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Capital Requirements and Financial Performance of Deposit Taking Sacco's in Kenya

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ABSTRACT

Purpose: The primary objective of this study was to investigate the relationship between capital requirements and the financial performance of deposit-taking savings and credit cooperative organizations in Kenya. The study was anchored on three theories: the pecking order theory, signaling theory, and liquidity management theory.

Methodology: A descriptive study design was adopted for this study. The target population comprised of 176 DT-Saccos registered and licensed by the SASRA to operate in Kenya. The study used stratified random sampling to determine the target population. The study further employed Nassiuma's formula to get the sample size of 64. Data was collected through self-administered structured and semi structured questionnaires. The respondents comprised of Sacco management accounts, Sacco management officers and senior managers. The Statistical Package for Social Science was then used to examine the data that had been gathered (SPSS Version 28).

Findings: The study found that capital adequacy, asset quality, earning rating, and liquidity management significantly impacted DT Saccos's financial performance.

Unique Contribution to Theory, Policy and Practice: The analysis, which employed both descriptive and inferential approaches, revealed that the study had important policy implications, educating regulators and decision-makers about the sufficiency of capital requirements and their effect on the stability and expansion of Sacco's. This study assessed financial stability of Sacco's, their impact on members and their general operational efficiency. The study was further found to contribute to the academic understanding of Sacco's financial performance with practical applications for adoption by Sacco management. Additionally, the results of this study were also found relevant to the members of the public including current and potential Sacco members will find the study useful.

Keywords: *Asset Quality, Capital Adequacy, DT-Sacco, Earning Rating, Financial Performance, Liquidity Management*

INTRODUCTION

Background of the Study

Savings and Credit Cooperative societies are defined as voluntary associations that are owned and managed by members with the intention of encouraging savings, raising capital to support development, and granting members credit (Bhattarai, 2021). SACCOs are made up of a minimum number of 10 members and no maximum limit and to be a member, one is required to purchase shares. According to Aliyu, Abdullahi and Bakere (2020), SACCOs offer a variety of services, including front-end services like salary advances, bank checks, safe document storage, ATMs and normal and emergency loans as well as loans meant for school fees.

Capital requirement is a crucial element for the ongoing operations and performance assessment of the financial sector (Almazari & Alamri, 2017). Described by Barus, Muturi, Kibati and Koima (2017) as a protective shield against potential losses impacting depositors' funds during uncertainties, maintaining a robust capital requirement is vital for the continuity of Savings and Credit Cooperative Societies (SACCOs). According to Roselyne, Mackton and Kiganda (2022), capital requirement is the capital held in reserves relative to loans and assets. Various measures, including shareholders' equity to total assets, loans to total assets, overhead expenses to total assets, and loan loss provision to total loans, are employed in determining capital requirements (Otwani, Namusonga & Nambuswa, 2017). Recognized as the primary instrument for the stability and sustainability of financial institutions, capital requirements play a pivotal role in ensuring the overall health of the financial sector (Maula & Jaya, 2022).

Financial performance serves as a gauge of a firm's efficiency in utilizing resources to generate profits (Okoye et al., 2017). This evaluation involves parameters such as profits, return on assets, return on equity, sustainability of past performance, expansion, automation, net profit after tax, share price, and enhancement of employee performance (Okoye et al., 2017). Various stakeholders, including shareholders, government, creditors, depositors, and managers, find the financial performance of financial institutions crucial (Ali, Shuib & Noor, 2021). Creditors rely on these indicators to assess creditworthiness and lending risks, while depositors trust in the stability and safety of their entrusted funds. Shareholders, driven by returns on investment, monitor financial metrics for informed decisions on purchasing, holding, or selling shares. Management utilizes these metrics to guide operations, evaluate strategy success, and identify areas for improvement. Additionally, government oversight ensures regulatory compliance, economic stability, and the protection of public interest by monitoring financial institutions' performance (Wati & Prapanca, 2022).

SACCOs (Savings and Credit Cooperative Organizations) have a global presence, with over 82,758 credit unions and cooperatives worldwide, serving nearly 404 million members. The largest financial metrics are seen in the U.S. with $1.87 trillion in savings, followed by Canada and India. In Africa, SACCOs began in Ghana in 1955, driven by Father John McNulty's influence. Studies

in Ethiopia highlighted SACCO growth in terms of loans and assets but showed weaknesses in financial structure and profitability. In Kenya, SACCOs, including deposit-taking and non-withdrawable types, play a crucial role in capital accumulation and economic growth. The Kenyan SACCO sector saw significant growth in membership, assets, and loans, with a 7% increase in membership and a 10% rise in assets in 2022. SACCOs contribute significantly to the country's GDP and economic development, focusing on savings mobilization and credit provision for members.

Statement of the Problem

Information by the Kenya Union of Savings and Credit Co-operatives (2021), cooperatives directly and indirectly contribute to 30% of the country's savings. Given this significant contribution by cooperatives to the economy, it is paramount to comprehend the connection between capital requirements and the DT-Saccos financial performance in Kenya. A Sacco must always maintain a core capital of at least ten million shillings, institutional capital of at least eight percent of total assets, core capital of at least eight percent of total deposits, and core capital of at least ten percent of total assets, as stated in Section 9 of the Sacco Societies Act (2008).

