LIQUIDITY MANAGEMENT AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SACCOS IN KERICHO COUNTY, KENYA

BY

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DECLARATION

This research project is my original work and has not been presented to any other institution or University.

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This research project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

I dedicate this work to my family. They have truly shown their solidarity and progressive support to me through prayers, finances, socially and morally to see that I accomplish this requisite academic undertaking.

ABSTRACT

A company’s liquidity reveals both its degree of financial autonomy against its creditors and the kind and severity of the challenges and crises it is now facing. To what extent this occurs depends on the nature of both current assets and current liabilities. Cash on hand, other assets that may be swiftly converted to cash, profits or losses, the size of debts that will need to be repaid soon, and the availability of new capital via the sale of securities or borrowing all play a role in determining a company's liquidity. The goal of this research was to determine the influence of liquidity management on the financial performance of DT Saccos in Kericho County. The study was guided by liquidity preference theory, Commercial loan theory, and Anticipated Income Theory. The descriptive method was used for this study. Employees of Deposit Taking SACCOs in Kericho County made up the research population. The Ndege Chai SACCO society, Imarisha SACCO society, Kenya highlands SACCO society, Simba Chai SACCO society limited, Green Hill SACCO society limited, and Patnas SACCO society limited were all part of this group. Ten percent served as the study's sample, and a stratified random sampling method was employed to choose the sample. The saccos was used to divide the research population into groups for analysis. Questionnaire were utilized to gather primary data. Descriptive and correlation analysis was used to examine the gathered data. SPSS (Statistical Package for the Social Sciences) version 21 was used for analysis. The findings revealed that aspects of collateral are considered when issuing loans, and that there is protection of members deposit by SACCO management. The deposit taking SACCO undertake regular budget cash budget and the occurrence of cash shortages had been managed by the SACCOs. The SACCOs have effective loan portfolio management to maximize the lending opportunities and cash management in the Saccos have been considered and measures taken to ensure there is no adverse effect on financial performance. The study also concluded that financial reporting policy, flexible repayment periods are significant as they improve loan repayment. Proper implementation of internal controls is important as they relate to financial performance of the SACCOs. The study recommended that deposit taking SACCOS should implement cash management, credit management and contingency funding management in liquidity management to improve financial performance.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

In emerging nations, where bank loans play an essential part in country's growth, financial institutions are the major pillars in the preservation of a stable economic and financial system (Bianchi & Bigio, 2022). The financial sector is crucial to the health of any economy (Alshatti, 2015). Lending to short-term borrowers on the asset side and providing liquidity on the liability side are both ways in which this sector helps the economy function (Arif, 2020). Investment banks, central banks, development banks, and commercial banks are all examples of financial institutions that serve this intermediate function well (Song'e, 2015).

Alshatti (2015), stated that a company's liquidity reveals both its degree of financial autonomy against its creditors and the kind and severity of the challenges and crises it is now facing. To what extent this occurs depends on the nature of both current assets and current liabilities. Cash on hand, other assets that may be swiftly converted to cash, profits or losses, the size of debts that will need to be repaid soon, and the availability of new capital via the sale of securities or borrowing all play a role in determining a company's liquidity (Mahmood, Khalid, Waheed, & Arif, 2019).

Since it impacts banks' day-to-day operations and is therefore of enormous importance to both the external and internal business environment, liquidity management is (Bhunia & Khan, 2011). Managing liquidity is making sure there is always enough cash on hand (or other liquid assets) to pay bills as they come due and fund regular activities

(Bhattacharyya & Sahoo, 2011). According to Olatunde (2015), increased company output might result from banks and other financial institutions achieving and maintaining a healthy liquidity coverage ratio. Investment assets, such as stocks, bonds, and mutual funds, are considered liquid if they can be quickly and easily converted into cash without suffering a major loss in value (Eljelly, 2014).

Kenyan SACCOs are responsible for 45% of the country's gross domestic product, and the industry has so far mobilized deposits and assets reaching Ksh 210 billion (Mwaura, 2021). The availability of these tools equips SACCOs to participate in the newly liberalized market. One of the most pressing issues facing SACCOs today is managing their cash flow (Omino, 2014). Even if a SACCO has high-quality assets, robust profits, and ample capital, it may nevertheless collapse if its liquidity levels are inadequately managed (Githaka, Maina, & Gachora, 2017).

1.1.1 Liquidity Management

Liquidity is the available equity capital for immediate use in paying off debts (Waswa, Mukras, & Oima, 2018). It defines how readily a commodity or security may be bought or sold in the market without altering its price, and it is used as a proxy for the ease with which an organization can convert an asset into cash (Maaka, 2013). Although liquidity is focused on short-term responsibilities, it should not be ignored since the best capital structure of a company is achieved by taking into account both short-term and long-term needs of financing.

Managing an organization's liquidity means making sure it has enough cash on hand to pay its bills in the near term and reducing its vulnerability to financial shocks (Waswa et al., 2018). When it comes to making loans, receiving payments, and generating income, DT Saccos rely heavily on a healthy supply of liquid assets, which must be carefully monitored to avoid dipping too low and leaving the organization unable to satisfy its immediate responsibilities (Shibutse, Kalunda, & Achoki, 2019). A SACCO's liquidity management strategy should focus on optimizing the bank's liquidity and profitability with the least possible outlay of resources (Shibutse et al., 2019). Alshatti (2015) states that there are two ways to classify the practice of liquidity management: first, by a company's capacity to trade an asset at its present price, such as stocks and bonds; second, as major organizations, such as financial institutions.

The safety and soundness of a deposit money bank is often evaluated by its ability to handle monetary deposits and collateral without incurring losses that would threaten its viability (Omino, 2014). Therefore, any efforts made by investors and managers to lessen their liquidity risk exposure constitute liquidity management. Several corporate techniques for managing liquidity have been used in the banking industry (Golubeva, Duljic, & Keminen, 2019). In an effort to fulfill commitments and maximize profit prospects in the market or secure present public trust, monetary or regulatory organizations or the financial institution itself may implement such techniques (Duruechi, Ojiegbe, & Otiwu, 2016).

1.1.2 Financial Performance

To maximize profits, businesses must earn enough revenue to pay for their operations and yet have enough left over (Ho, Nguyen, Adhikari, Miles, & Bonney, 2018). It is the opinion of Muriithi and Waweru (2017) that banks that have enough liquidity but not excess liquidity are more lucrative. This is because the surplus liquidity may be put to use funding other profitable investments, hence increasing the banks' overall return on equity. Multiple financial measures, such as return on equity (ROE), return on assets (ROA), and return on investment (ROI), may be used to assess a financial institution's profitability (Mugambi & Kinyua, 2020).

Measures of business performance include return on assets (ROA), defined as EBIT divided by average total assets, return on equity (ROE), defined as net profit divided by equity, and change in market value of equity (VMOE), VMOE adjusted for dividends and risk (VMUE), and VMOE by Matolcsy and Wright (2011). The profitability of a company was evaluated by Yasser and Ismail (2011) using the return on equity and profit margin. Financial reporting measures included Return On Equity (ROE) and return on investment, which is net result plus interest over equity plus total debt, while market-based measures included market value of equity divided by book value of equity and Tobin's Q (market value of equity plus book value of debt/total of assets minus in book value) (Shah et al., 2011).

Saccos use ratios based on six metrics to measure and analyze their financial performance (Protection, Effective financial structure, Asset quality, Rates of return, and Cost)

recommended by the World Council of Credit Unions (WOCCU, 2022). The expansion and success of DT Saccos is largely dependent on their ability to manage their liquidity and their financial performance (Song'e, 2015). Achieving the optimal balance between liquidity and profitability is a common challenge in the field of liquidity management (Reheman & Nasr, 2007). Liquidity management is a crucial part of the DT Saccos industry's comprehensive risk management system (Majid, 2020).

1.1.3 Liquidity Management and Financial Performance

Due to their ability to pay its bills when they come due, SACCOs' liquidity is a key indicator of their long-term financial health (Kimathi, 2014). Maintaining healthy relationships with its partners and ensuring enough cash are essential to a SACCO's smooth operations (Njeri, 2020). Liquidity management is crucial to a company's operations and profitability because it determines how well a financial institution can fulfill the withdrawal requests and other cash flows of its clients (Otekunrin et al., 2018).

Financial institutions' delay in responding to clients' immediate needs has been linked to poor liquidity management (Effendi & Disman, 2017). Depositors and investors are two types of consumers that banks and other financial organizations serve (Hasan, Naeem, Arif, Shahzad, & Vo, 2022) Depositors' savings serve as the institution's liability, while loans extended to investors serve as the asset (Golubeva et al., 2019).

There are a number of metrics that may be used to assess a company's health, but profitability and liquidity stand out as particularly crucial indicators of success (Kung'u, 2017). Profitability and liquidity need to run in tandem to ensure the company's long-

term viability and expansion (Almeida, Campello, Cunha, & Weisbach, 2014). In company, making a profit is naturally a top priority. It's impossible for a company to stay in business if it isn't making money, and it's also tough for that company to expand (Ibe, 2013). For daily operations and other necessities, a firm requires access to short-term money in order to turn a profit (Mahmood et al., 2019).

A SACCO's liquidity is heavily dependent on its capacity to honor demand deposits (Shibutse et al., 2019). Managing the company's profits and cash flow accurately is essential, as is any other aspect of running a successful firm. Profitability and liquidity management are complementary for effective performance and advancement in the long term. Deposit Money Banks' liquidity reflects their capacity to pay for current and future responsibilities and assets, including loans, investments, withdrawals, deposits, and accumulated interest and principal (Shah, Khan, Shah, & Tahir, 2018). Because of the uncertainty of the economy, the complexity of doing business today, and the looming threat of new regulations, financial institutions (both commercial banks and investment banks) have begun implementing liquidity management (Muriithi & Waweru, 2017). There has been an increase in the prevalence of permanent, up-to-date liquidity dependent plans, which have been adopted by banks (Shibutse et al., 2019).

