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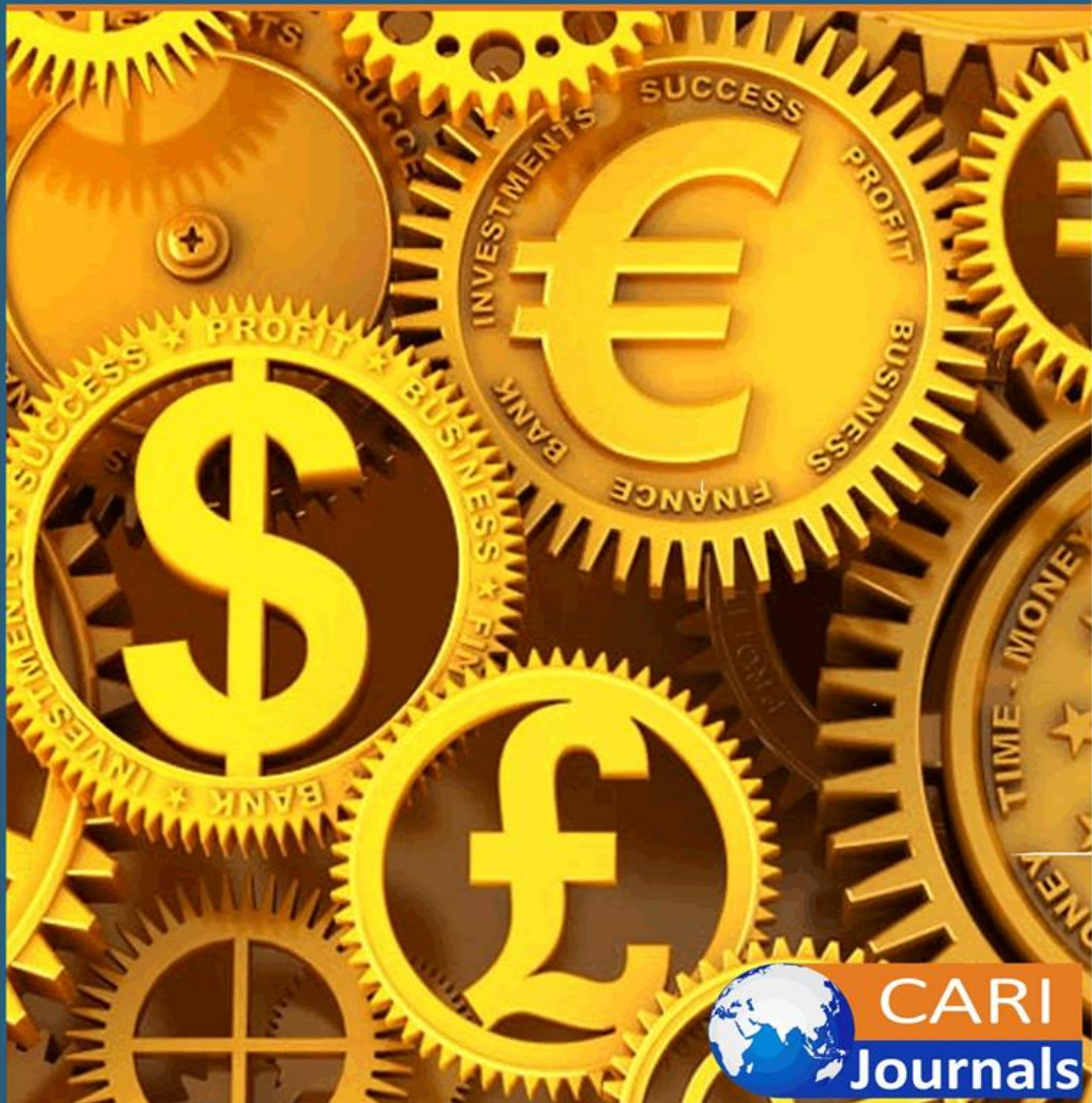

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Capital Structure and Financial Performance of Savings and Credit Cooperative Organizations in Uganda: Evidence from the Rwenzori Region

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ABSTRACT

Purpose: This study examined the effect of capital structure on the financial performance of Savings and Credit Cooperative Organizations (SACCOs) in the Rwenzori Region of Uganda, with firm size assessed as a moderating variable. Drawing on the Trade-Off Theory, the study investigated whether capital structure significantly influences SACCO financial performance and whether firm size strengthens this relationship.

