EFFECT OF CREDIT MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF SAVINGS AND CREDIT CO-OPERATIVE SOCIETIES IN KISUMU COUNTY

BY

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DECLARATION

This research project is my original work and has not been presented for an award in any University.

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DEDICATION

This Research Project is dedicated to my Family for their prayers and support all the way.

ABSTRACT

This has been an area of interest since SACCOs in Kisumu County have in the past registered declining trends; often times leading to collapse of some due to lack of competitive management skills, noncompliance with capital base threshold required by SASRA, non-recovery of loans due to poor credit management, Weak internal control systems leading to misappropriation of funds by management and untimely audits. Link between credit management and financial Performance is still not clear for SACCOs in Kenya. Studies have been done on same but few have explained much of empirical literature in context of a SACCO, hence it has remained area of interest for empirical study and this formed a motivation for the study. It involves organization of the firm's resources and motivation of the staff to achieve objectives. Performance is important because its success or failure rate may have a significant impact on the success and sustainability of the business. Specifically, the study intended to establish Management competency on performance, Analyze Credit Management on performance, determine Capital Adequacy on performance, and examine how Internal Control affect financial performance of Saccos. The study was guided by Resource Based View Theory, Agency Theory and Credit Risk theory. The study area remained limited to Kisumu County due to a number of failing SACCOs between 2014 to 2019 and low membership registration turn out in SACCOs, stratified Random sampling method was used, sample size was arrived at using Krejcie and Morgan table which was 72 with a target population of 120 respondents consisting of; Board Chairpersons, Managing Directors, Finance Manager from 12 randomly selected SACCOs operating in Kisumu County with samples collected using primary data without changing the environment. Questionnaire was used to gather primary data consisting of respondents' opinion on Credit Management practices on Financial performance of SACCOs. Test on Validity and reliability of questionnaires was pre-tested through a pilot study and analyzed using descriptive analysis (mean, frequencies, standard deviation, ANOVA) and multiple regression analysis the output were presented in tables, graphs and charts. With a significant level of 0.05 From the finding's management competency has a negative effect on Financial Performance of Saccos, capital adequacy and Internal Control systems had a positive relationship with Financial Performance. Encourage members to join SACCOs following high level of education in the institutions, Credit reminder used by SACCOs is manual hence low repayment and debt recovery period not certain. The study concludes; for every unit increase in management competency, Capital Adequacy and ICS results in better financial performance of SACCOs. Best credit management practices is a way to better financial performance for SACCOs. This research will be of benefit to the policy makers, Researchers, scholars for further research and the general public for information.

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ABBREVIATIONS AND ACRONYMS

CAMEL   -   Capital Adequacy, Asset quality, Management Efficiency, Earnings Quality, Liquidity Position

GDP   -   Gross Domestic Product

ICA   -   International Co-operative Alliance

KUSCCO   -   Kenya Union of SACCOs & Credit Co-operative Limited

MFI   -   Micro Finance Institutions

RBV   -   Resource Based View

SACCOs   -   Savings and Credit Cooperative Societies

SASRA   -   Sacco Societies Regulatory Authority

SMEs   -   Small and Medium Enterprises

VRIN   -   Valuable, Rare, Inimitable, Non-substitutable

ICS   -   Internal Control System

KALEIDOSCOPIC -   Constant Changes

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CHAPTER ONE
INTRODUCTION

1.1 Background of the Study

The Cooperative societies are autonomous association of persons united voluntarily to meet their common economic and social needs through jointly owned and democratically controlled enterprises, which are organized and operated under the principles of cooperatives (ICA, 2005). In 1942 Ivan Emalianoff, a respected cooperative scholar remarked that the diversity of cooperatives is kaleidoscopic and their variability is literally infinite, as consequence of this diversity no universally accepted definition of cooperatives exist (Kimberly & Robert 2003). A cooperative society is a group of individuals who have specific common needs. It is an economic enterprise, the purpose of which is to improve the economic status of owners or members. Most cooperative societies offer their products to their members and others do not serve non-member.

The traditional form of co-operative development involved working together on farms, hunting and gathering. All people have basic needs of food, shelter, security and belonging. People would invite neighbors to come and give a hand. Also people did not have money and resources, which enables individuals to employ people or machinery to do work for them. In any community co-operative usually exists in the form of associations of people who come together as a group driven by their social and economic needs in order to cope with their problems and improve their conditions of living MOCD (2006).

The general objective of SACCOs is to promote the economic interests and general welfare of its members. Co-operatives were formed with an intention of helping individuals meet their financial goals, equality, democratic rights and togetherness between members with same goals. According to Bibby and Shaw (2005) Co-operative members believe in the ethical values of honesty, openness, social responsibility, and caring for others. ICA (2005) defines cooperatives as community institutions voluntarily and autonomously established and managed by the communities, and also give services for the local communities. As Clement (2012) asserts, SACCOs have the ability and opportunity to reach clients in areas that are unattractive to banks, such as rural or poor areas. This has made the SACCOs to be more attractive to customers, thus deeply

entrenching themselves in the financial sectors of many countries (Munyiri. 2006). In Kenya, co-operatives movement were started in 1908 and membership was limited to white colonial settlers. The first co-operative was established at Lumbwa in Kipkelion area in Kericho County. In 1944 colonial officers allowed Africans to form and join cooperatives (Gamba and Komo, 2012). Today, SACCOs have mobilized over Kshs.200 billion in savings, accounting for over 30% to National Domestic Saving (Co-operative Bank of Kenya, 2010**)**.

SACCOs have continued to play a very important role in the economy by providing employment to the youth and enhancing economic activities in the rural areas by improving the living standards of the people. The phenomenon of fast growth of SACCOs in Kenya in the last two decades is as a result of provision of credit for a wide range of purposes and on a relatively affordable terms and conditions. Credit suits different categories of borrowers including the disadvantaged groups especially women (Alila and Obado, 1990). Today co-operatives particularly SACCOs are integral part of the government economic strategy focusing on creating income generating opportunities especially in rural areas by providing cheap loans to start up small businesses hence poverty alleviation. Kenya has been a success as far as the Co-operative Movement is concerned. It is estimated that there are currently over 10,800 registered Cooperative Societies in Kenya with a membership of about 6 million. Out of this, 46% are Agricultural, 38% Financial-based that is SACCOS and, 16% are others (EAL Mumanyi 2014). 63% of the Kenyan population depends on the Co-operative related activities for their livelihood with over 250,000 benefiting through direct employment (Mudibo, 2005).

Financial Performance is the end result of organizations departments‟ activities and strategic objectives (Jensen, 2001). Al-Hussein (2009) defines performance as the level to which monetary goals has been attained. Financial Performance on the other hand is defined as measure of how well an organization utilizes its resources to generate income and maximize profits. Financial Performance is the central element for any profit based organization. It's the procedure of assessing the outcome of a firm policy and activity in financial language. Therefore, financial performance is how well a company uses its resources to earn revenues; this is done over time and may be used in comparison to same organizations within a similar industry or to compare different sectors. Financial performance is used in various analyses, trade creditors are able to know the liquidity of

the firm, Bond holders are able to predict future profitability of the firm through cash flow analysis, the management will show better performance with improved internal controls in place. Factors affecting financial performance of a firm include; funding which relies on how much is available for operations through owner equity, credit borrowing from financial institutions at a cost, Tools used in financial performance include; accounting techniques e.g. Earnings before Interest and Tax, Ratio Analysis, Credit risk e.g. Equity to Debt Ratio used to measure the vulnerability of a company, Size of the Firm, Working Capital. Generally, if an organization is able to meet its objective by maximizing shareholder wealth and is a going concern, in that it is able to meet its obligation as and when they fall due is a positive sure way of the financial performance position of an organization.

The performance of firms can be affected by internal and external factors DT-SACCOs that are required to maintain an external borrowing to total assets ratio of not more than 25%, as observed the overall aggregate external borrowing ratio stayed with the statutory maximum of not more than 25%, by registering a continuous improvement reflected a reduction to 4.83% in 2017 from 5.04% in 2016. This proves that more and more DT-SACCOs are slowly moving away from external borrowing in the funding of their asset portfolio. However, the gains made on this front were literally wiped way by the increase in aggregate cost of borrowing from 4.13% in 2016 to 4.70% in 2017. Total Assets of deposit taking SACCOs increased by 12.4% to 497.32 Billion in 2017 according to data from Economic survey. While internal factors are individual characteristics which affect the financial institution's performance, macroeconomic factors are external to the institutions (Al-Tamimi, 2010).

Management competency, Johnson, George, Ndiwalana, Freddie (2014) on a study of managerial competency on financial performance of SACCOs in Busoga concluded that improvement in the managerial competency of the SACCOS is associated with improvement in their financial performance. Particularly, it implies that an improvement in the skills and knowledge of the Managers for these SACCOS is associated with an improvement in their profitability and portfolio quality. Similarly, a decline in the skills and knowledge of the managers is associated with a decline in the profitability and portfolio quality of these SACCOS. Izak, (2008) states that the competitive advantage of a bank is dependent on its capability to handle credit valuably that is embedded in the

lending design. He asserts that SACCOs today in Kenya are facing stiff competition from other financial institutions which are offering affordable, reliable and efficient services to their customers.

The secret to outperforming competitors has thus become increasingly dependent on the levels of performance delivered by an organization's employees. Whereas one of the environmental influences to a business normally arises from competition Pearce and Robinson (2005), states that companies need to come up with strategies that gives them a competitive advantage over the others in the market that they operate in. Furthermore, the demands and needs of the environment are constantly evolving and management is about adjusting the company according to the needs and demands of the environment. On the other hand, Thompson and Strickland (2007) argue that a company has sustainable competitive advantage whenever it has an edge over its rivals in securing customers and defending against competitive forces. From the foregoing, SACCOs should constantly review their product/service strategies in order to remain relevant and competitive in the financial industry, based on the fact that customer preferences keep changing which also affect the demand of a given offering. While competitive skills can be achieved through skills and knowledge by managers, this is not practically put in place by SACCOs as they employ managers who are not having enough skills and knowledge on management to perform.

Credit management are methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management (Brealey and Myers, 2003). The core function of every SACCOs is provision of credit facilities. The credit management function facilitates efficient management and administration of SACCOs loan portfolio in order to ensure equitable distribution of funds and to encourage members to take loans. The general aim of credit management is to reduce the possibility of potential losses with regard to issued loans. Loans are provided according to strict criteria, those criteria must cover information about the client, loan purpose, repayment source and collateral. According to Njanike (2009) the main activity of bank is not deposit mobilization and giving credit but effective credit risk management that reduces the risk of customer default. Kifle (2011) in his study explains that SACCOs sustainability requires that they cover all transaction costs (loan losses, financial costs, and administrative costs) with return on equity and consequently function without

subsidies. Gisemba (2010) researched on the relationship between risk management practices and financial profitability of SACCOs found out that the SACCOs adopted various approaches in screening and analyzing risk before awarding credit to client to minimize loan loss. Nelson (2012) defines credit management a practice used by organizations to manage the sales they make on credit. Therefore, for SACCOs to perform better they need to improve their profitability, credit may be overstated as a constraint because SACCOs tend not to view their own management weaknesses as limiting their ability to use the borrowed credit effectively and hence investing in risky models that take longer duration of time to recover from its members hence loan recovery is still a major problem.

Capital Adequacy Capital has always been used as a measure of financial stability for SACCOs this encourages members to deposit more knowing that their savings are safe. Capital adequacy is the amount of capital that is deemed sufficient for an organization to survive in a foreseeable future in order to survive some major risks; operational risk, market risk, interest rate risk.

According to (Jane, Barus, Dr. Muturi, Dr. koima, 2009) SACCOs should shift their concentration from increasing capital level to credit risk management this will result in improvement in the financial performance of SACCOs. Deposit taking SACCOs are supposed to maintain a core capital to asset ratio of 10% which 11 SACCOs failed to meet, this shows an increase in non-compliance from 6 SACCOs in 2016 to 11 in 2017 (SASRA 2018). According to (Diamond, 2000) sufficient capital level reduces chances of distress. Capital Asset ratio is deemed accurate to measure the capability of banks to curb losses incurred in the face of crisis (Dang, 2011). Regulation requires SACCOs to have a minimum capital base of 10million and members not less than 30, but due to inadequate capital base by SACCOs has led to SASRA denying many licenses and informing the public not to invest in these SACCOs e.g. Urithi SACCO that has been investing on real property investment yet has no enough capital to sustain these investments prompting members to withdraw their membership and hence turn to Banks for Loans.

Internal controls and Audit SACCOs should have an independent internal system for assessment of the credit risk management process. This function is necessary in order to independently enable the board determine whether the risk management process is

working effectively (SASRA, 2015); it further asserts that ICS audit should be conducted on a periodic basis and ideally not less than once a year. The audits should also identify weaknesses in the credit risk management process e.g. misappropriating member deposits by presenting figures with what is actually reported in the books and any deficiencies in the policies and procedures. Internal control systems are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Jensen, 2003). (T. Chepngeno, 2017) The study established that to implement good internal audit independent managers need to be concerned about good interrelationship between internal audit independent and financial performance and therefore need to continuously updating themselves with the changing times and technology. Management should design internal controls to ensure efficiency and effectiveness, reliability of financial reporting as well as compliance with laws and regulations. This can be achieved by periodic performance review and evaluation of the adequacy and effectiveness of the controls designed by the internal auditor department, Policies, procedures, and mechanisms should be put in place to ensure directives of the management are properly carried out (Ndungu, 2013). Despite efficient ICS and audit in place SACCOs still face issues of Cybercrimes, losing money or data to unethical system hackers because of lack of proper security system in place which cooperatives are still not well prepared to confront, rogue officials misappropriating member deposits and this cannot be achieved due weak internal controls systems in place and Audit that are not carried out timely. Audits should identify weaknesses in the credit management process and any deficiencies in the policies and procedures, this should be done periodically and not less than a year to ensure efficiency and adherence to accounting policies are met.

