

**EFFECT OF FINANCIAL RESTRUCTURING ON OPERATIONAL
EFFICIENCY OF SAVINGS AND CREDIT SOCIETIES IN KENYA.**

BY

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18/02724

MASTERS OF SCIENCE (FINANCE AND INVESTMENT)

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**DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF
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September, 2022

Declaration

I declare that the work contained in the dissertation is my original work and has not been presented for research for degree award in any other university.

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Date.....

Supervisor Declaration

I do hereby confirm that I have examined the master's dissertation of Jamlick Murithi Njue and I have approved it for examination.

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ABSTRACT

The basic aim of this research was to examine the relationship between financial restructuring and operational efficiency of deposit taking savings and credit societies listed at Nairobi Securities Exchange (NSE). This study was carried out with general objective of examining the relationship between financial restructuring e.g. Debt restructuring, equity restructuring as well as deposit restructuring of financial firms listed in NSE. Debt restructuring, equity restructuring and deposit restructuring as independent variables while operational efficiency as dependent variable. Three theories were used loanable fund theory liquidity preference theory and perking order theory. The study used non-probability sampling whereas Purposive sampling was used to select the target sample of 50 desired financial institutions out of the population in Kenya. The study employed secondary panel data which was obtained from the annual reports, financial statements of listed financial firms. Interviews as well as observations from the sampled entities and from the Nairobi Securities Exchange websites for period between 2016 to 2021. The study used descriptive design. Multiple linear regression analysis was used to establish the relationship or lack of it. The link financial restructuring and operational efficiency of financial institutions listed in NSE has remained unresolved for some decades as most studies focused developed economies leaving at a disadvantage. Studies in developing economies had provided mixed findings on this subject a gap which this study had bridged. The study found that there was positive and significant linear relationship on equity, debt and customer deposit restructuring on operational efficiency. The study record that a further study can be done to incorporate Sacco's in east African community as well as non-deposit taking Sacco

Key words: NSE, RESTRUCTURING, OPERATIONAL EFFICIENCY.

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ABBREVIATION AND ACRONYMS

CBK	Central bank of Kenya
CLRM	Classical Linear Regression Model
DTS	Deposits Taking Sacco's
IMF	international monetary fund
MFI	Micro-Finance Institutions
OLS	ordinary least squares
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment
SACCO	Savings and credit cooperatives
SASRA	Sacco Societies Regulatory Authority
SME	Small and medium-sized enterprises
VIF	variance inflation factor
WFP	world food program

DEFINATION OF TERMS

member Deposits Restructuring - Wang, (2019) defines member deposit restructuring as a process that entails ranging minimum member deposit with an aim of increasing working capital for an organization.

Equity Restructuring – an organizations Transactions by both corporation and her shareholders that results into a chance on the fair value of the shares associated with an option or similar reward (kibet, 2016).

Debt Restructuring – this can be defined as an undertaking carried out by organizations to hedge the risk of default on existing debt. it is also defined as a process by an organization to realign their debts to take advantage of new available loan at a lower interest rate. (Pirgaip ,2020).

Operational efficiency - is the ability of an organization to reduce waste in time, effort and materials as much as possible, while still producing a high-quality product. (Haber & Reichel, 2015)

CHAPTER ONE

INTRODUCTION

1.1 Back ground of the study

Savings and Credit Cooperative Societies (SACCOS) are crucial in the provision of financial and banking facilities to low income earners who may not be covered by activities of a formal bank (Bahtiar Usman 2021). SACCOS are started locally and have concrete basis of small saving accounts constituting a stable and relatively low-cost source of funding and low administrative costs. Ideally, the financial capability is a key concern in the growth of SACCOS' wealth and it is the main issue in the sustainability of the SACCO.

The process of reorganizing the whole debt capital of an institutions known as debt restructuring. It is the adjustment of debt components of the company as some of the balance sheet items (Messomo, 2017). Savings and cooperatives societies are cooperative duly registered and operate under the cooperative society act No 14 of 2008. SASRA, (2020).

The reasons for equity restructuring are for raising fresh finance, to maintain debt-equity ratio, to write off unrecognized expenditure, to wipe out accumulated losses, reorganizing the capital for achieving better efficiency, to provide respectable exit mechanism for shareholders in the time of depressed markets by providing them liquidity through buy back and for correction of over capitalization (Dato, Mersland & Mori, 2018; Kumar & Venai, 2012).

Financial restructuring is any substantial change in a company's financial structure, or ownership or control, or business portfolio, designed to increase the value of the firm. Cooperative societies are independent associations and are joined voluntarily by people with common agenda of pooling their resources together for mutual economic, cultural and social benefit this is according

to Muthoni, (2019). People have always found it easy to work together to take advantage of synergy and manpower. In Europe for example according to Rochadele, (1844) as cited by Pirgaip (2020). found that men took advantage of working together to enjoy and gain from communal advantage.

The concept that the modern day cooperative society was formed and the first cooperative society was formed in 1800s by a group of 28 men who were popularly known as Rochahdere Iopneers, Yuwono (2021). They formulated principles to enable them open and run consumer cooperative shop and this created the foundation of modern worldwide cooperative movement. (Ombaka & Jagongo, 2018). Where instability in the Sacco's exist, financial restructuring is key in turning it round to stability and profitability.

Many countries have embraced cooperative societies as a way of eradicating poverty through economic empowerment, education and wealth creation to boost both public and private players. The financial restructuring can be either from the assets side or the liabilities side of the balance sheet where if one is changed the other was adjusted (Sarpong, 2018). Cooperatives in developing countries today are multibillion dollar emperors by the virtue of high turnover and growing membership according to Mungai, (2021).

1.1.2 financial restructuring

Savings and credit societies must reorganize the role their financial assets play especially on creating an enabling environment more beneficial to the firm at large (Colliard & Gromb, 2018). By so doing the asset will lead to significance and positive increase in both monetary and organizational value on overall to the SACCO. For them to stay afloat and on competitive hedge

and experience growth profitability, SACCOs need to aggressively introduce new competencies and capabilities (Mantravadi & Reddy, 2018).

One of this competencies recognized globally in the field of business and investment is financial restructuring. financial restructuring embraces several aspects including debt, equity and members' deposit restructuring as shown by (Adekunle & Sunday, 2019). Kaur, & Srivastava, (2017). from India established that debt restructuring has a positive and significance importance on the profitability of the micro financial institutions to the level equivalent to their industry peers from the study measured equity using total capital over the net profit. Waseem Ahmed (2020). from Vietnam portrayed a weak correlation between the Sacco's debts in relation to operations efficiency. Similarly, the method of measurement was total capital over the net profit.

The study taken by a Nigerian scholars Cathcart, & El- Jahel, (2016). On the relationship between restructuring and financial performance on SACCOs which used number of share over total capital for measurement found that debt restructuring and financial performance are positively correlated. Still in Nigeria Adepoju, Salau & Obayelu, (2017). found that the effects of debt reorganization had a weak correlation with financial performance hence affect the operations efficiency of SACCOs this study used which was done on agricultural SACCOs used external borrowing over total asset.

In Kenya Muthoni, (2019). found that debt restructuring has been championed as an effective way to improve the firm's chances of paying back the obligations as the creditors understand that they would receive even less should the company be forced into bankruptcy and/or liquidation in her study she used total capital over net profit. (Kibet, 2018). argued that debt restructuring was found to have positive impact on the firm as the operational efficiency is

concerned since the SACCO is equipped with enough working floats and it is under this assumption he concluded that debt restructuring has positive and significance impact to the operational efficiency. Another source capital of a business is from Equity. For this reason and taking into account all the different approaches on measurement the current study measured equity variable using total external borrowing over total assets.

Equity restructuring on the other hand can be loosely be translated as the transaction between a corporation and their stakeholders that have a potential of altering their fair value of the stock which can be attributed with similar or low reward. Pelcher, (2019). On the impact on equity restructuring from Pakistan economy where he used total capital over net profit for measurement he observed that equity restructuring presents a negative effect with operational efficiency and further cautioned that if the same can be intervened by external debts the result can highly affect operational efficiency of micro enterprises. Three scholars Obokoh, Monday & Ojiak, (2016).

On their research study on effect of equity restructuring on overall performance in India and they established that equity restructuring in all the dimensions of an organizations are core capital but had a weak effect on profitability over the long run the study used number of shares over total capital to measure the variable.

In Tanzania Tesha, & Nsimbila, (2022). Conducted a study on government operational efficiency and used local market business to determine if equity by any chance had any effect on operational efficiency and found the effect was statically insignificant. Although they used government owned entities their study almost collaborated a slimily study done in Nigeria by Adepoju, Salau, & Obayelu (2017). Who found that equity restructuring had no material importance to operational efficiency. In both studies they used total capital over number of share

to measure the variable. In Kenya Njambi, & Kariuki, (2018). On their study of effect of financial restructuring on performance found that equity restructuring on retained earnings have a positive effect on the financial stability of financial institutions has it has a remarkable contribution on operational efficiency no wonder a similar study done in Kenya by Mungai, (2021).

On effect of capital on operational efficiency on commercial bank in Kenya found that those banks which had adopted equity restructuring were posting positive result in terms of improvement on profit and the ease on which the operations of the firms are carried out.

The current study used core capital over total asset to measure the variable. Sato, (2015) on the relation between members' deposits restructuring and financial operational of financial institutions in Indonesia and concluded that Sacco's had deduced a positive and significant relationship Sato (2015). In Bangladesh, Martirosyan, (2017). did a similar study on effect of members' deposit restructuring on operations of the company and found that deposit restructuring significantly informed financial operations in the small lending organizations. In their study they used members deposit over net income to measure the variable.

From Nigeria Omeje, (2017). In his study on impact of deposit to overall operations of the company where the study used accumulated funds over total asset on measurement found that raising the minimum deposit for the sacco had a positive effect on operations as it was noted to have increased the working capital for the micro enterprises.

Ombaka, & jagongo, (2018). Conducted a study in kenya on the impact of deposit using members' deposit over net profit for measurement for deposit taking micro finance and found that SACCO member deposits had a strong positive correlation with the instructions operational efficiency. Deposit take a large part of the SACCO and it should be taken seriously for any

entity which want to give meaningful services to its members. member's accumulation is core to all operations of the SACCO as it forms part of primary sources of the capital hence deposit restructuring has positive impact as it assures the organizations of its steady and strong capital base Murimi, & Mungai, (2021). to provide better services to its members and general customers of different income groups, Sacco's do set to accumulates deposits which are they ensure they are stable and of low cost as the primary source of finance to their growing and emerging loan portfolios. once the deposit is accumulated are then lent to members and general customers to invest in productive investments in agriculture, education, housing, and small businesses in the rural and urban areas (Waithaka & Kimencu, 2018). this statement was affirmed by Harwood, Nakola, & Nyaana, (2016), who studied the importance of member deposits and savings using accumulated funds over total asset to measure the variable in deposit taking Sacco's and found that voluntary savings is for the provision of loan services hence they improve and boost operational efficiency. most of this methods of measurement only dealt with a section of company's asset of deposits and beside most of the studies dealt with SACCOs of a certain region. for this reason, therefore the current study employed members' deposit over total asset to measure the variable.

1.1.3 operational efficiency

Operational efficiency is backbone of any organizations including Sacco business for is vital for their survival. Successful operational efficiency in the Sacco's has a positive association with the capacity to manage financial issues effectively (Adekunle, & Sunday, 2019). Kibet (2015) provide evidence of a positive association between operational efficiency and the success of financial performance of SACCOs. Operational efficiency is the life blood of small-scale organizations, since without them, no growth decisions can be made (Mbonyane ,2016).

Operational efficiency for SACCO's is very important for managers who wish to gain understanding on how well the financial institution perform (Adekunle & Sunday, 2019). citing on the relationship between restructuring and operational efficiency (Kisgen, 2016). found that financial restructuring has positive relationship operational efficiency on SACCOs. No wonder SASRA, (2018), records from their website shows that savings and credit co-operative societies had been facing low operational efficiency which in turns affect their performance. In recent past there has been countless attempt to have SACCO's operational efficiency measurement tool or a software capability to produce financial statements on and when needed bases and such statements be capable of analyzing all available information on performance of the said entity but through this information manager can rely on it to improve on performance (Kisgen, 2016).

