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Influence of Financial Management Practices on Financial Perfomance of Deposit Taking Saccos in Nairobi County, Kenya

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Abstract: **The financial management practices of financial institutions are of great concern to the financial regulators globally. The financial management practices on the credit union industry and its influence financial stability minimize loan default and achieving of better financial performance of the industry. In Kenya, Deposit Taking SACCOs (DTS) institute financial management practices such as working capital management and cash budgeting in an effort to improve financial performance. Despite the increase in adoption of DTS's financial management practices, its impact on financial performance has not been sufficiently established. This study, therefore, sought out to examine the effect of financial management practices on financial performance of DTS in Kenya. The objective of the study was to determine effect of financial management practices on financial performance of DTS in Nairobi County, Kenya. Descriptive research design was deemed appropriate for this study as it will assist in understanding the effect of effects of financial management practices on financial performance in DTS in Kenya and therefore answer the "How" question of the study. The study population consisted of all 175 DTS registered under the SACCO societies Act in Nairobi County, Kenya. By using Yamane's formula, the sample size will be 122 DTS. The study adopted simple random sampling technique where all units from the sampling frame will have an equal chance to be drawn and to occur in the sample. Questionnaires was used to obtain important information about the population. Descriptive analysis which included percentages, frequencies, means and standard deviation was done to establish the extent to which financial management practices influence financial performance in DTS in Kenya. Inferential data analysis techniques of correlation and regression analysis was used to establish the relationship between financial management practices and financial performance of DTS. The study found that overall 59.6% of the variation in Financial performance of Deposit Taking Saccos in Nairobi County, Kenya can be explained by for working capital management, Capital structure decisions, Liquidity management, financial investment management while the remaining percentage can be explained by other factors excluded in the model. The findings of the study demonstrated that Financial Management Practices significant influence on Financial performance of Deposit Taking Saccos in Nairobi County, Kenya.**

Keywords: **working capital management, capital structure decisions, liquidity management, financial investment management, Financial performance.**

1. INTRODUCTION

Financial management practices directly contribute to the financial performance of any company. Bhattacharya (2006) states that for a business firm to be able to sustain its business operations and meet its goals and objectives it must manage its financial practices effectively and prudently. Financial management helps to improve the profitability position of business organizations with the help of strong financial control devices such as budgetary control, ratio analysis and CVP analysis (Paramasivan et al., 2009). Financial crises have motivated the formulation and implementation of financial management practices that focus on financial and supervisory regulations to prevent future financial losses. Failure and closure of DTS could trigger spill-over effects in the entire financial sector and ultimately to the entire economy, this

motivates financial regulators and supervisors to check on operations and stability of all financial sub-sectors and thereby protect investors and consumers investments (Abdalla & Obeidat, 2013). The financial management practices are critical for the efficiency and performance of the credit union industry. Working capital management is important due to many reasons. For one thing, the current assets of a typical firm accounts for over half of its total assets. Excessive levels of current assets can easily result in a firm's realizing a substandard return on investment. However, firms with too few current assets may incur shortages and difficulties in maintaining smooth operations (Van Horne & Wachowicz, 2000). Businesses are therefore required to maintain a balance between liquidity and profitability while conducting their day to day operations. According to Munyao (2010), capital budgeting techniques is used to evaluate whether investments in fixed assets such as new machinery, new plants, new products, and research development projects are worth pursuing. Capital budgeting techniques include non-discounted cash flow techniques (payback period and the accounting rate of return) and the discounted cash flow techniques (net present value, internal rate of return, profitability index and discounted payback period).

Capital budgeting decisions are critical to the success of any firm. Brigham and Ehrhardt (2013) argued that capital budgeting decision is vital to a firm's financial well-being and are among the most important decisions that owners or managers of a firm must make. Their rationale for that belief is that capital budgeting decision often involves significant capital outlay to acquire fixed assets. Additionally, the acquisition of these assets often comes with long lasting and recurring financial obligation. Furthermore, efficient utilization and control and management of acquired fixed assets are also equally important. Sophisticated investment appraisal techniques such as Net Present Value (NPV) and Internal Rate of Return (IRR) methods have a positive impact on the profitability of firms (Olawale et al., 2010).

Capital Structure Management (CSM) is the other financial management practice under review in this study. According to Romney (2010), Capital structure is defined as the relative amount of debt and equity used to finance a firm. It's the relative amount of permanent short term debt, long term debt, preferred stock and common equity used to finance a firm. When determining a company's cost of capital, the costs of each component of the capital structure are weighted in relation to the overall total amount. A company's capital structure refers to the combination of its various sources of funding. Most companies are funded by a mix of debt and equity. Capital structure is part of financial structure, representing the permanent sources of a firm's financing (Magali, 2014).

Capital structure decision is one of the SACCOs financial management practices, which sets a framework on how SACCOs and other depository institutions handle their capital (Klinedinst, 2012). The Categorization of assets and capital is highly standardized so that it can be risk weighted. Capital adequacy is linked to protection of depositors (Blanco & Barrios 2011; McKillop & Wilson 2014; & Wanjohi & Njeru, 2016) and promotes the stability, efficiency of financial systems as well as improving financial performance.

Extension of credit facilities is one of the major functions of SACCOs (Manyuanda, 2014), as evidenced by the large proportion that loans constitute in the overall operating assets of these financial institutions. Healthy liquidity portfolios are vital for SACCOs in view of their impact on liquidity, lending capacity, earnings and profitability of the SACCOs (Mombo, 2013). The adoption of SACCO Societies Regulatory Authority (SASRA) has promoted utilization of financial management practices of Deposit taking SACCO operation, licensing, supervision, and deposit-taking. This motivates a study to determine the relationship between financial management practices and financial performance in SACCOs in Kenya.

1.1 Statement of the Problem

Financial management practices have been recognized both in developing and developed countries on its importance in coordinating credit unions' functions. Through financial management practices, the managers are able to understand the current financial position of a particular firm and capability in meeting future financial obligations (World Bank, 2014). This not only enables proper management of funds, but also creates an enabling environment for SACCOs to plan ahead. The financial management practices thus act as tool for the organizations to remain profitable while ensuring that they do not become bankrupt or insolvent (Harash et al., 2014).

In Kenya, The SASRA framework sets financial management practices on risk categorization of assets, working capital management and credit advances not to exceed 75.8 % percent of total assets. According to Abanisetal (2013) financial management practices in Uganda contributed to financial performance. Mensa (2012) investigated the financial management practices adopted by companies listed at Ghana Stock Exchange in Ghana and established a positive

relationship existed. Saah (2015) opined that financial management practices had insignificant effect on the financial performance. Furthermore, financial investment management mainly focusing on non-earning assets which should not exceed 10% of total assets while that of land and buildings shall not exceed 5% unless a waiver to that effect has been obtained from the Authority (SASRA, 2018). Financing decision such as external borrowing should not exceed 25% of total assets (SACCO Societies Deposit Taking regulations, 2010). The regulator expects that holding sufficient capital and liquidity ratios by DTS would enable them finance new lending on time (Murinde, 2010) would lower the credit risk ultimately enhancing quality and performance of loans by this financial institution.

Some of the empirical studies on financial management practices include Kieu (2004) study on small business in Vietnam, Klammer (2003) study of the relationship between sophisticated capital budgeting methods and financial performance in US. Moore and Reichert (2009) carried a study on multivariate study of firm performance and use of modern analytical tools and financial techniques study in 500 firms in US. Nguyen (2001), studied on relationship between financial management practices and profitability of small and medium enterprises in Australia, while McMahon, Holmes, Hutchinson and Forsaith (2013) and McMahon (2003) reviewed financial management practices in Australia, the UK and the USA. These studies were done in developed and emerging economies while the current study was carried in Kenya, a developing economy.