1.1.4 Deposit Taking SACCOs

Cooperatives are businesses that are owned and operated by their members in a democratic manner with the goal of satisfying their economic, social, and cultural needs. This definition comes from the International Cooperative Alliance (ICA) (2022). One of

the primary motivations for the development of cooperatives was the desire to help those without access to formal financial services escape poverty. SACCOs are a modern offshoot of the cooperative movement that serve a wider segment of society and provide its members with a wider range of financial services (Shibutse et al., 2019).

Prior to their legalization in 1997, the government had a firm grip over SACCOs. Kenyan cooperatives are governed under the Cooperative Act of 2004 (Omino, 2014). The Sacco sub-sector of the cooperative movement has been more prominent in both industrialized and developing countries, including Kenya, and as a result, the quality of life for a great number of people has been enhanced. Birchal (2013) observed that during the global financial crisis that occurred between 2007 and 2009, there was an uptick in people's interest in financial cooperatives as a practical alternative to the traditional banking system. This was due to the fact that financial cooperatives were seen as a viable alternative.

There are almost 17,000 cooperatives in Kenya, and 175 of them accept deposits via SACCOs (Sasra, 2022). It is believed that the movement has accumulated savings of over sh500 billion and capital of over sh. 650 million, and that it directly and indirectly supports the employment of over 500,000 people. About 4 percent of GDP comes from SACCOs, and over half of all SACCO members are self-employed. Sacco Society Act; 2008 governs the liquidity management of SACCOs in Kenya. Sacco Societies are mandated to keep 15% of their savings deposits and short-term obligations in liquid assets (Song’e, 2015) to ensure the smooth operation of the organization.

Ademba (2010) observed that the Sacco movement in Africa has matured into a potent force for social and economic development during the last four decades. WOCCU (2012) reported that there were over 55,959 financial cooperatives in Africa, serving over 200 million people (7.72 percent of the population). With over 5.1 million members, US $ 3.3 million in savings and shares, and US $ 4.3 million in loans, the Sacco movement in Kenya is ranked best in Africa by WOCCU (2012). According to Kenya's Sacco Societies Act of 2008, a Sacco must keep a minimum of ten million shillings in capital at all times, as well as ten percent of its total assets, eight percent of its total deposits, and eight percent of its institutional capital (Shibutse et al., 2019).

1.2 Research Problem

Initiating a Deposit when it comes to investing and building money, Sacco's play a crucial role. It is estimated that they contribute 43% of the country's GDP by helping to mobilize domestic saving (SASRA, 2022). Financial sustainability for DT Saccos requires striking a balance between liquidity and profitability. Due to a mismatch between asset and liability management, DT Saccos have difficulty raising cash, putting the financial institution at risk of incurring losses (Shibutse et al., 2019).

There have been a number of studies showing a correlation between proper liquidity management and increased profits. This is why it is more important for DT SACCOs to focus on liquidity management than on other aspects of financial success. According to Marozva (2015), the low levels of economic growth, lack of confidence among investors,

and mounting unemployment were important contributors to the failure of many DT SACCOs. The DT SACCOs that are located in Kericho County have the second-highest market share of all of the DT-SACCOs that are located in the Rift valley, and they provide services to a sizeable fraction of the total membership that is held by the DT SACCOs.

It is more challenging for a DT SACCO to satisfy the needs of share and savings withdrawals, repayment of external borrowings, member loan demand, and operating expenses if it does not have sufficient liquidity, as stated by Maina (2011). Low liquidity causes a reduction in loan disbursements, which in turn decreases revenue (Kimathi, 2014). Githaka (2017) used a cross-sectional survey research design to analyze the financial factors influencing the liquidity management of Savings and Credit Co-operatives Societies in Kirinyaga County. Saccos' liquidity was demonstrated to be positively correlated with measures of liquidity management, net cash flows, credit lending, and investment in non-core companies.

Despite several studies on the impact of liquidity management on the financial performance in banking sector, little is known about how SACCOs in emerging economies employ liquidity management strategies to promote their growth and financial performance. Previous studies done were carried out in other DT SACCOs, not in Kericho County. Furthermore, only a few studies have looked into the link between cash management and credit management in liquidity management and how it affects financial performance. As a result, further research in this area is required to understand the issue

of liquidity management. As a result, the study sought to answer the following research question: what influence does liquidity management have on the financial performance of DT Saccos in Kericho County?

1.3 Research Objectives

The goal of this research was to determine the influence of liquidity management on the financial performance of DT Saccos in Kericho County.

1.4 Value of the Study

To lessen the severity of economic downturns and safeguard member funds, the government has an interest in ensuring the viability of financial systems, including Saccos. The research's conclusions will help the government craft a more solid framework for managing liquidity, which in turn will improve the efficiency with which Saccos' liquidity practices are monitored.

Keeping Saccos solvent in Kenya is an interesting topic since it involves striking the right balance between liquidity and profitability. Members of Sacco may use the research to better oversee their chosen managers. This research will provide Sacco members more resources to keep an eye on their investments and ensure they are getting the services they need, including loans.

The results of this research will be useful for the regulatory body, which includes SASRA and WOCCU. The organizations will implement controls to make sure the impacted

institutions follow their recommendations and use their findings to improve SACCO management and financial accountability.

The study's findings, highlighted areas for more investigation, should pique the curiosity of academics and researchers. This research will be disseminated in part via publication in high-profile periodicals, with the remainder made accessible to scholars through institutional repositories.

To the academicians, the literature shows that the concept of social capital has not very well been understood and is felt to be more of abstract than real. However, the importance of social capital in the group setting has been appreciated in affected the organization outcomes. This study is important in increasing the available knowledge from the small business perspective and also be able to identify the existing knowledge gap to be filled in future.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

In this chapter, literature on liquidity management and financial performance was reviewed. Theory explaining liquidity management and financial performance were looked at. Further, the chapter provided an empirical evaluation of the research on liquidity management and financial success.

2.2 Theoretical Framework

The study was guided by liquidity preference theory, Commercial loan theory, and Anticipated Income Theory.

2.2.1 Liquidity Preference Theory

John Maynard Keynes proposed the liquidity preference hypothesis in his book "Money" (1936) to account for the impact of monetary supply and demand on interest rates. The idea identifies three reasons why people hoard cash: for transactions, for speculation, and for safety purposes. It was hypothesized that the interest lost by not keeping bonds and other less liquid assets would determine how much people wanted to retain money as an asset. He claims that interest rates can't be a reward for saving since someone who keeps their money in cash say, beneath their mattress will earn no interest, despite the fact that they have avoided spending all of their current income (Effendi & Disman, 2017). According to the Keynesian view, interest is a bonus for giving up cash rather than an incentive to save (Campello, Giambona, Graham, & Harvey, 2011).

The two primary functions of SACCOs are the provision of liquidity and the modification of risk. There is a rich history, stretching back to Adam Smith (1776), of dissecting the function of banks in stimulating economic expansion by producing liquidity (Hasan et al., 2022). According to this hypothesis, SACCOs may increase their balance sheet liquidity by exchanging some of their obligations for more easily convertible assets.

Liquidity preference theory is presented by Keynes (1936) as a replacement for the traditional savings theory of interest, which Keynes believed to be defective. It was once thought that a desire for easy access to cash would lead to an increase in demand for currency. Therefore, according to Hicks' (1937) foundational investment saving to liquidity preference money supply model, if one had a fixed amount of money, liquidity preference would be the element utilized to set the rate of interest in the money market (Bibow, 2013).

It has been argued by Akenga (2017) and Ibe (2013) that banks may satisfy their liquidity need by competing for extra funds in the market to cover loan demand and deposit withdrawal. Nwankwo (1991) argues, however, that this is not the case, since the company may just buy all the required cash instead. According to this research, in order to remain competitive as alternative financial service providers, DT Saccos must be able to both collect and hold onto deposits from their members at a rate much greater than their demand for loans. The theory's explanation of how SACCOs may control credit risk makes it relevant to the study's aims. Every DMB should be familiar with the factors that motivate the tying down of liquid capital and the effect this has on profit margins.

2.2.2 Commercial Loan Theory

Furthermore, it is considered a real money ideology and the forefather of modern liquidity management. The assets of a deposit money bank are kept in short-term loans and will be liquidated in the normal course of business, according to this notion (Shah et al., 2018). According to this principle, a deposit money bank should only provide loans that can be paid back in full with interest. Loans that develop and improve goods via the production, storage, and distribution networks are called "self-liquidating loans" (Ibe, 2013).

Evidence of sufficient liquidity is provided by the repayment of a self-liquidating loan (Ibe, 2013). Help from the central bank to commercial banks is predicated on the central bank's confidence in the commercial banks' ability to safely hold productive self-liquidating loans. This principle guarantees that all banks have access to their full available liquidity while also providing the cash flow the economy needs to be stable as a whole. For the SACCOS, this theory's primary benefit is that it can generate money.

2.2.3 Anticipated Income Theory

According to this idea, banks may control their cash flow by doling out loans where they'll be most useful, then collecting on those loans when they're due to minimize the risk of late payments (Bianchi & Bigio, 2022). This hypothesis suggests that when a borrower has a consistent stream of revenue coming in, banks will be more willing to provide credit since they can better arrange their liquidity needs around the borrower's projected income. This permits the bank to provide credit for longer periods of time, as

well as short-term loans, provided that the loan is secured by the borrower's ability to make monthly premium payments based on their projected income (Chowdhury & Rasid, 2015).