Operational efficiency can be employed by the SACCOs to improve on Profitability ratios. for this reason, the measurement of operational efficiency may vary but the end result should be consistence. In some circumstances credit analysis indicators in Sacco's can be used since profitability is associated with the results of management performance areas (Waithaka & Kimencu, 2018). shareholders and other interested parties of any financial institution do evaluate institutions' operations efficiency from different angles and it only prudence for the managers be aware of this fact when coming with decisions which can affect performance.

SACCOs have several stakeholders who include shareholders, managers, creditors, tax authorities and other users who have interest in performance of an institution (Kisgen, 2016). And with understanding and since investors like Shareholders who are mostly risk adverse commit their hard earned money in institution to generate value for their investment and it's for this reason operation of a firm is paramount and should be number one priority for mangers. operation efficiency according to Muthoni, (2019). include efficiency use of resources by

institution and must always be an aspect for the management to achieve desirable operational efficiency.

Kisgen, (2016). examined operational efficiency of an institution using several method including financial statements where different ratios were undertaken according to the requirement of the concerned party or entity the operational efficiency was measured using profit after tax over operating expense and from the finding he noted that profit where financial metrics are evaluated with regards to past metrics, current metrics and the projected metrics (Muthoni, 2019), (Kulathunga, & Azeez, 2016). when resources of the company are used efficiently they are capable of generating income and shareholders are able to realize the value of their investment. further efficiency in management by the mangers of the company in generating net income from all the resources of the institution (Kisgen, 2016). Wen (2018) conducted a study on operational efficiency and overall growth where operational efficiency was measured using gross profit over operating expense. Ahmed, (2020). did a study on factors that improve the company's efficiency using its resources, the study measured efficiency using earning after tax over interest expense. several studies reviewed on this subject matter were gave mixed results especially on measurement where they used a portion of company's profit a portion of company's expenses. to solve this methodological gap, the current study measured operational efficiency using total expenses over total revenue.

1.1.4 the Profile of the Deposit Taking SACCO's

SACCOs who are deemed to be deposit taking are the once authorized to take deposits from and lend to its members (SASRA 2019). savings and credits societies are governed by SACCO's bylaws which guide them on organization structure, membership, share capital, lending

regulations and in most cases help them select and elect management team Ahmed, (2020). this Societies are regulated by SASRA. SACCOs are managed by management team which in most cases is elected by members during their AGM and according to their bylaws and cooperatives constitution. it is also very important to note that in some case these cooperative societies hire professionals who work for them as their employees who then report to management committee elected by members during their AGM or according to SACCO bylaws.

According to (SASRA, 2019). several SACCO's in Kenya have are organizational based where the membership is restricted to workers and employees of the industry or sector of working. According to (SASRA, 2018 & Abu, 2019). Kenya will have more 17,000 registered cooperatives and deposit taking Sacco's by the year 2022.

Majority of this societies are found in Major towns and majority are found in capital cities and big cities like Nairobi, Mombasa, Nakuru and others big town. it is also important to note that this deposit taking SACCOs have several other branches in their area of operations and this branches are spread across Kenya. SACCOs have several benefits to the country as they provide employment opportunities, they create and provide capital for income generating among the youth, they are referred as bankers of unbanked because those who may not afford conventional banking find banking services in the SACCOS and they also provide revenue to the government inform of taxes and permits. Since SACCOS are found in almost all sectors of economy in Kenya and over 75% of the Kenyan citizens derives their income either directly or indirectly through Sacco's initiative they are deemed to play a vital role as an intermediary as they mostly focus on personal or individual financial and social building

Deposit taking SACCOs are the once licensed to take money from private individuals and deposit for them and also which times may earn interest and they also led this money to

their customers who repays them with interest. this study is motivated by the growth of this societies because their performance has an overall economic and social benefit to individual members, government Kenyan economy and the general population.

1.2 Statement of the problem

The blue print of VISION 2030 indicated that SACCOs were expected to have steady Economic growth and opens other avenues of improving the living standard of the poor, by providing employment opportunities and access to cheap sources of capital. VISION 2030 aimed at injecting capacity and monetary assistance including appropriate redistributive policies that reduce income inequality while increasing indicated that the share of private income received by the lowest class of households (VISION 2020). World food program (WFD) recommended that the management of SACCOS should improve their performance by searching of the best ideas and taking advantage of the available opportunities, make proper financial plans, proper selection of personnel, adapt technological change and improve on competitiveness which is not the case. The set standard on liquidity ratios, debts, capital and equity are not met by several Sacco's and this has affected their operations with many winding up for example Gakuyo real estate SACCO, Ekeza SACCO, st. Mary workers SACCO among others. The accounting standard IFRS 9 dictates that liquidity, asset quality and earning are the crucial methods of measurement, evaluations and monitoring financial stability. (Kibet ,2015). SASRA, (2018). Observed that fraction of DTS had to rework on restructuring on their capital and operations in order to regain profitability. The reason for low or inadequate operational efficiency among SACCOS has been attributed to inadequate capital and poor loan pricing policies (SASRA 2019). The Sacco regulatory body in her 2018 report indicated that in 2019, over one hundred Sacco's in the

country did not meet the set mandatory capital ratio and this is a point of concern to all the stakeholders and has raised a serious fundamental questions about their capacity and capability on credit world.

Most studies on this area have majorly focused on relationship between restructuring and financial performance and limited studies on operational efficiency and focused more on developed markets such as United States of America (USA), Britain and Japan with little attention on developing or less developed economies (Njogu & Paul, 2017). Waseem Ahmed, (2020) on the Impact of restructuring on operations of the company in Pakistan market focused on agricultural sector and the result cannot be relied on by other sectors since it failed to accommodate other form of restructuring. In Bangladesh, Martirosyan, (2017). On impact of financial restructuring on performance using tier one bank listed stock exchange only focused on employees restructuring. Adekunle & Sunday, (2019). conducted a study on the impact of restructuring on operational performance in Nigeria and majored on operational restructuring and the result had a lot of inconsistency with similar studies hence may not be reliable. Lotto, (2019) on determinant of operational efficiency in Tanzania using commercial banks in Tanzania fell short of scope in terms of sample size of less than 30. Locally (Muthoni, 2019). Studied the relationship between restructuring and price volatility but only focused only on SACCOS in Nairobi county which is considered a financial hub. Kamau, & Nicholas, (2014). sought to establish the relationship between restructuring and firm performance on government owned entities. Kibet (2016) on effect of restructuring on performance of milk producing companies was limited on several aspects as it did not explore others factors that affect production of milk like drought or farmer's preference and like.

Most of the studies on this subject matter used questionnaires as a method of collecting the data which has most disadvantages in term data collection resulting to methodological gap. the current study used all the SACCOs in Kenya which was selected via random sampling. The data was panel which was processed through fixed effect model and was analyzed using multiple linear regression which makes the current study more unique in solving the methodological gap from the previous studies.

1.3 General objective.

The general objective of this study was to determine the effect of financial restructuring on operational efficiency of financial institutions especially deposit taking SACCOs.

1.4 Objectives of the study

- i.** To establish the effect of debt restructuring on operational efficiency of deposit taking savings and credit societies in Kenya.
- ii.** To examine the effect of equity restructuring on operational efficiency of deposit taking savings and credit societies in Kenya.
- iii.** To evaluate impact of customer deposit restructuring on operational efficiency of deposit taking savings and credit societies in Kenya.

1.5 Research questions.

- i.** Does debt restructuring affect operational efficiency of deposit taking savings and credit societies in Kenya?
- ii.** Does equity restructuring have any impact on operational efficiency of deposit taking savings and credit societies in Kenya?
- iii.** What is the effect of customer deposit restructuring on operational efficiency of deposit taking savings and credit societies in Kenya?

1.6 Significant of the study

1.6.1 SACCO Managers:

The study will enable SACCO managers with hint of how corporate managers should decide on the restructuring and what should be considered before they make the decision. By understanding the relationship restructuring and operational efficiency managers will have an advantage as seek to satisfy shareholder expectation and reduce the agency cost. Managers also may wish to be aware of the main issues that affect the operation efficiency of the company. This will lead to better management of this SACCOs in terms of competitiveness and growth.

1.6.2 Shareholders:

From this research shareholder have an insight especially be able to understand theories and the best practices that a serious SACCO should adopt as it pertains to restructuring. Most of Shareholders associate restructuring with selling of company asset and sacking of employees as a measure to cut cost and being the main stakeholders will have an in-depth understanding restructuring policy and operation efficiency.

They will be at informed point of view to answers the question of whether to accept restructuring as a way of improving operational efficiency or not. The responsibility of Shareholders to the SACCO is to monitor and evaluate the decision of managements so as all the decision made are with the line their expectation maximizing wealth and through this reach they will be able to therefore assist in making strategic investment decisions of their investment hence maximizing their wealth.

1.6.3 The Government:

This research is useful to the government as it can act as a reference point when formulating SACCOs policies as the government is in rush to protect the shareholders of the SACCOs and the investors who have in recent lost funds in the this SACCOs. The government is able to tell when shareholders are being exploited by SACCO managers. The newly formed regulator of SACCOs, the Society Regulatory Authority (SASRA) has also benefited from this research by understanding specific factors that affect SACCOs and should they adopt our recommendations may be able to regulate from informed point of view.

1.6.4 future researchers

Scholars and future researchers will benefit by making reference and citation to this research paper.

1.7 Scope of the Study

The study accessed the various forms of financial restructuring and their impact on operational efficiency especially on SACCOs. It involved respondent from the existing SACCOs in Kenya which included managers, members, employees and other stake holders. The study covered the periods between 2016 to 2021. The study also assessed the impact of financial restructuring operational efficiency of deposit taking savings and credit cooperative society in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

From academic literature review is a comprehensive study and interpretation of literature that addresses a specific topic (Patel's. & Loukas, 2019). According to Bar, (2017). the purpose of the literature review is to provide the review of the selected literature and synthesize the information based on the available evidence.

From this view current study literature review reviewed by way of analyzing several related and similar literatures touching on financial restructuring especially on deposit restructuring, debt restructuring and equity restructuring. From this chapter much emphasizes was put on scholarly research which touches mainly on financial restructuring in order to examine the impact of restructuring on operational efficiency of deposit taking savings and credit societies in Kenya. The theories of related studies reviewed formed a crucial point from which the empirical review was built and the conceptual frame work delivered form the research topic.

2.1.2 Theoretical review

Theoretical framework according to Patel, & Loukas, (2019) is the structure that can hold or support a theory of a research study. Theoretical framework brings and describes the theories which will explains why the problem of the study which is under current study exit. Theories are formulated to explain predict and understand phenomena and in many case to Challenge the extent existing knowledge within the limits of critical bounding assumptions. (Grolier, 2019).

Three theories Pecking Order Theory, Loanable funds Theory and Liquidity Preference Theory formed part of theoretical framework under the current study.

2.1.3 Pecking Order Theory

Pecking order theory by Donaldson (1961) states that firms rank their financing from internal source like retained earnings to equity and will always prefer equity financing when the rest have been exhausted. According to Donaldson companies will use their Internal funds first and it only when they are depleted they can talk of any other source of financing like debt and others. This theory underpins the presence of hierarchy in firms in terms of rising financing.

The theory argues that firm goes for internal finance first which includes retained earnings as opposed to quick external sources of capital like debts or issuing equity shares which are accompanied with some cost to the business. In case the internal finance falls short of expectation or say it inadequate the organization will take its second option from the hierarchy which is debt capital and new issued shares as a source of finance will be the last in the hierarchy. This theory shows that there is absence of reliable optimal capital structure.

In explaining the major reason of preferences in retained earnings the theory justifies that the absence of the retained earnings and its ability to save the company from several requirements of disclosures and the process hence saves a lot of money to the firm which puts retained earnings at the edge of other sources.

The easy accessibility of Retained earnings and its uniqueness of not involving a third party negotiations like lending banks makes it more preferable and highly ranked (Patel, & Loukas, 2019). For external source of finance according to Woods, Watson (2020) costs of issuing new debt is relatively lower than that of issuing new equity hence firm will prefer debts to equity.

