

**CREDIT MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE  
OF DEPOSIT TAKING SAVINGS AND CREDIT COOPERATIVES IN  
KERICHO COUNTY, KENYA**

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## DECLARATION AND APPROVAL

### Declaration

This research project report is my own original work and has not been submitted for the conferment of any degree to any other University.

Signature:.....Date .....

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### Approval

This project report was submitted for assessment with my authorisation as the appointed University supervisor.

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## **DEDICATION**

This research report is dedicated to the family of Benson Atambo Sing'ombe and Dominic Manoti Casmir for the support, inspiration and prayers that have enabled me prepare this work. The research is dedicated to my immediate family members George, Winnis, Askah, Teresa, Wilson, Musa, Priscah Rabera without forgetting my lovely children Manuella and Atambo for their endurance during my absence while undertaking the research report.

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## OPERATIONAL DEFINATION OF TERMS

**A co-operative enterprise:** A democratically controlled enterprise which is jointly owned by a group of individuals voluntary joining hands to achieve common objective.

**Collection Policy:** These are guidelines developed by a company to govern the collection of accounts receivable. It sets up a procedure for making collections and steps taken to recover delinquent amounts prior to litigation.

**Credit management practices:** Strategies used by an organization to collect and manage credit payments from customers. They ensure the credit level is managed effectively and within acceptable limits. These strategies include credit policy, credit risk control credit collection policy and credit recovery strategies.

**Credit policy:** It is a practice of determining the likelihood of a borrower repaying their financial obligations before granting credit. It's done by analysing prospective credit customer's information to ascertain whether they will meet their financial obligations.

**Credit recovery strategies:** These are methods employed by Sacco's to recover unpaid loans by convincing delinquent customers to make attempts to repay their outstanding facilities. They assist in reducing costs, saving time of credit collection and improving liquidity.

**Credit risk:** The possibility of incurring a deficit associated with loan default from customers. The risk arises when a Sacco member fails to remit the monthly

instalments leading to cash flows interruptions and increased credit collection expenses.

**DT-SACCOs:** Those Sacco's that operate front office saving activity that is they provide services of demand deposits and offer withdraw-able savings accounts mirroring those offered by banking institutions. They are the equivalent of Credit Unions in jurisdictions such as USA, Canada, UK, Australia and the Latin Americas; or the Cooperative Banks in South Africa, India, and parts of continental Europe.

**Financial Institutions:** Organizations that provide financial intermediary services in the financial markets. They comprise of banks and Sacco's.

**Financial performances:** The ability of the organization to optimally operate at a profit, survive, grow and react to the environmental opportunities and threats. It measures the financial stability and soundness of deposit taking Sacco's. The financial indicators include return on assets, return on equity and non-performing loans.

**Non-Performing Loans:** Financial soundness indicator measured in terms of asset quality in an organization. It measures loans for which principal and interest are due and unpaid for 30 days or more. In Sacco's they are termed as delinquent loans. The level of non-performing loans is dependent on the credit management practices employed.

**Return on Assets (ROA):** Financial earning rating indicator that measures the stability of the firm by comparing the company earnings against total assets.

**Return on Equity (ROE):** Financial earning indicator measuring company earnings against the firm's average equity. Equity comprises of the total value of shares held in the Sacco.

**Savings and Credit Cooperative Society (SACCO):** Private and cooperative financial intermediaries where membership is open and voluntary. It is authorized to take deposits from and lend it to its members who manage it democratically.

**Sacco Societies Regulatory Authority (SASRA):** A state agency with the main responsibility of regulating and supervising Deposit Taking Sacco Societies in Kenya.

## **LIST OF ABBREVIATIONS**

<b>ANOVA</b>	Analysis of Variance
<b>BOSA</b>	Back Office Sacco Activities
<b>CBK</b>	Central Bank of Kenya
<b>DTS</b>	Deposit taking Sacco's
<b>FIs</b>	Financial institutions
<b>FOSAs</b>	Front Office Sacco Activities
<b>FSSR</b>	Financial Sector Stability Report
<b>GDP</b>	Gross Domestic Product
<b>ICA</b>	International Cooperative Alliance.
<b>MFIs</b>	Micro-Finance Institutions
<b>NPLs</b>	Non-performing loans
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>SACCO's</b>	Saving and Credit Cooperatives
<b>SASRA</b>	Sacco Societies Regulatory Authority
<b>SPSS</b>	Statistical Package for Social Sciences
<b>WOCCU</b>	World Council of Credit Unions

## ABSTRACT

The study assessed Credit Management Practices and Financial performance of Deposit taking Sacco's in Kericho County, Kenya. The researcher sought to establish the connection between financial performances of Sacco's and credit policy, credit risk control, credit collection practices and credit recovery strategies. The target population was four deposit taking Sacco's in Kericho County that are regulated by Sacco Societies Regulatory Authority. This was done against rising cases of non-performing loans among the deposit taking Sacco's which recorded a non performing ratio of 11.42 per cent in 2017, the ratio is above the recommended rate of 5 percent. Deposit taking Sacco's have also experienced declining performances in terms of return on assets and return on equity with some such as Ekeza Sacco, Good life Sacco and metropolitan Sacco being blacklisted from offering banking services to the public. The indicators of financial performance were return on assets, return on equity and non-performing loans. The research was based on the anticipated income theory, asymmetric information theory and transaction cost theory. The study applied descriptive survey design on the target population. Census approach was used to conduct the study. The researcher used both primary and secondary data for the purposes of conducting research. Regression analysis was used to show the relationship between credit management practices and financial performance of Deposit Taking Sacco societies. Questionnaires were used to collect primary data which was analysed by descriptive and inferential statistics. Hypothesis testing was done at a significant level of 0.05. Diagnostic tests such as normality test, Multicollinearity, heteroscedasticity and autocorrelation test were conducted to ascertain the assumptions of linear regression. Secondary data was obtained from financial statements in order to conduct a cross sectional survey to reveal performance trends over the period. The study established that all credit management practices had a statistically significant and positive influence on financial performance of deposit taking Sacco's in Kenya. The p-values of credit policy, credit risk control, credit collection practices and credit recovery strategies are 0.036, 0.047, 0.023, and 0.044 respectively. Credit collection practices were found to highly influence financial performance while credit recovery strategies influenced financial performance of deposit taking Sacco's to a less extent. The study recommends that the managers of the Sacco should implement and apply credit management practices and policy to enhance their financial performance. The study also recommends that Sacco regulator should formulate policies and guidelines on credit management practices to improve financial performance. The study concludes that deposit taking Sacco's should adopt and improve credit collection practices and credit recovery strategies since they are positively and significantly affect their financial performance. The study recommends that the government through regulatory body to create favourable policies geared towards the implementation of credit management practices in deposit taking Sacco's. The study concludes that credit management practices is the main driver of financial performance of deposit taking Sacco's in Kericho County, Kenya.

## **CHAPTER ONE:INTRODUCTION**

### **1.1 Background of the Study**

Credit is a term which was derived from the Latin word credere which is an agreement based on trust, faith and belief between an individual or corporate and financial institutions. In the ancient time, banks in the United States issued credit on high interest rates to clients which discouraged borrowers and made credit unpopular. Credit concept became popular in the United States during the economic boom of 1885 associated with excess liquidity in banks and the urge to loan the excess cash (Ditcher, 2003). This concept was later recognised in Europe after the Second World War and later to Africa (Kiiru, 2004). In Kenya, financial services in form of loans were originally granted to few rich people and some big companies.

Financial service Sector is an essential sector in the economic pillar for the development of vision 2030 in Kenya. According to the International monetary fund, financial service is a process of obtaining a financial good by either an individual or a company. In a broader perspective it refers to specific activities such as banking, investing and insurance. The financial service sector is considered to be the most influential sector in the modern economy (FSSR, 2019). The financial ecosystem in Kenya is driven by activity in five major subsector players from banking, Sacco's, capital markets, insurance companies, and Pensions industry (SASRA, 2018).

Co-operative enterprises have hallmarks that distinguish them from other traditional business enterprises. The distinctive characteristics include internationally accepted core values, principles and ethical beliefs. Co-operatives are people owned businesses operated by and for members to achieve their objectives (SASRA, 2018). In March 14, 1761, the earliest history of a cooperatives was recorded in Fenwick, Scotland

where local weavers started Fenwick weavers' society to dispose John Walker's whitewashed front room developed from a sack of oatmeal in a barely furnished cottage. In the modern society the first recognized co-operative movement was started in 1844 by Robert Owen in England. In Kenya, Cooperative societies were initiated in 1908 with membership restricted to white colonial settlers. The initial cooperative society was set up at Lumbwa, present day Kipkelion area in Kericho County. According to Gamba & Komo (2012), Kenyans were only allowed by Colonial officers to form and join cooperatives in 1944. African farming co-operatives was initiated and encouraged through the implementation of the recommendations of the Swynnerton Plan of 1953.

According to Chikamai and Mutua (2018), Cooperatives contribute to the sustainable economic growth and stability through standard employment, mobilizing savings, granting credit products and offering insurance products to majority of the population. It is approximated that co-operatives employ 280 million people representing ten percent (10%) of the employed population in the world.

The cooperative sector in Kenya is classified as either financial or non-financial cooperatives. Non-financial cooperatives focus on socio-economic interest of shareholders without providing financial intermediary services. They include cooperatives engaged in production, marketing, consumer, transport and special interest groups. Financial cooperatives are cooperatives that are financial intermediaries on behalf of their members. Financial cooperatives include the Saccos, Housing cooperative and Investment cooperatives (SASRA, 2018)

The post-independence era saw the rapid growth of co-operatives and merging of the existing ones. The cooperative movement was used by the government to foster

African socialism, and strengthen unity among various communities in Kenya. At independence there were about 1000 registered cooperatives in 1963 which expanded rapidly to about 22,883 registered cooperatives societies in 2017 with a record contribution of over 45 per cent to gross domestic product (State department of cooperatives, 2017). Traditionally, the co-operative sector focused majorly on agriculturally activities but modernization of the co-operative movement has led to diversification of cooperative activities (Mathuva, 2016).

Sacco's are special type of Co-operative enterprise which are distinguished by a unique character trait in terms of objective and purpose of incorporation. They are financial cooperatives registered to mobilize deposits and offering credit services to clients. The Sacco sector in Kenya is legally categorized into deposit taking Sacco's and Non deposit taking Sacco's based on resource mobilization from members. The first segment composes of non-deposit taking Sacco societies whose activities are restricted to mobilization of saving and deposits with the sole objective of lending to members.. In general, Sacco's start operating as non-deposit taking Sacco before gradually apply to be licensed as deposit taking Sacco in order to expand their financial services. (Kenya Financial Sector Stability Report, 2018).

Financial institutions (FIs) can enhance their survival and growth through effective credit management practices. Gatuhu (2013) in reference to Sacco's contended that credit risk is an issue of greater concern due to its high levels of perceived risks resulting from the unique features of customers and related economic conditions. According to Kibui and Moronge (2014), Credit creation being the income generating activity creates tremendous risks to Sacco's and their clients. The smooth running of

Sacco's is affected by defaulting clients which in turn puts the funds of members at greater risk.

Kagoyire and Shukla (2016) highlighted the impact of high default rate as decrease in cash flows, decreased liquidity levels and financial distress. Timely identification and management of credit risk minimizes the debtors leading to achievement of financial health. According to Scheufler (2002) as referenced by Gatuhu, 2013, management of risk and cash flows in today's business environment is very challenging. Businesses are being forced by economic challenges and organizational practices to delay payments while reducing the budget in total disregard of member's expectations. Therefore it is necessary to identify opportunities and implement international standards in the credit sector. The implementation of international best standards helps an organization to eliminate five common pitfalls. Scheufler (2002) summarized the pitfalls as failure to identify probable frauds, underrating the contribution of present clients to non-performing loans, impromptu bankruptcies, failure to adopt to information technology, and excessive spending of resources on credit analysis that doesn't minimise delinquency loans.

Sacco society's regulatory authority (SASRA) has blacklisted several Sacco's and stopped them from offering banking services due to their failure to adhere to statutory requirements. Ekeza Sacco was deregistered after it had largely failed to abide by the rules set by the regulatory body Sacco Societies Regulatory Authority (SASRA) and went ahead to operate in at least three other counties despite receiving authorization to only work in one (SASRA, 2015). Good Life Sacco Society Limited founded by Obadiah Maina was liquidated in October 2018 after an audit by the Co-operatives ministry revealed that it had breached all regulations on handling member funds.

Good Life Sacco's license was cancelled and former members invited to file claims after the Sacco was liquidated. Nitunze Savings and Credit Co-operative Society previously known as Mumias Out-growers Sacco Society fell into trouble when four of its former directors were charged with theft of 50.7 million shillings and failure to submit annual financial reports for approval (SASRA, 2018).

According to the SASRA (2019), Metropolitan Sacco had been facing challenges of huge debts after issuing out "risky" loans worth billions of shillings that impacted negatively on its liquidity. It was revealed that the Sacco borrowed from the banking sector over a period of the last eight years, to cater for the deficit between member deposits and loans which increased from Sh653 million to Sh3.143 billion as per the financial statements. Sacco disbursement in terms on loan increased drastically to Sh5.2 billion in 2017 from Sh1.19 billion in 2016 which depicts the exposure of Sacco's to credit risk affecting their financial performance.

Financial performance is the ability of the organization to optimally operate at a profit, survive, grow and react to the environmental opportunities and threats. It is measured in terms of financial ratios from the statements of financial performance and position. The key performance metrics include return on assets, return on sales, earnings before interest and taxes and return on equity. Therefore financial performance measures the financial stability and soundness of deposit taking institutions (FSSR, 2017). According to SASRA report of 2018, financial performance of deposit taking Saccos can be measured in terms of total assets, gross loans and deposits. The stability and soundness of financial institution is measured by a rating model with indicators relating to capital adequacy, Asset quality, earnings and liquidity

### **1.1.1 Credit Management Practices.**

Credit creation is the main income generating unit in any institution and credit management cannot be neglected by any financial entity offering credit services irrespective of its mode of operation. This process ensures customers' make timely payments for the goods or services on credit. This in turn minimizes credit risk attributed to financial distress and bankruptcy. According to Edward (2013), Credit management practices merits a special emphasis because the success or failure of any economic enterprise is determined by credit management practices. Therefore survival of an organization depends on how efficiently the payments due is collected and the retention of the present clients for prosperity.

