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ABSTRACT

This study evaluated the effect of financial management strategies on financial performance of savings and credit cooperative societies in Mombasa County. The study covered four specific objectives including determining the effect of capital structure management on financial performance; to assess the effect of investment diversification on financial performance; to establish the effect of liquidity management on financial performance; and to find out the effect of credit risk management on financial performance of savings and credit cooperative societies in Mombasa County. The study was anchored on trade-off theory, modern portfolio theory, anticipated income theory, information asymmetry theory and balanced scorecard theory. The study adopted correlational research design and sample 98 out of 130 target population using systematic random sampling. The study collected secondary data from the audited financial statements of the sampled savings and credit cooperative societies for the period 2015-2019. Data was analyzed using both descriptive (mean and standard deviation) and inferential (product moment correlation and linear regression) statistics with the help of statistical package for social sciences, Version 23.0. Inferences were drawn at the level of significance of 0.05. The study findings revealed that SACCOs ensure that cash flow is well managed offer discounts to early loan repayments. The study established that SACCOs monitor their accounts receivables on weekly and monthly basis and monitor its loan levels at a set threshold. The study concluded that there is a significant relationship between financing strategies and financial performance of the SACCO. Interest rates should be reviewed frequently depending on the prevailing market rates. The researcher recommended that the management should enhance marketing to increase the number of members hence increasing the capital base of the SACCO.

Key Words: *Capital Structure Management, Investment Diversification, Liquidity Management, Credit Risk Management*

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INTRODUCTION

Financial strategy is a framework to guide decisions that will determine the nature and direction of the organization's financial affairs. Therefore, financial strategy is a dynamic and interrelated set of reactions and responses that are made based on different environmental conditions and reactions of other organizations in that environment. In contrast, fiscal policies include specific financial variables. Various financial decisions should be adopted by considering the four species of financial strategies, (Churk, 2015). These strategies include financing strategies and capital structure, working capital strategy, capital budgeting and investment strategy, and dividend strategies. Financial managers should decide based on these strategies and make the highest alignment with the organization's strategy. Financing decisions are related to appropriate financing in order to meet financial targets and also evaluating whether fixed and working capital are managed effectively or not. Financial managers must have enough knowledge about available resources and their cost to ensure that an appropriate capital structure is available in the company, (Mwakajumilo, 2017).

In the Kenyan perspective, Musyoka and Rezai (2017) carried out a study on the effects of the capital structure management on dividend policy of listed companies on Nairobi Stock Exchange and found out that there is a significant and negative correlation between the effective tax rate and the dividend policy. In fact, they indicated that as the effective tax rate increases, the company will significantly increase their dividends. Also they indicated that there is a positive and significant relationship between effective tax rate and future stock return. Ndirangu and Kimaiyo (2017) carried out a study on the effect of investment diversification on organization growth. They found out that there is a negative correlation between predetermined profits and investment diversification.

Savings and credit cooperative societies are increasingly witnessing poor financial performance and others are also failing due to weak governance and ineffective strategies for financial management. According to Lakew and Rao (2015), the main cause of failure for many business enterprises is inadequate financial management approaches combined with the instability of the business environment. Any organization's financial performance, including Saccos, is directly influenced by the approaches adopted for financial management. Implementing financial management strategies efficiently and prudently will allow a Sacco to maintain its business operations and improve its ability to achieve its goals and objectives. Sound financial management strategies will increase a Sacco's income levels by implementing rigorous financial control mechanisms, (Gitman & Zutter, 2015) such as optimal capital structure, investment diversification, liquidity management and credit risk management among others.

Saccos target a specific segment of population with similar orientation. These are mainly low income earners and the society has the objective of uplifting their financial status. There are some Saccos that target community members in general because of the virtue that they belong to that particular community whereas there are others who are more specific their members have to come from a certain group. The main requirement across all Saccos is that their members have some source of income before qualifying to join the Sacco. The Saccos mobilize funds from them and give them access to financial services like, loans, savings facility, front office services, which is otherwise inaccessible to them through the main banks that are either unaffordable or physically inaccessible. Some Saccos were directly started as Saccos while others were changed into Saccos later of which they initially set out as other financial associations without being registered as Saccos, (Microfinance House Ltd, 2016).

