ROLE OF PERSONAL BEHAVIOUR STRATEGIES ON FINANCIAL PERFORMANCE OF RURAL SACCOS IN KENYA, NYERI COUNTY

Githaiga Serah Muthoni

Dedan Kimathi University of Technology

David Kiragu

Dedan Kimathi University of Technology

Anne Ndirangu

Dedan Kimathi University of Technology

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Abstract

The purpose of this study was to investigate the role of personal behavior strategies on financial performance of rural SACCOs operating in Nyeri County. The study sought to explore the role of personal behavior strategies in determining the financial performance of Rural SACCOs in Nyeri County. The study was guided by agency theory, utilitarian theory and personal trait theory. The research adopted a descriptive survey research design. The target population of the study was the 42 Rural SACCOs operating in Nyeri County. Census was done where all the Senior Managers from 42 Rural SACCOs operating in Nyeri County were the respondents. A self-administered, questionnaire was used to collect data from the target respondents. The study achieved a response rate of 90.5%. Data analysis was conducted using statistical package for social sciences (SPSS) to generate descriptive and inferential statistics. Frequencies and percentages were generated from the data and presented using frequency distribution tables while linear regression analysis was done to establish relationship of each parameter of the independent variables in the study. The study findings revealed that personal behavior strategies had positive and significant effect on financial performance of rural SACCOs. The study recommends that SACCOs should review their internal control systems and seal the loopholes that pose opportunities for unethical practices. They should also review their human resource policy especially recruitment and selection procedures and ensures that the guidelines are adhered to when recruiting new employees. Future researchers should undertake comparative studies covering other Counties in order to validate whether the findings can be generalized.

Keywords: Personal Behavior Strategies and Financial Performance

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INTRODUCTION

1.1 Background to the Study

According to Ferrall, Fraedrich and Ferrell (2008) the need for established standards of behavior, had predisposed most organizations especially financial institutions, to evolve and entrench personal behaviour strategies as part of their culture. This is to mould and direct their employees' actions and value systems toward the expected "code of conduct" in an attempt to enhance corporate performance. The authors observed a number of well-published scandals, which eventually result to public outrage on deception and fraud in business organizations. Stemberg (2000) notes that unethical management practices affect corporate performance. Therefore he stressed the need for business firms to integrate ethics in an attempt to establish those organizational conducts that conform to established standards. As the most significant part of ethical practices in business life is associated with the activities of the human resources department, the relationship between human resource management (HRM) and ethics plays a vital role in organizations (Greenwood, 2002). Which behaviours of individuals in the business environment are wrong or right, ethical or unethical are defined within the scope of certain rules. This is very important in the reliable operation of the working environment and the ability of the enterprise to establish trust-based relationships with its stakeholders. The liability of the enterprise to its employees is a part of its social responsibility and the application of the HRM functions includes issues such as justice, equal opportunities, privacy and faith. Meanwhile, the employees have a liability towards the enterprise for acting in compliance with business ethics and accordance of their conducts with business ethics which is monitored by the HR departments.

In the financial sector, ethics is considered as the suitable behaviour for the creation of mutual advantage for the stakeholders such as shareholders, depositors, employees and clients. In conducting its business operations, the financial institutions must consider the lawfulness, rightfulness and the goodness of its activities (Kiluva, 2006). Respectable financial institutions are expected to be fair and accountable and have social responsibility, integrity and honesty. Financial institutions have to make viable choices when dealing with unclear areas of ethics and when working under high pressure levels that may be detrimental to their reputation as well as cause financial loss. The Kenya Bankers Association (KBA) emboldens its members to use best practices when providing financial services. This includes the highest level of customer care when engaging with the public banking (KBA, 2016).

Baucus and Near (1991) were of the opinion that, the reasons of workplace deviance can be traced to many individual sociological effects, organizational culture, and economic causes (pressure). Personality, education, group influence, ethical work climate, frustration, and stress are only but a few examples. Deviant behaviour takes place when an employee's behaviour changes substantially. The manifestations of deviant behaviour are changes in work punctuality, work attitude and performance, extended lunch breaks, tardiness, and many other incidences. The deviant behaviour can be regarded as a cry for help, and management's major task is to recognize the change in behaviour and to take corrective action. The Kenyan banking sector has

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been trying to survive in an unstable business environment. During the years 1992 and 2002, the sector went through a crisis with the collapse of nearly 20% of the registered financial institutions in the country (Riaga, 2016). Major shareholders, board members and top managers of most financial institutions were charged with practicing potentially harmful activities, resulting in financial institutions losses, and failing to protect the rights and interests of depositors. Recently, the banking sector has been on the limelight with financial institutions being put under receivership by the Central Bank of Kenya (CBK). These have put to question the level of integrity in financial institutions in Kenya.

