



Influence of Capital Structure Components on Financial Performance of Deposit Taking Savings and Credit Cooperative Organizations in Kisii County Kenya

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Abstract

Many deposit-taking SACCOs in Kisii County face financial instability due to poor management of their capital structure components. Despite their critical role in providing financial services, many SACCOs have failed to meet the minimum institutional capital adequacy requirements, with over 60% of SACCOs nationwide falling short according to SASRA reports. Weak equity bases, poor debt management, and low member deposits continue to undermine financial performance, putting long-term sustainability at risk. This persistent problem highlights the urgent need to understand how capital structure elements influence SACCOs' financial outcomes, particularly in deposit-taking institutions where financial risks are higher. The study assessed the Influence of Capital Structure Components on Financial Performance of DT-SACCOS in Kisii County. The following specific objectives; To examine the influence of Equity capital, debt capital members deposits and hybrid instruments on financial performance. The study used cross-sectional research design. Cross-sectional research design is applicable to explain accurate and systematic explanations of a study. The study was conducted in Deposit Taking SACCOs operating in Kisii Town. The employees in accounts and finance related department were selected for this study. The target population of the entire 256 employees was used. This included employees from accounts department from cashiers, directors and accountants. The sample size of 156 plus 30% of 223 respondents through stratified sampling technique formula. The findings demonstrated that the components of capital structure; equity capital, debt capital significantly influence the financial performance. The findings highlight that equity capital plays a crucial role in enhancing the profitability, liquidity, and overall financial stability with a higher equity base tend to perform better financially, emphasizing the importance of strengthening this component for long-term sustainability. Debt capital, while a critical source of funding for growth and operational activities, must be carefully managed to avoid the risks associated with excessive borrowing Members' deposits were found to be the most stable and significant source of funding, directly impacting liquidity and profitability. Diversifying capital sources do not have as significant an impact on financial performance when compared to equity, debt capital. SACCOs should focus on strengthening their equity capital base. This can be achieved by encouraging members to increase their share capital investments and retaining more earnings. SACCOs should adopt effective debt management strategies that balance the need for debt with the risks of over-leveraging. Future research on the influence of capital structure components on the financial performance of SACCOs could explore several areas to deepen understanding and provide more insights.

Keywords: SACCOs, Capital Structure Components, Deposit Taking Savings

1. Introduction

Capital structure components refer to the different sources of financing that an organization uses to fund its operations and growth. These components form the foundation of a firm's financial strategy and significantly influence its risk profile, cost of capital, and overall financial performance (Brealey and Allen 2014) ^[30].

Equity capital includes funds contributed by SACCO members through share capital and retained earnings. Equity capital is generally considered less risky in terms of repayment obligations but may dilute control if new shares are issued (Ndiege, R., & Kazungu, 2020) ^[29].

Debt refers to borrowed funds from external sources such as banks or development institutions. It includes: short debt (e.g., overdrafts or short-term loans) and longterm debt (e.g., term loans, bonds). While debt can amplify returns through financial leverage, excessive debt can lead to financial distress. Member deposits in the SACCO context, member savings and deposits are a unique and critical component of capital structure. These deposits are liabilities to the SACCO but serve as a source of loanable funds (Nduati, P., & Wepukhulu, 2020) ^[28].

Globally, capital structure decisions have gained increasing attention as key determinants of financial performance across cooperative societies, including SACCOs. According to Ahmed and Wang (2021) ^[18], SACCOs and microfinance institutions worldwide are increasingly optimizing their mix of debt and equity to maximize financial sustainability and competitiveness. For instance, in a comparative analysis of cooperatives in Europe and Asia, high leverage was found to boost short-term profitability but exposed SACCOs to long-term solvency risks (Tran & Nguyen, 2022) ^[33]. In developed economies such as Canada and Australia, studies by Smith and Brown (2023) noted a shift toward internal capital mobilization strategies to reduce dependency on external borrowing, improving liquidity and operational efficiency. The consensus across global contexts suggests that while debt financing can enhance returns, excessive reliance on external debt can undermine SACCOs' financial resilience (Jones, 2020).

The structure of SACCO financing continues to evolve, with countries like Uganda, Tanzania, and Ghana offering insightful perspectives. A study in Uganda by Kizza and Twinamasiko (2020) revealed that SACCOs with a balanced mix of member deposits and institutional borrowing recorded superior financial performance compared to those heavily reliant on external funding. Similarly, in Tanzania, Mwakalinga and Nyamongo (2022) found that prudent management of debt-to-equity ratios was instrumental in enhancing the profitability and survival rates of SACCOs, particularly in rural areas. In Ghana, Osei and Boateng (2021) demonstrated that SACCOs emphasizing member share capital rather than loans from financial institutions experienced fewer liquidity crises and higher returns on assets. Overall, the African experience highlights the importance of tailoring capital structure strategies to local economic conditions and the regulatory environment (Kamau, 2023).

SACCOs form a crucial part of the financial sector, and their capital structure significantly affects their financial outcomes. Otieno and Were (2019) observed that SACCOs in Kenya that optimized their capital mix—balancing member contributions, retained earnings, and external borrowings—achieved higher financial performance indicators such as return on equity and net surplus growth. Specifically, a study conducted in Kisii County by Nyaboke and Nyamongo (2024) reported that SACCOs relying primarily on member deposits and prudent loan management practices outperformed their counterparts dependent on commercial loans. Furthermore, Omwenga and Mokaya (2022) emphasized that good governance and effective risk

management strategies mediated the relationship between capital structure and financial performance among SACCOs in Kisii, helping them navigate challenges such as loan defaults and regulatory compliance pressures. These local findings align with the broader national trend, underscoring the significance of maintaining a healthy capital structure to sustain SACCO operations and drive member welfare.