Methodology: The study adopted a quantitative correlational research design and utilized secondary data obtained from audited financial statements and financial reports of 110 SACCOs operating within the Rwenzori Region. Data were analyzed using descriptive statistics, Pearson correlation analysis, and hierarchical multiple regression analysis.

Findings: The findings revealed a significant positive relationship between capital structure and financial performance ($r = .449$, $p < .01$). Regression results further indicated that capital structure significantly predicts financial performance, accounting for approximately 20% of the observed variation. Firm size was also found to have a significant positive effect on financial performance and to moderate the relationship between capital structure and financial performance. The interaction effect demonstrated that the positive influence of capital structure on financial performance becomes stronger as firm size increases.

Unique Contribution to Theory, Policy and Practice: The study contributes to the capital structure literature by extending the application of the Trade-Off Theory to SACCOs within a developing-country context. The findings underscore the importance of maintaining an appropriate balance between debt and equity financing while simultaneously pursuing institutional growth strategies. The study recommends that SACCO managers adopt prudent financing policies, strengthen capitalization, and enhance asset growth to improve financial sustainability and performance.

Keywords: *Capital Structure, Financial Performance, Savings and Credit Cooperative Organizations (SACCOs), Uganda, Rwenzori Region.*

JEL Codes: *G21, G32, L25*

1. INTRODUCTION

Savings and Credit Cooperative Organizations (SACCOs) have emerged as important financial institutions for promoting financial inclusion and socio-economic development, particularly in developing countries where access to formal financial services remains limited. SACCOs facilitate financial intermediation through mobilizing savings and extending credit to members, thereby enhancing access to finance for low-income households, small-scale entrepreneurs, and rural communities (World Bank, 2022). In Sub-Saharan Africa, SACCOs continue to play a critical role in fostering financial inclusion, reducing poverty, and supporting local economic development through member-owned and community-based financial services (Ifediora et al., 2022; Milambo et al., 2023; Sarpong & Nketiah-amponsah, 2022). In Uganda, SACCOs constitute a significant component of the microfinance sector and are increasingly recognized as strategic vehicles for achieving inclusive economic growth and financial sector deepening (UMRA, 2024).

Despite their growing importance, many SACCOs continue to experience financial performance challenges that undermine their sustainability and effectiveness. Recent studies indicate that several SACCOs in developing economies face difficulties related to low profitability, poor loan portfolio quality, liquidity constraints, and high operational costs, which limit their capacity to expand outreach and sustain operations (Rwakasoro et al., 2025; Twinematsiko, 2025). In Uganda, regulatory reports have highlighted concerns regarding variations in financial performance across SACCOs, with some institutions struggling to maintain adequate returns, portfolio quality, and operational efficiency despite increased regulatory support and government interventions (UMRA, 2024). Such performance challenges raise concerns regarding the factors that influence the financial sustainability of SACCOs and necessitate further empirical investigation.

Among the factors that have attracted considerable attention in financial management literature is capital structure. Capital structure refers to the proportion of debt and equity financing employed by an organization to finance its operations and investment activities (Schoenmaker & Schramade, 2023). According to the Trade-off Theory, firms can enhance performance by achieving an optimal balance between debt and equity financing that maximizes the benefits associated with leverage while minimizing the costs of financial distress (Kraus & Litzenberger, 1973). Consequently, financing decisions are considered central to organizational performance because they influence the cost of capital, risk exposure, operational efficiency, and long-term sustainability (Baker & Martin, 2022).

The relationship between capital structure and financial performance has been extensively examined across different sectors and institutional settings. For instance, Chauhan et al. (2022) found that capital structure significantly influences both the financial and social performance of microfinance institutions in India. Similarly, Dabi et al. (2023) reported a positive relationship between capital structure and the financial sustainability of microfinance institutions in Ghana, while Fonchamnyo et al. (2023) established that financing decisions significantly influence the

financial sustainability of microfinance institutions in Cameroon. These findings suggest that an appropriate financing mix can enhance institutional performance and long-term sustainability.

