ISSN 2349-7831

International Journal of Recent Research in Social Sciences and Humanities (IJRRSSH)
Vol. 12, Issue 2, pp: (20-28), Month: April - June 2025, Available at: www.paperpublications.org

Risk Management and Financial Performance of SACCOs

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DOI: https://doi.org/10.5281/zenodo.15315372

Published Date: 30-April-2025

Abstract: **The purpose of the study was to determine the effect of risk management on financial performance. The study used agency theory. This study adopted a descriptive research design. The target population of the study was drawn from all the senior management, middle level management and all staff of the seventeen SACCOs operating in Nairobi City County. The sample of the study was fifty one employees. The sample of 51 was generated by purposively sampling three employees from each SACCOs which included chief executive officer, finance manager and risk manager. This study used structured questionnaires for data collection. Collected data was cleaned and then entered into an SPSS programme for data analysis. Descriptive statistics such as percentages, mean trends and standard deviation will be computed to describe the characteristics of the variables while inferential statistics applied to establish the nature and magnitude of the relationship between the variables. Multiple regression and analysis of variance was used to test the relationship of one variable over the other. Based on the findings, the study concluded risk management were found to be positively related financial performance of savings and credit cooperative organization in Nairobi City. The study was to be significant to the directors of SACCOs, the government through the ministry of cooperatives and identify gaps for further research on the field.**

Keywords: **risk management, financial performance, SACCOs, data analysis.**

1. INTRODUCTION

The performance of financial institutions, regardless of their size or scope, is influenced by various factors, among which corporate governance stands out as a fundamental element. Effective corporate governance serves as the backbone of financial institutions, guiding their strategic direction and ensuring accountability. A pertinent study by Ogunmakin, Fajuyagbe, and Alayo (2020) delved into the impact of corporate governance on the financial performance of deposit money banks in Nigeria. The research analyzed data from ten randomly selected banks over a decade (2009–2018) and uncovered that board size negatively influenced financial performance, while gender diversity had a positive but insignificant effect. These findings underscore the intricate role corporate governance plays in shaping financial outcomes. Corporate governance serves as the framework through which organizations are directed and controlled, encompassing the structures, processes, and relationships that determine how objectives are set and achieved (Umar & Danjuma, 2020). Effective corporate governance aligns with the right values and structures, providing organizations with a competitive advantage and facilitating the attainment of their goals. This governance framework defines the interactions among various stakeholders, including the board of directors, executive management, shareholders, and other stakeholders, ensuring that their interests are balanced and that the organization operates transparently and accountably. By fostering ethical decision-making and strategic oversight, corporate governance plays a crucial role in enhancing organizational performance and sustaining long-term success (Umar & Danjuma, 2020).

According to Bøhren and Staubo (2020), Norwegian cooperative organizations, including SACCOs, operate under unique corporate governance structures that differ significantly from investor-owned firms, often emphasizing democratic control and member participation. Their study found that cooperatives with well-structured governance frameworks, including transparent board selection processes and active member involvement, were more likely to report stronger financial metrics such as return on equity (ROE) and asset growth. Safiyuddin, Wahab, and Maamor (2021) conducted an analysis of nine Malaysian credit cooperatives, utilizing financial data from 2010 to 2017. They assessed performance using five financial ratios: equity, liquidity, leverage, profitability, and dividend payout. The study found that these cooperatives had high equity ratios (0.61 to 0.9), indicating a reliance on shareholder equity over debt. However, liquidity and profitability ratios were low, suggesting areas for improvement in financial management. The high dividend payout ratios reflected a commitment to member benefits, aligning with cooperative principles.

Mishra et al. (2021) explored the influence of corporate governance characteristics on firm performance in India. Employing dynamic panel data analysis, the study highlighted that attributes like board independence and ownership structure significantly affect firm performance, reinforcing the notion that well-structured governance frameworks are pivotal for financial success. Gbadebo Adeloye (2021) investigated the relationship between corporate governance and the performance of financial institutions in Nigeria. The study found that corporate governance mechanisms jointly contribute to the financial performance of Nigerian banks. Specifically, directors' equity interest and corporate governance disclosure contributed positively to earnings per share and return on equity, while board size had a negative impact on these performance metrics. Akinade Simeon Adebisi (2015) examined the relationship between corporate governance and financial performance of multipurpose cooperative societies in Lagos State, Nigeria. The study established that corporate governance had no significant effect on the financial performance of these societies. However, it positively impacted the diligence of procedures, record-keeping, and daily business conduct.

