An Assessment of the Relationship between Capital Structure and Financial Performance of Saccos in Baringo County

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Abstract: *Different organizations use different sources of finance. This can be broadly classified into equity and debt. The capital structure employed may not be meant for value maximization of the firm but for protection of the manager's interest especially in organizations where corporate decisions are determined by managers and shares of the company closely held. The purpose of the study was to establish the relationship between capital structures and financial performance of SACCOs in Baringo County. The objectives of the study were: to assess the relationship between debt level and financial performance of SACCOs in Baringo County and to determine the effect of equity level on financial performance of SACCOs in Baringo County. The study employed a descriptive survey design. The study targeted a population of 198 staff of the SACCOs. Stratified random sampling was used to select 60 respondents. Questionnaire was used to collect data. Data collected was analyzed using both descriptive and inferential statistics with the aid of SPSS version 23. The study concluded that debt level, equity level, debt to equity ratio and management approach significantly influenced financial performance of SACCOs in Baringo County. There was a presence of a weak positive relationship (r=0.194, p=0.082) between debt level and the financial performance of the SACCOs; a positive relationship (r=0.309, p=0.007) between equity level and the SACCOs' financial performance in Baringo County. It is also concluded that financial performance of the SACCOs was a function of debt level with a multiple of 0.048; equity level with a multiple of 0.289, debt level to equity level ratio with a multiple of 0.109 and management approach with a multiple of 0.149. The study recommends that SACCOs should attempt to enhance good equity level, debt level, and management approach in SACCOs in Baringo County.*
Keywords: Capital structure, debt-to-equity ratio, Financial Performance, Leverage, Liquidity, Profitability, SACCO

I. Introduction

Studies on capital structure attempt to explain the securities and financing sources used by companies to finance investments (Myers, 2001). Brigham (2004) referred to capital structure as a way in which an organization finances its operations which can be either through debt or equity capital or a combination of both. A study by Sing and Hamid (2010) on the effects of capital structure on financial performance of large manufacturing firms in Asia indicated that firms used a lot of debt in their capital structure compared to manufacturing firms in developed countries and this was among the reasons why such firms had deteriorating financial performance. These findings concurred with the findings of Munene (2012) on the causes of corporate bankruptcy in Kenyan firms where the use of suboptimal capital structure was identified as the most outstanding reason as to why firms such as Kenatco were put under receivership. Mwangi (2014) established that there exists a statistically significant relationship between financial performance and a firm's capital structure. According to Mwangi (2014) highly indebt leveled firms at the Nairobi securities exchange registered low profits which if not checked could result in bankruptcy. According to Maina (2013) this is due to the effect of debt level interest of a firm's cash flow which is manifested in the form of inadequate working capital financing that halts the management's ability to invest in profitable ventures.

The pecking order theory states that firms will prefer to borrow using debt level than issue new units of equity level after exhausting the internally generated funds. Thus, debt level ranks highly in preference compared to equity level (Myers, 2001). The strategic trade off theory states that firms will inject debt instruments into the capital structure up to a point when any additional unit of debt becomes an expense that affects its financial performance (Jensen & Meckling, 1976). One of the most important financing decisions facing firms is how to combine debt and equity in a manner that enhances its financial performance (Glen & Pinto, 2007). Thus, the management of an organization should analyze all the determinants of corporate capital structure which include asset structure, debt level to equity level ratio, management style, tangibility of assets, the size of the firm and availability of growth opportunities before choosing the appropriate mix of securities to use in financing its operations.

The use of debt level in an organizations capital structure has both positive and negative effects on its financial performance. Organizations that use an optimum amount of debt in their capital structure have enhanced firm value which is manifested in the form of increased sales, efficiency in production and low taxes

(Sagwa, 2013). While firms with sub optimal use of debt in their capital structure usually suffer from a variety of financial ailments which Rajani and Zingales (1995) describes as payment of high taxes, high proportions of accounts payable, large deficits in the firms cash flow and in some cases corporate dissolution. According to Modigliani and Miller (1963) firms should incorporate more debt level in their capital structure in order to maximize the firm's value which is manifested through high profits, increased share prices and efficiency in management. However, Harns (2011) warns of the dangers of high amounts of debt in the capital structure of a firm, which include, bankruptcy, liquidity costs and in some cases corporate dissolution.

Financial performance is the subjective measure of how well a firm can use its assets from its primary sources to generate revenues (Sangster & Wood, 2010). Erasmus (2012) noted that financial performance measures like profitability and liquidity provide a valuable tool to stake holders which aids in evaluating the past financial performance and current position of a firm. Financial performance evaluations are designed to provide answers to a broad range of important questions. Some of these questions include: whether the firm has enough cash to meet all its obligations and whether it is generating sufficient volume of sales to justify recent investment. An effective financial performance evaluation system should be able to attain the goals of promoting congruence and coordination, communicating expectations, motivating, providing feedback and benchmarking SACCO (Stanford, 2009). Ratios are used in measuring financial performance. Without ratios, financial statements would be largely uninformative to all but the very skilled. With ratio, financial statements can be interpreted and usefully applied to satisfy the needs of the reader (Sangster & Wood, 2010). A ratio can be used as a yardstick for evaluating the financial position and performance of a concern, because the absolute accounting data cannot provide meaningful understanding and interpretation. A ratio is the relationship between two accounting items expressed mathematically (Jain & Narang, 2009). There are different expressions of ratios. The major ones which may be used in SACCOs include profitability; liquidity; gearing and liquidity.

