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Effect of Investment and Financing Decision on Profitability of Deposit Taking Saccos in Nairobi County

Espira Elvira Muthoni[1], Dr. Julius Miroga[2], Dr. CPA Hesbon Nangabo Otinga[3]
[1](MBA Candidate, Jomo Kenyatta University of Agriculture and Technology, Kenya)
[2,3](Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya)

Abstract:
SACCOs play an essential role in economic development as part of the financial system. There has been a substantial growth in the loans distribution. Financial managers have therefore embarked on utilizing different financial management decisions to help in reducing the risk in their financial investments. As available studies analyse financial management decisions separately, it is difficult to ascertain the combined effect of the various financial management decisions on financial performance, yet no single firm uses just one of the financings options available. The specific objectives were to examine the influence of investment decision and financing decision on profitability of deposit taking Saccos in Nairobi County. This research adopted descriptive survey research design targeting 10 major established deposit taking Saccos in Nairobi County. Secondary data was collected using secondary data collection sheet. Descriptive and inferential statistics was analyzed using STATA 15. Descriptive entailed central tendency (means) and dispersion (standard deviation) was used. Inferential statistics such as regression and correlation analyses was used to determine both the nature and the strength of the relationship between the dependent and independent variables. The findings were presented using tables, figures and models. The findings revealed that investment decision (β1=0.012 and financing decision (β1=0.000) have significant positive effect on profitability of deposit taking Saccos in Nairobi County. The study concluded that investment decision and financing decision having positive influence on profitability of deposit taking Saccos in Nairobi County.The management of DTS needs to establish a prudent investment decision that will ensure that its assets are optimized for better performance.There is a need for the management of deposit taking Sacco to balance their financing using debts and equity. There is a need to revise the financing policies to incorporate financing with less equity and more debts since it improves the returns.

Key Word: *Investment Decision, Financing Decision, Profitability, Deposit Taking Saccos, Nairobi County*

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I. Introduction

Sacco's have been recognized worldwide as important avenues of economic growth (ICA Report, 2018). SACCOs play a significant role in the provision of financial services to the poor (target groups). They provide savings and credit and investment opportunities to individuals, institutions and group members. However, SACCO Society Regulatory Authority (SASRA) has revoked the licenses of more than five credit unions in the last three years, effectively barring them from taking deposits from the public due to serious financial problems which has affected their profitability. This follows that these SACCOs faced a risks arising from liquidity shortage, capital adequacy, insolvency and this has been a major cause of failure of many financial cooperatives in recent years (Onchwari, 2018).

The function of the Saccos is centered on the financial intermediation theory of banking. The clients deposit the money in Sacco's accounts and create a pool of money which will be available for lending. The borrowers, on the other hand, get the money through the Sacco in the form of loans (Otwoko, Maina&Kwasira, 2021). The Sacco, in this case, acts as an intermediary between the lender and the borrower. Sacco's, therefore, avoid making loses in the process through strategies such as securing the loan with a collateral that the Sacco will acquire in case the borrower defaults in payment (Kibet&Kamaara, 2019). The concept, therefore, forms the basis for financial management decision which has been adopted by almost all the Sacco in Kenya

Financial management decision aims at finding the right financial decision that will maximize stockholders wealth. Most financial management decisions are dictated by necessity which requires in-depth analysis of costs attracted and long-term implications. The skills to identify financial variables which have the greatest impact on financial performance in an organization can facilitate establishment of criteria for appropriate decision (Ali &Isak, 2019). For companies to maintain competitiveness and add value to wealth

creation should make critical business and financial management decision which will lead to long-run perspective.

The profitability of SACCOs has registered stagnating and sometimes declining growth. This condition is occasioned by declining asset quality especially the loan assets which represent the major business concern. SASRA (2017) reported an upsurge in the amount of nonperforming loans in the sector. Notably, the level of non-performing loans experienced an upward movement from 5.12 percent in 2015 to 5.23 percent in 2016 and further to 6.14 percent in 2017 which greatly affects the ability to guarantee profit growth. The level of Non-Performing Loans remains way above the threshold set by WCCU (5 percent).

In Kenya, most SACCO customers lack sufficient financial statement information to support their loan application and this hinder them from accessing loan. However, financing option is a concept that financial institutions need to consider as an alternative form of financing to their customers (Owino&Otieno, 2017). Mwanzia and Sakwa (2017) depict that loan based on assets improve the quality of loan portfolio and thus it can be used as a source of financial information to support loan application.

