

## Effects of Credit Management on the Financial Performance of Deposit Taking Savings And Cooperative Societies In Nakuru Town, Kenya.

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**Abstract:** Credit management is an important component in firms that offer credit to clients. Sound credit management is a prerequisite for a financial institutions stability and profitability. The research focused on the effect of credit management on financial performance of deposit taking SACCOS in Nakuru town. The specific objectives of the study were to determine the effect of credit standard and debt recovery on the financial performance of deposit taking SACCOS. The study employed descriptive research design. The target population of the study was 220 employees of the selected SACCOS in Nakuru Town. A stratified random sample of 74 employees was used in the study. Data was obtained through questionnaires administered to employees. Both descriptive and inferential statistics were used in analyzing data with the help of statistical package for social sciences (SPSS) version 16.0. The regression results showed that credit standard ( $\beta_2 = 0.280, p = 0.004$ ) and debt recovery ( $\beta_2 = 0.237, p = 0.006$ ), had a positive and significant effect on the financial performance of the SACCOS. The study concluded that all the variables under study are statistically significant in explaining the financial performance of SACCOS. The study has contributed in the addition of literature on credit management of the deposit taking SACCOS, especially in the developing countries. The study recommends that SACCOS should create effective credit management standard and enhance debt recovery techniques.

**Key Words:** Credit Standards, Debt Recovery, Financial Performance.

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### I. Introduction

A critical requirement for effective revenue and receivables management is the ability to intelligently and efficiently manage customer credit lines or credit limits. In order to minimize exposure to bad debts and bankruptcies, organizations must have greater insights into customer financial strength, credit score history and changing payment patterns (Kairu, 2009). Credit management involves the collection, compilation, storage, analysis and retrieval of information regarding trading on credit (Derban et al., 2005). Effective credit management requires that clear guidelines and procedures are laid down for granting credit to individuals and collecting individual accounts (Pandey, 2006). Myers and Brealey (2003) describe credit management as methods and strategies adopted by a firm to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting.

Bagchi and Ennew (2004), states that credit procedures should be updated every year because, like all investments, debtors are affected by the changing economic climate in the market place generally. Likewise, organizations using marketers or accountants to do errands of credit management need to change. The society has changed so much today and the way they handled their credit matters yesterday is not like today. Debtors are a single balance sheet item, but are in fact an aggregate of a myriad of debts of all sizes, which are due on different dates from all kinds of customers. They range from solvency to liquidity, no risk to high risk. It is this uncertain mix of cash probability, which is sending each and every management to the drawing boards in search of the credit professional to fill in the gaps that have been there for ages.

Financial performance is the results of any of many different activities undertaken by an organization. Common examples of financial performance include profits, return on investments, operating income, earnings before interest and taxes, and net asset value (Cole, 2004). There are two major reasons as to why organizations should have financial performance measurement. The first one is to produce financial statements at the right time. Secondly, financial statements should be analyzed to produce information about the performance of the scheme, which must be used to improve that performance, (Johnson & Scholes, 2007).

The Co-operative movement in Kenya was started by the European farmers in 1908 when they started the first Co-operative called Lumbwa Farmers' Co-operative Society for the purpose of marketing their cereals, fruits and dairy products (Kobia, 2011). It was not until the mid-1940 that the colonialists agreed to introduce Co-operatives in the colonies as a piece meal programme for the development of Africa. In 1945, Kenya enacted the Co-operative Ordinance which was followed by the creation of a department under the Registrar of Co-operatives in 1946, whose objectives were to farm and to promote farm products (Kibanga, 2001). Today there are many types of Co-operatives in nearly all the sectors of the Kenyan economy. Some are haphazardly formed without the necessary considerations in mind and as such many don't go very far before disintegrating or being liquidated because of poor management, lack of records and financial systems, misappropriation of funds among others (Kobia, 2011).