The crucial role that capital plays in the operation of SACCOs makes this study important. Capital in maintaining the sustainability and safety of financial institutions (Almazari & Alamri, 2017). In a study on the factors influencing Sacco's performance in Kenya, Njue, Kariuki and Njeru (2020) noted that loan demand was the main factor, followed by capital adequacy and infrastructure management. Barus, Muturi, Kibati & Koima (2017) conducted a survey and the findings showed a significant correlation between membership and financial performance. It is important to relate how capital affects different Sacco operations, with a focus on the strategic solutions that are necessary to strengthen their financial foundations.

The Sacco societies Act of 2008 was enacted to regulate the Sacco industry with a focus on deposit taking Saccos (Onyango, 2018). Saccos are expected to comply with the capital requirements as stipulated in the legislation. The capital requirements are to ensure member deposits are protected in the event of uncertainty (Barus, Muturi, Kibati & Koima, 2017). The need to address the capital issue is underscored by the possibility of non-compliance, penalties and operational disruptions in the event that these modifications are not promptly adopted. Waweru and Oribu (2023) assessed the relationship between Kenya's deposit-taking cooperative societies' size and financial success and found that deposits and savings were important factors in determining Sacco’s financial performance. The study presents a methodological gap as only data from financial statements was used in analysis.

Financial performance measurements, according to Danmulki, Agbi and Mustapha (2022), are intended to encourage managers to pursue those objectives that will most benefit the Sacco overall. Nyawira, Ambrose and Ndede (2017) conducted research to ascertain the connection between ownership structure, financial performance and corporate governance. The results showed a

correlation between size, return on asset, leverage, and non-executive directors. The study's concentration on several independent factors creates a conceptual gap. This study looks at the connection between deposit-taking SACCOs' financial performance and capital adequacy, asset quality, earnings rating, and liquidity management. Finding the best ways for SACCOs to manage their money while abiding by regulations will be made easier with an understanding of these relationships.

General Objectives

The general objective of the study was be to examine capital requirements and financial performance of deposit taking savings and credit cooperative societies in Kenya.

Specific Objectives

The study was guided by the following specific objectives:

i. To determine the effect of Capital adequacy on deposit-taking Sacco's Financial Performance in Kenya
ii. To assess the effect of Asset quality on deposit-taking Sacco's Financial Performance in Kenya
iii. To identify the effect of Earnings rating on deposit-taking Sacco's Financial Performance in Kenya
iv. To find out the effect of Liquidity management on deposit-taking Sacco's Financial Performance in Kenya

LITERATURE REVIEW

Theoretical Review

This research study's theoretical foundations are based on three theories. The variables under investigation that make up the conceptual framework are impacted by these theories.

Pecking Order Theory

Cost-effective capital sources should be given priority by businesses in order to maximize their financial structure, according to (Myers and Majluf, 1984). Businesses should begin with the least expensive kind of capital and work their way up to more costly options as needed until all of their financial demands are satisfied, according to the pecking order hypothesis (Febriana, Yulianto, Manajemen & Ekonomi, 2017). The pecking order theory plays a significant role in shaping core capital regulation, which is a regulatory framework for financial institutions. In this context, the regulation establishes specific guidelines for the composition of capital within these institutions. Notably, it sets a 2% ceiling on equity capital, emphasizing the importance of maintaining an appropriate balance between equity and other forms of capital. Additionally, the regulation advocates for an 8% utilization of institutional capital, which encompasses various sources such as retained profits, capital reserves, other revenue reserves, and contributions deemed cost-

effective (Agyei, Sun & Abrokwah, 2020). Institutional capital excludes investments outside the primary company, such as subsidiaries or affiliated firms (Serrasqueiro & Caetano, 2015). This distinction is crucial in ensuring that the capital structure of the organization remains focused on sources that directly contribute to its core operations.

The theory is relevant to this study, particularly in the context of Savings and Credit Cooperative Societies (SACCOs). The theory posits that SACCOs should consistently offer clear and transparent disclosures to adhere to the principles of core capital theory. The primary objective is to safeguard stakeholders from unexpected financial setbacks or losses. Agyei, Sun and Abrokwah (2020) contribute to this theory by emphasizing the critical role of financial disclosures across various industries. The authors argued that such disclosures play a pivotal role in promoting accountability and openness. In SACCOs, this means that providing clear and comprehensive information about financial activities is crucial for maintaining trust and confidence among stakeholders. Furthermore, Agyei, Sun and Abrokwah (2020) highlight the importance of specific aspects of financial disclosures, such as related party transactions and insider loans. Related party transactions involve financial dealings between Saccos and individuals or entities closely associated with them, while insider loans refer to loans extended to individuals within the Sacco organization itself. Emphasizing the significance of these elements highlights the need for Sacco's to disclose such transactions transparently.

Signaling Theory

The signaling hypothesis, which dates back to Spence (1973) and was expanded upon by Watts and Zimmerman (1986), states that adverse selection may occur when there is asymmetric information between an organization and its investors. Lenders need precise data in the field of credit management in order to reduce the issue of moral hazard and adverse selection. It is essential that loans be properly recovered in line with contractual obligations; in the event that this isn't possible, provisions for loan losses need to be made. According to Taj (2016) research, these allowances reflect management's best projections of likely losses in the remaining portion of the portfolio at the balance sheet date and act as valuation offsets for credit losses seen in the fast cash portfolio.