However, empirical evidence regarding the effect of capital structure on financial performance remains inconclusive. While several studies report positive effects of leverage on performance (Dabi et al., 2023; Fonchamnyo et al., 2023), others report negative or insignificant relationships, suggesting that excessive dependence on debt financing may expose organizations to increased financial risk and distress costs (Nguyen & Nguyen, 2015). The mixed findings indicate that the effect of capital structure may vary across institutional settings, regulatory environments, and organizational characteristics.

Furthermore, much of the existing literature has focused on commercial banks, listed firms, and manufacturing companies, with comparatively limited attention devoted to SACCOs operating in developing-country contexts. A recent systematic review by Milambo et al. (2023) observed that empirical research examining capital structure within SACCOs remains limited despite the growing significance of cooperative financial institutions in advancing financial inclusion. In Uganda, evidence regarding the influence of capital structure on SACCO performance remains particularly scarce, especially within the Rwenzori Region. Consequently, there is limited context-specific evidence to guide financing decisions and policy interventions aimed at improving SACCO performance.

This study addresses this gap by examining the effect of capital structure on the financial performance of SACCOs in the Rwenzori Region of Uganda. By providing empirical evidence from cooperative financial institutions operating within a developing-country context, the study contributes to the literature on SACCO financial management and offers insights that may inform managerial practice, regulatory policy, and future research. Specifically, the study tests the hypothesis that capital structure has a significant positive effect on the financial performance of SACCOs in the Rwenzori Region, Uganda.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Theoretical Foundation

This study is anchored in the Trade-Off Theory of capital structure developed by Kraus & Litzenberger (1973). The theory posits that organizations seek an optimal capital structure by balancing the benefits associated with debt financing against the potential costs of financial distress. While debt financing provides tax advantages, managerial discipline, and access to additional financial resources, excessive leverage may increase bankruptcy risks, agency costs, and financial vulnerability. Consequently, organizations are expected to maintain a financing mix that maximizes firm value and financial performance. Contemporary studies continue to affirm the relevance of Trade-Off Theory in explaining financing decisions and organizational outcomes across diverse institutional settings, particularly among financial institutions where leverage

decisions significantly affect sustainability and performance (Chauhan et al., 2022; Dirse & Japee, 2024).

The theory remains particularly relevant to cooperative financial institutions such as SACCOs because their sustainability largely depends on their ability to mobilize member savings, equity contributions, retained earnings, deposits, and external borrowings in an efficient manner. Previous studies have argued that institutions capable of maintaining an optimal balance between debt and equity financing tend to achieve superior financial outcomes due to improved resource allocation, enhanced operational efficiency, and greater financial resilience (Dabi et al., 2023; Dirse & Japee, 2024; Fonchamnyo et al., 2023).

2.2 Capital Structure and Financial Performance

Capital structure refers to the combination of debt and equity financing utilized by an organization to support its operations and investment activities (Schoenmaker & Schramade, 2023). Financial performance reflects the extent to which an institution achieves its financial objectives and is commonly assessed using indicators such as Return on Assets (ROA), Return on Equity (ROE), operational efficiency, portfolio quality, and institutional sustainability (Hermes & Hudon, 2018; Ledgerwood, 2013). The importance of capital structure arises from its influence on financing costs, risk exposure, liquidity management, and profitability, making it one of the most critical determinants of organizational performance (Baker & Martin, 2022; Dirse & Japee, 2024).

The relationship between capital structure and financial performance has attracted extensive scholarly attention across corporate finance, banking, and microfinance literature. A growing body of evidence suggests that financing decisions significantly influence organizational performance, although the magnitude and direction of the relationship often vary across institutional contexts. For example, Chauhan et al. (2022) established that capital structure significantly affects both the financial and social performance of Indian microfinance institutions, indicating that prudent leverage can simultaneously improve profitability and outreach. Similarly, Dabi et al. (2023) found that debt-equity decisions significantly influence both financial performance and sustainability among microfinance institutions in Ghana. Their findings suggest that appropriately structured financing arrangements improve profitability, strengthen sustainability, and enhance operational efficiency.

