# RELATIONSHIP BETWEEN FIRM SIZE, SACCO SOCIETIES REGULATORY AUTHORITY COMPLIANCE, AND LOAN PERFORMANCE OF DEPOSIT TAKING SACCOS IN NAKURU COUNTY, KENYA

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**A Project Submitted to the Institute of Postgraduate Studies of Kabarak University in Partial Fulfilment of the Requirements for the Award of the Master in Business Administration (Finance) Degree**

**KABARAK UNIVERSITY**

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To the Institute of Postgraduate Studies:

This project, entitled **"Relationship between Firm Size, Sacco Societies Regulatory Authority Compliance and Loan Performance of Deposit Taking Saccos in Nakuru County, Kenya,"** and written by **Rose Chepkwemoi Chepkwesi** is presented to the Institute of Postgraduate Studies of Kabarak University. We have reviewed the research project and recommend it be accepted in partial fulfillment of the requirement for the award of the degree of Master of Business Administration (Finance).

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## DEDICATION

I wish to dedicate this work to my late mother Beatrice Murikwa for watching over me and granting me God's blessings this far, dad for positive encouragement always, my dear husband Winston Makanga, whose unwavering support, encouragement, and belief in my journey have continually strengthened me. To my children, Annabel Mideva and Alton Takwa, thank you for your constant prayers, love, and the spiritual and moral support that have carried me through every stage of this project. Your presence and faith in me have been my greatest motivation. This accomplishment reflects your enduring love and support.

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## ABSTRACT

Deposit-Taking Savings and Credit Cooperative Societies (DT-SACCOs) play a crucial role in providing financial services to members, particularly through access to credit. However, loan performance remains a critical concern, as high default rates, delayed repayments, and non-performing loans threaten the financial sustainability of these institutions; therefore, the study sought to determine the relationship between firm size, Sacco societies' regulatory authority compliance, and loan performance of deposit-taking Saccos in Nakuru County, Kenya. Specifically, the study sought to assess the effect of financial reporting, liquidity management, governance structure, and capital adequacy and loan performance of DT Saccos in Nakuru County, Kenya, and to assess the moderating effect of firm size, Sacco societies' regulatory authority compliance, and loan performance of deposit-taking Saccos in Nakuru County, Kenya. The study was guided by signaling theory, stakeholder theory, financial intermediation theory, capital structure theory, and resource dependence theory. The study adopted a descriptive research design. The unit of observation was 14 credit officers, 27 internal audit and compliance officers, 12 finance officers, 4 CEO, and 8 operations managers. Given the targeted population, the researcher used census to ensure all respondents were included in the study. The researcher collected primary data using a questionnaire. Before the leading study the researcher conducted a pilot study at Imarisha Sacco in Kericho Town, where 6 questionnaires were distributed to employees in the credit and finance department. Both descriptive and inferential statistics were determined using the Statistical Package for Social Sciences. Data were presented in tables. The findings revealed that financial reporting was positively associated with loan performance among Saccos ($\beta = 0.084$, $p = 0.047$). In addition, the finding indicated that liquidity management exhibited a stronger positive relationship with loan performance ($\beta = 0.380$, $p = 0.015$). Furthermore, the findings revealed that governance structure exhibited a stronger positive relationship with loan performance ($\beta = 0.800$, $p = 0.003$). Finally, the findings showed that capital adequacy exhibited a stronger positive relationship with loan performance ($\beta = 0.118$, $p = 0.042$). Based on the findings, the study concluded that financial reporting, liquidity management, governance structures, and capital adequacy have a statistically significant effect on the loan performance of DT SACCOs in Nakuru County. The study also concluded that the size of the SACCO significantly moderates the relationship between SASRA compliance and loan performance of DT SACCOs in Nakuru County. Based on the findings, the study recommended that SACCOs enhance their internal governance systems by promoting transparency, accountability, and adherence to best management practices. In addition, regulators like SASRA should not only enforce compliance but also support capacity-building initiatives, including training programs to improve financial literacy and reporting skills among SACCO staff.



**Keywords:** *Firm Size, SASRA Compliance, Loan Performance, Financial Reporting, Liquidity Management, Governance Structure, and Capital Adequacy*.

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| | |
|---|---|
| CBN | Central Bank of Nigeria |
| DT Saccos | Deposit Taking Savings and Credit Cooperative Organizations |
| IFRS | International Financial Reporting Standards |
| KUREC | Kabarak University Research Ethics Committee |
| MFIs | Microfinance Institutions |
| NABARD | National Bank for Agriculture and Rural Development |
| NACOSTI | National Council of Science and Technology and Innovation |
| NCUA | National Credit Union Administration |
| NPL | Non-Performing Loan |
| PAR | Portfolio-At-Risk |
| SACCOs | Savings and Credit Cooperative Organizations |
| SASRA | SACCO Societies Regulatory Authority |
| SMEs | Small and Medium Enterprises |
| SPSS | Statistical Package for Social Sciences |
| UMRA | Uganda Microfinance Regulatory Authority |

## CONCEPTUAL AND OPERATIONAL DEFINITION OF TERMS

**Capital Adequacy:** Capital adequacy refers to the sufficiency of a Sacco's capital base to absorb potential losses and sustain operations (Andersen & Juelsrud, 2024). In this study, capital adequacy is measured using the capital adequacy, the Tier 1 capital ratio, and capital buffers.

**DT Saccos:** Deposit-Taking Saccos (DT Saccos) are Savings and Credit Cooperative Societies licensed and regulated by the Sacco Societies Regulatory Authority (SASRA) to accept deposits from members and offer credit facilities in Kenya. (Mmari, 2023).

**Financial Reporting:** Financial reporting refers to the process by which a Sacco records, summarizes, and communicates its financial information to stakeholders in a transparent and standardized manner (Revsine, Collins, & Johnson, 2021). In this study, it is measured by accuracy and completeness, compliance with accounting standards, timeliness, and transparency and disclosure.

**Governance Structure:** Governance structure refers to the framework of rules, practices, and controls. (Chen, 2024). In this study, assessment is based on board composition and independence, the risk management framework, and internal controls.

**Liquidity Management:** Involves the strategies used by DT Saccos to ensure availability of sufficient liquid assets to meet short-term obligations, including management of liquidity ratios, cash flow, and asset-liability alignment (Bianchi & Bigio, 2022). In this study, it is measured through liquidity ratio, cash flow management, and asset-liability management

**Loan Performance:** It refers to policies that Sacco employs to ensure it maintains adequate cash flow to meet its short-term obligations and lending requirements (Karanja & Simiyu, 2022). In this study, it is measured using indicators such as default cases and the amount of non-performing loans.

**SASRA Compliance:** SASRA compliance refers to the extent to which DT Saccos adhere to the regulatory and supervisory guidelines established by the Sacco Societies Regulatory Authority. (Mwita, 2022). This study encompasses compliance with prudential standards, including capital adequacy, liquidity management, financial reporting, and governance requirements.

**Firm Size:** Firm size refers to the overall scale or magnitude of a Sacco's operations, typically measured by indicators such as total assets, membership base, and loan portfolio volume. Drempetic, Klein, & Zwergel, 2020). In this study, firm size reflects the capacity of a Sacco to mobilize resources, extend credit, and absorb financial shocks, which may influence both compliance with regulatory requirements and loan performance.

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

Regulatory authority compliance is defined as the level of agreement with the statutes, guidelines, and frameworks issued by regulatory institutions, and the functioning of these institutions within the legal and moral limits, thereby protecting the integrity of the financial system and enhancing public confidence. In the financial industry, systemic risk management and institutional stability can never be achieved without regulatory compliance (Nyamwange, 2020). Njoroge, Kinyua, and Mwangi (2020) suggest that regulations build transparency and that regulatory compliance helps financial institutions stay afloat, mitigate operational risks, and increase investor trust. Equally, Wambua, Musiega, and Maingi (2022) claim that compliance acts as a buffer against unethical practices and financial woes, thereby reinforcing institutional stability.

The ability of borrowers to fulfil credit terms in line with the stipulated terms is typically used as a measure of loan performance, a measure directly affected by the extent of institutional adherence to the ratings and by inefficient loan monitoring. For example, non-adherence may lead to poor credit ratings, inefficient loan monitoring, and non-performing loans (NPLs) (Muriuki, Njenga, and Kariuki, 2021). Rathi and Singh (2020) found that institutions that are consistently compliant with the rules exhibit better credit risk management and loan repayment rates. Similarly, Mwita (2022) claimed that enforcement and oversight of regulations can significantly reduce the risk of default, thereby introducing sustainability to the credit business. More so, compliance with prudential regulations strengthens financial discipline.

Certain regulatory compliance practices, such as financial reporting, liquidity management, governance structure, and capital adequacy, have a significant impact on

loan performance (Harris & Hughes, 2022). Smooth financial reporting creates transparency and understanding of financial positions, enabling informed credit decisions. Liquidity management also enhances loan performance by ensuring that institutions have adequate liquid resources to cover short-term commitments and continue operating even under financial pressure (Maina, Kipruto, and Chege, 2021). Governance systems that integrate well-defined accountability mechanisms and board controls ensure that loan approval procedures and risk evaluation are conducted responsibly. Pereira and Lima (2022) opined that well-managed institutions are less likely to engage in risky lending activities and, notably, are more likely to recover loans effectively.

Sufficient capital will act as a cushion to offset any unforeseen losses from defaulted loans and maintain the institution's lending ability. Gitau, Ndirangu, and Waweru (2023) assert that capital adequacy enhances confidence in bank stability; hence, prompting more borrowers to take loans and repay them on time, which eventually results in better loan performance. The above compliance mechanisms are therefore part of maintaining the sustainability and profitability of credit operations in regulated financial institutions.

In the United States, federal and state regulatory rules ensure that loan performance is maximized by subjecting SACCOs (credit unions) to a strong regulatory framework that, with NCUA requirements, defines loan diversification parameters, member risk measurement, and delinquency control. Empirical research has shown that U.S. credit unions with high compliance rates have higher loan recovery rates and lower default risk, thereby boosting the sector's overall development. In 2021, credit union loan delinquency in the United States was only 0.55, well below that of commercial banks (NCUA, 2021). This information indicates that regulatory compliance is directly related to loan

performance, underscoring the role of regulatory supervision in improving loan performance and highlighting its impact on credit union loan portfolios (Smith, 2022).

The regulation of SACCOs in India is carried out by the National Bank for Agriculture and Rural Development to ensure sufficient capital reserves, enhance governance, and control loan quality. It emphasizes the need for SACCOs to maintain adequate capital reserves, strengthen governance, and control loan quality (Patel & Sharma, 2021).

Adherence to such regulations for SACCOs is primarily in the handling of rural and agricultural loans, where the risk of default is greater due to seasonal income patterns and other socioeconomic factors. It has been found that SACCOs that follow NABARD guidelines report improved loan performance, with low non-performing asset (NPA) levels. By 2020, the average NPA ratio of SACCOs that were in line with the regulations of the NABARD was 3.2%, as opposed to 5.4% in non-compliant SACCOs (NABARD, 2020). This indicates the importance of regulatory compliance for improving loan performance and making SACCOs in India sustainable and viable in the long run (Baariu, 2023).

The Central Bank of Nigeria (CBN) regulates SACCOs in Nigeria, the cooperatives, to meet prudential standards that are designed to stabilize the financial status. The regulatory role of CBN is to maximise lenders' performance by ensuring that borrowers' creditworthiness is rigorously evaluated and that sufficient capital reserves are maintained (Abdul and Alabi, 2020). Nigerian SACCOs that comply with CBN regulations are more likely to achieve improved loan performance, reduced default rates, and sustainable lending (Olawole & Akinyele, 2021). In 2020, a CBN report showed that the non-performing loan (NPL) ratio for compliant SACCOs was 2.1, whereas it was 5.7 for non-compliant SACCOs (CBN, 2021). This highlights the importance of regulatory

frameworks in enhancing the loan portfolio management and minimizing the risks to SACCOs (Eze & Alhaji, 2021).

In Uganda, SACCOs are governed by the Uganda Microfinance Regulatory Authority (UMRA), which establishes standards for loan performance through capital adequacy thresholds, loan supervision, and adherence to best lending practices (Muwanguzi and Sserwanga, 2021). The performance of loans in Ugandan SACCOs has been reported to be better, in compliance with UMRA regulations, and has contributed to increased recovery rates and reduced default cases. Studies show that SACCOs that adhered to UMRA requirements had an average loan delinquency rate of 2.5% in 2020, compared with 5.2% in non-compliant SACCOs (UMRA, 2020). This highlights the importance of loan regulation in enhancing loan performance in the SACCO sector in Uganda (Tumwesigye and Nsubuga, 2021).

SACCO Societies Regulatory Authority (SASRA) in Kenya plays a central role in ensuring that cooperatives comply with financial rules and regulations aimed at maintaining loan performance and economic stability (Mwangi and Mburugu, 2020). The regulatory mandate of SASRA necessarily includes key areas such as capital adequacy, risk management, loan issuance, and recovery mechanisms. Empirical research shows that SACCOs that adhere to SASRA's regulatory framework perform better on loans, reflected in lower non-performing loan (NPL) rates and higher loan recovery rates (Wambua, 2021). As an example, in 2021, cooperatives that adhered to the regulations of SASRA had an average NPL ratio of 3.1– 5.4 of non-compliant entities (SASRA, 2021). This difference highlights the positive impact of regulatory compliance on loan performance in Kenya's SACCO industry. Besides, the actions taken by SASRA support the principles of transparency and accountability in SACCO work,

thereby contributing to increased trust among the population and the sustainability of these organizations (Ochieng & Nyakundi, 2021).

### 1.1.1 Loan Performance of Deposit-Taking Saccos in Kenya

The history of the deposit-taking savings and credit cooperatives (SACCOs) in Kenya dates back to the first half of the twentieth century. SACCOs were based on the larger cooperative movement, which aimed to empower communities through mutual support and collective ownership. First, SACCOs were informal self-help groups where members deposited their savings, used the money to loan to others, and supported each other. Gradually, these informal groups became registered SACCOs under the Cooperative Societies Act (Ntoiti & Jagongo, 2021). SACCOs in Kenya have had numerous opportunities that have defined key milestones and development rates in their evolution. One was the adoption of the Cooperative Societies Act in 2004, which provided a legal framework for the establishment of SACCOs and for the regulation and supervision of these structures in the country (Kibaara et al., 2022). This act served as the basis for the formalisation and institutionalisation of SACCOs, thereby enabling them to operate more effectively and transparently.

SACCOs are controlled and governed by the Savings and Credit Cooperative Societies Regulatory Authority (SASRA), an institution established under the SASRA Act of 2008 (Ouma, 2021). SASRA is mandated with the responsibility of licensing and prudential regulation and supervision of the SACCOs, hence ensuring that legal and regulatory requirements are met. The authority facilitates monetary stability by setting prudential principles and risk management requirements for SACCOs (Ouma, 2021). SASRA then establishes minimum capital adequacy ratios, liquidity ratios, and asset-quality standards to ensure the financial health of SACCOs and safeguard the interests of depositors and members.

The loan performance of deposit-taking SACCOs refers to the ability of such financial institutions to manage the loans they have given to their members and the eventual repayment behaviour of those loans (Makombe & Kaliika, 2020). It has various dimensions, such as the promptness of loan payments, the rate of loan defaults, the quality of the loan portfolio, and the general financial status of the SACCO through the fraying of lending activities. Loan performance is therefore the most essential measure of the stability and sustainability of deposit-taking SACCOs, and regulatory authorities and other stakeholders closely monitor it. Wambua, Waweru, and Kihoro (2021) opine that loan performance denotes a SACCO's ability to balance credit risk and liquidity while meeting its financial goals and objectives, even as it fulfills its mandate of offering members affordable credit. High loan performance thus indicates discipline in lending, effective risk management, and strong financial performance at the SACCO.

The proper functioning of loans will be critical to providing funds to member loans, preserving depositors' trust, and successfully recruiting new members and investors. Sound loan performance, as Kipsang and Kosgey (2020) argue, underpins the mobilisation of savings in a SACCO, income generation, and the provision of its members with financial means, all of which lead to efforts at economic development and the reduction of poverty: liquidity difficulties, financial losses, and even failure. SACCOs can be triggered by poor loan performance, which endangers members' interests and negatively affects the overall stability of the financial sector (Tang & Coelho, 2021). Therefore, monitoring and enhancing loan performance are among the priorities of deposit-taking SACCOs to ensure their sustainability and achieve their mandate to facilitate financial inclusion.

Various financial ratios and indicators are commonly used to assess loan performance in deposit-taking SACCOs, including the portfolio-at-risk (PAR) ratio, loan loss provision

ratio, delinquency rate, and loan recovery rate. The PAR is the percentage of the SACCO's loan portfolio that has either fallen into default or is overdue after 30 days or 90 days (SASRA, 2022). An increase in the PAR ratio indicates greater credit risk and the possibility of financial losses for the SACCO.

The loan loss provision ratio, conversely, indicates how the SACCO has set aside sufficient reserves to absorb expected loan losses, thereby limiting the effect of defaults on its financial status (Macharia and Kamau, 2020). The delinquency rate is the ratio of loans in the SACCO portfolio that are past due or in arrears, usually classified by delinquency duration (e.g., 30-59 days, 60-89 days, 90+ days). This indicator provides an understanding of the SACCO's efficiency in collecting assets, managing risks, and in the loan monitoring and recovery procedures (Kipsang and Kosgey, 2020).

The high level of delinquency can reflect lapses in the SACCO's credit assessment procedures, insufficient borrower screening, or a lack of loan monitoring and follow-up procedures. On the other hand, a low delinquency rate is an indicator of strong credit quality, sound risk management, and proactive efforts to mitigate the risk of defaults. Lastly, the loan recovery rate indicates that the SACCO is successful in recovering defaulted loans through a range of recovery measures, including renegotiation, restructuring, or legal action (Sandimba and Ndede, 2023). An increased rate of loan recovery, indicating that loans have been well borrowed and recovered, and might offset the effects of default on the financial performance and sustainability of SACCO.

### 1.1.2 Firm Size of Deposit-Taking Saccos

Firm size refers to the magnitude of a business enterprise, usually measured by the number of workers, total assets, sales, or market share (Pindyck and Rubinfeld, 2020). In the Savings and Credit Cooperative Societies (SACCOs), the size of the firm is often measured by aggregate assets and the number of members. Understanding how these

dimensions affect the performance of the SACCO is critical for stakeholders seeking to achieve operational efficiency and financial performance (Osman & Kamau, 2021). Within the context of Savings and Credit Cooperatives (SACCOs), firm size reflects financial capacity, operational scale, and risk-management capabilities that influence lending strategies and the performance of loans (Osman & Kamau, 2021). It is also assumed that larger SACCOs have better access to capital, greater operational efficiency, and stronger networks, which could make their loan performance superior to that of smaller SACCOs (Oketch & Ngalande, 2021).

A number of measures are usually used to measure SACCO size. Membership is one of the main indicators that a certain number of people or organizations have become members of the SACCO and actively participate in its work; a higher number of members often implies greater financial assistance and resource mobilization (Mwangi, 2021). The other relevant measure is asset value, which is the general value of all the assets the SACCO owns, including cash, issued loans, real estate, and investments; a high asset value is an indicator of the SACCO's financial soundness and its ability to lend.

Total savings deposits serve as a critical indicator, since they show how much money the members have entrusted to the SACCO; greater deposits provide a stronger basis for issuing loans and managing liquidity (Shu and Parker, 2023). Lastly, branch count is an indicator of the SACCO's physical presence, its ability to cover a wider geographic area, and its ability to have more branches. Usually, these factors signify a larger operational area and greater accessibility to members. Together, these dimensions provide a comprehensive view of SACCO size that can substantially improve the performance of regulatory compliance activities on loan performance (Ngugi, 2021).

## 1.2 Statement of the Problem

In recent years, Kenya has witnessed a concerning trend of poor loan performance among Deposit Taking SACCOs (SASRA Annual Report, 2022). The evidence of poor loan performance among Deposit Taking SACCOs in Kenya is manifested by fluctuating levels of non-performing loans (NPLs) and deteriorating loan portfolio quality (SASRA Annual Report, 2022). According to reports by the Sacco Societies Regulatory Authority (SASRA), the average NPL ratio among Deposit Taking SACCOs stood at 8.86% in 2021, up from previous years. Subsequently, in 2022, the NPL ratio dropped to 8.40%. In 2023, the NPL ratio increased significantly, with the average NPL ratio among Deposit Taking SACCOs surging to an alarming 8.66%, surpassing the regulatory threshold of 5%. Just like other parts of the country, Saccos within Nakuru are also experiencing fluctuating levels of non-performing loans. According to the Cosmopolitan SACCO 2021 and 2022 annual reports, defaulters are among the significant drawbacks that pull the organization down. These trends demonstrate the urgent need for SACCOs in Nakuru County to strengthen compliance with SASRA regulations to address rising non-performing loan levels and improve loan portfolio quality.

These rising levels of NPLs carry profound implications, including erosion of members' savings, reduced liquidity, diminished profitability, and threats to the long-term financial sustainability of SACCOs. Prolonged poor loan performance can also weaken member confidence, limit credit creation, and ultimately hinder the socio-economic role SACCOs play in community development (Ndung'u & Njeru, 2021). While regulatory compliance can affect loan portfolio quality, SACCOs' ability to comply with SASRA standards may vary by firm size. Larger SACCOs often possess stronger capital bases, more advanced financial reporting systems, better governance structures, and enhanced liquidity management capabilities, making it easier for them to meet SASRA requirements (Njeru

& Wachira, 2020). Conversely, smaller SACCOs may lack adequate financial and human resources, limiting their ability to fully comply with regulatory provisions, thereby exposing them to higher credit risk and poor loan performance. Despite this reality, empirical studies seldom integrate the role of firm size when examining the relationship between SASRA compliance and loan performance.

Studies have been conducted on the effect of SASRA compliance on loan performance among deposit-taking Saccos. For instance, Muriuki and Ragui (2021) surveyed the impact of regulations on the financial performance of deposit-taking savings and credit cooperative societies in Kenya. However, the study focused on the economic performance in general; the current research focused on loan performance. Wanyoike (2020) surveyed the effect of compliance with SASRA regulations on the financial performance of savings and credit co-operatives in Kenya, focusing on deposit-taking SACCOS in Nairobi County. However, the study focused on the economic performance in general, excluding loan performance. The current study addressed the gaps by focusing on the relationships among firm size, regulatory authority compliance, and loan performance of deposit-taking Sacco societies in Nakuru County, Kenya.

