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Anastasia Mutunga, Susan Wamitu, PhD & Michael Wahome, PhD

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^{*1}Anastasia Mutunga, ²Susan Wamitu, PhD & ³Michael Wahome, PhD

¹Masters Student, South Eastern Kenya University

^{2,3}School of Business & Economics, South Eastern Kenya University

*E-mail of corresponding author: annseelu2009@gmail.com

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Abstract

Savings and Credit Co-Operatives have provided essential financial services to a significant portion of the Kenyan population who were previously unable to obtain such services at commercial banks. Deposit-taking Savings and Credit Cooperative Societies (SACCOs) in the Eastern area of Kenya have experienced a decrease in their financial performance. The purpose of this study was therefore to assess the effect of risk management on the financial performance of deposit taking SACCOs in Eastern region of Kenya. The study was anchored on the Stakeholder Theory. The study focused on 25 Savings and Credit Cooperative Organisations in Kenya's Eastern Region, selected through census sampling. Board members and department heads from these SACCOs were chosen for analysis. Employing a descriptive research design, the study collected both primary and secondary data. Primary data was gathered via questionnaires, while secondary data came from the SACCOs' financial records. SPSS software was used for data analysis, generating both descriptive and inferential statistics. Findings revealed that risk management significantly and positively influenced the financial performance of these SACCOs ($\beta = .336, p = .000 < .05$). The study concludes that effective risk management practices are important for the financial performance of SACCOs in the Eastern region of Kenya. In view of the findings, the study recommends that SACCOs continue to focus on improving their risk management practices to ensure long-term financial stability and success.

Keywords: Risk Management, Financial Performance, Deposit-Taking SACCOs, Eastern Kenya, Stakeholder Theory

1.0 Introduction

Deposit-Taking Savings and Credit Cooperative Societies (SACCOs) are integral to the economic development by providing affordable financial services, including savings and credit, to underserved populations, ensuring financial inclusion and entrepreneurship (Mwaluku, 2024). The link between corporate governance and financial performance in these SACCOs has long been a subject of debate, with researchers presenting contrasting perspectives. On one hand, proponents assert that strong governance structures are the backbone of financial success, arguing that a well-constituted, independent board, rigorous auditing, and transparent decision-making drive profitability and sustainability (Muyonga, 2023). They highlight cases where SACCOs with robust governance frameworks outperform their peers in risk management and long-term growth (Jerab, 2023; Messabia, Beauvoir & Kooli, 2023). Yet, this view is not without criticism. Detractors caution that this narrative may overlook the unique dynamics of SACCOs; member-driven decision-making, cooperative principles, and social objectives which often diverge from traditional corporate governance models. Thus, while governance remains a crucial factor, its influence on financial performance may be more complex than a straightforward cause-and-effect relationship.

Globally, cooperative societies are recognized as key contributors to socio-economic development, with their financial performance often tied to the strength of their corporate governance structures. In the United States, the success of over 64,000 active cooperative societies in nearly all sectors illustrates how effective governance mechanisms can underpin the sustainability and financial performance of cooperatives (Brito et al., 2024). Nearly one million Americans are directly employed by these cooperatives, which also provide housing to over one million families. The operational effectiveness and financial performance of American cooperatives are largely attributed to strong board oversight, transparent management, and member-driven decision-making processes that ensure accountability and prudent financial management (Brito et al., 2024). This demonstrates the direct link between sound corporate governance and positive financial outcomes.

In Malaysia, despite hosting more than 10,000 cooperative societies, has not experienced a similar level of financial and developmental impact from its cooperatives. Studies attribute this to weaknesses in corporate governance practices, including low member participation, inadequate capital reserves, ineffective management, and poor board performance (Joseph, 2024). These weaknesses in governance have undermined the operational efficiency and financial performance of Malaysian cooperatives, depicting how deficient governance structures can hinder financial growth and sectoral contribution. In Ghana, the establishment of Savings and Credit Cooperative Organizations (SACCOs) has been to improve the economic well-being of communities. However, Codjoe, Blundo-Canto, Mathe, Soullier, Asante and Sarpong (2025). point out that the achievement of these goals has been contingent upon the adoption of proper governance frameworks. Proper governance structures, including regular board evaluations, member transparency, and financial oversight, have been found to significantly improve the financial performance of SACCOs in Ghana. These practices enhance operational efficiency, reduce risks of mismanagement, and improve profitability.

Similarly, in Uganda, empirical evidence depicts the importance of board accountability and other governance practices in boosting SACCOs' financial performance. According to Kyabarongo and Mukyala (2024), SACCOs with accountable and professionally trained boards, along with transparent financial reporting systems, consistently outperform those lacking such

governance structures. This link between governance quality and financial performance suggests that improving board oversight and implementing clear governance policies are key to improving SACCOS' profitability and long-term sustainability in Uganda.