1.2. Statement of the problem

Deposit-taking SACCOs in Kisii County face financial instability due to mismanagement of capital structure components such as weak equity bases, poor debt handling, and low member deposits, which has resulted in many SACCOs failing to meet institutional capital adequacy requirements—over 60% nationwide according to SASRA. Although studies such as Kimemia et al. (2021) found a positive relationship between capital structure and performance, their focus on non-deposit-taking SACCOs in Mombasa limits applicability. Odhiambo and Ng'ang'a (2020) confirmed capital structure's impact but did not recommend an ideal debt-equity mix, while Gichinga et al. (2024) identified weak links between capital structure and efficiency without analyzing key components like equity or deposits. These research gaps underscore the need for targeted studies in Kisii County to provide actionable insights for improving financial performance and ensuring long-term sustainability of SACCOs.

1.3. Objectives

1.3.1. General objective of the study

The study will assess the Influence of Capital Structure Components on Financial Performance of DT-SACCOS in Kisii County

The following specific objectives

1. To examine the influence of Equity capital on financial performance of SACCOS in kisii county
2. To examine the influence of debt capital on financial performance of SACCOS in kisii county

1.4. Null hypothesis

The following null hypothesis will be used;

H₀₁: Equity capital has no significant influence on the financial performance of SACCOs in Kisii County

H₀₂: Debt capital has no significant influence on the financial performance of SACCOs in Kisii County

1.5. Scope of the study

The study highlights the increasing significance of SACCOs in fostering capital structure inclusion and driving economic growth in Kenya, especially in Kisii County. Even though they play a vital role, many SACCOs still face financial challenges, largely due to inadequately designed capital frameworks. It's crucial to understand how various components of capital structure like equity capital, debt capital affect financial performance. This knowledge is way to improving the sustainability and competitiveness of SACCOs.

This study focuses on assess the Influence of Capital Structure Components on Financial Performance of SACCOS in Kisii County. It is confined to registered and licensed SACCOs operating within the county, as regulated by the Sacco Societies Regulatory Authority (SASRA). The study specifically seeks to examine four main components of

capital structure equity, debt, deposit, hybrid and how each influences the financial performance of SACCOs.

The study will focus on quantitative data drawn from SACCOs' financial reports and included by survey responses from financial officers within the SACCOs. The findings of this study will be limited to Kisii County and may not be generalized to SACCOs outside this region due to associated differences in financial practices, regulations, and members deposit.

2. Literature Review

2.1 Modern Pecking Order Theory

The impact of equity capital on a company's financial performance is best understood through the way of the Modern Pecking Order Theory. Recent updates to this theory indicate that businesses, particularly cooperative organizations, tend to favor internal equity like members' share contributions and retained earnings because it helps sidestep issues related to information asymmetry and cuts down on the need for expensive external financing (Al-Najjar & Hussainey, 2020). In the case of SACCOs in Kisii County, having a solid equity foundation boosts financial stability and operational independence, which in turn enhances both profitability and liquidity.

Recent studies have updated the Pecking Order Theory, emphasizing that SACCOs prioritize internal financing, such as equity capital from member contributions, before seeking external funds (Al-Najjar & Hussainey, 2020). Equity capital minimizes financial risk and enhances operational stability because it does not involve obligatory interest payments or principal repayments. In SACCOs, a stronger equity base ensures liquidity and buffers against market shocks, positively influencing financial performance (Okumu & Maina, 2023).

2.2. Trade off theory

The Trade-Off Theory of capital structure asserts that firms strive to balance the benefits and costs of debt financing to achieve an optimal capital mix. The theory, rooted in the work of Kraus and Litzenberger (1973), recognizes that while debt offers substantial tax advantages due to interest deductibility, it also introduces risks related to financial distress, bankruptcy, and agency conflicts. As such, firms must weigh the marginal benefit of an additional unit of debt (i.e., tax shield) against the marginal cost (i.e., increased probability of default and financial inflexibility). An optimal capital structure is attained when the net advantage of debt becomes zero.

This theory has been revised and contextualized for various economies, including financial cooperatives such as Savings and Credit Cooperative Societies (SACCOs). Abor et al. (2021) argue that while SACCOs typically depend heavily on member contributions and deposits, the judicious use of external debt can serve as a catalyst for growth and improved financial performance—if properly managed. This is especially relevant for SACCOs facing liquidity constraints or seeking to expand their lending capacity or invest in income-generating ventures.

However, overreliance on debt can strain a SACCO's financial health, particularly where income streams are unpredictable or where governance mechanisms are weak. The risk of default, asset loss, and declining member confidence rises sharply with unsustainable debt levels. Therefore, SACCOs must apply the Trade-Off Theory

pragmatically—using debt strategically to capitalize on growth opportunities while ensuring that repayment obligations do not jeopardize solvency or erode trust among members.

In Kisii County, where many SACCOs operate in highly competitive and member-sensitive environments, adopting a trade-off approach allows managers to make data-driven financing decisions. For example, moderate external borrowing can be used to enhance liquidity or digitize services, provided the expected returns exceed financing costs. Aligning debt usage with capacity, risk tolerance, and institutional goals can significantly enhance financial performance, as the theory suggests.