## 1.3 Objectives of the Study

### 1.3.1 General Objective of the Study

The general objective of the study was to assess the relationship between firm size, Sacco societies' regulatory authority compliance, and loan performance of DT Saccos in Nakuru County, Kenya.

### 1.3.2 Specific Objectives of the Study

i. To assess the relationship between financial reporting and the loan performance of DT Saccos in Nakuru County, Kenya

ii. To establish the relationship between liquidity management and the loan performance of DT Saccos in Nakuru County, Kenya.

iii. To determine the relationship between governance structure and loan performance of DT Saccos in Nakuru County, Kenya.

iv. To find out the relationship between capital adequacy and the loan performance of DT Saccos in Nakuru County, Kenya.

v. To establish the relationship between the size of Sacco, SASRA compliance, and loan performance of DT Saccos in Nakuru County, Kenya.

## 1.4 Hypotheses of the Study

$H0_1$: Financial reporting has no statistically significant effect on the loan performance of DT Saccos in Nakuru County, Kenya

$H0_2$: Liquidity management has no statistically significant effect on the loan performance of DT Saccos in Nakuru County, Kenya

$H0_3$: Governance structures have no statistically significant effect on the loan performance of DT Saccos in Nakuru County, Kenya

$H0_4$: Capital adequacy has no statistically significant effect on the loan performance of DT Saccos in Nakuru County, Kenya

$H0_5$: The size of Sacco has no statistically significant moderating effect on the relationship between SASRA compliance and loan performance of DT Saccos in Nakuru County, Kenya.

## 1.5 Justification of the Study

Deposit-Taking SACCOs (DT-SACCOs) in Kenya play a crucial role in promoting financial inclusion, mobilizing savings, and providing credit facilities to members,

thereby contributing to socio-economic development. Despite their significance, many DT-SACCOs continue to face challenges, including poor loan performance, high levels of non-performing loans, weak regulatory compliance, and limited financial sustainability. These challenges undermine SACCOs' ability to meet member needs, reduce profitability, and threaten their long-term viability.

A key factor influencing these challenges is the interplay between firm size, compliance with Sacco Societies Regulatory Authority (SASRA) requirements, and internal financial management practices, including liquidity management, governance structures, and capital adequacy. Smaller SACCOs may struggle with limited resources, weaker governance, and constrained capacity to comply with regulatory standards, leading to higher credit risk and poorer loan recovery. Even larger SACCOs may face operational inefficiencies if regulatory compliance and internal controls are weak.

This study is therefore justified by the urgent need to examine the relationship between firm size, SASRA compliance, and loan performance among DT-SACCOs in Nakuru County. By providing empirical evidence, the research aims to inform SACCO management, regulators, and policymakers on strategies to strengthen compliance, improve loan recovery, and enhance financial sustainability. The insights from this study are expected to support better operational practices, reduce non-performing loans, and contribute to the broader goal of economic stability and socio-economic development at the county and national levels.

### 1.6 Significance of the Study

The findings are helpful to SASRA managers in assessing the effectiveness of existing regulatory frameworks and policies in promoting the stability and sustainability of DT Saccos. By identifying the relationship between compliance with SASRA regulations

and loan performance, regulators can refine and strengthen regulatory standards to better safeguard depositors' interests and enhance the overall health of the Sacco sector.

The study provides valuable insights into the importance of regulatory compliance on loan performance outcomes management. It enables Sacco managers to identify areas of non-compliance and implement corrective measures to align their operations with SASRA regulations better better. Understanding the link between compliance and loan performance can also inform strategic decision-making, such as resource allocation and risk management, to optimize loan portfolio performance and enhance financial sustainability.

Investors, including individual shareholders and institutional investors, are interested in the financial health and performance of DT Saccos. Research findings on the impact of SASRA compliance on loan performance provide investors with valuable information for assessing the risk-return profile of their investments in Sacco shares or bonds. Enhanced transparency regarding the relationship between compliance with regulatory standards and loan performance can facilitate more informed investment decisions and promote investor confidence in the Sacco sector.

The study contributes to the body of knowledge in finance, regulation, and cooperative management by providing empirical evidence on the effectiveness of regulatory compliance in shaping loan performance. This research fills existing gaps in the literature by examining a specific aspect of regulatory oversight and its implications for financial institutions.

## 1.7 Scope of the Study

The general objective of the study was to assess the relationship between firm size, Sacco societies' regulatory authority compliance, and loan performance of deposit-taking Sacco societies in Nakuru County, Kenya. The study's independent variables were financial reporting, liquidity management, governance structures, and capital adequacy. The dependent variable was loan performance. The unit of analysis was 4 deposit-taking Saccos in Nakuru County, while the unit of observation was 14 credit officers, 27 internal audit and compliance officers, 12 finance officers, 4 CEOs, and 8 operations managers. Since the targeted population was small and manageable, the researcher used a census to include all respondents in the study. The study was conducted over 3 months (May to August) with an estimated budget of KSh. 75 000.

## 1.8 Limitations of the Study

During data collection, the study encountered several limitations. First, some employees were hesitant to participate due to fear of potential repercussions from their employers for disclosing internal financial practices, compliance procedures, or loan performance information. Second, respondents expressed concern about the confidentiality of sensitive financial data, particularly regarding non-performing loans, regulatory compliance, and capital adequacy, as this information could affect the SACCO's reputation or competitive position. Third, the busy schedules of credit officers, compliance officers, finance officers, operations managers, and CEOs posed logistical challenges, as some were unavailable or had limited time to complete the questionnaires, causing minor delays in the data collection process.

To address these challenges, the researcher implemented several ethical and practical strategies. Confidentiality and anonymity were ensured by excluding personal identifiers and company-specific information from the questionnaires. Respondents were informed

that the collected data would be used solely for academic purposes and presented in aggregate form to prevent identification of individual SACCOs or staff members. Additionally, all necessary research permits and authorization letters were obtained, including official letters of introduction, which were presented to respondents to enhance credibility and trust. To accommodate participants' time constraints, a flexible "drop and pick later" approach was adopted, allowing respondents to complete the questionnaires at their convenience. These measures helped to mitigate the limitations, improve response rates, and ensure the collection of accurate and reliable data from the target population.

# CHAPTER TWO

# LITERATURE REVIEW

## 2.1 Introduction

The chapter presents a theoretical framework and an empirical review of study variables, including financial reporting, liquidity management, governance structure, and capital adequacy in relation to loan performance. The chapter further provides a summary of the reviewed literature and, lastly, the conceptual framework.

## 2.2 Theoretical Framework

A theoretical review systematically examines the literature to identify and evaluate the strengths and weaknesses of different theoretical perspectives, thereby developing a comprehensive understanding of the topic. The study is guided by signaling theory, stakeholder theory, financial intermediation theory, capital structure theory, and resource dependence theory.

### 2.2.1 Signalling Theory

Signalling theory, developed by Spence in 1973, hypothesizes that organizations use meaningful information about their financial health in financial reporting to alleviate information asymmetry between managers and external stakeholders. Financial statements for Deposit-Taking Saccos serve as indicators of a stable position, and loan operations are influenced by attracting borrowers and investors who use them (Morris, 1987).

Signalling theory provides insights into the role of transparency in financial reporting in promoting trust and reducing uncertainty among stakeholders. According to Barth, Landsman, and Lang (2017), high-quality financial disclosures enhance investor confidence, thereby increasing loan repayment rates. Also, Saccos with strict reporting

practices appear to be less risky, thereby reducing borrowing costs and improving loan access (Beatty and Liao, 2014). In addition, the empirical research by Deegan (2019) indicates that signalling through financial statements enhances stakeholder engagement, thereby promoting long-term economic sustainability.

Signalling theory, though, has been criticized for assuming that financial signals are correctly interpreted by all stakeholders in the market. Other scholars state that small-scale Sache members might be financially illiterate and that signalling would not be successful (Drehmann & Nikolaou, 2016). Moreover, opportunistic managers can use financial reports to convey false signals, thereby undermining the theory's reliability (Watts & Zimmerman, 2014).

The signalling theory is relevant because it helps explain the relationship between transparent financial disclosures, borrowers' confidence, and loan repayment. Using this theory, the research can determine whether better financial reporting practices are associated with improved loan performance, as reflected in lower default rates. Thus, this theory helps describe the impact of financial reporting on the loan performance of DT-Saccos in Nakuru County, Kenya.

### 2.2.2 Stakeholder Theory

Stakeholder theory, developed by Freeman in 1984, posits that organizations must create value for all stakeholders, including members, employees, regulators, and the community, rather than focusing solely on shareholders. In the context of Deposit-Taking Sacco’s (DTS), this theory emphasizes that effective governance requires balancing diverse stakeholder interests to ensure sustainable loan performance (Bosse & Phillips, 2016). The theory suggests that when Saccos address member needs through fair loan terms, transparent operations, and ethical practices, they build trust and loyalty, which directly influences repayment rates (Donaldson & Preston, 2018). Unlike

traditional shareholder-centric models, stakeholder theory aligns with Saccos' cooperative principles, where member participation and satisfaction are critical to financial stability.

Despite its strengths, stakeholder theory has faced criticism for lacking clear guidelines on prioritizing competing stakeholder demands, which can lead to decision-making paralysis (Laplume, 2016). Some scholars argue that the theory's broad scope makes it difficult to objectively measure performance outcomes, particularly in financial terms (Key, 2017). Additionally, the theory underestimates the costs of extensive stakeholder engagement, which may strain the limited resources of smaller Saccos (Barney, 2018).

Stakeholder theory is highly relevant because it provides a framework for evaluating how inclusive governance practices, such as member participation in decision-making, transparent reporting, and ethical leadership, influence loan repayment rates and overall financial health. By applying this theory, the study can assess whether Saccos that actively engage stakeholders (through annual general meetings or feedback mechanisms) experience better loan performance outcomes. Additionally, the theory helps examine how regulatory compliance and community relations affect financial sustainability, offering insights into best governance practices for cooperative financial institutions. Therefore, the theory helps explain the effects of governance structure on the loan performance of DT-Saccos in Nakuru County.

### 2.2.3 Financial Intermediation Theory

The Financial Intermediation Theory, developed by Gurley and Shaw in 1960, postulates that financial institutions serve as intermediaries that allocate capital efficiently between savers and borrowers. This theory emphasizes the control of financial flows, especially liquidity, to facilitate uninterrupted lending and borrowing operations. Otieno and Otieno (2017) admit that one of the strengths of this theory is that it places practical focus on

liquidity transformation, as SACCOs can convert short-term liabilities (deposits) into long-term assets (loans) without disrupting operational stability. Njuguna and Mugo (2020) also observe that effective intermediaries ensure optimal loan performance by placing loans with creditworthy borrowers and using effective liquidity management systems.

Regardless of the insights it provides, opponents of the Financial Intermediation Theory believe it underestimates the dangers associated with asymmetry of information and incompatible liquidity. Allen and Santomero (2016) believe that the absence of sound risk assessment models can lead to liquidity misallocation by intermediaries, resulting in loan defaults and a subsequent liquidity crisis. In addition, the theory presupposes the absence of frictions and constraints in SSCO markets, thereby disregarding aspects of real-world situations, such as informal lending practices and governance constraints in developing economies (Mwangi and Njiru, 2018).

The theory is crucial for determining the role of SACCOs as financial intermediaries and for how they can effectively manage their liquidity. The theory offers a framework for evaluating the impact of liquidity decisions on loan allocation, recovery rates, and the performance of the entire loan portfolio in the context of DT SACCOs in Nakuru County, thereby helping address the study's critical goal. Thus, in explaining the impact of liquidity management on the loan performance of the DT-Saccos in Nakuru County, the theory aids understanding.

### 2.2.4 Capital Structure Theory

Capital Structure theory, proposed by Modigliani & Miller in 1958, examines how firms finance operations through debt and equity to maximize value. For Saccos, this theory helps determine the optimal mix of member shares, retained earnings, and external borrowing to support lending activities. The theory suggests that adequate capitalization

enables Saccos to absorb loan losses while maintaining solvency (Myers, 2001). It also explores how different financing choices affect a Sacco's cost of capital and ability to expand its loan portfolio (Harris & Raviv, 1991). In developing economies, this theory is particularly relevant, as Saccos must balance growth ambitions with financial stability constraints (Berger & Udell, 2006).

Critics note that the theory underestimates behavioral factors, such as member risk aversion, that influence capital decisions (Baker & Wurgler, 2013). Some argue it overemphasizes financial metrics while neglecting social capital, a critical aspect for cooperatives (Groeneveld & Sjauw-Koen-Fa, 2017). Others contend that dynamic regulatory environments in emerging markets make static capital structure models less applicable (Osei-Assibey, 2019). Finally, the theory provides limited guidance for small Saccos lacking access to diverse financing options (Beck et al., 2018).

This study examines the relationship between capital adequacy and loan performance. The theory helps analyze how different capital structures influence Saccos' ability to sustain lending during economic shocks. It provides metrics to assess whether adequately capitalized Saccos experience lower non-performing loans. Findings could inform optimal capital buffer levels for Kenyan Saccos and guide regulatory policy adjustments.

### 2.2.5 Resource Dependence Theory

Resource Dependence Theory, developed by Pfeffer & Salancik in 1978, posits that organizations depend on external resources, leading them to engage in strategic behaviors to manage these dependencies. For Saccos, this theory explains how size influences compliance capabilities and loan performance. Larger Saccos can better navigate SASRA regulations due to greater human/financial resources (Hillman et al., 2019). The theory highlights how Saccos form alliances or merge to gain regulatory expertise (Oliver, 2017). It also examines how dependence on member deposits shapes

lending strategies (Ulrich & Barney, 2018). In Kenya's competitive Sacco sector, these dynamics determine which institutions thrive under regulatory pressures (Wanyama, 2016).

Critics argue that the theory overemphasizes environmental determinism and underestimates managerial agency (Barney, 2018). Some note that it poorly explains small Saccos' survival despite resource constraints (Baker & Nelson, 2017). Others contend it neglects institutional isomorphism pressures that standardize compliance approaches (DiMaggio & Powell, 2018). The theory's focus on tangible resources overlooks intangible assets like brand reputation (Wernerfelt, 2019). Finally, its Western origins may limit applicability to African cooperative contexts (Jackson, 2016).

In the context of this study, the theory is relevant as it explains how the size of a Sacco influences its capacity to mobilize financial, human, and technological resources necessary for effective compliance with SASRA regulations. Larger Saccos are likely to possess greater resource endowments, enabling them to meet regulatory requirements more efficiently and implement robust governance, reporting, and liquidity management systems. Consequently, the theory provides a framework for understanding how resource availability and organizational capacity shape compliance outcomes, which in turn affect loan performance among DT Saccos in Nakuru County.

## 2.3 Empirical Review

### 2.3.1 Financial Reporting and Loan Performance

Chen and Wong (2021) studied the impact of financial reporting compliance on loan default rates in rural credit unions in Guangdong Province, China. A longitudinal research design was used to analyze financial reports from 2010 to 2020. A purposive sampling method identified 45 credit unions, with secondary data collected from regulatory filings. Using panel data regression, the study revealed that credit unions with

high compliance levels had 30% fewer loan defaults than non-compliant institutions. The study concluded that accurate financial reporting promotes transparency, which is crucial for minimizing loan default risks. However, the study was conducted in rural credit unions in China, which have different regulatory environments, governance structures, and operational contexts from DT-SACCOs in Kenya. The findings may not fully capture the challenges Kenyan SACCOs face in regulatory compliance and loan performance. Additionally, the study focused primarily on compliance levels and loan defaults, without considering other aspects of financial reporting quality, such as timeliness and disclosure frequency, which may also influence loan performance in the Kenyan context. Therefore, the current study addresses this gap by examining broader financial reporting practices among DT-SACCOs in Nakuru County.

Gonzales (2020) assessed how integrated financial reporting influences loan portfolio growth in microfinance institutions in Peru. The study used a cross-sectional design and collected data from 1,000 loan officers and borrowers through interviews and document analysis. Sampling was done using a multistage random approach. Results showed that institutions that embraced integrated financial reporting frameworks experienced 25% higher loan portfolio growth than others. The researchers concluded that integrated reporting enhances stakeholder trust, thereby improving loan performance. However, the study focused on microfinance institutions in Peru, which operate in a different economic, regulatory, and cultural context than Kenyan DT-SACCOs. The study also examined loan portfolio growth rather than specific measures of loan performance, such as non-performing loans or loan recovery rates. The current study addresses these gaps by investigating how general financial reporting practices influence loan performance among DT-SACCOs in Nakuru County.

Kumar and Patel (2023) examined the relationship between financial disclosure frequency and loan recovery rates in Indian cooperative banks. The study used a correlational research design and targeted 25 cooperative banks in Maharashtra. Random sampling was employed to select 150 credit managers. Data was collected through questionnaires and annual reports and analyzed using correlation analysis. The study concluded that regular, transparent financial disclosures are essential to improving loan performance. However, the study was conducted among cooperative banks in India, which have different regulatory requirements and institutional frameworks compared to Kenyan DT-SACCOs. The focus on disclosure frequency alone may overlook other aspects of financial reporting quality, such as the accuracy, completeness, and timeliness of reports, which could also influence loan performance. The current study addresses these gaps by examining multiple dimensions of financial reporting in the specific context of DT-SACCOs in Nakuru County.

Yusuf and Salim (2019) investigated the role of digital financial reporting systems on loan performance in commercial banks in Nigeria. Using an experimental design, the study focused on 10 banks that had recently adopted digital reporting systems. The sample included 200 finance managers selected through convenience sampling. Data was collected using interviews and analyzed using thematic analysis. The study concluded that technological advancements in financial reporting positively impact loan performance. However, the study was limited to commercial banks in Nigeria, which operate under a regulatory, technological, and operational context different from that of Kenyan DT-SACCOs. The focus on digital reporting systems may not fully reflect the broader financial reporting practices in SACCOs, such as manual or hybrid reporting methods. The current study addresses these gaps by analyzing general financial reporting

practices and their relationship with loan performance among DT-SACCOs in Nakuru County.

Ndlovu and Moyo (2019) conducted a study to examine the role of financial reporting standards on loan performance in Zimbabwean commercial banks. The study adopted a mixed-methods approach. The study collected quantitative data on loan default rates and financial reporting compliance levels from a sample of 20 banks. Additionally, qualitative interviews were conducted with bank managers to gain insights into the mechanisms through which financial reporting influences loan performance. Results indicated a strong positive correlation between adherence to financial reporting standards and loan performance, with banks demonstrating higher compliance levels experiencing lower default rates and improved asset quality. However, the study was conducted among commercial banks in Zimbabwe, which have different operational contexts, regulatory requirements, and institutional capacities from Kenyan DT-SACCOs. Additionally, the study did not explore the moderating role of firm size or governance structure on the relationship between reporting and loan outcomes. The current study addresses these gaps by examining multiple dimensions of financial reporting and their effects on loan performance among DT-SACCOs in Nakuru County.

Mwanzia, Wanjiku, and Musyoka (2022) conducted a study to evaluate the effect of financial reporting quality on Saccos' loan performance in Machakos County, Kenya. Using a descriptive research design, the study targeted 50 Saccos and employed stratified random sampling to select 300 respondents, including accountants and credit officers. Data were collected through structured questionnaires and analyzed using regression. The study concluded that adherence to international financial reporting standards (IFRS) significantly enhances loan performance. However, the study was limited to SACCOs in Machakos County, which may differ in operational scale, governance practices, and

regulatory compliance from those in Nakuru County. The study also did not examine how firm size or SASRA compliance may interact with financial reporting quality to affect loan performance. The current study addresses these gaps by evaluating multiple financial reporting practices and their relationship with loan performance among DT-SACCOs in Nakuru County.

### 2.3.2 Liquidity Management and Loan Performance

Singh and Raj (2022) examined the impact of cash reserve ratios on loan default rates in Indian microfinance institutions. The study utilized a longitudinal design, collecting data from 50 microfinance institutions over 10 years. Sampling involved selecting institutions that had implemented changes in cash reserve policies. The study concluded that strategic liquidity management enhances loan performance in microfinance settings. However, the study was conducted in Indian microfinance institutions, which operate in a different regulatory, economic, and cultural context than Kenyan DT-SACCOs. The focus on cash reserve ratios alone may not capture other essential liquidity management practices, such as cash flow monitoring, investment of excess liquidity, or internal liquidity policies. The current study addresses these gaps by examining comprehensive liquidity management practices among DT-SACCOs in Nakuru County, Kenya.

Fernandez and Silva (2019) studied liquidity forecasting techniques and their impact on loan portfolio stability in Brazilian cooperative banks. The study employed a descriptive design and targeted 80 cooperative banks. Purposive sampling selected 400 respondents, including financial analysts and loan officers. Data were collected through surveys and bank reports and analyzed using structural equation modeling. The study concluded that effective liquidity forecasting is crucial for sustaining loan performance. However, the study was limited to cooperative banks in Brazil, which operate under a different financial and regulatory environment compared to Kenyan DT-SACCOs. The study

concentrated primarily on forecasting techniques, without considering other aspects of liquidity management, such as reserve policies or stress testing. The current study addresses these gaps by investigating a broader set of liquidity management practices in Kenyan DT-SACCOs and their effect on loan performance.

Ahmed and Khan (2023) evaluated the relationship between liquidity buffer levels and loan repayment rates in Islamic banks in Pakistan. The study adopted a cross-sectional design and targeted 15 Islamic banks, from which 150 finance managers were selected using quota sampling. Data was collected through interviews and financial records, and analyzed using logistic regression. The study concluded that maintaining adequate liquidity buffers significantly enhances loan performance. However, the study focused on Islamic banks in Pakistan, which differ from Kenyan DT-SACCOs in operational models, regulatory frameworks, and financial practices. The research focused solely on liquidity buffers, potentially overlooking other critical liquidity management strategies, such as cash flow planning, internal liquidity policies, and investment management. The study also did not explore the role of firm size or regulatory compliance in moderating the relationship between liquidity and loan performance. The current study addresses these gaps by examining multiple liquidity management practices in DT-SACCOs within Nakuru County.

