FIRM CHARACTERISTICS AND PROFITABILITY OF SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN LAIKIPIA COUNTY, KENYA

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DECLARATION

This research project is my original work and has not been presented for the award of a degree in any other University

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DEDICATION

This research is devoted to my mum Ms. Helen Muhiato for the unwavering love and the incomparable penance she has made for us to realize our dreams; my mentor Mr. Abel Marite who has been a reliable anchor and a key motivator in my post-secondary education journey; my grandparents for their ineffable support; my dad Mr. Stanley Gitumbi for his resolute assurance in me; my sister Pauline Gitumbi for always providing me with a shoulder to lean on and my progenies Amarisa and Hans for providing me with a great deal of motivation.

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OPERATIONAL DEFINITION OF TERMS

Asset Base	The total sum of a Company's underlying assets which give the institution its value are referred to as its "asset base," which is equivalent to the total assets invested or loaned.
Capital Structure	An organization's precise blend of equity and debt which is used to finance its expansion and processes is its capital structure. It's herein measured using capital adequacy ratio.
Firm Age	Firm age is herein referred to the time since a company was founded
Firm Size	The size of a company's operations is referred to as its firm size. It's habitually founded on factors like generally speaking deals, resource worth, labor force size, or volume of organization; It's herein measured using number of shareholders.
Leverage	Is an investing strategy that particularly uses borrowed funds, or a variety of financial instruments, to raise the possible return on an investment.
Liquidity	is the effectiveness of converting an asset into quick cash without changing its market value; this is determined by dividing the liquid assets of SACCOs by the total amount of deposits and long-term loans.
Firm Characteristics	In terms of how it does business and what it does, a firm's characteristics set it apart from others. They describe the firm's inherent characteristics or physical dimensions.
Profitability	It's the degree to which a firm or activity yields profit or financial gain. It is the ratio of an organization's profit to its costs and measures a firm's efficiency.
Return on Equity	Businesses use a financial ratio called Return on Equity (ROE) to determine how successful they are. ROE surveys an organization's productivity in the wake of deducting the value expected to achieve that benefit, it fills in as a measure of productivity of that association.

ABBREVIATIONS AND ACRONYMS

CSR	Corporate Social Responsibility
DCI	Department of Criminal Investigations
DTS	Deposit Taking SACCO Societies
EBIT	Earnings Before Interest and Tax
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EBITDAR	Earnings Before Interest, Taxes, Depreciation, Amortization and Restructuring Costs
ICA	International Co-operative Alliance
IFRS	International Financial Reporting Standard
LACCOSOF	Laikipia County Cooperatives Societies Forum
Non-DT-SACCOs	Non-Deposit-Taking SACCOs
Non-WDT-SACCOs	Non-Withdrawable Deposit-Taking SACCOs
NSE	Nairobi Securities Exchange
ROA	Return on Assets
ROE	Return on Equity
SACCO	Savings and Credit Cooperatives Organization
SASRA	SACCO Societies Regulatory Authority

ABSTRACT

The profitability of Savings and Credit Cooperative Societies (SACCOs) in Kenya has shown inconsistent trends despite their critical role in promoting financial inclusion and economic empowerment. In Laikipia County, some SACCOs have experienced declining profits or ceased operations due to competition, financial constraints, and poor management practices. The literature review stated that there was plenty study that had been completed on diverse entities to assess the connection between company attributes and profitability. Despite previous studies, there were still unanswered questions regarding the impact of company characteristics on profitability, highlighting the need for further research in distinct contexts and settings. This study's primary goal was to investigate how a firm's features (firm age, liquidity, capital structure and firm size) affected profitability in Laikipia County SACCOs. The study's theoretical foundation was based on the pecking order, agency and information signalling theories. The research employed a cross-sectional study design that incorporated both descriptive and analytical research methods. The anticipated information from the SACCOs financial reports for the years 2018, 2019, 2020, 2021, and 2022 was obtained via filling in a secondary data collection tool. The study adopted selected and stratified sampling designs to get a sample size of 43 out of the 150 SACCOs as listed in Department of Trade, Tourism and Co-operatives, County Government of Laikipia for the period 2018 to 2022. The study adopted causal research design and utilized secondary data which involved time series and cross-sectional attributes; data was analysed using descriptive analysis. A variety of diagnostic tests, including multicollinearity, heteroskedasticity, and random effect tests, were performed on the statistical analysis using data panel regression and independent t-tests. The regression model explained 71.8% of the variation in profitability ($R^2 = 0.718$). Firm size ($p = 0.004$), liquidity ($p = 0.011$), capital structure ($p = 0.037$), and firm age ($p = 0.026$) were all found to have significant effects on profitability. The findings suggest that larger and older SACCOs benefit from economies of scale and institutional experience, while effective liquidity management and balanced capital structures enhance performance. The study's findings were shown through tabular presentation. The findings revealed that firm size, liquidity, capital structure, and age significantly influenced the profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya. Regression results showed these factors together accounted for 71.8% of the variability in profitability. Larger and older SACCOs outperformed smaller and younger ones. The study recommends updating of the existing SACCOs assessment policies to include firm size and firm age as basis of SACCOs evaluation. The study further recommends encouraging strategic asset expansion, adopting sound liquidity frameworks, maintaining optimal debt-equity balances, and utilizing organizational knowledge for improved outcomes. In conclusion, the research underscores the importance of effectively managing firm-specific characteristics to ensure the long-term financial health and growth of SACCOs.

CHAPTER ONE

INTRODUCTION

1.1 Background of The Study

Profitability is a cornerstone of business performance and a key indicator of financial success. It reflects an organization's capacity to generate earnings relative to its resources, thus determining its sustainability and long-term growth (Pacific Crest Group, 2023). As one of the most critical financial objectives, profitability measures a firm's efficiency in utilizing its assets and managing its operations to achieve desired returns. In the cooperative sector, profitability ensures that members' contributions yield tangible benefits through improved savings, access to credit, and financial security.

Globally, cooperative organizations, including Savings and Credit Cooperative Societies (SACCOs), play a vital role in promoting financial inclusion and economic empowerment. The cooperative movement dates back to 19th-century Europe, with early models emerging in the 1840s among working-class groups seeking mutual financial support. Today, more than one billion people worldwide are members of cooperatives, and over 250 million individuals are employed by them (International Labour Organization, 2024). Their contribution to social and economic development underscores the importance of maintaining profitability to ensure sustainability and growth.

Regionally, Africa has witnessed remarkable growth in SACCOs as instruments for mobilizing savings and providing affordable credit. Studies indicate that more than seven percent of the African population is affiliated with cooperatives (The Alliance Africa, 2018). Countries such as Uganda have leveraged SACCOs to facilitate financial access, particularly among teachers and low-income earners (Nnyanja, 2017). The World Council of Credit Unions reports that

over twenty African nations have a combined total of at least 11,849 SACCOs, emphasizing their growing relevance to economic empowerment (Ahurira, 2018).

In Kenya, the cooperative movement traces its roots to 1908 in Lumbwa (now Kipkelion), initially established by white settlers (Atola & Oduor, 2017). The Cooperative Societies Act of 1966, subsequently amended to enhance regulation and governance, provides the legal framework for their operations (Mwatu & Abdul, 2018). Today, Kenya's cooperative sector is among the most vibrant globally, with more than 26,000 registered cooperatives, over 14 million members, and assets worth approximately KSh 1.3 trillion (KUSSCO, 2023). SACCOs are therefore key contributors to national development, aligning with Kenya Vision 2030, which envisions a prosperous and globally competitive nation. They promote financial intermediation, enabling the transformation of savings into productive investments that stimulate economic growth (Republic of Kenya, 2022).

Profitability in SACCOs is influenced by several firm-specific characteristics such as firm size, liquidity, capital structure, and firm age. These attributes determine the financial stability, operational capacity, and sustainability of cooperative societies. Larger SACCOs often benefit from economies of scale that enhance profitability, while liquidity ensures the ability to meet short-term obligations and support lending operations. Capital structure decisions, particularly the mix of debt and equity financing, directly affect earnings and financial flexibility, whereas firm age reflects accumulated experience, institutional stability, and managerial competence (Kinyua, 2022; Kanda et al., 2019; Kartiningsih & Daryanto, 2020; Kwaltommai et al., 2019). Understanding how these firm characteristics influence profitability is therefore essential to strengthening the financial performance and competitiveness of SACCOs in Laikipia County and beyond.

Kinyua (2022), firm characteristics serve as fundamental drivers of business activities and are key determinants of a firm's success and performance. This study focuses on four major firm characteristics: firm size, liquidity, capital structure, and firm age. Firm size and firm age have been found to positively influence financial performance, as established by Kwaltommai et al. (2019). Liquidity, according to Kartiningsih and Daryanto (2020), has a significant positive effect on profitability, indicating that firms with adequate liquidity can meet their short-term obligations and enhance operational efficiency. Capital structure decisions, as observed by Kanda et al. (2019), directly influence a firm's earnings and its competitive position in the market. Collectively, these firm characteristics are expected to play a critical role in determining the profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya.

1.1.1 Firm Characteristics

Firm characteristics have influence on a firm's profitability; poor management of leverage, liquidity and asset structure can make a firm lose its competitive nature in the market(Ochola, 2018). Firm characteristics are the drivers of day-to-day business relations, and they straightforwardly affect the company's profitability, (Seran, 2022). They may be financial or non-financial and influence the firm's growth and financial performance. According to Kartiningsih & Daryanto, (2020) A firm's age, size, leverage, asset structure,, audit quality and family control are some of its features. A more detailed explanation about firm characteristics is revealed by Smith *et al.*, (2020) who notes that they are classified into market, capital and structure related variables. Firm age, firm size and ownership are structure-related; industry type, market environment and environmental uncertainties are market related whereas capital intensity and liquidity constitute the capital related variables.

The internal firm characteristics are controllable by the firm's management whereas the external can't be controlled by the firm's management. Firm age, firm size, liquidity and capital structure are internal- financial based characteristics; they may be obtained by looking through the Laikipia County's SACCOs financial records. Government or competition are external firm characteristics that may affect profitability; their impact is experienced by all firms in the same environment unlike internal firm characteristics which help to distinguish the firms from each other. Certain firm characteristics has been linked with profitability for instance firm size, firm age, liquidity, leverage, Charles *et al.,* (2018) and capital structure, (Kanda *et al.,* 2019).

Corporate liquidity is a phrase that alludes to the capacity of an organization to fulfil its temporary monetary requirements. A company may not be able to pay dividends to its shareholders even though it is making a lot of money. Burksaitiene & Draugele, (2018) study suggests that the greater equity utilized in an institute's capital structure, the slighter is the liquidity menace for the organization, while the more commitment capital is utilized - the menace is higher. An institution should be in a liquid state if it can meet its financial commitments on time and have a good chance of developing.

Firm size has been considered as a crucial element that affects the financial structure of an entity and an important variable which is related to the firms leverage ratios, (Jahidur, 2021). Total sales, total number of workers, total assets, and market capitalization are some indicators of a firm's size. Firm size measures incorporate absolute sales, absolute assets, number of representatives and bazaar capitalization, (Hashmi *et al..,* 2020). From the economies of scale view that illustrates the positive stimulus that firm size has on cost of production that is reduced, it's evident that its impact on profitability is positive too. However, different studies have given mixed results on the relationship of firm size and profitability which has left opportunities to explore and understand the concept (Hashmi *et al.,* 2020). According to Kirimi *et al*., (2017),

firm size influences the loan tenure a firm offers; many medium and small size firms have low cash reserves and are exposed to sudden financial threats like high default rate by key debtors or bankruptcy.

