

# Portfolio Selection, Funds Allocation Strategy and Financial Performance of Deposit Taking Saccos in South Rift Region (Kenya)

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**Abstract:** *The purpose of this paper was to establish the effect of portfolio selection, funds allocation strategy and financial performance of Deposit taking saccos in South Rift Region in Kenya. The research was based on a descriptive survey of CEO, Sectional heads and Board of Directors of DTS. Respondents were ninety-one in number. Portfolio selection is a crucial activity in any firm. If it is chosen haphazardly, it will result in financial loss. Once funds are invested in a given entity, it is irreversible. Any investment decisions need proper evaluation of investment before committing funds to any business enterprise. Funds allocation strategy relates to the duration of investment. It may be tactical or strategic investment depending on the firm preference. It was recommended that DTS should invest in tactical assets. This is a short-term investment. Strategic investment should be a special case. It is a long-term commitment of funds. Return is not realizable in a short period. The two variables influenced financial performance significantly. Data from questionnaires were analyzed using SPSS version 20. The technique used in the study was Multiple regression analysis. Two analyses were carried out. The first one was to done to establish the effect of portfolio selection and financial performance. The study found out that there was a negative relationship in case of loan advanced, liquid investment and non-earning fixed assets and financial performance. However, the relationship between illiquid investment and financial performance had a positive coefficient. The second analysis related to independent, moderating and dependent variables. The coefficients of the regression showed that loan advanced and non-earning fixed assets had negative relationship with financial performance. However, the other three variables had positive relationship with financial performance. The findings indicated that introduction of moderating variable enhanced financial performance significantly. Since, the commencement of deposit taking business, SARSA had delicensed three DTSs in South Rift Region in Kenya. From the study, liquid investment had the highest coefficient. It means that it will enhance financial performance of DTS. Hence, it was recommended that the entity should invest in liquid investments. The investments comprise treasury bills, commercial papers and other marketable securities.*

**Keywords:** Portfolio selection, Funds allocation, Financial performance, Deposit-Taking SACCOs (DTSs)

## 1. Introduction

### Background information

#### Why co-operatives are different?

The introduction of Co-operative society began in England in 1844. Its main objective was to provide its members with benefits that they could not obtain outside the cooperative. According to Mooney et. al. (1996), a cooperative should operate as an efficient and sustainable business. Cooperative must focus on recurring maximum benefits to both members and itself. Cooperatives must have a strong social purpose. It is so because they can provide benefits that are measured not only in financial returns but also in investment (Mancino and Thomas, 2005)

In Kenya, the first cooperative society commenced in 1908. White settlers introduced it in Kericho County. In a place known as Lumbwa. Its introduction provides economies of scale. It assisted white settlers in importing farm inputs at lower costs and benefited from selling their produce at higher price. Since, then the cooperative society has strengthened its overall business. The government of Kenya has been playing significant role in developing the cooperative business model. The authority amended Cooperative Act CAP 490 many a time to improve the running of the cooperative societies.

In mid 1960s, savings and credit cooperative societies began in Kenya. These societies are in the rural and urban areas. They have facilitated easy accessibility of financial services in these areas. The low-income earners enjoy the financial services of these societies. They borrow loans from the societies with minimum formalities. They advanced loans for school fees, emergency, and developments. The duration of all advanced loans is not more than 48 months.

Sacco societies have been registered and supervised under cooperative societies Act CAP 490 of the laws of Kenya for quite some time. The government of Kenya enacted Sacco societies Act (2008) to specifically regulate and supervise the operations of Sacco societies. The Act made provisions for licensing, regulation, supervision, promotion of Sacco societies, and the establishment of the Sacco society's regulatory authority (SASRA).

