



Effect of Risk Identification on the Financial Performance of Deposit-Taking Saccos in Kenya

***Adelaides Simiyu**, Masinde Muliro University of Science and Technology, Kenya

Mary Nelima, Masinde Muliro University of Science and Technology, Kenya

Umulkher Ali, Masinde Muliro University of Science and Technology, Kenya

*Corresponding author's email musabradely@gmail.com

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ABSTRACT

Purpose: To establish the effect of risk identification upon the financial performance of deposit-taking SACCOs in Kenya

Design/Methodology/Approach: The study employed the positivist research philosophy but opted for descriptive survey and causal research designs. Data was gathered from a stratified random sample of 122 DTSACCOs drawn from a population of 176 SACCOs classified on the tier of regulation. Primary data came via questionnaires, while secondary data was taken from audited financial statements. The quantitative data were analysed using SPSS - both descriptive and inferential techniques.

Findings: A strong positive relationship exists between financial risk identification and financial performance as a result of reduced operational costs ($R = 0.771$). The coefficient of determination ($R^2 = 0.595$) indicates that around 59.5% of the variation in operational costs is explained by risk identification. The adjusted R^2 value of 0.591 shows that this is still highly significant even after allowing for the number of predictors.

Implications/Originality/Value: The study establishes once again that risk identification has a positive impact upon the financial performance of Deposit-Taking Sacco Societies. Such performance is enhanced via cost efficiency, reduced credit losses, and early detection of risks that threaten operational sustainability.



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Introduction

Risk identification is the process of recognizing potential financial threats to the SACCO. Such an effort uses tools and methodologies such as Risk Registers, Root Cause Analysis, Scenario Planning, and Document Review. In today's rapidly evolving financial landscape, effective financial risk management has become a strategic necessity for any institution. The past two

decades have demonstrated an ever-increasing frequency of financial disruptions - from global recessions and economic crises to cyber threats, institutional failures, and fraud - all reinforcing the need for truly robust and fully-integrated financial risk management (FRM) practices (Basel Committee on Banking Supervision [BCBS], 2021; Hopkin, 2018). Such practices are critical for financial institutions, as they aim to spot, assess, and mitigate potential risks to stability and profitability. Within such an increasingly complex and interconnected global system, institutions face many types of risk, and the 2008 global financial crisis revealed significant deficiencies in credit risk, liquidity, and control systems throughout both developed and developing economies (IMF, 2024; FSB, 2023).

Asian institutions have recorded comparable gains. Indian banks with robust credit risk processes exhibit lower non-performing asset ratios and better returns on those assets, as indicated by Kaur and Kapoor (2020). The same is true of Indian cooperative banks, which employ an integrated MIS system to weather downturns, though even here the challenges persist elsewhere in the region, such as in the Philippines, where credit unions lack such real-time risk systems (Aguilar, 2021; Reserve Bank of India, 2022). The same could not be said for Africa: Akinyemi and Odusola (2022) noted high levels of non-performing loans within Nigerian banks - again due to inadequate FRM systems. Both South African and Ghanaian SACCO organizations face issues relating to liquidity and operations, again resulting from weak compliance and governance structures (Moyo & Kganyago, 2023; Opoku & Baffoe, 2022). The absence of an effective MIS and auditing procedures has led to both poor credit assessment abilities and financial instability within countries like Uganda and Ghana (Mutebi & Namukasa, 2020; Bank of Ghana, 2021). The same challenges are also faced by rural SACCOs throughout Tanzania (TCDC, 2022).

Within Kenya, DTSACCOs are under the purview of the SACCO Societies Regulatory Authority (SASRA), which mandates such financial risk management practices (SASRA, 2023). The DTSACCOs of Obara and Katuse (2019) that employed MIS systems to monitor loans showed both lower levels of non-performing loans and higher returns on their assets. Similarly, Al-Rawi, Hassan, and Mahdi (2021) noted that the implementation of an MIS system helped to both detect fraud better within Iraqi microfinance institutions as well as improve operational efficiency. Despite such positive outcomes, however, the average non-performing loan ratio among DTSACCOs in Kenya actually reached a figure of 8.86% in 2023 - a figure which not just exceeds the 5% threshold by which they are required to remain, but also indicates unresolved performance challenges.