Oseni and Sanni (2016) discussed the breakdown of national corporate governance and its implications for corruption in Nigeria. They emphasized that weak corporate governance frameworks contribute to financial mismanagement and corruption, adversely affecting the performance of cooperative societies. Mugilwa et al. (2024) conducted an extensive study involving 163 deposit-taking Savings and Credit Cooperative Organizations (SACCOs) in Kenya to examine the impact of corporate governance on financial performance, specifically using Return on Assets (ROA) as the performance indicator. The study assessed various corporate governance metrics, including board size, board independence, board financial expertise, board diversity, and board activity. The findings indicated a strong and statistically significant positive relationship between these governance practices and the financial performance of the SACCOs, highlighting the critical role of effective governance structures in enhancing financial outcomes.

Lennah and Bett (2023) investigated how corporate governance influences the performance of Savings and Credit Cooperative Societies (SACCOs) in Nairobi County, Kenya. Their research specifically examined the effects of board independence and composition on SACCO performance. The study revealed that both board independence and composition have a positive and significant impact on SACCO performance. Additionally, ethical considerations and board policies/procedures were found to significantly affect performance. The authors recommend that SACCO management promote board autonomy to facilitate effective decision-making and implement policies that encourage gender diversity among board members to enhance performance. Kibue and Mang'ana (2024) conducted a study on SACCOs in Kenya's Central Region, highlighting the importance of complying with regulatory frameworks and maintaining transparent information disclosure for improving their financial performance. Their research emphasizes that SACCOs that adhere to established regulations and consistently provide clear, honest information are better positioned to achieve financial success. By ensuring regulatory compliance and fostering trust through transparency, these financial institutions can enhance their credibility, attract more members, and ultimately strengthen their overall financial standing.

Mokaya et al. (2021) emphasized that insider lending has a detrimental effect on financial performance, as it can lead to conflicts of interest and financial instability within organizations. In contrast, the involvement of internal auditors plays a positive role in enhancing financial performance. By ensuring independent oversight, internal auditors help identify risks, improve financial transparency, and promote effective governance, thereby contributing to the overall financial health of the organization.

Maingi and Kobuthi's (2024) study highlights the significant role of board independence, accountability, and robust audit committees in enhancing the financial performance of SACCOs. The research suggests that when SACCOs have independent boards, with a clear separation of roles and responsibilities, and hold themselves accountable for their decisions, there is a noticeable improvement in their financial outcomes. Additionally, the presence of effective audit committees ensures proper oversight, which further strengthens financial management practices, thereby contributing positively to the overall performance and sustainability of SACCOs. A study by Sandimba and Ndede (2024) found that effective internal controls, such as the segregation of duties and clearly defined approval processes, play a crucial role in improving financial performance. By ensuring that no single individual holds excessive control over financial transactions and that all financial actions are subject to proper oversight and approval, organizations can reduce the risk of errors or fraud. This, in turn, leads to better financial outcomes, as the mechanisms foster accountability, accuracy, and transparency within financial operations.

Sandimba and Ndede (2024) explored how internal controls affect the performance of SACCOs in Nairobi County, revealing that critical factors such as the segregation of duties and approval controls play a substantial role in enhancing financial outcomes. Their study highlights the importance of these internal mechanisms in safeguarding financial integrity and ensuring efficient operations, thereby improving the overall financial performance of SACCOs. A study by Ngoda and Kising'u (2024) Corporate Governance Mechanisms and Performance of Savings and Credit Cooperative Societies in Nairobi County indicated that board characteristics, such as size and independence, can significantly impact financial performance. A study examining SACCOs in Nairobi County found that board independence and board size positively influenced performance metrics, suggesting that diverse and autonomous boards contribute to better financial oversight and decision-making. Similarly, the presence of audit committees and their active engagement in financial reporting processes have been associated with improved financial outcomes, highlighting the importance of robust internal controls.

