



Effect of Asset Diversification on Financial Performance of Deposit-Taking SACCOs in Kenya: The Moderating Role of Corporate Governance

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Article History

Received: 19.07.2026

Revised: 19.10.2026

Accepted: 25.10.2026

Published: 27.10.2026

Keywords

Accountability

Assets

Corporate governance

SACCO

How to cite:

Chepkania, G. L., Tibbs, C. Y., & Musiega, M. (2026). Effect of Asset Diversification on Financial Performance of Deposit-Taking SACCOs in Kenya: The Moderating Role of Corporate Governance. *Research Journal of Business and Finance*, 5(2), 221-231.

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Abstract

This study examined the effect of asset diversification on the financial performance of deposit-taking SACCOs (DT-SACCOs) in Kenya and the moderating role of corporate governance in this relationship. A positivist philosophy and an explanatory longitudinal design were adopted. Secondary panel data for 2015–2024 were extracted from the audited financial statements of 122 DT-SACCOs and SASRA reports. Asset diversification was measured by loans and non-loan assets as shares of total assets, financial performance by surplus and the dividend payout ratio, and corporate governance by a board accountability index. Fixed-effects (surplus) and random effects (dividend payout) panel models, selected by the Hausman test, and hierarchical moderated regression were estimated. The loan share was positively associated with surplus ($\beta = 0.382$, $p < 0.01$) but not with dividend payout, while the non-loan asset share was negatively associated with dividend payout ($\beta = -0.092$, $p < 0.05$). Board accountability was positively associated with both measures and strengthened the association of lending with surplus ($\beta = 3.271$, $p < 0.01$) and of non-loan assets with dividend payout ($\beta = 0.130$, $p < 0.05$). The results are associations based on secondary data, and governance is captured only through board meeting activity. The SACCO boards should treat member lending as the core business, appraise non-loan investments rigorously and strengthen board and audit committee accountability, while SASRA should monitor non-core investments.

Introduction

Financial institutions play a significant role in economic development because they mobilise savings, extend credit and allocate financial resources. Sound financial performance enables an institution to expand lending, withstand adverse shocks and contribute to economic growth (Radojić & Marinković, 2023). Asset diversification, which spreads funds across asset classes such as loans, government securities and real estate, is one of the main ways of enhancing financial results. It reduces dependence on a single asset class, improves portfolio quality and strengthens institutional stability, which can lead to better financial performance (Beck et al., 2022).

Financial institutions around the world are increasingly committed to asset diversification to improve returns by reducing concentration risk and enhancing portfolio resilience. In the United States, banks



have expanded beyond traditional lending into securities, mortgage-backed assets and investment portfolios to achieve stable earnings and higher risk-adjusted returns after financial-sector reforms (Laeven & Levine, 2017). In China, commercial banks increased their holdings of non-loan financial assets, raising profits and resilience to economic shocks (Mateev & Mostafa Khan, 2026). Nevertheless, the effect of asset diversification remains unclear: diversified portfolios can raise profitability and stability, but their effectiveness depends on sound management, risk control and prudent investment (Herrera, 2024; Beck et al., 2022).

In Africa, financial institutions have adopted asset diversification to improve financial sustainability amid macroeconomic turbulence, high credit risk and shallow capital markets. In Ethiopia, commercial banks widened their investments to include government securities and other non-lending assets to improve profitability and reduce credit concentration (Hailu & Tassew, 2018). Similarly, South African banks diversified into retail, corporate and investment banking, increasing profitability and limiting sector-specific risk (Nyakurukwa & Seetharam, 2024). Because of governance weaknesses and limited oversight, however, it remains unclear whether asset diversification brings similar benefits to deposit-taking SACCOs.