Based on the groupings within the SACCOs by total assets, these DTSACCOs can be categorized into three different tiers. The largest tier of SACCOs features assets valued at 5 billion Kenyan shillings (KSh) and above - a grouping that features 42 institutions and a share of the total assets of 59.84%. The medium tier features those institutions whose assets lie between 1 billion and 5 billion Kenyan shillings, with 56 such institutions controlling 32.38% of total assets. The smallest tier features SACCOs whose assets are valued below 1 billion KSh, yet represent 54.02% of the total number of registered DTSACCOs - though they control only 7.78% of total assets (SASRA, 2024). Each of these groupings is significant in assessing the risks facing these SACCOs - particularly in regard to their unique challenges, opportunities, and risks associated with asset levels. Thus, the Authority is able to determine individual weaknesses and strengths within the DTSACCO sector.

Despite their significant contributions to the economy of Kenya and beyond, SACCOs do face numerous challenges. The most critical of these is relating to credit risk - the average non-performing loan ratio among DTSACCOs reached 8.86% in 2023, well beyond that 5% threshold (SASRA, 2024). Such NPLs pose a threat to profitability and access to funds for lending to other SACCO members. The major factors contributing to these high levels include inadequate credit

assessment processes, loan monitoring, over-indebtedness of members, and economic shocks (Obara & Katuse, 2019). Related to this is the challenge posed by liquidity risk - many SACCOs have issues with maturity between short-term deposits and long-term loans, with withdrawals during economic downturn periods, and without access to emergency funding facilities. These vulnerabilities were exposed during the COVID-19 pandemic with reduced contributions from members and increased defaults (Fang, Hasan, & Marton, 2022).

Statement of the Problem

Deposit-taking Savings and Credit Cooperative Societies (DT-SACCOs) enjoy a strategic position within the Kenyan financial system and society at large (SASRA, 2023; World Bank, 2024). By 2023, the DT-SACCOs had amassed assets of over KSh 1.08 trillion and had operated as institutions providing services to more than five million members (SASRA, 2024). The performance of this sector is thus directly relevant to returns upon members, access to credit, sustainability of the SACCO types, and confidence in the entire cooperative sector.

Such significance of the sector notwithstanding, the financial performance of DT-SACCOs is demonstrably vulnerable. The ROA has dropped from 2.60% in 2019 to both 1.59% in 2021 and then recovered somewhat to 2.48% in 2023. The cost-to-income ratio remains high at around 60.21%, and the non-performing loan ratio is well above 8% at around 8.66% - all factors that expose the SACCOs to financial burdens and risks (SASRA, 2024). Furthermore, while such high non-performing loans are an unresolved problem, the role of MIS systems within risk management also warrants investigation - such systems are increasingly essential for risk management. While previous studies show that integrating MIS enhances risk detection and information accuracy (Ghasemi et al., 2022; Deloitte, 2023), research by Obara and Katuse (2019) shows that Kenyan DT-SACCOs that employed an MIS system in a strategic manner fared better than those that used such systems in a more administrative way. Each of these studies, however, treated the MIS as an independent factor in performance. The problem that this study intends to address is thus that despite the strategic importance of these institutions and their continued growth, DT-SACCOs in Kenya continue to exhibit unstable performance, high costs, deterioration of assets, inconsistent member returns, and exposures to both traditional and emerging risks. Existing studies have failed to adequately investigate the effects that financial risk management can have upon sectoral performance, or whether MIS use moderates that relationship. This study, therefore, aims to address these contextual, conceptual, and methodological gaps by examining the effect of risk identification on the financial performance of these deposit-taking SACCOs.

Objectives of the Study

To establish the effect of risk identification on the financial performance of deposit-taking SACCOs in Kenya

Research Hypothesis

H₀₁: Risk identification has no significant effect on the financial performance of deposit-taking SACCOs in Kenya.