Local studies have focused on impact of SACCOs' regulation on operational efficiency and financial performance. For instance, a study on effects of regulations on financial performance of DTS in Kenya was conducted by Onguka (2014) and established a significant influence between capital regulation, capital ratio, liquidity and management efficiencies on financial performance. Findings of a study undertaken by Kiragu (2014) assessed that liquidity and capital adequacy ratio had a positive relationship to the financial performances of SACCOs in Nairobi County. Highly capitalized SACCOs are able to expand and have diversified investment portfolios (Kibui & Morange, 2014) while Mulwa (2013) found out that there is a positive relationship between capital availability and financial earnings of SACCOs. While it is widely accepted that financial management practices, empirical evidence on its effect on financial performance especially in DTS has not been exhaustively established. This study, therefore, seeks to examine the influence of financial performance of DTS in Nairobi County, Kenya.

1.2 Research Objectives of the Study

Research objectives describe what a study is expected to attain or action. In This section consisted of both general and specific objectives of the study

1.2.1 General Objective of the Study

To determine the influence of financial management practices on financial performance of Deposit Taking SACCOs in Nairobi County, Kenya

1.2.2 Specific Objectives

i. To establish the influence of working capital management on financial performance of Deposit Taking SACCOs in Nairobi County
ii. To determine the influence of capital structure decisions on financial performance of Deposit Taking SACCOs in Nairobi County
iii. To establish the influence of liquidity management on financial performance of Deposit Taking SACCOs in Nairobi County
iv. To establish the influence of financial investment management on financial performance of Deposit Taking SACCOs in Nairobi County

1.3 Research Hypotheses

H_{01} There is no significant relationship between working capital management and financial performance of Deposit Taking SACCOs in Nairobi County

H_{02} Capital structure decisions has no significant influence on financial performance of Deposit Taking SACCOs in Nairobi County

H_{03} Liquidity management has no significant influence on financial performance of Deposit Taking SACCOs in Nairobi County

H_{04} There is no significant influence of financial investment management on financial performance of Deposit Taking SACCOs in Nairobi County

1.4 Significance of the study

The study was significant to the following people, The management of DTS refers to the Board of Directors, members of committee, senior and middle level managers, Students in areas of finance, economics and management will gain knowledge on effects of financial management practices on financial performance in DTS and researchers will benefit from valuable addition into the existing empirical and theoretical literature.

1.5 Scope of the Study

The study focused on determining the effects of financial management practices on financial performance of DTS in Kenya. The study was done in Nairobi County. The study was limited to assessing how working capital management, liquidity management, capital Structure Decision and Financial investment affect financial performance in 175 DTS in Nairobi County, Kenya where the financial performance will be measured in terms of ROA and ROE. The study focused on a study period of 5 years from 2015 to 2019.

2. LITERATURE REVIEW

2.1Theoretical Review

Theoretical framework is defined as the employment of interrelated concepts drawn from a theory with an aim of deciphering the research problem under study (Imenda, 2014). Therefore, the theoretical literature sheds more light and understanding to the research variables and forms a basis for developing a research methodology. This study is anchored on the following theories; cash management theory, liquidity theory, agency cost theory, real bill doctrine and asymmetric information theory

2.1.1 Pecking Order Theory

The Pecking Order Theory was developed by Myers (1984). According to this model firms prefer internal funding over external funding. In case firms require external funding they would prefer debt over equity and equity is generated as last resort. So the firms don't have predetermined or optimum debt to equity ratio due to information asymmetry. The firms adopt conservative approach when it comes to dividends and use debt financing to maximize the value of firm.

Pecking order theory of capital structure states that firms have a preferred hierarchy for financing decisions. The highest preference is to use internal financing retained earnings and the effects of depreciation, before resorting to any form of external funds. Internal funds incur no flotation costs and require no additional disclosure of proprietary financial information that could lead to more severe market discipline and a possible loss of competitive advantage.

2.1.2 Agency Cost Theory

Agency theory offers explanations for developing a regulatory framework for financial institutions. Among the major issues that result in confusion among managers and shareholders is the issue of free cash flows. Office costs ascended from detachment of proprietorship and control and irreconcilable circumstances between classifications of operators (Jensen, 1986). Williamson (1988) portrays debt as a disciplinary instrument that can be utilized to assure that managers are inclined to the creation of wealth for the equity holders. In this manner, in the firms that have great cash flow and profitability, expansion of the level of debt that the firm holds can be used as a tool through which the number of managers and their powers can be reduced in order to avoid them using the assets of the firm for their own benefit at the expense of the organization.The alternative assumption as presented by Meyers (2010) and Faraghar (2002) present a firm's position in terms of debt as the total outcome of past investment and capital structure activities. In this assumption, normally called "pecking order" organizations with a positive net present value will endeavor to fund their new investments by first using existing internal assets and in the absence of internal assets, they could fund the venture with less risky debt, then with risky debt and finally with equity. In this way funding investments by using internal assets could be the least costly source and the firm's finance structure is the outcome of past cash streams and investment opportunities.

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2.1.3 Liquidity Theory

Holmstom and Tirole (1998) provided a model of liquidity theory in which intermediaries are seen as having borrowing frictions. The government has an advantage over private financial markets as it can enforce repayment of borrowed funds while the private lenders cannot (Constantino, 2012). This proposition holds that availability of government provided liquidity leads to a Pareto improvement where there is aggregate uncertainty. The government is obligated to correct any inefficiencies arising from externalities and private information and possibility of hidden trades (Holmstom &Tirole, 1998; Adrews, 2012). The private lenders must enforce prudential regulations on maximum loan size, credit limits and loan provisioning to limit their credit risk.Another view of liquidity is brought forth by Emery (1984) in Magali (2014) where credit rationed firms' are believed to use more trade credit than those with normal access to financial institutions. Therefore, those firms presenting good liquidity or better access to capital markets can finance those that are credit rationed. The measure of liquidity needed is determined by the amount of income such that the higher the income, the higher the amount of cash requested for increased transactions. Furthermore, the prudent thought where people want to have liquidity basing on unprecedented issues that require big spending.

2.1.4 Cash Management Theory

This model was determined by Morton Miller and Daniel Orr in 2009 trying to create a more reasonable way to deal with finance management over Baumol's model. The model figures out how to accomplish a sensible level of authenticity while not being excessively detailed. It conjectures that the aggregate cash flows are constantly distributed with very low levels of the mean and standard deviation. This is a stochastic or a probabilistic model which accepts instability in finance management. It accepts that the day by day cash flows are unverifiable and in this manner take after a trendless random walk. This model thusly sets bounds inside which money ought to be managed.

These cut-off points are: A furthest breaking point, which is the most extreme value of money to be held, Lower restrict, which is the base value of money to be held (thought to be zero), and Return point, which is the target amount of money considered optimal. In any case, deficient value of stock will result to stock outs and interference in operations (Gadome & Thaeer, 2008). Money should likewise be kept up at a perfect level. It might likewise result to expanded cost because of misusing, waste and theft. Namusonge (2008) notes that excessively or deficient level of money equalizations mean money is not appropriately used.

2.2 Conceptual Framework

A conceptual framework presents a link between the independent and dependent variables in a study (Orodho, 2009). The independent variables of working capital management, liquidity management, capital Structure Decision and Financial investment are related to the dependent variable of financial performance in DTS in Kenya as indicated in Figure 2.1.