Deposit-taking SACCOs (DT-SACCOs) in Kenya have contributed significantly to financial inclusion by mobilising savings and providing affordable credit to members. However, several SACCOs have experienced financial distress linked to poorly managed diversification, weak governance and inadequate board oversight. Ekeza SACCO collapsed after a large part of members' funds was diverted into real estate under weak governance, resulting in heavy losses and deregistration (Directorate of Criminal Investigations [DCI], 2024). Mwalimu National SACCO recorded declining profitability after acquiring Spire Bank, illustrating the risk of entering new investments without adequate oversight (Kung'a, 2021). More recently, forensic audits of KUSCCO revealed a large asset shortfall attributed to investment mismanagement, misappropriation and weak board accountability, exposing member SACCOs to significant losses (FSD Kenya, 2026). These cases show that diversification does not guarantee positive results; its success depends on sound investment decisions and effective board oversight of their implementation.

Corporate governance, specifically board accountability, is therefore central to whether asset diversification improves performance. Effective boards guide major investment decisions, manage risk and ensure that capital is properly allocated (Mugilwa et al., 2024), and they promote transparency, monitoring and efficient use of resources (Mlay et al., 2022). Weak boards, by contrast, are associated with poor investment decisions and misallocation of resources (Philip et al., 2025). Few studies, however, have examined how corporate governance shapes the relationship between asset diversification and the financial performance of Kenyan DT-SACCOs (Herrera, 2024).

DT-SACCOs have been pivotal in mobilising savings, providing loans and extending financial inclusion in Kenya. Although sector surplus rose from KSh 7.99 billion in 2016 to KSh 27.09 billion in 2024, growth has been uneven, with sharp rises and declines. Over the same period the average dividend rate rose from 7.1% to 10.46%, but payments fluctuated, leaving members with unstable returns.

These difficulties are visible in individual institutions. Mwalimu National SACCO's profitability declined after its acquisition of Spire Bank, showing that diversification into non-core investments is risky without a sound strategy, and the KUSCCO forensic audit revealed losses arising from poor investments, weak asset management and governance failures. Many DT-SACCOs have nonetheless increased their diversification into securities, real estate and other non-loan investments, with mixed



results: some have improved their performance, while others continue to suffer the consequences of weak governance and poor investment choices.

Previous studies do not settle how asset diversification affects performance. Ndungu (2023) found a small positive effect of revenue diversification, Obiero (2021) found a negative effect of asset diversification, and Ali (2024) found that loan diversification improved financial performance. Few studies have examined governance and performance together (Addai et al., 2022; Mlay et al., 2022; Muthee & Theuri, 2021), and none has tested whether corporate governance moderates the relationship between asset diversification and the financial performance of DT-SACCOs in Kenya. This study therefore investigated the effect of asset diversification on the financial performance of DT-SACCOs in Kenya, with corporate governance as the moderating variable.

Theoretical framework

The study drew on Modern Portfolio Theory and Agency Theory to interpret the relationships among asset diversification, board accountability and financial performance. Modern Portfolio Theory, developed by Markowitz (1952), holds that institutions can improve risk-adjusted returns by spreading their assets across holdings with different risk characteristics, which reduces concentration risk. For DT-SACCOs, the theory implies that a portfolio of loans, securities, real estate and other financial instruments can enhance performance by stabilising earnings (Chaudhuri et al., 2023). Realising these benefits, however, depends on governance. Agency Theory (Jensen & Meckling, 1976) suggests that accountable boards reduce agency conflicts by strengthening supervision, transparency and judgement, so that diversification strategies are implemented prudently, investment risk is contained and financial performance is improved (Fama & Jensen, 1983; Shleifer & Vishny, 1997).

Empirical literature

Studies of the relationship between asset diversification and financial performance have produced conflicting results, and even the studies that report positive effects differ in setting, measures and outcomes. Mutege (2016) studied all 43 Kenyan commercial banks over 2011–2015 and found that other investments, financial assets, cash and loans together explained 64.6% of the variation in financial performance. Obaro et al. (2022) used time-series data for Nigerian banks over 1999–2020 and found that asset diversification had a strong positive effect on return on equity. Gelman et al. (2023), using changes in United States bank regulation as exogenous shocks, found that asset diversification reduced banks' idiosyncratic risk and allowed them to keep lending during negative shocks; their outcome was lending resilience rather than profitability. Adem (2022), using banks in emerging and developing countries, found that diversification improved stability but that the relationship was non-linear, so that excessive diversification exposed banks to greater risk. Closer to the present context, David (2025) found that portfolio diversification had a positive influence on the profitability of DT-SACCOs in Kiambu County, Kenya.