Despite tight regulatory framework, corporate governance continues to weaken in Kenya (Mang'unyi, 2011). According to Muriithi (2009), many companies have been characterized by scandals. The introduction of corporate governance practices in the Sacco sector in Kenya is aimed to provide a mechanism to improve investor confidence and trust in management and promote economic development of the country. However, efficiency of the corporate governance structures and practices on SACCOs operating in the highly competitive environment in Kenya has not been empirically investigated. Therefore, in order to understand the governance practices that contribute in enhancing the value of SACCOs regulated by SASRA, this study aimed at exploring the efficacy of corporate governance practices, which affect SACCOs performance resulting in accountability to shareholder and other stakeholders through appropriate corporate governance practices, which enhances the value of the SACCOs in Kenya. The SACCO sector is becoming increasingly important in Kenya. This sector is a key player in the economy, controlling about 43 per cent of Kenya's gross domestic product (GDP) and yet few researchers have researched on a direct link between corporate governance and financial performance within this sector. This therefore called for an investigation into the impact of corporate governance on the financial performance of SACCOs in Kenya. This study aimed at determining effect of risk management ability on financial performance of savings and credit cooperative organization in Nairobi City County.

2. RISK MANAGEMENT AND FINANCIAL PERFORMANCE OF SACCOS

Ngwenya and Khumalo (2019) investigated the influence of risk identification on the financial performance of SACCOs in KwaZulu-Natal. Their findings indicated that SACCOs with structured risk identification processes had significantly higher levels of profitability and sustainability. The study emphasized the role of managerial competence in spotting financial, operational, and compliance risks. A study by Mhlanga (2020) examined how risk assessment practices affect financial sustainability in SACCOs in Limpopo Province. The study found a positive correlation between periodic risk assessments and financial performance metrics such as Return on Assets (ROA) and net surplus growth. The study emphasized the need for data-driven decision-making to evaluate the potential impacts of risks.

According to Mokoena and Letsoalo (2018), credit risk was identified as one of the most critical risks affecting SACCOs in South Africa. The study highlighted that SACCOs with stringent credit evaluation policies and proper member screening processes had lower default rates and improved financial performance. The researchers also stressed the importance of using credit scoring models to reduce subjectivity in lending decisions. In their comparative study, Sibanda and Sibanda (2021) evaluated how liquidity risk management strategies impact SACCOs' financial resilience. The study found that SACCOs that maintained optimal liquidity buffers were more likely to withstand financial shocks and maintained better creditworthiness. Their study also underlined the importance of aligning liquidity ratios with Central Bank prudential guidelines.

Moyo and Mokoena (2022) investigated the effect of operational risk controls, including internal audit systems and information systems security, on financial performance. The study found that strong internal control systems reduced fraud and administrative inefficiencies, which in turn led to improved operational margins and member trust. Ncube and Dube (2019) conducted a study on how compliance with regulatory frameworks such as the Financial Sector Regulation Act and the Co-operative Banks Act affected SACCOs' performance. They found that SACCOs that adhered to governance and regulatory standards recorded better growth in assets and memberships, largely due to improved investor confidence. Ramaila and Motau (2023) provided a holistic view by examining how an integrated risk management (IRM) approach influences financial performance in larger SACCOs. The study concluded that SACCOs adopting IRM frameworks performed significantly better in both short- and long-term financial indicators compared to those managing risks in silos. Etenyi, Nelima, and Maingi (2023) assessed the effect of credit risk management techniques on the financial performance of deposit-taking SACCOs in Kenya. Their study revealed a positive impact of effective credit risk management on financial performance, emphasizing the need for SACCOs to implement robust credit assessment mechanisms.

Kimemia, Namusonge, and Sakwa (2021) analyzed the effects of credit risk management on SACCOs' financial performance in Kenya. They found that diligent credit risk management practices significantly enhance financial outcomes, highlighting the critical role of risk assessment and monitoring in SACCO operations. There exists literature relating to corporate governance and the impact or financial implications in SACCOs. Most of the domestic legislations such as the Companies Act and Accounting Act have not been amended to reflect these international standards which have resultantly lack of clarity concerning statutory requirements on issues such shareholder protections (HHL 2012). The existent literature and studies conducted on financial institutions have based more on banking sector. Issues and topics that have been researched on include the relationship between liquidity and profitability of banks, capital adequacy, liquidity management, management efficiency as well as financial performance of banks. The gap therefore on the financial performance of SACCOs. For instance investor confidence of SACCO shareholders is an area that has not been researched widely by scholars.