2.2. Empirical literature review

2.2.1. To examine the influence of Equity capital on financial performance

Mutua and Makori (2021) conducted a study titled "Effect of Equity Financing on the Financial Performance of SACCOs in Nairobi and Kiambu Counties". The objective was to establish the relationship between equity financing and profitability of SACCOs. They used a sample size of 45 SACCOs targeting SACCO managers registered with SASRA. Data were collected using structured questionnaires and analysis of audited financial statements. The study found that higher levels of equity capital were positively associated with improved Return on Assets (ROA) and Return on Equity (ROE). The researchers recommended that SACCOs enhance member shareholding to strengthen internal capital bases. However, a key gap identified was the exclusion of rural SACCOs like those in Kisii County, limiting the generalizability of the findings.

Ouma, Atieno, and Odhiambo (2022) explored "The Impact of Member Equity on the Sustainability of SACCOs in Western Kenya" with the objective of assessing how member equity affects financial sustainability. Their sample size included 60 SACCOs, targeting both SACCO managers and members. They used questionnaires and interviews as the main research instruments. The findings indicated that strong equity bases reduced reliance on external debt and enhanced profitability. They recommended sensitization programs to encourage more member savings. However, a research gap existed in that the study did not deeply analyze the relationship between equity capital and long-term asset growth.

Nyang'au and Wanyonyi (2024) carried out a study titled "Equity Capital and Service Delivery among SACCOs in Kisii County" with the objective of determining how equity levels influence the diversification of services. They sampled 30 SACCOs in Kisii County, focusing on CEOs and finance managers. Data were gathered through document analysis and structured questionnaires. The study found that SACCOs with higher equity were better at complying with regulatory requirements and offering a broader range of services. The authors recommended providing incentives to members to boost equity contributions. Nonetheless, the research was limited to licensed SACCOs, overlooking the informal ones operating in the region.

Kerubo and Ondieki (2023) focused on "Role of Equity Financing in Enhancing Credit Management in Rural SACCOs" with the objective of examining how equity capital influences loan recovery and interest rates. Their sample included 50 rural SACCOs from Kisii and Nyamira counties, targeting management committee members. Data were

collected through interviews and financial records review. They found that SACCOs with stronger equity bases recorded lower loan default rates and offered more competitive interest rates. They recommended strengthening internal capital mobilization strategies. However, they did not assess member satisfaction and loyalty, leaving an important gap for future research.

Mogaka and Nyanchama (2021) studied "Influence of Equity Financing on Liquidity Management in SACCOs", aiming to investigate how equity financing affects liquidity levels. They selected a sample of 40 SACCOs across Kisii and Nyamira counties, targeting finance and credit managers. Using surveys and case studies, they found that SACCOs with substantial equity financing maintained healthier liquidity positions and lower financial risks. They recommended setting mandatory minimum shareholding thresholds for members. The major research gap was their limited focus on how regulatory policies affect capital accumulation in SACCOs.

Muthee and Kamau (2020) conducted research titled "Equity Capital and Investment in Digital Platforms among SACCOs in Nairobi" with the objective of exploring the link between equity levels and investment in digital services. They surveyed 35 urban SACCOs, targeting SACCO leaders and members, using questionnaires and focus group discussions. Their findings showed that SACCOs with higher equity levels were better positioned to invest in digital platforms, which improved operational efficiency. The researchers recommended reinvesting surplus equity into digital innovation. However, a gap was observed in that the study did not address digital adoption challenges in rural SACCOs like those in Kisii County.

Anyango and Okoth (2023) conducted a study titled "Equity Capital Transparency and Member Confidence in SACCOs across Kenya" with the objective of analyzing how transparency in equity management influences member trust. They surveyed 100 SACCOs nationwide, targeting SACCO members and managers through online surveys and telephone interviews. The study found that transparency about equity use increased member deposits and loan uptake. They recommended better communication strategies regarding equity capital utilization. Nonetheless, the online approach risked excluding SACCOs with low internet access, particularly in rural areas like Kisii County.

Finally, Ndege and Ombati (2025) researched "Strategic Equity Growth and Financial Resilience in SACCOs: A Case of Kisii County" with the objective of determining the impact of strategic planning for equity growth on financial resilience. Their study involved 25 SACCOs in Kisii County, targeting senior managers through structured interviews and document analysis. They found that SACCOs that incorporated specific equity growth targets in their strategic plans achieved greater financial stability and resilience. The researchers recommended embedding equity growth indicators within organizational strategic plans. However, the study only considered licensed SACCOs, excluding emerging and informal SACCOs, which limited the scope of the findings.

2.2.2. The influence of debt capital on financial performance

Makori and Nyang'au (2021) conducted a study titled "Effect of Debt Financing on Financial Performance of SACCOs in Kisii and Nyamira Counties", aiming to assess how debt capital influences profitability. They used a sample of 50

SACCOs targeting finance managers and board members, with data collected through questionnaires and audited financial reports. The study found that moderate use of debt improved Return on Assets (ROA) but excessive debt weakened financial stability. They recommended establishing optimal debt thresholds for SACCOs. However, the study gap was the failure to examine the cost structures of different debt sources.

Mokaya and Omwenga (2022) investigated "Debt Capital Utilization and Growth of SACCOs in Western Kenya", with the objective of exploring how debt financing affects asset expansion. A sample of 60 SACCOs, targeting CEOs and credit officers, was selected, and data were gathered through structured interviews and surveys. Findings showed that SACCOs using debt capital for productive investments experienced higher growth rates. The researchers recommended training on debt management. Nonetheless, they did not assess the long-term impact of debt servicing costs on financial sustainability.