## **II. Statement of the Problem.**

With a large proportion of the deposit taking SACCOs failing due to loan recovery challenges, despite the fact that SACCO's have put in place strict measures to credit risk management, and a large proportion of the population eligible to access financial services not being subscribed to any financial assistance as the SACCOs get wary of offering credit services, questions are raised on whether credit management may enhance the financial performance of the SACCOs. This study focuses in assessing the effect of credit management on the financial performance of SACCOs in Nakuru Town. According to Chelogoi (2013), micro-credit institutions such as SACCOs have enabled small businesses in Kenya to overcome their major challenge of accessing funds for starting up, survival and growth. However, the growth of deposit taking SACCOs has been inhibited by several challenges relating to effective credit risk management strategies. Despite the assertion that credit management strategies can contribute to the performance of SACCO's, literature on credit risk management is limited, mainly because of the high repayment rate of most of the well-known microfinance organizations.

Adequately managing credit in financial institutions (FIs) is critical for the survival and growth of the FIs. In the case of SACCOs, the issue of credit management is of even greater concern because of the higher levels of perceived risks resulting from some of the characteristics of clients, business conditions and economic environment in which they find themselves. Since little work is done in studying the performance of credit management of the SACCOs that would alleviate the problems encountered and contribute to the growth of market share and income generation of the SACCO. Hence the researcher is interested to the research area in particular and to the contribution and object of the bank in general in assessing the gaps in credit management performance which is crucial to be studied in the prevailing financial performance in line of the modern financial measurements.

### **Specific Objectives of the Study.**

- i. To examine the effects of credit standards on financial performance of deposit taking SACCOs in Nakuru Town, Kenya.
- ii. To assess the effects of debt recovery techniques on financial performance of deposit taking SACCOs in Nakuru Town, Kenya.

### **Research Hypothesis.**

**H<sub>01</sub>:** Credit standards have no significant effect on financial performance of deposit taking SACCOs in Nakuru Town.

**H<sub>02</sub>:** Debt recovery techniques have no significant effect on financial performance of deposit taking SACCOs in Nakuru Town.

## **III. Literature Review**

### **Theoretical Review**

**Transactions Costs Theory:-**The theory was proposed by Schwartz (1974), this hypothesis deduces that providers may have a high ground over customary loan specialists in checking the credit value or genuine monetary circumstance of their clients. Providers additionally have a favored capacity to screen and pressure reimbursement of the credit. Every one of these superiorities may give providers a cost favorable position when contrasted and money related organizations. This theory conjectures that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients (Schwartz, 1974).

There are three wellsprings of cost preferred standpoint as characterized by Petersen and Rajan (1997); securing of data, controlling of the purchaser and rescuing esteem from existing resources. The main wellspring of cost preferred standpoint can be clarified by the premise that dealers can get data about purchasers at lower cost and speedier since it is acquired in the ordinary course of business. Studies on transaction costs have shown that transaction costs occur when a good or a service is transferred across a technologically separable interface.

Therefore transaction costs arise every time a product or service is being transferred from one stage to another, where new sets of technological capabilities are needed to make the product or service. Managers must therefore weigh the internal transaction costs against the external transaction costs, before the company decides whether or not to keep some activity in-house. Williamson (1981).

Transaction cost theory is of great importance on credit standards since in order for the deposit taking SACCO to determine a credit worth and potential creditor they need to have genuine credit standards. Therefore transaction cost theory is of great importance to credit management since all enables organisation to practice credit standards which needs to be influence in order for it to have a great impact on financial performance of the SACCOs, this is because the SACCO is assured that the creditor will pay his debt hence reduces default in credit risk.

**Modern Portfolio Theory:** - Portfolio theory was developed in 1950's through the early 1970's and was considered an important advance in the mathematical modeling of finance. Since the 1980s, banks have successfully applied modern portfolio theory (MPT) to market risk. Many banks are now using earnings at risk (EAR) and value at risk (VAR) models to manage their interest rate and market risk exposures. Unfortunately, however, even though default risk remains the largest risk facing most banks, the practical of MPT to default risk has lagged (Margrabe, 2007). Banks recognize how credit concentrations can adversely impact financial performance. As a result, a number of sophisticated institutions are actively pursuing quantitative approaches to credit risk measurement, while data problems remain an obstacle. This industry is also making significant progress toward developing tools that measure credit risk in a portfolio context. They are also using credit derivatives to transfer risk efficiently while preserving customer relationships. The combination of these two developments has precipitated vastly accelerated progress in managing credit risk in a portfolio context over the past several years. While the asset-by-asset approach is a critical component to managing credit risk, it does not provide a complete view of portfolio credit risk, where the term risk refers to the possibility that actual losses exceed expected losses. Therefore to gain greater insight into credit risk, banks increasingly look to complement the asset-by-asset approach with a quantitative portfolio review using a credit model. Banks increasingly attempt to address the inability of the asset-by-asset approach to measure unexpected losses sufficiently by pursuing a portfolio approach. One weakness with the asset-by-asset approach is that it has difficulty identifying and measuring concentration.

