

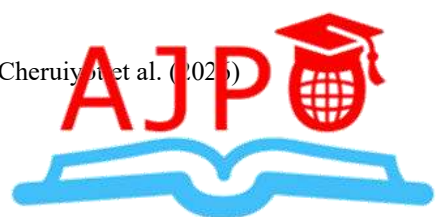
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Liquidity and Financial Performance of Deposit Taking Savings and Credit Cooperative Societies in Kenya

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Abstract

Purpose: This paper examined how liquidity affects financial performance of Kenyan domiciled DT-SACCOs

Materials and Methods: Secondary panel data was used to carry out the study by taking a census of all 175 licensed DT-SACCOs in Kenya between 2016 to 2023. Through inclusion-exclusion method of data collection, sample of 146 DT SACCOS were considered. The theoretical model was based on liquidity preference theory. The philosophy of the study was based on positivism, and explanatory research design informed the research. Analysis of data included descriptive statistics, correlation analysis, and pooled and panel regression analysis with hierarchical analysis and mediation analysis. Diagnostic tests, normality, multicollinearity, heteroscedasticity, autocorrelation, stationarity, model specification, tests were performed to ensure that the data and model assumptions were appropriate.

Findings: The study findings indicated liquidity had existence of a significant and positive association to financial performance of DT savings and credit cooperatives societies in Kenya. The DT-SACCO management should focus on policies which translate the organization to profit making hub. This empirical finding indicated the existence of a strong and positive association, which showed that DT SACCOs that had adequate liquid resources are in a better position to fulfill operation requirements and exploit opportunities to develop.

Implication to Theory, Practice and Policy: The results of the research are a valuable contribution in terms of theory, as they push the limits of the conceptual frameworks and practical application of various financial and management theories. On the liquidity preference theory, the positive effect of liquidity on the financial performance of the DT SACCOs supports the idea that liquidity preference by the institutions to hold liquid resources is not just a performance-reducing instrument but also a risk-avoidance strategy. The study contributes to the theory

by empirically proving that sufficient liquidity can allow DT SACCOs to maintain operation commitments, as well as fund lending operations and exploit business opportunities in the market because of its dual effect of ensuring solvency and also contributing to the generation of income. This gives a more subtle interpretation of liquidity preference as a strategic tool and not only a defensive stance especially in regulated cooperative financial bodies.

The current developed model recommends utilize the available cash balances to invest in profitable ventures. SASRA should establish KPIs which fit the two tiers so as to be effectively in a position to assess their respective financial performance in a comparative manner. This study is of its kind in the policy and practice frontier of DT-SACCOs. The research findings gotten are useful to a wide spectrum of interested parties which include and not limited to investors, board of management, institutional regulators and government policy makers.

The causal effect correlation between financial distress, liquidity as a variable and financial performance provide an insight to DT-SACCO management to focus on policies which translate the organization to profit making hub rather than following old practices as indicated in some theories such as Keynes (1936) liquidity preference theory which justifies the threefold motives of a firm or individual holding cash balances, namely; cash precautionary motive, speculative motive, and transaction motive. Instead, the current developed model which incorporates management efficiency as an intervening variable aid the management to make use of the available cash balances to invest in profitable ventures. This is made possible by factoring the level of management efficiency.

Keywords: *Liquidity(G210), Financial Performance(M410), DT Savings, Credit Cooperative Societies(G210), Return on Assets(M410), Quick Assets(G210), Total Liabilities Ratio(G210)*

INTRODUCTION

In the world alone, there are at least 1 million owners and about 250 million membership in the so called SACCOs. Most of them make a living either by salary as employees or membership dividends as affiliates of these financial institutions (International Cooperatives Alliance, 2017). These SACCOs are not universally named in some instances such as in the developing economies such as Kenya, they are also described as aforementioned and in other developed economies such as the United States of America (USA), the United Kingdom (UK) and the Latin America, the same organizations are widely known as Credit Unions (Barus et al., 2018).