Under this Act, SACCOs are required to comply with the laid down procedures. They must maintain a minimum capital adequacy requirements and minimum requirement of liquid assets of its member borrowings. They should engage in business as prescribed by the authority and to conform to financial reporting as prescribed by individual societies. The Act and Regulations include clear standards regarding, among others, capital, liquidity, the extent of external borrowing, assets categorization and provisioning, maximum loan size and insider lending. The Societies are

required to report on capital adequacy, liquidity and deposits on a monthly basis. Quarterly, they are supposed to report on risk classification of assets and loan loss provisioning, investment returns and financial performance. Annually, they have to report on the audited financial statements. These are requirements of SASRA, which enable it to monitor and supervise deposit-taking SACCOs. In 2013, there were 215 deposit-taking SACCOs, which were operating front office service activity. Subsequently the trend of licensed deposit-taking societies has seen a declining trend. In 2014, 2015 and 2016, the licensed SACCOs were 188, 176 and 164 respectively. The compliance with the laid down regulations is the cause of decline. It is due to an inadequate capital framework. Commercial banks perform a variety of functions. They include the following activities: accepting deposits, advancing loans, credit creation, foreign financing trade, agency services and miscellaneous services to customers. *Banking Act* regulates and supervises all banks. Central bank of Kenya has the mandate to see to it that DTS follow *SACCO Societies Act*. It controls DTSs. SASRA oversees them.

However, due to increase in deposits and institutional capital, most of the deposit-taking Saccos are not making proper portfolio selection. They invest in shoddy projects that have resulted in financial loss. One of the deposit taking Saccos invested in constructing tea factory. The construction was financed by members deposits and loan advanced by a commercial bank. The project did not take off. In Bomet county, there are a quite number of tea factories. The project was not viable because there is a tight competition among tea factories.

### **1.1 Statement of the problem**

Sacco invests in various assets. It invests its funds in financial and economic assets. The essential attribute of investment is the expectation of return on the funds invested. Most Saccos invest in economic assets such as real estate and equipment. These assets contributed to the net addition of the capital stock of society (Nagarajan and Janabal, 2012). However, it is not guarantee that money invested in some asset will always give some return. A deposit taking society in Kericho County invested in health facility. The construction of the facility was completed but it did not take off because it was not viable. There was another health facility nearby. The society health facility could not cope with competition. It disposed it to a university. It used it as a training facility. In Bomet County a deposit, taking society invested in tea factory. Members' deposits financed the facility. Today the factory has not started operating it was a shoddy investment. As a result, the Sacco was delicensed by SASRA. Before investing any funds, the investor should embrace the following features of investment: risk, return, safety, liquidity, marketability, concealability, capital growth, purchasing power, stability, and the benefits (Hiri Yappa, 2009).

Risk means not recovering the invested fund. This may happen when the investments maturity period is longer or the investment is not viable. Return is the rate of return expectation from an investment. Return is the major factor

that motivates the pattern of investment that is made by the investor. Investors prefer high rate of return. The investment should be safe. That is the protection of investor principal amount and expected rate of return. The investment should be easily realizable, saleable, or marketable. That is it should be liquid. It should be marketable meaning that the investment should be transferrable. The investment should be safe from social orders, government confiscation, or unacceptable levels of taxation. Capital growth is one of the main features of investment. The investment should appreciate in the end. Investment involves the commitment of current funds with the objective of receiving greater amounts of future funds. Every investor always considers stability of monetary income and stability of purchasing power of income. Every investor always considers stability of monetary income and stability of purchasing power of income. Tax benefits are crucial factor when selecting an investment. The burden of income tax levies upon the income from the investment.

Investment policy is a critical issue in any organization. Without a judicious investment of funds, it will be difficult for the organization to recover invested funds. Furthermore, portfolio selection policy has been major issue of Saccos especially in developing countries. In order to explain the relationship among portfolio selection, funds allocation strategy and financial performance a study should be undertaken. Nobody had conducted research regarding to the variables in Kenya. Especially in regard to the deposit taking societies. Despite the importance of deposit taking societies, this issue failed to attract the attention of researchers in Kenya. Thus while surfing on internet, browsing through the books and journals. I did not find any research carried out on the topic in Kenya. So by keeping this thing in mind this study will try to find out the relationship among portfolio selection, funds allocation strategy, and financial performance of deposit taking societies of south rift region in Kenya. The study sought to meet the gap between existing literatures.

### **1.2 General Objective**

This research is focusing on portfolio selection, funds allocation strategy and its own financial performance for a sample of south rift deposit taking Saccos

The focus of the study was to establish the effect of portfolio selection, funds allocation strategy and financial performance of deposit taking Saccos in south rift region (Kenya).

