Relationship between Credit Management and the Financial Performance of Saccos in Kenya.

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Abstract
Adequate control of liquidity is essential to achieve price stability. The Savings societies Act Cap 488 require deposit taking savings and credit societies to hold and maintain minimum liquidity, develop and implement contingency liquidity plans so as to effectively serve the members. This has led to situations when deposit taking and credit societies borrow expensively from commercial banks to bridge temporary illiquidity and this has evidently threatened financial stability of the saving and credit societies, and hence safety of members deposits. The spiral effect is the undermining of the government's policy goal of promoting the financial stability and hence efficiency and access to financial services through savings and credit societies. This structural problem has negatively impacted on the pricing of credit facilities to members, as savings and credit societies continue to substantially depend on expensive commercial bank loans, and inefficient contingent liquidity plans. It is against this background that this study aimed to the relationship between credit management and financial performance of SACCOs in Kenya. The following null hypotheses guided the study; Ho: Credit management does not significantly influence the financial performance of SACCOs in Kenya, The study was guided by financial repression theory and cash management theory. Descriptive survey research design was used in the study. The population of the study comprised 166 deposit taking saving and credit societies in Kenya and thus a census study. Secondary data was collected from Savings and credit regulatory authority publications and the respective saving and credit society's credit policy documents and financial statements. Both descriptive and inferential statistics were done in this study. Data was analysed using a multiple regression model and an interaction model. From the results given the value of Pearson correlation being statistically positive, it meant there is a positive relationship between credit management and financial performance. The summary of hypothesis results had the R coefficient value was for cash management was 0.728 at p= 0.003 α=0.05 and thus the null hypothesis was rejected. The study concluded that credit management positively affect financial performance of SACCOs in Kenya. The findings are of importance to management, shareholders and interested parties of saving and credit societies.
Key words: Credit management, Financial Performance, SACCOs

I. Introduction

Savings and Credit Co-operative Societies (SACCOs) are quasi financial institutions that mobilize savings, provide loans as well as other products to their members (Kenya Union of Savings and Credit Co-operatives, KUSSCO, 2009). Legally loans to members form the core business of any SACCO and for it to continue to be in operations the SACCO must sustain all activities surrounding savings and credit (Mishikin and Eakins, 2012). Companies have adopted complex and very rigorous management programs to manage their affairs since profitability is significantly influenced by liquidity (Adebayo, M., Adeyanju, D. and Olabode, S. 2011). A large body of literature has shown that the liquidity position of a financial institution can affect the financial performance of the institution and the whole economy at large (Mehta, 2012).

Adequate control of liquidity is essential to achieve price stability as too much or too little liquidity affects the behaviour of banks, and indirectly the economy (Ibe ,2013) Olagunju, A., Adeyanju, D. and Oluwayinka S. (2011) defined liquidity management as the planning and control necessary to ensure that the organization maintains enough liquid assets either as an obligation to customers of the organization.

Nyabwanga (2011), describes cash management as the process of planning and controlling cash flows into and out of the business, cash flows within the business and cash balances held by a business at a point in time. Efficient cash management involves the determination of the optimal cash to hold by considering the tradeoff between the opportunity cost of holding too much cash and the trading cost of holding too little (Ross, S.A., Westerfield, R.W., Jaffe, J., and Jordan, B. D 2008). Poor financial management of an institution will

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affect the attraction of institution to would be investors which may lead to insolvency and eventual collapse (Amalendu and Sri, 2011).

Background

Globally the Co-operative sector has over one billion memberships with estimated 250 million employees and a global turnover of approximately 2.2 trillion US dollars. The worldwide penetration rate of the credit union system stood at 8.2 % as per World Co-operative monitor (2014).

In Kenya we have 176 DTS licensed SACCOs (SASRA, 2017) and the movement is estimated to have over sh. 500 billion in savings and over shs. 650 million in capital while employing about 500,000 directly and another 1 million indirectly while contributing 4% to GDP.

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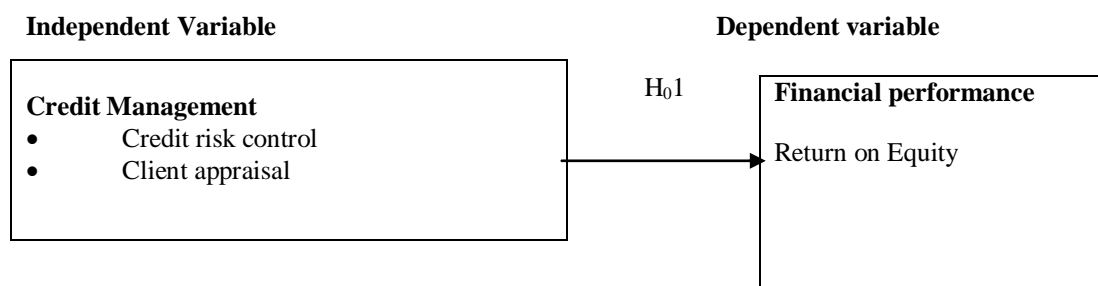
In Kenya we have 176 DTS licensed SACCOs (SASRA, 2017). The movement is estimated to have over sh. 500 billion in savings and over shs. 650 million in capital while employing about 500,000 directly and another 1 million indirectly. SACCOs contribute about 4% to GDP with 1 out of 2 deriving their livelihood from SACCO movement. The SACCOs movement comprises of deposit taking SACCOs (DTS) required by the Saccos Societies Regulatory Authority (SASRA) and non-deposit taking SACCOs supervised by the Ministry of Industry trade and Co-operatives.

