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Loan Portfolio Management and the Financial Performance of Deposit-Taking Savings and Credit Co-operative Societies in Kenya

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Abstract- The loan portfolio is the principal earning asset of a deposit-taking savings and credit co-operative society, and its management is therefore central to financial performance, yet rising non-performing loans continue to threaten the sub-sector in Kenya. This study examined the effect of loan portfolio management on the financial performance of deposit-taking savings and credit co-operative societies (DT-SACCOs) in Kenya. The study was anchored on the Information Asymmetry Theory, the Transaction Cost Theory and the 5 C's Model of Client Appraisal, and it adopted a pragmatism philosophy and a convergent mixed-methods design. The target population comprised the 176 licensed DT-SACCOs in Kenya, and a census of the 352 chief executive officers and chief finance officers of these societies was undertaken, complemented by in-depth interviews with twelve senior officers. A total of 259 usable questionnaires were returned, a response rate of 73.6 per cent. Quantitative data were analysed using descriptive statistics, Pearson correlation and simple linear regression, while qualitative data were analysed thematically. The findings showed that loan portfolio management had a positive and statistically significant effect on financial performance ($r = 0.671$; $\beta = 0.671$; $R^2 = 0.450$; $F(1, 257) = 210.31$; $p < .001$), explaining 45.0 per cent of the variation in financial performance and emerging as the strongest single determinant examined in the wider study. The interview evidence revealed three themes, namely the centrality of credit risk, member-sensitive lending against the enforcement of credit terms, and the governance of provisioning, which together showed that loan portfolio management depends on sound information, well-designed credit terms and the protection of provisioning. The study concludes that loan portfolio management is the dominant internal driver of DT-SACCO financial performance, and it recommends that societies strengthen their credit appraisal, monitoring, recovery and provisioning practices within board-approved policy.

Keywords: Loan Portfolio Management, Credit Risk, Financial Performance, Deposit-Taking Saccos, Kenya

I. INTRODUCTION

Savings and credit co-operative societies are a major channel of financial inclusion across the developing world, mobilising member savings and converting them into affordable credit. The loan portfolio that results is the engine of a co-operative's income, but it is also the principal source of its risk, since the interest earned on member loans must be set against the losses that arise when those loans are not repaid. Globally, credit unions and co-operative lenders have faced rising pressure on asset quality, and supervisory bodies have increasingly emphasised sound credit risk management as the foundation of institutional stability (WOCCU, 2023).

Within Africa, savings and credit co-operatives carry a disproportionate share of the credit extended to households and micro-enterprises, and Kenya hosts one of the largest such movements on the continent. The deposit-taking segment, licensed and supervised by the Sacco Societies Regulatory Authority (SASRA), advances the bulk of this credit, so the quality of its loan portfolios has consequences that reach beyond individual societies to the financial system as a whole (ICA, 2022). Because loans to members typically constitute the largest single class of assets a DT-SACCO holds, the management of that portfolio is widely regarded as the most consequential of the society's internal financial management functions.

Loan portfolio management encompasses the appraisal of credit applications, the monitoring of outstanding loans, the recovery of arrears and the provisioning for expected losses. Each of these activities addresses a different stage of the credit cycle, and together they determine whether the portfolio generates the income on which the society depends or accumulates the non-performing loans that erode its capital. The deposit-taking model intensifies the stakes, because the funds lent are in part members' withdrawable deposits, so that a deterioration in loan quality threatens both profitability and the society's capacity to honour its obligations (Nabiba & Miroga, 2024).

Despite the centrality of the loan portfolio, DT-SACCOs in Kenya continue to record uneven asset quality. The Sacco Societies Regulatory Authority reported a rise in non-performing loans across the sub-sector, with the portfolio-at-risk and default exposure of several societies increasing in recent years (SASRA, 2024). Default risk has been identified as the single greatest threat to SACCO profitability, ahead of liquidity and operational risk (Etenyi, Nelima, & Maingi, 2024). The variation in asset quality across societies suggests that differences in the quality of loan portfolio management, rather than external conditions alone, account for much of the difference in their financial performance.

The scale of the problem is considerable. Although the deposit-taking SACCO sub-sector has historically maintained a lower portfolio-at-risk than commercial banks and microfinance banks, its asset quality has been deteriorating, and the regulator has reported non-performing loans rising by a significant margin in the most recent supervisory period (SASRA, 2024). Because the loan portfolio typically constitutes the largest single class of a society's assets, even a modest rise in default feeds directly through to profitability, capital adequacy and the confidence of members, so that the management of credit risk is not a peripheral concern but the central determinant of whether a society thrives or falls into distress. This combination of a systemically important sub-sector, a tightening prudential environment and demonstrable variation in asset quality establishes both the practical urgency and the scholarly interest of examining how loan portfolio management affects financial performance.