1.2 Statement of the Problem

Credit management practices and financial performance of SACCOs in Kenya have not been clear and conclusive. Various researches carried out mostly have dwelt on financial performance and not attributing same to credit management whereas it is the core of many SACCOs. While competitive skills can be achieved through continuous training of managers, this is not practically put in place by SACCOs as they employ managers who are not having enough skills and knowledge on management for SACCOs to perform better. Efficient credit management is required for SACCOs to be profitable even though credit may be overstated as a constraint because SACCOs tend not to view their own

management weaknesses as limiting their ability to use the borrowed credit effectively and hence investing in risky models that take longer duration of time to recover from its members hence loan recovery is still a major problem. The government regulatory body SASRA has maintained that Deposit taking SACCOs are supposed to maintain a core capital to asset ratio of 10% which 11 SACCOs failed to meet in the year 2017, this shows an increase in non-compliance from 6 SACCOs in 2016 to 11 in 2017 this has led to SASRA denying many SACCOs licenses to operate. Despite efficient ICS and audit in place SACCOs still face issues of Cybercrimes, losing money or data to unethical system hackers because of lack of proper security system in place which cooperatives are still not well prepared to confront, rogue officials misappropriating member deposits and this cannot be achieved due weak internal controls systems in place and Audit that are not carried out timely.

1.3 General Objective of the Study

The main objective of the study is to determine the credit management practices that influence financial performance of SACCOs in Kisumu County, Kenya.

1.4 Specific Objective

1. To determine the extent to which management competency influence financial performance of SACCOs
2. To analyze how capital Adequacy influence financial performance of SACCOs
3. To determine the extent to which internal control system & Audit influence financial performance of SACCOs

1.5 Research Hypothesis

1. Management competency does not influence financial performance of SACCOs
2. Capital adequacy does not influence financial performance of SACCOs
3. Internal control systems and audit does not influence financial performance of SACCOs

1.6 Significance of the Study

The research would establish the credit management practices that influence performance of SACCOs in Kenya. The findings of this study will benefit the policy makers who include SASRA and other regulatory bodies that manage SACCOs in Kenya. This will

provide information on the appropriate techniques in Management competency, Credit management, maintaining good capital base, to be adopted in decision and policy making. Stakeholders of SACCOs in Kenya will also have the opportunity to monitor their investments in the SACCO and this will avoid risky investment of funds which could lead to failure of SACCOs.

This study would be of value to researchers and scholars, as it forms a basis for further research. The researchers may use this study as a basis for discussions on SACCOs business in Kenya and the factors that influence their performance. The research findings will provide information to people on how to create an asset that helps them to have a guarantee and collateral for future loan access and by encouraging and promoting ideas on how to develop thrift culture within the members as well as the community by teaching wise use of their money and efficient management of their limited resources by employing trained and well conversant managers to manage their deposits.

1.7 Conceptual Framework

A conceptual framework is a systematic representation between the relationship of variables and congregative map. It consists of the independent and dependent variables.

Independent variables

Dependent variables

Credit Management

- Management Competency
- Capital Adequacy
- Internal Control Systems & Audit

Financial Performance of SACCOs

- Revenue Growth & Efficiency
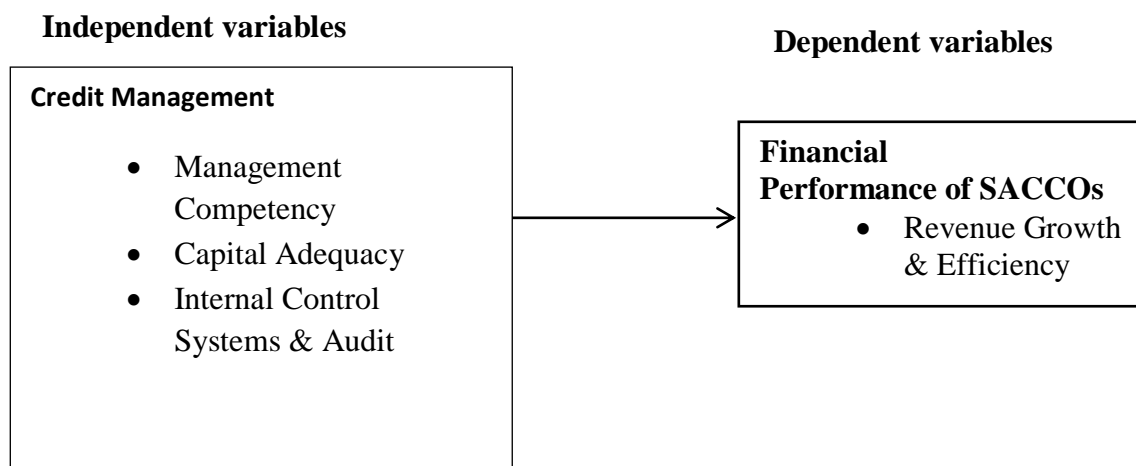
Figure 1.1: Conceptual Framework

Source; Researcher 2019

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

This chapter discusses issues that address each subsection derived directly from research questions of the study. Recent research studies and findings relating to the issues this study addresses will also be highlighted. This chapter is organized in the following sections; theoretical literature review, empirical literature review and the conceptual framework.

2.2 Theoretical Literature Review

This paragraph gives a brief overview of the theories on which this study will be built. Over the years, the theories of organization performance have evolved from simplest models to complex modeling techniques. Many organizations, regardless of their size and management systems have pursued performance excellence by applying different strategies based on theories that are suitable to their performance. These theories include the following:

2.2.1 Resource Based View Theory

Resources can be defined as economic or productive factor required to accomplish an activity, or as means to undertake an enterprise and achieve desired outcome. Kay (1999) defines resources as inputs into a firm's production process, such as capital, equipment, and the skills of individual employees, patents, finance, and talented managers. Resources can either be tangible or intangible in nature; tangible assets are physical thing such as, Land, buildings, machinery, equipment and capital. Physical resources can easily be bought in the market so they confer little advantage to the companies in the long run because rivals can soon acquire the identical assets. On the other hand, intangible assets are everything else that has no physical presence but can still be owned by the company.

Brand reputation, trademarks, intellectual property are all intangible assets. Unlike physical resources, brand reputation is built over a long time and is something that other companies cannot buy from the market. Intangible resources usually stay within a company and are the main source of sustainable competitive advantage.

The Resource-Based framework shows that the foundation of a firm's competitive advantage comes from its internally generated resources rather than from the external environment. This view forecasts that definite types of resources possessed and controlled by organizations have

the stimulus to generate competitive advantage and superior firm performance. The resource-based theory views firms with above average internal control systems and structures as being profitable not because they engage in strategic projects that may discourage entry and increase prices above long run costs, but because they have markedly lower costs, and high quality product performance is offered (Mutunga, Minja and Gachanja 2014). The theory clarifies that for the organization to attain Sustained Competitive Advantage it must acquire and control prized, infrequent, unique, and non-substitutable resources and capabilities, in addition organizations must plan on how to improve their ICS and Audits.

Capability and resources must have value, uncommon, matchless, and with no close substitutes to generate sustainability of competitive advantage. The theory appraises and categorizes a firm's strategic advantages centered on examining its individual mixture of assets, skills, capabilities, and intangibles of an organization (Mutunga, Minja and Gachanja 2014) The fundamental premise of the theory is that organizations proper management in having a good corporate governance is one of the elements in evaluating firm's performance and sustainability. Each organization develops proficiencies from these resources, and when advanced especially well, this becomes the source of the firm's competitive advantages and through intervening effect of innovation, the resources influence implementation. The theory further explains that firms need to grow and diversify; capital is used to establish strategies to improve overall efficiency.

2.2.2 Agency Theory
Agency theory is a management and economic theory that attempts to explain relationships and self-interest in business organizations. It describes the relationship between the principal such as shareholders and agents such as company's executive. It explains how best to organize relationships in which one party (principal) determines the work and which another party (agent) performs or makes decisions on behalf of the principal (Jensen and Meckling 1976).Agency theory is the study of the agency relationship and the issues that arise from this, particularly the dilemma that the principal and agent, while nominally work toward the same goal, may not always share the same interests. The literature on agency theory largely focuses on methods and systems and their consequences that arise to try to align the interests of the principal and agent.

Haule (2011) noted that in SACCOs setting, members elect board of directors to manage it on their behalf. Given this fact, it follows that there exists a Principal agent relationship within

SACCOs. According to Guevas and Fischer (2006) in SACCOs, the main problem of Principal agent relationship could involve conflicts of interest among them. These conflicts are likely to impact more negatively in when the SACCOs are very large because these provide more opportunities for agents to maximize their own interests Yegon et al., (2004).

Agency costs usually refer to the conflicts between shareholders and their company's managers. A shareholder wants the manager to make decisions which will increase the share value. Managers, instead, would prefer to expand the business and increase their salaries, which may not necessarily increase share value. Wheelen and Hunger (2002) argues that problems arise in corporations because agents (top management) are not willing to bear responsibility for their decisions unless they own a substantial amount of stock in the corporation. Parker (2002) also argues that managers will not act to maximize returns to shareholders unless appropriate governance structures are implemented to safeguard the interests of shareholders. The theory suggests that a firm's top management should have a significant ownership of the firm in order to secure a positive relationship between governance and the amount of stock owned by the top management (Mallin, 2004).

Like Mitnick, Jensen and Meckling (2011) identify monitoring the agent's actions as a source of agency cost, but they also identify at least two other sources: bonding costs borne by the agent (such as, foregoing certain non-pecuniary benefits, etc.), and the wealth loss borne by the principal when the agent's actions do not maximize his welfare. Agency theory by Jensen and Meckling (1976) predicts that higher levels of managerial ownership should result, holding other things constant, in increased firm performance as higher ownership levels help to mitigate the inherent conflict of interest between managers and owners.

The underlying assumption of agency theory is based on the economic model of man interest (Rodriguez and Mejia 2012). This model assumes that individuals will seek to optimize their own utility. In the principal-agent relationship, an agent is hired to maximize the principal's utility. However, agency theory assumes agents will instead behave opportunistically because they too are self-serving. Therefore, the principal enacts mechanisms to minimize losses to their own utility (Wiseman et al., 2012).

2.2.3 Credit Risk Theory

In banking terminology, credit refers to the loans and advances made by the bank to its customers or borrowers. Bank credit is a credit by which a person who has given the required security to a bank has liberty to draw to a certain extent agreed upon. It is an arrangement for deferred payment of a loan or purchase. Risk means the exposure to a chance of loss or damage. Risk is the element of uncertainty or possibility of loss that exist in any business transaction. (Basel Committee on Banking Supervision, 2000) defines credit risk is the likelihood that a borrower or counter party will be unsuccessful to meet its obligation in accordance with agreed terms and conditions.

According to Clifford (2014) one of the major risks that banks faces is from borrowers who default on their obligations to the bank. The financial crisis of 2008-2009 underscores the need to pay close attention to the level of credit risk that, at that time, drove a number of banks with household names such as Countrywide Financial and Washington Mutual out of existence, largely due to excessive amounts of mortgage credit risk on their balance sheets. In order to control the bad debt rate and credit risk, every bank has the credit policies. Normally, those policies will include risk identification, risk measurement, risk grading techniques, risk control techniques and other document about legal issues (Bangladesh Bank report 2005).

A credit default represents the financial failure of an entity (a person or a company). A theory of credit default should therefore represent a systematic understanding of the causes which directly lead to the effects which are associated with credit defaults. Such a theory is required to provide direct causal connections between macroeconomic causes of changing financial environment and their microeconomic effects on changing personal or corporate financial conditions, leading to possible credit defaults.

Credit management serves as an excellent way for a business to remain financially stable. The process of credit management begins with accurately assessing the credit worthiness of the customer base. It also calls for determining the total credit line that will be extended to a given customer for example gathering data on the potential customer's current financial condition including current credit score and the ratio between income and outstanding financial obligation. Competent credit management seeks to not only protect the vendor from possible losses, but also protect the customer from creating more debt obligations that cannot be settled in a timely manner.

2.3 Criticism of the Theories

As far as the above discussed theories try to explain factors that influence performance of financial organization in this context (SACCOs), there is a set of knowledge gaps that they fail to give satisfactory information.

According to Priem and Butler (2001) the theory misses managerial implications or operational validity. The resource-based view explains that managers have to develop and obtain strategic resources that meet the criteria valuable, rareness, non-imitable and non-substitution (VRIN criteria) and how an appropriate organization can be developed. However, the resource-based view does not explain how managers can do this (Connor, 2002). Priem and Butler (2001) criticize the theory of having infinite regress; the resource-based view entails infinite regress. Firms which have a capability which they can put in practice best can be overtaken by a firm that can develop that capability better than firm who is best in practice (Collins, 1994). Miller (2003) argues that the resources a firm needs to generate a sustained competitive advantage are precisely those resources that are hard to acquire in the first place. In one sense, Miller's argument is that only firms that already possess VRIN resources can acquire and apply additional resources, otherwise competitors would acquire them with equal ease.

According to Barney (1991) sustained competitive advantage is not achievable. Currently, firms are in a dynamic environment where innovation and changing is needed to stay ahead of the competition. According to the resource-based view, a sustained competitive advantage can be reached if resources are meeting the VRIN criteria. However, in this constant changing environment, the competitive advantages will be temporary. Aguilera et al., (2008) challenged agency perspective and termed it as a closed system. They propose an organizational sociology approach to comparative corporate governance to better capture the patterned variation that results from interdependencies between firms and their environment. Their open system perspective view corporate governance in terms of effectiveness in achieving their goals.

Agency theory has also been criticized by several scholars. Professor Brudney (1985) argues against the analysis that claims that private bargaining or contract sufficiently restraints management misbehavior acknowledging instead on the importance of institutions. He argues that, scattered stockholders lack the requisite information and institutional mechanisms either

to bargain over the terms of management's employment, or to monitor and control management's activities. The markets for managers and for securities do not effectively implement investor constraints on management. Outside directors are insufficiently independent from management to serve as agents for stock-holders in selecting or controlling management, and too many factors, and possibly information imperfections, which affect the price of stock for it to serve as mechanism for effective investor impact upon managerial performance.

In section 2.2.3 above, credit risk theory is discussed in depth. From the discussion it is evident that credit management is one of the pillars of success in performance of any organization especially financial institution. However, it is also clear that the theory employs use of complex mathematical models that needs people with strong mathematical background and analysis skills to compute and implement the theory into the organization.

2.4 Empirical Review

Mante (2002) asserted that very low deposits and high default rates have plunged some rural banks into serious liquidity problems, culminating in the erosion of customer confidence in these rural banks/ Micro Finance Institutions (MFIs). He indicated further that a combination of poor lending practices and ineffective monitoring of credit facilities extended to customers has contributed to high loan delinquency in some MFI. The performance of MFIs is highly affected by savings portfolio because it ensures liquidity. Consistent with Cull, et al., (2007) MFIs should therefore broaden their services toward offering more deposits. This is important as it would also broaden the lending capacity of MFIs hence contributing towards better performance.