According to AI and The LinkedIn community, (2023), the blend of equity and debt that an entity utilizes to fund its operations and expansion is known as its capital structure. According to Seaman *et al.,* (2018), an institute finances its' general operations and expansion using a variety of funding sources which includes debt (borrowed) capital and equity (ownership) capital (Alikouzay, 2023). To determine the ideal capital structure, it is critical to consider the abundance augmenting objective which is subject to the institution's performance as well as financial distress costs; they include reorganization cost, legal fees and the opportunity cost that is affiliated with lost profits and bankruptcy proceedings, (Mwatu & Abdul, 2018). According to Atrill, (2020), majority of small-scale enterprises do not manage their working capital well as much as they invest more in current assets, this is a major basis for their immense failure rates as compared to large business. Leverage ratio has an impact on the profitability of the SACCO's because the principal and interest payment take a significant amount of the SACCO's cash flows, (Odondi, 2022).

A being's or thing's age is how long it has been around; while the age of a company is the number of years after its incorporation. Aging and performance go into opposite directions when examined on living organisms; the question arises whether firms too decline in their performance as their age increases (Jahidur, 2021). Contrary to the findings by Jahidur that stated 'as firms get older, profitability declines' Ariyani *et al*., (2019) highlights that SACCO'S age influences the magnitude of the firm's assets whereby the older the institute the more assets it has which gives them a wider financial base as well as trust because people prefer joining

established structures; this has a positive impact on the SACCO's profitability. Kwaltommai *et al.,* (2019) found a considerable positive connection between profitability and firm age.

1.1.2 Firm Profitability

According to Kanda *et al.,* (2019), profitability is a very significant component in every institution as it guarantees growth in shareholder funds and drives the existence of the business. It is a company's ability to produce a profit from a speculation in light of its assets in correlation with an elective venture, (James Chen *et al.,* 2023). Profitability is a very important and reliable indicator of occupational growth because it is a broad pointer of the corporations' abilities to increase their income amount and it's a fundamental concern to all people who are concerned with the firm directly or indirectly, (Charles *et al..,* 2018). It measures how well assets are utilized by a firm to generate income from its primary type of business.

Profitability analysis enables a firm to understand how its firm characteristics are impacting on its ability to thrive and exist. A firm's growth, prosperity and sustainability are mainly dependent on its profitability. It is the propellant of a firm's wellbeing, an indication of operational and managerial efficiency, credit worthiness and a basis for rating returns on investments, return on assets and the general firm's monetary outcomes. It's a proportion of a firm's proficiency as well as its definitive achievement or disappointment, (Pacific Crest Group, 2023).

There are various conventional measures for profitability. They are broadly divided into margin ratios which indicates a firm's ability to change sales into profits and return ratios which indicates an institution's aptitude to generate returns for its owners. EBITDA, Operating revenue margin, the net profit margin, gross revenue margin, the income flow margin, operating cost ratio, EBIT and EBITDAR are a few examples of margin ratios. Returns on financial

obligations, return on shareholder equity, the return on the capital invested, return on earnings retained, and return on employed capital are a few examples of return ratios, (Dorian *et al.,* 2019). Past research on firm characteristics and profitability have utilized Return on Sales which is operating profit/net sales, (Charles *et al.,* 2018; Kartiningsih & Daryanto, 2020). ROS gives insight into how much profit is generated per net sales. A higher ROS shows that a firm is improving efficiency, while a lower ROS signals imminent financial issues. Return on Equity is the most used measure by relevant studies which includes, (Boshnak *et al.,* 2021; Gichuru *et al.,* 2019; Kwaltommai *et al.,* 2019; Sashata, 2021). The proportion of net revenue minus taxes to shareholders' equity is known as return on equity. ROE= profit after tax/ shareholders equity; a higher ROE depicts an efficient firm.

Although SACCOs aren't profit oriented, the financial advantage they achieve when their revenues surpass their expenses it's referred to surplus and deficit if vice versa.

This study will adopt ROE as the profitability proxy whereas the control variables; liquidity will be proxied by SACCO's liquidity ratio, firm size will be explained by asset base, the ratio of capital adequacy will be employed to assess the capital structure and firm age will be measured by calculating time variance since a firm's registration date.

1.1.3 SACCO's in Laikipia County, Kenya

According to Gichuru *et al.,* (2019), Kenya SACCO sub sector is characterized into two levels namely the non-WDT- SACCOs and DT SACCOs. The non-WDT- SACCOs are further classified into Regulated non-WDT-SACCOs which are licenced or authorized under the SACCO societies Act to undertake SACCO business supervised and regulated by SASRA and Non-Regulated Non-WDT-SACCOs which undertakes diverse economic activities as per the objects in the by-laws and are supervised by the office of the CCD and County Cooperative Officers, (SASRA, 2023).

According to Kenya National Bureau of Statistics, (2022) there are 112 registered SACCOs out of the 144 active and listed co-operatives, which is approximately 77.78% of the over-all figure of co-operatives in Laikipia. SACCO sub sector assets totalled Kshs. 3.72 billion as of December 2018 and member loans have reached Kshs. 3.015 billion. Three SACCOs have ventured into front office service, offering services similar to those of a bank, whereas all SACCOs provide back-office services. Moreso, the numbers of inactive SACCOs in Laikipia County is alarming because over the period 2017-2021 more than 25% of the SACCOs were inactive (Kenya National Bureau of Statistics, 2022). They are a major source of funds, affordable credit and a tool in mobilization of savings for the population and their demand is increasing daily, (Otieno, 2019). Majority of the SACCOs have their headquarters within Laikipia County.

The significant increase in the number of SACCOs in the county can be attributed to effective education on the benefits of SACCOs for both companies and individuals, as noted by Muchira and Mwangi (2019). This growth is also supported by a campaign against poverty and assistance for the average citizen in the registration, establishment, and development processes provided by the Laikipia County Cooperative Office. The Laikipia County government is also supportive to the entire co-operative movement because in the current financial year they have already issued Kshs. 29.5 million as revolving fund to the institutions, (Laikipia County Co-operative Office Records). The National Government too, through the Community Development Fund in the previous regime initiated a similar revolving fund which didn't pick up accordingly as reported by the Department of Marketing and Co-operative Development. The department is in charge of progressing the Co-operative division arrangement alongside the legitimate system to work towards achievement of the public social-monetary objectives in Kenya, (Odondi, 2022).

1.2 Statement of the Problem

Savings and Credit Cooperative Societies (SACCOs) play a crucial role in promoting financial inclusion, mobilizing savings, and providing affordable credit to their members, thereby fostering socio-economic development in Kenya. Their favourable financial performance is critical since it determines sustainability, members' benefits, and the overall contribution of the cooperative sector to the economy. However, the financial performance of SACCOs, particularly in Laikipia County, has exhibited inconsistency, raising concern about their profitability and long-term viability.

Despite the positive contribution of SACCOs to financial intermediation, many have faced challenges such as increased competition from commercial banks and microfinance institutions, poor investment decisions, inadequate risk management, and weak governance structures. According to the Laikipia County Cooperative Report (2023), SACCOs' turnover has fluctuated irregularly rising by 8% in 2018, 12% in 2019, dropping by 1% in 2020, increasing by 9% in 2021, and by 7% in 2022. Similarly, profitability as measured by Return on Equity (ROE) has been erratic ranging from 2.45% in 2016 to 2.69% in 2017, falling to 2.40% in 2018, and then rising gradually to 2.65% by 2020 (Wanjiru & Jagongo, 2022). This instability raises questions about the internal firm-level factors influencing SACCO performance.

Empirically, studies have shown that firm characteristics such as size, age, liquidity, and capital structure influence profitability, though findings remain inconclusive and context-specific. Kartiningsih and Daryanto (2020) found firm age, size, and leverage to positively affect profitability among Indonesian firms, while Charles et al. (2018) reported differing effects in Nigerian consumer firms. In Kenya, Ochola (2018) revealed that leverage and asset management negatively influenced profitability, while liquidity had a positive effect. Similarly,

Atsango (2018) established that firm size, asset quality, and operational efficiency influenced the profitability of deposit-taking SACCOs. However, these studies differ in scope, methodology, and context most focusing on listed companies or deposit-taking SACCOs leaving a gap regarding non-deposit taking (non-DT) SACCOs at the county level.

Therefore, despite evidence linking firm characteristics to financial outcomes, limited empirical studies have examined how firm size, liquidity, capital structure, and firm age jointly influence the profitability of SACCOs in Laikipia County. This study seeks to bridge this contextual and empirical gap by analyzing how these firm-specific attributes shape profitability within the cooperative sector in Laikipia County. The findings will offer insights for SACCO managers, policymakers, and investors on strategies to enhance financial performance and sustainability.

1.3 Research Objectives

1.3.1 General Objective

To investigate the effect of firm characteristics on profitability of Savings and Credit Cooperatives Organizations in Laikipia County in Laikipia County, Kenya.

1.3.2 Specific Objectives

i. To determine the effect of firm size on Profitability of Savings and Credit Cooperatives Organizations in Laikipia County in Laikipia County, Kenya.
ii. To establish the effect of liquidity on Profitability of Savings and Credit Cooperatives Organizations in Laikipia County, Kenya.
iii. To examine the effect of capital structure on Profitability of Savings and Credit Cooperatives Organizations in Laikipia County, Kenya.
iv. To establish the effect of firm age on Profitability of Savings and Credit Cooperatives Organizations in Laikipia County, Kenya.

1.4 Research Hypotheses

The study seeks to test the following null hypotheses:

$H0_1$: Firm size does not significantly affect Profitability of Savings and Credit Cooperatives Organization in Laikipia County, Kenya.

$H0_2$: Liquidity does not significantly affect Profitability of Savings and Credit Cooperatives Organization in Laikipia County, Kenya.

$H0_3$: Capital structure does not significantly affect Profitability of Savings and Credit Cooperatives Organization in Laikipia County, Kenya.

$H0_4$: Firm age does not significantly affect Profitability of Savings and Credit Cooperatives Organization in Laikipia County, Kenya.

1.5 Scope of the Study

The study focused on 43 SACCOs out of the 150 registered with the Department of Trade, Tourism, and Co-operatives, County Government of Laikipia, for the period 2018 to 2022. This represented approximately 29% of the target population, providing a reliable sample for assessing the effect of firm characteristics on profitability. The five-year period was considered sufficient to capture consistent financial performance trends and variations in firm characteristics across SACCOs.

The exclusion of 2023 and 2024 was unavoidable, as complete and audited financial data for these years were not yet available at the time of the study. Using incomplete or unaudited data could have compromised the accuracy and reliability of the findings. Therefore, 2018–2022 was selected as the most recent period with verified, consistent, and comparable financial records.

Laikipia County was selected as the geographical focus because of its diversity in SACCO operations encompassing both religious and non-religious based, deposit-taking and non-deposit-taking, as well as employed persons market-oriented and non-employed persons market-oriented SACCOs (SASRA, 2020). This diversity provided a suitable context for examining how variations in firm characteristics influence profitability. Moreover, the researcher intended that the findings would help residents of Laikipia County make informed financial and investment decisions based on credible evidence from familiar institutions.

1.6 Significance of the Study

Firm characteristics and their effect on profitability occupy a central position in financial and economic literature across diverse contexts. However, empirical evidence from SACCOs within Laikipia County remains limited, presenting a knowledge gap that this study seeks to fill. By focusing on firm size, liquidity, capital structure, and firm age, the study provides new insights into how internal organizational attributes influence profitability within cooperative financial institutions in Kenya.

From a theoretical perspective, the study contributes to the body of finance theory by validating and extending the applicability of firm-level theories such as the Resource-Based View (RBV) and Pecking Order Theory in the SACCO context. It deepens understanding of how internal resources and financing decisions shape profitability among member-based financial institutions, thereby enriching empirical literature on cooperative financial management. From a practical standpoint, the findings will guide SACCO managers in identifying and managing firm characteristics that significantly affect profitability. The insights will enable informed decision-making on liquidity management, capital structure optimization, and growth strategies to enhance financial performance.