The success or failure of financial institutions offering credit services is greatly determined by credit management practices. This is because successful financial institutions are greatly influenced by the quality of credit policy which in turn reduces credit defaults. It was further asserted that, credit management practices is an indicator of portfolio quality in deposit taking banks (Nzotta, 2004). As indicated by Kagoyire and Shukla (2016), the capacity to control credit to acceptable levels in a knowledgeable and insightful way is the prerequisite of effective credit management. Institutions that intelligently assess the financial strength of the borrower, customer's credit history and loan repayment patterns minimizes non-performing loans, excessive reserves and possibility of bankruptcy .They further noted that Credit management process starts with the granting of credit facility and ends with the receipt of the last instalment.

Credit management is concerned with the well-being of organization by safeguarding investments and maximizing cash flows from operating activities. Credit Policies and

practices ought to be strictly enforced from receipt of loan applications, granting of credit facility to clients, collection of payments that are on demand and limit the risk factors associated with non-payments (Kipkirui, 2018).

Credit management practices are applied by various institutions depending on their needs. The study will consider credit policy, credit risk control, credit collection practices and credit recovery strategies. Credit policy is concerned with evaluating the creditworthiness of applicants by assessing their financial strength to repay the facility requested. Financial institutions develop a credit policy anchored on credit scoring model to analyse the applications they receive from potential borrowers (Abedi, 2000). Sacco's analyse applicants based on the credit reports, credit scores, statement of financial performance and other relevant documents depicting the borrower's financial situation. The 5Cs help Sacco's to grant performing loans, as per know your customer requirements. The five Cs of credit are character, capacity, capital, collateral and condition (Maiti, 2016)

Character is the track record of the applicant in repaying acquired facilities. The lender would consider the applicants reputation in making payments as well as any unresolved judgments. This information is usually retrieved from the applicant's credit reports generated by the credit bureaus such as Trans-Union, credit info and Metropol Info. Capacity is the candidate's ability to pay the requested loan by analysing the financial reports with special consideration of liquidity and debt ratios. Capital refers to the financial health of the potential borrower as shown in the capital structure. Thus it comprises of the investment of shareholders in the business and is the risk guarantee in case of business fail. Collateral refers to properties such as land, houses, cars, businesses and private investments pledged as security to guarantee loan

recovery. Conditions is the reason of requesting a credit facility and the amount applied for (Kakuru, 2001). This shows consent and willingness of the applicant to cede the asset for defaulted loans.

Credit risk control is an essential credit management practice that contributes to the wellbeing of organisations. Effective credit management ensures that Sacco' business is conducted in a professional way to minimize the credit risk. The success of Sacco's is depended on how effectively they employ the best credit management practices (Ikua, 2015. According to Essendi (2013) the main source of credit risk to financial institutions is term loans. The objective of credit risk control is to optimize Sacco earnings by maintaining credit risk exposures at acceptable standards.

Credit risk in Sacco's can be minimised by developing loan products that meets customer requirements. The characteristics of Loan products include the size of the loan, the interest rate and fees, loan repayment schedule, security required, and terms and conditions (Kipngetich & Muturi, 2015). Secondly establishing a credit committee to provide oversight on policies and management decisions regarding loans issued reduces credit risk. This minimizes abuse of office and coverer up as loans are granted based on the ability to pay subject to organization policies (Gatuhu, 2013). Although credit officers can be part of the credit committee, at least one member of management should be involved. The role of credit committee is to review and oversee the overall lending policy of the Sacco society, review lending by managing credit risk, ensuring effective procedures are followed and finally reviewing credit policy and risk lending limits (SASRA, 2015).A loan is considered delinquent if the payments are being received contrary to the loan contract. Delinquency management enables Sacco's to categorize loans into various categories such as default,

Performing, Watch, Substandard, Doubtful and Bad debts (Essendi, 2013). Sacco's minimize delinquency loans by utilizing delinquency management methods such as Organizational Culture, penalties for late payments, monitoring of clients, and training of management, flexible repayment terms and use of credit rating agencies. Creating a staff incentive scheme can be effective in discouraging delinquency. Delinquency Customers should be fined to discourage late payments. This should be based on day's overdue and limiting access to additional credit facilities. Given the changes in economy, it is common to find clients who are willing but unable to pay their loans. After A carefully consideration of each case, rescheduling of loans under extreme circumstances either by extending the period of repayment or adjusting the instalments. (Gatuhu, 2013).

According to Kariuki (2010) Organizations should put in place various policies so as to enhance effective credit management. Collection policy is one of those policies which are required to encourage clients to pay their bills in time especially the slow payers and non-payers. It should ensure that payments are received on or as close to the due date as possible,

Kairu (2009) highlighted eight credit collection methods that can be used by organizations for effective and efficient collection of payments .The collection practices include telephone ,letters, faxes, emails, customer visits, marketing team , statement messages and withholding supplies and services. Effective use of the telephone is one of the most important skills as both the debtor and the creditor are put into personal contact. Since there is not enough time to call everyone, letters can be used especially to habitually late payers. Thirdly the collector should visit key debtors at intervals to strengthen the collection relationship and also discuss the

challenges the clients may be experiencing. Withholding supplies or service will put pressure on the debtor and limit the risk especially where the customer is perceived to be in serious financial difficulty.

Credit recovery strategies are means by which financial institutions attempt to collect unpaid debt usually through a third party called a debt collection service (Sharma, 2016). These are procedures that are designed by organizations to assist in debt collection leading to savings in terms of costs and time, and improves liquidity (Kamar & Ayuma, 2016). According to Kipsang (2020), Credit recovery strategies include credit monitoring, adverse credit listing, loan limit reduction, fines and penalties, debt collection agencies, recovery from guarantors and legal action. Collection through legal systems should be the last strategy of collecting delinquent loans.

### **1.1.2 Financial Performance.**

Financial performance of a financial institution ordinarily emanates from the financial position and organizational structure. It involves decisions and techniques geared towards the growth of the firm with the objective of minimising cost of capital and maximising returns (Pandey, 2015). Turyahebya (2013) adopted Stoner (2003) definition of financial performance as firm's ability to optimally operate, generate profit, grow and adopt to the dynamic business environment. Financial performance assists managers to gauge the outcome of the business plans and activities objectively. It therefore enables decision makers to determine the financial status of a financial institution (Kariuki, 2010).

Kenya's financial sector stability report of 2019 highlighted the main criteria for analysis and measuring financial performance in Sacco's as Capital available, Quality

of assets, Profits/Earnings and Liquidity. The indicators are based on the principal parameters of total deposits, total assets, gross loans, allowance for loan losses and core capital. The capital adequacy indicators include core capital to total assets and total deposits; Asset quality indicators include NPLs ratio, NPLs net of provisions to core capital and earning assets to total assets; Earnings rating includes ROA, interest margin to gross income, cost income ratio and operating expense to total assets; Liquidity ratios are liquid assets /saving deposits & short term liabilities, liquid assets/total deposits, external borrowing to total assets, liquidity assets to total assets and total loans to total deposits. The Sacco industry maintained strong capital adequacy levels coupled with sufficient liquidity and earning rating. However most Sacco's have performed dismally in terms of NPL ratio, ROA, ROE and external borrowing to total assets (SASRA, 2019).

ROA is the domain measure of profitability of the firm that measures the Sacco's ability to create value from its assets (Khrawish, 2014). It is considered a complete indicator compared to other indicators as it cuts across the main operations of Sacco's by considering the loans advanced, operational revenue and evaluates the financial performance of Sacco's without taking into account capital structure. Return on equity (ROE) is the common measure of profitability which gauges the returns produced by shareholders (Gatuhu, 2013). Non performing loan ratio is a measure of the performance of loans in a firm. The lower the ratio the high the performance of loans. The performance of loans is associated with the credit management practices in place. Some of the research done on financial performance include, Ndab (2018) measured financial performance of deposit taking Sacco's by ROA, Mutua (2016) studied the impact of credit management practices on financial performance of Sacco's in Kitui

County. Financial performance was measured in terms of deficit or surplus. Wambui (2018) measured financial performance of agricultural companies using ROA and ROE. Mercy (2018) measured financial performance of manufacturing firms using Return on assets, earning per share, return on equity and Sales growth.

The financial performance indicators such as Return on assets and Return on equity depend on the net revenue which is associated with all the income generating activities of deposit taking Sacco's (Kipkoech, 2015). The largest source of net revenue of deposit taking Sacco's is income from credit facilities to members and income from investment in various assets (SASRA, 2019).

#### **1.1.4 Deposit taking Savings and Credit Cooperatives.**

Deposit Taking Sacco's besides offering basic savings and loan facilities, they also offer quasi banking services such as demand deposits, over the counter withdrawals and channels. According to SASRA, Kenya had 175 deposit taking Sacco's in the year 2019 compared to 215 deposit taking Sacco's in the year 2012. In Kericho County, the number of deposit taking Sacco's has declined from seven Sacco's in 2012 to four Sacco's in 2019. The deposit taking Sacco societies being the majority accounts over seventy five percent (75%) in the Sacco industry. The Sacco subsector demographic report showed that 19.35% of the economically active adult population are members of DT-SACCOs (SASRA, 2019).

The deposit taking Sacco's registered impressive growth in all the fundamental performance indicators of accumulated assets, cumulative deposits and gross loans during the year 2019. The Sacco industry comprising of DTS, had total assets grew to Kshs 556.71 billion in 2019 from Kshs 495.25 billion in 2018 representing a growth rate of 12.41 per cent, with loans as the single largest asset of the balance sheet.

SASRA commenced the year of 2019 with a total of 175 DT-SACCOS of which three Sacco's failed to meet their financial obligations leading to revocation of their licenses. It was noted that some Sacco's were forced to increase provisioning of loans due to challenges in loan repayments which affected negatively the core capital of the Sacco. Agricultural sector Sacco's witnessed high levels of NPLs associated with changes in weather patterns that negatively affected the output especially in tea and coffee sector. The gross loan increased to Kshs 419 Billion in 2019 representing a growth rate of 12.09% compared to a growth rate of 13% in 2018 as indicated by gross loan portfolio of Kshs 374.29 Billion. The loan portfolio was however mainly financed by savings and deposits which registered a total growth rate of 11.27% to reach Kshs 380.44 Billion in 2019 from Kshs 341.91. The net loans and other credit advances grew to Kshs 400.16 Billion in 2019 from Kshs 359.02 Billion registered in 2018 representing a growth of 11.46%. The rate of return on assets on assets increased from 1.89 in 2015 to 2.69 in 2017 and decelerated to 1.86 in 2019. The net loans constituted the largest portion of total assets at 71.88% in 2019. Interest income from loans averagely account for 85.31% of the total income for deposit taking Sacco's while the rest is accounted for by interest from investments and other incomes. This implies that Sacco's rely to a large extent on funded income to support their operations. The external borrowing ratio measures the extent to which deposit taking Sacco's is funding its assets from external borrowed funds. According to SASRA regulations of 2010, the recommended ratio is 25% of the total assets aimed at reducing borrowed funds which are quite expensive and dependent on changes in interest rates. However despite the positive performance in the key performance parameters credit risk remained elevated with NPLs increasing from 5.23 percent in 2016 to 9.1 percent in June 2020 (Financial sector stability report, 2019). This ratio

has consistently remained above the WOCCU recommended ratio of five percent (5%) and SASRA recommended rate of 3% (WOCCU,2009;SASRA,2017)

The Sacco sector in Kericho County performed impressive in terms of Capital adequacy, Earning and Liquidity ratios. According to SASRA (2019), Imarisha Sacco in Kericho County recorded an impressive growth in total deposits from ksh 7.02 billion to 8.38 billion in 2019 representing a 19.32 % growth. In contrast Simba chai Sacco. Kenya highlands Sacco record an increase in NPLs ratio from recorded a decline in total deposits of 13.2% from ksh 0.76 billion in 2018 to ksh 0.66 billion in 2019. However despite the impressive growth, some of the Sacco's failed to maintain the prescribed minimum threshold of asset quality and earning rating. For instance Kenya highlands Sacco recorded an increase in NPLs from 5.60% in 2019 to 8.38 in 2020. In the same period total expense to average assets decreased from 13.21% in 2019 to 11.67 % in 2020 which is above the recommended ratio of five percent (5%), (KUSCCO, 2020).

## **1.2 Statement of the problem**

Sacco's critical role in the economic growth of the country has been recognized by the Kenyan government through enacting the Sacco Societies' Act of 2008 which paved way for implementation of international standards for deposit taking Saccos. This gave rise to state agency regulating Sacco's called Sacco Societies Regulatory Authority (SASRA). Deposit taking Sacco's play a role of providing accessibility of financial services to the poor, wealth creation, employment and financial inclusion

The sector regulator warned in its financial report of 2016 that many deposit-taking Sacco's were paying out most of their surpluses rather than retaining the same to build capital. The report raised concern that most Sacco's may be using whatever cash is

available to pay out dividends even in the face of apparent insolvency to lure new membership rather than invest in the business (SASRA, 2017). In addition the non performing ratio for various categories of Sacco's has remained above the minimum 5% that is farmer based Sacco's at 15.57, private based Sacco's at 29.93% and community based Sacco's at 12.02%. The deposit taking Sacco's with NPL ratio above 5% increased from 99 Sacco's in 2018 to 109 Sacco's in 2020. On average seven (7) deposit taking Sacco's have failed to meet the prescribed minimum external borrowing ratio of 25% of the total assets. The analysis of the statements of financial performance show that on average 85.31% of the income is accounted by the interest income from loans over the years 2017 to financial year 2020. The return on assets of Sacco's reported declined by 17%, 14%, and 13% in the years 2015, 2016 and 2017 respectively. (SASRA, 2019)

The financial intermediation roles performed by Sacco's are hindrances to their financial performance. The financial performance of deposit taking has been a worry for policy makers and academicians over the years. The Sacco 'industry has experienced declining performance that has led to revocation of deposit taking licenses over the years. Agricultural sector Sacco's witnessed high levels of NPLs associated with changes in weather patterns that negatively affected the output especially in tea and coffee sector. The industry recorded an increase in non-performing loans to 9.1 percent in June 2020 from 5.23 percent in 2016 (Financial sector stability report, 2019). Therefore Sacco's need to adopt sound credit management practices to lessen non-performing loans and improve returns on assets and equity to internationally accepted standards.

According to Bessis (2012), Only Sacco's with efficient credit management practices will grow and survive in the Sacco industry. Musoke and Nyonyintono (2017) investigated the impact of financial controls on profitability of Saccos in Wakiso district, Uganda. The research was done in Uganda a different contextual setting and focused on financial control as opposed to credit management practices. Ngui (2018) conducted a research in Kenya on deposit taking Saccos strategic objectives and financial performance. Since the current study is on credit management practices, the conclusions may not apply to the current study.