Williams (1981) was among the first to challenge the casino view economists held of financial markets and questions of asset pricing. He argued that asset prices of financial assets reflected the intrinsic value of an asset, which can be measured by the discounted stream of future expected dividends from the asset. This fundamentalist notion fit well with Fisher's (1930) theory, and the value-investing approach of practitioners such as Benjamin Graham. Markowitz (1959) realized that as the fundamentalist notion relied on expectations of the future, then the element of risk must come into play and thus profitable use could be made of the newly developed expected utility theory of von Neumann and Morgenstern (1944). Markowitz formulated the theory of optimal portfolio selection in the context of trade-offs between risk and return, focusing on the idea of portfolio diversification as a method of reducing risk - and thus began what has become known as Modern Portfolio Theory. Since modern portfolio theory is of great influence on reducing credit risk, in credit management it can be used for debt recovery techniques hence able to reduce risk that may occur due to default in loan recovery.

### **Empirical Literature.**

Gisemba (2010), researched on the relationship between risk management practices and financial performance of SACCOs found out that they adopted various approaches in screening and analyzing risk before awarding credit to client to minimize loan loss. This includes establishing capacity, conditions, use of collateral, borrower screening and use of risk analysis in attempt to reduce and manage credit risks. He concluded that for Savings Credit and cooperatives to manage credit risks effectively they must minimize loan defaulters, cash loss and ensure the organization performs better increasing the return on assets.

Gitman and Lawrence (2006) identified three important aspects of sound accounts receivable management. These are credit standards or analysis, credit terms and collection procedures. According to him, if these three aspects of credit management are effectively put in place, microfinance institutions are likely to grow and develop as regards to their return and asset. Shanmugan and Bourke (2000) established that tremendous increase in consumer credit has taken place in recent years, consumers borrow from small finance companies such as Saving And Credit Cooperatives (SACCOs), credit unions, small loan departments of commercial banks, most finance companies do not obtain their loan able funds from the public, instead they borrow at a rate lower than those at which their clients can borrow.

Another study on credit management by coffee cooperatives stated that none of the 24 cooperative societies used quantitative methods to evaluate credit worthiness of their members instead they used qualitative methods only like the 6Cs technique that is character, capacity, condition collateral, capital and control to a

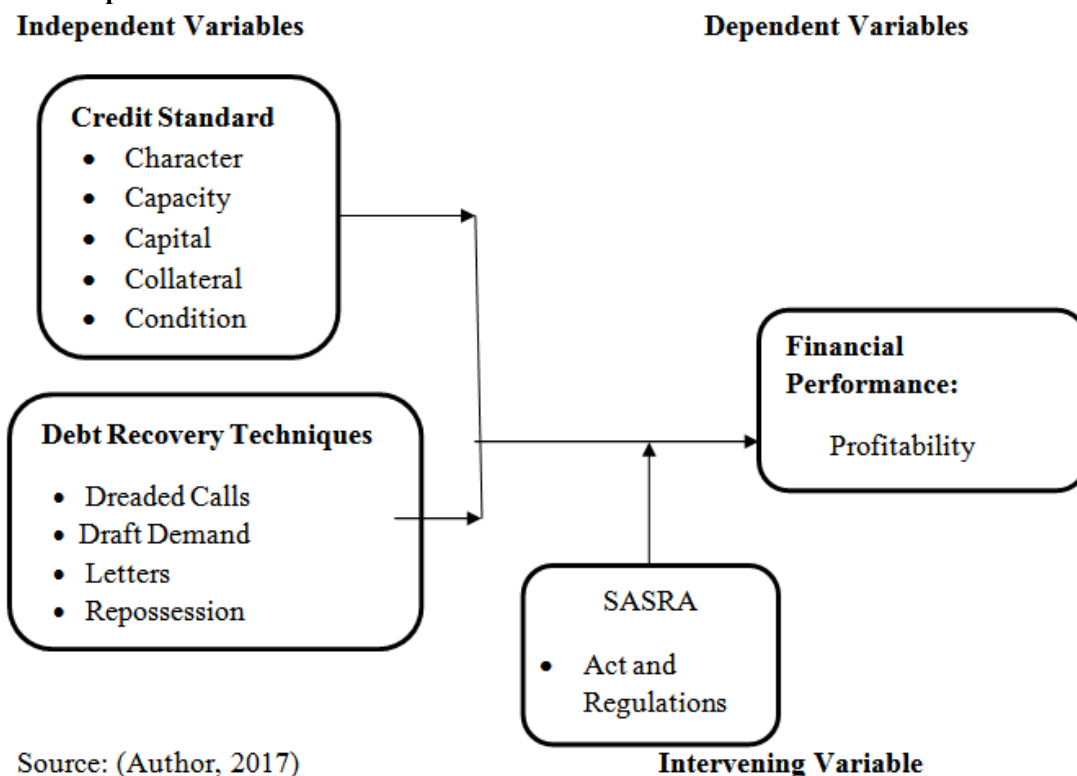
small extent Embu District by Njiru (2003). He also observed that large societies manage their credit risks better than the small ones since they have a lower level of default. This was attributed to the fact that large societies employed qualified and experienced staff.