A substantial literature has examined credit risk and loan portfolio management in Kenyan financial institutions, and the weight of evidence associates sound credit practices with stronger performance. Much of this evidence, however, has been generated at the level of individual counties or single institutions, and a considerable part of it relies on financial ratios or secondary data without capturing the judgement and practice of the officers who manage the portfolio (Mboe & Kavale, 2023). There is consequently limited national, mixed-methods evidence that both estimates the effect of loan portfolio management on financial performance and explains how that effect is produced.

This study addresses that gap by examining the effect of loan portfolio management on the financial performance of DT-SACCOs across the full national population of licensed societies, combining a census survey with in-depth interviews. The objective of the study was to determine the effect of loan portfolio management on the financial performance of deposit-taking SACCOs in Kenya, and the corresponding null hypothesis (H_0) was that loan portfolio management has no statistically significant effect on the financial performance of deposit-taking SACCOs in Kenya. The study is significant for the boards and management of DT-SACCOs, who control the credit practices that drive performance; for SASRA and policy makers, who set the prudential framework governing asset quality; and for the scholarly community, which benefits from national, mixed-methods evidence on the most consequential of the financial management practices.

Financial performance in deposit-taking co-operatives is a multidimensional construct rather than a single figure. It is commonly assessed through profitability, captured by indicators such as the return on assets and the return on equity; through liquidity, captured by the current, quick and cash ratios; through asset quality, captured by the ratio of non-performing loans to the loan book; and through growth and sustainability, captured by the expansion of assets, deposits and membership over time. Loan portfolio management bears on each of these dimensions, most directly on asset quality, since the level of non-performing loans is itself a measure of portfolio health, but also on profitability through the interest income the portfolio generates and the losses it absorbs, and on sustainability through the

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confidence that a sound portfolio inspires in members. Conceptualising financial performance in these multidimensional terms allows the present study to trace how loan portfolio management transmits its effects across the several dimensions through which the performance of a DT-SACCO is judged.

II. THEORETICAL REVIEW

The study was anchored on three theories that, taken together, explain why loan portfolio management matters and how it bears on financial performance. Each theory is presented in terms of its proponents, a brief description, its relevance to the study, and its strengths and weaknesses together with the mitigation adopted in this study. The three are complementary: the Information Asymmetry Theory explains the core problem that loan portfolio management exists to solve, the Transaction Cost Theory explains the mechanism through which good management raises performance, and the 5 C's Model supplies the practical appraisal framework through which societies act on both. Read together, they provide a fuller account of loan portfolio management than any one of them could alone, moving from the underlying problem of asymmetric information, through the costs that lending imposes, to the concrete appraisal routine that credit committees apply, and it is this layered account that frames the empirical analysis reported below.

2.1 Information Asymmetry Theory

The Information Asymmetry Theory was advanced by George Akerlof (1970) and carried into the analysis of lending by Stiglitz and Weiss (1981). Its starting point is a simple inequality of knowledge: the person seeking a loan always knows more about their own intentions and prospects than the institution being asked to fund them. Akerlof illustrated the consequences of such an imbalance with the trade in second-hand goods, where the inability of buyers to tell good from bad gradually pushes the better goods out of the market, and Stiglitz and Weiss showed that lending suffers from the same affliction, so that a society which responds to risk merely by charging more may end up attracting the very borrowers it should avoid and degrading the quality of its book. From this inequality flow two dangers that loan portfolio management must contain, namely choosing unwisely at the moment of lending and being unable to observe how carefully the borrower behaves thereafter.

The theory is directly relevant because the appraisal, monitoring, recovery and provisioning activities that make up loan portfolio management are, in essence, the instruments a society uses to close this information gap. Credit appraisal addresses adverse selection by screening applicants before lending; loan monitoring addresses moral hazard by observing conduct after disbursement; recovery and provisioning manage the residual losses that imperfect information leaves behind. Its principal strength is that it identifies the fundamental problem of lending and explains why disciplined screening and monitoring should improve portfolio quality and, through it, financial performance. Its main weakness is that it can treat information as something that is simply gathered, underplaying the role of the lending relationship itself in generating trustworthy information over time. This weakness was mitigated by combining the theory with the qualitative strand of the study, which captured how repeated dealings and member knowledge supplement formal screening in a co-operative setting, where a society often holds long-standing knowledge of its members that an arm's-length lender would lack.

