

# Budget Planning and Profitability of Registered Saccos in Kenya

Mwania Annastacia <sup>1</sup>, Ngaithe Amon <sup>2</sup>, Blessing Ndunge <sup>3</sup>, Mutuku Lita <sup>4</sup>, Priscah Suti <sup>5</sup>, Stephen Savali <sup>6</sup>, Andreas Mujei<sup>7</sup>, Andreas Mujei<sup>7</sup>, CPA/CS Evusa Zablou<sup>8</sup>.

<sup>1,2,3,4,5,6,7</sup> Undergraduate Bachelor of Commerce (Accounting Option Finalists) at South Eastern Kenya University

<sup>8</sup>Accounting and Finance Lecturer at South Eastern Kenya University

Corresponding Author : CPA/CS Evusa Zablou

**ABSTRACT:** *Savings and Credit Cooperative Organizations (SACCOs) play a vital role in promoting financial inclusion and economic growth, and despite their strong expansion in Kenya's economy, increasing competition and regulatory pressures have made effective budgeting practices critical for enhancing profitability. The study aimed to examine the relationship between budgeting practices and the profitability of registered SACCOs in Kenya, specifically assessing whether SACCOs that adopt structured and formal budgeting systems achieve higher profitability than those with weak or informal practices. It focused on key budgeting practices budget planning, implementation, expenditure tracking, and review and evaluated their influence on profitability indicators such as net surplus, return on assets, and member dividends. The study adopted both descriptive and explanatory research designs. It targeted a population of 174 registered deposit-taking SACCOs in Kenya licensed by SASRA. From this population, a sample of 52 SACCOs was selected. The study focused on SACCOs that were operational between 2022 and 2024 and had submitted their audited financial reports during this period. The study found that while planning variance and budget absorption rate were relatively stable across SACCOs, expenditure control ratio, review variance, and return on assets (ROA) showed significant variability, reflecting differences in financial performance. Expenditure control ratio emerged as the strongest and most significant predictor of ROA, with a direct and substantial impact on profitability, whereas planning variance, budget absorption rate, and review variance had minimal direct influence and contributed mainly indirectly through enhancing operational efficiency and financial discipline. Overall, the results indicate that SACCO profitability is largely driven by effective expenditure control, supported by consistent planning and monitoring practices.*

**Keywords:** *Budgeting, Financial Performance*

## I. Background of the Study

Savings and Credit Cooperative Organizations (SACCOs) are key drivers of financial inclusion, mobilizing member savings and providing affordable credit to individuals and small enterprises often underserved by traditional banking systems (Gamba & Komo, 2018; ILO, 2020). In Kenya, the SACCO sector is a significant component of the financial system, contributing substantially to national savings and economic growth, with assets accounting for a notable share of GDP and continued expansion in membership, deposits, and loan portfolios (Ranguma, 2023). However, increased competition from commercial banks and fintech firms, coupled with regulatory and technological changes, has heightened the need for SACCOs to enhance their financial performance and sustainability (González et al., 2019).

Profitability, commonly measured using indicators such as return on assets (ROA), return on equity (ROE), and net interest margin (NIM), remains a critical indicator of SACCO sustainability and their ability to deliver value to members. Among the key determinants of profitability is budget planning, which involves forecasting revenues, allocating resources efficiently, and controlling expenditures to achieve financial objectives. Effective budget planning enhances financial discipline, supports strategic decision-making, and helps mitigate risks such as non-performing loans (NPLs), which continue to pose a major threat to SACCO profitability by reducing income and straining financial resources.

Despite the importance of budget planning, many SACCOs in Kenya face challenges related to weak budgeting practices, including poor forecasting, inadequate monitoring, and inefficient resource allocation, which negatively affect financial performance. While prior studies have examined various determinants of SACCO profitability, limited focus has been placed on the specific influence of budget planning. This study therefore examines the effect of budget planning on the profitability of registered SACCOs in Kenya, with the aim of providing insights that can enhance financial management practices and sector sustainability.

