

Influence of Financing Decisions on Financial Performance of Savings and Credit Cooperative Societies in Kenya

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Abstract: *The core objective of savings and credit cooperative societies is to optimize the members' economic benefits through savings, provision of credit facilities and relevant financial services. This objective depends on the financial performance in terms of returns which determine interest and dividend payments to the members. However, SACCOs in Kenya lack proper decisions on financing structure that is a major deterrent to their financial performance. This necessitated a study on influence of financing decisions on financial performance of Savings and Credit Cooperative Societies in Kenya. The study was guided by theories; pecking order theory, trade-off theory and agency theory. The major variables included debt financing decisions, equity financing decisions and retained earnings. Meta-analysis research design was used to systematically assess previous empirical research studies to derive conclusions about that body of research. The study applied qualitative data analysis method with content analysis approach. Based on the analyzed empirical findings, financial performance of savings and credit cooperative societies is influenced by financing decisions. It can be concluded that financing decisions help savings and credit cooperative societies to determine their financial requirements and raise the funds in such proportions from debt, equity and retained earnings for their best possible utilization and generation of returns. Financing decisions also enable SACCOs to increase the profits and improve interest payments and dividend payouts to members.*

Key words: *Financing Decisions, Financial Performance, Savings and credit Cooperative Societies*

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1. Introduction

Savings and Credit Cooperative Societies have grassroots commitment to improving the financial prospects of underprivileged, low and medium income people (Goglio & Kalmi, 2017). Additionally, they serve members from all social and economic standings, but the founding principle of strengthening and empowering people through access to fair financial and banking services is always maintained. According to Henama (2012) savings and credit cooperative societies are member-owned financial cooperatives, which are operated and controlled by members with the core principle of helping each other achieve a common goal. SACCOs provide members with credit facilities at fair and competitive rates as compared to banks and other financial institutions (Okwee, 2011).

Account holders in savings and credit cooperative societies are the members who are the owners of those institutions (Lari, Nyangweso, & Rono, 2017). They have the right to appoint board of directors particularly through the elective process. The directors make major financial and strategic decisions to promote effective running of business and sustainability of SACCOs. The key distinguishing component of SACCOs and other conventional financial institutions is the principle of serving members' interests before the pursuance of the profit goal (Khalayi, Ondiek, & Musiega, 2014). It implies that they are not necessarily existing for the sole profit objective thus their purpose is to serve their members rather than to optimize profits. However, in economic dimension, they have to generate surplus returns in order to cater for expenses and continue operating in a consistent manner. This means that SACCOs must generate adequate returns and still maintain the core purpose of serving members.

According to Da-Silva, Leite, Guse, and Gollo (2017) revenue of credit cooperatives must be greater than the expenses in order to maintain capital and solvency. SACCOs offer financial services similar to those of banks but in different frameworks. For instance, SACCOs, especially deposit taking SACCOs offer share

accounts, checking accounts, and credit cards, certificates of deposits, online banking services and automated teller machine services. Therefore, they can be termed as the able alternatives to the group of people who are unable to access financial services from the banks. The nature of the products offered by SACCOs requires them to maintain a reserve requirement of assets to liabilities (Zerfeshewa, 2010). The capital and the savings of the members have to be safeguarded in situations where the SACCO is unable to maintain positive cash flow. In some cases, SACCOs can be declared insolvent and it is through reserve capital that its assets are distributed to creditors, depositors and other investors. Sometimes members can lose their funds if the total deposits exceed the assets thus the need for deposit insurance.

