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Abstract

This study investigated the effect of financial management practices on profitability of DT Saccos in Nyeri County, Kenya. The study specifically investigated the effects of credit risk management practices, working capital management practices, capital budgeting practices and cash management practices on profitability of DT SACCOS in Nyeri County, Kenya. The research was anchored on liquidity preference theory, financial intermediation theory and the modern portfolio theory. This study adopted an exploratory research design to identify the cause and effect relationship between credit risk management practices, working capital management practices, capital budgeting practices and cash management practices on profitability of DT SACCOS in Nyeri County, Kenya. The study targeted Eight (8) DT Saccos operating within Nyeri County, Kenya as per SASRA (2022). Secondary data was drawn from the company's profit after tax, total assets, total delinquency loans, share capital and liquidity ratio for the years 2018 to 2022. Data collected was analysed and interpreted using descriptive and inferential analysis and presented in Tables. The study established that the practices of financial management practices significantly and positively impact the profitability of deposit-taking SACCOS in Nyeri County, Kenya. Regression analysis of the findings indicated that SACCOS have a latent degree of profitability despite maintaining practices in financial management. The study recommends that SACCOS strengthen credit risk management through data-driven appraisal, digital monitoring, and effective recovery to reduce defaults. It emphasizes that SACCOS should prioritize equity financing, boost member contributions and reserves and adopt robust cash management systems to enhance long-term sustainability and profitability.

Key Words: *Financial Management, Credit Risk Management, Working Capital Management, Capital Budgeting Management, Cash Management*

1.1 Background to the Study

Effective financial management is the foundation upon which successful SACCOS operate. It is the means by which they can sustainably profit through proper use of member's deposits, loans,

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and cash flows. Additionally, good liquidity management will reduce the financial risks and increase the resilience of the SACCO and allow them to continually serve the needs of their members. Thus, good financial management practices contribute to not only better financial results and greater financial stability, but also to managing risk.

Financial management is a very important function within a SACCO as it determines the structure and policy of a SACCO concerning financial control, budgeting and financial reporting (Brock, 2015). A sound financial plan provides an outline of projected cash inflows and outflows and will guide the Treasury Operations of the SACCO to ensure that resources are being allocated optimally. Wolmarans and Meintjes (2020) define financial management practices as standardised processes comprising accounting, budgeting, reporting and other financial functions. Gitman (2017) describes five areas of financial management: Working Capital Management, Capital Budgeting, Credit Risk Management, and Cash Management. Financial management is a key factor in how well SACCO's operate (Alnajjar, 2016). SACCO leaders should work to develop an overall financial strategy that will lead to greater profits, stimulate growth and contribute to the long term viability of SACCO. The success of these types of strategies can be evidenced through international examples. Deposit taking SACCO's in Nepal, India, and Bangladesh have provided additional financial services to lower income families who were not able to participate in formal banking systems. Likewise SACCO's in Latin American countries have contributed to the cause of financial inclusion; SACCO's provide banking services to rural and disadvantaged communities which is where the majority of the traditional banks have their presence in urban areas (Bretos & Marcuello, 2017).

The growth of SACCO's in Africa was made possible due to the establishment of a legal and regulatory framework after independence. In countries such as Ethiopia, Tanzania, Uganda and Rwanda, there has been a substantial increase in SACCO membership and assets, with Tanzania having the largest number of registered deposit taking SACCO's followed by Kenya, Uganda and Rwanda (Sporta & Nehemiah, 2021). This type of organization provides access to financial resources for many small to medium sized enterprises and rural communities.

SACCO's in South Africa are experiencing better financial management leading to increased profitability (Dzingai & Fakoya, 2017) however; challenges related to loan defaults, lack of good

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governance, regulatory issues and fraudulent activity are affecting the performance of many SACCO's across Africa, including those in Nigeria and Ghana (Lakshmi & Visalakshmi, 2015). In Kenya deposit taking SACCO's have experienced a great deal of growth since the regulation of these institutions became more stringent and now play a larger role in developing the country economically (Wanyama, 2016).