Theoretical Framework

Risk Management Theory: The theory of risk management provides the framework for recognizing, assessing, mitigating, and monitoring those risks that affect the performance of an organization. This theory is founded upon decision theory and financial economics - theories pioneered by Markowitz (1952) and Modigliani and Miller (1958) - and emphasizes the management of risk proactively to avoid adverse outcomes (Hopkin, 2018). Such theory underpins many elements of activity in DTSACCOs - from credit appraisal and loan recovery to liquidity management, audits, and fraud detection - all of which contribute to asset quality and

control of non-performing loans. Studies have generally confirmed that DTSACCOs that employ effective risk management strategies exhibit higher returns on assets and equity (Mwaura, 2020; Ali & Ghani, 2022). Regulatory bodies such as SASRA endorse such risk-based supervision. The critics of this theory, however, argue that it is too prescriptive - and that it largely overlooks limitations related to behaviour and context. Such challenges include weak institutional capacity, poorly-aligned incentives, and reliance upon historical data that does not reflect emerging risks such as cyber threats (Akinyemi & Odusola, 2022; Mekonnen & Hailu, 2021). These types of criticisms help to reveal the need to adapt risk practices to the realities of DTSACCOs - particularly those in developing economies. Thus, risk management theory itself is the foundational element for understanding its influence upon SACCO performance.

Conceptual Review

Risk identification is the process of recognizing potential events that may impact an organization's goals. The internationally recognized standard on risk management (ISO 31000) (2018) conceives of risk identification as the process of finding, recognizing, and describing those potential risks to organizational goals. Within financial institutions, such identification is focused specifically upon detecting potential financial risks prior to actual losses (Catherine, 2019; Njoroge & Ngahu, 2022).

Risk identification is the foundational process for risk management - risks cannot be assessed, mitigated, or monitored unless they are first specifically identified. Effective risk identification processes allow for the early detection of threats to goals, the deployment of appropriate resources, internal controls, and preventive measures. The early identification of risks within financial institutions contributes to improved organizational performance. Empirical studies confirm that effective risk identification processes help to lead to lower non-performing loans, better returns on assets and equity, and enhanced sustainability (Catherine, 2019; Nair, 2019). Similarly, studies among SACCO organizations show that proactive identification of borrower, liquidity, or operational risks leads to improved financial performance (Nkwasiabwe & Katsigaire, 2023; Wairimu & Muriithi, 2021).

Risk identification is a multidimensional element and involves a range of tools and techniques for risk detection and documentation. Such tools and techniques are recognized as the foundation upon which risk management occurs. The risk identification process may utilize risk registers, root-cause analysis, internal risk mapping, and document analysis. Risk registers are tools for documenting the various risks that have been recognized and assessed. The ISO standard on risk management notes that such registers improve documentation and risk prioritization efforts - elements that enhance accountability and decision-making processes. Risk registers are widely used throughout financial institutions.

Root cause analysis is a technique that maps the causes of risk events and failures - rather than merely viewing their symptoms. ISO 31010 (2019) indicates such analysis is an important risk assessment tool - allowing the identification of systemic weaknesses that give rise to fraud, loan default, or operational failures. Identifying such sources of risk enables more effective implementation of both corrective and preventive measures.

Internal risk mapping is the process of visually mapping out risks according to their potential for occurrence and impact. The COSO Framework for risk management recognizes such risk mapping as an important process for establishing risk priorities and resource deployments. Risk maps help managers understand the risks facing an institution, informing strategic decisions on how to treat those risks and deploy resources. Document analysis refers to the systematic review of documents related to an organization. Such documents may include policy manuals, audit reports, compliance reports, risk registers, board reports, or submissions.

Previous studies have used a range of indicators of risk identification within the different contexts of these organizations. In banking, for example, the focus has been upon authors like Catherine who used borrower screening systems, profiling, and credit evaluation as indicators. Ombaka and Jagongo (2019) considered early-warning and risk profiling systems as indicators of risk identification performance. Within SACCOs, risk identification has been assessed by authors like Wairimu and Muriithi, who used risk registers and borrower screening procedures, while Nkwasiabwe and Katsigaire (2023) used client appraisal and loan screening mechanisms. Related studies have used root-cause analysis, scenario analysis, and risk mapping capabilities as indicators (Mutua & Kamau, 2021; Waswa & Muturi, 2023).

Based upon ISO 31000 (2018), COSO (2017), and the related literature on financial risk management, risk identification may best be conceptualized through four Practices: risk registers, root-cause analysis, internal risk mapping, and document analysis. Risk registers can effectively capture the documentation and prioritization of risks. Root-cause analysis techniques reveal the underlying ability of an organization to determine sources of risk events. Internal risk mapping measures the categorization and prioritization of those risks according to severity. Document analysis helps to reveal the degree to which risk management practices are both documented and actually implemented. These four Practices were selected because they provide a complete and effective assessment of risk identification processes within the DTSACCOs under review.