1.2 Statement of the Problem

An appropriate capital structure is a critical decision for any SACCO. The decision is important not only because of the need to maximize returns to various organizational constituencies, but also because of the impact such a decision have on an organization's ability to deal with its competitive environment. Managers have numerous opportunities to exercise their discretion with respect to capital structure decisions. The capital structure employed may not be meant for value maximization of the firm but for protection of the manager's interest especially in organizations where corporate decisions are dictated by managers and shares of the SACCOs closely held (Dimitris & Psillaki, 2014). In 2011 the Kenyan market in general, in particular the cost of funds increased significantly in the Kenyan debt level market, this was as result of inflation that triggered monetary policy committee to increase the interest rates in the banking industry that spilled to the borrowers. The cost of funds thus affected firm's financial performance, increased prices of real estate properties. When the cost of funds, go up firms look for other means of raising funds. They use means such as equity level. In the County of Baringo, there used to be many independent SACCOs. These SACCOs used to serve particular groups such as teachers, farmers and civil servants among others. There have been problems of over borrowing of funds by SACCO members. In addition there has been over withdrawals of funds by members and withdrawal of SACCO membership in the County. This created a problem as SACCOs were losing a big part of their capital; hence leaving the SACCOs weakened. Most SACCOs in Baringo County have difficulties in adhering to the requirements of SASRA. This makes the SACCOs face a danger of being closed down. This study therefore sought to find out the effect of capital structure on financial performance of ACCOs in Baringo County.

1.4.2 Specific Objectives
The study was guided by the following specific objectives:
 i. To assess the relationship between debt level and financial performance of SACCOs in Baringo County.
ii. To determine the effect of equity level on financial performance of SACCOs in Baringo County.

1.3 Research Hypotheses
The study was guided by the following research hypotheses:
 i. H_{01}: There is no significant difference between debt level and financial performance of SACCOs in Baringo County.
ii. H_{02}: There exists no significant difference between equity level and financial performance of SACCOs in Baringo County

II.   Literature Review

2.1 Empirical Review

John (2014) conducted a study on the effects of capital structure decisions on financial performance of manufacturing firms in Kenya. The study used gross profit margin, net profit margin, operating ratio and return on capital employed as measures of financial performance. The findings indicated that the capital structure decisions of sugar manufacturing firms in Kenya had a negative effect on the financial performance as measured by gross profit margin, net profit margin, operating ratio and return on capital employed (ROCE). Abor (2005) studied the influence of capital structure on profitability of listed companies on the Ghana Stock Exchange during a five-year period and found out that there was a significant positive interrelation between short-term debt level and ROE and firms which earn a lot use more short-term debt level to finance their operations. In other words, short-term debt level is an essential source of financing in favor of Ghanaian companies, by representing 85 percent of total debt level financing. Yet, the results showed the adverse relation between long-term debt level and ROE. The regression output showed that there is positive relationship between Debt level and ROE which measure the relationship between total debt level and profitability; this indicates that firms which earn a lot are depending on debt level as their key financing option. The opposite of debt level financing is equity level financing.

Equity capital represents the personal investment of the owner(s) in the SACCO. It is called risk capital because investors assume the risk of losing their money if the SACCO fails. Equity does not have to be repaid with interest like a loan does. This means that an entrepreneur must give up some ownership in the SACCO to outside investors. In accounting and finance, equity level is the residual claim or interest of the most junior class of investors in assets, after all liabilities are paid. If liability exceeds assets, negative equity level exists. In an accounting context, shareholders' equity level represents the remaining interest in assets of a SACCO, spread among individual shareholders of common or preferred stock. At the start of a SACCO, owners put some funding into the SACCO to finance operations. This creates a liability on the SACCO in the shape of capital as the SACCO is a separate entity from its owners. Thus, owners' equity can be reduced to zero. Kemi (2013) investigated the impact of capital structure on firm performance in Nigeria recommended that firms should use more of equity than debt in financing their SACCO activities; this is because in spite of the fact that the value of a SACCO can be enhanced with debt level capital, it gets to a point that it becomes detrimental.

Brigham (2004) posit that capital structure puts into perspective the way in which a firm finances its operations. According to Modigliani and Miller (1958) the existence of a preferred source of financing was irrelevant since in the long run such a choice would not affect the value of the firm. The theory however had assumptions that would not hold in the real world since brokerage costs and taxes exist, while a firm's earning is affected by debt level. A number of theories from then on were advanced to try and explain the rationale behind a given capital structure decision notable among them being the tradeoff theory and the pecking order theory.

Financial performance measures how well a firm uses its assets to generate revenue from its primary mode of SACCOs. It is a general measure of financial health of a firm over a given period and compares performance of firms in an industry or industries in aggregation. For a firm to sustain SACCO operations and obtain funds for expansion and growth it must earn sufficient profits (Pandey, 1999). There are different ways of measuring financial performance which should all be taken in aggregation. Line items such as revenue from operations, operating income or cash flow from operations can be used as well as total unit sales. The analyst may wish to look deeper into the financial statements to seek out marginal growth rate or declining debt level using such ratios as Return on Assets (ROA), Return on Investment (ROI) and Return on Equity level (ROI).

According to Piesse and Townsend (1995) members of credit unions are interested in minimizing the cost of funds for loans while at the same time seeking safe and profitable avenues for their savings and this makes their objective rather intricate. Thus credit unions would be more efficient by minimizing the operating expenses and raising non retail funds cheaply while earning high returns on non-retail investment. Among the key measures of a firm's performance is profitability, size and survivorship (Cassis & Brautaset, 2003). Return on asset (ROA) reflects the ability of management to generate profits from the assets of the firm, Return on Investments (ROI) reflects the ability of management to generate profits from the investments of the firm while Return on Equity (ROE) reflects the ability of management to generate profits from the equity level employed by the firm.