1.2 Statement of the Problem

The recent past has seen confidence in Kenya's financial sector being shaken by SASRA publication (27th day of January, 2017) notifying the general public on SACCOs that didn't comply with the Act leading to twelve being granted restricted Licenses for a period of six (6) months ending 30th June 2017, one being placed under statutory management and one License being revoked due to non-compliance with the Act. SASRA, C.E.O, Carilus Odemba on 26th August 2013 cited that the main reasons for blocking licenses for SACCOs are failure to meet the minimum capital requirements and poor corporate governance frameworks. When financial institutions are declared insolvent, many companies and individuals lost their money. This is according to Frederic (2002) who observes that financial institutions are different from the generalities of companies, in that their collapse affects a wider circle of people and moreover may undermine the financial system itself, with serious effects on the entire economy. Most studies dealing with ethical issues in the financial sector have mainly concentrated on the commercial banks and urban SACCOs. There is therefore a research gap in rural SACCOs yet they play an important role in the economy. Rural SACCOs stimulates wealth creation and poverty reduction in the society by providing affordable and convenient savings and credit services to its members. Out of the 14 SACCOs outlined by SASRA for non- compliance with the Act none of them emanated from Nyeri County. Based on these views, ethics in banking actually affect the very wellbeing of people's lives. To minimize unethical behaviour and financial loss to corporations, investors, creditors and employees, this research is important in order to make recommendations on the way forward. Therefore this study investigated the role of personal behaviour strategies in determining the financial performance of rural SACCOs operating in Kenya, Nyeri County.

1.3 Objectives of the Study

The objective of the study was to explore the role of personal behaviour strategies in determining the financial performance of rural SACCOs operating in Kenya, Nyeri County.

1.4 Significance of the Study

It is anticipated that the study findings could provide valuable information to the financial sector and they will form a blue print upon which financial institutions can practice ethics. The study provides a starting point for stakeholders such as owners and directors of financial institutions interested in enhancing personal behavior strategies. To the government and in particular the

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ministry of finance, the study forms the basis for future review of the Sacco Societies Act and other institutions further governing issues in the sector. It will also assist in formulating future policies and regulations affecting ethics in Kenyan financial institutions.

1.5 Scope of the Study

The study focused on the personal behaviour strategies in determining the financial performance of rural SACCOs operating in Nyeri County. It concentrated on the rural SACCOs in Kenya, Nyeri County, those dealing with tea, coffee and horticulture.

LITERATURE REVIEW

2.1 Theoretical Literature Review

The study was guided by the agency theory and personal trait theory

2.1.1 Agency Theory

Agency theory originated from Stephen Ross and Barry Mitnick (Donaldson & Davis, 2012) and explains the relationship between agents and principals in business. It helps to resolve the problems in agency relationships. It mainly addresses two problems one being the problems arising when principals' and agents' desires conflict and those that occur when principals and agents differ in attitudes towards risk making each to take different actions. Agency theory specifies instruments which reduce agency loss. It is common for some agents to practice unscrupulous behaviour to the detriment of shareholder interests (Donaldson & Davis, 2012). The board of directors is a main instrument for curtailing such opportunistic behaviours because it monitors the actions of the managers on behalf of the shareholders. Agency theory is applicable to this study in that the managers of the SACCOs are the agents while the directors are the principals of these companies. If agents practice opportunistic behaviour, the SACCOs are likely to suffer since the agent in that case would be looking into their own interests more than the companies'. The financial performance of the SACCOs may go down in such a case. If the management has the capability and the will to utilize the firms' resources such as finances, technology and human capital maximally to the benefit of the firm, such firms have higher chances of succeeding.

2.1.2 Personality Trait Theory

For trait theory, individual behaviour is the result of inherited or acquired traits. Trait theorists subscribe to the premise that certain traits will be disposed to react to a given situation in a certain way (Kidder, 2005). In this case, traits can be defined as stable characteristic that cause a person to depict a response to any situations in certain ways. Trait theories indicate that the traits are always constant regardless of the situations. Trait research has provided relative stable and predictable outcomes. For example, an individual with the personality traits of "conscientiousness" shows the qualities of dependability, carefulness and responsibility. In terms of criticism, trait theory has been questioned on its research design and on its ignorance of situational variables (McKenna, 1994). Furthermore, research by McAdams (1992) has pinpointed the limitations of personality trait theory, namely its inability to predict behaviour, its failure to provide causal explanations of behaviour, its disregard of the contextual and

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conditional nature of the human experience. However, the theory still informs this study as unethical practices are more likely to be practiced by individuals with certain personality traits such as greed and dishonesty. As such, organizations can screen employees of such traits as a way of curbing unethical behaviour.