According to Crowe (2009), these ideas are encapsulated in the concept of anticipated income, which connects the structural stability of term loans to reasonable repayment schedules that are aligned with the borrower's predicted income or cash flow. Therefore, this banking policy effectively meets the needs of businesses for credit, and loan agreements may be freely pursued (Olabode, 2011). Extra pressure has been put on the banking system as a consequence of the current economic climate, and this has likely led to a shift in how the balance sheet is interpreted. As a result of this new reality, credit commitment rules will play a larger role in the lending procedure (Crowe, 2009).

Keeping these factors in mind, SACCOs must evaluate clients' ability to repay loans and overdrafts based on their income rather than the collateral they provided. Due to the impact of payments on cash flow and ultimately liquidity, they are crucial. The present research makes use of the Anticipated Income Theory because it provides an explanation for why and how cash flow management impacts the financial performance of SACCOs. This is because the cash flows of SACCOs, represented by the periodic loan payments of clients, may significantly enhance the financial performance of SACCOs if they are handled properly.

2.3 Determinants of Financial Performance

According to Owolabi and Obida (2012) research on the relationship between liquidity management and company profit, managers may boost earnings by instituting measures including a more liberal lending policy, a shorter cash conversion cycle, and better cash flow management practices. The research used descriptive analysis to examine information from 12 manufacturing businesses chosen at random from the companies listed on the floor of the Nigeria stock market. The research concluded that optimizing cash flow effectively is crucial for businesses to maximize profits.

Since effective working capital management is critical to a company's viability and success, it is recommended that businesses implement such techniques as a means of boosting their efficiency and productivity (Song'e, 2015). The SASRA research estimates that SACCO deposits and loans account for 34% of national savings and 24% of total domestic credit in the country as of 2020.

When examining the effect of liquidity management on profitability in Jordanian commercial banks, Alshatti (2015) used the investment ratio, Quick ratio, capital ratio, net credit facilities/total assets ratio, and the liquid assets ratio as metrics of liquidity. Liquidity has an influence on profitability, according to empirical data from a regression study of liquidity indicators on return on equity and return on assets, which are stand-ins for profitability, for thirteen Jordanian banks between 2005 and 2012. In order to ensure that there is sufficient liquidity for effective operation, the researcher provided an

analytical study on the evolution rates of liquidity and their contribution to creating a balance between sources and uses of money.

The Ghana Stock Exchange was studied by Koranteng (2016), who looked at what factors influence bank liquidity. This study estimates the factors that influence bank liquidity using data from seven different financial institutions collected between 2004 and 2013. Because the research was conducted over a 10-year period, the random-effects GLS regression model that was used as a foundation was based on the Hausman test. The ratio of liquid assets to total assets was used as the dependent variable, and the variables that were used to explain the results of the research were return on assets, loans, capital adequacy, inflation, GDP, unemployment, return on equity, and bank size. The results of panel data regression studies revealed that inflation and unemployment do not have a positive and statistically significant association with liquidity. However, bank size, return on equity, and capital adequacy all had positive correlations with liquidity.

A financial intermediary engages in liquidity management whenever they engage in day-to-day activities with the goal of increasing profits and shareholder value while meeting their obligations when they come due (Rahman & Saeed, 2015). The inability to meet obligations as they come due, as well as persistent illiquidity or liquidity stress, can lead to financial distress or even insolvency, as stated by Waswa et al. (2018), who define liquidity management as the ability for DT Saccos to fund at a reasonable cost all its contractual obligations. According to Kimathi (2014), a Sacco's liquidity reflects the organization's capacity to fulfill its commitments as they come due.

In order to meet the urgent payment demands inherent in the loan-making and deposit-taking industry, financial intermediaries like DT Saccos must exercise stringent control over their liquidity (Omino, 2014). Liquid assets to total assets, liquid assets to short-term liabilities, Liquid Assets to total deposits, and Total Loans to Total Deposits are the most important liquidity indicators for Deposit-Taking SACCOs (DTS) (SASRA, 2022).

2.3.1 Cash Management

Cash management is crucial for startups and expanding enterprises, as pointed out by Petty et al. (2015). If a business doesn't have enough of a buffer to cover unexpected expenses, it may have trouble generating enough cash flow for investments in development and innovation, much alone the necessities of keeping the lights on (Danjuma, Umar, & Hammawa, 2015). Weak cash flow makes it harder to acquire and retain competent staff meaning there will be a lot of employee turn-over inside the firm (Weiss, 2011).

The company's success is heavily contingent on how well it handles its cash flow (Campello et al., 2011). Liquidity management entails managing and regulating one's current assets and current liabilities in a way that both minimizes the danger of being unable to satisfy one's short-term commitments and prevents one from investing too much in one's current assets (Effendi & Disman, 2017). The structure of a company's balance sheet, including the form and composition of its assets and the method they are funded, determines the company's liquidity.

2.3.2 Credit Management

The impact of credit risk management on SACCOs' loan portfolios was analyzed by Essendi (2013). The 106 SACCOs that have been granted licenses were the focus of a descriptive study. Therefore, 35 SACCOs were chosen as a representative sample of Nairobi County. Research data came from two different sources: primary data was gathered via a survey distribution, and secondary data was culled from SASRA reports. A regression analysis and descriptive statistics were used to examine the gathered data.

All SACCOs in the sample had a policy in place for handling potential losses on loans, according to the findings. The results of the study showed that all of the SACCOs examined had used input from a wide range of stakeholders in developing sound lending policies. The findings also showed that most of the SACCOs under examination regularly evaluate their ICT with the express goal of improving the whole process of managing their loan portfolio, from identifying risks to keeping tabs on them (Essendi, 2013).

Kimari (2013) conducted research to determine the impact of credit risk management on the financial performance of SACCOs that accept deposits in Kenya. Managers of SACCOs in Kenya were urged to take steps to improve their institutions' financial health by adopting and enforcing best practices for credit risk management, developing a comprehensive credit risk strategy, and establishing reasonable credit risk limits. Nara (2012) concludes from his study of risk management in SACCOs that these organizations are deficient in a comprehensive framework that would allow for the identification, analysis, evaluation, treatment, monitoring, and review of potential threats.

Some SACCOs suffered massive losses because their audit committees and review councils ignored risk management. This was accomplished via an internal review structure. It's also worth noting that bad management may lead to the appearance of serious risks, which has been a problem for certain SACCOs. Liquidity risk management may help a SACCO more consistently meet its cash flow commitments, which are unpredictable due to the impact of external events and the behavior of other actors (Songe, 2015). Management of liquidity risk is essential because a liquidity crisis at a single institution may have far-reaching implications on the whole financial system (Muraguri, 2014).

2.3.3 Contingency Funding Management

According to Chou (2011), a good contingency financing plan would create clear lines of accountability, outline how the plan will be implemented, and spell out what to do in the event of an emergency. Due to the dynamic nature of the financial industry, it is essential that the plans be reviewed and revised on a frequent basis to maintain continued viability (Panigrahi, 2013). Liquidity risk management plans in SACCOs should be coordinated with catastrophe, contingency, and business planning initiatives, as well as with goals, strategies, and tactics for risk management across business lines and the company as a whole (Chou, 2011).

If the SACCO is well-managed, there will be less opportunity for theft of cash, which may have a negative effect on the organization's bottom line (Kung’u, 2017). One of the

primary reasons to have a backup financing strategy is so that you have a plan in place to analyze and react to a liquidity crisis or times of market stress. An organization's liquidity crisis and/or market dislocation may be evaluated by regularly reviewing a set of predefined reports and KPIs as well as a set of risk factors (Waswa et al., 2018).

Critical to the management of a crisis or time of market stress is the ability to effectively coordinate, regulate, and distribute information, all of which are facilitated by the groups of people identified in the contingency financing plan (Almeida et al., 2014). Key decision-making, coordination of all contingency activities throughout the duration of the crisis or period of market stress, implementation of liquidity maintenance activities, and management of internal and external communication are all responsibilities outlined in the contingency funding plan (Trkman, 2010).

2.4 Global Studies

The impact of liquidity management strategies on Nigerian bank performance was studied by Duruechi et al. (2016). Taking a look at the time series data from 1990-2014, the results showed that the banks in Nigeria benefited from the liquidity management policies implemented. Liquidity management and the efficiency of banks were studied by Agbada and Osuji (2013) in Nigeria. Their research confirms that banks' performance is positively correlated with liquidity management, and that effective liquidity management may strengthen the stability of banking operations. This finding is consistent with the research conducted by Alshatti (2015), who looked at the effect of liquidity management on profitability in Jordanian commercial banks. He found that increasing the fast ratio

and allocation ratio of available funds had a positive effect on profitability, while increasing the capital ratio and liquid assets ratio had a negative effect.

According to Ahmad (2016) study on the topic, there is a tenuous positive correlation between profitability and liquidity management in Pakistani banks when looking at them from the perspective of their financial statements. Ahmad (2016) conclusion is consistent with Edem (2017) research on the performance of deposit money banks in Nigeria between 1986 and 2011. According to the findings, only highly liquid banks can optimize their earnings, and excess or illiquid liquidity might pose a risk to the bank.

Al-Tamimi and Obeidat (2013) analyzed the capital adequacy of commercial banks listed on the Amman Stock Exchange in Jordan and determined its critical components. Capital adequacy is shown to have positive correlations with liquidity risk and return on assets at commercial banks, and negative correlations with capital risk, credit risk, and force-revenue at commercial banks, but the latter is not statistically significant.