Gaitho (2010) surveyed on credit risk management practices by SACCOs in Nairobi, findings revealed that majority of SACCOs used credit risk management practices to mitigate risks as a basis for objective credit risk appraisal. She also found out that majority of SACCOs relied heavily on the discretion and ability of portfolio managers for effective credit risk management practices as opposed to a system that standardizes credit and credit risk decisions.

Shiada (2003) conducted a study about default in payment of debt or loan. His main objective was to establish measures undertaken by organization in addressing the problems of non-performing debt or loan and to determine the effect of non-performing loans on the financial performance of organizations. A questionnaire approach method was used to establish measures undertaken by organization. In his study he concluded that organization's non-performing loans or debt includes; poor economic performance, unprofessional risk evaluation and risk management practices among organization. He went ahead also by saying that organizations are struggling under the weight of non-performing debts or loans.

According to Montana (2012), debt recovery is assuming an alarming trend as its growth is looking almost unstoppable. This growth can mostly be attributed to a poor economy which affects both consumers and markets around the world. SACCOs are individually devising new techniques and strategies to improve their debt recovery. He recommended debt recovery measurers, which are likely to help increase their debt collection success; flexible repayment plans for customers experiencing financial difficulty, well formulated hardship programs for borrowers that are late on their repayment, extend or lower payments, interest rates, or lower fees when you anticipate customer payment problems, create communication channels where customers can openly discuss their issues.

### 3.1 Conceptual Framework.



Source: (Author, 2017)

*Figure 2. 1: Conceptual framework.*

### IV. Research Methodology

This study was quantitative in nature and employed a descriptive research design. This was because the study intended to provide an understanding of the relationships among the research variables. Descriptive research is used for understanding phenomenon in terms of its likely causes. Descriptive research design is appropriate for this study as it will aim in understanding the determinants of credit management on financial performance of SACCO's in Nakuru Town. Descriptive research design is chosen because it permits accurate

estimation of the population parameters and subsequent generalization (Churchill & Brown, 2007). This design will be considered versatile, for it allowed the use of questionnaires and collection of data in a relatively short period (Longnecker, 2008). According to Mangan and Lalwani (2004), quantitative research allows for numeric analysis of data. According to Sekaran (2003), the goal of a descriptive design is to offer the researcher a profile to describe relevant aspects of the phenomena of interest from an individual, or an industry oriented perspective.

In this study, the objective was determine the effect of credit management on the financial performance of deposit taking SACCOs in Nakuru Town. Thus, the target population was 220 employees of selected deposit taking SACCOs in Nakuru town. These are Boresha, Cosmopolitant, Egerton, Harambee, Metropolitan, Nakuru Teachers, Stima, Tower, Ukulima, Uni-County, Vision Africa, Waumini SACCO Society Ltd. The study will use descriptive research design on depository saving and credit co-operative Society in Nakuru Town. The departments involved are credit department, finance department, marketing department and human resource department. The rationale of choosing accessible population of Nakuru Town is because several deposit taking SACCO's have branches in Nakuru hence convenient to access information needed.