2.2 Empirical Literature Review

Empirical literature review involves the description of previous studies based on what is known about the topic, the methodology that was used and the results of the study.

2.2.1 Personal Behaviour Strategies

According to Tsytsyk (2014) the effective system of prudential supervision is complex but generally aimed to prevent systemic risks and to increase transparency and efficiency of the financial institutions. Tsytsyk (2014) further states that regulators should focus on effective risk management strategies. In Kenya, supervision of financial institutions must be undertaken in accordance with Central Bank Act and Banking Act and CBK Prudential Guidelines (CBK, 2014). Most suitable supervision is the mixed approach which entails both onsite and off-site inspection.Wanjohi's (2014) study on fraud utilized a descriptive research. A population of 68 employees representing 33% of the populations was included in the sample size using a stratified random sampling technique. Data for the study was collected using an online questionnaire for cost and convenience to all the respondents. The study found that, opportunities for fraud were present due to relaxed internal controls and accounting systems, inadequate supervision of subordinates, disregard for customer due diligence requirements and poor personnel policies. This study recommended that financial institutions should implement systems and structures that reduce the opportunities for fraud. In addition to strengthening internal control systems and structures, financial institutions can use Information, Communication and Technology (ICT) tools to reduce opportunities or instil punitive measures for employees engaging in fraud and fraud related incidences. However, the study was on fraud in the banking industry, which was a case study on Commercial Bank of Africa and data was collected using online questionnaire. The current study is a descriptive survey which will focus on SACCOs and data will be collected using hand delivered questionnaires.

Ogwoka, Namada and Sikalieh (2017) conducted another study on human resource practice, ethical investor relations, ethical consumer relations and ethical advertising on the financial performance of listed firms in Kenya. Primary data was collected through a semi-structured questionnaire. Secondary data was collected from both the listed firms in the Nairobi Securities Exchange (NSE), and information from the sector regulator, the Capital Markets Authority (CMA). The target population of this study was 64 companies listed in the Nairobi Securities Exchange (NSE) with consistency being evaluated between the years 2011 to 2015. The study did a joint regression test for the combined effects of ethical human resource practices, ethical advertising practices, ethical consumer practices and ethical relation practices. In the regression, it was established that, acting jointly, these practices have a positive relationship with the financial performance of listed firms. The study recommends that there is need to involve

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truthful disclosure of information, especially regarding financial statements of the firms. Integrity and truthful disclosure of information will uphold investor trust, and subsequently inject more incentives (majorly in the form of financial) for the benefit of the firms. Overall, the study recommends that, by practicing ethical leadership, the firms' financial performance will greatly improve. Nonetheless, the study was conducted among the listed firms in the NSE while the current study will be carried out among rural SACCOs in Nyeri County.

Wanga (2013) also conducted a study on financial institutions' response strategies to fraud-related challenges. This was a case study since the unit of analysis was one organization aimed at getting detailed information regarding the strategic responses to increasing fraud risk at financial institutions. Primary data was collected using self-administered questionnaires. A quantitative analysis was employed. The study found that the financial institutions adopted fraud prevention strategies to great extent. The financial institution also carries out a random check christened "the Eye-ball". This is a random selection of account opening documents by a dedicated team of Fraud Samplers. The study also revealed that a whistle blowing facility is existent in the financial institutions. The study found that the financial institutions have a fraud control plan documenting the responsibilities for fraud prevention, detection and response initiatives. The study concludes that fraud is very sensitive and that customers have immense fear of fraud and it impacts negatively on financial institutions profitability where income lost through fraud would have been reinvested to foster growth. Other recommendations suggested include staff management where human beings need constant monitoring and motivation of staffs. Appropriate methods should be put in place deal with the situations. Methods such as employee screening, staff account monitoring, profiling of staff disciplinary cases, job rotation and enrichment are worth considering. Nevertheless, the study was a case study while the current study will be a descriptive survey.