Rosenberg (2009) stated that the poor are generally excluded from the financial services sector of the economy, so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999). Efficiency and productivity ratios are used to determine how well MFIs streamline their credit operations. He also noted that MFIs need to employ a combination of performance indicators such as profitability, operating efficiency and portfolio quality indicators to measure their overall performance.

According to Silikhe (2008), credit risk management in MFIs in Kenya found out that despite the fact that they have put in place strict measures to credit risk management, normal loan recovery is still a challenge to majority of the institutions. This explains the reasons why most financial institutions are either not growing or about to close down. Bird in hand theory proposes that a relationship exists between firm value and dividend pay-out. It states that dividends are less risky than capital gains since they are more certain. Investors would therefore prefer dividends to capital gains (Amidu, 2006).

Dash and Das (2010) analyzed the banking sector of India using CAMELS model the analysis was performed for a sample of fifty-eight banks operating in India, of which twenty-nine were public sector banks, and twenty-nine were private sector/foreign banks. The study covered the financial years 2003-04, 2004-05, 2005-06, 2006-07, and 2007-08. The data for the study consisted of financial variables and financial ratios based on the CAMELS framework. The results show that private banks / foreign banks are better than the public sector banks thus these two factors are in order to improve the performance of private banks / foreign-run and accurate profitability. The results of the study suggest that public sector banks have to adapt quickly to changing market conditions, in order to compete with private/foreign banks. This is particularly due to the wide difference in their credit policy, customer service, ease of access and adoption of it services in their banking system. Public sector banks must improve their credit lending policies so as to improve asset quality and profitability (Dash and Das, 2010).

2.5 Determinants of Financial Performance

Karagu and Okibo (2014) did a study on factors influencing performance of SACCOs in Kenya. As a result, the study found that funds misappropriation influences performance of SACCOs as proof of accountability like receipts, source documents to support transactions could not be traced to the source, lack of proper authorization from relevant department. The study concluded that SACCOs need to improve on their internal audit department and other internal control measures. It also established that investment decisions made by SACCOs influence their performance. It also emerged from the study that SACCOs need to invest in prudent projects in order to achieve better returns, SACCOs should introduce more products in order compete with other organizations such as MFIs. SACCOs movement in Kenya has faced a number of challenges that need to be addressed in order to enable it to improve on

soundness and stability, effectiveness and efficiency, corporate governance, product diversity and competition as well as integration to formal financial system (KUSCCO, 2010) these challenges are inherent in the financial world in relation to the co-operative movement.

The performance of firms can be affected by internal and external factors. While internal factors are individual characteristics which affect the financial institution's performance, macroeconomic factors are external to the institutions (Al-Tamimi, 2010).

Poisat (2006) in his study found that improved business performance hinges not only on improved processes, technology and products but also equally as much on the contributions of engaged employees. He also claims that the cornerstones of employee engagement and engaged work performance can be found in constructs of employee motivation, commitment, organizational citizenship, self-efficacy and employees' emotions. Managers who choose to do everything hamper their own productivity limit their employee performance and any contribution they do make as managers is often accompanied by frustration and excessive personal effort. Hence, there is need to integrate delegation with other managerial functions to increase employee performance.

The SACCOs management should embrace technology in all operations, especially information communication technology which widens the coverage of SACCOs information accessibility and increase marketing strategies, so that they can attract more members. Further the SACCOs should embrace growth strategies including mobile technology adoption, branch network expansion, Automated Teller Machines (ATMs), research and marketing initiatives, adoption of agency banking and rebranding i.e.

including change of SACCO names (Ngugi and Kising'u, 2017). Amara and Wycliffe (2017) in explaining performance of Mwalimu National SACCOs concludes that good competition brings about quality goods and services, innovation and that efficiency in provision of goods and services and that banks and MFIs continue to compete with cooperative societies for the same savings from the employees. Further the study concludes that competition is statistically significant.

2.5.1 Management Competency and Financial Performance

Competent management can be defined as the ability to meet organizational objectives, use available resources efficiently, maintain high levels of employee performance and professionalism, and provide excellent service to customers. The most competent framework

of management includes all the management functions such as; control, motivation, planning, staffing and how they are implemented in the company. Research on management competencies were done to analyze, understand and explain the importance of managerial competencies in the organizations (Martina, 2012). Though, organizations are applying several models of competencies during the work, but still need to determine the most effective model to considerer it the essential for good achievements. According to Noebere (2000) all studies of business failure points to poor management as the main cause. The success of a firm is measured by its profitability which depends on the efficiency of its management.

Ligthelm et al., (2002) stated that financial management is a crucial field within the environment of the SMEs Small and Medium Enterprises thus present numerous potential obstacles. Mwakajumilo (2011) also revealed that lack of appropriate and adequate managerial skills or knowledge with the attendant, lack of strategic plan, business plan, succession plan, adequate organizational set up, transparency and operational systems hinders growth of SACCOs.

Waiguru (2010) discussed managerial incompetence's in SACCOs as caused by lack of strategic planning. She noted that the SACCOs lacked a sense of direction as they had no clear vision and mission statements. The key aspects for management performance include mix of management competencies, reviewing and engaging top talent for succession planning, effective board committees, right level of exposure to senior management, commitment, dedicating enough time to identifying opportunities, board

evaluation, in depth experience, balance of independence and engagement with the right level of engagement with management and chairman's leadership style.

Sambu and Mudibo (2005) raised concern on the caliber of leaders who run SACCOs. Since they are voluntary organizations, members can elect anybody they like, who may not necessarily have the skills to run a SACCO. To address this, they further pointed out That SACCOs members are required through their by-laws to provide for minimum qualifications for their managers. Actions of top management influence performance. Members when electing office bearers, including delegates, should ensure that they elect trust worthy persons since success and performance depends on the caliber of the officials that they elect,

(Mwaura, 2005).

Mochache (2005) observed the importance of training and how it enhances growth and competitiveness of the SME's. Training empowers owners and employers to make better decisions and provide better quality goods and services. He further noted that the training duration is influenced by the competency required for the particular trade. Managerial skills are important in making decisions which are non-routine and strategic in nature. In common with all business requires specific education and training for those who wish to operate it (Ouma, 1990).

Moreover, Ssekakubo, Ndiwalana and Lwanga (2014) on their study on managerial competency of SACCOs in Busoga region Uganda concluded that management competency is significantly positively associated with their financial performance, all effort should be made to strengthen it, for example the Board performance, transparency and Board composition of these SACCOs should strengthen so that the skills and knowledge of the SACCOs managers are enhanced. The skill and knowledge gaps among managers of the SACCOs in Busoga region need to be identified this should be followed by the necessary training and development programs in order to bridge these gaps. This will help to improve the financial performance of these SACCOs. Skills and knowledge must take top priority in recruitment of new managers for the SACCOs in Busoga region. An assessment tool should be developed in line with the skills and knowledge elements (Ssekakubo, Ndiwalana and Lwanga 2014).

In the same context Kombo, Obonyo and Oloka (2014) from the study of delegation on Employee Performance in SACCOs established that managers rarely delegate to their juniors for fear of incompetence and these findings forms a basis for further research in determining to what extent management should delegate and to evaluate the performance of each employee with regard to organizational goals and objectives. The study will recommend that managers should embrace delegation as a management function to foster teamwork among employees in order for them to exert their efforts towards the overall increased organizational performance. On satisfaction, this study will also recommend that proper delegation gives employees satisfaction in their work and hence delegation can act as a motivational factor among employees.

2.5.2 Credit Management and Financial Performance

Credit management are methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management (Myers and Brealey, 2003). The core function of every SACCO is provision of credit facilities. The credit management function facilitates efficient management and administration of SACCOs loan portfolio in order to ensure equitable distribution of funds and to encourage members to take loans. The general aim of credit management is to reduce the possibility of potential losses with regard to issued loans. Loans are provided according to strict criteria, those criteria must cover information about the client, loan purpose, repayment source and collateral. According to Njanike (2009) the main activity of bank is not deposit mobilization and giving credit but effective credit risk management that reduces the risk of customer default.

According to Martin (2012) it is of importance that the directors and managers of SACCOs maintain a register of the business assets both the loans to members, and other tangible asset like furniture, machines and equipment and buildings to be able to identify the risks facing their assets. Kifle (2011) in his study explains that SACCOs sustainability requires that they cover all transaction costs (loan losses, financial costs, and administrative costs) with return on equity and consequently function without subsidies. The first step in limiting credit risk involves screening clients to ensure that they have the willingness and ability to repay a loan MFIs use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000). The 5Cs help MFIs to increase loan

performance, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and character.

Gisemba (2010) researched on the relationship between risk management practices and financial profitability of SACCOs found out that the SACCOs adopted various approaches in screening and analyzing risk before awarding credit to client to minimize loan loss. This includes establishing capacity, conditions, use of collateral, borrower screening and use of risk analysis in attempt to reduce and manage credit risks. He concluded that for SACCOs to manage credit risks effectively they must minimize loan defaulters, cash loss and ensure the organization performs better increasing the return on assets. Credit risk is the most expensive risk in financial institutions and its effect is more significant as compared to other risk as it directly threatens the solvency of financial institution (Chijoriga, 1997).

Kalumuna (2011) further pointed out that the effect of SACCOs to disburse big loans or small size loans to members which is not corresponding to the economic activities of members. He indicates that over financing of projects leads to loan defaulting as the debtor lack corresponding investment to service loans, likewise under financing of projects lead to failure of the projects to generate intended outcomes and therefore the debtor fails to meet loan obligations. Obadia (2014) in his study in Mbeya City concluded that SACCOs can give support to small businesses through the provisions of low interest loans and making follow up to ensure that members use loans according to their intended purposes, while also at the same time providing trainings to members on how to conduct well their business. Therefore, it is recommended that SACCOs loans provided to members should be of lower interest rates. Credit rationing has been found to influence credit demand. Credit rationing is in form of costs and conditions for obtaining credit. Lenders determine level of credit on probability of default (Okurut, 2004). Among SACCO members demand for credit has been attributed to loanable savings, which act as collateral and willingness of other members to act as guarantors (Makori, et al. 2013).

Duncan, Njeru, Florence and Tirimba (2015) did a study on the effect of loan repayment on financial performance of Deposit Taking SACCOs in Mount Kenya Region and concluded that Loan repayment is the obligation of members to ensure that SACCOs have adequate cash to meet new member's loan obligation. They noted that there were huge
credit risks encountered among different SACCOs, hence the need of the management to ensure there are improved policies on credit policy and this will reduce liquidity risk and improve financial performance of the SACCOs. Lack of credit analysis, credit follow-ups as well as hostile lending are the key factors that contribute to poor performance in loan lending by SACCO societies in Kenya (Mwaura, 2005). Credit monitoring is a keystone in credit risk management process. The purpose of credit monitoring is to detect in time possible worsening of the loan and to react (make changes in loan agreement). The simplest tool for credit monitoring is to identify early warning signs in time. According to SASRA reports the loan to deposit ratio for SACCOs is approximated at 108% which means that for every Ksh. 100 collected in deposits there is a Kshs. 108 lent out to members, while banks is vice versa making them stable in the market.

2.5.3 Capital Adequacy and Performance

Capital adequacy ratio shows the level of capital which is an indicator of how safe and sound are the banks and depository institutions since capital is buffer for absorbing losses (Abdel, 1996). Basel asserts that capital adequacy is determined by as a percentage of Banks total capital to risk weighted assets. Theoretically financial performance is influenced by the level of capital held by a bank. According to (Jane, Barus, Dr. Muturi, Dr. koima, 2009) SACCOs should shift their concentration from increasing capital level to credit risk management this will result in improvement in the financial performance if SACCOs According to (Diamond, 2000) sufficient capital level reduces chances of distress. Capital Asset ratio is deemed accurate to measure the capability of banks to curb losses incurred in the face of crisis (Dang, 2011).

Researchers have been carried out on capital adequacy and this research supports the SASRA regulation that has set all capital base for SACCOs to be maintained at 10% this ensures their stability and profitability are at par. With good capital SACCOs can invest in projects that will earn good profits since members will be saving more since the capital base is stable hence more deposits. Banks with high capital are profitable and perceived to be the best by depositors (Agbeja and Olufemi, 2015).

Theoretically financial performance is influenced by level of capital of SACCO and can diversify into various products to grow their member's e.g. buying Plots for members. According to resource-based theory a firm's competitive advantage evolves from resources that the organization has like good capital base. In the resource-based theory model, resources are given the major role of assisting companies in achieving higher organizational performance and competitive advantage.

2.5.4 Internal Control Systems and Audit on Financial Performance

ICS are the most challenging issues in SACCOs today in Kenya, to ensure SACCOs manage their ICS to streamline their operations and minimize unnecessary financial costs; risk, accounting control and administration control this is to ensure compliance and efficiency for those charged with governance (management) (C.Wangeci, M.Muturi 2017). ICS is important for especially for members who needs quality report to be assured of the continuity of the SACCO in a foreseeable future. The problems encountered with SACCOs is that periodic audit that is to be carried out by SACCOs supervisory committee is never met or is

influenced by the management to ensure a clean report is written, the internal auditors do not give a true picture of what the financial statements are reporting this leads to collapse of many SACCOs unknown to members the cause of their sudden collapse.

An entity's performance is influenced by those charge with governance their actions, interaction with Internal and external auditors. (ISA UK and Ireland 315) asserts that the responsibility of the management includes oversight of the design, operations reviewing process and procedures.

2.5.5 Government Regulation Policy (SASRA)

To safeguard the deposits of and wealth of Kenyans who have invested in SACCOs, the Government has taken various measures and implemented regulatory policies to ensure the movement operates according to international best practice. These include the establishment of SASRA through the SACCO Societies Act 2008, which introduced prudential regulations covering all deposit-taking SACCOs to enhance transparency and accountability in the fast growing sub-sector. It is anticipated that the move will also spur economic growth through mobilization of domestic savings.

Kenya and South Africa are the only countries in Africa with independent regulators and specific regulations for SACCOs the SACCO Societies Act and Co-operative Banking

Act, respectively. In most countries, central banks regulate and supervise SACCOs, which denies the societies the flexibility to serve members adequately.