Liquidity management in the Indian corporate sector was the subject of Bandyopadhyay (2014) research, which included a study of a subset of enterprises in the wake of liberalization. As a consequence of liberalization, privatization, and globalization as well as the decline of large corporations, the research indicated that many managers in India are giving serious consideration to liquidity management. Lartey et al. (2013) aimed to investigate the connection between banks trading on the Ghana Stock Exchange's liquidity and their profitability. Over the years studied (2005-2010), it was discovered

that the listed banks' liquidity and profitability were both on the decline. It was also discovered that the correlation between the listed banks in Ghana's liquidity and profitability was minimal at best. Listed on the Tehran Stock Exchange, Moein Addin et al (2013) looked at the correlation between cutting-edge liquidity metrics and stock performance. Comprehensive liquidity index was shown to have a positive and statistically significant link with stock returns, whereas cash conversion cycle index and net liquidity balance indices were found to have no such relationship.

2.5 Local Studies

Wanjala (2015) studied the effect of cash management on the expansion of 169 Matatu SACCOs in Kimilili Bungoma County. The Cash Plan, Cash Control, and Budget were the Examined Variables. The effective handling of cash flow was correlated with the expansion of Sacco. This suggests that better cash management is beneficial to Sacco's bottom line. The cash management and financial performance of DTS in the Mount Kenya Region was studied by Njeru, Njeru, and Ondabu (2015). The target population consisted of 30 legitimate DTS. The research strategy used to gather information on liquidity's effect on financial performance was descriptive in nature. In order to better extend credit to members and realize vision 2030, it was suggested that cash controls, a policy on credit management in SACCOs, and increased monitoring by SASRA be implemented.

Muriuki (2010) examined the effects of several variables on the success of the Tharaka Nithi Teachers SACCO in the Meru South district. The findings demonstrated that

SACCO performance was substantially influenced by governance and management. Wanyoike and Kenyatta (2015) conducted research on how credit rating and credit administration affected the financial results of deposit-accepting Saccos in Nakuru East sub County. It was shown that the financial success of deposit-accepting Saccos was significantly correlated with the quality of their credit rating and management. The research concluded that Saccos would benefit financially by revamping their approaches to credit rating and credit management. The expansion of both core capital and membership, according to Kahuthu (2015) study, has a beneficial effect on the Saccos' financial performance.

Cash management in contrast to DTS's financial performance in Mount Kenya was the subject of an inquiry by Njeru and Ondabu, (2015). The target population consisted of 30 legitimate DTS. The research strategy used to gather information on liquidity's effect on financial performance was descriptive in nature. In order to better extend credit to members and realize vision 2030, it was suggested that cash controls, a policy on credit management in SACCOs, and increased monitoring by SASRA be implemented.

Financial variables impacting the liquidity management of Savings and Credit Co-operatives Societies in Kirinyaga County were evaluated by Githaka (2017) using a cross-sectional survey study approach. Using a stratified random selection approach, researchers selected 18 Saccos to analyze. The total number of Saccos in the study population was 60. Primary data came from semi-structured questionnaires that respondents filled out on their own, while secondary data came from audited financial

records submitted by Saccos and SASRA. Liquidity management, net cash flows, credit lending, and investment in Non-core Company were all shown to have favorable correlations with Saccos' liquidity. The research found that SACCOs in Kirinyaga County benefited from focusing on liquidity management.

2.6 Liquidity Management and Financial Performance

The effectiveness of banks is studied by Agbada and Osuji (2013), who focus on the role of liquidity management methods in this context. The study's sample size, 300 bank workers, was determined by a random sampling procedure. Data collection and analysis were conducted with the use of questionnaires, with the primary data being analyzed using the Pearson Product-Moment Correlation Coefficient. Empirical results reveal a favorable association between banks' efficiency and the management of sufficient liquidity, which was used as a proxy for profits. They came to the conclusion that effective liquidity management is crucial for a business to optimize revenues and respond quickly to client needs.

Specifically, Almazari (2014) looked at the internal variables that influence profitability in Saudi and Jordanian banks. Profitability, as assessed by ROA, of Saudi and Jordanian banks was shown to be positively correlated with certain liquidity measures and negatively correlated with others. Working capital and the profitability of small and medium-sized enterprises in Germany was studied by Czarnitzki and Hottenrott (2011). They demonstrated the existence of a non-linear (concave) connection between a company's working capital and its profitability, which suggests that there is a sweet spot

for a company's working capital that optimizes profits for a small or medium-sized enterprise.

Using a survey of non-financial companies in the United Kingdom, Banos-Caballero, Garcia-Teruel, and Martinez-Solano (2014) looked at the connection between effective working capital management and company prosperity. These findings provide convincing support for a reverse U-shaped correlation between working capital investment and firm performance. This suggests that there is a sweet spot for working capital investments that maximizes value while minimizing expenditures.

Nara (2012) concludes from his study of risk management in SACCOs that these organizations are deficient in a comprehensive framework that would allow for the identification, analysis, evaluation, treatment, monitoring, and review of risks. Some SACCOs have suffered massive losses because their audit committees and review councils failed to properly manage risks. The development of actual risks is another issue that has plagued certain SACCOs that have been poorly managed.

Based on his research of Nairobi-based SACCOs, Kenyan researcher Murugu (2012) concluded that SACCOs' credit risk measures are insufficient to protect against loan losses in the current dynamic and competitive market. Late identification and determination of defaulted and non-performing loans is another issue plaguing SACCOs since they lack adequate credit risk screening and control tools. Lastly, credit risk regulations aren't strictly enforced. The impact of credit risk management on DTS

financial performance was studied by Kimari (2013). Credit and risk management executives were the intended audience. 215 of the DTS that are subject to SASRA's oversight were taken into account. Findings and discussions led to the following recommendation regarding the impact of credit risk management on SACCO performance: SACCOs should pay close attention to their Return on Equity, which is positively correlated with their Earnings, Management Efficiency, Liquidity, Asset Quality, and Capital Adequacy.

2.7 Conceptual Framework

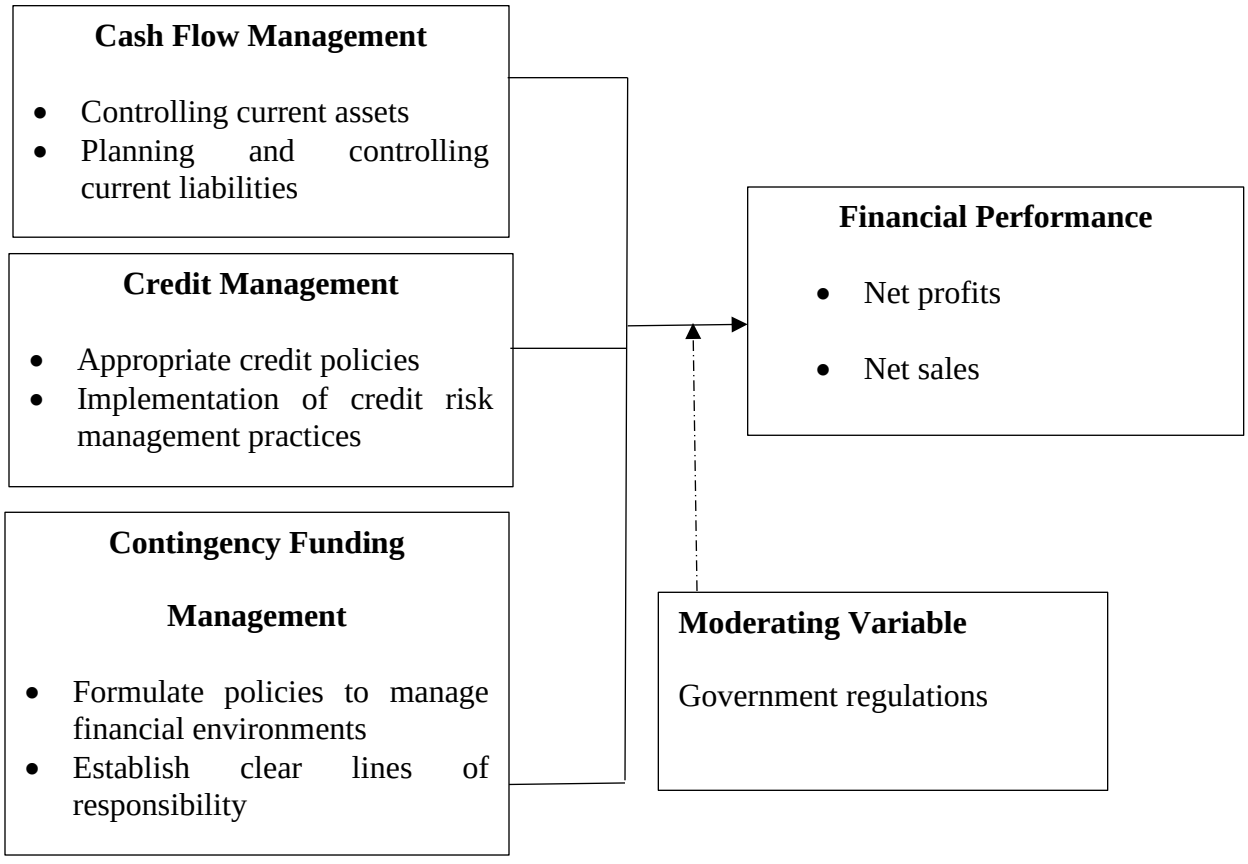


Figure 2.1 Conceptual Framework

Source: (Researcher, 2022)

2.8 Summary of Literature Review and Research Gaps

The relationship between liquidity management and economic success has been the subject of a number of studies. For instance, Ahmad (2016) used quantitative research techniques to examine the connection between liquidity management and profitability at Pakistani banks using data from their financial statements.

Al-Tamimi and Obeidat (2013) looked at the Amman Stock Exchange from 2000 to 2008 to see what variables had the most impact on Jordanian commercial banks' capital adequacy. Capital adequacy is shown to have a positive relationship with liquidity risk and the return on assets at commercial banks, and a negative relationship with capital risk, credit risk, and the rate of force-revenue at commercial banks, albeit the latter is not statistically significant. Moein Addin et al. looked examined the relationship between contemporary liquidity measures and stock return in companies trading on the Tehran Stock Exchange (2013). It was discovered that although the index of cash conversion cycle and the net liquidity balance were not related to stock returns, the comprehensive liquidity index was.