Moreover, such financial institutions within the same localities are legally empowered to receive deposits of their members. The same case is true in other destinations like South Africa, India, and continental Europe (Ngui & Jagongo 2017). The topic of the discussion of SACCOs derived its existence through the co-operative movement that exists throughout the world that are institutions that provide the benefit of synergy by pooling together to ensure that they alleviate the common problems they are encountering in their lives (Daniel and Abdul, 2018). Among the above list of cooperatives in the world, (i.e. one billion in above number) under the nomenclature above, 240 million are deposit taking institutions, which includes a characteristic of having a banking hall, and by extension, 60,500 DT-SACCOs, often called credit unions, are domiciled in 109 economies in the six continents of the world (World Council of Credit Unions, 2017).

Financial Performance

It can be noted that there is no universally accepted definition of the topic of financial performance and different writers define the same in distinctly different ways like accounting, market or non-financial basis (Waggoner et al., 1999). To illustrate, Leah (2008) referred to the firm productivity of in as the aspect of the financial performance acquired as an ultimate use of a business blueprint, decision making system and tactical assignments. The results are measured in terms of earnings after tax of the organization in terms of overall resources and average investments respectively (ROA and ROI). Conversely, other two scholars namely Adams and Mehran (2005) also presented the subject matter of firm productivity in financial terms as the result of primitive usage of firm properties to generate earnings in the course of regular operations. As such, aggregate returns level of a company is measured in monetary terms in a specific time frame and it is applicable with the aim of benchmarking the productivity levels of the unrelated companies operating in the same industry. Overall, to measure the broad range of the productivity of an organization that operates in the same segment though perhaps may differ in their point of details on what they handle, financial performance gauge is the most realistic tool that could be used over the years. With respect to this perspective, Waweru (2008) argued that the profitability is a more accurate metric in measuring the survival rate of the businesses. In this study, returns on asset which is largely an accounting related concept was used to evaluate the extent of DT-SACCO productivity based on financial performance. According to the view held by Rosli and Sidek, (2013), ROA is better positioned to determine the level of productivity of a firm in terms of financial performance compared to other indicators. The reason is that the methodology is ranked higher notch in the description of the degree of efficiency with which the management is creating earnings (Rosli and Sidek, 2013). Moreover, ROA aligns with the profit-maximization objective of companies and is a standard indicator in the banking industry and other financial intermediation industries that DT SACCOS is a member of (Muigai, 2018).

Liquidity

In the global perspective, the issue of monetary distress among business firms is critical. This is particularly useful when one wants to determine the success of a business, whether small or large (Shaukat & Affandi, 2015). This point is further reinforced by Kanyugi (2016) who identified two choices available to the top management in such a circumstance of financial distress of any business, either, to capitalize on the situation at hand and make a turnaround of the business or allow the firm to plunge down. Therefore, this has continued to become a concern of the owners of the business entities concerned. Liquidity is a factor of financial distress that means the ease of paying the current liabilities of the firm concerned. This indicates the time the company can monetize and fund the operations with the working capital, the company is financially sound and otherwise, the period when it is difficult to fund the operations of the DT SACCOS and has the temporary task of funding a creditor. In case of inability to meet, the firm portrays financial instability. The relationship between liquidity to financial distress is nullified in such a way that when the liquidity level is low, there is a high probability of the DT SACCO falling under financial distress and the opposite. In the case of interest rates though, the liquidity aspect is direct. Because of this conceptual relationship, a high cash ratio organization is the one that can employ capital and short-term debt to fund its operations (Dewanti et al., 2019). Thus, liquidity ratio is a ratio which measures the ease with which a firm can clear its debts as and when they become due. The various methodologies of measuring liquidity include, but are not limited to, current ratio that represent the ease with which the firm can settle short term debts. The current asset to current liabilities relationship as explained in (Munawir, 2005) is a ratio that shows how safe a creditor is and how hard or easy it is to clear short term borrowings. Current ratio is a comparison of smooth assets and smooth debt, in which an asset in this retail company has a decreasing value and a growing higher debt that can carry some companies to the business outlets (Susanti, Latifa et al., 2020). Among other methods used to measure liquidity, there is (Current Asset)/(Current Liabilities) ratio (Dewanti et al., 2019). Susanti et al. (2020) have also utilized current ratio to measure the aforementioned variable. This research used Quick Assets/Total Liabilities Ratio to measure the liquidity because this portion of this quotient does not include slow moving inventories which are not necessarily liquid cash.