Kenya has the highest proportion, in percentage points, of Gross Domestic Product (GDP) attributable to cooperatives globally, standing at 45 per cent, followed by New Zealand with 22 per cent. The cooperative movement worldwide has about 800 million members in over 100 countries and is estimated to account for more than 100 million jobs around the world. Kenya's cooperative sector is reputed to be one of the most regulated in Africa and the best in East Africa. Oyoo (2002) looked at assessment of financial potential of SACCOs prior and post deregulation where he concluded that SACCOs should look beyond the internal operations and develop strategies to strengthen their economic survival in the future.

2.6 Knowledge Gap

Cooperatives in Kenya have continued to play a very important role in the economy by providing employment to the youth and enhancing economic activities in the rural areas by improving the living standards of the people. Although previous studies on performance of SACCOs have been conducted for instance Karagu and Okibo (2014) did a study on factors influencing performance of SACCOs in Kenya, and concluded that funds misappropriation influences performance of SACCOs and that SACCOs need to improve on their internal audit department and other internal control measures. . Deposit taking SACCOs are supposed to maintain a core capital to asset ratio of 10% which 11 SACCOs failed to meet, this shows an increase in non-compliance from 6 SACCOs in 2016 to 11 in 2017 (SASRA 2018), internal audits are not done periodically, failure of not reviewing procedures and even implementing the existing ones by the management. Little has been said concerning other specific factors affecting their financial performance in relation to credit management practices namely; management competency, credit management, capital adequacy and internal control systems as majority of the studies on performance of SACCOs have been on credit risk factors influencing their performance. Hence, this study seeks to bridge the knowledge gap by specifically discussing the influence of management competency, credit management, capital adequacy and ICS on performance of SACCOs in Kenya.

CHAPTER THREE
RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter outlines the methodology that was used in carrying out the study. Aspects covered include the research design, target population, sample size and sampling procedure, data collection methods, validity and reliability and data analysis technique and presentation.

3.2 Research Design

Research design is the blue print for the collection, measurement, analysis of data and a plan to obtain answers to research questions (Cooper and Schindler, 2006). According to Kothari and Garg (2014) and Kothari (2004) research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Bryman and Bell (2007) further avers that the research design is a plan or framework for data collection and its analysis which reveals the type of research. Research design is thus a plan of how the research will be carried out (Waithaka, 2013). A descriptive study provides answers to the questions, who, what, when, where and sometimes how, (Copper and Schindler, 2003). The researcher thus used descriptive research design which enabled the study collect comprehensive data on the population under study and thus providing relevant and specific information. The design used was suitable because the study dealt with the relationship between the variables and development of generalization that have collective validity.

3.3 Study Area

This study was carried out in Kisumu County; Kisumu city is the capital city of Kisumu County, currently Head quaters for Western Kenya. It lies between latitude of -0.10221 and a longitude of 34.7617111 in the southern hemisphere. Kisumu County is where a number of SACCOs have failed to meet SASRA threshold on capital base leading to majority being supervised under the umbrella of the Ministry of Cooperatives within the County.

3.4 Target Population

Target population refers to entire group of individuals or objects to which researchers are interested in generalizing the conclusions (Kothari and Garg, 2014; Mugenda and Mugenda, 2003). The target population constituted 120 respondents from 12 randomly selected SACCOs operating in Kisumu County which have complied with SACCO Societies

Regulatory Authority (SASRA) regulations to remain validly registered. The core respondents were; Board Chairperson, Managing Directors, Finance Managers, Audit Managers, Internal Audit Officers, and Financial Clerks since they are more familiar with the subject under study as they are the custodians of corporate financial and management information.

A population consists of a group that share common characteristics from which units of analysis are then chosen out of the population for the study Orodho (2005). Target population refered to entire group of individuals to which researchers were interested in generalizing the conclusions (Mugenda and Mugenda 2003). The target population in this study was 120 from SACCOs regulated by SASRA in Kisumu County.

Table 3.1: Target Population

Department	Target Population
Board Chairperson	20
Managing directors	20
Finance manager	20
Audit Managers	20
Accountant	20
Financial Clerks	20
Total	**120**

Source: Researcher (2019)

3.5 Sample Size and Sampling Procedure

A sample must be robust in its design and large enough to provide a reliable representation of the whole population (Mugenda & Mugenda, 2009). Aspects considered when designing a sample were the level of accuracy required, cost, and the timing. In a random sample each unit in the population has a chance of being selected, and this probability can be accurately determined. Random sampling includes, but is not limited to, simple random sampling, systematic sampling, and stratified random sampling. Random sampling makes it possible to produce population estimates from the data obtained from the units included in the sample (Mugenda & Mugenda, 2009). Thus the researcher will use stratified random sampling technique. A stratified random sampling involves dividing the entire population into

homogeneous groups which are called strata (singular is stratum). Random samples are then selected from each stratum and have the same chance of being in the sample. At least 30% of the total population is representative (Borg and Gall, 2003). Thus, the researcher used 72% of the target population for the sample size which was arrived at using Krejcie and Morgan Table.

Table 3.2: Sample Size

Respondents	Target Population	Sample Population = (P*60/100)
Board Chairperson	20	12
Managing directors	20	12
Finance manager	20	12
Audit Managers	20	12
Accountants	20	12
Financial Clerks	20	12
Total	**120**	**72**

Source: Researcher (2019)

P=Target Population

3.6 Data Collections Instruments

The researcher used questionnaires as a tool for data collection. A questionnaire is a research tool that gathers data over a large sample. Questionnaire was the most appropriate research tool as it allowed the researcher to collect information from a large sample with diverse background; the findings remained confidential, save time and since they are presented in paper and there are no opportunities for bias (Kombo et al 2006). Mugenda (2012) argue that the use of questionnaire ensures that respondents are faced with identical stimulus this facilitating reliability. The instrument as designed to address issues relating to performance of SACCOs. The questionnaires were administered personally by the researcher to the respondents.

3.6.1 Data collection and Procedure

The researcher personally administered the questionnaires to the respondents. The filled in questionnaires were then collected after the respondents had filled them. Each respondent received the same set of questions in exactly the same way. In the questionnaire it was be

made clear in the introduction the purpose of the research by clarifying the academic purpose and that the respondents would not experience any negative effects when contributing to research. Primary data was collected mainly from primary sources. The primary data was used due to nearness to the truth and ease for control over errors (Copper and Schindler 2003).

3.6.2 Reliability of the Instruments

Before the actual data was collected, the researcher conducted a pilot study among the respondents who were included in the final study population. The respondents were randomly selected for the pilot study. The purpose of pilot study was to enable the researcher ascertain the reliability and validity of instruments and to familiarize with the administration of the questionnaires during the study. The pilot study enabled the researcher assess the clarity of the questionnaires and interview schedule items so that, those found to be inadequate or vague, modified to improve their quality hence increasing reliability.

3.6.3 Validity of Instruments

Wierma (1995) stated that all assessments of validity are subjective opinions based on judgments of the researcher. The research design aimed at enhancing internal, construct and external validity. To test the validity of the research instruments, the questionnaires were prepared and submitted to the supervisor for cross checking and also assess the reliance of content. The questionnaires were pre-tested through a pilot study which were done a week earlier before the commencement of the actual study to free the findings from ambiguity.

3.6.4 Data Analysis

Descriptive statistics were used to analyze the quantitative data obtained. The data collected were edited and coded for accuracy and completeness. Data was analyzed using descriptive analysis, ANOVA (mean, frequencies, standard deviation) and multiple regression analysis output will be presented i.e. tables, graphs and charts. Burns and Grove (2007) describe the purpose of descriptive statistics as providing the opinion of respondents regarding the phenomenon studies. Descriptive research provides an accurate account of characteristic of a particular individual, event or group in real life studies.

Multiple linear regression models will be used to determine the relative importance of each of the four variables.

$$Y= \beta_0+ \beta_1 X_1+\beta_2 X_2+ \beta_3 X_3+ \beta_4 X_4+ \varepsilon$$

Where

Y = Financial Performance

β_0 = constant

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficients to regression model

X_1 = Management Competency

X_2 = Capital Adequacy

X_3 = Internal Control and Audit

ε = Error term

3.7 Data Presentation

The findings were presented in the form of Tables, Charts and Graphs, which also generated descriptive report in form of percentages, and measure of Central tendency which were presented in table format.

3.8 Ethical Considerations

To ensure the maintenance of ethical standards, from the beginning to the completion of the study, the researcher obtained informed consent from the respondents and ensured that all the respondents participated voluntarily in the study. Privacy and anonymity of the respondents were maintained throughout the study. Openness and honest disclosure of information concerning the purpose and the benefits of the research to the respondents were also maintained.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This section represents the results after analysis discussions of the findings. Results are analyzed and also interpreted with respect to the main objective of the study that determines the effect of credit management practices on financial performance of savings and credit co-operative societies. Data was collected from the population of 70 respondents. The findings are presented in percentages and frequency distributions, graphs and tables.

4.2 Descriptive Results Analysis

As presented by the researcher, a rating tool scale of 1 to 5 was used, 5 being the highest and 1 the lowest level. Results were rated as follows for most results, 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly disagree.

SECTION A: GENERAL INFORMATION

Table 4.1: Position/rank

Position/ rank		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Board Chairperson	10	14.3	14.3	14.3
	Managing Director	2	2.9	2.9	17.1
	Finance Manager	9	12.9	12.9	30.0
	Audit Manager	5	7.1	7.1	37.1
	Internal Audit Officer	14	20.0	20.0	57.1
	Financial Clerks	13	18.6	18.6	75.7
	Others	17	24.3	24.3	100.0
	Total	70	100.0	100.0	

Source: Researcher (2019)

As shown in the table above, the majority of the respondents are holding other positions other than the above listed at 24%. The other majority are internal audit officers at 20% and financial clerks with 18%.

Table 4.2: Gender

Gender		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	28	40.0	50.0	50.0
	Female	28	40.0	50.0	100.0
	Total	56	80.0	100.0	
Missing	System	14	20.0		
Total		70	100.0		

Source: Researcher (2019)

From the results, there was a 40% each for both male and females while 20% of the respondents didn't indicate their gender, 14 of the 70 respondents.

Table 4.3: Age

Age		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20 to 25	8	11.4	12.5	12.5
	26 to 30	9	12.9	14.1	26.6
	31 to 35	19	27.1	29.7	56.3
	36 to 40	12	17.1	18.8	75.0
	Above 40 years	16	22.9	25.0	100.0
	Total	64	91.4	100.0	
Missing	System	6	8.6		
Total		**70**	**100.0**		

Source: Researcher (2019)

Respondents above 30 years are the majority, 27% are 31-35 years, 22% are above 40 years and 17% between 36-40 years. The only missing results from the respondents were 6, that is 8%.

Table 4.4: Number of years worked

How many years have you worked or been a member in the company

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less	10	14.3	14.3	14.3
	3 to 5 years	17	24.3	24.3	38.6
	6 to 7 years	11	15.7	15.7	54.3
	8 to 10 years	17	24.3	24.3	78.6
	Above 10 years	15	21.4	21.4	100.0
	Total	70	100.0	100.0	

Source: Researcher (2019)

On the number years worked, majority are over 3 years. 24% of the respondents are both at 3-5 years and 8-10 years as 21% above 10 years. The least serving employees were at 14% and 15% representing 6-7 years. This shows a 100% response rate from the collected and returned questionnaires.

Table 4.5: Level of Education

Please indicate your Highest Educational level in the space provided

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Master's degree	21	30.0	30.0	30.0
	Bachelor's Degree	21	30.0	30.0	60.0
	Diploma	18	25.7	25.7	85.7
	'O' Level	2	2.9	2.9	88.6
	Certificate	8	11.4	11.4	100.0
	Total	70	100.0	100.0	

Source: Researcher (2019)

There is a lot of skills as shown from the results above. Both Master's and Bachelor's degrees share a valid 30% followed by diploma at 25%. 'O' Level is at 2% and 11% are certificate level.

Effects of Credit Management Practices on Financial Performance OF Savings and Credit Co-operative Socities

4.2.1 Management Competency

Table 4.6: Influence of revenue growth

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	4.3	4.3	4.3
	Neutral	13	18.6	18.8	23.2
	Agree	27	38.6	39.1	62.3
	Strongly agree	26	37.1	37.7	100.0
	Total	69	98.6	100.0	
Missing	System	1	1.4		
Total		70	100.0		

Source: Researcher (2019)

From the results shown above, 39% being the majority agrees that management competency affects the performance of their SACCOs as 38% strongly agreeing 0n influence of business growth. This shows that there is a lot of business growth as only 4% with a frequency of 4 out of 70 disagreeing.
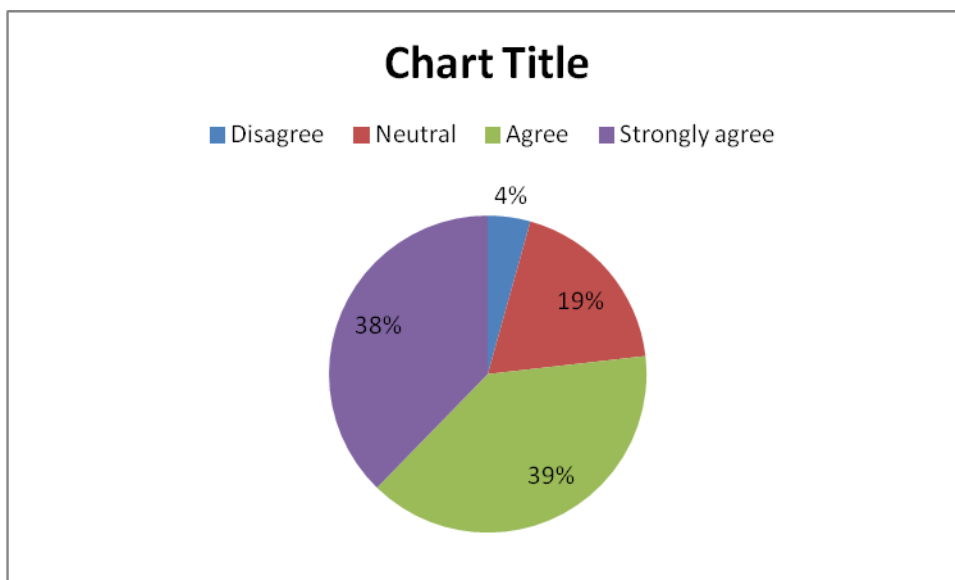
Figure 4.1: Influence of Revenue Growth

Table 4.7: Encourage more members to join

Encourage more members to join

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	2.9	3.1	3.1
	Neutral	11	15.7	16.9	20.0
	Agree	24	34.3	36.9	56.9
	Strongly agree	28	40.0	43.1	100.0
	Total	65	92.9	100.0	
Missing	System	5	7.1		
Total		70	100.0		

Source: Researcher (2019)

A good number also at 40% strongly agree that management competency encourages more members to join the SACCOs with 34% agreeing. This affects the performance of the SACCOs in the region as from the results tabulated.