The financial performance of deposit-taking savings and credit cooperative societies (DT-SACCOs) is usually measured through their profitability, or the excess of revenues above expenses as recorded in the Income Statement. Profits represent an absolute amount whereas profitability represents a comparative measure of the efficiency with which an organisation utilises resources to produce returns (Downs, 2017). Hence, profitability illustrates a company's capability to generate returns from investment utilizing available assets (Downs, 2017). More generally, financial performance illustrates how well an organisation achieves its commercial goals in quantifiable financial terms (Hoskin, Fizzell, & Cherry, 2014) and can be evaluated using financial ratios such as profitability, efficiency and liquidity ratios (Henderson et al., 2015).

Profitability measures how efficiently an organisation converts sales into profit in excess of operational expenditures (Downs, 2017). Profitability ratios show a company's ability to generate returns compared to revenue, costs, assets and equity and thus show if owners gain value. These ratios are usually categorised into sales-based and investment-based measures (Hoskin et al., 2014). Sales-based ratios (e.g. Gross Profit Margin, Net Profit Margin) evaluate how efficiently sales are converted into profit, whilst investment-based ratios (e.g. Return on Assets, Return on Equity) show the returns generated from assets and equity.

Return on Assets (ROA) measures how well a SACCO utilizes its assets to generate profit after all expenses and liabilities have been accounted for (Brigham et al., 2016). Return on Equity (ROE) is used to measure how well a SACCO utilizes members' money to produce a return on that investment (Hoskin et al., 2014). Operating Margin shows a company's net income relative to its operating income, before depreciation and interest. These three metrics (ROA, CIR, and OE/TA) provide a broad picture of the performance of a SACCO through measuring their ability to be profitable, efficiently operate, and manage their assets effectively.

SACCOs are an important part of the financial inclusion and local economic development processes within Nyeri County, Kenya. They act as intermediaries to assist their members in collecting deposits and providing them with loans. The long-term success of SACCOs relies heavily upon the way that their finances are managed. Profitability is a key factor in determining the financial health of a SACCO (Buluma et al., 2017). Member-owned and governed, democratically structured SACCOs offer a unique opportunity for communities to develop and grow financially. Deposit-Taking SACCOs (DT-SACCOs) are regulated by SASRA (Masika & Simiyu, 2019). DT-SACCOs however are experiencing many challenges including; regulatory change, technology advancements, changing customer expectations and increased competition from commercial banks. This highlights the importance of efficient financial management and resource allocation for SACCOs to remain competitive (Chong et al., 2016; Choudhary et al., 2019).

1.2 Statement of the Problem

DT SACCOs in Kenya have experienced a decline in their operating expenses to total assets ratio and an increase in cost to income ratio volatility between 2018 and 2022, while the operating expense to total assets ratio improved marginally from 4.62 percent in 2018 to 4.75 percent in 2019, it decreased to 4.50 percent in 2020 and then to 4.66 percent and 4.82 percent in 2021 and 2022, respectively. (SASRA, 2022). The increasing operating expense to total assets ratio shows that there is no operational efficiency in managing costs against the assets and thus lowering profitability.

In addition, the cost-to-income ratio posted an increasing trend for 3 years 2020, 2021 and 2022. In 2020, cost-to-income ratio was to 56.72%, in year 2021 was 60.42% and in year 2022 recorded 61.50% (SASRA, 2022). This indicates that Saccos are not enhancing their management of operational expenses when generating income and hence lowering profitability. Traditionally, a cost-to-income ratio of around 50-60% is often acceptable. This means that for every shilling of income generated, the Sacco spends between 50 to 60 cents on operational costs. The majority of deposit-accepting Saccos Employ high-risk strategies that are susceptible to liquidity issues. Saccos operates without efficient accounting and control systems, jeopardizing billions of depositors' cash due to the pervasive inability to monitor or disclose loan defaults, which ultimately exposes them to systemic risk and collapse.

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Research on financial management and financial performance are scarce. Njeri (2018) examined the association between liquidity and the performance of DT- microfinance institutions. The research reveals a conceptual gap, as it focused on MFIs as opposed to Saccos, which are two separate entities. Olando and Mbewa (2019) examined the factors influencing growth among Saccos in Meru County. The study exhibits a contextual gap due to its geographical limitation to Meru County and a conceptual gap as the researcher focused on growth factors instead of profitability determinants. Other studies on deposit-taking Saccos included Ouko and Atheru (2022); Njagi (2020); Langat and Wainaina (2019); Wangechi and Irung'u (2023) & Opuko and Musiega (2022) were also found to contain geographical gaps since they were conducted in other counties in Kenya aside from Nyeri County which is the area of focus in this study.