#### **Specific objectives**

- To establish the effect of liquid investment on financial performance
- To establish the effect of loans disbursed on financial performance
- To establish the effect of illiquid investment on financial performance
- To establish the effect of non-earning fixed assets on financial performance

- To establish the moderating effect of funds allocation strategy on independent variable towards financial performance
- To draw conclusion about relationship of portfolio selection funds allocation strategy and financial performance

### 1.3 Hypotheses

This study formulated the following hypotheses.

H<sub>0</sub>: There is a negative relationship between disbursement of loans and financial performance.

H<sub>1</sub>: There is a negative relationship between liquid investment and financial performance.

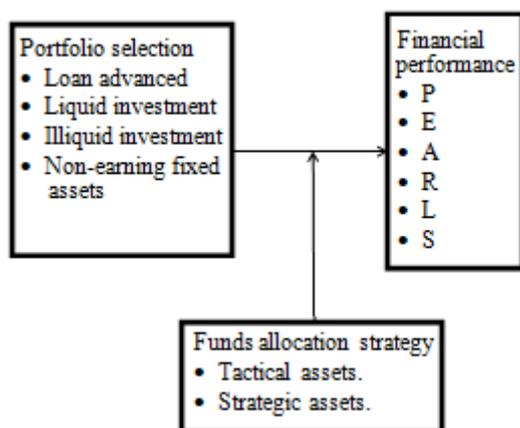
H<sub>2</sub>: There is a negative relationship between illiquid investment and financial performance.

H<sub>3</sub>: There is a negative relationship between non-earning fixed assets and financial performance.

H<sub>4</sub>: There is a negative moderating effect of funds allocation strategy on independent variables towards financial performance

### 1.4 Conceptual Framework

Conceptual framework was constructed basing it on the research questions. It indicates the relationship between portfolio selection, funds allocation strategy and financial performance.



### 1.5 Research Questions

A number of questions in line with its specific objectives guide this study. These include the following:

- 1) What is the contribution of loan advanced to financial performance?
- 2) What is the contribution of liquid investment to financial performance?
- 3) What is the illiquid investment contribution to financial performance?
- 4) What is the non-earning fixed assets contribution to financial performance?
- 5) What is the funds allocation strategy contribution to portfolio selection towards financial performance?

### 1.6 Scope of the Study

The area of this study constituted by the field, geographical location and the deposit-taking SACCOs in South Rift region (Kenya). The study investigated the activities of the deposit-taking SACCOs in South Rift region in Kenya. This research focused on deposit-taking SACCOs in the South Rift region. This region comprises of Narok, Bomet, Kericho, Nakuru, Baringo and Kajiado counties. The counties are famous on the one hand for their abundant agricultural, livestock and tourism activities. However, these resources are not well utilized. The infrastructures are poor within the counties. The SACCOs in this region are agricultural based. The prices of their products and services are not predictable. It affects the cash inflows of all the SACCOs in this region. The cash flow management of all the SACCOs in this region is a problem. It needs a permanent solution. In case there is a fall in prices of goods and services, SACCOs will not be in a good position to collect loan deductions from their members. Consequently, SACCOs will run into liquidity problem in case they had borrowed from financial institutions, and the loan falls due. However, the SACCOs are trying to make inroads into other areas of membership; for instance, they are recruiting motorbike (Boda-Boda) business operators together with small and medium enterprise owners. This endeavour will facilitate diversification of membership such diversification will result in a steady cash inflow. The liquidity position of the SACCOs will improve. The distribution of deposit-taking SACCOs in South Rift region are as follows:

**Table 1.1:** Deposit-taking SACCOs

S/No	County	Deposit taking SACCOs
1	Kericho	8
2	Narok	2
3	Bomet	6
4	Nakuru	4
5	Kajiado	1
6	Baringo	2
Total		23

Source: SASRA report (2015).

This study involves a sample population of 23 of the 176 registered deposit-taking SACCOs in South Rift region. This study sought to establish the sample populations' capital adequacy framework. It includes financial and non-financial capital. These were independent variables. Funds allocation strategy was moderating variable. Financial performance was the dependent variable.

176 SACCOs had been licensed to take deposits from their members for the financial year ending December 2015. The South Rift region had 23 deposit-taking SACCOs. Employees and Board of Directors of deposit-taking SACCOs in South Rift region participated in this research. The study took place between September 2015 and February 2017.