Statement of the Problem

The Sacco sector plays a critical role in increasing access to affordable financial services and products, especially for the poor, low-income households and micro and medium-sized enterprises, (Mumanyi, 2016). Nonetheless, Saccos' survival is becoming a challenge due to poor financial performance brought about by weak financial management strategies, combined with business environment volatility and increased competition from commercial banks and other financial institutions, (Nyanchama & Mouni, 2017). Some of the problems that hinder good financial performance in Saccos include increased capital costs due to poor management of the capital structure, poor investment decisions and lack of proper diversification, poor liquidity management that could lead to bankruptcy, and high levels of non-performing loans due to weak credit management, (Olando, Mbewa & Jagongo, 2017).

To achieve successful implementation of organization strategies, required decision should be made regarding capital funding. At the time of financing decision making, it must be attempted to create best structure for capital condition and dividend decisions caused that organization makes to provide required capital from external sources. What it plays a key role in capital budgeting decisions, is capital cost of company, because capital cost was used as discount of cash flow as a result of investment projects. Thus, rejection or acceptance of suggested investment projects are related to the most appropriate discount rate or same capital cost, (Aarabi & Abedi, 2016).

However, company capital cost is followed by capital structure, its financial structure or financial leverage. So, it is expected that change in financing sources combination of capital structure are followed by rejection or acceptance of investment projects including effective positive and negative net current value. So, investment decisions, financing, dividend capital in circulation have close relationship together, (Aarabi & Abedi, 2016).

Studies have been reviewed on this area of knowledge. Mvula (2013) presented a report on common issues affecting performance of SACCOs in Malawi and pointed out that the issues affecting performance of SACCOs are inadequate capital, poor asset quality, poor governance, poor profitability, poor liquidity and noncompliance. On the other hand, Mudibo, (2015) discussed some of the factors affecting performance of SACCOs as weak regulation, limited product and services, low marketing and poor image. However, the effect of interest rate charged and the rate of loan repayment on Sacco performance is yet to be established. Further the management of loan defaulters with the local SACCOs is very poor. This is because SACCOs finance people of low income and unreliable employment hence the chances of default are very high.

Wanyama (2018) pointed out that SACCOs are formed from mostly the producers of cash crops and basic products hence there are market risk in their marketing but in this research membership enrolment and the duration of loan processing that have affected the financial performance of SACCOs have not been identified. There has been no sufficient literature about how and to what extent the rate of loan repayment interest rates, membership enrolment and management of loan defaulters have affected the financial performance of savings and credit cooperative societies.

In view of the above issues, the researcher sought to evaluate the effect of financial strategies on Sacco's financial performance of Saccos in Mombasa County where the researcher focused on four financial strategies which include capital structure management, investment diversification, liquidity management, and credit risk management.

Objective of the Study

The general objective of the study was to determine the effect of financial strategies on financial performance of Savings and Credit Cooperative Societies in Mombasa County. The specific objectives were;

- To determine the effect of capital structure management on financial performance of Savings and Credit Cooperative Societies in Mombasa County.
- To determine the effect of investment diversification on financial performance of Savings and Credit Cooperative Societies in Mombasa County.
- To determine the effect of liquidity management on financial performance of Savings and Credit Cooperative Societies in Mombasa County.
- To determine the effect of credit risk management on financial performance of Savings and Credit Cooperative Societies in Mombasa County.

The study was tested through the following null hypotheses.

- **$H0_1$:** Capital structure management has no significant effect on financial growth of Savings and Credit Cooperative Societies in Mombasa County.
- **$H0_2$:** Investment diversification has no significant effect on financial growth of Savings and Credit Cooperative Societies in Mombasa County.
- **$H0_3$:** Liquidity management has no significant effect on financial growth of Savings and Credit Cooperative Societies in Mombasa County.
- **$H0_4$:** Credit risk management has no significant effect on financial growth of Savings and Credit Cooperative Societies in Mombasa County.

LITERATURE REVIEW

Theoretical Framework

Trade-off Theory

Trade-off theory of capital structure propounded by Myers in 1984 forms the main theory guiding the current study. The theory posits that, for each firm, there is an optimal capital structure that can be determined by balancing capital costs and benefits. As a result, a company determines how much debt capital and how much equity capital to integrate into its capital structure by reflecting on each source's costs and benefits. Debt capital results in benefits such as tax shielding, while high levels of debt in the capital structure may result in bankruptcy and agency spending. Agency expenses are the result of a divergence of interest between the various stakeholders of the firm and information asymmetry, (Jensen & Meckling, 1976).

Modern Portfolio Theory (MPT)

Modern Portfolio theory was propounded by Harry Markowitz in 1952. The theory stressed how the expected returns can be maximized by creating portfolios that are weighted at risk levels. Markowitz argued that institutions should create a portfolio at a reasonable risk level that would produce the highest expected returns. This theory emphasizes that businesses should try to maximize income in a given portfolio risk by carefully selecting proportion of different investments (Omisore, Yusuf & Nwofu, 2015) or reduce the risk at a given level of expected returns. This means that MPT aims to reduce the overall variance in portfolio return by assuming investors are fair and markets are efficient by combining different investment options whose returns are not ideally positively correlated.