The analysis of the current literature shows conceptual, contextual, and methodological inadequacies. Consequently, this indicates a necessity for more research on financial management approaches and the profitability of DT Saccos in Nyeri County. These Saccos in Nyeri continue to report declines in their reported profitability. This research sought to assess the effect of capital budgeting practices on profitability of DT Saccos in Nyeri County, Kenya.

1.3 Specific Objectives

- i. To determine the effect of credit risk management practices on profitability of DT savings and credit cooperative societies in Nyeri County, Kenya.
- ii. To establish the effect of working capital management practices on profitability of DT SACCOS in Nyeri County, Kenya.
- iii. To determine the effect of capital budgeting practices on profitability of DT SACCOS in Nyeri County, Kenya.
- iv. To establish the effect of cash management practices on profitability of DT SACCOS in Nyeri County, Kenya.

1.4 Significance of the Study

The established role of deposit-taking SACCOS (DT-SACCOS) in improving access to finance and ultimately contributing to economic development in Kenya creates a large research gap as to what extent the practices governing the way they make their financial decisions (particularly with regard

to capital budgeting) affect their profitability. A substantial number of prior studies have looked at microfinance institutions or non-deposit-taking SACCOs; however, due to the differences in regulation and operation of DT-SACCOs versus the two aforementioned types of SACCOs, it has left an operational gap in DT-SACCOs. Prior literature has provided evidence for the importance of growth, liquidity, and governance for SACCOs; however, very little literature has investigated capital budgeting as an important factor in determining investment success and future profitability of DT-SACCOs. Furthermore, this study will fill a regional-based research gap in the context of Nyeri County, one of the few counties in Kenya whose SACCOs are experiencing decreasing profitability. In addition, this study will use multiple measures of performance (ROA, CIR, and OE/TA) to assess SACCO profitability and sustainability in a manner that provides a comprehensive understanding of the relationships between profitability, financial inclusion, member value, and SACCO stability. From a policy perspective, the decline in profitability among DT-SACCOs indicates inefficiencies in both cost management and asset utilization. Thus, the findings of this study will offer policy makers at SASRA, the Ministry of Cooperatives, and county governments with evidence to support the improvement of capital budgeting, governance and overall stability among SACCOs.

1.5 Theoretical Review

This research was anchored on three theories namely; the theory of liquidity preference, the financial intermediation theory, and the modern portfolio hypotheses.

1.5.1 Liquidity Preference Theory

John Maynard Keynes, 1936, put forward the liquidity preference hypothesis, which states that people like money to be in liquid forms because of risk. Liquidity disposition is actual need to have currency. Businesses and people loan currency; they do away with a chunk of it aimed at a specific period up to when the loan is repaid. Businesses and people also experience a number of difficulties and do not want to leave with their money until this issue is compensated. The reward that drives people to separate with their money is interest. Keynes said that government policies, supply, and demand define interest.

The theory asserts that investors ask for high interest rates on long-term assets. This because they are adequately exposed to high risks in making such investments. This concept is clarified by the

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liquidity preference for cash, as well as alternative liquid assets, assuming everything else is held constant. Consequently, more liquid investments are easily and swiftly sold at their full value in the market. Theory of liquidity preference argues about short-term assets yield deduce interest rate. This is because investors' sacrifice less liquidity when compared with the kind of liquidity which the investors have to give up to invest in long-run or medium run securities. This theory is helpful to the study because it motivates SACCOs to prefer holding some assets. Customers normally stay away from Saccos with a lot of liquidity risks, instead; they prefer to build up their cash in Saccos that are available and accessible. Because of this reason, when Saccos are more liquid, they perform better and generate more profits. Nikolaou (2016) confirmed that liquidity has an effect on the performances of Saccos. He argues that "investors seek more and more liquidity when making investment decisions".