Objective of the study

The aim of the study was to examine the relationship between credit management and the financial performance of SACCOs in Kenya

Conceptual Framework

Figure 1.1 shows the interaction between credit management and financial performance.

Independent Variable   **Dependent variable**

Credit Management		**Financial performance**
• Credit risk control	H_01	Return on Equity
• Client appraisal	→	

Figure 1.1: **Conceptual Framework**

Source: Author conceptualization (2021)

Empirical Literature

Idowu and Awoyemi (2014) investigated the effect of management of credit risk on performance of Nigerian banks. The study obtained financial reports data of the seven banking firms from 2005-2011. The study applied the panel regression model to analyze collected data. The ROE and ROA were examined in measuring performance in financial perspective whereas NPLs and ratio of capital adequacy were used as indicators of the management of credit risk. The findings of the study established that the management of credit risk had a significant impact on banks profitability.

Kariuki (2017) in her study on the effect of credit risk management practices on financial performance of deposit taking SACCOs in Kenya; she adopted a descriptive design to answer the research questions. The population of this study comprised of all 164 DTS in Kenya that have complied with SASRA regulations by January 2016. Her research gap indicated that previous studies on credit risk had not focused on the effects of credit risk management practices on SACCOs. The study concluded that credit risk identification has a positive effect on the financial performance. The study recommends that firms should have stringent credit appraisal and analysis techniques if it is to ensure that their performance is not adversely affected resulting from poor screening of debtors.

According to Jared (2013), in his study on the challenges facing deposit-taking savings and Credit cooperative societies" regulatory compliance in Kenya. A case of the Gusii region. The study found out that the various challenges facing compliance in these institutions included non-separation of shares from deposits, high dependence on short-term external borrowing, lack of liquidity monitoring system, high

investment in nonearning assets, inadequate ICT system, inadequate managerial competencies and political interference among others. The study realized that even with the challenges opportunities were available for compliant SACCOs including capital accumulation and agency business largely arising from access to Government funds for on-ward transmission to youth and women groups. The findings of this study are important for the particular organizations under study to address the challenges so as to improve regulatory compliance, the industry to anticipate and endeavor to overcome the challenges and also aid the regulatory Authorities to enhance on their mandate.

According to Kifle (2011), in his study on the Management of Savings and Credit Cooperatives from the Perspective of Outreach and Sustainability, Evidence from Southern Tigrai of Ethiopia. The result of correlation analysis between independent variables and dependent variable showed that existence of strong positive correlation between financial performance (ROA) and the asset utilization. A moderate positive correlation relationship exists between operational efficiency and size of SACCOs (assets size). Conversely, there is a significant negative correlation between financial performance (ROA) and the operational efficiency with correlation coefficients. The study also came out with a range of perspectives on the factors affecting the outreach and sustainability of SACCOs under study. Lack of awareness and poor saving culture, weak organizational arrangement and governance, policy and regulatory environment, weak institutional capacity, low capital base, lack of differentiated products, inappropriate loan security requirements, and threats from other financial institutions (MFIs) were among the factors affecting the outreach and sustainability of SACCOs.

Kimani (2013) adopted a cross-sectional survey research design in this study. The population for this study was therefore all heads of credit management function in 215 total number of deposit taking SACCOs that are under supervision by SASRA. The researcher utilized probability sampling using simple random sampling where every member of the population has an equal chance of being selected. The study sample size (n) was thirty, which according to Mugenda and Mugenda (2003) n=30 is sufficient for such a study. Primary and secondary data was used for the study. Data analysis method was based on pearson correlation analysis and multiple regression model whereby the dependent variable was the financial performance of the SACCOs which was measured using Return on Equity whereas the independent variable were the CAMEL components of capital adequacy, asset quality, management efficiency, earnings and liquidity. Research findings indicated that there was a positive relationship between credit risk management and financial performance of deposit taking micro-finance institutions and SACCOs in Kenya.