Despite several studies on the impact of liquidity management on the financial performance in banking sector, little is known about how SACCOs in emerging economies employ liquidity management strategies to promote their growth and financial performance. Furthermore, only a few studies have looked into the link between cash management and credit management in liquidity management and how it affects financial

performance. As a result, further research in this area is required to understand the issue of liquidity management. As a result, the study sought to determine the influence of liquidity management on the financial performance of DT Saccos in Kericho County.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The research methodology was outlined in this section. It includes the study's methodology, population, sampling strategy, sample size, data gathering methods, and analytic strategies.

3.2 Research Design

Eriksson and Kovalainen (2015) defined a study design as a blueprint that guides a researcher chronologically in achieving the objective of the study. A research design, according to Bell, Bryman, and Harley (2018), provides a structure for gathering and analysing data in order to link significance to the study purpose with methodological efficiency. The descriptive method was used for this study. Descriptive research, as defined by Cozby (2005), involves gathering data on the current state of a phenomenon by asking participants questions about their thoughts, feelings, and actions.

3.3 Study Population

In research, the target population is the specific group of people or businesses about whom the researcher wants to learn more (Hancock & Algozzine, 2016). Population is a group of objects, characters and events with the same similar noticeable distinctive traits

(Creswell & Creswell, 2017). Employees of Deposit Taking SACCOs in Kericho County made up the research population. According to the records of the Ministry of Cooperatives, only six SACCOs in Kericho County have been granted an SASRA license to accept deposits (2022). The Ndege Chai SACCO society, Imarisha SACCO society, Kenya highlands SACCO society, Simba Chai SACCO society limited, Green Hill SACCO society limited, and Patnas SACCO society limited were all part of this group.

Table 3.1 Target Population

SACCO	**Population**
Ndege Chai SACCO society	187
Imarisha SACCO Society	176
Kenya highlands SACCO Society	169
Simba Chai SACCO	113
Green Hill SACCO Society limited	87
Patnas SACCO society limited	74
Total	**806**

(Source: Researcher, 2022)

3.4 Sample Design

Size of the sampled population is known as the sampling unit (Patten & Newhart, 2017). It includes everyone in the specified sample and stands in for the whole target population (Kothari, 2014). According to Crowther and Lancaster (2012), a sample size of 10%-30% of the population of interest is sufficient for any significant research. It has been found by Mugenda and Mugenda (2003), that sampling 10% of a population yields a reliable

representation of that population, but sampling 30% of a small group yields an inaccurate representation. The terms also indicate that the researcher who selects the sample does so because of some constraint that prevents him or her from studying the whole population. Ten percent served as the study's sample, and a stratified random sampling method was employed to choose the sample. Using stratified sampling, a sample may be created that is statistically representative of the whole population (Iyoke et al., 2006). The saccos was used to divide the research population into groups for analysis.

Table 3.2 Sample Size

SACCO	**Population**	**Sample**
Ndege Chai SACCO society	187	19
Imarisha SACCO Society	176	18
Kenya highlands SACCO Society	169	17
Simba Chai SACCO	113	11
Green Hill SACCO Society limited	87	9
Patnas SACCO society limited	74	7
Total	**806**	**81**

(Source: Researcher, 2022)

3.5 Data Collection

For this project, a questionnaire was utilized to gather primary data. Mugenda (2008) argues that using questionnaires simplifies privacy protection, reduces data collection

time, and improves overall data management. The respondents were asked to rate their responses on a scale from one to five. In accordance with Newman (2003), questionnaires provide consistent responses from everyone surveyed. This guaranteed that data can be compared, making classification much simpler. A questionnaire's structure and questions should reflect the goals of the study.

The drop and pick technique was used to get the data. As Leedy and Ormrod (2001), point out, when people know their answers will be kept anonymous, they feel more at ease discussing sensitive topics in survey questions. For the next five years, SACCOs' economic success was tracked using a secondary data sheet. Audited SACCO Financial Accounts, SASRA Financial Documents Relating to SACCO Performance and Regulation, and SACCO Management Accounts were also used in this analysis. The analysis performed on the data culled from various sources helped the researcher draw the right conclusions about the variables of interest.

3.6 Diagnostic Tests

All four of these distributional assumptions normality, heteroscedasticity, multicollinearity, and linearity will be put to the test in this investigation. When determining whether a sample represents the population as a whole, a normalcy test is performed. Creswell and Creswell (2017) state that numerous techniques may be used to determine whether data follow a normal distribution. Graphical and statistical types predominate. Knowing the distribution's form and being able to forecast the dependent variable's scores are both greatly aided by ensuring that it is normal (Smith, 2015). The

Shapiro–Wilk test was used to ensure normality in this investigation. It revealed how well the hypothesized distribution matches the observed data.

According to Cope (2015), a quantile-quantile plot compares the quantile of one theoretical distribution to the ordered values of a variable (the normal distribution). When two distributions are consistent with one another, the points on the graph will form a straight line that starts at the origin and has a slope of one.

For the purposes of a multiple regression model, multicollinearity is defined as the circumstance in which a linear prediction may be made for one independent variable from the analysis of the other independent variables (Sekaran & Bougie, 2010). Analysis of data multicollinearity will include looking at the variance inflation factor (VIF) and the tolerance (1 / VIF). When VIF > 0, we say that the independent variables are highly correlated. The research will also examine the possibility of multicollinearity.

It is assumed that the error component in a linear regression model follows a normal distribution with zero mean and constant variance, a property known as homoscedasticity. An error term is considered heteroscedastic if its variance varies over time (Bandaly, Satir, & Shanker, 2014). In a situation where the regression error is homoscedastic, the regression model is robust across a wide range of the dependent variable. If the homoscedasticity assumption holds, the residuals will seem like a random scattering of points (Patten & Newhart, 2017).

An ANOVA output table will be produced using SPSS version 24.0 for the linear and nonlinear components of any pair of variables in order to test for linearity. This table will include the results of the linearity test. The connection between the independent variables is said to be linearly dependent if the value of significant departure from linearity is more than 0.05. If this is not the case, then the connection between the variables that are independent and the variable that is being studied is not linear.

3.7 Data Analysis

Descriptive statistics was used to examine the gathered data. This analytic approach was ideal since it let the researcher to understand the impact of liquidity management on the bottom line of deposit-accepting Saccos in Kericho County. After all the information had been gathered, the questionnaires was checked for typos, logical errors, and incomplete responses. Quantitative information was evaluated using SPSS (Statistical Package for the Social Sciences) version 21 and descriptive statistics. The information was entered into a database after being coded, labeled, and inputted. Frequency counts, percentage breakdowns, and tabular displays resulted from the data analysis. Saccos who accept deposits in Kericho County had their liquidity management and financial performance analyzed using Pearson's Correlation Coefficient to see whether there was a statistically significant relationship between the two variables.

Regression model

$Y = \beta_{0+} \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Where Y = Financial performance

X_1 = Cash flow management

X_2 = Credit management

X_3 = Contingency Funding Management

ε = Error term

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS

4.1 Introduction

The data analysis, conclusions, and discussions are covered in this chapter. In addition to percentages, frequency distributions, means, and standard deviations, the study's results are reported. This chapter analyzes the study's variables and the linear model's estimated values.

4.2 Response Rate

Employees of six Deposit Taking SACCOs in Kericho County, granted an SASRA license to accept deposits, made up the respondents, namely Ndege Chai SACCO society, Imarisha SACCO society, Kenya highlands SACCO society, Simba Chai SACCO society limited, Green Hill SACCO society limited, and Patnas SACCO society. Out of the 81 issued questionnaires, 72 questionnaires, or 89 percent of the total disseminated questionnaires, were completed and returned, whereas 9 questionnaires, or 11 percent of the total questions provided to the respondents, were not returned. The response rate was 89% of the entire sample size, while 11% of the respondents did not respond. The 89 percent response rate made it easier to compile enough data that could be generalized to represent respondents' perspectives. This was in line with Patten and Newhart's (2017) finding that a response rate of more than 50% of the total sample size assist to collect enough information to be able to generalize it to reflect the views of the broader public.

Table 4.1 Response Rate

Response rate	Frequency	Percentage
Response	72	89%
Non-response	9	11%
Total	81	100%

4.3 Pilot Test Results

4.3.1 Validity

To make sure they functioned and measured as they were intended to, the accuracy of quantitative instruments should were assessed. Twelve employees, two from four SACCOS, were provided the research tools to test the validity of the data gathering instruments. The employees that took part in the pilot research did not participate in the main investigation. The Statistical Package for Social Sciences (SPSS) Version 21 was used to calculate the coefficient of the data obtained from the pilot project. The fact that the questionnaires had a context of validity coefficient index over 0.82 suggested that they were reliable research tools for the investigation.

4.3.2 Reliability Analysis

Cronbach's alpha values in table 4.2 are substantially above 0.7, with the majority of them over 0.8, indicating that the instruments were dependable enough for measurement. An acceptable Cronbach alpha for the research was 0.75 or higher. The construct validity of the instrument was deemed to be acceptable since the majority of item total correlations were rather high (Ghauri, Grnhaug, & Strange, 2020).

Table 4.2 Reliability Results

Constructs	Cronbach's Alpha Values	Comments
Cash flow management	0.792	Accepted
Credit management	0.811	Accepted
Contingency Funding Management	0.804	Accepted
Financial Performance	0.783	Accepted

4.4 Demographic Information

The section contains information on the demographic characteristics of the respondents such as gender, age, and years of experience, qualification, and level of management.