1.5.2 Financial Intermediation Theory

This theory evolved in 1983 from Douglas Diamond, Philip Dybvig. The authors developed a theoretical framework to illustrate how financial institutions can create liquidity as well as manage risk in order to transform short-term deposits into long-term loans. Research conducted by the authors has demonstrated the significant role of financial institutions in preventing bank runs. The model was further developed, or improved in 2004 by Franklin Allen, Douglas Gale. The authors further developed their model to include financial market imperfections and focus on the function of financial institutions in addressing problems like asymmetric information and complete markets as stated by Franklin & Douglas (2004). Research by the authors provided evidence of how efficiency may be enhanced via the creation of liquidity, risk management, and investment using SACCOs and banks.

Theory of Financial Intermediation explains how financial institutions (i.e., SACCOs) act as intermediaries in efficiently allocating funds among the gap between savers and borrowers. Theory of Financial Intermediation explains the importance of financial intermediaries in decreasing transaction costs and risk, and enhancing the liquidity of the economy. SACCOs serve as financial intermediary's which collect member deposits and distribute those deposits at competitive interest rates. Optimal financial management practices enable SACCOs to strike the right balance between their collection of deposits and their lending activities; thereby preventing liquidity problems as well as developing sustainable levels of profit. Optimal financial management also allows

SACCOs to maintain reserve liquidity, evaluate the creditworthiness of every Loan Member, and diversify their lending. The end result is that SACCOs are able to optimize the quality and quantity of the loans they originate and the level of profit generated from these loans. Ultimately, the application of optimal financial management practices enables SACCOs to strategically reinvest into optimal financial products and services; which reinforces member confidence and supports long-term growth and sustainability. Therefore, Financial Intermediation Theory demonstrates the critical role of SACCOs in mobilizing resources, increasing access to loans and credits, and achieving maximum profits through prudent financial management.

Credit Risk Management Credit Risk Management is a fundamental component of the financial intermediary function of SACCOs. A key objective of SACCOs is to manage credit risk so as to ensure that losses due to loan defaults do not negatively impact the overall financial health of the SACCO. In order to effectively manage credit risk, SACCOs must implement appropriate policies and procedures that ensure the timely and accurate evaluation of the creditworthiness of prospective borrowers, as well as the ongoing monitoring of existing loan Members. These evaluations should be based on clear criteria such as the borrower's income, employment history, loan repayment history, and other relevant factors. In addition to implementing proper credit evaluation and monitoring systems, SACCOs must also establish adequate provisions for bad debt loss in their financial statements. This provision will help to protect the financial health of the SACCO in the event of loan defaults. Effective Credit Risk Management enables SACCOs to minimize losses resulting from loan defaults and to provide loans at competitive rates with reduced risk. It is therefore essential that SACCOs invest sufficient time and effort into managing their credit risk effectively.

1.5.3 Modern Portfolio Theory

This theory generally known as MPT was developed by Harry Markowitz in 1952. This hypothesis states that “Investors build portfolios that will provide optimal investment returns. Such portfolios factor in risks of investment, which implies that risks are higher; hence they need higher rewards” (Markowitz, 2012). Based on the concept, financiers should focus on maximizing gains after a particular investment portfolio in a particular percentage of risk or restrain risk after a particular choice while still experiencing expected gains on or after they have contributed their funds. Investing in one investment is more risky compared to a diversified portfolio (Elton, Gruber,

Brown & Goetzmann, 2016). This hypothesis shows that the goal of an investor is to diversify investment in order to reduce risks.

This theory can be applied to the research, as it handles the issues of investment and finance, emphasizing risks and returns as vital challenges in these fields. Modern Portfolio Theory (MPT) is commonly used for investment and business decision-making. This assists investors and business players in determining risks and returns before reaching a decision. This theory was important for justifying the independent variables of the research.

2.0 Literature Review

Shubita & Alsawalhah (2018) focused on the manner in which industrial listed companies within the Amman Stock Exchange managed their capital structure over a six-year time span beginning in the year 2004 through 2009. The conclusions reached at the end of this study clearly demonstrated a statistically significant negative relationship between the use of debt and corporate profitability; therefore it can be inferred that companies are far more likely to utilize equity based financing methods in comparison to debt financing due to success of companies. Using statistical techniques that included correlation analysis and multiple regression to a hypothetical population consisting of thirty-nine companies, the findings of the study presented evidence contrary to the Pecking Order Theory of Myers & Majluf (1984), who suggested that because of informational asymmetry, companies would prefer to finance via debt when compared to equity financing.