Table 4.8: Improve decision making

Improve decision making

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	2.9	3.0	3.0
	Disagree	9	12.9	13.6	16.7
	Neutral	5	7.1	7.6	24.2
	Agree	26	37.1	39.4	63.6
	Strongly agree	24	34.3	36.4	100.0
	Total	66	94.3	100.0	
Missing	System	4	5.7		
Total		70	100.0		

Source: Researcher (2019)

With a competent management team, proper decision making are made as shown in the table above. Respondents with the majority are at 37% followed by 34% that strongly agree with only 12% of the respondents not agreeing.

Table 4.9: Has little impact

Has little impact

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	34	48.6	51.5	51.5
	Disagree	16	22.9	24.2	75.8
	Neutral	9	12.9	13.6	89.4
	Agree	6	8.6	9.1	98.5
	Strongly agree	1	1.4	1.5	100.0
	Total	66	94.3	100.0	
Missing	System	4	5.7		
Total		70	100.0		

Source: Researcher (2019)

According to the responses collected, management competency has a lot of impact on the performance of the SACCOs as majority's response is at 48% followed by 22%. Following the previous results of the education level, this practice can be proved by the fact that most employees are University graduates.

4.2.2 Credit Criteria

Table 4.10: Income

Income

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Little extent	3	4.3	4.5	4.5
	Moderate	13	18.6	19.7	24.2
	Great extent	18	25.7	27.3	51.5
	Very great	32	45.7	48.5	100.0
	Total	66	94.3	100.0	
Missing	System	4	5.7		
Total		70	100.0		

Source: Researcher (2019)

There is a very great extent rate that credit worthiness of a member is determined by the income one has. A majority response rate is at 45% followed by 25% at great extent.

Table 4.11: Character, reputation and credit History

Character, reputation and credit History

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No extent	9	12.9	13.4	13.4
	Little extent	17	24.3	25.4	38.8
	Moderate	14	20.0	20.9	59.7
	Great extent	12	17.1	17.9	77.6
	Very great	15	21.4	22.4	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

Character, reputation and credit history are fairly used to determine the credit worthiness as compared to the income as shown above. Majority of the respondents show a little extent results at 24% followed by very great at 21% and frequency of 9 out of 70 showing a no extent response.

Table 4.12: Existing personal debt

Existing personal debt

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No extent	10	14.3	14.9	14.9
	Little extent	14	20.0	20.9	35.8
	Moderate	4	5.7	6.0	41.8
	Great extent	23	32.9	34.3	76.1
	Very great	16	22.9	23.9	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

The results shows that there is a great extent that existing debt can be used to determine credit worthiness of a member at 32% followed by 22% of very great extent and 20% at little extent. Few results show 14% of no extent and 5% on moderate.

Table 4.13: Employment history

Employment history

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No extent	19	27.1	28.8	28.8
	little extent	17	24.3	25.8	54.5
	moderate extent	11	15.7	16.7	71.2
	great extent	6	8.6	9.1	80.3
	very great extent	13	18.6	19.7	100.0
	Total	66	94.3	100.0	
Missing	System	4	5.7		
Total		70	100.0		

Source: Researcher (2019)

Employment history contribute so little on the determination of credit worthiness as 27% no extent, 22% little extent and 18% very great extent. Majority agree to the fact that it does not determine the credit worthiness.
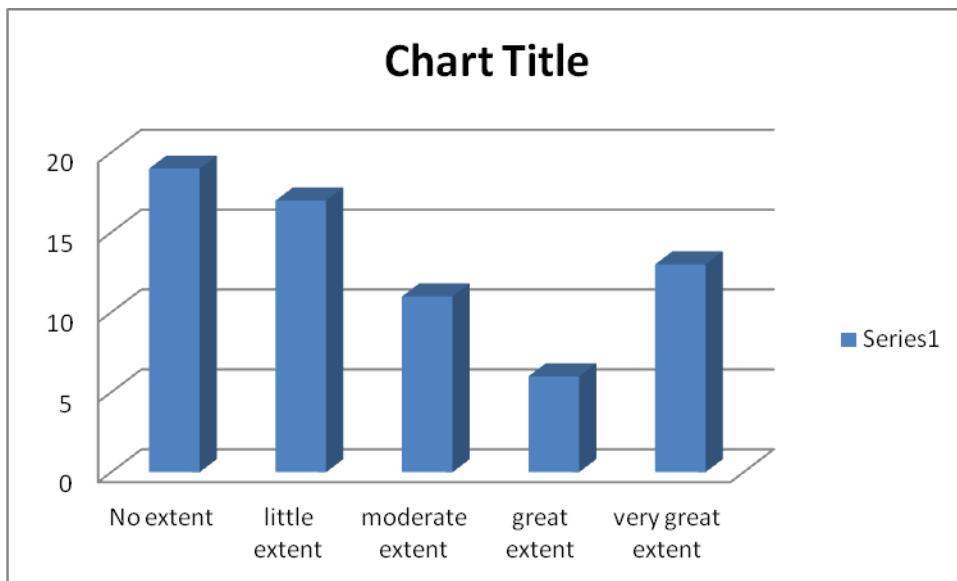
Figure 4.2: Employment History

Table 4.14: Potential for long term credit

Potential for long term credit

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Little extent	8	11.4	11.9	11.9
	Moderate	11	15.7	16.4	28.4
	Great extent	35	50.0	52.2	80.6
	Very great	13	18.6	19.4	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

A member's worthiness may be determined by the potential for a long-term credit as shown above at 50% for great extent and 18% for very great extent. A negative result was at 11% for little extent.

Table 4.15: Ability to repay the loan

Ability to repay the loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No extent	6	8.6	8.7	8.7
	Little extent	3	4.3	4.3	13.0
	Moderate	1	1.4	1.4	14.5
	Great extent	23	32.9	33.3	47.8
	Very great	36	51.4	52.2	100.0
	Total	69	98.6	100.0	
Missing	System	1	1.4		
Total		70	100.0		

Source: Researcher (2019)

Assessment of an individual's credit worthiness is highly determined by the ability to pay according to the respondents. 51% responded for very great extent and 32% for great extent. This shows a high likely chance that if the credit limit or score is low then a loan cannot be given to a member.

Table 4.16: Credit Reminder

Form of credit reminder used by SACCOs

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Manual	33	47.1	52.4	52.4
	Automated	30	42.9	47.6	100.0
	Total	63	90.0	100.0	
Missing	System	7	10.0		
Total		70	100.0		

Source: Researcher (2019)

According to the response given, there is a manual credit reminder used by most SACCOs in the area. A response rate of 47% confirmed the same as 42% was for automatic reminder as the rest didn't indicate any response.
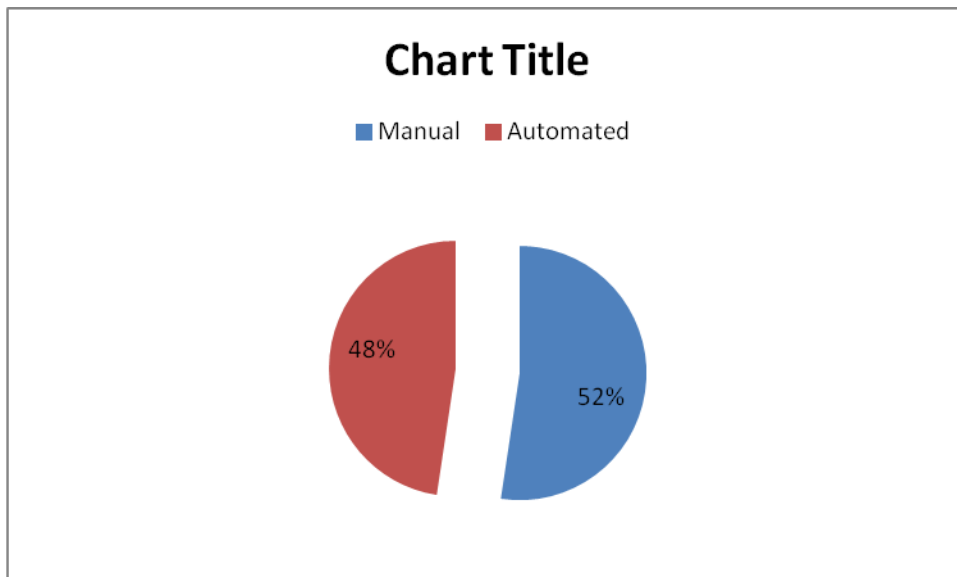
Figure 4.3: Credit Reminder

4.2.2.1 Credit Reminder Duration

Table 4.17: After 1 to 3 months

After 1 to 3 months

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	23	32.9	33.3	33.3
	Little extent	12	17.1	17.4	50.7
	Moderate	6	8.6	8.7	59.4
	Great Extent	13	18.6	18.8	78.3
	Very great extent	15	21.4	21.7	100.0
	Total	69	98.6	100.0	
Missing	System	1	1.4		
Total		70	100.0		

Source: Researcher (2019)

According to the above report, notification to customers on their loans is not sent after 1 to 3 months. 32% of the respondents indicated a no extent level to the credit reminder and 17% showing little extent. Even though there is a little extent of credit reminder, some SACCOs do so to a great extent as 21% indicating very great extent level and 18% great extent level.

Table 4.18: After 3 to 6 months

After 3 to 6 months

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	10	14.3	14.9	14.9
	Little extent	4	5.7	6.0	20.9
	Moderate	31	44.3	46.3	67.2
	Great Extent	13	18.6	19.4	86.6
	Very great extent	9	12.9	13.4	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

Being that form of credit reminder used is manual, after 3-6 months there is moderate response rate for a reminder as 18% responded to a great extent. The study shows that a reminder for loan repayments is sent between 3 to 6 months with 44% proving so.

Table 4.19: After 6 to 9 months

After 6 to 9 months

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	28	40.0	41.8	41.8
	Little extent	4	5.7	6.0	47.8
	Moderate	6	8.6	9.0	56.7
	Great Extent	14	20.0	20.9	77.6
	Very great extent	15	21.4	22.4	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

There is a greater percentage of respondents showing that there is no reminder at 6-9 months at 40%. 20% responded to a great extent and 21% to very great extent.

4.2.2.2 Recuperating Loans

Table 4.20: Follow up guarantor to pay

Follow up guarantor to pay

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No extent	3	4.3	4.4	4.4
	Little extent	8	11.4	11.8	16.2
	Moderate extent	17	24.3	25.0	41.2
	Great extent	18	25.7	26.5	67.6
	Very great extent	22	31.4	32.4	100.0
	Total	68	97.1	100.0	
Missing	System	2	2.9		
Total		70	100.0		

Source: Researcher (2019)

When there is an overdue loan, recovery can be done through follow up on guarantor to pay. This shown above as 31% responded to very great extent, 25% great extent, 24% moderate and 11% little extent.

Table 4.21: Claim with insurance

Claim with insurance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No extent	16	22.9	23.9	23.9
	Little extent	17	24.3	25.4	49.3
	Moderate extent	12	17.1	17.9	67.2
	Great extent	22	31.4	32.8	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

Most defaulted loans can also be recovered from the insurances if need be as 31% responded to great extent but 24% on little extent, 22% no extent followed by 17% on moderate level. On average, 46% were above average as 4 percent didn't give any response.

Table 4.22: Sue member by court

Sue member by court

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No extent	33	47.1	49.3	49.3
	Little extent	9	12.9	13.4	62.7
	Moderate extent	3	4.3	4.5	67.2
	Great extent	13	18.6	19.4	86.6
	Very great extent	9	12.9	13.4	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

There are no chances that a defaulted loan can follow a court process to be recuperated. Above results show that 47% of the respondents are of no extent and 18% on greater extent. This shows that very few cases may reach the courts the recovery.
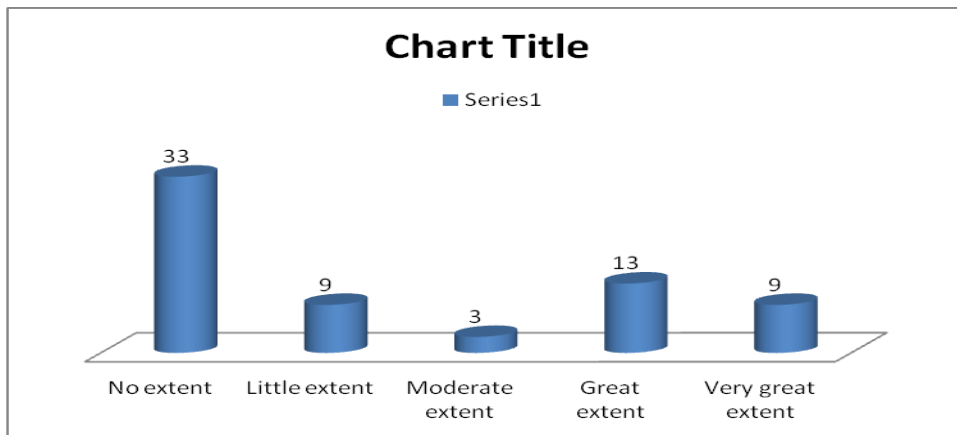
Figure 4.4: Sue Member by Court

Table 4.23: Public auction of private property

Public auction of private property

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No extent	31	44.3	45.6	45.6
	Little extent	23	32.9	33.8	79.4
	Moderate extent	7	10.0	10.3	89.7
	Great extent	5	7.1	7.4	97.1
	Very great extent	2	2.9	2.9	100.0
	Total	68	97.1	100.0	
Missing	System	2	2.9		
Total		70	100.0		

Source: Researcher (2019)

According to the responses given, there is very little occasion of public auctioning of private properties in case of default. 44% responded for the same as 32% responding for little extent.