Deposit Taking Savings and Credit Cooperative Societies

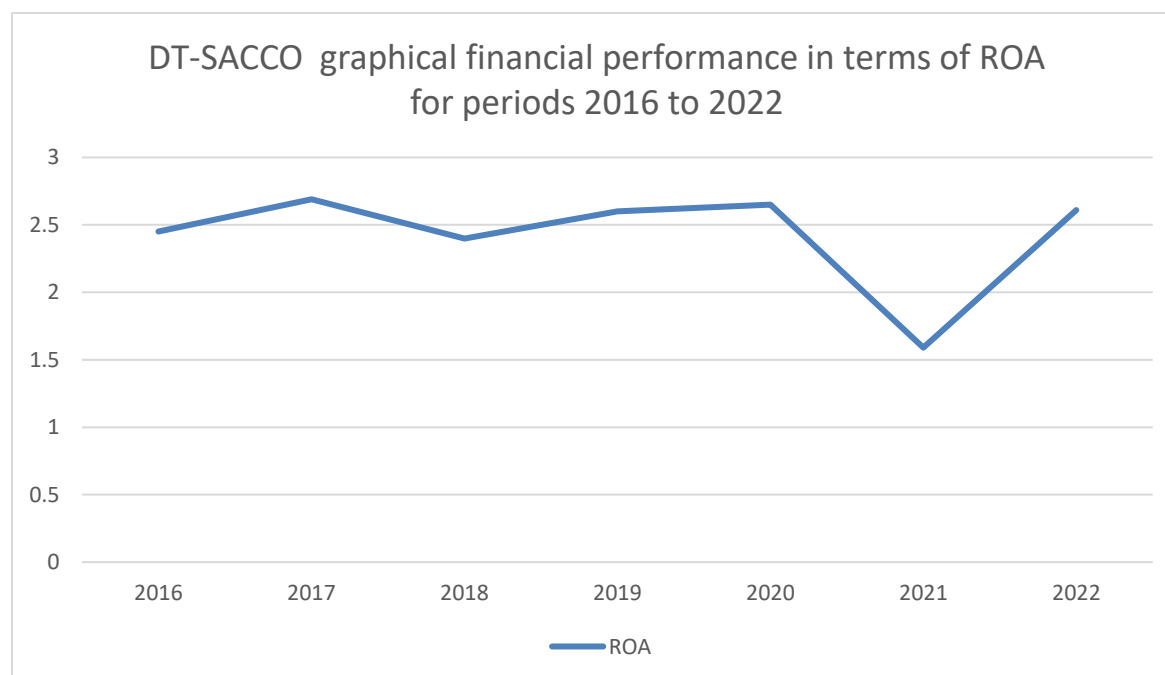
In most of the developed countries there is no universally accepted name to SACCOs, these institutions are called credit unions, in Kenya one of the developing economies is called DT-SACCOs. In their case, they are the licensed constitutionally registered organizations that are regulated and supervised by SASRA, a government agency (SASRA, 2016). The DT-SACCOs are autonomous entities comprised of members with the discretion to attain certain social economic affiliated needs as a group where we use joint and democratic approach in running the organization (SACCO & Regulatory Report, 2016). DT-SACCOs are intermediaries since they perform a similar role as commercial banks since they are deposited by the members and once again offer them credit facilities at user friendly interest which ultimately develops a saving and investment habit among the members. The housing category of DT-SACCOs are the ones that receive the deposits and those that do not receive the deposits are termed as non-deposit taking SACCOs. They have a back office to which they have no access of license. The SACCOs are profit making centers (Wambua, 2015). The nature of businesses that are under DT-SACCO nature can be said to be legally established organization that are accompanied with state originating laws and