Muthuri (2018) showed that debts and equity finances being critical in determining the financial stability of commercial banks in Kenya. Additionally, Wambua (2018) established that debt emphatically influenced the financial sustainability of deposit-taking microfinance institutions in Kenya. Moreover, Kajiriwa (2015) indicated the long-term deficit in commercial banks affects the capital structure negatively and the high debts become a burden to the firms and the level of the profits is affected adversely. Additionally, according to Waweru and Wanyoike (2016), equity capital is essential in enhancing the profitability of Micro Finance Institutions and debt capital to have opted as the last financing option for the firms. Furthermore, Amsi, Ngare, Imo and Gachie (2017) showed that value proportion decidedly influenced the monetary exhibition of the Small and Mediums Enterprises business. In Kenya, the lack of adequate access to credit is the leading factor stifling the growth of enterprises (Mwambili, 2018). According to HF Group, the assets funded in Asset Finance include motor vehicles, school buses, construction equipment, industrial equipment etc. with a minimum finance amount of Kes 300,000. The rates for business financing in Kenya are Commitment/appraisal fees - 1.0% for new units and 2.0% for used units plus excise duty. This is charged as a percentage of the financed amount. Rate of interest in business asset financing is 4.0% above the central bank rate (CBR). Musila (2015) showed an insignificant but positive relationship between Share capital and financial performance. The study also showed a significant positive relationship between financial performance and growth opportunities and equity ratio. It can be concluded that firms which invest resources towards increasing growth in asset base show greater improvement in financial performance. Share capital are important especially as far as raising capital for growth, expansions or acquisitions is concerned. In a recent study on the financial management decision on SMEs in Kenya, Gikomo (2020) noted that there was a positive and significant relationship between growth of SMEs and short term debt.

Saxton (2015) documented that financial markets have been revolutionized over the past two decades by Kenyan real estate developers due to existence of mortgage brokers in the county, increase in risk based pricing of mortgage properties and growth of secondary mortgage market. The financial markets in Kenya experience increase in mortgage lending thus development of new emerging products at affordable rates. Mortgage boom and bust in the financial markets have been due to mortgage delinquencies where by potential homeowners took mortgage loans without any capacity to finance.

Statement of the Problem

SACCOs play an essential role in economic development as part of the financial system. In Kenya, 63% of the population is either directly or indirectly benefiting from SACCO activities (Republic of Kenya, 2017). Moreover, SACCOs are now a vital instrument embraced by the Government towards increasing financial inclusion especially now that financial transactions are tending towards a cashless economy. However, despite the significant government initiative, SACCOs continues to frustrate millennium development goals and vision 2030 objectives of increasing financial inclusion. According to SACCO Societies Regulatory Authority (SASRA, 2019) showed that many SACCOs in Kenya have posted poor performance in terms of dividend and interest on members deposit payout. A case in point is Mwalimu National Sacco which reported a downward fall in net profits and this was attributed to acquisition of Spire Bank as a new product line under risk assessment which had not been monitored. Further, the industry regulator has also put 12 more Deposit-Taking Savings and Credit Co-operative Societies (SACCOs) on a watch list for continuously posting poor results. This list includes Ainabkoi, Goodhope, Jitegemee, Kenya Midland, Orient, Uchongaji, Rachuonyo Teachers, Nyamira Teachers, Stake Kenya, Wevarsity, Telepost and Jumuika Sacco Society Limited.

There have been several studies carried out which demonstrate the importance of internal control on financial performance. However, there are existing knowledge gap as a results of mixed outcome. For instance, Asiligwa and Rennox (2017) and Magara (2013) indicated that financial management has significant influence on financial performance. This is contrary to Mbaka (2018) investigated the relationship between financial

management and performance in SACCOs in Nyeri Central Sub-County and found that some financial management decision have statistically insignificant effect on financial performance of SACCOs. Nyumoo, Mwambia and Rintari (2020) indicated that there was significant relationship between asset management decision and financial performance of Saccos in Meru County and recommended further studies should focus on other financial decision such as dividend and financial decision.

Ndemi (2018) investigated the effect of financial management decision on the financial performance of SMEs in Nanyuki Town, Kenya. The study concludes that the poor state of financial performance indicated by both profitability and liquidity of SMEs could be attributed to financial management decision among SMEs. Muungai (2016) aimed at establishing the perceived role of financial management decision on the growth of real estate in Kenya with a focus in Nairobi Metropolitan area. The study found mortgage financing and Share capital the only two variables with a good fit. Little is known on how financial management decision has impacted on the financial performance of Deposit Taking Saccos in Nairobi County. This study is thus different from the previous ones as it sought to fill the research gap by assessing the influence of financial management decision on financial performance of Deposit Taking Saccos in Nairobi County, Kenya.

ObjectivesoftheStudy

i) To examine the influence of investment decision on profitability of deposit taking Saccos in Nairobi County.
ii) To examine the influence of financing decision on profitability of deposit taking Saccos in Nairobi County.

Research Hypotheses

H_{01}: Investment decision does not significantly influence profitability of deposit taking Saccos in Nairobi County

H_{02}: Financing decision does not significantly influence profitability of deposit taking Saccos in Nairobi County

II. LiteratureReview

Theoretical Framework

The study was guided by the following theories, The Risk and Return Trade off theory for investment decision and Pecking order theory for financing decision.

The Risk and Return Trade off Theory

The Risk and Return Trade off Theory proposed by Sharpe (1964) hinges on investment decision which is an independent variable of the study. It states that higher risk is associated with greater probability of higher return and lower risk with a greater probability of smaller return. The concept of risk and return trade off assumes that there exists an efficient and no riskless profit that can be earned. According to Krantz and Zhnag (2013) if the investors anticipate that prices will be high then they would rush to purchase the particular security and owing to forces of demand and supply then prices would increase since there will be limited supply. Moreover, an investor will be motivated to purchase securities when prices are high on anticipation he will get fair return. In contrast when there is anticipation that the prices will decline then investors will be in a hurry to dispose their securities as such to militate against any anticipated loss in future.