Yusuf et al., studied the relationship between capital structure and the profitability of companies traded on the Nigerian Stock Exchange. Data were collected from ten companies selected randomly across three different industries over the seven-year period of 2007-2016. In the analysis, performance was measured by ROA and ROE and capital structure by the debt-to-equity ratio (DER) and the debt-to-asset ratio (DAR). The results of the correlation and regression analysis showed that the impact of capital structure on ROA was insignificant in most of the firms though there were exceptions of 7up and Nestle. In a similar vein, ROE and DAR were insignificant. Nevertheless, there was a strong correlation between ROE and debt-to-equity ratio of almost all companies that resulted in the conclusion that more leveraged organizations are more likely to be highly profitable.

Muathe et al. (2018) examined the link between practices of the capital budgeting process and performance of non-financial companies in Kenya because of the adoption of the Nairobi Securities Exchange by Muathe, et al. This study used an explanatory, non-experimental type of research design since it was a census, which was conducted to investigate all of the 42 companies that were non-financial. The secondary data was collected in terms of annual reports and financial statements of companies between 2006 and 2012. From analysis conducted with assistance by a Feasible Generalized Least Squares regression model, it was indicated that financial leverage had a negative influence and was statistically significant regarding both ROA and ROE. Thus, a recommendation was made that managers of companies ought to minimize dependence on long-term debts for funding.

The article by Siro 2017 assessed the impacts of capital budgeting practices on financial performance of listed companies at the Nairobi Securities Exchange. ROE was used as a proxy of financial performance while debt ratio was used as proxy of capital structure. The target population of this study involved all the 61 firms listed in the Capital Markets Authority in Kenya in 2012. Regression analysis was undertaken after secondary data collection in exchange handbooks and company publications. The results indicated that the degree of debt and the financial performance of the listed firms are inversely correlated.

Orua, 2019 conducted a study to ascertain the relationship between capital budgeting practices and profitability of MFIs in Kenya. The survey study based on descriptive statistics established that capital structure choices play a critical role in driving returns maximization and coping with competitive forces. It is indicated that most Kenyan MFIs were more likely to use equity and donations to fund their operations at 72.42 percent, and only 27.58 percent was used through debt. The analysis also came up with a positive relationship between equity financing and MFI profitability.

Maina (2018) conducted a study using small and medium enterprises (SMEs) in the dairy industry located in Kiambu County to examine the effect of capital structure management on financial performance. The researcher applied a causal research design and chose a sample of 50 out of 71 dairy SMEs using a probability sampling method. The source of information was annual reports and newsletters. The information was analyzed using multivariate regression and correlation analysis. This was based on capital structure variables of debt to equity ratio, debt to asset ratio,

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and liquidity ratios. The results indicated that all the variables were equally good determinants of financial performance in the 5 percent significance level.

3.0 Research Methodology

This study adopted an exploratory research design to identify the cause and effect relationship between credit risk management practices, working capital management practices, capital budgeting practices and cash management practices on profitability of DT SACCOs in Nyeri County, Kenya. The study targeted Eight (8) DT Saccos operating within Nyeri County, Kenya as per SASRA (2022). The researcher used secondary data collection sheet to provide information to respondents that helps gather the needed responses about the experimental data to fulfil research goals (Crowther & Lancaster, 2012).

The researcher tested whether the study instrument was reliable and valid before data collection. Study data was validated, pre-testing took place and expert opinion was used. As for the reliability of the study tool, a Cronbach's Alpha coefficient was determined. Secondary data checklist was used to check financial and management reports from Nyeri County's deposit-taking Saccos. Financial reports and statements between 2018 and 2022 were used to obtain secondary data. Secondary data was drawn from the company's profit after tax, total assets, total delinquency loans, share capital and liquidity ratio for the years 2018 to 2022.

Findings from the data were evaluated to determine both expressive and inferential outcomes. The descriptive findings were assessed using means and standard deviation. The researcher used the Variance Inflation Factor (VIF) to confirm if multi-collinearity was present and to find out the levels of correlation between study variables. Panel recession model was used to study the way study variables were linked. Panel data which is also called longitudinal data or cross-sectional time series data, includes information on numerous entities at different time points (Picardi & Masick, 2013). The research study utilized P values and F figures to evaluate the general impact of the model of the study. Findings were presented through tables.