The study will also be valuable to policy makers, including the Ministry of Cooperatives and Micro, Small and Medium Enterprises Development and the SACCO Societies Regulatory Authority (SASRA), by providing evidence-based recommendations for regulatory frameworks and capacity-building initiatives to strengthen SACCO financial sustainability. Moreover, investors and development partners will find the results useful in evaluating the financial health and growth potential of SACCOs as viable investment avenues. Finally, future researchers and academicians will benefit from this study as a scholarly reference point for further investigations into firm characteristics and financial performance within the cooperative sector.

1.7 Organisation of the Study

The research was organized into several key sections. Chapter one, the introduction, provided the background, problem statement, outlined the research objectives and questions, and emphasized the significance, scope, and potential limitations of the study. Chapter two, the literature review, explored relevant theories, such as the resource-based view and the capital structure theory, and examined existing literature on the relationship between firm size, liquidity, capital structure, firm age, and profitability in SACCOs. A summary of the reviewed literature, along with identified research gaps, was presented, followed by a conceptual framework that illustrated the relationships between the key variables. The methodology section in chapter three outlined the research design, including the empirical model, target population, sampling design, data collection methods, and data analysis procedures. Chapter four presented the results and analysis of the findings, while chapter five concluded with a discussion of the findings, conclusions, and recommendations for SACCOs in Laikipia County.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a comprehensive review of literature related to firm characteristics and profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya. The review is organized to provide a theoretical, empirical, and conceptual understanding of the relationship between firm-specific factors and profitability.

2.2 Theoretical Literature

2.2.1. Pecking Order Theory

In 1961, Donaldson proposed theory based on Pecking Order; which was revised in 1984 by Majluf and Myers. It is predicated on the idea that insiders, or managers, and outsiders, or prospective capital sources, of a company, have unequal access to information. Compared to outsiders, the management are more knowledgeable about the risk, value, and prospects of the company. The data serves as the foundation for the type of funding that the management selects. According to the idea, managers pick their sources of funding according to a hierarchy. If internal financing is insufficient, they move on to external sources like debt and equity. It illustrates how managers' capital decisions might affect the profitability of the company in a positive or negative way.

According to Mwatu & Abdul (2018), businesses would prefer to issue debt over equity because the former gives a favourable indication to investors, implying that the directors are confident in the firm's profitability, while the latter indicates an absence of faith in the investment's profitability and could result to a drop in the value of the shares.

The theory illustrates the kind of financing that SACCO managers choose and supports the empirical conclusion that companies manifestly choose using internal financing sources like surplus liquid assets or retained earnings over external financing in order to maximize their profitability, (Gweyi & Karanja, 2014). It further implies that the firms that rely heavily on equity are at a higher risk than those that have established other sources of income internally.

2.2.2 Agency Theory

According to agency theory, a corporation is a loosely defined network of contracts between resource holders. As promoted by Jensen and Meckling (1976) it argues that the presence of problems in the companies is a result of an increased gap between control and ownership and the principals or owners. The agency relationship arises when one party (agent) acts and makes decisions on behalf of another, called the principal. The gap provides the agents with an opportunity to pursue their self-centred interests instead of ensuring their principals earn maximum returns on their investments; this has a direct negative effect to equity ownership. (Atrill, 2020) posits that top managers make decisions that increase their status by maximizing the firm size through creation of a large and rapidly growing firm increase their level of job security at the shareholders' cost.

The hypothesis is pertinent to our investigation as it facilitates understanding SACCOs as entities whose control is divided amongst the owners and the SACCO directors. It further proposes that the SACCO staff can have selfish interests whereas the shareholders look forward to them making decisions and acting in their interests.

Moreso, in case the SACCO is facing financial distress there is a strife resulting from the diverse investments desires alongside their consequences on the value of debt and equity between the management and the shareholders. The management would opt to capitalise the

returns contrary to the observations by Alikouzay, (2023) that payments of dividends minimize the agency problem while maximizing shareholders wealth.

More so, agency theory attracts agency conflicts between principals and agents which have implications on business ethics and corporate governance. The agency relationship also brings about agency costs, which are charges associated with the differences in the interests of the management and the stockholders, (Kinyua, 2022). To reduce agency costs, it has been argued that payment of dividends would be resourceful because it poses the management to greater scrutiny by the market although it would attract a higher risk to the firm due to increased borrowing, (Muchira & Mwangi, 2019). It comes to the conclusion that dividends significantly impact the firm's worth. In order to align management's goals with the owners' in the face of such losses, agency theory highlights the need to keep ownership and control separate, (Buluma *et al.*., 2017). It also suggests that the management should take steps to enhance the wealth of the shareholders and fully disclose their actions with the investors.

2.2.3 Information Signalling Theory

It was brought up in the year 1977 by Stephen Ross. He was persuaded that if the stock markets are efficient, the management can use their dividend policy to communicate crucial information to their target investors. It has been suggested that, despite the assumption made by most dividend models, information is not universally accessible and that, in fact, information varies, with management having access to more information than investors, leading to information asymmetry. The use of dividends and dividend fluctuations to alert investors is known as "signalling," (Godfrey, 2018).

With increasing number of SACCOs in Laikipia, majority of the shareholders have a keen eye on their firm’s dividend policy and compare it with their competitorsWhen a company pays large dividends, it indicates that it is profitable and will be able to continue paying large

dividends in the future, (Adan & Omagwa, 2018). As stipulated by John Litner and Myron Gordon in the bird in hand theory the immediate issuance of dividends or future capital gains is a major basis on which shareholders weigh the certainty of income gained from their investment, (Chen, 2018). Thus, a rise in dividends indicates that the company has reached a new level of profitability, whereas a fall in dividends indicates that the company's profitability has decreased to the point where it can no longer sustain the previous payout rate.

This theory was directly informative to this study because SACCOs are profitable institutions which are expected to give back to their investors who need to understand the different ways in which they can attain maximum gains from their investment. The choice to declare a dividend directly affects the profitability of the company; the signals it sends to investors and shareholders can either boost or lower their confidence, which in turn influences the amount of capital the company receives.

2.2.4. The Modern Theory of Financial Intermediation

Allen & Santomero (1998) developed the theory after reviewing the conventional theories that were previously in place and concentrated on asymmetric information and transaction costs; they had been designed to consider institutions which take deposits, channel funds to firms and issue insurance policies. They noted the decline in asymmetric information and transaction costs whereas the rate of intermediation was increasing hence the modern theory shifted its focus to participation costs and risk trading. The traditional theory supported the existence of financial institutions because the information available in the financial market was imperfect, there were many transaction costs and intermediaries serve to reduce informational asymmetries and transaction costs. However, due to the financial and technological innovations, financial markets deregulation and changes in the household portfolios compositions the relevance of information asymmetry and transactions costs was questioned,

and the existence of financial institutions ceased to possess a theoretical basis up to the creation of the contemporary theory of financial intermediaries, (Wensveen & Bert, 2024).

Mwangi (2019) states that financial intermediation oversees the formation of institutional investors in the financial market. Financial intermediaries have encouraged savers and gained their confidence because they protect their assets and provide efficient asset management services as well as provide a pool of assets for lenders to borrow from assets required for their advancement in business and other purposes. Intermediation is the act of "matching" borrowers with lenders by a third party. A successful match rewards the borrower for taking calculated risks and being entrepreneurial, the lender for receiving a positive rate of return, and the third party for facilitating the successful match, (Lelenguiya & Ambrose, 2022).

The theory is relevant to the studies because SACCOs are financial intermediaries and form an important part of the county's economic system; they help to maintain constant flow of cash. Their contribution to financial intermediation is evident in that SACCOs' success leads to a successful economy and their insolvency greatly leads to stressed economy. SACCO's receive members' deposits amongst other sources of income which they issue out to their members as loans and also act as a channel for members to transfer assets between each other. Firm characteristics can have a great impact on the SACCO's intermediation role which may in turn affect profitability.

2.3 Empirical Literature

Empirical literature provides evidence from prior studies conducted on the relationship between firm characteristics and profitability in different sectors, including financial institutions and SACCOs. This section reviews existing research findings on how firm size, liquidity, capital structure, and firm age influence profitability.

2.3.1 Firm Size and Profitability

Jahidur (2021) examined the effect of business size and age on profitability among firms listed on the Chinese Stock Market. Using data from 50 randomly selected firms between 2008 and 2018 and employing a fixed effects model, the study found that firm size had a positive and significant relationship with profitability, whereas firm age had a negative effect. The author concluded that larger firms enjoy economies of scale that enhance profitability. However, the study focused on listed corporations in China, limiting its applicability to smaller, member-based financial institutions such as SACCOs in Kenya.

Similarly, Menicucci and Paolucci (2017) analyzed firm characteristics and profitability among 2,366 hotel firms in Italy over a nine-year period (2008–2016). Their findings revealed that larger firms recorded higher profitability due to enhanced operational efficiency and market influence. Nonetheless, the study was confined to the hospitality sector, which differs structurally from cooperative financial institutions. Locally, Karuga (2017) explored the relationship between firm size and financial performance among 39 DT-SACCOs in Kenya and found that firm size had a significant and positive effect on return on assets (ROA). Despite using regression analysis, the study ignored non–deposit-taking SACCOs and did not control for firm age, creating a contextual gap that the current study addresses by focusing on all SACCO categories in Laikipia County.

2.3.2 Liquidity and Profitability

Ochingo and Muturi (2018) assessed how firm characteristics affect the financial performance of SACCOs in Kenya. Using descriptive and regression analyses on 164 licensed SACCOs, their findings revealed a strong positive relationship between liquidity, operational efficiency, and profitability. The implication was that maintaining adequate liquidity enhances a SACCO's ability to meet members' financial needs and improve returns. Conversely, Mwangi (2020)

investigated DT-SACCOs in Nairobi County and established that liquidity had no significant impact on profitability, suggesting that excess liquidity could lead to resource underutilization. These conflicting findings indicate the need for further contextualized analysis, particularly in rural-based SACCOs such as those in Laikipia County, where liquidity management structures differ from urban financial cooperatives.

2.3.3 Capital Structure and Profitability

Lilian (2016) analyzed the relationship between capital structure and profitability among 67 firms listed on the Nairobi Securities Exchange from 2011 to 2015. The results showed an insignificant relationship between profitability and capital structure, suggesting that leverage decisions had minimal effect on firm returns. However, the study's concentration on listed firms limits its generalizability to SACCOs, which operate under different financial regulations and ownership frameworks. Similarly, Mwangi (2020) found that capital adequacy had no significant influence on profitability among DT-SACCOs, while Ochingo and Muturi (2018) reported that capital sufficiency had a positive and significant effect. These contradictory results underscore the absence of consensus on the capital structure–profitability nexus within the cooperative sector, justifying further empirical validation in Laikipia County.

2.3.4 Firm Age and Profitability

Firm age has also been explored as a determinant of profitability. Jahidur (2021) found a negative relationship between firm age and profitability, arguing that older firms may experience structural rigidity that limits innovation and profitability growth. In contrast, Karuga (2017) reported a positive but insignificant effect of firm age on the profitability of DT-SACCOs in Kenya. These mixed results highlight a methodological gap, as most studies have relied on limited time series and have not accounted for institutional age in non-listed financial

cooperatives. Therefore, examining the influence of firm age on profitability among SACCOs in Laikipia County can contribute new evidence to the ongoing debate.

Empirical evidence shows that firm characteristics such as size, liquidity, capital structure, and age influence profitability, though the direction and magnitude of their effects remain inconsistent. Most foreign studies (e.g., Jahidur, 2021; Menicucci & Paolucci, 2017) were conducted in developed economies with distinct institutional frameworks. Local studies (e.g., Mwangi, 2020; Karuga, 2017; Ochingo & Muturi, 2018) mainly focus on DT-SACCOs or urban contexts, overlooking rural SACCOs in counties such as Laikipia. Furthermore, methodological gaps exist in the use of limited indicators for profitability and failure to apply panel data techniques across multiple years. The current study therefore bridges these gaps by analyzing the combined effects of firm size, liquidity, capital structure, and firm age on the profitability of SACCOs in Laikipia County, Kenya.

