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ABSTRACT

The general goal of this examination was to research the impact of liquidity on the execution of Saccos in Kakamega County, Kenya. The examination depended on liquidity hypothesis and organization hypothesis. The investigation focused on 149 respondents structure where Yamame's equation was connected to get an example size of 109 respondents. Elucidating overview configuration was utilized in the investigation and information was gathered utilizing organized polls. Content legitimacy was utilized to check instrument legitimacy while cronbachs alpha was utilized to check instrument unwavering quality. Factual bundle for sociologies adaptation 23 programming was utilized in information investigation. A sum of 88 out 109 respondents returned totally filled polls showing a reaction rate of 80.7% which is useful for generalizability of study discoveries to a more extensive populace. The investigation discoveries demonstrated that all indicator factors (resource quality, capital ampleness, capital influence, capitalization) fundamentally affected execution of Saccos in Kakamega County, Kenya. The examination inferred that one; asset quality is a significant predictor of Saving and Credit Cooperative Society performance, thus, Saccos with better net performing assets and low debt ratios experiences an improvement in its financial performance, and two; capital adequacy significantly influences Sacco performance, thus, Saccos that adhere to SASRA's minimum capital requirements rarely experience financial management problems, and thirdly, capital leveraging in terms debt and equity ratios determines financial performance of many Saccos that practice prudent capital leveraging measures. The study recommended that first, all Saccos should enforce viable loaning policies so as to ensure that they have quality loan products with low non-performing loans so as to boost Saccos' performance; secondly, Saccos should adhere to SASRA's minimum capital requirements so as to ensure they have adequate capital base to check insolvency risks; and three; Saccos should foster implementation of capitalization initiatives to boost share capital/equity which can consequently boost their performance.

Key Words: *benefit quality, capital ampleness, capital utilizing, Saccos, Kakamega County*

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INTRODUCTION

SACCOs are Associations of people who have come together with common goals geared at improving their livelihood economically. They are a significant piece of the budgetary part in Kenya, giving funds, credit and protection administrations to an expansive bit of the populace. A Savings and credit helpful society is a budgetary foundation that is claimed and constrained by its individuals and worked to promote thrift, and giving credit and other money related administrations to its individuals (Ahimbisibwe, 2007). The Cooperative development in Kenya goes back to 1931 when the principal law to regularize the tasks of the cooperatives in the nation was instituted. The next decade saw expanded mediation in the segment with the possible sanctioning of the Co-employable Ordinance Act of 1945, the ancestor of the present Co-usable Societies Act, Cap. 490 of the laws of Kenya - as revised in 1997.

Accordingly, SACCOs are client possessed and overseen associations extending in size from a bunch to a few thousand individuals, composed based on the work place (among formal representatives), markets (among merchants) or around a particular item in rustic regions (Mutesasira et al.,1999). Each SACCO is governed by its members, who elect (from within the membership) unpaid volunteer officers or directors to determine the policies under which the SACCO operates. Voting is one-member-one-vote, regardless of the size of the member's savings or loan balances (Goddard, McKillop & Wilson, 2008).

Existing literature reveal membership to credit unions (also known as SACCOs in some countries) is not a new issue from the global perspective. For example, in Ireland, over 70% of the populace has a place with a credit association. In America and Canada the figure is around 43%. Credit associations are additionally developing quick in Eastern Europe, portions of South America, Africa and the Far East (Association of British Credit Unions Limited, 2016). At national-level credit associations in the EU do give contract loaning administrations to their individuals. This happens inside severe advance approaches which incorporates rules for the evaluation of a borrowers' credit value, advance portfolio expansion, greatest advance sizes per item type, etc. While these confinements limit a credit association's capacity to give contracts, they additionally guarantee safe loaning rehearses (Grace, 2009).

The Cooperative development in Kenya goes back to 1931 when the primary statute to regularize the tasks of the cooperatives in the nation was established. In 1945, a new co-usable law was passed in the authoritative get together which enabled Africans to shape co-employable social orders. This was the forerunner of the present Co-employable Societies Act, Cap. 490, of the laws of Kenya (SASRA, 2017).In this way, the Sacco business is a piece of the agreeable division in Kenya, which has affected on lives of numerous Kenyans throughout the years. The area might be ordered into monetary and non-budgetary cooperatives. Non-money related cooperatives manage the promoting of individuals' produce and administrations, for example, dairy, domesticated animal's espresso, tea, crafted works and a lot increasingly comparative cooperative. Then again monetary cooperatives include Sacco's, lodging and speculation cooperatives. The Deposit-taking Sacco Societies (DTSs) is a piece of the bigger Sacco sub-division in Kenya which includes the store taking and the non-store taking Sacco Societies. The non-store taking section is made out of those Sacco Societies whose business is restricted to preparation of stores (non-withdrawable) for reasons for loaning to individuals. The stores are non-withdrawable in that they might be utilized as securities for advances just and must be discounted upon the part's withdrawal. (SACCO supervision yearly report, 2016).

Statement of the Problem

There exist various examinations on the Saccos over the world. For example, Thabo (2003) noticed that SACCO social orders have issues in producing riches

because of poor money related stewardship, under-capitalization of co-usable undertakings, staggering expense of assets, and deferred part installments. Mudibo (2005) proposes that the target of SACCO social orders is part strengthening through investment funds assembly, payment of credit and guaranteeing Sacco's long haul manageability through judicious money related practice. Different analysts like Ademba (2010), took a gander at the SACCOs and the issues they face, for example, negative money (liquidity), poor administration and, absence of individuals certainty. Ndung'u (2010) saw SACCOs being enveloped by botch and poor speculation choices.