The sample size was obtain using a Stratified random sampling method of Nassiuma (2000) formula. Nassiuma, (2000) asserts that in most surveys, a coefficient of variation in the range of  $21\% \leq C \leq 30\%$  and a standard error in the range  $2\% \leq e \leq 5\%$  is usually acceptable. The study therefore used a coefficient variation of 21% and a standard error of 2%. Coefficient of variation and standard error was selected so as to ensure low variability in the sample and minimize error.

$$\text{Naissuma (2000) formula, } n = \frac{NC^2}{C^2 + (N - 1)e^2}$$

n= Sample size

N= Population of the study

C= coefficient of variation

e = Standard error

The study will take coefficient variation of 21% and the standard error of 0.02

$$74 = \frac{220 \times 0.21^2}{(0.21^2 + (220 - 1) 0.02^2)}$$

According to Bryman and Cramer (2012), the purpose of pilot testing is to establish the accuracy and appropriateness of the research design and instruments. A pilot study was carried out on three SACCO on six credit offices, three branch manager, three accountant and three marketers from Waumini SACCO Society Ltd, Ukombozi SACCO and Wakarimu SACCO to test the reliability of the instrument. The results from the pilot study shows that the findings of the variables in the study have alpha values above the acceptable value of 0.65, implying that the instrument gives consistent results.

One method of testing for reliability is the internal consistency method. The internal consistency method provides a unique estimate of reliability for the given test administration. The most popular internal consistency reliability estimate is given by Cronbach's alpha. It is expressed as  $\alpha = \frac{Np}{1+p(N-1)}$  Where N equals the number of items and p equals the mean interim correlation. The reliability was measured so as to find out the degree to which the measuring items gives similar results over a number of repeated trials. Reliability analysis was used to compute and measure goodness of data and also ensuring that all items used in each variable are free from errors, thus providing consistent results. According to Sekaran, (2003), the reliability values gained for all variables should be greater than 0.65. The reliability alpha of over 0.8 is good enough.

**Table 1: Reliability Test**

Variable	Chronbanch's Alpha	Remarks
Credit standard	0.756	Reliable
Debt recovery	0.703	Reliable
Financial performance	0.891	Reliable

**Source: Research Data, 2018**

Data collection instruments used was questionnaires. Primary data was collected through questionnaires administered to the deposit taking SACCOs. According to Quinlan, (2011) primary source provide original information or evidence and are the first evidence of a phenomenon being observed and recorded. These study used structured questionnaire to obtain information from SACCO's employees.

The questionnaires were issued to the managers and officers of the listed deposit taking SACCOs through self-introductions and where need be internal informants was used to give a lead on how to get to the respondents.

Multiple linear regression analysis was done to determine the effect of credit management on financial performance of savings and credit cooperative societies in Nakuru Town. The regression model was developed as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Where Y= Financial Performance.  $\beta_0$  = Constant Term.  $\beta$ = Beta coefficients.  $X_1$ = Credit Standard.  $X_2$ = Collection Policy.

$\varepsilon$  -It's the error term normally distributed about a mean of zero.

### V. Research Findings And Discussion

Each of the respondents was requested to indicate their gender as one of the attributes. Fifty two percent (52.3%) of the respondents were male while forty seven percent (47.7%) of the respondents were female. This was in line with one third rule of the Kenyan constitution and also in terms of good corporate governance policies and showed that SACCO management were sensitive towards balancing gender of their employees. The variation in the percentages is within the confines of fair representation of female and male employees. It was evident that 46.2% of the respondent were aged between 30-45 years followed by those aged below 30 years are represented by 40%, Those aged 46-55 years made up 10.8% while those above 55 years had the least percentage of 3.1%. On job title 32.3% of the respondents were in credit department, 26.2% in finance department, 24.6% were in marketing department, while 16.9% were in human resource and administration department. Duration on working in the Sacco (38.5%) of the respondents have worked for 2 to 5 years in their respective SACCO.