2.4 Summary of Literature Review and Research Gaps

Based on the informative study described in this section, the link between firm characteristics and profitability is loosely defined with many researchers recommending further studies on the subject. Pecking order theory, agency theory, information signalling theory, and financial intermediation theory are just a few of the theories that have been examined by the study. All of these theories suggest that management choices that lead to distinct firm characteristics have a big impact on profitability.

Past research has not provided a clear picture of how firm features affect profitability. The existing body of knowledge is diverse and has mentioned various firm characteristics and profitability from distinct perspectives. The main intention of cooperative society's formation is to empower their members through credit and savings hence they are key components in

financial intermediation. Their numbers are increasing every day and the demand for their services is currently very high. However, as the number of SACCOs' formation is very high, there are also a good number of them that are retreating from the public due to various challenges related to insolvency whereas others are growing and glowing. In light of this, it is necessary to investigate how firm features affect SACCO profitability, which in turn affects the organization's stability and ability to achieve its objectives.

Table 2.1: Empirical Review

	Author(s) and Context	Objectives	Key Findings	Research Gaps	How the current study will fill the gaps
1.	Jahidur, (2021); The bearing of a institution's age and size on its profitability	To assess the connection between a company's age, size, and profitability in the Chinese stock market	The data analysis's findings indicate that a business's profitability is positively correlated with firm size but negatively correlated with firm age.	The study was specific to China.	This study enhanced the findings of Jahidur as it gave other findings of almost similar variable from Laikipia County.
2.	Menicucci & Paolucci, (2017); The Impact of Firm Features on Financial Performance: Evidence from Italy	To investigate the factors influencing profitability in the Italian hospitality industry during the period 2008-2016	Larger hotels experience greater profitability whereas high cash and sales volatility leads to lower profit.	There is need to consider firm specific factors to evaluate the profitability of a firm	The study focused on some firm specific factors which included firm size, capital structure, dividend policy and their relationship to profitability in SACCOs.

3.	Musoke & Nyonyintono, (2017), Profitability effectiveness and financial Controls of Uganda's credit and savings cooperatives	To find out how the budgeting process and participatory budgeting impact the performance and profitability of a few SACCOs in the Wakiso region of Uganda.	Participatory budgeting has no appreciable impact on certain SACCOs in Uganda's performance or profitability.	The study focused on SACCOs in Wakiso District, Uganda only	This study looked into SACCOs located in Kenya, Laikipia County.
4.	R. Mwangi, (2020); The impact of company features and profitability on c ooperative societies that accept deposits, save money, and provide credit inside Nairobi, Kenya.	To look at the tie between company characteristics and SACCO profitability in Nairobi, Kenya.	According to the study, SACCOs in Nairobi, Kenya had a favourable correlation between profitability and company size, whereas there was no significant correlation between liquidity and capital adequacy.	The study assessed how firm factors affected SACCOs under SASRA's exclusive supervision's financial performance.	This study had a wider focus because it encompassed SACCOs that are not under SASRA's supervision.

5.	Ochingo and Muturi (2018); impact of business attributes on Kenyan SACCOs' financial performance	To investigate how business attributes affect the financial performance of Kenyan SACCOs	The study found that the monetary results of SACCOs in Kenya was significantly and favourably correlated with asset quality, capital adequacy, operational efficiency, and liquidity.	The study examined the connection between SACCO financial performance and company attributes in Kenya, a sizable country with a variety of financial performance problems.	The association between company characteristics and SACCO profitability in Kenya's Laikipia County was the specific focus of this study.
6.	Karuga (2017); DT-SACCOs' financial performance and firm size.in Kenya	To ascertain the connection between Kenyan deposit-taking SACCOs' financial performance and business size.	Age and liquidity showed a positive association with financial success; the only factors that considerably correlate with it are company size and capital adequacy.	The study concentrated on business size and DT-SACCOs in Kenya and was also based on financial performance.	The study shed additional insight on the relationship between the profitability of DT and non-DT SACCOs and company features such as business size, age, capital structure, and liquidity.

7.	Lilian (2016); The Effect of Capital Structure on Nairobi Securities Exchange-Listed Companies' Earnings	To ascertain the capital structure's effect on the profitability of firms listed on the Nairobi Securities Exchange	The listed firms' capital structure, firm size leverage and profitability are all uncorrelated.	The study suggested that in order to reach a reasonable conclusion, comparable research be carried out in other domains.	This study concentrated on SACCOs in Laikipia County.

Source: Researcher (2025)

2.5 Conceptual Framework

The conceptual structure that Figure 2.1 depicts below is a hypothesized outline that graphically depicts the association between firm characteristics and profitability of SACCOs. The profitability of the SACCOs in Laikipia County serves as the study's dependent variable in Laikipia County. In this research we use firm characteristics as an independent variable that is assessed through the use of firm size, liquidity, capital structure and firm age.

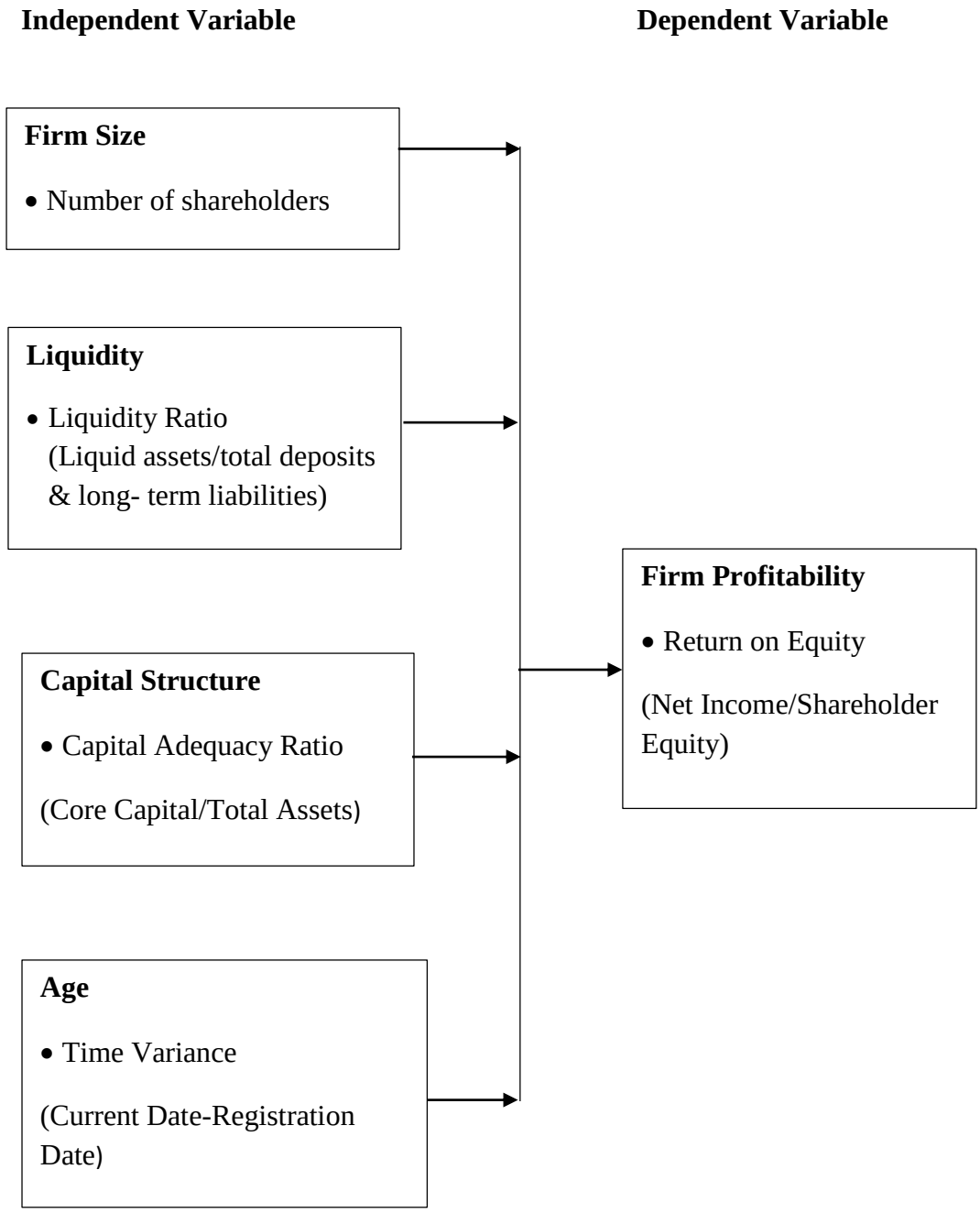

Figure 2.1 Conceptual Framework

Source: Researcher (2024)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the procedures and techniques that were employed to conduct the study on Firm Characteristics and Profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya. It outlines the overall research design and explains how the study was systematically organized to achieve the stated objectives. Specifically, the chapter discusses the research design, target population, sampling procedures, data collection instruments, data collection procedures, and data analysis techniques that were adopted.

3.2 Research Design

In order to provide accurate answers to the research questions, the study adopted an appropriate research design that guided the collection, measurement, and analysis of data related to the study variables. The research design outlined the relationship between the dependent and independent variables and provided a systematic framework for addressing the research problem and testing the study hypotheses. It ensured that the data obtained were relevant, valid, and reliable for drawing meaningful conclusions regarding the effect of firm characteristics on the profitability of SACCOs in Laikipia County. According to Creswell (2014), a research design serves as a blueprint that connects the research questions to the data collection and analysis processes.

Descriptive study design is a scientific method that involves observing and characterizing a subject without attempting to alter it in any way (Githogori *et al.,* 2018). Descriptive research design was used in this study since it made it easier to recognize and describe the true characteristics of the study issue without changing the variables being studied. It also made it

possible to gather the necessary data on a number of predetermined variables at one time. The aim of the research was to look into the connection between profitability and firm characteristics, which were divided into two sets of variables: independent and dependent.

3.3 Target Population

Target population refers to the entire set of individuals, objects, or entities that share common observable characteristics from which a researcher can draw samples for measurement. It encompasses all elements that meet specific criteria relevant to a given study (Murkomen, Njeje, & Cherono, 2017). In contrast, a target population is a specific subset of the general population that a researcher intends to focus on for observation and analysis. It represents the group from which the study's findings are meant to be generalized (Wawire, 2021). For this study, the target population comprised 150 Savings and Credit Cooperative Societies (SACCOs) that were licensed by the Laikipia County Government as of 2023.

(Laikipia Cooperatives report, 2023)

3.4 Sampling Design

The procedure for choosing a population member to make inferences about particular characteristics from the chosen population is known as sampling, (Lelenguiya & Ambrose, 2022). To secure the 43 SACCOs from the selected wards representatively, this constituted 29% of the target audience; stratified random sampling was utilized.

The researcher adopted (Atsango, 2018), formula in computing the sample size.

$$n = \frac{z^2pqN}{e^2(N-1) + z^2Pq} = \frac{1.96*1.96*0.8*0.2*150}{(0.1*0.1*(150-1)) + (1.96*1.96*0.8*0.2)} = \frac{92.1984}{0.98716} = 43.807$$

Where:

N is the population size and n is the sample size

e is the margin of error taken at 10 %

The population dependability is p . It's equivalent to 0.8 whereas q= (1-p)

z is the standard dispersion at 0.05 degree of significance in a way that z=1.96

3.5 Data Collection Instrument

Two categories of data exist; the primary and secondary data which are as follows: Primary data are those that are initially gathered using methods like questionnaires and interviews. Secondary data refers to the information obtained from media outlets, periodicals, publications, books, and online sources just to mention a few, (Wawire, 2021). Secondary data from county government cooperative offices, which maintained copies of SACCO financial accounts and reports in Laikipia County, was utilized in this study regarding the variables of interest. A secondary data collecting sheet was utilized to gather information in a more objective and standardized manner.