The ability to put in place efficient mechanisms that may reveal information in a manner that will support strong company performance is an essential component of corporate governance. Accountability, transparency, and credibility are also essential components of corporate governance (Aibar-Guzmán, Raimo, Vitolla & García-Sánchez, 2024). The development of corporate governance in a way that a separation between ownership and control gives rise to the agency problems but quality governance system reduces the risk of expropriation of minor shareholder's wealth. According to Assfaw and Sharma (2024), effective corporate governance includes creating and increasing shareholder value while simultaneously protecting the stakeholders' interest at the same time. In Kenya, Saving and Credit Cooperatives (SACCOS) are the main financial solution of the people who have low-income level in Kenya, but they have their own challenges that hamper their financial solution to their members and the economical contribution to a country (Mugilwa, Aduda, Okiro & Magutu, 2024).

Locally, empirical evidence indicates a positive relationship between corporate governance practices and the financial performance of deposit-taking SACCOS. A study examining 163 SACCOS revealed that effective governance structures, including appropriate board size, independence, financial expertise, diversity, and activity, are associated with improved financial outcomes (Otieno, Mugo & Kimathi, 2024). Another study focusing on Nairobi City County found out that variables such as board size, gender diversity, educational qualifications, and ethnic diversity of board members significantly influence SACCOS' financial performance. Collectively, these insights underscore the critical role of corporate governance in bolstering the financial performance of SACCOS across these countries.

Financial performance is defined as a measure of how effectively an organisation use its assets to produce money through its main business activities (Rahi, Johansson, Blomkvist & Hartwig, 2024). Financial performance serves as a gauge of the overall financial well-being and future prospects of a company within a specific timeframe. The statement highlights the extent to which a company is effectively utilising its available resources to optimise the wealth and profitability of its shareholders (Pérez, Sánchez & Gómez, 2024). Various metrics are employed to assess the financial success of a company, but financial ratios are the prevailing method. The financial ratios encompass liquidity ratios, leverage ratios, profitability ratios, and cash conversion cycles, among other metrics. These ratios indicate the profitability, leverage and liquidity of the firms and hence can be used to guide the firm to the desired performance levels (Bautista-Bernal, Quintana-García & Marchante-Lara, 2024). This study used profitability and assets to measure the financial performance of SACCOS. The financial performance of SACCOS is distinct from other organizations as it prioritizes member benefits and sustainability over profit maximization, reinvesting earnings to provide affordable loans and services (Ngetich & Iletaach, 2024). Unlike corporations focused on shareholder returns, SACCOS measure success through member growth, financial inclusion, and long-term stability, often balancing profitability with social objectives.

This study used Return on Assets and Return on Capital Employed to measure the financial performance of SACCOS. Return on Assets (ROA) measure shows the ability of management to acquire deposits at a reasonable cost and invest them in profitable investments (Obizue & Eme, 2025). The higher the ROA, the more the profitable the SACCO. It is a profitability ratio that provides how much profit a company is able to generate from its assets. This implies that return

on assets (ROA) measures how efficient a company's management is in generating earnings from their economic resources or assets on their balance sheet. Return on Capital Employed (ROCE) represents the amount of capital expended to produce a unit of sales revenue (Edwards, 2024). A business that requires a large amount of capital investment in physical assets to generate revenue can be labeled as being more capital-intensive (Irfan, Kausar & Malik, 2022), whereas less capital-intensive companies typically do not rely as much on physical assets in its business model. The return on capital employed (ROCE) ratio compares a firm's earnings from its primary operations with the capital invested in the company and can serve as a reliable measure of corporate performance (Permada & Sari, 2024).

Eastern Kenya covers an area of 140,698.6 km² and is home to a population of 5,668,123 (KNBS, 2019). The region comprises eight counties: Kitui, Machakos, Makueni, Marsabit, Meru, Tharaka Nithi, Embu, and Isiolo. The main economic activities in these counties include crop farming, livestock keeping, beekeeping, and fruit farming. According to the Gross County Product (KNBS, 2017), Machakos County leads the region in economic contribution, accounting for 3.2% of the national Gross Domestic Product (GDP). Collectively, the counties contribute 12.7% of the national GDP, highlighting their significance to the country's economy. As per SASRA (2021), these counties are home to 25 Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs), ranging from farmers' SACCOs to university staff SACCOs.