Information Asymmetry Theory

Information Asymmetry Theory was proposed by Akerlof in 1970 and Stiglitz Weiss in 1981. The theory is based on the notion that the borrower is likely to have more information about the risks of the project for which they are receiving funding than the lenders are in a position to negotiate the optimum term for the transaction. Asymmetric information theory asserts that it can be difficult to distinguish good borrowers from bad borrowers, which can lead to adverse selection problems and moral hazards, (Okuyan, 2016).

The moral hazard problem associated with the theory leads borrowers to conceal material information about their ability to pay and the risks associated with the investment and the Sacco lending credit without having complete information about the borrower. The Saccos end up giving loans of low quality which lead to increased loan losses,

(Obuya & Olweny, 2017). At the same time, due to the adverse selection problem associated with information asymmetry, the Saccos ends up charging high interest rates to cover increased default risk due to the opaque customer credit history, resulting in even more default, as borrowers are unable to afford rising interest rates, hence higher non-performing loans, leading to increased loan losses of the Saccos in Kenya, (Obuya & Olweny, 2017). In this study, information asymmetry theory is deemed relevant as it explains the need for Sacco's managers to understand credit risk management as a financial strategy to mitigate information asymmetry between Saccos and borrowers.

Balance Scorecard Theory

The Balanced Scorecard (BSC) is a mutually supportive performance indicator that aligns the strategies of organizations without concentrating on one field of operation at the detriment of another, (Malgwi & Dahiru, 2017). The BSC combines performance measures which are both qualitative and quantitative. Kaplan and Norton (2016) suggest that the balanced scorecard is an advantage of measures that provide top managers with a speedy and complete business perspective and complement financial-related estimates that tell the after-effects of past activities, with operational estimates that drive future financial results.

Ibrahim (2015) argues that from four viewpoints the BSC tests business performance. There is the financial viewpoint that has the financial metrics to determine how the company looks to shareholders, including ROI, cash flows, corporate profitability, sales backlog and income forecasting. This theory holds that if planned payments are based on borrowers ' profits, liquidity can be measured and achieved.