### 1.7 Justification of the study

The study of portfolio selection is relevant to both researchers and managers. Finance managers have problems in portfolio selection and funds allocation. Funds need to be

allocated well in order to generate optimum returns. Even though portfolio selection is same, many businesses fail. The funds allocation matters a lot. This makes it more important to establish the effect of portfolio selection, funds allocation strategy and financial performance of deposit taking Saccos in South Rift Region (Kenya).

### 1.8 The purpose of the study

The focus group of the study included CEO, sectional heads and Board of directors of the deposit taking Saccos. The gap in knowledge that this study sought to fill was the low level of research on appropriate portfolio selection of deposit taking societies in Kenya. There are several studies focusing on the deposit taking Saccos in Kenya. However, there is no research on portfolio selection, funds allocation strategy, and financial performance. The new knowledge generated from the study includes; loan advanced and non-earning fixed assets affect financial performance negatively whereas liquid and illiquid investment influence earnings positively. Funds allocation strategy has a positive effect on DTS earnings.

## 2. Research Literature

### 2.1 Portfolio Management

Portfolio management process involves logical steps. It needs strict adherence to it in order to achieve the desired expectation. The process decisions include plan, implement and monitor (Bhalla, 2008). Portfolio management is concerned with the construction and maintenance of a collection of investment. Mainly, it deals with reducing risks rather than increasing return. The objective of every portfolio manager is to achieve a given level of financial return by incurring the least possible risk.

Generally, greed of board of directors influences portfolio selection in Sacco. Politicians are in the periphery invisibly guiding the board and management of Saccos on how and where to invest members' funds. The Sacco Society Regulatory Authority (SASRA) is impotent. The authority is not playing its role effectively. This case of investing in infeasible projects should not have arisen in the first place. The board of directors and management team must have good academic background so that funds are properly used.

### 2.2 Portfolio Selection

Portfolio selection involves active speculation. It includes the selection of assets within a given asset class, industry or economic sector (Hiri Yappa, 2009). The society may invest in financial or economic assets. The main objective should be broad diversification through investment in different assets. The investment should have members benefit in their endeavors. The intention should be to minimize risk and increase streams of cash flows. Sacco investments include loan advances, liquid investments (Marketable security), illiquid investment (long-term securities), and non-earning fixed assets (buildings). They provide the longest pool of assets from which the members can finance expenditure now or at some future date. The level of risk is based on the time horizon. The society will enjoy asset cash inflow or risk is subject to external borrowing to meet financial obligations.

Liquidity is what the society should endeavor to achieve in short run as well as long run. However, this is not the case because most Saccos are meeting the members demand due to poor liquidity. Normally, Saccos portfolio intentions are in terms of current income, growth in current income, capital appreciation, and preservations in capital.

### 2.3 Funds allocation strategy

The decision making in allocation of funds in either financial or economic assets depend on whether the expected rate of return on new investment is equal to or greater or less than the rate of interest to be paid on the funds needed to acquire this asset. It is only when the expected rate of return is higher than the interest rate that investment will be made. (Jhingan, 2013). Normally, there are three factors considered when making investment decisions. They include the cost of the capital assets, the expected rate of return from it during its lifetime, and the rate of interest.

Portfolio implementation stage is the most crucial stage. It needs proper portfolio investment and speculation. It requires a careful selection of securities investment in different sectors like industry service and agriculture. Investor can allocate funds either to strategic assets or tactical assets. Strategic asset allocation represents the asset allocation that the society can stay with it for a long time. For instance, constructing a petrol station in order to sell fuel to the public at large is a strategic asset. Fuel marketing is a viable project, which many Saccos have invested in. However, investment strategies should be dynamic. They require changes as time passes, as the Sacco's wealth changes as the technology change and as the Sacco's knowledge expands. Hence, the optional strategic asset allocation will also change. The allocation requires periodic rebalancing. Such changes are passive change to the portfolio.

Tactical asset allocation represents asset allocation that is short term in nature. Timing decision influences investment. It involves timing across aggregate asset classes. For example, if marketable securities return is too high then the investor would invest in such securities. If one is indeed successful at tactical asset allocation, the abnormal returns would entice them (Bhalla, 2008).

### 2.4 Financial performance

Finance manager revises portfolio and shift funds among sectors and securities. However, the board of directors curtails finance managers in the case of Saccos. Board of directors insists on shifting funds to shoddy projects. As a result, most of the Saccos run into liquidity problem that lead to poor financial performance.

