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## Financial Risk Management and Performance of Savings and Credit Cooperative Societies in Nairobi City County, Kenya

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### **Abstract:**

*Savings and Credit Cooperative Societies play an important role in enhancing economic stability and the general welfare of its members. However, in Kenya, the only Savings and Credit Cooperative Societies that have continued to grow in terms of profitability include; Mwalimu National SACCO, Harambee SACCO, Stima SACCO, Kenya Police SACCO, Afya SACCO, United Nations SACCO, UNAITAS SACCO and Metropolitan National SACCO. This is in contrast with the fact that many Savings and Credit Cooperative Societies have been in existence for more than 15 years. This makes it important to focus on financial performance of Savings and Credit Cooperative Societies with reference to financial risks management. Multipurpose objective of this research was to assess influence of financial risks management on financial performance of Sacco Societies in Nairobi City County. The study objectives are; to analyze influence of liquidity risks management on Financial Performance of Savings and Credit Cooperative Societies in Nairobi City; to establish influence of credit risks management on Financial Performance of Savings and Credit Cooperative Societies in Nairobi City and to examine effect operational risks management on Financial Performance of Savings and Credit Cooperative Societies in Nairobi City. The study is constructed on two theories namely; shift ability theory and agency theory. Descriptive research design was adopted by the study. Target populace included all 41 Savings and Credit Cooperative Societies in Nairobi City County in order to get comprehensive information since it is the county with the highest physical concentration of Savings and Credit Cooperative Societies. Census survey was used and therefore all the 41 Savings and Credit Cooperative Societies were part of the sample. Financial reports for specific Savings and Credit Cooperative Societies in Nairobi City County were derived from the SASRA's website. This was so as to guarantee that data composed is accurate since accurate and systematic data collection is critical to conducting research. It involved obtaining the financial reports from the SASRA's website for the period between 2014 and 2018. Secondary figures were obtained from SASRA's yearly reports since 2014. In an effort to enhance the study's efficiency, secondary facts were gathered by the use of tables which are based on panel data. The process began by editing and inspecting of data collection process so as to identify any errors made by the researcher. Organisation of data was done through inferential statistics using percentages, arithmetic mean and the results presentation was done using frequency distribution tables. The study embraced financial performance as reliant on variable. Data analysis helped in summarizing the data collected and organize it for easier interpretation. Study outcomes showed that there was enthusiastic connotation amid measures of liquidity risks management and performance. The study regression analysis outcome revealed that there was a momentous and affirmative influence of liquidity risks management, credit risks management and operational risks management on performance of Savings and Credit Cooperative Societies. Based on the results, the study concluded that liquidity risks, credit risks and operational risks management all had an effect on performance of Savings and Credit Cooperative Societies is significant. The research commends that Savings and Credit Cooperative Societies would increase on the usage of liquidity risks management, credit risks management and operational risks management in their operations since it has been found that liquidity risks management had an influence on performance of Savings and Credit Cooperative Societies.*

**Keywords:** Financial Risk Management, Performance, SACCOs, Nairobi City County, Kenya

### **1. Background to the Study**

Savings and Credits Cooperative Society is a category of supportive organization with objectives of bringing together reserves for its memberships and also provides loans to the members in return (UN-HABITAT, 2010). The main purpose of Savings and Credit Cooperative Societies (SACCOs) is enhancing monetary interest as well as the overall well-being of its memberships. According to International Congress of Actuaries statement, a cooperative is a self-directed association of people who are integrated willingly in order to fulfil an economic, social and cultural needs through enterprises that are co-owned and controlled in a democratic way. SACCOs are founded on values and the members believe in ethical values such as caring for others, honesty and social responsibility (Bibby & Shaw, 2005). According to

ICA Congress, 1995, cooperative have several principles including; volunteer and open association, Self-governing affiliate regulator, Member financial contribution, Self-sufficiency and freedom of training, teaching and information and teamwork among co-operatives. Services provided by cooperatives are savings and deposits, standing orders, safe custody, cheque clearing, salary advances and credit services among others.