Empirical Review

Risk identification is the methodical process of recognizing potential events, exposures, and vulnerabilities that can prevent a company from achieving its objectives - essentially the initial step of the risk management process. Such an initial step is helpful to institutions seeking to recognize hazards and adopt preventative measures before risks result in financial losses. The identification of risks effectively is especially crucial within financial institutions - to assist with sound lending decisions and portfolio quality while avoiding disruptions and ensuring financial sustainability.

Empirical data generally indicates a positive association with financial performance. Globally, Mamari, Al Ghassani, and Ahmed (2022) found that among banks registered on the Muscat Stock Exchange, risk identification was positively related to return on assets but had a minor impact on return on equity.

Recent studies have placed increasing emphasis on technology-enabled risk identification. Farnè and Vouldis (2019) observed supervisory data of European commercial banks and noted that those with superior portfolio screening processes are less exposed to credit risk and more stable financially. Similarly, Bi and Bao (2024) discovered that AI-based risk identification systems provided improved assessments of borrowers, resulting in both enhanced early-warning systems and improved correctness of loan decisions.

The regional evidence from Africa shows similar findings. Abubakar et al. (2021) studied Nigerian microfinance institutions using structural equation modelling and discovered that risk matrices and root cause analysis helped to cut credit impairment costs. In Uganda, Kule et al. (2020) discovered that effective borrower screening improved SACCO performance. More recently, Nkwasiabwe and Katsigaire (2023), Namuli and Segawa (2023), and Ayongyeirwe (2024) all concluded that proactive assessment of borrowers and risk identification led to enhanced portfolio quality, lower default rates, and improved sustainability.

Similarly, the Kenyan research also indicated a beneficial contribution of risk identification to financial performance. Ombaka and Jagongo (2019) noted that early warning systems and structured customer profiles led to reductions in expenses related to credit impairment within

commercial banks. Makori and Ondieki (2022) showed that standardized risk registers led to lower ratios of non-performing loans within the SACCO sector. Wanjiru and Muturi (2020) also found that scenario analysis and risk registers helped to reduce operational costs.

Kadima, Sindani, and Maingi (2023) carried out a research study on credit risk management and financial performance of selected microfinance institutions within Kenya. The descriptive research approach and regression analysis indicated that cautious and effective credit risk management enhanced net profit margins, return on capital invested, and cash flow, accounting for 49.1% of the variance in financial performance. The report expressly makes recommendations that studies on Savings and Credit Cooperative Societies (DTSACCOs) be done. The current study immediately responds to such a proposal to apply an integrated risk management methodology to deposit-taking SACCOs in Kenya - thereby extending the database beyond microfinance institutions.

Temesis, Musiega, and Sindani (2023) studied the effect of capital risk upon the financial performance of Microfinance organizations in Kenya. The study used a descriptive research design. The study indicated that capital risk contributes to 37.8% of the variation in financial performance, with a substantial positive influence.

However, Kiprop and Tenai (2022) did find no such association between risk identification and performance. This suggests some differences in the effectiveness of risk identification according to the context of the institutions. Several similar themes emerge, however. There is a general consensus that proactive risk detection helps to enhance financial performance through better decision-making, higher quality of portfolios, and fewer financial losses.

But there are significant variances in the literature. Most of the literature indicates a favorable and statistically significant association between risk identification and financial performance, while Kiprop and Tenai (2022) found no meaningful effect. Such discrepancies can be ascribed to the mix of samples within the study populations, institutional factors, and performance indicators. The research studied is often guided by the Risk Management Theory, which states that businesses enhance their performance through effective anticipation and control of risks prior to any losses resulting from them. Such a view is echoed in the findings of research efforts by Mamari et al. (2022), Etenyi et al. (2024), and Njuguna (2024) - each of which indicated that systematic risk identification enhances both portfolio quality and financial results.

The research evaluated does differ in important respects, however. Most of the global research employed techniques such as PLS-SEM (Mamari et al., 2022), panel-data regression models (Ekinci & Poyraz, 2019), supervisory data analyses (Farnè & Vouldis, 2019), or modelling based upon artificial intelligence (Bi & Bao, 2024). In contrast, most of the regional and Kenyan studies used cross-sectional surveys and descriptive methodologies that used self-reported data from managers and credit officers (Kule et al., 2020; Nkwasiwe & Katsigaire, 2023; Nderitu, 2022; Kipchirchir, 2024).