This theory was evaluated to investment decision independent variable. The theory of trade-off indicates that executives just prefer debt (Etiennot et al., 2017). They balance debt costs and benefits to a proper leverage level, interest on debt is tax deductible (thus reduction of corporate tax liability) and interest expenditure on debt, thereby decreasing the efficient debt-to-equity price (Hou& Van Dijk, 2018). This theory is relevant to this study in that airlines in Kenya can use trade off theory by factoring in investment decision in their financial management models and practices.

The theory is not void of criticism more so because of the assumptions in which the theory is based on. The major shortcoming of this theory is inability of developing economies capital markets to clearly categorize distressed and non-distressed companies due to limited information access (Mwangi, 2016). The theory is appropriate for the study since there is need for clear understanding of listed company's asset value since this would minimize possibilities of under or over valuation and ultimately optimize organization capacity to borrow.

Pecking Order theory

This theory is attributed to Myers (1984) and Myers and Majluf (1984). The theorists affirmed that businesses first opt to use their income to finance their investments due to information asymmetry. Companies issue debt first and share funding last, according to the theorist, when internal financing is not enough. The

theory of pecking order indicates that companies have a specific capital preference order used to finance their companies. The preferences order represents the relative expenses of the different funding alternatives (Poschke, 2018).

The relative cost of financing differs from the selection of financing given the presence of data asymmetries between the business and potential financiers (Berk&DeMarzo 2007). When the fund provider is the Company's retained income which has more information than new equity shareholders, the new equity providers expect higher returns on invested equity so that the firm is more costly to finance its new share than to use existing internal funds (Anthal, 2012). A comparable argument can be made between fresh debts holders and retained earnings. Furthermore, in relation to retained income, the greater the risk exposure associated with the data asymmetries for the different funding decisions, the higher the return on capital requested by each source (Vătavu, 2015). Therefore, the business will prefer debt to received income financing, short-term debt to the long-term debt and debt to share finance.

However, there are also some limitations of Pecking Order Theory. The first limitation of the Pecking Order Theory is that it fails to incorporate the effect of taxes, cost of issuing new securities, agency cost, and financial distress of the investment opportunities. The second problem related to Pecking Order Theory is that it overlooks the problems associated with the decisions of financial managers to accumulate so much financial slack that they become protected to market discipline. It considers the impact of financial slack on the firm and the impact of availability of positive NPV's of projects. Due to these limitations, Pecking Order Theory is referred as complement rather than substitute of Static trade off theory

Conceptual Review

This is a diagram illustrating the linear relationship between independent variables (Investment decision and financing decision) and the dependent variable (profitability of DTS) as shown in figure 1.0.

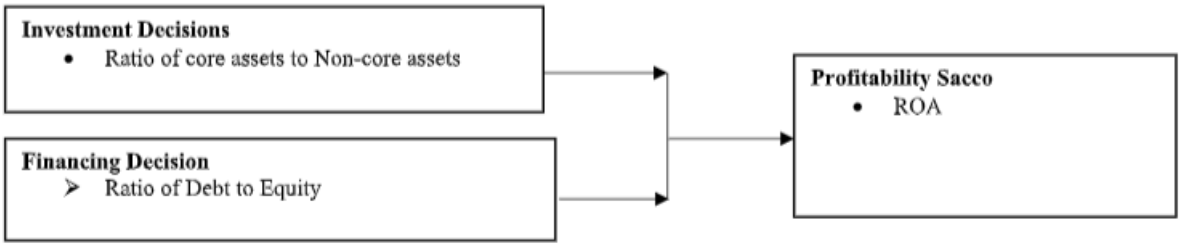

Figure1.0: Conceptual Framework

Investment decision is simply capital budgeting designed as the company make decision on how to invest its available funds in efficient long term asset anticipating high flow of returns. The effect of investment decision is viewed as the investing approach procedures on discounted cash flow method which is the net present value of cash flow minus the initial cash outflow from the firma (Shantatus, 2015). The analysis of investment decision is done by maintaining cash management in relations to investment decisions of the firms as it seen India. Investment decision has been seen as risk management business, the investment include risk analysis, portfolio management decisions, payment of dividends and earnings and asset liability management. Risk analysis is the investment decisions related to variability which is likely to happen in future returns depending types of the project to be invested.

Financing decision can be interpreted as decision concerning the firm's financial management decision. The firm's financial management decision is a composition of financing decision that include short-term debt, long-term debt and equity. A financing decision is a decision regarding the search for sources of funds to finance investment and determines the composition of the source of funds to be used. Financing comes from within such as retained earnings and equity and some comes from outside such as debt and public offerings. The purpose of financing is to fund investment. Modigliani and Miller (in Nova, 2017) stated that additional debt will increase the value of the firm. Each firm will expect an optimal capital structure, namely a capital structure that can maximize firm value (Fernandar&Raharja, in Utami, 2018).