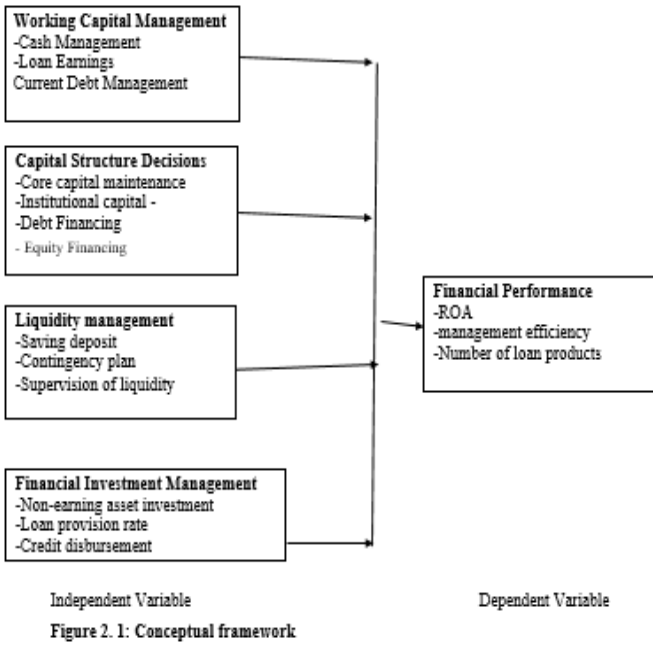

Figure 2. 1: Conceptual framework

2.3 Empirical Review

Haq *et al*, (2008) conducted a comparative analysis of regulation of microfinance institutions which includes credit unions in Asia. CAR maintained, were found to be at a minimum of 8% for most countries except for Thailand, Nepal, Philippines at a range of 10%-12% while for Pakistan stood at 15%. In fact, CAR for SACCOs are expected to be lower to those maintained by banks as revealed by a comparative analysis carried out by Smith and Woodbury (2010) seeking to establish if credit unions should be subjected to similar capital regulatory framework as for banks. Using loan delinquency and net charge-offs as dependent variables against unemployment as an indicator of business cycles, the study established that credit unions are less sensitive to the different business cycles compared to banks therefore justifies application of lower capital requirements to protect against macroeconomic shocks in credit unions to account for the lower risk. However, as much as CAR for SACCOs are expected to be lower to those of banks, SASRA must ensure that CAR framework is sufficient to cover SACCO's operations, risks and member's deposit. Agreeably, a study by Kinyanjui & Omwenga (2017) found out capital requirements have positive and significant influence on return on asset (ROA) as the ratio grew post SASRA regulations from 1.5954 to 1.1623. Capital regulation was found to significantly affect net loans to customers and short term funding. However, higher capital requirements could inhibit credit expansion and growth. In the study of effects of SASRA regulations on financial performance of SACCOs in Nairobi by Kiragu (2014), CAR compliance was established the most significant factor influencing performance with a level of significance of 0.00 relative to that of management quality, cost of income, NPL, size and liquidity which P-values of 0.033, 0.027, 0.018, 0.0117 and 0.018 respectively.

Similarly, Onguka (2014) established a positive correlation between capital adequacy requirement and financial performance of SACCOs. ROA grew from 5.0 in 2009 t0 6.78 in 2013 while ROE improved from 6.30 in 2009 to 8.34 in 2013. CAR was found to internalize risk of shareholders or members and well capitalized DTS are in a position to manage their credit and operations effectively. Olando *et al* (2013) found out that institutional capital and diversification of loan products positively affected wealth creation. Similarly, in Wanjohi and Njeru (2016), capital adequacy has a significant effect on credit risk of DTS in Kenya with CAR explaining 67.7% variance of credit risk. The study recommended sale of non-core assets to improve the ratio of level of capital to risk weighted assets

In Saidi (2016) core capital was found to have a statistical influence on financial performance of SACCOs, where a unit increase in CAR triggered an increase in performance by 0.617. The study also revealed that core capital influences the lending capacity and credit risk of SACCOs among other factors. This findings were grounded in Kahuthu (2016)'s comparative analysis where core capital was found to have a positive correlation with the financial performance of DTS.

In Muriithi (2012) firm's liquidity is secured by sound working capital and cash management practices. A strong association between working capital management, financial planning, and control, segregation of duties in finance function and Sacco management philosophy on the financial performance was found to exist among of the sampled SACCOs. Kabamba (2012) study depicted that there was a positive relationship between liquidity management and growth of the financial institution. If liquidity management is properly managed, the resulting administrative costs would be lowered and this will drastically increase the growth of the microfinance institutions. Liquidity management may be a relatively unglamorous aspect of management, however, its inclusion as a strategy is likely to reap rewards in terms of growth.

Kabure (2013) found a positive relationship between liquidity and Return on Investment (ROI) exist in DTS, allowing them to lend and invest at the same time. However, the growth in demand for loans in relation to member's deposits forces DTS to borrow externally to fund loans. Risks arising from perceived liquidity shortages due to demand and supply of loans are expected to be lower since a notice period must be issued in advance for refund of all non-withdrawable deposits by the members.

Invariably, Omino (2014) found out that liquidity risk influences both the liquidity creation and financial performance of DTS. Longer debtor collection periods relative to the creditor payment period undermine liquidity availability and creation, this is because funds that could otherwise be invested elsewhere are tied up in the debtor's accounts. With the debtor collection periods seeming to influence loan default levels and the rising demand for loans, management of DTS should envisage ways of minimises the debtor collection periods and set strong credit policies and management practices to enhance repayment. Muraguri (2014) employed a linear regression model to assess the effects of capital adequacy, liquidity, and management efficiency on the return of investments of SACCOs in Nairobi. It was established that return on investment influenced capital adequacy and the efficiency of the management which are alternatively correlated to liquidity. Improved income levels were attributed to adoption of SASRA regulations and this enables SACCOs compete

against the banks. The study recommended maintenance of optimal liquidity threshold since excess liquidity can tempt the SACCOs into high-risk investments such as unsecured loans.

Njeru (2016) researched on effects of liquidity management on financial performance of DTS, where liquidity decisions were indicated by the dividend policy, investment decision and members deposit protection but must confirm to the SASRA regulations. Likewise, loan repayment and cash management were found to affect liquidity availability. Maintenance of optimal cash balance eliminates issues of liquidity risks while the credit risk can be mitigated through setting favourable credit terms to encourage repayment.

A strong relationship was revealed to exist between efficiency and investments in loan portfolio, financial investments and buildings in SACCOs (Mwangi, 2015). Investments in loan portfolio portrayed the highest effect in efficiency of SACCOs with a correlation coefficient of 0.896 while that on buildings exhibited negative correlation of -0.138 supporting the rationale of non-core investments. Saidi (2016) revealed challenges such as restricted investment avenues and reduced lending capacity affected performance of SACCOs.

A study carried out by Mutinda (2016) revealed a strong statistical relationship to exist between different study variables such as investment requirement and financial performance of SACCOs. It was further found out that asset categorization requirement as either loans or non-earning assets allows efficient income allocation to their investment source. Non-earning assets therein were found to account for 45% of total assets held by SACCOs. Non- core investments give SACCOs leverage in times of adverse performance of loans. Muriithi (2012) study discovered that the management committee authorizes investment decisions of the SACCOs as well as other financial policies that emphasizes on profitability and stakeholder's wealth creation.

Mohammad, Neab, and Noriza (2010) worked on crafting the relationship between Working Capital Management (WCM) and performance of firms. For their analysis they chose the Malaysian listed companies. They administered the perspective of market valuation and profitability. They used total of 172 listed companies from the databases of Bloomberg. They randomly selected five-year data (2003-2007). This research likewise studied the impact of the dimensions of working capital component such as Cash Conversion Cycle (C.C.C.), current ratio (C.R.), current asset to total asset ratio (C.A.T.A.R), current Liabilities to total asset ratio (C.L.T.A.R.), and debt to asset ratio (D.T.A.R.) in effect to the firm's performance whereby firm's value dimension was taken as Tobin Q (T.Q.) and profitability such as return on asset (R.O.A.) and return on invested capital (R.O.I.C). They applied two different techniques for analyzing the data, that was multiple regression and correlations. They found out that there was a negative relationship between working capital variables and the firm's performance.