Table 4.24: Member to pay loan without interest

Ask member to pay loan without interest

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No extent	34	48.6	50.7	50.7
	Little extent	5	7.1	7.5	58.2
	Moderate extent	19	27.1	28.4	86.6
	Great extent	2	2.9	3.0	89.6
	Very great extent	7	10.0	10.4	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

When recuperating the loans, 48% of the respondents showed that no member can be asked to pay the loan without interest. Few cases can allow member to pay the loan without interest in case of default as 27% were on moderate level.
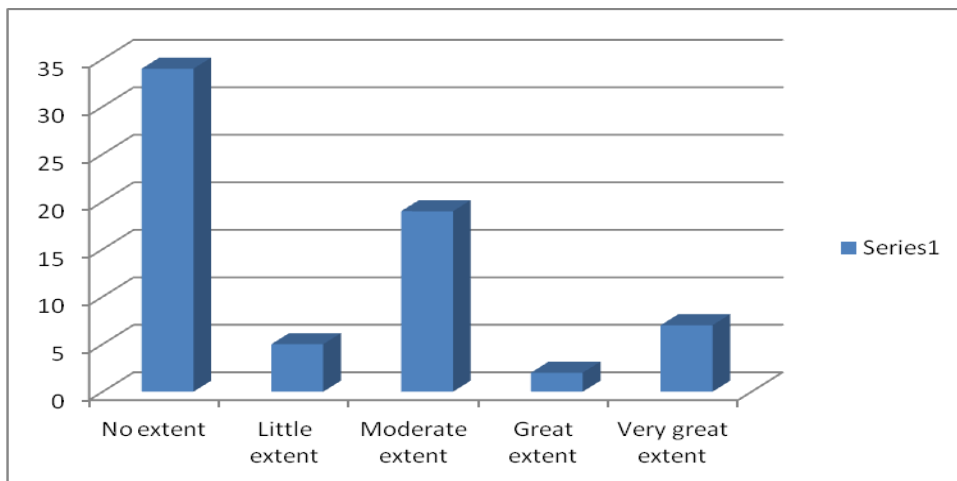
Figure 4.5: Member to pay Loan without interest

4.2.2.3 Borrowing Limit

Table 4.25: Three times savings

Three times savings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	2	2.9	2.9	2.9
	Little extent	3	4.3	4.3	7.2
	Moderate	17	24.3	24.6	31.9
	Great extent	25	35.7	36.2	68.1
	Very great extent	22	31.4	31.9	100.0
	Total	69	98.6	100.0	
Missing	System	1	1.4		
Total		70	100.0		

Source: Researcher (2019)

Borrowing limit employed by the SACCOs is averagely three times the savings as 35% are on great extent, 31% are on very great extent. 24% are on moderate as 4% on little extent. This is for most SACCOs as many responses were on above moderate level.

Table 4.26: Six times savings

Six times savings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	27	38.6	40.9	40.9
	Little extent	29	41.4	43.9	84.8
	Moderate	2	2.9	3.0	87.9
	Great extent	5	7.1	7.6	95.5
	Very great extent	3	4.3	4.5	100.0
	Total	66	94.3	100.0	
Missing	System	4	5.7		
Total		70	100.0		

Source: Researcher (2019)

As per above results, borrowing limit is not six times savings as asked in the questionnaire. 31% showed no extent and 41% showed very little extent.

Table 4.27: Minimum of three times savings

Minimum of three times savings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	7	10.0	10.6	10.6
	Little extent	17	24.3	25.8	36.4
	Moderate	20	28.6	30.3	66.7
	Great extent	12	17.1	18.2	84.8
	Very great extent	10	14.3	15.2	100.0
	Total	66	94.3	100.0	
Missing	System	4	5.7		
Total		70	100.0		

Source: Researcher (2019)

There is an average count that borrowing limit is pegged to minimum of three times savings as 28% are on moderate level, 17% on great extent, 14% on very great extent as 24% are on little extent.

Table 4.28: Minimum of six times savings

Minimum of six times savings

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	44	62.9	68.8	68.8
	Little extent	9	12.9	14.1	82.8
	Great extent	3	4.3	4.7	87.5
	Very great extent	8	11.4	12.5	100.0
	Total	64	91.4	100.0	
Missing	System	6	8.6		
Total		70	100.0		

Source: Researcher (2019)

As per the previous results, there is also no extent that 62% of the respondents showing that SACCOs borrow on a minimum of six times savings. Only 11% are on very great extent.

Table 4.29: Ability to pay

Ability to pay back Loan

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	13	18.6	19.7	19.7
	Little extent	2	2.9	3.0	22.7
	Moderate	14	20.0	21.2	43.9
	Great extent	7	10.0	10.6	54.5
	Very great extent	30	42.9	45.5	100.0
	Total	66	94.3	100.0	
Missing	System	4	5.7		
Total		70	100.0		

Source: Researcher (2019)

Ability to pay is considered by most SACCOs to very great extent at 42%, 10% at great extent and 20% at moderate level for borrowing limit.

4.2.3 Capital Adequacy

Table 4.30: Separating members Deposit from Capital

Separating members Deposit from Capital

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	23	32.9	33.8	33.8
	Slightly	11	15.7	16.2	50.0
	Significantly	10	14.3	14.7	64.7
	Greatly	12	17.1	17.6	82.4
	Very great	12	17.1	17.6	100.0
	Total	68	97.1	100.0	
Missing	System	2	2.9		
Total		70	100.0		

Source: Researcher (2019)

In meeting capital requirements, separating members deposit from capital is not used as a requirement as 32% were on not at all and 15% were on slightly level. On average level, 34% were above the great level.

Table 4.31: Defining and calculation of rations

Defining and calculation of rations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	11	15.7	15.9	15.9
	Slightly	16	22.9	23.2	39.1
	Significantly	10	14.3	14.5	53.6
	Greatly	22	31.4	31.9	85.5
	Very great	10	14.3	14.5	100.0
	Total	69	98.6	100.0	
Missing	System	1	1.4		
Total		70	100.0		

Source: Researcher (2019)

In meeting capital requirement, defining and calculation of ratios is regarded a challenge to a great extent as many respondents say so. 31% showed great extent as 14% showed 14%. This was also supported by 14% who responded for significantly. This was on the above average level as shown above.

Table 4.32: Reduced member payout

Reduced member payout

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	12	17.1	17.9	17.9
	Slightly	8	11.4	11.9	29.9
	Significantly	28	40.0	41.8	71.6
	Greatly	11	15.7	16.4	88.1
	Very great	8	11.4	11.9	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

It also evident that a reduced member payout is also a challenge facing capital adequacy to a significant effect as over 50% were on the above the significant level. The least being slightly at 11%.

Table 4.33: Restricted avenues for investment

Restricted avenues for investment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	19	27.1	29.7	29.7
	Slightly	12	17.1	18.8	48.4
	Significantly	13	18.6	20.3	68.8
	Greatly	16	22.9	25.0	93.8
	Very great	4	5.7	6.3	100.0
	Total	64	91.4	100.0	
Missing	System	6	8.6		
Total		70	100.0		

Source: Researcher (2019)

Reduced lending capacity is fairly affecting the capital requirement of SACCOs in the region. Most respondents of the questionnaire were on the above significant level on average at 46% as 8% didn't respond to the questionnaire. 34% responded to not at all and slightly responses as shown above.

Table 4.34: Reduced Lending capacity

Reduced Lending capacity

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not at all	14	20.0	20.9	20.9
	Slightly	6	8.6	9.0	29.9
	Significantly	3	4.3	4.5	34.3
	Greatly	33	47.1	49.3	83.6
	Very great	11	15.7	16.4	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

For most of the SACCOs in the area, reduced lending capacity is a major factor in meeting the capital adequacy. 47% with a frequency of 33 out of 70 responded greatly as 15% responding to very great. This shows that it is major challenge to them. On average, 28% responded in contrast to the majority.

4.2.4 Internal Control Systems and Audit

Table 4.35: Up to date accounting policies and procedure manuals

Up to date accounting policies and procedure manuals

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	9	12.9	13.4	13.4
	Little extent	9	12.9	13.4	26.9
	Moderate extent	8	11.4	11.9	38.8
	Great extent	20	28.6	29.9	68.7
	Very great extent	21	30.0	31.3	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

Internal control system and audit as tool of credit management policy affects the growth and efficiency of SACCOs, as a requirement, up to date accounting policies and procedure manuals of ICS affects the same to a great extent. This is evident above as 73% of the respondents are on above the moderate level with only 24% showing no and little extent to the questionnaire.

Table 4.36: Are personnel policies maintained and distributed

Are personnel policies maintained and distributed

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	15	21.4	22.4	22.4
	Little extent	13	18.6	19.4	41.8
	Moderate extent	9	12.9	13.4	55.2
	Great extent	12	17.1	17.9	73.1
	Very great extent	18	25.7	26.9	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

25% of the responded said that ICS are personal policies maintained and distributed to a very great extent while 17% showed great extent. Those with contrasting results were on average at 40% thus showing a fair distribution.

Table 4.37: Is an Internal Audit manual in use

Is an Internal Audit manual in use

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	23	32.9	33.3	33.3
	Little extent	12	17.1	17.4	50.7
	Moderate	6	8.6	8.7	59.4
	Great Extent	13	18.6	18.8	78.3
	Very great extent	15	21.4	21.7	100.0
	Total	69	98.6	100.0	
Missing	System	1	1.4		
Total		70	100.0		

Source: Researcher (2019)

Internal audit manual is fairly used in the SACCOs as half of the respondents showed an average result of little extent at 50% and 49% on above moderate with only 1% not responding.

Table 4.38: Is the ICS cost effective for the SACCO

Is the ICS cost effective for the SACCO

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	17	24.3	25.4	25.4
	Little extent	6	8.6	9.0	34.3
	Moderate extent	14	20.0	20.9	55.2
	Great extent	20	28.6	29.9	85.1
	Very great extent	10	14.3	14.9	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

In terms of cost effectiveness, ICS was voted so much cost effective at 63% by the respondents as the other 33% were not of the similar opinion. This variation showed that for proper management of SACCOs, ICS as a credit policy practice is greatly put in use.

Table 4.39: Implementing ICS is a full proof of efficiency

Implementing ICS is a full proof of efficiency

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not extent	11	15.7	15.7	15.7
	Little extent	13	18.6	18.6	34.3
	Moderate extent	18	25.7	25.7	60.0
	Great extent	15	21.4	21.4	81.4
	Very great extent	13	18.6	18.6	100.0
	Total	70	100.0	100.0	

Source: Researcher (2019)

Most of the respondents showed that implementation of ICS is a full proof of efficiency in the SACCOs with an average result of 66% while the other respondents were at 34%.

4.2.7 Impact of SASRA on Ownership

Table 4.40: Ownership

Ownership

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No impact	24	34.3	35.8	35.8
	Low Impact	14	20.0	20.9	56.7
	Moderate Impact	24	34.3	35.8	92.5
	High Impact	3	4.3	4.5	97.0
	Very High Impact	2	2.9	3.0	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

SASRA regulations have no impact on ownership in most SACCOs. This is proven by 34% responding to impact, 20% low impact and the other responding to moderate and high impact on the ownership of the SACCOs.
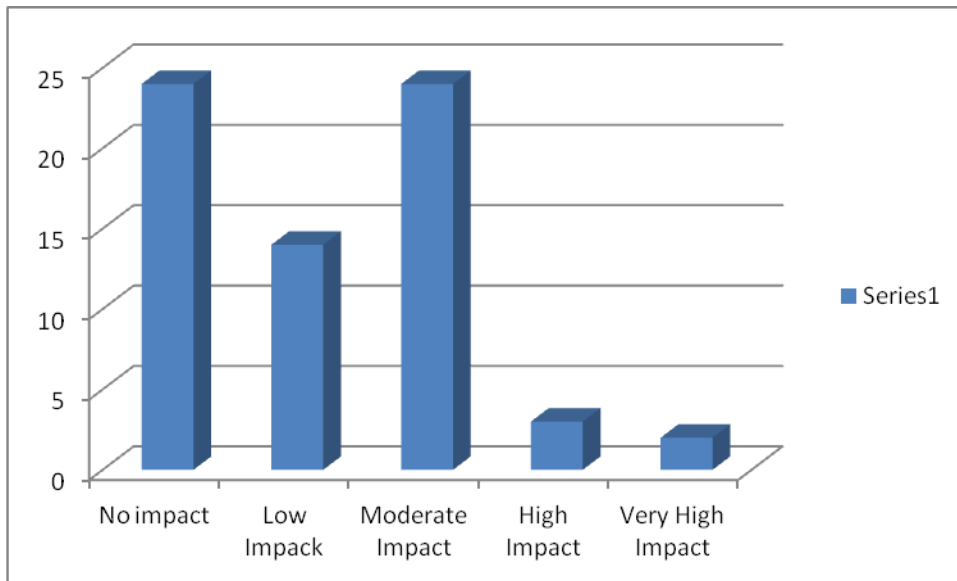
Figure 4.6: Ownership

Table 4.41: Governance

Governance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No impact	18	25.7	26.9	26.9
	Low Impact	9	12.9	13.4	40.3
	Moderate Impact	23	32.9	34.3	74.6
	High Impact	7	10.0	10.4	85.1
	Very High Impact	10	14.3	14.9	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

On governance, the regulations have an impact in the SACCOs as 32% showed moderate level, 14% very high level and 10% high impact. Since only 25% showing no impact and 12% little impact, governance is really affected by the SASRA regulations.

Table 4.42: Accountability

Accountability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No impact	17	24.3	24.3	24.3
	Low Impact	10	14.3	14.3	38.6
	Moderate Impact	8	11.4	11.4	50.0
	High Impact	23	32.9	32.9	82.9
	Very High Impact	12	17.1	17.1	100.0
	Total	70	100.0	100.0	

Source: Researcher (2019)

SASRA regulations affects accountability of SACCOs to great extent with most of the respondents showed the above moderate level. Majority showed high impact at 32%, 17% on very high impact and 11% indicated moderate impact results.

Table 4.43: Management Efficiency

Management Efficiency

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No impact	13	18.6	19.4	19.4
	Low Impact	10	14.3	14.9	34.3
	Moderate Impact	6	8.6	9.0	43.3
	High Impact	19	27.1	28.4	71.6
	Very High Impact	19	27.1	28.4	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

Being the only regulation governing SACCOs tested, management efficiency is highly affected by the regulations as 27% of the respondents showed high impact as the same also voted for very high impact while 8% were for moderate impact. This shows that it's a good practice for the daily management of the SACCOs in the area.

Table 4.44: SASRA Role

SASRA role in helping the institution in the regulations policies can be termed as

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Poor	2	2.9	2.9	2.9
	Fair	6	8.6	8.6	11.4
	Good	35	50.0	50.0	61.4
	Very good	17	24.3	24.3	85.7
	Excellent	10	14.3	14.3	100.0
	Total	70	100.0	100.0	

Source: Researcher (2019)

These regulations of SASRA are of great benefit to the SACCOs as previously discussed. This is supported by the above fact that the authority's role in helping the institution in the regulation of policies is termed as so good. 50% responded to good, 24% showed very good and 14% showing excellent results.