The provision or reserve estimate that represents the amount of past-due loans that are projected to remain in default is known as the allowance for loan loss. One of the main causes of the financial unrest during the US financial crisis of 2007–2009 was deficiencies in loan payments. Friske, Hoelscher and Nikolov (2023) discovered that US banks' 1980s losses and capital depletion were caused by their incapacity to make provisions for loan losses. The theory is relevant to this study in that, to protect their loan portfolios, Bafera and Kleinert (2023) advised Savings and Credit Cooperative Societies (SACCOs) to create loan loss provision plans and conduct ongoing reviews of their credit rules. Because of the materiality of these earning assets and their vulnerability to credit and default risk, loans to members are regarded as the most important asset in any financial

organization, especially for Sacco's According to the loanable funds hypothesis, SACCOs' primary activity is legally defined as lending money to its members (Yasar, Martin & Kiessling, 2020).

Liquidity Management Theory

Saunders and Cornett (2011) suggest that effective cash flow planning involves aligning the maturities of liabilities and assets. Specifically, positive cash flow is achieved when a company's assets mature before its obligations (Abdelhafid, 2018). In the Kenyan context, a 15% liquidity ratio is emphasized by the Kenyan government under the SACCO Societies Act (2008). This ratio is determined by dividing total cash and cash equivalents by the total amount of short-term liabilities and deposits, serves as a benchmark for SACCOs. Amira, Alala and Musiega (2023) observe that this liquidity ratio encourages SACCOs to consistently maintain liquidity, ensuring their ability to meet the daily cash requirements of their members.

The liquidity management theory is introduced as applicable to SACCOs in this study. SACCOs are urged to enhance their performance through earnings rating and efficient liquidity management. The passage emphasizes that both profitability and liquidity are contingent on effectively matching the maturities of liabilities and assets, such as member loans. To achieve this, the study advocates for the use of Income Gap analysis, also known as Gap analysis (Bianchi & Bigio, 2022). This analytical approach assesses the sensitivity of both assets and liabilities to varying interest rates. The Income Gap analysis is positioned as a strategy to help businesses, including SACCOs, better manage their cash flows. The rationale behind this strategy is to promote operational effectiveness and financial stability. By aligning the maturities of assets and liabilities and assessing interest rate sensitivity, SACCOs can navigate varying economic conditions, ensuring that they have sufficient liquidity to meet member demands while maintaining a balance between profitability and risk management.

