EFFECT OF REVENUE DIVERSIFICATION ON FINANCIAL PERFORMANCE OF DEPOSIT-TAKING SAVING AND CREDIT COOPERATIVE ORGANISATIONS IN MOMBASA

PETER NDUNG`U NJERI

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DECLARATION

To the best of my knowledge, no other university or higher education institution has received the study proposal that I submitted for consideration for a degree or diploma. It is entirely my original work.

Signature Date 20/11/2023

Peter Ndung'u Njeri

Reg No: D61/5459/2023

The research project proposal has been formally submitted for examination, having obtained my endorsement as the university supervisor.

Signature _____Date__20/11/2023_____

Dr.Onesmus Mutunga

Lecturer, Department of Finance and Accounting

Faculty of Business and Management Sciences

University of Nairobi

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ABBREVIATIONS AND ACRONYMS

ANOVA	Analysis of Variance
DT	Deposit Taking
FP	Financial Performance
F-test	Fisher Test
GDP	Gross Domestic Product
HHI	Herfindahl Hirschman Index
MFIs	Microfinance Institutions
MPT	Modern Portfolio Theory
NIM	Net Interest Margin
OLS	Ordinary Least Squares
Q-Q	Quantile-Quantile
ROA	Return On Assets
SACCOs	Saving and Credit Cooperative Organisations
VIF	Variable Inflation Factor

ABSTRACT

This study aims to analyze deposit-taking Saccos in Mombasa to find out how revenue diversification affects their financial performance. This descriptive study looked at how SACCOs in Kenya planned to diversify their income streams and how it would affect their bottom lines. Based on data from 2018 to 2022, the study's population consisted of six licensed Deposit-Taking Saccos in Mombasa County, Kenya. Secondary data sources, particularly audited financial statements, were used for a comprehensive analysis of variables such as revenue diversification, liquidity, firm size, management efficiency, firm age, and financial performance. The study operationalized these variables based on established measures from relevant empirical studies. Data was analyzed using SPSS version 26. Research conducted in Mombasa County, Kenya, on Deposit Taking Saving and Credit Cooperative Organizations (DT-SACCOs) indicated a robust positive relationship between revenue diversification and financial performance. This finding lends credence to the idea that a more diversified revenue landscape leads to better financial outcomes. The analysis of six selected DT-SACCOs revealed varying trends in revenue trajectories and financial performance, with statistically significant correlations for most associations, including revenue diversification, liquidity, and firm size. The study concluded from these findings that promoting and incentivizing revenue diversification strategies, is bound to lead to improvement in financial performance and crucial for the long-term success of DT-SACCOs. While limitations such as a small sample size and geographic focus were acknowledged, they point to opportunities for future research to enhance generalizability and explore qualitative dimensions in understanding the financial dynamics of cooperative organizations in Mombasa.

CHAPTER ONE: INTRODUCTION

1.1Background of the Study

The credit union industry has undergone significant changes in recent years due to deregulation and technological advancements, enabling institutions to expand revenue streams beyond traditional interest-based income (McKillop & Wilson, 2011). This shift towards similarities with traditional banks has raised concerns about credit unions' stability and financial performance, prompting research on revenue diversification opportunities, an area predominantly explored in commercial banking. The unique nature of credit unions, serving members and owners with a more confined customer base, contributes to the need for more research in this area. Borda-Rodriguez and Vicar (2014) show the importance of credit unions cultivating alternative income sources for survival, yet the scope for such opportunities needs to be broadened, necessitating further investigation, mainly regarding financial performance.

Modern Portfolio Theory finds relevance in the context of Diversification for SACCOS. By diversifying their revenue streams, SACCOS can effectively reduce financial risk. The central idea is to allocate resources across various revenue-generating avenues, such as loans, savings, investments, and fee-based services. In doing so, SACCOS can spread and manage risk more prudently while maintaining financial stability (Ndonye & Ambrose, 2023). On the other hand, Agency Theory focuses on the potential conflicts of interest between SACCOS members (the principals) and their management (the agents). This theory encourages SACCOS to establish effective monitoring and control mechanisms to mitigate agency problems, thus assuring members that their resources are being managed transparently and, in their favour (Mwangi & Wambua, 2016).

The Sacco Supervision Annual Report 2022 (SACCO et al., 2023) has data that underscores a compelling rationale for conducting a comprehensive study on the impact of revenue diversification strategies. Notably, the report reveals a noteworthy shift in the financial dynamics of Regulated SACCOs, characterized by a decrease in total financial investments from Ksh 50.30 billion in 2021 to Ksh 49.95 billion in 2022, coupled with a substantial increase in gross loans, surging from Ksh 608.75 billion in 2021 to Ksh 680.35 billion in 2022, signifying a 12.24% rise. Furthermore, the allowance for loan

losses witnessed a notable increase of 9.34%, escalating from Ksh 36.25 billion in 2021 to Ksh 39.64 billion in 2022. These shifts indicate a strategic reorientation of SACCOs towards loan-based revenue generation. With a burgeoning demand for loans, particularly among DT-SACCOs, there exists a pivotal opportunity to investigate the implications of this transformation. A comprehensive study can assess how revenue diversification strategies, including loan-centric approaches and burgeoning investments in government securities, influence SACCOs' financial performance and sustainability.

1.1.1Revenue Diversification

Revenue diversification is a crucial strategy for SACCOs (Savings and Credit Cooperative Organizations) to enhance their financial stability and sustainability. SACCOs traditionally rely on interest income from loans and deposits, but diversifying revenue sources can help mitigate risks and reduce dependence on a single income stream. According to research by Esho, Kofman, and Sharpe (2005), one effective strategy for SACCOs is expand their product offerings to include insurance, investment products, and financial advisory services so as can attract a more diverse customer base and generate additional fee-based income. This approach aligns with cross-selling, where SACCOs leverage their member relationships to introduce complementary financial services.

To enhance revenue diversification, SACCOs can strategically leverage technology and digital channels, tapping into non-interest income sources like electronic payment processing and mobile banking services, as McKillop and Wilson (2011) suggested. Embracing digital platforms enables SACCOs to reduce operational costs and expand their market reach. Moreover, online financial education and planning tools can generate fee income, attracting members seeking comprehensive financial solutions. These digital initiatives align with evolving consumer preferences for digital transactions and information needs. In this study, the effectiveness of revenue diversification will be gauged through total revenue and the cost-to-income ratio. Total revenue on the income statement encompasses all income sources, reflecting a broader revenue base with successful Diversification (Almazari, 2013). The Cost-to-Income Ratio, evaluating operational efficiency, is calculated by dividing operating expenses by total income;

adequate Diversification is anticipated to result in a lower cost-to-income ratio (Hess & Francis, 2004).

1.1.2 Financial Performance

Financial performance shows the efficiency with which a corporation can leverage resources from its primary operations and generate revenue (Waddock & Graves, 1997). The phrase above is commonly used to comprehensively measure a corporation's enduring fiscal soundness. It measures how actively a company utilizes its assets to create revenues, guiding stakeholders in their decision-making (Baba & Nasieku, 2016). Moreover, FP is crucial in assessing individual banks' strengths and weaknesses, influencing the banking industry's health (Nzuve, 2016). Regulatory agencies and the government are also keenly interested in monitoring banks' performance for regulatory purposes. FP focuses on items directly impacting a firm's financial statements and reports (Omondi & Muturi, 2013). It is the primary external tool for appraising a company's performance (Bonn, 2000). The level at which a company's goals are accomplished is crucial in assessing its overall performance. The outcomes derived from successfully attaining these objectives within the organization and among external stakeholders are referred to as FP (Lin, 2008). The interchangeability of growth, competitiveness, and survival with firm performance has been widely observed (Nyamita, 2014).

The metrics for assessing financial performance encompass various ratios, with NIM and ROA serving as critical indicators. According to Milinović (2014), ROA gauges a bank's efficiency in utilizing current assets for profit generation, calculated by dividing operational profit by the total asset ratio. As Crook (2008) highlighted, NIM reflects changes in interest derived from loans over time. While both metrics are valuable, this study focuses on ROA to measure how efficiently SACCOs transform invested funds, employing revenue diversification strategies, into net income. A higher ROA considered favourable, indicates enhanced asset efficiency and the capacity to generate greater profits relative to investment (Said *et al*., 2019).

1.1.3 Revenue Diversification and Financial Performance

Revenue diversification plays a pivotal role in SACCOs. SACCOs are financial institutions primarily known for mobilizing savings and providing credit to their members. However, relying solely on these traditional services can pose risks, especially during economic downturns or changing market conditions (Nyathira, 2012). Revenue diversification involves expanding the range of financial products and services SACCOs offer, such as insurance products, investment options, and fee-based services like financial education. This Diversification increases SACCO's income streams and enhances its resilience by reducing vulnerability to external shocks (Oladimeji & Udosen, 2019). SACCOs can generate more revenue and improve their financial stability by offering a broader array of services.

SACCOs are able to reduce their dependence on a single source of revenue, which minimizes exposure to risks associated with fluctuations in interest rates and loan delinquencies (Oladele, 2012). Secondly, Diversification attracts a more extensive and diverse member base, as SACCOs become a one-stop financial solution for their members' needs. This expansion in membership enhances SACCO's deposit base and potentially leads to increased lending, ultimately boosting financial performance. Additionally, SACCOs can charge fees and commissions on various services, contributing significantly to non-interest income (Mutega, 2015). To sum up, revenue diversification not only strengthens the financial position of SACCOs but also enhances their ability to fulfil their mission of promoting financial inclusion and empowerment among their members.