Financing decisions in Savings and credit cooperative societies are critical in their financial performance and sustainability (Goglio & Kalmi, 2017). The various financing options have costs and benefits that must be balanced to enable the SACCO to perform desirably and maintain effective services to the members. Effective financial performance is informed by financing decision. Inappropriate financing decision contributes to financial distress and worst of all bankruptcy. Omare (2019) opined that financing decisions are essentially concerned with how the organization decides to fund their operations. Therefore financing decisions entail the proportion of various sources of funds used in businesses of a saving and credit cooperative society. Financing decision is an element of the financial structure and explains the proportion of the various long-term sources of financing for the SACCO. The major sources of finance to a savings and credit cooperative society include; debt, equity and retained earnings. The decisions on the proportions of the capital sources are the financing decisions. Financial performance in savings and credit cooperative societies is influenced by decisions relating to financing the assets of the organization which are very crucial in their businesses (Kirimi, 2017). Therefore, proper mix of debt and equity capital in financing the SACCO's assets enhances effective financial performance. Financing decisions are usually designed to serve the interest of the SACCO members. The sustainability objective of savings and credit cooperative societies propel them to maximize their market value to cater for emerging economic needs. Value maximization is hinged on properly designed financing structure of the Society.

In Kenya Savings and Credit Co-operatives (SACCOs) are mainly operated with the aim of promoting economic interests of the members who are mostly the low and middle income earners (Mwenda & Kalio, 2014). From 2010, with legislation of SASRA, there have been upsurge of deposit taking savings in the country that are offering business accounts, savings accounts, and fixed deposits to the members. They also offer non-financial services such as business plan developments, advocacy, education and training. Kenya is dominated by low and medium income earners who have limited access to the financial services offered by commercial banks especially, the credit facilities. Savings and credit cooperative societies are expected to serve their members' financial interests to fill the gaps left by banking institutions but this has not been achieved satisfactorily in the Country (Muinde, 2014). The provision of credit facilities by SACCOs is yet to meet the demand by members in Kenya. It is evident that some SACCOs have frequently failed to reach low-income members with affordable credit.

SACCOs are established not only for monetary gains but human development. They ought to provide initiatives, motivation, and promotion of self-development and self-reliance (Gweyi & Karanja, 2014). They are expected to promote members' well-being by raising their living standards through savings and provisions of loans at relatively affordable rates in Kenya. Effective functioning and financial performance of savings and credit cooperative societies depend on their financing decisions (Esokomi & Mutua, 2018). They fund their activities using the members' equity and savings. These capital have the costs that must be met though returns. There the mix of the various types of finance determines the payments to the members in terms of interests on deposits and dividend payouts.

According to SACCO Societies Regulatory authority annual report for the year 2018, the core capital of SACCOs declined from 16.95% to 14.21% in year 2017 and 2018 respectively. Capital reserved also reduced from 18.06% to 15.8%. Similarly, total deposits declined from 12.01% to 11.99% while total assets reduced from 12.40% to 11.97% in the same period. Financial performance declined in terms of interest on savings and interest on share capital by savings and credit cooperative societies in Kenya. According to SASRA (2018) interest on savings went down from 9.7% in 2016 to 6.95% in 2017 while dividend on share capital decreased from 8.4% to 7.65%. Dividend payouts are made based on the level of surplus attained by the SACCO. Generally, the returns are realized from the use of funds raised from debt, equity and retained earnings in accordance to the financing decisions by savings and credit cooperative societies in Kenya.

2. Statement of the Problem

Savings and Credit Cooperative Societies are owned and operated by members who are driven by common economic and financial goal (Esokomi & Mutua, 2018). Therefore, the core objective is to optimize the members' economic benefits through savings, provision of credit facilities and relevant financial services. Financial performance of savings and credit cooperative societies is highly dependent on utilization of the

members' savings through various activities and business initiatives such as provision of loans and investments (Onyango, 2016). The returns ought to outweigh the expenses of the SACCO in order to achieve effective financial performance. Financial performance is indicated by the level of return on assets and return on investments which consequently determine the interest and dividend payments to members. The balance between the returns and costs of funds used in businesses and investments of SACCOs are influenced by the financing decisions. Yogo, Marangu, Kiongera, and Okeke (2016) noted that lack of proper decisions on financing structure was a major deterrent to financial performance of savings and credit cooperative societies in Kenya. Financial mismanagement has been associated with inappropriate financing decisions leading to ineffective financial performance among savings and credit cooperative societies in Kenya. According to SACCO Societies Regulatory authority annual report for the year 2018, the financial performance SACCOs declined. The report showed a reduction of 2.74% and 2.26% in core capital and capital reserve respectively. Moreover, total deposits declined from 12.01% in year 2017 to 11.99% in 2018. The total assets of SACCOs declined by 0.43% while interest on savings payments decreased by 2.75%. Dividend on share capital reduced from 8.4% to 7.65% in years 2016 and 2017 respectively. Dividend payouts are made based on the level of surplus attained by the SACCO. The importance of savings and credit cooperative societies in a developing Country like Kenya cannot be overemphasized. Therefore, there was need to analyze the influence of financing decisions on financial performance of savings and credit cooperative societies in Kenya.

