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Regulatory Costs and Financial Performance of Licensed Deposit Taking Credit Co-Operative Societies in Kenya

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Abstract: Regulatory costs refer to the expenses firms incur to comply with industry regulations, including costs related to human capital, time, and technology systems. In Kenya, Savings and Credit Cooperative Societies (SACCOs) contribute over 30% to GDP and hold 80% of national savings. SACCOs are regulated by the Sacco Societies Regulatory Authority (SASRA), which oversees their licensing and supervision to ensure sound financial practices. By 2019, only 177 out of 245 SACCOs that applied for deposit-taking licenses had been approved. However, by 2022, the number declined to 176 due to license suspensions and additions. Regulatory compliance is costly, and many SACCOs struggle to balance compliance with financial performance. While compliance is necessary, it should not undermine the financial goal of maximizing shareholders' wealth. The strict regulatory demands have resulted in fewer SACCOs meeting licensing requirements, highlighting the financial strain associated with compliance. This study aimed to assess the impact of regulatory compliance costs on the financial performance of licensed deposit-taking SACCOs in Kenya. Using a census approach, the study analyzed secondary data from audited financial statements of all licensed SACCOs. Logistic multiple regression analysis was employed to evaluate the relationship between regulatory costs and financial performance. Findings from this study are expected to inform SACCO management and regulators on how compliance costs affect performance, and how best to balance regulation with financial sustainability.

Keywords: Regulatory Costs, Compliance, Financial Performance, Deposit Taking Credit Co-Operative Societies, Sacco Societies Regulatory Authority

1.0 Introduction

1.1 Background to the Study

Regulatory costs are the additional expenses, excluding administrative costs, that organizations must bear to meet specific legal or regulatory requirements. These include substantive compliance costs, implementation costs, direct labor, equipment, materials, and external service fees (Hackett & Janský, 2022). Amin et al. (2018) define regulatory costs as those incurred by entities required to take actions to conform to regulatory standards. These costs extend beyond operational expenses and can be classified into administrative burdens, enforcement costs, and substantive compliance expenses (Coglianese, 2022). As such, regulatory costs encompass both direct and indirect costs borne not just by firms, but also by consumers and regulatory agencies. Under the Standard Cost Model (SCM), they are primarily divided into substantive and administrative costs. It is essential for businesses to allocate resources continuously to meet ongoing compliance needs, even after initial licensing.

Globally, countries have developed structured frameworks to manage regulatory costs. In Australia, for instance, all proposed regulations must undergo a Regulation Impact Statement (RIS), which includes compliance cost estimates using the Business Cost Calculator (BCC) developed by the Office of Best Practice Regulation (OBPR). The BCC measures administrative and substantive compliance tasks but excludes opportunity costs (Gibson, 2017). Germany employs a citizen-centric model which calculates regulatory costs based on time and resources required to meet legal obligations (Buhne, 2013). In Asia, countries face unique challenges, including abrupt regulatory changes and inadequate consultation, making compliance difficult for businesses (Mizuno, 2017; Osentoski, 2017). These variations highlight how regulatory environments can influence both the complexity and cost of compliance across regions.

In Kenya, the financial sector is governed by multiple regulatory bodies, resulting in overlapping and sometimes conflicting compliance requirements. SACCOs, regulated by the Sacco Societies Regulatory Authority (SASRA), are required to meet stringent regulatory conditions before being licensed to take deposits. These include meeting capital adequacy thresholds, governance standards, and infrastructural requirements regardless of the SACCO's size (Kenya Gazette Supplementary Acts, 2008). Muriuki (2013) argues that a one-size-fits-all regulatory approach is unsuitable for SACCOs compared to other financial institutions.

SASRA's comprehensive compliance framework, while aimed at financial prudence, imposes significant financial strain on SACCOs, affecting their operational efficiency and ability to scale.

1.2 Statement of the Problem

The financial performance of licensed deposit-taking Savings and Credit Cooperative Societies (SACCOs) in Kenya has been a growing concern in recent years. Despite their significant contribution to national savings and financial inclusion, many SACCOs continue to struggle financially, raising questions about the factors undermining their sustainability. One key but underexplored factor is the burden of regulatory costs which are the expenses SACCOs must incur to meet licensing and compliance requirements set by the Sacco Societies Regulatory Authority (SASRA).