Conceptual Framework

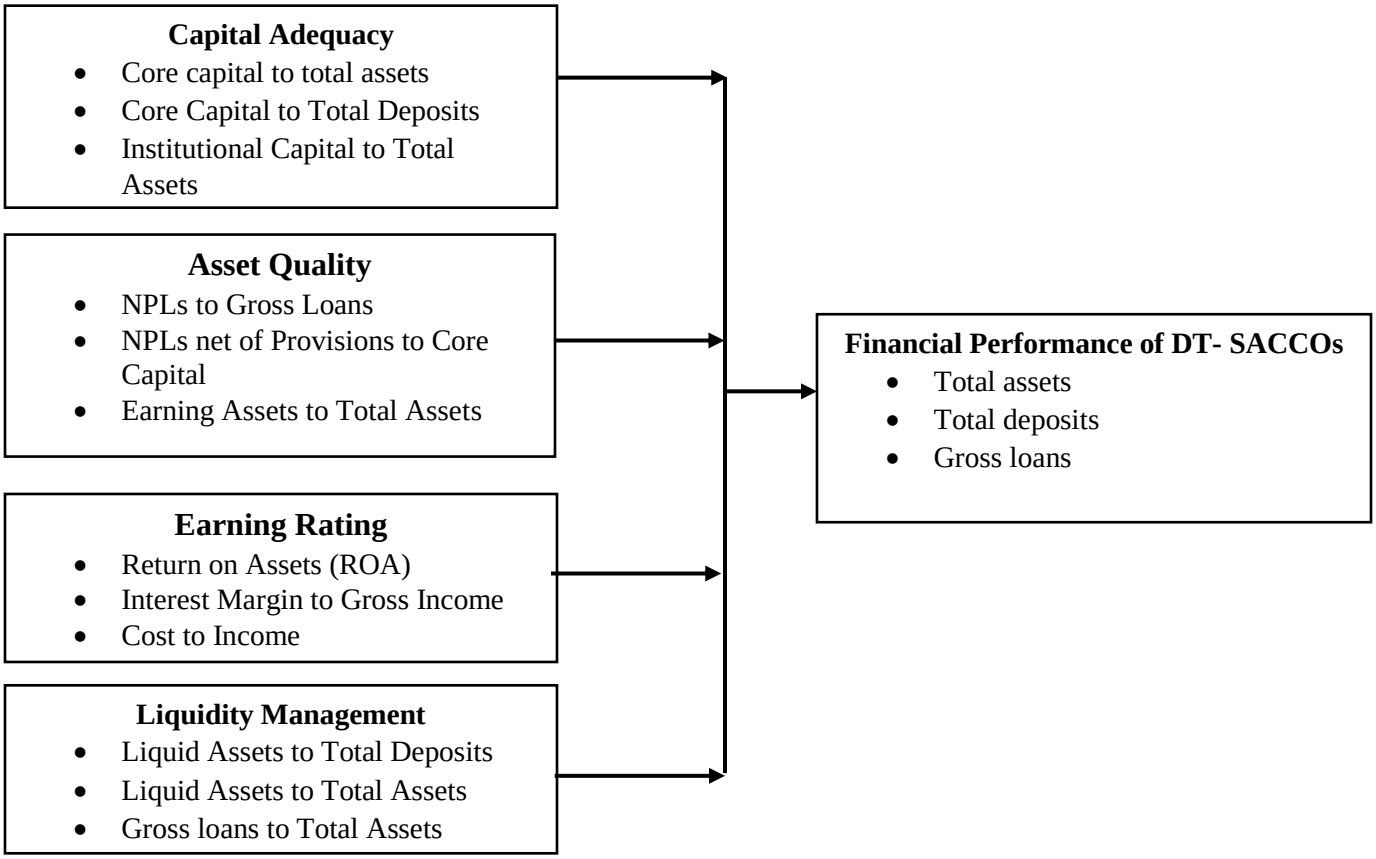

Figure 1: Conceptual framework

Empirical Review

Capital adequacy and financial performance of DT Saccos

Barus, Muturi, Kibati, and Koima (2017) examined the relationship between SACCOs' financial performance and capital adequacy. The investigation focused on 83 SACCOs in Kenya. Both primary and secondary data sources were included in the study, with statistical programs like SPSS and STATA utilized to analyze multiple linear regression models. A pilot study was conducted to evaluate the reliability and validity of the research instrument. Subsequently, descriptive and inferential analyses were performed, and tables and graphs were employed to present the results. The study's main conclusion was that the regression results indicated capital sufficiency positively impacts the financial performance of SACCOs in Kenya. In addition to confirming this relationship, the study assessed the extent of the influence. The use of an explanatory research design in the study creates a methodological gap.

Aliyu, Abdullahi, and Bakere (2020) investigated the connection between deposit money banks' financial performance and capital sufficiency. The authors collected secondary data from 2012 to 2019 using bank financial documents. Panel regression analysis was performed on the data. The results of the study showed that loans and advances had a positive and significant impact on the financial performance of Nigerian banks that held foreign licenses. According to the study's findings, the financial performance of Nigerian banks and capital sufficiency are positively correlated. The investigation was carried out in banks that accept deposits.

Asset quality and financial performance of DT Saccos

The effect of asset quality on the financial performance of Kenya's tier IV commercial banks was assessed by Roselyne, Mackton, and Kiganda (2022). The scientific theories of management, transaction cost theory, and contingency theory served as the study's compass. Using a longitudinal research approach, the study concentrated on the target group, selected from the Central Bank of Kenya website, which consisted of the 13 tier IV commercial banks in Kenya as of 2022. STATA was used to analyze panel data. The findings showed that asset quality has a significant impact on financial success. The study recommended that commercial banks should strive to use their assets effectively and efficiently to achieve the best outcomes.

According to Ali, Shuib and Noor (2021), Islamic banks are recognized for their ability to promote a nation's social goals as well as its economic development. In terms of financial performance, the worldwide Islamic banking and finance industry has shown encouraging growth that is on par with that of reputable conventional banks. The purpose of this study is to investigate how asset quality and operational effectiveness affect Malaysian Islamic banks' bottom lines. Using a panel data analysis approach, the study looked at 16 Islamic banks' annual reports from 2010 to 2019 across a ten-year period. The study employed several regression models, including fixed-effect and random-effect models, to analyze the collected data. The results of the study showed that operational effectiveness and asset quality both had a big impact on financial success.

Earnings rating and financial performance of DT Saccos

Wati and Prapanca (2022) examined bond ratings in relation to both non-financial and financial performance, with earnings management acting as an intermediary variable. The study included all PT and made use of secondary data and quantitative approaches. Purposive sampling was used in the study to choose a sample of 15 enterprises. The results showed that bond ratings were impacted by financial performance, that bond ratings and earnings management were impacted by non-financial factors, and that financial performance was impacted by earnings management. The study also showed that bond ratings were impacted by non-financial factors through earnings management and bond ratings were impacted by financial performance through earnings management. There is a conceptual gap between the two studies because the former concentrated on bond ratings and the latter on profit ratings.

Wahyudin and Solikhah (2017) evaluated the impact of ratings for the implementation of corporate governance on the financial performance of particular companies. The study used a hypothesis testing methodology and covered 88 firms. Financial statement and report data were analyzed using panel data regression analysis. The study proved that accounting-based financial performance metrics like return on equity, return on assets, and earnings per share were impacted by corporate governance implementation ratings. The Indonesian stock market did not react right away, and the corporate governance implementation rating did not spur rapid firm expansion. While the current study focused on deposit accepting SACCOs, the previous analysis was conducted on listed enterprises.

Liquidity management and financial performance of DT Saccos

Samuel, Mustapha, and Iliyasu (2022) assessed how liquidity management affected the listed deposit money institutions in Nigeria's financial results. The panel multiple regression technique was applied to analyze secondary data from the audited annual reports of particular banks from 2010 to 2019 using Stata 13. The findings demonstrated that the capital adequacy ratio had a significant and positive impact on financial performance. However, there was a notable but negative effect of the liquidity ratio on financial performance, suggesting that a high liquidity ratio could lead to worse bank performance. The loan-to-deposit ratio had a favorable, but marginal, effect on the financial performance. The study was carried out in Nigeria; hence a contextual gap exists.

Wuave, Terseer and Yua (2020) investigated how bank financial performance was impacted by liquidity management. The Hausman test guided the decision between fixed effect and random effect models when panel regression analysis was used. The return on equity, return on assets, and net interest margin measurements of debt management banks showed that the liquidity ratio significantly and favorably impacted their financial performance. The report suggested that banks should integrate liquidity management into risk management procedures and build strong governance and risk management systems.

Research Gap

The analysis identifies a number of knowledge gaps that the present research aims to address. Roselyne, Mackton, and Kiganda (2022) evaluated the impact of asset quality on the financial performance of Kenya's tier IV commercial banks. In order to achieve the best results, the study advised commercial banks to make an effort to use their assets properly and efficiently. Due to the study's emphasis on commercial banks, there is a contextual gap. Ali, Shuib and Noor (2021) investigated how asset quality and operational effectiveness affect Malaysian Islamic banks' bottom lines. The results of the study showed that operational effectiveness and asset quality both had a big impact on financial success. The study focused in Islamic banks.

