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**DETERMINANTS OF FINANCIAL PERFORMANCE AMONG SAVINGS AND  
CREDIT CO-OPERATIVE SOCIETIES IN KAKAMEGA COUNTY KENYA**

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## **DETERMINANTS OF FINANCIAL PERFORMANCE AMONG SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN KAKAMEGA COUNTY KENYA**

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### **ABSTRACT**

**Purpose:** The main objective of this study was to investigate determinants of financial performance of Savings and Credit Co-operative Societies in Kakamega County.

**Methodology:** This study used a descriptive survey design. The target population for this study was 44 SACCOs in Kakamega County. The study used census sampling technique. Secondary data was obtained from Audited Annual Reports of the 44 SACCOs in Kakamega County-Kenya. The data was analyzed using the Statistical Packages for Social Sciences (SPSS). Analysis of the data collected focused on both the descriptive statistics (trends) and inferential statistics (Pearson Correlation Coefficients and multiple regression coefficients. The analyzed data was presented in frequency tables and graphs. Regression analysis was used to establish the relationship between the independent and dependent variables.

**Results:** The study findings revealed that liquidity and return on equity were positively and significantly related, results further indicate that capital structure and return on equity were positively and significantly related. It was further established that assets quality was negatively and significantly related to return on equity. Similarly, results showed that income diversification was positively and significantly related to return on equity

**Policy recommendation:** The study recommends that all SACCO's managers should be trained on the deployment of efficient systems to strengthen liquidity risk control fundamentals, that SACCOs should capitalize on efficient mobilization of members' savings and borrow less, unless they get cheap sources of external funds such as soft loans, that the Saccos should improve their investment assets levels and improve assets quality by reducing the rate of nonperforming loans through credit risk identification.

**Keywords:** *Financial performance, Capital Structure, Asset Quality, Liquidity, Income Diversification and Saccos*

## **1.0 INTRODUCTION**

### **1.1 Background to the Study**

Financial performance is long-term, short-term decisions and techniques which have the same objective of enabling an organization growth by ensuring that return on capital exceeds cost of capital, without making high financial risks (Pandey, 2010). According to Gitman (2011) it refers to the concepts of time, money and risk and how they are related. Liquidity is essential in financial performance of SACCOs. It is the ability of a bank to fund increases in assets and meet obligations as they arise without incurring unnecessary losses (Basel Committee on Banking Supervision, 2013). Efficiency and effectiveness of liquidity management is paramount for existence and growth of organizations. According to CBK Prudential Guideline (2013) an institution maintains the minimum holding of liquid assets from time to time as directed by Central Bank.

Financial performance will be measured by Return on Equity which is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested. It is further explained by Khrawish (2011) that ROE is the ratio of Net Income after Taxes divided by Total Equity Capital. Furthermore it represents the rate of return earned on the funds invested by its stockholders. ROE shows how effectively a financial institutions management is using shareholders' funds hence the better the ROE the more effective the management in utilizing the shareholders' funds. According to Kariuki (2014) assessing the financial performance of a business enables decision-makers to judge the outcome of business plans and activities in objective monetary terms. It therefore facilitates measurement of an organization general financial health over a certain time frame.

#### **1.1.1 Determinants of Financial Performance**

*Organizations financial performance is determined by liquidity and in this case liquidity* describes the degree to which an asset or security can be quickly bought or sold in the market without changing the asset's price. It is therefore evident that inadequate liquidity or excess liquidity may be harmful to the smooth operations of the firm (Janglani & Sandhar, 2013). This affirms that the liquidity position of an organization is important and needs to be regulated. There are great repercussions of increased liquidity for financial institutions which leads to reduction of the organization ability to raise external finance (Uzhegova, 2010).

*Capital structure* is how an organization finances its entire activities and growth through use of different sources of funds. Sources of finance are classified into individual savings, individual and business bank loans, private and business credit cards, redundancy, remortgage family and friends, leasing, hire purchases, microfinance, grants and others. The significance of capital structure to corporate financial stability, growth and adequate returns cannot be overlooked on financial performance.

Regular share shows members' savings and provides the highest part of a credit union's funding financing (Uzhegova, 2010). Asset quality has been studied as a determinant of financial performance (Olando, 2012). The clarity and flow of all broad assets must be prioritized during rating. The quality of assets can be realized through loans, investments, real estate owned and assets that impact adversely on financial condition (Karagu & Okibo, 2014). Asset quality rules

and regulations explain 40 to 100 percent of fund performance. This is due to manner at which an organization awards finances among investment channels which matters most on total performance of (Roger, 2010). When current assets of the firm exceed the current liabilities the firm operates at a risk when their assets become impaired, hence it is vital to monitor indicators of the quality of their assets (Karagu & Okibo, 2014).