Profitability is the ability for an organization to make profit from its activities. Agha (2014) defines profitability as the ability of a company to earn profit. Profit is determined by deducting expenses from the revenue incurred in generating that revenue. Profitability is therefore measured by incomes and expenses. Income is the revenues generated from activities of a business enterprise. The higher the profit figure the better it seen as the business is earning more money on capital invested. For service industries, revenues are generated from offer of services. Bourjade, Huc, and Muller-Vibes (2017) assert that for a business enterprise to continue running, it must make profits.

Empirical Review

Investment Decision and Profitability

Kalliokoski (2020) sought to determine can financial ratio analysis be used in the airline industry, do the rule of thumbs apply in the airline industry, and which company, Finnair or SAS, has better financial positions based on liquidity, profitability and activity ratios during the studied period of 2008-2018. The study finds, by using comparative financial ratio analysis, that Finnair has better financial position based on liquidity, profitability and activity. It was also found, that financial ratio analysis can be used in comparing airline companies, but the existing rule of thumbs for ratios, are not applicable.Kiiru, Kirori and Omurwa (2019) examined financial management and performance of the listed firms in the commercial and services segment using Kenya Airways as a case study. Both descriptive and inferential statistics were used to analyze the data collected. Findings showed that the investment decision on had a positive and statistically financial performance of Kenya Airways was positive and statistically insignificant.

Kumar and Fernandez (2019) aimed to understand the determinants of capital structure policy of airline industry. It examines the relevance of different debt theories in the context of airline industry. This study documents positive relationship between leverage and profitability as predicted by the tradeoff theory. It also finds some evidence for signaling theory. Profitable firms signal higher cash flow generation capacity of the firm and uses higher leverage. The negative relationship between leverage and growth confirms the prediction of tradeoff theory.Mweresa and Muturi (2018) assessed the effects of investment decisions on the performance of public sugar firms in western Kenya. The study found that investment in production has a strong effect on the financial performance of sugar companies at 4.466 magnitude strength. The investment in the distribution chain decision has a moderate effect on the financial performance of sugar companies while investment in financial assets is least rated at 2.928 mean weights by respondents as having little effect on the financial performance of sugar companies. Explanatory variables influence up to 80.8% of the financial performance of sugar companies.

Ogaro, Songoro and Euna (2017) aimed of the study was to assess the effects of investment decision techniques on financial performance in ME in Kenya. The study focused on Medium Enterprises in Kisii Town. The study aim to assess the effect of investment decisions techniques on financial performance in Kenya by the case of selected ME in Kisii town in Kisii County. The finding shows that there were significant correlations between internal rates of return.Setiyorini and Kartika (2018) aims to examine the effect of profitability and investment decisions on corporate value. Return On Assets (ROA) is used as profitability proxy, Total Asset Growth (TAG) as investment decision proxy, and Price Book Value (PBV) as a proxy of company value. The results of this study partially show that profitability (ROA) and investment decisions (TAG) have a positive and significant impact on firm value (PBV). Simultaneously, the two independent variables influence the firm's value variable (PBV), but firm value is not only influenced by social-internal factors, corporate value is also influenced by external social such as interest rate, inflation rate, currency exchange rate and socio-political situation.

Effect of Investment in Equity on Profitability

Kirimi, Simiyu and Murithi (2017) carried out a research on effect of financing decision on financial performance. A causal research design was used on a population target of ten SACCOs with secondary nature data being collected from the SACCOs financial statements over an 8 year period. The study outcomes exhibited a positive strong relationship between ROE and debt. Abdulazeez and Saif (2019) investigated the effect financial management decisions had on the shareholders 'value of 70 banking institutions that were listed in the stock exchanges of six gulf countries over the period 2000 to 2017. The six gulf countries were Bahrain, Kuwait, Oman, Qatar and United Arab Emirates. Findings of the study indicated a significant an positive association between financial management decisions and shareholders value thus reflecting the state of financial soundness of Gulf countries banks.

Butje, Pahlevi and Pakki (2019) aimed to provide empirical evidence on the influence of financing decision on the value of manufacturing companies of various industry sub-sector listed in Indonesia Stock Exchange period 2012-2016. To test and provide empirical evidence on whether profitability can moderate the effect of dividend policy, debt policy and investment policy on the value of manufacturing companies of various industry sub-sectors listed in Indonesia Stock Exchange period 2012-2016. The result of empirical analysis that financing decision (DER) has a positive and significant impact on company value. Demessie (2020) sought to examine the effect of capital structure on performance of the Ethiopian Airlines for the period 1994- 2018. The regression result show that short term and long term debt to asset had statistically insignificant and positive relationship with performance of Ethiopian Airlines (measured by ROA) at 5 % significance level, whereas total debt to asset had statistically insignificant negative impact on performance of Ethiopian Airlines. On the other hand, asset tangibility had statistically significant and negative relationship with performance of Ethiopian Airlines.