Nkosi and Dlamini (2020) assessed the role of liquidity stress testing on loan quality in South African commercial banks. A mixed-methods research design was used, targeting five major banks. A sample of 250 risk managers was selected through stratified random sampling. Data was collected via questionnaires and analyzed using ANOVA. The findings revealed that banks conducting regular stress tests experienced fewer loan defaults and maintained higher loan quality. The study concluded that liquidity stress testing is an effective tool for enhancing loan performance. However, the study was

limited to South African commercial banks, which operate in a regulatory, institutional, and economic context different from that of Kenyan DT-SACCOs. The focus on stress testing alone may not capture the full range of liquidity management practices used by SACCOs, including cash reserves, forecasting, and buffer policies. The current study addresses these gaps by evaluating a more comprehensive set of liquidity management practices in Kenyan DT-SACCOs.

Okoth and Achieng (2021) explored the effects of liquidity management policies on loan performance in savings and credit cooperatives in Nairobi County, Kenya. The study adopted a causal research design and targeted 120 SACCOs, from which 360 respondents were selected using proportionate sampling. Structured interviews and financial records were the primary data collection tools, with analysis conducted using multiple regression. Results indicated that SACCOs with strict liquidity policies achieved a 15% reduction in non-performing loans. The study concluded that robust liquidity management practices positively affect loan performance. However, the study was conducted exclusively in Nairobi County, limiting the generalizability of the findings to SACCOs in other counties, such as Nakuru, which may face different regulatory, economic, and operational challenges. The research did not examine how firm size or SASRA compliance might influence the effectiveness of liquidity management policies. The current study fills these gaps by analyzing multiple liquidity management strategies across DT-SACCOs in Nakuru County and their relationship with loan performance.

### 2.3.3 Governance Structure and Loan Performance

Rahman and Chowdhury (2022) examined the relationship between governance structure and loan recovery rates in Bangladesh's agricultural cooperatives. The study employed a cross-sectional research design, sampling 30 cooperatives and 300 respondents,

including governance committee members and financial officers, selected purposively. Data was collected through interviews and cooperative records and analyzed using correlation analysis. The results indicated that cooperatives with centralized governance structures achieved higher loan recovery rates due to streamlined decision-making processes. The study concluded that the effectiveness of governance structures directly affects loan recovery performance in cooperatives. However, the study was conducted among agricultural cooperatives in Bangladesh, which operate under different regulatory frameworks, institutional capacities, and socio-economic conditions compared to Kenyan DT-SACCOs. The research focused primarily on centralized governance structures, leaving other models, such as participatory or hybrid structures, unexplored. The current study addresses these gaps by analyzing various governance structures and their relationship with loan performance in DT-SACCOs in Nakuru County, Kenya.

Ahmed and Saleh (2020) studied the role of governance structures in enhancing loan performance in Islamic microfinance institutions in Egypt. Using a case study design, the research focused on three leading institutions and included 150 respondents, including board members and credit supervisors, selected via quota sampling. Data were collected through structured interviews and policy document reviews and analyzed using thematic analysis. The study concluded that inclusive governance structures contribute to sustainable loan performance. However, the study was limited to Islamic microfinance institutions in Egypt, which differ from Kenyan DT-SACCOs in their regulatory environments, cultural contexts, and institutional practices. The focus on participatory governance models alone may not capture the full range of governance mechanisms that could influence loan performance, including board oversight, risk management practices, and executive compensation. The current study addresses these gaps by examining

multiple governance structures within DT-SACCOs in Nakuru County and their effect on loan performance.

Abdi and Mohammed (2021) conducted a study on the influence of board governance structures on loan performance among Ethiopian credit unions. The study adopted a quantitative research design. Data was collected from 30 credit unions through structured surveys administered to board members and senior management. The findings revealed a positive association between governance quality and loan performance, with credit unions exhibiting stronger governance structures, demonstrating lower default rates and improved asset quality. However, the study was conducted among credit unions in Ethiopia, which have different regulatory and operational environments compared to Kenyan DT-SACCOs. Additionally, the study did not assess how firm size or SASRA compliance might influence the relationship between governance structures and loan performance. The current study addresses these gaps by analyzing governance practices within DT-SACCOs in Nakuru County.

Ong and Tan (2019) conducted a study on the impact of governance mechanisms on loan performance in Malaysian Islamic banks. The study employed a mixed-methods approach. In addition, the study combined quantitative analysis of financial data from 10 Islamic banks with qualitative interviews with board members and regulators. Governance mechanisms, including board oversight, executive compensation, and risk management practices, were examined for their influence on loan default rates and asset quality. The findings revealed that banks with stronger governance mechanisms exhibited lower default rates and higher loan portfolio quality, highlighting the importance of effective governance in mitigating credit risk and enhancing loan performance. However, the study focused on Islamic banks in Malaysia, which differ significantly from Kenyan DT-SACCOs in terms of regulatory frameworks, size, and

operational structures. Additionally, while several governance mechanisms were analyzed, contextual factors specific to SACCO operations, such as member participation and local governance practices, were not addressed. The current study addresses these gaps by evaluating governance mechanisms in Kenyan DT-SACCOs and their effects on loan performance.

Mutiso and Ndungu (2023) explored the influence of governance structure on loan recovery rates in microfinance institutions (MFIs) in Nairobi, Kenya. The study employed a descriptive research design and targeted 40 MFIs. Stratified random sampling was used to select 160 respondents, including loan officers and senior managers. Data were collected through structured questionnaires and analyzed using regression. The study concluded that a robust governance structure enhances accountability and efficiency in loan recovery. However, the study was limited to MFIs in Nairobi County, and the findings may not be fully generalizable to DT-SACCOs in other counties, such as Nakuru, which may face different operational and regulatory challenges. The study also did not examine how firm size or SASRA compliance might moderate the relationship between governance structures and loan performance. The current study addresses these gaps by investigating multiple governance dimensions in DT-SACCOs in Nakuru County.

Ngugi and Otieno (2022) analyzed the influence of governance structure on loan portfolio quality in community-based SACCOs in Kiambu County, Kenya. The study adopted a cross-sectional design, targeting 50 SACCOs. From these, 250 respondents, including managers and loan officers, were selected through purposive sampling. Data collection involved structured questionnaires and document reviews, which were analyzed using correlation techniques. The study concluded that strong governance frameworks improve loan performance by reducing delinquency rates. However, the

study was limited to community-based SACCOs in Kiambu County, which may differ in operational scale, resource capacity, and regulatory compliance compared to DT-SACCOs in Nakuru County. Additionally, the study did not consider the roles of firm size or regulatory compliance in shaping governance effectiveness and loan performance. The current study addresses these gaps by examining multiple governance structures and contextual factors in DT-SACCOs in Nakuru County.

### 2.3.4 Capital Adequacy and Loan Performance

Huang and Wang (2019) investigated the impact of capital structure on loan performance in Chinese peer-to-peer lending platforms. Using a mixed-methods approach, the study collected quantitative data on loan default rates and capital structure metrics from 20 lending platforms, along with qualitative interviews with platform managers. The findings indicated a U-shaped relationship between capital structure and loan performance, with platforms exhibiting moderate levels of leverage achieving the lowest default rates. However, the study was conducted among peer-to-peer lending platforms in China, which operate in a regulatory, technological, and institutional context different from that of Kenyan DT-SACCOs. The research focused primarily on capital structure and leverage ratios, without considering other dimensions of capital adequacy such as regulatory compliance, liquidity buffers, or risk-weighted capital. The current study addresses these gaps by examining capital adequacy among DT-SACCOs in Nakuru County.

Ahmed and Khan (2020) investigated capital adequacy and its impact on loan recovery performance in Islamic financial institutions in Pakistan. Using a case study design, the research focused on three prominent institutions, with 180 respondents, including managers and credit analysts, selected via purposive sampling. Data collection methods included structured interviews and policy reviews, which were analyzed using thematic

analysis. The study concluded that capital adequacy ensures operational resilience and enhances loan recovery efficiency. However, the study was limited to Islamic financial institutions in Pakistan, which operate in regulatory, cultural, and operational contexts different from those of Kenyan DT-SACCOs. Moreover, the study did not consider the moderating influence of SASRA compliance or other institutional factors that could impact the effectiveness of capital adequacy in enhancing loan performance. The current study addresses these gaps by examining capital adequacy within DT-SACCOs in Nakuru County.

Saleem (2020) examined the influence of capital adequacy on investment opportunities in Islamic banks in the United Arab Emirates. The research employed a case study design, analyzing three leading Islamic banks, with 120 participants, including investment officers and board members, selected through purposive sampling. Data was collected through structured interviews and document analysis, and findings were evaluated using thematic analysis. The study concluded that capital adequacy fosters strategic investment and diversification. However, the study focused on Islamic banks in the UAE, which operate under different regulatory and institutional frameworks than Kenyan DT-SACCOs. The study emphasized investment diversification as the primary outcome, rather than loan performance indicators such as non-performing loans or loan recovery rates. The current study addresses these gaps by investigating the effect of capital adequacy on loan performance among DT-SACCOs in Nakuru County.

Mwai and Kimani (2020) explored the relationship between capital adequacy and loan performance in Kenyan commercial banks. The study employed a quantitative research design. Data was collected from 15 banks over a five-year period to analyze the impact of capital adequacy ratios on loan default rates and asset quality. The findings revealed a significant positive association between capital adequacy and loan performance: banks

with higher capital buffers experienced lower default rates and improved asset quality. However, the study was conducted among commercial banks in Kenya, which differ from DT-SACCOs in terms of regulatory oversight, operational structure, and member ownership. The research primarily focused on capital adequacy ratios, without examining how firm size or governance structures may moderate their effect on loan performance. The current study addresses these gaps by focusing specifically on DT-SACCOs in Nakuru County.

Mwangi (2023) examined the effect of capital adequacy on loan performance in microfinance institutions in Nakuru County, Kenya. The study employed a descriptive research design and targeted 30 microfinance institutions. A sample of 120 credit officers and financial managers was selected through stratified random sampling. Data was collected using structured questionnaires and analyzed using multiple regression. The study concluded that strong capital bases provide financial buffers, enabling institutions to manage credit risks effectively and improve loan performance.

However, the study focused on microfinance institutions in Nakuru County, which may differ from DT-SACCOs in terms of regulatory compliance, capital mobilization, and operational scale. The study did not examine the interactions among capital adequacy, firm size, and governance structures in influencing loan performance. The current study fills these gaps by assessing the role of capital adequacy alongside firm size and SASRA compliance in DT-SACCOs in Nakuru County.

### 2.3.5 Firm Size and Loan Performance

Obi, Abubakar, and Ojo (2019) did a study on the relationship between firm size and financial performance in Nigerian banks. The objective was to determine how bank size affects profitability and overall economic performance. The study employed a quantitative research design with a cross-sectional approach. A stratified random

sampling technique was used to select a sample of 186 bank branches across Nigeria. Data were collected through surveys and secondary sources, particularly banks' annual reports. Descriptive statistics were employed to analyze the general characteristics of the data. In contrast, inferential statistics, such as regression analysis, were used to examine the relationship between firm size and financial performance. The conclusion was that larger banks in Nigeria benefit from economies of scale, which significantly contribute to their financial success.

However, the study focused on commercial banks in Nigeria, which operate under a different regulatory environment, economic context, and institutional framework compared to Kenyan DT-SACCOs. The research primarily examined overall financial performance and profitability, without exploring loan-specific outcomes such as non-performing loans or loan recovery rates. The current study addresses these gaps by analyzing firm size among DT-SACCOs in Nakuru County and its influence on loan performance.

Waweru and Njoroge (2020) explored the relationship between firm size and corporate social responsibility (CSR) activities in Kenyan manufacturing firms. A sample of 113 manufacturing companies in Nairobi County was selected using stratified random sampling. Data were collected using a structured questionnaire administered to senior executives, and secondary data from company CSR reports were also used. Descriptive analysis was conducted, followed by regression analysis to determine the impact of firm size on CSR. The study concluded that firm size is a key determinant in the extent of CSR involvement, with larger firms having more resources to invest in social responsibility. However, the study focused on CSR activities rather than financial or loan performance outcomes, limiting its applicability to understanding how firm size affects loan performance in SACCOs. Additionally, the research was restricted to manufacturing

firms in Nairobi, which differ in operational scale and regulatory compliance requirements from DT-SACCOs in Nakuru County. The current study addresses these gaps by investigating the effect of firm size on loan performance in DT-SACCOs within Nakuru County.

Njiru and Muriithi (2021) conducted a study on the impact of firm size on innovation in technology firms in Nairobi, Kenya. The research design employed a cross-sectional survey, and 123 technology firms were selected via systematic random sampling. Data was collected via a mix of interviews and company reports. Descriptive statistics were used to summarize the data, and multiple regression analysis was applied to examine the relationship between firm size and innovation. The study concluded that firm size positively affects innovation, with larger firms being more likely to adopt new technologies and create innovative products. However, the study focused exclusively on technology firms and innovation outcomes, which may not reflect the dynamics of loan performance in financial institutions such as DT-SACCOs. The influence of firm size on financial compliance, governance structures, or regulatory adherence was not examined. The current study addresses these gaps by analyzing firm size alongside SASRA compliance and other economic factors in DT-SACCOs in Nakuru County.

Kimani and Ndirangu (2020) explored the influence of firm size on employee satisfaction within Kenyan manufacturing firms. The study aimed to determine whether employees in larger firms report higher satisfaction levels compared to those in smaller firms. A sample of 250 employees from 30 manufacturing firms was selected using stratified random sampling. Data was collected through surveys and employee interviews. Descriptive statistics and correlation analysis were employed to analyze the data. The study concluded that firm size is a significant factor in influencing employee satisfaction, with larger firms generally offering better benefits and a more favorable

work environment. However, the study examined employee satisfaction rather than financial or loan performance outcomes, limiting its direct relevance to understanding loan portfolio quality in SACCOs. Additionally, the research was restricted to manufacturing firms, which differ from DT-SACCOs in terms of regulatory compliance, governance structures, and financial operations. The current study addresses these gaps by investigating the effect of firm size on loan performance in DT-SACCOs in Nakuru County.

Gikunda and Mwangangi (2022) investigated how firm size affects customer satisfaction in the service industry in Nairobi, Kenya. The research design was cross-sectional, with a sample of 116 service firms in Nairobi selected through simple random sampling. Data was collected using structured questionnaires administered to customers and service managers. Descriptive analysis and regression analysis were conducted to assess the impact of firm size on customer satisfaction. The study concluded that firm size plays a crucial role in enhancing customer satisfaction, with larger service firms benefiting from economies of scale and improved customer service infrastructure. However, the study focused on customer satisfaction rather than loan performance or financial outcomes, which limits its direct applicability to DT-SACCO operations. The study was also conducted in the service industry, which has different operational characteristics and regulatory oversight compared to SACCOs. The current study fills these gaps by examining the relationship between firm size, SASRA compliance, and loan performance in DT-SACCOs in Nakuru County.

## 2.4 Summary of the Reviewed Literature and Gaps

The summary of literature and gaps are indicated in Table 1

**Table 1**

*Summary of the Reviewed Literature and Gaps*

| Author(s) | Topic of the Study | Findings of the Study | Gaps of the Study | How the Current Study Seeks to Address the Gaps |
|---|---|---|---|---|
| Chen and Wong (2021) | Impact of Financial Reporting Compliance on Loan Default Rates in Rural Credit Unions in Guangdong Province, China | Credit unions with high compliance levels had 30% fewer loan defaults than non-compliant institutions. | The study was limited to rural credit unions in Guangdong Province, China, which may not be directly applicable to DT Saccos in Nakuru County, Kenya.<br>A longitudinal design might not capture the current dynamics of DT Saccos. | The current study focused on DT Saccos in Nakuru County, Kenya, providing a localized understanding of the effects of financial reporting on loan performance. The use of a cross-sectional design will offer current insights into the existing scenario in Nakuru County. |
| Gonzales (2020) | Influence of Integrated Financial Reporting on Loan Portfolio Growth in Microfinance Institutions in Peru | Institutions with integrated financial reporting had 25% higher loan portfolio growth than those without it. | Focused on microfinance institutions in Peru, which may not share the same governance or operational structures as DT Saccos in Kenya.<br>The cross-sectional design may not fully capture long-term trends in loan performance. | The current study used a cross-sectional design to examine integrated financial reporting's influence on loan performance within DT Saccos, offering a more specific and localized analysis of integrated financial practices. |
| Kumar and Patel (2023) | Relationship Between Financial Disclosure Frequency and Loan Recovery Rates in Indian Cooperative Banks | Frequent financial disclosures improved loan recovery rates as borrowers perceived increased accountability. | Focused on Indian cooperative banks, which may operate under different regulatory frameworks than DT Saccos in Kenya.<br>The study was correlational, which limits the exploration of causality between disclosures and loan recovery rates. | The current study employed a cross-sectional design to directly assess how the frequency of financial disclosures impacts loan recovery rates in the context of DT Saccos in Nakuru County. This will provide more contextual relevance to the study. |

| | | | | |
|---|---|---|---|---|
| Yusuf and Salim (2019) | Role of Digital Financial Reporting Systems on Loan Performance in Commercial Banks in Nigeria | Digital systems improved data accuracy and reduced loan processing errors, leading to a 40% improvement in loan repayment rates. | Focused on commercial banks in Nigeria, a more formal banking sector, while the current study focuses on DT Saccos, which may face different challenges in loan performance.<br>The experimental design may not apply well to a SACCO context. | The current study focused on DT Saccos in Nakuru County and explore how digital financial reporting impacts loan performance within the context of less formal, cooperative-based financial institutions. |
| Ndlovu and Moyo (2019) | Role of Financial Reporting Standards on Loan Performance in Zimbabwean Commercial Banks | Higher compliance with financial reporting standards led to lower default rates and improved asset quality. | The study was conducted in Zimbabwean commercial banks, which are likely to have more complex governance structures compared to DT Saccos. Focused only on financial reporting standards, not broader factors like liquidity or governance. | The current study included multiple factors (financial reporting, liquidity management, governance, and capital adequacy) to give a more comprehensive understanding of loan performance in DT Saccos in Nakuru County, Kenya. |
| Mwanzia, Wanjiku, and Musyoka (2022) | Effect of Financial Reporting Quality on Loan Performance of SACCOs in Machakos County, Kenya | SACCOs with accurate, timely, and transparent financial reports had higher loan recovery rates and lower non-performing loan ratios. | The study focused on SACCOs in Machakos County, which may have different operational dynamics compared to DT SACCOs in Nakuru County.<br>Did not explore other factors like governance structure or liquidity management, as in the current study. | The current study addressed the gap by focusing specifically on DT Saccos in Nakuru County, incorporating additional factors such as liquidity management, governance structure, and capital adequacy to enhance the understanding of loan performance. |
| Singh and Raj (2022) | Impact of Cash Reserve Ratios on Loan Default Rates in Indian Microfinance Institutions | Maintaining higher cash reserves reduced loan default rates by 20%. | The study was conducted on Indian microfinance institutions, which may not have the same challenges as DT Saccos in Kenya.<br>Focused on cash reserve ratios alone, which may overlook broader liquidity management strategies. | The current study explored broader aspects of liquidity management, including cash flow management and liquidity policies, and their impact on loan performance in DT Saccos in Nakuru County. |

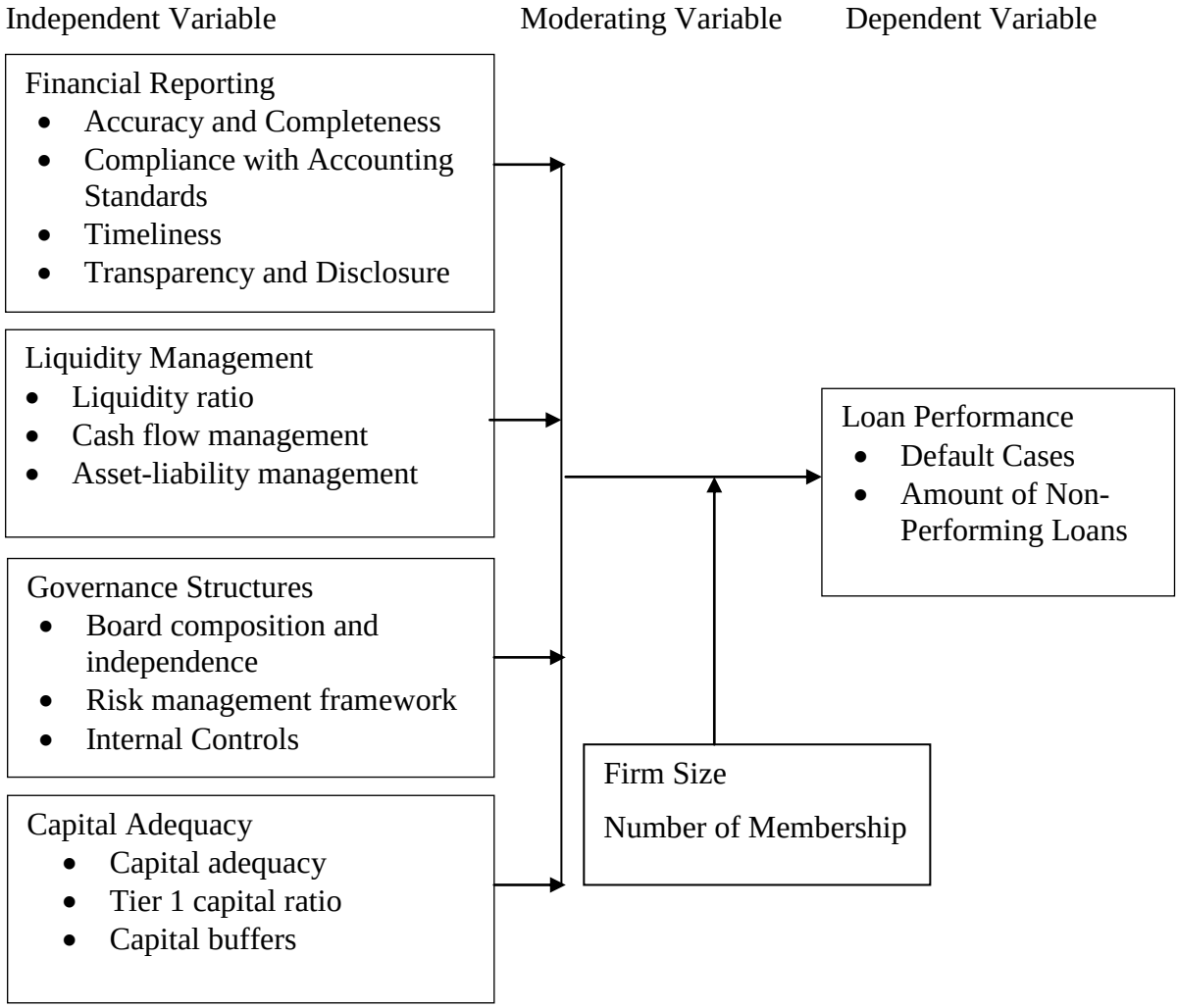
| | | | | |
|---|---|---|---|---|
| Fernandez and Silva (2019) | Liquidity Forecasting Techniques and Loan Portfolio Stability in Cooperative Banks in Brazil | Practical liquidity forecasting tools helped maintain stable loan portfolios even during economic downturns. | The study was based on cooperative banks in Brazil, which may have different operational and regulatory structures from DT Saccos in Kenya.<br>The study focused only on forecasting techniques without considering actual liquidity management practices. | The current study focused on how liquidity management policies, including forecasting techniques and buffer strategies, influence loan performance in DT Saccos in Nakuru County, Kenya. |
| Ahmed and Khan (2023) | Liquidity Buffer Levels and Loan Repayment Rates in Islamic Banks in Pakistan | Higher liquidity buffers led to a 25% increase in loan repayment rates. | The study focused on Islamic banks, which may have operational dynamics different from those of DT Saccos in Kenya.<br>The study did not explore the effect of other liquidity management factors, such as stress testing or forecasting. | The current study included a broader view of liquidity management practices (such as liquidity buffers and stress testing) and their effects on loan performance in DT Saccos in Nakuru County, Kenya. |
| Rahman and Chowdhury (2022) | Governance Structure and Loan Recovery Rates in Agricultural Cooperatives in Bangladesh | Cooperatives with centralized governance structures achieved higher loan recovery rates due to streamlined decision-making processes. | The study focused on agricultural cooperatives in Bangladesh, which may differ from financial institutions like DT Saccos.<br>The study did not explore the detailed mechanisms of governance structures. | The current study focused specifically on governance structures in DT Saccos and explored how clearly defined governance mechanisms influence loan performance in Nakuru County. |

### 2.5 Conceptual Framework

A conceptual framework is a set of principles that provides guidance and direction for understanding, interpreting, and analyzing a particular subject or field of study. The conceptual framework helped explain the relationships among the study variables, including the independent variables (financial reporting, liquidity management, governance structure, and capital adequacy), the moderating variable (Firm Size), and the dependent variable (loan performance of DT Saccos), as indicated in Figure 1.