According to Miriti (2014) a diversified financial institution can obtain many benefits without intermediary activities. Through this benefits efficiency gains through economies of scale and area of operation. Income diversification suggests that higher diversity of income limits organization profitability. Sanya and Wolfe (2011) study on income diversification, financial performance as well as risk found that income diversification is beneficial to financial institutions in upcoming economies. The management needs to establish the most suitable capital for the projects being implemented to arrive at a considerable financial performance of the SACCOs.

### **1.1.2. Saving and Credit Cooperative Societies**

SACCOs in Kenya can be grouped into financial and non-financial cooperatives. Indeed SACCOs, with their wide scope of products and services, have given a big meaning to the financial sector in Kenya. Saccos in Kenya contribute to 45% of the country's GDP. The sub sector has keenly mobilized over Ksh. 200 billion deposits and assets amounting to Ksh. 210 billion (Ademba , 2010). Indeed SACCOs, with their increased scope of products and services, have given a new rise to the financial sector in Kenya. This is evident through high borrowing from commercial banks that results in low liquidity and solvency margins in many SACCO Societies (SASRA, 2012). Ademba (2010) affirms that Kenyan Sacco sector is the highest in Africa and the seventh globally. There are several indicators of financial performance that are captured. In traditional management studies it is clear that ratios are used and are categorized according to profitability, liquidity, leverage, and efficiency.

### **1.2 Statement of the problem.**

Although SACCOs have been present in Kenya since 1970s, this sector has not been able to impact positively on the lives of people. As of 2016, SACCOs in Kenya were not performing creditably well (Miriti, 2014). There is still need for research on determinants of financial performance due to exciting debate that is dynamic through time to time and differ with the nature of operation of the firm from place to place. According to Mvula (2013) poor asset quality and low levels of liquidity are the two major causes of institution failures.

Furthermore Sacco shareholders are posting a great challenge on financial performance due to their rigid stand towards revenue generation (Ngui, 2010) as a result this has led to mismanagement and poor investment decisions among SACCOs (Ndung'u, 2010) hence contributing to organization failure (Olando, 2012). Over time, SACCOs have been trying to address determinants of financial performance since they have not been able to perform well financially but instead recorded losses (Olando, 2012). According to Ayano (2016) determinants of financial performance debate is exciting since they are dynamic through time to time and differ with the nature of operation of the firm from place to place. However previous studies (Gruian, 2010; Oluoch, 2014; Mutuma, 2014; Kitonga, 2013) have shown that lack financial management in SACCOs has threatened there operations hence accounting for losses. Losses in



SACCOs have made it difficult for financial soundness and attainability of goals (Ndagijimana, 2014). The examination of the determinants of financial performance in Kenyan SACCO industry is necessitated by the growth and development of the Kenyan SACCO.

## **2.0 LITERATURE REVIEW**

Nyabate (2015) conducted a study on effect of liquidity on the financial performance of financial institutions listed in the Nairobi securities exchange. The research sought to establish the effect of liquidity on the financial performance of financial institutions listed in the Nairobi Securities Exchange. The study adopted descriptive research design where secondary data was retrieved from the balance sheets, income statements and notes of 19 financial institutions in the NSE for period covering 2010-2014.

Oginda (2013) conducted a study on effect of capital structure on financial performance of firms listed at the Nairobi securities exchange. The objective of this study was to establish the effects of capital structure on financial performance of listed firms on securities exchange in Kenya. The financial performance was measured in terms of return on equity while capital structure was measured in terms of debt ratio. The period of study was 2012. It is important to note that during this period of study, Kenya experienced political anxiety, leading to uncertainty in the securities market. This presents an interesting period of study considering the ups and downs of the trade cycle. The population of study consisted of all the 61 listed firms duly registered with capital market authority of Kenya in 2012. Secondary data used was obtained from the Nairobi securities exchange handbook and also in firm's publications.

Barus, Muturi, Kibati, Koima (2017) conducted a study on effect of asset quality on the financial performance of savings and credit societies in Kenya. The purpose of this study was to establish the effect of asset quality on the financial performance of savings and credit societies in Kenya. The study employed an explanatory research design. The target population was 83 registered deposit taking SACCO's in Kenya that have been in operation for the last five years. The sample size for the study was all 83 SACCOs that have remained in existence since 2011-2015. Census methodology was used in the study. Both primary and secondary sources of data were employed. Multiple linear regression models were used to analyze the data using statistical package for the social sciences (SPSS) and STATA. A pilot study was conducted to measure the research instruments reliability and validity. Descriptive and inferential analysis was conducted to analyze the data. The data was presented using tables and graphs. Based on the findings the study concluded that asset quality influenced the financial performance of savings and credit societies in Kenya. This can be explained by the regression results which showed that the influence was positive and also showed the magnitude by which asset quality influenced the financial performance of savings and credit societies. The univariate regression results showed that asset quality influenced the financial performance of savings and credit societies by 5.827units. The study recommended that management need to be cautious in setting up a credit policy that will not negatively affects profitability and also they need to know how credit policy affects the operation of their banks to ensure judicious utilization of deposits and maximization of profit. The study also recommended for credit information sharing between SACCO's. This will play a significant role in determining performance of deposit taking SACCO's. Further, the study recommended that SACCO's opt for equity financing instead of debt financing to improve

on its leverage. SACCO's should also avoid excessive lending, maintain high credit standards and limit lending to un-hedged borrowers.