Then again, different researchers like Munyiri (2006) talked about the difficulties that would ruin the accomplishment of the goals of co-usable social orders and even lead to decrease in development of Sacco's riches. Broad survey of writing has uncovered that little research has been archived on liquidity and execution of Saccos in Kenya. Further, in to the extent experimental examinations on execution of SACCOs is worried, there is clashing data from writing survey because of liquidity the board rehearses on execution of SACCOs. That is; clashing investigation results show both positive and negative impact of liquidity on SACCO's execution. For example, some flood of inquires about has discovered that there is a positive connection among liquidity and SACCO execution (Song'e, 2015); while some have discovered a negative connection among liquidity and SACCO execution (Muriithi & Waweru (2017). In this way, the insufficient and clashing exact proof in liquidity related examines persuaded this examination to explore the impact of liquidity on execution of Saccos in Kakamega County, Kenya.

Objectives of the Study

The general objective of this study was to investigate the influence of liquidity on the Saving and Credit Cooperative Society performance in Kakamega County, Kenya. The specific objectives were:-

- To determine the influence of asset quality on the saving and Credit Cooperative Society performance in Kakamega County, Kenya.
- To determine the influence of capital adequacy on the saving and Credit Cooperative Society performance in Kakamega County, Kenya.
- To determine the influence capital leverage on the saving and Credit Cooperative Society performance in Kakamega County, Kenya.
- To determine the influence of capitalization on the Saving and Credit Cooperative Society performance in Kakamega County, Kenya.

Research Hypotheses

- **H_{01} :** Asset quality does not significantly influence Saving and Credit Cooperative Society performance in Kakamega County, Kenya.
- **H_{02}:** Capital adequacy does not significantly influence saving and Credit Cooperative Society performance in Kakamega County, Kenya.
- **H_{03}:** Capital Leverage does not significantly influence saving and Credit Cooperative Society performance in Kakamega County, Kenya.
- **H_{04}:** Capitalization does not significantly influence saving and Credit Cooperative Society performance in Kakamega County, Kenya"

LITERATURE REVIEW

Theoretical framework

Shiftability Theory

Shiftability first came up as a model that was later developed into a theory which is an approach to keep Saccos liquid by supporting the shifting of assets(Roger, 2004). This hypothesis contends that liquidity of a Sacco is ensured when it has resources which can be moved to different banks before development when required. Shiftability in this sense suggests exchange of advantages for the national bank and not to different banks. The national Bank here is the loan specialist after all other options have run out (Clifford, 2008). Shiftability includes a methodology whereby a proportionate blend of fluid securities and illiquid advances is kept up by storehouse establishments. The fluid securities structure an extra hold for any

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obscure future liquidity issues. Optional hold is characterized in this point of view to mean any security held for transformation amid liquidity emergency where money resources structure the essential stores (Roger, 2004). In this way shiftability hypothesis is important to this investigation since it will help evaluate how a proportionate blend of fluid securities and illiquid advances as kept up by SACCOs in addition to the fluid securities which structure an extra save for any obscure future liquidity issues impact execution of SACCOs in Kakamega County.

Agency theory

Office hypothesis tends to the relationship where in an agreement 'at least one people (the principal(s)) draw in someone else (the specialist) to play out some administration for their sake which includes designating some basic leadership expert to the operator' (Jensen and Meckling, 2009). This happens as a result of the partition of proprietorship and control, when the proprietor of the organization or the top managerial staff (the 'principals') need to utilize directors ('specialists') to maintain the business and need to screen their execution to guarantee they act to the proprietor's advantage (Lan and Heracleous, 2010).

All the more thus, the organization hypothesis depends on the suspicion that the interests of the operator and foremost veer. In any case, the chief may confine the difference from his interests by setting up fitting interests for the operators. A specialist must be propelled and checked to make riches; this game plan depicts operators as possibly false and principals as policemen implementing the law (Arthurs and Busenitz, 2013). The chiefs are compensated monetarily for boosting investor premiums. Such plans normally incorporate plans whereby senior officials acquire shares, maybe at a discounted value, consequently adjusting money related premiums of administrators to those of investors. Other comparative plans tie official pay and dimensions of advantages to investors returns and have some portion of official remuneration conceded to the future to compensate long run esteem amplification of the company and hinder short-run official activity which hurts corporate esteem (Jensen and Meckling, 2009). Along these lines, the office hypothesis associates with this investigation as in chiefs of SACCOs as operators of investors (SACCO individuals shares) should encourage investors' interests by compelling liquidity the executives rehearses like capitalization, capital utilizing, resource quality and capital ampleness to support the general execution of SACCOs.