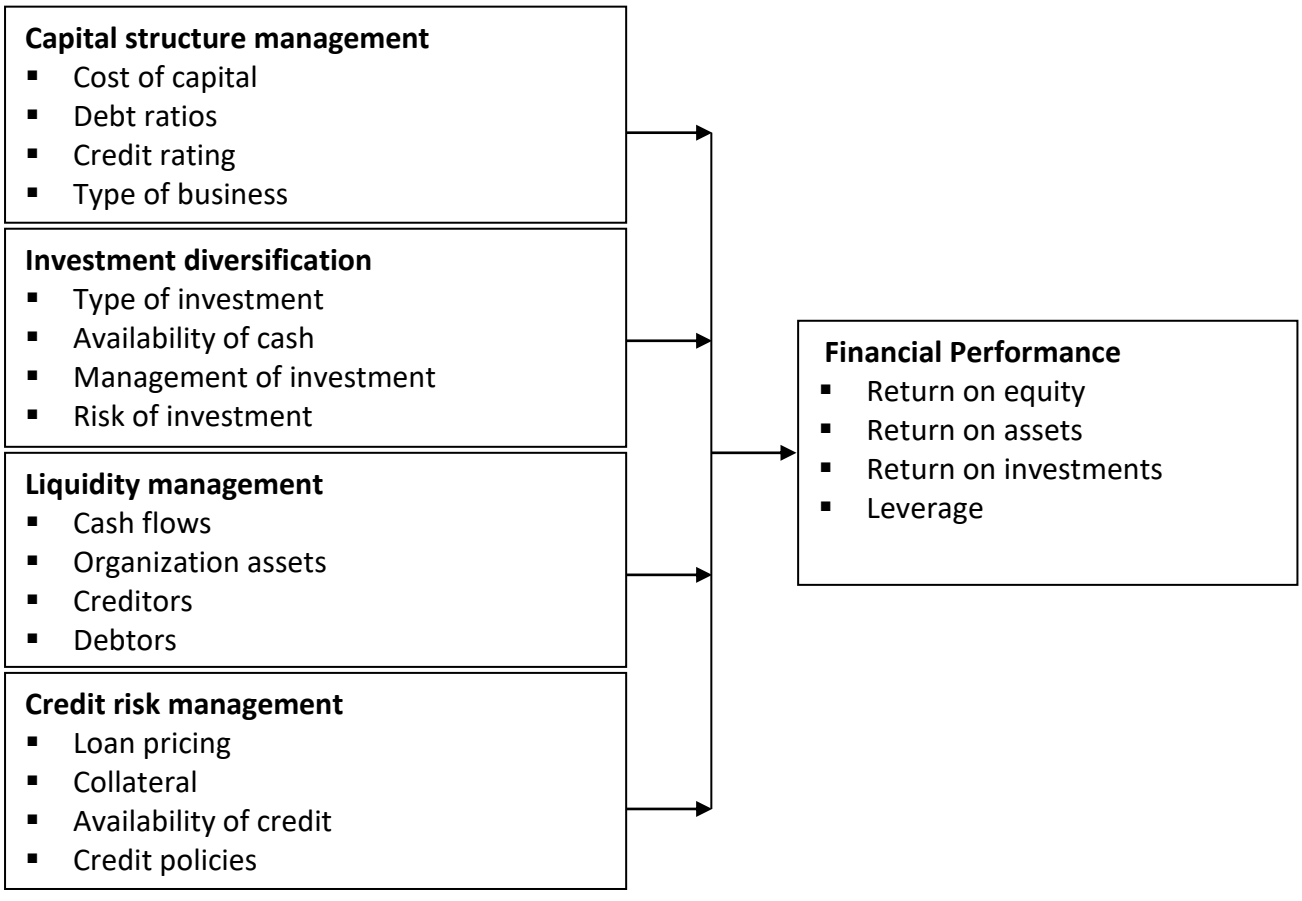

Figure 1: Conceptual Framework

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Review of Variables Related to the Study

Capital structure has been defined as a mixture of equity financing and debt financing and is generally considered to be one of the most significant financial variable because it is related to the company's ability to meet the requirements of all its stakeholders, including workers, community and shareholders, (Uremadu & Onyekachi, 2018). Equity financing refers to the funds that the business owners contribute, and this is the most risk-bearing type of finance. The shareholders are entitled to share of the income of the company usually referred to as a dividend according to the amount of shareholdings owned. Nonetheless, it is not necessary to make dividend payment every time as the company can keep some of the income to support future expansion of its business. A shareholder also share financial risks and end up benefiting if a company is liquidated after all debt has been settled, (Mutegi, 2016).

Diversification is a portfolio strategy which combines various investments to reduce risk. It is a way to manage a particular portfolio by decreasing the instability and risk of a particular set of unrelated investments, assets or products, (Kamau & Maina, 2019). It involves the process of assembling diverse assets to reduce the general risk associated with a firm's entire portfolio. Gupta (2015) states that putting all your eggs in one basket is a risky decision. Therefore, an important investment principle is to diversify the portfolio of investments. Investment spreading over several, unrelated investments reduces the risk of a sudden, unexpected result. A loss (risk) on one investment in a diversified portfolio is offset by gains from another investment.

Liquidity is the supply of funds or the guarantee that funds will be available to meet all cash outflow obligations (both on-and off-balance sheets) as due, (Loutskina, 2017). Such obligations are generally met by cash inflows, augmented by assets that are readily convertible to cash, or by the borrowing ability of the institution. The risk of illiquidity may increase when cash flows of principal and interest related to assets, liabilities and off-balance sheet items are inconsistent, (Cornett, McNutt, Strahan, & Tehranian, 2016). Liquidity management refers to the ability of a corporation to satisfy its financial obligations through cash flow, financing operations, and capital management. Liquidity management can also be defined as an organization's ability to fulfill its short-term responsibilities as and when due, (Loutskina, 2016).

In essence, Saccos has three organizational aspects: savings, credit, and channeling to member's external funds. Thus, each Sacco has the core function of providing credit facilities, (Olando et al., 2017). Saccos converts the savings deposits immediately available into loans with longer maturities. Individual savings deposits are also usually much smaller than average loans, requiring multiple deposits to finance a single loan and turning such savings deposits into credit-risk loans to members of the Saccos with absolute guarantees of security and repayment. More notably, Saccos' advanced loans bear a fixed interest rate for their entire term, as opposed to those of commercial banks that can be changed according to market interest rate changes at any time. All these transitions in finance are dangerous, (Kalui & Kahuthu, 2016).