Mutai (2016) researched in Kericho on factors that influence deposit taking Saccos' financial performance. The study concentrated on factors affecting performance and did not focus on the connection between the factors and financial performance. Mwangi (2015), Ndonga (2016), Nyandika (2016) and Thinyane (2019) focused on factors influencing financial performance.

According to Ayuma (2016), the determinants of financial performance has attracted an exciting debate since the indicators change from time to time depending on the nature of firms operations. However existing studies have shown that the Sacco operations are threatened by lack of good financial management resulting in losses. The studies done were based on either primary data or secondary data. Some were in different jurisdiction and based on different methodologies. Some studies isolated the key credit management practices while some studies on credit management practices have concentrated on the banking sector and micro-finance institutions. None of the reviewed studies focused on deposit taking Sacco's' credit management practices and financial performance in Kericho hence creating a knowledge gap. The research gap

is filled by a study on Credit management practices and Financial Performance of Deposit-taking Sacco societies in Kericho, Kenya.

### **1.3 Objectives of the study**

#### **1.3.1 General Objective**

The main objective of the study was to determine the effect of credit management practices on the financial performance of deposit taking Saccos in Kericho County, Kenya.

#### **1.3.2 Specific Objectives**

The specific objectives of the study were to:

- i. Determine the effect of credit policy on the financial performance of deposit taking Saccos in Kericho County, Kenya.
- ii. Determine the effect of credit risk control on the financial performance of deposit taking Saccos in Kericho County, Kenya.
- iii. Determine the effect of credit Collection practices on the financial performance of deposit taking SACCOs in Kericho County, Kenya.
- iv. Determine the effect of credit recovery strategies on the financial performance of deposit taking SACCOs in Kericho County, Kenya.

### **1.4 Research Hypotheses**

The following hypothesis were derived to show the connection between credit management practices and financial performance.

Ho<sub>1</sub>: Credit policy has no statistically significant relationship to the financial performance of deposit taking SACCOs in Kericho County, Kenya

Ho<sub>2</sub>: Credit risk control has no statistically significant relationship to the financial performance of deposit taking SACCOs in Kericho County, Kenya.

Ho<sub>3</sub>: Credit Collection practices have no statistically significant relationship to the financial performance of deposit taking SACCOs in Kericho County, Kenya.

Ho<sub>4</sub>: Credit recovery strategies have no statistically significant relationship to the financial performance of deposit taking SACCOs in Kericho County, Kenya.

### **1.5 Significance of the Study**

The project is relevant because it dealt with emerging issues facing Sacco's, a key driver in the economic pillar development of vision 2030. Sacco's in the agricultural sector witnessed high level non-performing loans due to vagaries of weather that significantly affected their farm output. This signifies that NPLs have been a major challenge to Sacco's in the study area. This study will help Sacco management and SASRA with baseline data to effectively plan and manage credit in the Sacco industry. The stakeholders such as the present and potential members, staff and management of Sacco's will use the information readily available on credit management practices to improve their performance by making informed decisions on Saccos.

The study findings will enable scholars and academicians to expand knowledge on credit management practices and financial performance. Scholars would use this research for further engagements on credit management practices. The students will utilize empirical literature for further studies. The study will also enhance knowledge

in accounting and finance discipline by bridging the gap in credit management practices. Further the recommendations from this study will assist the government and the Sacco regulator on the policy formulation towards the attainment of Kenya vision 2030

### **1.6 The Scope of the study**

This research project concentrates on how credit management practices affect the financial performance of Deposit Taking Sacco societies over the period 2013-2019. This was the period the Kenyan government implemented Sacco reforms to protect the economy and established SASRA to protect members. The study focused on financial service Institutions that would have financial implications on economic pillar of the vision 2030. The study was administered in deposit taking Sacco's within Kericho County which is an agricultural county since farmer based deposit taking Sacco's had the highest level of NPLs of 13.69% compared to other clusters (SASRA, 2019)

### **1.7 Limitation of the Study**

The project sought financial data of deposit taking Saccos which is very sensitive. The respondents were reluctant to release and provide the required information, however the researcher mitigated this by presenting the relevant permits for the research from the National Research centre, NACOSTI and Kenyatta University. This assured the respondents and the Sacco of confidentiality on the use of information acquired mainly for academic objectives.

## **1.8 Organization of the Study**

The research report is structured into five chapters. Chapter one discussed Introduction which includes the background of the study , statement of the problem, objectives of the study, significance of the study, scope and limitations of the study. The second chapter contained a review of theoretical and empirical literature on credit management practices and financial performance as summarized on the conceptual model. In chapter three research methodologies were covered. In chapter four the findings were analysed and presented guided by research objectives and chapter five discussed Summary, conclusions and research recommendations.

## **CHAPTER TWO:LITERATURE REVIEW**

### **2.1 Introduction**

The Section reviewed literature on the research variables. Theoretical literature review focused on theories relating to credit management practices. Empirical reviews were done on the variables of credit management practices. The literature review was based on information retrieved from authoritative, recent, and source documents such as online journals, library books and research dissertations.

### **2.2 Theoretical Review**

Relevant theories of credit management practices were discussed. The selected theories of credit management were transaction cost theory, theories of anticipated income and asymmetric information.

#### **2.2.1 The Anticipated Income Theory**

Herbert Victor Prochnow developed the theory in 1944 on the fundamental principle of issuing long term loans by United States commercial banks. The theory states that, financial institutions should plan liquidation of loans based on the expected earnings of the applicant in total disregard of the nature and character of the applicant. A term-loan is a long term loan issued for a period ranging from one year but not exceeding five years. The theory noted that certain type of loans are more liquid than others. Anticipated income theory states that financial institutions should make loan decisions based on the earnings of the borrower and in conformity with loan service criterion (Afriyle & Akotey, 2011).

The conformity is guided by the potential earnings of the borrower rather than the activity being financed. Financial institutions should take into consideration both the

collateral offered and the future earnings of the borrower when granting a loan. In essence it assures the liquidity of a loan by determining the borrower's overall capability to make payments as per the loan schedule (Samuel, 2017). In addition, the anticipated income theory states that if the applicant's expected earnings is precisely approximated, then loan by the financial institution will be repaid from the future cash flows of the applicant in installments as opposed to a one-off payment at the expiry of credit period (Odunayo & Oluwafeyisayo,2015).The theory assumes that all loans can be billed according to the scheduled time without giving the possibility of default on credit by the customer due to factors such as mismanagement or inexperienced personnel. In conclusion, the anticipated income theory assists in fulfilling the objectives of liquidity, safety and profitability. Secondly it gives financial institutions the benchmark for assessing the credit worthiness of the client to repay the facility offered thus incorporating credit and liquidity management policies (Taiwo et.al, 2017). The theory is applicable to the study as it enables Sacco's to develop credit policies based on specific parameters and control credit risk.

### **2.2.2 Asymmetric Information Theory**

The theory was first developed by three economists in 1970 namely George Akerlof, Michael Spence, and Joseph Stiglitz and formalized in the year 2001 The theory asserts that the existence of information asymmetry is as a result of analysing loan application (Binks & Ennew, 1997). According to Gatuhu (2013), Information asymmetry is a valuable tool that can be used to explain a diverse set of phenomena that is it refers to a situation in which there is imbalance of information between the parties involved in a transaction. Therefore it describes a condition in a dealing where one member has better knowledge as opposed to the other party. Information

asymmetry occurs in a debt market when a customer requesting a credit facility knows important information about his financial status while the financial institution does not have relevant information regarding the financial position of the applicant (Edwards and Turnbull, 1994). The information asymmetry creates out two challenges for financial institutions that is moral hazard and adverse selection as identified by Binks et al (1992). The moral hazard problem occurs when the loan applicant is motivated to default unless there are repercussions associated with delinquent loans (Izquierdo, 2007). Banking institutions can mitigate this incentive problem by sharing proprietary information about applicant's quality.

Pagani and Jappelli (1993), shows that sharing of information mitigates the risk of adverse selection by availing useful information to banks on credit customers. However, challenges to overcome information asymmetry problems arise when financial institutions find it uneconomical to allocate resources to analyse and grant financial services to small and micro businesses (Gatuhu, 2013). This is because the information required analyses credit applications and monitor borrowers is available at a cost to banks. According to Deakins (1999) as cited in Gatuhu 2013 it is difficult to assess the financial commitment of the applicant, and the financial expectation of the firm as the information is either unavailable or expensive to acquire and analyse. As a result two credit risks arise to the banker. The first credit risk arises when banks grant credit to firms which afterwards fail (type II error) while the other risk arises when they deny credit to businesses which later become successful (type I error) (Gatuhu, 2013). The theory gives rise to three decisions that is acceptance of the loan application but at a higher rate than the risk adjusted interest rate; acceptance of loan application but with strict collateral requirements or outright rejection of the loan

application. The relevance of the theory is based the importance of information in formulating credit collection policy and developing credit recovery strategies.

### **2.2.3 Transactions Costs Theory**

This concept was initially elaborated in 1937 by Ronald Coase as part of corporate governance and agency theory (Williamson, 2016). The theory suggests that trade credit assists in reducing both transaction costs and the motives of holding large cash balances or conversion of credit quality assets into cash. The intention of transaction cost theory is to provide responses to the question of when activities would occur within the market or the enterprise (Williamson, 2016). It specifically forecasts the appropriate form of governance in terms of hierarchy, markets and hybrid. The theory conjectures that activities should be internalized within the company depending on transaction costs. Transaction was broadly defined as a transfer of goods and services between individuals and proposed that hierarchy form of governance is appropriate when transaction costs are high while buying the product at the market when transaction costs are low. Three variables were advanced for identifying transactions that have an influence in determining the degree of monitoring and control required by senior managers: frequency, certainty and asset specificity or extent to which a specific transaction expense was incurred. Transaction cost theory was developed on the premise of bounded rationality and opportunism which are considered as self-interest coupled with craftiness (Greve & Argote, 2015).

David and Han, 2004 conjectured that the dimensions of identifying transactions generally supported the theory of transaction cost to various levels. In addition, considerable empirical evidence was available to support production about hierarchical verses markets but minimal information was available for the choice of

hybrids over markets. In the modern times, a debate has risen as to which is the main determinant of the firm boundaries between the transaction costs or the organizational capabilities. Jacobides and Winter (2005) stressed the importance of organizational capabilities by arguing that companies should internalize those activities they perform with greater capabilities as opposed to outsourcing. Transaction cost theory assumes strongly bounded rationality which supports hierarchical organizations to solve opportunistic problems. Therefore, transaction cost theory is part of corporate governance with the aim of reducing transaction cost. This is important to reduce uncertainty on when cash is required, frequency of payments and accumulating bills leading to reduction in cost. (Ferris, 1981). In conclusion transaction cost theory reduces opportunistic behaviour that could have dreadful consequences on the financing strategy of the business. It also assists in reducing the build-up of governance costs including internal controls to monitor management. The theory is applicable to the research with reference to credit collection and recovery strategies based on the principle that costs will arise when you get someone else to do something for you.

## **2.3 Empirical Literature Review**

The empirical literature review section discusses the relevant literature that supports the problem statement. This ensured the content of the study was based on related studies to the study being undertaken

### **2.3.1 Credit Policy Practices and Financial Performance of Deposit Taking**

#### **Sacco's**

Financial institutions develop their credit policy around the credit standard, credit scoring and credit selection model also known as 5 C's of credit. The credit scoring

model is a tool used in evaluating credit worthiness of loan applicants. The credit scoring model is a risk management strategy that uses historical data retrieved from application forms for initial or extended loans to assess the credit worthiness of the applicants (Gatuhu, 2013). Inkumbi (2009) as cited by Gatuhu (2013) asserts that Capital (shares) and Collateral (deposits and assets) as major challenges for entrepreneurs in accessing credit facilities. This is especially applicable to emerging entrepreneurs with little or no investment in terms of capital or lack assets to offer as a security. Gatuhu (2013) opined that the challenges of capital and collateral should be addressed to improve access to finances. Conversely financial institutions can only guarantee the recovery of facility granted by attaching collateral to the loan. This is one of the efficient methods of securing shareholders' funds.

Mwaura and Jagongo (2017) investigated Kenyan commercial banks' credit policy and financial performance. Research variables were credit information and term loans and conditions. The method used to conduct research was descriptive research design. The findings established that credit policy is positively and significantly related to commercial banks financial performance. The research focused on banking sector whereas current research focuses on the Sacco sector in Kenya.

Kungu et al (2014) studied credit policy and profitability of the firm with focus on the basics of credit policy; efforts of collection, credit standards, credit period and credit terms. The method adopted in the collection of data was descriptive research design. The study established that firm's profitability is influenced by the design of credit policy. The study supported regular review of credit policies of manufacturing companies by finance managers to increase profitability. This study was done on

manufacturing firms while the current research focuses on deposit taking Sacco's hence the findings may not be applicable to Sacco's.

Owino (2013) did research on the influence of credit policy on the level of non-performing loans (NPLs) of Commercial Banks in Kenya. The research design adopted was descriptive. The findings indicated that the credit policy of a bank is an account of its guidelines, standards, and philosophy, which workers need to understand in credit granting. The policies used to establish which corporate or retail customers the commercial banks approves for credit facility and which ones does not qualify based on lending regulations and laws of the bank. The results indicated that credit policies are linked to the non-performing loans (NPLs). The research concentrated on commercial banks hence may not be applicable to the Sacco sector. In addition the study considered only non-performing loans as a measure of performance.

Ayodele (2014) researched on credit policy and performance of Nigerian Commercial Banks using Zenith Bank Plc as case study. The variable of credit policy included forms of credit, credit policy formulation and credit appraisal techniques. The study used Questionnaires to collect data analysed by chi-square. The study was conducted by descriptive research design. The findings established that a well-developed credit policy helps to reduce delinquency loans. This study was done in Nigeria, a different contextual setting than in Kenya, thus the findings may not be applied to the current study.

Nyawera (2013) researched on credit policy and financial performance of deposit taking MFIs in Kenya using descriptive research methodology. The study found that credit terms, credit standards and credit collection efforts significantly affected

financial performance. The research concentrated on deposit taking microfinance institutions while the current research focuses on deposit taking Sacco's therefore findings are not applicable to the current study.

### **2.3.2 Credit Risk Control Practices and Financial Performance of Deposit Taking Sacco's**

The practice of mitigating expected risk of default arising from the borrower failing to remit the repayments is known as Credit risk control. This can be achieved through risk based lending, covenants, credit derivatives, tightening and diversification (SASRA, 2016). The main Credit risk controls are designing loan products, establishment of credit committees, customer orientation, staff incentives and management of delinquency loans (Gatuhu, 2013).