Wambua (2011) conducted a study on the effects of capital structure decisions on the financial performance of SACCOs in Kenya. The study concluded that the board size and composition does not affect the financial performance in the SACCOs. The number of non-executive directors affect the performance of SACCOs is a challenge the board faced. The study showed that directors were involved in making the capital structure decisions to a great extent; reducing ownership concentration affected the financial performance of the SACCOs to a great extent; employee involvement affected the financial performance of the SACCOs to a great extent; SACCO leadership affected the financial performance of SACCOs to a little extent. The study also found

that financial monitoring by the board affected the financial performance of the SACCO to a very great extent; number of meetings held by the board affected the financial performance of the SACCO to a very great extent.

Enobakhare (2010) in his study on capital structure and SACCO's financial performance in Nigeria' concluded that the performance of Nigerian SACCOs' sub-sector is affected by the capital structure employed. The capital structure variable was ownership styles and proved to have an impact on a SACCO's profitability. Adams and Ferreira (2010) conducted a study on the impact of board size on SACCO Performance: evidence from the UK. Key conclusion is that we find board size has a negative impact on SACCO performance. This basic result proves robust to regression models which control for unobserved heterogeneity and the possibility that board size is simultaneously and dynamically determined by SACCOs' performance. With regard to the differential impact of the number of inside and outside directors, the number of outsiders has a significantly negative and robust impact. The impact of the number of insiders is also negative but not always significantly so, depending on the performance measure.

2.1.2 Trade-off theory of Capital Structure

Tradeoff theory predicts that a weak firm will rely exclusively on a bank for debt level capital. That is, for weak firms, bank debt level dominates any mix of market and bank debt level regardless of the priority structure. This result contradicts the notion that small/young firms avoid public debt level because they lack access to such markets or face prohibitive costs in so doing (Hackbarth, Hennessy, & Leland, 2007). Within the trade-off theory, there is a debt level "pecking-order" with bank debt level being preferred to market debt level due to the lower implied bankruptcy costs. When the bank holds all ex post bargaining power, the desired level of debt level tax shields can be achieved using only bank debt level (Hackbarth, 2007). While Myers noted that the firm would borrow up to the point where the marginal value of tax shields on additional debt level is offset by the increase in the present value of possible costs of financial distress (Myers, 2001).

According to Modigliani and Miller (1958) a firm experiences financial distress when the firm is unable to cope with the debt level holders' obligations. If the firm continues to fail in making payments to the debt level holders, the firm can even be insolvent. The theory can be explained by costs of financial distress and agency costs (Pandey, 2005). In addition direct costs of financial distress to include costs of insolvency which may manifest in the form of demoralized employees, customers who eventually stop purchasing a SACCOs' products, investors who may decline to supply capital or avail it at a high cost and lastly managers who may pass up profitable investment opportunities to in order to avoid any sort of risk (Pandey, 2005). This theory explains the use of external sources of funds to make up the capital structure. Debt level is an external source of funds. It, therefore, supports objective one which if on the relationship between debt level and financial performance of SACCOs.

2.1.3 Pecking Order Theory

The pecking order theory as developed by Myers (1984) stated that firms prefer internal sources of finance; they adapt their target dividend payout ratios to their investment opportunities although dividends and payout ratios are gradually adjusted to shifts in the extent of valuable investment opportunities. In addition, Myers (1984) stated that in the event that external finance is required, firms are most likely to issue the safest security first that is to say they start with debt level then possibly convertible debt level then equity level comes as last resort. In summary, Myers' argument was such that SACCOs adhere to a hierarchy of financing sources and prefer internal financing when available. Should external financing be required, debt level would be preferred over equity. Pandey (2005) also concurred with Myers' argument when he noted that managers always preferred to use internal finance and would only resort to issuing shares as a last resort. Pandey (2005) went on to add that the pecking order theory was able to explain the negative inverse relationship between profitability and debt level ratio within an industry however; the theory did not fully explain the capital structure differences between industries. This theory advocates for adoption of a capital structure that consists of finance from internal sources. It, therefore, supports objective two on equity level.

2.1.4 Stakeholder Theory

This theory centers on the issues concerning the stakeholders in an institution. It stipulates that a corporate entity invariably seeks to provide a balance between the interests of its diverse stakeholders in order to ensure that each interest constituency receives some degree of satisfaction. However, there is an argument that the theory is narrow (Coleman, 2012) because it identifies the shareholders as the only interest group of a corporate entity. In more recent SACCO models, an organization converts the inputs of investors, employees, and suppliers into forms that are saleable to customers, hence returns back to its shareholders. This model addresses the needs of investors, employers, suppliers and customers. Pertaining to the scenario above, stakeholder theory argues that the parties involved should include governmental bodies, political groups, trade associations, trade unions, communities, associated corporations, prospective employees and the general public.

This theory has become prominent because researchers have realized the actions of a corporate impact on the external environment. These actions require accountability of the entire institution to a wider and more sophisticated audience than just its shareholders. In view of this, another school of thought proposed that companies are no longer an instrument of shareholders alone but exist within the society and hence its responsibility to the community from which it operates (McDonald & Puxty, 1979). Communities are interested in SACCO' governance as key stakeholders as they derive benefit from being employees, suppliers, customers of quality products and beneficiaries of corporate social responsibility policies of SACCOs. Employees would like to get assurance that they are working in a SACCO that will sustain itself thus securing their employment. Suppliers want to be sure of payment after delivery of goods and services. This theory suggests that the interest of all stakeholders should be taken care of. This implies that there should be a balance. This means that there should be a balance between debt level and equity level used. This supports objective three which is on the effect of debt level to equity level ratio on financial performance of SACCOs.