According to Maula and Jaya (2022), earning asset quality, financial leverage, and firm size, had an impact on the commercial banks' financial performance between 2016 and 2020. There is a contextual gap because the study's focus was on commercial banks, but the current study's focus is on SACCOs. Wati and Prapanca (2022) examined bond ratings in relation to both non-financial and financial performance, with earnings management acting as an intermediary variable. There is a conceptual gap between the two studies because the former concentrated on bond ratings and profit ratings.

Wahyudin and Solikhah (2017) evaluated the impact of ratings for the implementation of corporate governance on the financial performance of particular companies. While the current study focused on deposit accepting SACCOs, the reviewed study was conducted on listed firms. Theiri, Kasraoui and Bouzaiene (2022) assessed how Tunisia's earnings management was impacted by financial performance. The current study exclusively focuses on deposit taking SACCOs, although the research selected enterprises from many economic sectors. Njue, Kariuki and Njeru (2020) assessed how Kenyan microfinance firms' financial performance was affected by their liquidity management practices. While the study focused on microfinance institutions, the current study focused on DT-SACCOs.

RESEARCH METHODOLOGY

A cross-sectional descriptive design was used in this study. The target population for this study consisted of all DT-SACCOs registered and licensed by the SASRA to operate in Kenya. As per the supervisory report published by SASRA in 2022, there are a total of 176 active SACCOs registered and licensed to engage in deposit-taking activities in Kenya. In order to choose a representative sample size; for the study, the researcher used a stratified random sampling to determine the target population for the study. A sample size of 64 DT-SACCO's was selected. This sample size was arrived at by using the Nassiuma formula. The study used triangulation method for data gathering through the use of surveys, document analysis, and first hand observation by the researcher. Primary data was gathered through self-administered structured and semi structured questionnaires. The data collected was analyzed using descriptive statistics, correlation analysis and panel multiple regression. At first the processing involved putting the financial statements data into Microsoft Excel, followed by cleaning. Subsequently, Spss version 28 was used for the comprehensive analysis of the gathered data.

DATA ANALYSIS, PRESENTATION AND DISCUSSION

Response Rate

The researcher randomly selected 64 respondents from the population of study for data collection. According to Creswell & Creswell (2021) in social science study, a response rate above 70% is sufficient for analysis. Since the response rate was high at 100 %, the researcher went ahead and subjected the questionnaires for data analysis. This clearly indicated that the response was credible

enough to enable the researcher analyse the findings. The response rate was deemed satisfactory as suggested by Saunders, Lewis & Thornwill (2019), who recommends for at least 75% (percent) as a rule of thumb for minimum response rate. The results for the response rate are presented in Table 1 below.

Table 1: Response Rate

Questionnaires		Percent (%)
Circulated	**64**	**100**
Returned	64	100
Unreturned	0	0

4.5 Descriptive Analysis Results

Descriptive statistics were used to give a meaningful description of the quantitative and qualitative data of the variables under study before exploring their effect in relation to the expectations of the research design. Percentages, means, modes, medians and standard deviations were used to explore responses from the respondents in this study. Statements designed to get responses, were developed on five-point Likert scale ranging from 1 – 5, where 1 indicated 'Strongly disagree', 2 'Disagree', 3 'Neutral', 4 'Agree', and 5 'Strongly Agree'. The responses are given in the sub-sections that follows below.

4.5.1 Descriptive Statistics for Capital Adequacy and Financial Performance of DT Saccos

The first objective of this study was to determine the effect of Capital adequacy on the financial performance of DT Saccos in Kenya. Table 2 below reveals that out of the five Likert scale items that measured capital adequacy; the one that asked the respondents whether periodical audits rank their Sacco as having high quality capital; had a mean of 4.65, with a standard deviation of 0.744 indicating that majority of the respondents agreed with the statement. The most frequent response was agreed, at 46.9% (N=30) while the least frequent response given was disagree at 1.6% (N=1).

Table 2: Capital Adequacy

Statements	1	2	3	4	5	Mean	Std Dev.
Our Sacco is having enough capital base or outlay	4.7% N(3)	6.3% N(4)	15.6% N(10)	28.1% N(18)	45.3% N(29)	**4.50**	**0.783**
The core capital for our Sacco is sufficiently approved by the regulator	4.7% N(3)	10.9% N(7)	18.8% N(12)	31.3% N(20)	34.4% N(22)	**4.46**	**0.747**
Periodical audits rank our Sacco as having high quality capital	1.6% N(1)	4.7% N(3)	17.2% N(11)	29.7% N(19)	46.9% N(30)	**4.65**	**0.744**
Our Sacco has various channels for raising capital other than member contributions	3.1% N(2)	3.1% N(2)	28.1% N(18)	23.4% N(15)	42.2% N(27)	**4.34**	**0.954**
Capital adequacy ensures seamless flow of clients to the Sacco	3.1% N(2)	4.7% N(3)	21.9% N(14)	37.5% N(24)	32.8% N(21)	**4.14**	**0.879**

Key: N=64 Strongly Disagree =1, Disagree =2, Neutral =3, Agree =4, Strongly Agree =5

From the findings majority of the respondents were of the view that periodical audits rank Sacco as having high quality capital with a mean of 4.65, whereas few respondents supported the assertion that capital adequacy ensures seamless flow of clients to the Sacco with a mean of 4.14 and a standard deviation of 0.879. On the statement that the Sacco had enough capital base, many respondents agreed at 45.3% (N=29), while very few respondents were disagreeing, at 4.7%(N=3), and indication that Sacco considered for this study had very strong capital base.