Comparable findings have been reported in other developing economies. Fonchamnyo et al. (2023) observed that capital structure significantly contributes to the financial sustainability of microfinance institutions in Cameroon, emphasizing that financing decisions remain critical determinants of institutional resilience and long-term viability. Likewise, the meta-analysis conducted by Dirse & Japee (2024), which synthesized evidence from numerous microfinance studies, concluded that capital structure remains a significant predictor of financial sustainability and that different financing sources exert varying effects on institutional performance. These

findings collectively suggest that financing decisions constitute a strategic mechanism through which financial institutions can improve performance and ensure long-term sustainability.

The positive influence of capital structure on performance is often attributed to the ability of debt financing to expand an institution's resource base and facilitate investment opportunities that may not be achievable through internally generated funds alone. Debt financing may also improve managerial discipline by subjecting management to greater scrutiny from creditors and by reducing the tendency toward inefficient resource utilization. Consequently, institutions that effectively combine debt and equity financing are often better positioned to achieve superior financial outcomes than those operating with inefficient financing structures (Chauhan et al., 2022; Dabi et al., 2023; Fonchamnyo et al., 2023).

Despite the predominance of evidence supporting a positive relationship, empirical findings remain inconclusive. Several studies have reported that excessive leverage may adversely affect performance by increasing financial risk, debt servicing obligations, and vulnerability to financial distress. Recent empirical investigations indicate that highly leveraged institutions often experience declining profitability when borrowing costs exceed the returns generated from financed investments. Furthermore, the effectiveness of debt financing appears to depend on institutional characteristics, governance quality, regulatory frameworks, and prevailing economic conditions, suggesting that the relationship between capital structure and performance is context-specific rather than universal (Dirse & Japee, 2024).

Furthermore, much of the existing literature has concentrated on commercial banks, listed corporations, and manufacturing firms, while comparatively limited attention has been devoted to cooperative financial institutions such as SACCOs (Schmidt, 2017). This imbalance is notable given the growing significance of SACCOs in promoting financial inclusion, mobilizing savings, facilitating access to credit, and supporting local economic development across developing countries (Owor et al., 2026). Recent empirical studies in Uganda continue to highlight the importance of SACCOs in advancing inclusive finance while simultaneously documenting persistent challenges relating to governance, financial sustainability, portfolio quality, and operational efficiency (Byamukama et al., 2024).

In Uganda, SACCOs constitute a critical component of the financial inclusion architecture and continue to serve populations that remain underserved by conventional banking institutions. However, evidence suggests that many SACCOs continue to face profitability constraints, portfolio management challenges, governance weaknesses, and sustainability concerns. While studies have examined factors such as governance practices, working capital management, and credit management among Ugandan SACCOs, empirical evidence specifically linking capital structure to financial performance remains scarce (Benon et al., 2025; Byamukama et al., 2024; Owor et al., 2026; Schmidt, 2017).

Consequently, a significant contextual gap exists regarding how financing decisions influence SACCO performance within Uganda. Given the unique ownership structure, financing mechanisms, and operational objectives of SACCOs, findings obtained from commercial banks and investor-owned firms may not necessarily be applicable. Therefore, there is a need for empirical evidence that specifically examines the effect of capital structure on the financial performance of SACCOs operating within the Ugandan context.

2.3 Hypothesis Development

Trade-Off Theory suggests that organizations can enhance financial performance by maintaining an optimal balance between debt and equity financing. Consistent with this theoretical perspective, empirical studies conducted in India, Ghana, Cameroon, and other developing economies generally report positive associations between capital structure and financial sustainability, profitability, and operational performance among financial institutions and microfinance organizations (Chauhan et al., 2022; Dabi et al., 2023; Dirse & Japee, 2024; Fonchamnyo et al., 2023). However, evidence relating specifically to SACCOs remains limited, particularly within Uganda where cooperative financial institutions operate under distinct regulatory, ownership, and financing arrangements.