Kerubo and Onduso (2024) studied "Influence of Short-term Debt on Liquidity Position of SACCOs in Kisii County", aiming to determine how short-term loans affect liquidity management. They sampled 35 SACCOs, targeting finance departments through questionnaires and document analysis. The study concluded that short-term debts improved liquidity in the short run but posed risks during economic downturns. They recommended proper matching of debt maturities with cash flow cycles. However, they ignored the effects of long-term debt structures, creating a gap.

Nyamweya and Bosire (2023) conducted a study titled "Debt Structure and Risk Exposure among SACCOs in South Nyanza", with the objective of examining how different types of debt impact financial risk levels. They selected 40 SACCOs, targeting risk managers and accountants, and used interviews and financial statement reviews. The results indicated that SACCOs heavily reliant on external borrowing had higher risk exposures. They recommended diversification of funding sources. The main research gap was the limited focus on risk mitigation strategies linked to debt management.

Otwori and Mose (2022) explored "External Borrowing and Financial Sustainability of SACCOs: A Study in Kisii County", aiming to evaluate how external debt affects long-term viability. Their sample included 30 SACCOs, with data collected from senior managers through questionnaires and financial analysis. They found that SACCOs dependent on external borrowing without robust repayment plans struggled with sustainability. Recommendations included adopting stricter debt management policies. However, a gap existed because the study did not consider internal governance factors influencing debt outcomes.

Nyaboke and Nyairo (2021) conducted research titled "Debt Financing Strategies and Member Returns in Rural SACCOs", with the objective of analyzing how borrowing strategies impact dividends paid to members. They sampled 45 SACCOs across Kisii and Nyamira, targeting SACCO managers and committee members, and collected data through structured interviews. Findings revealed that SACCOs with well-structured debt repayment plans paid higher member returns. They recommended financial literacy programs for SACCO leadership. The study, however, did not assess how macroeconomic factors, like interest rate fluctuations, affect debt management.

Mokua and Okemwa (2025) carried out a study titled

"Influence of Debt Capital on SACCO Credit Provision Capacity in Kisii County", aiming to assess how debt levels impact the ability to offer loans to members. They sampled 25 SACCOs, targeting credit managers through questionnaires and document reviews. Findings indicated that moderate debt improved credit provision, while high debt levels constrained lending activities. They recommended setting internal debt limits. Nonetheless, the study did not address how different categories of SACCOs (large vs. small) experience debt impacts differently.

Lastly, Nyanchama and Ondari (2023) studied "Debt Management Practices and Financial Health of SACCOs in Kisii County", with the objective of analyzing the effect of debt management techniques on financial stability. They selected 40 SACCOs, targeting accountants and internal auditors, using surveys and document analysis. The study found that SACCOs with formalized debt policies showed better financial performance. They recommended regular policy reviews and adherence to debt ceilings. However, they failed to explore the influence of external economic shocks, such as inflation, on debt repayment capacity.

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Nyang'au and Onsongo (2021) conducted a study titled "Leverage and Profitability in SACCOs: A Case of South Nyanza Region", with the objective of establishing the relationship between leverage ratios and profitability indicators. They sampled 55 SACCOs, targeting finance managers and directors, using questionnaires and panel data analysis. The findings showed a non-linear relationship where low to moderate leverage enhanced profitability, but extremely high leverage eroded returns. They recommended setting optimal leverage benchmarks. However, they did not assess leverage's impact across different SACCO sizes.

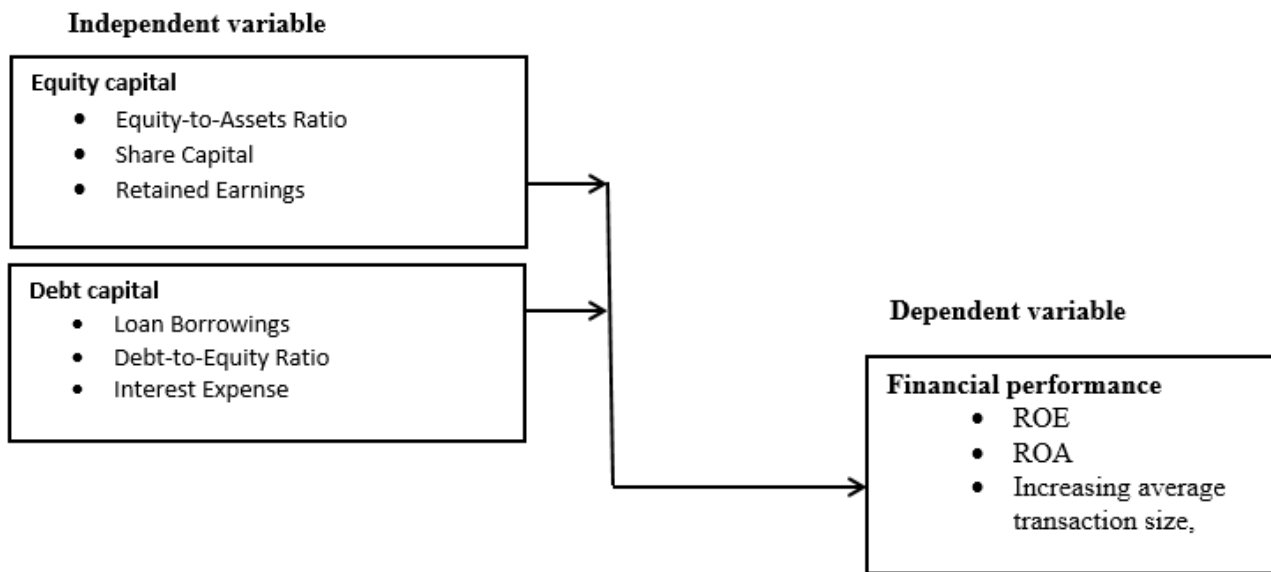
Omariba and Marube (2024) explored "Debt Capital Structure and Financial Resilience of SACCOs in Kisii County", aiming to determine the role of debt structure in fostering financial resilience. They surveyed 38 SACCOs, targeting senior managers through structured questionnaires. Results indicated that SACCOs with diversified debt portfolios were more resilient during financial downturns.