3. METHOD

The study adopted a descriptive survey design. The population for this study constituted of 51 respondents drawn from 17 SACCOs in Nairobi City County. Since the study population was small, census sampling technique was used; hence, all the 51 workers were respondents. This number was considered sufficient since it was above the recommended 30% as advanced by Gupta and Gupta to select a sample for which was generally regarded as the minimum sample size. A sample of 51 employees is generated by purposively sampling three (3) employees from each SACCO. This included SACCO finance manager, business development manager and risk manager.

The study used questionnaire as the main data collection instrument. The questionnaire contained both open and close-ended questions. Close-ended questionnaires are questions that are accompanied by a list of possible alternatives given by the researcher by putting a tick appropriately. Piloting was done to test validity and reliabilityof the data collection instrument. Data collected from the field was cleaned and grouped then imported into a computer programme statistical package for social sciences (SPSS) for analysis using descriptive statistics like frequencies, percentages, means and standard deviation. A regression model was used as a statistical technique to compare the difference between categorical frequencies. Regression model was used to analyze data to show if there is any significant perceived relationship variables.

4. DISCUSSION

4.1. Effect of Risk Management on Financial Performance of Savings and Credit Cooperative Organization in Nairobi City

The objective of the study aimed at assessing the effect of risk management on financial performance of savings and credit cooperative organization in Nairobi City. The results are presented in the Table 4:1 below.

Table 4:1. Effect of risk management on financial performance of savings and credit cooperative organization in Nairobi City

statement	SA	A	N	D	SD	Total
credit risk measured by the ratio of loans and advances on total assets and the ratio of non-performing loans to total loans and advances on return on total asset	32.0	19.0	5.0	31.0	13.0	100
non-performing loans are increasing due to lack of risk management which threatens the profitability of banks	40.0	25.0	13.0	2.0	20.0	100
liquidity risk usually arises from management's inability to adequately anticipate and plan for changes in funding sources and cash needs	27.1	31.4	1.5	30.0	10.0	100
efficient liquidity management requires maintaining sufficient cash reserves on hand while also investing as many funds as possible to maximize earnings	27.1	25.7	7.1	25.7	14.4	100
financial performance of the Sacco is affected by the risk management	15.0	40.0	15.0	5.0	25.0	100

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The findings as shown in table 4.1 above revealed that majority 32.0 percent of the respondents strongly agreed to the statement that credit risk measured by the ratio of loans and advances on total assets and the ratio of non-performing loans to total loans and advances on return on total asset, 19.0 percent of the respondents agreed to the statement. 5.0 percent of the respondents were neutral while 31.0 percent and another 13.0 percent of the respondents disagreed and strongly disagreed respectively that credit risk measured by the ratio of loans and advances on total assets and the ratio of non-performing loans to total loans and advances on return on total asset. From the results, there was a clear indication that majority of the respondents agreed that credit risk measured by the ratio of loans and advances on total assets and the ratio of non-performing loans to total loans and advances on return on total asset.

The results of the study further sought to establish whether non-performing loans are increasing due to lack of risk management which threatens the profitability of banks. They showed that while majority 40.0percent strongly agreed to the statement t; 25.0 percent of the respondents agreed to the statement, 13.0 percent were neutral. Only 2.0 percent of the respondents disagreed and 20.0 percent of the respondents strongly disagreed that non-performing loans are increasing due to lack of risk management which threatens the profitability of banks. This cumulatively showed that non-performing loans are increasing due to lack of risk management which threatens the profitability of banks.

The findings sought to know whether liquidity risk usually arises from management's inability to adequately anticipate and plan for changes in funding sources and cash needs. The results showed that majority 30.4percent agreed while 28.1percent strongly agreed, 10percent strongly disagreed, 30.0 percent disagreed while 1.5percent was neutral that liquidity risk usually arises from management's inability to adequately anticipate and plan for changes in funding sources and cash needs. This implies that majority the respondents agreed that liquidity risk usually arises from management's inability to adequately anticipate and plan for changes in funding sources and cash needs. The results of the study on efficient liquidity management requires maintaining sufficient cash reserves on hand while also investing as many funds as possible to maximize earnings also showed that 27.1percent strongly agreed, 25.7percent agreed, 7.1percent were neutral, 25.7percent disagreed and 14.4percent strongly disagreed that efficient liquidity management requires maintaining sufficient cash reserves on hand while also investing as many funds as possible to maximize earnings. This implies that 52.8percent agreed that efficient liquidity management requires maintaining sufficient cash reserves on hand while also investing as many funds as possible to maximize earnings. Finally, the results of the study also showed that majority 40.0 percent of the respondents agreed while 15.0 percent strongly agreed that financial performance of the Sacco is affected by the risk management. But 15.0 percent were neutral, 5.0 percent disagreed and 25.0 percent strongly disagreed. This shows that majority 55.0 percent agreed that financial performance of the Sacco is affected by the risk management.