4.5.2 Descriptive Statistics for Asset Quality and Financial Performance of DT Saccos

The second objective of this study was to assess the effect of Asset quality on the financial performance of DT Saccos in Kenya. Table 3 below reveals that out of the five Likert scale items that measured asset quality; the one that asked the respondents whether their Sacco had quality assets; had the highest mean of 4.29, with a standard deviation of 0.853 indicating that majority of the respondents agreed with the statement. However, the statement which asked respondents on whether asset quality is largely dependent on the skills management ranked least with a mean of 4.02 and a standard deviation of 0.939. The most frequent response was agreed, at 62.5% (N=40) while the least frequent response given was disagree at 6.3% (N=4).

Table 3: Asset Quality

Statements	1	2	3	4	5	Mean	Std Dev.
Do you consider your Sacco as having quality assets	6.3% N(4)	7.8% N (5)	7.8% N (5)	15.6% N (10)	62.5% N (40)	**4.29**	**0.853**
Does asset quality affect the Sacco membership growth	3.1% N (2)	3.1% N (2)	15.6% N (10)	35.9% N (23)	42.2% N (27)	**3.99**	**1.035**
Our organization works with high quality assets in all their operations	1.6% N (1)	3.1% N (2)	17.2% N (11)	29.7% N (20)	46.9% N (30)	**4.15**	**1.024**
Quality Assets have contributed to the better performance of our Sacco	4.7% N (3)	6.3% N (4)	26.6% N (17)	23.4% N (15)	39.1% N (25)	**4.03**	**1.094**
Asset quality is largely dependent on the skills of management	1.6% N (1)	7.8% N (5)	15.6% N (10)	29.7% N (20)	43.8% N (28)	**4.02**	**0.939**

Key: N=64 Strongly Disagree =1, Disagree =2, Neutral =3, Agree =4, Strongly Agree =5

From the findings majority of the respondents were of the view that their Sacco had quality assets having a mean of 4.29, whereas few respondents supported the assertion that asset quality affect the Sacco membership growth with a mean of 3.99 and a standard deviation of 1.035. This is an indication that asset quality of DT Sacco does not in any way influence new prospective members who want to join the Sacco. On the statement that the Sacco works with high quality assets in all their operations many respondents strongly agreed at 46.9% (N=30), while very few respondents strongly disagreed, at 1.6 %(N=1), moderate respondents were unsure therefore neutral at 17.2% (N=11) an indication that the DT Sacco worked with high quality assets in their operations.

4.5.3 Descriptive Statistics for Earning Rating and Financial Performance of DT Saccos

The third objective of this study was to identify the effect of Earning rating on the financial performance of DT Saccos in Kenya. Table 4 below reveals that out of the five Likert scale items that measured earning rating; the one that asked the respondents to indicate whether collaboration between Sacco members inculcated good financial results ranked highest with a mean of 4.65 and a standard deviation of 0.744; and indication that majority of the respondents agreed with the statement. On the same assertion the most frequent response was strongly agreed, at 54.7% (N=35), followed by agreed at 35.9 %(N=23), while the least frequent response given was strongly disagree at 1.6% (N=1).

Table 4: Earning Rating

Statements	1	2	3	4	5	Mean	Std Dev.
Our organization is highly rated in terms of earning from customers	4.7% N (3)	10.9% N (7)	7.8% N (5)	42.2% N (27)	34.4% N (22)	**4.50**	**0.783**
The organization implements good working practices related to financial discipline	3.1% N (2)	6.3% N (4)	12.5% N (8)	20.3% N (13)	57.8% N (37)	**4.46**	**0.747**
Collaboration between Sacco members has inculcated better results	1.6% N (1)	3.1% N (2)	21.9% N (14)	35.9% N (23)	54.7% N (35)	**4.65**	**0.744**
The Sacco has been recording exemplary Earning rating	6.4% N (4)	7.8% N (5)	23.4% N (15)	31.2% N (20)	31.2% N (20)	**4.34**	**0.954**
Many Sacco members have received hefty dividends due to high earning ratings	4.6% N (3)	6.3% N (4)	17.2% N (11)	21.9% N (14)	50% N (32)	**4.32**	**0.879**

Key: N=64 Strongly Disagree =1, Disagree =2, Neutral =3, Agree =4, Strongly Agree =5

The findings in table 4 above also show that the respondents believed their organization was highly rated in terms of earnings from customers, with a mean of 4.50 and a standard deviation of 0.783. Conversely, only a few respondents thought that many Sacco members had received hefty dividends due to high earning ratings, which had a mean of 4.32 and a standard deviation of 0.879. This assertion is particularly true for many Saccos in Kenya today, which pay very low rates of dividends to their members after an extended period of time.

4.5.4 Descriptive Statistics for Liquidity Management and Financial Performance of DT Saccos

This study's fourth goal was to determine how liquidity management affected DT Saccos' financial performance in Kenya. Table 5 below shows that out of the five Likert scale items that measured liquidity management; the one that asked the respondents to indicate on whether Sacco organization had high liquidity capacity scored highest with a mean of 4.82 and a standard deviation of 0.669; and indication that majority of the respondents strongly agreed that the Sacco was liquid, and therefore having a good financial health. On the same statement the most response given by the respondents was agreed, at 35.9% (N=23), followed by strongly agreed at 32.8 %(N=21). 8 respondents were unsure and therefore indicated neutrality at 12.5% while the least frequent response given by the respondents was strongly disagree at 6.3% (N=4).