2.3 Research Gap

Past research indicates that SACCOs have been using various strategies to prevent, detect, report and resolve fraud cases. While some of the studies reviewed were conducted internationally, even the local ones have concentrated mainly on commercial banks. Adeoye and Adeoye (2014) study was conducted in Nigeria which has different characteristics than Kenya. Wanjohi's (2014) study was on fraud in the banking industry, which was a case study on Commercial Bank of Africa and data was collected using online questionnaire. Ohando (2015) study used correlations to establish the relationship between fraud risk management practices and financial performance of financial institutions in Kenya. Most of the reviewed studies did not link their variables with financial performance. All these leave a research gap on SACCOs and especially the ones in a rural set up yet they form an important part of the economy. This is the gap that the study intends to fill.

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RESEARCH METHODOLOGY

3.1Research Design

The research adopted a descriptive survey research design. This method is appropriate for this study because it is an effective way of collecting data relatively cheap and within a short time.

3.2Population of the Study

The target population for this study is the 42 rural SACCOs operating in Nyeri County. Personal behaviour strategy is largely a top level management decision. They set the tone at the top. The population of this study is therefore all the 42 SACCO managers of the rural SACCOs operating in Nyeri County.

3.3Sampling Technique and Sample size

A target population of 42 rural SACCOs is deemed a small target population and hence there will be no need to do sampling. This was therefore a census study.

3.4 Data Collection Instrument

A questionnaire was used to collect primary data from the SACCO managers. The questionnaire was semi structured. The items of the questionnaires were based on the objective of the study. The questionnaires had closed ended items accompanied by a list of possible alternatives from which the respondents could select the answer that they thought best suits their responses. Questionnaires were appropriate for this study since its dealing with a sensitive issue and they will ensure anonymity of the respondents.

3.5 Data Collection Method

In this study the questionnaires were self-administered to ensure clarifications are sought during the data collection. Data collection started by getting authority to collect data through an introduction letter from Dedan Kimathi University.

3.6 Test of Reliability and Validity of Data Collection Instrument

The reliability of the questionnaire was tested using the Cronbach's Alpha coefficient with the aid of SPSS software. According to Mugenda & Mugenda (2003) Cronbach Alpha value greater than 0.7 is regarded as satisfactory for reliability assessment. The pilot study revealed Cronbach alpha values of 0.799 for personal behavior strategies. From the finding it could be concluded that data collection instrument had the adequate reliability for the subsequent stages of analysis since the Cronbach Alpha value was greater than 0.7.

3.7 Data Analysis and Presentation of Research

Data analysis was conducted using descriptive statistics such as mean and standard deviation. After descriptive analysis data was weighted and tested for linear regression assumptions. Gaussian distribution was tested using Q-Q plots. Test of linearity was done using correlation coefficient (r). Durbin Watson (*d*) statistic was used to test for independent of predictors. Finally Variance Inflation Factor (VIF) was used to test for multi-collinearity. Inferential analysis were done using bivariate linear and multiple linear regression at 95% level of confidence. Model R-Square, ANOVA statistics (F- statistic and p-value) and regression coefficients were generated and interpreted.

The multiple linear regression model which was used in this study is as shown below:

$$\mathbf{Y = \propto + \beta_1 X_1 + \varepsilon}$$

Where:

Y = Financial Performance

∝ = Constant

X_1-personal behavior strategies.

β_1- regression coefficients associated with respective independent variables

3.8 Ethical Considerations

The researcher made various ethical considerations. First of all, the researcher obtained a research permit to allow data collection. The respondents were informed of their right to participate or not to participate in the study (informed consent). To make that decision, all the participants were informed of the purpose of the study. All the respondents were also informed that the information they provide shall remain confidential and used for research purposes only. Their participation also remained anonymous; consequently it was not necessary to indicate their names in the instrument. The privacy of the information gathered was ensured.

FINDINGS AND DISCUSSION

4.1 Response Rate of Respondents

Analyzed data was obtained from thirty eight (38) respondents out of the targeted forty two (42) employees working in rural SACCOs in Nyeri County. Thus the response rate achieved was 90.5%. A response rate of above 80% is regarded as very good according to (Mugenda & Mugenda, 2003).

Table 4.1: Response Rate Results

Response	Targeted	Returned
Numbers (n)	42	38
Percentage (%)	**100**	**90.5**

4.3 Descriptive Analysis for Personal Behaviour Strategies

Descriptive statistics were done to determine the effect of various factors of personal behavior strategies. Table 4.4 shows the effect of each factor of personal behavior strategies on financial performance of rural SACCOs.