## **II. Literature Review**

### **2.1 Agency theory**

Agency theory, as explained by Jensen and Meckling (1976), described the relationship between principals (owners or members of an institution) and agents (managers or employees) who are entrusted with decision-making authority on behalf of the principals. In Kenyan SACCOs, members act as principals by electing boards and appointing managers to run daily operations, while managers and credit officers act as agents responsible for loan approval, loan recovery, and the implementation of budgeting practices related to lending and credit control. The theory explained that conflicts may arise when agents pursue personal or short-term goals that differ from the objectives of the members, especially in situations of information asymmetry where managers have more knowledge about financial and operational decisions than the principals. In the context of SACCO budgeting, weak enforcement of budgets, credit limits, and recovery targets may allow managers to approve high-risk loans, relax credit standards, or ignore budgetary controls in order to meet performance targets or gain personal benefits (Eisenhardt, 1989). Such actions weakened financial discipline, increased the likelihood of loan default, and contributed to the growth of non-performing loans (NPLs). Agency theory provided a useful framework for understanding the relationship between principals (owners or members) and agents (managers) in organizations, including SACCOs (Jensen & Meckling, 1976; Eisenhardt, 1989). One of its main benefits was that it highlighted the need for governance structures and monitoring mechanisms to reduce conflicts of interest between principals and agents. In SACCOs, the theory helps explain why boards of directors and management must establish controls such as transparent financial reporting, performance evaluation, and auditing to ensure that managers act in the best interests of members. By applying agency theory, SACCOs can design incentive systems, accountability frameworks, and supervision processes that align managerial behaviour with organizational goals, thereby reducing opportunistic actions, improving loan quality, and minimizing non-performing loans (NPLs). It also provided a conceptual basis for evaluating how managerial decisions, risk-taking, and adherence to policies impact the financial sustainability and profitability of SACCOs.

Despite its usefulness, agency theory had limitations. The theory assumed that all conflicts between principals and agents were primarily financial and could be mitigated through monitoring, contracts, and incentives. However, in practice, not all managerial behavior can be controlled through financial incentives alone, as issues such as ethics, organizational culture, and personal values also influence decision-making. In SACCOs, overemphasis on monitoring and performance-based incentives may increase operational costs and create a culture of distrust between members and management. Moreover, the theory tends to assume rational behavior and perfect information, but in real-world SACCO operations, information asymmetry, incomplete contracts, and unpredictable borrower behavior can limit the effectiveness of agency controls. These limitations may reduce the ability of SACCOs to fully mitigate risks related to loan defaults and NPLs (Eisenhardt, 1989).

Critics argued that agency theory could be too narrow and mechanistic, focusing primarily on monitoring and incentives without fully considering broader organizational, social, and psychological factors. For example, in SACCOs, the relationship between members and managers is not purely transactional; trust, social norms, and member engagement also play a critical role in shaping managerial behavior (Eisenhardt, 1989). Additionally, some scholars suggested that excessive focus on minimizing agency costs can lead to rigid governance systems that stifle managerial innovation and flexibility, potentially limiting the SACCO's ability to respond to changing market conditions. Critics also pointed out that the theory was largely normative, offering prescriptions for aligning agent-principal interests but providing limited

guidance on how to balance control mechanisms with empowerment and participatory decision-making (Jensen & Meckling, 1976).

Agency theory emphasized on the importance of budget planning as a key control mechanism for aligning the actions of managers (agents) with the objectives of SACCO members (principals). According to Jensen and Meckling (1976), budgets served as formal plans that set targets, allocate resources, and limit managerial discretion, thereby reducing information asymmetry and opportunistic behavior. In SACCOs, effective budget planning guides loan disbursement, operating expenses, and recovery targets, ensuring that resources are directed toward income-generating activities while costs are controlled. By strengthening accountability and enabling systematic monitoring, budget planning improves loan quality, reduces non-performing loans, and enhances operational efficiency. Consequently, adherence to well-designed budgets supports stable income growth, reduced losses from loan defaults, and improved profitability of SACCOs.

### **2.2 Empirical review**

Mersland and Strøm (2014) investigated the effects of financial planning practices, including budget planning, on the profitability of cooperative financial institutions, including SACCOs, across over 20 developing and emerging economies in Africa, Asia, and Latin America. The study targeted management staff and finance officers and focused on revenue forecasting, expenditure planning, and budget discipline as explanatory variables, measuring profitability using net operating surplus and return on assets. Employing a panel data research design, the study found a positive and statistically significant relationship, showing that institutions with formal budget planning processes achieved higher net surpluses, improved cost efficiency, enhanced income predictability, and better-informed financial decision-making. The results also indicated that the magnitude of effect varied according to institutional size and regulatory environment. Recommendations included institutionalizing formal budget planning frameworks, aligning them with strategic objectives, continuous monitoring of budget implementation, and promoting capacity-building programs and regulatory standards to enhance profitability globally.