3. Objectives of the Study

The broad objective of the study was to analyze the influence of financing decisions on financial performance of Savings and Credit Cooperative Societies in Kenya and the specific objectives include:

- i. To evaluate the influence of debt financing decisions on financial performance of savings and credit cooperative societies
- ii. To analyze the influence of equity financing decisions on financial performance of savings and credit cooperative societies
- iii. To assess the influence retained earnings decisions on financial performance of savings and credit cooperative societies

4. Research Questions

1. Does financing decisions influence financial performance of savings and credit cooperative societies?
2. What are the implications of equity financing decisions on financial performance of savings and credit cooperative societies?
3. Do retained earnings decisions influence financial performance of savings and credit cooperative societies?

5. Literature Review

Theoretical and empirical review was conducted to provide more insights on the relationship between financing decisions and financial performance of savings and credit cooperative societies in Kenya. Empirical studies were of vital importance since the study was based on the comparative analysis of the previous findings in relation to financing decisions and financial performance of SACCOs in Kenya.

5.1 Theoretical Review

The study reviewed theories that explain the financing decisions and financial performance. They include: Pecking Order Theory, Trade-off Theory and Agency Theory.

a) Pecking Order Theory

Pecking Order theory was developed by Myers and Majluf in 1984. It suggests the order in which a company should finance its businesses and investments. According to pecking order theory, organizations have a particular preference order for capital used to finance their activities (Chen & Chen, 2011). The financing order is guided by the information differences between the company and the potential investors. The market information asymmetries imply that the organization will prefer the retained earnings to debt. Retained earnings are available source of financing plucked from the company's net profits. Moreover, debts will be preferred to equity finance. Debt financing has the component of tax shield that makes it less expensive than equity finance (De Jong, Verbeek, & Verwijmeren, 2011). Pecking order theory states that companies that have not issued equity securities to raise funds have the retained earnings to support their core activities and investment goals. Issuance of equity securities is expensive due to information asymmetry between the company and the investors and other outsiders thus the organization issue debt securities to avoid raising capital using equities that are underpriced.

The pecking order theory relates to the study which is about financing decisions of savings and credit cooperative societies. Financing decisions entail debt, equity and retained earnings decisions while pecking order theory gives order of preference to them. As suggested by pecking order theory, SACCOS can enhance their financial performance through use of retained earnings which have very low cost as the first priority. Secondly, debt can be used since its less expensive than equity financing that is last in the pecking order. However, these financing decisions ought to be made in consideration for the prevailing economic and financial conditions.

b) Trade off Theory

Trade off theory describes the relationship between the costs and benefits of using debt financing in an organization (Myers & Majluf, 1984). Trade off theory also states that use of debt has tax shield benefits since the interest paid on debts is deducted from the amount of profits to be taxed. This makes debt financing less expensive than equity financing. Debt financing is also associated with agency costs, bankruptcy costs and distress costs (Serrasqueiro & Caetano, 2015). Bankruptcy costs are incurred when the company defaults on the debt payments. Distress explains the inability of an organization to settle its liabilities which leads to distress costs. In the process of bankruptcy, the company will incur liquidation costs pertaining to the loss of value after liquidating the net assets of the firm (De Jong *et al.*, 2011). Therefore, companies have to make sound financing decisions to determine sustainable debt proportions in the capital structure.