Ginanjar, Hasnawati and Fiska (2021) aimed to determine the influence of financing decision, dividend policy on firm value. Using purposive sampling method, 22 firms in the food and beverage industry listed in Indonesia Stock Exchange for the period 2016- 2018 were selected as samples. The results of the suitability test model show that financing decision (DER) influence firm value.Kasomba and Omagwa (2020) assessed the effect of financial management decision on financial performance of domestic commercial airlines in Kenya. The study found that lease financing, share financing, debt financing and retained earnings explained 86.6% and 65.9% of the variance in Net profit margin and ROA respectively of domestic commercial airlines.Muthoni (2019) investigated the effects of financing decisions on shareholder value creation of non- financial firms quoted at NSE for the period 2008-2014. The results indicated significant differences among various sectors in respect to the effects of financing decisions on shareholder value creation. The study found that, the moderating effect between financing decisions on shareholder value creation and GDP growth rate had a positive and statistically significant effect.

III. Material And Methods

Descriptive research design was adopted. This research design is thus most appropriate since the objective of the study in establishing the influence of financing and investment decisions on financial performance of Deposit Taking Saccos in Nairobi County, Kenya. The target population of this study was all registered Saccos in Nairobi County; this formed the unit of analysis. According to SASRA (2021), Nairobi County has 11 tier one deposit taking Saccos. A census of all the 11 Tier one Deposit Taking SACCOs in Nairobi County was studied. Secondary data was collected from the audited financial statement submitted to SASRA by the DT Saccos after they have been registered by the commissioner of Cooperatives. Data was collected for the five year period ending 31st Dec 2020. The data which was of interest to the researcher included short Equity capital, return on Asset and retained earnings for 5-year period from 2016-2020. Data was analyzed by regression panel data analysis tool. Data analysis included both descriptive and inferential statistics where model specification estimation and rationale of variables were done. Descriptive statistics included mean, standard deviation, maximum and minimum. The study used inferential statistics which are regression analysis and correlation analysis to test null hypotheses. These statistical tests were at 5% significance level. Secondary data was transformed into natural logarithm. The level of significance of 5% was used as a benchmark. If the P value is less than 0.05 at 5% significance level, reject the null hypotheses and accept the alternative and vice versa. Standard multiple regression model was used to measure the influence of financial structure on financial performance. This included fixed and random effects regression model as well as multiple linear regression models. Fixed and random effects regression model was used for individual financial structure measures while multiple linear regressions for all financial structure measures as a block. All analyses were done using STATA 15.

IV. Result and Discussion

Descriptive Analysis

In order to describe the features and characteristics of the data set, the study computed descriptive statistics. It provided a summary of the data and measures used in the study. The study calculated standard deviation, mean, maximum and minimum values between 2016 and 2020 for all the variables dependent variables, Profitability, and the independent variables, investment decision and financing decision. The descriptive statistics for the variable are presented in Table 1.0.

Table 1: Descriptive Statistics

Statistics	Profitability	Investment Decision	Financing Decision
N	55	55	55
Minimum	0.02388	0.110165	0.006327
Maximum	0.071627	0.517017	6.24191
Median	0.018645	0.252868	0.138856
Mean	0.029431	0.279768	0.641316
Std Dev	0.015211	0.112604	1.117105
Std Error of Mean	0.002051	0.015184	0.15063
Coefficient of Variation	0.678111	0.402492	1.741895

Investment decision was measured using the ratio of core assets to total fixed assets. As indicated in Table 1, investment decision ranged from 0.110 to 0.5170 with a mean of 0.279. The distribution had a standard deviation of 0.1126 with a standard error of 0.0151 and a coefficient of variance of 1.4025. Financing decision was measured using ratio of debt to equity. Financing decision ranged from 0.0063 to 6.242 with a mean of 0.6413 and standard deviation of 1.117. The distribution mean standard error was 0.151 with a coefficient of variance of 1.7418. Profitability was measured using ratio of Net profit after Tax to total assets. Return on asset ranged from 0.024 to 0.071 with a mean of 0.0293 and standard deviation of 0.0152. The distribution mean standard error was 0.0020 with a coefficient of variance of 0.678. There was high variability in the profitability as indicated in Figure 2.

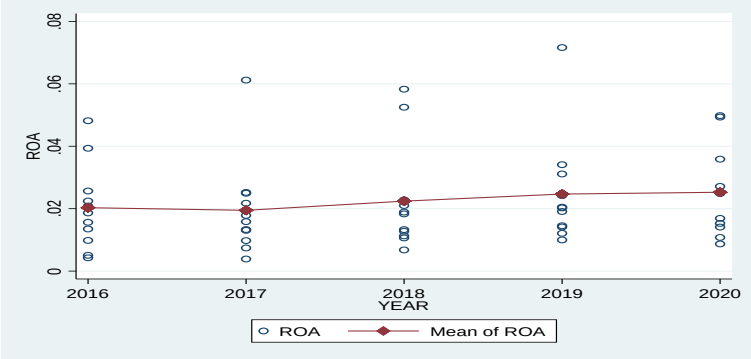

Figure 2: Scatter Plot for Profitability between 2016 and 2020

Inferential Analysis

Unit Root (Stationarity Test)

The study carried out a unit root test to ensure that there was no presence of unit roots (the panel data are stationary). Unit root test were conducted to ensure that the series were stationary and check the problem of having a spurious regression. A variable can only be said to be stationary when it has no unit root. The study used Philips-Perron which is based on propositions

Ho: All panels contain unit roots

Ha: At least one panel is stationary

The results are as shown in Table 2.