Patel, & Loukas, (2019). confirm that debt is much flexible to equity source flexible for the firm can conveniently raise any amounts of debt at any time without much restrictions. debts do not carry any ownership problems which are associated with equity shares. when the first two is exhausted the firm goes for the last option which is issue of new shares as a form of financing.

Several modification has been done to the theory since it was first introduced by Donaldson in 1961. Myers & Majluf, (1984) introduced a rather complex definition of pecking order theory as they argued that the theory is based on a concept of information asymmetry. information Asymmetry according to Myers & Majluf, (1984) refers to a situation in where organization managers tend to gain more information on organization operations including its future prospects than the information which investors or lenders have on organization. (Gracia, Simamora, & Leonita, 2013) shows high level of information asymmetry has got the higher uncertainty leading to high cost of financing. on this note it is importance to note that retained earnings as a source of financing has got the lowest level of information asymmetry for the mere reason that such funds are always under the control of organizations mangers. consequently, Debt-holders have got relatively higher information asymmetry than retained earning but less information asymmetry than new issued shares providers hence becomes cheaper source to issuing new shares.

The theory implies that taking into account the cost of cost of financing it is only prudence for managers to managers heavily relied on rely on retained earnings and will only seek alternative when it is inadequate on will always follow the hierarchy where issuing of new shares will be the last option. (Myers & Majluf ,1984) noted that organizations which are profitable are at advantage to generate more retained earnings which is then reserved ready to be used as a source of finance hence reducing unnecessary debt.

The theory aligns well with the current study for its suggestions that organizations seeking to issue equity shares in order to boost their operations then it has to exhaust all the available avenues like operational restructuring. The theory argues that seeking alternative source of capital should always be below the market rate but this may not be achieved which leaves the firm with no option but to do financial restructuring in order to improve on their operational efficiency. Notwithstanding the above extracts therefore the theory was relevant to the current study on financial restructuring through debt, equity and deposits restructuring for the purpose of raising capital for Sacco's with financial distress and struggling with operational efficiency.

The theory was crucial to this research since it provided models through which SACCOs can raise capital through internal source than external sources. Though the theory SACCO's are able to prioritize reorganize their financing, either through restructuring and preferring internal source of finance first before seeking debt and issuing of shares should be last and seek to answer if it has an impact on operation efficiency.

2.1.4 loanable funds theory

The doctrine of loanable theory was developed in neo classical era by Dennis Robertson who was British economist and Bertil Swedish national in the 1930s. This loanable funds theory determined that interest rate is determined only by investment and savings only which according to them add to the bank credit.

Dennis and Bertil explained that the overall amount of credit available in a given economy may exceed private savings available because the banking system is able to create more credit from nowhere by money creation. They argued the equilibrium of the market interest rate is not controlled by predisposition to save or investing but also by the creation or demolition of convertible paper money made legal by government or decree and credit. The theory further

suggest that even if the banking system will enhance credit the process will temporarily abolish the market interest rate below the normal rate. From the scholarly definition loanable funds doctrine examines market interest rate via market equilibrium status.

Some of the notable modifications done to loanable funds theory is by Ohlin & Viner in 1937. The two economist argued that the market rate of interest is influenced by demand for and supply of loanable funds. Loanable funds theory extends from neo classical to classical theory which concluded that the interest rate purely by saving and investment but also it adds to bank credit. (Lindner, 2013). also contributed to the theory by evaluating that the overall credit in an economy is always more than private saving because it is influenced by the ability of banking system to create money hence the market interest rate is not determined by predisposition to save or invest.

Bibow, (2011). observed that the approach of the interest rate is also influenced by demand and supply of loanable funds. he further explains that the term loanable funds incorporate several types of credit which includes savings deposits, bonds, loans among others. loanable funds doctrines according to Thomas (2018) asserts equilibrium rate of interest is the one that brings uniformity among demand for and supply of loanable funds. (Jakab, & Kumh 2015). The equilibrium interest rate is determined at a point where the demand for loanable funds curve intersects the supply curve of loanable funds. Loanable funds are the sum total of all the money people and entities in an economy have decided to save and lend out to borrowers as an investment rather than use for personal consumption (Thomas, 2018).

The theory of loanable funds uses a classical market analysis to describe the supply, demand, and interest rates for loans in the market for loanable funds. If the bank system

enhances credit, it will at least temporarily diminish the market interest rate below the natural rate. through the contribution of Wicksel to the theory that we learnt that natural rate is that interest rate which is harmonious with the stable price parameters. Lindner, (2013). made similar contribution to the theory by adding that the element of Credit creation and credit destruction have an effect on changes in the price level and in the level of economic activity. this is a process which is known up to today as Wicksell's cumulative process as cited by (Lindner ,2013).

This theory situates well with the current study because its simplified assumptions that markets loanable funds are integrated fully as opposed to segmented market. What this means is perfect funds are always characterized by mobility of funds across the market. Bibow, J. (2016). Underscores that there is perfect competition in the market and that borrowers and lenders are prices sensitive preferential of low prices for borrows and high prices for lenders and that the pure rate of interest prevails in the market at any time. (Thomas ,2018). In his study on this subject matter alludes to the fact that forces of competition are also supposed to clear the market pretty fast, so that the single rate of interest is the market-clearing rate of interest.

This discussion makes the theory relevant debt and equity restructuring as for of financial restructuring with aim of generating adequate credit for lending which is the back bone of Sacco's operations. (Bibow, 2016). In his study on debt restructuring and operational efficiency noted that the supply of loanable funds is based on savings and the demand for loanable funds is based on borrowing and he further noted that the interaction between the supply of savings and the demand for loans determines the real interest rate and how much is loaned out. consequently, by Lindner, (2013) found that that the equilibrium interest rate is determined at a point where the demand for loanable funds curve intersects the supply curve of loanable funds. this discussion

was crucial for this current research as it formed a structure by which debt, equity and deposit restructuring of deposit taking SACCOs was laid to evaluate their significant on operational efficiency.

2.1.5 Liquidity Preference Theory

Liquidity Preference Theory was brain child of an English economist called John Maynard Keynes in 1936. in his theory Keynes had put forward a general theory of money, employment and interest rates which he called the aggregate demand for money for the economy liquidity preference. in the treaty Keynes suggested that an average investor always have demand a higher interest rate has appetite for premium securities which has long-term maturity period. the thinking of the theory was even though high premium securities has got greater risk and holding all other factors constant organizations and investors in general prefer cash and other highly liquid securities.

Keynes noted that majority of investors faced with two or more options with the same rate of return will always prefer the one which is most liquid. Bibow, (2013). noted that the short-term interest rate is determined by the supply and demand for money. Liquidity preference theory denotes that the demand for money being a function of interest rate in short-term bases which in the theory Keynes referred to it as liquidity preference function. Money supply is usually a fixed quantity set by a central banking authority (Bibow, 2016).

Liquidity Preference theory acknowledges short-term interest rate in an economy as being dominated by supply and demand securities or asset which are most liquid in the any prevailing economy. liquidity preference theory Keynes underscores that the interest rates for securities in short-term are always lower since investors don't sacrifice liquidity even if is for greater for time horizon than medium and longer-term asset. Keynes in his book attest to three motives of why

individuals hold money. first Keynes argued that people hold money for transactions motives. this was emphasized by Bibow, (2013) who found the assumption behind the individual wish to hold their money in cash was the guarantee of having adequate cash at hand for their daily buying needs. the second motive that Keynes brought forward was precautionary motive. this according to the theory is the desire for individuals to have additional liquidity for uncertain future. individuals as precaution measures always set aside some money just in case unexpected crises like sickness, accidents and the like happen in future they have substantial liquid cash to fix the problem. the third reason as to why people prefer liquid asset according to liquidity preference theory was speculative motive.

Keynes found that demand for cash is always high when interest rates are low and individual will hold their asset in cash until such time when the interest rate will rise. according to Murphy, (2014). speculative motive refers to investors' hesitance in setting up new investment capital because they are afraid of missing on premium opportunity in the future when interest rate is favorable.

Several modifications and criticisms have been done to liquidity preference theory. For instance, Belaw, (2013). provided a reassessment to Keynes' theory of liquidity preference. He noted that the Keynesian theory failed on both practical and theoretical bases to the theory which was revolutionary owing to the fact the role of liquidity preference theory plays as a pivotal element in capital structure of a firm.

Keynes' general theory. Jahan, (2014). made some contribution to Keynesian theory after arguing that the theory was biased toward a centrally planned economy. He noted that the government of the day had a big role and is expected to spare some funds to caution and thwart

depressions because it is generally understood that the government is always in know what is best for the economy.

This liquidity preference theory was relevant to current study as it supported deposit restructuring of deposit taking SACCO's to aid in availing much needed liquid cash which is crucial for SACCO lending to shareholders and customers. Operational efficiency of this financial institutions are affected by the inability of this institutions to raise the required amount of liquid cash. (Makori, Munene, & Muturi ,2013). argued that if cash is not available for lending this will affects the day to day operations of the Sacco's and the Sacco's become distressed if they lack the necessary credit for lending. therefore, we found the liquidity preference theory very useful to this study as it provided suggestions, ways and relevance of the motives to have the liquid asset for lending to struggling SACCOs.

2.2 Empirical Review

On this chapter the current study reviewed research and studies which were previously touching on financial restructuring and it effect on operation efficiency. The review on related literature was categorized into three sections namely debt restructuring, equity restructuring and deposits and their effect on operational efficiency of deposit taking savings and credits societies.

2.2.1. Debt Restructuring and operational efficiency.

Rastogi, & Mazumdar, (2017) did a research on long term effect of financial restructuring on operation of financial institutions in India. They used quantitative data analysis methodology ad they used descriptive analysis to analyses the data. The study examined the long-term effect of financial restructuring on operational of the financial institutions in India in their summery of finding they found that 35 MFIs of the population 70 MFIs sampled shown that financial restructuring had a long-term positive effect on operations of MFIs. They argued that the

decision to do a financial restructuring was important since firms were in urgent need to maximize profit. the study found that financial restructuring had an impact and that such decision are crucial to the organization because they boost their ability to have competitive advantage. They argued that most of the MFIs sampled were using equity as their source of their finances in India from their study we found that there is existence of positive and significance relationship between equity source of finance and operation of the firm.

On the same note Silva, (2018). did a study on the effect of debt structure on median financial institution operation in Pakistan? The objective of the study which adopted descriptive analysis was to evaluate the effects of capital restructuring on deposit taking savings and credits cooperative societies operations. The study used multiple linear regression to analyse the data. On their finding they found that debt and short term borrowing have an impact on ROE which is statistically significant but have negative and significant on ROA. The study made a finding that long-term debt ratio has positive and significant impact ROE but the same as no significant impact on ROA of MFIs.

The recommendation made by the study therefore was for MFIs to use long term debt to finance their operations and by so doing they may minimize the pressure on management of MFI. the study used data set from over 300 MFIs which show that majority of this financial institutions heavily depends on long-term debt financing. from their study Silva argued that in most cases both ROA and ROE were used as performance indicators. consequently, the study noted that debt to equity ratio, long term debt to equity ratio, short term debt to equity ratio, debt to assets ratio among others are used as financial structure indicators.

Lotto, (2019). conducted a study in Tanzania where he sampled 150 micro finance. the study used structured questionnaires as well as surveys to collect the data was analyzed using time series analysis. the study found that most MFIs sampled incorporated debt-financing as source of finance to finance their operations. long term debt was the most preferable among the firms which were reviewed. The study suggested that MFIs should adopt long term debt-financing for those financial institutions to assemble enough liquid asset so as they may improve their operations and reach more customers which will have greater economic impact in terms of their capacity and operation efficiency. from the summary of the finding the study noted that short-term debt to asset ratio has negative but significantly effect on ROA but noted that the same had positive and significant impact on ROE, this finding by Lotto therefore suggested that are the ones who strongly relied on long-term debt financing to finance their operations.