According to Nagarajan and Jayabal (2012), a portfolio of assets needs updating after constructing it. It requires monitoring and evaluating. In case there is any problem with portfolio selected, it needs revision. The assessment of the portfolio performance over a selected period in terms of the risk and return is accomplished. A qualitative assessment of the actual return realized and the risk borne by the portfolio over a period is compared with the objective. It should tally

with the intention of constructing a portfolio. The actual performance of the portfolio, relative to its objective is studied. This will throw light on the deficient areas if any that need attention in order to improve upon the portfolio performance.

The world council of cooperative unions introduced financial monitoring system that evaluates financial performance of Saccos. The monitoring system is the PEARLS. It is a set of financial ratios that measures key areas of Sacco operations; Protection, effective financial structure, asset quality, rates of return and cost, liquidity and signs of growth. It is an executive management tool. It monitors the performance of Saccos. It helps managers find meaningful solutions to serious institutional difficulties.

## 2.5 Theoretical framework

Theories underpinning the study are Agency theory, stewardship theory and modern portfolio theory:

### Agency theory

According to Jensen and Meckling (1976), agency relationship is a contract under which principal engage on agent to perform some service on their behalf that involves delegating some decision-making authority to the agent. Professional managers (agents) are supposed to run the society professionally. However, their activities are interfered by board of directors. Board of directors decisions carry the day even if they are not viable. This creates a conflict of interests between managers and board of directors that lead to the tendency that the latter may misallocate sacco resources and pursue unviable ventures. They may also borrow funds from other financial institutions without taking in to account the risk involved in loan repayment. External loans finance shoddy ventures. As a result, members suffer because they will not get loans, as they require. Management expenses increase that include; monitoring, auditing budgeting, control and compensation system. Members are not getting benefits accruing from these activities. The authority concern should set guidelines on how to invest, how to recruit professional managers and to stop board of directors on interfering the running of the society.

### Stewardship theory

According to the stewardship theory, a manager's main issue is to maximize members benefit by ensuring that the society performs well. It stresses respect for authority and inclination to ethical behavior. The theory believes that the appointment of non-executive directors will enhance decision-making and ensure the sustainability to the business.

Portfolio selection in case of Sacco should ensure members participation so that any investment decision is widely consulted. To minimize risk of financial loss, investing in unviable ventures should not arise.

### Modern portfolio theory

The basic concept behind modern portfolio theory (MPT) is that the selection of assets in a portfolio of investments is carried out prudently. It depends on the merits of the

individual securities alone. Harry Markowitz introduced the theory in 1952. According to the theory, investors have to evaluate the expected rate of return for a portfolio of assets with an expected risk measure. It stresses the utility of diversification of investments in building up a portfolio. The theory aims to build the most efficient portfolio by combining securities of different risk return characteristic. It is advisable that investors should select the most efficient portfolio which offers the highest return for the given level or risk of the one that has the smallest risk for the given level of return (Nagarajan and Jayabal, 2012).

## 3. Research Methodology and Design

### 3.1 Research philosophy-Positivism

Positivism refers to working with an observable social reality and that the product of such research can be law like generalizations similar to those produced by the physical and natural scientists (Saunders, Lewis and Thorn bill, 2009). Data collected ensures credible results. Existing theory facilitates the development of hypotheses. These hypotheses are tested and confirmed in whole, part, or refuted leading to the further development of theory. The new theory may be tested by further research.

### 3.2 Research approach-Deductive

It involves the development of a theory that is subject to a thorough test. Deductive research involves a number of steps: deducing a hypothesis from the theory, expressing the hypothesis in operational terms which indicates how the variables are to be measured, testing this operational hypothesis, examining the specific outcome of the inquiry and if necessary modifying the theory in the light of the findings ( Saunders etal, 2009). This study sought the effect of portfolio selection, funds allocation strategy and financial performance of deposit taking Sacco in south rift region in Kenya.

### 3.3 Research method

This study adopted quantitative standardized data in numerical data collected for the purpose of analysis. Regression analysis in SPSS evaluates the relationship between portfolio selection and financial performance moderated by funds allocation strategy.