Based on the theoretical arguments and empirical evidence reviewed, the study hypothesizes that:

H_1: Capital structure has a significant positive effect on the financial performance of SACCOs in the Rwenzori Region, Uganda.

3. METHODOLOGY

3.1 Research Design

The study adopted a quantitative research approach employing a correlational research design. The quantitative approach was considered appropriate because it facilitates objective measurement of study variables and enables statistical examination of the relationship between capital structure and financial performance. Correlational designs are widely used in financial management research because they allow researchers to establish the direction and magnitude of relationships among variables without manipulating the study environment (Creswell & Creswell, 2023; Saunders et al., 2023).

The study specifically examined whether capital structure significantly influences the financial performance of SACCOs in the Rwenzori Region of Uganda. The design was deemed suitable because the study sought to establish empirical relationships using numerical financial data extracted from SACCO records.

3.2 Study Population and Sample

The study focused on Savings and Credit Cooperative Organizations (SACCOs) operating within the Rwenzori Region of Uganda. SACCOs were selected because they constitute an important component of Uganda's financial inclusion framework and play a significant role in mobilizing savings and extending credit services to underserved populations.

The target population comprised all registered and operational SACCOs within the Rwenzori Region. A total of 110 SACCOs were included in the study. Since the population size was manageable and reliable financial information was available, the study utilized a census approach whereby all eligible SACCOs were considered for analysis. The use of a census approach enhances representativeness and minimizes sampling error, thereby improving the reliability of the findings (Saunders et L., 2023).

The unit of analysis was the individual SACCO because the study examined organizational financial characteristics and performance outcomes.

3.3 Data Sources and Collection Procedures

The study relied exclusively on secondary data obtained from audited financial statements, annual reports, regulatory submissions, and financial records of SACCOs. Secondary financial data are frequently used in finance and accounting research because they provide objective, verifiable, and historical measures of organizational performance while minimizing respondent bias and common method variance (Hair et al., 2022).

Data collection involved extracting relevant financial information using a structured data extraction sheet developed based on the study variables. The extraction process focused on obtaining information relating to assets, liabilities, equity, profitability, portfolio quality, operational efficiency, and risk management indicators. To ensure consistency and accuracy, the extracted data were cross-checked against original financial records before analysis.

The use of audited financial statements improved data credibility because such statements are subjected to independent verification and comply with accepted financial reporting standards.

3.4 Measurement of Study Variables

Capital Structure: Capital structure served as the independent variable in the study. Consistent with previous studies on financing decisions and organizational performance, capital structure was measured using the Debt Ratio (DR), which captures the proportion of total assets financed through liabilities. The debt ratio was computed as;

$$Debt\ Ratio = \frac{Total\ Liabilities}{Total\ Assets}$$

The debt ratio is a widely accepted indicator of leverage and reflects the extent to which an organization relies on debt financing to support its operations (Baker & Martin, 2022). Higher values indicate greater dependence on debt financing, whereas lower values indicate greater reliance on equity financing.

Financial Performance: Financial performance constituted the dependent variable and was measured using a composite performance index derived from five key financial indicators commonly used in evaluating financial institutions and SACCOs. These indicators included; 1) Return on Assets (ROA), 2) Return on Equity (ROE), 3) Portfolio at Risk (PaR), 4) Risk Coverage Ratio (RCR) and 5) Operating Cost Ratio (OCR)

ROA measured the efficiency with which SACCOs utilized assets to generate profits, while ROE assessed the returns generated on members' equity. Portfolio at Risk captured loan portfolio quality and credit risk exposure. Risk Coverage Ratio assessed the institution's ability to absorb potential loan losses, whereas Operating Cost Ratio measured operational efficiency.

The use of multiple indicators provided a comprehensive assessment of financial performance by incorporating profitability, risk management, portfolio quality, and operational efficiency dimensions. Such multidimensional measurement approaches are recommended for evaluating the performance of cooperative financial institutions because they capture both financial sustainability and operational effectiveness (UMRA, 2024; World Council of Credit Unions, 2023).