In 1840s, pioneers of cooperatives came up with consumer models and labour models to defend and enhance working-class families' interests under the social disasters brought about by industrial revolution. Therefore, the modern cooperation was initiated in the working-class environment in the European Industrialized cities in 19<sup>th</sup> Century. This was as a result of the customer co-ops in Britain and also due to the desire to encounter unsatisfied main monetary desires of people in the rural areas. This helped the relatives of agriculturalists and livestock to come up with own supply schemes as well as being able to find markets for products on their own without depending on the rich businessmen in the cities. SACCOs also helped them seize relying on shylocks for credit (Mwakajumilo, 2011).

One main area in outcome of the worldwide financial calamity is financial risks amongst financial intermediaries. Financial risks concern the continuous financial position of an enterprise. Any kind of predisposition to activities that could result to possible loss of funds by the business is a financial risk (Njogo, 2012). The deposit taking Kenyan SACCOs' functions in present-day unpredictable environment fronting enormous risks including credit risks, liquidity risks, interest risks and operating risks among others. These risks if not managed may threaten the survival and success of deposit taking SACCOs (SASRA, 2015).

Several pragmatic studies have documented optimistic influence of risks management on firms' performance they include risks managements and monetary performance of banks in Nigeria (Oluwafemi, Israel, Simeon & Olawale, 2014); elements affecting risks management approaches and performance of private banks in Iraqi (Ahmed, 2014); These studies exposed a constructive connection amongst risks management and bank performance; additionally, the studies affirm that operative risks management enhances bank productivity and performance. Yousfi (2012) carried a study on risks management practice and monetary performance in Jordan: Realistic indication from Islamic Banks also revealed that risk management practices; credit risks, liquidity risks, operational risks had a negative and important statistical impact on performance.

### *1.1. Statement of the Problem*

SACCOs help members in various aspects including, saving money for those with surplus and providing loan to those members with a deficit. The SACCOs have shown an increase in the net profit after tax but at a decreasing rate as opposed to their assets and membership rates which have continued to increase at an increasing rate as shown in Table 1.1. Although there was an increase in both change in total assets and membership in 2016 by 14.8% and 15.6% respectively, the earning only increased by 3.99% (SASRA, 2016). An analysis on annual supervision reports between 2012 and 2016 shows that, only 25% of SACCOs in Nairobi County are growing in terms of assets, deposits, loans, member share capital, reserves and membership which remain as the parameters for monitoring the trends in the growth and general aggregate performance of SACCOs (SASRA, 2016). The SACCOs that are improving in performance include; Mwalimu National SACCO, Harambee SACCO, Stima SACCO, Kenya Police SACCO, Afya SACCO, United Nations SACCO, UNAITAS SACCO and Metropolitan National SACCO. The named SACCOs continue to be in the top 10 best performing SACCOs in Kenya while the greater percentage of SACCOs in Nairobi County (75%) are non-performing which has caused low performance of the Cooperatives Sector.

Many SACCOs have collapsed in Kenya since 1986 due to increase in non-performing loans which have resulted from national economic downturn, failure by loan applicants to disclose vital information during loan processing and lack of an aggressive debt collection policy (Waweru & Kalani, 2009). Non-performing credits amplified from 5.12 percent in 2015 to 5.23 percent in 2016, indicating an increase in credit risk while the net profit after tax had a 3.99% change between 2015 and 2016 as opposed to the previous year which was 8.5%, showing a reduction in financial performance of the SACCOs (SASRA, 2016). The conditions laid down by the management are very minimal leading to many members' access to these loans. This encourages potential members to join SACCOs and helps existing members to borrow money effectively. This has led to an increase in the total assets and net earnings. Credit information sharing improves borrowers' incentives to repay the loans and helps overcome moral hazard of borrowers (Padilla & Pagano, 2000). However, due to minimal requirements, member who act as guarantors are exposed to higher risk in case of non-payment of loans. Thus, increases the number of non-performing loans and in turn reduces the net earnings.