Alshatti (2015) investigated the effect of credit risk management and financial performance of Jordan commercial banks. The research selected thirteen banks to represent entire banking sector in Jordan. Credit risk management was found to be positively linked to the financial performance of Jordanian Commercial banks. The indicators of financial performance used were ROA and ROE. The study recommended improvement of bank's credit risk management practices as a means of generating additional revenues, consider indicators of nonperforming loans and establish adequate credit risk management policies by strictly analysing applications before granting loans to clients. The current study focuses on deposit taking Sacco's as opposed to commercial banks. In addition, the current research is carried out on a different contextual setting in Kenya.

Asante (2018) carried research on credit management in Micro-finance institutions in Ghana. The research goals were to determine the main sources of credit risks that

micro-finance institutions are exposed to, identify credit risk management practices of MFIs in Ghana, and assess microfinance credit risk management policies against bank of Ghana credit risk policies. The study employed a case research design. The findings were corporate, individuals and SMEs loans are the main source of credit risks. From the findings, counterparty default and concentration risks were also discovered as the main types of credit risks. The study was done on a different contextual setting with focus on types of risks hence the findings may not be applicable to deposit taking Sacco's in Kenya.

Kipkirui and Job (2018) conducted research on how Credit Management Practices are linked to financial performances of MFIs. The credit management practice variables were client appraisal; credit risk and credit collection policy. The study adopted the methodology of descriptive survey design. Primary data was gathered through questionnaires and analysed by descriptive and multiple regression analysis. The research discovered a positive connection of credit risk with the financial performance of MFIs. Research focused on microfinance institutions hence not applicable to Deposit Taking Sacco's.

Ikua (2015) researched on the impact of credit management practices on the financial performance of Sacco societies in hospitality industry. Research variables included client appraisal; loan defaulter reporting; formulation of credit policy; monitoring and control of credit risk and use of credit scoring models. The researcher employed descriptive research design and questionnaires. The research established that credit risk strategies used by Sacco's were inadequate in reducing loan losses in the ever-changing competitive environment. Secondly late detection and determination of nonperforming loans and default were witnessed because of inadequate credit risk

monitoring and control mechanisms. Finally it was identified the governance structures to ensure implementation of credit risk policies were lacking. The study focused on Sacco's in the hospitality industry hence the finding may not be applicable to deposit taking Sacco's.

### **2.3.3 Credit Collection practices and Financial Performance of Deposit Taking**

#### **Sacco's**

Danstun and Harun (2019) studied credit collection policy and portfolio at risk for Tanzanian microfinance institutions (MFIs). Research variables included loan size, Interest rates and duration of the loan. The methodology used was cross sectional design. The findings were credit collection policy determines portfolio at risk of MFIs. The study was done on MFIs in Tanzania a different sector and contextual setting hence the findings may not be applied in DTSs in Kenya.

Njeru (2017) researched on the effect of credit management system on the performance of loan in Kenya's commercial banks. The techniques utilized were the descriptive research and census. From the findings, credit terms and credit appraisal significantly affected loan performance. The study concentrated on performance of bank loans while the current research focuses on the Sacco industry's financial performance.

Omar (2018) researched on credit management practices and profitability of telecommunication firms in Somalia. From the findings it was discovered that credit collection policies positively affect profitability of telecommunication companies in Somalia. The study was done in Somalia a different contextual setting, thus the findings are improbable to the Kenya context. In addition the findings relate to telecommunication industry as opposed to the Sacco sector.

Ahmed and Malik (2015) carried research in Pakistan on credit risk management and loans performance in Micro-finance banks. Descriptive statistical method was used in the study. Credit collection practices were significantly and positively linked to performance of loans. The variables are applicable to the current study however the financial sector and region are completely different.

Muturi (2016) carried a research in Kenya on Credit Management Practices of deposit taking MFIs and their effect on Loan performance. The variables under study were credit terms, credit standards, and collection practice and credit policy. The research adopted a descriptive research method. The findings established that variables under study significantly affected Loan performance. In addition sound credit management enhances the stability and continued profitability of the banks. The study measures loan performance using default rate while the current study focuses on Sacco societies.

### **2.3.4 Credit recovery strategies and financial performance of Deposit Taking**

#### **Sacco's**

Okpala (2019) carried out a research on credit management strategies and profitability of Nigerian manufacturing firms. The methodology employed was descriptive research. The study hypothesis was tested using ANOVA and simple regression analysis. Research variables were credit collection policy, credit risk assessment and debt recovery strategy. The research found out that credit management indicators were positively and statistically significant on the liquidity and profitability. The study was done on manufacturing firms in Nigeria thus the findings cannot be applied to Kenyan context. In addition the study was done in the manufacturing sector hence not relevant to the Sacco sector.

Olokoyo (2018) researched on loan recovery strategies and customer relationships of Deposit money banks (DMB). The study variables were careful consideration of loan application, regular customer visits, use of litigation and use of collateral. The study employed descriptive research and questionnaires. Six money banks were selected for research and it was revealed that loan recovery strategies significantly affected customer relationship. The study focused on customer relationships of DMBs in Nigeria while this study is on financial performance Kenya Saccos.

Migwi (2013) did a research in Kenya focusing on credit risk monitoring and recovery practices employed by commercial banks. A quantitative analysis was done. This research found that monitoring of loans by commercial banks ensure repayments of credit. This study did not relate credit monitoring to any dependent variable such as profit. Also the study focused on the banking sector hence not applicable to Sacco's in Kenya.

Gatuhu (2013) did a study in Kenya on Credit management and financial performance of Micro-Finance Institutions. The research employed descriptive research. The research variables used are client appraisal techniques, credit risk control, and credit collection policies. The target population was 59 Microfinance Institutions (MFIs) in Kenya licensed by AMFI. The study was conducted by a census approach. Questionnaires were the main research instrument. The findings established a positive connection between the indicators of credit management with the financial performance. The researcher recommended that Microfinance institutions should implement stringent policy for effective debt recovery. The current study focuses on deposit taking Sacco's in Kenya.

Kipsang (2020) investigated debt recovery strategies and their effect on loan performance of Kenya's Fintech firms. The research was conducted by descriptive research design. The debt recovery strategies used were fines, adverse credit listing and loan limit reduction. The findings revealed a constructive relationship between debt recovery strategies and performance of loans. The research concentrated on loan performance of fintech companies hence the findings may not be applied on the Sacco industry.

### **2.3.5 Credit management practices and financial performance of deposit taking Saccos**

Credit management practices are vital organizational functions concerned with the disbursement, collection and recovery of payments from their customers. Credit management practices are various methods and strategies constituted by the management of an institution to enhance maintenance and control of credit levels. It is a financial management feature that emanates from receipt of credit applications up to recovery of the loans granted plus associated costs.

Several researches have been done that connects credit management practices to financial performance. For example, Wambui and Wamugo (2018) did a study on credit risk management and Agricultural Firms' financial performance in Nairobi Securities Exchange. The credit risk management variables included credit appraisal, credit policy and credit monitoring. Credit risk management was found to have a considerable impact on the performance of the agricultural companies.

Ndab (2018) conducted research in Ghana on micro-finance institutions credit management practices and financial performance. The method employed was a qualitative case study. Financial performance was greatly impacted by credit

management practices as per the findings. The measures of financial performance were total assets, total deposits, earning before tax, earning after tax and ROE. The study identified the problems in the financial sector as rising incidences of business collapse in the financial sector associated with high levels of NPLs, deteriorating asset quality and ineffective credit management practices.

Ifeanyi and Chinedu (2017) researched on credit management and Profitability of Deposit Money Banks (DMBs). The research established that sound credit management enhances profitability of DMBs. Asante (2015) investigated credit management practices and performance of First Allied Savings & Loans Ltd. The study recommended management to enforce stringent measures of credit management practices through the credit managers and loan officers. Wasike (2012) researched on factors affecting performance of Sacco societies and identified lack of adequate capital, problems of liquidity and poor quality of assets and non-compliance as the main factors affecting Sacco's. Odhiambo (2013) sought to identify the factors affecting performance of Sacco's and concluded that performance is influenced by size of membership, profitability level and loan default. Huseyin (2011) pointed out that failure to control and manage credit payments results in losses and increased expenditure relating to delinquency management. The high costs are associated with vigilant monitoring, management of portfolio and legal fees incurred to recover delinquent loans. The expenses impact negatively the income earned and generally hinder the operations of the company.

A proper credit management ensures adequate capital is available for organizational operations and also reduces the incidences such as non-performing loans and other unfortunate events (Pandey, 2015). Majority of companies can expressly identify

expenses associated with bad debts, clients facing challenges of liquidity, receivership or declared bankrupt. The writing-off of bad debts results in the reduction of revenues. The interest charge associated with delayed payment is immaterial and can be excluded as an expense. It is usually not factored as it is considered with the cumulative bank charges for entire business. The borrowing cost associated with late payment of bills lowers the total earnings of the bank. Credit managers can determine the impact of late payments by measuring the interest expenses separately for debtor. The results can be described by many as remarkable simply because the cost associated with bad debts is a tenth the cost of waiting for payments (Kagoyire & Shukla, 2016)

## 2.4 Literature review summary and Research Gaps.

**Table 2.1: Research Gaps**

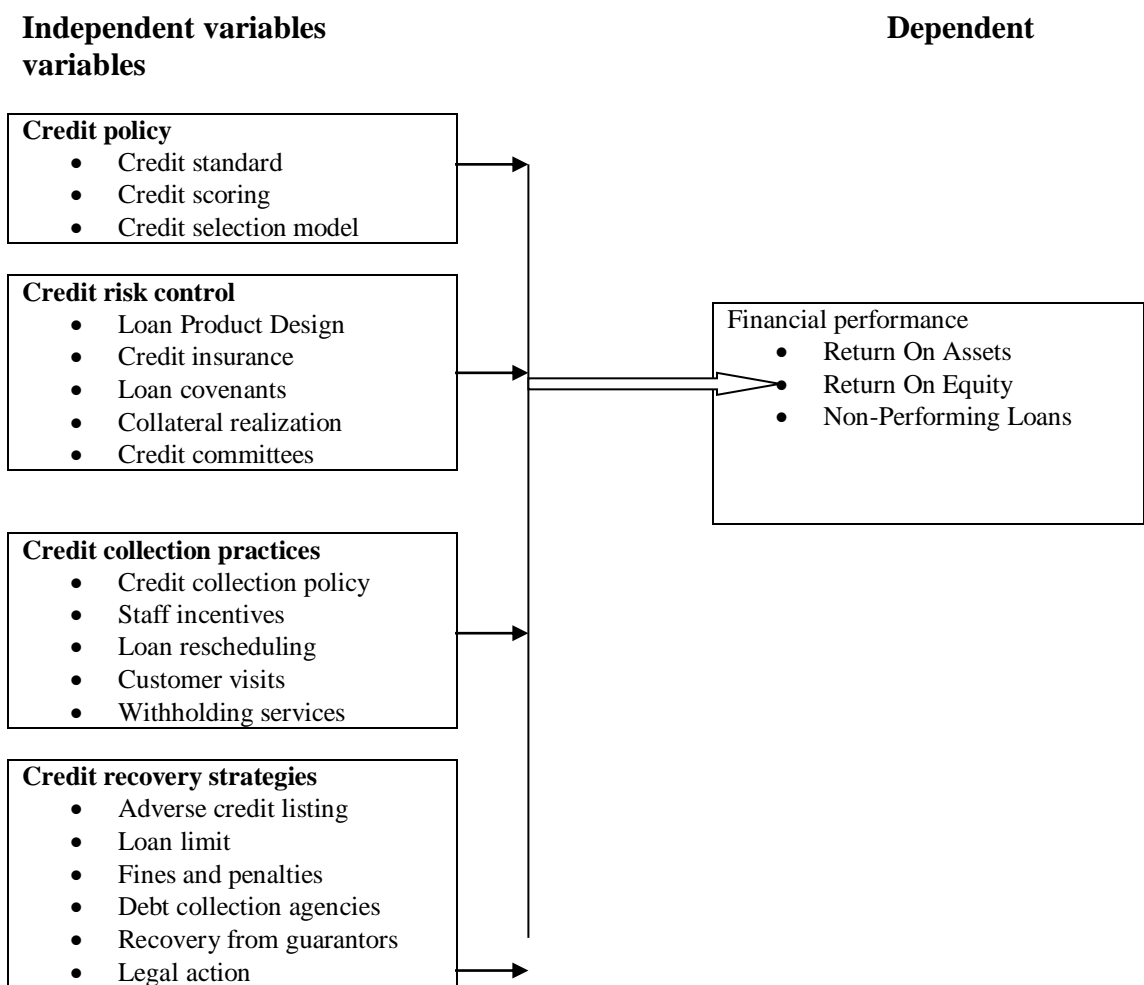
Authors	Title	Methodology	Major findings	Knowledge gap	Gaps filled
Mwaura and Ambrose (2017)	Effect of Credit policy on financial performance of Commercial banks in Kenya.	Descriptive research design	Credit policy is significant and positively related to commercial banks' to financial performance.	The study focused on commercial banks.	The study focuses on Deposit taking Sacco societies.
Kungu(2014 )	Credit policy and profitability of a manufacturing firm.	Descriptive research design	The study established the design of credit policy influences the profitability of manufacturing firms	profitability of manufacturing firms	Financial performance in Deposit Taking Saccos.
Owino (2013)	Credit policy and Non-performing loans (NPLs) in commercial banks in Kenya.	Descriptive research design	Credit policies affect the level of Non-performing loans (NPLs).	The research concentrated on the bank sector.	Research on the Sacco sector.
Nyawera (2013)	Credit policy and financial performance of Deposit taking Micro-Finance Institutions in Kenya	Descriptive research design	The research found that Credit terms, credit standards and collection efforts significantly affected financial performance	The research considered on the Microfinance sector.	The study concentrates on the Sacco sector.
Ayodele (2014)	Credit policy and performance of Nigerian Commercial banks.	Descriptive research design	Good credit policy reduces non-performing loans	Research was done on banking sector in Nigeria.	The current study is being done on the Sacco in Kenya
Danstun (2019)	Credit collection policy and portfolio at risk in microfinance institutions, Tanzania.	Cross-sectional research design	Loan size, grace period and interest rates significantly influence portfolio at risk in MFIs	Research was done on Micro-finance sector and focused on portfolio at risk.	Financial performance of DT-Sacco's in Kenya
Njeru (2017)	Credit management system and performance of	Descriptive research design	Credit management system significantly	The study focused on Commercial banks.	The study is being done on the Sacco

	loans in Kenya's banks.		affect loan performance of commercial banks		sector.
Omar (2018)	Credit management practices and profitability of Telecommunication firms in Somalia.	Descriptive research design	client appraisal, credit risk control and credit collection policy play a major role on profitability of the companies	profitability of Telecommunication companies	Financial performance of Saccos.
Migwi (2013)	credit monitoring & recovery strategies employed by commercial banks in Kenya	Descriptive research design	Banks should implement recovery strategies and monitor loans to enhance repayments.	The study identified recovery strategies without relating to any dependent variable.	The current study links credit recovery strategies to financial performance
Olokoyo (2018).	Influence of loan recovery strategies on customer relationships of Deposit money banks	Descriptive research design	Loan recovery strategies have a positive influence on customer relationship	Customer relationships	Financial performance
Alshatti (2015)	Influence of credit risk management on financial performance of Jordanian Banks	Descriptive Survey	Credit management indicators significantly influence financial performance of Banks.	Commercial banks in Jordan.	Sacco Industry in Kenya.
Ahmed & Malik (2015)	Credit risk management and loan performance of micro-finance banks in Pakistan.	descriptive statistical method	Credit term, client appraisal and credit collection policy have significant positive effect on loan performance	loan performance of micro finance banks in Pakistan	Financial performance in the Sacco sector
Kipsang (2020)	Debt recovery strategies and loan performance of Fintech companies in Kenya	Descriptive research design	Loan performance is significantly affected by fines, adverse credit listing and loan limit reduction.	Loan performance of fintech companies.	Financial performance of Sacco's