Financial performance refers to a change in the earnings or revenue or returns of an enterprise, from one period (usually one year) to the next. Financial performance indicates how much income has increased or decreased from one period of time to another, which can be interpreted in real monetary terms, or as a percentage or a ratio, (Farlex International, 2017). This tests an enterprise's ability to increase its returns from one financial period to the next from through the business operations. It is the degree of an enterprise's economic soundness, and its ability to live on over time. The key metrics of a company's financial performance include profit margins, Return on Assets (ROA), Return on Equity (ROE) and value

addition among others. The strategies and policies an organization must follow to maintain its survival is based on the financial performance of the entity, (Almazari, 2016). It is also an indicator of the financial strength and sustainability of the enterprise over a long period of time and can effectively be used for comparison purposes with businesses within the same sector or industry, (Ene & Bello, 2016).

Empirical Review

Bwire and Omagwa (2019) investigated the relationship between Saccos' credit risk management and financial performance in Nairobi City County. The study method used was descriptive in nature, and data from 40 Saccos were collected. Questionnaires were administered by purposeful sampling to 120 respondents, three from each Saccos in Nairobi City County. Data was analyzed using an analysis of standard deviation, multiple regression and coefficient of correlation. The study found that the Saccos' financial performance was significantly affected by credit monitoring, credit appraisal and credit risk control. The study concluded therefore that credit risk management is a key factor in explaining Saccos' financial performance in Nairobi City County, Kenya.

Kimencu (2018) assessed for the period 2011-2015 the relationship between the capital structure and the financial performance of agricultural firms listed on the Nairobi Securities Exchange in Kenya. The study specifically sought to determine the effect of debt-to-equity ratio on the earnings yield of firms, the relationship between debt-to-equity ratio on the return on equity of firms and the effect of debt-to-equity ratio on the net profit margin of firms. The study adopted a descriptive research design and the target population was all seven agricultural firms listed on the Nairobi Securities Exchange as of December 2015. The data used in the study were purely secondary data obtained for the five-year period between 2011 and 2015 from the audited financial statements. Regression analysis was used to describe the relationship of the variables used in the research. The results showed no significant association between debt-to-equity ratio and earnings yield for companies, debt-to-asset ratio and return on equity for firms, and debt-to-asset ratio and net profit margin. The study concluded that there is no significant relationship between capital structure and firms' financial performance.

Hailu and Tassew (2018) investigated the impact of investment diversification on the financial performance of 17 commercial banks in Ethiopia covering the 2013-2017 periods. The quantitative research approach was employed and the data was analyzed using the panel random effect regression model. Study findings have shown that investment in financial assets, government security, insurance, loan portfolio and investment size have a significant positive effect on banks' financial performance in Ethiopia. Whereas the instability of interest and exchange rates has a significant negative impact on the financial performance of Ethiopian commercial banks. The study concluded that diversification of investments has a positive effect on the financial performance of Ethiopian commercial banks.

Philita (2018) was investigating the effects of portfolio diversification on commercial banks' financial performance in Kenya. This study adopted a descriptive research design. The study targeted all of the 40 registered and approved commercial banks under the Banking Act. Secondary data was used in this study to achieve the set target. The secondary data obtained between 2013 and 2017 from CBK reports and released annual statements of accounts for commercial banks in Kenya. Financial performance was measured using the return on assets ratio while the Herfindahl Index was used to measure portfolio diversification. The study established a significant positive correlation between the diversification of portfolios and the financial performance of commercial banks. The study concluded that portfolio diversification influences significantly the financial performance of Kenya's commercial banks.

Kimemia, Namusonge, and Sakwa (2018) sought to find out how liquidity management affects Saccos'

financial performance in Kenya. The study's target population was Saccos in county Mombasa. The research followed a descriptive, as well as exploratory, survey method. Data was gathered using questionnaires clustered on a Likert scale. The data gathered were processed and analyzed using statistical packages for version 22 of the social sciences software. In evaluating the relationship, the correlation and multiple linear regression methods were used. Liquidity management was identified as having a positive and significant effect on Saccos' financial performance. The study concluded that Saccos should promote liquidity management as there is an improvement in Saccos' financial performance when current assets are controlled.

Obonyo (2017) sought to analyze the impact that capital structure has on the financial performance of companies listed at the Nairobi Securities Exchange. The study's population was thirty firms sampled from the economic sectors of agriculture, automobiles and accessories, trade and services, construction and allied energy and petroleum & manufacturing and related sectors. Capital structure (the independent variable) was measured by debt ratio and financial performance (the dependent variable) was measured by earnings per share, asset returns and equity returns. The study assumed no relationship existed between capital structure and earnings per share. The research analyzed data from detailed profit and financial position statements of the firms spanning a five-year period from 2008 through 2012. The study found that there is a weak positive relationship between the listed companies' capital structure and financial performance.