### 3.4 Research design

This research attempted to examine the relationship between portfolio selection and financial performance moderated by funds allocation strategy. The failure of most ventures of Saccos had prompted the attention of researcher. The research design was carried out in a way that it will contribute to the existing knowledge and meet the requirement and purpose of the study. The study used primary and secondary data, which is quantitative in nature of deposit taking Saccos in south rift region in Kenya. The deposit-taking Saccos in south rift region were 23 but three of these were de licensed in 2016.

### 3.5 Research credibility

To minimize the possibility of getting wrong answers, the attention was paid to reliability and validity of collecting relevant information. Reliability refers to the extent to which data collection techniques or analysis procedures will yield consistent findings. This is done by ensuring that there was integrity in collecting data from respondents. Validity refers to the findings whether they are really about what they appear to be. For example, wrong portfolio selection influences financial performance of deposit taking Saccos negatively. The failure of these projects resulted in liquidity problem. The lack of validity in the conclusion of the study was minimized by a research design that had in-built opportunity for focus groups. Especially, after the questionnaire results had been analyzed.

## 4. Results, Analysis and Discussion

The study targeted 23 DTs in collecting data. However, 20 DTs were still operating deposit-taking business. SASRA delicensed three societies. Out of 20, 14 DTs responded. It represents 70 percentage of the targeted respondents. Nine officials were targeted per SACCO to fill questionnaires. A total of 91 officials responded to the survey. The data relates to portfolio selection, funds allocation strategy and financial performance of DTS.

### Multiple Regression Analysis

Model	Unstandardised Coefficient		Standardized Coefficient	T	Sig.
	B	Std Error	Beta		
1 Constant	1.820	0.729		2.497	0.014
Loan advanced	-0.005	0.052	-0.011	-0.093	0.926
Liquid investment	-0.092	0.131	-0.213	-0.699	0.486
Illiquid investment	0.042	0.110	0.110	0.382	0.704
Non-Earning fixed assets	-0.110	0.093	-0.035	0.123	0.902

The regression model is expressed symbolically as follows:

$$Y = 1.820 - 0.005x_1 - 0.092x_2 + 0.042x_3 - 0.011x_4 + u_i$$

Where: Y=Financial performance, X<sub>1</sub>= Loan advanced, X<sub>2</sub>=Liquid investment, X<sub>3</sub>=Illiquid investment, X<sub>4</sub>=Non-Earning fixed assets and u<sub>i</sub>=Error term.

From the model, it shows that when all independent variables values are zero, the financial performance of DTS will be 1.820. The signs of coefficient indicate the direction of change. It also shows that a unit increases in loan advanced will result in 0.005 decreases in financial performance. A unit increases in liquid investment will lead to 0.092 decrease in financial performance. A unit increases in illiquid investment will result in 0.042 increase in financial performance. A unit increases in non-earning fixed assets will lead to 0.011 decrease in earnings.

The findings show that three independent variables have negative relationship towards financial performance.

### Portfolio Selection

The study established that portfolio selection affects performance of DTS in Kenya. Portfolio includes loan advanced, liquid investment, illiquid investment and non-earning fixed assets. They influence the performance of DTS significantly.

### Funds Allocation strategy

It is evident from the research that funds allocation strategy moderated portfolio selection towards financial performance of DTS. The strategy includes tactical and strategic assets. Twenty-five respondents preferred the former whereas sixty-six liked strategic assets. It showed that DTS allocated funds to strategic assets.

### 4.1 Portfolio Selection and Financial Performance

Coefficient of Determination

Model	R	R <sup>2</sup>	Adj R <sup>2</sup>	Std error of Estimate	Sig.
1	0.28	0.078	0.035	0.464	0

From the study, 7.8% of financial performance is associated with the four independent variables. It indicates that the independent variables do not influence earnings significantly. Other factors not taken into account in this study explained 92.2% variability of financial performance the correlation coefficient (R) of 0.280 and coefficient of determination (R<sup>2</sup>) of 0.078 shows a positive relationship between the two variables.

Only one variable has a positive relationship to financial performance. As the predictor variables namely; loan advanced, liquid investment and non-earning fixed assets increase they influence earnings negatively.

### Analysis of Variance (ANOVA)

Model	Sum of Square	df	Mean Square	F	Sig.
1 Regression	1.574	4	0.394	1.826	0.131
Residual	18.536	86	0.216		
Total	20.110	90			

The analysis of variance indicates that F-value is 1.826 at 0.131 significance level (p > 0.05). The p-value is greater than 0.05. It shows that the relationship between the independent and dependent variables could be out of chance and nothing else.