In contrast, Owino et al. (2021), who measured asset diversification with an adjusted Herfindahl-Hirschman index for 36 Kenyan commercial banks over 2009–2018, found a negative but insignificant effect on competitiveness, and Ogetange et al. (2022), who studied all 39 Kenyan commercial banks over 2011–2020, found no significant effect on financial performance. These contradictions may reflect differences in institutional context, research design, measures of diversification and indicators of performance: studies that used asset-mix ratios and profitability outcomes (Mutege, 2016; Obaro et al., 2022) tended to find positive effects, whereas those that used concentration indices (Owino et al., 2021; Ogetange et al., 2022) found none. Moreover, six of the seven studies reviewed concern commercial banks (Adem, 2022; Gelman et al., 2023; Mutege, 2016; Obaro et al., 2022; Ogetange et al., 2022; Owino et al., 2021), the only SACCO study (David, 2025) is confined to one county, and none of



them tests whether corporate governance conditions the effect of asset diversification. This study therefore tested the following null hypothesis:

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

Recent studies have established corporate governance as an important mechanism for improving performance, but they focus on its direct rather than its moderating effect. Shaukat and Trojanowski (2018) found that effective board monitoring and control improves performance by limiting managerial opportunism and improving strategic decisions, and Li and Wahid (2018) concluded that stronger board monitoring improves governance and financial performance. Nsour and Al-Rjoub (2022) argue that accountability and governance disclosure improve transparency and organisational effectiveness, while Mugilwa et al. (2024) show that corporate governance improves performance indirectly through monitoring and strategic control. Philip et al. (2025) found that board accountability improves the quality of financial disclosure, transparency and stakeholder confidence. Most of these studies, however, concern listed companies or banks and test direct governance effects (Li & Wahid, 2018; Nsour & Al-Rjoub, 2022; Philip et al., 2025; Shaukat & Trojanowski, 2018). Only Mugilwa et al. (2024) examined DT-SACCOs in Kenya, and they treated funding structure as a mediator of governance rather than governance as a moderator. The moderating role of governance in strategic decisions such as asset diversification has therefore not been tested among DT-SACCOs in Kenya. The study therefore tested the following null hypothesis:

H₀₂: Corporate governance has no significant moderating effect on the relationship between asset diversification and the financial performance of deposit-taking SACCOs in Kenya.

Conceptual framework

Asset diversification, the independent variable, refers to the allocation of a DT-SACCO's total assets between loans to members and non-loan assets such as cash and bank balances, government securities, financial investments and property (Hailu & Tassew, 2018; Mutega, 2016). It was captured by two asset-mix ratios, loans to total assets and non-loan assets to total assets; a lower loan share indicates greater diversification away from lending, the core business of a SACCO.

Corporate governance, the moderating variable, refers to the mechanisms through which an organisation is directed and controlled so that those who supply its finance are assured of a return (Shleifer & Vishny, 1997). In a DT-SACCO, the elected board is the central governance mechanism, so the study focused on board accountability, that is, the extent to which the board actively discharges its oversight role, measured by board attendance, board meeting frequency and audit committee meeting frequency (Ongore & K'Obonyo, 2011). Corporate governance is treated as a moderator because it is expected to change the strength of the effect of asset diversification on performance rather than to be caused by diversification.

Financial performance, the dependent variable, refers to a DT-SACCO's ability to generate a surplus and to return part of it to its members. It was measured by surplus (total income less total expenses), which captures value creation, and the dividend payout ratio (total dividends divided by net income after tax), which captures the share of earnings returned to members.

Figure 1 presents the relationships among the independent, moderating and dependent variables.

