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THE EFFECT OF PORTFOLIO MANAGEMENT STRATEGIES ON FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT COOPERATIVE ORGANISATIONS IN MOMBASA COUNTY IN KENYA

*** Bruce Katana Barawa**

****Fredrick Ogilo**

*MBA Student University of Nairobi

**Lecturer University of Nairobi Faculty of Business and Management Science

ABSTRACT

The objective of this study was to examine how different portfolio management strategies have affected the bottom lines of SACCOs in Mombasa County in Kenya. Research was conducted using a descriptive research approach, and the sample included a total 260 Co-operative Societies which are active, in which some provide Front Office Service Activities (FOSAs). Both primary and secondary sources of data were used for this study. Portfolio management strategies were evaluated using primary data, while financial performance was evaluated using secondary data. Findings showed that financial results were considerably impacted by investment strategies that ranged from extremely risk-averse to moderately risky, conservative, and value-oriented. As much as 86% of Saccos' financial performance was attributed to the portfolio management strategies employed by the institutions. Increases in the use of value investing, moderate risk, conservative, and very risk-averse portfolio management strategies all contributed to better financial results for Saccos. The Saccos' bottom lines benefited from prudent portfolio management practices. The study recommends that portfolio management strategies should be adopted by Saccos; this will help in bettering their financial performance in the wake of economic downturn. There should be enactment of proper supportive legislation for portfolio management strategies.

Key words: Portfolio Management, Saccos, Financial Performance, Front office Service Activities

1.0 INTRODUCTION

Portfolio Management Strategies refers to the techniques used for the administration of portfolios to create the highest potential benefits with the lowest conceivable risks (Ferri, 2009). Aggressive or cautious portfolio management strategies are both possible. The balanced strategy of combining both well works well at all times. Investors must adopt hybrid techniques that combine parts of running portfolio management strategy from the top to down and the bottom-up models in order to link portfolio management with both the movements in and development of capital markets in order to strategically align portfolios to market cycles. The top-down method assesses which businesses and varied sectors are projected to do well given the present cycles in the economy by first looking at the market as a whole.

These include the value investing approach, the modest risk investment plan, the conservative investment plan, and the extremely risk-averse investment plan. In this market, bargain hunters go in search of a magnificent dark horse investment that will make them a killing. After careful investigation of the company and the market, they make investment decisions. Stock prices will skyrocket, they believe, once the market realizes the stocks' potential. (Jones, 2009). Low volatility investing is an approach to investing with the goal of minimizing portfolio risk by holding a relatively limited number of equities known for their steadiness and predictability. These help decrease the influence of the portfolio's high-risk securities and cushion the blow of a market decline. (Ferri, 2009). Conservative investors are those who would rather not take the chance of losing their money in the hopes of making a lot of money quickly. (Fama & French, 1992). Even when market conditions exhibit definite bullish trends, investors with a high aversion to risk are hesitant to make purchases. Due to their fear of losing money, they fail to capitalize on the stock market's fluctuations. (Ferri, 2009). Using the high-risk aversion investment strategy moderate risk investment strategy, conservative investment plan, and value investment approach, portfolio management strategies were evaluated (Kirumba, 2012; Iregi & Okeyo, 2017).

Financial performance indicates how efficiently a company uses its assets to produce money from its core activity. It is a generic indicator of a company's financial health over a particular period and analyzes the aggregate performance of enterprises in a certain industry or industries. Profits must be adequate for a business to maintain operations and receive cash for expansion and growth (Pandey, 1999). There exist several approaches to determining financial success which should be aggregated. Items like the returns from the operations being run, the total sales, cashflows and operating income may be used. These ratios are applicable to all businesses, but they are especially significant when examining SACCOS and other businesses. The analysis of insurers employees different models which includes investment yield, operational and combined underwriting leverage, and returns on investment are used to analyze insurers. These metrics are

essential for assessing profitability and principal net asset turnover (Nissim, 2010). Return on Assets was used to assess financial performance in this study.