4.2: Effect of Financial Performance of Savings and Credit Cooperative Organization in Savings and Credit Cooperative Organization in Nairobi City

The fourth objective of this study aimed at finding out the effect of financial performance of savings and credit cooperative organization in savings and credit cooperative organization in Nairobi City. The result were then presented them in the Table 4:2.

Table 4:2 Effect of financial performance of savings and credit cooperative organization in savings and credit cooperative organization in Nairobi City

statement	SA	A	N	D	SD	Total
Due to many financial management, the financial performance has improved	5.0	26.0	3.0	49.0	17.0	100
Due to risk management the financial performance has improved	48.0	33.0	5.0	12.0	2.0	100
due to effective dividend policy, the financial performance has improved	10.0	49.0	3.0	34.0	4.0	100
Shareholding has led to the financial performance has improved	48.0	43.1	1.3	6.9	0.0	100

The results from table 4.2 above on whether due to proper financial management, the financial performance has improved. 5.0 percent and 26.0 percent of the respondents strongly agreed and agreed respectively to the statement that due to proper financial management, the financial performance has improved while 3.0 percent being neutral. 49.0 percent of the respondents disagreed and 17.0 percent strongly disagreed that due to proper financial management, the financial performance has improved. The finding shows that majority of the respondents disagreed that due to proper financial management, the financial performance has improved.

ISSN 2349-7831

International Journal of Recent Research in Social Sciences and Humanities (IJRRSSH)
Vol. 12, Issue 2, pp: (20-28), Month: April - June 2025, Available at: www.paperpublications.org

The results of the study sought to establish whether due to effective risk management, the financial performance has improved and results were presented in Table 4:2. The results showed that majority 48.0percent agreed, 33.0 percent of the respondents agreed, 5.0 percent were neutral,12.0 percent disagreed while 2.0 percent strongly disagreed on the statement that due to effective risk management the financial performance has improved. This implied that majority 81.0percent of the respondents agreed that due to effective risk management the financial performance has improved.

The findings established whether due to effective dividend policy, the financial performance has improved. Majority 10.0 percent of the respondents strongly agreed to the statement, 49.0 percent of the respondents agreed, 3.0 percent neutral while34.0 percent disagreed and 3.0 percent strongly disagreeing respectively. This results revealed clearly that majority of the respondents agreed to the statement that due to effective dividend policy, the financial performance has improved. Finally, the findings established on whether shareholding has led to the financial performance has improved. Majority 48.6percent agreed while 6.9percent strongly disagreed, 43.1percent agreed and 1.4 percent was neutral. The results of the findings showed clearly that majority of respondents disagreed that shareholding has led to the financial performance has improved.

4.3 Inferential Statistics

4.3.1 Pearson Correlation

The study sought to establish the strength of the relationship between independent and dependent variables of the study. Pearson correlation coefficient was computed at 95 percent confidence interval (error margin of 0.05). Table 4.3 illustrates the findings of the study.

Table 4.3: Correlation Matrix

		Financial performance
	Pearson Correlation	.726**
Risk management	Sig. (2-tailed)	.000
	N	46

As shown on Table 4.3 above, the p-value for directors shareholding was found to be 0.000 which is less than the significant level of 0.05, ($p<0.05$). The result indicated that Pearson Correlation coefficient (r-value) of 0.711, which represented a strong, positive relationship between directors shareholding and financial performance of savings and credit cooperative organization in savings and credit cooperative organization in Nairobi City.

4.3.2 Multiple Linear Regression

Multiple linear regressions were computed at 95 percent confidence interval (0.05 margin error) to show the multiple linear relationship between the independent and dependent variables of the study.