Table 4.45: Government support

The Current Government support for SACCOs operations can be termed as

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Poor	8	11.4	11.4	11.4
	Fair	29	41.4	41.4	52.9
	Good	22	31.4	31.4	84.3
	Very good	11	15.7	15.7	100.0
	Total	70	100.0	100.0	

Source: Researcher (2019)

As a public institution, the government is not supportive to the SACCOs. 41% showed that the government is fair, 11% showed that the support is poor, 31% showed good support and 15% with very good support.
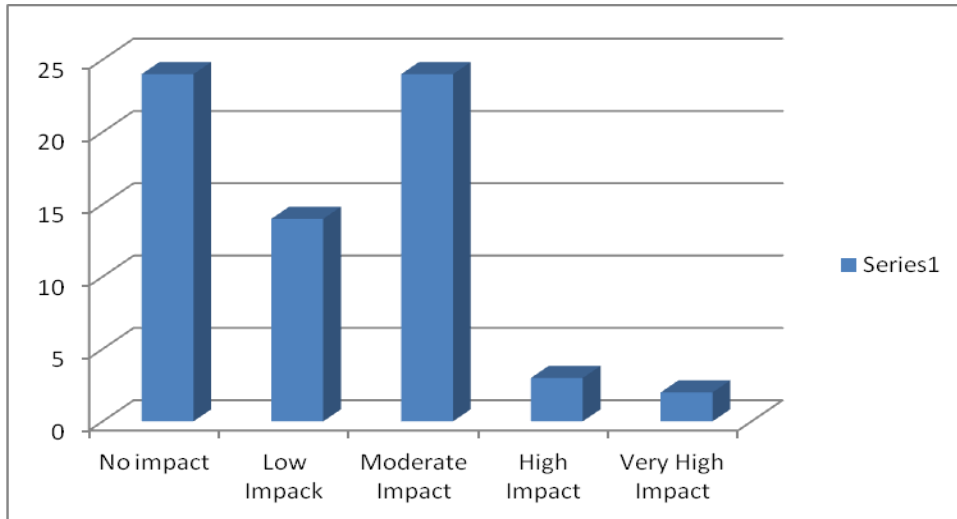
Figure 4.7: Government Support

Table 4.46: It influences customer's confidence and trust

It influences customer's confidence and trust

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	3	4.3	4.5	4.5
	Neutral	4	5.7	6.0	10.4
	Agree	19	27.1	28.4	38.8
	Strongly agree	41	58.6	61.2	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

There is a lot of influence to customer's confidence and trust based on the performance of the SACCOs. Majority supported the same with 58% strongly agreeing and 37% agreeing with the same. This proves a lot to customers as their confidence and trust is greatly influenced.

Table 4.47: Attracts investors to save with the SACCO

Attracts investors to save with the SACCO

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	14	20.0	20.9	20.9
	Disagree	6	8.6	9.0	29.9
	Neutral	2	2.9	3.0	32.8
	Agree	25	35.7	37.3	70.1
	Strongly agree	20	28.6	29.9	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

SACCO performance greatly attracts investors after proving that it has a lot of influence on the customer's trust and confidence. 35% of the respondents agreed to the same as 28% strongly agreeing. This can attract many members as new members can subscribe to highly performing SACCOs.

Table 4.48: It provides staff job security

It provides staff job security

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	8	11.4	11.9	11.9
	Disagree	6	8.6	9.0	20.9
	Neutral	17	24.3	25.4	46.3
	Agree	17	24.3	25.4	71.6
	Strongly agree	19	27.1	28.4	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

Job security does not correlate much with the institution's performance. 24% agree to the same as 27% strongly agreeing and 24% are on neutral level. 11% of the respondents strongly disagree with this fact as for 8% as well.

Table 4.49: It ensures healthy returns to the shareholders

It ensures healthy returns to the shareholders

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	2.9	3.0	3.0
	Neutral	16	22.9	23.9	26.9
	Agree	20	28.6	29.9	56.7
	Strongly agree	29	41.4	43.3	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

Source: Researcher (2019)

If the SACCOs perform so well then there is high likely chance that the shareholders will have healthy returns. This is evident in the table above as 41% of the respondents strongly agree to this fact, 28% are on agreement level and 22% are at neutral level.

Table 4.50: Indicator of sustainability

It provides an indicator of sustainability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	7.1	7.4	7.4
	Disagree	4	5.7	5.9	13.2
	Neutral	8	11.4	11.8	25.0
	Agree	28	40.0	41.2	66.2
	Strongly agree	23	32.9	33.8	100.0
	Total	68	97.1	100.0	
Missing	System	2	2.9		
Total		70	100.0		

Source: Researcher (2019)

Performance of these institutions provides a good indicator of sustainability. 40% of the respondents attest that it is possible by agreeing as 32% strongly agree. This likely compares to other variable that good performance provide a healthy return to the shareholders.
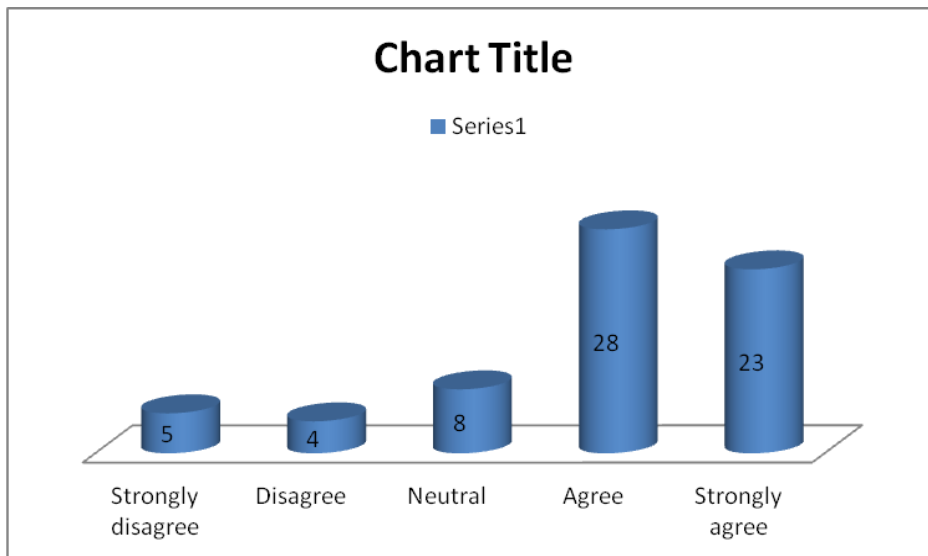
Figure 4.8: Indicator of Sustainability

Table 4.60 Credit management practice and management Competency

Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.543[a]	.295	.248	.85521

a. Predictors: (Constant), Has little impact , Encourage more members to join, Influence Business growth, Improve decision making. From the results the study finds a positive relationship between management competency and performance, R indicates 0.543 there is a relationship between credit management and management competency, 29% variation of Financial performance to Independent Variables. There is same moderate degree of correlation which is presented by r which is 0.54. adjusted R-Square is 24.8% variation of changes in independent variables.

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.363	4	4.591	6.277	.000[a]
	Residual	43.883	60	.731		
	Total	62.246	64			

Source: Researcher (2019)

Predictors: (Constant), Has little impact, Encourage more members to join, Influence Business growth, Improve decision making Significance level of 0.000 this shows the data is ideal for making decisions as the p-value is less than 0.05 level of significance. In view of the table above F Critical 6.2777>2.2431

Model		Sum of Squares	df	Mean Square	F	Sig.
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	Residual	43.883	60	.731		
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Source: Researcher (2019)

Predictors: (Constant), Has little impact, Encourage more members to join, Influence Business growth, Improve decision making Significance level of 0.000 this shows the data is ideal for making decisions as the p-value is less than 0.05 level of significance. In view of the table above F Critical 6.2777>2.2431

b. Dependent Variable: It ensures healthy returns to the shareholders

Correlation Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.547	.934		5.942	.000
	Influence Business growth	-.125	.131	-.105	-.957	.343
	Encourage more members to join	.112	.116	.106	.966	.338
	Improve decision making	-.113	.100	-.130	-1.128	.264
	Has little impact	-.524	.109	-.555	-4.789	.000

Source: Researcher (2019)

$Y = 5.547 - 0.125X_1 + 0.112 X_2 - 0.113 X_3 - 0.524 X_4$

In view of the results in coefficient table above influence on business growth is statistically significant in explaining financial performance of Saccos as shown by -0.125, this is an indication that a unit decrease in business growth results in decrease in financial performance of Saccos. More members joining this has a significant positive relationship with financial performance of Saccos a unit increase in member joining results in an increase in financial performance, a decrease in decision making shown by -0.113 will result in a decrease in financial performance of Saccos, management competency has a positive impact on financial performance, the statistical significance of the Independent variable management, business growth, more members joining Sacco and improved decision making has a positive effect on

management competency hence accept null hypothesis that management competency influence performance.

Table 4.61 Credit management practice and Financial Performance

Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.792[a]	.627	.588	.75860

a. Predictors: *(Constant), Ability to repay the loan, Character, reputation and credit History, Income, Potential for long term credit , Existing personal debt, Employment history*

Source: Researcher (2019)

There is some is same   high degree of correlation which is presented by r which is 0.79

which is less than 1. Adjusted R-Square of 0.588 shows credit management practice

significantly influences performance.

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	56.069	6	9.345	16.239	.000[a]
	Residual	33.377	58	.575		
	Total	89.446	64			

a.Predictors: *(Constant), Ability to repay the loan, Character, reputation and credit History, Income, Potential for long term credit , Existing personal debt, Employment history*

b. Dependent Variable: It provides an indicator of sustainability

Source: Researcher (2019)

The table shows 0.000 significance level shows the data is ideal for making conclusion on the population parameter, the P-Value is less than .05, F Calculated 16.239>F Critical 3.64 this shows credit management influences financial performance of Saccos .

Correlation Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.243	.642		5.054	.000
	Income	-.610	.111	-.476	-5.519	.000
	Character, reputation and credit History	-.453	.081	-.523	-5.574	.000
	Existing personal debt	.315	.074	.375	4.283	.000
	Employment history	.020	.076	.025	.266	.791
	Potential for long term credit	.493	.118	.355	4.184	.000
	Ability to repay the loan	.390	.083	.412	4.682	.000

a. Dependent Variable: It provides an indicator of sustainability

Source: Researcher (2019)

$$Y = 3.243 - 0.61 X_1 - 0.453 X_2 + 0.315 X_3 + 0.02 X_4 + 0.493 X_5 + 0.39 X_6$$

Reduction in income reduction in income by .61 influence financial performance of Saccos with a standard error of .111, character reputation negatively contributes to the better performance of Saccos, personal debts is positively correlated to credit management, employment history is strongly positively correlated showing 0.02 efficiency, potential of long-term debt shows .493 this is positively contributing to financial performance, ability to repay loan is acceptable measure of performance.

Credit management summarized above shows that credit management is a main factor that contributes positively to the financial performance of Saccos, so accept null hypothesis that credit management influence performance.

Table 4.62 Credit management practice and capital Adequacy

Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.364[a]	.133	.058	1.47379

a. Predictors: *(Constant), Reduced Lending capacity , Defining and calculation of rations, Separating members Deposit from Capital , Reduced member payout, Restricted avenues for investment*

Source: Researcher (2019)

There is little or same   high degree of correlation which is presented by r which is 0.364 Standard Error of 1.47379 shows that there is no relationship between Capital adequacy and performance. From the results in table 4.62 R indicates 0.364 there is a low relationship between capital adequacy and financial performance of Saccos. Adjusted R Square shows 5.8% variation of financial performance to independent variables

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.255	5	3.851	1.773	.133[a]
	Residual	125.980	58	2.172		
	Total	145.234	63			

a. Predictors: *(Constant), Reduced Lending capacity , Defining and calculation of rations, Separating members Deposit from Capital , Reduced member payout, Restricted avenues for investment*

b. Dependent Variable: Attracts investors to save with the SACCO,
with the analysis of .133significance level shows the data in not ideal for making decision as this level of significance is greater than .05

Source: Researcher (2019)

Correlation Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.640	.842		5.513	.000
	Separating members Deposit from Capital	-.192	.130	-.192	-1.477	.145
	Defining and calculation of rations	-.268	.145	-.231	-1.854	.069
	Reduced member payout	.243	.172	.197	1.412	.163
	Restricted avenues for investment	-.080	.176	-.069	-.454	.652
	Reduced Lending capacity	-.125	.179	-.111	-.697	.489

a. Dependent Variable: Attracts investors to save with the SACCO

Source: Researcher (2019)

$$Y = 3.243 + \{-0.192\ X_1\} + \{-0.268\ X_2\} + \{0.243\ X_3\} + \{-0.08\ X_4\} + \{-0.125\ X_5\}$$

The table above shows coefficient relationship between variables. Separating deposits from capital has an impact on financial performance of Saccos a decrease in member's deposit -.192 has a negative impact in financial performance. -0.268 is an indication that calculation of ratios has a negative effect on financial performance of Saccos, reduced member's payout shows a 0.243 this shows a strong relationship with credit management and performance as reduced dividends increases performance through investment. Restricted avenues for investment shows -0.08 a unit decrease in investment causes a decrease in financial performance, reduced lending rate -0.125 this is greater than significant value accept the alternative reduced lending influence performance. The overall capital adequacy shows a significant level of 0.00 this shows that capital adequacy strongly influence performance.

Table 4.63 Credit management practice and ICS

Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.682[a]	.465	.419	.61885

Source: Researcher (2019)

a. Predictors: *(Constant), Implementing ICS is a full proof of efficiency , Are personnel policies maintained and distributed , Is an Internal Audit manual in use, Up to date accounting policies and procedure manuals, Is the ICS cost effective for the SACCO*

There is significant degree of correlation which is presented by r which is 0.682. indicating that 31.8% variation of Financial performance of SACCOs is attributed to changes of management competence, capital adequacy and ICS, the remaining 52% is attributed to other factors beyond the study scope.