Preceding studies concentrated on a single aspect of financial risk management and among them is a study on the influence of credit risk management on performance of deposits taking SACCOs where the findings were that return on assets was positively related to wealth appropriateness, assets qualities, management efficiencies, earnings and liquidity which are measures of credit risk (Kimari, 2013). Kyalo, (2015) undertook a research on the Impact of liquidity management on performance of deposits taking SACCOs in Nairobi city where the findings indicated that financial performance of SACCOs is positively to liquidity. In addition, a study on operational risks management and monetary systems put in place in financial organizations in Nigeria displayed that operational risks management positively influenced financial progress and improvement in financial sector (Epetimehin and Fatoki 2015). Thus, this study set out to determine the effect of financial risk management was a cause for reduced financial performance of SACCOs in Nairobi City County, Kenya.

### *1.2. General Objective*

The overall objective of this research was to assess influence of financial risks management on financial performance of SACCO Societies in Nairobi City County, Kenya.

### 1.2.1. Specific Research of Objectives

- To analyze influence of liquidity risks management on financial performance of SACCO Societies in Nairobi City County, Kenya
- To identify influence of credit risks management on financial performance of SACCO Societies in Nairobi City County, Kenya
- To examine effect operational risks management on financial performance of SACCO Societies in Nairobi City County, Kenya

### 1.3. Research Hypotheses

- **H<sub>01</sub>**: Liquidity risks management has no significant influence on financial performance of Savings and Credit Cooperatives in Nairobi City County, Kenya.
- **H<sub>02</sub>**: Credit risks management does not significantly affect financial performance of Savings and Credit Cooperatives in Nairobi City County, Kenya
- **H<sub>03</sub>**: Operational risks management has no significant influence on financial performance of Savings and Credit Cooperatives in Nairobi City County, Kenya

## **2. Literature Review**

Risks experiences have amplified businesses with the aim of accomplishing their experiences improved hence forward evading amplified cost or becoming volatile as argued by Panos *et al.*, (2009). The study is constructed on three theories namely; shiftability theory and agency theory.

### 2.1. Asymmetric Information Theory

Information Asymmetry Theory Information Asymmetry was propounded by Akerlof (1970), and Stiglitz (1976) and in 2001 they were awarded by Nobel Memorial Prize in Economics for their 'analyses of markets with asymmetric information'. In the paper, Akerlof develops asymmetric information with the example of automobile market. His basic argument is that in many markets the buyer uses some market statistic to measure the value of a class of goods. Thus, the buyer sees the average of the whole market while the seller has more intimate knowledge of a specific item. Akerlof argues that this information asymmetry gives the seller an incentive to sell goods of less than the average market quality. The average quality of goods in the market will then reduce as will the market size. Such differences in social and private returns can be mitigated by a number of different market institutions.

Asymmetric information means that one party has more or better information than the other when making decisions and transactions. The imperfect information causes an imbalance of power. For example, it may be impossible to distinguish good borrowers from bad borrowers (Auronen, 2003) which may result in adverse selection and moral hazards problems- Adverse selection and moral hazards have led to substantial accumulation of non-performing accounts in cooperatives (Bofondi and Gobbi, 2003). Accurate information is essential for sound economic decisions. When a market experiences an imbalance, it can lead to market failure (Schrand, 2007). According to Wilson (2008) Adverse selection is defined as a term used in economics that refers to a process in which undesired results occur when buyers and sellers have access to imperfect information. This uneven knowledge causes the price and quantity of goods or services in a market to shift. This results in 'bad' products or services being selected. In addition to adverse selection, moral hazards are also a result of asymmetric information. A moral hazard is a situation where a party will take risks because the cost that could incur will not be felt by the party taking the risk. A moral hazard can occur when the actions of one party may change to the detriment of another after a financial transaction. In relation to asymmetric information, moral hazard may occur if one party is insulated from risk and has more information about its actions and intentions than the party paying for the negative consequences of the risk (Gwei, 2018).