2.4 Conceptual Framework
Independent variables   **Dependent variable**
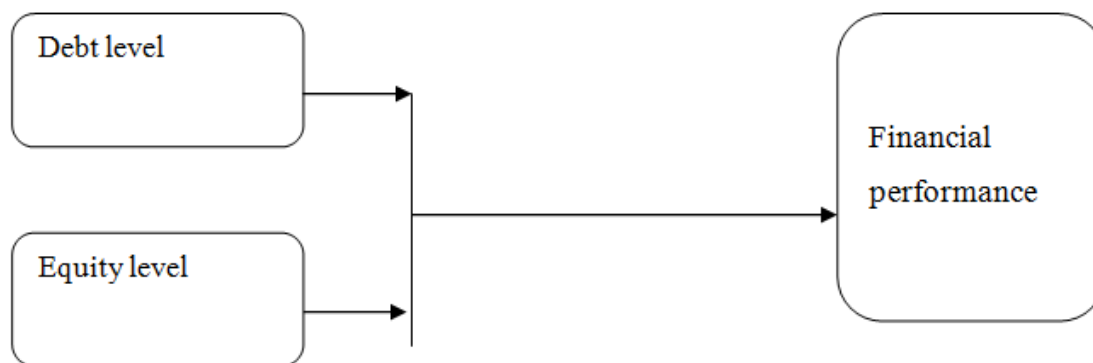

Figure 2.1: Conceptual Framework
Source: Researcher (2016)

When an organization uses debt level, it will save on amount of tax to be paid. This is because interest on debt level is tax deductible, hence reduces organization's taxable amount leading to an improvement in financial performance. It is, however, important to note that interest on debt level is a legal obligation and may lead to liquidation of a SACCO if not paid. If sued, for nonpayment of interest, leads to other costs which in turn affect financial performance negatively. Equity encompasses elements such as ordinary shares and retained earnings. With equity, there are no legal obligations such as interest payment as in the case of debt level. This ensures that there is something left for ordinary shareholders.

Debt level can be affected by different parameters. Loans taken by a firm affects the debt level of the firm. The higher the amount of loans, the higher the debt level of the firm. Debentures too are like loans. The more the amount of debentures sold out by a firm, the higher the debt level of the firm. Term of the debt level also affects debt level. Short term debt levels are more expensive than long term debt levels. Long term debt levels are appropriate for financing purchase of long term assets while short term assets are appropriate for financing normal office operations. Interest on debt level being tax allowable helps better financial performance of a firm. It is also important to realize that interest on debt level is a legal obligation and non-payment may lead to legal suit, by extension leading to poor financial performance.

III.   Methodology

3.1 Research Design
The study adopted a descriptive survey type of research design. Kothari (2004) defines research design as the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Decisions regarding what, where, when how much, by what means concerning an inquiry or a research study constitutes a research design. A survey research allows a researcher to obtain information that describes existing phenomena from a small proportion of that population to represent the views of the entire population by asking individuals about their perception, attitude and behavior (Mugenda & Mugenda 2003).

3.2 Target Population

Population refers to an entire group of individuals, events or objects having a common observable characteristic. In other words, population is the aggregate of all that conforms to a given specification (Mugenda & Mugenda, 2003). The study targets all the SACCOs within the Baringo County. The study targets the members of staff of these SACCOs. According to the Baringo County Cooperative Office, there are ten categories of SACCOs in the County. These categories consist of about seventy three SACCOs. The staffs of these SACCOs are categorized into top level management, middle level management and lower level management. The number of the staffs is 73, 94 and 149 respectively. Table 1 shows the distribution of SACCOs in the different categories.

Table 3.1: Distribution of SACCOS

Category of SACCOs	Number of SACCOs	Number of employees
Coffee societies	14	14
Cotton societies	1	1
Dairy cooperative societies	15	121
Fisheries societies	1	6
Honey & livestock marketing SACCOs	4	12
Housing societies	1	1
Irrigation societies	2	24
Macademia societies	1	1
Savings and credit cooperative societies	27	18
Total	**66**	**198**

Source: Baringo County Cooperative Office (2016)

Table 3.3 shows the distribution of the target population namely: top level management; middle level management, and lower level management.

Table 3.2: Distribution of Target Population

SACCOs	Population (Frequency)	Percentage
Top level management	46	23.23
Middle level management	59	29.80
Lower level management	93	46.97
Total	**198**	**100.00**

Source: Baringo County Cooperative Office (2016)

3.3 Sampling procedure and technique

Sampling may be defined as the selection of some part of an aggregate or totality on the basis of which a judgment or inference about the aggregate or totality is made. In other words, it is the process of obtaining information about an entire population by examining only a part of it (Kothari, 2004). Mugenda and Mugenda (2003) posit that new researchers often have problems determining the sample size required for their studies. The rule of thumb should be to obtain as big a sample as possible. However, resources and time tend to be major constraints in deciding on the sample size to use. Since SACCO staffs are more aware of SACCOs' operations than members, the study used a sample derived from the employees. The SACCOs selected for the study employed population of 198. The study used a sample of 60. The researcher purposively selected the SACCOs to use. The researcher selected SACCOs in the following categories: coffee societies; dairy cooperative societies; honey and livestock marketing societies; irrigation societies; savings and credit cooperative societies, and; transport SACCOs. The researcher further selected randomly management and staff to make up the sample for the study. The sample size was arrived at using the following formula as suggested by Kothari (2004):

$n = (Nc_v^{2)} / (c_v^2 + (N-1) e^2)$

Where:

n= Sample size

N= Population

C_v= Coefficient of variation (take 0.5)

e= Tolerance at desired level of confidence, take 0.05 at 95% confidence level

$n = (198*0.5^{2)} / (0.5^2 + (198-1) (0.05^2))$

n= 60

Table 3.3: Sampling Frame

SACCOs	Sample (Frequency)	Percentage
Top level management	16	23.88
Middle level management	20	29.85
Lower level management	31	46.27
Total	**60**	**100**

Source: Researcher (2016)

3.4 Research Instrumentation

The study used a questionnaire to collect primary data on the effects of capital structure on performance of SACCOs. The study used both open ended and close ended questions. Likert scale was included in the questionnaire. Open-ended questions are important because: they permit a greater depth of response; they are simple to formulate mainly the researcher does not have to labor to come up with appropriate response categories; respondent's responses may give an insight into their feelings, background, hidden motivation, interests and decisions and open ended questions can stimulate a person to think about feelings or motivates and express what they consider to be most important. Closed-ended questions are important because: they are easier to analyze since they are in an immediate usable form; they are easier to administer because each item is followed by alternative answers (Mugenda & Mugenda, 2003). The researcher used published financial reports of the SACCOs as a source of secondary data.