1.1.4 Deposit-Taking Saving and Credit Cooperative Organisations in Kenya

Deposit-taking SACCOs in Kenya play are advancing the government's goals of economic improvement and fostering financial inclusion. Initially concentrated on rural households engaged in agriculture, there has been a shift in focus to include both rural and urban residents. As of 2022, there are over 14,000 registered cooperative societies in Kenya, with approximately 5,000 SACCOs (KUSCCO, 2022). These cooperatives have effectively mobilized domestic savings, amounting to around Kshs—400 billion, contributing significantly to the national savings, comprising 33% of the total.

The 2010 SACCO laws in Kenya have outlined authorized revenue sources for SACCOs, prioritizing the security and stability of members' assets. The sector has experienced notable growth (Mwangi & Wambua, 2016). Deposit-taking SACCOs have adapted to the financial sector by incorporating activities that resemble traditional banking operations. This evolution highlights the necessity for revenue diversification within regulatory boundaries to ensure competitiveness, sustainability, and financial performance (Otieno et al., 2015). To navigate regulatory constraints, deposit-taking SACCOs in Kenya have embraced efficiency and financial performance, showcasing a dynamic sector. Exploring revenue diversification within these regulations is crucial for deposit-taking SACCOs, promoting competitiveness while safeguarding members' funds and delivering transparent financial services (Kavulya et al., 2018). This strategic approach ensures the adaptability of deposit-taking SACCOs to a competitive environment, striking a balance between regulatory compliance and innovative financial practices.

1.2Research Problem

Revenue diversification remains significant in contemporary company environments (Elango & Ma, 2003). Using a strategic approach serves as a catalyst for attaining a competitive edge and diversifying risk across multiple investments or enterprises, aiming to foster profitability, bolstering financial performance, optimizing market operations, fostering synergy, and mitigating the likelihood of bankruptcy (Oladele, 2012). Previous research has indicated that Diversification can harm shareholder wealth. This phenomenon can mostly be attributed to inefficient investments in operations that generate minimal profitability, the practice of supporting enterprises that are operating at a loss, or the pursuit of leadership goals that do not result in profitable outcomes. The allocation of cash towards alternative sources of revenue is determined by the contributions made by members and the overall availability of funding. Larger and more established Savings and Credit Cooperative Organizations (SACCOs) may possess a greater capacity to expand the Diversification of their revenue streams. According to Okewo (2013), within the context of a SACCO (Savings and Credit Cooperative Organization), individual members face challenges in mitigating idiosyncratic risk due to the absence of suitable opportunities. Hence, analyzing the degree to which Savings and

Credit Cooperative Organizations (SACCOs) engage in revenue diversification and its impact on their performance is valuable in presenting a rationale for advocating or opposing Diversification.

The 2022 Sacco Supervision Annual Report highlighted a decline in financial investments, dropping from Kshs 50.30 billion to Kshs 49.95 billion. Notably, there was a rise in government securities investment, which can bolster inter-lending security. Loans saw a substantial 12.24% increase, with DT-SACCOs leading at Kshs 586.16 billion and NWDT-SACCOs at Kshs 94.19 billion. Net loans and advances also surged from Kshs 572.68 billion to Kshs 640.72 billion, while the Allowance for Loan Losses rose by 9.34% to Kshs 39.64 billion. Revenue diversification implications include service expansion and leveraging government securities for stability and income. Analysis of publicly listed company investments is recommended for improved investment strategies.

The existing studies on SACCOs and financial performance have added to the empirical literature but still need to include specific research gaps in the current study setting. Barawa and Ogillo (2022) did not delve into the specific revenue strategy employed by Mombasa County Saccos, while Maganga and Wekesa (2021) did not cover revenue strategy in their study. Mwania (2020) conducted a case study on Nairobi County SACCOs, limiting the generalization of findings to Mombasa County. Hadija (2016) explored revenue diversification but focused on something other than Mombasa County. Githaiga (2021) discussed revenue diversification in the context of microfinance institutions, which may differ from SACCOs. Kinuthia (2021) examined diversification strategies but focused on a specific SACCO, potentially missing variations across multiple SACCOs. Mathuva (2015) offered insights into revenue diversification's influence on financial performance but did not specifically address the Mombasa County SACCOs. Hence, a notable research void exists in conducting a complete examination of revenue diversification particularly within the specific setting of Mombasa County, Kenya. The present study aims to address the research topic: How does revenue diversification affect the financial performance of deposit-taking Saccos in Mombasa?

1.3 Study Objective

To determine the effect of revenue diversification on the financial performance of deposit-taking Saccos in Mombasa

1.4 Value of the Study

This study provides essential knowledge for policymakers to help them make decisions. By learning how Mombasa County's SACCOS fare financially after diversifying their revenue streams, policymakers can make informed choices regarding the regulation and support of these cooperatives. This knowledge can lead t.o developing or revising regulatory frameworks that encourage responsible revenue diversification practices while mitigating associated risks. Additionally, it can aid in crafting policies that promote financial inclusion, especially in underserved regions like Mombasa County, and support local economic development through cooperative institutions.

Academics stand to benefit from this research as well. Moreover, the study can be incorporated into academic curricula, enriching the educational experience for students pursuing finance, economics, cooperative management, and related disciplines. It may also spark further research opportunities, such as exploring specific revenue diversification or conducting comparative studies with other regions or types of financial institutions.

The study offers practical insights for practitioners in the cooperative finance sector, including SACCOS and financial institutions. SACCOS operating in Mombasa County can use the research findings to inform their strategic planning efforts. They can assess the effectiveness of their current revenue diversification and consider adjustments to enhance their financial performance and competitiveness in the financial services market. The study also sheds light on risk management, helping practitioners understand the potential risks associated with revenue diversification and develop strategies to manage these risks effectively. Additionally, it may highlight areas where SACCOS require capacity building, training, or support in implementing adequate revenue diversification, ultimately leading to more resilient and sustainable cooperative institutions

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter provides an overview of the relevant theory as well as an analysis of the relevant empirical research on the topic of financial performance. In keeping with the aims of the study, the chapter also provides a synopsis of relevant literature and identifies research needs.

2.2 Theoretical Review

The study was anchored on the modern portfolio theory and the agency theory. Harry Markowitz established a system of financial analysis known as Modern Portfolio Theory (MPT) that emphasizes the diversification of investment portfolios to optimize returns for a given level of risk (Francis & Kim, 2013). On the other hand, Agency Theory examines the dynamic between those in charge (the shareholders, for example) and those who work for them (the management), focusing on potential conflicts of interest and strategies to align their goals.

2.2.1 Modern Portfolio Theory

The MPT development can be attributed to Harry Markowitz throughout the 1950s. The MPT is an innovative financial theory that offers a structured approach to designing investment to increase returns while considering a specific level of risk or minimizing risk while targeting a specific level of return (Fabozzi et al., 2002). Investors should not focus solely on the expected returns of individual assets but also consider the correlation between asset returns and the overall portfolio's risk. MPT emphasizes diversification to reduce portfolio risk (Rom & Ferguson, 1994). Investors can enhance the efficiency of their portfolio by strategically mixing assets with low or negative correlations, achieving a more optimal balance between risk and return, and creating an optimal portfolio known as the "efficient frontier." MPT has profoundly impacted modern finance and has been instrumental in shaping portfolio management and asset allocation strategies (Elton & Gruber, 1997).

MPT emphasizes diversification as a means to reduce portfolio risk, and this concept aligns with the risk management aspect of revenue diversification strategies in SACCOS (Ndonye & Ambrose, 2023). Liquidity, a key concern in MPT, also applies as effective liquidity management is crucial for SACCOS to maintain financial stability while diversifying income sources. Firm size, firm age, and management efficiency, which MPT recognizes as influencing financial performance, can similarly impact how SACCOS approaches and implements revenue diversification strategies (Kule et al., 2020). Thus, MPT provides a comprehensive framework for examining how diversification, liquidity management, firm characteristics, and efficient management practices collectively contribute to the fiscal performance of SACCOS.

2.2.2 Agency Theory

It was established in the early 1970s through the contributions of economists and theorists like Stephen A. Ross, Michael C. Jensen, William Meckling, and Eugene F. Fama, explores the complexities of the principal-agent relationship within organizations and business transactions (Eisenhardt, 1989). Agency theory highlights the importance of monitoring and control mechanisms, including contracts and performance incentives, to have agents look out for principals' best interests by aligning their interests with theirs, reducing the risks associated with information asymmetry. It plays a pivotal role in shaping corporate governance, executive compensation, and organizational structures to address agency issues and enhance decision-making efficiency within various entities (Panda & Leepsa, 2017)

Agency dynamics within Savings and Credit Cooperative Organizations (SACCOS) are crucially tied to critical factors. Revenue diversification strategies serve as a tool to harmonize the interests of members (principals) and organizational management (agents), ensuring that managerial actions align with the financial well-being of SACCOS members (Muhanguzi, 2019). Effective liquidity management, overseen by SACCOS principals, becomes pivotal in navigating short-term obligations, thereby reducing management's potential for opportunistic actions (Mwangi & Wambua, 2016). The size of SACCOS entities can shape the principal-agent relationship dynamics, granting larger

entities more leverage in implementing impactful revenue diversification strategies that align management incentives with member interests (Hezron & Muturi, 2015). The historical financial management practices reflected in the age of SACCOS entities often indicate proficient governance and financial management, in line with the principles of agency theory that stress robust monitoring and control mechanisms (Chivuyi & Abuga, 2023). Ultimately, the efficient implementation of management practices in revenue diversification plays a pivotal role in enhancing financial performance, embodying the core principles of agency theory—vigilant monitoring, meticulous control mechanisms, and the alignment of interests (Otieno *et al*., 2015)

2.3 Determinants of Financial Performance

A corporation's FP is subject to the effect of numerous factors, the subject matter can be categorized into two primary classifications.: internal and outward. Internal factors are unique to individual firms and can be effectively controlled and governed by the company. The elements included in this compilation consist of diversity, managerial efficiency, financial resources, loan portfolio, and rules on interest rates ownership structure, and Liquidity. On the other hand, it is essential to acknowledge that various external factors, including inflation, GDP growth, political stability, and interest rates, can also influence a firm's success.