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Table 4.4: Descriptive Statistics for Personal Behaviour Strategies

Personal Behaviour Strategies	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev
Staff are effectively managed through constant monitoring	89.5			7.9	2.6	4.6579	1.02077
The SACCO often practices job rotations	81.6	5.3	2.6	7.9	2.6	4.5526	1.05772
There are effective human resource policies and procedures in the organization.	39.5	26.2	21.1	13.2		3.9211	1.07506
The SACCO always carry out customer due diligence as required in the policy	39.5	26.2	21.1	13.2		3.9211	1.07506

As shown in Table 4.4, a substantial percentage 89.5% agreed that staff are effectively managed through constant monitoring with a mean = 4.6579 and a standard deviation = 1.02077. 86.9% of the respondents agreed that the SACCO often practices job rotations with a mean = 4.5526 and a standard deviation = 1.05772. 65.7% agreed that there are effective human resource policies and procedures in the organization with a mean = 3.9211 and a standard deviation = 1.07506. The study further revealed that SACCO always carry out customer due diligence as required in the policy with a mean = 3.9211 and a standard deviation = 1.07506. Fombrun (2000), noted that by behaving ethically, an organization generates intangible gains that improve its ability to attract resources, enhance performance, and build competitive advantages while satisfying its stakeholders' needs. Wanga (2013) conducted a study on financial institutions' response strategies and recommended that methods such as employee screening, staff account monitoring, profiling of staff disciplinary cases, job rotation and enrichment are worth considering.

4.4 Test of Regression Assumption

Prior to running a regression model, pre-estimation and post estimation tests were conducted. This is usually performed to avoid spurious regression results from being obtained.

4.4.1 Normality Test for Financial Performance

A Q-Q test for normality was performed on the dependent variable (financial performance). The results are presented in Figure 4.1.

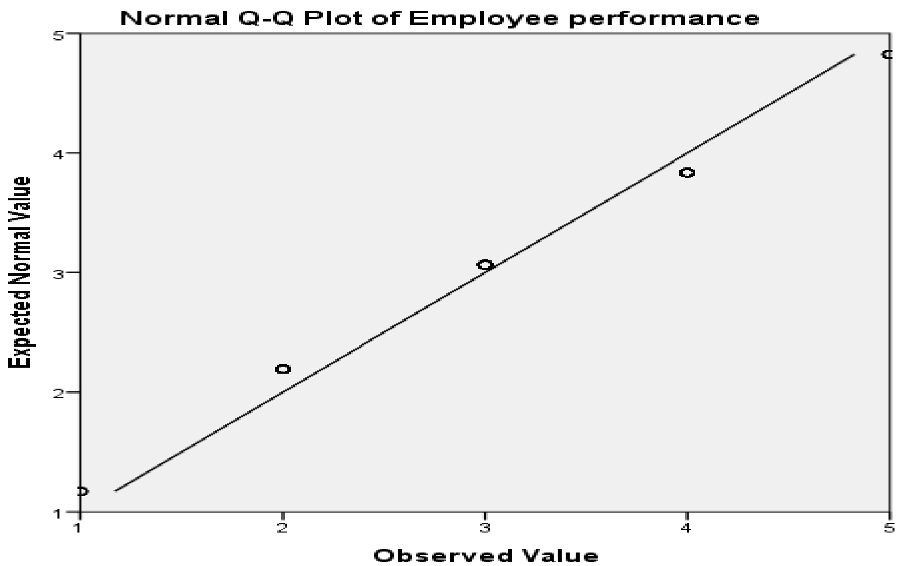

Figure 4.1: Normality Q-Q Plot of Regression Standardized

From figure 4.1, the data plot shows a flow of data points close to the diagonal line therefore the data appear to be normally distributed.

4.4.2Linearity Tests

To establish the nature and magnitude of the relationships between the variables and to test the hypothesized relationships, the researcher used Pearson's Product Moment Coefficient Correlation (r) to establish any linear associations among the variables in the study, as well as their nature and strength. This measure, usually symbolized by the letter (r), varies from ranging from -1 to +1, with 0 indicating no linear association. In order to conduct correlation analysis the set of items that measured each variable were aggregated by computing the average. The findings of the analysis are as indicated in Table 4:5 below.

Table 4.5: Correlation Analysis

Variables	Measures	Financial performance
Personal behavior strategies	Pearson Correlation	.424**
	Sig. (2-tailed)	.008

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

*. Correlation is significant at the 0.05 level (2-tailed).