3.5 Data Analysis Procedures

Data analysis was conducted using the Statistical Package for Social Sciences (SPSS) Version 26. Prior to analysis, the data were cleaned and screened for completeness, consistency, and accuracy. Descriptive statistics were generated to summarize the characteristics of the study variables and included measures such as means, standard deviations, minimum values, and maximum values.

Pearson Product Moment Correlation analysis was employed to establish the nature, strength, and direction of the relationship between capital structure and financial performance. Correlation coefficients ranging from -1 to +1 were used to determine whether the relationship was negative, positive, weak, moderate, or strong.

To test the study hypothesis, simple linear regression analysis was conducted. Regression analysis was considered appropriate because it facilitates examination of the predictive effect of an independent variable on a dependent variable while estimating the magnitude of the relationship (Hair et al., 2022).

The regression model was specified as follows;

$$FP = \beta_0 + \beta_1 CS + \varepsilon$$

Where;

FP = Financial Performance

CS = Capital Structure

β_0 = Intercept (Constant)

β_1 = Regression Coefficient

ε = Error Term

The coefficient β_1 measured the extent to which changes in capital structure influenced financial performance. Statistical significance was evaluated at the 5 percent significance level ($p < 0.05$). A positive and statistically significant coefficient was interpreted as evidence that capital structure positively influences financial performance among SACCOs.

Additionally, the coefficient of determination (R^2) was used to assess the proportion of variation in financial performance explained by capital structure.

3.6 Diagnostic Tests

To ensure the validity of the regression results, diagnostic tests were performed prior to hypothesis testing. Normality of data distribution was assessed using skewness and kurtosis statistics. Multicollinearity was not a concern because the model involved a single predictor variable. Homoscedasticity and linearity assumptions were examined through residual analysis to ensure that the regression estimates were unbiased and efficient (Hair et al., 2022).

3.7 Ethical Considerations

The study adhered to established ethical principles governing academic research. Permission to access financial records was obtained from relevant authorities where necessary. Confidentiality of SACCO-specific information was maintained throughout the research process, and all findings were reported in aggregate form to prevent identification of individual institutions. The data were used solely for academic purposes and stored securely throughout the study period.

4. RESULTS AND DISCUSSION

4.1 Correlation Analysis

The study first examined the bivariate relationships among capital structure, firm size, and financial performance using Pearson Product Moment Correlation analysis. Pearson correlation analysis is widely recommended for examining linear relationships among continuous variables and provides an indication of both the direction and strength of associations (Hair et al., 2022).

Table 1: Pearson Correlation Matrix

Variable	1	2	3
1. Capital Structure	1		
2. Firm Size	.831**	1	
3. Financial Performance	.449**	.559**	1

Note: *p < .01 (one-tailed), n = 110.*

Source: Field Data (2025)

The results indicate a statistically significant positive relationship between capital structure and financial performance (r = .449, p < .01). The findings suggest that SACCOs with relatively higher levels of financial leverage tend to exhibit superior financial performance. Similarly, firm size was positively and significantly associated with financial performance (r = .559, p < .01), implying that larger SACCOs are more likely to achieve better financial outcomes than smaller institutions.

The positive association between capital structure and financial performance is consistent with the Trade-Off Theory, which suggests that organizations can improve performance by maintaining an optimal balance between debt and equity financing (Kraus & Litzenberger, 1973). The findings further support recent evidence from microfinance institutions in Ghana, where capital structure was found to significantly enhance financial sustainability and profitability (Dabi et al., 2023). Similar findings were reported by Chauhan et al. (2022) among Indian microfinance institutions and by Fonchamnyo et al. (2023) among microfinance institutions in Cameroon, where leverage was found to contribute positively to institutional performance.

The positive relationship between firm size and financial performance suggests that larger SACCOs are able to benefit from economies of scale, stronger asset bases, greater bargaining power, and enhanced resource mobilization. These findings are consistent with Dabi et al. (2023), Shibutse et al. (2019) and Yadav et al. (2022), who found that larger financial institutions tend to achieve better financial performance because of their ability to spread operational costs over a broader asset base and exploit investment opportunities more effectively.