2.2 Transaction Cost Theory

The Transaction Cost Theory traces its origins to Ronald Coase (1937) and was later developed by Oliver Williamson (1981). At its heart lies the recognition that doing business is never costless even after the price is agreed, because parties must still find one another, settle the terms between them, and make sure the agreement is actually kept. Coase argued that the firm itself exists because there are times when carrying out an activity within an organisation is cheaper than buying it repeatedly in the marketplace, and Williamson refined this into a systematic account of how the threat of opportunism and the difficulty of writing complete contracts push institutions to bring certain activities in-house and to design safeguards around them.

The theory is relevant because lending is an activity dense with transaction costs, namely the costs of appraising applicants, drafting and enforcing loan contracts, and pursuing recovery when repayment falters. A society with strong loan portfolio management lowers these costs and, through community proximity and member relationships, enjoys an enforcement advantage that traditional lenders lack. The social ties within a co-operative reduce the cost of obtaining information about members and raise the reputational cost to a member of defaulting, so that monitoring and enforcement are achieved partly through the community itself rather than wholly through formal and costly mechanisms. Its strength is that it links the organisation of lending directly to performance through cost reduction, and that it explains the comparative advantage co-operatives hold in lending to members whom larger lenders find too costly to assess. Its weakness is that it concentrates on cost and can understate the strategic value of building a high-quality portfolio. This weakness was mitigated by pairing the theory with the Information Asymmetry Theory, which foregrounds portfolio quality, so that cost and quality are considered together rather than separately.

2.3 The 5 C's Model of Client Appraisal

The 5 C's Model of Client Appraisal is a framework that has grown out of long banking practice rather than a single founding text, taking its modern shape in the credit-management writing of the mid-twentieth century. Rather than offering a theory of why lending is difficult, it gives a lender a practical way of sizing up an applicant by looking in turn at the borrower's track record and trustworthiness, their ability to generate the income to repay, the personal stake they bring to the venture, the security they can pledge, and the surrounding economic circumstances that could help or hinder repayment. These five vantage points furnish a credit committee with a shared and repeatable basis for deciding whether to lend and on what terms.

The model is relevant because it operationalises the abstract problems of information and cost into a concrete appraisal routine that SACCO credit committees can apply, translating theory into the practical screening that loan portfolio management requires. Character speaks to the applicant's repayment history and integrity; capacity to their cash flow and ability to service the loan; capital to their own stake and net worth; collateral to the security pledged against default; and conditions to the wider economic circumstances bearing on repayment. Together these five dimensions give a credit committee a common language and a repeatable checklist, which is precisely the kind of structured response the Information Asymmetry Theory prescribes for adverse selection. Its strength is its practicality and its direct correspondence to the appraisal practices the study set out to measure. Its weakness is that the assessment of character in particular can be subjective and open to bias. This weakness was mitigated by treating the model as one component of a broader framework alongside the Information Asymmetry and Transaction Cost theories, and by drawing on the qualitative evidence to show how societies guard against subjectivity through committee decision-making rather than individual discretion.

III. EMPIRICAL REVIEW

A growing body of recent research has examined the relationship between credit risk and loan portfolio management and the financial performance of savings and credit co-operative societies in Kenya. The studies converge on a positive association between sound credit practices and performance, while differing in their geographical scope, their measurement of the outcome and the methods they employ, and a number of them qualify the relationship by pointing to the conditions under which it holds.

The international and continental evidence establishes the broad pattern within which the Kenyan studies sit. Across banking and microfinance systems, credit risk management has been consistently linked to financial performance, with weak appraisal and monitoring identified as a leading cause of the loan losses that erode profitability and capital. Within Africa, savings and credit institutions have faced mounting asset-quality pressure, and the literature has increasingly framed credit risk, rather than liquidity or operational risk, as the binding constraint on the performance of member-owned lenders. This places the management of the loan portfolio at the centre of the financial-management debate and motivates the close attention the Kenyan studies have paid to credit appraisal, monitoring, recovery and provisioning.

The most direct Kenyan evidence comes from studies of credit risk management practices. Etenyi, Nelima and Maingi (2024), in a study of the effect of credit risk management techniques on the financial performance of deposit-taking SACCOs in Kenya, found that credit risk identification, appraisal, monitoring and mitigation each contributed positively to performance, and they identified default risk as the greatest single threat to profitability. Nabiba and Miroga (2024), examining credit management practices and loan portfolio performance among deposit-taking SACCOs in Nairobi City County, reached a complementary conclusion, reporting that the credit appraisal process, collection effort, collateral security and the loan repayment period significantly influenced loan portfolio performance, with collection effort and appraisal the strongest predictors. Both studies establish the relationship clearly within Kenya, but each is bounded, the former by its focus on techniques in isolation and the latter by its single-county scope, leaving open the question of whether the relationship holds across the national sub-sector and how the practices combine in the work of senior officers.