regulations that are employed to govern them. They are democratically organized groups with an objective of collectively addressing their social-economic plights that they go through on a daily basis as members of the same. They also democratically control their day-to-day activities. (Sacco & Regulatory, 2016). The functioning of the DT-SACCOs is in a way that it is two-edged sword approach, whereby as a SACCO, the organization has the duty of mobilizing savings of the members and equally mediate credit facilities among the same individuals who repay the principal amount plus the user-friendly interest rates.

Problem Statement

The SACCOs, and more so the deposit taking ones, are at the forefront of creating job opportunities, as well as eliminating poverty among people either in the eyes of the developed or the emerging economies. (Otworko et al., 2021). But financially strained and financial performance, performance levels have not been found to be satisfied conceptually. Financial performance of DT-SACCOs particularly in Kenya have represented ambivalent outcome in the past eight years, that is, between 2016 and 2023. The Rate of Return on Assets (ROA) over the period of 2016 and 2023 among the DT-SACCOs showed irregular result. The returns in 2016 were 2.45 percent and which rose to 2.69 percent in 2017. Nonetheless, the DT-SACCOs recorded a decrease to 2.40 percent compared to the previous year in 2018 (SASRA, 2017 and SASRA, 2018). In 2019 it went up once more to 2.60 percent and in 2020 it went up to 2.65 percent. From the face value, this seemed to be a fortune to these firms. But in 2021, a decrease occurred where ROA was 1.59 percent (SASRA, 2021). In 2022, the ROA value was at 2.61percent (SASRA Report, 2022).

Trend in Financial Performance for DT-SACCOs



Source: (SASRA Report, 2016-2022)

Previously conducted studies worldwide presented conceptual gaps with some studies viewing financial distress as a dependent variable whereas others used it as a moderator or predictor variable (Dare et al. 2023; Rubab et al. 2022; Dewi et al., 2021; Madhushani & Kawshala, 2018;

Murtiningsih & Tohirin, 2023; Naoaj & Hosen, 2023). Meanwhile, other papers Wisnu and Astuti (2023); Saputri and Asrori (2019); Masdupi, Tasman, and Davista (2018) employed bivariate models with financial distress as the predictor variable, which was proxied differently across various researchers. The results of the research also differed across studies depending on the contextual perspective despite the similarity in the objectives of the research (Wisnu & Astuti, 2023; Susanti, Latifa & Sunarsi 2020; Moch, Prihatni & Buchdadi 2019 and Saputri & Asrori, 2019). The above research papers depicted contextual, conceptual and methodological issues. It is on this ground that this study determined the conceptual relationship between financial distress, liquidity variable and the level of productivity of DT-SACCOs in Kenya with respect to financial performance. Considering that the methodology adopted in the earlier studies to measure financial distress had produced controversial results, this current study had liquidity to determine the predictive power of separately on the productivity level of the DT-SACCOs in Kenya with regard to financial performance in the interest of making top management decisions.

Based on the composite score of the above element of financial distress, the study considered the degree of effect of the above independent variable on the productivity aspect of the above DT-SACCOs in Kenya regarding financial performance with ROA being the dependent variable. The relationship between the financial distress (composite score) and the productivity aspect of a firm in terms of financial performance seems to be straight forward. Nevertheless, the process of that relationship could be due to something unrelated in the principal model.