Liquidity theory

Liquidity hypothesis was made by Emery (2013) and the hypothesis recommends that credit proportioned organizations utilize more exchange acknowledge than those for ordinary access to monetary middle people. That is, the main issue of this liquidity hypothesis is that when there is a limited money related arrangement, the idea of exchange credit can compensate for the decrease of the credit offer from budgetary mediators. As per this hypothesis, substantial firms, introducing great liquidity or better access to capital markets can fund those compelled by the approach. Numerous methodologies have attempted to get exact proof to help this hypothesis; for example, Nielsen (2012) utilizing little money related loaning firms as an intermediary for credit apportioned organizations found that in financial compression they respond by obtaining more from their providers. Thus, exchange credit will in general be less utilized in nations where organizations have great relations with banks. Fluid firms are less inclined to request exchange credit and bound to offer it, a negative connection between purchasers' entrance to different wellsprings of financing and exchange credit use is normal (Petersen and Rajan, 2009).

Liquidity hypothesis is subsequently pertinent to this examination in that it will evaluate viable liquidity the executives parameters like capitalization, capital utilizing, resource quality and capital sufficiency in order to support the general execution of SACCOs.

Review of Study Variables

The Concept of Liquidity

The concept of liquidity has been a source of worry to the management of Saccos due to uncertainty of the future. According to Puneet and Parmil (2012), the inability of a financial entity to meet its financial obligation/liability is a premise on which crisis may result. Effective liquidity management is important for a SACCO to be able to meet share and savings withdrawals, external borrowing repayments, member loan demand and operating expenses.

Stores taking Saccos like other budgetary foundations consequently require a coordinating dimension of fluid assets to the present moment FOSA stores and different liabilities so as to stay fluid. The base administrative proportion is 15%.Further to improve sound liquidity the executives; store taking Saccos can just secure outer borrowings to the degree of 25% with respect to add up to expenses.

Causes of Liquidity problems include lack of policy on liquidity management, noncompliance to liquidity policy, lack of cash flow planning. The consequences of illiquidity include inability of intermittent provision of services.

Capital Adequacy

Capital adequacy is the amount necessary to absorb losses while providing financial stability stability, on an ongoing basis. It is essential that a Sacco reviews and examines the capital accounts, including reserves, by considering the adequacy of capital, obvious trends and any remarkable activity in the account. The Sacco capital structure consists of institutional capital and non-institutional capital. Institutional capital consists of: member's permanent and non-withdrawable shares, statutory reserves, general reserves, retained earnings/accumulated losses for the current year and capital donations. Non institutional capital constitutes revaluation reserves, educational reserves, social reserves, temporary reserves and distributable reserve (Rehema M, 2013).

Capital adequacy ratio has a direct effect on profitability of SACCOs by determining its expansion to risky but profitable ventures or areas (Ongore &Kusa, 2013). Saccos need to ensure an adequate solvency ratio of capital to risk weighted assets. This should be higher than the level for commercial banks because of lower diversification and more problematic governance structure.

Asset Quality Management

In Saccos asset quality is estimated as far as the estimation of non-performing advances less provisioning as a level of advances. Remarkable advances for a time of multiple portions are named non-performing credits (Sacco social orders act, 2010).Increasing measure of non-performing advances to add up to advance portfolio means that declining resource. Advances are the most profitable resources of a Sacco, which are essentially financed by offers and stores and sometimes outside getting. The nature of credit portfolio decides the budgetary execution of a firm. The credit quality significantly affects the monetary execution of the firm. An audit or assessment surveying acknowledge hazard related for a specific resource. These advantages for the most part require premium installments, for example, a credits and speculation portfolios. How powerful administration is in controlling and observing credit hazard can likewise affect the what sort of FICO score is given (Kashyap, Rajan and Stein, 2002).

Capital Leveraging (Debt to Equity Ratio)

This is the extent a Sacco is financed by borrowing/debt. Highly leveraged firms are exposed to liquidity risks because of the obligation to honor repayment of interest and principal debt which leads to huge cash outflows. The capital leverage decision is very critical to the survival and Saving and Credit Cooperative Society performance (Ongore &Kusa (2013).Therefore an appropriate debt-equity mix should be adopted by saccos if they must improve their financial performance, survive and remain competitive.

For example, Gweny and Karanja (2014) assessed the impact of influence on monetary execution of

store taking SACCOs in Kenya. The exploration depended on 40 SACCOs which were enlisted by SASRA from year 2010 to year 2013. They utilized connection examination to decide the connection between obligation value proportion as the informative variable and profit for value, return on resource, benefit after expense and salary development as proportion of firm execution. Their outcomes were that there was solid positive relationship between's obligation value proportion and profit for value (ROE) just as obligation value proportion and benefit after expense both at 99%.