The literature generally indicates that risk identification exerts a favorable influence upon financial performance, in relation to better decision making, better portfolio quality, and fewer financial losses. The literature also indicates, however, significant gaps in research. Most studies focus on credit risk identification, while paying little attention to operational risk or enterprise-wide risk identification. Profitability measures like return on assets and return on equity are common for assessing financial performance, with little consideration of operational costs.

Conceptual Framework

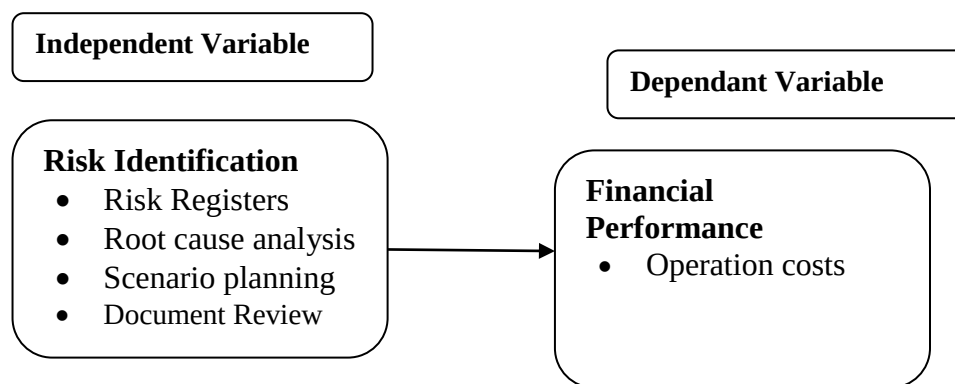


Figure 1.1: Conceptual Framework

Source: Researcher, (2026)

Methodology

Research design: This study employed both descriptive survey and causal research designs.

Philosophy: The research philosophy was rooted in positivism - focusing upon objectivity, observation, and statistical analyses. The use of empirical data ensured that any findings were generalisable (Bryman & Bell, 2021).

Population: The study focussed specifically on the 176 SASRA-licensed DTSACCOs as of December 2024, but which were peer-grouped according to total assets. The large tier included 42 institutions with assets of 5 billion KSh or more - accounting for 59.84% of the total assets base; there were 56 medium-tier institutions with assets lying between 1 billion and 5 billion KSh - accounting for 32.38% of the assets; while the remaining 78 were small-tier institutions (controlling 54.02% of registered SACCOs but only 7.78% of the total assets base) (SASRA, 2024).

Sample: The sample size determination utilized Yamane's (1967) formula: where n is the sample size, N is the population, and e is the margin of error (assumed 0.05): $n = N / [1 + N(e^2)]$

$$n = 176 / [1 + 176(0.05^2)] = 176 / (1 + 0.4375) = 176 / 1.4375 \approx 122$$

Thus, the sample of DTSACCOs was 122, distributed according to size, and one senior accountant was targeted within each sampled SACCO.

A stratified random sampling procedure was adopted to ensure representation across subgroups (Hossan, Dato' Mansor & Jaharuddin, 2023).

A purposive sampling technique was additionally employed to target departments such as internal audit, credit, finance, and ICT departments - selecting only individuals with relevant expertise for valuable research insights (Campbell, Greenwood & Walker, 2020).

Data Collection Instruments: Both primary and secondary data were used - a process combined through triangulation. The two datasets converged within the study's analysis component, with financial performance drawn from both sets of sources represented on a five-point Likert scale to match primary data.

Data Analysis: The collected data was analysed both descriptively and via inferential statistics - including tests for correlation and regression analysis.

Results and Discussion

Response Rate

The study targeted 488 respondents drawn from 122 DTSACCOs in Kenya, involving staff from internal audit, credit, finance, and ICT departments. Out of the 488 questionnaires administered, 366 were successfully completed and returned.

Table 4. 1: Response Rate

Questionnaire	Count	Percentage
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Administered	488	100.0
Returned	366	75.0
Not Returned	122	25.0

Source: Research Data (2025)

The rate is thus 75% - a very good measure in survey research. Methodologically, any rate above 70% is considered adequate and reliable (statistically valid). This response rate is therefore adequate for statistical analysis of findings and generalizations. The relatively high response rate likely resulted from both the use of structured questionnaires applied to key SACCO personnel and also the result of follow-ups and institutional cooperation.