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.620	5	3.924	10.246	.000[a]
	Residual	22.595	59	.383		
	Total	42.215	64			

Source: Researcher (2019)

a. Predictors: *(Constant), Implementing ICS is a full proof of efficiency, Are personnel policies maintained and distributed, Is an Internal Audit manual in use, Up to date accounting policies and procedure manuals, Is the ICS cost effective for the SACCO*

b. Dependent Variable: It influences customer's confidence and trust
From the ANOVA statistics the data has a significant level of 0.000, this shows that data the data obtained is ideal for conclusion on parameter as p-value is less than significance level of 0.05. this shows that management competence, capital adequacy and ICS influence s financial performance.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	3.776	.434		8.695	.000
	Up to date accounting policies and procedure manuals	.230	.065	.384	3.553	.001
	Are personnel policies maintained and distributed	-.118	.058	-.220	-2.031	.047
	Is an Internal Audit manual in use	.324	.063	.586	5.139	.000
	Is the ICS cost effective for the SACCO	-.212	.066	-.367	-3.201	.002
	Implementing ICS is a full proof of efficiency	-.026	.070	-.042	-.378	.707

Source: Researcher (2019)

a. Dependent Variable: It influences Customer's confidence and trust

$Y = 3.776 + 0.23 X_1 - 0.118 X_2 + 0.324 X_3 - 0.212 X_4 - 0.26 X_5$

In view of the results in table above , up todate accounting influence performance 0.23> 0.05 hence accept the alternative it does not influence performance , a decrease in personal policy which shows -0.118 unit decrease in policies affect financial performance of Saccos negatively as much funds are invested on training and little used on capital to generate income, ICS is not cost effective as shown at -0.026 this is less than 0.05 significant level hence it negatively affect the capital and a major factor contributing to reduced financial efficiency. Overall we accept the null hypothesis that capital adequacy affects financial performance of Saccos.

4.3 Summary and Interpretation of the Findings

4.3.1 Management Competency

The study asked a question on what extent management competency influences the performance of the SACCO and from the findings, majority of the respondents said that it does so by improved business growth. The study also found out that it has a lot of impact on the financial performance. As credit management practice, it encourages more members to join the SACCOs since no member would like to invest with a poorly performing institution. Following a high level of education in the institutions, proper decision-making is being made by the management making them perform well in the region.

4.3.2 Capital Adequacy

The researcher asked a question that, what action is taken by your SACCO to recuperate loans of the members. Respondents showed that in the debt recovery process, guarantors are followed to pay the loans as 48% of the respondents showed that no member can be asked to pay the loan without interest. Few cases can allow member to pay the loan without interest in case of default. According to the responses given, there is very little occasion of public auctioning of private properties. An increase in loan recovery usually increases financial performance of the SACCOs.

4.3.3 Internal control systems and audit

Since most respondents show that internal control system has been implemented and has brought a lot of efficiency in daily duties of the institution, the internal audit manual is fairly used. It is said to be so cost effective to the management. This affects the growth and efficiency of SACCOs following up to date accounting policies and procedure manuals.

4.3.4 SASRA regulations

The study findings establish that SASRA regulations have no impact on ownership in most SACCOs even though it has a great impact on daily management of daily duties. The rules only affect their governance which affects the financial performance of the SACCOs in Kisumu County. An increase in governance as a measure of credit management practice increases financial performance of the SACCOs. On matters accountability, there is a show that SASRA regulations affect the performance of the institutions as provided by the findings

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter discusses the summary of findings, conclusions, research recommendations, limitations of the study and further suggestions for research.

5.2 Summary of Findings and Interpretations

The study examined the effect of credit management practices on financial performance of savings and credit co-operative societies in Kisumu County. From the study, the SACCOs in the region has embraced a number of credit management practices tools and techniques to improve on their performance in the market. A valid percentage of 52% was given by the respondents for the manual credit reminder tool for non-performing loans for most SACCOs. This means that there is no computerized system to monitor the loans as 48% use automatic credit reminder for their clients. This policy also affects the credit criteria used by the institutions to determine the credit worthiness of a member when it comes to getting a new loan or top ups.

From the findings, it is observed that for a member to be in good books with higher credit score during loan assessment, the SACCOs usually employ two main parameters; ability to repay the loan and income of the member. About 46% of the respondent said income is used to a very great level while on the other hand ability to repay the loan was at 51% at the same level. These compare with other parameters like credit history, potential for long term credit, existing personal loan and employment history.

As a risk mitigating factor, borrowing limit is highly prioritized by the institutions as this can also help reduce the level of loan defaults. To improve the financial performance of the SACCOs, debt collection should be put in place help debt book reduction. In doing this, most of the respondents recorded that a guarantor may be followed up to recuperate the loan. Most companies also use the limit of three times savings to get the loan and that's the minimum level.

The study also found out that it has a lot of impact on the financial performance. As a credit management practice, competent management encourages more members to join the

SACCOs since no member would like to invest with a poorly performing institution. This is indicated as 40% for members who can join a competently managed SACCO. Following a high level of education in the institutions, proper decision making is being made by the management making them perform well in the region.

5.3 Conclusion

From the findings, it is found out that best credit management practices improve financial performance of SACCOs. As pointed out earlier on, management competency as parameter is largely regarded as best practice to attract many investors enabling financial performance. It also improves a lot of decision making from the management. As evident in the findings that the most variable responded to strongly at 40% was when asked if management competency encourage new members to join the SACCOs.

It is also evident that credit risk mitigating factor used by most SACCOs is through follow up with guarantors. This reduces the chances of writing off the loans in the process of recuperation. Paying loans without interest was voted the least credit risk mitigating factor employed by most SACCOs in Kisumu County. In also reducing the chances of default, three times savings was also greatly employed. As a credit analyst, one can know that a loan is performing or not. From the findings, credit reminder used by most SACCOs is manual as many loans may not be followed in a computerized manner which can minimize losses and maximizes shareholder's returns.

5.4 Limitations of the Study

After concluding on the findings above, the study outlines some of the challenges experienced; responses can't be verifiable as it was open to all as some termed it confidential in giving prompt response as they thought it would expose their savings and loan information. Another limitation was that there was little time for the respondents who were not able to complete the questionnaire and submit for collection thus leaving some questions unanswered.

5.5 Recommendations and Further Research

The study recommends that for a smooth performance and management of SACCOs, proper debt recovery measures should be developed to reduce the risk of bad debts such as involvement of debt collection firms for full and final bad debt recovery and skip-tracing of

clients who are not in good books with the institutions. It also suggests that for credit worthiness, credit reference bureau (CRB) agencies should be highly involved apart from the said mitigating factors for credit appraisal for clients.

From the study, researchers and policy makers can do further research on how external bodies like the government can contribute to the performance of SACCOs in Kenya. They can base their findings on specific credit management practices like credit risk governance and credit monitoring. A lot can be done on credit risk mitigating factors affecting the performance of the institution, debt recovery and involvement of other agencies being the main ones. A study can also be done on the credit management practices for various sectors, banking, hospitality and even manufacturing industries and compared and the best to be employed by all industries as this study didn't defined specifics.

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APPENDICES

Appendix I: Letter of Transmittal

Maureen Ajwang Olweny

Kisumu, Kenya.

Dear Respondent,

I am a student of Maseno University pursuing a Degree in Master of Science in Finance. I am conducting academic research on the Effect of Credit Management Practices on Financial performance of SACCO's in Kisumu County. I am writing to invite you to participate in the research by filling in the questionnaire.

Your participation is entirely voluntary and the questionnaire is completely anonymous. I wish to assure you that the information you will provide will be treated with utmost confidentiality. Your ability to answer all the questions comprehensively and to the best of your knowledge will be highly appreciated.

I look forward to your support.

Thank you.

Yours Sincerely,

Maureen Olweny

Appendix II: Questionnaire

Instructions

This questionnaire is designed to collect information on effects of credit management practices on financial performance of savings and credit co-operative societies. The information obtained will only be used for academic purposes and shall be treated in utmost confidence. You are requested to complete this questionnaire as honestly and objectively as possible. Please tick in the appropriate box and also fill in the blank spaces provided for those questions where elaborate answers are required.

SECTION A: General information

1. Position/Rank

   Board Chairperson　　( )　　　　Audit Manager　　　　　( )

   Managing Director　　( )　　　　Internal Audit Officer　　( )

   Finance Manager　　　( )　　　　Financial Clerks　　　　　( )

   Other (Specify)…………………………

2. Gender

   Male　　　　　( )　　　　　Female　　　( )

   20-25 years　　( )　　　　　26-30 years　( )

   31-35 years　　( )　　　　　36-40 years　( )

   Above 40years　( )

3. How many years have you worked or been a member in the Company?

   Less than 3years　( )

   3-5 Years　　　　( )

   6-7 Years　　　　( )

   8-10 Years　　　 ( )

   Above 10 Years　 ( )

4. Please indicate your Highest Educational level in the space provided

   Master's degree　( )　　　　　Bachelor's Degree　( )

   Diploma　　　　( )　　　　　Certificate　　　　( )

   'O' Level　　　　( )　　　　　Primary　　　　　( )

SECTION B: Factors influencing Credit Management performance of savings and credit co-operative societies

5. To what extent do you agree that management competency influence performance of your SACCO? Use a scale of 1 – 5 where: 5 strongly agree, 4 agree, 3 neutral, 2 disagree and 1 strongly disagree.

Management competency	1	2	3	4	5
Influences Business growth					
Encourages more members to join					
Improves decision making					
Has little impact					

6. On a scale of 1 to 5 please rate the criteria used by SACCOs to determine credit worthiness of a member? Rate your answer on a Scale of 1 – 5 where 5 very great extent, 4 great extent, 3 moderate extent, 2 little extent and 1 no extent.

Credit Criteria	1	2	3	4	5
Income					
Character, reputation and credit history					
Existing personal debt					
Employment history					
Potential for long term credit					
Ability to repay the loan					

7. What is the form of credit reminder used by your SACCOs?
   a) Manual   ( )
   b) Automated   ( )

8.   What is the credit reminder duration used by your SACCO to remind members on their credit? Use a scale of 1-5; where 5 very great extent, 4 great extent, 3 moderate extend, 2 little extent and 1 not extent

Credit Reminder Duration	1	2	3	4	5
After 1-3 months					
After 3-6 months					

After 6-9 months					

9. What is the action taken by your SACCO to recuperate loans of the members? Use a scale of 1-5; where 5 very great extent, 4 great extent, 3 moderate extend, 2 little extent and 1 not extent

Recuperating Loans	1	2	3	4	5
Follow-up guarantor to pay					
Claim with insurance					
Sue member by court					
Public auction of private property					
Ask member to pay loan without interest					

10. What is the condition on the borrowing limit employed by your SACCO? Use a scale of 1-5; where 5 very great extent, 4 great extent, 3 moderate extend, 2 little extent and 1 not extent

Borrowing Limit	1	2	3	4	5
Three times savings					
Six times savings					
Minimum of three times savings					
Minimum of six times savings					
Ability to pay					

11. To what extent do SACCOs face the outlined challenges in meeting capital requirements? Rate your answer on a Scale of 1 – 5 where 5. very great extent, 4. greatly, 3. Significantly, 2. Slightly and 1. not at all.

Capital Adequacy	1	2	3	4	5
Separating members Deposit from Capital					
Defining and calculation of ratios					
Reduced member payouts					
Restricted avenues for investment					
Reduced Lending capacity					

12. To what extent can you rate the below statements as contributing to growth and efficiency of SACCOs in Kenya? Use a scale of 1-5 where; 5 very great extent, 4 great extent, 3 moderate extend, 2 little extent and 1 not extent

Internal Control Systems and Audit	1	2	3	4	5
Up to date accounting policies and procedure manuals					
Are personnel policies maintained and distributed					
Is an Internal Audit manual in use					
Is the ICS cost effective for the SACCO					
Implementing ICS is a full proof of efficiency					

13. To what extend has SASRA regulations have an impact on the following in your SACCO (Tick the appropriate degree of influence) [1] No impact [2] Low Impact [3] Moderate Impact [4] High Impact [5] Very High Impact

Impact on:	1	2	3	4	5
Ownership					
Governance					
Accountability					
Management Efficiency					

14. SASRA role in helping the institution in the regulations policies can be termed as (tick) [1] Poor [2] Fair [3] good [4] Very good [5] Excellent

1	2	3	4	5

15. The Current Government support for SACCOs operations can be termed as (tick) [1] Poor [2] Fair [3] good [4] Very good [5] Excellent

1	2	3	4	5

SECTION C: Importance of performance

To what extent do you agree with the following statements on importance of SACCO performance/efficiency? Use a scale of 1 -5 where 5 strongly agree, 4 agree, 3 neutral, 2 disagree and 1 strongly disagree.

Importance of performance	1	2	3	4	5
It influences customer's confidence and trust					
Attracts investors to save with the SACCO					
It provides staff job security					
It ensures healthy returns to the shareholders					
It provides an indicator of sustainability					

THE END

Thanks for your co-operation.

Appendix III: Sacco Societies

SACCO SOCIETIES ACT (Cap 490B)

SACCO societies licensed to undertake SACCO business in Kenya Kisumu County.

SACCO SOCIETIES LICENSED TO UNDERTAKE SACCO BUSINESS IN KISUMU COUNTY, KENYA

S/NO.	NAME OF SOCIETY	C/S NO.
1	KIPWO SACCO	10004
2	Nyando SACCO	1998
3	RODESA SACCO	11990
4	Jubilee Jumbo SACCO	8181
5	KIPINTE SACCO	2812
6	Omega Foundation SACCO	11044
7	KIMUTE SACCO	2293
8	KIWASCO SACCO	10567
9	KIATO SACCO	13887
10	CEAGOG SACCO	11395
11	Kisumu Centre Jua Kali Artisans SACCO	8927
12	Milimani Hospital SACCO	11029
13	Nyando – Kisumu District Rural Farmers SACCO	5355
14	Metropolitan SACCO	
15	Ahoki SACCO	4568
16	CHIS Traders SACCO	12905
17	United Millers SACCO	6058
18	K-MET SACCO	12421
19	MUTCO SACCO	10278
20	Koru SACCO	2381

Source: SACCO Societies Regulatory Authority (2018)

Appendix IV: Research Plan

Activity	April 2019	May 2019	June 2019	September 2019
Proposal writing	▓			
Presentation		▓		
Data Collection			▓	
Data Analysis			▓	▓
Report Writing				▓
Report Submission				▓

Appendix V: Budget

Item	Quantity	Cost (Kshs)	Total (Kshs)
1. Stationery	1	5000	9820
2. Airtime (monthly)	4	1500	4500
3. Transport	1	10,000	10,000
4. Internet Bundles (monthly)	4	3000	12000
TOTAL			**36,320**