Table 5: Liquidity Management

Statements	1	2	3	4	5	Mean	Std Dev.
Our Sacco organization has high liquidity capacity	6.3% N (4)	9.4% N (6)	12.5% N (8)	35.9% N (23)	32.8% N (21)	**4.82**	**0.669**
Liquidity ratio affects the financial performance of our Sacco	6.3% N (4)	9.4% N (6)	14.1% N (9)	18.8% N (12)	51.6% N (33)	**4.46**	**0.909**
Our Sacco follows the Liquidity management regulations	4.7% N (3)	6.4% N (4)	26.6% N (17)	31.3% N (20)	48.4% N (31)	**4.36**	**0.929**
Our Sacco has proper mechanisms of managing its Liquidity	6.4% N (4)	7.8% N (5)	20.3% N (13)	26.6% N (17)	39.1% N (25)	**4.37**	**0.890**
Our Sacco has good Liquidity management policies in the market	3.1% N (2)	7.8% N (5)	15.6% N (10)	26.6% N (17)	46.9% N (30)	**4.17**	**0.826**

Key: N=64 Strongly Disagree =1, Disagree =2, Neutral =3, Agree =4, Strongly Agree =5

While few respondents agreed that their Sacco had good liquidity management policies in the market (mean of 4.17 and standard deviation of 0.826), the majority of respondents agreed that their Sacco had very high liquidity capacity (mean of 4.82 and standard deviation of 0.669), according to the findings in table 5 above. With a mean score of 4.46 and a standard deviation of 0.909, many respondents agreed with the claim that the liquidity ratio influences the Sacco's financial success, which is in line with research by Bianchi and Biro (2022).

4.5.5 Descriptive Statistics for Financial Performance of DT Saccos

The dependent variable for this study was financial performance of DT Saccos in Kenya. This too was measured. Table 6 below reveals that out of the five Likert scale items that measured financial performance; the one that asked the respondents to indicate whether capital adequacy guaranteed financial performance in the DT Saccos; ranked the highest with a mean of 4.12, and a standard deviation of 1.398 indicating that majority of the respondents agreed with the assertion. On the same metric, the most frequent response was strongly agreed, at 45.3% (N=29) whereas the least popular response given by the respondents was strongly disagree at 3.1% (N=2). 9.4% of the respondents were both neutral and disagreed on the assertion.

Table 6: Financial Performance of DT Saccos

Statements	1	2	3	4	5	Mean	Std Dev.
Capital adequacy guarantees financial performance in the DT-Saccos in Kenya	3.1% N (2)	9.4% N (6)	9.4% N (6)	35.9% N (23)	45.3% N (29)	**4.12**	**1.398**
High quality assets ensure financial success in the DT-Saccos in Kenya	4.7% N (3)	14.1% N (9)	17.2% N (11)	20.3% N (13)	43.8% N (28)	**4.08**	**1.170**
Earning Rating in the Saccos supports the financial performance of DT-Saccos in Kenya	1.7% N (1)	10.9% N (7)	28.1% N (18)	21.9% N (14)	37.5% N (24)	**4.02**	**1.376**
Liquidity Management affect the financial performance of DT-Saccos in Kenya	4.7% N (3)	10.9% N (7)	18.8% N (12)	23.4% N (15)	42.2% N (27)	**4.05**	**0.964**
Capital requirements are critical for DT-Saccos in Kenya	4.7% N (3)	6.3% N (4)	12.5% N (8)	23.4% N (15)	53.1% N (34)	**3.94**	**1.050**

Key: N=64 Strongly Disagree =1, Disagree =2, Neutral =3, Agree =4, Strongly Agree =5

From the findings in table 6, the respondents strongly agreed that the dependent variables, capital adequacy, asset quality, earning ratings and liquidity management were affecting the financial performance of DT Saccos in Kenya. Thereby, it may be said that capital requirements had an impact on Kenyan saccos' financial performance.

Inferential Statistics Results

Multiple Regression Analysis

The goal of the multiple regression analysis was to ascertain whether there were any linear connections between DT Saccos's financial performance and capital requirements. Table 7 presents the study's findings on the impact of capital adequacy on the financial performance of DT Saccos in Kenya, which show a positive correlation between the two ($\boldsymbol{\beta_1 = .148}$). A position that is confirmed by Waseem and Orb (2023), who found out that Capital adequacy influenced the stability of financial institutions. This implies that when Capital adequacy increases by 1-unit, Financial Performance goes up by 0.148. The standardized beta coefficient of 0.258 indicate that when Capital adequacy goes up by 1 standard deviation, Financial Performance goes up by 0.258 standard deviations.

The findings of the study indicate that there was a favorable correlation between the financial performance of DT Saccos in Kenya and the quality of their assets, as indicated in table 7 ($\boldsymbol{\beta_2 = .106}$) an indication that when Asset quality goes up by 1, Financial Performance goes up by

0.106. The standardized beta coefficient of 0.172 further indicates that when the variation in Asset quality goes up by 1 standard deviation, that of Financial Performance goes up by 0.172 standard deviations.