Risk Identification

This section presents the relevant statistics concerning risk identification practices within the Deposit-Taking SACCOs, as assessed through four key indicators. Table 4.6 summarizes the findings of the research.

Table 4. 2: Risk Identification Practices

Indicator	Response Category	Frequency (n=366)	Percentage (%)
Risk Register: Maintains formal risk register)	Yes	342	93.4
	No	24	6.6
Root Cause Analysis (Conducted after risk events)	Always	132	36.1
	Often	150	41.0
	Sometimes	51	13.9
	Rarely	9	2.5
	Never	24	6.6
Scenario Planning (Engages regularly)	Yes, regularly	330	90.2
	Yes, occasionally	30	8.2
	No/Plan to	6	1.6
Document Review (Formal process)	Yes	366	100.0
	No	0	0.0

Source: Research Data (2025)

The findings indicate that risk identification practices are well-established within DTSACCOs. The majority maintain formal risk registers - a finding consistent with Wanjiru and Muturi (2020). Root cause analyses are conducted in always-or-often patterns within 77.1% of SACCOs - supporting the findings of Mutua and Mwangi (2020). Scenario planning is regularly enacted by 90.2% of institutions - consistent with Zhongming et al. (2023). These findings all support the Risk Management Theory (Hopkin, 2018) - the role of risk identification as a foundational element for effective financial risk management.

The study subsequently posed the question: "How would you describe the contribution of robust risk identification to reducing unexpected financial losses within the SACCO?" The responses were grouped into four major themes: Theme 1: Early Detection and Prevention (45% of respondents) - most noted that risk identification does provide early warnings of potential defaults or other issues. One respondent said: "Risk registers allow us to spot members experiencing repayment challenges - before they default - permitting loan restructuring well in advance." This supports the findings of Abubakar et al. (2021) regarding early detection and reduced credit impairment costs.

Theme 2: Improved Decision-Making (28%). Many respondents indicated risk identification contributes to sound decision-making, as noted by typical comments such as "scenario planning

gives us confidence when approving large loans." This supports the findings of Nair et al. (2019).

Theme 3: Regulatory Compliance and Audit Readiness (18%). Many noted that the risk processes satisfy SASRA requirements and simplify external audits.

Theme 4: Enhanced Member Confidence (9%). A smaller proportion saw benefits in the enhancement of member trust, leading to increased savings.

Table 4.3: Correlation Analysis Between Risk identification and Financial Performance

		X1
Risk Identificationx1	Pearson Correlation	1
	Sig. (2-tailed)	
	N	366
Operational Costs_	Pearson Correlation	.581**
	Sig. (2-tailed)	.000
	N	366

Source: Research Data 2025

Table 4.14 presents the Pearson correlations that relate risk identification to various aspects of financial performance among these SACCOs. The table indicates a statistically significant positive relationship ($p < 0.05$). Risk identification was positively correlated with operational cost performance ($r = 0.581$, $p < 0.01$)

The findings thus indicate a significant positive relationship between risk identification and operational cost performance, which measures financial performance. The findings are consistent with those of Catherine (2019), who indicated that early risk identification within organizations leads to reduced losses and enhanced performance. Nkwasiwe and Katsigaire (2023) reached similar findings regarding SACCO performance in Uganda. However, the findings of Ouma, Sang, and Kinoti (2020) indicate that risk identification activities by themselves do not necessarily confer performance enhancements upon organizations. In contrast, Otieno and Mutua (2021) indicate that compliance-monitoring systems have a greater influence on performance than risk identification processes.

Regression Analysis

Table 4. 4: Risk identification and Financial Performance

Model Summary ^b						
Model	R	R Square	Adjusted R Square		Std. Error of the Estimate	
1	.771 ^a	.595	.591		.52148	
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	144.239	4	36.060	132.599	.000 ^b
	Residual	98.173	361	.272		
	Total	242.412	365			
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.463	0.173		2.681	0.008
	Risk_Identificationx1	0.117	0.052	0.107	2.261	0.024

a. Dependent Variable: Operational Costs_

Source: Research Data 2025

The model summary indicates a very strong positive relationship between financial risk identification and financial performance as a result of reduced operational costs ($R = 0.771$). The coefficient of determination ($R^2 = 0.595$) indicates that around 59.5% of the variation of operational costs is explained by risk identification. The value of adjusted R^2 of 0.591 indicates that the model retains such explanatory power even with the number of different predictors.