There are a number of arguments that can be made in support of the idea that some managers use derivatives to speculate, where speculation is defined as the actively taking derivatives positions based on a market view. Speculation may well be value enhancing due to the option characteristics of equity and the wealth transfer from debt holder to equity holders. Other factors such as management compensation and private information also provide management incentives to speculate (Schrand, 2007). Survey findings that indicate that 61 out of 186 firms sometimes speculate and 13 frequently speculate (Gwei, 2018). One underlying factor that drives both hedging and speculation is the level of information asymmetry (IA) faced by the firm, since IA is highly correlated with cost of financing, firm quality, and firm valuation. Studies have shown that firms with a higher level of asymmetric information are more likely to hedge to reduce the uncertainty that is out of managers' control. Sapra and Shin (2008) argue that reducing asymmetric information by disclosing derivatives use information is likely to induce speculation. The study utilizes the information asymmetry theory in order to understand financial risk influence on financial performance of SACCOs in Kenya. The SACCOs are financial intermediaries and therefore they risk giving loans to members which may not be honored as a result of moral hazard on the part of the borrower and adverse selection on the part of the SACCOs.

### 2.1.1. Shiftability Theory

The proponent of shiftability theory was Moulton (1918) and published on his article named; Commercial banking and capital formation. The theory revolves around the following central themes. The shiftability theory asserts that if commercial banks sustain considerable amounts of possessions which are capable of shifting, similarly cash deprived of substantial losses in case of needs, then no necessity to trust the maturity. As per this opinion, an asset to be flawlessly

shiftable ought to be instantaneously moveable devoid of investment losses any time need for liquidness rises. This is predominantly appropriate to short period marketplace investments, which includes capital bill and bill of exchange which can be instantaneously sold every time it is necessary to raise monies by banks. But in a common emergency when all banks' needs of liquidness, shift-ability philosophy need that all banks ought to possess such properties which can be shifted to the central bank to lender of final option. This philosophy has some features of accuracy. Banks receive comprehensive assets which can be picking up on to other banks. Shares and debentures of big companies are acknowledged as liquefied assets sideways with Treasury bill and bill of exchange. This has some encouragement terms of lending by banks.

The Shiftability philosophy has concentrated the requirement of holding reserves of enormous amounts of idle cash balance. The theory has provided a substitute method of actual bill theory wherever there is likelihood of risks since of economic downheartedness in case of purchasing and selling of possessions and raw materials. With the help of Shiftability theory, the likelihood of revenue can be improved and likelihood of risks can be reduced (Cai & Anjan, 2008). The study utilizes the Shiftability theory in order to understand the liquidness risks management influence on performance of deposit taking SACCOs in Kenya. Shiftability theory contends that liquidness of a SACCO is assured when the SACCO has assets which can simply be moved to other banks before adulthood if need be.

### 2.1.2. Agency Theory

This theory was first proposed in 1970s by Stephen Ross and Barry Mitnick autonomously but concomitantly. Ross developed economic philosophy of agency whereas Mitnick produced institutional philosophy of agency. Nevertheless, the basic concepts under the methods are similar. Ross presented the scholarship of agency in expressions of difficulties of reimbursement contracting agency was understood as an inducements problem. Mitnick came up with now shared understanding that organizations from all over form agency and development to contract with agencies in reaction to necessary inadequacy of agent associations. These interactions are not essentially pleasant-sounding in that agency philosophy is worried with agent battles or battles of interest between agent and principal. This has far reaching interpretations for among other things to corporate governance and business ethics. Whenever agency happens, it also has a habit of giving rise to agency expenses, which are expenditures experienced in order to endure an active agency relationship. For instance, the contribution of management performance bonuses is meant to encourage management to perform in stakeholders' welfares. Consequently, agency philosophy has arisen as a leading model in monetary economics literatures and is extensively deliberated in commercial ethics manuscripts. One of the relationships in relation to this study is shareholders (principal) and management (agent) relationship.