Asante (2018)	Effects of Credit management in Micro-Finance Institutions of Ghana	Case study research design	The study found out that corporate, individuals and SMEs loans were the main source of credit risks	Credit risks facing microfinance institutions of Ghana.	The study uses descriptive research design and focuses on DT-Sacco's.
Okpala (2019)	Credit management strategies on the Liquidity and Profitability of Manufacturing firms in Nigeria.	Descriptive research design	Debt recovery strategy statistically influence positively the liquidity and profitability of firms	The research focused on Manufacturing firms in Nigeria.	Financial performance of DT-Sacco's.
Kipkirui (2018)	Credit management practices and financial performance of MFIs	Descriptive survey design	Credit risk control positively influenced financial performance of MFIs.	Micro-finance sector	The study concentrates on deposit taking Sacco societies.
Muturi (2016).	Credit Management Practices and Loan Performance of Deposit taking Microfinance banks in Kenya	Descriptive research method	Researcher established that variables under study significantly affected Loan performance.	Deposit taking MFIs in Kenya	The study focuses on Deposit taking Sacco societies.
Ikua (2015)	Credit management practices and financial performance of Sacco societies in hospitality industry	Descriptive research design	The research revealed that the credit risk techniques relied by Sacco's were inadequate in mitigating loan losses in a dynamic and competitive credit sector.	Sacco's in hospitality industry	Deposit taking Sacco societies in Kenya
Gatuhu (2013)	Credit management and financial performance of MFIs in Kenya	Descriptive research design	Client appraisal, Credit risk control and Collection policy significantly influenced Financial performance of Kenyan MFIs.	Microfinance institutions.	Deposit taking Saccos

## 2.5 Conceptual Framework

The researcher reviewed past studies done related credit management practices. The credit management practices employed by financial institutions include credit policy, credit risk control, credit collection practices and credit recovery strategies. Credit management practices play a major role in mitigating challenges facing the financial sector such as high level of Non-performing loans, high interest rates and high level of default in Kenya's Saccos.



**Figure 2.1: Conceptual framework**

Source: researcher, (2021)

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

The techniques of research is based on various sections developed to complete the study. The process of data collection, analysis, interpretation and presentation is covered. Therefore, the section covers the procedures and practices utilised in collecting, processing and analysing data. In summary, research methodology comprised of research design, target Population, Research instruments, and procedures for collecting, analysing and presentation of data.

### **3.2 Research Design**

This is the basic roadmap for carrying out a research by guiding data collection and analysis. It is a mechanism and structure for evaluating the responses to study objectives and aiding the researcher in allocating limited resources (Cooper and Schindler, 2014). The study was conducted through the descriptive research approach. The descriptive research design, according to Orodho (2003) is a data collection method either through interviews or issuing questionnaires to part of the population to collect information on people, attitudes, opinions or any other social issues. Therefore the method was applied to acquire data relating to the existing condition of the phenomena to describe "what exists" focusing on research variables (Sekaran and Bougie, 2011). It was appropriate as it involves investigation of the effects of credit management practices on deposit taking Sacco's financial performance.

### **3.3 Target Population**

A target population, according to Mugenda and Mugenda (2003), is a well-defined class of individuals or objects with common features. A population, according to

Collins and hussy (2009), is a set of individuals or objects under observation for statistical objectives. The population consisted of personnel from finance and credit department of deposit taking Sacco societies in Kericho County. A census approach was adopted to conduct the research.

**Table 3.1 Distribution of Target Population**

<b>S/N</b>	<b>Sacco</b>	<b>Number of staff in finance and credit department</b>
1.	Imarisha Sacco Society Ltd	30
2.	Kenya Highlands Sacco Society Ltd	15
3.	Ndege Chai Sacco Society Ltd	22
4.	Simba Chai Sacco Society Ltd	15

Source: KUSCCO, (2021)

### **3.4 Sampling design**

A census approach was adopted for this research since the number of deposit taking Sacco's in Kericho County was relatively small. A census survey improves data validity and eliminates the sampling errors (Gathara, 2019).The research was carried on four deposit taking Sacco societies in Kericho County.

### **3.5 Data collection instruments**

To accomplish the research objectives, the research utilised primary data on credit management techniques and secondary data on financial performance. Credit department officers in Kericho County Saccos were issued with structured questionnaires to collect the necessary information. In order to address relevant research issues, Primary data was obtained using specially designed questionnaires.

Financial reports and statements for the period ending 31<sup>st</sup> December 2019 were utilised to collect secondary data. The secondary data collected included profit after tax, total assets, total delinquency loans, share capital and outstanding loans covering a period of six years between 2013 and 2019.

### **3.5.1 Validity of the research instrument.**

The data validity of the research instrument evaluates whether it measures what it purports to represent and the truthfulness of the findings of the study (Kimberlin & Winterstein, 2008). The degree to which an instrument covers all the features of a given construct is referred as Content validity. The use of carefully designed questionnaire to test few objects of the population enhanced the validity and accuracy of data collected.

### **3.5.2 Reliability of the research instrument.**

The degree to which an instrument produces consistent and accurate estimates throughout the period is known as data reliability. Although reliability is not available at all times, the results should generally show consistency and accurate representation of the entire population of the study. There reliability can be referred as the tendency towards consistency found in repeated measurements Cronbachs alpha was applied to measure research instrument reliability (Kimberlin & Winterstein, 2008).

Cooper and Schindler (2014) stated that an alpha value above 0.5 is a good indicator of the research instruments data reliability and is generally accepted in research particularly in social sciences. De vaus (2013) stated that an alpha value in excess of 0.70 is a significant indicator of the research instrument's data reliability.

### 3.6 Research Procedures

The investigator started the data collection process by obtaining university introductory letter to undertake research. Data was obtained through questionnaires that contained relevant questions that guided respondents as well as a brief introduction of study objectives. The study's questionnaires were delivered to selected deposit taking Saccos and collected thereafter.

### 3.7 Operationalization and Measurement of Research Variables

The following are the formulated research variables:

**Table 3.2 Operationalization of Research Variables**

Category	Research Variable	Operationalization	Indicators of measurement	Level of Measurement
Dependent Variables	Financial Performance	The performance of a company measured by the surplus raised from a shilling invested in assets.	ROA: Net income (Profit after tax) / Total Net Assets ROE: Net income (Profit after tax) / Total Equity NPLs: Non-performing loans/ Gross loans	Interval scale
Independent Variables: Credit Management Practices	Credit policy	Techniques applied to evaluate customer credit applications.	Credit standards Credit scoring Five Cs of credit	Ordinal scale
	Credit risk control	The practices of mitigating default risks associated with failure to remit payments	Credit insurance Credit committees Loan covenants Loan diversification	Ordinal scale
	Credit collection practices	The various collection methods employed by the Sacco to ensure payments are made in time	Telephone collections Customer visits Withholding services Statement messages	Ordinal scale
	Credit recovery strategies	Strategies employed by Sacco's to recover delinquent loans	Adverse credit listing Loan limit Recovery from guarantors Debt collection agencies Fines and penalties Legal action	Ordinal scale

### 3.8 Data Analysis and Presentation

The findings was analysed by quantitative techniques. Percentages, Frequency, Mean and standard deviation were employed in the study as descriptive statistics. To show a relationship, inferential statistics such as correlation and multiple regression have been used.

For easy interpretation of the research findings, the categorised data was processed in respect with the objectives using a computer packages termed as statistical package for social Sciences (SPSS) version 22.

To evaluate statistical significance of research variables, multiple regression model was utilised.

The multiple regression model:

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

Whereby,

Y = Financial performance measure.

X<sub>1</sub> = Credit policy

X<sub>2</sub> = Credit risk control

X<sub>3</sub> = Credit collection practices

X<sub>4</sub> = Credit recovery strategy

e = error term

$\beta_0$  = constant

$\beta_1, 2, 3, 4$  = the regression coefficients

The specific empirical models based on the parameters for measuring financial performance included:

$$ROA = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

$$ROE = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

$$NPLs = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

### **3.9 Diagnostic Tests**

The model was put through diagnostic tests to ascertain whether the ordinary least square assumptions were held. The model should be linear in parameters, conditional mean should be zero, error terms should be normally distributed, and there is homoscedasticity and perfect co linearity.

#### **3.9.1 Normality Test**

Normality test were conducted to assess whether the data provided is symmetrically distributed with no skew. The most commonly used techniques in measuring normality are classified into two namely graphical and statistical methods. Statistical methods are very useful when the sample size is small since they are based on actual probabilities. In descriptive statistics it is measured by goodness of fit in a set of observations. In typical terms it measures the difference between observed values and expected values. The absence of Normality does not affect the coefficient estimates, but it produces two vital outcomes that is it poses challenges of efficiency and standard errors (Andersen, 2012). Normality test will be tested by applying the Shapiro-Wilk test statistic. The null hypothesis was tested using the Shapiro-Wilk test. If the test is significant the distribution is non-normal.

#### **3.9.2 Heteroscedasticity Test**

Homoscedasticity is a condition in which all the errors have a common variance across the observations. Heteroscedasticity is the violation of the homoscedasticity and occurs when the error variance is different among the values of independent variable.

Heteroscedasticity effect is a matter of degree depending on its nature, significance tests can be either too high or too low (Williams, 2015). The presence of heteroscedasticity creates biasness in test statistic and confidence levels. Modified Wald test was utilised to test heteroscedasticity and the situation was resolved by obtaining white's heteroscedasticity corrected standard errors of ordinary least squares estimators. The standard estimates were applied for Statistical inference (Gujarati, 2004, Brooks, 2014).

### **3.9.3 Multicollinearity Test**

This is the general condition that exists when one explanatory variables affect the values of the other explanatory variables. This is a problem because independent variables are not supposed to be dependent to enhance statistical significance. It can be tested using Variance inflation factor.

$$VIF = \frac{1}{1-R^2}$$

Where  $R^2$  is the coefficient of determination in the linear regression model. The variance of greater than five indicates the existence of multicollinearity. Tolerance is the other measure of multicollinearity which is the reciprocal of variance inflation factor. The presence of multicollinearity can be dealt by either collecting additional data or eliminating the variable.

### **3.9.4 Autocorrelation Test**

The degree of correlation among variables or individual observation from different times is referred as autocorrelation. Autocorrelation reduces the number of independent observations in statistical tests. Autocorrelation occurs when the residuals do not have random trend. Serial correlation lessens the errors of

coefficients while boosting R-square .Autocorrelation is detected by use of Durbin Watson (DW). When the statistic value is near two the residuals are termed as uncorrelated. A DW statistic value of zero suggests existence of positive autocorrelation, whereas four indicates high negative correlation. In practice statistical values between one (1) and three (3) is acceptable with the other statistic values of zero to one and three to four termed as alarming. Autocorrelation can be dealt with correct specification of the functional form of the model.

### **3.10 Ethical Consideration**

The researcher upheld ethical requirements in conducting the research and participants were guaranteed of confidentiality and data collected was utilized solely for academics. The researcher requested for permission to gather the required data from relevant authorities.

## CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

### 4.1 Introduction

The fourth chapter deals with analysis and presentation of research findings in accordance with the objectives. The findings on deposit taking Saccos' credit management practices and financial performance in Kericho County are discussed. SPSS version 22 was utilised to analyse data. The study's target population was eighty two (82) respondents from which sixty two (62) completed the questionnaires yielding a 75.61% response rate. The response rate is higher than the minimum acceptable rate of fifty percent (50%), according to both Kothari (2008) and Mugenda and Mugenda (2003). This implies that the response rate is satisfactory for data analysis, making conclusions and recommendations. In addition it enhances the acceptability and credibility of the research finding

### 4.2 Data Reliability

The study sought to determine the reliability of the data collection instrument. Cronbach's alpha, an internal consistent technique was applied to measure data reliability and computed using Stata and the outcome is highlighted below

**Table 4.1: Data Reliability Analysis**

<b>Research Variables</b>	<b>Cronbach's alpha</b>	<b>Remarks</b>
Credit Policy	0.780	Reliable
Credit Risk Control	0.706	Reliable
Credit Collection practice	0.788	Reliable
Credit Recovery strategy	0.777	Reliable
Financial performance	0.871	Reliable

Source: Researcher, (2021).

The Cronbach's alpha statistics showed that the research instruments were not only reliable but revealed a strong internal consistency of the research instruments as attested by Jackson (2009). This is attributed by Cronbach's alpha values from both independent variables and dependent variable being greater than 0.7.

### 4.3 Demographic Information

The basic information of the participants was sought. The basic information relates to gender, level of education, current designation, period of service within the Sacco and membership in the Sacco.

#### 4.3.1 Gender of the Respondents

The study asked the participants to choose their gender and the outcome is displayed in Table 4.2 below.

**Table 4.2: Gender Analysis**

<b>Gender</b>	<b>Frequency</b>	<b>Percentage</b>
Male	37	59.7
Female	25	40.3
<b>Total</b>	<b>62</b>	<b>100</b>

Source: Researcher, (2021)

The data show that about six out of ten of the respondents were male representing 59.7% while female accounted for 40.3%. This implies that the Sacco's considered gender equality.