3.5.1 Validity of Research Instrument

The investigator ensured that financial reports bore the Cooperatives Commissioner's seal, which attested to the accuracy and authenticity of the data contained therein, in order to guarantee the legitimacy and trustworthiness of the research tool. Furthermore, the researcher used Microsoft Excel to recalculate the figures to avoid any doubt. Additionally, the researcher consulted the supervisor, and the recommendations provided were used to improve the final data collection sheet.

3.6 Data Collection Procedure

The researcher first obtained clearance from the Graduate School of the university, authorizing the commencement of the study. Thereafter, the researcher applied for and obtained a research permit from the National Commission for Science, Technology and Innovation (NACOSTI) to

ensure compliance with national research regulations. Upon securing the necessary approvals, the researcher formulated a secondary data collection sheet to facilitate systematic data gathering from reliable secondary sources. The data collection process involved reviewing approved financial statements available at the County Cooperative Office, the selected SACCOs' offices, and online repositories, including SASRA and the respective SACCOs' official websites. The researcher then notified the County Cooperative Officer in writing about the intention to conduct the study and requested authorization to access relevant financial data from the respective offices. This procedure ensured that data collection adhered to both ethical and administrative requirements.

3.7 Data Analysis and Presentation

According to Bhatia (2018), data analysis is a systematic process undertaken by researchers to derive meaningful insights from collected data, thereby aiding in interpretation and informed decision-making. The choice of analytical technique depends on the nature of the data, whether quantitative or qualitative. In this study, quantitative data analysis was employed since the variables: profitability, firm size, liquidity, capital structure, and firm age were numerical in nature.

The collected data was first validated and cleaned to eliminate inconsistencies, missing values, and outliers before being coded for statistical analysis (Bhatia, 2018). Descriptive statistics, including means, standard deviations, frequencies, and percentages, were used to summarize and describe the characteristics of the study variables (Wafula, 2020). Inferential statistics were applied to determine relationships and the significance of the effects of firm characteristics on profitability.

Specifically, the study employed Pearson correlation analysis to test the strength and direction of relationships among variables, and multiple linear regression analysis to estimate the effect

of firm size, liquidity, capital structure, and firm age on the profitability of SACCOs. The regression model adopted followed the general linear form:

$$\mathbf{Y= \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \varepsilon_{4it}}$$

ε the error term.

Where Y= Firm Profitability

$\mathbf{X_1}$ = Time Variance

$\mathbf{X_2}$ = Asset base

$\mathbf{X_3}$ = Current ratio

$\mathbf{X_4}$ = Leverage ratio

$\boldsymbol{\beta_0}$ = Constant term

$\boldsymbol{\beta_1, \beta_2, \beta_3}$ **and** $\boldsymbol{\beta_4}$= regression coefficients,

ε = Error term

i = Firm

t = Time covered

Analysis of Variance (ANOVA) was also used to test the overall significance of the regression model. The results were presented using tables and charts for clarity and ease of interpretation.

3.8 Diagnostic Tests

To confirm that the assumptions of panel regression analysis are satisfied, several diagnostic tests will be conducted prior to inferential analysis. These tests will ensure the validity, reliability, and robustness of the estimated model.

Specifically, multicollinearity will be tested using the Variance Inflation Factor (VIF) to detect potential intercorrelations among the independent variables. A VIF value below 10 will indicate that multicollinearity is not a serious concern. Heteroskedasticity will be examined using the Breusch–Pagan or White test to determine whether the variance of the residuals is constant across observations.

If heteroskedasticity is detected, robust standard errors will be applied to correct it. Additionally, the Hausman specification test will be performed to decide between the fixed effects and random effects models, ensuring that the most appropriate model for the panel data is selected. These diagnostic tests will enhance the credibility of the regression results and support valid statistical inferences regarding the relationship between firm characteristics and profitability of SACCOs in Laikipia County, Kenya.

3.9 Ethical Considerations

The researcher had a keen eye on the research ethical norms, which included truth, knowledge, and error avoidance. She abided by the established guidelines for research projects in Kenya, and the process at Kenyatta University involved obtaining an introduction letter from the educational institution. The academic submitted the university introduction letter to the Cooperatives Office and SACCOs to explain the research details and then ensured that she obtained informed consent while assuring them of the procedures that were undertaken to enhance confidentiality. Intellectual property was respected, and unpublished data, results, or methods were not used without permission. Proper credit and acknowledgment for all contributions to the research were accorded to avoid plagiarism.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter decisively presents the results and analysis of the study examining the relationship between firm characteristics and profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya. It provides a comprehensive account of how firm size, liquidity, capital structure, and firm age significantly influence the financial performance of SACCOs.

4.2 Descriptive Statistics Results

Table 4.1 Descriptive Statistics of Firm Characteristics and Profitability of SACCOs in Laikipia County

Variable	Minimum	Maximum	Mean	Standard Deviation
Firm Size (Number of Shareholders)	15.00	6209.00	762.64	1276.78
Firm Liquidity (Liquid Assets/Total Deposits)	0.0028	1.4335	4.091	0.241
Firm Liquidity (Long-term Liabilities)	107,143.00	119,986,187.00	4.122	0.362
Capital Structure (Core Capital/Total Assets)	-0.34	0.24	0.087	0.0908
Firm Age (Years)	1.00	36.44	15.44	9.39
Profitability (Net Income/Shareholder Equity)	0.00	35.31	2.16	4.27

Source: Survey Data (2025)

The descriptive statistics reveal important insights into the characteristics and financial performance of SACCOs in Laikipia County. The firm size, measured by the number of shareholders, ranged from 15 to 6,209 with a mean of 762.64 and a high standard deviation of 1276.78. This indicates a wide variation in membership size, suggesting a diversity in scale among SACCOs, which could lead to significant differences in managerial structure, resource capacity, and ultimately, financial outcomes.

Firm liquidity, measured by the ratio of liquid assets to total deposits, shows a mean of 4.091 with values ranging from as low as 0.0028 to 1.4335. The standard deviation of 0.241 implies moderate variability, indicating that while some SACCOs maintain healthy liquidity positions, others operate with minimal liquidity buffers. Long-term liabilities, another liquidity-related measure, also show a wide range (from KES 107,143 to over KES 119 million) with a mean of 4.122 and a standard deviation of 0.362, further underlining substantial differences in financial obligations across the SACCOs.

Capital structure, captured through the core capital to total assets ratio, had a mean of 0.087 with values ranging from -0.34 to 0.24 and a standard deviation of 0.0908. The negative minimum indicates that some SACCOs may have been technically insolvent or heavily leveraged during the study period. The relatively low average suggests that most SACCOs operate with conservative capital structures, potentially limiting their capacity to take on risk and invest in growth opportunities.

Firm age ranged from newly formed entities (1 year) to long-established SACCOs with up to 36.44 years of operation. The average age of 15.44 years and a standard deviation of 9.39 shows that while a number of SACCOs are mature with significant operational history, a considerable proportion are still in their growth or developmental stages.

Profitability, assessed through the return on equity (Net Income/Shareholder Equity), had a mean of 2.16 with a maximum of 35.31 and a standard deviation of 4.27. This wide dispersion suggests that while some SACCOs are highly profitable, many struggle to generate strong returns for their members. The low average further emphasizes potential structural inefficiencies or limited income-generating avenues in the majority of SACCOs.

Overall, the descriptive statistics indicate considerable heterogeneity among SACCOs in Laikipia County in terms of size, liquidity, capital structure, age, and profitability. These differences are essential for understanding the effect of firm characteristics on profitability, and suggest that strategies to improve performance may need to be tailored according to the unique profile of each SACCO.

4.2.1 Firm Size

The first study objective sought to determine the effect of firm size on the profitability of SACCOs in Laikipia County, Kenya. Firm size was measured using the indicator the number of shareholders. Table 4.1 presents the findings related to this objective.

The results indicate that the number of shareholders among SACCOs in Laikipia County had a minimum value of 15 and a maximum of 6,209, with a mean of 762.64 and a standard deviation of 1,276.78. These values reflect a wide disparity in firm size across SACCOs in the region. A higher number of shareholders often indicates a larger member base and potentially greater capital mobilization, which can positively impact profitability. Larger SACCOs may benefit from economies of scale, enhanced resource pooling, and better access to investment opportunities. This observation aligns with the findings of Munene (2017), who established a positive link between firm size and financial performance in cooperative financial institutions.

Moreover, SACCOs with a larger membership base may experience improved liquidity positions and capital adequacy, essential drivers of profitability. However, excessively high shareholder numbers without proportional management structures can lead to inefficiencies. Mutai (2021) similarly observed that organizational characteristics such as size and capital structure significantly influence profitability, noting that optimal firm size contributes to improved operational efficiency and financial outcomes.

Mungiria and Jagongo (2022) emphasized the importance of firm-specific factors in financial institutions, including liquidity and capital structure, which directly influence profitability and risk exposure. Their study reinforces the argument that SACCO profitability in Laikipia County is not only influenced by external market conditions but is also heavily dependent on internal firm characteristics, such as firm size, liquidity, capital structure, and firm age.

4.2.2 Firm Liquidity

This research sought to determine how liquidity affects the profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya. Liquidity was measured using ratios such as liquid assets to total deposits and the level of long-term liabilities. The results for the period 2018 to 2022 are tabulated in table 4.1.

The findings reveal that liquidity, measured by the ratio of liquid assets to total deposits, had a mean of 4.091 and a standard deviation of 0.241, with a minimum value of 0.0028 and a maximum of 1.4335. These results suggest that SACCOs in Laikipia County exhibited significant variation in their liquidity levels. High liquidity levels indicate that SACCOs maintain a substantial proportion of easily accessible funds relative to total deposits, which may enhance their ability to meet short-term obligations and improve member confidence, potentially boosting profitability. Conversely, excessive liquidity could indicate inefficient use of funds that might otherwise be invested in more profitable ventures.

Similarly, long-term liabilities another key liquidity indicator had a mean of 4.122 and a standard deviation of 0.362, with values ranging from 107,143 to 119,986,187. This wide range indicates notable differences in the financial obligations of SACCOs over the long term. While manageable long-term liabilities can support growth and strategic investment, excessive liabilities may strain financial performance and reduce profitability. These observations support the notion that the liquidity profile of SACCOs plays a critical role in shaping their profitability.

These findings align with those of Abugri (2016), who found that financial structure indicators, such as liquidity and liabilities, significantly affect market performance in various economies. However, they differ from Robert's (2018) study, which found no significant relationship between financial indicators and market returns in emerging economies, highlighting the importance of contextual factors in financial performance assessments.

4.2.3 Capital Structure

This study sought to determine the effect of capital structure on the profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya. Capital structure was measured using the ratio of Core Capital to Total Assets. The findings are presented in Table 4.1.

The results indicate that the capital structure of SACCOs, measured by the ratio of core capital to total assets, had a mean of 0.087 and a standard deviation of 0.0908. The minimum value was -0.34 while the maximum was 0.24. These findings suggest a relatively low average capital adequacy across the sampled SACCOs, with some institutions exhibiting negative capital structures, possibly indicating financial distress or over-leveraging. A low core capital to asset ratio may constrain a SACCO's ability to absorb financial shocks, limiting its profitability. Conversely, a strong capital base can enhance financial stability, improve member confidence, and enable the SACCO to invest in more profitable ventures. Therefore, capital structure plays

a critical role in shaping the profitability of SACCOs. This finding is in line with previous research by Lucey, Najandmalayeri, and Singh (2018), who demonstrated that firm-level financial structures, including capital ratios, significantly affect financial performance in various economic settings. Similarly, Karam and Mittal (2019) also reported a long-term relationship between capital-related indicators and firm profitability, emphasizing the importance of prudent capital management in enhancing financial outcomes.

4.2.4 Firm Age

The study examined the effect of firm age on the profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya. Firm age was measured by the number of years each SACCO had been in operation as recorded during the study period. The analysis sought to determine whether older SACCOs, due to their experience, established operations, and market presence, exhibited higher profitability compared to younger SACCOs. The results for the years 2018 to 2022 are tabulated in table 4.1.