According to Shutt (2006) secondary data refers to data that was collected by someone other than the user. Secondary data is available from other sources and may already have been used in previous research, making it easier to carry out further research. It is time-saving and cost-efficient: the data was collected by someone other than the researcher. Administrative data and census data may cover both larger and much smaller samples of the population in detail. Information collected by the government also covered parts of the population that may be less likely to respond to the census (Banta, 2007). A clear benefit of using secondary data is that much of the background work needed has already been carried out, such as literature reviews or case studies. The data may have been used in published texts and statistics elsewhere, and the data could already be promoted in the media or bring in useful personal contacts. Secondary data generally have a pre-established degree of validity and reliability which need not be re-examined by the researcher who is re-using such data. Secondary data can provide a baseline for primary research to compare the collected primary data results to and it can also be helpful in research design. However, secondary data can present problems, too. The data may be out of date or inaccurate. If using data collected for different research purposes, it may not cover those samples of the population researchers want to examine, or not in sufficient detail (Shutt, 2006). Administrative data, which is not originally collected for research, may not be available in the usual research formats or may be difficult to get access to.

3.4.2 Validity of the instrument

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials Mugenda and Mugenda (2003). In order to ensure validity and reliability of the instrument, piloting of the instrument was conducted before actual data collection is carried out. In conducting the pilot study, the researcher presented the questionnaire to Tupendane SACCO for filling in the County of Nakuru. Cronbach alpha coefficient was computed to confirm validity of the instrument. According to the rule of thumb on reliability, any item above 0.5 is valid.

3.4.3 Reliability of the instrument

Reliability is the extent to which research instrument yields consistent results when administered at different periods of time (Borg & Gall, 2005). It is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. The internal consistency method of testing reliability was used. The internal consistency method provides a unique estimate of reliability for the given test administration (Borg & Gall, 2005). The reliability was ensured by testing the instruments during pilot study. The researcher carried out a pilot study to pre-test the questionnaire before the actual study. Pilot study involved 15 questionnaires in 3 SACCOs in Nakuru County. The results of the pilot study were analyzed for reliability using Cronbach alpha. Cronbach alpha's reliability coefficient of 0.80 was considered acceptable for the study. The results of the pilot study are presented in table 3.4.

Table 3.4: Pilot Test Results

Variables	No of test Items	Alpha Values
Debt Level	15	0.88
Equity Level	15	0.78
Debt level to equity level ratio	15	0.77
Management approach in SACCOs	15	0.72
Financial Performance	15	0.85
Mean	**15**	**0.80**

3.5 Data Analysis and Presentation

Once the questionnaires have been administered, the mass of raw data collected must be systematically organized in a manner that facilitates analysis. If empirical or quantitative analysis is anticipated, the responses in the questionnaire should have been assigned numerical values (Mugenda & Mugenda, 2003). After data had

been collected, the researcher conducted data cleaning, and then the data was coded and entered in the computer for analysis using the Statistical Package for Social Sciences version 23. Data was analyzed using descriptive statistics such as frequency counts, percentages, means and standard deviation and inferential statistics which included correlation analysis and regression analysis. The regression equation was as follows: $Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \varepsilon$

Where;

Y is the financial performance of SACCOs

β_0 is a constant and represents the value of y when X is 0.

β_1-β_2 represents the regression coefficients which measures the average change in the value of the dependent variable

x_1 is the natural log of debt level

x_2 is the natural log of equity level

ε is the error term.

IV. Results

4.1 Debt level

The researcher computed the means and standard deviation values of the responses to explore their perception in regard to debt level. The findings were as presented in table 4.7.

Table 1: Perception on Debt level

Statements	N	Mean	Std. Dev
The lending institution has no say in the way the SACCO is run and has no ownership in the SACCO	60	3.59	0.58
The SACCO relationship ends once the money is paid back.	60	3.30	0.63
The interest on the loan is tax deductible.	60	3.63	1.13
Loans can be short term or long term.	60	3.04	0.83
Principal and interest are known figures hence the SACCO can plan in a budget	60	3.32	0.78
Money must be paid back within a fixed amount of time	60	3.40	0.94
If the SACCO relies too much on debt level and have cash flow problems, it will have trouble paying the loan back.	60	3.42	1.01
If the SACCO carries too much debt level it will be seen as "high risk" by potential investors and limit its ability to raise capital by equity level financing in the future.	60	2.49	0.14
Debt level financing can leave the SACCO vulnerable during hard times when sales take a dip.	60	3.47	0.89
Debt level can make it difficult for a SACCO to grow because of the high cost of repaying the loan.	60	3.21	0.39
Assets of the SACCO can be held as collateral to the lender	60	2.87	0.31
Issue of debenture does not result in dilution of interest of shareholders	60	3.37	0.66
Interest on debenture is a tax deductible expenditure and it saves income tax	60	2.97	0.98
Cost of debenture is relatively lower than preference shares and equity	60	2.54	0.57
Issue of debentures is advantageous during times of inflation	60	3.11	0.73
Payment of interest on debenture is obligatory and hence it becomes burden if the SACCOs incurs loss	60	3.07	0.93
Debentures are issued to trade on equity level but too much dependence on debentures increases the financial risk of the SACCOs	60	3.03	0.41
Redemption of debenture involves a larger amount of cash outflow	60	3.01	0.49
During depression, the profit of the SACCOs goes on declining and it becomes difficult for the SACCOs to pay interest	60	2.62	0.87