Capitalization

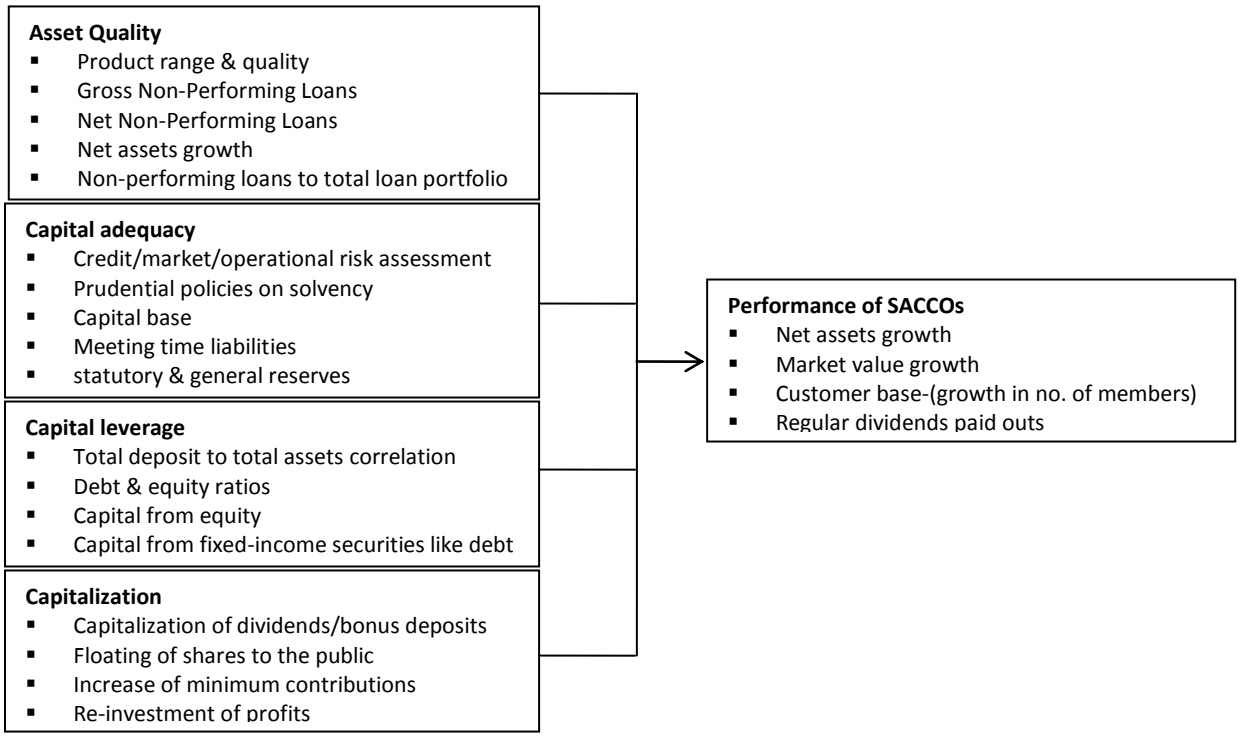
In Kenya, SACCOs are important agents of job creation and savings by members. Some SACCOs compel their members to save and then lock-in their savings until it is their turn in the rotation to be paid or when they leave the organizations (Mutebi, 2002) and currently, most SACCOs are encouraging their members to reinvest their dividends. This will therefore assess whether capitalization issues such as capitalization of dividends/bonus deposits, floating of shares to the public, increase of minimum contributions, re-investment of profits altogether impact execution of SACCOs in Kakamega County, Kenya.

Performance of Saccos

The pecking order theory suggests that highly performing Saccos tend to reduce their external funding: which at the end signals to creditors that they have low bankruptcy risk (Sheikh &wang, 2011).

For instance, Allen and Maghimbi (2009) observed that some cooperatives in Uganda were finding it difficult to operate largely because of their poor financial state. Therefore, in this research, Saving and Credit Cooperative Society performance in Kakamega County will be subjectively measured in both financial and nonfinancial terms.

Conceptual Framework



Independent Variables **Dependent Variables**

Figure 1: Conceptual Framework

Source: Author (2019)

Empirical Review of Related Literature

Asset quality and Saving and Credit Cooperative Society performance

Echeboka et al. (2014) stress that the nature of a monetary loaning's advantages is impacted by the bank's introduction to explicit dangers, the patterns in non-performing advances and the money related soundness of bank borrowers. The nature of advances is then essential to the achievement of money related loaning as poor resource quality is said to be one of the primary driver of bank disappointments. Consequently albeit money related loaning like even banks are required to set up stores for awful obligations, banks are at high danger of causing misfortunes because of terrible credits which makes non-performing advance (NPL) proportions the best intermediaries for resource quality.

Altan et al. (2014) additionally showed the requirement for resource quality investigation is to decide the measure of non-performing resources as a level of the absolute resources. For example , resource nature of a business bank is consequently essentially seen based on the bank's capacity to recoup its remarkable credits and advances in due time and this is appeared by the level of terrible obligations to add up to gross advances issued.

Capital adequacy and Saving and Credit Cooperative Society performance

Kivuvo and Olweny (2014) analyzed the execution of SACCO's in Kenya utilizing the Altiman Z Score Model of Corporate Bankruptcy. The examination concentrated on indicator factors of insolvency and the budgetary solidness of SACCO's. The examination found that liquidity and influence had huge effect of SACCO execution. As per the investigation, money related solidness improves monetary execution. The examination reasoned that SASRA was directly in upholding for extra capital base for SACCO's. They suggested that SACCO's improve their liquidity, benefit, working effectiveness and absolute resources turnover on the off chance that they should stay in business and meet the capitalization limit of SASRA.

Further, Kahuthu (2016) contemplated on the Impact of Prudential Regulation while Barus et al. (2017) ponder presumed that capital sufficiency impacted the monetary execution of investment funds and credit social orders in Kenya.

Capital Leverage and Saving and Credit Cooperative Society performance

Gweny and Karanja (2014) took a gander at the impact of influence on money related execution of store taking SACCOs in Kenya. The examination depended on 40 SACCOs which were enlisted by SASRA from year 2010 to year 2013. They utilized connection examination to decide the connection between obligation value proportion as the informative variable and profit for value, return on resource, benefit after assessment and pay development as proportion of firm execution. Their outcomes were that there was solid positive relationship between's obligation value proportion and profit for value (ROE) just as obligation value proportion and benefit after duty both at 99%. Despite what might be expected they found that there was a powerless connection between's obligation value proportion and profit for resource (ROA). Their examination anyway had impediments in that the utilized straightforward connection framework to decide the relationship of the factors.