**Figure 1**

*Conceptual Framework*




*Source:* Authour, (2025)

# CHAPTER THREE

# RESEARCH METHODOLOGY

## 3.1 Introduction

The chapter presented the research design, the target population, and the data collection instruments. The study focused on data collection procedures and a pilot study that assessed the validity and reliability of the data collection procedures. The study further discussed data analysis and ethical considerations.

## 3.2 Research Design

The study adopted a descriptive research design. A descriptive research design was adopted in this study because it is particularly well-suited for understanding and detailing the characteristics of the phenomena under investigation, without manipulating variables. This design allows the researcher to explore the current state of affairs regarding the relationship between firm size, Sacco society regulatory authority compliance, and loan performance of deposit-taking Saccos in Nakuru County, Kenya.

## 3.3 Target Population

Target population refers to the entire group of individuals, organizations, or entities that share a common characteristic. The 4 deposit-taking Saccos in Nakuru County were purposefully selected, while the units of observation were 14 credit officers, 27 internal audit and compliance officers, 12 finance officers, 4 CEOs, and 8 operations managers. Other staff were excluded from the study. The distribution of the target population was 65, as indicated in Table 2.

**Table 2**

*Targeted Population*

| SACCOS | Credit Officers | Internal Audit and Compliance Officers | Finance Officer | CEO and Operations Manager | Total |
|---|---|---|---|---|---|
| Vision African Sacco Society Limited | 3 | 9 | 2 | 3 | 17 |
| Cosmopolitan Sacco | 5 | 5 | 3 | 3 | 16 |
| Egerton Sacco | 3 | 7 | 4 | 3 | 17 |
| Un-County Sacco | 3 | 6 | 3 | 3 | 15 |
| Total | 14 | 27 | 12 | 12 | 65 |

*Source:* Sacco Societies Regulatory Authority (2025)

Since the target population is manageable, this study adopted a census approach, collecting data from every member of the population rather than selecting a sample.

### 3.4 Data Collection Instruments

The researcher collected primary data. Primary data were collected using a questionnaire to obtain the necessary data for the study. The questionnaire contained structured questions, which the researcher gave respondents to answer. The choice of questionnaire is associated with the ease of distribution and data collection, ease of data analysis, standardization of the questions, and cost efficiency. The questionnaire was designed using a multiple-item measurement scale. A five-point Likert scale was employed, with response categories ranging from strongly agree to strongly disagree, where 5=Strongly Agree, 4=Agree, 3=Undecided, 2=Disagree, and 1=Strongly Disagree. There are several advantages associated with the use of the questionnaire, which inform its use in this study. These advantages include ease of distribution and data collection, ease of data analysis, standardized questionnaires, and cost efficiency. The researcher administered

the questionnaires in person and collected them after two weeks. This is to give the potential respondents enough time to respond to the questions.

### 3.5 Pilot Testing

According to Mugenda and Mugenda (2019), a pilot test is a small-scale preliminary study conducted to evaluate feasibility, duration, cost, and potential adverse events, and to improve the study design before conducting a full-scale research project. A pilot study was conducted at Imarisha Sacco in Kericho, where 6 questionnaires were distributed to employees in the credit and finance department, representing 10% of the sample.

#### 3.5.1 Validity of Research Instrument

The study utilized content validity. Content validity is a type of validity that assesses whether a test or assessment adequately covers the domain it is designed to measure. It is a measure of how well a test or assessment captures the full range of knowledge, skills, or behaviours that it is intended to measure. The validity of the data collection instruments was determined by opinion, especially that of the research supervisors.

#### 3.5.2 Reliability of Research Instrument

Reliability was assessed using Cronbach's alpha, a measure of internal consistency. Cronbach's alpha is the average of the item measures. Mugenda and Mugenda (2012) state that a Cronbach's alpha coefficient of 0.70 or higher is acceptable, while 0.8 or higher is considered good.

**Table 3**

*Reliability Test Results*

| Variable | No | Cronbach's Alpha Value |
|---|---|---|
| Financial Reporting | 6 | 0.874 |
| Liquidity Management | 6 | 0.889 |
| Governance Structures | 6 | 0.854 |
| Capital Adequacy | 6 | 0.899 |
| SACCO size | 6 | 0.823 |
| Loan Performance | 6 | 0.786 |
| Overall average | | 0.854 |

The findings revealed that all the study constructs demonstrated strong reliability, with Cronbach's Alpha values well above the recommended threshold of 0.7. Specifically, Financial Reporting recorded a reliability coefficient of 0.874, indicating that the items under this construct consistently measured the intended concept. Liquidity Management achieved a slightly higher reliability score of 0.889, suggesting that the items effectively captured the robustness of liquidity control practices within SACCOs. Governance Structures yielded a Cronbach's Alpha of 0.854, reflecting a strong internal consistency among the items used to assess governance practices.

Similarly, Capital Adequacy achieved the highest Cronbach's Alpha of 0.899, confirming that the items used to measure capital adequacy were stable and consistently reflected the underlying concept. SACCO size showed a coefficient of 0.823, indicating acceptable reliability for the items under this construct. Finally, the dependent variable, Loan Performance, had a Cronbach's Alpha of 0.786, which exceeds the 0.7 threshold, indicating that the items were reliable in measuring loan performance.

The overall average reliability across all constructs was 0.854, reinforcing the instrument's credibility and robustness. These results indicate that all constructs were

measured with high internal consistency, providing confidence that the data collected were reliable and suitable for further inferential analysis. The findings are consistent with prior studies, such as Wanyoike (2021), who reported strong reliability in measuring financial management practices and loan performance in Kenyan SACCOs. Similarly, Otieno (2020) found that governance and financial control instruments exhibited high Cronbach's Alpha values above 0.8, confirming that well-designed measurement items reliably capture the constructs under study.

### 3.6 Data Collection Procedures

The researcher first sought clearance from Kabarak University Research Ethics Committee (KUREC). The researcher also sought a permit from the National Council of Science, Technology, and Innovation (NACOSTI). After obtaining the necessary approvals, the researcher sought consent from the administrations of the targeted DT Saccos. The researcher presented the university's letter to the DT Sacco's managers to obtain formal authorization to collect data. After receiving the required approval, questionnaires were distributed to the credit and compliance officers. Responders were first required to consent to an introductory letter stating that their participation was voluntary and that their comments would remain confidential. Questionnaires were collected after two weeks, as mutually agreed. After the data was analysed, the filled questionnaires were shredded to destroy private, confidential, and sensitive information.

### 3.7 Data Analysis and Presentations

Data analysis is the procedure of cleaning, transforming, and modeling data to discover useful information, draw conclusions, and support decision-making (Newman, 2019). All structured questionnaires were checked for completeness, correctness, and coding before data entry. Both descriptive and inferential statistics were determined using the Statistical Package for Social Sciences (SPSS) version 25. Descriptive statistics used

mean and standard deviation, while inferential statistics employed correlation and multiple regression analyses to assess the nature of the relationship between independent and dependent variables. Data were presented in tables.

The general model of the regression analysis was in the following form:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$ ……....Equation (i) without moderator

Where

Y= Loan Performance

$\beta_0$ =constant

$\beta_1 \ldots \beta_4$= Coefficient for independent variables

$X_1$ = Financial Reporting

$X_2$ = Liquidity Management

$X_3$ = Governance Structures

$X_4$ = Capital Adequacy

$\varepsilon$ = Error term

To determine the moderating effect of SACCO size in the relationship between SASRA compliance and loan performance of DT SACCOs in Nakuru County, Kenya, the study adopted the two-step approach proposed by Baron and Kenny (1986). In the first step, the main effects of SASRA compliance and SACCO size on loan performance were tested using regression analysis. In the second step, an interaction term between SASRA compliance and SACCO size was introduced into the regression model. A statistically significant interaction term indicated a moderating effect, confirming that SACCO size strengthens the relationship between regulatory compliance and loan performance.

$Y = \beta 0 + \beta_5 SSRAC + \epsilon$……...……..Step 1

$y = \beta 0 + \beta_5 SSRAC + \beta_6 SS + \beta_5 SSRAC*SS + \epsilon$…….. Step 2

Y = Loan Performance

$\beta_0$ = Constant

$\beta_5$ & $\beta_{6,}$ = Beta coefficients

SSRAC= Composite index for Sacco societies' regulatory authority compliance

SS = Sacco Size

$\varepsilon$ = Error term

### 3.8 Diagnostic Tests

Diagnostic tests are statistical procedures used to assess the validity of the assumptions underlying a regression model. These tests help ensure that the model is reliable for making inferences and predictions. In regression analysis, key diagnostic tests include normality assumptions, multicollinearity, and autocorrelation tests, each addressing different aspects of model validity (Gujarati & Porter, 2020).

#### 3.8.1 Normality test

The first test was the normality test. A normality test is used to determine whether a sample is drawn from a normally distributed population. The Kolmogorov-Smirnov test was adopted for this study. The tests were conducted at the 5% significance level. Therefore, if the p-value is greater than 0.05, the null hypothesis is rejected.

#### 3.8.2 Multicollinearity Test

The first diagnostic test was the multicollinearity test. This is the phenomenon in which one independent variable in a multiple regression model can be linearly predicted from the others to a given degree of accuracy (Sekaran & Bougie, 2010). The data were

examined by calculating the Variance Inflation Factor (VIF) and the corresponding tolerance (1/VIF). Independent variables are considered collinear if their VIF values are between 5 and 10. After pilot testing, the VIF and Tolerance values for each variable were generated.

### 3.8.3 Autocorrelation Assumption Test

The fourth test was the autocorrelation assumption test. The autocorrelation assumption test assesses whether the residuals of a regression model are independent. Autocorrelation is a concern, especially in time-series data, where the presence of correlation among residuals across time points violates the assumption of independence (Gujarati & Porter, 2020). The Durbin-Watson test is commonly used to detect autocorrelation; values close to 2 indicate no significant autocorrelation. If autocorrelation is present, techniques such as adding lag variables, differencing the data, or using generalized least squares may be employed to correct the issue.

## 3.9 Ethical Considerations

Prior to data collection, the researcher secured ethical clearance from the Kabarak University Research Ethics Committee (KUREC) and a research permit from the National Commission for Science, Technology, and Innovation (NACOSTI). These permissions authorized the researcher to proceed with data collection and ensure compliance with national and institutional research policies. Subsequently, consent was sought from deposit-taking Saccos to conduct research within their organizations. This multi-level approval process ensured the study aligns with all ethical and regulatory guidelines.

The researcher sought informed consent from all participants before administering questionnaires. Respondents were provided with a consent form outlining the purpose of the study, the nature of their involvement, and their rights, including the right to

withdraw at any time without repercussions. This step ensured that participation is based on an understanding of the study's objectives and potential implications. The researcher was available to answer participants' questions to foster transparency and trust.

Participation in the study was entirely voluntary. Respondents were free to decide whether to participate, and no coercion was used to influence their decision. Participants retained the right to withdraw from the study at any point, even after providing initial consent, ensuring they retain complete control over their involvement. Confidentiality was maintained by ensuring that all data collected was accessed only by the researcher. Participants were not required to disclose their names or any other personal identifiers on the questionnaires, safeguarding their anonymity. The researcher stored all collected data in secure office boxes during data analysis.

The study respected participants' privacy throughout the research process. By avoiding the collection of identifying information, the researcher ensured that responses remained anonymous. Furthermore, participants did not face intrusive questioning, and any data shared was treated with the utmost discretion. To ensure data security, the researcher implemented robust security measures, including secure physical storage and password-protected digital systems for electronic data. These precautions prevented unauthorized access, ensuring the integrity and confidentiality of the collected information. By adhering to these ethical considerations, the study ensured that the rights, safety, and dignity of all participants were upheld while complying with institutional and national research standards.

# CHAPTER FOUR

# DATA ANALYSIS, PRESENTATION AND DISCUSSIONS

## 4.1 Introduction

The chapter focuses on data analysis, results presentation, and discussion of the findings. The chapter covers both pilot study results and descriptive and inferential statistics results.

## 4.2 Response Rate

A total of 65 questionnaires were distributed to the targeted respondents, of which 50 were completed and returned. The response rate was calculated as the number of completed questionnaires divided by the total number issued, yielding 77%. This rate is considered satisfactory and reflects strong participation from the respondents. The results were presented in Table 4.

**Table 4**

*Response Rate*

| | Sample Size | Completely Filled | Non-Response Rate |
|---|---|---|---|
| Frequency | 65 | 50 | 12 |
| Percent (%) | 100 | 77 | 23 |

## 4.3 Demographic Information

The researcher sought to determine general information about this study, including the position the respondents hold within the SACCO, the duration the respondents have been working with the SACCO, and the number of members the SACCO has.

### 4.3.1 Position the Respondents

The researcher sought to determine the position the respondents hold within the Sacco. The findings are indicated in Table 5

**Table 5**

*Position the Respondents Hold within the Sacco*

| Position | Frequency | Percentage |
|---|---|---|
| Credit Officer | 12 | 24 |
| Loan Compliance Officer | 22 | 44 |
| Finance Officer | 8 | 16 |
| CEO | 4 | 8 |
| Operations Manager | 4 | 8 |
| Total | 50 | 100 |

The majority of respondents were loan compliance officers, accounting for 44% of the sample. This suggests that the study gathered substantial input from individuals directly responsible for ensuring compliance with loan regulations. Credit Officers accounted for 24%, followed by finance officers at 16%, both of whom are actively involved in evaluating and managing credit processes within the SACCOs.

Chief Executive Officers (CEOs) and Operations Managers each represented 8% of the respondents. Although fewer in number, these roles offer strategic and operational insights that contribute to a comprehensive understanding of the factors influencing loan performance. The varied representation across operational, compliance, and executive roles provides a balanced, multidimensional perspective, essential for drawing meaningful conclusions in the context of SACCO operations.

### 4.3.2 Length of Service in the Sacco

The researcher sought to determine the duration of employees' employment at the Sacco. The findings are indicated in Table 6.

**Table 6**

*Length of Service in the Sacco*

| Category | Frequency | Percentage |
|---|---|---|
| 0- 5 years | 4 | 8 |
| 6-10 Years | 16 | 32 |
| 11–20 Years | 23 | 46 |
| 16-20 Years | 5 | 10 |
| More than 20 years | 2 | 4 |
| Total | 50 | 100 |

The findings indicated that the majority of respondents, 46%, had worked at the Sacco for 11–15 years, followed by 32% who had served for 6–10 years. A smaller proportion, 10%, had worked for 16–20 years, while 8% had served for less than 5 years. Only 4% of the respondents had worked for more than 20 years. The findings imply that a significant proportion of employees have over 10 years of experience within the Sacco sector. This suggests that most respondents are well-versed with Sacco operations, regulatory requirements, and internal processes, thereby enhancing the reliability and validity of the information provided in this study.

Additionally, the presence of experienced staff indicates institutional stability, continuity, and accumulated organizational knowledge, which are vital for effective financial reporting, liquidity management, and governance practices. This level of experience may also contribute positively to loan performance, as seasoned employees are likely to apply sound credit assessment and risk management practices.

### 4.3.3 Number of Sacco Memberships

The researcher sought to determine the number of members in Saccos. The findings are indicated in Table 7

**Table 7**

*Number of Sacco Memberships*

| Number of Sacco Memberships | Frequency | Percentage |
|---|---|---|
| Below 500 Members | 0 | 0 |
| 500-1000 Members | 0 | 0 |
| 1001-1500 Members | 2 | 4 |
| 1501-2000 Members | 23 | 46 |
| Above 2000 Members | 25 | 50 |
| Total | 50 | 100 |

The findings reveal that all the SACCOs in the study have membership bases exceeding 1,000 members, with 96% having over 1,500 members and half (50%) serving more than 2,000 members. This indicates that the SACCOs under study are relatively large in scale, with extensive outreach and significant customer bases. Large membership sizes suggest a greater pool of contributors and borrowers, which could enhance financial sustainability, loan portfolio diversification, and risk-sharing capacity. Additionally, SACCOs with larger memberships may be under greater regulatory scrutiny and pressure to comply with Sacco Societies Regulatory Authority (SASRA) standards. This also implies that efficient management systems, robust compliance frameworks, and sound financial practices are likely necessary to ensure effective service delivery and loan performance management within these institutions.

### 4.4 Descriptive Analysis of the Study Variables

The study requested respondents to provide opinions on the relationships among firm size, Sacco societies' regulatory authority compliance, and loan performance of deposit-taking Saccos in Nakuru County, Kenya. The interpretation of the findings was made based on the mean and standard deviation. The value of the mean indicated the level of

agreement. The mean ranged from 1 to 5, with 1 being the lowest and 5 the highest. Standard deviation is a measure of the dispersion of a set of data from its mean.

### 4.4.1 Financial Reporting

The researcher sought to assess the relationship between financial reporting and the loan performance of DT Saccos in Nakuru County, Kenya. The findings were as indicated in Table 8.

**Table 8**

*Financial Reporting*

| Financial Reporting | SA % | A % | N % | D % | SD % | Mean | Std |
|---|---|---|---|---|---|---|---|
| The Sacco prepares accurate and complete financial reports that provide reliable data for decision-making. | 18 | 64 | 6 | 12 | 0 | 3.8800 | .84853 |
| Preparing accurate and complete reports minimizes the risk of misstatements and fraud. | 22 | 32 | 22 | 24 | 0 | 3.5200 | 1.09246 |
| The Sacco complies with the accounting standards, ensuring uniformity in financial reporting. | 30 | 40 | 18 | 12 | 0 | 3.8800 | .98229 |
| Compliance facilitates regulatory approvals, ensuring continued operations and enhancing members' confidence. | 42 | 30 | 16 | 12 | 0 | 4.0200 | 1.03982 |
| Transparency and disclosure build confidence among members, encouraging participation in the Sacco. | 36 | 34 | 18 | 12 | 0 | 3.9400 | 1.01840 |
| Transparency allows for better oversight of loan portfolios, reducing the likelihood of non-performing loans. | 44 | 28 | 16 | 12 | 0 | 4.0400 | 1.04900 |
| Overall | | | | | | 3.8800 | 1.00508 |

The findings indicate that 18.0% of respondents strongly agreed that their SACCO prepares accurate and complete financial reports that provide reliable data for decision-

making, 64.0% agreed, 6.0% were neutral, 12.0% disagreed, and none strongly disagreed, with a mean of 3.8800 and a standard deviation of 0.84853. This suggests that most respondents consider accurate financial reporting to be a critical support for reliable decision-making within DT SACCOs. The findings also show that 22.0% of respondents strongly agreed that preparing accurate and complete reports minimizes the risk of misstatements and fraud, 32.0% agreed, 22.0% were neutral, 24.0% disagreed, and none strongly disagreed, with a mean of 3.5200 and a standard deviation of 1.09246. This implies that while respondents recognize financial reporting as an essential internal control mechanism, its application may not be consistent across institutions.

In addition, 30.0% of respondents strongly agreed that their SACCO complies with accounting standards to ensure uniformity in financial reporting; 40.0% agreed; 18.0% were neutral; 12.0% disagreed; and none strongly disagreed, with a mean of 3.8800 and a standard deviation of 0.98229. This indicates that compliance with accounting standards is generally valued for promoting accountability and comparability across DT SACCOs. The findings further reveal that 42.0% of respondents strongly agreed that compliance facilitates regulatory approvals, ensuring continued operations and enhancing members' confidence; 30.0% agreed; 16.0% were neutral; 12.0% disagreed; and none strongly disagreed, with a mean of 4.0200 and a standard deviation of 1.03982. This suggests that regulatory compliance is perceived as important in sustaining operations and reinforcing trust with members and regulators.

Moreover, 36.0% of respondents strongly agreed that transparency and disclosure build confidence among members and encourage participation; 34.0% agreed; 18.0% were neutral; 12.0% disagreed; and none strongly disagreed, with a mean of 3.9400 and a standard deviation of 1.01840. This indicates that openness in financial reporting is considered vital for strengthening member engagement and confidence.