From the findings the researcher established that the respondents strongly agreed that the lending institution had no say in the way the SACCO was run and also had no ownership in the SACCO (M = 3.59, SD=0.58). On the other hand they agreed that the SACCO relationship ended once the money was repaid (M=3.30, SD=0.63), that the interest on the loan was tax deductible (M=3.63, SD =1.13) and that loans could be short term or long term (M=3.04, SD=0.85). In addition, the respondents agreed that the principal and interest were known figures hence the SACCO could plan them in a budget (M=3.32, SD=0.78) and that money was paid back within a fixed period of time (M=3.4, SD=0.94). The results also suggest that the respondents agreed that if the SACCO relied too much on debt level but had cash flow problems, it would have trouble paying the loan back as reflected by a mean response of 3.42. However, a significant standard deviation of 1.01 indicated that there were variations in the responses. Concerning whether the SACCO carried too much debt level it would be seen as high risk by potential investors and limit its ability to raise capital by equity level financing in the future, the results shows that the respondents were indifferent as revealed by a mean value of 2.49. However, the standard deviation of 0.14 revealed varied responses. It is also revealed that the respondents agreed that debt level financing could leave the SACCO vulnerable during hard times when sales took a dip as revealed by a mean value of 3.47. However, the corresponding standard deviation of 0.89 reveals that there was relatively high variation in the responses. These findings concur with a study by John (2014) which reported that capital structure decisions affected the financial performance as measured by gross profit margin, net profit margin,

operating ratio and return on capital employed (ROCE). The results are also in agreement with a study done by Abor (2005) which reported that there was significant positively interrelated between short-term debt level and ROE and shows that firms which earn a lot use more short-term debt level to finance their SACCO.

Concerning whether debt level could make it difficult for a SACCO to grow because of the high cost of repaying the loan, the results show slight agreement as reflected by a mean value of 3.21 while the corresponding standard deviation of 0.39 shows that there were also slight variations in the responses. The respondents also slightly agreed that assets of the SACCO could be held as collateral to the lender and the owner of the SACCOs was often required to personally guarantee repayment of the loan as shown by a mean value of 2.87. Nevertheless, a standard deviation of 0.31 suggested slight variation in the responses. In regard to whether issue of debenture resulted in dilution of interest of equity level shareholders as they did not have right either to vote or take part in the management of the SACCOs, the respondents slightly agreed as revealed by a mean of 3.35 with a standard deviation of 0.66. The findings also show that the respondents slightly disagreed that the interest on debenture was tax deductible expenditure and thus it saved income tax as revealed by a mean value of 2.97 with a standard deviation of 0.98. It is evident that slightly more than half of the respondents agreed that cost of debenture was relatively lower than preference shares and equity level shares as shown by a mean response rate of 2.54 with a standard deviation of 0.57.

There was also a sight agreement that the issue of debentures was advantageous during times of inflation, payment of interest on debenture as obligatory and hence it was burden if the SACCOs incurred loss, debentures were issued to trade on equity level but too much dependence on debentures increased the financial risk of the SACCOs and redemption of debenture involved a larger amount of cash outflow as revealed by a mean response of 3.11 (SD=0.73), 3.07 (SD=0.93), 3.03 (SD=0.41) and 3.01 (SD=0.49) respectively. The results also show slightly higher response rate in regard to whether during depression, the profit of the SACCOs went on declining and became difficult for the SACCOs to pay interest as indicted by a mean of 2.62 with a standard deviation of 0.87. The respondents mentioned that the effect of debt level on financial performance of SACCO's existed on the level of capital structure decisions, cost of capital, and reliance on long term debt level as a source of finance, SACCO's stock price, and cost of taxation.

4.4.2 Equity Level
The study also sought to establish the respondents' views in regard to equity level. The means and standard deviations were computed for all the responses and the findings are as presented in table 4.8.

Table 4.5: Equity level in SACCOs in Baringo County

Statements	N	Mean	Std. Dev
Share capital facilitates long-term projects as they are permanent	60	3.36	0.73
Its cost is not a legal obligation	60	3.42	0.63
Ordinary share capital lowers gearing level	60	3.22	0.88
Ordinary share capital can be used with flexibility	60	3.09	1.02
Ordinary share capital boost the SACCOs' credibility and credit rating	60	3.12	0.90
The use of retained earnings does not involve any acquisition cost	60	3.07	1.06
Retained earnings strengthen the financial position of a SACCO and thereby give financial stability to the SACCO	60	3.89	0.87
Retained earnings strengthen the financial position of a SACCOs and ultimately increases the market value of shares	60	3.73	0.59
If the purpose for utilization of retained earnings is not clearly stated, it may lead to careless spending of funds	60	3.56	0.45
Conservative dividend policy leads to huge accumulation of retained earnings leading to over-capitalization	60	3.59	0.67
Higher use of retained earnings leads to lower rate of dividend	60	2.84	0.63
Members' contribution can be used as securities for loans	60	2.75	0.45
Members contribution influence the SACCO's decisions	60	2.66	0.67
Members' contribution is perpetual investment, hence a perpetual return	60	2.57	0.91