They recommended SACCOs to explore both local and international debt markets. The study gap was the exclusion of SACCOs operating under informal frameworks. Mogaka and Arasa (2022) carried out research titled "Impact of Borrowed Capital on Operational Efficiency in SACCOs in Kenya", with the objective of examining how borrowed funds affect operational metrics such as loan turnaround time and service delivery. They sampled 70 SACCOs across different counties, using questionnaires and financial analysis tools. Findings revealed that borrowed capital improved operational efficiency when properly managed but strained liquidity when overused. They recommended debt-cap integration in strategic planning. However, they did not analyze borrower risk profiling strategies. Nyabuto and Ogeto (2023) conducted a study titled "Debt

Servicing and Member Satisfaction in SACCOs in Kisii County", with the objective of assessing how debt servicing obligations affect satisfaction levels among SACCO members. They selected 30 SACCOs, targeting members and loan officers using surveys and interviews. Findings showed that SACCOs burdened by heavy debt had lower member satisfaction due to limited loan funds and reduced dividends. They recommended member involvement in major debt decisions. Nevertheless, the study did not explore alternative funding models to complement debt financing.

2.4. Conceptual framework

The relationship between the dependent and the independent variables were illustrated in the conceptual framework presented in figure 1.



Source: (Researcher 2025)

Fig 1: Conceptual Framework

3. Research Methodology

The study used cross-sectional research design. Cross-sectional research design is applicable to explain accurate and systematic explanations of a study. It explained the research phenomena by answering questions on how, where, and when varieties of data are collected and arranged under investigations (Kothari 2014). Further, it enabled the researcher to define and measure trends over respondent's characteristics using statistical values and thematic, data collection, information from variables under the study. It was also useful in comparing different respondents responding to every variable for investigation of the findings, hence

allowed the researcher to analyze data and establish facts in developing in depth of understanding research phenomena (Harappa, 2021).

The employees in accounts and finance related department were selected for this study. The target population of the entire 256 saccos employees and directors was used. This included employees from accounts department from cashiers, directors and accountants. This means that under this study target population was specific to a particular place, or is the whole items that have similar situations or relationship to a common goal. The target population was shown in table 1.

Table 1: Target population

Department	Number	% of respondents
Cashiers	144	56.25
Accountants	102	39.84
Directors	10	3.91
Total	256	100

Source: SACCOS HR (2025)

The target population comprised of directors, accountants, and cashiers because they understand every annual report prepared both in finance and accounts employees and easy to provide facts about capital structure to accounting activities. Cashiers, accountants, and financial managers are directly

involved in handling SACCOs' finances, including cash flow management, transaction recording, and financial reporting. Their experience in managing financial transactions can offer critical insights into how capital structure impacts liquidity, solvency, and overall financial health.

Sampling depend on the sample as an item or a section of respondents taken from the entire population for a study (Oso and Onen 2005). A sample of respondents was used for the study. Stratified random sampling procedures were used. The sample size was determined by Yamane formula as

$$n = 1 + \frac{N}{1 + N(0.05)^2}$$

$$n = \frac{256}{1 + 256(0.05)^2}$$

$$n = 156$$

To cater for non-respondents 30 % was used to adjust the sample size of 156 plus 30% of 156 = 223 respondents.

Table 2: Sample size

Department	Number	Ration(x/N)	Sample size(R(n)
Cashiers/Tellers	144	144x 256=.5625	125
Accountants	102	102/256=.3984	89
Directors	10	10/256=.0391	9
Total	256	100	223

Source: Researcher (2025)

Close ended questionnaires were adopted to collect data. The questionnaire items were arranged with likert point scale, the questionnaires were divided according to general information of participant and specific information for each research objectives.

4. Results and Findings

4.1. Introduction

This chapter presents the results and findings of the study, which investigates the influence of capital structure

Table 3: Presents the distribution of employees who participated in the study

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Cashiers	89	57.8	57.8	57.8
	Accountants	58	37.7	37.7	95.5
	Directors	7	4.5	4.5	100.0
	Total	154	100.0	100.0	

From the table, it is evident that the majority of the respondents were cashiers (89 respondents, 57.8%), followed by accountants (58 respondents, 37.7%). The smallest group consisted of directors (7 respondents, 4.5%).

This distribution is reflective of the operational structure of SACCOs, where cashiers and accountants play a more significant role in the day-to-day financial operations, while directors typically make strategic decisions. Understanding the perspectives of these different employee categories is crucial for evaluating the impact of capital structure components on the financial performance of SACCOs.