Kariuki (2017) analyzed the impact of credit risk management activities in Kenya on the financial performance of Saccos. The study adopted descriptive research design and conducted a census of 164 registered Saccos under the SASRA. The study's objectives were to establish how the Saccos' financial performance was affected by credit risk identification, credit analysis practices, credit monitoring and credit mitigation measures. Based on results from correlation and regression tests the study concluded that credit analysis, credit reduction steps and recognition of credit risk have a significant positive impact on financial performance. The report suggested that Saccos should have robust credit analysis techniques and should follow credit monitoring procedures as well. The report also recommended that Saccos and any other credit lending company should have strict steps and policies to reduce credit defaults.

Song'e (2015) evaluated the impact of liquidity management on Saccos ' financial performance in Nairobi County. A review of the 27 Saccos authorized under the Sacco Society Regulatory Authority was performed in which secondary data from their reported financial statements were obtained between 2010 and 2014. The data source was SASRA which is an organization mandated to govern the activity of Saccos. The researcher used analysis methods of descriptive statistics, regression analysis, and correlation test. In order to test this relationship regression analysis was run with total profit before tax to total assets as the dependent variable and the liquidity, funding liquidity risk, operational efficiency, and quick ratio log of total assets as the independent variables. The results were that financial performance as calculated by profit before tax over total assets is linked positively to liquidity, liquidity risk funding, operational efficiency, quick ratio and total asset log. Therefore, the study suggests that the Saccos should put in place the best practices in liquidity management to improve their financial performance.

METHODOLOGY

The researcher used a descriptive research design since it is the most appropriate. The target population of this study was the respondents from ten registered Saccos in Mombasa County as at December 2019. The population was derived from supervisory committee, management committee, credit supervisory. The researcher used a population of 60 employees from registered Saccos for the purpose of the study. The study used both primary and secondary data. Structured questionnaires were used to collect primary data from the managers of

the Saccos which captured data regarding both independent and dependent variables. The questionnaire consisted of closed-ended questions measured on a Likert scale of 1-5 in order to quantify data, (Kothari & Gaurav, 2015). Secondary data was obtained through an analysis of the Saccos' audited financial statements for the period 2015 to 2019. Using IBM SPSS Statistics for Windows, version 23.0, the data collected was edited, cleaned, coded and then analysed. Descriptive and inferential analysis was performed at univariate, bivariate and multivariate levels and tests was reported using tables. The researcher also used Statistical package for social sciences (SPSS) version 21 to analyse data.

RESULTS

In the analysis of variables, the mean and standard deviations are used. The mean score indicated the value where most of the responses were concentrated. The respondents were required to rate the statements regarding capital structure management using a scale where 1 = Strongly Disagree; 2 = Disagree; 3 = Neutral; 4 = Agree; 5 Strongly Agree.

Effect of capital structure management on financial performance of Savings and Credit Cooperative Societies

The researcher enquired from the respondents about the effect of capital structure management on financial performance of Savings and Credit Cooperative Societies. The result in table 1 showed the mean and standard deviation of responses to the four statements pertaining to the effect of capital structure management on financial performance of Savings and Credit Cooperative Societies.

Table 1: Effect of capital structure management

Effect of capital structure management	Mean	SD
Sacco considers the cost of capital in determining the capital Structure	3.4	1.310
Sacco set a target credit rating to guide it in making capital structure choices	3.2	1.270
Sacco considers debt ratios on investments over a specified business cycle	2.9	.987
The Sacco observes the type of business when considering capital Structure	3.12	1.310

From the result, majority of the respondents from Saccos strongly agreed that Sacco considered the cost of capital in determining the capital structure as indicated (m=3.4, SD=1.31). They also agreed that Saccos set a target credit rating to guide it in making capital structure choices (m=3.2, SD=1.27). The respondents also indicated that Sacco considered debt ratios on investments over a specified business cycle (m=2.9, SD=.987) and some of the respondents agreed that the Sacco observed the type of business when considering capital structure (m=3.12, SD=1.31). The result suggested that financial performance of Saccos depended on its capital structure management.

Effect of investment diversification on financial performance of Savings and Credit Cooperative Societies

The researcher requested the respondents to respond on the effects of investment diversification on financial performance of Savings and Credit Cooperative Societies. And the results are as shown below.