Gul et al. (2013) investigated the influence of working capital management (WCM) on performance of small medium enterprises (SMEs) in Pakistan. The duration of the study was seven years from 2006 to 2012. The data used in this study was taken from SMEDA, Karachi Stock Exchange, tax offices, company itself and Bloom burgee business week. The dependent variable of the study was Return on Assets (ROA) which was used as a proxy for profitability. Independent variables were number of days' account receivable, number of day's inventory, cash conversion cycle and number of days' account payable. In addition to these variables some other variables were used which included firm size, debit ratio and growth. Regression analysis was used to determine the relationship between WCM and performance of SMEs in Pakistan. Results suggested that accounts payable, growth and size, have positive association with Profitability whereas accounts receivable, day's inventory, cash conversion cycle and debt ratio have inverse relation with profitability.

Oladipupo and Okafor (2013) examined the implications of a firm's working capital management practice on its profitability and dividend payout ratio. The study focused on the extent of the effects of working capital management on the profitability and dividend payout ratio. Financial data were obtained from 12 manufacturing companies quoted on the Nigeria Stock Exchange over 5 years' period (2002 to 2006). Using both the Pearson product moment correlation technique and ordinary least square (OLS) regression technique, they observed that shorter net trade cycle and debt ratio promote high corporate profitability. While the level of leverage had negative significant impact on corporate profitability, the impacts of working capital management on corporate profitability appeared to be statistically insignificant at 5% confidence level.

Jagongo and Makori (2013) analyzed the effects of working capital management on firm's profitability in Kenya for the period 2003 to 2012. Balanced panel data of five manufacturing and construction firms each which were listed on the Nairobi Securities Exchange (NSE) were used. Pearson's correlation and Ordinary Least Squares regression models were used to establish the relationship between working capital management and firm's profitability. The study found a

negative relationship between profitability and number of day's accounts receivable and cash conversion cycle, but a positive relationship between profitability and number of days of inventory and number of day's payable. Moreover, the financial advantage, sales growth, current ratio and firm size also had significant effects on the firm's profitability. The results indicated that there is a strong negative relationship between firm's performance and liquidity of the firm. The study also found that there was a negative coefficient relationship between accounts collection period, average payment period, inventory holding period and profitability while the cash conversion cycle was found to be positively correlated with profitability. However, the effects of the independent variables except the average payment period were no statistically significant though the overall model was statistically significant.

Gilbert (2005), carried out a study to determine the application of capital budgeting methods and their association with firm performance among South African manufacturing firms. A sample of 318 firms was surveyed, but only 118 firms representing 37% responded. The survey tested the application and impact of payback method, accounting rate of return, net present value and the internal rate of return. The ratio of the rate of return on assets was also used as a measure of firm performance. The results of the study indicated that 15% of the firms employed the payback method, 8% used purely the discounting methods while the rest employed a mixture of both non-discounting and discounting methods.

A study by Olawale, Olumuyiwa and George (2010) was conducted to investigate if companies make use of sophisticated investment appraisal techniques when making investment decisions, and the impact of sophisticated appraisal techniques on the profitability of the manufacturing firms in the Nelson Mandela Bay Metropolitan area, South Africa. The study had a sample of 124 firms out which 85 firms responded making 39% which were found to be using sophisticated investment appraisal techniques when making investment decisions. The profitability of the firms was measured by the rate of return on assets (ROA) and was determined based on the calculation of the earnings after interest and taxes (EAIT) and total assets. The study used regression analysis to test the relationship of each independent variable on profitability.

Maritim (2013) determine the effects of budgeting on the financial performance of manufacturing and commercial Parastatals in Kenya. A descriptive research design was adopted and data was collected by use a questionnaire. A regression was also carried out to establish the relationship between the ROA and the budgeting independent variables. The research findings were that the budgeting practices that are common among the firms are budget planning, budget participation, and budgetary sophistication.

Munyao (2010) investigated the relationship between Capital Budgeting Techniques and Financial Performance of Companies listed at the NSE. The study employed a census survey. Primary data was collected through questionnaires which were dropped and picked from the respondents. The study used multiple regression analysis to find the association between capital budgeting techniques and the financial performance of companies listed at the Nairobi Stock Exchange. Forecasting model was developed and tested for accuracy in obtaining predictions. The finding of the study indicated that model was significant. The study found out that all the four capital budgeting techniques; payback method, accounting rate of return internal rate of return and net present value were being used by the companies listed in the Nairobi stock exchange.

Nyambura (2014) conducted a study on the relationship between capital budgeting techniques and financial performance of companies listed at the Nairobi Securities Exchange. The research adopted a correlation cross-sectional survey research design which was best suited for explaining or exploring the existence of two or more variables at a given point in time. The population of the study consisted of all companies listed at the Nairobi Securities Exchange. Data was collected from the primary sources which comprised of the questionnaires administered to the officers directly involved in capital budgeting as well the secondary sources which comprised of the data derived from the published accounts of the companies. The data was analyzed using the regression analysis model to test the effect of the capital budgeting techniques on the financial performance of the companies. The study found out that all of the four capital budgeting techniques researched on; payback period, net present value, accounting rate of return and internal rate of return were being used by companies listed in the Nairobi Securities Exchange and results depicted that there was no correlation between the financial performance of banks and the capital budgeting techniques employed.

Chai (2011) examined the impact of capital budgeting techniques on the financial performance of courier companies in Kenya. The research adopted a causal research design. Capital budgeting techniques were evaluated for their relationship with the firm's financial performance i.e. Return on assets and findings showed that Profitability index was highly related to the measure compared to other techniques. Methods used to assess risk analysis in capital budgeting were also evaluated including scenario analysis, sensitivity, decision tree and simulation and findings indicated that scenario analysis was used more often by managers in assessing the risk analysis. Managers also preferred using cost of equity in

determining minimum rate of return for evaluating appropriate projects that the cost of debts or weighted average cost of capital. There was a significant relationship between the capital budgeting techniques and the financial performance of courier companies

Salim and Yadav (2012) employed EPS, ROA, ROE and Tobin's Q as measures of performance. They used panel data of 237 Malaysian companies for 1995–2011 and observed a significant negative influence of TDTA, LTDTA and STDTA on EPS, ROA, ROE and Tobin's Q. Manawaduge et al. (2011), in the context of an emerging market, scanned the influence of leverage on Sri Lankan firms' profitability. An analysis of pooled panel data of 155 firms over the period of 2002–2008 indicated an inverse influence of leverage on the profitability of firms. In another study, Chakraborty (2010) also found an inverse relationship between leverage and the performance of firms where performance was considered by the relative amount of profit before interest and taxes.

Sayeed and Hogue (2009) studied the impact of assets and liability management on profitability; a study on public versus private commercial banks in Bangladesh. According to them, banks' profitability is almost concern in modern economy. Banks are in a business to receive deposits or claims and to issue debt securities on the one hand and create or invest in assets on the other hand. Thus commercial banks incur cost for their claims and earn income from their assets. Thus profitability of banks is directly affected by management of their assets and liability. Their study examined how assets and liability management together with external variable such as degree of market concentration and inflation rate impact the profitability of selected commercial banks in Bangladesh. The study also dealt with the impact of Assets and Liability Management (ALM) on the profitability of the sixteen Bangladesh commercial banks classified into private and public.

Mwangi, and Iraya (2014) investigated the determinants of financial performance of general insurance underwriters in Kenya. The study sought to establish the relationship between selected factors (growth of premiums; size of insurer; retention ratio; earning assets; investment yield; loss ratio; and expense ratio) and financial performance of general insurance underwriters in Kenya. The study employed multiple linear regression analysis with data for 22, 23 and 25 underwriters for the 2010, 2011 and 2012 years respectively. The results were that financial performance was positively related to earning assets and investment yield. Financial performance was negatively related to loss ratio and expense ratio. Growth of premiums, size of underwriter and retention ratio were not significantly related to financial performance.