2.3.1 Revenue Diversification

Banks and Savings and Credit Cooperative Organizations (SACCOs) engage in revenue diversification to augment their profitability, particularly when returns from interest-based activities are declining. This expansion beyond conventional interest-based operations aims to boost financial performance. Tregenna (2009) asserts that a financial institution's financial performance (FP) is contingent upon its market structure and ability to diversify its portfolio to adapt to dynamic market conditions strategically. According to Stiroh (2004), diversification strategies can effectively decrease a financial institution's dependence on interest revenue, enhancing risk-adjusted returns and overall financial performance.

Diversification in financial institutions, such as banks and SACCOs, is a strategic response to the challenges posed by changing market dynamics. As traditional interest-based activities face pressure from fluctuating interest rates and increased competition, revenue diversification allows these institutions to explore alternative revenue streams. Tregenna's insight into the importance of market structure highlights that the success of revenue diversification efforts depends on understanding and adapting to the specific market conditions in which these institutions operate. Stiroh's observation underscores the role of revenue diversification in risk management and the potential to enhance financial performance by broadening the sources of income. By embracing revenue diversification, financial institutions can reduce their vulnerability to interest rate fluctuations and economic uncertainties while working towards sustainable profitability.

2.3.2 Liquidity

Liquidity pertains to an organization's capacity to fulfil its immediate financial liabilities by utilizing cash or readily convertible assets within twelve months. According to Adam and Buckle (2003), this phenomenon demonstrates the managerial capacity to meet obligations without selling financial assets. Enterprises can employ liquid assets to fund its operational activities and make investments in other ventures situations where external funding is not accessible. Companies having Liquidity can handle unexpected contingencies and meet impending obligations. However, it is essential to note that excessive Liquidity, as pointed out by Jovanovic (1982), can sometimes have negative consequences.

Furthermore, Liquidity influences a company's financial management and overall performance. It ensures the ability to meet immediate financial obligations and provides flexibility in seizing investment opportunities or handling unexpected financial challenges. Firms with robust liquidity positions are better equipped to navigate economic downturns, take advantage of strategic acquisitions, and maintain stability during volatile market conditions. However, Jovanovic (1982) noted that excessive Liquidity can become a double-edged sword. While having readily available cash and liquid assets is essential, holding too much Liquidity can lead to missed investment

opportunities and lower returns on idle funds. Striking the right balance between maintaining adequate Liquidity and deploying excess cash for productive use is a crucial challenge for financial managers. Therefore, effective liquidity management is a dynamic process that requires constant assessment and adjustment to optimize a company's financial performance while minimizing the risks associated with underutilized resources.

2.3.3 Firm Size

The magnitude of a company's operations greatly influences how legal and financial considerations impact its operations. According to Amato and Burson (2007), more giant corporations frequently possess the capacity to create more revenues and attain economies of scale, resulting in reduced operational expenses and enhanced performance. Magweva and Marime (2016) emphasized the existence of a positive correlation between the size of an organization and its profitability. This implies that more prominent companies have the advantage of accessing more significant amounts of capital, which enables them to pursue projects that provide better returns. Furthermore, it has been observed that giant corporations can provide more incredible collateral when seeking financing than their smaller counterparts (Njoroge, 2014). According to the discoveries of Lee (2009), there exists a significant link in the size of a firm's assets and its level of profitability.

In addition to the advantages mentioned, larger firms enjoy increased bargaining power in negotiations with suppliers and customers. This enhanced negotiating position can lead to favourable terms, cost reductions, and improved supply chain efficiency (Moen, 1999). Moreover, larger companies often have more diversified revenue streams and business lines, which can help them weather market fluctuations and economic uncertainties (Olawale et al., 2017). These factors contribute to the resilience and stability of larger firms, further reinforcing their positive relationship with profitability. However, it is essential to acknowledge that size alone does not guarantee success (Lee, 2009). While larger firms have inherent advantages, they also face challenges, such as increased complexity, bureaucracy, and the potential for slower decision-making. The ability to effectively manage and leverage their size is crucial for reaping the benefits and

maintaining competitiveness in the market. Therefore, while size can be an asset, it must be complemented by effective management and strategic decision-making to fully realize its potential impact on profitability (Ibhagui & Olokoyo, 2018).

2.4 Empirical Literature Review

Barawa and Ogillo's (2022) study compared the profitability of SACCOs in Mombasa County, Kenya, using a variety of portfolio management methodologies—investment strategies ranging from extremely cautious to moderately risky and value-oriented significantly affected financial outcomes. Portfolio management strategies employed by these institutions considerably influences the financial success of Saccos. Saccos' bottom lines have improved as a whole thanks to implementing risk-neutral, moderately risky, conservative, and highly risk-averse portfolio management practices. The Saccos' improved financial results can be attributed to the careful application of portfolio management techniques.

Maganga and Wekesa (2021) recently studied SACCOs in Mombasa County to determine how different financial strategies affected the organizations' bottom lines. Incentives for early loan repayment in the form of discounts were found to be offered by SACCOs in the study. Based on the findings, SACCOs closely track their loan levels against a defined benchmark weekly and monthly. The results strongly connect financing methods and SACCO's bottom line. Interest rates should be reviewed regularly to ensure they are competitive. According to the research, the SACCO's administration may benefit from stepping up its marketing efforts to increase membership and strengthen the organization's financial footing.

As a representative sample, 4Mwanis (2020) studied 3 DT-SACCOs from the County. The analysis included numerous variables that were independent like the ratio of revenue in general to total assets for measuring managerial efficiency, the amount of years in business for proximating firm age, the logarithmic average of total assets for estimating firm size, and the ratio of circulating assets to overall assets for determining liquidity. ROA measured the dependent variable of FP. Five years of annual secondary data collection were used for this study. The study found positive effects associated with

increasing diversification, Liquidity, and company size. The study concluded that managerial effectiveness, company age, and performance was not significantly related.

Hadija (2016) researched the effect diversification methods have on the efficiency of SACCOs in Nairobi. The research revealed that Saccos in Nairobi implement various diversification techniques contingent upon their internal resources. This underscores the fact that the strategies adopted by one Sacco may only be universally applicable to some. The benefits of diversity in Saccos are contingent upon variations in client base and size, which are, in turn, determined by Sacco's growth stage and industry. Various factors influence diversification decisions, including industry profitability, co-insurance impacts, business characteristics, and the economic environment. Furthermore, it is noteworthy that non-financial performance indicators, including customer happiness, knowledge base, product quality, and the introduction of new product ranges, have experienced substantial enhancements within the past five years. This trend underscores their growing significance in bolstering a company's competitive advantage.

The research by Githaiga, (2021) included a comprehensive worldwide panel dataset of 443 MFIs across 108 countries, covering 2013 to 2018. The The research shows that MFIs can benefit greatly from broadening their income sources, ensuring their continued financial stability. The study's results offer essential information about the long-term viability of MFIs' finances, which may be used by management and policymakers. Microfinance managers and policymakers must contemplate the adoption of revenue diversification as a viable strategy for achieving financial sustainability within microfinance institutions (MFIs) rather than relying excessively on contributions and government subsidies.

The Kenya National Police Deposit Taking Sacco was the subject of a recent research by Kinuthia (2021), which aimed to analyze the organization's revenue diversification and financial performance. According to the data collected, the SACCO has used four main diversification tactics. Membership diversification is one such tactic, and it entails broadening the basis for membership to encourage recruitment from new sources. The SACCO has also sought to diversify its product and service offering by developing novel

products and services designed to address the unique requirements of its members. Finally, SACCO has diversified its investment portfolio, allocating funds across various asset classes to better control risk and boost returns. A significant rise in gross revenue, which can be attributable to higher revenue from diversification.

Mathuva (2015) analyzed how SACCOs in Kenya that accepted deposits from 2008 to 2013 fared financially after diversifying their income sources. An in-depth study is done to determine how various variables affect the bottom lines of SACCOs (Savings and Credit Cooperative Organizations). The findings show a link between profitability and a heightened dependence on non-interest revenue streams. Furthermore, the study shows that SACCOs with a broader variety of revenue sources experience higher volatility in their returns. According to the results, the return volatility of SACCOs is higher when there is a greater variety of revenue streams.

Yan, Talavera, and Fahretdinova (2016) looked into how different types of bank products affected their bottom lines in Azerbaijan. Profitability was found to decrease with increasing loan portfolio diversification. Nonetheless, after factoring in several bank-specific and economic variables, the analysis showed a little positive link between deposit-based diversification and bank profitability. Elefachew and Hrushikesava (2016) looked into how industry diversification affected the income of Ethiopian banks. Over six years, they collected enough data to conclude that a company's industry mix hurts its ROA and ROE.