Ebrati, Emadi, Balasang and Safari (2013) did an investigation on effect of capital structure on firm execution in eighty five firms recorded in Tehran stock trade. They utilized profit for resource (ROA), return on value (ROE), showcase book estimation of value (MBVR), income per offer and Tobin's Q as proportion of money related execution. They additionally utilized transient obligation to add up to resources, long haul obligation to add up to resources all out obligation to add up to resources and all out obligation to add up to value as a proportion of influence. They found no critical connection between profit per offer and profit for

resource and transient obligation and long haul obligation.

Capitalization and Saving and Credit Cooperative Society performance

This examined the influence of capitalization issues such as; capitalization of dividends to get bonus deposits, floating of shares to the public, increase of minimum contributions and re-investment of profits on Saving and Credit Cooperative Society performance in Kakamega County as measured by both financial and non-financial parameters. This is because capitalization is a new idea in SACCOs meant to motivate customers to reinvest their dividends so as to get bonus deposits which consequently might attract new customers or act as customer retention strategy to boost SACCO's capital and customer base.

According to Porteous, Collins, and Abrams (2010), supervision of SACCOs is ensuring that customers' savings are safeguarded especially when they are invested for income; and The Center for Financial Training (2010) argues that inefficiencies or frustrations by these entities can lead to a disincentive to save by capitalization among the citizens thereby affecting the levels of investments adversely and impacting financial performance negatively.

Mutebi (2007) declared that numerous examinations have demonstrated that investment funds is a standout amongst the most significant budgetary requirements of SACCOs since it gives seed capital which means that their standard absence of access to formal institutional credit. Subsequently with an improved budgetary framework, SACCOs investment funds is supported which is essential for their extension and development. In Kenya particularly, SACCOs are significant specialists of employment creation and authority approach that gives driving force to reserve funds can't be overemphasized. A few SACCOs propel their individuals to spare and afterward lock-in their investment funds until the ball is in their court in the revolution to be paid or when they leave the associations (Mutebi, 2007).

METHODOLOGY

A research design is the arrangement of conditions for collection, measurement and analysis of data in that it aims to combine relevance to the research purpose (Kothari, 2010).This study adopted a descriptive survey design. The population of the study was 149 senior and middle level management staff from the 12 Saccos within Kakamega County (Ministry of cooperatives and marketing 2017). The study used both primary data using structured questionnaires. The questionnaires were well structured to capture necessary attributes of the conceptualized study variables. Data analysis involved computation and standard deviation, while inferential statistics included correlations, linear and multiple regressions to determine the relationship between independent and dependent variables. The multiple regression analytical model formula was;

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

Where;

Y = Saving and Credit Cooperative Society performance

α = Intercept term,

$\beta_1, \ldots \beta_4$ = Beta coefficients

X_1= Asset Quality

X_2= Capital Adequacy

X_3= Capital Leveraging

X_4= Capitalization

ε= Error term,

FINDINGS

Descriptive statistics: Asset quality

This summarized responses on whether asset quality influences Saving and Credit Cooperative Society performance in Kakamega County. The results were presents in table 1 showing frequencies of responses as per each statement and its corresponding percentage score in brackets, means and standard deviation.

Table 1: Descriptive statistics; Asset Quality

	Frequency and percentages (%)						
Statement	**5**	**4**	**3**	**2**	**1**	**mean**	**Std.dev**
	11(12.5)	49(55.6)	13(14.8)	10(11.4)	5(5.7)	3.58	0.836
	16(18.2)	51(57.9)	7(8.0)	9(10.2)	5(5.7)	3.73	0.858
	15(17.0)	50(56.8)	6(6.8)	10(11.4)	7(8.0)	3.64	0.836
	13(14.8)	53(60.2)	5(5.7)	11(12.5)	6(6.8)	3.64	0.895
	10(11.4)	47(53.3)	5(5.7)	18(20.5)	8(9.1)	3.38	0.897
	11(12.5)	49(55.7)	7(8.0)	12(13.4)	9(10.2)	3.47	0.884
7.Generally, Asset Quality influences Sacco's overall performance	12(13.6)	54(61.4)	4(4.5)	13(14.8)	5(5.7)	3.63	0.875

Valid listwise 88

Grand mean = 3.06

From table 1, most respondents agreed (55.6%) and strongly agreed (12.2%) that offering of a wide range of products contributes to higher performance of the sacco. This meant that a wide product range attracted many customers on diverse loan products, thus high performing loan products are perceived to compensate for low performing loan products. Secondly, most respondents agreed (57.9%) and strongly agreed (18.2%) that Gross Non-Performing Loans affects financial performance of the sacco; which was further supported by 56.8% and 17.0% of respondents who agreed and strongly agreed respectively that Net Non-Performing Loans affects financial performance of performance of the Sacco; implying that Sacco should reduce non-performing loans as this could affect their financial performance.

