growth of the business and shield it from unfounded rumours that may affect the growth and the sustainability of the projects. Frequent monitoring and review of the projects processes should be instituted.

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