A second strand has approached the question through loan portfolio quality and asset quality directly. Studies of microcredit loan portfolio quality in Kenyan deposit-taking SACCOs have reported that credit risk management significantly shaped portfolio-at-risk levels, noting that the sub-sector recorded a lower portfolio-at-risk than commercial banks and microfinance banks yet continued to face asset-quality pressure. Mboe and Kavale (2023), in a study of credit management and the financial performance of micro-financial institutions in Mombasa County, found that strong credit appraisal, monitoring systems and documentation significantly improved financial outcomes. These quality-focused studies confirm the performance relationship from the asset side, but their reliance on ratios and secondary data, and their county-level scope, mean they capture the outcomes of loan portfolio management more fully than the management practices and judgement that produce them.

An important qualification emerges from the regional and continental evidence on the design of credit terms. Komezusenge (2024), in a study of the effect of loan portfolio management on the financial performance of banking institutions in Rwanda, found that loan portfolio management significantly influenced performance but that the effect depended on the appropriateness of credit terms, since overly rigid terms suppressed both recovery and demand. This finding cautions that the positive relationship reported elsewhere is conditional on credit terms being well designed rather than merely strict. The recent coastal-region evidence of Muchiri and Muthimi (2025), examining credit risk management practices and the financial performance of registered deposit-taking SACCOs in the Coastal Region of Kenya, reinforced the core relationship while drawing attention to the same dependence on sound credit policy and documentation.

The reviewed studies differ, finally, in the weight they give to the back end of the credit cycle. While appraisal and monitoring dominate the Kenyan evidence, the studies that examine recovery and provisioning directly suggest that these downstream practices are decisive once distress has set in: collection effort emerged as a leading predictor in the Nairobi evidence of Nabiba and Miroga (2024), and the provisioning and documentation practices emphasised by Mboe and Kavale (2023) and Muchiri and Muthimi (2025) point to the role of disciplined loss recognition in protecting financial performance. Taken together with the appraisal-focused studies, this body of work implies that loan portfolio management operates across the whole credit cycle rather than at any single point, a reading that the present study's combination of survey and interview evidence is well placed to examine.

3.1 Synthesis of the Empirical Review and Research Gap

Taken together, these studies establish a consistent and well-supported positive association between loan

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portfolio management and the financial performance of SACCOs, and they increasingly emphasise that the effect is conditional on the quality of credit policy rather than automatic. Three gaps nevertheless recur across the reviewed work. First, the Kenyan evidence is drawn predominantly from individual counties, such as Nairobi, Mombasa and the Coastal Region, or from single institutions, which constrains its generalisability to the national sub-sector of licensed deposit-taking societies. Second, the evidence is overwhelmingly quantitative, resting on ratios and survey scores, with little integration of the accounts of the senior officers who exercise credit judgement, so that the literature establishes that loan portfolio management matters but says comparatively little about how its effect is produced. Third, although several studies note the importance of credit terms, few examine how managers balance member-sensitive lending against the enforcement of those terms. The present study addresses these gaps by estimating the effect across the national population of 176 licensed deposit-taking SACCOs, by combining a census survey with in-depth interviews, and by using the qualitative evidence to interpret the conditions under which loan portfolio management delivers its effect. In doing so it responds directly to the call in the recent literature for SACCO-specific, practice-focused evidence that goes beyond the ratio-based studies that have dominated the field, and it positions the present analysis as a national complement to the county-level work that precedes it.

IV. CONCEPTUAL FRAMEWORK

The conceptual framework presented in Figure 1 depicts the hypothesised relationship between loan portfolio management, the independent variable, and the financial performance of deposit-taking SACCOs, the dependent variable. Loan portfolio management is conceptualised through four indicators, namely credit appraisal, loan monitoring, loan recovery and loan loss provisioning, while financial performance is conceptualised through four dimensions, namely profitability, liquidity, asset quality, and growth and sustainability. The framework posits that effective loan portfolio management influences financial performance, a relationship represented by the horizontal arrow running from the independent variable to the dependent variable, and it is this relationship that the study tested empirically.