Waithira (2013) effects of income source diversification on financial performance of commercial banks in Kenya. The objective of this study was to establish the effects of revenue diversification into non-interest income on financial performance of commercial banks in Kenya. This research adopted descriptive design as the information was collected from secondary sources. The population of interest was drawn from the commercial banks in Kenya for the period 2008 to 2012. In pursuance of the objective of the study, the study sampled 6 largest (most profitable) commercial banks in Kenya in terms of market share. The study used secondary data which was collected using audited financial statements of commercial banks in Kenya. Both descriptive and inferential statistics were used with the aid of Statistical Package for Social Science (SPSS) programme at 95% confidence level. The researcher employed regression model to study the relationship between the commercial banks financial performance and income diversification into non-interest incomes by banks. HHI was used to measure diversification while bank performance was measured by ROA. The study utilized chi-square test in testing the significance of variables in the study which showed significant relationship of variables with financial performance of commercial banks. According to the results, each of the independent variables which are fees and commissions on loans and advances, foreign exchange earnings, government securities income and sales and lease of assets income contribute positively to financial performance of commercial banks in Kenya. It is evident from the study that without diversification of income sources by commercial banks in Kenya most of them would have struggled with their objective of maximizing profit. The study recommends that CBK should offer environment where the commercial banks operations are not interfered with so as to attain diversification of income sources.

### **3.0 METHODOLOGY**

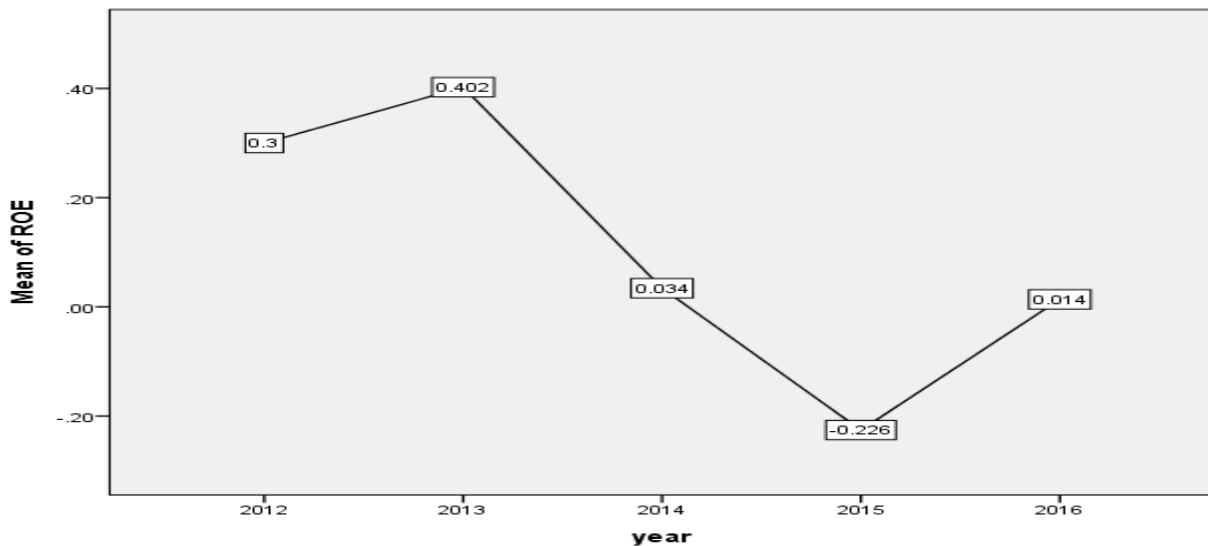
The study adopted the explanatory research design. The target population was the real estate developing firms in Mombasa County Kenya. According to Kenya Statistical Abstracts Issues, there are 25 Property development companies in Mombasa County, Kenya. Sample size comprised of 25 finance managers and 25 marketing managers from the real estate development firms. The study used questionnaires to collect the required data. Descriptive statistics was used mainly to summarize the data. SPSS was used for analysing complex data. The descriptive analysis involved the use cross tabulation and frequency distribution tables. Regression analysis was used to establish the relationship between the independent and dependent variables. This study used a descriptive survey design. The target population for this study was 44 SACCOs in Kakamega County. The study used census sampling technique. Secondary data was obtained from Audited Annual Reports of the 44 SACCOs in Kakamega County- Kenya. The data was analyzed using the Statistical Packages for Social Sciences (SPSS). Analysis of the data collected focused on both the descriptive statistics (trends) and inferential statistics (Pearson Correlation Coefficients and multiple regression coefficients). The analyzed data was presented in frequency tables and graphs