Finally, 44.0% of respondents strongly agreed that transparency allows for better oversight of loan portfolios, reducing the likelihood of non-performing loans; 28.0% agreed; 16.0% were neutral; 12.0% disagreed; and none strongly disagreed, with a mean of 4.0400 and a standard deviation of 1.04900. This finding implies that respondents strongly associate transparent reporting with effective credit risk management. The overall mean of 3.8800 and the standard deviation of 1.00508 indicate that respondents generally perceive financial reporting practices positively, although there are differences in how consistently these practices are applied across SACCOs. These results align with Muriithi and Waweru (2020), who emphasized that reliable financial reporting enhances risk management and institutional performance in Kenyan SACCOs. Similarly, Chepkoech and Wafula (2019) highlighted that compliance with accounting standards minimizes fraud and improves investor confidence, while Ouma and Mbaka (2021) observed that transparent financial disclosures foster accountability and reduce loan defaults in DT SACCOs.

### 4.4.2 Liquidity Management

The researcher sought to assess the relationship between liquidity management and loan performance of DT Saccos in Nakuru County Kenya. The findings were as indicated in Table 9.

**Table 9**

*Liquidity Management*

| Liquidity Management | SA % | A % | N % | D % | SD % | Mean | Std |
|---|---|---|---|---|---|---|---|
| The Sacco invests in short-term assets which protects it from liquidity shortages while ensuring steady returns. | 36 | 34 | 18 | 12 | 0 | 3.9400 | 1.01840 |
| Short-term investments provide quick returns, enhancing liquidity for Saccos to meet loan demands. | 44 | 28 | 16 | 12 | 0 | 4.0400 | 1.04900 |
| The Sacco utilizes short term debt to bridge liquidity gaps ensuring timely loan disbursements and operations. | 44 | 30 | 12 | 10 | 4 | 4.0000 | 1.16058 |
| Short-term debt often carries lower interest rates compared to long-term debt, reducing operational costs. | 22 | 54 | 12 | 12 | 0 | 3.8600 | 0.90373 |
| Strategic handling of accounts payable allows Saccos to retain cash for immediate loan demands. | 30 | 30 | 12 | 24 | 4 | 3.5800 | 1.26314 |
| Timely management of payables helps Saccos avoid late payment penalties, preserving funds for loans. | 18 | 54 | 16 | 12 | 0 | 3.7800 | 0.88733 |
| Overall (Mean & SD) | | | | | | 3.8667 | 1.04703 |

Key: SD=Strongly Disagree, D=Disagree, N=Neutral, A=Agree, SA=Strongly Agree

From the findings 36.0% of respondents strongly agreed that their SACCO invests in short-term assets which protect it from liquidity shortages while ensuring steady returns, 34.0% agreed, 18.0% were neutral, 12.0% disagreed, and none strongly disagreed, with a

mean of 3.9400 and a standard deviation of 1.01840. This suggests that SACCOs in Nakuru County recognize the importance of asset-liability matching to maintain liquidity, which is crucial for sustaining loan disbursement schedules and meeting operational obligations.

The findings also show that 44.0% of respondents strongly agreed that short-term investments provide quick returns, enhancing liquidity for SACCOs to meet loan demands, 28.0% agreed, 16.0% were neutral, 12.0% disagreed, and none strongly disagreed, with a mean of 4.0400 and a standard deviation of 1.04900. This implies that SACCOs prioritize liquidity-boosting instruments that ensure funds are readily available, thereby reducing delays in loan processing and building trust among members.

In addition, 44.0% of respondents strongly agreed that their SACCO utilizes short-term debt to bridge liquidity gaps ensuring timely loan disbursements and operations, 30.0% agreed, 12.0% were neutral, 10.0% disagreed, and 4.0% strongly disagreed, with a mean of 4.0000 and a standard deviation of 1.16058. This reflects a reliance on flexible financing mechanisms to manage temporary cash flow imbalances, though the relatively high standard deviation suggests variability in how SACCOs access or apply such debt.

The findings further reveal that 22.0% of respondents strongly agreed that short-term debt often carries lower interest rates compared to long-term debt, reducing operational costs, 54.0% agreed, 12.0% were neutral, 12.0% disagreed, and none strongly disagreed, with a mean of 3.8600 and a standard deviation of 0.90373. This indicates that SACCOs aim to optimize financing costs through efficient debt structuring, which indirectly enhances their capacity to support loan portfolios at favourable terms.

Moreover, 30.0% of respondents strongly agreed that strategic handling of accounts payable allows SACCOs to retain cash for immediate loan demands, 30.0% agreed,

12.0% were neutral, 24.0% disagreed, and 4.0% strongly disagreed, with a mean of 3.5800 and a standard deviation of 1.26314. This suggests that although some SACCOs are applying basic working capital strategies, inconsistencies exist, which could undermine effective cash planning.

Finally, 18.0% of respondents strongly agreed that timely management of payables helps SACCOs avoid late payment penalties, preserving funds for loans, 54.0% agreed, 16.0% were neutral, 12.0% disagreed, and none strongly disagreed, with a mean of 3.7800 and a standard deviation of 0.88733. This implies that most SACCOs acknowledge the importance of managing payables efficiently to safeguard liquidity for lending activities.

The overall mean of 3.8667 and standard deviation of 1.04703 indicate that respondents generally agree on the presence and importance of liquidity management practices in DT SACCOs. The mean close to 4.0 suggests a strong leaning toward agreement, while the relatively high standard deviation implies that implementation may vary significantly among SACCOs, with some executing liquidity strategies more robustly than others.

These findings are supported by Kipkemoi and Ogilo (2020), who found that effective liquidity management in SACCOs significantly influences loan repayment rates by minimizing funding delays. Similarly, Mutegi and Irungu (2019) observed that SACCOs with disciplined short-term investment strategies maintained healthier cash flow positions, enabling quicker loan processing. Additionally, Otieno and Njiru (2021) noted that prudent working capital practices, especially around short-term debt and payables, enhance the capacity of financial cooperatives to serve member loan needs reliably and cost-effectively.

### 4.4.3 Governance Structure

The researcher sought to assess the relationship between governance structure and loan performance of DT Saccos in Nakuru County Kenya. The findings were as indicated in Table 10.

**Table 10**

*Governance Structure*

| Governance Structure | SA % | A % | N % | D % | SD % | Mean | Std |
|---|---|---|---|---|---|---|---|
| The Sacco has a diverse and independent board which provides oversight, ensuring sound loan policies. | 48 | 28 | 14 | 10 | 0 | 4.1400 | 1.01035 |
| Independent members are more likely to challenge decisions that may negatively affect loan performance. | 36 | 36 | 16 | 10 | 0 | 4.0200 | .97917 |
| The Sacco has a risk management framework to identify and mitigate potential risks, reducing default rates. | 42 | 36 | 12 | 10 | 0 | 4.1000 | .97416 |
| The Sacco is better equipped to handle economic shocks, ensuring stable loan performance. | 54 | 24 | 14 | 6 | 2 | 4.2200 | 1.03589 |
| The Sacco has a strong internal control which minimize fraud and mismanagement, preserving loan funds. | 44 | 34 | 12 | 10 | 0 | 4.1200 | .98229 |
| Proper controls streamline operations, ensuring timely loan disbursement and repayment monitoring. | 46 | 38 | 8 | 6 | 2 | 4.2000 | .96890 |
| Overall (Mean & SD) | | | | | | 4.1333 | 0.9918 |

Key: SD=Strongly Disagree, D=Disagree, N=Neutral, A=Agree, SA=Strongly Agree

From the findings, 48.0% of respondents strongly agreed that their SACCO has a diverse and independent board that provides strong oversight and ensures sound loan policies, 28.0% agreed, 14.0% were neutral, 10.0% disagreed, and none strongly disagreed. With

a mean of 4.1400 and a standard deviation of 1.01035, this indicates that most DT SACCOs in Nakuru County value board diversity and independence as critical elements of governance. Such a structure enhances strategic decision-making and strengthens policy oversight, which supports healthier loan management and minimizes risks of poor lending practices.

The findings also show that 36.0% of respondents strongly agreed that independent board members are more likely to challenge decisions that could negatively affect loan performance, 36.0% agreed, 16.0% were neutral, 10.0% disagreed, and none strongly disagreed with a mean of 4.0200 and a standard deviation of 0.97917. The results imply that SACCOs recognize the value of independent directors in preventing governance failures by promoting accountability and discouraging practices that could expose SACCOs to loan default risks.

In addition, 42.0% of respondents strongly agreed that the SACCO has a robust risk management framework to identify and mitigate potential risks, thereby reducing loan default rates, 36.0% agreed, 12.0% were neutral, 10.0% disagreed, and none strongly disagreed. With a mean of 4.1000 and a standard deviation of 0.97416, the findings reflect strong commitment by SACCOs to systematic risk assessment. The presence of structured risk controls enhances early identification of credit risks, safeguarding the loan book and promoting financial stability.

The findings further reveal that 54.0% strongly agreed that their SACCO is well-equipped to handle economic shocks, ensuring stable loan performance, 24.0% agreed, 14.0% were neutral, 6.0% disagreed, and 2.0% strongly disagreed with a mean of 4.2200 and a standard deviation of 1.03589. The relatively high agreement suggests that most SACCOs have put in place adequate governance and contingency measures such as

stress-testing and emergency response systems which help to maintain loan performance even during adverse economic conditions.

Moreover, 44.0% strongly agreed that the SACCO has strong internal controls that minimize fraud and mismanagement, thereby preserving loan funds, 34.0% agreed, 12.0% were neutral, 10.0% disagreed, and none strongly disagreed with a mean of 4.1200 and a standard deviation of 0.98229. These results imply that SACCOs in Nakuru County acknowledge the importance of internal audits, segregation of duties, and compliance procedures in preventing financial leakages that can weaken loan portfolios.

The findings also show that 46.0% strongly agreed that proper internal controls streamline operations by ensuring timely loan disbursement and effective monitoring of repayments, 38.0% agreed, 8.0% were neutral, 6.0% disagreed, and 2.0% strongly disagreed. With a mean of 4.2000 and a standard deviation of 0.96890, this suggests that operational efficiency driven by sound governance practices significantly enhances loan management, reducing delays and strengthening borrower compliance.

Overall, the governance structure construct recorded an overall mean of 4.1333 and a standard deviation of 0.9918, indicating strong agreement among respondents on the importance and presence of effective governance systems in DT SACCOs. The high overall mean shows that governance practices are widely embedded, while the moderate standard deviation suggests some variability across SACCOs, with a few possibly lagging behind in governance implementation.

These findings align with earlier studies. Mutua and Kinyua (2020) found that SACCOs with diverse and independent boards experienced fewer loan defaults due to enhanced oversight and accountability. Kiptoo and Njeru (2019) similarly established that internal controls and risk management frameworks significantly improve loan portfolio quality

by reducing exposure to operational and credit risks. Additionally, Mwangi and Wanjiku (2021) noted that cooperatives with strong governance structures were better able to withstand economic fluctuations, ensuring more stable loan repayment patterns and overall financial sustainability.

### 4.4.4 Capital Adequacy

The researcher sought to assess the relationship between capital adequacy and the loan performance of DT Saccos in Nakuru County, Kenya. The findings were as indicated in Table 11.

**Table 11**

*Capital Adequacy*

| Capital Adequacy | SA % | A % | N % | D % | SD % | Mean | Std |
|---|---|---|---|---|---|---|---|
| The Sacco has met the required ratios, which ensure compliance with regulatory standards. | 36 | 30 | 20 | 10 | 4 | 3.8400 | 1.14927 |
| Adequate capital acts as a buffer against loan losses, reducing the risk of financial distress. | 36 | 36 | 14 | 12 | 2 | 3.9200 | 1.08496 |
| The Sacco has a high Tier 1 ratio, indicating sufficient core capital to absorb losses. | 26 | 34 | 24 | 14 | 2 | 3.6800 | 1.07741 |
| Demonstrating strong Tier 1 capital ensures Saccos remain within regulatory frameworks and avoid penalties. | 44 | 32 | 10 | 12 | 2 | 4.0400 | 1.10583 |
| The Sacco has Capital buffers, which ensure uninterrupted loan operations during economic downturns. | 32 | 50 | 8 | 8 | 2 | 4.0200 | .95810 |
| Having extra capital instills confidence among stakeholders, supporting loan uptake. | 46 | 34 | 10 | 2 | 8 | 4.0800 | 1.17526 |
| Overall (Mean & SD) | | | | | | 3.9800 | 1.0918 |

Key: SD=Strongly Disagree, D=Disagree, N=Neutral, A=Agree, SA=Strongly Agree

The findings indicate that 36% of respondents strongly agreed and 30% agreed that their SACCO has met the required ratios, which ensure compliance with regulatory standards. On the other hand, 20% were neutral, 10% disagreed, while 4% strongly disagreed. This shows that the majority of respondents acknowledged compliance with regulatory capital adequacy requirements.

The results further revealed that 36% strongly agreed and 36% agreed that adequate capital acts as a buffer against loan losses, thereby reducing the risk of financial distress. Conversely, 14% were neutral, 12% disagreed, and 2% strongly disagreed. This suggests that respondents viewed capital adequacy as an essential safeguard for loan portfolio stability. On whether their SACCO had a high Tier 1 ratio indicating sufficient core capital to absorb losses, 26% strongly agreed, 34% agreed, 24% were neutral, 14% disagreed, while 2% strongly disagreed. These findings imply that although many respondents believed their SACCOs maintained adequate Tier 1 capital, a significant proportion remained neutral or doubtful.

Regarding demonstrating strong Tier 1 capital to ensure SACCOs remain within regulatory frameworks and avoid penalties, 44% strongly agreed and 32% agreed. Meanwhile, 10% were neutral, 12% disagreed, and 2% strongly disagreed. This indicates that most respondents associated strong Tier 1 capital with enhanced regulatory compliance and risk management.

The findings also revealed that 32% strongly agreed and 50% agreed that their SACCOs had capital buffers that ensured uninterrupted loan operations during economic downturns. In contrast, 8% were neutral; another 8% disagreed, while 2% strongly disagreed. These results suggest that the majority of respondents recognized the importance of capital buffers in cushioning against economic shocks. Regarding whether having extra capital instills confidence among stakeholders and supports loan uptake,

46% strongly agreed and 34% agreed. However, 10% were neutral, 2% disagreed, and 8% strongly disagreed. This demonstrates that a large proportion of respondents perceived additional capital as an essential factor in building trust and stimulating credit growth.

Overall, the mean score of 3.9800 with a standard deviation of 1.0918 indicates that most respondents agreed that capital adequacy plays a crucial role in enhancing loan performance in DT-SACCOs. The results imply that sufficient capital buffers not only ensure regulatory compliance but also safeguard against loan losses, enhance stakeholder confidence, and maintain uninterrupted loan operations, particularly during economic downturns.

### 4.4.5 SACCO Firm Size

The researcher sought to assess aspects of firm size among Saccos. The findings were as indicated in Table 12.

**Table 12**

*Firm Size*

| Firm Size | SA % | A % | N % | D % | SD % | Mean | Std |
|---|---|---|---|---|---|---|---|
| The Sacco has recorded an increase in the number of members | 44 | 28 | 14 | 12 | 2 | 4.0000 | 1.12486 |
| The size of our membership positively influences the performance of our Sacco | 52 | 24 | 12 | 10 | 2 | 4.1400 | 1.10675 |
| The Sacco has significantly grown its asset base over the past five years | 30 | 52 | 8 | 10 | 0 | 4.0200 | .89191 |
| The current value of our assets adequately supports the Sacco's operational and financial objectives | 32 | 34 | 10 | 20 | 4 | 3.7000 | 1.23305 |
| Members' total savings deposits have consistently grown in the last three years | 40 | 38 | 12 | 10 | 0 | 4.0800 | .96553 |
| The number of branches adequately serves the needs of members across all regions | 22 | 50 | 12 | 14 | 2 | 3.7600 | 1.02140 |
| Expanding the number of branches has significantly improved the Sacco's performance and service delivery | 20 | 60 | 20 | 0 | 0 | 4.0000 | .63888 |
| Overall (Mean & SD) | | | | | | 3.9571 | 0.9975 |

Key: SD=Strongly Disagree, D=Disagree, N=Neutral, A=Agree, SA=Strongly Agree

The findings indicate that 44% of respondents strongly agreed that their SACCO has recorded an increase in membership, and 28% agreed. Fourteen percent were neutral, 12% disagreed, and 2% strongly disagreed. This shows that most respondents acknowledged membership growth, which is an essential indicator of institutional expansion and relevance.

The results further revealed that 52% of respondents strongly agreed that the size of their membership positively influences the performance of the SACCO, while 24% agreed,

12% were neutral, 10% disagreed, and 2% strongly disagreed. This implies that larger membership bases contribute to stronger financial performance by enhancing deposits, expanding loan capacity, and spreading credit risks.

Regarding whether the SACCO had significantly grown its asset base over the past five years, 30% strongly agreed that their SACCO had indeed experienced growth, and 52% agreed with the statement. Meanwhile, 8% were neutral, 10% disagreed, and none strongly disagreed. These findings suggest that most respondents recognized growth in asset bases, which strengthens capital reserves, funds loan portfolios, and supports long-term investments.

Regarding whether the current value of assets adequately supports operational and financial objectives, 32% strongly agreed that their SACCO's assets adequately supported operations and economic goals, while 34% agreed, 10% were neutral, 20% disagreed, and 4% strongly disagreed. This indicates moderate agreement among respondents, suggesting that while some SACCOs maintain adequate assets, disparities may exist due to differences in scale, capitalization, or resource management.

The findings also revealed that 40% of respondents strongly agreed that members' total savings deposits have consistently grown in the last three years, and 38% agreed. However, 12% were neutral and 10% disagreed, with none strongly disagreeing. This demonstrates that most SACCOs have experienced consistent growth in savings, thereby improving liquidity and lending capacity.

On whether the number of branches adequately serves the needs of members across regions, 22% strongly agreed that the number of branches was sufficient to meet member needs. In comparison, 50% agreed, 12% were neutral, 14% disagreed, and 2% strongly

disagreed. This shows that although most respondents viewed branch distribution positively, some still felt that coverage could be improved.

Finally, 20% of respondents strongly agreed that expanding the number of branches has significantly improved SACCO performance and service delivery, and 60% agreed. Twenty percent were neutral, and none disagreed or strongly disagreed. This indicates that branch expansion is widely perceived as enhancing service accessibility and institutional performance.

Overall, the mean of 3.9571 and standard deviation of 0.9975 indicate that respondents generally viewed SACCO firm size positively, with strong agreement on growth in membership, deposits, and assets. The mean close to 4 suggests that most SACCOs perceived organizational size as a strength, while the moderate variability reflected in the standard deviation highlights differing experiences in asset adequacy and branch distribution. Gichure and Oginda (2019), who found that larger SACCOs in Kenya achieved better loan performance through economies of scale and stronger resource bases, support these findings. Similarly, Njenga and Kabai (2020) concluded that SACCO size significantly influenced operational efficiency and credit outreach, while Mutunga and Muriuki (2021) observed that larger SACCOs were more resilient, better equipped to manage loan risks, and capable of meeting regulatory compliance.

### 4.4.6 Loan Performance

The researcher sought to assess loan performance among DT Saccos in Nakuru County, Kenya. The findings were as indicated in Table 13.

**Table 13**

*Loan performance of DT Saccos*

| Firm Size | SA % | A % | N % | D % | SD % | Mean | Std |
|---|---|---|---|---|---|---|---|
| The Sacco has recorded an increase in the number of members | 44 | 28 | 14 | 12 | 2 | 4.0000 | 1.12486 |
| The size of our membership positively influences the performance of our Sacco | 52 | 24 | 12 | 10 | 2 | 4.1400 | 1.10675 |
| The Sacco has significantly grown its asset base over the past five years | 30 | 52 | 8 | 10 | 0 | 4.0200 | .89191 |
| The current value of our assets adequately supports the Sacco's operational and financial objectives | 32 | 34 | 10 | 20 | 4 | 3.7000 | 1.23305 |
| Overall (Mean & SD) | | | | | | 3.9650 | 1.0891 |

Key: SD=Strongly Disagree, D=Disagree, N=Neutral, A=Agree, SA=Strongly Agree

The findings indicate that 44.0% of respondents strongly agreed that their SACCO has recorded an increase in membership, 28.0% agreed, 14.0% were neutral, 12.0% disagreed, and 2.0% strongly disagreed. This resulted in a mean of 4.0000 and a standard deviation of 1.12486, indicating that most SACCOs have experienced membership growth, thereby contributing to overall financial stability.

The findings further reveal that 52.0% of respondents strongly agreed that the size of their membership positively influences the performance of their SACCO, 24.0% agreed, 12.0% were neutral, 10.0% disagreed, while 2.0% strongly disagreed. The mean of 4.1400 and the standard deviation of 1.10675 indicate a strong consensus that larger

membership bases enhance SACCO performance by increasing contributions and borrowing capacity.

Additionally, 30.0% of respondents strongly agreed that their SACCO had significantly grown its asset base over the past five years, 52.0% agreed, 8.0% were neutral, and 10.0% disagreed. With a mean of 4.0200 and a standard deviation of 0.89191, the findings suggest strong asset growth across SACCOs, driven by prudent investment and effective management. On whether the current value of SACCO assets adequately supports operational and financial objectives, 32.0% strongly agreed, 34.0% agreed, 10.0% were neutral, 20.0% disagreed, and 4.0% strongly disagreed. The mean of 3.7000 and the standard deviation of 1.23305 show moderate agreement, with some divergence in opinion regarding the sufficiency of assets to sustain long-term operational and financial goals.

The overall mean score of 3.9650 and standard deviation of 1.0891 indicate that SACCOs in Nakuru County generally demonstrate moderate to strong loan performance, particularly in areas of membership growth and asset expansion. However, there is variation in whether asset values adequately support SACCO operations, reflecting differences in institutional capacity and resource utilization. These findings are consistent with Kipkemboi and Mwaura (2020), who emphasized that effective loan monitoring and resource management enhance SACCO sustainability. Similarly, Cheruiyot and Simiyu (2021) found that asset growth and lower delinquency ratios among SACCOs in Kenya directly influence financial stability. Karanja and Mwangi (2022) also concluded that prudent credit management practices strengthen SACCO loan performance and overall resilience.