Cuevas and Fischer (2006) examined the effects of financial planning and budget discipline on the profitability of cooperative financial institutions, including SACCOs, across more than 15 countries in Latin America, Africa, and Asia. The study focused on income forecasting, expenditure planning, and budget discipline as key variables, while profitability was measured using net operating surplus and surplus growth ratios. Using a comparative longitudinal research design with data from cooperative regulatory bodies, audited financial statements, and institutional surveys, the study found a positive and statistically significant relationship, indicating that cooperatives with formal and realistic budget planning frameworks consistently reported higher operating surpluses, stabilized income streams, and improved ability to make timely financial decisions. The study recommended adopting standardized budget planning practices globally, integrating budget planning with strategic and operational objectives, and implementing continuous capacity-building programs for managers to enhance sustainable profitability. Mwangi and Karanja (2018) investigated the effects of budget planning on the profitability of licensed deposit-taking SACCOs in Kenya and Uganda, targeting senior managers, accountants, and finance officers involved in budget preparation and implementation. The study focused on key budget planning practices, including revenue forecasting, expenditure planning, and budget formulation procedures, while profitability was measured using net surplus and return on assets derived from audited financial statements. Employing a cross-sectional research design with structured questionnaires and secondary financial data, the study found a positive and statistically significant relationship, showing that SACCOs that implemented structured and participatory budget planning processes reported higher net surpluses, minimized cost overruns, and enhanced surplus generation. The study emphasized that disciplined budget planning enabled SACCOs to align operational activities with financial capacity and anticipate liquidity challenges. Recommendations included strengthening budget planning frameworks, adopting realistic revenue target projections, enforcing expenditure limits, integrating budgeting with strategic planning, and continuous capacity building for finance staff, alongside stronger regulatory oversight.

Njeru (2016) examined the effects of budget planning on the profitability of deposit-taking SACCOs registered under SASRA in Kenya, focusing on finance managers and senior management staff involved in budget preparation and implementation. The study analyzed budget planning variables such as revenue forecasting, expenditure planning, and budget approval procedures, while profitability was measured using net surplus and growth in retained earnings. Using a descriptive cross-sectional research design with primary data from questionnaires and secondary financial records, the study found a positive and statistically significant relationship, indicating that SACCOs with detailed and realistic budgets experienced improved net surpluses, reduced financial wastage, and enhanced alignment between operational activities and financial capacity. The study recommended adopting structured and comprehensive budgeting frameworks, involving departmental heads to improve budget realism and ownership, and continuous training for staff on budgeting techniques and financial planning to strengthen profitability.

Wambui (2019) investigated the relationship between budget planning practices and profitability of deposit-taking SACCOs in Nairobi County, Kenya, targeting senior management and accounting staff. The study focused on formal budget planning variables, including revenue projections and expenditure ceilings, while profitability was measured using return on assets and net operating surplus. Employing a correlational research design with both primary and secondary financial data, the study found a weak negative relationship between budget planning and profitability, noting that overly conservative revenue projections and rigid expenditure limits constrained marketing initiatives, technology investments, and loan expansion activities, thereby suppressing profit growth. The study recommended that SACCOs align budget planning with strategic growth objectives, avoid overly restrictive budgeting, and conduct periodic budget revisions to accommodate market and operational dynamics.

Mutiso (2017) examined the effect of budget planning on profitability of non-deposit-taking SACCOs in Machakos County, Kenya. The study targeted finance officers and management committee members and analyzed budget preparation procedures and expenditure forecasting, while profitability was measured using net surplus and surplus growth trends. A descriptive cross-sectional research design was adopted, with data collected through structured questionnaires. The findings revealed a negative and statistically insignificant relationship between budget planning and profitability, highlighting that unrealistic annual budgets and strict adherence hindered income-generating activities and delayed operational decisions. The study emphasized the need for flexible and adaptive budgeting approaches, linking budget planning with continuous review mechanisms to ensure responsiveness to changing financial conditions.

Omwenga and Chumo (2018) examined the effect of budget planning on profitability of deposit-taking and non-deposit-taking SACCOs across Kenya, Uganda, and Tanzania. Targeting finance managers and senior management involved in budget preparation and implementation, the study focused on budget planning practices such as revenue and expenditure forecasting, budget formulation, and approval procedures. Profitability was measured using net operating surplus and return on assets, and a cross-sectional research design was employed, using structured questionnaires and secondary financial records. The findings revealed a negative and statistically insignificant relationship, noting that poor implementation of formal budgets and lack of adaptive management constrained income generation and delayed operations. The study recommended flexible budgeting approaches, regular reviews, and management capacity building to link budget planning with strategic profitability objectives and operational realities.