4.4.1 Gender of Respondents

The respondents were asked to indicate their gender and the findings are as shown in Table 4.3. From the findings, majority (58.3%) of the respondents were male while 41.7% were female.

Table 4.3 Gender of Respondents

Category		Frequency	Percent	Cumulative Percent
Valid	Male	42	58.3	58.3
	Female	30	41.7	100.0
	Total	72	100.0	

4.4.2 Age bracket of Respondents

Respondents were asked their age bracket and the findings are as shown in table 4.4 below.

Table 4.4 Age bracket of Respondents

Category		Frequency	Percent	Cumulative Percent
Valid	Less than 25 years	4	5.6	5.6
	26-35 years	14	19.4	25.0
	36 - 45 years	19	26.4	51.4
	46 – 55 years	28	38.9	90.3
	Above 56 years	7	9.7	100.0
	Total	72	100.0	

From the findings, majority of the respondents were in age bracket 46 – 55 years (38.9%), 26.4% were between 36 – 45 years, 19.4% were in age bracket 26 – 35 years, 9.7% were above 56 years while 4% in age bracket less than 25 years. The findings revealed that majority of the respondents are considered to be in their productive years.

4.4.3 Highest Level of Education of Respondents

Respondents were questioned about their level of education, the results are shown in table 4.5 below.

Table 4.5 Highest Level of Education of Respondents

Category		Frequency	Percent	Cumulative Percent
Valid	Doctorate	2	2.8	5.9
	Masters	13	18.1	20.9
	Degree	36	50.0	70.9
	Diploma	14	19.4	90.3

	Certificate	7	9.7	100.0
	Total	72	100.0	

As shown in the findings above, majority of the respondents are degree holders (50%), 19.4% of the respondents had diplomas, 18.1% have masters, 9.7% of the respondents had certificates, while 2.8% have doctorate. This indicates that the respondents were in a position to answer the questionnaire.

4.4.4 Years of Experience of Respondents

The study sought to find out the years of experience that the respondents have in Sacco. Findings are shown in table 4.6 below.

Table 4.6 Years of Experience of Respondents

		Frequency	Percent	Cumulative Percent
Valid	Less than 1 year	8	11.1	11.1
	1-5 Years	27	37.5	48.6
	6-10 years	23	31.9	80.5
	Over 10 years	14	19.5	100.0
	Total	72	100.0	

Results shown in table 4.6 indicated that majority of the respondents (37.5%) had worked in sacco for 1 – 5 years, 31.9% had served between 6 – 10 years, 19.5% served over 10 years, while 11.1% had served for less than 1 year. The outcome reveals that the respondents were experienced in their area of work implying that their responses portray the true activities which are in place.

4.4.5 Level of Management of Respondents

Respondents were asked to indicate the level of management. The findings are shown in Table 4.7.

Table 4.7 Level of Management of Respondents

Category		Frequency	Percent	Cumulative Percent
Valid	Senior	23	31.9	31.9
	Middle Management	38	52.8	84.7
	Operational Level	11	15.3	100.0
	Total	68	100.0	

Majority of the respondents were on middle management level (52.8%), 31.9% of the respondent were on senior level management while 15.3 % of the respondents were on operational level. This shows that the respondents were spread across the three levels of management.

4.5 Study Variables

The Likert scale used to quantify the research variables in this section ranged from "strongly agree" (5) to "strongly disagree" (1). According to the continuous Likert scale, the scores for disagreeing have been considered to reflect a variable with a mean value of 0 to 2.4. The scores of "Undecided" were used to represent a variable with a mean score of 2.5 to 3.4 on a continuous Likert scale, while the scores of "Agree" and "Strongly Agree" were used to represent a variable with a mean score of 3.5 to 5.0 on a continuous Likert scale, respectively. A standard deviation of more than 0.9 indicates a considerable variation in how the variable affected the respondents.

4.5.1 Cash Management and Financial Performance of DT Saccos in Kericho County

This section of the questionnaire sought to establish the influence of cash management on the financial performance of DT Saccos in Kericho County. The results are shown in table 4.8 below.

Table 4.8 Cash Management and Financial Performance of DT Saccos in Kericho County

Cash Management	Mean	Std. Deviation
The SACCO has effective loan portfolio management to maximizes the lending opportunities	3.74	.058
Aspects of collateral are considered when issuing loans	4.65	.977
My SACCO undertake regular budget cash budget	4.02	.281
There is protection of members deposit by SACCO management	4.72	.218
Occurrence of cash shortages has been managed	3.96	.088

From the results in Table 4.8 above, the respondents strongly agreed that aspects of collateral are considered when issuing loans (Mean= 4.65, SD=0.977), and that there is protection of members deposit by SACCO management (Mean= 4.72, SD= 0.218). Further, respondents agrees that the deposit taking SACCO undertake regular budget cash budget (Mean = 4.02, SD= 0.281), and that occurrence of cash shortages had been

managed (Mean=3.96, SD=0.088). Respondents also agreed that the SACCO had effective loan portfolio management to maximizes the lending opportunities (Mean=3.74, SD=0.058). The findings shows that cash management in the Saccos have been considered and measures taken to ensure there is no adverse effect on financial performance.

4.5.2 Contingency Funding Management and Financial Performance of DT Saccos in Kericho County

This section of the questionnaire sought to establish the influence of Contingency Funding Management on the financial performance of DT Saccos in Kericho County. The results are shown in table 4.9 below.

Table 4.9 Contingency Funding Management and Financial Performance of DT Saccos in Kericho County

Contingency Funding Management	Mean	Std. Deviation
Management offers strategic direction in the SACCO as relates to financial performance of the SACCO	3.86	.112
SACCOs rely on external borrowing to finance their activities	3.31	.906
There is flexible repayment periods which has improved loan repayment	4.43	.964
There is proper implementation of internal controls as they relate to financial performance of the SACCO	4.05	.206
SACCOs has a financial reporting policy	4.73	.918

The findings revealed that respondents strongly agreed that SACCOs have a financial reporting policy (Mean=4.73, SD=0.918). Respondents agreed that there is flexible repayment periods which has improved loan repayment (Mean=4.43, SD=0.964), and that there is proper implementation of internal controls as they relate to financial performance of the SACCO (Mean=4.05, SD=0.206). Respondents further agreed that management offers strategic direction in the SACCO as relates to financial performance of the SACCO (Mean=3.86, SD= 0.112). However, they were undecided on whether SACCOs rely on external borrowing to finance their activities (Mean=3.31, SD=0.906). The findings shows that Contingency Funding Management in the Saccos have been considered and measures taken to ensure there is no adverse effect on financial performance.

4.5.3 Credit Management and Financial Performance of DT Saccos in Kericho County

This section of the questionnaire sought to establish the influence of credit Management on the financial performance of DT Saccos in Kericho County. The results are shown in table 4.10 below.

Table 4.10 Credit Management and Financial Performance of DT Saccos in Kericho County

Credit Management	Mean	Std. Deviation
Management adheres to credit administration policy to protect members deposits and elimination of delinquent loans	3.90	.793

The rate of loan default in the SACCO is minimal	2.44	.876
The SACCOs gross loan portfolio is adequate	3.72	.196
The SACCO adheres to CAMEL & PEARLS principles	4.83	.904
The SACCO dividend rate is adequate in comparison to the market rate	4.35	.231
In credit management, the SACCO follows the Policies by SASRA	4.64	.127

Respondents strongly agreed that the SACCO adheres to CAMEL & PEARLS principles (Mean=4.83, SD=0.904), and that the SACCO follows Policies by SASRA (Mean=4.64, SD=0.127). They agreed that the SACCO dividend rate is adequate in comparison to the market rate (Mean=4.35, SD=0.231), management adheres to credit administration policy to protect members deposits and elimination of delinquent loans (Mean=3.90, SD=0.793), and that the SACCOs gross loan portfolio is adequate (Mean=3.72, SD=0.196). However, they disagreed that the rate of loan default in the SACCO is minimal (Mean=2.44, SD=0.876).

4.5.4 Financial Performance of DT Saccos in Kericho County

This section of the questionnaire sought to establish the influence of liquidity Management on the financial performance of DT Saccos in Kericho County. The results are shown in table 4.11 below.

Table 4.11 Liquidity Management and Financial Performance of DT Saccos in Kericho County

Financial Performance	Mean	Std. Deviation
Gross Profit of the SACCO has increased	4.60	.031
The Sacco's return on assets has increased	4.59	.853
Loans have been on the rise	4.57	.067
Number loan products have increased over time	4.33	.102
The Sacco's investment decisions has increased	4.22	.905
The Sacco's liquidity asset ratio had increased	4.09	.980

From the above findings in table 4.11, respondents strongly agreed that gross Profit of the SACCO has increased (Mean=4.60, SD=0.031), the Sacco's return on assets has increased (Mean=4.59, SD=0.853), and that loans have been on the rise (Mean=4.57, SD=0.067). The respondents agreed that the number of loan products have increased over time (Mean=4.33, SD=0.102), The Sacco's investment decisions has increased (Mean=4.22, SD=0.905), and that the Sacco's liquidity asset ratio had increased (Mean=4.09, SD=0.980).

4.6 Multiple Regression Results

The research used a multivariate regression analysis to determine the association between the dependent and independent variables. ANOVA, beta coefficient tables, and a description of the regression model were used to display the findings of the regression study.