Theoretical Framework

Liquidity Preference Theory

Keynes (1936) is the supporter of the theory. The theory shows three causes of households and holding cash precautionary motive, speculative motive, and transaction motive. Keynes in his theory believe transaction, precaution and the reasons of holding cash are rather rigid yet too elastic to income. The speculative motive on the other hand is pegged on the rate of interest. The theorists held that there is an inversive relationship between the interest rates in the market and the speculative motive of the final consumer of money. The liquidity preference theory in this case will thus establish the stability interest rate in both demand and supply of money. Keynes (1936) formulated the liquidity model that was founded on a number of assumptions. This theory consists of the first hypothesis that money will not receive interest, and the second and the last is that individual wealth can be secured only by converting it into money and bonds or both (Sporta, 2018). It is already established that the study variable; liquidity is supported by the liquidity preference supposition as proposed by (Sporta, 2018).

The liquidity assumption supposes the interest rate as the most vital indicator to desire to have liquidity by the households. This is not entirely the case, and this causes the Keynes liquidity preference theory to be criticized as not taking this issue of concern very broadly. The thing is that there is no single factor that determines desire to hold money like it has been claimed by Keynes. The interest rate that was perceived to dominate in the model, as proposed by Keynes, does not contribute to the factor itself (i.e. interest) add up to the desire partly, and itself to other factors such as savings habits of the households, Marginal Propensity To Consume (MPC) and efficiency of the capital that firms already had that the said theory did not put into consideration (Agarwal, 2022). Nevertheless, this assumption is useful to the current research as shown below.

This theory precautionary rationale of holding money model describes the importance of liquidity and leverage of ensuring that any firm future financing is properly handled. Moreover, (Mugisha, 2020) thought that liquidity must be equal to a property of kind to the first beneficiary in the context of market perfection in which the trading activities occur. The reason behind this argument is that under a condition where market environment is perfected, the existence of an asset in a liquid form means that it is easily bought or sold by the consumers without altering interest rates since the opposite scenario would be illiquid meaning it is definite whether selling price is being maintained or practically so and any broad range of price changes is hazardous (Mugisha, 2020). According to this model, therefore, it is clear that liquidity and leverage are important in the financing of firms that can affect the performance of the firm. The liquidity variable was thus supported by the liquidity preference theory in this study.

Empirical Review

Liquidity and Financial performance

The previous research on the effects of this construct presents contrasting findings. As an example, the research conducted by Wisnu and Astuti (2022) focused on defining the effect of the next study variables, profitability, and liquidity quotients on financial distress. Fraudulent financial statement was the conditional variable taken into consideration. The research considered the presence of organizations that were the members of Karachi stock exchange market, and which were typified by executing agricultural-based activities as the population. Based on this, 19 out of 76 firms were sampled to gather data by use of purposive sampling technique. It was a quantitative type of research with the time frame of the study being 2018-2021. The information was secondary and that of audited accounts of the company particularly the statement of financial position. Following the employment of descriptive and regression analysis with the help of SEM-PLS formula. The resultant was as follows, one financial distress since profitability ratios did not significantly affect profitability and on the other hand, liquidity quotient affected profitability directly. However, financial statement fraud did not have a negative impact on financial distress.

In a different study by Susanti, Latifa and Sunarsi (2020) where financial distress was the criterion construct aimed to determine the effect of the subsequent three predictor variables, that is; profitability construct (ROA), Leverage (Debt/Asset proportion) and liquidity (Current asset/current liability Ratio) on the dependent construct (i.e. financial distress) over a time horizon of half a decade (5 years). This was between 2014 and 2018 with all the 21 retail firms of interest serving as the sample size of the study that were listed at Indonesia market. Having undertaken both, fixed and random Hausman test, random sampling methodology was more suitable, which was based on the Panel data regression analysis model. It was determined that the following variables, i.e. profitability, leverage and liquidity variables had a major influence on financial distress. Conversely, liquidity affected the financial distress negatively but in a significant manner.