While existing studies have provided valuable insights into the relationship between budget planning and SACCO profitability, most had focused narrowly on specific aspects of budgeting, such as revenue forecasting or expenditure planning, or examined limited regions without fully capturing other important budgeting practices, such as loan portfolio budgeting, which can influence the level of non-performing loans and, consequently, affect profitability. Additionally, many studies had relied on primary survey data, leaving a gap in empirical evidence based on secondary financial records that reflected actual performance outcomes. Given Kenya’s evolving economy and the growing role of SACCOs in financial inclusion, there was a need to examine how comprehensive budget planning including loan portfolio budgeting affects SACCO profitability through its impact on non-performing loans. This study sought to bridge these gaps by analyzing the effects of budget planning on SACCO profitability using secondary data and a cross-sectional research design, providing a data-driven understanding of how Budget planning affects the profitability of SACCOs in Kenya.

**III. Findings of the Study**

**3.1 Correlation analysis**

Correlations		Return on Asset	Planning variance
Planning variance	Correlation	-.067	1.000
	Significance (2-tailed)	.643	.
	Df	49	49

Planning variance exhibited weak and statistically non-significant correlations with return on assets ( $r = -0.067$ ,  $p = 0.643$ ), suggesting that while planning variance is important for operational alignment, it does not directly affect profitability.

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B
-------	-----------------------------	---------------------------	---	------	---------------------------------

	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	-.193	1.470		-.131	.896	-3.152	2.765
Planning variance	.052	.401	.003	.129	.898	-.756	.859

The planning variance, the unstandardized coefficient was 0.052, with a standard error of 0.401, a standardized beta of 0.003, a t-value of 0.129, and a p-value of 0.898. This means that a one-unit increase in planning variance would lead to a very small increase of 0.052 units in return on assets, holding other factors constant. However, this effect is not statistically significant because the p-value is far greater than 0.05. The 95% confidence interval ranges from -0.756 to 0.859, which includes zero, further confirming that planning variance does not have a meaningful effect on return on assets in this model. Statistically, the very small beta coefficient also shows that planning variance contributes almost nothing to explaining changes in profitability.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

$$Y = -0.193 + 0.052PV + \varepsilon$$

#### IV. Conclusion of the Study

From the findings, planning variance while important for operational alignment and financial discipline, do not have a significant direct effect on profitability. This implies that SACCOs achieve higher ROA primarily through rigorous cost management practices rather than through planning activities alone.

#### REFERENCES

- [1.] Cuevas, C. E., & Fischer, K. P. (2006). Cooperative financial institutions: Issues in governance, regulation, and supervision. World Bank.
- [2.] Eisenhardt, K. M. (1989). Agency theory: An assessment and review. *Academy of Management Review*, 14(1), 57–74.
- [3.] Gamba, P., & Komo, I. (2018). Evolution, growth and decline of the cooperative sector. *Journal of Co-operative Organization and Management*, 6(2), 1–10.
- [4.] González, A., Rosenberg, R., & Narain, S. (2019). The state of microfinance and financial inclusion. Consultative Group to Assist the Poor (CGAP).
- [5.] International Labour Organization (ILO). (2020). Cooperatives and the world of work. ILO.
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
- [6.] Ledgerwood, J., & White, V. (2012). Transforming microfinance institutions: Providing full financial services to the poor. World Bank.
- [7.] Mersland, R., & Strøm, R. Ø. (2014). Microfinance: Costs, lending rates, and profitability. *Handbook of Key Global Financial Markets, Institutions, and Infrastructure*, 149–161.
- [8.] Mutiso, P. (2017). Effect of budgeting practices on financial performance of non-deposit taking SACCOs in Machakos County, Kenya.
- [9.] Mwangi, M., & Karanja, J. (2018). Budget planning and financial performance of deposit-taking SACCOs in East Africa. *International Journal of Finance and Accounting*, 3(2), 45–58.
- [10.] Njeru, A. (2016). Effect of budgeting on financial performance of deposit-taking SACCOs in Kenya.
- [11.] Omwenga, J., & Chumo, V. (2018). Budgeting practices and financial performance of SACCOs in East Africa. *African Journal of Business Management*, 12(5), 120–130.
- [12.] Ranguma, J. (2023). SACCO supervision annual report 2023. SACCO Societies Regulatory Authority (SASRA), Kenya.
- [13.] Wambui, L. (2019). Budgeting practices and financial performance of SACCOs in Nairobi