To attain the research goals, the study had created model whose design incorporates predictor variables with the profitability of DT SACCOs as the dependent variable. The employed regression equation was:

$$F = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$$

Where:

F= Profitability

X₁= Credit Risk Management Practices

X₂= Working Capital Management Practices

X₃= capital budgeting practices

X₄= Cash Management Practices

ε = Error Term

α = Regression Constant

β = Regression coefficient

T-tests at a 95 percent confidence level was employed to assess constant term β_0 the statistical significance and β_1 -4 the coefficient terms.

4.0 Findings

4.1 Descriptive Analysis

This section presents the descriptive statistics of the study variables, which were computed to summarize their characteristics in terms of minimum, maximum, mean, and standard deviation. The analysis provides an overview of how the variables behaved across the sampled SACCOs during the study period. Each of the variables in this study was measured using an established ratio (financial) for each of the variables. The financial ratio that was used to measure Credit Risk Management Practices was Non-Performing Loans/Total Loans. The financial ratio that was used to measure Capital Budgeting Practices was Debt-to-Equity Ratio. The financial ratio that was used to measure Working Capital Management Practices was Current Ratio. The financial ratio that was used to measure Cash Management Practices was Cash Ratio. The financial ratio that was used to measure Profitability was Cost-to-Income Ratio. The descriptive results are presented in Table 1;

Table 1: Descriptive Statistics

	Obs	Minimum	Maximum	Mean	Std. Deviation
Credit Risk Management Practices	40	.2117	.4907	.3025	2.2113
Working Capital Management Practices	40	1.20	2.7911	2.4518	.1236
capital budgeting practices Practices	40	.3408	.4301	.3717	.39761
Cash Management Practices	40	.1518	.3699	.1991	1.26870
Profitability	40	.4878	.7188	.6212	7.9657

Source: Researcher (2025)

The mean score of credit risk management practices was 0.3025 having minimum and maximum scores of 0.2117 and 0.4907 respectively with a standard deviation of 2.2113 being relatively high. These findings indicate that credit risk management is a serious practice among SACCOs, but its usage is highly diverse among different institutions. This difference can be explained by the difference in the loan appraisal systems, monitoring systems, and loan recovery policies. Such inconsistency might subject some SACCOs to increased default rates which would jeopardize their profitability. The results can be clarified by the findings of Bwoma et al. (2017) who observed that the proper management of loan portfolio and the adequate assessment of risk contribute to the increase of financial stability and returns in SACCOs. As such, despite the awareness of SACCOs in the Nyeri County on the role of credit risk management, the lack of consistency in its application is a major issue impacting financial performance.

The highest mean of 2.4518, lowest value of 1.2000, highest value of 2.7911 and low standard deviation of 0.1236 were reported in working capital management practices. This implies that SACCOs always implement policies involving the management of current assets and liabilities in a bid to ensure the liquidity of its operations. The similarity in the responses indicates that the majority of SACCOs have embraced systematic policies in order to make sure they are able to fulfil the short-term commitments and maximize the use of assets at their disposal. This observation is consistent with Njeru and Tirimba (2022), who have stated that successful working capital management can help SACCOs to operate smoothly, increase liquidity and boost profitability. Therefore, management of working capital can be considered to be a very important

and an ongoing financial management approach that has a direct impact of the financial sustainability of the SACCOs in the Nyeri County.

The mean of the capital budgeting practices was 0.3717, minimum and maximum of 0.3408 and 0.4301 respectively, with the standard deviation of 0.3976 that is moderate. These observations indicate that the SACCOs in the Nyeri County tend to pursue balanced yet prudent strategies in financing both using equity and debt, and use equity-based financing. The mean is relatively low and this could be as a result of the fact that debt financing is less prominent as it could be because of the risks of breaching the repayment obligations and the cost of interest. The finding is in line with Orua (2019), who established that microfinance institutions in Kenya largely depend on the contribution of members on equity in order to mitigate the financial burden on debt. It means that risk aversion is used to make capital structure decisions in SACCOs, and the risk averse strategy contributes to the maintenance of profitability, as well as financial risk reduction.