Table 2: Effect of investment diversification

Effect of investment diversification	Mean	SD
The Sacco considers the type of investment before Diversification	3.37	1.299
The Sacco considers availability of cash before diversification	4.22	.822
The Sacco ensures there is proper management of investment before diversification	3.29	1.167
The Sacco considers the risk tolerance when allocating funds to different investment opportunities.	3.66	1.175

The results in table 2 indicated that a majority of the respondents in Saccos strongly agreed that the Sacco considers the type of investment before diversification (m=3.37, SD=1.299), others indicated that the Sacco considers availability of cash before diversification (m=4.22, SD=.822). Some respondents agreed that the Sacco ensures there is proper management of investment before diversification (M=3.29, SD=1.167) while others indicated that the Sacco considers the risk tolerance when allocating funds to different investment opportunities (M=3.66, SD=1.175). The result suggests that the respondents strongly agreed that investment diversification relate to the financial performance of Savings and Credit Cooperative Societies.

Table 3: Effect of liquidity management

Effect of liquidity management	Mean	SD
The Sacco ensure that cash flow is well managed	3.29	1.309
The Sacco offer discounts to early loan repayments	3.05	1.071
The Sacco monitor its accounts receivables on weekly and monthly basis	3.59	1.072
The Sacco monitor its loans levels at a set threshold	3.73	1.184

The researcher requested the respondents to respond regarding the effect of liquidity management on financial performance of Savings and Credit Cooperative Societies. The study revealed that, respondents strongly agreed that The Sacco ensure that cash flow is well managed (M=3.29, SD=1.309), some respondents agreed that Saccos offer discounts to early loan repayments (M=3.05, SD=1.071), others agreed that Saccos monitor its accounts receivables on weekly and monthly basis (M=3.59, SD=1.072) while others indicated that The Sacco monitor its loans levels at a set threshold (M=3.73, SD=1.184). The result suggests that indeed there is proper management of liquidity.

Saccos releases on a regularly basis financial statements such as income statements such as statement of cash flows, income statements and balance sheet. Upon release, the information has a huge impact on both existing and new investors of the firm. Therefore, every firm must ensure the information released is accurate and reliable.

Effect of credit risk management on financial performance of Savings and Credit Cooperative Societies

Data was collected using the popular 5-point Likert Scale ranging (1=strongly disagree up to 5= strongly agree). The mean and standard deviations of the data collected was computed and findings are as presented in table 4.

Table 4: Effect of credit risk management

Effect of credit risk management	Mean	SD
The Sacco charge different rates of interest for different borrowers depending upon the risk appetite and the ability to pay back the loan	3.00	1.360
The Sacco allows collateral as security for loans.	3.41	1.161
The Sacco ensures that credit is available for their clients.	3.22	1.107
The Sacco has put in place credit policies to guide them when giving out credit to the clients.	3.29	1.078

Based on the responses, the respondents strongly agreed that the Sacco charge different rates of interest for different borrowers depending upon the risk appetite and the ability to pay back the loan (Mean=3.00, SD=1.360), other respondents agreed that the Sacco allows collateral as security for loans as indicated (Mean=3.41, SD=1.161). The respondents also agreed to the statements that the

Sacco ensures that credit is available for their clients

(Mean=3.22, SD=1.107) while some respondents agreed that the Sacco has put in place credit policies to guide them when giving out credit to the clients (Mean=3.29, SD=1.078).

Financial performance of Sacco's

The result in table 5 below showed the mean and standard deviation of financial performance of Saccos. It indicates that the respondents strongly agreed that Return on Equity enhances Saccos performance as indicated (M=3.77, SD= 1.445), some respondents strongly agreed that there is higher Return on Assets in the Sacco (M=3.81, SD=1.482) while others agreed that return on investments is higher in the Sacco (m=3.52, SD=1.173). The result suggests that financial performance of Saccos take into account ROE, ROA and also ROI.

Table 5: Financial performance of Sacco's

Financial performance	Mean	SD
Return on Equity enhances Saccos performance	3.77	1.445
There is higher Return on Assets in the Sacco	3.81	1.482
Return on Investments is higher in the Sacco	3.52	1.173

Correlation analysis

The correlation result in table 5 below, the respondents showed that Capital structure and financial performance of Saccos were positively related (r=.230, p=.00), investment diversification and financial performance are positively related (r=.144, p=.019), Liquidity management and financial performance are positively related (.689, p=.000). Finally, credit risk management and financial performance are positively related (r=.278, p=.000). The result suggested that capital structure management, investment diversification, liquidity management and credit risk management could influence financial performance.