Descriptive statistics: Capital adequacy

This summarized responses on whether Saccos' capital adequacy influences Saving and Credit Cooperative Society performance in Kakamega County. The results were presented in table 2 showing frequencies of responses as per each statement and its corresponding percentage score in brackets, means and standard deviation.

Table 2: Descriptive statistics; Capital Adequacy

	Frequency and percentages (%)						
Statement	**5**	**4**	**3**	**2**	**1**	**mean**	**Std.dev**
1.The SACCO has prudential policies on solvency	8(9.1)	46(52.3)	11(12.5)	17(19.3)	6(6.8)	3.38	0.807
2.The SACCO adheres to minimum capital requirements	9(10.2)	48(54.5)	7(8.0)	16(18.2)	8(9.1)	3.39	0.869
3.The SACCO adequately meets its liabilities on timely basis	7(8.0)	43(48.9)	9(10.2)	20(22.7)	9(10.2)	3.22	0.989
4.The SACCO has efficient credit risk management mechanisms	8(9.1)	46(52.3)	10(11.4)	15(17.0)	9(10.2)	3.33	0.972
5.The SACCO has effective market/operational risk assessments	6(6.8)	47(53.4)	8(9.1)	19(21.6)	8(9.1)	3.27	0.852
6.Generlly, capital adequacy influences SACCO performance	13(14.8)	51(57.9)	4(4.5)	13(14.8)	7(8.0)	3.57	0.853

Valid listwise 88

Grand mean = 3.36

From table 2, most the SACCO adhered to minimum capital requirements. This implied that most Saccos in Kakamega County, enforced prudential policies; among them adherence to minimum capital requirement to save them from suffering insolvency.

More so, 48.9% had efficient credit risk management mechanisms. That is most Saccos with high liability depict poor credit risk management which can negatively affect its financial performance.

Similarly, most respondents agreed (53.4%) and strongly agreed (6.8%) that the SACCO has effective market/operational risk assessments; which then helped the Saccos minimize engaging in risky lending. This supported by Ongore &Kusa, (2013) assertion that capital adequacy ratio had a direct effect on profitability of SACCOs by determining its expansion to risky but profitable ventures or areas (Ongore &Kusa, 2013). Saccos need to ensure an adequate solvency ratio of capital to risk weighted assets. This should be higher than the level for commercial banks because of lower diversification and more problematic governance structure. Causes of inadequacy in capital include: persistent losses and not retaining enough earnings to build reserves. This may consequently lead no cushion for further losses and loss of members' share value (Ongore &Kusa, 2013).

Descriptive statistics: Capital leverage

This summarized responses on whether Saccos' capital leveragege influences Saving and Credit Cooperative Society performance in Kakamega County. The results were presents in table 3 showing frequencies of responses as per each statement and its corresponding percentage score in brackets, means and standard deviation.

Table 3: Descriptive statistics; Capital Leverage

	Frequency and percentages (%)						
Statement	**5**	**4**	**3**	**2**	**1**	**mean**	**Std.dev**
1.The SACCO has viable capital leverage strategies	9 (10.2)	43 (48.9)	6(6.8)	23(26.1)	7(8.0)	3.27	0.891
2.Debt & equity ratios influence SACCO performance	10(11.4)	49(55.7)	9(10.2)	12(13.6)	8(9.1)	3.27	0.844
3.Capital from equity affects SACCO performances	9(10.2)	48(54.5)	10(11.4)	16(18.2)	5(5.7)	3.45	0.882
4. The SACCO raises good capital from fixed-income securities	10(11.4)	47(53.3)	8(9.1)	13(14.8)	10(11.4)	3.39	0.808
5.The SACCO has effective debt management mechanisms	11(12.5)	49(55.6)	7(8.0)	13(14.8)	8(9.1)	3.48	0.864
6.Generally, capital leverage influence SACCO performance	14(15.9)	51(58.0)	5(5.7)	12(13.6)	6(6.8)	3.63	0.817
Valid listwise 88							
Grand mean = 3.415							

Table 3 implied that most Saccos in Kakamega County had embraced capital leveraging mechanisms to reduce debt ratios so as to boost Sacco performance. This implied that high equity ratios boosts Saccos financial performance, thus Saccos struggle to prudently manage capital from equity. This was supported by 53.3% and 11.4% that the SACCO has effective debt management mechanisms; thus implying that most Saccos in Kakamega County have embraced debt management strategies to enable them check on insolvency risks.

This was supported by Kivuvo and Olweny (2014) who examined the Saving and Credit Cooperative Society performance's in Kenya using the Altiman Z Score Model of Corporate Bankruptcy. The study focused on predictor variables of bankruptcy and the financial stability of SACCO's and found that liquidity and leverage had significant impact of SACCO performance.

Descriptive statistics: capitalization and Sacco performance

This summarized responses on whether Saccos' capitalization influences Saving and Credit Cooperative Society performance in Kakamega County. The results were presents in table 4 showing frequencies of responses as per each statement and its corresponding percentage score in brackets, means and standard deviation.

From table 4, most respondents agreed (55.6%) and strongly agreed (8.0%) that the SACCO had a policy on capitalization of dividends. This means that Saccos in Kakamega County have a dividend policy to attract and retain customers who believe in savings to earn dividend payouts.