Maxwell, & Kehinde, (2012). conducted a study on the relationship between debt structure of the MFIs and financial performance in Nigerian. The study sampled 124 MFIs listed in the Nigerian stock exchange. they used structured questionnaire and surveys in their data collection and they analyzed the data using chi-square. The finding shown that most MFIs in most case equity have finance structure with bias in debt finance as opposed to equity finance. according to the study financial structure mix has statistically significant impact on performance and survival of majority of MFIs sampled. the study suggested that debt to equity ratio has significant impact on the operational of this financial institutions and managers who are aware of this mix in capital structures have always posted positive result on their overall performance.

Mutuku, (2020). undertook a study on the effect of debt restructuring on firm's profitability a case of medium, financial institutions in Kenya. the study adopted quantitative research design and the data was analyzed using multiple linear regression, the. study considered

the firms' level of investment including the degree of market power. The study found that there was a negative effect between restructuring and profit margins of the firms. The study which did not take into account the cost of capital concluded that negative sign on profit margin was a clear indication of either the cost of debt capital was more than the benefit accrued from the investment, or the SMEs sampled used the borrowed capital for other ventures than the intended propose. Adekunle and Sunday, (2019). the study was similar on comparison as it used quantitative research design and the data was analyzed through multiple linear regression. this study found that firms which were financed by retained earnings were noted to be more profitable and efficiency as compared to the firm operating on a borrowed capital.

Kibet, (2016) did study to evaluate the relationship between financial structure on financial performance of deposit taking savings and credit cooperative societies in Nairobi Kenya. the study used debt ratio to substitute financial structure and return on asset as well as return on equity were used as measures of organization financial performance. Ordinary Least Squares method was used in data estimation. from the finding debt ratio was found to have significant negative effect as a financial measure on financial performance. However, Kibet did put into considerations other financing decisions in the study also mediating effect of internal cash flow availability was not considering which could an effect on the finding. Hadlock, (2017) did an observation that firm which are profitable have a tendency of retiring their debt on time in order to maintain a desirable leverage, loss making companies on other hands were found to have higher debt on their structures and to some firms this debt is almost to the higher limit of debt ratio. The finding was a true indication that profitability has an impact and reflection to the growth the firms in all aspects. This in real sense confirms that firm performance and leverage can be negatively related. therefore, the study suggested that firms should be keen on utilizing

their retained earnings and make less debts to achieve a desirable profit margins. the study made an implication that MFIs performance and debt are considered to have a negatively relationship.

Debt restructuring is a practice used institutions or individuals to in the risk of default on existing debt or those who want to take advantage of available debts at lower interest rates (Kibet, 2019). Organizations, countries as well as individuals on the risk of insolvency can undertake Debt restructuring to spice their operations. Makori, (2018). in his study on restructuring of debt financing found that for any aggressive liquidity policy, organizations should combine high level of low cost short-term debt and low long-term source of capital. In some instances, capital costs if eliminated increases the risks of a short-term liquidity. The study found that the overall and short term debt has a positive impact on the organization's profitability. according to Makori the strength on firm's profitability is the most crucial factor when the organizations wish to source capital financing outside their countries especially those countries with strict collateral laws.

In summery most studies are in consistent with debt restructuring theories and financial structure which most of them argue that organizations with inadequate fixed and valuable to use as a collateral find it difficult to get long term debt for financing activates hence their operation efficiency is affected in long run.

Most of the studies reviewed had found that short term debt and long-term debt have positive and significant impact on the profitability if the firm hence operation efficiency is improved, also from the studies the current study sought to observed if most profitable organizations abandon their debt and but choose to maintain leverage at lower end if for loss making organizations they always have appetite for higher debt level and in most cases they surpass their debt ratio limit. The current study sought an elaborate conclusion weather

organizations performance and leverage might, and if profit making firms prefer to use retained earnings and only use debt financing relatively more often than loss making entity. The current study sought to have a logic conclusion on whether debt and performance of the company have an inverse relationship.

2.2.2 Equity Restructuring and operational efficiency.

Equity capital is a form of capital; finance which enables the holders some degree of influence and power to monitor and value by way of voting any major made by the management through board of directors. It is therefore prudent and good managerial actions to have strategic assets and key operations of the firm financed through equity capital. According to Kibet, (2016) deviation from this culture may be costly to organizations in terms of getting adequate capital with dire consequence in long run leading to organization poor performance and poor operational efficiency. Li, & Graham, (2020) did a study on the costs of equity and found that tax costs, adverse selection, premium and floatation costs are the main cost of capital. These costs have an impact on the performance of firms when aggregated. Li and Graham findings align with the existing theoretical models and empirical studies. Study done in Pakistan shows that Equity restructuring involves aligning the retained earnings and share capital for a financial institution. (Repose & Lehmann, 2019). did a study on Equity restructuring in Vietnam? they used a data set of 200 SACCOs. the study adopted analytical research design and used descriptive analysis to analyze the data.

The study found that equity restructuring a transaction between an organization and its shareholders that adjusts the intrinsic value of the stock. From the study we found equity have positively and significantly impacts on ROE but have negatively and significantly impact on ROA. the study suggested that since Long term equity had a positively and significantly impact

ROE, firms should have adopted the in their capital mix the element of equity capital and go slow on short term source which were found to insignificantly impact on ROA of MFIs. the study further suggested that profitable firm should adopt long term financing to ease on management pressure.

Trong, (2021) did a study in India using data set consisting 150 MFIs. the study adopted quantitative research design and multiple linear regression was used to analyses the data. the study found that both ROA and ROE are in most case used as performance indicators, on the other hand the study argued that debt to equity ratio, long term debt to equity ratio, short term debt to equity ratio, among others are financial structure indicators of MFIs. the study further argued that equity financing structure is important to the performance of MFIs from angle of agency theoretic point. the finding of the study tends to confirm the claim by agency theoretic that increase in leverage increases profit-efficiency and operational efficiency at long run. With that in mind the current Study will reject or fail to reject the hypothesis by Trong that cost efficiency will decline with a decrease in leverage. this is because Leverage are said to have a negative significant impact on debt.

Ondari, (2019). Did a study on the effects of Financial Restructuring on Financial Performance of deposit Taking Sacco's in Nairobi? The study adopted quantitative research design and the data was analyzed using multiple linear regression. In his study Ondari used 50 deposit raking SACCOs. the study found that equity structure does not have any significant effect on financial performance. the study only relied on SACCOs found in capital city which is financial hub for the country in term of liquidity and most SACCOs might not need additional capital. from the study their researcher suggested that financial performance of the SACCOs are influenced by others facts like the customer base and number of branches as opposed to capital

hence equity restructuring had no influence. the study brought some contradiction and the current study seek to address.

In Cameroon Mbuh (2016), conducted a study on the effects of equity structure on the financial efficiency of microfinance institutions. He used panel data of microfinance institutions in Cameroon for a period between 2007 to 2016. The study analyzed the data using multiple linear regressions with both fixed and random effects.

The result indicated that the financial structure has a significant effect on financial efficiency of microfinance institutions sampled. The study showed that debt and equity financing are important variables of financial efficiency. The study found That since equity was an important variable to operations efficiency of the micro finance he suggested that firms with inadequate liquidity and facing survival tactics should adopt equity restructuring to ease management pressure and agency conflicts. The current study there will seek to understand as shoe the effect of financial restructuring on operational efficiency.

Consequently, in Ghana, Abor, (2015). sort to established the impact of equity finance restructuring and the relationship with Return on Equity. the study used 70 SACCOs owned by rural farmers in Ghana. the study adopted quantitative research design and he used time series analysis to analyses the data. some of the limitations of the SACCOs the study sampled was that majority were small scale enterprises in nature with had limited access to borrowings because inadequate collaterals since bank loans accrued high interest rates. The study recommended that there should be provision of basic institutional structures for capacity building and encouraged the SACCOs to build linkages with banking sector in order to attract borrowing. The study found that there was existence of positive effect on equity restructuring and return of equity but went further to suggest that there is need for SACCOs strategy implementation plan.

2.2.3 customer Deposits Restructuring and operational efficiency

In Bangladesh, Rahman and Mazlan, (2014). did a study to determine effect of minimum deposit increment on overall operation of microfinance institutions and tried to do a comparison with their position in SACCOs. They study used quantitative design and the data set which was mainly secondary data was gotten from Bangladesh stock market website. multiple linear regression was used to analyses the data. The study found that any deposit increment had positive and significant impact on operational performance of MFIs. based on their finding However, they recommended that management should have policy considerations for successful and effective minimum deposits for MFIs and be have to have programs which will simplify the distribution of loan to improve on gross loan portfolio and enhance personal productivity.

Harwood, Nakola, & Nyaana, (2016) did a study on deposit restructuring and its effect on firm operations a case of deposit taking SACCOs in Tanzania. The study adopted quantitative design and the data was analyses through multiple linear regression. The study found that deposit restructuring had positive correlation with operational performance of the deposit taking SACCOs. The study only sampled Sacco's in urban centers and the current study will seek to solve if the position will change on operational efficiency and if a mixture of both rural and urban Sacco's will give a different result.

Ombaka and Jagongo (2018) did a study to examined the importance of member deposits and savings in deposit taking Sacco's in Kenya. The study used a data set of 50 deposit taking Sacco's which was secondary data gotten from Nairobi stock exchange website. In their study they adopted quantitative research design and the data was analyzed using time series analysis.

The study found that voluntary savings from the members for providing services customers and members enables the Sacco's to accumulate substantial deposits which is a low cost source of capital, stable and which boost their loan portfolio. The study found that this form of finance reforms the back bone of the financial institution and help the Sacco's to lent low interest rate loan to member who engage on productive ventures like small business agriculture etc.

Deposit restructuring is a process where financial institution aligns members' minimum deposit with the aim of increasing the working capital with a goal of improving operational efficiency of the institution (Abrar and Javaid 2016). Okoye, Omankhanle, OKOH, Ezeji, & Ibileke, (2020). conducted a study to evaluate the relationship between deposits and financial performance of deposit taking SACCOs in Nigeria. the study used purposive sampling technique and a population of 39 registered SACCOs employed. the study used a data for 5 years which was mainly secondary data. they used multiple liner regression to analyses the data. the multiple linear regression output revealed that there was strong negative correlation between member's savings and financial performance of the sampled SACCOs.

Although there is a written rule that the member deposit act as a measure of lending strength the study found country result and rejected the hypothesis that deposit is the most liquid form of capital for lending institutions this is because MFIs with larger proportions of customer member deposits enjoys higher lending advantage. Ledgerwood (2018) explains that the voluntary as the most available liquid capital and easy to adopt as opposed to compulsory savings which as times may not be available when needed.

Mwangi, & Maina, (2021). conducted a study on the effect of financial structure on the financial performance of financial firms listed at the Nairobi Stock Exchange. The study collected data using structured questionnaires and was analyses through time series analysis. the

finding of the study found strong positive relationship between short term debt capital and the MFIs return on investment, liquidity, and equity. The study developed hypothesis that short-term debt financing has more benefit than their negative effect. They argued that organizations will go for internal source of capital to fund their investment before seeking external source. This hypothesis seems to contrast by several studies done on this particular area. The current study therefore will seek to reject or fail to reject this hypothesis

Mazumdar, & Rastogi, (2021). Examined the effect of financial structure on operational performance of the public Indian firms listed in India stock market. They used multiple regression model and adopted ordinary least squares as a model to examine the effect of financial structure on operational performance. The study applied 76 firms in both industrial and service corporations for the period between 2016-2020. From the study the result revealed that financial structure was negatively associated with operational performance. The study found there were no significant impact of the financial leverage between highly financially leveraged firms and firms with low financial leverage on their operational performance. They suggested that debt sales could easily add additional cash to the business but also speed up the agency conflicts.

Makori, Munene & Muturi (2013), in their study on the challenges facing SACCOs in Gusii region in Kenya revealed that high investment in non-earning investments and inadequate managerial competence mainly contributed to failure of the Kenyan SACCOs. Structured questionnaires, interviews and focused discussion were used in the study with selected persons to collect data. The study revealed that managerial flexibility is important especially during harsh economic times, like closing business doors and then reopening when economic conditions improve, investments with high managerial flexibility experience low funds flow and high performance hence high return. In relation to this, the study concludes that managerial abilities

have a positive impression on financial performance of SACCOs in Kisii County. This study should however be criticized for failing to look into other challenges being faced by SACCOs in Kenya like competition from the local commercial banks, the challenge of loan defaulting, the challenge of the volatile interest rates by the regulator and the political situation in the country hence these challenges are major and critical in the SACCO's environment.