### 2.2. Conceptual Framework

The framework is an analytical tool that is used to show the overall picture of the study. It indicates the interaction between study variables that include liquidity risk management, credit risk management and operational risk management. Financial risk management is self-governing variable of the study while the financial performance was reliant on variable of study. The risk management in this study was measured using liquidness risks, credit risks and operational risk management.

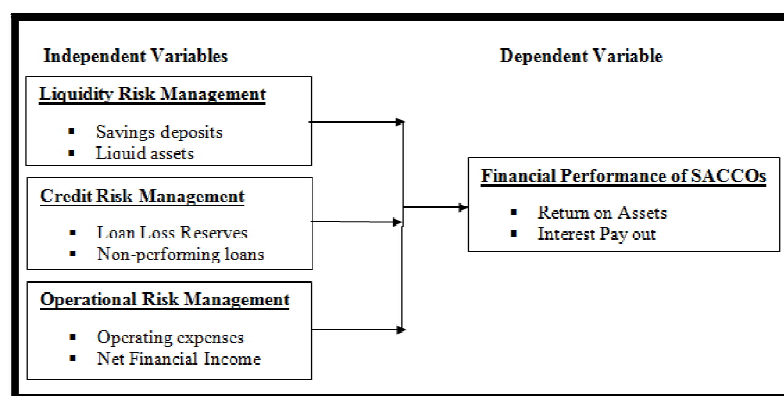


Figure 1: Conceptual Framework

Source: Researcher, 2020

## 3. Research Design

Kombo and Tromp (2009), state that design of a research is an approach that describes how, when and where facts will be gathered. Polit, D. F., London, A. S., and Martinez, J. M. (2001) describe a research design as researchers' complete strategy to response to the study questions or to test study hypotheses. The study embraced causal research design to analyze, present and draw conclusions.

### 3.1. Target Population

According to Burns (2003), populace refers to all essentials that meet the standard to be included in a research. Singh (2006), states that a populace could be finite or infinite. A finite population is a population made up of a definite number of countable elements, while an infinite population may not be clearly defined and therefore the number of

elements comprising it may not be clearly determinable. The target population is a segment of entire populace that meets a particular characteristic which the study intends to study in order to make inference on the whole population (Bryman & Bell, 2003). Target populace included all 41 SACCOs in Nairobi in order to get comprehensive information since it is the county with the highest physical concentration of SACCOs. It helped the researcher draw conclusion from the right information.

### 3.2. Sampling Design

Samples are assembly of elements selected from a universe to signify it. It is therefore important to determine an appropriate sample size (Kombo & Tromp, 2009). According to Salant and Dillman (1994), conducting a census by basing the study on the entire population would yield a more precise and unbiased results. A sample only represents the population but there is no guarantee that sample will be precisely and characteristic of populace. Sampling is adopted in cases where the cost of conducting a census is too high, there is limited time to contact the entire population or the entire population is inaccessibility. In some cases, where the population is small such that the costs, time and accessibility is within the researcher's reach, it is advisable to conduct a census for accuracy rather than taking a sample. There are 41 licensed SACCOs in Nairobi City County as at 2018 (Appendix I). Census survey was used and therefore all the 41 SACCOs were part of the sample. Saiful (2011) stated that a sample scope which is more than thirty and not exceeding five hundred are suitable for majority of studies and the sub-samples also necessitate a minimum of 30 explanations. The classification table of the 41 SACCOs based on their type of membership is represented in table 3.1 with the proportional representation of the entire population.

SACCOs	Number of SACCOs
Teacher-based	2
Government-based	10
Farmer-based	5
Private Sector-based	16
Community-based	8
Total	41

Table 1: Population Census  
Source: SASRA 2020

### 3.3. Data Collection Procedure

The researcher utilized secondary data to derive the effect of financial risk management on financial performance. Financial reports for specific SACCOs were derived from the SASRA's website and obtaining the financial reports for the period between 2014 and 2018.