Two researchers, namely; Moch, Prihatni and Buchdadi (2019) took it a step further and conducted the causal-effect test of two predictor variables. That is liquidity that was measured in current asset (CA)/ current liability (CL) quotient and CA ratio and CA-CL affiliated to total assets quotient on ROE and ROA which in turn was used to predict the aspect of financial distress, the solvency aspect which in turn was measured using external liability/asset quotient, Debt-Equity quotient and Time Interest Earned was all used to predict the aspect of financial distress. The researcher selected an initial sample population of 101 firms that were members of Indonesia stock market and had manufacturing affiliations in the period between the year 2015 and 2017. That was the

reason why nonprobability sampling methodology was employed to determine the size of the sample. The secondary nature of data was used where the analysis entailed the Likelihood Statistic Test (simultaneous) of testing justifications on the hypotheses. The result of the analysis depicted that a significant inverse implication was implied by CR liquidity, WCTA, ROA, ROE on the criterion variable (i.e. financial distress). Conversely, DAR solvency, DER directly and meaningfully contributed to financial distress of manufacturing firms during the years between 2015-2017. Nonetheless, quotient, namely; TIE had no statistically significant impact on financial distress.

Saputri and Asrori (2019) conducted an interrogation centered on a thematic concern related to financial distress as the outcome construct. The predictor variables that were utilized in estimating the changes in the dependent variable were as follows; leverage, liquidity and profitability on financial distress. The above mainstream model was moderated by a variable, which was the audit committee. The sample size of forty-eight mining companies carrying out mining processes was picked between the year 2013 and 2016 as part of purposive sampling. To test the hypotheses thereof, the analysis of the data of IBM SPSS moderating regression models was conducted. It turned out that there was no considerable effect on financial distress of leverage, liquidity and profitability. Moreover, audit committee significantly had an influence on the relationship under consideration.

Another study by Masdupi, Tasman and Davista (2018) also involved the use of financial distress as a dependent variable. Their efforts were aimed at establishing conceptual relationship between liquidity, leverage and profitability (predators) and the above construct. The study setting was contextually based on 118 firms that were members of Ghanaian stock exchange that was identified through the stratified sampling methodology. Data gathered was of secondary nature and it was acquired in ICM. The analysis of the data was conducted with the help of the logistic regression method, and the final results reflected the fact that all three variables above described significant impact on the dependent variable of the described firms.

Similar to the study conducted by Masdupi, Oktavian and Handoyo (2023), Tasman and Davista (2018) examined the conceptual implication of manufacturing firms affiliated financial factors in the form of leverage, profitability, and liquidity ratios as well as inflation on the dependent variable chosen at the time, which was the financial distress. Purposive sampling methods were employed to identify a sample of 103 units of analysis and the null hypotheses under consideration were put through panel data regression with the help of E-views 9 computer program. It was determined that financial distress construct was directly and significantly influenced by profitability and liquidity. But leverage to financial distress concept was a literary one that had been negated. In the case of the inflation, it did not have any impact on financial distress indicator.

Fahlevi (2018) conducted a study to determine cause-effect implications of liquidity, ROA and cash flow to the financial distress position of the manufacturing based firms. The data gathered to be used in analysis was the 3-year data and the source of the data was the audited accounts of the same firms. One particular sample selection approach was employed to arrive at 90 firms as the sample of the study or rather to make sure that the total statements containing the necessary data were translated to 270. It was identified that financial distress was affected by the liquidity, profitability and cash flow to a considerable degree.

In most instances, profitability and liquidity are negatively related to one another. Nevertheless, the objective of the three classical authors, namely, Dewi, Foanto and Christiawan (2021) was to

examine whether this relationship remains and to what degree can the conceptual framework of the financial distress within profit making-liquidity model depict. The participants in the analysis used in this study were 170 industrial firms that were members of Indonesia in the year 2016 to 2020. Following the data analysis based on the use of PLS (Partial Least Square), method, it became apparent that the financial distress status of the firms under questioning perfectly and effectively mediated the firms value aspect to profitability. The composition element of financial distress aspect in the study was liquidity. Thus, the conceptual implication of the mainstream results of this research was that there was no conceptual implication on the value of the firms and the liquidity of the firms as well. The PLS (Partial Least Square) was used to analyze the data. Financial distress was the perfectly mediating factor between profitability and Firm Value with Liquidity being the predator construct. The key result of the study was that the productivity and the liquidity were not directly related to the firm value, whereas the financial distress was.