Cheruiyot, Kimeli, and Ogendo, (2012) researched on the effect of Sacco strategies on members' savings pooling within Nairobi, Kenya. They also researched on the effect of intervening factors (family size, attitude, and income level) on savings mobilization. The study population sample consisted of 30 Sacco's out of 2,500 SACCOs inexistence and 180 SACCO members out of 150,000 members in Nairobi area. The samples were selected using simple random sampling.

The study found out that training requirement had an average positive influence on savings pooling while investment opportunities and intervening variables (like family size, children in school and income level) had a strong positive influence on 22 saving mobilization. From the findings, it was concluded that members' savings mobilization or pooling were partially affected by Sacco strategies. The study did not link the effect of internal capital and managerial abilities on operational of SACCOs in Kenya, thus warranting the present study to fill these gaps.

Most of the findings the current study reviewed are inconsistent and thus don't not provide sufficient information for understanding the impact of Sacco's financial restructuring and its composition on operational efficiency, the studies knowledge misses largely on the literature arising to constitutes knowledge gap in Kenya therefore current study is of significance.

2.3 Conceptual Framework

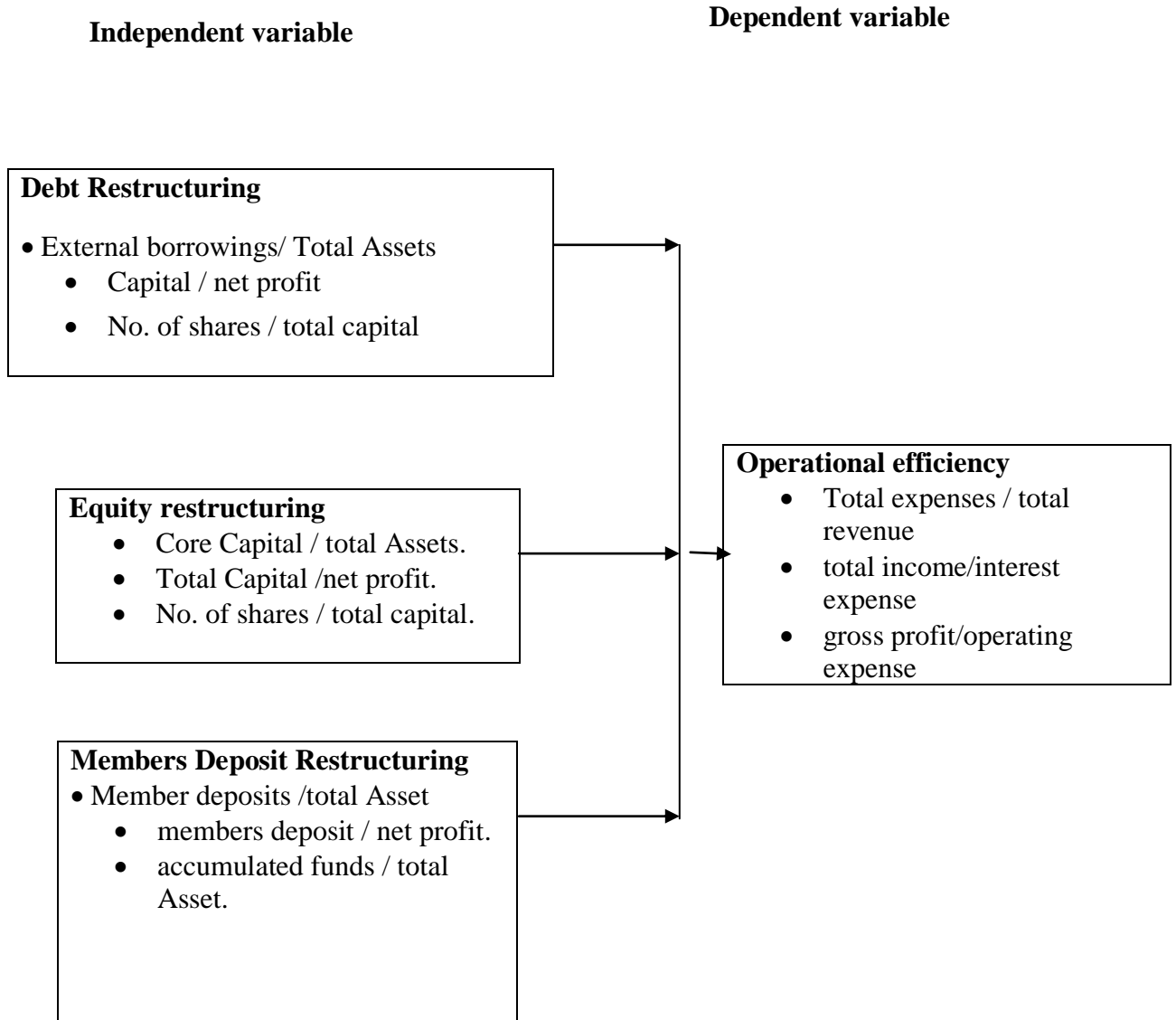
according to Creswell, (2014). a conceptual framework is a mixture researcher's literature on how an occurrence is explained through written or graphical form, it shows the actual and logical relationship or impact of ideas in a research. Figure 2.1 below shows the conceptual framework which was used in the study. The study adopted three independent variables and one dependent variable. The independent variables of this study was centred on debt restructuring, equity restructuring, and member's deposits restructuring and the dependent variable will be operation efficiency.

Debt restructuring is defined as process used by institutions to avoid the risk of default on existing debt finance and a times is used to take advantage of lower interest rate debt available. (Raposo & Lehmann, 2019). The variable was measured using external borrowings to total assets. Equity restructuring according to (Kim, Ko & Wang, 2019) includes transaction between a corporation and her shareholders which might alters the fair value of the stock of similar reward. This was measured using core capital to total assets. Members Deposits restructuring on the other hand is defined as a process of aligning the minimum member contributions while aiming to increase the working capital for the SACCOs' (Haber & Reichel, 2015). This was measured using member deposits to total assets.

Operational efficiency is defined as the ability of deposit taking savings and credit society to reduce wastage in time, effort and materials to the lowest level while maintaining high quality goods and services (Raposo & Lehmann, 2019). This was measured by taking total expenses over total income. The measurement scale of all the parameter was ratio.

2.6 CONCEPTUAL FRAMEWORK

FIGURE 2.1



2.7 operationalization of variables

This study was operationalized both independent variable and dependent variable as shown on the table below.

TABLE 2.1
OPERATIONALIZATION OF VARIABLES

Variable	Definition	Measurement	Measurement scale
Dependent Variable	Operational efficiency	<ul style="list-style-type: none">• Total expenses /total revenue	ratio
Independent variable	Debt Restructuring	<ul style="list-style-type: none">• External loans to Total assets• Total borrowing to Total Asset• Total borrowing to net profit	ratio
Independent Variable	Equity Restructuring	<ul style="list-style-type: none">• Core capital to total asset• Capital to net profit.• No. of shares to total capital	ratio
Independent variable	Member deposit Restructuring	<ul style="list-style-type: none">• Members deposit to total asset• members deposit to net profit• accumulated funds to total Asset	ratio

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

From this chapter the researcher examined research design, target population, data collecting instrument, data collecting procedure, data analysis and processing methods as well as measurement of research variables. The study further analyzed various processes and approaches that was used when collecting and processing data.

3.1 Research design

This study assumed an approach of descriptive research design. Murimi, & Mungai, (2021). contend that descriptive research design is applicable majorly when the objectives of the study are structured. Descriptive design aims at surveying the nature of factors that are involved in a given situation and to find out the degree of the relationship between the variables under review. This research design therefore was preference for the study because the study sought to study the occurrence of the variables without manipulating the variable.

3.3 Target Population

According to Aklam, (2017). target population is a cluster of elements from which the sample is selected. Target population also according to Aklam represents the collection of cases which the researcher has an interest over for the purpose of generalization. The study therefore targeted 50 deposits taking Sacco's (DTSs in Kenya which are licensed SASRA by the year 2021. There are different sectors where this DTS are formed e.g. Agricultural SACCOs, educational SACCOs, finance sector SACCOS social group SACCOS and manufacturing SACCOs. The least sector has 10 therefore the study sampled 10 SACCOs from each sector making the total sample to be

50 DTS. DTSs are licensed to take deposits from their registered members and lend to members who repay with an interest. The researcher focused on SACCO's with an effort to analyze their financial structures with their operational efficiency. The study covered a period of 5 years from 2016 to 2021

3.4 Sample Size and Sampling Procedure

Murimi, & Mungai, (2021). asserted that Sampling is a technique that enables a researcher to gather a proportion of materials or people together that can be a representative of the entire population under the study. This study adopted simple random sampling, this method forms subset of a statistical population where each member of the subset has an equal probability of being chosen and is most preferred as is meant to be an unbiased representation of a group. (Bryman ,2016) and (Schumache ,2014). The researcher adopted simple random technique to study the 50 SACCOs in Kenya. The study covered years from 2016-2021. The 5-year period provides a substantive duration for panel data analysis.

3.5 Data Collection

The research used secondary data. The secondary data was retrieved from SASRA registry which comprise of audited financial statements from the deposit-taking SACCOs. As Ngari, (2021) alluded that secondary data is a useful qualitative technique for evaluating historical or contemporary confidential public records, reports, government documents and opinions. The research focused on the period between 2016 to 2021. The researcher wrote emails to the regulator (SASRA) and other agencies through email seeking permission to collect data for the purpose of this research. The researcher visited the regulator's registry and other relevant agencies collect the relevant data and other materials and information crucial for the research

and after all necessary data was collected the researcher performed data analysis based on research objectives.

3.6 Diagnostic Tests

Diagnostic tests are simply valuation of a test on its diagnostic accuracy which may requires a multivariable, cross sectional prediction study of each subject the result Chelimo, & Kiprop, (2017). the study applied mathematical software STATA16 to test for autocorrelation, heteroscedasticity tests, multicollinearity tests where possible. the data was also tested for normality to examine whether data was from normal distribution and check whether the random variable calculated followed normal distribution standard and evaluate whether the data was obtained from a normally distributed population. This tests are important and were conducted to evaluate whether the data violate any regression models assumptions of since any data contravening the presumptions of the panel regression yield fictitious result. To calculate how likely, it is for a random variable underlying the data set to be normally distributed. A normality test was used to determine whether sample data has been drawn from a normally distributed population. then the actual estimation model was fitted. This research adopted assumptions and Hausman test to evaluate the data collected before the actual analysis.

3.6.1 Autocorrelation

Autocorrelation test is when data shows some certain trend over time producing similarities in the rates of change over some periods of time. Autocorrelation models show that they are well defined which means that key variable(s) might be missing from the model. It is important to note that Autocorrelation has no influence on unbiased and linearity of the estimators. The drawback of Auto correction is that it contravenes the attributes of the Ordinary Least Square

(OLS) leading to false outcomes in hypothesis testing Williams (2016). This research used Breusch Godfrey test to check the presence of serial autocorrelation from the collected data.

3.6.2 Heteroscedasticity

One of the assumption of regression models is that the error term difference or variance is assumed to be constant across all observations. Violation of this assumption of the random variable is referred as heteroscedastic and when control model has elements of heteroscedasticity, we therefore conclude that analysis is not correct. Gujarati, (2014) argued that heteroscedasticity allocate equal weight across all observations and results to the standard errors being discriminated and consequently leads to incorrect results when testing the hypothesis. Breusch-Pagan test was used in this study to check for existence of heteroscedasticity on collected data.