The R^2 value within this research study lies above both the 49.1% revealed by Kadima, Sindani, and Maingi (2023) regarding credit risk within microfinance institutions, as well as above the

37.8% shown by Temesi, Musiega, and Sindani (2023) with regard to capital risk. This helps to make a direct response to the recommendation of those authors to perform similar studies upon DTSACCOs - extending the area of evidence beyond microfinance institutions.

The ANOVA results confirm the statistical significance of the model ($F = 132.599$, $p = 0.000$). Such a value is below the conventional 0.05 level of significance, so the null hypothesis that financial risk management practices have no joint effect upon operational costs can be rejected.

The coefficients do reveal that the impact of risk identification has both a positive and statistically significant effect upon financial performance. Risk identification has had a positive and statistically significant effect ($\beta = 0.107$, $t = 2.261$, $p = 0.024$).

The regression results demonstrated that risk identification significantly and positively affects operational costs ($B = 0.117$, $\beta = 0.107$, $t = 2.261$, $p = 0.024$). The unstandardized coefficient ($B = 0.117$) indicates such an effect upon costs with a one unit increase in risk identification; the standardized beta coefficient ($\beta = 0.107$) indicates the positive impact upon financial performance relative to other model predictors. The t-value of 2.261 with such a p-value of 0.024 confirms this effect is statistically significant.

The study confirms a positive effect of risk identification upon operational costs within Kenyan Deposit-Taking SACCOs ($\beta = 0.107$, $t = 2.261$, $p = 0.024$). Given that the operational cost element was reverse-coded, this actually points to better risk identification leading to lower costs and better financial performance. The null hypothesis was rejected. Within Africa, Abubakar et al. (2021) have shown how structured risk techniques can reduce credit impairment costs, while Kule, Kamukama, and Kijjambu (2020) and Nkwasiwe and Katsigaire (2023) report similar findings regarding improved SACCO performance through such screening and risk detection methods.

These findings again resonate with studies conducted within Kenya and relating to financial performance enhancement. Ombaka and Jagongo (2019) showed the benefits of early-warning and customer profiling techniques to reduce credit losses, while Wanjiru and Muturi (2020) note the benefits of scenario analysis and risk registers in reducing costs. Similarly, Mutua and Mwangi (2020) note that root-cause analysis can reveal avenues for lowering costs. Furthermore, Etenyi, Nelima, and Maingi (2024), Nderitu (2022), and Kipchirchir (2024) report benefits from borrower profiling, credit scoring, and proactive risk methods amongst DTSACCOs.

These findings clearly support Risk Management Theory, which states organizational performance improves with risk identification and early management (Markowitz, 1952; Hopkin, 2018; COSO, 2017). The theory assumes risk is measurable, so early detection allows for effective risk controls and performance improvement. Each of these findings also resonates with both the Basel Committee framework for operational risk management - whose principles state early identification of risk events forms the soundest internal controls - as well as with the Technology Acceptance Model (Davis, 1989): that perceived usefulness and ease-of-use of risk-identification tools like registers and early-warning systems impact their effectiveness in reducing costs.

The management of DTSACCOs can therefore improve risk frameworks - using tools as comprehensive as risk registers, root-cause analyses, document reviews, and enterprise risk mapping. Such approaches enhance visibility of risk, reduce losses, and improve performance (Wairimu & Muriithi, 2021; Mutua & Kamau, 2021; Etenyi et al., 2024). This research study thus expands risk identification practices beyond profitability measures into considerations of operational costs - findings which differ from earlier research related to commercial banks but which employ data from DTSACCOs and a cost-based financial performance measure. The findings thus provide a broader understanding of risk and its organizational effect.

Conclusion

The study finds that risk identification leads to a positive impact on the financial performance of Deposit-Taking Saccos - enhancing cost efficiency and reducing credit losses, among other benefits.

Recommendations

The study has confirmed the significant positive effect of risk identification upon financial performance - specifically, in reducing credit impairment costs. Institutions should aim, therefore, to document a higher proportion of risks within their operations - and to increase the frequency with which such reviews occur.

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