The cash management practices had a mean score of 0.1991 and a minimum of 0.1518 and a maximum of 0.3699 and a standard deviation of 1.2687, meaning that there was high variability in the way SACCOs manage their liquidity. Although cash management plays a very important role in fulfilling the daily financial requirements, the wide margin indicates that there are other SACCOs that have strong systems and are not struggling with the liquidity flows. Liquidity deficits, late member payment and lack of investment opportunities could be caused by poor cash management thus also impacting negatively on profitability. This result is not novel since Kihara (2020) also pointed out that budgeting, monitoring outflows and inflows, and maintaining sufficient reserve are crucial financial stability practices that rely on cash management. Therefore, the lack of uniformity in implementing practices of cash management is an issue that compromises the ideal financial performance in certain SACCOs.

The Nyeri County, the mean score of 0.6212 on profitability of SACCOs had a minimum of 0.4878 and a maximum of 0.7188 with the highest standard deviation of 7.9657. This finding shows a high variation in level of profitability among the SACCOs being investigated. Although there are those institutions that can maintain higher returns, others have challenges with financial performance, probably as they have varied financial management practices. This high variance indicates that the level of profitability strongly depends on the effectiveness of SACCOs in executing credit risk management, working capital management, and capital budgeting practices

and cash management. The findings of this study are consistent with the finding by Kuya and Oima (2024) who observe that variations in financial management processes account for differences in the profitability levels of SACCOs. The results therefore emphasize the importance of SACCOs implementing a unified and comprehensive approach to financial management so as to enhance and sustain their own profitability in Nyeri County.

4.2 Panel Regression Model

The Random Effects Model (RE) was employed to assess the influence of financial management practices on the profitability of deposit-taking SACCOs in Nyeri County, Kenya. The study established that financial management practices are the backbone of profitability in deposit-taking SACCOs in Nyeri County, with the regression model explaining 84.7% of the variations in profitability ($R^2 = 0.847$). The analysis examined the impact of credit risk management, working capital management, capital budgeting practices, and cash management on profitability.

Table 2: Static Random Effects Panel Regression Model of Financial Management Practices on Profitability of SACCOs

Variable		Coefficient	Std. Error	z-value	p-value
Credit Management	Risk	0.072	0.021	3.43	0.001
Working Management	Capital	0.065	0.024	2.71	0.007
Capital practices	budgeting	0.081	0.028	2.89	0.004
Cash Practices	Management	0.057	0.020	2.85	0.005
Constant		0.915	0.238	3.84	0.000
F(9, 17)		58.34	Probability >F		0.000
Sigma u		0.7254	Wald Chi-Square		597.3
Sigma e		2.461	Prob Chi-Square		0.000
				Within	0.842
Rho		0.2845	R-Square	Between	0.864
				Overall	0.847

Source: Researcher (2025)

The regression model constant was statistically significant ($B = 0.915$, $p = 0.000$) which means that profitability level of SACCOs in the Nyeri County is positive even when the financial management practices, including credit risk management, working capital management, capital budgeting practices, cash management, are held constant. This implies that SACCOs have a latent profitability potential as a result of the contributions of their members, the reserves in their accounts, and institutional capacity even in the absence of the improvement of the particular practices being examined. These results support the Financial Intermediation Theory (Diamond and Dybvig, 1983), which states that even in the event of poor application of management practices, SACCOs can still make returns by performing middlemen duties of aggregation of savings and lending. Such a starting point in the area of profitability gives a base on which good financial management practices can build on performance.

The practices related to credit risk management demonstrated a positively significant impact on profitability (0.072 , $p = 0.001$). This suggests that better screening, loan monitoring and default management help in increasing the financial performance among SACCOs. The findings are in line with those made by Bwoma, Muturi, and Mogwambo (2017), who determined that sufficient credit assessment and recovery of defaults had a significant positive effect on the SACCOs returns on their assets. On the same note, Njenga and Jagongo (2019) noted that the practice of effective credit risk practices in the Kiambu County SACCOs enhanced the liquidity and long-term profitability. These findings indicate that diversification in loan portfolios and reduction of credit risks leads to financial losses and the maximization of member returns by adhering to the principal concepts of the Modern Portfolio Theory (Markowitz, 1952). Therefore, SACCOs with proper credit risk management are in a better place to remain profitable and financially stable.