### 4.3.2 Education

The participants were requested to choose their academic qualification and the outcome is listed below.

**Table 4.3: Highest Academic Qualification**

<b>Level</b>	<b>Frequency</b>	<b>Percentage</b>
Certificate	10	16.1
Diploma	11	17.7
Bachelor's degree	29	46.8
Postgraduate	12	19.4
<b>Total</b>	<b>62</b>	<b>100</b>

Source: Researcher, (2021)

The data shows that 46.8% of the participants were undergraduate degree holders, 16.1% of the respondents hold a certificate, 17.7% of the respondents hold a diploma whereas 19.4% of the respondent had attained postgraduate degree. This shows that more than 50% of the personnel in deposit taking Sacco's were bachelor's degree holders and above. This implies that Sacco's are engaging highly qualified personnel with various level of expertise needed to accomplish the tasks of credit management.

### 4.3.3 Current Designation

The participants were asked to choose their current designation and the outcome is listed in the table below.

**Table 4.4: Current Designation**

<b>Title</b>	<b>Frequency</b>	<b>Percentage</b>
Credit officer	27	43.5
Branch manager	11	17.7
Managing director	4	6.5
Teller/Sales officers	20	32.3
<b>Total</b>	<b>62</b>	<b>100</b>

Source: Researcher, (2021)

The findings shows that 43.5% of the participants were credit officers, 17.7% of the respondents were branch managers, 6.5% of the participants were the managing director (chief executive officers) whereas 32.3% of the respondents were accountants and auditors classified as others. The outcome shows that most of the respondents were Credit officers and accountants. This implies that the respondents were professionals with expertise on credit management practices and financial performance.

#### **4.3.4 Period of Service**

The participants were asked to choose the duration of service within the deposit taking Sacco's and the outcome is listed in the table 4.5 below.

**Table 4.5: Period of service within the Sacco**

<b>Duration</b>	<b>Frequency</b>	<b>Percentage</b>
Less than 5 years	9	14.5
Between 5 and 10 years	15	24.2
Between 10 and 15 years	26	41.9
Above 15 years	12	19.4
<b>Total</b>	<b>62</b>	<b>100</b>

Source: Researcher, (2021)

According to the findings, majority of the participants had served in the Sacco for 10 to 15 years accounting for 41.9%, 24.2% of the respondents had served the Sacco between 5 to 10 years, 19.4 of the respondents for a duration of above 15 years while 14.5 % of the participants had less than 5 years. From the findings, majority of the participants were skilled and experience since they worked for the Sacco's between 10 to 15 years. This implies that Sacco's are offering good credit services since employee welfare is catered for as shown by employee retention in Sacco's is relatively high.

#### **4.3.5 Sacco Membership**

The respondents were requested to choose the membership of the Deposit taking Saccos and the outcome is shown in table 4.6 below

**Table 4.6: Sacco Membership**

<b>Sacco Members</b>	<b>Frequency</b>	<b>Percentage</b>
<10,000	0	0
10,000-50,000	18	29.0
50,000-100,000	12	19.4
>100,000	32	51.6
<b>Total</b>	<b>62</b>	<b>100</b>

Source: Researcher, (2021)

The computed percentage indicates that majority (51.6%) of the participants choose the Sacco membership above 100,000 members, 29% of the respondents indicated between 10,000 to 50,000 members whereas 19.4% of the respondents indicated between 50,000 and 100,000 members, this implies that most deposit taking Sacco's have a membership of over 100,000 members. This implies that Sacco's in Kericho County are retaining and admitting more members hence more savings leading to financial stability

#### **4.3.6 Implementation of Credit Management Practices**

Table 4.7 shows the research findings after the participants were requested to state whether the deposit taking Sacco's had implemented credit management practices.

**Table 4.7: Implementation of Credit Management Practices**

<b>Credit Management Practices</b>	<b>Frequency</b>	<b>%</b>
Yes	56	90.3
No	6	9.7
<b>TOTAL</b>	<b>62</b>	<b>100</b>

Source: Researcher, (2021)

The study found out that most (90.3%) of the participants stated that their Sacco's had credit management practices in place whereas 9.7% stated that their Sacco's had not. This implies that majority of the participants were aware of their deposit taking Sacco's implementing credit management practices.

#### **4.4 Credit Management Practices**

##### **4.4.1: Credit policy**

The participants were requested to choose the degree of credit policy application in deposit taking Sacco's and the outcome is listed in the table 4.8.

**Table 4.8: Degree of credit policy application in credit management of Saccos**

<b>Degree of application</b>	<b>Frequency</b>	<b>Percentage</b>
Very great extent	9	14.5
Great extent	35	56.5
Moderate extent	16	25.8
Less extent	2	3.2
Not at all	0	0
<b>Totals</b>	<b>62</b>	<b>100</b>

Source: Researcher, (2021)

According to the result, majority of the participants (56.5%) stated to a great extent, 14.5% of the participants stated to Very great extent, 25.8% of participants stated to Moderate level while 3.2% of participants stated to a lesser level. From the findings it's implied that most deposit taking Sacco's applied credit policy to a great extent.

#### **4.4.2 Credit policy and financial performance**

The participants were requested to state their degree of concurrence with various remarks on deposit taking Sacco's credit policy and financial performance in Kericho County, Kenya. On a Likert Scale, SA represented Strongly Agree, A represented Agree, N represented neutral, D represented Disagree, SD represented Strongly Disagree, and M designated Mean and SD' designated Standard Deviation. The results are as per table 4.9.

**Table 4.9: Credit policy and Financial Performance**

<b>Statements</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>	<b>M</b>	<b>S.D</b>
Credit policy is a viable tool for credit management.	25	35	4	0	0	1.7	0.84
Credit scoring technique is applied in establishing whether to grant or reject loan applications	26	34	2	0	0	1.55	0.50
The use of the 5Cs of credit improves the quality of loans issues to Sacco clients	18	37	4	3	0	1.68	0.70
The Sacco has trained employees to implement credit policy.	16	35	6	5	0	1.86	1.19
The character of client seeking credit facility is considered in credit policy implementation	5	9	6	20	22	3.73	1.31
The security offered (collateral) is considered when implementing credit policy	6	8	4	25	19	3.69	1.30
Customers' ability to fulfill his financial obligations is considered while actualizing credit policy	17	34	8	2	1	1.97	0.83
Assessment of customers capacity to pay credit facilities results in performing loans	14	38	3	4	3	1.98	0.34

Source: Researcher, (2021)

The finding indicated that most of the participants agreed that credit policy is a viable tool for managing credit with a mean of 1.70. The respondents agreed that credit scoring technique is used in determining whether to grant or deny loans in Sacco's as shown by a mean of 1.55. They also agreed that the use of 5Cs of credit improves the quality of loans issued to clients as shown by a mean of 1.68. The respondents agreed that the Sacco had trained employees on how to implement credit policy as shown by a mean of 1.86. Credit policy. The respondents' disagreed that in implementing credit policy the character of the client seeking credit facility is considered as noted by a mean of 3.73. They also disagreed that security offered is considered in implementing credit policy as noted by a mean of 3.69. The participants agreed that customers' ability to fulfil its financial obligations is considered in actualizing credit policy as shown by a mean of 1.97 while the assessment of customers capacity to pay credit results in performing loans as shown by a mean of 1.98. The results resonates with the findings of Mwaura and Ambrose (2017) that credit policy is positively and significantly related to financial performance of commercial banks. Therefore according to the study financial performance of commercial banks is related to that of deposit taking Sacco's in Kenya.

#### **4.4.3 Credit Risk Control**

The purpose of the research was to establish the degree of application of credit risk control in deposit taking Sacco's. The findings are summarized below.

**Table 4.10: Degree of credit risk control in credit management of Sacco's**

Degree of application	Frequency	Percentage
Very great extent	11	17.7
Great extent	43	69.4
Moderate extent	8	12.9
Low extent	-	-
Not at all	-	-
<b>Total</b>	<b>62</b>	<b>100</b>

Source: Researcher, (2021)

According to the Results 17.7% of the participants stated to a very great extent, the majority of the participants agreed to great extent accounting (69.4%), and 12.9% agreed to a moderate level. This demonstrates that deposit taking Sacco's embraced credit risk control as a credit management practice to a greater level.

#### **4.4.4 Credit Risk Control and financial performance**

The participants in Kericho County were requested to state the degree of agreement with various propositions on Credit risk control and financial performance of deposit taking Saccos. On a Likert Scale, SA represented Strongly Agree, A represented Agree, N represented neutral, D represented Disagree, SD represented Strongly Disagree, and M designated Mean and SD' designated Standard Deviation. The results are tabulated in Table 4.11

**Table 4.11: Credit Risk Control and Financial Performance**

<b>Statements</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>	<b>M</b>	<b>SD</b>
Involvement of the Credit committee in making credit decisions is essential in credit risk control	14	37	4	4	3	2.11	0.99
Credit insurance is important in controlling credit risk in your Sacco	19	35	2	4	2	1.95	0.95
Loan product design is a viable strategy in controlling delinquent loans	22	33	2	3	2	1.87	0.93
Imposing limits on loan size enhances credit risk control hence improving financial performance	19	34	3	6	0	1.94	0.87
Regular use of credit checks enhances performance of organizations.	5	9	3	28	17	3.69	1.25
The performance of Sacco's is influenced by the Interest rates charged.	25	26	4	4	3	1.94	1.08
The requirement of collateral or guarantors is effective in discouraging Sacco customers from defaulting	2	12	3	27	18	3.76	1.17
Penalties for delinquent loans encourages clients to follow loan agreements (repayment schedule)	21	35	3	3	0	1.81	0.74
The consistent use of formal loan application forms enhances monitoring hence reduced credit risk.	27	30	3	2	0	1.68	0.72

Source: Researcher, (2021)

The research objective was to determine the degree the participants concurred with credit risk control propositions in deposit taking Sacco's. The data established that most participants strongly concurred that the performance of Sacco's is influenced by the interest rate charged as shown by a mean of 1.94. Consistent use of formal loan application forms enhanced credit risk control in Sacco's through credit monitoring as shown by a mean of 1.68. Penalties for delinquent loans encouraged the Sacco customers to adhere to loan agreements as shown by a mean of 1.81. The participants agreed that imposing limits on loan size enhances credit risk control as shown by a mean of 1.94. They agreed that credit insurance is essential in controlling credit risk and the designing of loan product is a viable strategy in controlling delinquent loans in Sacco's as denoted by a mean of 1.95 and 1.87 respectively. The involvement of credit committee in credit decisions is important in credit risk control has a mean of 2.11 denoting an agreement. The participants didn't that the regular use of credit checks improves financial performance in Deposit taking Sacco's as shown by mean of 3.69 and the requirement of collateral or guarantors is effective in discouraging Sacco customers from defaulting as evidenced by a mean of 3.76. The findings are in agreement with that of Ikua (2015) that credit risk is positively associated with the financial performance of Sacco's. However it differs with that of Kipkirui (2018) on the requirement of collateral or guarantors is effective in discouraging default and regular use of credit checks. That means the applicability of credit management practices in Sacco's differ with MFIs.

#### 4.4.5 Credit Collection Practices

The focus of the research was to determine how credit collection practices are applied in deposit taking Saccos credit management. The outcome is listed in the table 4.12.

**Table 4.12: Degree of application of credit collection practices as part of credit management in Sacco's**

<b>Degree of Application</b>	<b>Frequency</b>	<b>Percentage</b>
Very great extent	9	14.5
Great extent	45	72.6
Moderate extent	5	8.1
Low extent	3	4.8
Not at all	0	0
<b>Total</b>	<b>62</b>	<b>100</b>

Source: Researcher, (2021)

The findings were as follows, 70.96% of the respondents being the majority stated to a great level, 16.1% of the participants stated to a very great level, and 9.7% of the responses to a moderate level while 3.3% of the participants states to a low extent. This shows that deposit taking Sacco's applied credit collection practices to a great extent

#### 4.4.6 Credit collection practices and financial performance

The researcher requested the participants to state the degree of agreements with various statements on Credit Collection Practices in deposit taking Saccos in Kericho

County and Financial Performance. The findings were tabulated in a Likert Scale where SA represented Strongly Agree, A represented Agree, N represented neutral, D represented Disagree, SD represented Strongly Disagree, and M represented Mean and SD represented Standard Deviation. Table 4.12 below lists the tabulated results.

**Table 4.13: Credit collection practices and financial performance**

<b>Statements</b>	<b>S A</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>S D</b>	<b>M</b>	<b>SD</b>
Sacco's have faced challenges in formulating collection policies.	27	20	4	7	4	2.05	1.25
Implementation of guarantee policies enhances credit collection of non-performing loans.	22	31	3	3	3	.94	.02
Incentives for employees are more effective in collecting outstanding loans	26	29	3	3	1	1.77	0.88
Regular reviews of collection policies enhance credit collection.	29	20	4	5	4	1.95	1.20
Lenient policies are less effective in recovery of debt compared to stringent policies	20	33	3	3	3	1.97	1.01
Withholding of services like dividends' and loans improves the collection of loan repayments	19	23	7	11	2	2.26	1.17
The use of regular Customer visits to Sacco clients enhances loan repayment.	21	32	7	2	0	1.84	0.75
Loan rescheduling enhances credit collection from Sacco clients.	12	39	3	4	4	2.18	1.03

Source: Researcher, (2021)

The research sought to determine the degree at which participants concurred with the statements on credit collection practices of deposit taking Sacco's. Using the likert scale, most of the participants strongly agreed that implementation of guarantee

policies enhances credit collection of non-performing loans as evidenced by a mean of 0.94, incentives to staff are effective in collecting non-performing debts as evidenced by 1.77 mean, Stringent policies are effective in recovering debts as evidenced by a mean of 1.97, the participants agreed that regular customer visits enhances the payment of loans as evidenced by 1.84 mean and regular reviews on credit collection policies enhances credit collection as evidenced by a mean of 1.95. The participants agreed that Sacco's have faced challenges in formulating collection policies as evidenced by a mean of 2.05, withholding of dividends and loans improves the collection of loans as evidenced by mean of 2.26 and loan rescheduling enhances credit collection from Sacco clients. Overall the respondents agreed that credit collection practices enhances credit collection from Sacco clients. The findings are similar to those of Gatuhu (2013) on credit policy of microfinance institutions and that of Ahmed and Malik (2015) who found that credit collection policies were positively and significantly linked to financial performance. Of financial institutions.

#### **4.4.7 Credit recovery strategies**

The study sought to establish the degree to which deposits taking Saccos apply credit recovery strategies in credit management.