While regulations are critical for promoting stability, transparency, and consumer protection, the cost of compliance may have unintended consequences on the financial health of SACCOs. These costs include ongoing investments in technology, governance structures, staff training, reporting systems, and audits. Although prior studies have examined SACCO performance, they have largely overlooked the specific financial implications of regulatory costs, especially among licensed deposit-taking SACCOs.

Furthermore, existing literature does not adequately address the moderating role of key institutional or operational variables (such as size, technological capacity, or internal governance strength) on the relationship between regulatory costs and financial performance. This gap leaves policymakers and SACCO managers without a clear understanding of how or when regulatory costs are most detrimental for financial outcomes.

Statistically, of the 245 SACCOs that applied for licenses between 2013 and 2022, only 176 were approved. The rest were unable to meet the regulatory demands, and by 2022, four SACCOs had their licenses revoked due to non-compliance. These trends reflect a pressing issue: while regulatory frameworks are essential, the financial strain from regulatory costs may be compromising SACCO viability rather than enhancing it. This study, therefore, seeks to examine the effect of regulatory costs on the financial performance of licensed deposit-taking SACCOs in Kenya, while also investigating the moderating variables that may influence this relationship. Understanding this dynamic is critical for developing regulatory policies that support—not suppress—financial sustainability in the SACCO sector.

1.3 Objective of the Study

The objective of this study was to determine the effect of regulatory costs on the financial performance of licensed deposit-taking credit co-operative societies in Kenya and to determine whether firm size moderates this relationship.

1.4 Research Hypothesis

H₀₁: Regulatory costs had no significant effect on financial performance of licensed deposit taking credit co-operative societies in Kenya.

H₀₂: Size of Sacco had no significant effect on the relationship between regulatory costs and financial performance of licensed deposit taking credit co-operative societies in Kenya.

2.0 Literature Review

2.1 Theoretical Literature Review

This study was anchored on Compliance Systems Theory, which provides a comprehensive framework for understanding the structures, behaviors, and outcomes associated with regulatory compliance. According to Ongore and Kusa (2019), the theory conceptualizes compliance as a systemic process involving regulators, firms, executives, and inter-organizational arrangements, all of which are influenced by economic, institutional, and behavioral forces. This framework is particularly relevant in regulated sectors such as financial services, where the cost of compliance can significantly affect organizational performance. Compliance Systems Theory goes beyond viewing compliance as a static obligation; it incorporates both deterrent and normative elements. Studies by

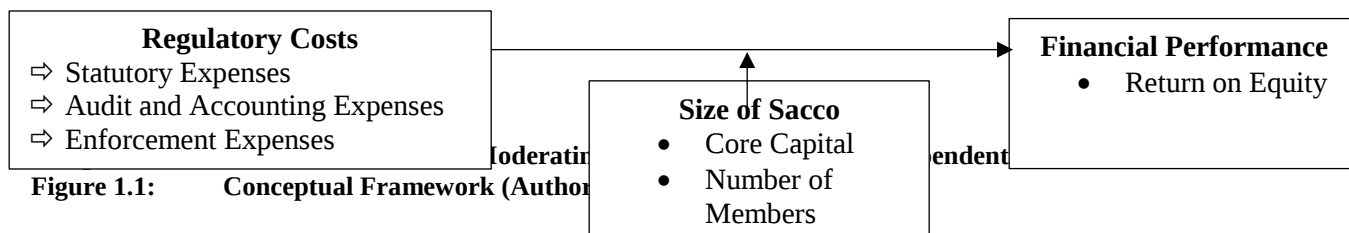
Abdi and Mahesh (2018) and Amin et al. (2018) support this approach by emphasizing the role of social norms, moral obligations, institutional trust, and perceived legitimacy in influencing organizational compliance. These factors interact with enforcement mechanisms and internal firm characteristics to determine both the behavior and cost of compliance.