The SACCO sector is dominated by a few large SACCOs; out of 177-deposit taking SACCOs, the largest 20 control about 60% of the deposits with the remaining SACCOs controlling the remaining 40%. The deposit taking SACCOs in Eastern Kenya fall in the latter category and face competition from most other SACCOs for a small share of the market (Tanui, Wanyoike & Ngahu, 2015). There are 25 DT-SACCOs in Eastern Kenya. Some of these SACCOs have been practicing corporate governance but some do not practice it fully or effectively. Nevertheless, the expenses associated with conducting business and the diminished ability of the SACCOs to save money, along with non-performing loans and inadequate governance practices, have resulted in a decline in revenue and limited access to low-cost deposits that were previously used to provide loans to their members. Consequently, the SACCOs are reconsidering their competitive strategy in order to maintain competitiveness and enhance performance (Muriungi & Maina, 2021).

1.1 Statement of the Problem

Savings and Credit Cooperative Societies in Kenya face serious challenges that hinder their financial performance, including loan defaults, misappropriation of funds, poor savings culture, and poor investment choices (Mutiso, 2019). Weak corporate governance has further exacerbated these issues due to inadequate regulation and supervision (Mumosti, 2014). Key governance challenges include large board sizes, which make decision-making difficult (Alabdullah, Ahmed & Muneerali, 2019), frequent board meetings that shift focus from operations (Anandarin & Trisnawati, 2021), lack of qualifications among board members (Ananda, Ilona & Rahma, 2021), and issues related to institutional ownership (Sakawa & Watanabel, 2020). These governance deficiencies have contributed to declining financial performance, with the ratio of non-performing loans among Deposit-Taking SACCOs rising from 5.23% in 2016 to 6.14% in 2017, driven by an increase in bad loans from Kshs. 15.57 billion to Kshs. 21 billion during the same period (SASRA, 2018). Given the severity of these challenges, intervention from government regulators, industry leaders, and scholars is crucial to safeguarding the SACCO sector from potential collapse.

Corporate governance in Deposit Taking SACCOs tends to become more complex in their decision-making as a result of the demographics in terms of decision making and because of their ownership. Other studies indicate that loan repayment, process of enrolling new members, duration taken to process loan applications also have an effect on the financial performance of co-operative societies (Mwangi, & Wambua, 2016). Corporations have to reengineer their Corporate governance practices in order to enhance financial performance and achieve their desired objectives as well as those of stakeholders like payment of good return to shareholders on their investment i.e. dividends (Daniel, 2017). They are a significant component of the financial system and offer services to a substantial proportion of economically disadvantaged households in Kenya. Deposit-taking SACCOs have a distinct advantage in that their clients also hold shares in the organisation. Effective corporate governance in these SACCOs would result in improved performance (Wasike, 2012). Prior research has yielded inconclusive findings about the effect of corporate governance on financial performance. This study aimed to address the empirical gaps by investigating the effect of corporate governance on the financial performance of the Savings and Credit Cooperative Organizations (SACCOs) in the Eastern region of Kenya.

1.2 Research Objective

To assess the effect of risk management on the financial performance of deposit taking SACCOS in Eastern region of Kenya.

1.3 Research Question

Does risk management strategy affect financial performance of deposit taking SACCOS in Eastern region of Kenya?

1.4 Significance of the Study

This study is significant to SACCO management, policymakers, regulators, and members as it highlights how corporate governance influences financial performance and credit default management. It supports Vision 2030 by emphasizing SACCOs’ role in savings mobilization, poverty alleviation, and employment creation, with lessons extendable to the East African Community. Institutions like SASRA and KUSCCO can apply the findings to strengthen regulations, enhance sector recognition, and promote sustainable growth. Additionally, the research enriches academic literature and provides a foundation for future studies on SACCO governance and performance.

1.5 Scope of the Study

The study was conducted in Eastern Kenya, targeted all 25 deposit-taking Savings and Credit Cooperative Societies (DT-SACCOs) operating within the region. These SACCOs were selected due to documented underperformance compared to counterparts in other regions of the country (Mutua & Murigi, 2019). The study covered a 10-year period from 2012 to 2021 to capture long-term governance effects, providing a focused and comprehensive analysis of governance practices within DT-SACCOs in Eastern Kenya.

2.0 Literature Review

2.1 Theoretical Framework

The study was anchored on stakeholder theory. Stakeholder theory was first developed by Freeman (1984) as a concept of capitalism that highlights the relationships between businesses, their customers, suppliers, investors, employees and the general community. This theory states

that organizations should strive to create value for all their stakeholders (Mahajan, Lim, Sareen, Kumar & Panwar, 2023). The stakeholder theory addressed the morals and values to be considered in the management of any organization and focuses on the issues facing the stakeholders in an institution. The advantage of the stakeholder theory is that there is no one method of operation set in stone, rather it uses methods that benefit all parties (Shah & Guild, 2022). The stakeholder theory takes ethical and economic factors into considerations. As such, the theory stipulates that SACCOs should have represent the interests of all shareholders in their boards and look to satisfy all their interests. The theory informed the frequency of meetings as a feature of corporate governance since a board of directors that meets frequently is more likely to perform their duties in line with the interests of their shareholders (Bridoux & Stoelhorst, 2022). This sets up the board to negotiate and agree on conflicting interests by having non-partisan members on the board.