## 4.0 RESEARCH FINDINGS AND DISCUSSION

### 4.1 Annual Trends

#### 4.1.1 Trend of Return on Equity

The trend analysis represented in Figure 4.1 shows that the return of equity on all Sacco's was 0.3. The score increased to 0.402 in year 2013 but decrease to 0.034 in year 2014. The score decreased further to -0.226 in the year 2015 and further increased to 0.014 in the year 2016. The finding indicate that there was inconsistent increase in return on equity across the years. This further implies that several factors could have contributed to the change of return on equity.

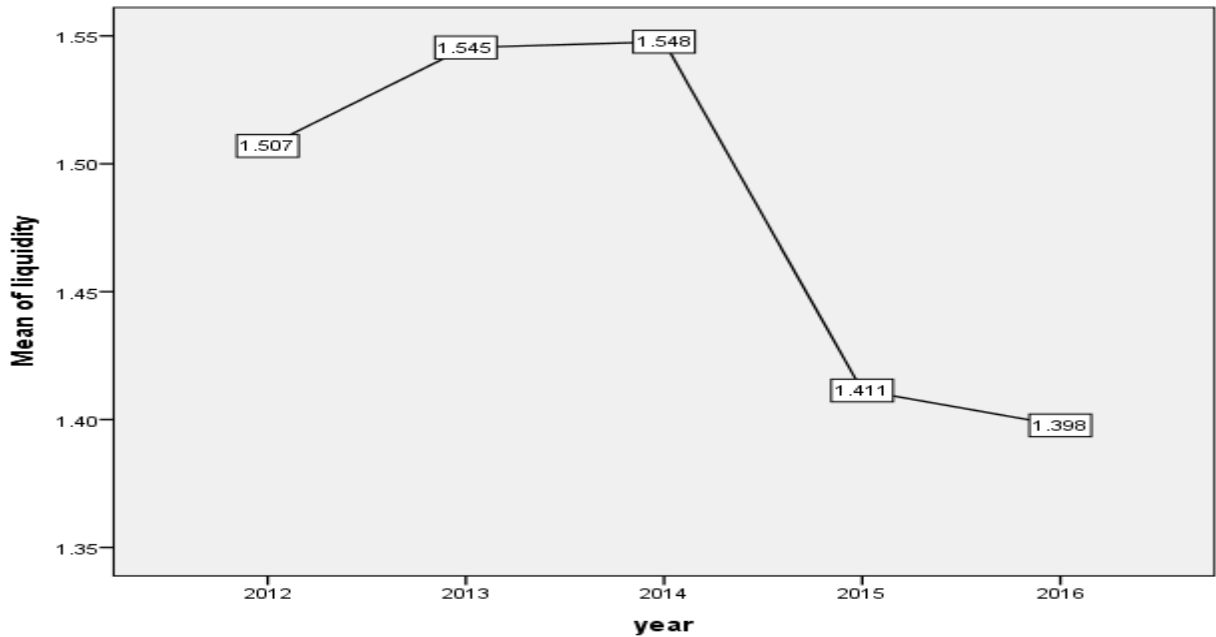


**Figure 1: Return on Equity**

#### 4.1.2 Trend on Liquidity

The trend analysis represented in Figure 2 shows that the liquidity on all Sacco's was 1.507. The score increased to 1.545 in year 2013 and slightly increased to 1.548 in year 2014. The score decreased further to 1.411 in the year 2015 and further decreased to 1.398 in the year 2016. The finding indicate that there was inconsistent increase in liquidity across the years. This further implies that liquidity may have contributed to the change of return on equity.

The findings agree with those in Abdi (2016) conducted a study on the effect of liquidity management on financial performance of commercial banks in Mogadishu, Somalia. Who noted that liquidity management drivers individually had a positive influence on the financial performance of commercial banks in Mogadishu-Somalia. The overall results indicated that there was a significant linear relationship between account receivable management, account payable and cash management on financial performance of commercial banks in Mogadishu.