4.3. Descriptive statistics

4.3.1. Influence of Equity Capital on Financial Performance

The first specific objective of the study sought to examine the influence of equity capital on the financial performance of SACCOs in Kisii County. The analysis of the responses indicated a strong positive relationship between higher equity capital levels and improved financial performance, as measured by ROE and ROA. SACCOs with higher equity were found to have better profitability and sustainability, with

components on the financial performance of SACCOs in Kisii County. Specifically, the study aims to examine the influence of equity capital, and debt capital on the financial performance of SACCOs in the region. The findings presented in this chapter are based on the responses from SACCO employees, including directors, accountants, and cashiers, as well as the data collected from 154 respondents, representing an 69.1% response rate from the 223 questionnaires issued.

4.2. Response rate

Out of the 223 questionnaires distributed to employees, directors, accountants, and cashiers across eight SACCOs in Kisii County, 154 questionnaires were returned, resulting in a response rate of 69.1%. This response rate is considered sufficient for statistical analysis and provides a reliable basis for drawing conclusions regarding the relationship between capital structure components and financial performance in SACCOs in Kisii County.

The 154 respondents represent a diverse cross-section of the targeted SACCO employees, ensuring that a broad perspective from various operational levels (from management to finance) was incorporated in the study. The response rate indicates a high level of engagement with the study, reflecting the relevance and importance of the topic to SACCO stakeholders.

4.2.1. Categories of employees

The study aimed to determine the categories of employees who participated in the study and their contributions to the overall financial performance of SACCOs. The analysis of employee categories is essential as it helps in understanding the roles played by various staff members in the financial management of SACCOs.

improved liquidity and risk management. Respondents highlighted that adequate equity capital provides a solid financial base for SACCOs, enabling them to withstand market volatility and regulatory changes. This finding aligns with prior research, which suggests that sufficient equity capital can enhance financial performance by increasing the capacity for growth and reducing reliance on external borrowing.

Table 4.2 shows the descriptive statistics regarding equity capital in SACCOs, particularly how respondents feel about its impact on financial performance. The average scores for all the statements fall between 4.0000 and 4.0909, which shows that respondents generally agree with the statements, leaning towards "Agree" on the 1-5 Likert scale. The statement that stands out with the highest mean score is "The equity-to-assets ratio is an important indicator of our SACCO's financial health" (4.0909). This suggests that SACCO members place a high value on this metric as a sign of financial stability. Additionally, the statements related to share capital, retained earnings, and equity capital in terms of profitability also received high mean scores, ranging from

4.0195 to 4.0714, reinforcing the idea that these factors are seen as essential for long-term financial health, risk management, and profitability.

At the standard deviation values, which range from 1.10474 to 1.20457, shows that there's a moderate level of variability in how respondents perceive these statements.

Table 4: Descriptive Statistics for Equity Capital

	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
1. The equity-to-assets ratio is an important indicator of our SACCO's financial health.	154	4.0909	.08902	1.10474	1.220
2. The share capital is crucial for sustaining long-term financial performance in our SACCO.	154	4.0195	.09507	1.17974	1.392
3. Retained earnings significantly contribute to the stability and growth of our SACCO.	154	4.0390	.09435	1.17091	1.371
4. Equity capital has a direct impact on the profitability of our SACCO.	154	4.0325	.09415	1.16831	1.365
5. Higher levels of equity capital help mitigate financial risks in our SACCO.	154	4.0714	.09126	1.13245	1.282
6. The management of equity capital is crucial for our SACCO's ability to withstand financial crises.	154	4.0325	.09278	1.15141	1.326
7. Equity capital supports the SACCO in meeting regulatory requirements effectively.	154	4.0000	.09707	1.20457	1.451
8. SACCOs with higher equity levels have better financial performance over time.	154	4.0130	.09530	1.18259	1.399
Valid N (listwise)	154				

The lowest standard deviation (1.10474) corresponds to the statement about the equity-to-assets ratio, indicating that responses to this particular statement were more consistent. Conversely, the highest standard deviation (1.20457) was found for the statement "Equity capital supports the SACCO in meeting regulatory requirements effectively," suggesting that opinions on this topic were more diverse. Despite this variability, the overall standard deviation values suggest a general consensus among respondents, although some SACCOs might have unique experiences regarding equity capital and regulatory compliance.

The variance values, which are derived from squaring the standard deviation, range from 1.220 to 1.451, indicating a moderate spread in the responses. A higher variance is noted in statements like "Equity capital supports the SACCO in meeting regulatory requirements effectively" (1.451), hinting that there may be differing perspectives on this issue.

4.3.2. Influence of Debt Capital on Financial Performance

The second objective of the study focused on the influence of debt capital on the financial performance of SACCOs in Kisii County. The results indicated a significant negative relationship between excessive debt capital and financial performance, particularly in terms of profitability and liquidity. SACCOs that relied heavily on debt financing faced higher interest expenses, which eroded their overall profitability. Furthermore, the findings suggested that an imbalance in debt-to-equity ratios could lead to financial instability.

Respondents emphasized that while debt capital is necessary for SACCOs to expand their operations and offer more services, over-reliance on debt can lead to financial stress. A balanced approach to debt capital, with careful consideration of repayment schedules and interest rates, is crucial for maintaining optimal financial performance.

In this table 5, the descriptive statistics for debt capital

variables figure out into how respondents perceive the influence of debt capital on the growth and financial performance of SACCOs in Kisii County.

The mean values range from 3.9351 to 4.0714, indicating that the respondents generally agree with the statements regarding debt capital's influence on SACCOs. The highest mean score of 4.0714 was recorded for the statement "Proper management of debt capital improves the SACCO's financial performance", suggesting that respondents believe that well-managed debt positively impacts SACCO performance. On the other hand, the statement "Loan borrowings have had a positive effect on the growth of our SACCO" had a slightly lower mean of 3.9805, indicating a more neutral to positive perception, though not as strong as the others. The general trend of scores suggests a positive, albeit slightly cautious, view of debt capital's role in the growth and stability of SACCOs.