**Table 4.14: Degree of application of credit recovery strategies in credit management of Saccos**

<b>Degree of application</b>	<b>Frequency</b>	<b>Percentages</b>
Very great extent	9	14.5
Great extent	37	59.7
Moderate extent	14	22.6
Low extent	2	3.2
Not at all	0	0
<b>Total</b>	<b>62</b>	<b>100</b>

Source: Researcher, (2021)

The study found out that 59.7% of the participants choose the great extent, 16.1% of the participants stated to a very great level, and 24.2% of the participants to a moderate level while 3.2% of the participants stated to a low level. The results shows that deposit taking Sacco's applied credit recovery strategies to a great extent.

#### **4.4.8 Credit recovery strategies and financial performance**

Statements were provided to participants to select the degree of agreements with various statements on credit recovery strategies and deposit taking Saccos' Financial Performance in Kericho. The results were based on Likert Scale where SA represented Strongly Agree, A represented Agree, N represented Neutral, D represented Disagree, SD represented Strongly Disagree, and M represented Mean and SD represented Standard Deviation. The outcome is tabulated below.

**Table 4.15: Credit recovery strategies and financial performance**

<b>Statements</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>	<b>M</b>	<b>SD</b>
Adverse credit listing is essential in enhancing recovery of loans.	7	10	3	25	17	3.57	1.35
When guarantee policies are implemented properly they increase the chances of recovering defaulted loans.	15	34	5	4	4	2.16	1.07
The most effective way of recovering delinquent loans is through debt collection agencies.	10	35	6	8	3	2.34	1.06
The use of fines and penalties improves the recovery of loans from Sacco clients	13	36	3	7	3	2.21	1.06
Loan limit reduction enhances the recovery of your Sacco loans.	10	38	4	7	3	2.27	1.03
The use of litigation ensures the Sacco recovers its loan effectively	6	7	3	33	13	3.65	1.22
Customer visits enhances recovery of loans as opposed to phone call or email	15	34	5	6	2	2.13	0.99
Involvement of marketing team in collection enhances recovery of debt.	10	6	4	15	27	3.70	1.51

Source: Researcher, (2021).

The final research objective was to identify how Credit recovery strategies are related to financial performance in Sacco's. The research found out that, adverse credit listing does not enhance recovery of outstanding debts as evidenced by a mean of 3.57. The participants agreed that the application of fines and penalties enhances recovery of outstanding loans as denoted by a mean of 2.21. Reduction of loan limit in deposit taking Sacco's enhances recovery of non-performing loans as evidenced by a mean of 2.27, Customer visits enhanced recovery of delinquent loans as opposed to phone calls and emails as evidenced by a mean of 2.13. The participants disagreed that involvement of marketing team enhances the recovery of debt as evidenced by a mean of 3.70 Debt collection agencies being the most effective way of recovering delinquent loans had a mean of 2.34 denoting agreement and the use of litigation to enhance recovery of delinquent loans had a mean of 3.65 denoting disagreement. The findings concur to that of Olokoyo (2018) and Kipsang (2020) that credit recovery strategies significantly affected performance.

#### **4.5 Financial Performance of Deposit Taking Saccos**

The research looked at the financial performance of deposit taking Saccos from 2013-2019. Return on Assets (ROA), Return on Equity (ROE) and Non-performing loans (NPLs) were the indicators of DTS's financial performance. As an indicator of financial performance Return on remained relatively stable as shown by a mean of either 0.02 or 0.03. The return on equity had a mean of 0.61 in 2013 which increased to 0.72 in 2014 then decreased to 0.38 in 2017. In terms of Non-performing loans the lowest mean of 0.03 was recorded in 2013, 2017 and 2018. In 2016 a mean of 0.04 was recorded while a mean of 0.05 was recorded in 2014 and 2015. The financial year

2019 recorded the highest mean of 0.06 which is above the recommended rate of 0.05 as per SASRA (2018).The detailed statistics are as follows.

**Table 4.16: Financial performance of Deposit taking Sacco's**

YEAR	Return on Assets			Return on Equity			Non-performing loans		
	MIN	MAX	MEAN	MIN	MAX	MEAN	MIN	MAX	MEAN
2013	0.01	0.04	0.02	0.14	1.64	0.61	0.01	0.06	0.03
2014	0.01	0.05	0.03	0.18	1.85	0.72	0.02	0.07	0.05
2015	0.01	0.05	0.02	0.13	2.05	0.68	0.01	0.09	0.05
2016	0.02	0.04	0.03	0.26	1.30	0.57	0.02	0.05	0.04
2017	0.01	0.03	0.02	0.21	0.77	0.38	0.02	0.05	0.03
2018	0.02	0.05	0.03	0.32	0.63	0.43	0.01	0.05	0.03
2019	0.02	0.03	0.03	0.17	0.70	0.4	0.01	0.09	0.06

Source: Researcher (2021).

#### **4.6 Inferential Analysis**

The data collected was analysed using multiple regression analysis. Model summary was utilised to evaluate how the changes of the independent variables affected the dependent variable. The study focused at how credit policy, credit risk control, credit collection strategy and credit recovery strategies influenced the deposit taking Sacco's' financial performance.

**Table 4.17: Model Summary**

Model	R	R Square	Adjusted square	R Std Error of the Estimate
1	.789	.623	.608	.2847

Source: Researcher, (2021)

The correlation coefficient (R) shows the relationship between the research variables. From the findings there was a strong positive relationship between the research variables as shown by an R value of 0.789. Adjusted R squared is the coefficient of determination which shows the variation in the dependent variable due to changes in the independent variables. The value of R squared is 0.608 which is an indication that there was variation of 60.8% in financial performance of deposit taking Sacco's in Kenya due to changes in credit policy, credit risk control, credit collection practices and credit recovery strategies at 95% confidence level. This shows that 60.8% change in financial performance of deposit taking Sacco's can be accounted for by changes in the above credit management variables. The other 39.2% is accounted by changes in unknown variables in the study.

**Table 4.18: Analysis of Variance (ANOVA)**

Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	0.797	4	.199	2.458	.010
	Residual	4.622	57	.081		
	<b>Total</b>	<b>5.419</b>	<b>61</b>			

Source: Research, (2021)

The analysis of variance was applied to evaluate the good fit of the entire model. The statistics of ANOVA in table 4.16 above indicate that the processed data had a significant level of 0.010.

The significance value is less than 0.05 implying that the data is suitable for drawing conclusions about the population parameters. The critical value is less than the computed value ( $1.981 < 2.458$ ) which indicates that credit policy, credit risk control, credit collection practices and credit recovery strategies significantly influence financial performance of deposit taking Sacco's in Kenya. The null hypothesis is not accepted and conclude that the multiple model between credit management practices and financial performance fits the data well. The significant level of 0.010 is less than 0.05 implying that the overall model was statistically significant.

**Table 4.19: Coefficients**

Model		Unstandardize		Standardiz	T	Sig.
		d Coefficients	ed	ed coefficients		
		B	STD error	Beta		
1	Constant	1.045	.597		0.75	.046
	Credit policy	.141	.152	.136	0.924	.036
	Credit risk control	.259	.127	.443	2.033	.047
	Credit collection practice	.284	.157	.413	1.852	.023
	Credit recovery strategy	.072	.160	.087	.450	.044

Source: Research, (2021).

From the findings in table 4.17, the following regression equation can be derived:

$$Y=1.045 + 0.141X_1+0.259X_2+0.284X_3+0.072X_4.$$

The above regression equation shows that if credit policy, credit risk control, credit collection practices and credit recovery strategies are held constant, the financial performance of deposit taking Sacco's would be 1.045 units. Credit policy is statistically significant to explain the financial performance of deposit taking Sacco's as evidenced by beta of 0.141 that is credit policy increase by one unit translates to 0.141 unit gain in Sacco financial performance. Credit risk control is statistically important in assessing financial performance of Sacco's as evidenced by beta of 0.259 that is a rise in credit risk control by one unit contributes to an improvement in financial performance of Sacco's by 0.259 units. Credit collection practice is statistically significant in improving the Saccos financial performance as shown by beta of 0.284 that is an increase in credit collection practice by a unit corresponds to improved financial performance by 0.284 units. Credit recovery strategy is statistically significant to assess the financial performance of Sacco's as evidenced by a beta of 0.072 that is an increase in credit recovery by one-unit results in 0.072-unit gain in financial performance. From the findings above credit policy, credit risk control, credit collection practice and credit collection strategy were significant and had positive link to the deposit taking Sacco's financial performance.

The testing of hypothesis was done at a significance threshold of 0.05. The research established that the independent variables had a significant impact on financial performance of deposit taking Sacco's with P-values of less than 0.05. The P-values of

Credit policy, Credit risk control, Credit collection practice and Credit recovery strategy were 0.036, 0.047, 0.023 and 0.044 respectively.

#### 4.7 Diagnostic Tests

Diagnostic tests were performed on the data to ensure conformity with the requirements of the multiple regression technique used. Shapiro-Wilk test for normality, Modified wald test for heteroscedasticity, Variance inflation factor for multicollinearity and Durbin Watson test for autocorrelation have been conducted and results are shown below.

##### 4.7.1 Normality test.

Normality test was done by employing the Shapiro-Wilk test method. The findings are presented in the table below:

**Table 4.20 Normality Tests**

Variable	Obs	W	V	Z	Prob>z
Financial performance	62	0.8021	3.720	2.23	0.0602
Credit policy	62	0.8228	1.479	0.694	0.2228
Credit risk control	62	0.7331	1.285	0.523	0.3149
Credit collection practices	62	0.8541	2.561	1.745	0.0718
Credit recovery strategies	62	0.9221	1.272	0.482	0.3210

The null hypothesis is that the disturbances are not normally distributed and since the P-value are greater than 0.05 then the null hypothesis of normality for the study is rejected and a conclusion that the residuals are normally distributed.

#### 4.7.2 Heteroscedastisity test

The study employed modified Wald test for heteroscedasticity. The null hypothesis is that all the error terms has a common variance across all the observation. The presence of heteroscedasticity renders statistical inference on variance biased hence invalid for making conclusions. The results produced a t statistic value of 7.5432 with a p-value of 0.4321 at degree freedom of 5

The test produced a T statistic of 7.5432 with a P-value of 0.4231 with the degree of freedom. The T-statistic is small and p-value of  $0.4231 > 0.05$ , the null hypothesis of a common variance is accepted to indicate the non-existence of heteroscedasticity in the research data. In conclusion there was homoscedasticity in the data hence fit for making inferential statistics.

#### 4.7.3 Multi-collinearity test

Multi-Collinearity test determines whether independent variables are correlated. Table 4.18 shows the various tolerance and variance inflation factors (VIF) for the variables used to test Collinearity.

**Table 4.21: Multi-collinearity test results**

Variable	Tolerance	VIF
Credit Policy	0.692	1.446
Credit Risk Control	0.315	3.173
Credit Collection Practice	0.244	4.104
Credit recovery strategy	0.402	2.488

Source: Researcher, (2021)

From the results above the tolerance and variance inflation factors are within the acceptable limits. The tolerance values for credit policy, credit risk control, credit

collection practice and credit recovery strategy were 0.692, 0.315, 0.244 and 0.402 respectively which was within the desirable limit of not greater than 1.0. The calculated VIF for credit policy is 1.446, credit risk control is 3.173, credit collection practice is 4.104 and credit recovery strategy is 2.488. From the findings, multicollinearity didn't exist as the variance inflation factor was less than five.

#### **4.7.4 Autocorrelation test.**

Autocorrelation test was done using Durbin Watson. The findings revealed a Durbin Watson statistic value of 1.570 fitting the threshold of acceptable statistical values of one and three. This implies that autocorrelation did not exist.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This section categorises the significant findings and analysis of results with major focus on recommendations and conclusions of the research as per the objectives.

### **5.2 Summary of the Research Findings.**

The objective of the study was to determine the effect of credit management practices on the financial performance of deposit taking Saccos in Kericho County Kenya. The variable of the credit management practices were credit policy practices, credit risk control, credit collection practices and credit recovery strategies whereas financial performance indicators were Return on Equity, Return on Assets and Non-performing loans. The research was based on the anticipated income theory, asymmetric information theory and transaction cost theory. The study employed descriptive research design. The population of the study was deposit taking Saccos within Kericho County whereby a census of four deposit taking Saccos. The response rate was 75.61% based on completed questionnaires. The research utilized both primary data and secondary data. Diagnostic tests were done to ascertain the assumptions of ordinary least square. Data analysis was done by both descriptive and inferential statistics. A multiple regression was used to show the relationship between credit management practices and financial performance of deposit taking Saccos. The major findings based on the specific objectives are presented below:

The first objective of the study was to determine the effect of credit policy on the financial performance of deposit taking Saccos in Kericho County, Kenya. The research found that deposit taking Sacco's applied credit policy in managing credit to a great extent. It was further found that credit policy is an important strategy for

managing credit. The results found that credit scoring technique is applied in establishing whether to grant or reject loan applications in deposit taking Sacco's. It was also found that the use of 5Cs of credit improves the quality of loan issued to Sacco clients, Assessment of customer's capacity pay credit facility results in performing loans, Customers ability to fulfil his financial obligations is considered while actualizing credit policy and employees were trained on how to implement credit policy. On the contrary the results show that the security offered was not considered in implementing credit policy and the character of the customer seeking credit facility was not considered in implementing credit policy.

The Second objective of the study was to determine the effect of credit risk control on the financial performance of deposit taking Saccos in Kericho County, Kenya. The study findings show that Sacco's applied credit risk control in managing credit to a great level. The research results show that the performance of Saccos is influenced by the interest fees levied. Penalties for delinquent loans encourages clients to follow loan agreements, the consistent use of formal loan application forms enhanced credit monitoring in Sacco's. Also loan product design was found to be a viable strategy in controlling non-performing loans, credit insurance is important in controlling credit risk in Sacco's and imposing limits on loan size enhances credit risk control. The involvement of the credit committee in making credit decision is essential in controlling credit risk in Sacco's while the regular use of credit checks in enhancing the performance of Sacco's was not affirmed. In addition the requirement of collateral or guarantor in discouraging Sacco members from defaulting was not affirmed.