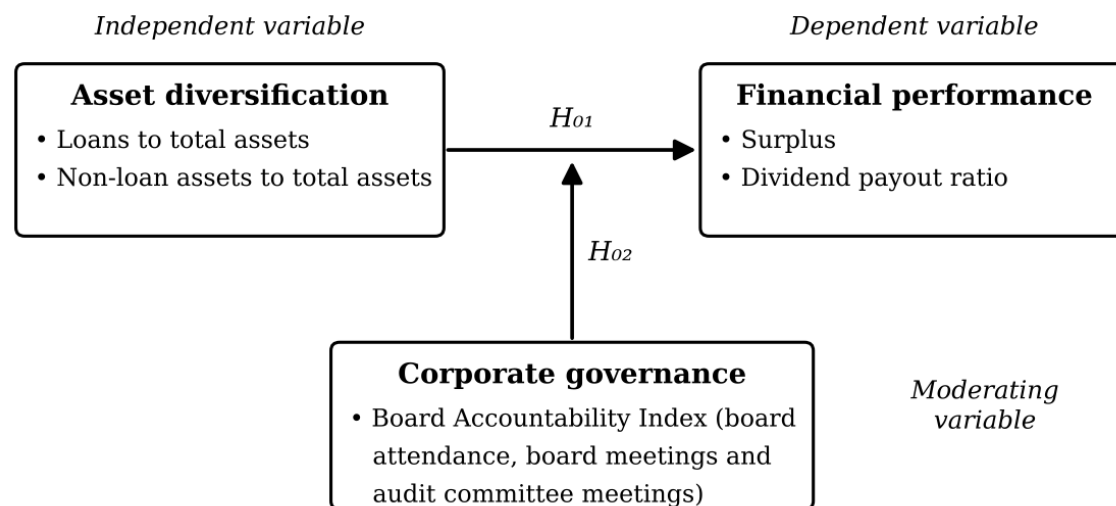


Figure 1: Conceptual framework

Source: Authors (2026).

Method

Research philosophy and design. The study adopted a positivist philosophy because it emphasises objective measurement, hypothesis testing and statistical analysis of quantitative data. An explanatory longitudinal design was used to examine the relationships among asset diversification, corporate governance and the financial performance of DT-SACCOs in Kenya over 2015–2024. Because the data are observational, the estimated coefficients are interpreted as associations rather than proof of causation.

Study area and population. The study was conducted in Kenya and focused on SASRA-licensed DT-SACCOs because of their contribution to financial inclusion, savings mobilisation and economic development. The target population comprised the 176 DT-SACCOs on SASRA's register of licensed DT-SACCOs as at 31 December 2024. SASRA groups DT-SACCOs into three peer groups by total assets: 42 large SACCOs (KSh 5 billion and above), 56 medium SACCOs (KSh 1–5 billion) and 78 small SACCOs (below KSh 1 billion) (SASRA, 2025).

Sample and exclusion criteria. The sample size was determined using the Krejcie and Morgan (1970) formula at the 95% confidence level and a 5% margin of error, which gave a minimum of 121 DT-SACCOs; 122 were included. The SACCOs were selected from the register by simple random sampling. A selected SACCO was excluded if it was not licensed and reporting throughout 2015–2024, or if it lacked complete audited financial statements or corporate governance disclosures (number of board and audit committee meetings and directors' attendance) for any year in that period. Each excluded SACCO was replaced by a further random draw until 122 SACCOs with complete records had been obtained. Table 1 presents the population and sample by peer group.



Table 1: Population and sample by SASRA peer group

Peer group (total assets)	Population	Sample
Large (KSh 5 billion and above)	42	29
Medium (KSh 1–5 billion)	56	39
Small (below KSh 1 billion)	78	54
Total	176	122

Source: SASRA (2025); Authors (2026).