1.1 RESEARCH PROBLEM

The majority of recent research has centered on the decision between passive versus active portfolio management. Given the theoretical and empirical findings of Malkiel (2003), it appears that passive management is the superior option for single-period and multi-period portfolios. Portfolio management typically center on collection of individuals securities by a rational investor in such a manner that a risk and return of the items in the portfolio are optimized. Every rational investor seeks to achieve two things simultaneously (maximizing returns and minimizing risk). There has been a general disagreement among scholars among what constitutes portfolio management strategies, some using the active and passive portfolio management strategies (Lambe, 2018; Alaaeddin & Mohmmad, 2015, Campbell, 2002) while others using Value investing, conservative investing, investing at low risk, and investing at high risk are all acceptable investment strategies. (Malkiel, 2003; Ferri, 2009). There is need for more studies to ascertain the most appropriate portfolio management strategies towards financial performance.

Shaukat and Shahzad (2018) studied the influence of portfolio strategies on the presentation of the portfolio and risk for listed firms in Paskistan. Zahirović & Okičić (2016) studied the implications of risk aversion on the success of securities portfolios in developing capital markets: the instance of Bosnia and Herzegovina's capital market. This research did not cover the aspect of financial performance and more so were conducted in a foreign context. Mpumwire and Mulyungi (2018) studied the effect of portfolio management performance of the Rwanda's banking industry with a focus on the Rwanda Development Bank. Although this study covered portfolio management it did not cover the portfolio management strategies. Micheni (2013) wanted to learn about Centum Investments' (CI) portfolio management practices and the effects those practices had on CI's financial results. The research discovered that leverage methods, yield spread methods, interest rate expectation plans, individual securities appointed strategies, and yield curve strategies positively benefited Centum Investments' financial performance. Studies reviewed have covered various contexts: listed firms(Shaukat & Shahzad, 2018), capital markets(Zahirović & Okičić, 2016), banks(Mpumwire & Mulyungi, 2018, investment firms(Micheni, 2013) with SACCOs largely being ignored. It is by the foregoing that a study on SACCOs suffices since SACCOs are regulated differently and offer a different industry dimension.

1.2 RESEARCH OBJECTIVE

To determine the effect of portfolio management strategies on the financial performance of SACCOs in Mombasa County in Kenya.

1.0 METHODS

The study employed descriptive design. For this study, 260 participants were used as the population size. Pilot testing was done to establish the precision and suitability of the study concept and apparatus. Multiple linear regression was employed. The regression model was

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where

Y = Financial performance as measured by ROE

α , Constant term which shows the performance level in the absence of any independent variables

$\beta_1, \beta_2, \beta_3, \beta_4$, and β_5 coefficient functions of the independent variables

X_1 = Value Investment Strategy

X_2 = Moderate Risk Investment Strategy

X_3 = Conservative Investment Strategy

X_4 = High Risk Averse Investment Strategy

3.0 RESULTS

The analysis of data resulted in the presentation of the regression model's coefficient. The regression equation was found to be as shown below, this is depicted from the coefficients derived from table 1.

$$Y = 0.153 + 0.253X_1 + 0.151X_2 + 0.156X_3 + 0.365X_4$$

Y –Financial Performance

X_1 –Value Investment Strategy

X_2 –Moderate Risk Investment Strategy

X_3 –Conservative Investment Strategy

X_4 –High Risk Averse Investment Strategy

Table 1 Coefficients of the Regression Model

| Model | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. | Collinearity Statistics | |
|---|-----------------------------|------------|---------------------------|-------|------|-------------------------|-------|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| Constant | .153 | .195 | | .783 | .437 | | |
| Value Investment Strategy(X_1) | .253 | .113 | .319 | 2.234 | .030 | .135 | 7.428 |
| Moderate Risk Investment Strategy(X_2) | .151 | .073 | .124 | 2.078 | .043 | .774 | 1.292 |
| Conservative Investment Strategy(X_3) | .156 | .078 | .163 | 2.009 | .050 | .417 | 2.399 |
| High Risk Averse Investment Strategy(X_4) | .365 | .121 | .437 | 3.022 | .004 | .132 | 7.596 |

a. Dependent Variable: Financial Performance(Y)

Saccos' financial performance is 15.3% when there are no independent factors, such as when there are no portfolio management methods in place. The financial results of Saccos improve by 25.3% for every unit of value investment strategy growth. Saccos get a 15.1% boost in profitability for every unit of moderate risk investing plan added. If Saccos adopt a more cautious investment strategy, even a one-unit improvement in that plan boosts their bottom line by 15.6%. Finally, a 36.5 percentage point improvement in Saccos' bottom lines is attributable to a more risk-averse investment approach. Portfolio management strategies therefore affect financial performance of Saccos positively.