In the context of licensed deposit-taking SACCOs in Kenya, this theory helps explain how regulatory costs including expenses for systems, staffing, reporting, and technology emerge from both external regulations and internal compliance structures. The theory supports the notion that compliance behavior is resource-intensive, and thus has financial implications. As SACCOs seek to comply with SASRA's licensing requirements, they must make strategic financial decisions that may affect their profitability and sustainability. Moreover, Compliance Systems Theory accommodates the influence of organizational characteristics, such as firm size, which may moderate the impact of regulatory costs on financial performance. Larger SACCOs may have more resources and economies of scale to absorb compliance-related expenses, while smaller ones may experience disproportionate financial strain. This theoretical grounding allows the study to explore not only the direct effect of regulatory costs but also how firm size may influence this relationship. was anchored on Compliance Systems Theory, which offers a comprehensive framework for understanding and predicting compliance-related outcomes. According to Ongore and Kusa (2019) this theory conceptualizes compliance as a dynamic system involving multiple actors such as regulators, firms, executives, and inter-organizational structures each influenced by both economic and non-economic institutional forces. By examining these forces at each level, the theory provides insight into the drivers of compliance behavior, supporting the development of more effective regulatory policies and practices. This approach is especially relevant in sectors such as financial services, where compliance failures can create systemic risks and trigger costly policy overhauls.

Drawing from empirical studies such as those by Abdi and Mahesh (2018 and Ami et al. (2018) the theory integrates both deterrent models and normative frameworks that include moral obligation, social influence, and perceived legitimacy. These models demonstrate that beyond penalties and enforcement, stakeholder commitment and institutional trust significantly influence compliance behavior. In the context of SACCOs in Kenya, Compliance Systems Theory was employed to assess how regulatory costs affect financial performance, recognizing that compliance practices encompass not only formal adherence to laws but also internal norms, governance structures, and resource allocation. This theoretical grounding allowed the study to explore the balance SACCOs must strike between meeting regulatory demands and sustaining financial health.

2.2 Conceptual Framework

This study conceptualizes the relationship between regulatory cost and financial performance of licensed deposit taking Sacco's in Kenya and firm size as the moderating variable.



According to KPMG (2013), regulatory costs are those incurred by governments and regulators in administering and enforcing compliance requirements, often overlapping with compliance costs as they are essential to achieving regulatory objectives. These include the costs of publicizing regulations, developing licensing systems, processing applications and renewals, inspections, audits, and enforcement strategies requiring professional judgment. McNulty (2017) adds that estimating these costs depends on understanding how the regulated group behaves in response to new requirements. Coglianese (2012) emphasizes that evaluating regulatory policies should focus on substantive and process outcomes, using indicators such as impact on the targeted issue, cost-effectiveness, and net benefits. Ngai-Ling (2006) supports using net benefit as the most comprehensive evaluation measure, although cost-effectiveness may be used where monetary valuation is not feasible.

According to the National Audit Office (2016), performance information is vital for regulators to assess risk levels, resource allocation, and the effectiveness of mitigation strategies. In the context of SACCOs, ACCOSCA (2011) notes that compliance regulations often do not account for organizational size, disproportionately burdening smaller SACCOs. This occurs due to three primary reasons: regulatory costs form a larger share of overhead, administrative costs remain fixed despite changes in revenue, and senior management in small firms often diverts attention from core operations to regulatory paperwork (Barbone et al., 2012). Dang et al. (2019) further argue that firm size positively influences profitability and enterprise value, suggesting that SACCOs should focus on expansion and asset acquisition to strengthen their financial position and manage regulatory obligations more effectively.

2.3 Empirical Literature Review

Several empirical studies have examined the relationship between regulatory costs and financial performance of deposit-taking SACCOs in Kenya. Chumo (2013) used a descriptive research design to assess regulatory compliance effects on financial performance of SACCOs in the South Rift Region, finding that adherence to reporting and prudential requirements positively influenced profitability despite the high costs of compliance. Similarly, Ndolo (2017) studied the impact of Central Bank of Kenya regulations on listed commercial banks, concluding that changes in capital adequacy, liquidity management, and credit risk management from 2012 to 2016 significantly affected financial performance. Kiragu (2014) also found that SACCO Societies Regulatory Authority (SASRA) regulations positively affected SACCOs' financial performance in Nairobi, linking improvements to factors such as size, liquidity, capital adequacy ratio compliance, managerial quality, and cost of income.