The third objective aimed to identify the effect of Earning Ratings on the Financial Performance of DT Saccos in Kenya. The study results in Table 7 reveals that there was a positive relationship between Earning ratings and Financial Performance i.e. ($\boldsymbol{\beta_3 = .326}$) indicating that when Earning rating increase by 1, Financial Performance goes up by 0.326. The standardized beta coefficient of 0.460 indicates that when the variation in Earning rating goes up by 1 standard deviation, then that of Financial Performance goes up by 0.460 standard deviations. This is supported by Nile, Noor and Osoro (2019); which concluded that humanitarian firms applying lean practices had higher inventory turnover than those that did not.

The forth objective further aimed to determine how liquidity management affected the DT Saccos' financial performance in Kenya. According to the study's findings, which are shown in Table 7, liquidity management and financial performance were positively correlated at ($\boldsymbol{\beta_4 = .117}$) an indication that when Liquidity management goes up by 1, Financial Performance increases with a corresponding 0.117 units.

Moreover, the standardized beta coefficient of 0.218 signifies that when the variation in Liquidity management increases by 1 standard deviation that of Financial Performance goes up by 0.218 standard deviations.

The findings echo the results of a study conducted by Okeyo, Odoyo and Ombui (2023), which concluded that Liquidity management increased financial performance in food and beverage firms. Table 7 presents the results of the analysis as follows.

Table 7: Regression Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			95.0% for B	
		B	Std. Error	Beta	T	Sig.	Lower Bound	Upper Bound
1	**(Constant)**	2.507	.016		25.263	.000	1.976	2.938
	CA	.148	.027	.258	5.505	.000	.095	.201
	AQ	.106	.027	.172	3.859	.000	.052	.160
	ER	.326	.036	.460	9.179	.000	.256	.396
	LM	.117	.025	.218	4.753	.000	.068	.166

a. Dependent Variable: FP

The resultant multiple regression model was formulated as follows:

$$Y = 2.507 + 0.148X_1 + 0.106X_2 + 0.326X_3 + 0.117X_4 + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

The model indicates that the Y intercept, or financial performance, will be 2.507 when all of the variables under investigation—capital adequacy, asset quality, earning ratings, and liquidity management—are held constant.

The findings in table 8 below shows that the Financial Performance model as a function of Capital Adequacy, Asset Quality, Earning Ratings and Liquidity Management yielded coefficient of determination (R^2) value of 0.707. This indicates that 70.7% of the variation in Financial Performance of DT Saccos can be explained by the four Capital Requirements, a position supported by Waweru and Oribu (2023). However, from the results twenty-nine-point three percent (29.3%) of variations remain unexplained; these could be as a result of other factors which are beyond the scope of this study that would require further investigation. The results are presented in Table 8 that follows, below.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.779[a]	.707	.770	.23017

a. Predictors: (Constant), CA, AQ, ER, LM

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on the findings of the study, the following conclusions can be drawn regarding the financial performance of Kenyan DT Saccos in relation to the key study objectives.

Firstly, capital adequacy has a significant impact on the financial performance of DT Saccos. The study confirms that maintaining sufficient capital reserves ensures smooth operations and contributes to member satisfaction. Adequate capital reserves support financial stability and efficiency, which in turn enhances the overall performance of the Sacco. Secondly, the study on asset quality reveals that the quality of assets directly influences the financial health of DT Saccos. High-quality assets enhance the creditworthiness of the Sacco and improve its ability to provide better services to its members. Maintaining a strong asset portfolio is crucial for operational success and the long-term financial sustainability of the Sacco.

Regarding earning ratings, the study found a clear positive correlation between a Sacco's earning capacity and its financial success. The more revenue a Sacco generates, the more it improves its profitability and overall financial performance. Therefore, focusing on increasing earnings is essential for improving the financial outcomes of DT Saccos. Finally, liquidity management was found to have a strong positive correlation with the financial performance of DT Saccos. Effective liquidity management ensures that a Sacco can meet its financial obligations, thus supporting its profitability. The study concludes that maintaining liquidity is essential for the operational efficiency and financial success of DT Saccos in Kenya.

Recommendations

In light of the study's conclusions, several recommendations are proposed to enhance the financial performance of DT Saccos. Firstly, it is essential for individual Saccos to maintain sufficient capital reserves at all times to ensure capital adequacy. This practice will not only improve membership growth but also enhance financial health and operational efficiency. Sacco managers are encouraged to prioritize capital adequacy as a critical factor for financial success and profitability. Regarding asset quality, it is recommended that DT Saccos in Kenya not only focus on acquiring assets but also ensure that the quality of these assets meets high standards. Sacco management should carefully evaluate and approve loans or facilities to guarantee that only high-quality assets, capable of generating profitability without default, are processed and disbursed. This approach is expected to positively impact the bottom line.

In terms of earning potential, it is recommended that DT Saccos collaborate closely with stakeholders to attract new members, as this will directly contribute to higher earnings. Increased membership will lead to a higher income base, thereby enhancing overall financial performance and profitability. Lastly, considering the vital role liquidity management plays in financial performance, it is suggested that DT Saccos focus on improving liquidity management. A liquid Sacco has the capacity to meet its obligations, including timely repayment of liabilities, which in turn ensures profitability. Effective liquidity management will allow Saccos to operate more efficiently and sustain financial growth.

Contribution of the Study to the Existing Knowledge

This study has contributed in the testing, development and validation of the theories. For instance, by basing the study on the theory of pecking order, signalling theory and liquidity management theory; the study has helped in testing the adoption of capital requirements as proposed by the theories. The research questions were all answered at 95% confidence level therefore validating the theories of the study. Further, some of the study findings strongly in tandem with existing research work and studies.

Additionally, the study added to the body of literature on how capital restrictions affect DT Saccos' financial success, as previous research had solely examined the performance of financial institutions.

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