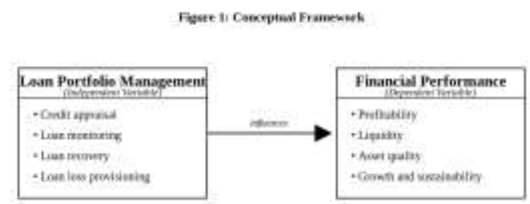

Figure 1: Conceptual Framework (Source: Author, 2026)

V. RESEARCH METHODOLOGY

The study adopted a pragmatism research philosophy and a convergent mixed-methods design, in which quantitative and qualitative data were collected in parallel, analysed separately and then merged at the interpretation stage; this design was selected because the research objective called both for an estimate of the effect of loan portfolio management on financial performance and for an understanding of the credit judgement behind it (Nabiba & Miroga, 2024). The target population comprised the 176 licensed deposit-taking SACCOs in Kenya, and a census was applied to the 352 chief executive officers and chief finance officers of these societies, on the grounds that these officers hold primary responsibility for credit decisions and that a census of a defined and accessible population removes sampling error (Etenyi, Nelima, & Maingi, 2024). Quantitative data were collected through a structured questionnaire measured on a five-point Likert scale, and qualitative data through in-depth interviews with twelve purposively selected senior officers using a semi-structured guide.

The validity of the questionnaire was established through expert review and a pilot study, and its reliability was assessed using the Cronbach alpha coefficient computed from the pilot data against the conventional threshold of 0.70, which the instrument met (Mboe & Kavale, 2023). A total of 259 usable questionnaires were returned, representing a response rate of 73.6 per cent, which exceeds the level

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generally regarded as adequate for analysis and generalisation in survey research. Loan portfolio management was operationalised through indicators capturing credit appraisal, loan monitoring, loan recovery and loan loss provisioning, and financial performance through the dimensions of profitability, liquidity, asset quality and growth, with the effect estimated using the model $FP = \beta_0 + \beta_1 LPM + \varepsilon$. Quantitative data were analysed using descriptive statistics, Pearson product-moment correlation and simple linear regression, with the diagnostic assumptions of regression examined before estimation and the hypothesis tested at the 0.05 level of significance, while qualitative data were analysed thematically and merged with the quantitative results at the interpretation stage. Ethical clearance and the relevant research permits were obtained, informed consent was secured, and participation was voluntary and confidential.

VI. QUANTITATIVE FINDINGS

6.1 Descriptive Findings

The respondents rated a set of statements describing their society's loan portfolio management practices on a five-point Likert scale, where higher mean scores denote stronger agreement. The results are summarised in Table 1.

Table 1 Descriptive Statistics for Loan Portfolio Management

Statement	Mean	Std. dev.
Our credit appraisal process effectively screens loan applicants	4.21	0.72
We monitor outstanding loans to detect early signs of default	4.09	0.78
Our loan recovery efforts keep non-performing loans low	3.95	0.88
We provision adequately for expected loan losses	3.88	0.91
Our non-performing loan ratio is below the industry average	3.78	0.97
Aggregate	3.98	0.85

Note. Source: Field Data (2026). Scale: 1 = strongly disagree to 5 = strongly agree.

As shown in Table 1, the respondents agreed most strongly that their credit appraisal process effectively screens applicants (M = 4.21, SD = 0.72) and that they monitor outstanding loans for early signs of default (M = 4.09, SD = 0.78), followed by loan recovery (M = 3.95, SD = 0.88) and provisioning (M = 3.88, SD = 0.91). The lowest, though still positive, rating concerned the non-performing loan ratio being below the industry average (M = 3.78, SD = 0.97). The aggregate mean of 3.98 (SD = 0.85) indicates broad agreement that the sampled societies manage their loan portfolios actively across the full credit cycle.

This pattern suggests that the societies place the greatest emphasis on the front end of the credit cycle, namely appraisal and monitoring, where information problems are most acute, and somewhat less on the downstream outcomes of recovery and asset quality. The ordering is consistent with the Information Asymmetry Theory, which locates the decisive contest at the point of selection and supervision, and it foreshadows the strong inferential relationship reported below. That recovery and the non-performing loan ratio attracted the lowest, though still positive, ratings is itself informative, since it suggests that even societies with strong appraisal and monitoring continue to carry a residual burden of distressed loans, which is consistent with the regulator's report of rising non-performing loans across the sub-sector and underlines that prevention at the front of the cycle does not wholly eliminate the need for effective recovery and provisioning at the back.