Regarding firm size and compliance costs, Gabbi et al. (2011) found that compliance costs are disproportionately higher for smaller firms, with the degree of disproportionality varying by legislation. Fernandez et al. (2018) revealed that firm size influences performance explanations differently: large and small firms' performance is mostly explained by firm-specific factors, while medium-sized firms are more affected by industry factors. On financial performance, Irungu (2019) investigated firm-level factors among firms listed on the Nairobi Securities Exchange and found that liquidity, asset tangibility, and firm size positively and significantly influenced performance, while leverage had a negative effect. Additionally, firm age moderated the relationships, suggesting that older firms could better leverage these factors to enhance financial outcomes. Together, these studies highlight the complex interplay between regulatory costs, firm size, and financial performance in Kenya's financial sector.

3.0 Research Methodology

This research study adopts philosophies of quantitative and qualitative research methods reflecting key ontological and epistemological considerations as noted by Galliers (1991) and Bajpai (2011). The research adopted a descriptive design to systematically guide data collection and achieve the study's objectives of understanding regulatory costs and its impact on SACCOs' financial performance in Kenya (Cooper & Schindler, 2003). The target population comprised all 176 licensed deposit-taking SACCOs in Kenya, as per SASRA (2021), providing a comprehensive scope for the study. Data was primarily collected from audited financial statements using a secondary data collection sheet, focusing on regulatory compliance costs and financial performance indicators. Reliability of the instrument was confirmed using Cronbach's Alpha, with scores above 0.7 indicating strong internal consistency (Mugenda & Mugenda, 2013). Data analysis incorporated both qualitative content analysis and quantitative methods via SPSS (version 22), employing descriptive statistics (means, percentages, standard deviations), diagnostic tests (linearity, homoscedasticity, multicollinearity, normality, sample adequacy, reliability, and validity), and inferential statistics (correlation and regression) to explore the relationship between regulatory costs compliance and SACCOs' financial performance.

4.0 Findings and Discussions

The study aimed to determine the effect of regulatory costs on the financial performance of licensed deposit-taking credit co-operative societies in Kenya and to determine whether firm size moderates this relationship.

4.1 Descriptive Statistics

The study sought to determine the mean regulatory costs influence on financial performance of licensed deposit taking credit co-operative societies in Kenya. The references included Annual Audited Reports between the years 2017-2022 of 176 licensed deposit taking credit co-operative societies in Kenya. The findings were as indicated in table 4.1

Table 4. 1: Descriptive Statistics

Descriptive Statistics	N	Minimum	Maximum	Mean	Std. Deviation
Regulatory Cost	1056	.0000	12537593000	812768929.41148	1755485485.8103020
Size of the Sacco	1056	-44602158	71162118562	2911898134.5333	519715773.5089080
Financial Performance	1056	-198223487	8612158000	667287513.24341	1333809511.2321715

From the findings regulatory cost had a mean of 812,768,929.41, with a standard deviation of 1,755,485,485.81. This suggests that, on average, deposit taking SACCOs incur substantial regulatory expenses; however, the high standard deviation indicates considerable variability. Some deposit taking SACCOs face minimal regulatory costs, while others contend with very high expenses. This variation may be due to differences in compliance practices, the stringency of local regulatory environments, or the scale of operations, all of which could influence overall financial performance. The findings are in agreement with those of Muriuki (2018) who found that differences in compliance requirements lead to significant variability in regulatory expenses. Similarly, Okoth and Wanjiru (2020) reported that high regulatory costs can undermine financial stability, while efficient regulatory cost management is crucial for improved performance. Moreover, Abor and Bokpin (2020) in Ghana, examining the banking sector, discussed how

varying levels of regulatory scrutiny and compliance requirements can lead to different cost burdens for institutions. While their focus was on banks, the principle applies to SACCOs as well. Similarly, Moyo and Magaya (2021), studying microfinance institutions in Zimbabwe, highlighted the challenges smaller institutions face in meeting regulatory requirements, which often translates to higher relative costs.

For the Size of the SACCO, the mean was 2,911,898,134.53, with a standard deviation of 7,519,715,773.51, suggesting significant diversity in scale among these institutions. The broad range, including negative minimum values, suggests a diverse scale of operations among the societies. While larger societies might benefit from economies of scale, the presence of negative values may also highlight instances of financial distress or measurement anomalies, indicating that size alone may not uniformly translate into better performance. The findings are in agreement with Abdi and Mahesh (2018) who found that the size of SACCOs plays a critical role in achieving economies of scale, and Kiptoo and Chebet (2020) reported that larger SACCOs typically enjoy competitive advantages in resource mobilization. Ojong and Ojong (2020), studying microfinance institutions in Nigeria, observed a wide range of sizes, reflecting the diverse nature of the sector. The findings reflect this natural diversity within the SACCO sector, with the large standard deviation indicating a wide spectrum of asset bases and membership numbers. Similarly, Maku and Anyaogu (2021), working with cooperative societies in Nigeria, found significant variations in size which they linked to factors such as membership base, access to resources, and operational scope.