3.6.3 Normality Assumptions

One of the un disputed hypothesis is that any sample size with number of observation more than 30 is said to be normally distributed. Nevertheless, gujarati, (2014) asserts that normality assumption is the possibility that the data gathered was normally distributed over the sampled population. He further argued that normality tests are conducted to examine if the data set is well represented by a normal distribution. Both panel and linear regression models have assumption that the error term is normally distributed with zero mean and constant variance. When this normality assumption test was confirmed not to be violated the ordinary least square estimation was developed. This research used Jacque Bera Test for normality test.

3.6.4 Multicollinearity Test

Iacobucci, & Mullighan, (2017). Defined Multicollinearity as a test for determining the direct relationship between two or more variants in a regression analysis. Multicollinearity problems occurs where the correlation between the explanatory variables is greater than 0.75 (Gujarati, 2014). He further argues that what matters most is the degree of the multicollinearity and not its presence or absence. He recommendation that variables which greater than 10 should be included and the researcher should eliminate any combination which is higher than 10. Variance inflation factors (VIF) test was used to test for multicollinearity.

3.6.5 Durbin – Wu –Hausman Test

This test is also referred to as Hausman specification test. This test is done to check for consistency of the estimator when compared to an alternative and less efficient estimator. Etikan, Musa and Alkassim, (2016) underpins that for one to decide between random effects and fixed effects, it is important to run a Hausman specification test whereby the null hypothesis is the random effects. Therefore, this study conducted a Hausman specification test on the data to determine the best appropriate estimation model between the random effects and the fixed effects models.

TABLE 3.1**SUMMARY OF TESTS**

NO.	DIAGNOSTIC TEST	MODE OF TEST	DECISION RULE
1	Autocorrelation	Breusch Godfrey test	Fail to reject if P- Value is < 0.05
2	Heteroscedasticity	Breuch –Pagan Test	Fail to reject if P- Value < 0.05
3	Normality Assumptions	Jacque Bera Test	Fail to reject if p- value < 0.05
4	Multicollinearity Test	Variance inflation factor (VIF)	Fail to reject if VIF < 10
5	Durbin – Wu –Hausman Test	Hausman specification test	Use of random effect if p-value is < 0.05

3.6.6 factor analysis

In order to get one predictor variable from the three measurable variables in each case the study adopted factor analysis techniques. According to Lenaerts, & Demont, (2021) Factor analysis is mathematical data reduction technique which help the researchers to scrutinize difficult concepts which cannot be measured directly and explore variables with similar characteristics and crush them to one predictor variable which has most collinearity.

3.7 Data Processing and Analysis

Murimi, & Mungai, (2021) define data analysis as a procedure that reviews, converts and displays data to bring out crucial and tangible information which will suggest a conclusion for the researcher with an aim decision making. Akram, (2017) argued that the panel data regression is favorable in conditions where the data available comprises both time series and cross-sectional components. Panel data is preferred since it take into account a wider range of issues and more sophisticated problems. Gujarat (2014) holds that panel data to be desirable because it incorporates more information in the model, that is, it combines variability across time and cross-section units. The model of this research focused on panel data approach. The cross-sectional component is reflected by the SACCO's and the time-series component is reflected by the period of this study (2016-2021).

The study utilized a panel regression model using a mathematical software STATA 16. This research has adopted the panel regression model of the following for

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \epsilon \quad (1)$$

Where;

Y_{it} = operational efficiency of SACCOs i at time t

X_1 – Debt Restructuring of Sacco i at time t

X_2 – Equity Restructuring of Sacco i at time t

X_3 – Deposit Restructuring of Sacco i at time t

t = time period 2016- 2021

β_0 - Is a constant; the concept explaining the SACCOs operations given as Y value when all the predictor variables (X_1 , x_2 & X_3) are zero or held constant.

β_1 , β_2 & β_3 , – Are regression coefficients constants representing the condition of the independent variables to the dependent variables.

I_t = Error term where I am cross sectional and it is time identifier.

There are three types of panel data namely Pooled OLS model, Fixed effects model and Random effects model. (Wooldridge 2017).

3.7.2 Pooled OLS model Panel data

Pooled OLS (Ordinary Least Square) according to Lenaerts, & Demont, (2021). Is a a model of panel data handle dataset same way to other cross-sectional data disregarding that the data has both time and individual proportions. Basically the assumptions of pooled OLS are almost the same to that of ordinary linear regression. Pooled OLS panel data model is applicable when one has different sample of each say year, months or period. Pooled OLS is said to be biased and inconsistent because zero conditional mean error fails for the combined error. (Gujarat 2014). Because of this characteristic it made it unfavorable for this study.

3.7.3 Random effects model

Random effects panel data model is the model of panel data that have controls for differences between individual variables (Lenaerts, & Demont, 2021). One of the demerit of this model is that it does not take into the account the individual variables which are constant but change over time. A random effects model takes into consideration these individual variations as well as time dependent variations but hypothesize individual group/time have different disturbances.

3.7.4 Fixed effects model

According to Lenaerts, & Demont, (2021) data models examines both cross-sectional which is group and time-series or time effects. This is because this effects may either be fixed or random. Fixed effects model therefore makes an assumption that individual group and time will not have the same intercept when regression equation is formulated. In simple terms one may make hypothesis that financial restructuring has an overall impact on operational efficiency but is also possible that each individual SACCO has different factors that may affect operational efficiency rather than restructuring like competency of management, locations, number of customers and the likes, fixed effect therefore will go step further to take into account the differences between individual entities (for this study was SACCOs). for this reason, the current study adopted the fixed effect model of panel data because fixed effects model represents the subject-specific means by removing omitted variable bias by measuring changes within groups across time. (Hsiao, (2022).

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The chapter shows results findings and the analysis on their importance on objectives and hypotheses. This finding are shown through tables as well as expiations based on the specific objectives. Moreover, the researchers have included both descriptive statistics and diagnostic tests for more understanding of the subject matter. This section has also produced results of the models which were adopted by the current study in explain and in realization of objectives of the study. Data and information that were used in this study were retrieved various entities which included financial statements, income statements, journals from SASRA, CBK. Selected DTPs SACCOS among others. The study covered all SACCOs in Kenya which were selected though random sampling. Though the use of mathematical software STATA 16 the researcher was able to check if the data was complete and any outliers were successfully removed and the data was confirmed to be panel and was balanced. Based on operationalization variables presented in table 2.1, the researcher obtained debt restructuring from external borrowings to total assets. Equity restructuring on the other hand was measured using core capital over the total assets. Similarly, members' deposit restructuring was evaluated using member deposits to total assets.

4.2 Descriptive Statistics

descriptive statistics presents the mean, standard deviation, minimum and maximum values of the variables operation efficiency presented by Return on Assets. it also shows other measurement of the variables including core Capital to Total Assets, External borrowings to Total Assets, and Member' deposits to Total Assets for the sampled population of 50 DTSS

SACCOs during financial period between 2016-2021. This results are presented on the table below and measuring parameter was percentages.

TABLE 4.1
Descriptive Statistics

Variable	Observation	Mean	Std. Dev.	Minimum	Maximum
Return on asset (ROA)	300	1.23	1.22	.01	7.25
Debts restructuring (External debt/total asset)	300	7.14	7.07	.51	41.05
Equity restructuring (Core capital/total asset)	300	11.50	12.24	.07	63.91
C. deposit restructuring (Members' d/total asset)	300	6.01	6.22	1.09	41.42

Source: STATA our put for descriptive test for Sacco from 2016-2021

From the summery we got Return on Asset with a maximum of 7.25 billion shillings and the lowest SACCO reported 0.01 billion shillings. With a mean of 1.23 billion and the standard deviation of 1.22 billion this can be interpreted that that no SACCO was operating on negative side meaning that all the SACCO under the review reported profit for the period between 2016 to 2021. it is also important to note that ROA of 0.05 or 5% is considered to be an idea for any organizations that can be said to be operating at optimum. We concluded that some SACCOs under the review were not able to raise enough capital to led to their members as loan for the period under the review. This is because several Sacco's had ROA less than 0.0 5 meaning that they had inadequate resources for their operations.

Debt restructuring which was measured by External borrowings to Total Assets gave us a mean of 7.14 Billion shillings with a standard deviation of 7.07. Minimum ratio and maximum ratios

were 0.51 and 41.05 respectfully. This is to imply that on average most SACCOs were able to maintain a desirable low external loan to asset ratio of 25% which is desirable and as recommended by the SACCOs' regulators SASRA 2017. On the other hand, Equity restructuring measured by Core Capital to Total Assets shown a mean of 11.50 billion shillings with a standard deviation of 12.24. minimum ratio and maximum ratios were 0.51 and 63.91 respectfully. This figures were clear indication that majority of SACCOs core capital were on mean compared to issued total loan over total asset over the period under review. SASRA regulations dictates that SACCOs should maintain core capital to total asset on average of 0.01 or 10%. Customers' deposit restructuring which was measured by Members deposits to Total Assets had a mean of 6.01 with a standard deviation of 6.22 billion shillings, minimum ratio 1.09 and maximum of 41.42 billion shillings. The implication of the mean of 6.01 billion was a clear indication that deposits contributed by members of the Sacco's was way above of total loan to total asset by over 75%. This means that majority met the regulators guidelines on total loan to asset ratio of over 0.5 or 50%. This results collaborated with other studies done on this subject. For instance, Hashmat, (2018) from his study in Nigeria found that the effects of debt restructuring had a weak correlation with financial performance of the Sacco's'. On the same note Ondari, (2019). Did a study on equity restructuring and concluded that proportions of core capital had a weak effect on SACCOs returns over the long period. From Nigeria Omeje (2017) established that increasing minimum members deposit for Sacco had strong and positive correlation on financial performance as it translates to increasing liquidity and working capital for the Sacco's.

TABLE 4.2*factor analysis test*

Factor	Eigenvalue	Difference	Proportion	Cumulative
Variable	Factor1	Factor2	Uniqueness	
Debt/ asset	0.4644	0.1530	0.7609	
Equity /asset	0.3721		0.8615	
Member deposit/ asset	0.0792	0.2025	0.9527	

Source: STATA output for factor analysis.

In order to determine the relationship of a given variable in the dataset is with a common factor the study adopted factor analysis test. According to Hashmat, (2018) a variable loading close to one suggest that a variable strongly influences the variable. Similarly, uniqueness extraction rule indicates that a variance of more than 0.76 suggest that the variable strongly influences the variable.

For this reason, therefore the result of factor analysis indicates that for debt restructuring debt over total asset had uniqueness of 0.76 and it was adopted and predictor variable to measure debt restructuring.

On the other hand, equity restructuring measurable variables were tested and debt over total asset was adopted after reporting uniqueness index of 0.86 which meant that debt over total asset was more correlated to the variable. For customer deposit restructuring members deposit over total asset was adopted by the study after it indicated to have strong correlation with the variable with uniqueness of 0.97.

4.3 Correlation Analysis

correlation analysis on variables was performed, for instance correlation analysis Debt restructuring, Equity restructuring as well as customers deposit restructuring on ROA for the DTSs in order to evaluate the nature, the degree and significance of statistical relationships among the paired variables. Table 4.2 below indicates correlation matrix in summary.

FIGURE 4.3

correlation matrix

	ROA	Debt Restructuring	Equity Restructuring	Deposit Restructuring
ROA	1.0000			
Debt Restructuring	0.0000	1.0000		
Equity Restructuring	0.0000	0.0000	1.0000	
Deposit Restructuring	0.0000	0.0000	0.0000	1.0000
ROA	0.8637	0.9492	0.8523	1.0000

Source: STATA results for correlation matrix.

From the above table 4.3 we found debt restructuring with r of 0.8842 and p of 0.000. This results indicate that debt restructuring had positive and statistically significance influence on ROA for the DTS in Kenya. Similarly, Equity restructuring reported r = 0.7529 and p = 0.000 therefore we can conclude that equity had positive and statistically significance relationship with ROA for DTS in Kenya. On the same note customers deposit restructuring had a r of 0.8637 with a p of 0.0000 which means that the relation with ROA is strong positive and statistically significance for DTS in Kenya. significance relationship on return on assets for the deposits taking Sacco's in Nairobi County. Statistically r of 0.5 or 50% and p < 0.05 is the statistically

significance. For this reason, all the positive coefficient is a confirmation that the three variables are statistically significance on return of asset of deposit taking Sacco's in Kenya this implies that any unit of debt restructuring equity and customers deposit restructuring will lead to an increase on return on asset of deposit taking SACCOs in Kenya.