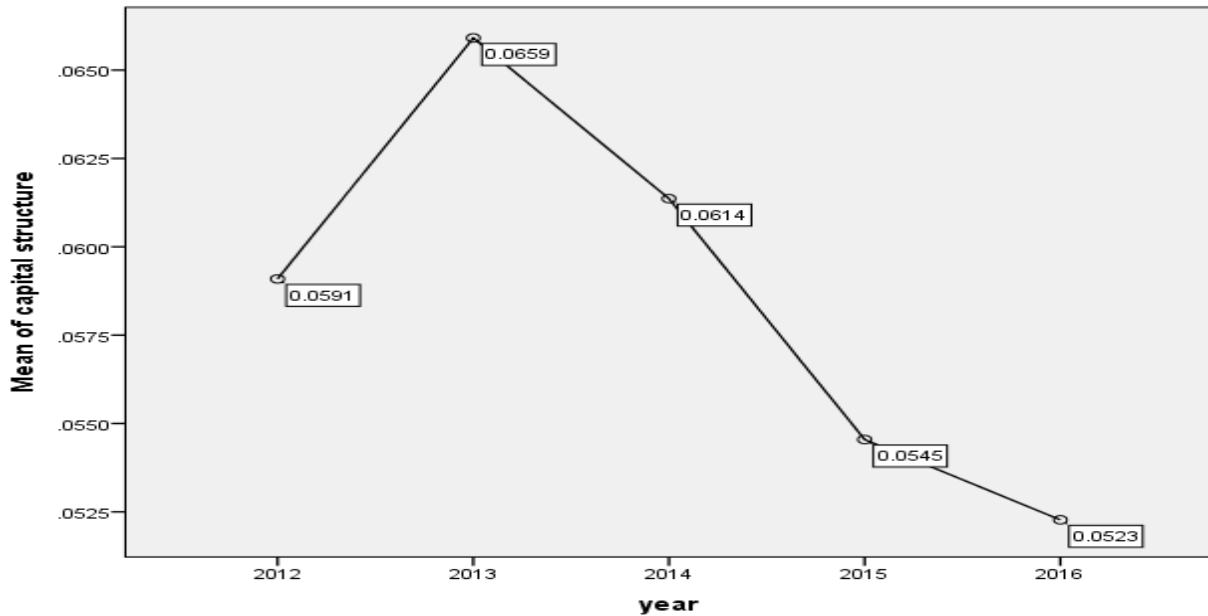


**Figure 2: Liquidity**

**4.1.3 Trend on Capital Structure**

The trend analysis represented in Figure 3 shows that the capital structure on all Sacco’s was 0.0591. The score increased to 0.0659 in year 2013. The score decreased to 0.0614 in year 2014, decreased further to 0.0545 in the year 2015 and further decreased to 0.0523 in the year 2016. The finding indicate that there was inconsistent increase in capital structure across the years. This further implies that capital structure may have contributed to the change of return on equity. The findings are in support with those of Oginda (2013) who conducted a study on effect of capital structure on financial performance of firms listed at the Nairobi securities exchange and found that the higher the debt ratio, the less the return on equity which therefore supports the need to increase more capital injection rather than borrowing, as the benefits of debt financing are less than its cost of funding.