2.4 Critique of Existing Literature

In many developing countries, especially in the Africa context, credit union financial management practices have focus on improving efficiency and financial performance in SACCOs (Rajedom, 2010). The review of the past studies revealed that there is no consensus on how best to design the financial management practices of credit unions (Constantino, 2012). Financial management practices influence operations in SACCOs. Moreover, Financial management on credit unions activities may increase net interest margins or overhead costs. The ability of SACCOs to stabilize income flows by diversifying activities may only work in countries with sufficient securities market development. Kifle (2011) on the investments management on shares, savings and treasury bills affects sustainability of credit unions evidence from Southern Tigrai of Ethiopia.

According to Jared (2013) increase in cost of borrowing due to high-interest rates and inability of the members to increase their contributions due to tough economic times, SACCOs will have to rethink their strategies in investments. Waweru (2011) noted that cash optimal impact on loan provision in SACCOs. Muthoni (2011) also found that SACCOs can improve their liquidity by mitigating on investment caps. A number of models have been developed to measure financial performance of the SACCOs, the researcher will fill the gap by establishing 48 usage of the relevant models for the financial performance evaluation as suggested by different regulatory bodies.

From the review of the past studies, credit union financial management practices focus on improving safety and soundness of SACCOs enhancing operation of Credit Unions, improve in increase SACCO's financial returns (Constantino, 2012, Qin & Ndiege, 2013). Financial management practices, working capital management, liquidity management, cash management, financing decisions and liquidity management have is linked to financial performance in SACCOs in China and Bangladesh (Haq, Hoque & Pathan, 2008). Capital adequacy operates at two levels minimum capital requirement (MCR); and capital adequacy ratios (CARs). MCR, the amount of money that an applicant must have in a specified form, is one of the preconditions for getting a license to establish a financial institution (Sichei, Amanja & Tiriongo, 2012). The SASRA regulation recommends that SACCOs adhere to financial management practices for all improve on operation efficiency and improve on profitability level.

2.5 Summary and Conclusion

The review of literature covered the objective and economic rationale of regulating credit unions and SACCOs, an exercise which has been globally adopted. Linked to this, the existing economic theories and research work done on the field of regulation of financial institutions and especially credit unions across the world, reveals the stringent need of regulating SACCOs with emphasis on the liabilities which include members deposits and external borrowings which vary from one SACCO to another. Byusa and Nkusi (2012) indicated that credit union requirements such as credit policies, credit responsibility, collection policy and credit evaluation policies ranging from car loans, personal loans, investment capping led to increase in customer base and existence of bad debts among SACCOs in Rwanda.

Similarly, a study by Ntiamoah, Egyiri, Diana Fiaklou, Kwamega, (2014) indicated that credit regulations impact positively on loan performance among SACCOs in Ghana. In Kenya, SASRA has laid down an operational framework for the DTS among the key issue are capital adequacy, prudence regulations, investment capping and liquidity requirements as well as the provision for unrealizable loan (SASRA, 2014). As expected, the regulation of SACCOs should embrace deposit protection and minimize moral hazards and externalities which would jeopardize the achievement of Kenya's vision 2030 financial pillar which highlights financial inclusion as one of the strategic goals and identifies SACCOs as the flag-bearers.

2.6 Research Gap

Empirical studies reviewed such as Mohammad, Neab and Noriza (2010) worked on crafting the relationship between Working Capital Management (WCM) and performance of firms.

Gul et al. (2013) investigated the influence of working capital management (WCM) on performance of small medium enterprises (SMEs) in Pakistan. This study concentrated on small medium enterprises (SMEs) thus presenting a contextual gap. The current study concentrated on the SACCOs. Jagongo and Makori (2013) analyzed the effects of working capital management on firm's profitability in Kenya for the period 2003 to 2012. This was done in Kenya on listed firms therefore the need to investigate the insurance companies. Furthermore, the current study looks at four financial management variables as possible determinants of financial performance in SACCOs. Ng'ang'a (2014) examined the effect of adopting risk based supervision on financial performance of insurance companies in Kenya. The study showed that risk based supervision affected total premium collected in the insurance companies where majority of the insurance company's highlighted changes in premium collected. In addition, the study conducted by Chung and Chuang (2010) also revealed efficiency in capital structure management, working capital management, financial reporting and analysis; capital budgeting and accounting information system has a positive impact on profitability of business organizations. However, all the above studies were carried out in developed and emerging countries such as USA, Italy, Finland and Japan. It is therefore possible to argue that the effect of financial management practices on financial performance of SACCOs of developed and emerging economies are somewhat different from those of a developing economy like Kenya. SACCOs faces challenges in ensuring attainment of its objective of saving mobilization and offering loans to members and therefore subscribes to a continuum of financial management practices capital adequacy, liquidity and asset management, and investment on shares, savings, and deposits and credit management. DTS significantly rely on financial management practices to improve on financial performance. The regulatory framework defines NPL portfolio as all loans which are classified as substandard, doubtful and loss categories. The NPL rose from Kshs 9.3 billion in 2013 to Kshs 13 billion in 2014 (Nyamosi, & Omwenga, (2016), presenting a worrying trend having that the majority of loans advanced by DTS are guarantee – backed, hence risks of defaults are expected to be minimal. It also demonstrates despite the fact that the loans and credit advances by DTSs are guarantee-backed, they are still susceptible to default, and hence the introduction of credit regulations, (SASRA, 2014). This study seeks to determine effects of SASRA regulation on loan performance of DTS in Kenya (Matoke, & Omwenga, (2016).

3. RESEARCH METHODOLOGY

3.1 Research design

The study adoped a cross sectional research design. This plans includes arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kiariatha *et al*, 2013). cross sectional research design was chosen because it enables the researcher to generalize the findings of the study to a larger population and will be able to generalize the findings to all the Deposit-taking SACCOs in Kenya. These research design was deemed fit as it will enable the study to collect quantitative data to answer to research question on

how do financial management practices affect financial performance in Deposit Taking SACCOs in Nairobi County, Kenya.

3.2 Target Population

The unit of analysis for this study was one hundred seventy five (175) registered DTS (SASRA, 2019) while the unit of observation was the heads of credit of the registered DTS.

3.3 Sampling Frame

The sampling frame of this study was derived from the database of the SACCO Society Regulatory Authority (SASRA) that regulates and licenses deposit-taking SACCOs in Kenya. The list contained all the DTS licensed by the regulator as at 31st December 2019 as shown in Appendix III.

3.4 Sample and Sampling Technique

The size of the sample depends upon the precision of the researcher desires in estimating the population parameter at a particular confidence level hence there is no single rule that can be used to determine sample size (Sekaran & Bougie, 2011). The sample size is considered as a representative and which is comprehensive in the coverage of the study objectives and economical in terms of time and money. The sample size will be determined using Yamane's formula (Yamane, 1967).

$$n = N/ 1+ N \varepsilon^2$$

n= the sample size

N = the size of population

ε= the error of 5 percentage points.

$$n = \frac{175}{1+ 175\ (0.05)^2}$$

$$= 122$$

The study was, therefore, select 122 DTS using Stratified sampling technique. The respondents of the study was financial managers from all the DTS that will be selected for the study.

3.5 Data Instruments and Collection Procedure

Data collection refers to methods and means of retrieval and obtaining of the meaningful figures and information that aided the study (Gill, Stewart, Treasure & Chadwick, 2008). Questionnaires and secondary data sheet was used to obtain important information about the population

3.6 Pilot Testing

Kiaritha (2015) defines a pilot test as an evaluation of the specific questions, format, question sequence and instructions prior to the main survey. A pilot study helped to reduce confusion and refine the research questions enabling the respondents to understand, thereby eliminating problems in answering the set questions. The study considered a pilot group of 12 respondents from the study population making a 10% of the study population as indicated by (Saunders *et al*, 2009).