Similarly, most respondents agreed (54.5%) and strongly agreed (11.4%) that the SACCO encouraged members to engage in bonus deposits; thus bonus deposits boost share capital which then boosts dividend earnings. Likewise, 56.8% and 14.8% of respondents agreed and strongly agreed respectively that the SACCO encouraged members to raise minimum contributions; this was because raising minimum contributions boost share capital which then will improve members' earnings per share during dividend payouts.

More so, most respondents agreed (55.7%) and strongly agreed (102%) that the SACCO engages in re-investment of profits which is a capitalization strategy meant to boost the Sacco's capital base.

Table 4: Descriptive statistics; Capitalization (CP)

	Frequency and percentages (%)						
Statement	**5**	**4**	**3**	**2**	**1**	**mean**	**Std.dev**
1.The SACCO has a policy on capitalization of dividends	7(8.0)	49(55.6)	10(11.4)	13(14.8)	9(10.2)	3.36	0.947
2.The SACCO encourages members to engage in bonus deposits	10(11.4)	48(54.5)	9(10.2)	13(14.2)	8(9.1)	3.44	0.853
3.The SACCO normally floats shares to members of the public	5(5.7)	37(42.0)	25(28.4)	11(12.5)	10(11.4)	3.18	0.799
4.The SACCO encourages members to raise minimum contributions	13(14.8)	50(56.8)	5(5.7)	12(13.6)	8(9.1)	3.55	0.874
5.The SACCO engages in re-investment of profits	9(10.2)	49(55.7)	6(6.8)	18(20.5)	6(6.8)	3.42	0.832
6. Generally, capitalization policies influence SACCO performance	11(12.5)	52(59.1)	8(9.1)	11(12.5)	6(6.8)	3.59	0.857
Valid listwise 88							
Grand mean = 3.423							

This was supported by Mutebi, (2002) who asserted that in Kenya, SACCOs are important agents of job creation and savings by members, thus, some SACCOs compel their members to save and then lock-in their savings until it is their turn in the rotation to be paid or when they leave the organizations and currently, most SACCOs were encouraging their members to reinvest their dividends. Further, as indicated by Porteous, Collins, and Abrams (2010), supervision of SACCOs is guaranteeing that clients' reserve funds were protected particularly when they are contributed for money; and The Center for Financial Training (2010) contends that wasteful aspects or disappointments by these elements can prompt a disincentive to spare by capitalization among the residents in this way influencing the dimensions of speculations unfavorably and affecting monetary execution contrarily.

Inferential Statistics

Table 5: Multiple regression analysis

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.864[a]	.747	.735	.57895	.747	61.174	4	83	.000

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	82.018	4	20.504	61.174	.000[a]
	Residual	27.820	83	.335		
	Total	109.837	87			

a. Predictors: (Constant), Capitalization, Capital Adequacy, Asset Quality, Capital Leverage

b. Dependent Variable: Sacco Performance

Table 6: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.505	.109		4.625	.000
	Asset Quality	.328	.108	.323	3.027	.003
	Capital Adequacy	.457	.109	.458	4.197	.000
	Capital Leverage	.372	.119	.322	3.120	.002
	Capitalization	.278	.104	.277	2.672	.009

a. Dependent Variable: Sacco Performance

Hypothesis testing

Study **hypothesis one** stated that asset quality does not significantly influence Saving and Credit Cooperative Society performance in Kakamega County, Kenya. "The multiple regression analysis indicate that there exist a positive and significant effect of asset quality on Saving and Credit Cooperative Society performance in Kakamega County, Kenya (β= 0.328 (0.108); at p<.05). **Hypothesis one is thus rejected.** This implied that a single increase in the Saccos asset quality will yield 0.328 unit improvement in the Saving and Credit Cooperative Society performance in Kakamega County." The results were supported by Ongore and Kusa (2013) who found that the quality of the loan portfolio has a direct impact on bank profitability and those non-performing loans should be monitored and kept as low as possible using appropriate strategy and policies. Therefore, the lower the percentage of NPL to total loans the better the bank's financial performance and more studies were recommended like studies on SACCOs which will be addressed by this study.

Sangmi and Nazir (2010) found asset quality to have a significant impact on performance of banks in India and concluded that a low ratio of NPL to total loans is associated with a financially sound bank portfolio. Ongore and Kusa (2013) found the NPL ratio to have a strong negative relationship with bank profitability showing that poor asset quality

was associated with poor commercial bank performance in Kenya. Kosmidou (2008) also concluded that poor asset quality has a negative effect on bank profitability as it pulls down interest income revenue and adds to provision cost.

Study **hypothesis two** stated that capital adequacy does not significantly influence Saving and Credit Cooperative Society performance in Kakamega County, Kenya. "The multiple regression analysis indicate that there exist a positive and significant effect of capital adequacy on Saving and Credit Cooperative Society performance in Kakamega County, Kenya (β= 0.457 (0.109); at p<.05). **Hypothesis two is thus rejected.** This implied that a single increase in the Saccos capital adequacy will yield 0.457 unit improvement in the Saving and Credit Cooperative Society performance in Kakamega County." The results were supported by Olando (2013) study that assessed financial practice as a determinant of growth of Sacco's wealth in Kenya, a case study of Meru County; and found out that Saccos which inadequately complied with their capital by-laws and did not have incomes from their investments were unable to adequately cover their costs. The study recommended that the government should review legal framework to ensure that institutional capital was used to grow Sacco's wealth.