The positive and significant influence on profitability also introduced the working capital management (0.065 , $p = 0.007$), which proves that the proper management of the current assets and liabilities improves the financial results of SACCOs. This finding is consistent with that of Njeru and Tirimba (2022), who established the fact that effective working capital policies of SACCOs in Mount Kenya continued to have better liquidity and profitability performances. On the same note, Enow and Kamala (2018) found that the effective management of payables among South African SMEs led to improved survival and profitability of businesses. With the need to

maintain adequate liquidity and reduce the idle resources, SACCOs are in a position to fulfill their short term obligations and facilitate lending which consequently enhance the earnings. The findings also attest to the Liquidity Preference Theory (Keynes, 1936) which puts more emphasis on the fact that investors are drawn towards institutions that are well-liquidated. SACCOs that have better working capital bases are thus more appealing to the members and can enjoy better profitability.

Capital budgeting practices had the most significant positive impact on profitability (0.081, $p = 0.004$) indicating that debt-equity financing decisions have a significant role in determining the earnings of SACCOs. These findings are in line with those of Orua (2019), who established that microfinance institutions in Kenya favor equity financing and that this positively influenced the profitability. Similarly, Shubita and Alsawalhah (2018) indicated that a heavy debt dependence had a negative impact on the profitability of firms, which implies that a balanced capital structure using more equity-based financing facilitates the financial sustainability of firms. The latter findings can be discussed in terms of Modern Portfolio Theory (Markowitz, 1952) where the institutions are assumed to maximize returns through the balance between risk and return. The financial risk, interest payments are also minimized by these SACCOs in Nyeri County since such SACCOs depend on the contributions of members more than debt financing thus increasing profitability.

Cash management practices also positively and statistically impacted profitability (0.057, 0.005). This implies that SACCOs that are good at budgeting, tracking inflows and outflows, and having liquidity reserves are better financially. Kihara (2020) and Cherone (2019) have provided the results as they have highlighted the importance of adequate cash management in the stability of the institutions and profitability, and the profitability of the hotel in Nairobi County, respectively. Theoretically, these results can be attributed to the Liquidity Preference Theory (Keynes, 1936) because SACCOs that are able to manage liquidity well can respond better to the demands of members, attract deposits and do profitable investments. Therefore, effective management of cash will provide stability, increase trust among members, and keep the institution profitable.

The results of the regression reveal that every one of the four financial management practices, i.e. credit risk management, working capital management, capital budgeting practices and cash

management are instrumental contributors to profitability in SACCOs. This goes along with the Financial Intermediation Theory (Allen and Gale, 2004) that highlights the importance of financial institutions in risk management, creation of liquidity and requirement of efficiency. The study, combined with the findings, points to the significance of a combination of financial management approaches to long-term development and sustainability of SACCOs in Nyeri County.

5.0 Conclusions

The study established that the practices of financial management practices significantly and positively impact the profitability of deposit-taking SACCOs in Nyeri County, Kenya. Regression analysis of the findings indicated that SACCOs have a latent degree of profitability despite maintaining practices in financial management. The profitability is to a large extent confirmed by member contributions, institutional reserve, and capacity because of its support to SACCOs in their recognition by Financial Intermediation Theory as middle men, capable of producing profitability through their ability to mobilize savings to be able to lend.

Notably, credit risk management was seen to be significant in determining the profitability, taking into consideration the importance of correct loan evaluation, monitoring, and recovery strategies in attaining extremely low levels of defaulting loans and stability. Additionally, significant contribution was seen to be realized through working capital management, which emphasized the aspect of effective management of working assets and liabilities to enhance liquidity, satisfy short-term liabilities, and ultimately increase profits. Additionally, capital structure management was noted to be among the most significant factors influencing profitability and, to some extent, it appears that debt and equity financing decisions are well-balanced and to round off financial instability and risk caused by excessively high interest expenses. Lastly, there was no neglect in managing cash flows, which indicated that SACCOs that effectively budget, track, and are in control of their cash inflows and outflows, including their liquidity reserves, usually experience better financial performances.

In general, the findings of the study showed that credit risk management, working capital management, capital budgeting practices, and cash management together provide a good foundation for the profitability and sustainability of SACCOs in the long run. This has made it clear that there should be a standard financial management approach implemented in order for risk management and financing of SACCOs to achieve growth in the long run.

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