The standard deviation values range from 0.09172 to 0.10071, indicating moderate variability in responses. The lowest standard deviation (0.09172) was for the statement "Proper management of debt capital improves the SACCO's financial performance", suggesting that responses to this statement were relatively consistent. On the other hand, the highest standard deviation (0.10071) was for the statement "The debt-to-equity ratio helps our SACCO maintain financial stability and investor confidence", indicating that respondents had a slightly wider range of opinions on the importance of the debt-to-equity ratio.

The variance values, ranging from 1.296 to 1.562, reflect the spread of responses for each statement. The highest variance of 1.562 was observed for "The debt-to-equity ratio helps our SACCO maintain financial stability and investor confidence", which indicates a greater diversity of opinions about the importance of the debt-to-equity ratio in sustaining financial stability.

Table 5: Debt Capital

	N	Mean		Std. Deviation	Variance
	Statistic	Statistic	Std. Error	Statistic	Statistic
1. Loan borrowings have had a positive effect on the growth of our SACCO.	154	3.9805	.09684	1.20169	1.444
2. The debt-to-equity ratio helps our SACCO maintain financial stability and investor confidence.	154	3.9935	.10071	1.24982	1.562
3. The interest expense associated with debt capital negatively affects the profitability of our SACCO.	154	4.0195	.09771	1.21252	1.470
4. Debt capital helps the SACCO finance its expansion and operational activities.	154	3.9351	.10037	1.24552	1.551
5. Excessive debt capital puts our SACCO at risk of default and financial instability.	154	4.0390	.09525	1.18202	1.397
6. Proper management of debt capital improves the SACCO's financial performance.	154	4.0714	.09172	1.13821	1.296
7. Debt capital has allowed our SACCO to maintain a competitive position in the financial market.	154	4.0195	.09640	1.19624	1.431
8. The interest expense burden from debt capital affects the long-term profitability of our SACCO.	154	4.0390	.09300	1.15404	1.332
Valid N (listwise)	154				

This could suggest that different SACCOs have varying experiences with managing their debt levels and their ability to maintain investor confidence. In contrast, the statement "Proper management of debt capital improves the SACCO's financial performance" had a lower variance (1.296), implying a higher consensus among respondents that effective debt management is crucial for improving performance.

The descriptive statistics reveal that respondents largely agree with the positive role of debt capital in SACCO growth and financial performance. However, some variability exists in their views, especially on the importance of specific aspects like the debt-to-equity ratio and the burden of interest expense. These findings highlight the complexity of debt management in SACCOs, where effective practices are crucial for maintaining financial stability and performance.

4.4. Inferential statistics

This inferential statistical analysis was conducted to test the

relationship between the independent variables; equity capital, debt capital, members' deposits, and hybrid instruments and financial performance of SACCOs in Kisii County. Inferential statistics allow the researcher to make generalizations from the sample data (154 respondents) to the entire population of SACCO employees in Kisii County. Both Correlation analysis and regression analysis were performed to understand the strength, direction, and significance of the relationships between the variables.

4.4.1. Correlation Analysis

Correlation analysis was used to determine the degree of association between capital structure components and financial performance. The Pearson correlation coefficient (r) was interpreted as follows: 0.00 to .19 very weak, 0.20 to .39 weak, .40 to .59 moderate, .60 to .79 strong, .80 to 1.0 very strong. A positive correlation implies that as one variable increases, the other also increases, while a negative correlation implies an inverse relationship.

Table 6: Correlation Matrix

		Equity Capital	Debt Capital	Financial Performance
Equity capital	Pearson Correlation	1	.973**	.981**
	Sig. (2-tailed)		.000	.000
	N	154	154	154
Debt capital	Pearson Correlation	.973**	1	.992**
	Sig. (2-tailed)	.000		.000
	N	154	154	154
Financial performance	Pearson Correlation	.981**	.992**	1
	Sig. (2-tailed)	.000	.000	
	N	154	154	154

The correlation analysis results presented in Table 4.4 show strong positive relationships between the capital structure components (equity capital, debt capital and financial performance of SACCOs in Kisii County. All correlations are significant at the 0.01 level, indicating that the relationships are statistically meaningful.

Equity capital and financial performance have a very strong positive correlation ($r = 0.981, p < 0.01$), suggesting that increases in equity capital are associated with improved financial performance among SACCOs. Similarly, debt capital exhibits an even stronger correlation with financial performance ($r = 0.992, p < 0.01$), implying that prudent use of debt capital significantly boosts SACCO performance.

Members' deposits are also strongly correlated with financial performance ($r = 0.981, p < 0.01$), confirming the crucial role

of members' savings in enhancing the liquidity, stability, and profitability of SACCOs. Although hybrid instruments show a slightly weaker correlation compared to the other components ($r = 0.911, p < 0.01$), the relationship is still strong and positive, indicating that diversification of capital sources through hybrid instruments contributes to financial performance.