The study findings indicate that the firm age of SACCOs in Laikipia County ranged from a minimum of 1.0 year to a maximum of 36.44 years, with a mean age of 15.44 years and a standard deviation of 9.39. This suggests that while some SACCOs are relatively young, others have been in existence for over three decades, reflecting a broad diversity in operational maturity. Firm age is a critical determinant of organizational learning, customer loyalty, and market positioning. Older SACCOs may benefit from accumulated experience, stronger member relationships, and more robust internal systems, which can positively influence their profitability. On the other hand, younger SACCOs may face challenges such as limited capital base, weaker governance structures, and lower member trust, which can constrain their financial performance.

These results align with the findings of Khan and Senhadji (2021), who observed that organizational maturity tends to influence long-term performance outcomes. Similarly, Yabu and Kessy (2015) emphasized that institutional experience and operational longevity play a significant role in the financial sustainability and competitiveness of cooperative entities, particularly in developing economies like Kenya. Therefore, the variation in firm age among SACCOs in Laikipia County could partly explain differences in profitability levels, as more established institutions may have leveraged time-based advantages for superior financial outcomes.

4.2.5 Firm Profitability

The study aimed to examine the profitability of SACCOs in Laikipia County as influenced by firm characteristics. Profitability was assessed using the Return on Equity (ROE), computed as Net income/Shareholder Equity. This financial metric served as a key indicator of the SACCOs' ability to generate profits from the shareholders' investments over the study period. The profitability results for the years 2018 to 2022 were analyzed and are tabulated as shown in 4.1.

The results indicate that the profitability of SACCOs, measured by the ratio of net income to shareholders' equity, had a mean of 2.16 and a standard deviation of 4.27, with minimum and maximum values of 0.0 and 35.31 respectively. These findings suggest significant variation in profitability across SACCOs in Laikipia County, potentially attributable to differences in firm characteristics such as size, liquidity, capital structure, and firm age. Understanding the relationship between these firm-specific factors and profitability can offer SACCO managers and policymakers deeper insights into financial performance drivers. These results are consistent with prior studies that highlight the influence of internal organizational factors on financial outcomes, reinforcing the importance of strategic firm-level management in enhancing profitability in the cooperative sector.

4.3 Diagnostic Tests

Diagnostic tests are essential in panel data regression analysis to ensure the accuracy and reliability of the data, models, and analytical procedures used in assessing the relationship between firm characteristics and profitability of SACCOs in Laikipia County, Kenya. These tests help identify and correct possible issues such as multicollinearity, heteroscedasticity, and other violations of regression assumptions that may compromise the validity of the study's empirical results. Prior to conducting inferential statistics, a series of diagnostic tests were performed on the panel data covering the period from 2018 to 2022. These included tests for multicollinearity to examine the interdependence among variables such as firm size, liquidity, capital structure, and firm age; and heteroscedasticity tests to assess the consistency of error variances across SACCOs. Conducting these tests ensured that the regression model used to analyze the effect of firm characteristics on SACCO profitability was both robust and reliable.

4.3.1 Multicollinearity Test Results

In examining the effect of firm characteristics such as firm size, liquidity, capital structure, and firm age on the profitability of SACCOs in Laikipia County, it is essential to assess multicollinearity among the independent variables. Multicollinearity arises when two or more predictor variables are highly correlated, which can distort the results of a regression analysis by inflating standard errors, producing unreliable coefficient estimates, and weakening the statistical power of the model. This may hinder the accurate identification of the specific firm characteristics that significantly affect profitability.

To detect and mitigate multicollinearity in this study, Variance Inflation Factor (VIF) and tolerance values were computed for each independent variable. The VIF indicates the degree to which the variance of a regression coefficient is increased due to multicollinearity; a VIF value exceeding 10 typically signals a high level of multicollinearity. Tolerance, which is the

reciprocal of VIF, reflects the proportion of an independent variable's variance that is not explained by other predictors. A tolerance value below 0.1 suggests potential multicollinearity issues. The results of the collinearity diagnostic tests, based on the SACCOs' financial data from 2018 to 2022, are presented in Table 4.2.

Table 4.2 Multicollinearity Test Results

Variable	VIF	Tolerance Value (1/VIF)
Firm size	6.05	0.165
Liquidity	5.53	0.181
Capital structure	2.73	0.367
Firm age	2.47	0.404
Mean VIF	**4.195**	

Source: Research Data (2024)

The findings presented in Table 4.9 display the Variance Inflation Factor (VIF) and corresponding tolerance values for the independent variables firm size, liquidity, capital structure, and firm age used to assess multicollinearity in the regression model examining the effect of firm characteristics on the profitability of SACCOs in Laikipia County, Kenya. Typically, a VIF exceeding 10 or a tolerance value below 0.1 signals a multicollinearity problem. In this study, all VIF values fall below 10, with the highest being 6.05 for firm size, while the lowest is 2.47 for firm age. Likewise, the tolerance values range between 0.165 and 0.404, all comfortably above the 0.1 threshold. These results confirm that multicollinearity is not a concern in this model. Furthermore, the mean VIF is 4.195, suggesting an acceptable overall level of multicollinearity. Therefore, the independent variables included in the model are not highly correlated, supporting the robustness and reliability of the regression estimates for evaluating the impact of firm characteristics on SACCO profitability.

4.3.2 Heteroscedasticity Test Results

In analyzing the relationship between firm characteristics and the profitability of SACCOs in Laikipia County, the study employed the Breusch-Pagan/Cook-Weisberg test to assess the presence of heteroscedasticity in the regression model. This diagnostic test is crucial in determining whether the variance of the error terms remains constant across different levels of the independent variables namely firm size, liquidity, capital structure, and firm age. The presence of heteroscedasticity can compromise the efficiency of the coefficient estimates and lead to misleading statistical inferences, thereby affecting the reliability of conclusions drawn regarding the impact of firm characteristics on SACCO profitability. The null hypothesis of the test posits that the residuals exhibit homoscedasticity (constant variance). A rejection of this hypothesis would suggest the presence of heteroscedasticity, which could result in biased standard errors, flawed significance tests, and unreliable confidence intervals. The outcomes of the heteroscedasticity test are presented in Table 4.3.

Table 4.3: Heteroscedasticity Test Results

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity **Ho: Constant Variance**		
Model	**Chi2 (1)**	**Prob > chi2**
FP	0.18	0.671

Source: Research Data (2025)

The results of the Breusch-Pagan/Cook-Weisberg test for heteroscedasticity are presented in Table 4.10. This test was conducted to determine whether the variance of the residuals in the model assessing the effect of firm characteristics on the profitability of SACCOs in Laikipia County, Kenya, is constant. The null hypothesis for this test states that the residuals exhibit constant variance, implying the absence of heteroscedasticity. The test produced a Chi-square

(Chi2) value of 0.18 with a corresponding p-value of 0.671. Since the p-value exceeds the 0.05 significance level, the null hypothesis is not rejected. This indicates that the residuals in the model are homoscedastic, and thus the assumption of constant variance holds for the regression analysis used in this study.

4.3.3 Random Effects Test Results

To determine the appropriate panel data estimation technique for analyzing the effect of firm characteristics on the profitability of SACCOs in Laikipia County, the study conducted the Breusch and Pagan Lagrangian Multiplier (LM) test for random effects. This test helps in deciding between the use of a random effects model and a simple Ordinary Least Squares (OLS) regression model.

The null hypothesis (H_0) of the Breusch-Pagan LM test is that the variance across entities (SACCOs) is zero, which implies that there is no significant difference across SACCOs and hence, pooled OLS is preferable. The alternative hypothesis (H_1) is that there are significant random effects, which would justify the use of a random effects model over pooled OLS. The test was carried out on the panel data collected from 2018 to 2022 across SACCOs in Laikipia County.

Table 4.4: Breusch-Pagan Lagrangian Multiplier Test for Random Effects

Model	**Chi2 (1)**	**Prob > Chi2**
FP	7.45	0.0064

Source: Research Data (2025)

The results presented in Table 4.4 indicate a Chi-square value of 7.45 and a corresponding p-value of 0.0064. Since the p-value is less than the 0.05 significance threshold, the null hypothesis is rejected. This suggests that the differences across SACCOs are significant, and

thus the random effects model is appropriate for analyzing the effect of firm characteristics firm size, liquidity, capital structure, and firm age on SACCO profitability.

This outcome supports the selection of a random effects estimator, which accounts for variability across individual SACCOs and provides more efficient and unbiased estimates than the pooled OLS model. The random effects model also allows for time-invariant variables, such as firm age, to be included in the regression analysis, enhancing the comprehensiveness of the study.

4.4 Multiple Regression Analysis Results

The results of the regression analysis conducted to assess the extent to which firm characteristics; firm size, liquidity, capital structure, and firm age influence the profitability of SACCOs in Laikipia County, Kenya, are presented in the tables below.

4.4.1 Model Summary

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.857	.734	.718	0.056

Source: Survey Data (2025)

The results indicate that the adjusted R square value was 0.718, implying that firm characteristics specifically firm size, liquidity, capital structure, and firm age collectively explained 71.8% of the variations in the profitability of SACCOs in Laikipia County. This suggests that other factors not included in the study account for the remaining 28.2% of the variation in profitability.

4.4.2 Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	112.005	4	28.001	41.473	.001
	Residual	4.051	6	0.675		
	Total	116.056	10			

Table 4.6: Analysis of Variance (ANOVA)

Source: Survey Data (2025)

The results indicate that the computed F-statistic of 41.473 was substantially higher than the mean square value of 28.001. Furthermore, the associated significance level was 0.001, which is below the conventional threshold of 0.05. These findings suggest that the overall regression model examining the relationship between firm characteristics and profitability of SACCOs in Laikipia County, Kenya, is statistically significant and hence the goodness of the fit determined.

4.4.3 Inferential analysis

Table 4.7: Inferential analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.667	.264		2.527	.001
	Firm Size	.851	.354	.254	2.404	.000
	Liquidity	.705	.337	.346	2.092	.001
	Capital Structure	.776	.402	.118	1.930	.002
	Firm Age	.803	.365	.279	2.200	.001

Source: Survey Data (2025)

The results show that when firm size, liquidity, capital structure, and firm age are held constant, the profitability of SACCOs in Laikipia County would be at a baseline level of 0.667. The following regression equation was derived to represent the relationship between firm characteristics and profitability;

Profitability = .667 + .803 (Firm age) + .776 (capital structure) + .705 (liquidity) + .851 (Firm size)

4.5 Hypotheses Testing

4.5.1 Hypothesis One Test

$H0_1$: Firm size does not significantly affect Profitability of SACCOs in Laikipia County, Kenya.

The study aimed to determine how firm size affects the profitability of SACCOs in Laikipia County, Kenya. The hypothesis that "firm size does not significantly affect profitability of SACCOs in Laikipia County" was tested. Findings presented in Table 4.8 indicate that an increase in firm size, measured through total assets, positively influenced SACCO profitability by a coefficient of 0.851. Moreover, the effect was statistically significant ($\beta = .254$, $p = .000$), suggesting that larger SACCOs tend to generate higher net revenues. Consequently, the null hypothesis that firm size does not significantly affect profitability was rejected. These findings are consistent with those of Mutai (2021), who studied the influence of institutional and macroeconomic characteristics on financial performance and found that larger financial institutions tend to perform better due to economies of scale, improved resource mobilization, and broader market reach.

4.5.2 Test of Hypothesis Two

$H0_2$: Liquidity does not significantly affect Profitability of SACCOs in Laikipia County, Kenya.