4.2 Correlation Analysis

The researcher conducted a correlation analysis to determine the existence and intensity of the associations between the study's independent and dependent variable. The Pearson correlation coefficient measures the strength of a linear association between two variables and takes a range of values from +1 to -1. A value of 0 indicates no association between the two variables. A value greater than 0 indicates a positive association; meaning, as the value of one variable increases, so does the value of the other variable. A value less than 0 indicates a negative association; meaning as the value of one variable decreases, the value of the other variable decreases. A value of 1 indicates perfect positive correlation implying that an increase or decrease in one variable is followed proportionally with an increase or decrease in the other variable.

Table 4. 2: Correlation Without Moderating Variable

Regulatory Cost	Pearson Correlation Sig. (2-tailed) N	Regulatory Cost	Financial Performance
		1	.845**
		1056	1056
Financial Performance	Pearson Correlation Sig. (2-tailed) N	.845**	1
		.000	
		1056	1056

The analysis revealed a very strong, statistically significant positive correlation between regulatory cost and financial performance ($r = 0.845$, $p = 0.000$). This suggests that as regulatory expenditures increase, financial performance of deposit taking SACCOs also tends to improve, which might indicate that higher investments in regulatory compliance and governance are associated with better operational outcomes.

Table 4. 3: Correlation with Moderating Variable

Regulatory Cost	Pearson Correlation Sig. (2-tailed) N	Regulatory Cost	Financial Performance	Size of the Sacco
		1	.845**	.771**
		1056	1056	1056
Financial Performance	Pearson Correlation Sig. (2-tailed) N	.000	.000	.000
		1056	1056	1056
		.845**	1	.848**
Size of the Sacco	Pearson Correlation Sig. (2-tailed) N	.000	.000	.000
		1056	1056	1056
		.771**	.848**	1
Financial Performance	Pearson Correlation Sig. (2-tailed) N	.000	.000	.000
		1056	1056	1056
		.845**	1	.848**

From the analysis it shows a very strong positive correlation between regulatory cost and financial performance ($r = 0.845$, $p < 0.01$), suggesting that higher investments in regulatory compliance are associated with better financial outcomes. In addition, regulatory cost correlates strongly with the size of the SACCO ($r = 0.771$, $p < 0.01$). This indicates that larger SACCOs tend to incur higher regulatory expenses, which may be a reflection of their more extensive operations and more stringent compliance processes. These findings are in agreement with studies by Wangare (2018), who found that larger institutions typically allocate more resources toward regulatory measures, thereby positively influencing their overall performance.

Firm size, represented by the size of the SACCO, is strongly correlated with financial performance ($r = 0.848$, $p < 0.01$), indicating that larger SACCOs tend to achieve better financial outcomes. The moderating role of firm size is evident in its strong correlations with all cost variables: regulatory cost ($r = 0.771$), operational cost ($r = 0.795$), capital cost ($r = 0.864$), and equity cost ($r = 0.842$). These results suggest that as SACCOs expand, their capacity to manage and leverage these cost components improves, leading to enhanced financial performance. This observation is in line with the findings of Cherono and Chebet (2020), who noted that the scale of operations plays a critical role in resource allocation and overall institutional efficiency.

4.3 Regression Analysis Without the Moderating Variable

A model summary was used to establish the relationship between regulatory costs and financial performance of licensed deposit taking credit co-operative societies in Kenya. The findings are shown in Table 4.4

Table 4. 4: Multiple Regression Without Moderating Variable

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.953 ^a	.909	.908	404641507.6888623
a. Predictors: (Constant), Regulatory Cost, Size of Sacco				

The results show that regulatory costs 90.9% to financial performance of licensed deposit taking credit co-operative societies in Kenya while 9.1% is the variation due to other factors which have not been covered in this study.