4.3.2.1 Coefficient of Determination (R^2)

Table 4.4 shows that the coefficient of correlation (R) is positive 0.634. This means that there is a positive correlation between cooperate governance and financial performance of savings and credit cooperative organization in savings and credit cooperative organization in Nairobi City. The coefficient of determination (R Square) indicates that 26.2 percent of financial performance of savings and credit cooperative organization in savings and credit cooperative organization in Nairobi City. The adjusted R^2 however, indicates that 24.1percent of financial performance of savings and credit cooperative organization in savings and credit cooperative organization in Nairobi City is influenced by cooperate governance leaving 75.9 percent to be influenced by other factors that were not captured in this study.

Table 4.4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.634[a]	.262	.241	4.20616

a. Predictors: (Constant), risk management

4.3.2.2 Analysis of Variance

Table 4.5 shows the Analysis of Variance (ANOVA). The p-value is 0.000 which is < 0.05 indicates that the model is statistically significant in predicting how cooperate governance affects financial performance of savings and credit cooperative organization in savings and credit cooperative organization in Nairobi City. The results also indicate that the independent variables are predictors of the dependent variable.

Table 4.5: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	502.823	1	243.451	23.101	.000[b]
	Residual	1330.110	50	13.865		
	Total	2032.933	51			

4.3.2.3 Regression Coefficients

From the Coefficients table (Table 4.6) the regression model can be derived as follows:

$$Y = 35.677 + 0.466X_2 + 0.443X_3 + 1.441X_4$$

The results in table 4.6 indicate that all the independent variables have a significant positive effect on financial performance of savings and credit cooperative organization in savings and credit cooperative organization in Nairobi City. The most influential variable is directors risk management, with a coefficient of 0.466 (p-value = 0.000). According to this model when all the independent variables values are zero, financial performance of savings and credit cooperative organization in savings and credit cooperative organization in Nairobi City will have a score of 35.677.

Table 4.6: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	35.677	3.634		25.243	.000
	Risk management	.466	.146	.283	2.411	.000

4.4 Hypothesis Testing

4.4.1 Hypothesis One

Ho_1: There is no significant relationship between directors' risk management and financial performance of savings and credit cooperative organization in Nairobi City. From Table 4.13 above, risk management (β = 0.466) was found to be positively related financial performance of savings and credit cooperative organization in Nairobi City. From t-test analysis, the t-value was found to be2.411 and the ρ -value 0.000. Statistically, this null hypothesis was rejected because $\rho<0.05$ Thus, the study accepted the alternative hypothesis and it concluded that directors' risk management affects financial performance of savings and credit cooperative organization in Nairobi City.

5. CONCLUSIONS AND RECOMMENDATIONS

The objective of the study aimed at assessing the effect of risk management on financial performance of savings and credit cooperative organization in Nairobi City. The findings indicated that credit risk measured by the ratio of loans and advances on total assets and the ratio of non-performing loans to total loans and advances on return on total asset and that credit risk measured by the ratio of loans and advances on total assets and the ratio of non-performing loans to total loans and advances on return on total asset. The findings also revealed that non-performing loans are increasing due to lack of risk management which threatens the profitability of banks and that liquidity risk usually arises from management's inability to adequately anticipate and plan for changes in funding sources and cash needs. Further the findings showed that efficient liquidity management requires maintaining sufficient cash reserves on hand while also investing as many funds as possible to maximize earnings and that financial performance of the Sacco is affected by the risk management.

Based on the findings, the study concluded as follows; Risk management ($\beta = 0.466$) was found to be positively related financial performance of savings and credit cooperative organization in Nairobi City. From t-test analysis, the t-value was found to be2.411 and the ρ -value 0.000. Statistically, this null hypothesis was rejected because $\rho<0.05$ Thus, the study accepted the alternative hypothesis and it concluded that directors' risk management affects financial performance of savings and credit cooperative organization in Nairobi City. Based on the findings, the study recommends. They should practice proper planning, organizing, directing and controlling the financial actions like procurement and deployment of funds of the venture to enhance the Sacco's performance. The management should reduce the risk by coming up with a way of dealing with non-performing loans which threatens the profitability of Sacco's arising from management's inability to adequately anticipate and plan for changes in funding sources and cash needs.

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