The Stakeholder Theory stands out for its comprehensive approach to business relationships, encompassing customers, suppliers, investors, employees, and the wider community. A major strength of this theory is its inclusive and ethical framework, which emphasizes the importance of considering all stakeholders in business decisions, not just shareholders (Freeman, 1984). This approach fosters a more holistic and socially responsible form of capitalism, enhancing the legitimacy and trust in institutions (Freeman, Dmytriiev & Phillips, 2021). In the context of Savings and Credit Cooperative Organizations, the theory highlights the significance of representing diverse interests on the board of directors (Kivits, Sawang, Kivits & Sawang, 2021) advocating for frequent board meetings to effectively negotiate and balance conflicting interests (Donaldson & Preston, 1995). This inclusive approach is vital for the long-term success and sustainability of these organizations.

According to stakeholder theory, SACCOs have a fiduciary responsibility not only to their depositors but also to employees, regulators, and the broader community. In this context, risk management was viewed as a mechanism to protect the financial security of all stakeholders by ensuring stability and continuity. Board qualification was critical to enabling informed and ethical decision-making that accounts for diverse stakeholder interests. Frequency of meetings allowed for regular review and response to stakeholder concerns, promoting transparency and engagement. Similarly, institutional ownership introduced structured stakeholder oversight, pushing for long-term value creation and responsible governance. Therefore, Stakeholder Theory provided a framework for understanding how risk management strategies contribute to inclusive and sustainable financial performance in SACCOs.

2.2 Empirical Review

In their study, Sathyamoorthi, Mapharing, Mphoeng, and Dzimir (2020) investigated how financial risk management techniques affect the financial performance of commercial banks in Botswana. The study included Return on Assets and Return on Equity as metrics to assess the financial performance. The measurement of financial risk management involved assessing factors such as inflation, interest rates, the ratio of total debt to total assets, and the ratio of total debt to total equity. The study focused on 10 banks in Botswana from 2011 to 2018. A descriptive research was conducted using monthly secondary data obtained from the Bank of Botswana. The findings indicate that interest rates have a detrimental effect on both return on assets and return on equity. The loan deposit ratio has a detrimental and substantial effect on both return on assets and return on equity. The study suggests that banks should strive for an optimal equilibrium between financial risk management techniques and financial performance by

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implementing suitable market, credit, and liquidity risk management policies to improve performance. Due to the study being conducted in Botswana, there was a contextual gap.

Catherine (2019) aimed to determine the correlation between risk management and the financial performance of Bank of Africa. The study employed a case study methodology and utilised both quantitative and qualitative methods. The study discovered that a robust evaluation of credit establishes benchmarks for the efficient handling of credit risk and amplifies the banks' competitive edge in the market. Thus, the study reached the conclusion that the evaluation of credit effects both the longevity and profitability of the bank. The study found out that client evaluation, credit risk management, and risk diversification had a substantial effect on financial success. As such, the study recommended that Bank management should constantly assess the risk management practices so as to maintain high financial performance.

Onsongo, Muathe, and Mwangi (2020) sought to determine the effect of financial risk on the performance of companies listed in the commercial and services sector of the Nairobi Securities Exchange (NSE). The study employed an explanatory research approach and specifically targeted 14 companies that are listed on the NSE. The secondary panel data regularly provided annual responses from 2013 to 2017. A panel regression model was used, namely the random effect model, based on the results of the Hausman specification test. The findings indicate that credit risk had a little, statistically insignificant effect on return on equity (ROE), while liquidity risk had a considerable and detrimental influence on ROE. Furthermore, operational risk had a modest but statistically insignificant positive effect on return on equity (ROE). The findings also indicated that commercial and service companies were able to acquire additional loans in order to enhance the performance of these companies. As such, the study concluded that these companies were unable to pay all their obligations as and when they arise. The study was conducted on listed firms on the NSE as opposed to SACCOs and this presents a contextual gap.

2.3 Conceptual Framework

This framework depicted the relationship between the independent variable risk management and the dependent variable financial performance as depicted in Figure 1.