Moreover, the correlations among the independent variables themselves (equity capital, debt capital, members' deposits, and hybrid instruments) are also very high (ranging from 0.897 to 0.975). This suggests that these capital components are closely interconnected, and improvements in one area often complement gains in others. These findings support the hypothesis that capital structure components have a significant and positive influence on the financial

performance of SACCOs in Kisii County. This underlines the importance for SACCO management to optimize equity, debt, deposits, and hybrid instruments to achieve superior financial performance

4.4.2. Regression Analysis

Multiple linear regression was employed to assess the combined and individual effects of the independent variables

(equity capital, debt capital, members' deposits, and hybrid instruments) on financial performance. The model was specified as:

Table 7 presents the model summary for the multiple regression analysis examining the influence of equity capital, debt capital on the financial performance of SACCOs in Kisii County.

Table 7: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.996 ^a	.992	.992	.10968

a. Predictors: (Constant), Equity Capital, Debt Capital

The regression model summary presented in Table 7 shows that the relationship between capital structure components (equity capital, debt capital) and financial performance of SACCOs in Kisii County is very strong, as indicated by an R value of 0.996. The R Square value of 0.992 implies that 99.2% of the variation in financial performance can be explained by the independent variables included in the model. This high percentage suggests that the model has excellent predictive ability. The Adjusted R Square, also at 0.992, confirms that the model remains highly reliable even after adjusting for the number of predictors. Additionally, the standard error of the estimate is 0.10968, which indicates that

the differences between the actual and predicted financial performance values are very minimal. These results demonstrate that equity capital, debt capital collectively have a substantial and significant influence on the financial performance of SACCOs in Kisii County.

The ANOVA results in Table 4.7 indicate that the regression model is statistically significant, as evidenced by an F-value of 4823.851 and a corresponding p-value of 0.000. This p-value is less than 0.05, implying that the overall model is significant and that the independent variables (equity capital, debt capital) collectively have a statistically significant effect on the financial performance of SACCOs in Kisii County.

Table 8: ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	232.104	4	58.026	4823.851	.000 ^b
	Residual	1.792	149	.012		
	Total	233.896	153			

a. Dependent Variable: FINANCIAL PERFORMANCE
b. Predictors: (Constant), Equity Capital, Debt Capital

The large F-statistic also suggests that the regression model provides a better fit to the data than a model with no predictors.

The coefficients in Table 4.9 provide insight into the individual contributions of each independent variable to financial performance. The results show that equity capital has a positive and statistically significant effect on financial performance ($B = 0.101$, $p = 0.009$), meaning that an increase

in equity capital is associated with improved SACCO financial performance.

Debt capital also exhibits a strong positive and significant influence ($B = 0.599$, $p = 0.000$), indicating it is the most influential factor among the four predictors, suggesting that higher member deposits contribute significantly to better financial outcomes.

Table 9: Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	.012	.031		.381	.704
	Equity capital	.101	.038	.102	2.632	.009
	Debt capital	.599	.033	.604	18.178	.000

a. Dependent Variable: Financial Performance

The regression coefficient focused on whether the predictors significantly influenced financial performance at the 5% significance level ($p < 0.05$). The regression analysis was used to assess the relationship between the capital structure components equity capital, debt capital, and the financial

performance of SACCOs in Kisii County. The regression coefficients indicate the degree to which each predictor variable influences the dependent variable (financial performance) and provide a measure of the strength and direction of this influence.

Table 10: The Hypothesis testing summary presented in a table 10

Hypothesis	p-value	Decision on Hypothesis	Conclusion
H ₀₁ : Equity capital has no significant influence on financial performance.	0.009	Reject H ₀₁	Equity capital significantly influences financial performance.
H ₀₂ : Debt capital has no significant influence on financial performance.	0.000	Reject H ₀₂	Debt capital significantly influences financial performance.

5. Conclusions, and Recommendations

5.1. Conclusions

From the findings, the following conclusions were drawn:

This study has demonstrated that the components of capital structure; equity capital, debt capital, significantly influence the financial performance of SACCOs in Kisii County. The findings highlight that equity capital plays a crucial role in enhancing the profitability, liquidity, and overall financial stability of SACCOs. SACCOs with a higher equity base tend to perform better financially, emphasizing the importance of strengthening this component for long-term sustainability.

Debt capital, while a critical source of funding for growth and operational activities, must be carefully managed to avoid the risks associated with excessive borrowing. The study revealed that debt capital has a strong positive effect on financial performance, but over-reliance on debt could lead to financial distress. Therefore, SACCOs must strike a balance in managing their debt levels to ensure continued stability and growth.

5.2. Recommendations

Based on the findings and conclusions, the study makes the following recommendations: Based on the findings and conclusions of this study, recommendations can be made to improve the financial performance of SACCOs in Kisii County. First, SACCOs should focus on strengthening their equity capital base. This can be achieved by encouraging members to increase their share capital investments and retaining more earnings. A strong equity base is critical for enhancing liquidity, profitability, and long-term financial sustainability. SACCOs can incentivize members through various programs to increase their investments and encourage sound financial management practices that support retained earnings.

Second, while debt capital is essential for funding SACCO growth and operations, it must be managed prudently. SACCOs should adopt effective debt management strategies that balance the need for debt with the risks of over-leveraging. Regularly reviewing and managing debt ratios will ensure that debt obligations remain within sustainable limits, protecting SACCOs from potential financial distress. This careful management will allow SACCOs to use debt to enhance growth without compromising financial stability.

5.3. Areas for Further Research

Future research on the influence of capital structure components on the financial performance of SACCOs could explore several areas to deepen understanding and provide more insights into the dynamics at play. First, a longitudinal study that tracks the performance of SACCOs over an extended period would offer valuable insights into how changes in capital structure over time affect financial performance. This would help to understand the long-term effects of capital decisions, as well as the sustainability of SACCOs in varying economic conditions.

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