The conceptual perspective of the past studies was not the same across the studies. As an example, financial distress was regarded as a dependent variable (Wisnu & Astuti, 2023; Saputri & Asrori 2019; Masdupi, Tasman & Davista, 2018 and Oktavian & Handoyo, 2023). On the other hand, in other studies (Dewi, Foanto & Hristiawan, 2021), the financial distress was categorized as a mediating variable. Again, various methodology was applied in data analysis in the researches which had a common thematic issue (Wisnu & Astuti, 2023; Saputri & Asrori, 2019; Masdupi, Tasman & Davista, 2018 & Dewi, Foanto & Christiawan, 2021). This translated into conflicting results. Hence, there was a necessity to further deliberate on a standardized approach to the analysis of the data being considered in the name of generalization of the research findings.

Many types of firms including manufacturing, commercial banks and Small and Medium Enterprises have studied financial distress as a predictor, a dependent variable or otherwise variable (Masdupi, Tasman & Davista 2018). Nevertheless, there is a necessity to consider the element of DT-SACCOs in order to determine whether the same variable produces analogous outcomes in case the contextual perspective differed.

MATERIAL AND METHODS

The study was inclined to positivism philosophy that based on already existing theories and enables formulation of hypotheses that are valid. This philosophy allows to come up with categorical statements that are based on objective assessment and deductions that have to do with connectivity between two or more variables like the example of causal-effect relationship of financial distress to the financial performance of DT-SACCOs in Kenya.

The philosophy also presents adoption of highly structured methodology to ensure that one is able to make generalization of observations and quantify findings, as well as measure outcomes on a basis of statistical methodology. The objectivity approach to the study characterizes positivistic philosophy and it is employed in the natural science mostly. It involves the various natural science philosophy like, viewpoint of invariable common rule and the opinion of all that occurs in nature (Saunders, Lewis and Thornhill, 2007). This paper followed positivism philosophy because it was more suited to the study compared to other philosophical paradigms mentioned above.

The research followed explanatory research plan as per the research issues to be tackled, as well as basing on the data set available. The research design used will help to represent the cause-effect relationship between the study variables where the variances in the dependent variable will be revealed.

The identified research design thus clarify and not mere description of the relationship between the independent and dependent variable in order to make generalizable inferences on issues of causal-effect concept. The explanatory design is preferable in an occasion when important information is known about a phenomenon. Explanatory design in most of the cases relies on quantitative data that the researcher is interested in utilizing. In the study titled the impact of firm financial structure and firm financial performance of non-financial firms listed in the Nairobi Securities Exchange, the aforementioned authors adopted the same design in their data analysis (Mohammadzadeh et al., 2013). Financial adequacy correlational relationship of financial ratios of the banking sector organizations in Iran was analyzed using the same approach. The rationale behind the above procedure to be followed in the above research activities is that the above design justifies the secondary data that is quantitative which was used in the determination of the causal-effect relationship between financial distresses and performance of DT-Saccos in Kenya.

The entire population in this study was the 175 licensed DT-Saccos at the end of 2023 financial year. Asiamah et al. (2017) observe that population may be used to determine the credibility of a research based on the understanding, definition, and selection of research. It is therefore essential that target and accessible population be carefully selected. It is not a large population and therefore the entire population of the DT-SACCOs was researched. This makes a holistic study approach and study result more credible. The 175 DT-SACCOs was evaluated on various behaviour of concern that is symbolised by the various factors that incorporate availability of data on the time that was being evaluated.

The census approach was adopted in the study because the number of licenced DT-Saccos was relatively low. A census is a procedure that involves gathering of data of an extensive dispersed element of the population (Saunders, Lewis and Thornhill (2009). It is a data gathering approach that enhances rationality of the data gathered by the researcher. In addition, there is no sampling error (Watson, 2001). Thus, a sample of the 175 DT-Saccos that were licensed was selected in the study.