Independent Variable

Dependent Variable

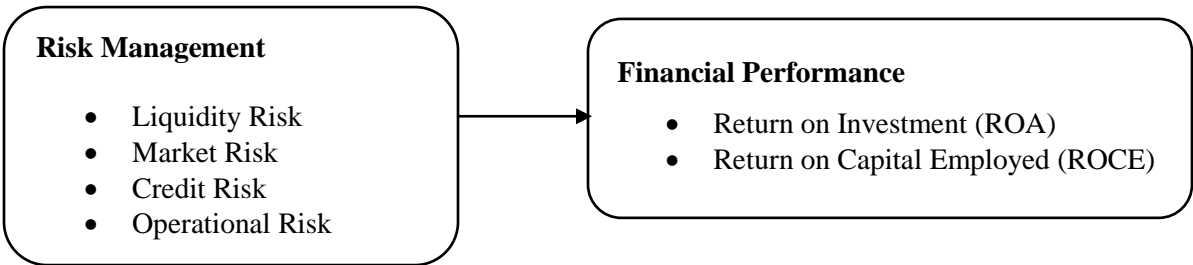


Figure 1: Conceptual Framework

Source: Author, 2023

3.0 Research Methodology

This study adopted a mixed research design, incorporating both descriptive research design. The descriptive research design was employed to analyze primary data, allowing the study to examine multiple Deposit-Taking (DT) SACCOs over different time intervals. The selected

research design was preferred as it allowed for the collection, quantitative analysis, and statistical interpretation of data, ensuring robust inferences on the effect of corporate governance practices on the financial performance of DT SACCOs in Eastern Kenya. The study targeted 291 respondents who were selected from 25 Savings and Credit Cooperative Organisations (SACCOs) located in the Eastern Region of Kenya. The selected SACCOs formed the units of analysis, while units of observation consisted of Board of Directors and Heads of Department.

The study adopted census sampling and stratified simple sampling to select the respondents for data and information collection. Census sampling was used to select all the 25 Saccos because of their small number. As for the Board of Directors and Heads of Department, simple stratified random sampling was adopted. This study used the simplified formula developed by Yamane (1967) to determine the sample size. The Yamane (1967) formula was used because it provides a statistically valid sample size while accounting for population variability, confidence level, and margin of error, ensuring reliable and generalizable findings. The formula was used to compute the number of replies required for the study;

$$n = \frac{N}{1 + N(e)^2}$$

Where:

- n* = The sample size
- N* = The population size
- e* = Level of precision
- 1 = Constant

This formula assumes a degree of variability (i.e. proportion) of 0.5, the level of precision of 5% and a confidence level of 95%.

$$\begin{aligned} n &= 291/ 1+ 291(0.05)^2 \\ &= 169.69 \approx 169 \text{ respondents} \\ n &= 170 \text{ respondents.} \end{aligned}$$

The sample size was obtained by apportioning from the target population of the study. Table 3.2 shows the summary of the sample size. The sample size consisted of 170 respondents from the 25 SACCOS.

The study used primary and secondary data. Primary data was collected using structured questionnaire in Appendix II while secondary data was obtained from the financial records of the 25 SACCOs. Since the sample size was small, data from all 25 SACCOs was used in the study. Secondary data was used in the study to evaluate variables. Data collection is the systematic gathering of information necessary for a study, allowing the researcher to make informed conclusions. The data was gathered from both primary and secondary sources. The primary data was gathered utilising questionnaires, which were distributed through the method of drop-off and retrieval. The surveys consisted of both open-ended and closed-ended questions. Quantitative data was collected via primary data, while secondary data was obtained from secondary sources, including the audited financial accounts of the 25 DT SACCOs. The study employed linear regression and Pearson correlation analysis. The Sacco financial performance was the dependent variable while corporate governance elements were the independent variables. Sacco performance was measured using Assets and Profitability. The specific descriptive data consists

of frequencies, mean scores, and standard deviation. The statistical technique employed was multiple regression modeling. An analysis of variance (ANOVA) was performed to ascertain the overall significance of the model. An analysis was conducted on the coefficients of the equation to assess the influence of corporate governance on the financial performance of DT SACCOS in the Eastern region of Kenya. A significance level of 0.05 was used to determine the statistical significance of the different variables. The study use multiple linear regression model to link the independent variables to the dependent variable as shown below:

$$Y = \beta_0 + \beta X + \epsilon$$

Where;

Y =Financial Performance of DT SACCOs in Eastern Kenya.

X = Risk management

4.0 Findings and Discussion

One hundred and seventy (170) questionnaires were distributed among the respondents drawn from the 25 SACCOs on which the study was conducted. Out of these, 137 questionnaires were dully filled and returned. This represents a response rate of 80.5%. Demographic results revealed that 44% of the SACCOs had more than 10,000 members, 32% had between 5,000 and 10,000 members while 17% had between 1001 and 5000 members. The results established that most (85%) of the SACCOs had been in operation for more than 10 years and as such they were well positioned to provide insightful information on the effects of corporate governance on financial performance of deposit taking (DT) SACCOs in Eastern Region in Kenya. The results indicated that 31% of the respondents had a background in finance, 21% had economics backgrounds and 20% had one in accounting. This implies that most of the board members have the technical and financial know how to understand how financial performance of SACCOs can be affected by corporate governance.