Analysis of variance was used to determine the fitness of the model in predicting the relationship between regulatory costs and financial performance of licensed deposit taking credit co-operative societies in Kenya. The findings are shown in Table 4.5

Table 4. 5: Anova without Moderating Variable

ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	717853938752837500000.00	4	179463484688209380000.00	1096.062	.000 ^b
Residual	72043289887674870000.00	1051	163734749744715616.00		
Total	789897228640512400000.00	1055			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Regulatory Cost,

The findings show F calculated =1096.062 and the sig value was less than 0.05 inferring that the model was statistically significant to predict relationship between study variables which were regulatory costs and others on the financial performance of licensed deposit taking credit co-operative societies in Kenya. The study conducted a regression coefficient to establish the mean change in financial performance for a unit change in the regulatory costs and other variables of licensed deposit taking credit co-operative societies in Kenya. The finding is shown in Table 4.6

Table 4. 6: Coefficients without Moderating Variable

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	98973841.749	21288843.678		4.649	.000
Regulatory Cost	-.061	.026	-.080	-2.312	.021

a. Dependent Variable: Financial Performance

The constant (intercept) is 98,973,841.749, indicating the baseline level of financial performance when all predictor variables are zero. Regulatory cost has an unstandardized coefficient of -0.061. This negative coefficient indicates that, holding other variables constant, a one-unit increase in regulatory cost is associated with a decrease of 0.061 units in financial performance. This implies that higher regulatory costs may slightly dampen financial performance of deposit taking SACCO. A negative beta coefficient means that an increase in the predictor variable is associated with a decrease in the dependent variable and is also associated with the expectation that a portfolio will move in the opposite direction of the market (Gupta, S. & Aggarwal, D. 2024). Regulatory costs significantly influence the financial performance of licensed deposit-taking credit co-operative societies in Kenya. These costs include compliance expenses, licensing fees, and penalties for non-compliance with regulatory requirements, (Cornforth, 2014). High regulatory costs can strain the financial resources of SACCOs, reducing their profitability and ability to invest in growth opportunities. For instance, the introduction of stringent regulations by the Savings and Credit Cooperative Societies Regulatory Authority has increased operational burdens, leading to higher compliance costs. However, effective regulatory compliance can enhance trust and credibility among members and investors, indirectly improving financial performance. SACCOs that allocate resources efficiently to meet regulatory demands often experience better financial outcomes due to reduced risks of penalties and enhanced operational stability, (Candemir, 2021).

Based on these coefficients, the regression model can be expressed as:

$$Y = 98,973,841.75 - 0.061X_1 + \varepsilon$$

4.4 Hypotheses Testing without Moderating Variables

The study sought to test the first hypotheses H_{01} : Regulatory Costs had no significant effect on financial performance of licensed deposit taking credit co-operative societies in Kenya. The p-value was 0.021, which is less than 0.05 threshold for significance. This finding indicates that regulatory costs significantly influence financial performance. Moreover, the unstandardized coefficient of -0.061 suggests that an increase in regulatory costs is associated with a decrease in financial performance. Therefore, H_{01} is rejected in favor of the alternative hypothesis that regulatory costs do indeed have a significant (and negative) effect on financial performance. The findings are in agreement with those of Ongore and Kusa (2019) who found that regulatory compliance costs negatively affected the financial performance of commercial banks in Kenya. Their study, which focused on the banking sector, revealed that increased regulatory burden, particularly in areas like reporting and compliance, led to higher operational expenses and consequently lower profitability. This is consistent with the present study's findings, suggesting that the negative impact of regulatory costs extends beyond commercial banks to also affect SACCOs. The study also supports the findings of Mungai and Ngugi (2017) who found that the cost of compliance with CBK regulations significantly affected the profitability of commercial banks in Kenya. This suggests that regulatory costs are a significant burden on financial institutions, impacting their profitability.

4.5 Regression with Moderating Variable

A model summary was used to establish the relationship between regulatory costs and financial performance of licensed deposit taking credit co-operative societies in Kenya with firm size as the moderating variables

Table 4. 7: Model Summary with the Moderating Variable**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.954 ^a	.910	.909	403338054.5620753

a. Predictors: (Constant), Size of the Sacco, Regulatory Cost and other variables

The results show that regulatory costs, firm size and other predictor variables contributed 91.0% to financial performance of the deposit taking Saccos. This means that the presence of firm size increases the financial performance of deposit taking Saccos by a margin of 9.0%. It can also be reported from a different perspective that inclusion of the size of the firms to the model may increase the difference in the model outcome.