In their research published in 2018, Brahmana, Kontesa, and Gilbert have looked at how diversity affected the profitability of Malaysian banks over ten years. Omet (2019) investigated how Jordanian banks would fare if their revenue streams were diversified. The study's findings showed a positive effect on banks' profits, but the increase of their net interest margin shrank as a result. To better understand how income diversification affects Brazilian banks' risk and return profiles, Ferreira, Zanini, and Alves (2019) ran an analysis. It was shown that banks' performance improved when non-interest income was included, especially in financial intermediation activities as opposed to trading.

Philita's (2018) research examined how commercial banks in Kenya benefited by diversifying their holdings. Diverse portfolios, large banks, interest rate variation, asset quality, and financial success all showed favourable correlations in the study. Nduati's (2019) research analyzed how banks in Kenya fared financially after diversifying their revenue streams. Strong and positive relationships between income diversity, Liquidity, bank size and financial performance were found in the study. Kebiro (2019) researched how their investment choices affected SACCOs (Savings and Credit Cooperative Organizations) in Nairobi, Kenya, that accept deposits. According to the study, investments in real estate, government securities, and stocks were found to improve productivity. However, the statistical research showed that fixed deposit investment, Liquidity, business size, and age had no discernible impact on productivity.

2.5 Summary of Literature Review and Knowledge Gaps

Several empirical studies have explored various aspects of financial performance and diversification strategies in the context of financial institutions. Existing studies have touched on different facets of diversification and its effects on financial performance: Yan, Talavera, and Fahretdinova (2016) examined product diversification and bank profitability in Azerbaijan. While they explored diversification's impact, they focused on loan-based and deposit-based portfolio diversification. They should have delved into revenue diversification and how different income sources influence financial performance. Kitisya and Ndegwa (2017 looked at the effects of industry and business diversification. However, their st)udy should have specifically addressed the revenue diversification strategies employed by SACCOS, which might differ from commercial banks.

The impact of revenue diversification on the efficiency of Kenyan financial institutions was investigated by Nduati (2019). While income diversification is related to revenue diversification, this study did not directly address how SACCOs manage and strategize their income sources to enhance their financial performance. While investments are a component of revenue diversification, the study did not comprehensively explore revenue diversification strategies and their direct effects on financial performance. The existing

empirical studies have explored various facets of diversification, but they have yet to specifically investigate revenue diversification strategies and their impact on the financial performance of SACCOS in Kenya. This research gap shows the need for a dedicated study that delves into how SACCOs strategically manage their income sources and the implications for their financial stability and sustainability.

2.6 Conceptual Framework

A conceptual framework is an organized depiction of essential concepts, variables, and connections, offering a theoretical basis for investigating and comprehending a research issue shaping the study's structure, methods, and result interpretation (Varpio et al., 2020).

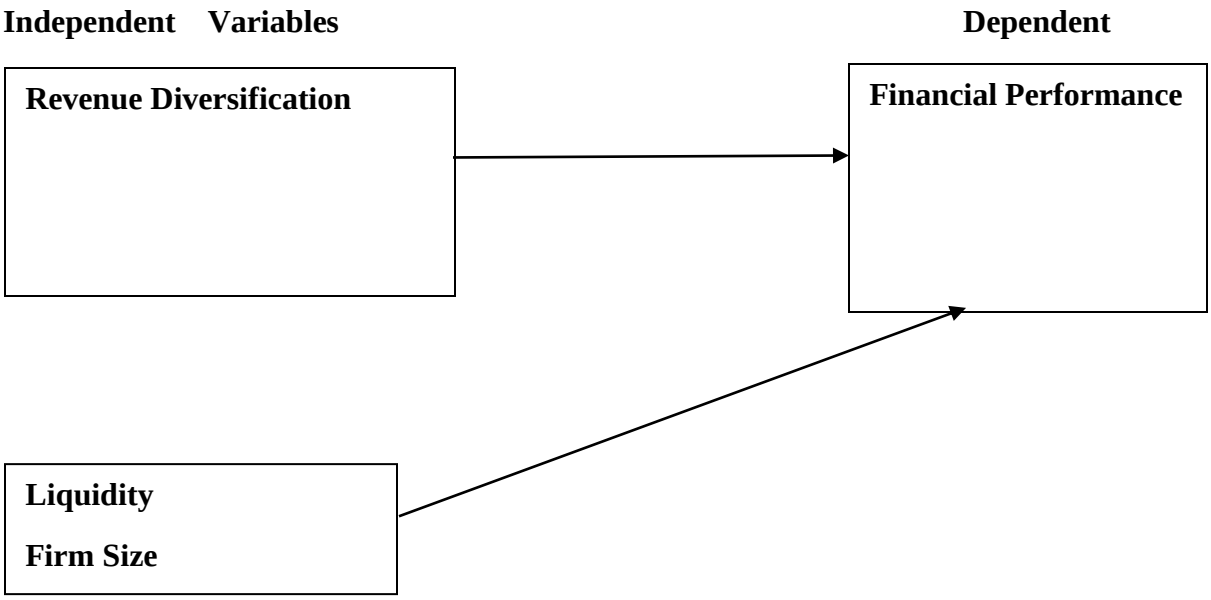

Figure 2. 1 Conceptual Framework

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter provides an in-depth examination of the study's methodology, demographic, data gathering procedures, and statistical analysis approaches, and the analytical model employed in this study.

3.2 Research Design

The research utilized a descriptive design to analyze future revenue diversification techniques. Descriptive research addressed "what," "where," "when," and "how" questions, providing a detailed account of attributes, actions, or encounters within a collective or populace (Siedlecki, 2020). This non-intrusive approach, utilizing surveys, observations, and interviews, was well-suited for exploring SACCO correlations and patterns. By examining relationships between explanatory and regressor factors, the study aimed to inform strategic planning and policy-making within the SACCO sector, with broader applicability to other institutions (Mohajan, 2018).

3.3 Population of the Study

According to SASRA, there are six licensed Deposit-Taking Saccos with headquarters in Mombasa County, and these formed the population as listed in Appendix I.

3.4 Data Collection

The research relied on secondary data sources, primarily utilizing audited financial statements obtained from Deposit-Taking Saccos. This data collection approach offered several advantages, including the availability of historical financial data and a comprehensive view of the Saccos' performance over time. The selected variables for analysis encompassed a broad spectrum of crucial factors, such as revenue diversification, liquidity, firm size, management efficiency, firm age, and financial performance. These variables were carefully chosen to provide a holistic understanding linking diversification of revenue strategies and the overall financial health of Saccos, allowing for a thorough and in-depth investigation (Msuya, 2020). Audited financial

statements ensured the accuracy and reliability of the data, which was essential for drawing meaningful conclusions and making informed recommendations for Saccos in Kenya. Appendix II guided the data collected.

3.5 Diagnostic Tests

The assumptions underlying linear regression encompass normality, multicollinearity, Heteroscedasticity, and Linearity.

3.5.1 Normality Test

The normality of unstandardized residuals was assessed by applying the Shapiro-Wilk's test for normality. This statistical test evaluates whether a given sample follows a normal distribution. The test was explicitly used in the study context to examine the distribution of residuals derived from the linear regression model (Dudovskiy, 2019). A significant result from the Shapiro-Wilk's test would indicate a departure from normality, suggesting that the assumption of normal distribution for the residuals may not be valid. This test provides valuable insights into the reliability of the linear regression model and the appropriateness of associated statistical inferences.

3.5.2 Multicollinearity Test

The researchers in this study checked for multicollinearity using tolerance statistic and the variable inflation factor (VIF). Multicollinearity was considered to be present if the VIF exceeded ten and the tolerance was less than 0.1, as stated by Dudovskiy (2019). Multicollinearity occurs when there is an association between the variabless, which can distort the results of the study models. One of the highly correlated variables was removed from the analysis to address multicollinearity. This issue was resolved by ensuring that a sufficiently large sample size was used, as multicollinearity is not known to exist in large samples.

3.5.3 Heteroscedasticity

Heteroscedasticity in regression analysis refers to the uneven dispersion or scattering of residuals or error terms. In this context, there is a consistent change to the residual

dispersion across the entire range of observed values. (Cattaneo, Jansson & Newey, 2018). Ordinary Least Squares (OLS) regression places a heavy emphasis on detecting heteroscedasticity. This is because OLS presupposes that the residuals originate from a homoscedastic population, where the variance remains constant. The presence of Heteroscedasticity can compromise the reliability of regression analysis results. The Koenker test, as highlighted by Gujarati and Porter (2009), is employed to identify Heteroscedasticity by assessing the presence of a systematic pattern in the residuals' variance, addressing the limitation of constant variance assumption in OLS. This test is essential as Heteroscedasticity introduces an unaccounted-for increase in the variance of regression coefficient estimates, impacting the robustness of the regression model.

3.5.4 Linearity

The linear regression algorithm assumes a linear relationship variables. Its accuracy diminishes in a non-linear relationship. Verification of Linearity is crucial (Bieniek & Maciag, 2018). Residual plots were used to assess Linearity, with a desirable pattern being evenly distributed residuals circling a horizontal line. Detectable patterns or a funnel shape indicate inadequacy. Standard Q-Q plots were employed to verify proper distribution, with residuals aligning neatly on the dashed straight line (Bieniek, 2006).

3.6 Data Analysis

Means and standard deviations, among other descriptive statistics, were calculated after entering the data into SPSS. Summarizing data features is an important part of descriptive statistics. Revenue diversified portfolios, liquidity, company size, management efficiency, and firm age were some of the variables that were examined in relation to financial performance using multiple regression and correlation analyses.. The regression equation was as follows;

$$\mathbf{Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon;}$$

Where Y= Financial performance,

X1= Revenue diversification

X2= Liquidity

X3= Firm Size

α The Constant term, denoted by α, represents the baseline performance level when no independent factors are present.