The study sought to determine the effect of liquidity on the profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya. A hypothesis that 'liquidity does not significantly affect profitability of SACCOs in Laikipia County' was tested. Table 4.8 results indicate that an increase in liquidity is associated with an improvement in profitability by 0.705. Further analysis revealed that liquidity has a positive and significant effect on SACCO profitability ($\beta = .346$, $p = .001$). Therefore, the null hypothesis that liquidity does not

significantly affect the profitability of SACCOs in Laikipia County was rejected. These findings are consistent with those of Koubi (2018), who examined financial development and profitability across 49 countries and noted that financial indicators such as liquidity significantly influence institutional performance, with liquidity enhancing the financial health and operational efficiency of financial entities.

4.5.3 Test of Hypothesis Three

$H0_3$: Capital structure does not significantly affect Profitability of SACCOs in Laikipia County, Kenya.

The study sought to determine how capital structure affects the profitability of SACCOs in Laikipia County, Kenya. A hypothesis that 'capital structure does not significantly affect profitability of SACCOs in Laikipia County' was tested. The results indicated that an improvement in capital structure would enhance SACCO profitability by a margin of 0.776. Furthermore, capital structure had a statistically significant and positive effect on the profitability of SACCOs in Laikipia County ($\beta = .118$, $p = .002$). Consequently, the null hypothesis that capital structure does not significantly affect profitability was rejected. These findings are consistent with prior research by Hsing (2012), who examined the relationship between financial structure and stock market performance using the exponential GARCH model. The study demonstrated that variables such as monetary aggregates, exchange rates, and equity indices significantly influenced profitability and market performance. Similarly, the structure of capital including elements such as long-term liabilities and shareholder equity plays a vital role in the financial performance and sustainability of SACCOs.

4.5.4 Test of Hypothesis Four

$H0_4$: Firm age does not significantly affect Profitability of SACCOs in Laikipia County, Kenya.

The study sought to determine the effect of firm age on the profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya. A hypothesis that 'firm age does not significantly affect the profitability of SACCOs in Laikipia County' was tested. The regression results indicated that an increase in firm age was associated with a positive change in profitability, with a coefficient of $\beta = .279$ and a significance level of $p = .001$. This implies that older SACCOs tend to report higher profitability levels. As a result, the null hypothesis that firm age does not significantly affect profitability was rejected. These findings are consistent with prior research, such as that of Yabu and Kessy (2015), which reported a non-linear relationship between age-related variables and performance outcomes, suggesting that the influence of firm age may vary at different stages of development.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction of the Section

This chapter presents a summary of the key findings, conclusions, and recommendations derived from the analysis of the study titled "Firm Characteristics and Profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya." The study sought to examine how firm-specific characteristics namely firm size, liquidity, capital structure, and firm age affect the profitability of SACCOs.

5.2 Summary of Findings

The first objective of the study aimed to investigate the effect of firm size on the profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya. The findings indicated that firm size has a positive and significant impact on the profitability of SACCOs. Larger SACCOs, with more total assets and shareholder equity, were better positioned to generate higher profits due to economies of scale. Increased size allowed these SACCOs to diversify their income streams and reduce operational costs, thus enhancing profitability. In contrast, smaller SACCOs faced challenges in achieving similar profitability levels due to limited resources and less efficient operations.

The second objective sought to explore the effect of liquidity on profitability. The results revealed a positive and significant relationship between liquidity and profitability for SACCOs in Laikipia County. SACCOs with higher liquid assets were better able to meet their financial obligations and take advantage of investment opportunities. Liquidity management plays a crucial role in ensuring operational stability and mitigating risks associated with cash flow

shortages, thereby enhancing profitability. However, excessive liquidity without proper investment could lead to suboptimal profitability, as funds may remain idle.

The third objective focused on the effect of capital structure on profitability. The study examined that SACCOs with an optimal capital structure characterized by a balanced mix of debt and equity tended to perform better in terms of profitability. A well-managed capital structure enables SACCOs to leverage their capital more effectively, improving return on equity while maintaining manageable debt levels. SACCOs with high levels of debt, however, faced the risk of increased financial costs, which negatively affected their profitability, especially when revenue generation was low.

The fourth objective aimed to examine the effect of firm age on profitability. The findings indicated that older SACCOs tend to be more profitable due to accumulated experience, established market reputation, and better risk management practices. Over time, older SACCOs build stronger member trust, have more diversified income sources, and exhibit better financial stability, which positively affects their profitability. In contrast, younger SACCOs often face challenges in achieving profitability due to limited market presence and less refined operational strategies. These findings provide a comprehensive understanding of how different firm characteristics influence the profitability of SACCOs in Laikipia County, Kenya, offering valuable insights for SACCO management and policymakers.

5.3 Conclusions of the Study

The study concludes that firm characteristics namely firm size, liquidity, capital structure, and firm age significantly influence the profitability of SACCOs in Laikipia County, Kenya. Larger SACCOs, as measured by total assets and number of shareholders, tend to achieve higher profitability due to economies of scale, broader capital bases, and improved ability to attract

deposits and offer diversified financial services. Similarly, SACCOs with higher liquidity levels, reflected by higher liquid assets relative to short-term obligations, are better positioned to meet member withdrawals and exploit investment opportunities, thus enhancing profitability.

In terms of capital structure, SACCOs with balanced and well-managed funding sources between core capital, deposits, and long-term liabilities demonstrate stronger financial performance. Efficient capital structuring reduces financial risk and borrowing costs, thus improving returns. However, excessive reliance on debt, particularly long-term liabilities, may constrain profitability due to higher interest obligations.

The age of a SACCO also plays a crucial role in profitability. Older SACCOs tend to be more profitable due to their accumulated experience, established trust with members, and more refined operational processes. Nonetheless, younger SACCOs may face challenges such as limited member base, low capitalization, and operational inefficiencies that hamper short-term profitability.

Overall, the study affirms that sound management of firm-specific characteristics is key to enhancing the financial sustainability and growth of SACCOs. Therefore, policymakers and SACCO managers should focus on scaling operations, optimizing capital structures, maintaining adequate liquidity levels, and leveraging institutional experience to improve financial performance across the sector.

5.4 Limitations of the Study

The research exclusively focused on SACCOs located in Laikipia County and did not include any other geographical zones or financial institutions. Laikipia County was considered appropriate for this study due to the diverse economic activities that occurred there; SACCOs were the preferred financial institutions because they were spread all over the county. The study

was also limited to a 5-year period (2018-2022) and therefore did not incorporate data before 2018. The data was considered appropriate for the study because it was the most recent information that could be provided by all the SACCOs. Additionally, the study was limited to four variables: firm size, capital structure, dividend policy, and liquidity. More specific studies based on other institutions in Laikipia County assessing the effect of firm characteristics on profitability were still considered essential.

5.5 Recommendations of the Study

Based on the findings of this study on the relationship between firm characteristics and the profitability of SACCOs in Laikipia County, several recommendations are made to enhance financial performance and sustainability.

Firstly, the study recommends that SACCOs should aim to strategically manage their firm size, particularly through prudent asset growth. Increasing total assets and core capital in a balanced manner can lead to economies of scale, thereby boosting profitability. This may involve expanding the membership base, diversifying financial products, and investing in income-generating ventures aligned with member needs.

Secondly, regarding liquidity, SACCOs should maintain an optimal level of liquid assets to meet short-term obligations without sacrificing profitability. Effective liquidity management policies, such as investing excess funds in short-term, low-risk financial instruments, can ensure stability while still allowing for loan issuance and operational efficiency.

Thirdly, the study recommends a review of capital structure to optimize the balance between debt and equity financing. Excessive reliance on long-term liabilities may expose SACCOs to financial strain, particularly in times of economic uncertainty. A balanced capital structure, emphasizing core capital and shareholder equity, is critical for sustained profitability. SACCOs

should also consider leveraging member deposits efficiently while maintaining sufficient reserves.

Fourthly, with regard to firm age, older SACCOs should leverage their experience and institutional knowledge to drive innovation and improve governance. Younger SACCOs, on the other hand, should focus on building strong governance frameworks and operational systems to establish credibility and long-term growth.

Finally, the study encourages SACCO leadership and policymakers to engage in capacity building and implement technology-driven solutions for data management and financial planning. The study highly recommends SACCO Societies Regulatory Authority (SASRA) and other regulatory bodies to revise regulations to boost profitability ratios and to implement policies that encourage SACCOs to monitor their growth as they grow older. This way they can support better compliance, risk management, and financial reporting standards, ultimately improving profitability across the sector.

5.6 Suggestions for Further Studies

This study focused on the effect of firm characteristics namely firm size, liquidity, capital structure, and firm age on the profitability of Savings and Credit Cooperative Societies (SACCOs) in Laikipia County, Kenya, using financial data from 2018 to 2022. While the findings provide valuable insights into how internal firm-specific factors influence profitability, further research is recommended in several areas to build upon and deepen this understanding.

Firstly, future studies could explore the role of macroeconomic factors such as inflation rates, interest rate fluctuations, and GDP growth on SACCO profitability. This would provide a broader external perspective that complements the firm-level analysis. Secondly, comparative studies across different counties or regions in Kenya could be conducted to assess whether

similar firm characteristics have the same influence in different economic or geographic contexts.

Moreover, while this study used quantitative secondary financial data, future research could integrate qualitative approaches such as interviews with SACCO managers and board members to understand strategic decisions, governance structures, and risk management practices that may also affect profitability. In addition, given the rising adoption of digital platforms in financial services, subsequent studies could examine the impact of technological adoption and innovation on SACCO performance.

Lastly, with the increasing regulatory oversight on cooperative societies in Kenya, future researchers may also consider evaluating the effect of regulatory compliance and corporate governance practices on profitability. These additional dimensions could help in providing a more comprehensive framework for understanding the dynamics of SACCO performance in Kenya's evolving financial landscape

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APPENDICES

Appendix I: List of Laikipia County Cooperatives

Serial	Name	Ward	Constituency
1	Unison SACCO	Nanyuki	Laikipia East Constituency
2	Necco Fosa SACCO	Nanyuki	Laikipia East Constituency
3	Nanyuki Express Cabs SACCO	Nanyuki	Laikipia East Constituency
4	Cottage SACCO	Nanyuki	Laikipia East Constituency
5	Mbatian SACCO Soc Ltd	Nanyuki	Laikipia East Constituency
6	Maji Matamu SACCO	Nanyuki	Laikipia East Constituency
7	SavannahTraders SACCO	Nanyuki	Laikipia East Constituency
8	GCC Nanyuki Uzima SACCO	Nanyuki	Laikipia East Constituency
9	AAA SACCO Ltd	Nanyuki	Laikipia East Constituency
10	Lengetia SACCO Ltd	Nanyuki	Laikipia East Constituency
11	Family Comfort SACCO Ltd	Nanyuki	Laikipia East Constituency
12	Nanyuki Old Market SACCO	Nanyuki	Laikipia East Constituency
13	Railway-End SACCO Ltd	Nanyuki	Laikipia East Constituency
14	Kangaita Kware SACCO	Nanyuki	Laikipia East Constituency
15	Nturukuma Youth SACCO	Nanyuki	Laikipia East Constituency
16	Likii A Youth SACCO	Nanyuki	Laikipia East Constituency
17	Laikipia East Boda Boda SACCO	Nanyuki	Laikipia East Constituency
18	Laikipia County Staff SACCO	Nanyuki	Laikipia East Constituency
19	Coterie SACCO Ltd	Nanyuki	Laikipia East Constituency

20	Nanyuki Mlima SACCO	Nanyuki	Laikipia East Constituency
21	Equator Bodaboda SACCO	Nanyuki	Laikipia East Constituency
22	Arms SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
23	Lutafiti SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
24	Mosasto SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
25	Namoe SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
26	Nasco SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
27	Inana SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
28	Jua-Kazi SACCO Society Ltd	Nanyuki	Laikipia East Constituency
29	Likii River Farm SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
30	Nanyuki Bodaboda SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
31	Datima Transport SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
32	Full Gospel Nyk SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
33	Mavuno Likii B SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
34	Rural Focus SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
35	Hyperflora SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
36	Laikipia County Bunge SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
37	Laikipia Women Saccco Soc. Ltd	Nanyuki	Laikipia East Constituency
38	Ewaso Maji Users SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency
39	Bacista SACCO Soc. Ltd	Nanyuki	Laikipia East Constituency