The third objective of the study was to determine the effect of credit collection practices on the financial performance of deposit taking Saccos in Kericho County,

Kenya The study established that Saccos applied credit collection practices in managing credit to a great level. The results showed that implementation of guarantee policies enhanced credit collection in case of non-performing loans, staff incentives are more effective in collecting non-performing loans, regular reviews on credit collection policies improves credit management, lenient policies are less effective in recovery of outstanding loans compared to stringent policies and the use of regular customer visits to Sacco clients enhanced loan repayments in Sacco's. It was also affirmed that Sacco's faced challenges in formulating credit collection policies, Loan rescheduling enhances credit collection from Sacco members and withholding of services like dividends' and loans in Sacco's improved collection of delinquent loans

The fourth objective of the study was to determine the effect of credit recovery strategies on the financial performance of deposit taking Saccos in Kericho County, Kenya The study found that deposit taking Sacco's applied credit recovery strategies to a great extent. The research found out that customer visits enhances recovery of loans as opposed to phone calls and email. Proper implementation of guarantee policies in Sacco's they increase the chances of recovering defaulted loans, the use of fines and penalties improved the recovery of defaulted loans, Loan limit reduction enhances the recovery of delinquent loans in deposit taking Sacco's and the use of debt collection agencies was found to be one of the effective ways of recovering delinquent loans. However the effectiveness of adverse credit listing in recovering delinquent loans, the use of litigation in recovering non-performing loans and the involvement of the marketing team in enhancing recovery of debts was not confirmed.

The research results show that financial performance of deposit taking Sacco's is greatly influenced by the changes in credit management variables as shown by

adjusted R squared of 0.608. In addition there was a strong positive relationship between the study variables as shown by a correlation coefficient of 0.789. The P-values of the study variables were less than 0.05 which shows that all the credit management variables were statically significant in influencing financial performance of deposit taking Sacco's in Kenya. According to the computed multiple regression equation, credit risk control had the greatest impact on deposit taking Saccos' financial performance followed by credit policy and credit collection practices in the same order. Credit recovery had the least effect on financial performance of deposit taking Sacco's. The study findings confirmed that there was no cases of high correlation between the independent variables

### **5.3 Conclusions.**

The overall purpose of the research to show how credit management practices in deposit taking Sacco's are linked to financial performance in Kericho County. According to the report results, credit policy, credit risk control, credit collection practices and credit recovery strategies all affected deposit taking Saccos' financial performance. The research discovered a strong association between the financial performance of deposit taking Saccos and credit policy, credit risk control, credit collection practices and credit recovery strategies.

The research revealed that an increase in credit policy by a unit leads to increase in financial performance of deposit taking Sacco's in Kenya. This shows that there was a positive relationship between credit policy and financial performance of deposit taking Sacco's.

According to the study, a unit increase in credit risk control results to an increase in financial performance of deposit taking Sacco's in Kenya. This shows that there was a

positive association between credit risk control and financial performance of deposit taking Sacco's in Kenya.

Credit collection practices had a positive significant relationship on deposit taking Sacco's financial performance as shown by increase in financial performance as a result of a unit increase in credit collection practices

Finally the relationship between credit recovery strategies and deposit taking Sacco's financial performance was positive and statistically significant. This shows that a rise in credit recovery strategies by one unit leads to increase in financial performance of Deposit taking Sacco's.

In conclusion an increase in credit management factors results in increase in financial performance of deposit taking Sacco's. This implies that all the credit management variables significantly influenced financial performance of deposit taking Sacco's in Kenya.

#### **5.4 Recommendations of the study**

The study recommends that deposit taking Sacco's should improve their credit policy by incorporating credit scoring technique and the 5Cs of credit to improve the quality of loans issued.

The study recommends that management of Sacco's should consistently uses formal loan applications, involve credit committees in credit decision and take insurance cover for the loans granted. This will enhance the credit risk control by reducing the credit risk deposit taking Sacco's are exposed to.

The study also recommends the urge for deposit taking Sacco's to enhance their credit collection practices by implementing guarantee policies, providing incentives to

employee to collect outstanding loans, reviewing collection policies regularly and adopting stringent policies in recovery of debt. The enhancement of credit collection practices will improve debt recovery hence better financial performance in deposit taking Sacco's.

The study recommends the management of Sacco's to enhance their credit recovery strategies thus reducing delinquent loans in deposit taking Sacco's. This can be achieved through Customer visits, implementing guarantee policies and use of fines and penalties.

The research found that an increase in credit policy leads to an increase in financial performance of deposit taking Sacco's. However as per the findings the character of the client and collateral were partial considered in implementing credit policy. Therefore the government through SASRA should ensure the 5cs of credit are fully implemented to protect the funds of Sacco members.

The study also recommends that the government of Kenya through the Sacco society's regulatory authority to develop guideline on the development and formulation of credit collection practices. This emanates from the finding that Sacco's had faced challenges in formulating collection policies.

There is also necessity for deposit taking Sacco's to strengthen credit risk control practices to reduce non-performing loans. This results from non-conformity of the effect requirement of collateral in discouraging defaulting and the regular use of credit checks in enhancing performance in Sacco's

The study also recommends deposit taking-Sacco to pay attention to credit recovery strategies to enhance the performance of deposit taking Sacco's. Also Sacco's should employ other methods of recovering delinquent loans as opposed to adverse credit

listing and use of litigation and involvement of the marketing team. The study further recommends training of Sacco on credit management practices especially those relating to credit risk control and credit recovery strategies on the collection and recovery of delinquent loans.

### **5.5 Areas for further research**

The research focuses on credit management practices of deposit taking Sacco's and financial performance in Kericho County, Kenya. Further research on credit reference bureaus listing and loan performance of deposit taking Saccos in Kenya is recommended. In addition further study should be carried out on Credit management and non-performing loans in Kenya's tier one Saccos in Kenya as well as loan default in deposit taking Saccos with focus on the Customers perspective.

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## APPENDICES

### Appendix 1: Introductory Letter

Dear Sir/Madam,

#### **REF: REQUST FOR RESEARCH DATA ON MASTERS PROJECT**

It is great pleasure to request for research data for a degree of Master of Business Administration at Kenyatta University. I am researching the effect of credit management practices on the financial performance of Deposit taking Sacco's in Kericho County, Kenya. I cordially seek your cooperation to enable me collect data from your offices by assisting me complete the questionnaire.

The responses provided will be treated with strict confidentiality and ethical consideration. The findings of the study will only be utilized for academic purposes.

I kindly seek your co-operation

Thank you

Yours faithfully

Zablon Basweti

MBA Student, Kenyatta University

## Appendix 2: Questionnaire

Name of the Sacco:.....

### Part A: Demographic Information

1. Gender

Male  Female

2. What is your most recent academic qualification?

Certificate  Diploma

Bachelor's degree  Postgraduate degree

3. What is your current designation in the Sacco?

Credit officer  Branch manager

Managing director  Teller/Sales officers

4. How many years have you worked for the Sacco?

0 - 5 years  5 - 10 years

10 - 15 years  Above 15 years

5. Has the Sacco implemented Credit Management Practices?

Yes  No

6. How many registered members are in the Sacco register?

0 - 10,000 members  10,000 - 50,000 members

50,000 -100,000 members  Above 100,000 members

**Part B: Credit Management Practices**

CREDIT POLICY

7. What is the degree of credit policy application as a Credit Management practice in the Sacco?

Very Great Extent            [ ]

Great Extent                    [ ]

Moderate Extent            [ ]

Low extent                      [ ]

Not at all                        [ ]

8. To what magnitude are you agreeing with the following statements as applied in credit policy of the Sacco?

Statements	SA	A	N	D	SD
Credit policy is a viable tool for credit management.					
Credit scoring technique is applied in granting or rejecting loans					
The use of the 5Cs of credit improves the quality of loans issued to Sacco clients.					
The Sacco has trained employees to implement credit policy.					
The character of client seeking credit facility is considered in credit policy					

The security offered (collateral) is considered when implementing credit policy					
Customers' ability to fulfil his financial obligations is considered while actualizing credit policy					
Assessment of customers capacity to pay credit facility results in performing loans					

### **CREDIT RISK CONTROL**

9. What is the degree of application of credit risk control as a Credit Management practice in the Sacco?

Very Great Extent [ ]

Great Extent [ ]

Moderate Extent [ ]

Low Extent [ ]

Not at all [ ]

10. How do you rate the following statements as a mechanism of credit risk control in Sacco's?

<b>Statements</b>	<b>SA</b>	<b>A</b>	<b>N</b>	<b>D</b>	<b>SD</b>
Involvement of the Credit committee in making credit decisions is important in credit management.					
Credit insurance is important in controlling credit risk					

in your Sacco					
Loan product design is a viable strategy in controlling delinquent loans					
Imposing limits on loan size enhances credit risk control hence improving financial performance.					
Regular use of credit checks enhances performance of organizations.					
The performance of Sacco's is influenced by the Interest rates charged.					
The requirement of collateral or guarantors is effective in discouraging Sacco customers from defaulting					
Penalties for delinquent loans encourages clients to follow loan agreements (repayment schedule)					
The consistent use of formal loan application forms enhances monitoring hence reduced credit risk.					

## COLLECTION STRATEGIES

11. What is the level of the application of credit collection practices in Credit Management of Sacco's?

Very Great Extent

Great Extent

Moderate Extent

Low Extent

Not at all

[ ]

12. What magnitude do you concur with following statements in relation to credit collection practices in the Sacco's?

Statements	SD	D	N	A	SA
Sacco's have faced challenges in formulating collection policies.					
Implementation of guarantee policies enhances credit collection in case of loan defaults					
Staff incentives are more effective in collection of delinquent loans					
Regular review of collection policies enhances credit collection.					
Lenient policies are less effective in recovery of debt compared to stringent policies					
Withholding of services like dividends and loans improves the collection of loan repayments					
The use of regular Customer visits to Sacco clients enhances loan repayment.					
Loan rescheduling enhances credit collection from Sacco clients.					

### **CREDIT RECOVERY STRATEGIES**

13. To what magnitude does the Sacco's apply credit recovery strategies as a Credit Management tool?

Very great extent [ ]

Great extent [ ]

Moderate extent [ ]

Low extent [ ]

Not at all [ ]


14. Indicate the magnitude of concurrence to the statements below as part of credit recovery strategies in Sacco's?

Statements	SA	A	N	D	SD
Adverse credit listing is essential in enhancing recovery of loans.					
When guarantee policies are implemented properly, they increase the chances of recovering defaulted loans.					
The most effective way of recovering delinquent loans is through debt collection agencies.					
The use of fines and penalties improves the recovery of loans from Sacco clients					
Loan limit reduction enhances the recovery of your Sacco loans.					
Use of litigation enhances loan recovery in the Sacco					
Customer visits enhances recovery of loans as opposed to phone call or email					
Involvement of marketing team in collection enhances recovery of debt.					

### Appendix 3: Secondary Data Collection Schedule

NAME	VARIABLES	PERIODS						
		2013	2014	2015	2016	2017	2018	2019
Imarisha Sacco Society Ltd	<b>INDICATOR</b>							
	Profit before Tax							
	Total Assets							
	Loans							
	Delinquency Loans							
	Share Capital							
Kenya Highlands Sacco Society	<b>INDICATOR</b>							
	Profit before Tax							
	Total Assets							
	Loans							
	Delinquency Loans							
	Share capital							
Ndege Chai Sacco Society	<b>INDICATOR</b>							
	Profit before Tax							
	Total Assets							
	Loans							
	Delinquency loans							
	Share Capital							
Simba Chai Sacco Society	<b>INDICATOR</b>							
	Profit before Tax							
	Total Assets							
	Loans							
	Delinquency loans							
	Share Capital							

## Appendix 4: Research Authorization Letter

  
**KENYATTA UNIVERSITY  
GRADUATE SCHOOL**

E-mail: [dean-graduate@ku.ac.ke](mailto:dean-graduate@ku.ac.ke) P.O. Box 43844, 00100  
NAIROBI, KENYA  
Website: [www.ku.ac.ke](http://www.ku.ac.ke) Tel. 8710901 Ext. 57330

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Our Ref: D53/OL/EMB/24767/2014 DATE: 6<sup>th</sup> September, 2021

Director General,  
National Commission for Science, Technology  
and Innovation  
P.O. Box 30623-00100  
NAIROBI

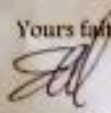
Dear Sir/Madam,

**RE: RESEARCH AUTHORIZATION FOR SING'OMBE ZABLON BASWETI – REG. NO. D53/OL/EMB/24767/2014.**

I write to introduce Sing'ombe Zablun Basweti who is a Postgraduate Student of this University. The student is registered for M.B.A degree programme in the Department of Accounting and Finance.


Sing'ombe intends to conduct research for a M.B.A Project Proposal entitled, **“Credit Management Practices and Financial Performance of Deposit Taking Savings and Credit Cooperatives in Kericho County, Kenya”.**

Any assistance given will be highly appreciated.

Yours faithfully,  
  
Prof. Elishiba Kimani  
DEAN, GRADUATE SCHOOL

EM/len

## Appendix 5: Approval for Research Project

  
KENYATTA UNIVERSITY  
GRADUATE SCHOOL

E-mail: [dean\\_graduate@ku.ac.ke](mailto:dean_graduate@ku.ac.ke) P.O. Box 43844, 00100  
Website: [www.ku.ac.ke](http://www.ku.ac.ke) NAIROBI, KENYA  
Tel. 810901 Ext. 4100

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Internal Memo

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FROM: Dean, Graduate School DATE: 6<sup>th</sup> September, 2021

TO: Sing'ombe Zablon Basweti REF: D53/OL/EMB/24767/2014  
C/o Accounting and Finance Dept.

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**SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL**

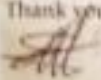
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This is to inform you that Graduate School Board at its meeting of 25<sup>th</sup> August, 2021 approved your Research Project Proposal for the MBA Degree Entitled, **"Credit Management Practices and Financial Performance of Deposit Taking Savings and Credit Cooperatives in Kericho County, Kenya"**.

You may now proceed with your Data Collection, Subject to Clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and progress report Forms per semester. The Forms are available at the University's Website under Graduate School webpage downloads.

Thank you.



**ELIJAH MUTUA**  
**FOR: DEAN, GRADUATE SCHOOL**


c.c. Chairman, Accounting and Finance.

Supervisors:

1. Mr. Dominic Ngaba  
C/o Department of Accounting and Finance  
Kenyatta University

EMB/2021


**Appendix 6: Research License**


  
**NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION**

**RESEARCH LICENSE**

**Ref No: 603439**

**Date of Issue: 15/November/2021**




**This is to Certify that Mr., ZABLON Basweni SING'OMBE of Kenyatta University, has been licensed to conduct research in Kericho on the topic: CREDIT MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF DEPOSIT TAKING SAVINGS AND CREDIT COÖPERATIVE IN KERICHO COUNTY, KENYA, for the period ending : 15/November/2022.**

**License No: NACOSTIP/21/14166**

**Applicant Identification Number**  
603439

*Walter Mburu*  
**Director General**  
**NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION**

**Verification QR Code**



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