The findings demonstrated that the respondents agreed that ordinary share capital facilitated long-term projects because they were permanent (M=3.36, SD=0.73), that its cost was not a legal obligation (M=3.42, SD=0.63) and that the ordinary share capital lowered gearing level (M=3.22, SD=0.88). The respondents also agreed that ordinary share capital could be used with flexibility (M=3.09, SD=1.02), that ordinary share capital boost the SACCOs' credibility and credit rating (M=3.12, SD=0.90). Moreover, respondents observed that the use of retained earnings involved any acquisition cost and it was cheap (M=3.07, SD=1.06). This is in agreement with Kemi (2013) whose study recommended that firms should use more of equity than debt in financing their SACCO activities spite of the fact that the value of a SACCO can be enhanced with debt level capital. The results also show that there were relatively high responses in relation to whether retained earnings strengthened the financial position of a SACCO thereby give financial stability to the SACCO, retained earnings

strengthened the financial position of a SACCOs thereby appreciating the capital which ultimately increased the market value of shares, if the purpose for utilization of retained earnings was not clearly stated, it led to careless spending of funds and conservative dividend policy led to huge accumulation of retained earnings leading to over-capitalization as reflected by a mean of 3.89, 3.73, 3.56 and 3.59 with a standard deviation of 0.87, 0.59, 0.45 and 0.67 respectively. There was also moderate responses in regard to whether the respondents believed higher use of retained earnings led to lower rate of dividend, members' contribution could be used as securities for loans, members contribution influenced the SACCO's decisions and members' contribution was perpetual investment as shown by a mean response of 2.84, 2.75, 2.66 and 2.57 with a standard deviation of 0.63, 0.45, 0.67 and 0.91. In their opinions, the respondents mentioned that equity capital did affect the financial performance of SACCOs because investors sometimes feared losing their money if the SACCO fails.

4.4.5 Financial Performance
Lastly the researcher established respondents' perceptions regarding financial performance of the SACCOs. The findings in terms of means and standard deviations were as shown in table 4.11.

Table 4.6: Financial Performance of the SACCOs

Statements on Financial Performance	N	Mean	Std. Dev
The profitability of the SACCO have been improving in recent years	60	3.64	0.72
The gross profit margin has been improving	60	3.70	0.92
Net profit margin has been improving	60	3.65	0.72
The liquidity ratios of the SACCO have been improving in recent years	60	3.49	0.73
Current ratio of the SACCO is favorable compared to previous year.	60	3.68	0.70
Quick ratio of the SACCO is favorable compared to previous years	60	3.88	0.90
The turnover ratios of the SACCO have been improving in recent years	60	3.00	0.14
Debt turnover has improved compared to previous years.	60	3.74	0.63
Creditors turnover has been improving compared to previous years.	60	3.67	0.91
Total assets of the SACCO have increased	60	3.59	0.87
Total liabilities of the SACCO have reduced	60	2.13	0.59
The net worth of the SACCO is favorable	60	2.36	0.46
Gross revenue of the SACCO has improved	60	2.41	0.87
Total expenses of the SACCO are favorable	60	2.36	0.67

The findings demonstrated that the respondents concurred that the profitability ratios of the SACCOs had been improving in recent years (M=3.64, SD=0.72), that the gross profit margin had been improving (M=3.70, SD=0.92) and that the net profit margin had been improving (M=3.65, SD=0.72). The respondents further agreed that the liquidity ratios of the SACCO had been improving in recent years (M=3.49, SD=0.73), that current ratio of the SACCO was favorable compared to previous years (M=3.68, SD=0.70) and that quick ratio of the SACCO was favorable compared to previous years (M=3.88, SD=0.90). However, the respondents were undecided on whether the turnover ratios of the SACCO had been improving in recent years (M=3.00, SD=0.14).

From the analysis, high responses were reported in regard to whether debt level turnover had improved compared to previous years, creditors turnover had been improving compared to previous years and total assets of the SACCO had increased as indicated by mean of 3.74, 3.67 and 3.59 with standard deviation of 0.63, 0.91 and 0.87 respectively. The results also show relatively lower response rate in regard to whether total liabilities of the SACCO had reduced, the net worth of the SACCO was favorable, gross revenue of the SACCO had improved and total expense of the SACCO were favorable as indicated by a mean response rate of 2.13, 2.36, 2.41 and 2.36 with a standard deviation of 0.59, 0.46, 0.81 and 0.67 respectively.

4.5 Inferential Statistics
The study sought to establish the underlying relationships between variables and the extent to which the independent variables influenced the dependent variables. Correlation analysis and multiple regression analysis were used to accomplish this purpose.

4.5.1 Debt Level and SACCOs' Financial Performance
The researcher established the relationship between debt level and financial performance of SACCOs in Baringo County. The composite scores for debt level were correlated with those of financial performance. Pearson product moment correlation coefficient was used to show the relationship between the two variables. The findings were as presented in table 4.12.

Table 4.7: Relationship between Debt level and Financial Performance

		Debt level	
Financial performance	Pearson Correlation	0.194	
	Sig. (2-tailed)	0.082	
	N	**60**	

The findings indicated the presence of a weak positive relationship (r=0.194, p=0.082) between debt level and the financial performance of the SACCOs. However, the relationship was found to be statistically insignificant at p<0.01 level of significance. Therefore, the researcher observed that debt level was a determinant of SACCOs' financial performance. As such, the first hypothesis H_{01} which stated that there was no statistically significant influence of debt level on financial performance of SACCOs in Baringo County was accepted. However, Harns (2011) warns of the dangers of high amounts of debt in the capital structure of a firm, which include, Bankruptcy, liquidity costs and in some cases corporate dissolution.