β1, β2 and β3 represent the regression coefficients of the independent variables.

ε= =error commonly used in academic discourse to represent the presence of error or noise. The term "unexplained variation outside the model" refers to the portion of variability in a dataset that cannot be accounted for by the chosen model.

3.7 Operationalization of the Study Variables

Table 3. 1 Operationalization of the Study Variables

Variable	**Measure**	**Empirical Study Adapted From**
Financial Performance	ROA = Net Income/Total Assets	Crook (2008)
Revenue diversification	Revenue Streams, Total Revenue, Cost to Income Ratio	Almazari (2013); Hess and Francis (2004)
Liquidity	Loan to Deposit Ratio	Han and Melecky (2013)
Firm Size	Natural logarithm of assets	Picconi and Reynolds (2013)

3.8 Tests of Significance

The evaluation of the mathematical model and its specific parameters involved using parametric tests. The F-test, an extension of ANOVA, was applied to determine the overall statistical significance of the model. Simultaneously, the t-test was employed to gauge the significance of individual variables within the model. The assessment of statistical significance was conducted at a 5% significance level.

The utilization of the coefficient of determination (R^2) served as a means to evaluate the the variability in the dependent variable could be anticipated based on the independent variables (revenue diversification, liquidity, and firm size). This elucidated the extent of variation in one component that could be attributed to its association with another factor.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This section presents the findings and discussion based on the data. This aligns with the goal of the study.

4.2 Descriptive Statistics for Revenue Diversification

Revenue diversification was measured by total revenue, revenue streams for Saccos and the cost-to-income ratio.

4.2.1 Descriptive Statistics for Sacco Total Revenue

The total revenue is presented in Table 4.1 below

Table 4. 1 Sacco Total Revenue

Sacco	Years	Total Revenue
Bandari	2018	1,073,432,889.00
	2019	1,341,494,233.00
	2020	
		1,341,501,196.00
	2021	1,571,761,934.00
	2022	
Jitegemee	2018	43,268,630
	2019	57,026,671
	2020	45,036,517
	2021	32,554,659
	2022	29,358,947
Mafanikio	2018	
	2019	160,623,919
	2020	157,602,050
	2021	178,188,255
	2022	174,480,299
Mombasa Port	2018	705,864,582
	2019	736,537,242
	2020	747,734,650
	2021	857,877,639
	2022	925,300,289
Washa	2018	24,577,593

	2019	32,073,916
	2020	41,174,860
	2021	51,137,998
	2022	61,075,524
Tabasuri	2018	
	2019	
	2020	60,585,629
	2021	76,298,380
	2022	93,314,222

Several key observations can be made from the provided revenue data. Bandari SACCO displayed a positive trend with increasing total revenue from 2018 to 2021, indicating a favourable financial performance. Conversely, Jitegemee SACCO experienced a decline in revenue from 2019 to 2022, warranting further investigation into the reasons behind this decrease. Mafanikio SACCO demonstrated consistent growth in revenue from 2019 to 2022, reflecting stability and improved financial performance. Mombasa Port SACCO exhibited a continuous increase in revenue, suggesting positive financial health. Washa SACCO also displayed a positive revenue trend from 2018 to 2022, indicating good financial performance. Tabasuri SACCO showed significant revenue growth from 2020 to 2022, although data for 2018 and 2019 was unavailable. To better understand the effect of revenue diversification, a more detailed examination of the specific sources of revenue for each SACCO is necessary. SACCOs with declining revenues should explore diversification strategies, while those experiencing growth may consider further diversification for enhanced financial resilience. A comprehensive analysis would benefit from additional financial indicators and economic context in Mombasa.

4.2.2 Analysis of Revenue Streams

Table 4.2 below presents the revenue streams for the SACCOs in the study.

Table 4. 1 Sacco Revenue Streams

SACCO	Revenue Streams
Bandari	1. Interest on loans 2. Interest on FOSA 3. Interest on asset financing 4. Bank deposit interest

	5. Interest on saving account 6. Interest on fixed deposit 7. Interest on money market unit trust
Jitegemee	1. Bosa loans 2. Fosa loans 3. Other interest income
Mafanikio	1. Bosa loans 2. Fosa loans 3. Other interest income
Mombasa Port	1. Bosa loans 2. Fosa loans 3. Fosa advances 4. Interest income from loan offset 5. Bank deposit interest 6. Insurance charges on members loans 7. Commission income 8. Dividend income 9. Rental income 10. Sundry income
Washa	1. Fosa loans 2. Bosa loans 3. Fixed dividend income 4. KUSCO saving interest
Tabasuri	1. Bosa Loans, 2. Fosa Loans 3. Bank deposits 4. Commissions income, 5. Sundry income, 6. Dividends income

The revenue streams for the mentioned SACCOs present diverse sources, reflecting their strategies for income generation. Washa SACCO relies on FOSA loans, BOSA loans, fixed dividend income, and interest from KUSSCO savings to fuel its financial activities. Including fixed dividend income suggests a stable income source, while FOSA and BOSA loans indicate a reliance on interest income from lending activities. This blend of

revenue streams reflects a balanced approach, leveraging member deposits and interest-bearing loan portfolios to sustain financial operations. The diversification across various income sources positions Washa SACCO to navigate potential risks associated with dependency on a single revenue stream.

Tabasuri SACCO exhibits a more varied revenue structure, encompassing BOSA loans, FOSA loans, bank deposits, commissions, sundry income, and KUSSCO and Cooperative Bank dividends. This diverse portfolio suggests an intentional effort towards revenue diversification, tapping into interest income from loans and deposits and commission-based and sundry income sources. The dividends from external entities like KUSSCO and CooperativeCooperative Bank further contribute to the SACCO's financial stability. Tabasuri SACCO's approach reflects a strategic diversification strategy, potentially reducing vulnerability to fluctuations in specific sectors and enhancing overall financial resilience.

In contrast, Mombasa Port SACCO relies on a mix of revenue streams, including BOSA loans, FOSA loans, FOSA advances, interest income from loan offset, bank deposit interest, insurance charges on member loans, commission income, dividend income, rental income, and sundry income. This comprehensive set of revenue streams suggests a multifaceted approach to income generation, incorporating interest income from loans and deposits and income from insurance charges, commissions, and rental properties. This diversified revenue model positions Mombasa Port SACCO to withstand economic uncertainties and contribute to sustained financial performance. Mafanikio SACCO appears to have a more straightforward revenue structure, primarily relying on FOSA and BOSA loans, with a category labelled "Other interest income." While this may indicate a focus on core lending activities, the specific details of "Other interest income" need further clarification to understand SACCO's revenue diversification strategy fully.

Jitegemee SACCO and Bandari SACCO focus primarily on interest income from BOSA and FOSA loans, with Jitegemee SACCO adding a category for "Other interest income." These SACCOS could benefit from exploring additional revenue streams to enhance diversification and financial resilience. The revenue streams for the mentioned SACCOs

showcase diverse approaches to income generation, with some SACCOS strategically diversifying across multiple sources to ensure financial stability and resilience. Including various income streams, such as commissions, dividends, and sundry income, indicates a proactive effort to reduce reliance on specific sources, contributing to the overall sustainability of the SACCOs.

4.2.3 Descriptive Statistics for the Cost to Income Ratio

The cost-to-income ratio for Saccos is presented in Table 4.3 below.

Table 4. 3 Cost to Income Ratio

Sacco	Years	Total Cost	Net Income	Revenue Diversification
Bandari	2018	906,604,540.00	164,458,458.00	5.512666
	2019	1,105,961,719.00	228,901,886.00	4.831597
	2020	1,066,441,473.00	275,059,723.00	3.877127
	2021	1,130,298,658.00	441,463,276.00	2.560346
	2022			
Jitegemee	2018	65,862,802	(22,594,172)	-2.91503
	2019	52,693,202	4,333,469	12.15959
	2020	39,214,738	5,821,779	6.735869
	2021	34,301,995	(1,747,336)	-19.631
	2022	28,571,593	787,354	36.28812
Mafanikio	2018			
	2019	131,757,013	28,866,906	
	2020	129,026,085	28,575,965	4.564293
	2021	163,077,542	15,110,713	4.515196
	2022	167,678,342	6,801,957	10.79218
Mombasa Port	2018	493,117,652	212,746,930	24.65149
	2019	564,545,341	171,991,901	2.31786
	2020	233,365,661	514,368,989	3.282395
	2021	270,197,763	587,679,876	0.453693
	2022	320,795,551	604,504,738	0.45977

Washa	2018	23,618,556	10,362,114	0.530675
	2019	27,793,095	4,280,821	2.279318
	2020	34,522,827	6,652,033	6.492468
	2021	37,930,558	13,207,440	5.189816
	2022	47,288,234	13,787,290	2.871908
Tabasuri	2018			3.429843
	2019			
	2020	49,925,147	33,651,291	
	2021	57,897,951	18,400,429	1.483603
	2022	72,170,082	21,144,140	3.146554

The analysis of the cost-to-income ratios reveals exciting trends. Bandari SACCO exhibits a generally decreasing trend from 2018 to 2021, indicating improved operational efficiency; however. Jitegemee SACCO shows fluctuations, with negative ratios in some years, potentially indicating operational challenges or extraordinary items affecting net income. Mafanikio SACCO demonstrates a decreasing trend in the cost-to-income ratio, suggesting enhanced efficiency over the years. Mombasa Port SACCO's ratio varies, with a notable decrease in 2020 and a slight increase in 2022, prompting a closer look at the factors influencing these changes. Washa SACCO's ratio fluctuates, emphasizing the need for a detailed analysis to understand the underlying dynamics. Tabasuri SACCO's ratio increased in 2021 but decreased in 2022, necessitating a closer examination of the specific factors at play. In the context of the study, it would be valuable to explore how these SACCOs diversify their revenue streams and whether such efforts correlate with changes in the cost-to-income ratio. Additionally, the presence of negative net incomes in some years for Jitegemee SACCO raises concerns, underscoring the importance of a comprehensive examination of financial and operational aspects to draw meaningful conclusions about the impact of revenue diversification on SACCO performance.