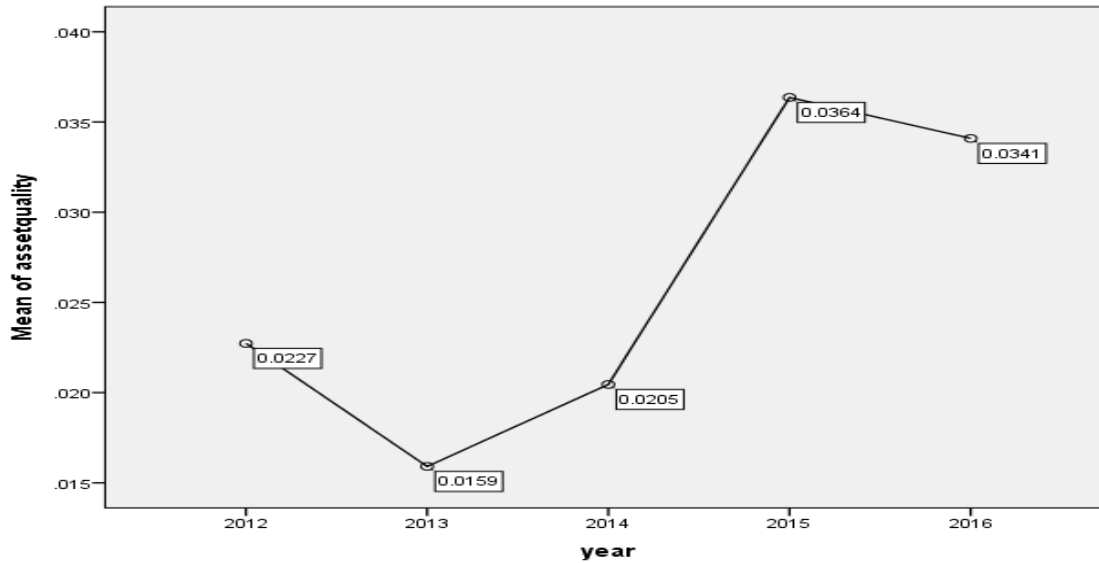




**Figure 3: Capital Structure**

#### **4.1.4 Trend on Assets Quality**

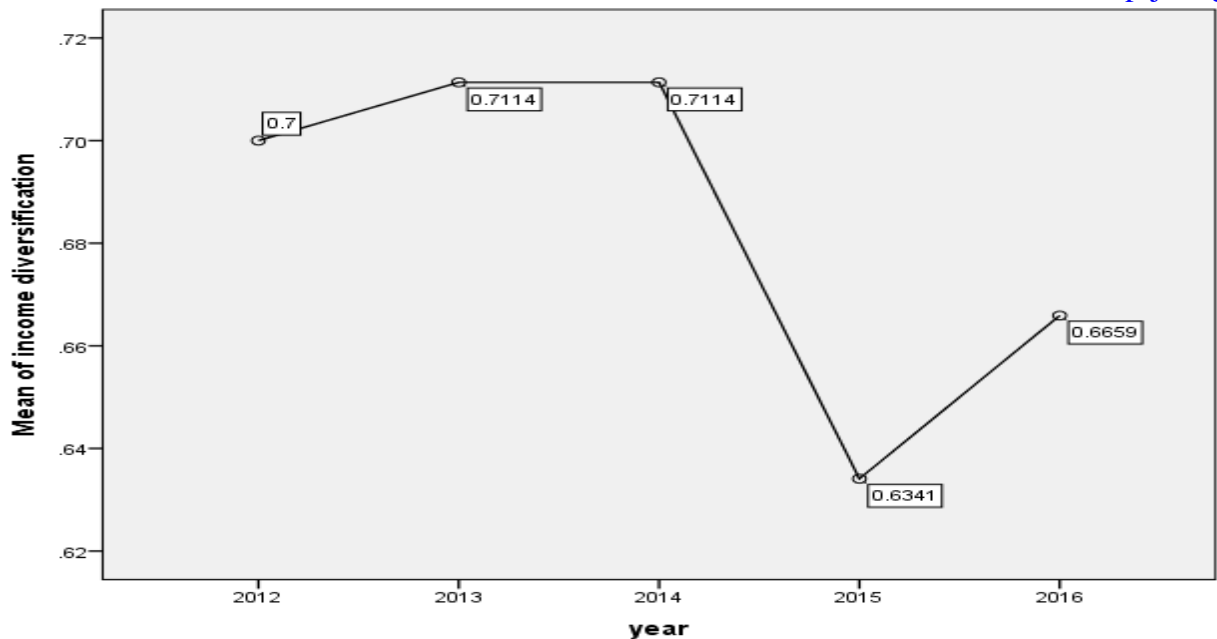
The trend analysis represented in Figure 4 shows that the assets quality on all Sacco's was 0.0227. The score decreased to 0.00159 in year 2013. The score increased to 0.0205 in year 2014, increased further to 0.0384 in the year 2015 but further decreased to 0.0341 in the year 2016. The finding indicate that there was inconsistent increase in assets quality across the years. This further implies that assets quality may have contributed to the change of return on equity. The findings agree with those of Nzioka (2015) whose analysis showed that all the asset quality factors had a fairly statistical significant impact on financial performance. This was due to the fact that assets quality cannot solely determine the financial performance of commercial banks, unless other factors such as capital adequacy, management efficiency, earnings performance and liquidity are considered. The relationship between asset quality and financial performance was confirmed to be negative.



**Figure 4: Assets Quality**

#### **4.1.5 Trend on Income Diversification**

The trend analysis represented in Figure 5 shows that the income diversification on all Sacco's was 0.7. The score decreased to 0.7114 in year 2013 and remained constant at 0.7114 in year 2014, but significantly decreased to 0.6341 in the year 2015 and slightly increased to 0.6659 in the year 2016. The findings indicate that there was inconsistent increase in income diversification across the years. This further implies that income diversification may have contributed to the change of return on equity. The findings agree with those of Ismail, Hanif, Choudhary and Ahmad (2015) who conducted a study on income-diversification in banking sector of Pakistan and the results shown positive impact of income diversification on performance of banks in Pakistan. The findings of the study are important for bankers to understand how income diversification affects the performance of banks

**Figure 5: Income diversification**

## 4.2 Inferential Statistics

### 4.2.1 Correlation Analysis

The Table 1 presents the results of the correlation analysis. The results show that liquidity and return on equity are positively and significant related ( $r=0.141$ ,  $p=0.037$ ). The results further indicates that capital structure and return on equity are positively and significant related ( $r=0.316$ ,  $p=0.000$ ). It was further established that assets quality is negatively and significantly related to return on equity ( $r=-0.315$ ,  $p=0.000$ ). Similarly, results showed that income diversification was positively and significantly related to return on equity ( $r=0.266$ ,  $p=0.000$ ).