Table 4. 8: ANOVA with Moderating Variable

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	718480012273285700000.00 0	4	143696002454657 140000.000	883.296	.000 ^b
Residual	71417216367226700000.000	1051	162681586257919 584.000		
Total	789897228640512400000.00 0	1055			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Size of the Sacco, Regulatory Cost

The findings shows that the f calculated =883.296 and p value of less than .05 thus the model is statistically significant to predict the relationship between study variables which were regulatory costs and other with firm size as moderating variable on the financial performance of deposit taking Saccos.

Table 4. 9: Regression Coefficients with Moderating Variable

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	98143339.195	21224489.415		4.624	.000
	Regulatory Cost	-.056	.026	-.074	-2.116	.035
	Size of the Sacco	.011	.006	.063	1.962	.050

a. Dependent Variable: Financial Performance

From the findings, the constant (intercept) is 98,143,339.20, indicating the baseline level of financial performance when all predictor variables are zero. In addition, regulatory cost has an unstandardized coefficient of -0.056, this negative coefficient indicates that, holding other variables constant, a one-unit increase in regulatory cost is associated with a 0.056 unit decrease in financial performance. This resonates with the findings, suggesting that SACCOs, which often have limited resources compared to larger banks, may be particularly sensitive to regulatory cost increases. Similarly, Tetteh et al. (2021) in their study on the banking sector in Ghana, found that regulatory burden had a negative influence on financial performance of banks. Their study demonstrated that increased compliance requirements and associated costs reduced profitability.

However, the size of the SACCO has an unstandardized coefficient of 0.011. This suggests that a one-unit increase in firm size is associated with a 0.011 unit increase in financial performance. This result suggests that larger SACCOs tend to experience a slight improvement in financial performance, likely due to economies of scale. This is consistent with the findings of Olanrewaju and Adedokun (2022) who found that size had a positive influence on the profitability of microfinance banks in Nigeria. Their research

supports the idea that larger institutions can benefit from economies of scale, leading to improved financial performance. This aligns with your findings, suggesting that larger SACCOs may leverage their size to achieve better financial outcomes.

Based on these coefficients, the regression model can be expressed as:

$$Y = 98,143,339.20 - 0.056X_{1m} + \varepsilon$$

H₀₂: Size of Sacco had no significant effect on the relationship between regulatory costs and financial performance of licensed deposit taking credit co-operative societies in Kenya.

The study predicted that firm size would have no significant moderating role in the relationship between regulatory cost and financial performance of licensed deposit taking SACCOs in Kenya. However, the regression analysis shows that regulatory cost has a significant negative effect on financial performance ($B = -0.056$, $t = -2.116$, $p = 0.035$). Although the main effect of regulatory cost is negative, the inclusion of firm size whose coefficient ($B = 0.011$, $t = 1.962$, $p = 0.050$) is marginally significant, suggesting that that larger SACCOs may slightly mitigate this negative impact. The study findings are in tandem with those Lokuwaduge (2018) who found that increased regulatory expenditures typically reduce profitability, particularly among smaller institutions that lack the robust infrastructure to absorb high compliance costs. In contrast, larger SACCOs were better able to manage these costs, resulting in a less pronounced negative impact on financial performance. These detailed findings support our current results, confirming that while regulatory costs are detrimental, firm size does play a moderating role, albeit modestly.

The analysis revealed a very strong, statistically significant positive correlation between regulatory cost and financial performance ($r = 0.845$, $p = 0.000$). This suggests that as regulatory expenditures increase, financial performance of deposit taking SACCOs also tends to improve, which might indicate that higher investments in regulatory compliance and governance are associated with better operational outcomes. From the hypothesis testing the p-value was 0.021, which is less than 0.05 threshold for significance. This finding indicates that regulatory costs significantly influence financial performance. Moreover, the unstandardized coefficient of -0.061 suggests that an increase in regulatory costs is associated with a decrease in financial performance. Therefore, H₀₁ is rejected in favor of the alternative hypothesis that regulatory costs do indeed have a significant (and negative) effect on financial performance. These findings are in agreement with Adewole (2017), who noted that effective regulatory management enhances financial performance, and robust regulatory investments contribute positively to overall sustainability in financial institutions.