4.3 Descriptive Statistics for Liquidity, Firm Size and Financial Performance

These statistics are presented in the following subsections

4.3.1 Liquidity

Liquidity was measured by the total loans to total deposits ratio, as presented in Table 4.4

Table 4. 2 Sacco Liquidity

Sacco	Years	Total Loans	Total Deposits	Liquidity
Bandari	2018	6,170,543,315.00	5,406,992,335.00	
	2019	6,643,273,475.00	6,005,060,114.00	1.141215
	2020	6,625,794,587.00	6,535,551,783.00	1.106279
	2021	7,208,954,445.00	6,987,339,615.00	1.013808
	2022			1.031717
Jitegemee	2018	114,351,093	368,580,533	
	2019	103,808,941	361,899,775	0.310247
	2020	108,345,485	368,474,300	0.286844
	2021	98,332,012	387,714,780	0.294038
	2022	102,894,201	391,405,215	0.253619
Mafanikio	2018			0.262884
	2019	704,403,831	567,923,384	
	2020	729,214,362	618,469,205	1.240315
	2021	806,427,604	696,846,287	1.179063
	2022	824,642,574	719,551,930	1.157253
Mombasa Port	2018	3,469,128,553	2,668,337,830	1.14605
	2019	3,885,225,220	3,092,455,082	1.300108
	2020	4,126,970,221	3,515,235,904	1.256356
	2021	4,315,072,467	4,069,286,461	1.174024
	2022	4,934,455,952	4,585,731,341	1.0604
Washa	2018	133,338,621	135,682,585	1.076046
	2019	171,548,220	146,145,013	0.982725
	2020	197,836,478	170,073,507	1.173822
	2021	234,491,169	206,074,238	1.163241
	2022	277,803,027	235,866,438	1.137897
Tabasuri	2018			1.177798
	2019			
	2020	277,858,892	286,782,819	
	2021	294,310,010	290,481,999	0.968883
	2022	321,596,138	302,365,035	1.013178

The liquidity metrics, specifically the total loans to total deposits ratio as outlined in Table 4.2, emerge as pivotal indicators. Looking closely at individual SACCOs, Bandari

SACCO's liquidity ratio, fluctuating around and above 1, suggests a predominant presence of loans over deposits. This dynamic may signal a potential financial risk, necessitating a meticulous examination of revenue diversification strategies to ensure the institution's overall stability. Conversely, Jitegemee SACCO consistently maintained a ratio below 1, implying a more conservative lending approach with a higher emphasis on deposits. While ensuring a secure financial position, this approach prompts scrutiny of its compatibility with broader revenue diversification goals and the organization's overall financial performance.

Turning to Mafanikio SACCO, its liquidity ratio exhibited variability, surpassing and falling below one across different years. This dynamic shows the importance of prudent management in balancing loan and deposit portfolios to reinforce stability and fortify revenue diversification endeavours. Mombasa Port SACCO generally maintained a liquidity ratio above 1, indicating a higher loan volume than deposits. While this suggests an active lending stance, it necessitates a judicious balancing act to mitigate potential risks associated with an expanded loan portfolio in the context of revenue diversification efforts. Meanwhile, Washa SACCO demonstrated a liquidity ratio fluctuating around 1, indicating a balanced proportion of loans to deposits and suggesting potential stability conducive to adequate revenue diversification. Lastly, Tabasuri SACCO's liquidity ratio varied over time, with some years showing ratios below and others above 1. The SACCO should assess its lending and deposit strategies to align with revenue diversification objectives and foster overall financial stability. The analysis underscores the need for a holistic evaluation, considering various financial metrics, revenue sources, and economic factors, to comprehensively gauge the impact of revenue diversification on SACCOs in Mombasa

4.3.2 Descriptive Statistics for Firm Size

The size of the Saccos was measured by calculating the natural logarithms of the total assets. This is presented in Table 4.5 below

Table 4. 3 Firm Size

Sacco	Years	Total Assets	Natural Logarithm
Bandari	2018	8,664,589,959.00	22.88251044
	2019	9,480,006,757.00	22.97245087
	2020	10,013,777,651.00	23.02722775
	2021	11,015,769,823.00	23.1225937
	2022		
Jitegemee	2018	560,765,433	20.14481325
	2019	520,410,874	20.0701292
	2020	519,874,978	20.06909891
	2021	469,588,721	19.96736781
	2022	514,736,402	20.05916549
Mafanikio	2018		
	2019	892,250,344	20.60925731
	2020	969,980,164	20.69278618
	2021	1,090,912,706	20.81028053
	2022	1,123,699,392	20.83989211
Mombasa Port	2018	5,319,222,130	22.39459291
	2019	6,060,417,733	22.52504457
	2020	6,571,758,469	22.60604728
	2021	7,354,950,405	22.71863945
	2022	8,143,656,410	22.82050511
Washa	2018	192,966,904	19.07802925
	2019	217,345,016	19.19699658
	2020	253,519,311	19.35095056
	2021	295,608,645	19.50454699
	2022	347,362,623	19.66587982
Tabasuri	2018		
	2019		
	2020	418,912,826	19.8531734
	2021	435,717,289	19.89250417
	2022	450,403,979	19.92565547

Bandari is the largest institution in total assets, followed by Mombasa Port Sacco, Mafanikio, Jitegemee, Washa, and Tabasuri. Based on total assets as a proxy for size, this comparison highlights Mombasa Port's leading position in the financial landscape. Using natural logarithms reveals consistent growth in Mombasa Port's assets over the years, indicating a positive trajectory in its financial performance. Revenue diversification is recognized as a potential strategy for enhancing financial stability by mitigating risks

associated with dependency on specific income streams. It is essential to note the incomplete data, such as missing total assets for Mafanikio in 2018 and Bandari in 2022, which limits a thorough understanding of their financial dynamics.

Moreover, the need for complete asset data for Bandari in 2022 and Mafanikio in 2018 highlights how crucial consistent and thorough financial reporting is to a thorough analysis. The lack of complete data makes it more difficult to draw firm conclusions about the financial paths taken by the Saccos, underscoring the necessity of open and consistent reporting procedures in the cooperative industry. As the largest Sacco, Mombasa Port has seen steady development, indicating a solid financial performance. However, a more comprehensive understanding would necessitate a close investigation of their revenue streams and degree of diversification.

4.3.3 Descriptive Statistics for Financial Performance

Table 4. 4 Financial Performance of Saccos

Sacco	Years	Net Income	Total Assets	Net Income/Total Assets
Bandari	2018	164,458,458.00	8,664,589,959.00	0.018980524
	2019	228,901,886.00	9,480,006,757.00	0.024145751
	2020	275,059,723.00	10,013,777,651.00	0.027468128
	2021	441,463,276.00	11,015,769,823.00	0.040075572
	2022			
Jitegemee	2018	(22,594,172)	560,765,433	-0.040291663
	2019	4,333,469	520,410,874	0.008327015
	2020	5,821,779	519,874,978	0.011198421
	2021	(1,747,336)	469,588,721	-0.003720992
	2022	787,354	514,736,402	0.001529626
Mafanikio	2018			
	2019	28,866,906	892,250,344	0.032352922
	2020	28,575,965	969,980,164	0.02946036
	2021	15,110,713	1,090,912,706	0.013851441
	2022	6,801,957	1,123,699,392	0.006053182
Mombasa Port	2018	212,746,930	5,319,222,130	0.039995872
	2019	171,991,901	6,060,417,733	0.028379546
	2020	514,368,989	6,571,758,469	0.078269613

	2021	587,679,876	7,354,950,405	0.079902629
	2022	604,504,738	8,143,656,410	0.074230138
Washa	2018	10,362,114	192,966,904	0.053698918
	2019	4,280,821	217,345,016	0.01969597
	2020	6,652,033	253,519,311	0.026238763
	2021	13,207,440	295,608,645	0.044678802
	2022	13,787,290	347,362,623	0.039691346
Tabasuri	2018			
	2019			
	2020	33,651,291	418,912,826	0.080330057
	2021	18,400,429	435,717,289	0.042230202
	2022	21,144,140	450,403,979	0.046944834

Bandari Sacco has consistently improved financial performance from 2018 to 2021, as evidenced by the increasing trend in the Net Income/Total Assets ratio. This positive trajectory suggests potential revenue diversification efforts. Conversely, Jitegemee Sacco has faced fluctuating ratios, experiencing a negative ratio in 2018 and 2021, indicating less consistent financial performance.

Mafanikio Sacco, despite missing data for 2018, shows positive trends in the Net Income/Total Assets ratio from 2019 to 2022, indicating reasonable financial performance. Mombasa Port Sacco exhibits consistently positive ratios, with an increasing trend, signifying both good financial performance and potential success in revenue diversification.

Washa Sacco has maintained positive ratios throughout the years, although with some fluctuations. While the overall trend is positive, a more detailed analysis may be necessary to understand the factors influencing these fluctuations. Similarly, Tabasuri Sacco, with missing data for 2018 and 2019, shows an increasing positive trend in the Net Income/Total Assets ratio from 2020 to 2022, suggesting improving financial performance.