4.2 Hierarchical Multiple Regression Analysis

To determine whether firm size moderates the relationship between capital structure and financial performance, hierarchical multiple regression analysis was performed. Following recommendations by Hayes (2022), the moderation analysis was conducted in three models. Model 1 examined the effect of capital structure on financial performance. Model 2 introduced firm size as an additional predictor, while Model 3 included the interaction term (Capital Structure × Firm Size).

Table 2: Hierarchical Multiple Regression Results

Variables	Model 1 β	Model 2 β	Model 3 β
Constant	.125	.092	1.013
Capital Structure	.449**	.331**	.215**
Firm Size	—	.601**	.429**
Capital Structure * Firm Size	—	—	.765**
R	.45	.56	.61
R^2	.20	.31	.37
ΔR^2	—	.11	.06
Sig. ΔR^2	—	.01	.01
ANOVA Sig.	.01	.01	.01

Note: *p < .01*

Dependent Variable: *Financial Performance*

Source: Field Data (2025)

The findings reveal that capital structure significantly predicts financial performance (β = .449, p < .01), explaining approximately 20% of the variation in financial performance among SACCOs. This suggests that financing decisions constitute an important determinant of organizational outcomes within cooperative financial institutions.

When firm size was introduced into the model, the explanatory power increased from 20% to 31% (ΔR^2 = .11), indicating that firm size contributes substantially to explaining variations in financial performance. Firm size itself exerted a positive and statistically significant effect on financial performance (β = .601, p < .01), confirming that larger SACCOs tend to perform better financially than smaller institutions.

Most importantly, the inclusion of the interaction term in Model 3 yielded a positive and statistically significant coefficient (β = .765, p < .01), demonstrating that firm size moderates the relationship between capital structure and financial performance. The interaction effect increased the explanatory power of the model to 37%, confirming that the influence of capital structure on financial performance becomes stronger as firm size increases.

A graphical representation of the interaction effect would show a steeper positive slope for larger SACCOs compared to smaller SACCOs. This indicates that larger SACCOs are better positioned to translate leverage into improved financial performance because of stronger asset bases, greater debt capacity, and enhanced operational efficiencies.

4.3 Discussion of Findings

The study established that capital structure positively and significantly influences the financial performance of SACCOs in the Rwenzori Region. The findings support the Trade-Off Theory proposition that organizations can maximize performance by balancing the benefits of debt financing against the associated costs of financial distress (Kraus & Litzenberger, 1973). The results are also consistent with recent studies by Dabi et al. (2023) and Fonchamnyo et al. (2023), all of which reported that appropriately structured financing arrangements enhance organizational performance and sustainability.

The study further established that firm size positively affects financial performance. This finding supports the Transaction Cost Theory, which argues that larger organizations are capable of reducing transaction costs through economies of scale and more efficient resource coordination (Williamson, 1985). Larger SACCOs are likely to possess stronger capital bases, more diversified portfolios, and superior risk management capabilities, thereby improving their financial outcomes.

Finally, the study found that firm size significantly strengthens the relationship between capital structure and financial performance. The positive interaction effect suggests that the benefits associated with leverage are not uniform across SACCOs. Larger SACCOs appear to derive greater benefits from debt financing than smaller institutions because they possess stronger asset bases, enhanced borrowing capacity, greater operational efficiencies, and improved access to external financing, enabling them to utilize debt more effectively while managing the associated risks (Rajan & Zingales, 1995; Williamson, 1985). This finding is consistent with the studies of Mansour et al. (2023) and Mboi et al. (2018), which reported that firm size enhances the effectiveness of capital structure decisions in improving organizational performance. The findings are also supported by Dabi et al. (2023) and Yadav et al. (2022), who found that larger financial institutions are better positioned to exploit the benefits of leverage because of their economies of scale, stronger financial capacity, and superior resource mobilization.

Overall, the findings suggest that while capital structure remains an important determinant of SACCO performance, its effectiveness depends substantially on institutional size. Consequently, SACCO managers should not focus solely on financing decisions but should simultaneously pursue growth strategies that strengthen asset accumulation and institutional capacity.