Table 2: Unit Root Tests without Difference (Philips-Perron)

	Statistics	P-Value	Significant
Investment decision	4.0578	0.000	**
Financing decision	2.453	0.014	*
Profitability	13.2388	0.0000	**

* sig at 5% level, ** sig at 1% level

Table 2 shows the summary results for Stationarity test. A p-value of more than 0.05 indicates the presence of unit roots (Ho) while a p-value of less than 0.05 was an indication that there was no presence of unit roots for Philips-Perron. The results indicated that there was absence of unit root for all the study variables

Hausman Test (Choice of Model)

A Hausman test was carried out to determine whether to use the fixed effect or random effect model to address objectives of this study. The appropriate approach of choosing between fixed and random effect model is running a Hausman specification test to determine the more efficient model (Borenstein, Hedges, Higgins, & Rothstein, 2010). Under the test, the null hypothesis is that there is no significant correlation between the individual effects and the independent variables. A rejection of the null hypothesis confirms the argument in favor of the fixed effect against the random effect model. The results are as shown in Table 3.

Table 3: Hausman Test

Coefficients ----	(b) Fixed	(B) Random	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
Investment decision	0.956706	0.330949	0.625757	0.292426
Financing decision	-0.39839	0.526876	-0.92527	0.459261

b = consistent under Ho and Ha; obtained from xtreg
B = inconsistent under Ha, efficient under Ho; obtained from xtreg
Test: Ho: difference in coefficients not systematic

chi2(4) = (b-B)'[(V_b-V_B)^(-1)](b-B)
= 32.79
Prob>chi2 = 0.0000

Results in the table 3 indicated a prob>chi2 value of 0.0000 which is less than critical P value at 0.05 level of significance which implies that the null hypothesis that a random effect model is the best was rejected. The study hence used a fixed effect regression model.

Correlation Analysis

Correlation analysis was employed in assessing the linearity association among the variables. The value of the correlation The study conducted Pearson moment correlation analysis. Using the correlation coefficient,

the study tested whether interdependency existed between the predicator variables and whether there was any relationship between response variable profitability and predicator variables Investment decision, Dividend decision, Financing decision and Liquidity decision. The pertinent results are summarized in Table 4.

Table 4: Pearson Correlation Analysis

		Profitability	Investment
Investment decision	Pearson Correlation	0.4294**	1
	Sig. (2-tailed)	0.0011	
	N	55	55
Financing decision	Pearson Correlation	0.485**	0.5861**
	Sig. (2-tailed)	0.0002	0.0000
	N	55	55

**. Correlation is significant at the 0.01 level (2-tailed).

The results indicated that the investment decision has a significant positive influence on the profitability of deposit taking Sacco in Nairobi County (r = 0.4294, P=0.0011). The findings conform to Farinha and Prego (2013) discoveries that investment decisions have strongly positive association with the rate of firms' investment and profitability. The findings also conform to the finding of Mutinda, Gathungu, Kibe and Wambua (2020) that investment decisions had significant impact on financial performance Financing decision has a positive moderate and significant influence on the profitability of deposit taking Sacco in Nairobi County(r =0.4850, P=0.0002). This implied that the financial management decisions used in this study was all having a significant influence on the profitability of deposit taking Sacco in Nairobi County. The findings are in line with the discoveries of Njiru and Mwikamba (2020) that financing decisions have significant effect on financial performance. The results are not in agreement with a research conducted by Abor (2008) who discovered that financing decisions has a considerably negative effect on profitability. It therefore means that an increase in debt is associated with a reduction in performance. Ibrahim (2019) disclosed that debt is a general decision, having weak or no effect on the results of the company.

Linear Regression

Linear regression analysis was conducted to establish direct effect of investment in Investment decision and equity on profitability of listed investments firms at Nairobi Securities Exchange. The results are as follows:

Effect of Investment decision on Profitability

The study sought to examine the influence of investment decision on profitability of deposit taking Sacco in Nairobi County. The first null hypothesis denoted, **H_{o1}:** Investment decision does not significantly influence profitability of deposit taking Saccos in Nairobi County. Having gone by the fixed effect model basing on the Haussmann LM test, the results of the fixed effect model are presented in Table 5.