The findings imply that rise in liquidity had a positive effect on return on equity. The findings agree with those in Ongore & Kusa (2013) who noted that liquidity is a key concern for financial institution and a short fall in liquidity would result into institution failure. The most common financial ratios that reflect the liquidity position of an institution are customer deposit to total asset and total loan to customer deposits and cash to deposit ratio

The findings imply that rise in capital structure had a positive effect on return on equity. The findings agree with those of Uremadu and Efobi (2012) who established the significance of capital structure to corporate financial stability, growth and adequate returns cannot overlook financial performance. Max (2012), states that consistent share account members savings comprises of the largest part of a credit union's funding.

The findings imply that rise in assets quality had a negatively effect on return on equity. The findings are consistent with those of Mwangi (2012) who asserted that the survival of financial institutions is typically at risk when their assets become worn out, so it is vital to monitor

indicators of the quality of their assets in terms of extreme exposure to specific risks trends in nonperforming loans and the health and financial performance of borrowers.

The findings imply that rise in income diversification had a positive effect on return on equity. The findings are supported by those of Sanya and Wolfe (2011) who conducted a study on study on income diversification, financial performance as well as risk found that income diversification is beneficial to financial institutions in upcoming economies.

**Table 1: Correlation Matrix**

Variable		ROE	liquidity	capital structure	Asset quality	income diversification
ROE	Pearson Correlation	1				
	Sig. (2-tailed)					
Liquidity	Pearson Correlation	0.141	1			
	Sig. (2-tailed)	0.037				
capital structure	Pearson Correlation	0.316	0.12	1		
	Sig. (2-tailed)	0.000	0.045			
Asset quality	Pearson Correlation	-0.315	-0.126	-0.704	1	
	Sig. (2-tailed)	0.000	0.063	0.000		
income diversification	Pearson Correlation	0.266	0.132	0.706	-0.722	1
	Sig. (2-tailed)	0.000	0.052	0.000	0.000	

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

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

## 4.2.2 Diagnostic Test

### 4.2.2.1 Skewness and kurtosis normality test

The results indicate that liquidity was positively skewed at 1.972, capital structure was negatively skewed at -0.353, assets quality was positively skewed at 1.107 while income diversification was negatively skewed at 1.08 and return on assets was negatively skewed at -6.332. The results implies that the variables (liquidity, capital structure, assets quality, income diversification) were normally distributed since the skewness statistics was within the threshold on -2 and +2. However return on equity was not normally distributed as it highly negatively skewed with the skewness of -6.332. This implies that some Sacco's had below average performance.

**Table 2: Skewness and kurtosis normality test**

Variables	Statistic	Skewness		Kurtosis	
		Statistic	Std. Error	Statistic	Std. Error
Liquidity	219	1.972	0.164	3.087	0.327
capital structure	220	-0.353	0.164	-1.893	0.327
Asset quality	220	1.107	0.164	-0.781	0.327
income diversification	220	-1.08	0.164	0.163	0.327
ROE	220	-6.332	0.164	49.772	0.327

#### 4.2.2.2 Multicollinearity

According to William *et al.* (2013), multicollinearity refers to the presence of correlations between the predictor variables. Multicollinearity inflates the standard errors and confidence intervals leading to unstable estimates of the coefficients for individual predictors. Multicollinearity was assessed in this study using the variance inflation factors (VIF).

The results in Table 3 indicates that liquidity had an inflation factor of 1.019. capital structure had 2.35, assets quality had 2.45 while income diversification had 2.468 which were less than 10 and thus according to Field (2009) there is no Multicollinearity. According to Field (2009) VIF values in excess of 10 is an indication of the presence of Multicollinearity.

**Table 3: Multicollinearity**

Variable	1/VIF	VIF
Liquidity	0.981	1.019
Capital Structure	0.425	2.35
Asset Quality	0.408	2.45
Income Diversification	0.405	2.468

#### 4.2.3 Regression Analysis

##### Model Fitness

The results presented in Table 4 present the fitness of model used of the regression model in explaining the study phenomena. Liquidity, capital share, assets quality and income diversification were found to be satisfactory variables in explaining return on equity. This is supported by coefficient of determination also known as the R square of 0.835 which means 83.5%. This means that Liquidity, capital share, assets quality and income diversification explain 83.5% of the variations in the dependent variable which is return on equity. This results further means that the model applied to link the relationship of the variables was satisfactory. This also implied that 16.5% of the variation in the independent variable are unexplained and can be attributed to other factors not captured in the model.