II.   Research Methodology

This study employed descriptive research design. The design enabled the study to establish the link between credit management (independent variable) and financial performance (dependent variable) (Orodho and Kombo, 2002).

The study was carried out in kenya with the study population consisting all savings and credit co-operative societies licensed by SASRA in Kenya as at 31st December, 2018. SASRA reports are given annually and so the latest report is for year ending 31st December, 2018.

The study involved all the 166 licensed SACCOs and therefore it was a census study.

The study used secondary data that was obtained from the heads of finance in the deposit taking SACCOs through a data collection sheet. The data was for the years 2014-2018. Other information was found in recent annual published financial statements and SASRA records accessible online and in survey manuals. The researcher wrote to the 166 licensed deposit taking SACCOs in Kenya via email requesting for the relevant data and information as envisaged by the study. Upon receipt of all available and reliable publications, the researcher embarked on data analysis as guided by research objectives.

The data to be collected for each variable inputs; for financial performance, the data collected was net surplus and total equity and for credit management was non-performing loans and total loans portfolio. The model used in this study was multiple regression expressed in the form:

$Y=B_o+B_1CR+B_2CA+e$

Where; Y= Financial performance of SACCOs, B_o= Y intercept term, B_i = Regression Coefficients, CR = Credit management and CA= Cash management

Study Results

Descriptive statistics of non-performing loans and total loan portfolio. Summary of the descriptive results was as shown in Table 4.4 and figures are in millions.

Table 4.4 Descriptive Statistics of Non-Performing loan ratio

	Non-Performing Loans	Total Loans
Mean	1903316.8000	297959.4000
Median	2033629.0000	297600.0000
Std. Deviation	453671.95896	57736.47531
Skewness	(.491)	.181
Std. Error of Skewness	.913	.913
Kurtosis	(2.16)	(1.150)
Std. Error of Kurtosis	2.000	2.000
Minimum	1309442.00	228524.00
Maximum	2357964.00	374280.00
N	166	166
Kaiser-Meyer-Olkin Measure of Sampling 0.593, p=0.009 Adequacy.		

Table 4.9 Correlation Statistics of Liquidity Management

Correlations		1	2	3
Cash Management	Pearson Correlation	1		
	Sig. (1-tailed)			
	N	5		
Credit management	Pearson Correlation	.683**	1	
	Sig. (1-tailed)	.004		
	N	166	166	
Government regulation	Pearson Correlation	.508**	.632**	1
	Sig. (1-tailed)	.002	.005	
	N	166	166	166

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

From the results in Table 4.9, cash management was positively correlated with government regulation requirement given that at β= 0.683, p=0.004. Credit management had a statistically significant positive correlation with government regulation at β= 0.508, p=0.004. In addition, credit management had a statistically significant positive correlation with government regulation requirement at β= 0.632, p=0.005. Results revealed both cash management and credit management had statistically significant positive correlation to one another. This implied when one construct was affecting financial performance, the other constructs was also affecting within the same level of magnitude and significance. Government regulation statistically and positively moderated the relationship between Liquidity management and financial performance of SACCOs in Kenya.

From the findings, the study showed R^2 of 0.884, which implied 88.4% of financial performance of SACCOs in Kenya was jointly explained by credit management which is a components of liquidity management. Further analysis of variance showed the F-statistics was recorded as 7.595 at p=0.000, implying the model fit between the two variables. Since the Durbin Watson value is 2.410, which falls in the range 1.5 to 2.5, implied there exist positive **serial correlation amongst the variables i.e. relationship of values separated from each other by a given time lag in the residuals is positive (Field, 2009).**

The R coefficient value was for cash management was 0.728 at p= 0.003 α=0.05. On the other hand, the R coefficient value for credit management was 0.629 at p= 0.048 α=0.05. Given the value of Pearson correlation being statistically positive, it meant there is a positive relationship between cash management and financial performance. There was a positive change in the value of t from 5.737 at p=0.029 to 8.783 at 0.003. This implied that credit management accounted for 3.046 unit's change in financial performance (return on equity). The relationship between credit management, credit management and financial performance was put in a regression model;

Y= 18.201+0.728CA+0.969CR+e, Where; Y= Financial performance of SACCOs and CR= Credit management, CA=Cash management

The null hypothesis was therefore rejected.

III.   Conclusion

Credit management and cash management had statistically significant positive correlation to one another. Government regulation statistically and positively moderated the relationship between liquidity management and financial performance in Kenya. The multiple regression model implied that 88.4% of financial performance in SACCOs was jointly explained by both credit management and cash management of SACCOs in Kenya. Liquidity management and government regulation jointly account for 63.6% change in financial performance of DT SACCOs in Kenya.

IV.   Recommendation

1. Other future research studies on other financial institutions and not only the Deposit taking Saccos regulated by the government.
2. Stringent credit appraisal to be done by SACCOS.

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