Mombasa Port Sacco and Bandari Sacco have relatively better and more consistent financial performance. Jitegemee Sacco faces challenges, while Washa Sacco, Mafanikio Sacco, and Tabasuri Sacco exhibit positive trends that warrant further investigation. To

delve deeper into the impact of revenue diversification, exploring revenue sources, assessing diversification strategies, and conducting a statistical analysis to identify correlations with financial performance metrics is recommended.

4.4 Regression Diagnostic Tests

In order to facilitate the ensuing analyses, the data was first exposed to a battery of diagnostic tests.

4.4.1 Test for Autocorrelation

There was no autocorrelation since the 1.437 value was far below the threshold for autocorrelation of 2.5

Table 4. 5 Test for Autocorrelation

Model	Durbin-Watson
1	1.437[a]

a. Predictors: (Constant), Firm Size, Liquidity, Revenue Diversification

b. Dependent Variable: Financial Performance

4.4.2 Test for Multicollinearity

From Table 4.8, the VIF for revenue diversification was 5.493, the VIF for Liquidity was 1.391, and the VIF for firm size was 5.657. This meant that VIF factors for all predictor variables were less than ten; hence, there was no multicollinearity

Table 4. 6 Tests for Multicollinearity

	Collinearity Statistics	
Independent Variables	**Tolerance**	**VIF**
Revenue Diversification	.182	5.493
Liquidity	.719	1.391
Firm Size	.177	5.657

4.4.3 Test for Normality

The Shapiro-Wilk's Test statistic shown in Table 4.9 was used to test for normality as follows:

Table 4. 7 Shapiro-Wilk Test for Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized Residual	.150	30	.056	.904	30	.071

a. Lilliefors Significance Correction

The Shapiro-Wilk's test for normality was employed on the unstandardized residuals, with a sample size of 30. The test resulted in a Shapiro-Wilk test statistic of 0.904 and a corresponding p-value of 0.071. To test the hypotheses, the following statements were used:

Null Hypothesis (H0): The residuals are distributed normally, with a mean of zero.

Alternative Hypothesis (H1):

The null hypothesis is not rejected, as the calculated p-value (0.071) exceeds the predetermined significance level (0.05). Therefore, it can be inferred that the residuals display a normal distribution with a mean value of zero.

4.5 Correlation Analysis

The study utilized the Pearson Correlation coefficient to assess the extent of association between various variables, as detailed in Table 4.10. The main goal was to find a way to measure how strong and in what direction the link is between business size, liquidity, revenue expansion, and financial success. The findings revealed a positive correlation, indicating that corresponding financial performance changes accompanied these variables' fluctuations. Mhadavi's classification (2013) noted that a correlation coefficient (r) below 0.3 suggests a fragile relationship, while values between 0.3 and 0.5 indicate a weak relationship. Moderately strong relationships fall within the range of 0.5 to 0.7, and correlations exceeding 0.7 are considered vital.

Table 4. 8 Correlation Analysis for the Study Variables

Correlations

		Revenue Diversification	Liquidity	Firm Size	Financial Performance
Revenue Diversification	Pearson Correlation	1	.505**	.904**	.794**
	Sig. (2-tailed)		.004	.000	.000
	N	30	30	30	30
Liquidity	Pearson Correlation	.505**	1	.526**	.557**
	Sig. (2-tailed)	.004		.003	.001
	N	30	30	30	30
Firm Size	Pearson Correlation	.904**	.526**	1	.770**
	Sig. (2-tailed)	.000	.003		.000
	N	30	30	30	30
Financial Performance	Pearson Correlation	.794**	.557**	.770**	1
	Sig. (2-tailed)	.000	.001	.000	
	N	30	30	30	30

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

The r =0.794 of Revenue Diversification and Financial Performance shows a strong positive correlation. This suggests that as DT-SACCOs in Mombasa diversify their revenue sources, their financial performance has a positive impact.

The r=0.557, indicate a moderate positive correlation. The correlation is statistically significant at the 0.01 level (2-tailed), suggesting a meaningful relationship between Liquidity and Financial Performance. This implies that maintaining good Liquidity is associated with better financial performance in DT-SACCOs.

There is a very positive association between company size and financial performance, as shown by the high Pearson correlation coefficient of 0.770. A two-tailed p-value of 0.01 indicates statistical significance for the correlation, suggesting a strong relationship between Firm Size and Financial Performance. This implies that larger DT-SACCOs in Mombasa tend to have better financial performance.

Revenue Diversification, Liquidity, and Firm Size positively correlate with Financial Performance in DT-SACCOs in Mombasa. These findings suggest that focusing on

revenue diversification, maintaining good liquidity levels, and potentially expanding the size of the organization could contribute to improved financial performance in Mombasa County

4.6 Regression Analysis of the Study Variables

The study used regression analysis to find out whether the association across the dependent variable (financial performance) and the independent factors (revenue diversification, liquidity, and business size) was linear. Subsequent sections display the tabulated and discussed results;

4.6.1 Multiple Regression Model Summary

A score of 0.634 for the Adjusted R-squared indicates that the model accounts for 63.4% of the overall variation in financial performance, as shown in Table 4.11 below. As a result, 36.6% of the variance in financial performance remains unexplained by the model. Financial performance is influenced by liquidity, firm size, and revenue diversity, according to the results. Differences in the dependent and independent variables are shown in the table.

Table 4. 9 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.820[a]	.672	.634	.38026	1.837

a. Predictors: (Constant), Firm Size, Liquidity, Revenue Diversification

b. Dependent Variable: Financial Performance

4.6.2 Analysis of the Variance of the Study Variables (ANOVA)

The F-test in Table 4.12 is essential for assessing the model's ability to predict Financial Performance. The p=0.000 indicates high effectiveness in predicting Financial Performance, given variables like revenue diversification, Liquidity and firm size. The

model significantly explains the variation in financial performance, reinforcing confidence in its ability to make accurate predictions about the impact of these variables on financial performance. The model was significant since p=0.000<0.05 at a 5% significance level

Table 4. 10 Analysis of Variance

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	7.701	3	2.567	17.752	.000[b]
Residual	3.760	26	.145		
Total	11.460	29			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Firm Size, Liquidity, Revenue Diversification

4.6.3 Coefficients of the Regression Model

The coefficient of the regression model was derived from the investigation and thereafter reported. The equation for regression is presented below:

Y=0.608+0.387X1+0.151X2+0.153X3

Y –Financial Performance

X1–Revenue Diversification

X2–Liquidity

X3 –Firm Size

The regression coefficient values for the standard multiple regression done in the study are presented in Table 4.13.

Table 4. 11 Coefficients of the Regression Model

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.608	.286		2.127	.043		
Revenue Diversification (**X_1**)	.387	.202	.505	1.917	.066	.182	5.493
Liquidity (**X_2**)	.151	.105	.190	1.433	.164	.719	1.391
Firm Size (**X_3**)	.153	.190	.214	.803	.429	.177	5.657

a. Dependent Variable: Financial Performance (**Y**)

The regression analysis reveals the link between various predictors and Financial Performance in deposit-taking DT-SACCOs in Mombasa. The constant term, representing the expected Financial Performance when all predictors are zero, is 0.608. Moving on to the predictors, the coefficient for Revenue Diversification (X1) is 0.387, indicating a correlation that is favorable to financial performance. Nevertheless, the observed association does not exhibit statistical significance at the standard significance threshold of 0.05 (p-value = 0.066), suggesting caution in drawing firm conclusions about the impact of Revenue Diversification.

Similarly, the coefficient for Liquidity (X2) is 0.151, suggesting a positive relationship with Financial Performance. Nevertheless, this relationship lacks statistical significance at 0.05 (p-value = 0.164). Firm Size (X3) also exhibits a positive association with Financial Performance, with a coefficient of 0.153, but it, too, falls short of statistical significance at the 0.05 level (p-value = 0.429).

While the individual predictors do not demonstrate statistical significance, the overall model is deemed statistically significant (p-value = 0.043). This implies that Revenue Diversification, Liquidity, and Firm Size collectively explain the variance in Financial Performance in DT-SACCOs in Mombasa. However, given the non-significant p-values for individual predictors, the practical significance of these relationships may be limited. Consequently, further investigation, potential refinement of variables, and consideration of additional factors may be necessary to gain a more nuanced understanding of the factors influencing Financial Performance in the context of DT-SACCOs in Mombasa.

4.7 Discussion of the Findings

The current study's findings are in harmony with several empirical studies that have explored the impact of various factors affecting FP SACCOs and other financial institutions. The studies provide a broader context for understanding the dynamics of revenue diversification, portfolio management, and financial strategies. Barawa and Ogillo's (2022) study highlighted the significance of portfolio management methodologies in influencing the profitability of SACCOs in Mombasa County. Similarly, the study emphasizes the positive relationship between revenue diversification, company size, liquidity, and financial results in DT-SACCOs in Mombasa. Both studies underscore the importance of strategic financial management practices in shaping financial outcomes.

Maganga and Wekesa's (2021) research, focusing on SACCOs in Mombasa County, emphasized the connection between financial strategies, such as early loan repayment incentives and regular tracking of loan levels, and the SACCOs' bottom line. This aligns with the study's emphasis on the positive correlations between revenue diversification. Both studies stress the significance of proactive financial management approaches. Mwania's (2020) examination of how DT-SACCOs in Nairobi fared financially through revenue stream diversification is in line with this study’s objectives. Both studies highlight the positive effects of increasing diversification, Liquidity, and firm size.