Table 5: Regression Fixed Effect of Investment decision on Profitability

Fixed-effects (within) regression				Numberofobs =		55
Groupvariable: DTS				Numberofgroups =		11
R-sq:				Obs per group:		
within=	0.1153			min =		5
between=	0.3809			avg=		5
overall=	0.1844			max=		5
				F(1,43) =		5.61
corr(u_i, Xb)=0.8023				Prob> chi2 =		0.0225
ROA	**Coef.**	**Std. Err.**	**T**	**P>t**	**[95% Conf. Interval]**	
Investment Decision	0.878208	0.370896	2.37	0.022	0.130224	1.62619
_cons	-1.21936	0.219793	-5.55	0.000	-1.66261	-0.7761
sigma_u	0.365289					
sigma_e	0.162024					
Rho	0.835605	(fraction of variance due to u_i)				

The R^2 is generally a measure of the variation of the dependent variable profitability that is explained by the variation of the predictors in the model. The result obtained from fixed effect model indicated that investment decision accounted for 18.44% (Overall R square=0.1844 of the variation in profitability of deposit taking Sacco in Nairobi County. The ANOVA statistics measure the general significance of the model. The F-statistic to the model shows is 5.61 which is greater than 0 implying that the estimated parameters in the model are at least not equal to zero. This infers that investment decision has an influence on profitability of deposit taking Sacco in Nairobi County.

The estimated coefficient of investment decision is significantly not equal to zero (β=0.878208, t= 2.37, p-value= 0.022). The P-value is less than 0.05 which implies that the estimated coefficient is significant at 5% significance level. The estimated coefficient of investment decision here implies that a unit increase in investment decision would cause the levels of profitability to increase by 0.878 units. The p-value of the constant is less than 0.05 which shows a significant constant term. The regression model is as shown below

Profitability= -1.21936+0.878208Investment Decision

The study therefore rejected the null hypothesis that investment decision does not influence profitability of deposit taking Sacco in Nairobi County and concluded that there is significant influence of investment decision on profitability. Thisimpliesthatincrease in investment decision would results toincreasein profitability of deposit taking Sacco in Nairobi County. The results validates the agency theory that managers are self-serving and at times can have goals that differ from those of the owners (shareholders), which, if not controlled or monitored, may entice them to indulge in actions that favor them at the expense of owners' wealth maximization. As control and dominance of the managerial team strengthens, the company experiences increased information asymmetry, making it harder for bondholders and shareholders to keep an eye on the managers' actions. Entrenchment motives may eventually make managers to use leverage beyond the elastic limit or the optimal point, so as to cement their control and minimize pressure from the external owners who are the shareholders. In a counter point of view, Fama and French (2002) postulates that entrenched managers may prefer minimal leverage to optimal leverage since they perceive it to have lower firm risk and thus protect their under diversified human capital resources (Huang, Boateng& Newman, 2016). This will definitely result to conflict with management and shareholders and bondholders.

The effect of debt on company value depends on the balance between the conflict of interest amongst managers, shareholders, and also lenders. When disputes of interest between managers and shareholders outweigh that between shareholders as well as financial institutions, leverage can boost strong value since financial obligation compels the managers to pay out funds that may or else have been bought adverse web present value jobs. Nevertheless, when the problem of interest in between shareholders and also lenders outweighs that between supervisors and shareholders, firms with arrearage might have extra rewards to reject jobs that have favorable web existing value if the take advantage of approving the job accumulates to the creditors without also increasing shareholders' wealth. These findings additionally recommend that the endogeneity of financing decisions and also the company issue in between shareholders and also creditors are most likely to be in charge of the negative relation between leverage and company value.

Financing decisions concerned making use of financial debt as well as equity in financing companies' operations. Absence of a partnership between a firm's market value and its financing decisions does not in itself suggest that the financing decisions are immaterial to the company's safety and security holders. When the firm can provide high-risk financial obligation, it may have the ability to utilize its financing decisions to change riches from its shareholders to its supply- owners or vice versa. According to the chain of command concept firms prevent outside financing while they have interior financing available as well as stay clear of brand-new equity financing while they can engage in brand-new debt financing at reasonably reduced interest rates.

The results of the study agree with Ayuba, Bambale, Ibrahim and Sulaiman (2019) that financing decisions including use of short term and long term debt have positive significant effect on Tobin's Q. The results confirmed with those of Hatem (2017) which revealed that those firms that engage in financing decision are more profitable to those that adopt short term. Additionally, Al-Qudah (2017) established that financing decision has a progressive association with performance of an enterprise. However, the results do not agree with Memon, Khan, Shaikh, Shah, Zahid and MuhammdShaikh (2017) who established that financing decisions have no significant impact on firm's performance in Pakistan. Likewise, the results disagree with Kenyanya and Ombok (2018) who analyzed the effect or cause of leverage on value-added financial performance of NSE firms and analyzed using fixed effects multiple regression model and the outcome demonstrated that financial leverage has a negative significant impact on value-added financial performance.

Effect of Financing Decision on Profitability

The study sought to examine the influence of financing decision on profitability of deposit taking Saccos in Nairobi County. The second null hypothesis denoted, **H_{o2}:** Financing decision does not significantly influence profitability of deposit taking Saccos in Nairobi County. Having gone by the fixed effect model basing on the Haussmann LM test, the results of the fixed effect model are presented in Table 6.