4.4 Diagnostics

In order to make sure no assumption of linear regresses ion are violated or contravened the study performed several diagnostic evaluations and tests. Some of this test included autocorrelation, multicollinearity, normality test, hetescedastitcity, serial correlation among others. All this tests were pre estimated in order to eliminated the possibility of producing fictitious regression results.

4.4.2 Test for Autocorrelation

To test whether the data violates the assumption of ordinary least squares which may lead to wrong hypothesis testing and consequently wrong results, Autocorrelation Test was done. The current study adopted Breusch Godfrey test to Test for Serial Correlation to establish any serial autocorrelation from the collected data.

TABLE 4.5

autocorrelation

Breusch Godfrey test for autocorrelation in panel data

H0: no first-order autocorrelation

$$F(1, 297) = 7$$

Prob > F = 0.000

Source: STATA output for autocorrelation

Breusch Godfrey test for autocorrelation shown F-test value of 7 with P-value of 0.0000. this results suggest that both F-test and p value statistically significant at 0.05 significant level. Therefore, we reject null hypothesis and conclude that there were no presences of autocorrelation from the data meaning that the residual is not auto correlated.

4.4.3 Normality Test

The study adopted Jaque Bera test method to test normality test. This test was done to ascertain whether the data was normally distributed and whether the data skewness marches the normal distribution. Residuals of the model were also tested for Normality with the understanding that assumptions always apply for mysterious variable model. The study made the hypothesis that the data was normally distributed.

The results are as shown in Table 4.5

TABLE 4.6

Normality Test

. jb residuals			
Jarque-Bera	normality test:	9.02	Chi (3) 0.067
Jarque-Bera	test for Ho: normality:		

Source STATA results for normality test

The results in Table 4.6 show Chi-square of 9.02 with P-value of 0.067. since the p value is greater than 0.05 we therefore failed to reject the null hypothesis and conclude that the data was normality distributed.

4.4.4 Heteroscedasticity

One of the assumption of linear regression is that both the error term and variance are assumed to be constant across all the observation. Any violation of this assumption the random variable is referred to as heteroscedastic. Whenever the control model is confirmed to be heteroscedastic the resulting analysis is incorrect. To test the presence of heteroscedastic from the corrected data the study adopted Breusch- Pagan Test. The null hypothesis was the data was homoscedastic.

TABLE 4.6

Heteroscedasticity Test Result

Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

Ho: Constant variance Variables:

fitted values of ROA

chi2(297) = 687.98

Prob > chi2 = 0.081

Source: STATA output for heteroscedasticity

From the result above we fail to reject the null hypothesis at 0.05 critical value since we got a chi2(297) of 0.081 was greater than 0.05 critical value and conclude that the data does not suffer from statistically significance heteroscedasticity.

4.4.5 Hausman Specifications Test

Bilow 2013 opines that in order to choose between fixed effect and random effect it was crucial to run Hausman specification test. The current study adopted Hausman Specifications Test to

evaluate was carried out to check the steadiness of estimator when exposed to alternative and more less efficient estimator. The null hypothesis was random effect. Durbin – Wu –Hausman Test, was adopted in order to test the data to establish more suitable estimation model in the middle of random effects model and the fixed effects models.

TABLE 4.7
Hausman Specifications Test

hausman fe	(b) Random	(B) Fixed	(b-B) Difference	S.E.
Debt restructuring	.0387845	.0957943	-.0570099	.0108359
Equity restructuring	.0649416	.0028199	.0621218	.0462377
Customer D. restructuring	.0925693	.0606803	.031889	.016718
chi2(3) = 40.32				
Prob>chi2 = 0.0000				

Source: STATA results for panel data

The test divulged that a chi-square with the value of 40.32 and a p-value of 0.000. this results means that at 5% significance level both chi-square value and p value got were positive and statistically insignificant. Therefore, the researcher failed to rejected the null hypothesis that random effects model is preferred to fixed effect model thus taking the alternative hypothesis thus fixed effect model is appropriate for the data thus the study adopted the fixed effect model.

4.5 Regression Analysis

The researcher undertook regression analysis to evaluate statistical linear relationship between financial restructuring on operational efficiency of DTS in Kenya. The variables debt restructuring, equity restructuring and customer deposit restructuring on return on asset for the deposit taking Sacco's in Kenya. Regression included the techniques useful for both modelling

and analysing different variables especially when the emphasis was on relationship between dependent independent variables.

TABLE 4.8
fixed effect regression model

Source	SS	df	MS				
				Number of obs	=	300	
				F (3, 296)	=	366.28	
Model	354.286038	3	118.095346	Probe > F	=	0.0000	
Residual	95.4356272	296	.32241766	R-squared	=	0.7878	
				Adj R-squared	=	0.7856	
Total	449.721665	299	1.50408584	Root MSE	=	.56782	

ROA	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
Debt restructuring	.1122161	.0158931	7.06	0.000	.0809383	.1434939
Equity restructuring	.44411	.0052158	3.08	0.033	.0098237	.0107059
C. deposit restructuring	.0487422	.0168101	2.90	0.004	.0156598	.0818246
_cons	.1285931	.0500928	2.57	0.011	.0300098	.2271763

Source: STATA output for regression analysis

$$Y_{it} = 0.129 + 0.122X_{1it} + 0.444X_{2it} + 0.487X_{3it}$$

Where;

Y_{it} = operational efficiency of SACCOs i at time t

X_1 – Debt Restructuring of Sacco i at time t

X_2 – Equity Restructuring of Sacco i at time t

X_3 – Deposit Restructuring of Sacco i at time t

t = time period 2016- 2021.

From the result of the regression we got R squared of 0.7878 equivalent to 78%. the implication of this results is that the model can explain 78% variations of Debt restructuring, Equity restructuring and customer deposit restructuring on operation efficiency of deposit taking SACCOs in Kenya and 22% of the variation is explained by other factors outside the model. Similarly, with Prob. of 0.000 and statistically significance t statistic we concluded that the overall model is statistically significant. constant value of 0.1285931 indicated that when all the three variable are held at constant return on asset will be 0.128 billion shillings. Similarly, from the result the study can report that debt restructuring had positive and statistically significance linear relationship on ROA with $\beta = 0.122$ and $p = 0.000$ with $p < 0.05$. this means that a unit increase in debt restructuring the return on asset will increase by 0.122 billion shillings. On the same note equity restructuring was found to have positive and statistically significantly relationship with return on asset. Debt restructuring had $\beta = .44411$ and p of 0. 033 which is less than 0.05. the researcher interpreted this mean that when debt is restructured by one unit will result to increase in return on asset with 0.44 billion shillings. Customer deposit restructuring on the hand was found to have positive statistically significance influence on return on capital. With a coefficient of .0487422 and p of 0.004 mean that There was a positive and significant relationship between customer deposit restructuring and ROA of DTS in Kenya. The study found that a unit increase in customer deposit restructuring will lead to increase on return on asset with 0.049 billion shillings of deposit taking SACCOs in Kenya.

In conclusion the positive results from the three variables mean that a unit increase of debt restructuring, Equity restructuring as well as customer deposit restructuring results to positive significant increase on ROA for DTS in Kenya.

4.6 Discussion of Findings

One of the major objective of this research was to establish the effects of financial restructuring on operational efficiency of deposit taking savings and credit societies in Kenya. The three variables adopted were Debt restructuring, Equity restructuring as well as customer deposit restructuring on return of assets for deposit taking SACCO 's in Kenya. The study had done pre-estimation tests and evaluation on Normality test, Multicollinearity, Fixed or Random Effects tests, Serial Correlation test and Heteroscedasticity and all the test conducted proved majority underscored assumptions for regression analysis were not violated and that the data were fit for regression model.

To establish the effect of debt restructuring on operational efficiency of DTS in Kenya was the first objective. Correlation results indicated that debt restructuring had $r = 0.8842$ and $p=0.000$ which is positive and significance relationship on return on assets for DTS in Kenya. Regression results on the other hand indicated $\beta= 0.1122$ and $p =0.000$ which was a prove that the variable had positive and significant relationship between it and return on assets for the deposit taking Sacco's in Kenya. This results implied that holding all other factors constant a unit increase in debt restructuring will lead to increase in return on asset by 0.1122 billion hence has a positive effect on operational efficiency. Therefore, the study rejected the null hypothesis and adopted the alternative hypothesis that Debt restructuring has a significant effect on operational efficiency of deposit taking Sacco's in Kenya.

This finding collaborated with Makori (2013) findings that majority of MFIs in Kenya use equity and grants or donations as main source financing. In most organizations equity account for between 50% to 75%. From the finding the study found that their existence of

positive relationship between equity capital and profitability of DTS in Kenya. Kibet (2015) findings who found that total debt plus the short term debt ratio had positively and significantly influence on ROE but in most cases had negatively and significantly impact on ROA. The study also found that Long term debt ratio had positive and significantly impact ROE but had no significantly impact on ROA of DTS. The findings collaborated with Harwood, Nakola, & Nyaana, (2016). Findings who found that most of the MFI incorporate more of debt-financing in their capital structures with a mix of long term debt short-term debts.

The study proposed that debt-financing should be incorporated in the capital structure as it enables the micro-finance firms to have a large pool of financing which enables them to reach large number of customers hence benefiting from economies of scales and allow DTS to better cope with financial crisis in tough situations. The study cited Kehinde (2013) who found that majority of MFIs have an all equity finance structure and has a less debt finance.

Secondly the study had an objective to examine the effect of equity restructuring on operational efficiency of DTS in Kenya. Correlation results found that equity restructuring had $r = 0.7529$ and $p=0.000$. this results indicated that debt restructuring had positive and significance relationship on return on assets for DTS in Kenya. From regression results the study found positive and significant relationship between equity restructuring and return on assets of DTS with $\beta = 0.444$ and $p = 0.033$. The implication on unitary is that an increase in equity restructuring led to an increase on operational efficiency of deposits taking SACCOs in Kenya by 0.444 billion shillings holding other factors constant. The study rejected the null hypothesis and adopted the alternative hypothesis that equity restructuring had positive and statistically significant effect on operational efficiency of deposit taking SACCO's in Kenya. The findings of Ngari, (2021). who found that equity capital is positively related to the performance of family

owned businesses was collaborated. The findings were in line with Ondari, (2019). who found that equity had positive and significant impact on ROA.

The study found that Long term equity had positive and significant impact on ROE but do not significantly impact ROA of MFIs. The findings are in tandem with Ouma, (2012). Finding that opined that increases in leverage increases profit efficiency. The study underpinned agency theoretic claim analogy that an increase in leverage raises profit-efficiency. Silva (2018) found that both equity financing and total debt have significant relationship with both ROA and ROE. The findings were with line with the study Done in Ghana by Abor (2015) who found equity financing to have significant and positive relationship with ROE with long term debt having significant but negative relationship with ROE.

The third objective adopted by the current study was to evaluate the effect of customer deposit restructuring on operational efficiency of deposit taking SACCO's in Kenya. From correlation results table customer deposit restructuring reported $r = 0.8676$ and $p = 0.000$. This results implied that customer deposit restructuring had positive and significant relationship on ROA for the deposits taking Sacco's in Kenya. From regression results table indicated $\beta = 0.8526$ and $p = 0.011$. this result confirmed that there was positive and significant relationship between customer deposit restructuring and ROA for the deposit taking SACCO's in Kenya. The results imply that a unit increase in customer deposit restructuring led to 0.8526 billion increase on return on asset hence have overall increase on operational efficiency of deposits taking SACCOS' in Kenya holding other factors constant. The study therefore rejected the null hypothesis and adopted the alternative hypothesis that debt restructuring had significant effect on the operational efficiency on deposit taking Sacco's in Kenya. The findings were in consistent with Ombaka & Jagongo (2018) who found that minimum customer deposit increment led to a

positive effect on performance of microfinance institutions. Mutuku, (2020) from his study on factors affecting growth of SACCO found that Sacco customer deposits had strong positive correlation with the growth of deposit taking Sacco's.