The findings revealed that 40% of the respondents had bachelor's degrees as their highest academic qualifications, 36% had Masters Degrees while 14% had diplomas. Given 76% of the respondents had at least a bachelors' degrees, then the researcher assumes that they can easily understand the relationships that exist between corporate governance and the financial performance of SACCOs. The results show that 47% of the boards met quarterly while 40% met monthly. Most of the boards met frequently and as such they should be familiar with the operations and ongoing within the SACCO making them ideal for the study. The results show that most (81%) of the SACCOs were not under institutional ownership. This implies that most of them were typically owned and controlled by their members, who are also the primary customers and beneficiaries of the organization. SACCOs that are owned and controlled by their members may have a stronger sense of community and may be more closely aligned with the needs and interests of their members. This can lead to a higher level of member engagement, participation, and satisfaction.

4.1 Descriptive Statistics

The study sought to establish the effect of risk management on financial performance of deposit taking (DT) SACCOs in Eastern Region in Kenya. The researcher asked respondents to indicate their level of agreement or disagreement with statements on risk management. The results are as shown in Table 1.

Table 1: Risk Management

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
The SACCO is in a position to meet all of its financial obligation for the foreseeable future.	10.20%	12.40%	22.60%	27.00%	27.70%	3.496	1.295
The SACCOs activities in the capital markets do not put the SACCO at risk.	8.00%	7.30%	27.00%	27.00%	30.70%	3.650	1.216
Our SACCO has been able to recover a large percentage of issued debt from our customers.	5.80%	8.00%	32.10%	25.50%	28.50%	3.628	1.150
The outstanding credit that has been offered to our members by the SACCO is spread out among a large number of customers.	9.50%	2.20%	32.10%	24.10%	32.10%	3.672	1.219
The ratio of non-performing assets to total assets is getting lower and lower with time.	3.60%	5.10%	29.20%	34.30%	27.70%	3.774	1.029
The SACCO has minimized all exposure to legal risk arising from our day to day operations by following the law.	5.10%	4.40%	30.70%	35.80%	24.10%	3.693	1.047
Our Accumulated foreign exchange positions will not be largely affected by changes in interest rate.	1.50%	5.80%	32.10%	29.20%	31.40%	3.832	0.989
Overall						3.678	1.135

According to the findings presented in Table 1, majority (54.70%) of the participants agreed that their SACCO is capable of fulfilling all its financial responsibilities in the foreseeable future, while 22.60% disagreed and an equal proportion (22.60%) were uncertain. The mean value of 3.496 suggests that most respondents leaned toward agreement, but the standard deviation of 1.295 indicates moderate variability in responses, implying that while most of the respondents believed in the SACCO’s financial stability, there remains some level of concern or differing opinions among members. Additionally, 57.70% of participants concurred that the SACCO’s involvement in financial markets does not pose a risk, with a mean of 3.650 and a standard deviation of 1.216. The relatively high mean suggests general agreement, while the standard deviation indicates some divergence in views, suggesting that while most perceive financial market participation as safe, a subset of respondents may still have reservations.

Furthermore, 54.00% of participants agreed that their SACCO has successfully retrieved a significant proportion of debt owed by clients, whereas 32.10% were uncertain and 13.80% disagreed. The mean of 3.628 supports a positive perception of debt recovery efforts, but the standard deviation of 1.250 reflects some level of uncertainty or mixed experiences among respondents regarding debt retrieval success. The results also indicate that 56.20% of respondents agreed that substantial credit provided by the SACCO is distributed among a significant number of clients, with a mean of 3.672 and a standard deviation of 1.219. This

suggests a favorable assessment of loan distribution, though the moderate standard deviation implies varying degrees of confidence in this distribution approach.

A notable 62.00% majority of respondents agreed that the proportion of non-performing assets to total assets is decreasing over time, while 29.20% were uncertain and 8.70% disagreed. The mean of 3.774 suggests a positive trend in reducing non-performing assets, and the lower standard deviation of 1.029 indicates that most respondents share this view, reinforcing confidence in the SACCO’s risk management strategies. Moreover, 59.90% of respondents believed that their SACCO has effectively minimized legal risks by adhering to regulations, as reflected in a mean of 3.693 and a standard deviation of 1.047. The moderate mean suggests general agreement, and the relatively lower standard deviation suggests a strong consensus on the SACCO’s legal compliance and risk mitigation efforts.