Trade-off theory is applicable in the current study since savings and credit cooperative societies make debt financing decisions. Members' savings and even shares might not be enough to support their operations of the SACCOS and even intended investments to some extent. As such, the make decisions to obtain debts. They have to analyze the trade-off between the benefits and costs of the debt in order to achieve effective financing performance. Therefore, the earnings from use of debts must be greater than the costs of debts to avoid bankruptcy and distress costs.

c) Agency Theory

Agency theory was introduced by Jensen and Meckling in 1976. It explains the relationship between the company managers and the owners. Agency theory is all about then interests of the principals (owners) and the agents (managers) of a company (Panda & Leepsa, 2017). The owners always want to maximize their wealth while the managers are interested in expanding their remuneration gains and other benefits. The efforts by the owners to control the excesses of managers lead to agency costs (Shi, Connelly, & Hoskisson, 2017). The clashing interests contribute to conflicts between managers and shareholders. It aggregates agency costs equity, and the conflicts between shareholders and debt-holders lead to agency costs of debt which affect the overall financial performance of the company. Agency theory is related to the current study as it explains the relationship between SACCOS' managers and directors and the members. The financing decisions should benefit the SACCO through value maximization rather than individual gains of the managers. Value maximization is realized as a result of consistent financial performance.

5.2 Conceptual Framework

Conceptual framework as illustrated on figure 2.1 shows the relationship between the financing decisions (debt financing decisions, equity financing decisions and retained earnings decisions) and financial performance of savings and credit cooperative societies.

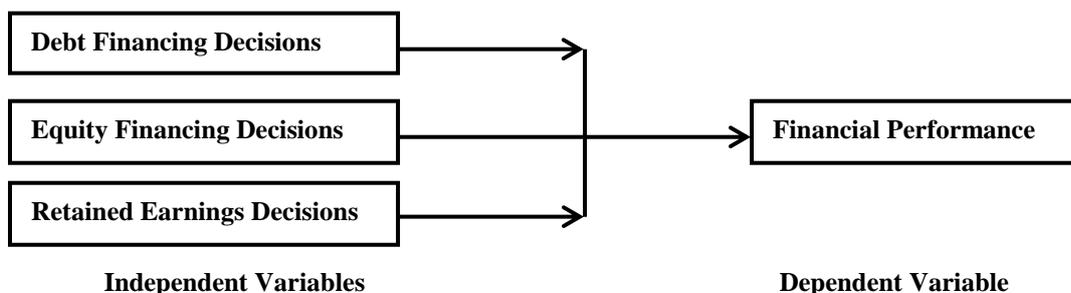


Figure 2.1: Conceptual Framework

5.3 Review of Study Variables

The study variables; debt financing decisions, equity financing decisions, retained earnings decisions and financial performance of savings and credit cooperative societies have been discussed in this sections.

a) Debt Financing Decisions

Debt financing decisions are made on borrowing funds from individuals, companies and investors through the use of bonds, banks, and other financial institutions (Serrasqueiro & Caetano, 2015). The borrower is obliged to pay the principal amount and accumulated interest on debt. Savings and credit cooperative societies do not always have sufficient funds to operate and sustain their operations. The members' savings may not be enough to meet the demand for loans and other activities that the SACCO may be interested to undertake. Funding through debts proves to be critical to business success as it ensures that the SACCO is constantly running the business well so as to be able to pay back such debts. Debt capital is less expensive than equity finance (Daniel & Abdul, 2018).