The descriptive emphasis on appraisal and monitoring aligns with Nabiba and Miroga (2024), who identified appraisal and collection effort as the strongest drivers of loan portfolio performance, and with Etenyi, Nelima and Maingi (2024), who placed credit risk identification and monitoring at the centre of SACCO performance, confirming that the sampled societies prioritise the practices the literature associates with stronger outcomes.

6.2 Correlation Analysis

The Pearson product-moment correlation was computed to establish the strength and direction of the association between loan portfolio management and financial performance. The results are presented in Table 2.

Table 2 Correlation between Loan Portfolio Management and Financial Performance

	Loan Portfolio Management	Financial Performance
Loan portfolio management (r)	1	0.671
Sig. (2-tailed)		<.001
N	259	259

As presented in Table 2, the analysis returned a correlation coefficient of 0.671 between loan portfolio management and financial performance, significant at the one per cent level ($r = 0.671$, $p < .001$), based on 259 observations. The coefficient is positive and strong.

This indicates that societies which manage their loan portfolios more effectively tend to record markedly stronger financial performance, and the strength of the association, higher than that typically reported for other single financial management practices, signals that loan portfolio management is the most influential of the internal practices. Because a correlation establishes association rather than causation, the relationship was examined further through regression.

The strength of this association accords with the findings of Nabiba and Miroga (2024) and Etenyi, Nelima and Maingi (2024), both of whom found credit and loan portfolio management to be leading determinants of SACCO performance, and it reflects the centrality of the loan portfolio as the principal earning asset of a deposit-taking society.

6.3 Regression Analysis

A simple linear regression was conducted to determine the effect of loan portfolio management on financial performance, and the output is reported in three parts: the model summary, the analysis of variance and the regression coefficients. The model summary, which indicates how much of the variation in financial performance is explained by loan portfolio management, is presented in Table 3.

Table 3 Model Summary

R	R^2	Adjusted R^2	Std. error of estimate
0.671	0.450	0.448	0.653

Note. Source: Field Data (2026). Predictor: (Constant), Loan Portfolio Management.

Table 3 shows a coefficient of determination of 0.450, with an adjusted R^2 of 0.448 and a standard error of the estimate of 0.653. Loan portfolio management therefore explained 45.0 per cent of the variation in financial performance. A single internal practice thus accounts for close to half of the differences in performance across societies, which marks loan portfolio management as the dominant internal driver of performance among the practices examined. This substantial explanatory share is consistent with the prominence the Kenyan literature accords to credit management, and it confirms that the loan portfolio, as the principal earning asset, is where performance is largely won or lost.

The analysis of variance, which tests whether the model as a whole is statistically significant, is presented in Table 4.

Table 4 Analysis of Variance (ANOVA)

Model	Sum of squares	df	Mean square	F	Sig.
Regression	89.66	1	89.66	210.31	<.001
Residual	109.55	257	0.426		
Total	199.21	258			

Table 4 shows that the regression sum of squares was 89.66 against a residual of 109.55, yielding an F-statistic of 210.31 on 1 and 257 degrees of freedom, significant at $p < .001$. The model is therefore a valid predictor of financial performance rather than a chance result, so the observed relationship can be relied upon for inference about the wider population of deposit-taking SACCOs. The magnitude of the F-statistic, considerably larger than that for other single-practice models in the wider study, again underlines the dominance of loan portfolio management as a determinant of performance.

The regression coefficients, which quantify the direction and size of the effect and provide the basis for the hypothesis test, are presented in Table 5.

Table 5 Regression Coefficients

Predictor	B	Std. error	Beta	t	Sig.
(Constant)	1.498	0.187	—	8.011	<.001
Loan portfolio management	0.642	0.044	0.671	14.503	<.001

Note. Source: Field Data (2026). Dependent variable: Financial Performance.

Table 5 shows that loan portfolio management had an unstandardised coefficient of 0.642 (SE = 0.044), a standardised coefficient of 0.671 and a t-value of 14.503, significant at $p < .001$, with a constant of 1.498, giving the equation $FP = 1.498 + 0.642 \times LPM$. A one-unit improvement in loan portfolio management is therefore associated with a 0.642-unit increase in financial performance, and since the p-value is below 0.05 the null hypothesis that loan portfolio management has no significant effect was rejected. In practical terms, investment in appraisal, monitoring, recovery and provisioning yields a large and measurable performance return, the largest among the practices examined, which gives management a strong basis for prioritising loan portfolio management. This positive and significant effect corroborates Nabiba and Miroga (2024), Etenyi, Nelima and Maingi (2024) and the Rwandan evidence of Komezusenge (2024), while the conditional reading developed in the discussion that follows reconciles it with the evidence on the design of credit terms.