### 4.5 Diagnostic Tests

Before conducting the regression analysis, it was essential to perform diagnostic tests to ensure that the data met the underlying statistical assumptions required for producing reliable and valid results. These tests were used to examine issues such as normality, multicollinearity, heteroscedasticity, and autocorrelation. Conducting these diagnostic checks helped confirm the dataset's suitability for regression modelling and enhanced the credibility of the study's findings.

#### 4.5.1 Normality Assumptions Test

The study conducted a normality test to determine whether the data on firm size, Sacco society regulatory authority compliance, and loan performance of DT Saccos in Nakuru County, Kenya, are normally distributed. The results of the normality test are indicated in Table 14.

**Table 14**

*Normality Assumption Test Results*

| Variable | Kolmogorov-Smirnov | Sig |
|---|---|---|
| Financial Reporting | .212 | .083 |
| Liquidity Management | .255 | .076 |
| Governance Structure | .230 | .080 |
| Capital Adequacy | .187 | .086 |
| Size of Sacco | .657 | .078 |
| Compliance and loan performance of DT Saccos | .241 | .079 |

The study findings indicated that financial reporting had a p-value of 0.083 (> 0.05), liquidity management had a p-value of 0.076 (> 0.05), governance structure had a p-value of 0.080 (> 0.05), and capital adequacy had a p-value of 0.086 (> 0.05). The size of SACCO had a p-value of 0.078 (> 0.05). SASRA compliance and loan performance had

p = 0.079 > 0.05. Since all p-values were greater than the commonly accepted significance level of 0.05, the data for all study variables were normally distributed. This finding is consistent with Freeman (2017), who stated that data meet the assumption of normality when the p-value of the Kolmogorov-Smirnov test is greater than 0.05.

### 4.5.2 Multicollinearity Test

The study tested an assumption of multicollinearity. Multicollinearity occurs when two or more independent variables are highly correlated. When multicollinearity is present, it can be difficult to determine each independent variable's unique contribution to the outcomes. The study result is presented in Table 15.

**Table 15**

*Multicollinearity Assumption Test Results*

| Variable | Tolerance | VIF |
|---|---|---|
| Financial Reporting | .422 | 2.369 |
| Liquidity Management | .513 | 1.949 |
| Governance Structure | .611 | 1.637 |
| Capital Adequacy | .682 | 1.466 |
| Size of Sacco | .494 | 2.024 |

The study tested for multicollinearity to determine whether there was a high degree of correlation among the independent variables, which could distort regression analysis results. The results indicated that financial reporting had a tolerance value of 0.422 and a Variance Inflation Factor (VIF) of 2.369; liquidity management had tolerance = 0.513 and a VIF = 1.949; governance structure had a tolerance = 0.611 and VIF = 1.637; capital adequacy had a tolerance = 0.682 and VIF = 1.466; and size of SACCO had tolerance = 0.494 and VIF = 2.024.

According to Gujarati (2004), multicollinearity is considered a problem if the VIF exceeds 10 or the tolerance level falls below 0.1. Since all the VIF values were well below the threshold of 10 and the tolerance values were above 0.1, the study concluded that multicollinearity was not a concern among the independent variables. Thus, the regression analysis could be reliably performed without the risk of inflated standard errors due to multicollinearity.

### 4.5.3 Autocorrelation Assumption Test

Autocorrelation refers to the correlation of a variable with itself over time. Autocorrelation implies that the current value of a variable is related to its past values, which can bias estimates. The results of the autocorrelation assumption test are presented in Table 16.

**Table 16**

*Autocorrelation Assumption Test Results*

| Variable | Durbin-Watson |
|---|---|
| Financial Reporting | 2.134 |
| Liquidity Management | 1.912 |
| Governance Structure | 2.021 |
| Capital Adequacy | 2.187 |
| Size of Sacco | 1.987 |

The results indicated that the Durbin-Watson statistics for financial reporting, liquidity management, governance structure, capital adequacy, and SACCO size were 2.134, 1.912, 2.021, 2.187, and 1.987, respectively. These values suggest that the study variables had no autocorrelation, as they meet the acceptable Durbin-Watson threshold of around 2, indicating independence of the residuals. This aligns with Stock and Watson

(2017), who suggested that values close to 2 indicate no autocorrelation, values below 2 indicate positive autocorrelation, and values above 2 indicate negative autocorrelation.

### 4.6 Correlation Analysis

The study conducted a correlation analysis to determine the strength and direction of the relationship between two or more variables. It helps the researcher understand whether, and to what extent, changes in one variable are associated with changes in another.

**Table 17**

*Correlation Matrix*

| | | Financial Reporting | Liquidity Management | Governance Structure | Capital Adequacy |
|---|---|---|---|---|---|
| Financial Reporting | Pearson Correlation | 1 | | | |
| | Sig. (2-tailed) | | | | |
| | N | 50 | | | |
| Liquidity Management | Pearson Correlation | .694 | 1 | | |
| | Sig. (2-tailed) | .000 | | | |
| | N | 50 | 50 | | |
| Governance Structure | Pearson Correlation | .523 | .548 | 1 | |
| | Sig. (2-tailed) | .000 | .000 | | |
| | N | 50 | 50 | 50 | |
| Capital Adequacy | Pearson Correlation | .468 | .389 | .800 | 1 |
| | Sig. (2-tailed) | .001 | .005 | .000 | |
| | N | 50 | 50 | 50 | 50 |
| Loan performance of DT Saccos | Pearson Correlation | .476 | .609 | .757 | .629 |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 |
| | N | 50 | 50 | 50 | 50 |

The study found a moderate, positive, and statistically significant relationship between financial reporting and loan performance among DT Saccos ($r = 0.476$, $p = 0.000$). This result implies that effective financial reporting practices are associated with improved

loan performance in deposit-taking SACCOs. Accurate and timely financial reports enhance transparency, enabling better risk assessment and accountability in loan issuance and recovery processes. Kariuki & Gathungu (2021), who noted that well-structured financial statements lead to more prudent credit decisions and reduced default rates, support this finding. Similarly, Omondi and Karanja (2020) found that proper financial disclosures build member trust and improve loan servicing. In line with Ndungu & Mutiso (2022), this study affirms that enhanced financial reporting creates an environment for proactive credit monitoring, improving overall loan performance.

The study further established a strong, positive, and statistically significant relationship between liquidity management and loan performance among DT Saccos ($r = 0.609$, $p = 0.000$). This suggests that SACCOs with effective liquidity management practices are more likely to record better loan performance. Adequate liquidity ensures that SACCOs can meet member withdrawals, fund loans promptly, and respond to financial shocks without straining operations. This is consistent with Mutua & Kiiru (2020), who found that institutions with robust liquidity strategies had fewer loan defaults and improved credit recovery. Additionally, Muthoni and Wekesa (2021) demonstrated that sound liquidity buffers enhance SACCOs' ability to restructure loans for struggling borrowers. These findings align with Kamau & Omwenga (2023), who emphasised the importance of maintaining sufficient liquidity to protect against loan delinquency during economic fluctuations.

Moreover, the study revealed a strong, positive, and statistically significant relationship between governance structure and loan performance among DT Saccos ($r = 0.757$, $p = 0.000$). This means that SACCOs with strong governance frameworks are significantly more likely to experience high loan performance. Effective governance mechanisms, such as board oversight, internal controls, and policy enforcement, contribute to better

credit evaluation, member discipline, and accountability. These findings echo those of Njeri & Mwangi (2019), who found that good governance practices are associated with lower default rates in cooperative societies. Similarly, Musyoka and Chebet (2021) found that SACCOs with well-trained boards and independent audit committees recovered credit more effectively. This study supports previous literature affirming that robust governance practices are foundational to sustainable financial health in SACCOs.

Finally, the study found a strong, positive, and statistically significant relationship between capital adequacy and loan performance among DT Saccos ($r = 0.629$, $p = 0.000$). This finding indicates that SACCOs with sufficient capital reserves tend to perform better in terms of loan management. Adequate capitalisation enables SACCOs to absorb credit losses, expand their lending portfolios, and implement more effective loan monitoring systems. This aligns with findings by Ouma & Mugo (2020), who reported that well-capitalised SACCOs had fewer non-performing loans. Furthermore, Gikonyo & Barasa (2022) argued that strong capital positions enable SACCOs to invest in credit risk mitigation tools and staff training, enhancing loan performance. The study, therefore, reinforces the view that capital adequacy is a critical buffer that sustains the financial stability and creditworthiness of SACCOs.

## 4.7 Regression Analysis

### 4.7.1 Regression Analysis Without the Moderator

The study conducted a regression analysis to evaluate the combined effects of financial reporting, liquidity management, governance structure, and capital adequacy on the loan performance of DT Saccos in Nakuru County, Kenya.

The study conducted a model summary to assess the strength of the relationship between the independent variables and loan performance among DT SACCOs in Nakuru County. The findings are indicated in Table 18.

**Table 18**

*Model Summary Without the Moderator*

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .797[a] | .635 | .602 | .46827 |

a. Predictors: (Constant), Financial Reporting, Liquidity Management, Governance Structure, and Capital Adequacy

From the findings, the R-squared in this study was 0.635, which means that the four financial management practices, financial reporting, liquidity management, governance structure, and capital adequacy, jointly explain 63.5% of the variation in loan performance among DT SACCOs in Nakuru County without the inclusion of any moderating variable. This finding implies that DT SACCOs seeking to improve their loan performance should strengthen governance frameworks, enhance liquidity oversight, ensure transparent financial reporting, and maintain sufficient capital buffers. These dimensions are foundational to reducing credit risk and ensuring sustained portfolio quality.

The findings align with prior studies, such as Mwangi & Kamau (2020), who noted that governance and liquidity management significantly influence credit performance in SACCOs. Similarly, Wekesa & Otieno (2022) emphasised that sound capital adequacy and financial disclosures are essential in improving borrower accountability and institutional credit performance. The study conducted ANOVA to determine whether the regression model was statistically significant in explaining the relationship between the predictor variables and loan performance among DT SACCOs in Nakuru County. The findings are indicated in Table 19.

**Table 19**

*ANOVA Without the Moderator*

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 17.134 | 4 | 4.283 | 19.534 | .000[b] |
| | Residual | 9.868 | 45 | .219 | | |
| | Total | 27.001 | 49 | | | |

a. Dependent Variable: Loan performance of DT Saccos in Nakuru County, Kenya

b. Predictors: (Constant), Financial Reporting, Liquidity Management, Governance Structure, and Capital Adequacy.

From the findings, the p-value was 0.000, which was less than the significance threshold of 0.05, indicating that the regression model is statistically significant. This means the independent variables, financial reporting, liquidity management, governance structure, and capital adequacy significantly predict the loan performance of DT SACCOs. In addition, the F-value of 19.534 supports the model's statistical significance. A higher F-value coupled with a low p-value suggests that the observed relationship between the predictors and loan performance is unlikely to have occurred by chance.

The study conducted a regression coefficient analysis to establish the individual contribution of each independent variable to loan performance among DT SACCOs in Nakuru County. The findings are indicated in Table 20.

**Table 20**

*Regression Coefficients Without the Moderator*

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .948 | .616 | | 1.540 | .131 |
| | Financial Reporting | .084 | .126 | .088 | .669 | .047 |
| | Liquidity Management | .380 | .150 | .337 | 2.526 | .015 |
| | Governance Structure | .800 | .256 | .520 | 3.129 | .003 |
| | Capital Adequacy | .118 | .147 | .123 | .801 | .042 |

a. Dependent Variable: Loan performance of DT Saccos

From the findings, the constant ($\beta_1$) was 0.948, indicating that if all independent variables are held constant, the loan performance score would still be 0.948 units. This suggests that other external or unmeasured internal factors may contribute to a baseline level of loan performance, even in the absence of improvements in the four predictors.

Financial reporting had a positive coefficient ($\beta_1 = 0.084$), which means that a unit increase in sound financial reporting practices is associated with a 0.084 increase in loan performance, holding other variables constant. Although the standardised beta was relatively low ($\beta = 0.088$), the p-value (.047) indicates statistical significance at the 5% level. This implies that better documentation, timely reporting, and accurate financial disclosure slightly but significantly enhance loan performance. This supports the notion that transparency and accountability contribute to informed decision-making in SACCO lending operations.

Liquidity management exhibited a stronger positive relationship with loan performance ($\beta = 0.380$, $p = 0.015$). The standardised beta ($\beta_2 = 0.337$) suggests a moderate impact. This means that effective management of liquid assets and liabilities significantly improves loan performance, likely because SACCOs are better positioned to meet

members' demands and absorb financial shocks when they maintain healthy liquidity ratios.

The governance structure had the highest standardised coefficient among the predictors ($\beta 3 = 0.520$), with an unstandardised coefficient of 0.800 and a significant p-value of 0.003. This demonstrates that a unit improvement in governance, such as board oversight, compliance practices, and strategic direction, results in a 0.800 increase in loan performance. This strong and significant relationship indicates that well-governed SACCOs are more likely to maintain financial discipline, screen borrowers more effectively, and reduce default rates. The results underscore governance as a critical pillar in SACCO success.

Lastly, capital adequacy showed a positive effect ($\beta_4 = 0.118$), and although the coefficient is smaller, the relationship remained statistically significant ($p = 0.042$). A well-capitalised SACCO is perceived as more resilient and better able to absorb losses, thereby enhancing borrower confidence and portfolio stability. The positive relationship implies that ensuring sufficient capital reserves is essential in promoting loan repayment.

In summary, all four predictors, financial reporting, liquidity management, governance structure, and capital adequacy, exert statistically significant positive effects on loan performance. Among them, the governance structure has the most important influence, followed by liquidity management, capital adequacy, and financial reporting. These results highlight the importance of strengthening internal structures and regulatory compliance to improve lending outcomes among DT SACCOs in Nakuru County. From the findings, the following regression model was derived from the coefficients:

$\mathbf{Y = 0.948 + 0.084X_1 + 0.380X_2 + 0.800X_3 + 0.118X_4}$, where **Y** is loan performance, $\mathbf{X_1}$ is financial reporting, $\mathbf{X_2}$ is liquidity management, $\mathbf{X_3}$ is governance structure, and $\mathbf{X_3}$ is capital adequacy.

### 4.8 Multiple Regression with Moderator

The researcher conducted a regression analysis to assess the moderating effect of Sacco size on the relationship between SASRA compliance and loan performance of DT Saccos in Nakuru County, Kenya. The study thus hypothesised that the size of Sacco has no statistically significant moderating effect on the relationship between SASRA compliance and loan performance of DT Saccos in Nakuru County, Kenya.

***Step One: Regression of the Composite Sacco Society's Regulatory Authority Compliance on Loan Performance***

In this step, Sacco, society's regulatory authority compliance, is regressed on the loan performance of deposit-taking Saccos.

**Table 21**

*Model Summary of Composite Sacco Society's Regulatory Authority Compliance on Loan Performance*

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .735[a] | .540 | .531 | .50858 |

a. Predictors: (Constant), Sacco society's regulatory authority compliance

*Source:* Research Data (2025)

From the findings, the R-squared value was 0.540. This means that 54.0% of the variation in loan performance among Deposit-Taking SACCOs in Nakuru County, Kenya, can be explained by SASRA compliance. This finding implies that regulatory compliance plays a pivotal role in shaping the financial health and lending efficiency of

DT SACCOs. These results are consistent with those of Mutua and Musiega (2022), who reported that adherence to regulatory frameworks significantly influenced credit risk and repayment rates in SACCOs in Western Kenya, explaining over 50% of the variance in loan recovery rates. Similarly, Kamau and Muriuki (2021) found that SACCOs with strong compliance mechanisms demonstrated improved portfolio quality and member confidence, attributing close to 60% of performance variation to regulatory compliance factors.

**Table 22**

*ANOVA of Composite Sacco Society's Regulatory Authority Compliance on Loan Performance*

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 14.586 | 1 | 14.586 | 56.391 | .000[b] |
| | Residual | 12.415 | 48 | .259 | | |
| | Total | 27.001 | 49 | | | |

a. Dependent Variable: Loan performance of deposit-taking SACCOS

b. Predictors: (Constant), Sacco society's regulatory authority compliance

*Source:* Research Data (2025)

From the findings, the F-value was 56.391 and the p-value (Sig.) was 0.000, both of which are below the conventional threshold of 0.05. This indicates that the regression model is statistically significant, suggesting that SASRA compliance significantly predicts loan performance among Deposit-Taking SACCOs in Nakuru County. The result supports moving to Step 2 in Baron and Kenny's moderation approach, as a significant relationship between the independent variable (SASRA compliance) and the dependent variable (loan performance) has been firmly established.

**Table 23**

*Regression Coefficients of Composite Sacco Society's Regulatory Authority Compliance on Loan Performance*

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant)2 | .059 | .525 | | .113 | .911 |
| | Sacco societies regulatory authority compliance | .988 | .132 | .735 | 7.509 | .000 |

a. Dependent Variable: Loan Performance

*Source:* Research Data (2025)

From the findings, the unstandardized beta coefficient was 0.988, indicating that for every 1-unit increase in SASRA compliance, the loan performance of Deposit-Taking SACCOs improves by 0.988 units. The model also shows a strong t-value of 7.509, reinforcing the significant contribution of regulatory compliance to key financial outcomes, including credit repayment, portfolio quality, and member satisfaction, in SACCOs. These results satisfy the first condition of the Baron and Kenny (1986) moderation framework, which tests whether the independent variable (SASRA compliance) significantly predicts the dependent variable (loan performance). The findings are consistent with Kiptoo and Rotich (2022), who observed that enhanced regulatory compliance among SACCOs in Kenya significantly strengthened their financial discipline and loan recovery mechanisms. Similarly, Odhiambo and Chege (2021) concluded that adherence to SASRA regulations contributed to improved risk management and operational sustainability in the SACCO sector.

***Step Two: Regression of Loan Performance on Composite Sacco Societies Regulatory Authority Compliance, Size of Sacco, and Interaction Term.***

In this step, loan performance was regressed on composite Sacco Societies Regulatory Authority Compliance, Sacco Size, and the interaction term. The results of the regression model are shown below.

**Table 24**

*Model Summary*

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .944[a] | .891 | .887 | .24995 |

a. Predictors: (Constant), SSRAC*SS, Sacco Societies Regulatory Authority Compliance, Sacco Size

The results indicated that the R Square value is 0.891, which implies that 89.1% of the variation in loan performance among Deposit-Taking SACCOs in Nakuru County can be explained jointly by the combined effects of Sacco Societies Regulatory Authority (SASRA) compliance, SACCO size, and their interaction term. The Adjusted R Square of 0.887 accounts for the number of predictors in the model and shows minimal shrinkage, thereby confirming the model's robustness and reliability.

This high R-squared value indicates strong model explanatory power, suggesting that SASRA compliance, moderated by SACCO size, is a critical determinant of loan performance. It further implies that including SACCO size as a moderating variable significantly enhances the model’s predictive accuracy, emphasising the importance of organisational scale in leveraging regulatory compliance to optimise loan performance.

**Table 25**

*ANOVA*

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 24.065 | 2 | 12.033 | 192.604 | .000[b] |
| | Residual | 2.936 | 47 | .062 | | |
| | Total | 27.001 | 49 | | | |

a. Dependent Variable: Loan Performance

b. Predictors: (Constant), Sacco Societies Regulatory Authority Compliance, Sacco Size

From the findings, the F-statistic is 192.604 with a significance value (Sig.) of 0.000, which is less than the conventional alpha level of 0.05. This indicates that the overall regression model is statistically significant. In other words, at least one of the predictors, Sacco Societies Regulatory Authority (SASRA) compliance, size of the SACCO, or their interaction term has a significant effect on loan performance. The high F-value indicates that the variation explained by the model's predictors far exceeds the unexplained (residual) variation, confirming the model's strong goodness-of-fit. This reinforces the assertion that SASRA compliance, moderated by SACCO size, plays a significant role in predicting loan performance and suggests that regulatory adherence, combined with institutional capacity, is vital for improving the financial sustainability of SACCOs.

**Table 26**

*Regression Coefficients*

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | t | Sig. |
| 1 | (Constant) | .302 | .260 | | 1.163 | .0251 |
| | Sacco societies regulatory authority compliance | .229 | .118 | .170 | 1.941 | .048 |
| | Size of Sacco | 1.307 | .106 | 1.082 | 12.318 | .000 |
| | SSRAC*SS | 1.537 | .215 | 1.272 | 7.149 | .000 |

a. Dependent Variable: Loan performance of DT Saccos

The findings indicate that the regression analysis examined the effects of SACCO Societies Regulatory Authority (SASRA) compliance, SACCO size, and their interaction on the loan performance of deposit-taking SACCOs (DT SACCOs) in Nakuru County. The constant ($\beta_1 = 0.302$, $p = 0.0251$) was statistically significant, suggesting that when SASRA compliance, SACCO size, and their interaction are held at zero, the baseline loan performance is reliably different from zero.

SASRA compliance had a positive and statistically significant effect on loan performance ($\beta_2 = 0.229$, $p = 0.048$), indicating that for every unit increase in compliance, loan performance increases by 0.229 units, holding SACCO size constant. This implies that adherence to regulatory requirements improves transparency, credit monitoring, and ultimately repayment performance. SACCO size also had a strong, highly significant positive effect ($\beta_3 = 1.307$, $p = 0.000$), indicating that larger SACCOs tend to achieve higher loan performance, likely due to greater resources, diversified portfolios, and stronger risk management systems.

The interaction term between SASRA compliance and SACCO size ($\beta_4 = 1.537$, $p = 0.000$) was positive and statistically significant, indicating that regulatory compliance has a stronger effect on loan performance in larger SACCOs. This confirms that SACCO size moderates the relationship, amplifying the positive impact of SASRA compliance on loan outcomes.

The moderating model can therefore be expressed as:

$$\text{Loan Performance} = 0.302 + 0.229(\text{SASRA Compliance}) + 1.307(\text{SACCO Size}) + 1.537(\text{SASRA Compliance} \times \text{SACCO Size}) + \varepsilon$$

**4.9 Hypothesis Results**

The study sought to test the hypothesis that financial reporting has no statistically significant effect on the loan performance of DT SACCOs in Nakuru County. The

regression results revealed a positive and statistically significant impact of financial reporting on loan performance, with an unstandardized coefficient of $\beta = 0.084$ and a p-value of 0.047, which is less than the 0.05 significance level. The correlation analysis also indicated a moderate positive relationship between financial reporting and loan performance ($r = 0.476$, $p = 0.000$). This suggests that SACCOs that maintain accurate, timely, and transparent financial reports are more likely to experience improved loan performance.