Creditors have interest claims but no right to management of the SACCO (Esokomi & Mutua, 2018). Therefore, in debt financing, the ownership of the SACCO stays completely in the hands of the directors and the members of the SACCO. Furthermore, lenders are not entitled to the company profits. Debt financing decisions are mainly appropriate for savings and credit cooperative societies that are in pursuance of aggressive growth strategy, and have access to relatively low interest rates on debts (Chen & Chen, 2011). However, debt capital its own consequences, for instance the creditors can seize the SACCO assets if their debts are not paid as agreed. The interest paid on debts is tax deductible meaning that the amount of profits subjected to taxation is less the interest rates. Savings and credit cooperative societies obtain loans to fund their operations and end up committing to expense payments that may lead them to insolvency if that payment is not met (Yogo, Marangu, Kiongera, & Okeke, 2016). In some instances, debt financing decisions may put SACCOs under pressure to settle their loan obligations with available funds that have unlimited needs of their business thus financial performance is likely to stagnate. It is important that the debt financing decisions are guided by availability of viable investments with realistic returns to cover the cost of debt in order to avoid subjecting the SACCO to financial distress (Yogo *et al.*, 2016). Savings and credit cooperative societies make debt financing decisions based on fact that their growth can be delayed by high cost of debt that include compounding interest which heightens the risk of bankruptcy (Matias & Serrasqueiro, 2017).

b) Equity Financing Decisions

Equity financing decisions are made on the use of organization's owners funds (Matias & Serrasqueiro, 2017). Equity capital is used by savings and credit cooperative societies as a financing tool in exchange for ownership and an expected return to on the acquired funds. Equity is based on the potential for creation of value through the growth of the savings and credit cooperative societies (Esokomi & Mutua, 2018). Equity providers require dividend payments which depend on the performance of the organization. Dividend payouts are made if the company makes surplus earnings (Klasa, Ortiz-Molina, Serfling, & Srinivasan, 2018).

Equity financing decisions involves the process of raising SACCO funds through issuance shares to the members (Yogo *et al.*, 2016). Savings and credit cooperative societies might have long-term and short term need for short term activities such as payment of bills and long-term plans such as investments respective. In such situations, decisions are made to sell ownership of the savings and credit cooperative societies through stock financing. SACCO members and investors usually have long-term interest and can wait on their return on investment (Onyango, 2016). Therefore, SACCOs make equity financing decisions to expand their operations and stabilize their capital. Equity financing less risky than debt financing since the SACCOs are not obligated to pay back the funds raised as a result of issuance of shares.

c) Retained Earnings Decisions

Savings and Credit Cooperative Societies' main goal is to serve the interests not the members through provision of financial services that include loans accessibility, savings and financial advisory services (Tonui & Otinga, 2019). To meet this goal, they have earned surplus returns from their core activities and investments. There, profits generation is also important in Savings and Credit Cooperative Societies. It determines their financial performance and sustainability in the long-run. The economic and financial needs of the members are in most cases long-term in nature hence SACCOs have to continue to achieving surpluses in a consistent and sustainable manner (Muteke, 2015). The earnings of the savings and credit cooperative societies are key component considered by potential members and investors. SACCOs with good returns are able to pay their members interest on deposits and dividend payouts regularly and this will attract more members and stabilize their capital bases on the process.

Retained earnings are made on the basis of surpluses or profits made by a company and also their dividend policy (Klas *et al.*, 2018). Positive returns give SACCOs the opportunity to utilize the surplus money earned. The surpluses are given to the members, though they can be re-invested back into the SACCO to enhance improved financial performance and growth. Retained earnings are the remains of profits after dividend payments to the SACCO members. Retained earnings decisions are made to determine the retention ratios of SACCO. Retained earnings are internal financing source to a company which is readily available and without significant financing costs (Martellini, Milhau, & Tarelli, 2018). Financial performance is influenced by the

level of activity undertaken by the SACCO particularly, the quantity of loans issued to the members. Furthermore, SACCOs have recently embraced financial diversification and are investing in government securities and also FOSA products. The level of SACCO activity and investments are partly influenced by the level of earnings retained. They determine the level of subsequent earnings and payouts to the members. Retained earnings decisions thus determine the financial performance of savings and credit cooperative societies (Esokomi & Mutua, 2018). It is paramount importance that retained earnings do not jeopardize the interest of the members hence expanded SACCO activities and investments ought to be viable and beneficial to the members.