VII. QUALITATIVE FINDINGS

The thematic analysis of the twelve in-depth interviews produced three themes, each with sub-themes, which together explain how loan portfolio management is exercised in practice and why it bears so heavily on financial performance.

7.1 Theme One: The Centrality of Credit Risk

The first theme concerned the recognition of credit risk as the decisive determinant of performance, with two sub-themes, namely rigorous appraisal and active monitoring. Officers described appraisal as the first and most important line of defence. One chief executive officer explained:

"Everything begins at appraisal. If we lend to the wrong member, no amount of follow-up will fully repair it, so we spend our energy at the gate."

Under the sub-theme of active monitoring, officers reported tracking loans continuously for early signs of distress. As one chief finance officer put it:

"We do not wait for a loan to go bad. The moment a repayment slips, the system flags it and an officer follows up that week."

7.2 Theme Two: Member-Sensitive Lending against the Enforcement of Credit Terms

The second theme concerned the tension between the society's duty to its members and the need to enforce credit terms, with two sub-themes, namely structured escalation and the design of credit terms. Officers described a graduated process that balances dialogue with firmness. One officer observed:

"These are our members, not strangers. We talk first, we restructure where it is genuine, but the terms must hold or the whole society suffers."

Under the sub-theme of credit-term design, officers stressed that terms which are too rigid damage both recovery and member loyalty, a concern that gives qualitative substance to the conditional character of the quantitative relationship and echoes the regional evidence on the appropriateness of credit terms.

7.3 Theme Three: The Governance of Provisioning

The third theme concerned the protection of prudent provisioning against short-term pressure, with two sub-themes, namely the discipline of provisioning and board-level defence. Officers framed provisioning as an institutional safeguard that must sometimes be defended against the desire for higher dividends. One chief finance officer noted:

"Provisioning is the society's insurance against its own optimism. Some board members see it as lost profit, so every year we must explain why it protects them."

Under the sub-theme of board-level defence, officers described using board education and the audit committee to sustain provisioning policy across financial years, adding a governance dimension to loan portfolio management that the financial-ratio literature largely leaves implicit.

7.4 Discussion
Read together with the quantitative findings, these themes explain the mechanisms behind the strong statistical effect of loan portfolio management. The centrality of credit risk and the emphasis on appraisal and monitoring correspond to the screening-and-supervision response that the Information Asymmetry Theory identifies as the means of containing adverse selection and moral hazard, while the structured escalation procedures reflect the cost-containment logic of the Transaction Cost Theory and the appraisal routines mirror the 5 C's Model the study adopted.

The finding that loan portfolio management is the strongest single determinant of financial performance, explaining 45.0 per cent of the variation, echoes the prominence the Kenyan literature accords to credit management (Nabiba & Miroga, 2024; Etenyi, Nelima, & Maingi, 2024) and aligns with the asset-side evidence of Mboe and Kavale (2023). The result is qualified, however, by the theme of member-sensitive lending and by the Rwandan evidence of Komezusenge (2024), which together indicate that the positive effect depends on credit terms being well designed; rigid terms damage recovery and loyalty, so that the effect of loan portfolio management is conditional on the quality of the underlying credit policy rather than guaranteed by its mere existence.

The qualitative evidence also surfaces a governance dimension that the quantitative literature has largely left implicit. The defence of provisioning against short-term board incentives shows that loan portfolio management is not only a technical credit function but a matter of institutional governance, in which senior officers protect the long-run quality of the portfolio against pressure for immediate returns. The convergence of the statistical result, the theoretical framework and the officers' accounts indicates that loan portfolio management delivers its effect on financial performance through three institutional conditions, namely sound information management, well-designed credit terms and the protection of provisioning.

These findings carry considerable practical weight. The magnitude of the effect, with loan portfolio management explaining close to half of the variation in performance, indicates that credit discipline is the most powerful lever available to society management, and one that is largely within their control. The result directs management attention to the front of the credit cycle, since the officers' emphasis on appraisal and monitoring, together with the screening logic of the Information Asymmetry Theory, implies that the highest returns to effort lie in preventing bad loans rather than pursuing them after the fact. At the same time, the conditional character of the effect cautions that strictness alone is not sufficient; credit terms must be calibrated so that they protect the portfolio without suppressing the lending on which the society's income depends.