FINDINGS

The study correlation indicators of financial distress, liquidity, show moderate positive relation with FP, with coefficient of 0.562, ($p < 0.05$). These results suggest that DT SACCOs exhibiting adequate liquidity will be less susceptible to financial distress, which consequently facilitates long-term profitability.

The estimates of the regression models were derived based on pooled OLS, which was in line with the outcomes of the model specification tests, and was assessed based on conventional goodness of fit measures such as the F-statistic, coefficient of determination (R^2) and adjusted R^2 . The estimated coefficients were tested at the 5% level of statistical significance. The combination of main and conditional effects allowed by the multiple regression analysis allowed a thorough evaluation of the role played by financial distress factors, liquidity in this case in determining FP in DT-SACCOs, thus offering strong empirical data to test hypotheses as well as inform the interpretation of the related financial dynamics.

A positive and statistically significant effect on FP was shown by liquidity ($\beta = 0.01735$, $t = 6.54$, $p < 0.05$). This finding reveals that DT SACCOs that have better liquidity positions are more likely to generate a high ROA due to their increased ability to cover short-term liabilities, absorb shocks, and have stable operations. Sufficient liquidity thus acts as an important buffer to financial distress

that facilitates continuity and profitability. Empirical findings indicated the existence of a strong and positive association, which showed that DT SACCOs that had adequate liquid resources are in a better position to fulfill operation requirements and exploit opportunities to develop. Therefore, the null hypothesis (H_{02}) that the effect of liquidity on financial performance is not significant was rejected. These results highlight the current practical significance of proper liquidity maintenance as a tool to increase the resilience of an institution and its functioning efficiency.

CONCLUSION AND RECOMMENDATIONS

According to the empirical results of this research, it can be concluded that the variables of financial structure are decisive in determining the financial performance of DT SACCOs in Kenya. Liquidity variable being a financial structure component play an important and positive effect on DT SACCO performance, and the importance of cash and near-cash assets in ensuring the continuity and responsiveness of operations. When DT SACCOs have enough liquidity, they can better facilitate higher withdrawal needs, lending activities as well as addressing market opportunities without being compelled to employ disruption financial solutions. The factual conclusion here is that liquidity management is not a compliance or safety regulation, but an institutional requirement that has a direct correlation to resiliency and the power to make steady returns. Maintaining good liquidity buffers also leads to increased confidence among stakeholders, financial stability, and allows DT SACCOs to overcome the uncertain times without much disturbance.

The study contributed to theory where on the liquidity preference theory, the positive effect of liquidity on the financial performance of the DT SACCOs supports the idea that liquidity preference by the institutions to hold liquid resources is not just a performance-reducing instrument but also a risk-avoidance strategy. The study contributes to the theory by empirically proving that sufficient liquidity can allow DT SACCOs to maintain operation commitments, as well as fund lending operations and exploit business opportunities in the market because of its dual effect of ensuring solvency and also contributing to the generation of income. This gives a more subtle interpretation of liquidity preference as a strategic tool and not only a defensive stance especially in regulated cooperative financial bodies.

The research contributed to policy and practice in terms of the causal effect correlation between liquidity and financial performance provide an insight to DT-SACCO management to focus on policies which translate the organization to profit making hub rather than following old practices as indicated in some theories such as Keynes (1936) liquidity preference theory which justifies the threefold motives of a firm or individual holding cash balances.

As a recommendation, the direct relationship between the financial distress, liquidity as a variable of a firm and financial performance is not a guarantee of survival of a DT-SACCO and therefore the overseeing bodies such as SASRA should be well guided by the multivariate model the current study has developed through conditional variable other than a pure predictor and develop Key Performance Indicators suitable for both the large and small DT-SACCOs in Kenya for the aspect of financial distress does not impact on each category in the same force. Therefore, its recommended that SASRA should establish KPIs which fit the two tiers so as to be effectively in a position to assess their respective financial performance in a comparative manner.

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