#### Correlation Results.

Correlation is a technique of assessing the relationship between variables. Thus the study analyzed the relationships that are inherent among the independent and dependent variables. The result regarding this were summarized and presented in table 2;

**Table 2: Correlation Statistics**

		<b>financial performance</b>	<b>credit standard</b>	<b>debt recovery</b>
<b>financial performance</b>	Pearson	1		
	Correlation Sig. (1-tailed)			
<b>credit standard</b>	Pearson	0.265*	1	
	Correlation Sig. (1-tailed)	0.017		
<b>debt recovery</b>	Pearson	0.161	.211*	1
	Correlation Sig. (1-tailed)	0.101	0.046	
	N	65	65	65

\*. Correlation is significant at the 0.05 level (1-tailed).

\*\*. Correlation is significant at the 0.01 level (1-tailed).

From the findings as summarized in table above credit standard had a positive correlated with financial performance of the SACCO ( $r=0.265$ ,  $p<0.05$ ). Additionally, debt recovery was indicated it did not significantly correlate with financial performance of the SACCO ( $r=0.161$ ,  $p<0.05$ ). This implies that credit standard and debt recovery effect are expected to have a significant relationship with the financial performance on the SACCO.

**Table 3: Analysis of Variance**

<b>Model</b>	<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
Regression	17.585	4	4.396	6.394	0.000 <sup>b</sup>
Residual	41.945	61	0.688		
Total	59.530	65			

a: dependent variable      b: independent variable

The findings on table 3 show that the regression model is significant and a fit to determine the effect of credit management on financial performance of deposit taking SACCOs in Nakuru town. This is shown by the P-value (Sig.) of 0.000, which is less than 0.05 at 95% confidence level. ANOVA findings shows that there is correlation between the predictor’s variables (credit standard and debt recovery) and response variable (financial performance of SACCOs).

**Table 4: Regression Model**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.544 <sup>a</sup>	0.295	0.249	0.82923

a Predictors: (constant) credit standard and debt recovery,)

Table 4 shows that the regression model (R) is positive at 0.544. This means that there is a positive correlation between credit standard and debt recovery and financial performance of SACCOs in Nakuru County. The coefficient of determination (R Square) indicates that 29.5% of the financial performance of SACCOs in Nakuru County is influenced by credit management. The adjusted R<sup>2</sup> however, indicates that 24.9% of the financial performance of SACCOs in Nakuru County is influenced by credit management leaving 75.1% to be influenced by other factors.

**4.12 Hypotheses Testing**

Multiple regression analysis was conducted to determine the relationship between financial performance and the four variables: credit standard and debt recovery. The findings are presented in table 5.

**Table 5: Coefficient of Estimate**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	2.418	0.542		4.462	0.000		
Credit standard	0.277	0.091	0.338	3.046	0.003	0.938	1.066
debt recovery	0.234	0.081	0.324	2.899	0.005	0.922	1.085

Dependent variable: financial performance  
Source, survey Data (2018)

**H<sub>01</sub>: Credit Standards have no significant effect on Financial Performance of Deposit Taking SACCOs in Nakuru Town.**

The multiple regressions model at table 5 revealed that credit standard has a significant effect on the financial performance with a coefficient of (t=3.046, β=0.277, p< 0.05). This meant that a unit changes in credit standard lead to a change in financial performance of SACCOs by a factor of 0. 277. This coefficient was established to be the highest among the others hence credit standard was established to have the highest relationship with the financial performance of SACCOs. Also, the effect of credit standard was stated by the t test value=3.046 which implies that the standard error associated with the parameter is less than the effect of the parameter. Therefore, the findings reject the null hypothesis that credit standards have no significant effect on financial performance of deposit taking SACCOs in Nakuru Town. This infers that credit standard contribute more to the financial performance on SACCOs performance.

The findings agree with that of Njiru (2003) to a small extent Embu District shows in his study that credit management by coffee cooperatives stated that none of the 24 cooperative societies used quantitative methods to evaluate credit worthiness of their members instead they used qualitative methods only like the 6C’s technique that is character, capacity, condition collateral, capital and control. The findings also agree with Gitman and Lawrence (2006) According to him, if credit standards are effectively put in place, microfinance institutions are likely to grow and develop as regards to their return and asset. Gaitho (2010) surveyed on credit management practices by SACCOs in Nairobi, findings revealed that majority of SACCOs used credit standard to mitigate risks as a basis for objective credit risk appraisal.