For policy, the dominance of loan portfolio management strengthens the case for the regulator's emphasis on asset quality, while the capacity constraints of smaller societies suggest a role for supervisory support. Smaller societies often lack the credit-scoring tools, management information systems and specialist staff that rigorous appraisal and monitoring require, so that the practices most strongly associated with performance are precisely those that the weaker societies find hardest to implement. A supervisory approach that combines the enforcement of asset-quality standards with support for credit-management capacity, including access to credit-information sharing, would help the societies most exposed to default risk to build the practices that drive performance. This connects the management-level finding of the study to a concrete question of regulatory design.

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Finally, the convergence of the quantitative and qualitative strands has a methodological implication for the study of SACCO performance. The fact that the strong regression result was independently corroborated by the accounts of senior officers, who described in their own words the centrality of appraisal, the tension in enforcing credit terms and the governance of provisioning, strengthens confidence in the finding and reduces the risk that it is an artefact of common-method bias in the survey. It also demonstrates the value of mixed-methods designs in a field that has been dominated by ratio-based quantitative studies, since the qualitative evidence supplied the mechanisms and the conditions that the quantitative evidence alone could only imply.

VIII. CONCLUSIONS AND RECOMMENDATIONS

8.1 Conclusions

The study concludes that loan portfolio management is the dominant internal driver of the financial performance of deposit-taking SACCOs in Kenya. The practice explained close to half of the variation in performance and recorded the strongest effect of the internal financial management practices examined, which confirms that the loan portfolio, as the principal earning asset of a deposit-taking society, is where financial performance is largely determined. The convergence of the survey and interview evidence shows that the statistical relationship is matched by the credit judgement of senior officers, who concentrate their effort on appraisal and monitoring, where information problems are most acute.

The study further concludes that the effect of loan portfolio management is conditional rather than automatic. The qualitative accounts of member-sensitive lending and the regional evidence on credit terms indicate that the positive effect depends on credit terms being well designed, while the governance theme shows that the protection of provisioning against short-term incentives is a further condition of sustained portfolio quality. Loan portfolio management in a DT-SACCO is therefore best understood as the joint exercise of sound information management, well-designed credit terms and disciplined provisioning, each of which the recommendations below address.

These conclusions carry both a theoretical contribution and a set of limitations that frame their scope. The theoretical contribution is the demonstration that the Information Asymmetry Theory, the Transaction Cost Theory and the 5 C's Model are complementary rather than competing in this setting, each illuminating a different facet of the relationship: the first explains the problem that loan portfolio management solves, the second the mechanism through which it lowers costs and raises performance, and the third the practical routine through which societies act. The limitations are that the cross-sectional design captured the relationship at a single point in time and could not establish causation over time; that the evidence reflects the perceptions of chief executive and chief finance officers rather than the full range of stakeholders, including borrowers themselves; and that the study was confined to licensed DT-SACCOs in Kenya, so its conclusions apply most directly to that regulated sub-sector. Subject to these qualifications, the study provides national, mixed-methods evidence that loan portfolio management is the dominant and conditional driver of the financial performance of deposit-taking SACCOs in Kenya.

8.2 Recommendations

1. The management of DT-SACCOs should strengthen the credit appraisal process at the front of the credit cycle, where information problems are most acute, by formalising borrower-assessment criteria along the lines of the 5 C's model and by ensuring that appraisal decisions are taken by a credit committee rather than by individual officers.
2. The management of DT-SACCOs should institutionalise continuous loan monitoring, including automated flagging of missed repayments and prompt follow-up, so that emerging distress is detected and addressed early rather than after a loan has become non-performing.
3. The boards of DT-SACCOs should adopt structured escalation procedures that combine member dialogue and genuine restructuring with

the firm enforcement of credit terms, linking specific arrears thresholds to defined recovery actions through a documented escalation matrix.

4. The management of DT-SACCOs should review the design of credit terms to ensure that they are firm but not so rigid as to suppress recovery and member loyalty, involving credit officers and members in the formulation of viable and customised credit terms.
5. The boards of DT-SACCOs should protect prudent loan loss provisioning against short-term pressure for higher dividends, documenting provisioning policy in board-approved form and reporting provisioning levels and recovery outcomes to the board through the audit committee.
6. SASRA and policy makers should continue to emphasise asset quality within the prudential framework and support DT-SACCOs in building credit-management capacity, including credit-scoring tools and credit-information sharing, so that smaller societies can strengthen the appraisal and monitoring practices that drive performance.
7. Future research should adopt a longitudinal design to test whether the strong effect of loan portfolio management observed here persists across credit cycles, and should model the interaction between credit-term design and recovery directly in order to estimate the conditions under which the effect is strongest.

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