The correlation analysis was done and presented in Table 2 below:

Table 2: Correlations of the Study Variables

| | | Correlations | | | | |
|------|---------------------|---------------------------|-----------------------------------|----------------------------------|--------------------------------------|-----------------------|
| | | Value Investment Strategy | Moderate Risk Investment Strategy | Conservative Investment Strategy | High Risk Averse Investment Strategy | Financial Performance |
| VIS | Pearson Correlation | 1 | | | | |
| | Sig. (2-tailed) | | | | | |
| | N | 52 | | | | |
| MRIS | Pearson Correlation | .447** | 1 | | | |
| | Sig. (2-tailed) | .001 | | | | |
| | N | 52 | | | | |
| CIS | Pearson Correlation | .731** | .423** | 1 | | |
| | Sig. (2-tailed) | .000 | .002 | | | |
| | N | 52 | | | | |
| HRIS | Pearson Correlation | .926** | .401** | .748** | 1 | |
| | Sig. (2-tailed) | .000 | .003 | .000 | | |
| | N | 52 | | | | |
| FP | Pearson Correlation | .898** | .511** | .775** | .904** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | |
| | N | 52 | | | | |

** . Correlation is significant at the 0.01 level (2-tailed).

A value investing approach was identified to have a strong positive correlation with SACCOS' financial success (r=0.898, p=0.0000<05, 5% significance. SACCOS are able to improve their financial results as a direct result of adopting a value investment strategy. Investment strategies with a moderate level of risk were identified to have a moderate positive relationship with the financial success of SACCOS (r=0.511, p=0.0000<.05, df=1) at the 5% significance level. An improvement in SACCOS' bottom lines is correlated with a more conservative investment strategy. At the 5% level of significance, a strong correlation of 0.775 was discovered between a conservative investment approach and the financial success of SACCOS. Financial results for SACCOS can improve as a result of increased cautious investment. At the 5% level of significance, a correlation of 0.898 was discovered between a high risk-averse investment approach and the financial success of SACCOS. SACCOS are able to achieve better financial results as a result of adopting a more risk-averse investment approach.

4.0 CONCLUSION

A value investing approach was discovered to have a strong positive correlation with SACCOS' financial success. Saccos were established to get a 15.1% boost in profitability for every unit of

moderate risk investing plan added. Investment strategies with a moderate level of risk were found to have a moderate positive correlation with the financial success of SACCOs. An improvement in SACCOs' bottom lines was found to be strongly correlated with a more conservative investment strategy.

If Saccos adopt a more cautious investment strategy, even a one-unit improvement in that plan boosts their bottom line by 15.6%. At the 5% level of significance, a correlation of 0.775 was discovered between a conservative investment approach and the financial success of SACCOs. Financial results for SACCOs can improve as a result of increased cautious investment. Four investment styles were found to significantly affect financial outcomes: a high-risk aversion approach, a moderate-risk strategy, a conservative style, and a value style. Portfolio management strategies accounted for as much as 86% of the positive financial outcomes for the Saccos. In addition, the financial results of Saccos improved as the number of portfolio management methods increased. A few examples of these approaches are value investing, moderate risk, conservative, and extremely risk adverse. The bottom lines of Saccos benefit from prudent portfolio management.

5.0 RECOMMENDATIONS OF THE STUDY

The research recommends that portfolio management strategies be adopted by Saccos. This will help in improving their financial performance in the wake of economic downturn. Portfolio management strategies help in diversification of the investment options of Saccos. There should be enactment of proper supportive legislation for portfolio management strategies.

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