3.7 Data Processing and Analysis

Data analysis is a detailed process that involves cleaning up collected research data before undertaking to deduce it so as to give meaningful interpretations and explanation (Kothari, 2004).The researcher will use qualitative and quantitative techniques in analyzing the data. After receiving questionnaires from the respondents, the responses was edited, classified, coded and tabulated to analyze quantitative data using Statistical Package for Social Science (SPSS version, 21). Tables and charts was used for further representation for easy understanding and analysis. Descriptive analysis was done to establish the extent to which financial management practices influence financial performance in deposit taking

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SACCOs. Descriptive analysis was included percentages, frequencies, means and standard deviations. Inferential statistics was used to establish the relationship between financial management practices and the financial performance of Deposit taking SACCOs. The inferential statistics seeks to establish a causal effect relating independence variables to the dependent variable. A linear regression model of financial performance versus financial management practices was applied to examine the relationship between the variables. The model treats financial management practices as independent variables and financial performance in SACCOs as dependent variables.The relationship equation represented in the linear equation below:

$$Y = \alpha + \beta\beta_1 X_1 + \beta\beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon\varepsilon$$

Where

Y= Financial Performance

α = Constant Term

$\beta\beta_{1, 2, 3, 4,}$ = Beta coefficients

X_1= Working capital management

X_2= Cash budgeting

X_3= Financial investment Management

X_4= Capital structure

ε = Error Term

4. RESEARCH FINDINGS AND DISCUSSION

4.1 Response Rate

The number of questionnaires, administered to all the respondents was 112 and 99 questionnaires was returned as indicated in Table 4.1.

Response Rate	Frequency	Percent
Returned	99	88.39
Unreturned	13	11.61
Total	112	

This represented an overall successful response rate of 88.39%. According to Mugenda and Mugenda (2003), a response rate of 50% or more is adequate. Babbie (2004) also asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good.

4.2 Pilot Test Results

A pilot test is an evaluation of the specific questions, format, question sequence and instructions prior to use in the main survey. Reliability and Validity tests were carried out before the actual study was conducted.

4.2.1 Test of Reliability

The reliability of an instrument refers to its ability to produce consistent and stable measurements. Bagozzi (1994), explains that reliability can be seen from two sides: reliability (the extent of accuracy) and unreliability (the extent of inaccuracy). The most common reliability coefficient is Cronbach's Alpha which estimates internal consistency by determining how all items on a test relate thus testing the internal coherence of data.

A Cronbach Alpha of 0.7 and above indicates the presence of internal consistency and that the instrument is reliable for use in the study (Babbie & Mouton, 2009). All the variables were quite reliable with a Cronbach's alpha reliability coefficient greater than 0.7. Working capital management had a reliability of (α=0.799), capital structure decisions, (α=0. 0.921) liquidity management (α=0.802) financial investment management (α=0.738) financial performance (α=0.891). The study thus found that the instrument used was reliable and could be used for further analysis.

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Table 4.2: Reliability Result

Variable	Cronbach's Alpha	Comments
Working Capital Management	0.799	Accepted
Capital Structure Decisions	0.921	Accepted
Liquidity Management	0.802	Accepted
Financial Investment Management	0.738	Accepted
Financial Performance	**0.891**	**Accepted**

Source: Survey Pilot Data, 2022

4.2.2 Test of Validity

Validity test is done to show the degree to which a research instrument measures what it is expected to measure (Kothari, 2004). Validity is the accuracy and meaningfulness of inferences, which are based on the research results. Validity refers to whether a questionnaire is measuring what it purports to measure (Bryman & Cramer, 1997). Kaiser-Mayor-Oklin measures of sampling adequacy (KMO) and Bartlett's test of sphericity were applied to test whether the correlation between the study variables exist as shown in Table 4.3. The Kaiser-Mayor-Oklin measures of sampling adequacy show

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.795
Bartlett's Test of Sphericity	Approx. Chi-Square	853.950
	Df	10
	Sig.	.000

the value of test statistic as 0.795 and p-value <0.05. Bartlett's test of sphericity had a chi-square value of 853.950, p-value of 0.000. Since the p value is less than 0.05 then it implies that there exist a relationship among the study variables therefore providing a ground for further statistical analysis to be conducted.

4.3 Demographic information

This highlights the demographic information of the respondents that includes gender, age education level and job tenure. The findings are presented in Table 4.3. The study sought to assess the demographic information of the respondents. Demographic information aides in the laying of social, economic foundations that might influence the direction of the investigation.

Table 4.3 Demographic Information

		Frequency	Percent
Gender	Male	65	65.7
	Female	34	34.3
	Total	99	100
Age	21-30	2	2.02
	31-40	36	36.36
	41-50	38	38.38
	50 and above	23	23.24
	Total	99	100
Level of education	O/A Level	31	31.6
	Certificate/Diploma	9	9.6
	Bachelors	44	44.9
	Post Graduate	14	14
	Total	99	100
How long have you been working at SACCO	Less than 1	50	50.5
	2 to 4 years	21	20.2
	5 to 7 years	17	17.2
	Above 7 years	11	11.1
	Total	99	100

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Table 4.3 above presents the distribution of the gender of respondents. The table indicates that the majority (65.4%) were male while 34.6% were female. This means that deposit Taking Saccos are male dominated.

Most of the respondents (38.2%) were in the age bracket of 41-50 years, 22.8% were over 50 years, 36.8% were in the age bracket of 31-40 years and 2.9% were between 21 to 30 years. It can be said that most of the employees are in the age bracket of 31 to 50 years.

The study sought to establish the respondents' level of education. 31.6% of the respondents had O/A levels, 9.6% of the respondents had certificate/Diploma,44.9% had a Bachelor's degree while 14% of the respondents had post graduate degree. The well-educated respondents mean that they were well informed and furnished this study with better information which added value.

4.4 Descriptive Analysis of the Study Variables

The interpretation of research findings by use of Likert Scale determine the accuracy of results. In the self-administered questionnaire in this study, four of the sections comprised of items in a Likert type scale format using a scale of SD – Strongly Disagree; D – Disagree; N – Neutral; A – Agree; and SA – Strongly Agree as recommended by Alan (2001).

Descriptive Analysis of the effect of working capital management on financial performance of Deposit Taking SACCOs in Nairobi County

The first objective of the study sought to examine the effect of working capital management on financial performance of Deposit Taking SACCOs in Nairobi County.

Year	2018	2019	2019	2020	2021
Cash and cash equivalents	649,118,160	769,369,150	864,358,200	1,406,345,625	1,516,346,625
Accounts receivable (AR)	18.05%	18.27%	17.05%	16.00%	21.90%
Accounts payable (AP)	20.66%	19.77%	16.01%	18.00%	22.11%
Inventory	16,900,600	17,121,012	17,975,902	25482310	29492820

Descriptive Analysis of the effect of capital structure decisions on financial performance of Deposit Taking SACCOs in Nairobi County

The second objective of the study sought to examine the effect of capital structure decisions on financial performance of Deposit Taking SACCOs in Nairobi County. Since the data was in ordinal scale percentage was used to summarize the responses as shown in Table below.

Year	**2018**	**2019**	**2019**	**2020**	**2021**
Equity					
Ratio of member contribution share	55.1%	60.6%	65.1%	62.2%	70.0%
Retain earning and reserves	44.1%	54.6%	56.1%	52.1%	66.0%
Ratio of short term debt to Total Member Deposits to Total Capital	101.29%	98.21%	99.78%	104.54%	107.88%
Ratio of long term debt to Total Member Deposits to Total Capital	108.39%	108.49%	109.47%	110.28%	110.04%

Descriptive Analysis of the effect of liquidity management on financial performance of Deposit Taking SACCOs in Nairobi County

The third objective of the study sought to examine the effect of liquidity management on financial performance of Deposit Taking SACCOs in Nairobi County. To achieve this, the respondents were required to give their rating on a five point Likert scale. Since the data was in ordinal scale percentage was used to summarize the responses as shown in Table below.