From the correlation matrix, personal behavior strategies was positively and significantly related to financial performance of rural SACCOs r = 0.424, p value 0.008<0.05 at 0.05 significance level.

4.5 Influence of Personal behaviour strategies on Financial Performance.

The bivariate linear regression analysis results of personal behavior strategies on financial performance of rural SACCOs were as shown in Table 4.6 to 4.8

Table 4.6: Model Summary for Personal Behaviour Strategies

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.424[a]	.180	.157	1.10167

a. Predictors: (Constant), personal behavior strategies

From the regression results in Table 4.13, the R value was 0.424 indicating that there is a relationship between personal behavior strategies on financial performance of rural SACCOs operating in Nyeri County. The R squared (R^2) value of 0.180 shows that 18.0 percent of the financial performance of rural SACCOs is explained by personal behavior strategies all other factors held constant. The remaining 82.0 percent is explained by other factors.

Table 4.7: ANOVA for Personal Behaviour Strategies

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.571	1	9.571	7.886	.008[b]
	Residual	43.693	36	1.214		
	Total	53.263	37			

a. Dependent Variable: financial performance

b. Predictors: (Constant), personal behavior strategies

The model was significant with the F ratio = 7.886 at p value 0.008< 0.05. This is an indication that personal behavior strategies when considered singly have a significant effect on financial performance of rural SACCOs.

Table 4.8: Regression Coefficients for Personal Behaviour Strategies

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.153	.538		3.999	.000
	Personal behavior strategies	.401	.143	.424	2.808	.008

a. Dependent Variable: financial performance

Personal behavior strategies had positive and significant effect on financial performance of rural SACCOs with β = 0.401 at p value 0.000 which is less than 0.05. From Table 4.8, the bivariate linear regression model equation fitted using unstandardized coefficients is; $Y= 2.153 + 0.401X_1 + e$. where 2.153 is the constant the place where the regression equation crosses the Y-axis. X_1 is personal behavior strategies index

This means that personal behavior strategies are positively and significantly influencing financial performance of rural SACCOs. It also means that an increase of one unit of X_1 increases Y by 0.401. The indication was that personal behavior strategies can be adopted when evaluating financial performance of rural SACCOs. The finding of the study supports earlier findings by Mielach (2012), who noted that among the many factors influencing SACCOs financial performance are; corporate governance, members commitment, staff motivation, cooperative principles, technological influences and personal behavior strategies. Ferrall, Fraedrich and Ferrell (2008), noted that the need for established standards of behaviour, had predisposed most organizations especially financial institutions, to evolve and entrench ethical practices as part of their culture. Stemberg (2000) notes that unethical management practices affect corporate performance.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Finding

In order to ascertain the relationship between personal behavior strategies and financial performance of rural SACCOs, the researcher carried out both descriptive and bivariate regression analyses. The study accentuates that at 5% level of significance the regression results indicated a positive and significant relationship between personal behavior strategies and financial performance of rural SACCOs when considered alone and when combined with other factors. The result of the findings indicates that staffs are being effectively managed through constant monitoring, effective job rotations and effective implementation of human resource policies and procedures. In addition, the study revealed that staff normally carry out customer due diligence as required in the policy.

5.2 Conclusions of the Study

Personal behavior strategies had positive and significant effect on financial performance of rural SACCO. The results revealed that staffs were being effectively managed through constant monitoring and job rotations. In addition, there were effective human resource policies and procedures in the organization and staff normally carried out customer due diligence as required in the policy.

5.3 Recommendations of the Study

Based on the research study, a number of recommendations can be made to improve the financial performance of these SACCOs. To start with the SACCOs should review their internal control systems in order to seal the loopholes that pose opportunities for unethical practices. SACCOs should also embrace an open door policy where staff and customers can channel their sentiments without fear of reprimand as this shall benefit the SACCOs and their members through enhanced customer services delivery hence improving the financial performance of the SACCOs. SACCOs should review their human resource policy especially recruitment and selection procedures and ensures that the guidelines are adhered to when recruiting new employees. This shall benefit the SACCOs and their members as well as the society.

5.4 Areas of Further Studies

The study confined itself to the role of personal behaviour strategies in determining the financial performance of rural SACCOs operating in Kenya, Nyeri County, while there is need to undertake comparative studies covering other Counties in order to validate whether the findings can be generalized. Future researchers should focus on other characteristics in order to establish their relationship with financial performance of Rural SACCOs in Kenya, Nyeri County.

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