5.4 Empirical Review

Past empirical research studies related to debt financing decisions, equity financing decisions, retained earnings decisions and financial performance of savings and credit cooperative societies have been reviewed. Yogo, Marangu, Kiongera, and Okeke, (2016) analyzed the effect of internal financing on financial performance of savings and credit cooperatives societies in Kakamega County, Kenya. Findings showed that internal financing had a positive significant effect on financial performance. The coefficient of determination was 0.657 implying that 65.% of variation in financial performance was explained by internal financing. Mwenda and Kalio (2014) did a study on the determinants of capital structures in savings and credit cooperative societies in Kenya. They found that capital structure was determined by the profitability of the SACCO.

Muinde (2014) sought to establish the relationship between financial structure and growth of saving and credit cooperative societies' wealth in Machakos County. Findings indicated that internal financing was positively correlated with Growth of SACCOs wealth and this relationship was explained by beta coefficient $\beta=0.046$. Furthermore, it was further found that growth of SACCOs' wealth was increased by increase in external financing led to an increase in growth of SACCOs wealth and was explained by beta coefficient $\beta = 0.182$. In regression analysis findings, the coefficient of determination was 0.729 meaning that 72.9% of changes in growth were explained by financing structure.

Lukhanda-Shibutse, Kalunda, and Achoki (2019) investigated the effect of leverage and firm size on financial performance of deposit taking savings and credit cooperatives in Kenya. Findings showed that firm size affected financial performance positively. Financial leverage was negatively correlated to financial performance. Kiptoo, Wanyoike, and Gathogo (2015) sought to establish the influence of cross-borrowing on financial performance of Savings and Credit Cooperative Societies in Eldama Ravine Sub-County, Kenya. Findings showed that adverse selection strongly influenced financial performance more than credit policy.

Ondieki, Okioga, Okwena, Onsase (2012) did an assessment of the effect of external financing on financial performance of savings and credit cooperatives in Kisii central district-Kenya. Findings revealed that 88.9% of the sampled savings and credit cooperative societies had received external financing. The findings further showed that investment policies and portfolio quality influenced financial performance.

Daniel and Abdul (2018) sought to determine the effect of capital structure on the financial performance of deposit-taking savings and credit cooperative societies in Kenya. Findings showed that use of debt had a negative effect on the financial performance. Equity financing affected financial performance positively while an increase in liquidity level led to decline in financial performance.

A research study by Omare (2019) investigated the effect of Capital Structure on Performance of Microfinance Institutions. Findings established a positive relationship between debt to equity ratio and the performance of microfinance institutions. Furthermore, debt to asset ratio, total debt and customer deposits contributed to performance of microfinance institutions. Additionally, portfolio at risk had negative effect on performance of microfinance institutions. Gweyi and Karanja (2014) examined the effect of financial leverage on financial performance of deposit taking savings and credit co-operative in Kenya. Findings showed that debt equity ratio and return on equity were positively and significantly correlated at 1% significance level. However, there was weak relationship between debt equity ratio and return on assets.

A research study by Kirimi (2017) on the effect of debt finance on financial performance of savings and credit cooperative societies in Maara Sub-county-Tharaka Nithi County indicated a strong positive relationship of 0.984 between use of debt and return on equity. Interest rates and loan tenure affected return on equity negatively. However, the debt equity ratio and interest coverage ratio increased the return on equity. In regression analysis, all the variables taken together affected return on equity significantly. The t-values were 3.474, -2.938, and 9.217 for interest rate, loan tenure and debt equity ratio respectively.

Esokomi and Mutua (2018) investigated the determinants of financial performance among savings and credit co-operative societies in Kakamega County. Findings showed that there was a significant relationship between liquidity and return on equity. Moreover, capital structure and return on equity were positively correlated. Assets quality affected return on equity negatively while income diversification contributed to increased return on equity.

A research study by Mwandia (2014) examined the effect of funding structure and liquidity on financial performance of savings and credit cooperative societies. Results revealed that liquidity influenced financial performance of SACCOs. The ratio of members' deposits to assets was also a critical factor in influencing the financial performance. Findings further indicated that SACCOs had good leverage since their debt levels were low in comparison to the total assets of the organizations. However, their revenue levels were short of total members' deposits thus they had impaired capacities with regard to the organization size.