**Table 4: Model Fitness**

Indicator	Coefficient
R	0.914
R Square	0.835

**Analysis of Variance**

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant.

Table 5 provides the results on the analysis of the variance (ANOVA). The results indicate that the overall model was statistically significant. Further, the results imply that the independent variables are good predictors of return on equity. This was supported by an F statistic of 146.277 and the reported p value (0.000) which was less than the conventional probability of 0.05 significance level.

**Table 5: Analysis of Variance**

Indicator	Sum of Squares	Df	Mean Square	F	Sig.
Regression	93.662	4	23.416	146.277	0.000
Residual	18.569	116	0.16		
Total	112.231	120			

**Regression of Coefficients**

Results in Table 6 shows that liquidity and return on equity are positively and significantly related ( $\beta=0.530$ ,  $p=0.000$ ). This implies that an increase in the use of liquidity by one unit would result to an increase in return on equity by 0.530 units. The table further indicates that capital share is positively and significantly related ( $\beta=0.154$ ,  $p=0.020$ ). This implies that an increase in capital share by one unit would result to an increase in return on equity by 0.154 units. It was further established that assets quality was negatively and significantly related ( $\beta = -0.329$ ,  $p=0.004$ ). This implies that an increase in assets quality by one unit would result to an increase return on equity by 0.329 units. Further, results in table 4.6 show that income diversification had a positive and significant relationship with return on equity ( $\beta = 1.573$ ,  $p=0.000$ ). This implies that an increase in the income diversification by one unit would result to an increase in return on equity by 1.573 units.

**Table 6: Regression of Coefficients**

Variable	B	Std. Error	T	Sig.
(Constant)	6.913	0.456	15.174	0.000
Liquidity	0.530	0.099	5.381	0.000
Capital structure	0.154	0.06	2.566	0.020
Assets quality	-0.329	0.111	2.978	0.004
Income diversification	1.573	0.131	11.997	0.000

Thus, the optimal model for the study is;

$$\text{Return on Equity} = 6.913 + 0.530\text{Liquidity} + 0.154\text{Capital structure} + -0.329\text{Assets quality} + 1.573\text{Income diversification}$$

The findings concur with those of Kariuki (2005) who asserted that there are several measures of financial performance and in traditional management studies, ratios are used which are categorised according to profitability, liquidity, leverage, capital structure, assets quality and income diversification. Financial performance will be measured by Return on Equity which is a financial ratio that refers to how much profit a company earned compared to the total amount of shareholder equity invested.

## 5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Summary of Findings

The study found that financing option for real estate development in Mombasa county, Kenya is the use of commercial banks loans, mortgages and partnership. Changes in interest rates have effect on the development of real estate development. The taxation too has influence on the development of real estate in Mombasa County, Kenya. The study established that labour costs have a significant influence on the development of real estate in Mombasa County

### 5.2 Conclusion

The study concluded that liquidity is a contributor financial performance. However, it is important for a firm to understand the effect of liquidity components on the firm's financial performance and also undertake deliberate measures to optimize its liquidity level. The study concluded that there was an inverse relationship between capital structure and financial performance. The findings indicate that the higher the debt ratio, the less the return on equity which therefore supports the need to increase more capital injection rather than borrowing, as the benefits of debt financing are less than its cost of funding. The study also concluded that due to the fact that assets quality cannot solely determine the financial performance of commercial banks, unless other factors such as capital adequacy, management efficiency, earnings performance and liquidity are considered. The relationship between asset quality and financial performance was confirmed to be negative and also the study concluded that without diversification of income sources by SACCOs in Kakamega County most of them would have struggled with their objective of maximizing profit.

### 5.3 Recommendations.

The study recommends that all SACCO's managers should be trained on the deployment of efficient systems to strengthen liquidity risk control fundamentals. Also SACCO's should also consider seeking professional guidance towards adopting policies on asset and liability management.

The study recommends that SACCOS should capitalize on efficient mobilization of members' savings and borrow less, unless they get cheap sources of external funds such as soft loans. These institutions are encouraged to use a greater portion of their funds for lending purposes instead of engaging themselves in other types of business. In addition to that, they should focus on best corporate governance practices so that they will not experience poor performance as they grow. This will make them sustainable operationally and financially.

It is recommended that the Saccos should improve their investment assets levels and improve assets quality by reducing the rate of nonperforming loans through credit risk identification, measurement, monitoring and controlling. Members should invest in assets to boost financial performance of SACCOS. Shareholders should not rely only on savings but also in assets. Portfolios with high returns should be incorporated.

The study recommends that CBK should offer environment where the SACCO operations are not interfered with so as to attain diversification of income sources. Saccos should invest on other assets such as building that they would use as their premises and lease out the rest to gain an income. Further the study recommends that the Saccos also invests in assets that they could sell at a profit to boost their income.

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