Data extraction. Secondary data were extracted from three sources: the audited financial statements and annual reports of each sampled SACCO for 2015–2024, obtained from the SACCOs' websites, which provided total assets, net loans, non-loan assets, income, expenses, dividends and the corporate governance statement (board and audit committee meetings held and directors' attendance); SASRA's annual supervision reports, which provided licensing status and peer group classification; and SASRA's register of licensed DT-SACCOs, which identified the target population. For each SACCO and year, the items were recorded in a structured secondary data collection sheet, and the study variables were computed in Microsoft Excel using the formulas in Table 2 before the dataset was exported to STATA 15. All monetary values were recorded in millions of Kenya shillings, loans were taken net of impairment allowances on the same basis in all years to account for the adoption of IFRS 9 in 2018, restated figures were used where a later report revised an earlier one, and the figures were cross-checked against SASRA's sector statistics. The result was a balanced panel of 1,220 SACCO-year observations; after second differencing and the inclusion of a lagged dependent variable, 976 and 854 observations were used in estimation. A research permit was obtained from the National Commission for Science, Technology and Innovation (NACOSTI).

Table 2: Measurement of variables

Variable	Indicators	Measurement
Asset diversification (independent)	Loans; non-loan assets; total assets	Loans to total assets (LTTA) = net loans ÷ total assets; non-loan assets to total assets (LNTTA) = non-loan assets ÷ total assets
Corporate governance (moderator)	Board attendance rate; board meeting frequency; audit committee meeting frequency	Board Accountability Index: BAI = (MA + OA + CA) ÷ 3, where MA = board attendance rate, OA = board meetings held ÷ scheduled and CA = audit committee meetings held ÷ scheduled
Financial performance (dependent)	Dividend payout; surplus	Dividend payout ratio = total dividends ÷ net income after tax; surplus = total income – total expenses

Source: Authors (2026); the Board Accountability Index follows Ongore and K'Obonyo (2011).

Data analysis. Data were analysed in STATA 15. Descriptive statistics summarised the data, and panel regression was used to estimate the relationships. All variables were transformed into natural logarithms and, following the panel unit root tests, entered in second differences; the coefficients therefore relate changes in the growth of each asset share to changes in the growth of performance. A lagged dependent variable was included in the dividend payout model to capture dividend smoothing. The choice between fixed and random effects was based on the Hausman test, and the moderating effect of corporate governance was tested by hierarchical regression with interaction terms between the board accountability index and each asset diversification ratio. Diagnostic tests covered normality of the residuals, multicollinearity, stationarity, heteroskedasticity, serial correlation and model specification.



Results

Diagnostic tests

The Levin-Lin-Chu, Fisher-ADF and Im-Pesaran-Shin panel unit root tests gave partly different results. The loan and non-loan asset shares were stationary in levels according to the Levin-Lin-Chu and Fisher-ADF tests but only after first differencing according to the Im-Pesaran-Shin test, dividend payout was stationary after first differencing, and the governance index only after second differencing. All variables were therefore entered in second differences. The Hausman test favoured fixed-effects for surplus ($\chi^2(4) = 16.25$, $p = 0.003$) and random effects for dividend payout ($\chi^2(4) = 3.26$, $p = 0.515$). Variance inflation factors were 1.36 for the loan share and 1.34 for the non-loan asset share, and below 3.0 for their interaction terms, well below the threshold of 10. The modified Wald test for the surplus model ($\chi^2 = 7.80$, $p = 1.000$) and the Breusch-Pagan/Cook-Weisberg test for the dividend payout model ($\chi^2 = 0.61$, $p = 0.436$) showed no significant heteroskedasticity, and the Wooldridge test showed no first-order serial correlation (surplus: $F = 2.56$, $p = 0.112$; dividend payout: $F = 2.04$, $p = 0.156$), so conventional standard errors were used.

Direct effect of asset diversification on financial performance

payout. The lagged dividend payout ratio was negative and significant ($\beta = -0.5446$, $p < 0.01$), indicating that changes in payout growth tend to be partly reversed in the following year. Table 3 shows that both models were statistically significant: the fixed-effects model for surplus ($F = 25.67$, $p < 0.01$) and the random effects model for dividend payout (Wald $\chi^2 = 339.01$, $p < 0.01$). The models explain 11.25% of the overall variation in surplus and 28.54% of the variation in dividend payout. The lagged dividend payout ratio was negative and significant ($\beta = -0.5446$, $p < 0.01$), indicating that changes in payout growth tend to be partly reversed in the following year.