Table 6: Correlation analysis

		Capital	Invest	Liquidity	Credit risk	Financial P
Capital S	Pearson Correlation	1	-.033	-.203**	-.075	.230**
	Sig. (2-tailed)		.591	.001	.224	.000
Invest D	Pearson Correlation	-.033	1	-.067	-.025	.144*
	Sig. (2-tailed)	.591		.277	.685	.019
Liquidity M	Pearson Correlation	-.203**	-.067	1	.330**	.689**
	Sig. (2-tailed)	.001	.277		.000	.000
Credit risk	Pearson Correlation	-.075	-.025	.330**	1	.278**
	Sig. (2-tailed)	.224	.685	.000		.000
Financial P	Pearson Correlation	-.230**	.144*	.689**	.278**	1
	Sig. (2-tailed)	.000	.019	.000	.000	

**. Correlation is significant at the 0.01 level (2-tailed). *. Correlation is significant at the 0.05 level (2-tailed).

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Regression results

Model Summary

The model summary result indicated that R=.649. This implied that the four predictor variables, moderately correlate with financial performance of Saccos. The coefficient of determination; R square is .421, this indicate that the four predictors collectively accounted for 42.1% of the investment disparities in Saccos in Mombasa. The other remaining percentage is accounted for variables other than the ones in the model.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.649a	.421	.398	1.063

a. Predictors: (Constant), Capital S. Investment D, Liquidity, Credit risk

Table 8: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	79.493	4	19.873	12.561	.001b
	Residual	109.208	69	1.582		
	Total	188.701	73			

a. Dependent Variable: Financial performance,

b. b. Predictors: (Constant), Capital S, Investment D, Liquidity M, Credit risk M.

Analysis of variance (ANOVA) results in Table 8 indicated that the regression model linking capital structure management, investment diversification, liquidity management and credit risk management as independent variables with financial performance is fit for prediction (F=12.561, p=.001). This implies that knowledge of the level of the predictor variables can lead to the prediction of the dependent variable.

Regression Analysis

Table 9: Regression coefficient

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2.374	.373		6.368	.000
Capital S	.444	.067	.375	6.586	.000
Investment	.101	.044	.129	2.324	.021
Liquidity	.612	.181	.182	3.389	.001
Credit risk	.104	.036	.153	2.906	.004

a. Dependent Variable: Financial performance

The regression equation was:

Y = 2.374+ 0. 444X1 + 0. 101X2 + 0. 612X3 + 0. 104X4 Where;

Y = the dependent variable (Financial Performance)

X1= Capital structure management;

X2= Investment diversification;

X3= Liquidity management;

X4= Credit risk management

The regression equation above established that taking all factors into account (Financial Performance as a result of Capital structure management, Investment diversification, Liquidity management and Credit risk management) constant at zero financial performance will be 2.374. The findings presented also showed that taking all other independent variables at zero, a unit increase in capital structure management will lead to a 0.444 increase in the scores of financial performance of Saccos; a unit increase in Investment diversification will lead to a 0.101 increase in financial performance of Saccos; a unit increase in liquidity management will lead to a 612 increase in the score of financial performance of Saccos and a unit increase in Credit risk management will lead to 0. 104 increase in the score of financial performance of Saccos. This therefore implied that all the four variables have a positive relationship with financial performance of Saccos with liquidity management contributing most to the dependent variable.

CONCLUSIONS AND RECOMMENDATIONS

The study identified issues that affect financial performance of the SACCO. The research challenged the management of SACCOs to consider the interest rates they charge on loan to members as compared to other financial institutions because if featured as the major challenge to financial performance of SACCOs. Interest rates should be reviewed frequently depending on the prevailing market rates. The management has given a lot of attention to increased marketing to increase membership but this alone will not be of much benefit if the whole business environment is not brought into the picture. This should include the services given to customers and the time taken to give these services.

There is a significant relationship between financing strategies and financial performance of the Sacco. Thus, with regard to the results of this research, financial decisions need to have sufficient knowledge about risk assessment. Having too much debt creates a higher risk for the company, and of course the higher risk in this study is confirmed in accordance with the idea of interaction between higher risk and more return. In other words, along with the increase in the ratio of debt to book value of assets, the company's performance will increase. This reflects that the leverage ratio has a positive impact on firm performance and appropriate financing in this kind of companies enables higher profitability in them. This fact indicates that the realization of the objectives of financial sector policies can improve and develop the financial performance sector; and as a result, it has a positive effect on growth and profitability as well.

The researcher recommended that the management should enhance marketing to increase the number of members hence increasing the capital base of the SACCO. It was also recommended that the board of management must have basic financial skills to enable them interpret financial statements. It was recommended that the SACCO should diversify its product to be able to compete perfectly in the market and to meet the demands of its members. This can be done through market research.

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