Similarly, 60.60% of respondents agreed that changes in interest rates would not significantly affect their accumulated foreign exchange positions, with a mean of 3.832 and a standard deviation of 0.989. The high mean suggests strong confidence in the SACCO’s ability to manage interest rate fluctuations, while the lower standard deviation indicates that this belief is widely shared among respondents. The average rating for risk management methods was 3.678, with a standard deviation of 1.135. The consistently high means across the responses indicate general agreement that risk management is a key aspect of corporate governance in SACCOs. However, the varying standard deviations highlight that while most of the respondents have confidence in these governance mechanisms, there are still differences in perception, suggesting room for improvement in certain risk management practices.

The participants were also requested to express their levels of concurrence or discord with the assertions on the business resilience of Geothermal Development Company. The results are as presented in Table 2.

Table 2: Financial Performance

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
The profitability levels of the SACCO has been improving in recent years.	2.90%	5.10%	32.80%	29.90%	29.20%	3.774	1.022
We have improved our loan portfolio by reducing the amount of non-performing loans	1.50%	5.80%	34.30%	31.40%	27.00%	3.766	0.965
The number of new members has increased over the past few years indicating enhanced popularity and reputation.	1.50%	5.80%	32.10%	29.20%	31.40%	3.832	0.989
There has been a growth in the amount of savings held by the SACCO, indicating better attraction and retention of members’ deposits	1.50%	0.70%	33.60%	32.10%	32.10%	3.927	0.905
The SACCOs asset base has been on an upward trajectory.	8.00%	7.30%	27.00%	27.00%	30.70%	3.650	1.216
Overall						3.790	1.019

According to the findings presented in Table 2, 59.10% of respondents agreed that the profitability of the SACCO has been increasing in recent years, while 32.80% remained uncertain, and 8.00% disagreed. The mean score of 3.774 suggests a general agreement with this statement, while the standard deviation of 1.022 indicates moderate variability, suggesting that while most respondents perceive profitability growth, some hold differing opinions. Furthermore, 58.40% of participants agreed that SACCOs have enhanced their loan portfolios by reducing non-performing loans, while this was supported by a mean score of 3.766 and a standard deviation of 0.965. The high mean indicates confidence in improved loan management, while the relatively low standard deviation suggests consistency in this perception among respondents.

Additionally, 60.60% of respondents agreed that the number of new members has increased in recent years, signaling improved popularity and reputation of the SACCOs. However, 32.10% were uncertain, and 7.30% disagreed. The mean score of 3.832 and standard deviation of 0.989 support this assertion, suggesting a broadly positive consensus with minor variation in views. The study also found out that 64.20% of participants agreed that the SACCO has experienced an increase in the amount of savings, indicating that SACCOs have successfully attracted and retained member deposits. This was reflected in a mean of 3.927 and a standard deviation of 0.905, showing strong agreement with minimal variation in responses.

Moreover, 57.70% of respondents concurred that the asset base of their SACCOs has been steadily increasing, while 27.00% were uncertain, and 15.30% disagreed. This was supported by a mean of 3.659 and a standard deviation of 1.216, suggesting that most respondents perceive asset growth, though there is some divergence in perspectives. Overall, the dependent variable, financial performance, had a mean of 3.790 and a standard deviation of 1.109. These findings indicate that most respondents agree with the financial performance assertions, and their responses were relatively consistent, with minor variations around the average.

The secondary data from the financial reports of the SACCOs involved in the study show that Assets and Liabilities had grown on average over the years. The results revealed a healthy financial position for the SACCOs in Eastern Region of Kenya. The fact that the assets of the SACCO are growing faster than its liabilities suggests that the organization is generating enough revenue to cover its expenses and sustain its operations. This can be a positive signal to members, investors, and other stakeholders, indicating that the SACCO is financially stable and can continue to offer financial products and services. In addition, if the SACCO is managing its risks effectively, it is likely that it is avoiding losses and protecting its assets. This can be achieved through sound lending practices, effective credit risk management, and other risk mitigation strategies. This may also indicate that the SACCO is generating profits or surplus, it can potentially use the funds to offer higher dividends, lower interest rates on loans, or other benefits to its members. This can increase member satisfaction and loyalty, and attract new members. Moreover, A SACCO with a healthy financial position may be viewed as an attractive investment opportunity by potential investors or partners, which can potentially lead to increased funding or partnerships for the organization.

The growth in earnings before tax and profits indicates that the SACCOs in the Eastern region of Kenya are generating more revenue than their expenses. This suggests that these SACCOs are managing their financial resources effectively, and have a strong financial position that can support their operations and growth. In addition, since the SACCOs are making profits, they can potentially use the funds to offer higher dividends, lower interest rates on loans, or other benefits

to their members. This can increase member satisfaction and loyalty, and attract new members. While the figure shows the average performance of all the SACCOs in the region, potential members and stakeholders can look at individual performances to establish any competitive advantage over other SACCOs in the region, as they may be able to offer better rates and benefits to their members or invest in technology and infrastructure to improve their operations. Overall, the growth in earnings before tax and profits of SACCOs in the Eastern region of Kenya is a positive sign for these organizations, indicating that they are financially stable, profitable, and well managed.