The linear regression model below was used:

$Y = \beta_{0+} \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Where Y = Financial performance

X_1 = Cash flow management

X_2 = Credit management

X_3 = Contingency Funding Management

ε = Error term

4.6.1 Test of assumptions of regression Analysis

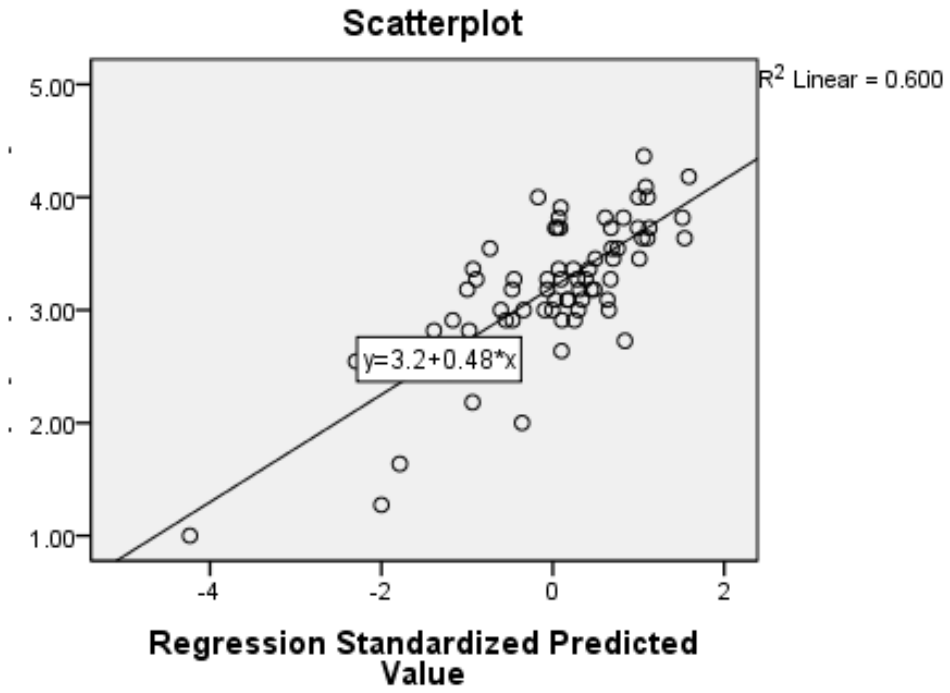
Once it has been shown that the assumptions of normality, linearity, independence, and multicollinearity have not been broken, a regression analysis may then be carried out. Several experiments were carried out, the results of which are detailed in the parts that follow.

4.6.1.2 Linearity

The financial performance of DT Saccos in Kericho County was the dependent variable, and each of the independent factors was examined for a linear relationship (cash flow

management, credit management, and contingency funding management). These associations were investigated using scatter plots, with the results shown in Figures 4.1 below. The resulting corresponding linear equation is shown.

Figure 4.1 Scatterplot



The associated linear equation is given below:

$y = 3.2 + 0.48x$

The linear model offers a rather excellent match, as shown by the coefficient of determination R^2=0.600. Additionally, the data in the graphic above nicely fit a straight line, indicating a linear connection. After the investigation determined that the data set did not deviate from the assumption of linearity, linear regression analysis was conducted.

4.6.1.3 Independence

The research investigated the null hypothesis that there was no correlation between the residuals across observations. This was important in proving that the magnitude of residuals in one instance had no effect on residuals in the subsequent case. Table 4.12 shows the Durbin-Watson statistical findings. The Durbin-Watson statistic, whose values range from 0 to 4, indicates that the residuals are uncorrelated when it is around 2. High correlation is indicated by a number that is near to 0, while strong correlation is also indicated by a value that is close to 4. Due to the fact that the Durbin-Watson statistic in Table 4.12 was equal to 2.217, which was very close to the value 2, the residuals in the data set that was utilized in this investigation did not exhibit any serial correlation. Because of this, the data was thought to be sufficient for doing linear regression analysis.

4.6.2 Model Summary

The coefficient of determination, also known as the proportion of variance in the dependent variable that can be described by all the independent factors, describes how much change in the dependent variable (financial performance) can be explained by change in the independent variables.

Based on table 4.12, the R^2 score is 0.600, which indicates that 60.0% of the variation in the independent variables has been well explained.

Table 4.12 Model Summary

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Durbin-Watson
1	.774[a]	.600	.576	.40074	2.217

a. Predictors: (Constant), cash flow management, credit management, and contingency funding management

4.6.3 Analysis of Variance

Results from the analysis of variance demonstrate how well the regression equation predicts the dependent variable and how well it fits the data in table 4.13 below.

Table 4.13 Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.060	11	4.028	25.171	.000[b]
	Residual	9.684	67	.161		
	Total	21.744	78			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), cash flow management, credit management, and contingency funding management

There is no linear connection between the variables, according to the null hypothesis. The null hypothesis may be ruled out using the F-test if other methods fail to do so. Based on the findings, the study revealed that the analysis of variance's significance value is 0.000,

which is less than 5% (0.05). As a result, we accept the null hypothesis and conclude that the regression model suits the data significantly.

Results revealed that all the independent variables notably; (X_1) cash flow management, (X_2) credit management, (X_3), and contingency funding management have a significant influence on financial performance of DT Saccos in Kericho County.

4.6.4 Beta Coefficients

The results of the test of unstandardized beta coefficients, which reveal the linear model's equation, are shown in Table 4.8.

Table 4.14 Beta Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.256	.309		.807	.422
	Cash flow management	. 240	.087	.221	2.412	.026
	credit management	. 278	.112	.310	3.071	.003
	contingency funding management	.324	.089	.291	2.864	.008

a. Dependent Variable: Financial performance of DT Saccos in Kericho County

The prediction equation is $Y= 0.256 + 0.240X_1 + 0.278X_2 + 0.324X_3+ \varepsilon$

Cash flow management, credit management and contingency funding management have p-value of 0.026, 0.003, and 0.008 respectively. At a 5% level of significance, these p-

values are statistically significant. As a result, the financial performance of DT Saccos in Kericho County is positively impacted by these four independent factors of liquidity management. Additionally, if the t-value for these independent variables is larger than 2, the t-test confirms that they are statistically significant.

All of the coefficients are positive, as shown in table 4.14, indicating that increasing a unit of cash flow management, credit management and contingency funding management leads to an improvement in performance. The more significant the independent variable, the higher the beta coefficient values. The research clearly shows that contingency funding management has the greatest impact on financial performance of DT Saccos in Kericho County.

4.7 Discussion of the Findings

In establishing the relationship between liquidity management and financial performance, the study incorporated three major aspects of cash management, credit management, and Contingency Funding Management. The study sought to establish the influence of cash management on the financial performance of DT Saccos in Kericho County. The findings revealed that aspects of collateral are considered when issuing loans, and that there is protection of members deposit by SACCO management. The deposit taking SACCO undertake regular budget cash budget and the occurrence of cash shortages had been managed by the SACCOs. The SACCOs have effective loan portfolio management to maximize the lending opportunities and cash management in the Saccos have been

considered and measures taken to ensure there is no adverse effect on financial performance.

The findings agrees with Wanjala (2015) who studied the effect of cash management on the expansion of 169 Matatu SACCOs in Kimilili Bungoma County. The Cash Plan, Cash Control, and Budget were the examined variables. The effective handling of cash flow was correlated with the expansion of Sacco. This suggests that better cash management is beneficial to Sacco's bottom line. The cash management and financial performance of DTS in the Mount Kenya Region was studied by Njeru et al. (2015). The target population consisted of 30 legitimate DTS. The research strategy used to gather information on liquidity's effect on financial performance was descriptive in nature. In order to better extend credit to members and realize vision 2030, it was suggested that cash controls, a policy on credit management in SACCOs, and increased monitoring by SASRA be implemented.

On Contingency Funding Management and financial performance of DT Saccos in Kericho County, the study revealed that SACCOs have a financial reporting policy, flexible repayment periods which has improved loan repayment, and there is proper implementation of internal controls as they relate to financial performance of the SACCOs. Further, study revealed that management offers strategic direction in the SACCO as relates to financial performance of the SACCO. The findings showed that Contingency Funding Management in the Saccos have been considered and measures taken to ensure there is no adverse effect on financial performance. According to Chou (2011), a good contingency financing plan would create clear lines of accountability,

outline how the plan will be implemented, and spell out what to do in the event of an emergency.

The study further sought to establish influence of credit Management on the financial performance of DT Saccos in Kericho County. The SACCO adheres to CAMEL & PEARLS principles and follows policies by SASRA. The findings also showed that SACCO dividend rate is adequate in comparison to the market rate and that management adheres to credit administration policy to protect members' deposits and elimination of delinquent loans. Additional, the SACCOs gross loan portfolio is adequate. The findings agreed with Wanyoike and Kenyatta (2015) who conducted research on how credit rating and credit administration affected the financial results of deposit-accepting Saccos in Nakuru East sub County. The research concluded that Saccos would benefit financially by revamping their approaches to credit rating and credit management. The expansion of both core capital and membership, according to Kahuthu (2015) study, has a beneficial effect on the Saccos' financial performance.

The study showed that gross Profit of the SACCO has increased, the Sacco's return on assets has increased and that loans have been on the rise. In addition, the number of loan products have increased over time and the Sacco's investment decisions and liquidity asset ratio has increased. All of the coefficients are positive, as shown in table 4.8, indicating that increasing a unit of cash flow management, credit management and contingency funding management leads to an improvement in performance. The more significant the independent variable, the higher the beta coefficient values. The research

clearly shows that contingency funding management has the greatest impact on financial performance of DT Saccos in Kericho County.