From the analysis it shows a very strong positive correlation between regulatory cost and financial performance ($r = 0.845$, $p < 0.01$), suggesting that higher investments in regulatory compliance are associated with better financial outcomes. In addition, regulatory cost correlates strongly with the size of the SACCO ($r = 0.771$, $p < 0.01$). This indicates that larger SACCOs tend to incur higher regulatory expenses, which may be a reflection of their more extensive operations and more stringent compliance processes.

The study also revealed that regulatory costs have a significant negative effect on financial performance ($B = -0.056$, $t = -2.116$, $p = 0.035$). Although the main effect of regulatory cost is negative, the inclusion of firm size whose coefficient ($B = 0.011$, $t = 1.962$, $p = 0.050$) is marginally significant, suggesting that that larger SACCOs may slightly mitigate this negative impact. The study findings are in tandem with those Lokuwaduge (2018) who found that increased regulatory expenditures typically reduce profitability, particularly among smaller institutions that lack the robust infrastructure to absorb high compliance costs. In contrast, larger SACCOs were better able to manage these costs, resulting in a less pronounced negative impact on financial performance. These detailed findings support our current results, confirming that while regulatory costs are detrimental, firm size does play a moderating role, albeit modestly.

5.0 Conclusions and Recommendations

The study set out to examine the effect of regulatory costs on the financial performance of licensed deposit-taking credit co-operative societies (SACCOs) in Kenya, and to determine whether firm size moderates this relationship. Based on the findings, it is concluded that regulatory costs significantly influence financial performance. While these costs are necessary for ensuring institutional integrity, compliance, and financial sector stability, they also present a substantial financial burden especially for smaller SACCOs. Excessive regulatory expenditures tend to reduce profitability and strain financial resources, thereby weakening the financial position of SACCOs. The study also established that firm size plays a moderating role in this relationship. Larger SACCOs are generally better positioned to absorb the costs associated with regulatory compliance, owing to their stronger resource base, economies of scale, and operational flexibility. In contrast, smaller SACCOs often struggle to meet regulatory requirements, which affects their ability to remain financially viable under the current compliance framework.

In light of these findings, the study recommends a more balanced and proportionate regulatory approach. Policymakers, particularly the Sacco Societies Regulatory Authority (SASRA), should consider reviewing and streamlining the regulatory framework to ensure that compliance requirements are both necessary and scalable based on the size and capacity of each SACCO. Adopting a risk-based or tiered approach could help reduce unnecessary burdens on smaller SACCOs while maintaining oversight. Furthermore, there is a

need to promote the adoption of modern technologies in regulatory compliance. Digital tools and automation can reduce administrative overhead, improve efficiency, and enhance reporting accuracy. This will not only lower compliance costs but also improve overall governance and operational performance. The study also recommends that targeted support mechanisms be developed to assist smaller SACCOs in meeting regulatory requirements. These could include capacity-building programs, financial incentives, or partnerships that enhance compliance readiness without compromising financial performance.

Finally, future research should explore how the integration of digital technologies can further reduce both regulatory and operational costs in deposit-taking SACCOs. Longitudinal studies would also be valuable in examining how firm size continues to influence the relationship between regulatory costs and financial performance over time, offering deeper insights into the sustainability and scalability of SACCOs in Kenya's evolving financial landscape. study concludes that regulatory costs play a crucial role in shaping the financial performance of deposit-taking SACCOs. Investments in regulatory costs are essential for maintaining stability and ensuring proper governance; however, excessive spending in this area appears to detract from overall financial performance. Therefore, a balanced approach to managing regulatory expenditures is necessary to maintain compliance without compromising profitability. The study recommends that policymakers review and streamline regulatory frameworks to reduce unnecessary compliance burdens on deposit-taking SACCOs. Additionally, policymakers should promote the adoption of modern technologies in regulatory compliance to enhance transparency and reduce administrative overhead. Future research is also recommended to explore the impact of emerging digital technologies on reducing regulatory and operational costs in deposit-taking SACCOs. Further investigations should examine the dynamic relationship between firm size and financial performance over time to provide deeper insights into the scalability of SACCOs.

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