Table 3: Direct effect of asset diversification on financial performance

Variable	Surplus (fixed-effects)	Dividend payout (random effects)
Lagged dependent variable	—	-0.5446*** (0.0301)
Loans to total assets	0.3824*** (0.0875)	0.0201 (0.0331)
Non-loan assets to total assets	0.1948 (0.1753)	-0.0919** (0.0371)
Constant	4.0571*** (0.1719)	0.0058 (0.0044)
Observations	976	854
Number of SACCOs	122	122
Within R ²	0.1378	0.2823
Between R ²	0.0447	0.4775
Overall R ²	0.1125	0.2854
F / Wald statistic	F = 25.67***	Wald $\chi^2 = 339.01$ ***

Note. Variables are second differences of natural logarithms. Standard errors in parentheses; *** $p < 0.01$, ** $p < 0.05$. Source: Authors (2026).

The loan share was positively and significantly associated with surplus ($\beta = 0.3824$, $p < 0.01$) but positively and insignificantly associated with dividend payout ($\beta = 0.0201$, $p > 0.05$). Faster growth in lending is therefore associated with faster growth in surplus through interest income, but not necessarily with higher dividends. The non-loan asset share had a positive but insignificant association with surplus ($\beta = 0.1948$, $p > 0.05$) and a negative and significant association with dividend payout ($\beta = -0.0919$, $p < 0.05$), suggesting that growing investment in non-core assets limits distributable earnings, probably because returns from such investments are delayed or retained rather than paid out as dividends. H_{01} was therefore rejected.



Moderating effect of corporate governance

Table 4 presents the hierarchical regression results for the moderating effect of corporate governance. Both moderation models were statistically significant: the fixed-effects model for surplus ($F = 19.60$, $p < 0.01$) and the random effects model for dividend payout (Wald $\chi^2 = 336.97$, $p < 0.01$). The overall R^2 increased from 0.1125 to 0.2465 for surplus and from 0.2854 to 0.3867 for dividend payout.

Table 4: Moderating effect of corporate governance on the relationship between asset diversification and financial performance

Variable	Surplus (fixed-effects)	Dividend payout (random effects)
Lagged dependent variable	—	0.3551*** (0.0280)
Loans to total assets (LTTA)	5.7564*** (1.7990)	0.2028 (0.3877)
Non-loan assets to total assets (LNTTA)	2.8328 (3.7350)	0.2337** (0.1025)
Corporate governance (BAI)	3.7428*** (0.4974)	0.1987*** (0.0565)
LTTA $\times$ corporate governance	3.2707*** (1.0853)	0.1122 (0.2329)
LNTTA $\times$ corporate governance	0.5251 (2.1411)	0.1303** (0.0609)
Constant	1.6223 (3.6702)	-0.5596*** (0.0994)
Observations	976	854
Number of SACCOs	122	122
Within R^2	0.1036	0.2929
Between R^2	0.2946	0.5445
Overall R^2	0.2465	0.3867
F / Wald statistic	F = 19.60***	Wald $\chi^2 = 336.97***$

*Note. Standard errors in parentheses; *** $p < 0.01$, ** $p < 0.05$. Source: Authors (2026).*

Corporate governance had a positive and significant direct association with both surplus ($\beta = 3.7428$, $p < 0.01$) and dividend payout ($\beta = 0.1987$, $p < 0.01$), indicating that DT-SACCOs with more accountable boards tend to perform better. In the moderation model, the loan share was positively associated with surplus ($\beta = 5.7564$, $p < 0.01$) but not with dividend payout ($\beta = 0.2028$, $p > 0.05$), while the non-loan asset share was not significantly associated with surplus ($\beta = 2.8328$, $p > 0.05$) but was positively associated with dividend payout ($\beta = 0.2337$, $p < 0.05$).