Hadija's (2016) research into the diversification methods of SACCOs in Nairobi City County aligns with the broader understanding that diversification decisions are contingent upon various factors, including industry profitability, co-insurance impacts, business

characteristics, and the economic environment. The study supports this notion by showcasing the positive relationships between diversification. The current study's results resonate with existing empirical research, emphasizing the importance of strategic financial management practices, revenue diversification, and effective portfolio management in influencing the financial performance of SACCOs and other financial institutions. These findings collectively contribute to understanding critical factors contributing to cooperative organizations' financial success in the financial sector.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter highlights the summary, conclusion, recommendation and suggestions for further study. This aligns with the study objective and is based on chapter four.

5.2 Summary of Findings

The analysis of revenue diversification and its impact on the financial performance of deposit-taking SACCOs in Mombasa reveals diverse trends. Bandari SACCO exhibits a positive revenue trajectory and improving financial performance from 2018 to 2021, suggesting practical revenue diversification efforts. In contrast, Jitegemee SACCO faces fluctuating revenues and negative net income in specific years. Mafanikio SACCO demonstrates consistent revenue growth, indicating stability and positive financial performance. Mombasa Port SACCO shows continuous revenue increases, aligning with a positive financial health trend. Washa SACCO maintains positive revenue trends, while Tabasuri SACCO displays growth from 2020 to 2022. The cost-to-income ratios vary among SACCOs, with Bandari SACCO showing improvement until 2021, while Jitegemee SACCO faces challenges. Liquidity ratios suggest diverse lending and deposit strategies among SACCOs. With steady growth, Mombasa Port is the largest SACCO based on total assets. Financial performance ratios indicate positive trends for Mombasa Port and Bandari, challenges for Jitegemee, and positive trajectories for Washa, Mafanikio, and Tabasuri. Overall, the findings emphasize the importance of an in-depth analysis of revenue sources and diversification strategies to assess SACCO's financial performance in Mombasa.

The Pearson correlation coefficient between Revenue Diversification and Financial Performance is 0.794, indicating a strong positive correlation. This suggests that as DT-SACCOs in Mombasa diversify their revenue sources, financial performance has a positive impact. The coefficient for Revenue Diversification is 0.387, indicating a positive association with Financial Performance. Nevertheless, the observed association

lacks statistical significance. at the 0.05 level (p-value = 0.066), suggesting caution in drawing firm conclusions about the impact of Revenue Diversification.

Financial success in DT-SACCOs is connected with good liquidity management. With a significance level of 0.01 (2-tailed), the correlation provides strong evidence that the relationship is meaningful. The p-value for this correlation is 0.164, which means it is not statistically significant at the 0.05 level. The coefficient for Firm Size is 0.153, indicating a positive association with Financial Performance.

The multiple regression model, including Revenue Diversification, Liquidity, and Firm Size as predictors, is statistically significant (p-value = 0.043). This implies that, collectively, these variables contribute to explaining the variance in Financial Performance in DT-SACCOs in Mombasa. The correlation analysis reinforces solid and positive relationships between Revenue Diversification, Liquidity, Firm Size, and Financial Performance. The regression analysis indicates an overall significant model, but the individual predictors (Revenue Diversification, Liquidity, and Firm Size) do not demonstrate statistical significance at the 0.05 level.

5.3 Conclusion

The study concludes a robust positive correlation between Revenue Diversification and Financial Performance, indicating that diversifying revenue sources positively impacts the overall financial performance of DT-SACCOs in Mombasa. While the regression analysis suggests a positive association, caution is necessary as the statistical significance is not achieved at the conventional 0.05 level. This shows the importance of considering Revenue Diversification in conjunction with other factors to grasp its impact on financial outcomes fully.

The study also concludes that emphasizes the significance of maintaining good liquidity levels for improved financial performance in DT-SACCOs. However, the regression analysis indicates a positive association without achieving statistical significance at 0.05. This highlights the need for a comprehensive understanding of Liquidity's impact within the broader context of financial factors.

Further, it suggests that larger DT-SACCOs exhibit better financial performance. Despite the positive association in the regression analysis, statistical significance still needs to be attained at the conventional significance level. Therefore, interpreting Firm Size's impact on financial performance requires careful consideration and integration with other influential factors.

The study showed robust relationships between Revenue Diversification, Liquidity, Firm Size, and Financial Performance in DT-SACCOs in Mombasa. While the correlation analysis provides valuable insights into the strength of these relationships, the regression analysis emphasizes the collective impact of these variables on financial outcomes. Caution is warranted when interpreting individual variable impacts, necessitating further research and consideration of additional factors to enhance understanding of their contributions to the financial success of DT-SACCOs in Mombasa.

5.4 Recommendation

Policymakers should consider promoting and incentivizing revenue diversification strategies for DT-SACCOs in Mombasa. Recognizing the positive correlation between Revenue Diversification and Financial Performance, policy frameworks should encourage diversification initiatives. Additionally, policies supporting financial literacy programs for DT-SACCOs' management could enhance their ability to navigate and implement effective revenue diversification strategies. Collaborative efforts between policymakers and financial institutions can foster Mombasa's resilient and diversified financial sector.

Academics and theorists play a crucial role in advancing the understanding of the relationships identified in this study. Further research should explore the nuances of Revenue Diversification, Liquidity, and Firm Size, exploring their multifaceted interactions with other variables. Theoretical frameworks should be developed to guide future studies, addressing the complexities of these relationships. Continuous collaboration with practitioners and policymakers can ensure that academic insights are theoretically sound and practically applicable, contributing to the development of comprehensive financial models.

Practitioners, particularly management within DT-SACCOs in Mombasa, should leverage the identified correlations to enhance their financial strategies. Initiatives to diversify revenue streams should be pursued cautiously, considering the individual context of each institution. While Revenue Diversification shows promise, practitioners should also prioritize maintaining healthy liquidity levels and strategically growing the size of their organizations. Continuous monitoring and evaluation of these strategies and adaptive management practices will be crucial for long-term financial success. Collaborative forums and knowledge-sharing platforms can facilitate the exchange of best practices among practitioners, fostering a culture of innovation and resilience in the sector.

5.5 Limitations of the Study

The study's limitations are noteworthy and require careful consideration for a more robust analysis. Firstly, the small sample size of six Deposit-taking Saving and Credit The results cannot be applied to a broader population due to the presence of DT-SACCOs in Mombasa County. To address this, subsequent studies could increase the sample number and include DT-SACCOs from a wider variety of areas and regions. This would enhance the study's external validity, allowing for more comprehensive insights into the relationships between revenue diversification.

Secondly, the geographical and temporal scope focused solely on Mombasa County and a specific timeframe. Future studies could consider a multi-county approach to mitigate this limitation to capture regional variations and unique factors influencing financial performance. Additionally, extending the study period or incorporating longitudinal data would better capture dynamic changes in financial trends and economic influences, providing a more nuanced understanding of the long-term impact of revenue diversification on DT-SACCOs.

The study acknowledges potential biases stemming from the quality and completeness of the data collected. To address this, researchers should implement rigorous data validation processes and ensure comprehensive data collection to minimize inaccuracies or omissions. Additionally, future studies may benefit from incorporating qualitative methods, such as interviews or case studies, to complement quantitative data and provide

a more in-depth understanding of operational differences among DT-SACCOs. This approach would help unveil complexities related to organizational structures, member demographics, and strategic orientations that may influence financial performance in ways not fully captured by quantitative analyses. Acknowledging and addressing these limitations will contribute to the robustness and reliability of future research in this domain.

5.6 Suggestions for Further Study

Future research endeavours could benefit from conducting a comparative analysis across diverse regions within Kenya or extending to other countries. Exploring how different economic, regulatory, and sociocultural contexts influence the relationship between revenue diversification would provide a more holistic understanding. Such a study could unveil nuanced insights into the contextual factors contributing to cooperative success and financial stability.

To capture the dynamic nature of financial trends and cooperative performance, a longitudinal study spanning an extended timeframe would be valuable. Examining how the relationships between revenue diversification, Liquidity, and firm size evolve could reveal trends, patterns, and the long-term impact of strategic decisions. This longitudinal perspective would allow for a more comprehensive analysis of the causal relationships and offer valuable insights for strategic planning and decision-making within DT-SACCOs.

Complementing quantitative analyses with in-depth qualitative research could provide a richer understanding of the operational intricacies and contextual factors influencing financial performance. Qualitative studies could delve into the decision-making processes, leadership strategies, and organizational cultures within DT-SACCOs. Interviews, focus groups, and case studies could uncover qualitative nuances that quantitative measures might overlook, offering a more comprehensive view of the cooperative dynamics and shedding light on potential areas for strategic improvement and innovation within the sector.

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APPENDICES

Appendix I: List of DT Saccos in Mombasa County

1. Bandari
2. Jitegemee
3. Mafanikio
4. Mombasa Port
5. Washa
6. Tabasuri

Source: Sacco Societies Regulatory Authority Report (2023)

Appendix II: Data Collection Sheets

Financial Performance

	2018	2019	2020	2021	2022
Net Income					
Total Assets					

Revenue Diversification

	2018	2019	2020	2021	2022
Revenue Streams					
Total Revenue					
Total Cost					
Net Income					

Liquidity

	2018	2019	2020	2021	2022
Total Deposits					
Total Loans					

Firm Size

	2018	2019	2020	2021	2022
Total Assets					

REVENUE DIVERSIFICATION

ORIGINALITY REPORT

13%	12%	3%	6%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	erepository.uonbi.ac.ke Internet Source	5%
2	erepository.uonbi.ac.ke:8080 Internet Source	1%
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