4.5.2 Equity Level and SACCOs' Financial Performance
The study second objective was to establish the effect of equity level on financial performance of SACCOs in Baringo County. Therefore, the researcher used Pearson product moment correlation coefficient to establish the relationship between equity level and financial performance and to test the hypothesis that there was no statistically significant influence of equity level on financial performance of SACCOs in Baringo County. The findings were as presented in table 4.13.

Table 4.8: Relationship between Equity level and Financial Performance

		Equity level	
Financial performance	Pearson Correlation	0.309	
	Sig. (2-tailed)	0.007	
	N	**60**	
**. Correlation is significant at the 0.01 level (2-tailed).			

The researcher found out that there was a positive relationship (r=0.309, p=0.007) between equity level and the SACCOs' financial performance. The relationship was statistically significant at p<0.01 level of significance. Therefore the null hypothesis H_{02} that there was no statistically significant influence of equity level on financial performance of SACCOs in Baringo County was rejected. The researcher concluded that the financial performance of the SACCOs in Baringo County depended to a large extent on equity level. This is in harmony with Erasmus (2012) who noted that financial performance measures like profitability and liquidity among others provide a valuable tool to stake holders which aids in evaluating a firm's equity status.

4.5.5 Regression Model
The researcher attempted to fit a regression model for this study to show the mathematical relationship between the independent variables and the dependent variable. Multiple regression analysis was performed and the results presented in table 4.16.

Table 4.9: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.358[a]	0.128	0.083	0.53084
a. Predictors: (Constant), Equity level, Debt level				

The model summary indicated the presence of a weak positive multiple correlation (R=0.358) between the independent variables and the dependent variable. Further, the R-squared value of 0.128 indicated that the independent variables accounted for 12.8% of the total variance in the financial performance (dependent variable). Therefore the researcher observed that the independent variables and the dependent variable were not mutually exclusive. The analysis of variances yielded the following results in table 4.17.

Table 4.10: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.155	4	0.789	2.799	0.032[b]
	Residual	21.416	56	0.282		
	Total	24.571	60			
a. Dependent Variable: Financial Performance						
b. Predictors: (Constant), Equity level, Debt level						

The study established that the F-ration ($F_{(4, 56)} = 2.799$, p=0.032) was statistically significant at p<0.05 level of significance. This showed that the independent variables taken together significantly influenced the financial performance of the SACCOs in Baringo County. The model coefficients values from the regression were as presented in table 4.18.

Table 4.11: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.545	0.763		3.337	0.001
	Debt level	0.048	0.145	0.041	0.332	0.741
	Equity level	0.289	0.111	0.297	2.608	0.011
a. Dependent Variable: Financial Performance						

From the model coefficients table, the following mathematical model was fitted

$Y = 2.545 + 0.048X_1 + 0.289X_2 + e$

Where

Y	=	Financial performance of SACCOs
X_1	=	Debt level
X_2	=	Equity level

From the derived model, with all the other factors remaining constant, the financial performance of the SACCO is a constant value of 2.545. However, the effect of debt level when all other factors remained constant is a multiple of 0.048. Further the effect of equity level is a multiple of 0.289 measurement units, for debt level to equity level ratio is a multiple of 0.109 while the effect of management approach is a multiple of 0.149 measurement units.

V.   Conclusions And Recommendations

Conclusions

The first objective of the study sought to assess the relationship between debt level and financial performance of SACCOs in Baringo County. From the study findings, the researcher concluded that debt level was significant in determining the financial performance of the SACCOs in Baringo County. There was a presence of a weak positive relationship (r=0.194, p=0.082) between debt level and the financial performance of the SACCOs. It is also concluded that financial performance of the SACCOs was a function of debt level with a multiple of 0.048. The effect of equity level on financial performance of SACCOs in Baringo County was established and the study concluded that equity level was significant in determining the financial performance of the SACCOs in Baringo County. There was a presence of a weak positive relationship (r=0.309, p=0.007) between equity level and the SACCOs' financial performance. Therefore, the study concluded that financial performance of the SACCOs was a function of equity level with a multiple of 0.289.

5.4 Recommendation of the Study

From the study findings, the researcher made various recommendations geared towards enhancing the financial performance of SACCOs. First, the findings indicated that the four variables taken together influenced the financial performance of SACCOs and therefore none of them should be neglected. As shown in this study, good equity level would go a long way in enhancing financial performance of SACCOs. The researcher recommends that the SACCOs should attempt to enhance good equity level. Secondly the researcher recommends that SACCO should enhance their debt level management to ensure they yield revenue for the SACCOs. This will enhance the financial performance of SACCO.

The study recommends that SACCOs in Baringo County should expand their capital financial structure in order to improve their financial performance. This can be done by increasing the number of members hence strengthening the capital financial structure. The study also recommends enhanced debt level so as to improve the financial ability of SACCOs in Baringo County. This can be done by diversifying investment portfolios, products and increase the number of members. There is also need for SACCOs to enhance equity level as this may help maximize and improve the financial status of SACCOs in Baringo County. Embracing equity level will maximize return within reasonable and prudent levels of risk and will also provide returns comparable to returns for similar investments options. The management of the SACCOs should continuously review the policies concerning debt level to equity ratio in order to enhance the applications of sound capital financial structures as a way of enhancing financial performance of SACCOs. The SACCOs should apply proper financing mix in their capital structure. This is due to the fact that capital structures pointed to a preference for particular investment decisions. Hence there should be optimum mix among different investment options since any improper mix does not contribute significantly to the financial performance of SACCOs. This can be done

by providing returns comparable to returns for similar investments options. The Government should review legal framework to ensure that the laws relating to SACCOs supports the capital financial structure preferred by SACCOs in Baringo County. The SACCOs on their part should concentrate on profitable ventures. They should maximize investment in ventures that provide a long term rate of return.

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