The interaction terms indicate moderation. The interaction between the loan share and corporate governance was positive and significant for surplus ($\beta = 3.2707$, $p < 0.01$) but not for dividend payout ($\beta = 0.1122$, $p > 0.05$), so accountable boards strengthen the association between lending and surplus, plausibly through better credit allocation and investment oversight. The interaction between the non-loan asset share and corporate governance was not significant for surplus ($\beta = 0.5251$, $p > 0.05$) but was positive and significant for dividend payout ($\beta = 0.1303$, $p < 0.05$), indicating that board accountability makes non-loan investments more effective in generating distributable returns. Because significant interactions were found for both measures of performance, H_{02} was rejected; the moderating effect depends on the asset component and on the measure of performance.

Discussion

The positive association between lending and surplus is consistent with Gelman et al. (2023), Obaro et al. (2022) and Mutega (2016), who found that diversification improves financial performance through better yields, lower concentration risk and greater resilience. It differs from Owino et al. (2021) and Ogetange et al. (2022), who found no significant effect of asset diversification, and from Adem (2022), who showed that excessive diversification can reduce performance by increasing portfolio risk. The present study shows that the effect of diversification depends on the composition of assets: loan assets are associated with higher surplus while non-loan assets are associated with



lower dividend payout, so that performance depends not only on diversification but also on how assets are allocated.

The governance results support Shaukat and Trojanowski (2018), who found that effective board monitoring and strategic oversight improve performance, and are consistent with Li and Wahid (2018) and Nsour and Al-Rjoub (2022), who link board accountability to better governance quality, transparency and performance. Mugilwa et al. (2024) and Philip et al. (2025) likewise show that board accountability improves organisational outcomes through oversight and sound resource management. Whereas those studies examined the direct influence of governance, the present study shows that board accountability also moderates the association between asset diversification and performance.

The findings are consistent with Modern Portfolio Theory, which holds that the benefits of diversification depend on sound portfolio management and the allocation of resources, and with Agency Theory, which holds that effective board supervision reduces agency problems and improves investment decisions and resource use.

Limitations

The study relied on secondary data, and corporate governance was measured only through board accountability (board attendance and board and audit committee meetings), which captures the activity of the board rather than the quality of its decisions. The models were estimated in second differences of logarithms and therefore describe short-run associations between changes in growth rates rather than long-run relationships in levels. The lagged dependent variable in the dividend payout model may carry dynamic panel bias, and the sample was restricted to SACCOs with complete records for 2015–2024. Future studies could use broader governance measures, longer panels and dynamic panel estimators.

Conclusion

Asset diversification plays an important role in the financial performance of DT-SACCOs in Kenya, but its effect depends on asset composition. Loan assets are positively associated with surplus, while non-loan assets are associated with lower dividend payout. Corporate governance, measured by board accountability, moderates these relationships by strengthening the association of lending with surplus and of non-loan assets with dividend payout, which indicates that accountable boards support sound investment decisions, oversight and prudent allocation of resources.

DT-SACCOs should maintain an appropriate balance between loan and non-loan assets, treating member lending as the core business. Management should regularly review the performance of investment portfolios to ensure that non-core assets generate adequate returns without tying up excess funds. Boards should strengthen accountability by holding all scheduled board meetings, improving audit committee oversight and monitoring investment decisions closely, and the SACCO Societies Regulatory Authority should ensure that its governance requirements are observed across the sector.

For policy, the study provides evidence that a well-balanced asset base combined with accountable boards is associated with better financial performance among DT-SACCOs in Kenya, supporting stronger governance requirements by SASRA and policies that encourage a balanced allocation between lending and non-lending assets. For theory, it extends Modern Portfolio Theory and Agency Theory to DT-SACCOs by showing that the benefits of diversification depend not only on portfolio composition but also on-board accountability. For practice, it guides SACCO boards and managers in balancing loan and non-loan assets under active board supervision, and it gives regulators evidence for strengthening governance and investment oversight in the SACCO sector.



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