Liquidity Ratio	Prescribe minimum	2016	2017	2018	2019	2020	2021
Liquid Assets/Savings Deposits & STLs	>=15%	49.95%	54.10%	52.68%	50.92%	48.50%	55.34%
Liquid Assets/Savings Deposits		18.05%	17.17%	17.05%	17.00%	20.99%	21.79%

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External Borrowings/Total Assets	<=25%	5.04%	4.83%	4.11%	3.88%	3.67%	3.61%
Liquid Assets/Total Assets		12.49%	11.85%	11.77%	11.62%	14.43%	14.96%
Total Loans/Total Deposits		108.39%	108.49%	109.47%	110.28%	110.04%	110.12%

Descriptive Analysis of the effect of financial investment management on financial performance of Deposit Taking SACCOs in Nairobi County

The fourth objective of the study sought to examine the effect of financial investment management on financial performance of Deposit Taking SACCOs in Nairobi County. To achieve this, the respondents were required to give their rating on a five point Likert scale. Since the data was in ordinal scale percentage was used to summarize the responses as shown in Table below.

Investment Management	SA	A	N	D	SD	Mean	Std.
Capping of lending rates	55.1	17.6	22.1	5.1	0.0	3.85	0.77
SACCO has cap on acquiring land and buildings	3.7	16.2	31.6	32.4	16.2	3.41	1.06
Restrictions on foreign trade operations	0	3.7	33.1	39	24.3	3.84	0.84
Restrictions on investment in financial instruments such government bonds	1.5	8.8	27.9	37.5	24.3	3.74	0.97
External borrowing limits of not more than 25% of total assets	4.4	2.2	18.4	50.7	24.3	3.88	0.95
The SACCO complies with minimum security requirements	55.1	17.6	22.1	5.1	0.0	3.85	0.77
The SACCO pay divided only when specified under the capital adequacy framework	1.5	8.8	27.9	37.5	24.3	3.74	0.97
The SACCO has cap in investing in listed company Shares unless the management views the interest to be material	3.7	16.2	31.6	32.4	16.2	3.41	1.06
Restrictions from investing in trust operations	55.1	17.6	22.1	5.1	0.0	3.85	0.77
Holding of land for business expansion only (not idle for two years)	1.5	8.8	27.9	37.5	24.3	3.74	0.97

4.5 Inferential Analysis

4.5.1 Correlation Analysis

The study sought to establish the strength of the effect of working capital management, capital structure decisions, liquidity management, financial investment management on financial performance of Deposit Taking SACCOs in Nairobi County. To achieve this, Pearson's correlation was carried out since both independent and dependent variables are in ratio scale. According to Kothari (2004), product moment correlation should be carried out if and only if both dependent and independent variables are in either ratio or interval scale. If the correlation coefficient is -1 then there is an inverse relationship and an increase in dependent variable is associated with a decrease in independent variable and +1 there is a perfect positive significant relationship and an increase in dependent variable is associated with an increase in independent variable (Kothari, 2011; Oso & Onen, 2009).

The study findings depicted in Table 4.20 indicated that there was a significant positive effect of working capital management on financial performance of Deposit Taking SACCOs in Nairobi County (rho=0.603, p-value <0.05). This implies that a unit change in working capital management increases financial performance of Deposit Taking SACCOs in Nairobi County by 60.3%.

Secondly there was a positive and significant effect of capital structure decisions on financial performance of Deposit Taking SACCOs in Nairobi County (rho =0.741, P value <0.05). This implies that a unit change in capital structure decisions increases financial performance of Deposit Taking SACCOs in Nairobi County by 74.1%.

Thirdly, there was a positive and significant effect of liquidity management on financial performance of Deposit Taking SACCOs in Nairobi County (rho =0. .608, P value <0.05). This implies that a unit change in liquidity management increases financial performance of Deposit Taking SACCOs in Nairobi County by 60.8%.

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Finally, there was a positive and significant effect of financial investment management on financial performance of Deposit Taking SACCOs in Nairobi County (rho =0.820, P value <0.05). This implies that a unit change in financial investment management increases financial performance of Deposit Taking SACCOs in Nairobi County by 82.0%.

Correlations

		financial performance	working capital mgt,	capital structure decisions	liquidity mgt,	financial investment mgt
financial performance	Pearson Correlation	1	.603**	.741**	.608**	.820**
	Sig. (2-tailed)		.000	.000	.000	.000
	N	99	99	99	99	99
working capital mgt,	Pearson Correlation	.603**	1	.296**	.595**	.253**
	Sig. (2-tailed)	.000		.000	.000	.000
	N	419	99	99	99	99
capital structure decisions	Pearson Correlation	.741**	.296**	1	.498**	.886**
	Sig. (2-tailed)	.000	.000		.000	.000
	N	99	99	99	99	99
liquidity mgt,	Pearson Correlation	.608**	.595**	.498**	1	.457**
	Sig. (2-tailed)	.000	.000	.000		.000
	N	99	99	99	99	99
financial investment mgt	Pearson Correlation	.820**	.253**	.886**	.457**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	99	99	99	99	99

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

4.5.2 Regression analysis

Regression analysis is a set of statistical methods used for the estimation of relationships between a dependent variable and one or more independent variables. This can be utilized to assess the strength of the relationship between variables and for modeling the future relationship between them

The multiple regression model results as shown below covers the model summary, the ANOVA test results and the regression coefficients for the four independent variables. The model summary results show that the R^2 for the model was 0.596 implying that the combined role of humanitarian logistics management practices (inventory management practices, Transport management practices, information flow practices and order processing practices) has significant influences of 83.3% on performance of humanitarian organizations in Kenya. A case of United Nation World Food Program Kenya.

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.772[a]	.596	.591	.47983	.596	121.907	5	413	.000	1.880

a. Predictors: (Constant), working capital management , capital structure decisions, liquidity management, financial investment management
b. Dependent Variable: financial performance

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	140.339	5	28.068	27.464	.000[b]
	Residual	95.088	93	1.022		
	Total	235.427	98			
a. Dependent Variable: financial performance						
b. Predictors: (Constant), working capital management , capital structure decisions, liquidity management, financial investment management						

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Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.659	.162		4.066	.000
	working capital management	.099	.032	.131	3.078	.000
	capital structure decisions	.590	.035	.625	4.624	.000
	liquidity management	.476	.068	.483	6.971	.000
	financial investment management	.161	.039	.189	4.137	.000
a. Dependent Variable: financial performance						

The study sought to carry out an overall multiple regression model to examine the effect of financial management practices on financial performance of Deposit Taking SACCOs in Nairobi County, Kenya. The mode used was of the form:

$$Y= \beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

After the regression model where the regression coefficients (Table 4.24) have been determined, the model now becomes:

$$Y= 0.659 + 0.099 X_1 + 0.590 X_2 + 0.4767 X_3 + 0.161 X_4 + e$$

5. SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary of Major Findings

The current study stemmed from the realization of the research problem in literature Financial Management Practices on Financial Management of Deposit Taking Saccos in Nairobi County,Kenya Empirically most of the studies on the role of Financial Management Practices practices have been skewed towards use of primary data and only specific Financial Management Practices had been evaluated. Among the several studies which had been done in the Kenyan perspective majority have not examined the causal joint influence of Financial Management Practices on Financial Management of Deposit Taking Saccos in Nairobi County,Kenya. Consequently, the researcher's primary purpose was to examine the influence of Financial Management Practices on Financial Management of Deposit Taking Saccos in Nairobi County, Kenya. Further, the study sought to test four hypotheses; working capital management, Capital structure decisions, Liquidity management, financial investment management has no significant relationship on financial performance of Deposit Taking SACCOs in Nairobi County. In order to meet the overall objective and test the study hypotheses the study adopted cross-section survey research design. Stratified sampling technique was used to select a sample 122 deposit-taking SACCOs in Kenya. Primary data and secondary data was collected from 99 deposit-taking SACCOs officials in Kenya and out of 112 questionnaires which were issued only 99 were completely filled and returned which yielded a response rate of 88.39%. The independent variables attributed examined in the study were for working capital management, Capital structure decisions, Liquidity management, financial investment management and for dependent variable is financial performance of Deposit Taking SACCOs in Nairobi County. Descriptive analysis such as frequency, percentage, mean and standard deviation were used to analyze the data which was summarized using figures and tables. Correlation analysis was used to examine the strength of influence of Financial Management Practices on Financial performance of Deposit Taking Saccos in Nairobi County, Kenya and regression analysis was used to examine the nature of the influence of Financial Management Practices on Financial performance of Deposit Taking Saccos in Nairobi County, Kenya. On overall 59.6% of the variation in Financial performance of Deposit Taking Saccos in Nairobi County, Kenya can be explained by for working capital management, Capital structure decisions, Liquidity management, financial investment management while the remaining percentage can be explained by other factors excluded in the model. The findings of the study demonstrated that Financial Management Practices significant influence on Financial performance of Deposit Taking Saccos in Nairobi County, Kenya.