### 3.4. Data Collection Instrument

In an effort to enhance the study's efficiency, secondary facts were gathered by the use of tables which are based on panel data. The data which was of interest to the researcher included credit risks, liquidity risks, interest rate risks and operational risk for 5-year period from 2014-2018. Panel data collection technique involves multiple phenomena derived from numerous time periods for same firm or individual (Appendix II). The secondary statistics was collected since it helped to understand the behavioral elements of each SACCOs in excess of time and through space (Baltagi, 2005 & Gujarati, 2003).

### 3.5. Empirical Model

The process began by editing and inspecting of data collection process so as to identify any errors made by the researcher. Organisation of data was done through inferential statistics using percentages, arithmetic mean and the results presentation was done using frequency distribution tables. The study embraced financial performance as reliant on variable. credit risk management, liquidity risks management, operational risks management founded the self-governing variables.

The regression model is of the nature:

$$FP_n^t = \beta_0 + \beta_1 LRM^t + \beta_2 CRM^t + \beta_3 ORM^t + \varepsilon$$

Where:

FP= Financial performance

LRM= Liquidity risks management

CRM= Credit risks management

ORM= Operational risks management

$\beta_0$  = Constant

$\beta_1, \beta_2, \beta_3$  = regression coefficients

$\varepsilon$  = Error term

t = Specific year of study

n = Total number of years

### 3.6. Data Analysis and Presentation

Data analysis helped in summarizing the data collected and organize it for easier interpretation. Analysis is process of organizing and measuring data in order to derive a relationship. Organisation of the data was done through inferential statistics using percentages, arithmetic mean and the results presentation was done using frequency distribution tables. Data examination was done as per the study objectives. Study used Karl Pearson's correlation and multiple regression examination to discover end product of financial risk management on financial performance of SACCOs.

Financial risk management was the independent variable which was measured using credit risk management, liquidity risks management, and operational risks management. On the other hand, the study used financial performance as the dependent variable and measured using ROA and interest pay-out ratios where the two ratios were combined by calculating the average. Normality test and co linearity test were used to check the goodness of fit of the data.

## 4. Inferential Statistics

The following sub-section presents the statistical examination of the data which include the correlation and regression analysis.

### 4.1. Correlation Analysis

The researcher did a correlation examination amongst financial risks management and performance of SACCOs. The subsequent segment offers the correlation examination results between financial risks management pointers and performance of SACCOs in Nairobi City. The risk management in this study was measured using liquidness risks, credit risks and operational risk management. Liquidity risk was measured using saving deposits and liquid assets while credit risk was measured using loan loss reserves and non-performing loans; operational risk was measured using changes in internal and external policies. The measures of financial risk management were correlated against financial performance and the results are presented in Table 2.

		1	2	3	4	5	6	7
Financial Performance		1						
Liquidity Risk Management	Savings deposits	.634*	1					
	Liquid assets	.438*	.674**	1				
Credit Risk Management	Loan Loss Reserves	.432*	.234*	.658*	1			
	Non-performing loans	.463**	.328**	.326*	.683**	1		
Operational Risk Management	Operating expenses	.536**	.213**	.614*	.598**	.621**	1	
	Net Financial Income	.493*	.216**	.284*	.568**	.548**	.592*	1

Table 2: Financial Risk Management and Financial Performance

\*\* Correlation Is Significant at the 0.01 Level (2-Tailed)

\* Correlation Is Significant at the 0.05 Level (2-Tailed)

Source: Researcher, 2020

The study results in table 4.7 shows that all the indicators of financial risk management were positively and significantly correlated with financial performance of SACCOs in Nairobi City County. The highest correlation was reported between savings deposits and financial performance ( $r = 0.634$ ,  $p < 0.05$ ). The second highest correlation was reported between internal policies and financial performance ( $r = 0.536$ ,  $p < 0.01$ ). The lowest correlation was reported between loan loss reserves and financial performance ( $r = 0.432$ ,  $p < 0.01$ ). It is important to note all the measures of financial risk management were positively and significantly correlated among themselves with the highest correlation being reported between non-performing loans and loan reserves ( $r = 0.683$ ,  $p < 0.01$ ). Though correlation coefficients were significant not only at five and even one percent significant level, problem of multicollinearity did not exist amongst them since none of the coefficients was greater .8.