Table 6: Regression Fixed Effect of Financing Decision on Profitability

Fixed-effects (within) regression		Numberofobs =	55
Group variable: DTS		Numberofgroups =	11
R-sq:		Obs per group:	
within=	0.0603	min =	5
between=	0.4921	avg=	5

overall=	0.2353	max=	5
		F(1,43) =	3.76
corr(u_i, Xb)=-0.478		Prob> chi2 =	0.039

ROA	**Coef.**	**Std. Err.**	**T**	**P>t**	**[95% Conf. Interval]**	
Financing Decision	0.12335	0.06157	2.003	0.039	-0.16538	0.41208
_cons	0.061912	0.652563	0.09	0.925	-1.269	1.39282
sigma_u	0.645461					
sigma_e	0.312059					
Rho	0.810543	(fraction of variance due to u_i)				

The analysis shows that the panels were strongly balanced for this bivariate analysis as shown by the number of observations per group. There were a total of 55 observations used in this analysis considering 11 groups of entities implying strongly balance panels. The minimum, maximum and average numbers of observations per groups were all equal to 5. The result obtained from fixed effect model indicated that financing decision accounted for 23.53% (Overall R square=0.2353) of the variation in profitability of deposit taking Sacco in Nairobi County. The F-statistic to the model shows is 3.76 which is greater than 0 implying that the estimated parameters in the model are at least not equal to zero. This implies that financing decision has an influence on profitability of deposit taking Sacco in Nairobi County. However, the influence is significant (P=0.039).

The estimated coefficient of financing decision is significantly not equal to zero (β=0.12335, t= 2.003, p-value= 0.039). The P-value is less than 0.05 which implies that the estimated coefficient is significant at 5% significance level. The estimated coefficient of financing decision here implies that a unit increase in financing decision would initiate the levels of profitability to increase by 0.12335 units. The regression model is as shown below

Profitability= 0.0619+0.12335Financing Decision

The study therefore rejected the null hypothesis that financing decision does not affect profitability of deposit taking Sacco in Nairobi County and concluded that there is an influence of financing decision on profitability. This implies that increase in financing decision would results to increase in profitability of deposit taking Sacco in Nairobi County. Investment decision assists in the survival as well as development of a company enterprise, which calls for the demand to funnel efforts of businesses towards understanding effective financing decision, which will certainly protect the shareholders interest. Investment decision includes investment with high risk is the risk seeker who invests more to more to expect more returns from the investment decisions. The results agree with Durnev, Morck, and Yeung (2004) who posit that investment decisions at the corporate level tend to be focused on enhancing the profitability where there is a greater concentration on firm-specific risk arbitrage. A firm's Investment decisions on companies with high creditworthiness are very sensitive to the internal funds availability. On the contrary, less creditworthy firms tend to be less sensitive to availability of internal fund.

The choice of the investment decisions will have a significant impact on profitability. The results validate the agency theory that agency costs threaten the ability of a firm to undertake viable investments. According to the agency theory, agency conflicts emanate from different sources resulting to under-investment. In this case, substantial size of the firm's value is made up of future investment opportunities. The company can be endowed with high-risk bonds that can have incentives to reject positive (net present value) projects if the benefit from investing in the project accrues to the firm's bondholders. Danielson, Heck and Shaffer (2008) opine that since the stock price of a firm can be manipulated in the short-term, incentives to increase the current stock price can destabilize both the investment and operating decisions. The results agree with Pandya (2016) in a study on the impact of financial leverage on market value added in India that debt equity ratio and debt ratios are found to be statistically significant in explaining variation in market value added of the sample companies. The results do not agree with Triani and Tarmidi (2019) who sought to establish how decisions on investment decisions, dividend policies and funding affected the profitability in companies quoted on the Indonesia Securities market from 2013 to 2016 and concluded that investors did not react significantly to the corporate investment decisions and thus the value is not affected by investment decisions

V. Conclusion and Recommendation

Based on the empirical evidence, a number of logical conclusions can be made as follows and presented in terms of study objectives: In line with the first objective, influence of investment decision on profitability of deposit taking Sacco in Nairobi County the study concluded that investment decision has significant positive effect on profitability. An increase in investment decision regarding core assets to non-core assets would results to significant increase in profitability. Therefore, the study concluded that deposit taking

Saccos is able to increase their liquidity when they shorten their debtors' repayment period. The study concluded that financing decision has significant positive effect on profitability as indicated by multiple linear regressions. An increase in debt to equity ratio would results to significant increase in profitability. Hence, financing decision is significant predicator of profitability of deposit taking Sacco in Nairobi County.

The study recommends that since investment decisions affect performance positively and significantly, there is a need for the listed firms to invest more in firm machinery, plants, equipment and property, so as to enhance the returns form these investments. The management of DTS needs to establish a prudent asset management decision that will ensure that its assets are optimized for better performance. The management should also have a proper mix of asset portfolio so as to appropriately match with the financial needs. This will ensure achievement of both long term as well as short term financial objectives.It was also established that financial decisions positively influences firm profitability. The study recommends that since debt to equity ratio can significantly affect returns on equity and assets significantly; there is a need for the management of deposit taking Sacco to balance their financing using debts and equity. There is a need to revise the financing policies to incorporate financing with less equity and more debts since it improves the returns.

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