The findings also collaborated with Harwood, & Nakola (2013) found that by providing improved services to members and customers of different income groups, DTS were able to accumulate substantial deposits which are convenient and of low cost source of financing which enables them to grow their loan portfolios. Rastogi, & Mazumdar, (2017). indicated that high number of member deposits are negatively related to increased capital base as most member deposit was demand deposit the findings are consistent with the finding of the current study.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

From this chapter the study summarized the study findings of the research, conclusions as well as the recommendations made and all that was done putting in mind the, presented in consideration to the objectives of the study in order to evaluate the effects of financial restructuring on operational of deposit taking SASCCO's in Kenya.

5.2 Summary of Findings

5.2.1 Debt Restructuring and Operational efficiency of Deposit Taking SACCO's

The effect of debt restructuring on operation efficiency was analyzed as measured by the total external borrowings to total assets of Deposit Taking Sacco's in Kenya. from the Correlation test results showed that debt restructuring had a positive and significance relationship on ROA for the DTS in Kenya. Similarly, Regression results confirmed a positive and significant relationship between Debt restructuring and ROA for DTS in Kenya. The implication of this results was that a unit increase in debt restructuring holding other factors constant led to an increase in ROA hence a positive increase in operation efficiency for DTS in Kenya. The study therefore rejected the null hypothesis and adopted the alternative hypothesis that Debt restructuring has positive and statistically significant effect on operational efficiency.

5.2.2 Equity Restructuring and operational efficiency of Deposit Taking Sacco's

Effect of equity restructuring was the second objective and was analyzed in consideration of external borrowings to total assets and operational efficiency of DTS in Kenya. From the

correlation results the study found that equity restructuring had a positive and significance effect ROA for DTS in Kenya. Regression coefficient and p value confirmed a positive and statistically significant linear relationship between equity restructuring and ROA for DTS in Kenya. The coefficient and p values implies that an increase by one unit in equity restructuring led to an increase in ROA and subsequently increase in operational efficiency of deposits taking Sacco's in Kenya given that all other factors are held constant. From this confirmation therefore the study rejected the null hypothesis and adopted the alternative hypothesis that equity restructuring has a positive and statistically significant relationship with operational efficiency of deposit taking Sacco's in Kenya.

5.2.2 customers' deposit restructuring and operational efficiency of deposit taking Sacco's.

The study also analyzed the effect of customer deposit restructuring though extermination of external borrowings to total assets and operational efficiency of Deposit Taking Sacco's in Kenya. Test done on Correlation suggested that customers' deposit restructuring had a positive and statistically significant linear relationship on ROA for DTS in Kenya. The regression coefficient suggested that customer deposit restructuring had a positive and significant effect on return on assets for the deposit taking Sacco's in Kenya. The implication is that a unitary increase in customer deposit restructuring led to an increase in return on asset hence an increase in operation efficiency of deposits taking Sacco's in Kenya given that all factors are held constant. In the view of this therefore the study rejected the null hypothesis and alternative hypothesis was adopted that customer deposit restructuring has a positive and statistically significant effect on operational efficiency of deposit taking Sacco's in Kenya.

5.3 Benefit of the study

5.3.1 to SACCO Managers,

The current study has significant to SACCO management as it has outlined how managers faced with operational inefficiency can turnaround this phenomenon and spur growth. The study has enabled SACCO managers with knowhow and direction to follow when deciding on the restructuring. The study is of much benefit to official of the Sacco's by outline relationship between restructuring and operational efficiency hence managers will reduce the agency cost by satisfying shareholder expectation. The study has also enabled the Managers to understand the main issues that affect the operation efficiency of Sacco's which will lead to better management of this SACCOs in terms of competitiveness and growth.

5.3.2 benefit to Shareholders

From the study the shareholders have an insight on theories and the best practices and momentous attribute that a serious SACCO should adopt. The study has enabled Shareholders understand restructuring as alternative to sucking employees, more borrowing or selling assets when faced with financial distress. and being the main stakeholders will have an in-depth understanding restructuring policy and operation efficiency. As part of their responsibility Shareholders will be able to monitor and evaluate management decision and evaluate whether they are in line with their expectation of wealth maximizing therefore assist in making strategic investment.

5.3.3 benefit to the Government:

The study will be useful to the government for reference when formulating SACCOs policies. The research will help the government in her rush to protect the shareholders from greedy SACCOs managers who embezzle investors funds. From the study government is able to tell when shareholders are being exploited by SACCO managers. The newly formed regulator of SACCOs, the Society Regulatory Authority (SASRA) has also benefited from this research by understanding specific factors that affect SACCOs operations and from the recommendations they will regulate from informed point of view.

5.3.4 future researchers

Scholars and future researchers will benefit by making reference and citation to this research paper.

5.4 Conclusion

From the findings the study made conclusion that there is a strong positive correlation between debt restructuring, equity restructuring and deposit restructuring ROA for DTS in Kenya. From the first objective on debt restructuring, the study concluded that that Sacco's had maintained a low extremal debt to assets ratio on average as requirement from the SACCOs' regulator (SASRA). All the results indicated that debt restructuring was positively and statistically significantly related to operational efficiency of DTS in Kenya. Equity restructuring on the other hand was found to have core capital by the Sacco's on average compared to total loans over assets issued by the DTS. One of the requirement by the SACCO regulator is that core capital should be maintained at small ratio of the total asset. Results of equity restructuring indicated positive and significant relationship with operational efficiency of deposit taking Sacco's in Kenya. Under customer deposit restructuring the study examined that customer

deposit restructuring liking raising members' minimum deposits raised Sacco's liquidity for loan issuance. This was found to have raised total loans to assets of high ratio which is a requirement by SASRA. From this results therefore customer deposit restructuring indicated to positively and statistically significantly relationship with operational efficiency of deposit taking Sacco's in Kenya. This confirmation implies that a unitary increase in debt restructuring, Equity restructuring and customer deposit restructuring would lead to positive and significant increase on return on assets hence positive influence to operational efficiency for the deposit s taking Sacco's in Kenya.

5.5 Recommendation

5.5.1 Recommendation to Theory

The findings of the study were consistent and supported by the theories adopted by the study. Based on the finding of the current study recommendation are made on the adoption of the Loanable funds theory that all loanable funds should be supplied based on savings and borrowing should be guided by the demand for loanable funds. the interlinkage between the supply of savings and the demand for loans should ascertain the real interest rate and the amount and loaned out by DTS. furthermore, Liquidity Preference Theory should be espoused when Sacco's are in distress. It is important to note that majority of financial institutions become distressed when they lack the necessary credit for lending hence the theory brought significance of the intention to have readily available liquid credit for lending.

5.5.2 Recommendation to practice

In consideration positive and statistically significant effect of debt restructuring on operational efficiency of DTS in Kenya the current study recommends that management of DTS in Kenya should increase the lending capacity and seek external borrowing in order to boost their liquidity for lending especially when in when in distress.

Management should However control to avoid the risk of raising their debts to unimaginable limit as opposed to increasing total asset. Deposit taking SACCOs should from time to time review their working policies, regulations articles in order to maintain optimum external source of finance. Since external financing has linear relationship with growth of SACCOS', this borrowing must devised to guarantee maximum growth and return on asset is secured from such borrowing. For equity restructuring and based on its positive and statistically significant linear relationship with operational efficiency of deposit taking Sacco's in Kenya, the study recommendation that management should sustain Sacco's core capital reserve to recommended level compared to total assets. For Sacco's the core investments are loans to members and since liquid investments indicated a strong positively related with growth of SACCOS', then wealth can be credited to liquid investments which on the other hand can be easily be permuted to liquid cash easily to meet short-term demands. managers should therefore manage properly their equity ratios for the purpose of financing their liquidity gaps and enhance stability of DTS in Kenya. Constructing the positive and statistically significant influence of customer deposit restructuring on operational efficiency of deposit taking Sacco's in Kenya, the study proposed that the management of the Sacco's should articulate a technique to increase their lending volume by regularly raising their minimum member deposits which will increase the liquid cash for lending as a core business of the Sacco. It is important to note that the minimum

customer deposit should be organized to include all clusters of contributors to avoid demoralizing members.

5.5.3 Recommendation to Policy

The current study suggested that the Sacco's' regulator (SASRA) should ascribe system to guarantee maintainer of the financial structure of the Sacco's. to achieve this the study, recommend SASRA should continuously assess the Sacco's ratios of external borrowings to total assets, core capital to total assets and customer deposits to total assets and by so doing deposit taking SACCOs in Kenya will have strong and healthy and financial structure.

5.6 Suggestions for Further Research

The study's findings are not conclusive and can be enhanced if study can be stretched to cover a longer time period and also incorporating non-deposit taking SACCOs. The study suggests that a future study on this topic can be undertaken but using data across for deposit taking and non-deposit taking SACCOs and for a longer period. This suggestion is made under the assumption that the data for both DTS and non-DTS and for a longer time horizon would dispense better finding to enrich the finding of this study. Longer time horizon may cure or eliminate some possible higher impartiality that arises based on the sample period. Kenya being an active player and a member of East African community future researchers may expand this topic to cover other business firms within East African community in order to provide findings which can be relied on within the trading block. The study further suggest that a research can be undertaken to accommodate Sacco's in East Africa the study would be very useful as a point of reference in strategic management of Sacco's in a struggle to improve SACCOs performance

5.7 limitation of the study

Some of the limitations of the study were that some offices were not accessible to respond to our questions and clarifications while others were not willing to respond. To overcome this, the researcher relied on published financial report and other relevant materials.

The researcher also guaranteed the respondents that their identity would remain anonymous. The researcher also gave the respondents an introduction letter from the university to assure them that the research was being conducted for academic purpose only. Another limitation was that some of the reactions from the respondents were not valid to the study and in some instances some wanted money give the required information. To overcome this the researcher only took what was material and ignored another information which was not relevant.

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APPENDIX I: DATA COLLECTION TEMPLATE

SACCO	YEAR	ROA	EQUITY/ TOTAL ASSET	CAPITAL/ TOTAL ASSET	MEMBERS DEPOSIT/ TOTAL ASSET
A	2021				
B	2020				
C	2019				
D	2018				
E	2017				
F	2016				

**APPENDIX II:
LIST OF DEPOSIT TAKING SACCOS**

LIST OF DEPOSIT TAKING SACCOS	
NO.	NAME OF DTS
1	Mwalimu National Sacco Ltd
2	Stima Sacco Ltd
3	Harambee Sacco Ltd
4	Kenya Police Sacco
5	Afya Sacco Ltd
6	lamsa sacco
7	weru farmers cooperative
8	meru tea farmes sacco
9	chuka university protoffice sacco
10	Metropolitan natonal Saaco
11	naccico sacco
12	wakulima sacco
13	Sheria Sacco Ltd
14	Tembo Sacco
15	kenya airways sacco
16	Mwito Sacco
17	Waumini Sacco
18	Kencream Sacco
19	karitas sacco
20	waumini sacco
21	Unaitas Sacco Ltd
22	. Stima Sacco Ltd
23	United Nations Sacco Ltd
24	Safaricom Sacco
25	jamii sacco

26	Nation Sacco Ltd
27	Elimu Sacco Ltd
28	Magereza Sacco Ltd
29	Airports Sacco Ltd
30	Ukristo Na Ufanisi Wa Angalicana Sacco
31	Hazina Sacco
32	Jamii Sacco
33	Kenpipe Sacco Ltd
34	Asili Sacco Ltd
35	Nyati Sacco Ltd
36	Miliki Sacco Ltd
37	Ukulima Saco Ltd
38	Nacico Sacco Ltd
39	Nafaka Sacco Ltd
40	Maisha Bora Sacco
41	Ufanisi Sacco Ltd
42	ardhi sacco
43	Wanaanga Sacco Ltd
44	UShirika Sacco Ltd
45	Nassefu Sacco Ltd
46	Comoco Sacco Ltd
47	Chai Sacco Ltd
48	Wanandege Sacco Ltd
49	Kenyatta university sacco ltd
50	Githunguri farmers sacco

Source SASRA 2021