40	Nanyuki Mt Kenya Bodaboda SACCO	Nanyuki	Laikipia East Constituency
41	John Paul Huruma SACCO	Nanyuki	Laikipia East Constituency
42	Laikipia Snowview SACCO Ltd	Nanyuki	Laikipia East Constituency
43	Koofa SACCO Society Ltd	Nanyuki	Laikipia East Constituency
44	Jordan SACCO	Nanyuki	Laikipia East Constituency
45	Top Hikers SACCO	Nanyuki	Laikipia East Constituency
46	Visionate Laikipia Bodaboda SACCO	Nanyuki	Laikipia East Constituency
47	Translac SACCO Soc Ltd	Nanyuki	Laikipia East Constituency
48	Laikipia Taxi SACCO	Nanyuki	Laikipia East Constituency
49	Fugona SACCO Ltd	Nanyuki	Laikipia East Constituency
50	Jikaze Traders SACCO	Ngobit	Laikipia East Constituency
51	Ngobit SACCO	Ngobit	Laikipia East Constituency
52	Ichuga Farmers SACCO	Thingithu	Laikipia East Constituency
53	Ghetto Thingithu SACCO Soc Ltd.	Thingithu	Laikipia East Constituency
54	Laisat SACCO Soc. Ltd	Thingithu	Laikipia East Constituency
55	Tigithi Traders SACCO	Tigithi	Laikipia East Constituency
56	Namana SACCO Ltd	Tigithi	Laikipia East Constituency
57	Tholaikie SACCO Ltd	Tigithi	Laikipia East Constituency
58	Tigithi Bodaboda SACCO	Tigithi	Laikipia East Constituency
59	Kitawi SACCO Ltd	Tigithi	Laikipia East Constituency
60	Wemika SACCO	Tigithi	Laikipia East Constituency

61	Olpejeta SACCO Soc. Ltd	Tigithi	Laikipia East Constituency
62	Daiga Pastors SACCO	Umande	Laikipia East Constituency
63	Kongoni River Farm SACCO Soc. Ltd	Umande	Laikipia East Constituency
64	Timau Colour Crops SACCO Soc. Ltd	Umande	Laikipia East Constituency
65	Equinox Staff SACCO Soc. Ltd	Umande	Laikipia East Constituency
66	Kilimo Hifadhi SACCO Soc. Ltd	Umande	Laikipia East Constituency
67	Ngenia Traders SACCO	Umande	Laikipia East Constituency
68	Siraji SACCO	Umande	Laikipia East Constituency
69	Timaflor SACCO	Umande	Laikipia East Constituency
70	Agrimar SACCO	Umande	Laikipia East Constituency
71	Mukogodo East Bodaboda SACCO	Mukogondo East	Laikipia North Constituency
72	Wang'an Naretisho SACCO	Mukogondo East	Laikipia North Constituency
73	Lachabo SACCO Society Ltd	Mukogondo East	Laikipia North Constituency
74	Ngenia Traders SACCO	Mukogondo East	Laikipia North Constituency
75	Wiyumirie Resident SACCO	Mukogondo East	Laikipia North Constituency
76	Looret Ate' SACCO	Mukogondo East	Laikipia North Constituency
77	Oljogi SACCO	Mukogondo West	Laikipia North Constituency

78	Laisat SACCO Society Ltd	Mukogondo West	Laikipia North Constituency
79	Sendeyo SACCO Soc Ltd	Mukogondo West	Laikipia North Constituency
80	Nassaruni Rural SACCO	Mukogondo West	Laikipia North Constituency
81	Nashulla Women SACCO	Mukogondo West	Laikipia North Constituency
82	Makurian Bodaboda SACCO	Mukogondo West	Laikipia North Constituency
83	Kiwanja Ndege Loaders SACCO	Mukogondo West	Laikipia North Constituency
84	Loldaiga SACCO	Mukogondo West	Laikipia North Constituency
85	Nalepo Bodaboda SACCO	Mukogondo West	Laikipia North Constituency
86	Looreto SACCO	Mukogondo West	Laikipia North Constituency
87	Segera Jitegemee SACCO	Segera	Laikipia North Constituency
88	Khe SACCO	Segera	Laikipia North Constituency
89	Melifera SACCO	Segera	Laikipia North Constituency
90	Laikipia Permaculture SACCO	Segera	Laikipia North Constituency
91	L. North Pastors SACCO	Segera	Laikipia North Constituency
92	Enasoit SACCO	Segera	Laikipia North Constituency
93	Enaang Travellars SACCO	Segera	Laikipia North Constituency
94	Segera Bodaboda SACCO	Segera	Laikipia North Constituency

95	Kinamba Juacom SACCO	Githiga	Laikipia West Constituency
96	Shikamoo Bodaboda SACCO	Githiga	Laikipia West Constituency
97	Karadi Kiandege SACCO	Githiga	Laikipia West Constituency
98	Mwalawe SACCO	Githiga	Laikipia West Constituency
99	Kinamba Pastors SACCO	Githiga	Laikipia West Constituency
100	Gibosa SACCO	Githiga	Laikipia West Constituency
101	Marma Huduma SACCO	Igwamiti	Laikipia West Constituency
102	Muthengera SACCO	Igwamiti	Laikipia West Constituency
103	Ngarua Line SACCO	Igwamiti	Laikipia West Constituency
104	Rima SACCO	Igwamiti	Laikipia West Constituency
105	Nyahururu Juakali	Igwamiti	Laikipia West Constituency
106	United Nyabosa SACCO	Igwamiti	Laikipia West Constituency
107	Nyabeba SACCO	Igwamiti	Laikipia West Constituency
108	Destiny SACCO	Igwamiti	Laikipia West Constituency
109	Sitra SACCO	Igwamiti	Laikipia West Constituency
110	Seeds Of Life SACCO	Igwamiti	Laikipia West Constituency
111	4nte Workers SACCO	Igwamiti	Laikipia West Constituency
112	Nyahururu Desiny SACCO	Igwamiti	Laikipia West Constituency
113	Laico SACCO	Igwamiti	Laikipia West Constituency
114	Nyalack SACCO	Igwamiti	Laikipia West Constituency
115	Nyahururu Sports Club	Igwamiti	Laikipia West Constituency
116	Nyakaca SACCO	Igwamiti	Laikipia West Constituency
117	Shangi SACCO	Igwamiti	Laikipia West Constituency

118	Krudger SACCO	Igwamiti	Laikipia West Constituency
119	Uzima SACCO	Igwamiti	Laikipia West Constituency
120	Homebusiness SACCO	Igwamiti	Laikipia West Constituency
121	Nyalawe SACCO	Igwamiti	Laikipia West Constituency
122	Laikipia Artist SACCO	Igwamiti	Laikipia West Constituency
123	Marbosa SACCO	Marmanet	Laikipia West Constituency
124	Muwolla SACCO	Marmanet	Laikipia West Constituency
125	Karaba Bodaboda SACCO	Marmanet	Laikipia West Constituency
126	Horizon Bodaboda SACCO	Marmanet	Laikipia West Constituency
127	Napuko Lokone SACCO	Marmanet	Laikipia West Constituency
128	Kirathimo Kiheo SACCO	Marmanet	Laikipia West Constituency
129	Permasa SACCO	Marmanet	Laikipia West Constituency
130	Tech gaa SACCO	Marmanet	Laikipia West Constituency
131	Nyatomo Bodaboda SACCO	Olmoran	Laikipia West Constituency
132	Sipili Jitahidi	Olmoran	Laikipia West Constituency
133	Olmoran Bodaboda SACCO	Olmoran	Laikipia West Constituency
134	NRS SACCO	Olmoran	Laikipia West Constituency
135	Rumuruti Bodaboda SACCO	Rumuruti township	Laikipia West Constituency
136	Rumuruti Huduma SACCO	Rumuruti township	Laikipia West Constituency
137	Lomacen SACCO	Rumuruti township	Laikipia West Constituency

138	Rutocco SACCO	Rumuruti township	Laikipia West Constituency
139	Credible SACCO Soc Ltd	Rumuruti township	Laikipia West Constituency
140	Vuka SACCO	Rumuruti township	Laikipia West Constituency
141	Leleshwet SACCO	Rumuruti township	Laikipia West Constituency
142	Perruto SACCO	Rumuruti township	Laikipia West Constituency
143	Testai SACCO	Rumuruti township	Laikipia West Constituency
144	Galaxy United SACCO	Rumuruti township	Laikipia West Constituency
145	Gamki SACCO	Rumuruti township	Laikipia West Constituency
146	Kandorobo SACCO	Salama	Laikipia West Constituency
147	Salama Focus SACCO	Salama	Laikipia West Constituency
148	Mutash SACCO	Salama	Laikipia West Constituency
149	Mtoka Mbali SACCO	Salama	Laikipia West Constituency
150	Thome Boda Boda SACCO	Salama	Laikipia West Constituency

Source: Laikipia County - Ministry of Cooperatives (2024)

Appendix II: Secondary Data Collection Sheet

Date of Registration: _____

	STUDY PERIOD				
Firm Characteristics and Profitability Financials	**2018**	**2019**	**2020**	**2021**	**2022**
Firm age					
TA (Total Assets -in Ksh.)					
Core Capital in Ksh.					
Shareholder Equity (in Ksh.)					
Net Revenue					
Total Deposits in Ksh.					
Long term liabilities in Ksh.					
Liquid Assets in Ksh.					
No.of Shareholders					

Source: Researcher (2024)

Appendix III: Research Approval

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

P.O. Box 43844, 00100
NAIROBI, KENYA
Tel. 810901 Ext. 4150

Internal Memo

FROM: Executive Dean, Graduate School

DATE: 27th August, 2024

TO: Gitumbi Juliet Njoki
C/o Accounting and Finance Dept.

REF: D53/OL/NYI/32034/2016

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

This is to inform you that Graduate School Board at its meeting of 14th August, 2024 approved your Research Project Proposal for the M.B.A Degree Entitled, **"Firm Characteristics and Profitability of Savings and Credit Cooperative Societies in Laikipia County, Kenya."**

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and progress report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your project before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines.

Thank you.

ANNBELL MWANIKI
FOR: EXECUTIVE DEAN, GRADUATE SCHOOL

c.c. Chairman, Accounting and Finance.

Supervisors:

1. Dr. John Mungai
   C/o Department of Accounting and Finance
   Kenyatta University

AM/mo

Appendix IV: Research Authorization

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
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P.O. Box 43844, 00100
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Our Ref: D53/OL/NYI/32034/2016

DATE: 27th August, 2024

Director General,
National Commission for Science, Technology
and Innovation
P.O. Box 30623-00100
NAIROBI

Dear Sir/Madam,

RE: RESEARCH AUTHORIZATION FOR GITUMBI JULIET NJOKI - REG. NO. D53/OL/NYI/32034/2016

I write to introduce **Gitumbi Juliet Njoki** who is a Postgraduate Student of this University. The student is registered for M.B.A degree programme in the **Department of Accounting and Finance.**

Gitumbi intends to conduct research for a M.B.A Project Proposal entitled, "Firm Characteristics and Profitability of Savings and Credit Cooperative Societies in Laikipia County, Kenya."

Any assistance given will be highly appreciated.

Yours faithfully,

PROF. ELIUD NJAGI
EXECUTIVE DEAN, GRADUATE SCHOOL

AM/mo

Appendix V: NACOSTI Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **346439**

Date of Issue: **20/January/2025**

RESEARCH LICENSE

This is to Certify that Ms.. Juliet Njoki Gitumbi of Kenyatta University, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Laikipia on the topic: Firm Characteristics and Profitability of SACCOs in Laikipia County - Kenya for the period ending : 20/January/2026.

License No: **NACOSTI/P/25/415295**

346439

Applicant Identification Number

Director General
NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

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