The findings imply that effective financial reporting plays a critical role in the operational efficiency and financial stability of SACCOs. Accurate and timely reporting enables better loan monitoring, risk assessment, and informed decision-making in credit administration. SACCOs that invest in robust financial reporting systems enhance transparency, strengthen internal controls, and build member confidence, which collectively reduces default rates and improves repayment performance. This underscores the need for SACCOs to adopt standardised reporting frameworks, conduct regular audits, and ensure that financial information is communicated clearly to members and regulators.

These findings are consistent with Signalling Theory, which posits that transparent financial disclosures act as credible signals to members and borrowers about the SACCO's financial health and reliability. By providing accurate financial information, SACCOs reduce information asymmetry, foster trust, and encourage responsible borrowing behaviour. The findings align with Waweru and Kamau (2022), who found that high-quality, timely financial reporting enhances credit decision-making and repayment performance. Similarly, Kariuki and Gathungu (2021) observed that well-structured financial statements lead to prudent lending decisions and lower default rates. Omondi and Karanja (2020) also found that proper financial disclosures build member

trust and improve loan servicing. Collectively, these studies support the conclusion that financial reporting is a key determinant of loan performance in SACCOs.

**$H0_2$: Liquidity Management has no Statistically Significant Effect on the Loan Performance of DT Saccos in Nakuru County, Kenya**

The study sought to test the hypothesis that liquidity management has no statistically significant effect on the loan performance of DT SACCOs in Nakuru County. The regression results revealed a positive and statistically significant impact of liquidity management on loan performance, with an unstandardized coefficient of $\beta = 0.380$ and a p-value of 0.015, which is less than the 0.05 significance level. Additionally, the correlation analysis indicated a strong positive relationship between liquidity management and loan performance ($r = 0.609$, $p = 0.000$).

These findings suggest that SACCOs with effective liquidity management practices, such as maintaining adequate cash reserves, monitoring short-term obligations, and optimising asset-liability ratios, are more likely to achieve higher loan performance. The findings imply that liquidity management is crucial for the operational and financial stability of SACCOs. SACCOs that manage their liquid assets efficiently can meet member withdrawal demands, fund loans promptly, and absorb economic shocks, thereby reducing the likelihood of loan defaults. Institutions should prioritise liquidity planning, forecasting, and the strategic allocation of short-term assets to enhance their ability to disburse loans and maintain financial resilience. Improved liquidity practices contribute directly to sustainable loan performance and institutional trust among members.

These results are consistent with financial intermediation theory, which explains how financial institutions function as intermediaries between savers and borrowers. Effective liquidity management enables SACCOs to efficiently allocate funds, maintain stability,

and meet members' lending demands, thereby improving repayment rates. The results corroborate those of Mutua and Ndegwa (2021), who noted that efficient liquidity management ensures the availability of adequate funds for lending, reduces default risk, and improves loan performance. Similarly, Muthoni and Wekesa (2021) emphasised that robust liquidity buffers enable SACCOs to restructure loans for struggling borrowers, thereby enhancing repayment rates. Kamau and Omwenga (2023) also highlighted that maintaining sufficient liquidity is critical for mitigating loan delinquency during financial stress. Collectively, these studies reinforce the conclusion that liquidity management is a key determinant of loan performance in SACCOs.

**$H0_3$: Governance Structures have no Statistically Significant Effect on the Loan Performance of DT Sacco's in Nakuru County, Kenya**

The study aimed to test the third hypothesis, which stated that governance structures have no statistically significant effect on the loan performance of DT SACCOs in Nakuru County. The regression results revealed a strong, positive, and statistically significant effect of governance structure on loan performance, with an unstandardized coefficient of $\beta = 0.800$, a standardised beta of $\beta = 0.520$, and a p-value of 0.003, which is below the 0.05 significance level. Correlation analysis also indicated a powerful positive relationship between governance structure and loan performance ($r = 0.757$, $p = 0.000$). These findings suggest that SACCOs with well-established governance frameworks, such as strong board oversight, compliance mechanisms, and strategic decision-making, are more likely to achieve better loan performance.

The findings imply that effective governance is critical for the operational efficiency and financial stability of SACCOs. Sound governance practices enhance accountability, strengthen internal controls, and ensure that lending decisions are made prudently. This reduces mismanagement, fraud, and default risks, thereby improving loan recovery and

overall credit performance. SACCOs are therefore encouraged to invest in board training, implement independent audit mechanisms, and enforce robust compliance frameworks to promote responsible lending and repayment behaviour. These results are consistent with Stakeholder Theory, which emphasises the importance of governance structures in balancing the interests of various stakeholders, including members, management, and regulators. By promoting transparency, accountability, and ethical leadership, effective governance enhances stakeholder trust and supports sustainable financial performance.

The findings support the work of Otieno and Muriuki (2023), who found that sound governance structures promote accountability and risk management, thereby improving credit administration and repayment performance. Similarly, Njeri and Mwangi (2019) reported that SACCOs with strong governance frameworks experience lower default rates and more effective credit monitoring. Musyoka and Chebet (2021) also demonstrated that well-trained boards and independent audit committees enhance loan recovery and overall institutional performance. Collectively, these studies reinforce the conclusion that governance structure is a significant determinant of loan performance in SACCOs.

**$H0_4$: Capital adequacy has no Statistically Significant Effect on the Loan Performance of DT Saccos in Nakuru County, Kenya**

The fourth hypothesis proposed that capital adequacy has no statistically significant effect on the loan performance of DT SACCOs in Nakuru County. The regression results revealed a positive and statistically significant impact of capital adequacy on loan performance, with an unstandardized coefficient of $\beta = 0.118$ and a p-value of 0.042, which is less than the 0.05 significance level. The correlation analysis also indicated a strong positive relationship between capital adequacy and loan performance ($r = 0.629$, p

= 0.000). These findings suggest that SACCOs with sufficient capital reserves are better able to sustain lending operations, absorb potential credit losses, and maintain confidence among borrowers, thereby enhancing overall loan performance.

The findings imply that capital adequacy is a critical determinant of SACCOs' financial stability and loan performance. Well-capitalised SACCOs can maintain stable lending practices, withstand economic shocks, and implement effective risk management and credit monitoring systems. This enhances borrower confidence, reduces default risks, and improves repayment rates. SACCOs are therefore encouraged to monitor their capital levels, comply with regulatory thresholds, and strengthen their capital base to support sustainable lending and financial resilience.

These results are consistent with capital structure theory, which emphasises that an organisation’s capital structure influences its ability to absorb losses and sustain operations. Adequate capitalisation enhances resilience, enabling SACCOs to maintain lending capacity during economic shocks. The findings corroborate those of Maina and Gathogo (2020), who found that well-capitalized SACCOs are better positioned to absorb losses, maintain stable lending practices, and enhance borrower confidence, thereby improving loan performance. Similarly, Gikonyo and Barasa (2022) observed that strong capital positions enable SACCOs to invest in credit risk mitigation tools and staff training, which strengthens loan recovery. Ouma and Mugo (2020) also highlighted that adequately capitalised SACCOs experience fewer non-performing loans. Collectively, these studies support the conclusion that capital adequacy is a key predictor of loan performance in SACCOs.

**$H0_5$: The size of Sacco has no Statistically Significant Moderating effect on the Relationship Between SASRA Compliance and Loan Performance of DT Saccos in Nakuru County, Kenya**

The fifth hypothesis proposed that the size of the SACCO does not significantly moderate the relationship between SASRA compliance and loan performance of DT SACCOs in Nakuru County, Kenya. The regression results revealed a statistically significant unstandardized coefficient for the interaction term (SASRA Compliance × SACCO Size) at B = 1.537 with a p-value of 0.000, which is less than the conventional alpha level of 0.05. This indicates that SACCO size has a significant moderating effect, enhancing the positive impact of SASRA compliance on loan performance.

The findings imply that larger SACCOs are better able to leverage regulatory compliance to improve loan performance. SACCOs with greater size tend to have more financial resources, diversified portfolios, robust risk management structures, and stronger governance systems. These advantages enable them to implement SASRA guidelines more effectively, enhancing credit monitoring, loan approval processes, and repayment rates. Smaller SACCOs, by contrast, may not fully benefit from compliance practices due to resource constraints, underscoring the importance of SACCO size in maximising the positive outcomes of regulatory adherence.

These results are consistent with financial intermediation theory, which highlights the role of institutional capacity, such as the asset base and resource availability, in effectively mediating financial flows. Larger SACCOs, by virtue of their size, can utilise compliance frameworks more efficiently to enhance loan allocation and recovery. The findings align with Njeru and Githinji (2021), who observed that larger SACCOs are better positioned to leverage regulatory frameworks effectively to enhance loan performance. This is supported by studies showing that institutions with greater financial

capacity, robust governance, and risk management structures can translate compliance practices into measurable improvements in credit administration and repayment outcomes. Collectively, these studies reinforce the conclusion that SACCO size significantly moderates the relationship between regulatory compliance and loan performance.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter summarises the study's key findings, presents conclusions based on the research objectives, and provides practical recommendations and suggestions for future research.

## 5.2 Summary of the Findings

The study's findings are summarised according to each objective. The summary was categorised in terms of specific objectives.

### 5.2.1 Financial Reporting and Loan Performance of DT Saccos

The study findings revealed that financial reporting practices among SACCOs are mainly favourable, with an average score of 3.8800 and a standard deviation of 1.00508. The respondents were generally of the view that their SACCOs produce precise and detailed financial reports, thereby enabling informed decision-making, especially in lending, such as loan origination, repayment, and risk management. These findings indicate that financial reporting is a key to improving operational efficiency and credit quality.

The research also determined that there is a moderate, positive, and statistically significant relationship between financial reporting and loan performance ($r = 0.476$, $p = 0.000$). The positive impact of financial reporting on the loan performance was supported in the following regression analysis. The value of the unstandardized coefficient ($\beta 1 = 0.084$) indicates that a one-unit improvement in financial reporting practices is associated with a 0.084-unit improvement in loan performance, holding other variables constant. This suggests that the financial reporting systems of SACCOs with better loan performance may be attributed to increased transparency, accountability, and informed credit decision-making.

### 5.2.2 Liquidity Management and Loan Performance of DT Saccos in Nakuru County, Kenya

The researcher sought to assess the effect of liquidity management on the loan performance of DT SACCOs in Nakuru County, Kenya. The mean liquidity management score was 3.8667 (SD = 1.04703), indicating that most SACCOs in Nakuru County have relatively strong liquidity management practices. The data suggests that the SACCOs are usually proactive in their short-term asset investments, utilise short-term debt, and manage their payables to maintain liquidity and ensure that loans are disbursed on time. Therefore, SACCOs that invest in short-term securities with quick payoffs, use flexible short-term debt to cushion liquidity shortages, and manage accounts payable effectively will be better positioned to meet loan demand and reduce the risk of default.

The analysis revealed a statistically significant, strong, and positive relationship between liquidity management and loan performance among DT SACCOs. Correlation analysis showed that sound liquidity management is likely to lead to high loan performance, as SACCOs with sound liquidity management are able to service withdrawal needs, finance loans quickly, and respond efficiently to financial shocks ($r = 0.609$, $p = 0.000$). In addition to this finding, regression analysis indicated that liquidity management has a significant effect on loan performance, with an unstandardized coefficient of $b = 0.380$ and a standardised beta of $b = 0.337$ ($p = 0.015$). In this regard, a unit change in liquidity management, achieved through sufficient cash reserves, efficient management of asset-liability ratios, and careful observance of short-term commitments, results in a positive change of 0.380 in loan performance, with other variables remaining constant. All these findings collectively emphasise the critical importance of effective liquidity management in enhancing operational stability and loan performance at SACCOs.

### 5.2.3 Governance Structure and Loan Performance

The researcher sought to assess the relationship between governance structure and loan performance of DT SACCOs in Nakuru County, Kenya. The overall mean for the governance structure was 4.1333 (SD 0.9918), indicating strong agreement among respondents that their SACCOs have well-developed, efficient governance structures. The findings also highlight that board diversity and independence are perceived as key to overseeing and implementing sound loan policies, which reduce the risk of biased or uninformed credit decisions.

The analysis revealed that the association between the governance structure and loan performance among DT SACCOs is exceptionally high, positive, and statistically significant. The study using Pearson's correlation showed that SACCOs with strong governance structures were more likely to achieve high loan performance, as effective governance leads to prudent lending and a lower probability of default ($r = 0.757$, $p = 0.000$). In line with this, the regression analysis showed that governance structure has a strong positive impact on loan performance, with an unstandardized coefficient of b = 0.800 and a standardised coefficient of 0.520 (p = 0.003). These findings imply that an increase in governance practices, including strengthening board oversight, implementing compliance policies, and improving strategic decision-making, by one unit is associated with a 0.800 improvement in loan performance, other things held constant. All these results highlight the importance of governance as a decisive factor in enhancing SACCO credit management and their overall financial performance.

### 5.2.4 Capital Adequacy and Loan Performance of DT Saccos

The mean score for capital adequacy was 3.9800, with a standard deviation of 1.0918, indicating a positive overall perception of capital adequacy for DT SACCOs in Nakuru County, though it varied across institutions. The regression results revealed a positive

and significant relationship between capital adequacy and loan performance among DT SACCOs. A positive correlation is observed between SACCOs with higher capital reserves and better loan outcomes, as adequate capitalization increases the robustness and confidence of borrowers ($r=0.629$; $p<0.000$). Consistently, the regression analysis indicated that capital adequacy has a positive impact on loan performance (unstandardized β coefficient = 0.118; p-value = 0.042).This suggests that a unit increase in capital adequacy, achieved through maintaining adequate reserves and investment buffers, is associated with a 0.118 increase in loan performance, holding other factors constant.

### 5.2.5 Firm Size of the SACCO

The overall mean of firm size was 3.9571, with a standard deviation of 0.9975, as reported in the study. This indicates the widespread agreement among respondents that their SACCOs have expanded, in terms of membership, assets, and deposits, which are indicators of firm size. The results are in line with Gichure and Oginda (2019), who also reported a rather high overall mean, indicating that large SACCOs performed better financially than the smaller ones due to their ability to capture greater economies of scale and a well-built capital structure. Similarly, Muturi and Wambua (2020) found that SACCO growth was similar, and they stated that an increase in size positively correlates with loan performance due to enhanced risk diversification and greater resource availability. The average standard deviation observed in the present study aligns with prior studies, which indicated fluctuations in SACCOs, especially in services and asset adequacy.

Based on the results, it may be noted that the value of R-Squared increased drastically from 0.540 without the moderator to 0.891 with SACCO size and the interaction term. This significant growth suggests that SACCO size is a weak moderator of the association

between SASRA compliance and loan performance among DT SACCOs in Nakuru County. The statistically significant, positive interaction term ($\beta = 1.537$, $p < 0.001$) provides further evidence that the effect of regulatory compliance on loan performance increases with SACCO size.

This implies that large SACCOs are therefore in a better position to utilise compliance structures to promote better credit control, loan recovery, and general financial operations than their small counterparts.

### 5.3 Conclusions

Conclusions were drawn based on the study objectives.

The study rejected the first null hypothesis ($H0_1$) and established that financial reporting is statistically significant for loan performance among the DT SACCOs in Nakuru County. This means that, by ensuring timely, transparent, and accurate financial reporting, credit decisions are influenced, borrower confidence is increased, and information asymmetry is reduced. Bad financial reporting may impede the progress of monitoring, the pursuit of loans, and the eventual performance of repayment. Thus, SACCOs are advised to place special emphasis on consistent, transparent financial disclosures to enhance internal controls and improve loan performance.

These results are also in line with Signalling Theory, which assumes that open financial reporting is a signal to borrowers and members that depicts the institution's financial well-being and stability. SACCOs reduce information asymmetry by providing timely and accurate financial information, thereby fostering trust and enhancing repayment behaviour. The results align with those of Muriithi and Waweru (2020), who found that financial reporting is accurate and that it improves risk management and performance in SACCOs. Chepkoech and Wafula (2019) also noted the effectiveness of adherence to financial standards in mitigating fraud, and Ouma and Mbaka (2021) linked transparent

disclosures with enhanced accountability and loan recovery. Thus, the research highlights the critical importance of financial reporting in protecting institutional integrity and improving loan performance in DT SACCOs.

The research rejected the null hypothesis ($H0_2$), finding that liquidity management has a statistically significant impact on the loan performance of DT SACCOs in Nakuru County. This observation means that a reasonable level of liquidity can help SACCOs meet lending needs and protect against unforeseen withdrawals or defaults. Poor liquidity management may lead to cash flow deficits, which are likely to increase loan defaults. In this respect, SACCOs would be advised to continuously review their liquidity status and establish active liquidity planning and forecasting approaches to facilitate sustainable lending.

These results are consistent with financial intermediation theory, which holds that financial institutions are intermediaries between savers and borrowers. Liquidity management enables SACCOs to allocate funds effectively, meet members' demand, and remain financially stable, thereby enhancing loan repayment rates and overall loan performance. These results align with those of Kipkemoi and Ogilo (2020), who observed that positive liquidity management practices reduce funding delays and improve loan repayment. Mutegi and Irungu (2019) also emphasised that SACCOs with reasonable short-term investment plans had stronger cash positions, which enhanced turnaround time and member satisfaction.

The research rejected the third null hypothesis ($H0_3$) and found that governance structures significantly affect the performance of loans of DT SACCOs in Nakuru County. This shows that good governance practices, comprising strong leadership, accountability, and compliance frameworks, promote improvements in loan oversight and credit administration. Poor governance can expose SACCOs to mismanagement,

fraud, or inadequate risk controls, negatively affecting loan recovery. As such, SACCOs need to enhance their governance systems by training their boards, conducting internal audits, and enforcing policies to ensure that borrowers behave responsibly in lending and repayment. The stakeholder theory supports these findings and emphasizes the need to consider the interests of all stakeholders when making decisions in an organisation. Open and participative governance will enhance accountability to members, management, and regulators, hence developing trust and increasing loan repayment. These results can be compared with those of Kangogo and Kiptoo (2020), who found that the aforementioned governance structure, particularly board independence and risk management, had favourable effects on loan performance in Kenyan SACCOs.

The study rejected the fourth null hypothesis ($H0_4$) and concluded that capital adequacy has a statistically significant effect on the loan performance of DT SACCOs in Nakuru County. This suggests that SACCOs with sufficient capital buffers are better equipped to absorb potential losses, maintain lending capacity, and instill confidence in borrowers. Inadequate capitalisation may constrain lending operations and increase vulnerability to financial shocks. It is therefore recommended that SACCOs regularly assess their capital levels, comply with regulatory thresholds, and implement measures to enhance capitalisation to improve credit stability.

These findings are consistent with capital structure theory, which posits that an organisation's capital composition influences its ability to withstand financial shocks and sustain operations. Adequate capitalisation enhances institutional resilience and strengthens risk management practices, thereby improving loan repayment performance. These findings are consistent with Mutua and Rotich (2019), who similarly reported a high overall mean in their study, reflecting strong agreement that capital adequacy enhances SACCOs' ability to absorb credit losses and maintain operational stability.

Likewise, Wekesa and Simiyu (2020) found comparable overall means and standard deviations, suggesting that capital adequacy was a key predictor of loan performance, though with differences in how SACCOs maintained adequate buffers. Cheruiyot and Karanja (2021) also recorded a high overall mean in their study, reinforcing the importance of strong capital positions in managing loan risks, especially during economic downturns.

The study rejected the fifth null hypothesis ($H0_5$). It concluded that the size of the SACCO significantly moderates the relationship between SASRA compliance and the loan performance of DT SACCOs in Nakuru County. This implies that larger SACCOs, owing to their stronger capital base, institutional capacity, and more sophisticated risk management structures, are better positioned to implement and benefit from regulatory compliance measures. These SACCOs can absorb regulatory costs more effectively and adapt more quickly to compliance requirements, resulting in improved loan performance. Therefore, policymakers and SACCO managers should recognise the role of institutional size in regulatory strategy, and smaller SACCOs should be supported through capacity-building to benefit equally from compliance initiatives.

## 5.4 Recommendations

### 5.4.1 Recommendation for Policy and Practice

Based on the study findings, several policy recommendations are proposed to enhance loan performance among DT SACCOs in Nakuru County, Kenya:

As the study revealed that the governance structure plays a significant role in determining loan performance, SACCOs ought to improve their internal governance mechanisms by ensuring transparency, accountability, and best-practice management. These boards must have people with the required skills and integrity, and periodic training should ensure they are abreast of governance trends and expected regulations.

SASRA and policymakers ought to allocate and implement standard governance structures to promote sound decision-making and ethical leadership in SACCOs.

Since the process of financial reporting has been identified as having a substantial influence on loan performance, SACCOs should emphasize timely, accurate, and complete financial disclosures. International Financial Reporting Standards (IFRS) should be adopted. Regulators, such as SASRA, must not merely limit themselves to enforcing compliance but also promote capacity-building programs, such as training, to enhance financial literacy and reporting skills among SACCO staff.

Because liquidity management is a significant factor in determining loan performance, SACCOs are strongly advised to implement sound liquidity policies that ensure adequate cash holdings, effective cash flow management, and prudent short-term investments. A normal practice should include regular stress testing and liquidity forecasting. SASRA ought to increase vigilance in adhering to the stipulated liquidity ratios required by statutes and provide guidance on how to address liquidity risks, especially during economic downturns.

Since capital adequacy has a positive and significant impact on loan performance, SACCOs ought to maintain a capital buffer above the required minimum. Strategies can involve increasing member contributions, increasing earnings retention, and achieving balanced asset growth. SASRA should implement risk-based capital adequacy requirements and advise SACCOs on developing sustainable capitalisation strategies, particularly for institutions with aggressive lending portfolios.

Since the size of SACCOs is a significant moderating factor in the relationship between regulatory compliance and loan performance, supporting the growth of smaller SACCOs is necessary. The latter might include promoting strategic mergers, financial

technologies, or even regulatory relief or support. Policies that take into account the unique challenges faced by smaller SACCOs should be determined by SASRA and other stakeholders, so that they have avenues for growth and enjoy the same benefits as compliance interventions.