4.2 Correlation Analysis

Correlation analysis was conducted to assess the strength and nature of association between risk management and financial performance. The results for the correlation in the study are as presented in Table 3.

Table 3: Correlation Analysis

		Performance	Risk Management
Performance	Pearson Correlation	1.000	
	Sig. (2-tailed)		
Risk Management	Pearson Correlation	.332**	1.000
	Sig. (2-tailed)	0.000	

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

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

The correlation analysis in Table 3 reveals statistically significant association between risk management and financial performance of SACCOs in the Eastern Region of Kenya. The correlation coefficient (r) is 0.332, indicating a strong association. The p-value is less than 0.05, which suggests that the association is significant at a 5% level of significance. Therefore, enhancing the risk management of the SACCOs in Kenya's Eastern Region leads to an enhancement in their financial performance. The results align with the research conducted by Sathyamoorthi, Mapharing, Mphoeng, and Dzimir (2020), which shown that implementing risk management strategies, including market risk, credit risk, and liquidity risk management, leads to enhanced financial performance in financial institutions.

4.3 Regression Analysis

Regression results revealed that the model was statistically significant in explaining the influence of risk management on financial performance of deposit taking SACCOs in Eastern Region in Kenya and this is indicated by the p-value of $0.000 < 0.05$. The regression coefficient results showed that risk management had a positive and statistically significant effect on the financial performance of deposit taking SACCOs in the Eastern region of Kenya ($\beta = .336$, $p = .000 < .05$). The importance was further confirmed by a calculated t-statistic of 4.867, which above the crucial t-statistic of 1.96. The findings indicate that a one-unit enhancement in risk management leads to a corresponding increase in financial performance of 0.336 units. The findings also suggest that the financial success of deposit taking SACCOs is highly influenced by risk management, which is a key component of corporate governance. These findings align with Catherine's (2019) study, which found out that client appraisal, credit risk control, and risk

diversification had a favourable and significant effect on the financial performance of Bank of Africa.

5.0 Conclusion

Based on the results of the study, it can be concluded that the SACCOs in the Eastern region of Kenya have effective risk management practices in place. The majority of respondents agreed that the SACCOs are in a position to meet their financial obligations, their activities in capital markets do not put them at risk, and they have been able to recover a large percentage of issued debt from their customers. In addition, most of the respondents agreed that outstanding credit offered to members is spread out among a large number of customers, and the ratio of non-performing assets to total assets is decreasing with time. Furthermore, the SACCOs have minimized exposure to legal risk and their accumulated foreign exchange positions would not be largely affected by changes in interest rates. Overall, the study suggests that effective risk management practices are important for the financial performance of SACCOs in the Eastern region of Kenya. Therefore, it is recommended that SACCOs continue to focus on improving their risk management practices to ensure long-term financial stability and success.

6.0 Recommendations

The Sacco Societies Regulatory Authority (SASRA) plays a crucial role in regulating and overseeing DT-SACCOs in Kenya. To strengthen the sector's governance and financial sustainability, the study recommends the formulation and enforcement of a comprehensive risk management framework applicable to all DT-SACCOs. This framework should standardize risk assessment and mitigation practices, ensuring consistency in financial risk management across SACCOs. Additionally, SASRA should establish clear guidelines for identifying, monitoring, and addressing credit, liquidity, operational, and market risks, and introduce mandatory reporting requirements to enhance transparency in risk-related disclosures. To improve governance standards, SASRA should set minimum educational and professional qualifications for board members to ensure they possess the necessary skills in financial management, risk assessment, and strategic planning. Furthermore, mandatory governance training programs should be introduced for SACCO board members, keeping them updated on industry best practices and emerging governance trends. To reinforce governance effectiveness, a competency-based evaluation system should be implemented to ensure that only qualified individuals hold key decision-making positions within SACCOs.

The management boards of SACCOs play a critical role in governance and financial oversight. To improve financial performance and risk management, SACCOs should recruit qualified risk management officers responsible for assessing and mitigating financial risks. Additionally, SACCOs should establish internal risk management committees to oversee risk-related issues and implement early-warning risk detection systems that identify potential financial distress before it escalates. There may be additional factors beyond risk management that influence the financial performance of SACCOs in Eastern Kenya. Future studies should explore these other potential determinants to gain a more comprehensive understanding of their effect on financial performance.

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