### 4.2. Regression Analysis

This research had 3 specific objectives which were later developed into research hypotheses. The study had the assumption that financial risks management had influenced financial performance of SACCOs. The study used aggregate mean scores which were computed for both the self-governing and dependent variables and was used in regression runs. The general agenda was assessment of financial risks management on financial performance of SACCOs. The financial risk management was measured using liquidity risks, credit risks and operations risks management. In assessing the effect of financial risk management on financial performance of SACCOs, the measures of financial risk management which include liquidity risk management, credit risk management and operational risk management were regressed against financial performance and offered in Table 3.

R	R Square	Adjusted R Square	Std. Error of the Estimate
.786	.618	.606	.1540

Table 3: Results for Financial Risks Management and Financial Performance

Predictors: (Constant), Liquidity Risks Management, Credit Risks Management and Operational Risks Management  
Source: Researcher, 2020

The study outcome indicated that there was a positive and strong relationship between financial risk management and financial performance in that they had  $R=.786$ . This study outcome in the model summary (Table 3) showed that financial performance of SACCOs largely depended on financial risks management since 61.8% of their financial performance was being explained by financial risks management ( $R^2 = .618$ ). The value of adjusted  $R^2 =$  value of .606 showed how well the model generalizes the predictability. The reduction (about  $.618 - .606 = .12\%$ ) showed that if the model was derived from the population rather than a sample, it would account for about 12% percent less variance in the results.

The research outcome is in agreement with Ahmed (2011) on risks management practice and Islamic banks was meant to establish firms' level elements with significant influence on risks management practice of Islamic banks' in Pakistan. His study employed credits, operations and liquidness risk as reliant on variables whereas sizes, leverages, NPLs ratios, capital sufficiency besides assets management were utilized as descriptive variables for duration of 4 years ranging from 2006 to 2009. The research made the conclusion that sizes of Islamic banks had optimistic and statistical important association with FR (credits and liquidness risks) whereas its relationship by operations risks was established to be negative and not significant. Assets management establishes an important association with liquidness and operations risks. Table 4 presents the ANOVA results of financial risk management and financial performance.

ANOVA					
	Sum of Squares	Df	Mean Square	F	Sign.
Regression	2.841	1	2.841	4.619	.001
Residual	1.231	2	.615		
Total	4.072	3			

Table 4: Results for Financial Risks Management and Financial Performance

Predictors: (Constant), Liquidity Risk Management, Credit Risk Management and Operations Risk Management  
Dependent Variable: Financial Performance  
Source: Researcher, 2020

The results on the ANOVA table exhibited that F-value was greater than 1 ( $F=4.619$ ) which indicates that there was a prediction ability of the model in contribution of financial risk management on financial performance of SACCOs. On the other hand, the ANOVA table results indicates that indicators of financial risks management had an overall influence on financial performance of SACCOs and the effect was important because the p-value = .001 is less than .05). Table 5 presents the coefficients results of financial risk management and financial performance of SACCOs.