### 5.5 Recommendations for Further Studies

The findings suggest that the focus should be more on investigating the impact of other dimensions of regulatory compliance, such as consumer protection, anti-money laundering practices, and digital compliance, rather than just financial inclusion, to achieve a comprehensive understanding of how regulatory infrastructure affects loan performance with DT SACCOs.

The study also suggests that future attention should focus on investigating the moderating effects of institutional culture and leadership style on the relationship between SASRA compliance and loan performance. This, in turn, would provide insight into the organisational dynamics that might facilitate or impede regulatory policy implementation from within.

Further, the study recommends conducting a comparative analysis between Deposit-Taking (DT) SACCOs and Non-Deposit-Taking (non-DT) SACCOs to evaluate how regulatory compliance affects loan performance differently across SACCO types. Future research could also benefit from adopting a mixed-methods approach, combining quantitative data with qualitative insights from key stakeholders to provide a deeper understanding of compliance dynamics and loan performance.

In addition, the use of alternative research designs, such as longitudinal or experimental approaches, is encouraged to capture causal relationships and changes over time. Finally, expanding the scope of the study to include SACCOs in other regions of Kenya, or even

across East African countries, would enhance the generalizability of the findings and provide comparative perspectives on how compliance and institutional characteristics shape loan performance outcomes.

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## APPENDICES

**Appendix I:** Introduction Letter

Dear Sir/Madam,

I am a student in the Master of Business Administration program at Kabarak University. I am carrying out academic research on the topic of "***Relationship between Firm Size, Sacco Societies Regulatory Authority Compliance and Loan Performance of Deposit Taking Saccos in Nakuru County, Kenya***". This research aims to partially fulfil the academic requirements for the award of the degree of Master of Business Administration at Kabarak University.

I humbly request you to answer the following questions as honestly and as appropriately as possible. All the information provided will be treated with the highest degree of confidentiality and privacy, and its use will be only for the purpose of this study.

I look forward to your assistance.

Signed… …  Date: …31/01/2025…

Yours faithfully,

Rose Chepkwesi

**Appendix II:** Questionnaire

I am a postgraduate student at Kabarak University. As part of my fulfillment of the requirements of the said program, I am currently undertaking research fieldwork to write my project. The topic of my research is: **"Relationship between Firm Size, Sacco Societies Regulatory Authority Compliance and Loan Performance of Deposit Taking Saccos in Nakuru County, Kenya."** Regarding the data collected, I hereby and committedly declare that the information provided will be strictly limited to academic purposes only.

**Section A: Respondents' Background Information (Tick where applicable)**

1. What position do you now hold within the SACCO Departments?

Credit Officer [ ] Loan Compliance Officer [ ] Finance Officer [ ] CEO [ ]

Operations Manager [ ]

2. How long has your SACCO been in existence?

0 – 5 years [ ] 6 – 10 years [ ] 11 – 15 years [ ] 16 – 20 years [ ]
Above 20 years [ ]

3. How many members does your SACCO have?

Below 500 members [ ] 500 – 1000 members [ ] 1001 – 1500 members[ ]

1501 – 2000 members [ ] Above 2000 members [ ]

In this section, please give your response that suits your view. Tick where applicable in the spaces using a tick (√) or cross mark (x). Key SA= Strongly Agree, A= Agree, U= Undecided, D= Disagree and SD= Strongly Disagree.

**Section B: Financial Reporting**

| | **Statements on Financial Reporting** | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| | The Sacco prepares accurate and complete financial reports, which provide reliable data when making decisions. | | | | | |
| | Preparing accurate and complete reports minimises the risk of misstatements and fraud. | | | | | |
| | The Sacco complies with the accounting standards, ensuring uniformity in financial reporting. | | | | | |
| | Compliance facilitates regulatory approvals, ensuring continued operations and enhancing members' confidence. | | | | | |
| | Transparency and disclosure build confidence among members, encouraging participation in the Sacco. | | | | | |
| | Transparency allows for better oversight of loan portfolios, reducing the likelihood of non-performing loans. | | | | | |

**Section C: Liquidity Management**

| | **Statements on Liquidity Management** | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| | The Sacco invests in short-term assets, which protects it from liquidity shortages while ensuring steady returns. | | | | | |
| | Short-term investments provide quick returns, enhancing Saccos' liquidity to meet loan demand. | | | | | |
| | The Sacco utilises short-term debt to bridge liquidity gaps, ensuring timely loan disbursements and operations. | | | | | |
| | Short-term debt often carries lower interest rates than long-term debt, thereby reducing operational costs. | | | | | |
| | Strategic handling of accounts payable allows Saccos to | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | retain cash for immediate loan demands. | | | | | |
| | Timely management of payables helps Saccos avoid late payment penalties and preserve funds for loans. | | | | | |

**Section D: Governance Structure**

| | **Statements on Governance Structure** | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| | The Sacco has a diverse, independent board that provides oversight and ensures sound loan policies. | | | | | |
| | Independent members are more likely to challenge decisions that may negatively affect loan performance. | | | | | |
| | The Sacco has a risk management framework to identify and mitigate potential risks, reducing default rates. | | | | | |
| | The Sacco is better equipped to handle economic shocks, ensuring stable loan performance. | | | | | |
| | The Sacco has strong internal controls that minimise fraud and mismanagement, preserving loan funds. | | | | | |
| | Proper controls streamline operations, ensuring timely loan disbursement and repayment monitoring. | | | | | |

**Section E: Capital Adequacy**

| | **Statements on Capital Adequacy** | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| | The Sacco has met the required rations which ensures compliance with regulatory standards. | | | | | |
| | Adequate capital acts as a buffer against loan losses, reducing the risk of financial distress. | | | | | |
| | The Sacco has a high Tier 1 ratio, indicating sufficient core capital to absorb losses. | | | | | |
| | Demonstrating strong Tier 1 capital ensures Saccos remain within regulatory frameworks and avoid penalties. | | | | | |
| | The Sacco has Capital buffers that ensure uninterrupted loan operations during economic downturns. | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | Having extra capital instills confidence among stakeholders, supporting loan uptake. | | | | | |

**Section F: Loan Performance**

| | **Statements on Loan Performance** | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| | The Sacco has recorded low cases of loan defaults for the last two years. | | | | | |
| | Monitoring default cases helps Saccos identify and address underlying causes, reducing future defaults. | | | | | |
| | The Sacco has had a reduced amount of non-performing loans for the last two years. | | | | | |
| | Reducing the amount of non-performing loans safeguards Saccos from significant financial losses. | | | | | |

**Section G: Firm Size**

| | **Statements on Firm Size** | SA | A | U | D | SD |
|---|---|---|---|---|---|---|
| | The Sacco has recorded an increase in the number of members. | | | | | |
| | The size of our membership positively influences our Sacco's performance. | | | | | |
| | The Sacco has significantly grown its asset base over the past five years. | | | | | |
| | The current value of our assets adequately supports the Sacco's operational and financial objectives. | | | | | |
| | Members' total savings deposits have consistently grown in the last three years. | | | | | |
| | The number of branches adequately serves the needs of members across all regions. | | | | | |
| | Expanding the number of branches has significantly improved Sacco's performance and service delivery. | | | | | |

***Thank You for your Participation***

**Appendix III:** Informed Consent

ADULT INFORMED CONSENT FORM (TEMPLATE)

*(The form is written in the English language, but can be translated to Kiswahilior any other appropriate language)*

**STUDY TITLE**: Relationship between firm size, Sacco societies' regulatory authority compliance and loan performance of deposit-taking saccos in Nakuru County, Kenya

**PI ROSE CHEPKWEMOI CHEPKWESI Affiliated Institution KABARAK UNIVERSITY Co-investigator(s)Prof. Lawrence Kibet and Dr Nehemiah Kiplagat Affiliated Institution(s)EGERTON UNIVERSITY and KABARAK UNIVERSITY**

**Introduction**

You are invited to participate in this research study being undertaken by the above-listed investigators. This form will help you gather information about the survey so you can decide whether to participate voluntarily. You are encouraged to ask any questions regarding the research process, as well as any benefits or risks that you may accrue by participating. After you have been adequately informed about the study, you will be requested to either agree or decline to participate. Upon deciding to participate in the survey, you will be further asked to affirm that by appending your signature/thumbprint on this form. Accepting or declining to participate in this study does not in any way waive the following rights, which you're entitled to:

a. Voluntary participation in the study;
b. Withdrawing from the study at any time without the obligation of having to give an explanation, and;
c. Access to services that you're entitled to

A copy of this form will be provided to you for your own records

Should I continue? YES/NO? _____

This study has been reviewed and approved by Kabarak University Research Ethics Committee (KUREC)

**What is the Purpose of the Study?**

The main reason(s) for conducting this study are to answer the following Questions:

1. What are the effects of financial reporting on the loan performance of DT Saccos in Nakuru County, Kenya?
2. What are the effects of liquidity management on the loan performance of DT Saccos in Nakuru County, Kenya?
3. What are the effects of governance structure on the loan performance of DT Saccos in Nakuru County, Kenya?
4. What are the effects of capital adequacy on the loan performance of DT Saccos in Nakuru County, Kenya?

*(In order to answer these research questions, you are requested to voluntarily answer question(s))*

**Who can Take Part in the Study?**

The unit of analysis will be 4 deposit-taking Saccos in Nakuru County, while the unit of observation will be 14 credit officers, 27 internal audit and compliance officers, 12 finance officers, 4 CEOs, and 8 operations managers. Other staff will be excluded in the study.

**In Case You Agree to Participate in the Study, What Will Happen?**

This is what is going to happen once you have agreed to participate in the study:

First, the interview will take less than one hour, after which you are at liberty to complete the questionnaire immediately or within two weeks.

Second, a qualified, well-trained interviewer will ask you questions in a private place where you feel comfortable. In case there is any question you feel uncomfortable responding to, you will not be coerced into responding. The questions will be on the following areas:

- Financial Reporting
- Liquidity Management
- Governance Structure
- Capital Adequacy

Third, after the interview, the following procedures will be done {detailed information on any procedures to be undertaken by the investigator(s)}

The questionnaires will first be cleaned and edited before being coded and further analyzed.

Lastly, you are requested to provide your contact details (phone number or another reliable contact method). This will help reach you in case new information regarding the study emerges.

The contact details you will provide shall remain confidential to the lead researcher (PI).

Rose Chepkwesi

**What Potential Risks are Associated with Participation in this Study?**

*Participation in this study doesn't pose any risk or harm to you*

Any research involving human subjects has the potential to impose several risks/harms or discomforts, including psychological, physical, emotional, environmental, and cultural.

*Participation in this study doesn't pose any risk or harm to you*

**Privacy & Confidentiality**

Privacy is the right of an individual to control how their personal information/data is collected, used, and/or disclosed. Confidentiality is the duty to ensure information (data) is kept secret only to the extent possible/reasonable.

To protect participant privacy and confidentiality, several measures will be implemented. Firstly, informed consent will be obtained from all participants prior to any data collection. This involves a clear explanation of the study's purpose, how the information will be used, and any potential risks or benefits. Participants will be explicitly assured of their right to privacy and confidentiality. Secondly, data will be collected anonymously whenever possible to prevent the identification of individual participants. The collection of personally identifiable information will be minimised and will be collected only when absolutely necessary for the research objectives.

To ensure data security, collected questionnaires will be securely stored in a locked location to prevent unauthorised access or disclosure. Access to data will be restricted to authorised personnel with a legitimate research need. Secure protocols will be

established for the disposal or deletion of data once it is no longer required for research purposes. After data analysis, all copies of the data will be securely destroyed to prevent unauthorised access or misuse. Finally, if data sharing is necessary, participants will provide explicit consent, and all shared data will be de-identified to protect participant privacy.

> *In case you aren't comfortable answering any of the questions during the interview because of feeling embarrassed or uncomfortable, it will be within your rights to decline. Otherwise, every measure has been taken to ensure the interview is conducted in a private area with minimal to no interference, so you feel comfortable.*

If at all you suffer any injury, illness, or complication(s) by participating in this study, kindly contact us immediately using the contact details provided at the bottom of this form. You will be attended to by the study clinician, and if further assessment or treatment is needed, you will be referred accordingly.

**What Benefits are you going to accrue by participating in the Study?**

Understanding the impact of SASRA compliance on loan performance is crucial for regulatory authorities like SASRA. It helps them assess the effectiveness of existing regulatory frameworks and policies in ensuring the stability and sustainability of DT Saccos. By identifying the relationship between compliance with SASRA regulations and loan performance, regulators can refine and enhance regulatory standards to better protect depositors' interests and maintain the overall health of the Sacco sector.

**What will it Cost You to participate in the Study?**

The study will cost you nothing.

**Will Any Expenditure that You Incur by Participating in the Study be Refunded? Or will you be paid for participating in the Study?**

*The study will cost you nothing.*

**In Case I have any Further Questions/ Concerns in the Future, Whom Should I contact?**

If you need further clarification or have questions regarding your continued participation in the study, feel free to contact the PI, *Rose Chepkwesi, at 0726206345*. In case of

concerns regarding your rights and/or obligations as a research participant, do not hesitate to contact the secretary, KUREC on {*Dr. Miriam Muga -0710360700*}

**What Alternative Options are Available to Me?**

*The decision to participate is entirely voluntary. You will be free to withdraw from the study at any point during the survey without providing any explanation.*

**How Will the Findings of this Study be Communicated or Shared?**

*The feedback on the study findings will be shared with you personally or through the county administration.*

**Statement of Consent**

I have comprehensively read the consent form, or/the information has been comprehensively read to me by the researcher. I have understood what the study is about, and all the questions and concerns I had have been addressed in a clear and concise manner. The study benefits and foreseeable risks have been explained to me. I totally understand that my decision to participate in this study is voluntary, and I have the right towithdraw at any point during the study.

**I freely consent to participate in this study.**

Signing this form does not in any way imply that I have given up the rights I am entitled to as a participant.

I agree to participate in this research. YES_____NO_____

I agree to provide my contact details for follow-up. YES_____NO_____

Participant's Name _____

Participant's Signature/Thumb Print……Date …….

**Appendix IV:** KUREC Clearance Letter

**KABARAK UNIVERSITY RESEARCH ETHICS COMMITTEE**

**Private Bag - 20157**
**KABARAK, KENYA**
**Email: kurec@kabarak.ac.ke**

**Tel: 254-51-343234/5**
**Fax: 254-051-343529**
**www.kabarak.ac.ke**

**OUR REF: KABU01/KUREC/001/18/06/25**

**Date: 24th June, 2025**

Rose Chepkwesi
GMB/NE/3218/09/18
Kabarak University,

Dear Rose,

**RE: RELATIONSHIP BETWEEN FIRM SIZE, SACCO SOCIETIES REGULATORY AUTHORITY COMPLIANCE AND LOAN PERFORMANCE OF DEPOSIT TAKING SACCOS IN NAKURU COUNTY KENYA.**

This is to inform you that ***KUREC*** has reviewed and approved your above research proposal. Your application approval number is ***KUREC-180625.*** The approval period is ***24/06/2025 – 24/06/ 2026.***

This approval is subject to compliance with the following requirements:

i. All researchers shall obtain an introduction letter to NACOSTI from the relevant head of institutions (Institute of postgraduate, School dean or Directorate of research)
ii. The researcher shall further obtain a RESEARCH PERMIT from NACOSTI before commencement of data collection & submit a copy of the permit to **KUREC.**
iii. Only approved documents including (informed consents, study instruments, MTA Material Transfer Agreement) will be used
iv. All changes including (amendments, deviations, and violations) are submitted for review and approval by ***KUREC***:
v. Death and life-threatening problems and serious adverse events or unexpected adverse events whether related or unrelated to the study must be reported to ***KUREC*** within 72 hours of notification;
vi. Any changes, anticipated or otherwise that may increase the risk(s) or affected safety or welfare of study participants and others or affect the integrity of the research must be reported to ***KUREC*** within 72 hours;
vii. Clearance for export of biological specimens must be obtained from relevant institutions and submit a copy of the permit to KUREC;
viii. Submission of a request for renewal of approval at least 60 days prior to expiry of the approval period. Attach a comprehensive progress report to support the renewal and;
ix. Submission of an executive summary report within 90 days upon completion of the study to ***KUREC***

Sincerely,

KABARAK UNIVERSITY INSTITUTIONAL RESEARCH ETHICS COMMITTEE
25 JUN 2025
APPROVED
P. O. PRIVATE BAG - 20157, KABARAK

**Prof. Jackson Kitetu PhD.**
KUREC-Chairman

Cc Vice Chancellor
DVC-Academic & Research
Registrar-Academic & Research
Director-Research Innovation & Outreach
Institute of Post Graduate Studies

**Appendix V:** NACOSTI Research Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **808786**

Date of Issue: **12/July/2025**

**RESEARCH LICENSE**

**This is to Certify that Ms.. ROSE CHEPKWEMOI CHEPKWESI of Kabarak University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nakuru on the topic: RELATIONSHIP BETWEEN FIRM SIZE, SACCO SOCIETIES REGULATORY AUTHORITY COMPLIANCE AND LOAN PERFOMANCE OF DEPOSIT TAKING SACCOS IN NAKURU COUNTY KENYA for the period ending : 12/July/2026.**

License No: **NACOSTI/P/25/4176245**

**808786**

Applicant Identification Number

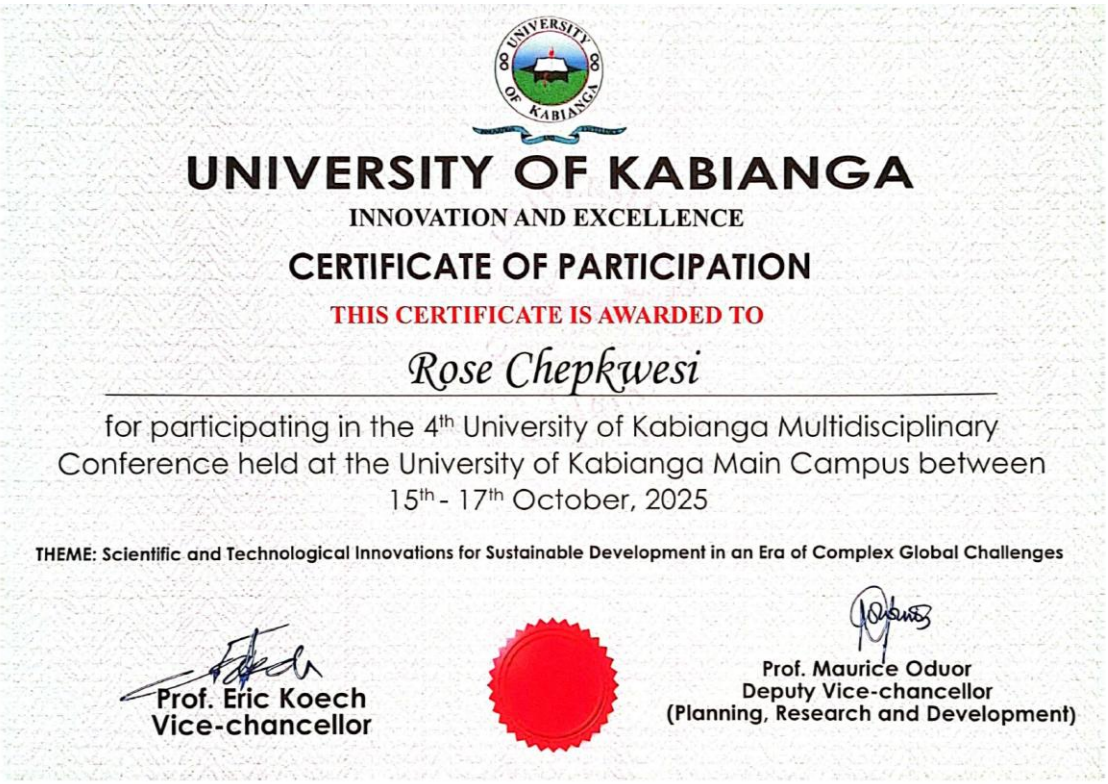
Ag. Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Verification QR Code

NOTE: This is a computer generated License. To verify the authenticity of this document, Scan the QR Code using QR scanner application.

**See overleaf for conditions**

**Appendix VI:** Evidence of Conference Participation



UNIVERSITY OF KABIANGA

INNOVATION AND EXCELLENCE

CERTIFICATE OF PARTICIPATION

THIS CERTIFICATE IS AWARDED TO

*Rose Chepkwesi*

for participating in the 4th University of Kabianga Multidisciplinary Conference held at the University of Kabianga Main Campus between 15th - 17th October, 2025

THEME: Scientific and Technological Innovations for Sustainable Development in an Era of Complex Global Challenges

Prof. Eric Koech
Vice-chancellor

Prof. Maurice Oduor
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# GOVERNANCE STRUCTURE AND LOAN PERFORMANCE OF DEPOSIT TAKING SACCOS IN NAKURU COUNTY KENYA

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## ABSTRACT

**Purpose of the Study:** The study examined the relationship between firm size, governance structure and loan performance among Deposit Taking SACCOs in Nakuru County, Kenya.

**Problem Statement:** Deposit Taking SACCOs play a critical role in promoting financial inclusion, mobilizing savings, and extending affordable credit to support socio-economic growth in Kenya. However, persistent challenges related to governance weaknesses continue to undermine loan performance, leading to rising levels of non-performing loans and reduced financial stability

**Methodology:** The study adopted a descriptive research design and used a census approach targeting 65 respondents comprising credit officers, internal audit and compliance officers, finance officers, operations managers, and chief executive officers from Deposit-Taking SACCOs in Nakuru County. Data were collected through structured questionnaires and analyzed using SPSS version 25, employing both descriptive statistics and inferential techniques such as correlation and regression to examine the relationship between governance structure and loan performance.

**Conclusion:** The study concludes that effective governance characterized by strong board oversight, internal control mechanisms and sound risk management enhances loan recovery, reduces default rates and promotes financial sustainability.

**Recommendation:** The study recommends that SACCOs should strengthen their governance frameworks and ensure strict compliance with regulatory standards to enhance credit discipline and institutional performance. Boards should promote transparency, accountability, and ethical leadership to sustain sound lending practices and improve overall financial stability.

**Keywords:** *Governance Structure, Loan Performance, SACCOs, Nakuru County, SASRA.*