5.2 Conclusions

This section presents the conclusions made in the current study.

Research objective one in this study was to assess the influence of working capital management on financial performance of Deposit Taking SACCOs in Nairobi County. The indicators of Cash Management, Loan Earnings and Current Debt Management to improve on the financial performance. When the working capital requirements are not properly managed and are allocated more than required, it renders the management inefficient and reduces the benefits of short-term

investments. On the other hand, if the working capital is too low, the company may miss a lot of profitable investment opportunities or suffer short-term liquidity crisis, leading to the degradation of company credit, as it cannot respond effectively to temporary capital requirements. Without working capital every aspect of the enterprise will cease to exist that is there will be no funds for the day-to-day running of the business which is the aim of every business enterprise. Well-managed working capital will produce an increased profitability to meet the financial needs of the company at all times. Findings of the study indicate that efficient working capital management leads to better financial performance, hence a positive relationship existed between efficient working capital management and financial performance variable. The conclusion of the study was that when efficient working capital management leads to better financial performance, then one should expect a negative relationship between measures of working capital management and the financial performance variable. Research objective two in this study was to assess the influence of capital structure decisions on financial performance of Deposit Taking SACCOs in Nairobi County. The indicators of Core capital maintenance, Institutional capital , Debt Financing and Equity Financing to improve on the financial performance.This study concludes that capital maintenance and debt financing is a significant predictor on capital structure of DTS in Nairobi County. Sacco's that are large in capital maintenance and debt financing are more diversified and have low possibility of bankruptcy and that firm size affected how DTS utilised incentives, sharing of dividends and determined interest rates charged on credit products. Research objective three in this study was to assess the influence of Liquidity management on financial performance of Deposit Taking SACCOs in Nairobi County. The study concludes that Liquidity management of the SACCO positively and significantly influenced the financial performance of Deposit taking Saccos in Nairobi County as larger SACCOs are able to spread the fixed costs of providing basic financial services to more customers leading to lower average costs. The study also concludes that Liquidity management also determines its financial performance. The study also concludes that Operational efficiency as depicted by putting in place qualified and skilled personnel, enough funds and putting good controls in place significantly influenced financial performance of Deposit taking Saccos in Nairobi County. Thus to ensure and enhance financial performance of SACCOs it is important to take into the factors that are associated to liquidity management. Research objective four in this study was to assess the influence of Financial Investment Management on financial performance of Deposit Taking SACCOs in Nairobi County. The indicators of Non-earning asset investment ,Loan provision rate, Credit disbursement to improve on the financial performance.

The study will be of great importance to Deposit Taking Savings credit cooperatives in Kenya to adapt optimal capital structure strategies that maximises their financial performance, which leads to greater members and stakeholders returns. In addition, these Deposit Taking Savings credit cooperatives will provide more stable employment owing to their sustainable financial performance thereby contributing positively to the country's Gross Domestic product (GDP). The models developed on capital structure will aid DTS regulatory government institutions in Kenya in developing policies on effective capital structure management. The study will add new knowledge on capital structure effects on financial performance of small-tiered DTS in Kenya. Conclusively, the study stated that investment decisions used in the study namely real estate investment and investment in FOSA products had an inverse relationship with DT-SACCOS financial performance while investment in lending to members for development and investment in money and bond markets had positive effect on the financial performance of DT-SACCOS in Nairobi City County, Kenya. With respect to real estate investment, the study concluded that investment in real estate does not play a key role in the determination of DT-SACCOS financial performance in the study area. If DT-SACCOS decide to invest in real estate further loss would be experienced by the DT-SACCOS thereby reducing their profitability and the overall financial performance. Centered on the second objective of the study, the study documented that investment in lending to members for development exhibited a positive and significant effect on DT-SACCOS financial performance in Nairobi City County, Kenya. This implies that investment in lending to members for development is significant in predicting of DT-SACCOS financial performance in Nairobi City County, Kenya. Therefore, it was concluded that DT-SACCOS investment in lending to members for development remained a vital sourceof financial performance. Thus, further increase in the base of lending to membership investment would lead to increase in the financial performance of DT-SACCOS in Nairobi City County, Kenya.

6. RECOMMENDATIONS

Firstly, the study recommends SACCOs to increase the capital adequacy ratio this could be achieved by increasing the capital in a SACCO. A financial institution with adequate capital has the capability of absorbing losses since capital performs a vital role in decreasing financial institution closures and losses to depositors when a bank closes. High capital contributes to lower profits because financial institutions with high capital ratio are exposed to risks. Therefore, the

researcher recommends SACCOs to focus on increasing capital which in turn will lead to increase in capital adequacy ratio. The study also recommends SACCOs to strive to build its equity as it has lower risk as compared to debts financing, i.e. SACCOs should strive to lower their capital leverage ratio which can be achieved by regulating debts. A financial institution has higher chances of risks if debt levels are high since it's the role of the financial institution to pay the interests resulting to large cash expenditure. Since capital leverage is a function of debts and equity, SACCOs should strive to maintain the capital leverage ratio as low as possible by increasing their equity.

In view of investment decisions effect that is, real estate investment, investment in lending to members for development, investment in FOSA products and investment in money and bond markets ,on DT-SACCOS financial performance in Nairobi City County, Kenya, various policy recommendations are presented. The study demonstrated that investment in lending to members for development had significant effect on DT-SACCOS financial performance. To this effect, the study recommends that DT-SACCOS should increase their investment base on lending to members as they are basically aware of the formative intent of the co-operatives. This means that when more loans are issued to members of the co-operative, they first consider the gains they get which emanates from these rational investment decisions for their development and hence the financial performance of the DT-SACCOS. DT-SACCOS should create better loan provision policies. To ensure the safety of cash, they should make proper loan provisions. This will prevent overvaluation of loan assets and make recovery easier within the regulatory framework thereby increasing financial performance. DT-SACCOS should put more effort in introducing different types of loans in their portfolio, since lending to members increases their financial performance. The study recommends that DT-SACCOS should strive towards improving the welfare of the members through maximization of their investment share value. This should be done through cost and technical efficiency analysis of members' investment decisions. DT-SACCOS should also embrace competition which necessitates effective risk management and development of marketing new products or services strategies to ensure that members benefit from competitive interest rates on loans borrowed. This will increase their standards and will in turn increase number of members who loan. Educating members and advertising to non-members about loans available for them will increase the numbers of lenders and also provide support through giving loan forms freely to them. This stands out as a practical strategy for better financial performance of DT-SACCOS

Areas for Further Research

The study recommends that further studies should be done on the effect of other factors in the SACCOs such as number of branches, number of customers, and level of technological adoption among others that influence financial performance. A similar study should also be done whereby the data collection relies on primary data i.e. in-depth questionnaires and interview guide so as to complement this study. This study focused on deposit taking Saccos in Nairobi County, the same study should be done in other SACCOs to find out whether it will yield the same results. The study also suggests that further studies should be done to cover all types of cooperative societies including farmer's cooperative societies in Kenya. Where the researcher will do a comparison between the regression results obtained for SACCOs and farmers cooperatives to examine the difference in terms of signaling for the different types of cooperative societies.

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