Kariuki and Wafula (2016) likewise analyzed the impact of capital sufficiency on monetary Saving and Credit Cooperative Society execution in Kenya. The examination embraced board inquire about plan, and optional information was drawn from yearly budget reports of Saccos for period running from 2011 to 2014, firm execution was operationalized as net intrigue edge, return on value and profit for resources. capital ampleness and firm execution.

Barus, Muturi and Kibati (2017) additionally analyzed the connection between capital ampleness and execution of reserve funds and credit helpful social orders in Kenya. The examination received statistics testing of all SACCOs which had been in activity from 2011 to 2015. Aftereffects of the investigation uncovered a positive and huge connection between capital sufficiency and firm execution. The examination prescribed that SASRA should look at the adherence with capital sufficiency prerequisites among Saccos in Kenya.

Study **hypothesis three** stated that capital leverage does not significantly influence Saving and Credit Cooperative Society performance in Kakamega County, Kenya. "The multiple regression analysis indicate that there exist a positive and significant effect of capital leverage on Saving and Credit Cooperative Society performance in Kakamega County, Kenya (β= 0.372 (0.119); at p<.05)." **Hypothesis three is thus rejected.** This implies that a single increase in the Saccos capital leveraging measures will yield 0.372 unit improvement in research was based on 40 SACCOs which were registered by SASRA from year 2010 to year 2013. They employed correlation analysis to decide the connection between obligation value proportion as the illustrative variable and profit for value, return on resource, benefit after expense and pay development as proportion of firm execution. Their outcomes were that there was solid positive connection between's obligation value proportion and profit for value (ROE) just as obligation value proportion and benefit after expense both at 99%. Despite what might be expected they found that there was a feeble connection between's obligation value proportion and profit for resource (ROA).

Further, Abbu-Rub and Abbadi (2012) also conducted a similar study on Palestinian banks and found out that Palestinian banks had low return on asset and low return on equity due to lower loans to asset ratio and loans to deposit ratio. This resulted to the lower correlation between loans and return on equity and loans and market value. They however found a strong positive correlation between total deposit to total assets (which were their measure of leverage) to efficiency and market value. Similarly Saeed, Gull and Rasheed (2013) found a positive link between total debt with

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accounting measures of performance that is return on asset, return on equity and earnings per share.

Lastly, study **hypothesis four** stated that capitalization does not significantly influence Saving and Credit Cooperative Society performance in Kakamega County, Kenya. "The multiple regression analysis indicate that there exist a positive and significant effect of capitalization on Saving and Credit Cooperative Society performance in Kakamega County, Kenya (β= 0.278 (0.104); at p<.05). **Hypothesis four is thus rejected.** This implies that a single increase in the Saccos capitalization initiatives will yield 0.278 unit improvement in the Saving and Credit Cooperative Society performance in Kakamega County." The results are supported by Porteous, Collins and Abrams (2010) statement that supervision of SACCOs is guaranteeing that clients' reserve funds are shielded particularly when they are contributed for money; and The Center for Financial Training (2010) contends that wasteful aspects or dissatisfactions by these elements can prompt a disincentive to spare by capitalization among the natives in this manner influencing the dimensions of ventures unfavorably and affecting budgetary execution adversely..

Mutebi (2007) also asserted that many studies have shown that savings is one of the most crucial financial needs of SACCOs since it provides seed capital which is an indication of their usual lack of access to formal institutional credit. Thus with an improved financial system, SACCOs savings is boosted which is vital for their expansion and growth. In Kenya especially, SACCOs are important agents of job creation and official policy that provides impetus for savings cannot be overemphasized. Some SACCOs compel their members to save and then lock-in their savings until it is their turn in the rotation to be paid or when they leave the organizations (Mutebi, 2007).

Economist Intelligence Unit (2011) also posits that while proximity to SACCO facilities is of the essence in savings mobilization, confidence in the SACCOs' financial system is also crucial and recently, SACCOs have collapsed with the savings of Kenyans which fails to promote the saving culture since. The argument however is that, these financial collapses, affect only the locally owned financial institutions and not the foreign owned financial institutions.

CONCLUSIONS

First, the study concluded that asset quality is a significant predictor of Saving and Credit Cooperative Society performance, thus, Saccos with better net performing assets and low debt ratios experiences an improvement in its financial performance.

Secondly, capital adequacy significantly influences Sacco performance, thus, Saccos that adhere to SASRA's minimum capital requirements rarely experience financial management problems.

Thirdly, capital leveraging in terms debt and equity ratios determines financial performance of many Saccos that practice prudent capital leveraging measures.

Lastly, capitalization significantly influences Saccos performance in terms of raising share capital, profit savings and dividend recapitalization.

RECOMMENDATIONS

First, the study recommended that all Saccos should enforce viable loaning policies so as to ensure that they have quality loan products with low non-performing loans so as to boost Saccos' performance.

Secondly, Saccos should adhere to SASRA's minimum capital requirements so as to ensure they have adequate capital base to check insolvency risks.

Thirdly, Saccos should embrace capital leveraging mechanisms to assist them check on debt/ratios which influences their performance.

Lastly, Saccos should foster implementation of capitalization initiatives to boost share capital/equity which can consequently boost their performance.

Areas for further research.

First, a similar study can done on only SASRA regulated deposit taking Saccos so as to compare results. Secondly another study can assess if management efficiency influences the Saving and Credit Cooperative Society performance.

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