The study agreed with findings on impact of liquidity management strategies on Nigerian bank performance in a study by Duruechi et al. (2016). Taking a look at the time series data from 1990-2014, the results showed that the banks in Nigeria benefited from the liquidity management policies implemented. Liquidity management and the efficiency of banks were studied by Agbada and Osuji (2013) in Nigeria. Their research confirms that banks' performance is positively correlated with liquidity management, and that effective liquidity management may strengthen the stability of banking operations. This finding is consistent with the research conducted by Alshatti (2015), who looked at the effect of liquidity management on profitability in Jordanian commercial banks. He found that increasing the fast ratio and allocation ratio of available funds had a positive effect on profitability, while increasing the capital ratio and liquid assets ratio had a negative effect

CHAPTER FIVE: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter presents the summary, conclusion and recommendations of the findings in accordance with the analysis results in the previous chapter. The recommendations provided in this chapter are for theory and application in firms in equivalent sector that the present study focused on.

5.2 Summary of the Findings

In establishing the relationship between liquidity management and financial performance, the study incorporated three major aspects of cash management, credit management, and Contingency Funding Management. The study sought to establish the influence of cash management on the financial performance of DT Saccos in Kericho County. The findings revealed that aspects of collateral are considered when issuing loans, and that there is protection of members deposit by SACCO management. The deposit taking SACCO undertake regular budget cash budget and the occurrence of cash shortages had been managed by the SACCOs. The SACCOs have effective loan portfolio management to maximize the lending opportunities and cash management in the Saccos have been considered and measures taken to ensure there is no adverse effect on financial performance.

On Contingency Funding Management and financial performance of DT Saccos in Kericho County, the study revealed that SACCOs have a financial reporting policy, flexible repayment periods which has improved loan repayment, and there is proper

implementation of internal controls as they relate to financial performance of the SACCOs. Further, study revealed that management offers strategic direction in the SACCO as relates to financial performance of the SACCO. The findings shows that Contingency Funding Management in the Saccos have been considered and measures taken to ensure there is no adverse effect on financial performance.

The study further sought to establish influence of credit Management on the financial performance of DT Saccos in Kericho County. The SACCO adheres to CAMEL & PEARLS principles and follows policies by SASRA. The findings also showed that SACCO dividend rate is adequate in comparison to the market rate and that management adheres to credit administration policy to protect members' deposits and elimination of delinquent loans. Additional, the SACCOs gross loan portfolio is adequate.

The study showed that gross Profit of the SACCO has increased, the Sacco's return on assets has increased and that loans have been on the rise. In addition, the number of loan products have increased over time and the Sacco's investment decisions and liquidity asset ratio has increased. All of the coefficients are positive, , indicating that increasing a unit of cash flow management, credit management and contingency funding management leads to an improvement in performance. The more significant the independent variable, the higher the beta coefficient values. The research clearly shows that contingency funding management has the greatest impact on financial performance of DT Saccos in Kericho County.

5.3 Conclusion

Based on the findings, the study concluded that liquidity management positively influence financial performance. Further, the study concluded that cash management, credit management and contingency management positively affect financial performance of deposit taking SACCOs. Aspects of collateral should be considered when issuing loans, and there should be protection of members deposit by SACCO management.

The study additionally concluded that managing the occurrence of cash shortages and cash budget is important for SACCOS. Having effective loan portfolio management to maximize the lending opportunities and cash management is key.

The study also concluded that financial reporting policy, flexible repayment periods are significant as they improve loan repayment. Proper implementation of internal controls is important as they relate to financial performance of the SACCOs. Further, study revealed that management offers strategic direction in the SACCO as relates to financial performance of the SACCO. The findings shows that Contingency Funding Management in the Saccos have been considered and measures taken to ensure there is no adverse effect on financial performance.

5.4 Recommendations

The study makes the following recommendations based on the findings and conclusions: first deposit taking SACCOS should implement cash management, credit management and contingency funding management in liquidity management to improve financial

performance. Aspects of collateral should be considered when issuing loans, and there should be protection of members deposit by SACCO management.

Further, SACCOs should manage the occurrence of cash shortages and cash budget and having effective loan portfolio management to maximize the lending opportunities and cash management is key.

The SACCOS should also have financial reporting policy, flexible repayment periods to improve loan repayment. Proper implementation of internal controls should be implemented as they relate to financial performance of the SACCOs. Further, management should offers strategic direction in the SACCO since it relates to financial performance of the SACCO.

5.5 Limitations

The study considered deposit taking SACCOs in Kericho County only, hence cannot make a conclusion for the entire SACCOs in the Country based on only one county.

The responses were uncontrollable as some respondents feared expressing the correct rating of some variables in the SACCO. The respondents were explained to that the information would only be used for academic. This allowed them to be confident that they would not be disciplined of the information they gave.

It was hard to collect data from the employees since they were busy during the day. The researcher dropped the questionnaire and picked them at a later date. This allowed the respondents to fill the questionnaire at their own time.

The research was concerned only with the effect of cash management, credit management and contingency management on the financial performance of deposit taking SACCOs. It did not take into account other factors of liquidity management, considering various scholars have given different dimensions.

5.6 Suggestions for Further Studies

The study mainly focused on DT Saccos in Kericho County. There is need to conduct a similar study which will attempt to find out effects of liquidity management on banks and other financial institutions in Kenya.

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APPENDIX I: QUESTIONNAIRE

TITLE: Influence of liquidity management on the financial performance of DT Saccos in Kericho County.

Kindly tick the most appropriate answer (s) or fill in the information required. Your response will go a long way in making this study a success. This information will be treated with utmost confidence and will be used for the purposes of research only.

SECTION A: Background Information

SECTION A: Demographic Information

1. What is your gender? Male [ ] Female [ ]
2. How old are you?

Age (years)	Below 25	26-35	36-45	46-55	Above 56
Response					

3. What is your highest level of education?

Doctorate [ ] Masters [ ] Degree [ ] Diploma [ ] Certificate [ ] Others Specify ……

4. How many years of experience do you have in this SACCO?

Below 1 year [ ] between 1-5 [ ] between 5-10 [ ] above 10 years [ ]

5. What level of management? Senior [ ] Middle Management [ ] Operational Level [ ]

SECTION B: Cash Management and financial performance

Indicate the extent to which you agree with the following statements in relation to the influence of cash management on the financial performance of DT Saccos in Kericho

County. The following scale will be applicable: **5= Strongly Agree 4= Agree 3= Neutral 2= Disagree 1= Strongly Disagree**

No.	Cash Management	1	2	3	4	5
1.	My SACCO undertake regular budget cash budget					
2.	Occurrence of cash shortages has been managed					
3.	There is protection of members deposit by SACCO management					
4.	The SACCO has effective loan portfolio management to maximizes the lending opportunities					
5.	Aspects of collateral are considered when issuing loans					

SECTION C: Contingency Funding Management and financial performance

Indicate the extent to which you agree with the following statements in relation to the influence of Contingency Funding Management on the financial performance of DT Saccos in Kericho County. The following scale will be applicable: **5= Strongly Agree 4= Agree 3= Neutral 2= Disagree 1= Strongly Disagree**

No.	Contingency Funding Management	1	2	3	4	5
1.	The SACCO investment policy remains within					

	the core principles of the cooperative					
2.	SACCOs rely on external borrowing to finance their activities					
3.	SACCOs has a financial reporting policy					
4.	Management offers strategic direction in the SACCO as relates to financial performance of the SACCO					
5.	There is proper implementation of internal controls as they relate to financial performance of the SACCO					
6.	There is flexible repayment periods which has improved loan repayment					

SECTION D: Credit Management and financial performance

Indicate the extent to which you agree with the following statements in relation to influence of credit management on the financial performance of DT Saccos in Kericho County. The following scale will be applicable: **5= Strongly Agree 4= Agree 3= Neutral 2= Disagree 1= Strongly Disagree**

No.	**Credit Management**	**1**	**2**	**3**	**4**	**5**
1.	Management adheres to credit administration policy to protect members deposits and elimination of delinquent loans					
2.	The SACCOs gross loan portfolio is adequate					

3.	The rate of loan default in the SACCO is minimal					
4.	The SACCO dividend rate is adequate in comparison to the market rate					
5.	The SACCO adheres to CAMEL & PEARLS principles					
6.	In credit management, the SACCO follows the Policies by SASRA					

SECTION E: Liquidity Management and Financial Performance

Indicate the extent to which you agree with the following statements in relation to the influence of liquidity management on the financial performance of DT Saccos in Kericho County. The following scale will be applicable: **5= Strongly Agree 4= Agree 3= Neutral 2= Disagree 1= Strongly Disagree**

No.	**Liquidity Management and Financial Performance**	**1**	**2**	**3**	**4**	**5**
1.	Gross Profit of the SACCO has increased					
2.	Number loan products have increased over time					
3.	Loans have been on the rise					
4.	The Sacco's liquidity asset ratio had increased					
5.	The Sacco's investment decisions has increased					
6.	The Sacco's return on assets has increased					

APPENDIX II: SCHEDULE OF ACTIVITIES

Activity	April - May 2022	June – August 2022	October 2022	November 2022	December 2022
Development and Pilot Study					
Adjustments of the proposal					
Data collection					
Data Coding and Analysis					
Report Writing and Compilation					

Source: Researcher (2022)

APPENDIX III: BUDGET

a) Cost of Proposal

Foolscaps 2 Reams	Kshs 1,000
Photocopying services	kshs3,500
Internet use	kshs 3,500
Secretarial services 30 Pages @ kshs50	Kshs1,500
Binding 4 Pieces @ 100	Kshs400
Total Proposal Budget	**Kshs9,900**

b) Cost of Project

Field Research, Travel, fare and Refreshments	Kshs7,500
Cost of printing & distributing questionnaires	Kshs 4,500
Cost of processing data	Kshs5,000
Cost of processing final document	
Printing 80 pages @ Kshs10	Kshs800
Photocopying 300 Pages @ Kshs 2.50	Kshs750
Binding 4 Copies @ Kshs500	Kshs2000
Budget for the Project	**Kshs20,550**
Total Cost	**Kshs30, 450**