5. CONCLUSION AND IMPLICATIONS

5.1 Conclusion

This study examined the effect of capital structure on the financial performance of Savings and Credit Cooperative Organizations (SACCOs) in the Rwenzori Region of Uganda, with firm size examined as a moderating variable. The findings revealed a significant positive relationship between capital structure and financial performance, indicating that financing decisions play a critical role in determining the financial outcomes of SACCOs. Specifically, SACCOs that

maintained more favorable financing structures tended to exhibit better financial performance than those with less optimal financing arrangements.

The study further established that firm size positively influences financial performance and significantly strengthens the relationship between capital structure and financial performance. The findings suggest that larger SACCOs are better positioned to benefit from financing decisions due to their stronger asset bases, greater borrowing capacity, enhanced operational efficiencies, and improved risk absorption capabilities.

Overall, the study concludes that capital structure is an important determinant of financial performance among SACCOs and that the effectiveness of financing decisions is contingent upon institutional characteristics such as firm size. Consequently, SACCOs seeking to improve their financial performance should adopt financing strategies that balance debt and equity while simultaneously pursuing growth initiatives that strengthen institutional capacity and sustainability.

5.2 Theoretical Implications

The findings contribute to the growing body of literature on capital structure and organizational performance by extending the application of the Trade-Off Theory to cooperative financial institutions within a developing-country context. While previous studies have largely concentrated on commercial banks, listed companies, and microfinance institutions, this study provides empirical evidence from SACCOs, thereby broadening understanding of financing decisions within member-owned financial institutions.

Furthermore, the moderating role of firm size suggests that the effectiveness of capital structure decisions varies according to organizational characteristics. This finding enriches theoretical discussions concerning the contextual factors that influence the capital structure–performance relationship and supports arguments that optimal financing decisions are not universal but may differ across institutions.

5.3 Managerial Implications

The findings provide important insights for SACCO managers and board members. First, managers should carefully evaluate financing decisions to ensure an appropriate balance between debt and equity financing. Excessive reliance on either source of finance may limit organizational performance and sustainability.

Second, SACCO management should prioritize strategies aimed at expanding asset bases, increasing member savings, strengthening capital reserves, and improving operational efficiency. Such initiatives can enhance institutional size and capacity, thereby enabling SACCOs to derive greater benefits from financing decisions.

Third, managers should strengthen financial planning and leverage management practices to ensure that borrowed funds are utilized in productive investments capable of generating sustainable returns.

5.4 Policy Implications

The findings have important implications for policymakers, regulators, and cooperative development agencies. The positive effect of capital structure on financial performance suggests that policies promoting sustainable capitalization and prudent borrowing practices may enhance SACCO performance.

Regulatory agencies such as Uganda Microfinance Regulatory Authority should continue strengthening financial supervision and capacity-building programs aimed at improving financial management practices within SACCOs. In addition, government initiatives designed to strengthen SACCO capitalization and institutional growth may contribute to improved financial sustainability and service delivery.

Development partners and cooperative support organizations may also consider designing interventions that facilitate access to affordable financing while simultaneously strengthening governance, risk management, and financial planning capacities within SACCOs.

5.5 Limitations of the Study

Despite its contributions, the study has several limitations. First of all, the study relied on secondary financial data obtained from SACCO records within the Rwenzori Region of Uganda. Consequently, the findings may not be fully generalizable to SACCOs operating in other regions or countries with different institutional and regulatory environments.

Secondly, the study focused primarily on capital structure and firm size. Other factors that may influence financial performance, such as governance quality, liquidity management, credit risk management, operational efficiency, and macroeconomic conditions, were not explicitly examined.

Lastly, the cross-sectional nature of the analysis limits the ability to establish causal relationships among the study variables.

5.6 Directions for Future Research

Future studies may extend the current research by examining additional determinants of SACCO financial performance, including governance practices, risk management systems, liquidity management, and technological innovation.

Researchers may also employ longitudinal or panel data approaches to examine how capital structure influences financial performance over time. Such approaches would provide deeper

insights into causal relationships and the dynamic nature of financing decisions within cooperative financial institutions.

Additionally, comparative studies involving SACCOs from different regions or countries may provide a broader understanding of how institutional and regulatory environments influence the relationship between capital structure and financial performance.

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