6. Research Methodology

The methodology outlines the research design, sampling technique, and data analysis.

6.1 Research Design

Research design is the research framework that integrates different components of the study with aim of addressing research problem (Mohajan, 2018). The current study applied meta-analysis research design. Meta-analysis research design systematically assesses previous empirical research studies to derive conclusions about that body of research (Kumar, 2019). It includes a consolidated and quantitative review of a large body of literature to provide answers to the research questions. Meta-analysis was suitable for the current study since it was a conceptual review and comparative analysis of empirical studies related to relationship between financing decisions and financial performance of Savings and Credit Cooperative Societies.

6.2 Sampling Technique and Research Data

The study applied purposely sampling technique. Journal articles selected were purposely the ones with studies related to financing decisions and financial performance of Savings and Credit Cooperative Societies in Kenya. The study comprised of secondary data only. It was collected from journal articles and repositories.

6.3 Data Analysis

Data is analyzed through evaluation process that applies logical and analytical approaches for examining each component of data (Kumar, 2019). It is aimed at extracting useful information to guide conclusions. The current study applied qualitative data analysis method with content analysis approach to review findings of various studies in relation to financing decisions and financial performance of Savings and Credit Cooperative Societies.

7. Findings

7.1 Debt Financing Decisions

The study sought to find out whether debt financing decisions influenced financial performance of savings and credit cooperative societies in Kenya. Based on the analyzed empirical findings, financial performance of savings and credit cooperative societies is influenced by debt financing decisions. Kirimi (2017) indicated that the correlation coefficient depicting the relationship between use of debt finance and financial performance of savings and credit cooperative societies was $r=0.984$. It implied that debt financing decisions highly affected financial performance. In regression findings, components of debt financing; t-values of 3.474 and 9.217 for interest rate, loan and debt equity ratio respectively. Lukhanda-Shibutse, Kalunda, and Achoki (2019) found that use of debt financing (leverage) affected financial performance negatively. Ondieki, Okioga, Okwena, Onsase (2012) found that 88.9% of SACCOs in Kisii District applied financial leverage. Debt was used in investments by SACCOs and findings showed that investment policies and portfolio quality influenced financial performance. Gweyi and Karanja (2014) found that debt equity ratio and return on equity were positively and significantly correlated at 1% significance level.

7.2 Equity financing Decisions

The study aimed at establishing the relationship between equity financing decisions and financial performance of savings and credit cooperative societies. Findings indicated that equity financing decisions affected financial performance. Muinde (2014) indicated that internal financing determine Growth of SACCOs wealth as by beta coefficient $\beta=0.046$. In regression analysis findings, the coefficient of determination was 0.729 meaning that 72.9% of changes in growth was explained by financing structure. Yogo *et al* (2016) found that internal financing had a positive significant effect on financial performance and 65.% of changes in financial performance was explained by internal financing. Daniel and Abdul (2018) found that equity financing influenced financial performance positively.

7.3 Retained Earnings Decisions

The study sought to find out whether retained earnings decisions influenced financial performance of savings and credit cooperative societies. It was found that retained earnings contributed to financial performance

of savings and credit cooperative societies. Muinde (2014) found that retained earnings as part of promoted growth of SACCOs. Esokomi and Mutua (2018) established that capital structure and return on equity were positively correlated. Mwenda and Kalio (2014) found that capital structure was determined by the profitability of the SACCO.

8. Conclusions

Based on study findings, the financing decisions influence financial performance of savings and credit cooperative societies. They are vital importance in enhancing the ability of SACCOs to pay interest on members' deposits as well as dividend payouts. Findings showed that, financing decisions help savings and credit cooperative societies to determine their financial requirements and raise the funds in such proportions from debt, equity and retained earnings for their best possible utilization and generation of returns. Financing decisions also enable SACCOs to increase the profits in terms of higher returns to members. Financial performance depends on management of costs of financing. Debt capital ought to be utilized well to lead to returns that can cover costs. Otherwise, inability of SACCO to settle debt may lead to bankruptcy and distress costs that hinder effective financial performance.

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