#### 4.2 Portfolio Selection, Funds Allocation Strategy and Financial Performance

##### Coefficient of Determination

Model	R	R-Square	Adj.RSquare	Std Error of the Estimate	Sig
1	0.602	0.363	0.356	0.379	0.000

From the finding, it indicates that independent and moderating variables explain 36.6% of performance. It shows that funds allocation strategy enhances financial performance of DTS. Portfolio selection without moderating variable explains 7.8% of the financial performance. Unobserved factors explain 63.7% of performance variability.

##### Multiple Regression Analysis

Model	Unstandardised coefficient		Standardised coefficient		T	Sig
	B	Std Error	Beta			
1						
Constant	0.903	0.176			5.134	0.000
Loan advanced	-0.136	0.102	-0.370		-1.335	0.185
Liquid investment	0.253	0.137	0.630		1.850	0.068
Illiquid investment	0.198	0.122	0.423		1.615	0.110
Non-earning fixed assets	-0.211	0.136	-0.546		-1.551	0.125
Funds allocation strategy	0.128	0.050	0.290		2.559	0.012

Multiple regression was carried out to determine the relationship between the DTS performance and the five variables investigated in this study.

The regression model was:

$$Y = 0.903 - 0.136x_1 + 0.253x_2 + 0.198x_3 - 0.211x_4 + 0.128x_5 + u_i$$

Where: Y=Financial performance,  $x_1$ =Loan advanced,  $x_2$ =Liquid investment,  $x_3$ =Illiquid investment,  $x_4$ =Non-earning fixed assets,  $x_5$ =Funds allocation strategy and  $u_i$ =Error terms.

The coefficients of the variables have increased. It means that the introduction of moderating variable increases financial performance.

##### Analysis of Variances (ANOVA)

Model	Sum of Square	df	Mean Square	F	Sig
1 Regression	3.994	5	0.799	4.213	0.002
Residual	16.116	85			0.190
Total	20.110	90			

It is evident from the finding that F-value is 4.213 at 0.002. The level of significance of the study was 5%. It shows that the computed value is less than the p-value (0.05) suggesting that the relationship between the variables is not significant. Hence, the financial performance under different variables of portfolio selection and funds allocation strategy is insignificant.

#### 5. Conclusion

The study established that portfolio selection and funds allocation strategy affect the financial performance of DTS to large extent. It revealed that loan advanced and non-earning fixed assets have negative coefficient in relation to financial performance. As they increase, the financial performance decreases. The other three factors had positive coefficients towards financial return. It indicated that as they increase the financial performance also increases. Liquid and illiquid investments improve deposit taking societies earnings. Funds allocation strategy moderated portfolio selection towards financial performance. Liquid investment had the greatest positive impact on financial performance. Non-earning fixed assets had the greatest negative impact on financial performance.

#### 6. Recommendation

It is recommended that the deposit taking saccos should select liquid investment portfolio so as to get significant impact on financial performance. An optimal investment decision should take into account in the context of funds allocation strategy. Liquid investment decision is tactical funds allocation strategy. It gives greater space for significant benefit to the DTS.

Further, it suggested that the deposit taking societies should invest less in non-earning fixed assets. It has greatest negative impact on financial performance. Loan advanced to members had also a negative effect on financial performance. Members should borrow loan that commensurate with their financial capability. Taking a bigger loan, may result in default risk. DTS should categorize their members into various creditworthy borrowers. It will facilitate quick loan recovery.

Results demonstrate that DTS preferred strategic assets. However, the regression coefficient showed that liquid investment had the highest coefficient. It enhanced financial performance of DTS. Liquid investment is tactical asset. Illiquid investment is strategic asset. It had 0.198 coefficient which is less than 0.253 coefficient for liquid investment. Based on the findings, the Government should introduce a policy. It will guide DTS in investment decisions. It should invest in tactical assets such as treasury bills, commercial papers and other short-term securities. They mature within one year.

#### 7. Future Research

Future research should investigate the possibility of offering healthcare facility (insurance) in the deposit taking saccos in Kenya. The members may benefit a lot because the facility will be easily accessible.

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