Coefficients					
	Unstandardized Coefficients		Standardized Coefficients	T	(p-value)
	Beta	Std. Error	B		
(Constant)	1.472	.256		5.750	.124
Liquidity Risk Management	.549	.287	.481	1.912	.007
Credit Risk Management	.465	.178	.364	2.612	.002
Operations Risk Management	.581	.263	.435	2.209	.004

Table 5: Results for Financial Risks Management and Financial Performance

Dependent Variable: Financial Performance  
Source: Researcher, 2020

Coefficients table outcome displays that all indicators of financial risk management had optimistic and substantial influence on financial performance of SACCOs as follows, liquidity risks management had positively and significantly influenced on financial performance of SACCOs ( $\beta = .549$  and p-value = .007), credit risk management also positively affected performance of SACCOs ( $\beta = .465$ , p-value = .002), operational risk management on the other hand had a positive effect on financial performance of SACCOs in Nairobi County ( $\beta = .581$ , p-value = .004). The study outcome goes hand in hand with Lyambiko (2015) who undertook a study on operational risks are as a result of monetary systems put in place in financial institutions. The resolution of this study was evaluation of operating risks effect on monetary performances of banks in Tanzania. This research confirmed that operation risks management definitely had an influence on returns of the banks. The research therefore suggested that commercial banks should ensure that risk factors are handled appropriately because changes in such risks bring about devaluation of current thereby affecting the performance of bank. However, the study did not put into consideration other forms of financial institutions like SACCOs which have embrace the Front Office Services Activities (FOSA) so as to member's needs.

From this study results, a linear regression equation which may be used to foresee level of financial performance of SACCOs for a one standard deviation improvement in financial risks management can be expressed as:

$$FP = 1.472 + .549LRM + .465CRM + .581ORM + \varepsilon$$

Where:

FP = Financial performance of SACCOs

1.472 = Constant

.549, .465, .581 = Slope coefficients

LRM = Liquidity risks management

CRM = Credit risk management

ORM = Operational risks management

$\varepsilon$  is the error term

The regression model showed that a one standard deviation improvement in liquidity risks management, would lead to .549 improvements in financial performance of SACCOs. An improvement by one standard deviation in credit risk management would lead to improvement of financial performance of SACCOs by .465. The model shows that a one standard deviation improvement in operational risks management leads to an improvement of financial performance of SACCOs by .581.

## 5. Summary of the Study Findings

The study outcome indicated that there was a positive and strong relationship between financial risk management (liquidity risks management, credit risk management and operational risk management) and financial performance in that they had  $R = .786$ . This study outcome in the model summary showed that financial performance of SACCOs largely depended on financial risks management since 61.8% of their financial performance was being explained by financial risks management ( $R^2 = .618$ ). The value of adjusted  $R^2 = .606$  showed how well the model generalizes the predictability. The reduction (about  $.618 - .606 = .12\%$ ) showed that if the model was derived from the population rather than a sample, it would account for about 12% percent less variance in the results.

Coefficients table outcome displays that all indicators of financial risk management (liquidity risks management, credit risk management and operational risk management) had optimistic and substantial influence on financial performance of SACCOs as follows, liquidity risks management had positively and significantly influenced on financial performance of SACCOs ( $\beta = .549$  and  $p\text{-value} = .007$ ), credit risk management also positively affected performance of SACCOs ( $\beta = .465$ ,  $p\text{-value} = .002$ ), operational risk management on the other hand had a positive effect on financial performance of SACCOs in Nairobi County ( $\beta = .581$ ,  $p\text{-value} = .004$ ).

## 6. Conclusions

Now that the study regression analysis outcome revealed that there was an important and constructive influence of financial risks management (liquidity risks management, credit risk management and operational risk management) on performance of SACCOs because  $p\text{-value}$  was not more than .05, study draws conclusion that financial risks management (liquidity risks management, credit risk management and operational risk management) had an influence on financial performance of SACCOs. This has the implication that SACCOs should increase on the usage of financial risk management in their operations since it has been found that financial risks management (liquidity risks management, credit risk management and operational risk management) had an influence on financial performance of SACCOs.

## 7. Recommendations

The research recommends that SACCOs would increase on the usage of financial risk management (liquidity risks management, credit risk management and operational risk management) in their operations since it was found out by this study that financial risks management (liquidity risks management, credit risk management and operational risk management) had an influence on financial performance of SACCOs.

## 8. References

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