**H<sub>02</sub>: Debt Recovery Techniques have no significant effect on Financial Performance of Deposit Taking SACCOs in Nakuru Town.**

The regression result in table 4.17 showed that the debt recovery techniques were positively and significantly associated with financial performance of SACCOs; (t=2.899, β =0.234, p< 0.05). The result revealed that debt

recovery has a significance effect on the financial performance. This implies that a unit increase in debt recovery lead to an increase in financial performance of SACCOs by a factor of 0.234. Therefore, the null hypothesis that debt recovery techniques have no significant effect on financial performance of deposit taking SACCOs in Nakuru Town was rejected.

This findings are in agreement with that of Montana (2012), debt recovery is assuming an alarming trend as its growth is looking almost unstoppable. This growth can mostly be attributed to a poor economy which affects both consumers and markets around the world. SACCOs are individually devising new techniques and strategies to improve their debt recovery. According to Montana (2012), debt recovery is assuming an alarming trend as its growth is looking almost unstoppable. SACCOs are individually devising new techniques and strategies to improve their debt recovery.

## **VI. Conclusions And Recommendations**

The findings of the study are indicative of significant relation between credit standard and financial performance. Based on the findings above the study concluded that credit standard has a positive effect on the financial profitability of the SACCOs. This study therefore add new insight into the existing literature on credit management. The study conclude that the SACCO used guarantors, collateral, capital and capacity as risk mitigation strategies in credit management. The SACCO also used outstanding debt, bankruptcies, delinquencies, late payments and new applications for credit as parameters for rating credit worthiness when giving new loans. In determining the credit worthiness of a member the study found out that the SACCO looked at the existing personal debt, income, ability to repay the loan with earnings from other investments, the character of the member, reputation and credit history, potential for long term loan and past earnings, projected cash flow and future prospects, employment history and number of accounts from other credit sources. This shows a gap and would therefore be prudent for scholars to conduct replication studies to ascertain whether the above findings hold. This study concludes that the credit management of the SACCOs are effectively done as tools like collateral, character, capital are effectively used at the SACCOs.

The study found a positive and significant effect between debt recovery technique and financial performance of deposit taking SACCO. It is therefore concluded that on dealing with clients who default in repaying their loans the SACCOs in Nakuru County were found to recover their money or property from guarantors with 80% of the respondents stating so. The SACCOs were found to mitigate credit risk through debt recovery techniques. The SACCOs use telephone, writing, and collection agencies to recover loans. Personal visit and friendly reminder are also a great influence in creating a great impact in the financial performance of the SACCOs. The study further concludes that to make it fast and effective to communicate credit reminders to customers SACCOs use standardized or automated credit reminder procedure and the that credit reminder duration is short between 1-3 months default payment. The study also concludes that for SACCOs to recuperate their loans they follow-up guarantors to pay use collateral as security, public auction of private property and claim with insurance. Additionally the study concludes that as part of credit risk management, SACCOs' board of directors and senior management are active in credit risk assessment and internal control processes.

### **Recommendations**

The following recommendation are stated by the researcher from the outcome of the study, it is recommended that management of the SACCOs should consider credit management as a critical determinant of their financial performance. Credit standard had a positive significant relationship with the financial performance of the SACCO. Credit management practices employed have a direct impact on the financial performance of the SACCOs in terms of credit standard and debt recovery. Therefore, this study can be used by the Ministry of Industrialization (Co-operative development department) to draft a policy paper that will guide the SACCO authorities in the country on adopting better credit management practices. This will help to minimize loan losses and default credits to ensure that the profitability of these SACCOs and their members is safeguarded.

The management of the selected SACCOs should consider revising and reestablish it procedures of collecting credits from clients so as to be cost effective. This can be done by using alternative and cheaper sources of debt collection procedures. Therefore there is a need to develop effective loan repayment system, SACCO's committee members and staffs are recommended to visits borrowers business premises and verify borrower's assets. SACCOS need to have effective supervision of borrowers on credit utilization and repayment which should be done frequently. Such supervision will enable the SAACOS monitor the performance of borrowers closely done.

The study is significant to the academic researchers since there is very little literature of credit management of the deposit taking SACCOs, especially in the developing countries hence this research is of great benefit. The scholars will gain insight on effect of credit management on financial performance of SASRA regulated deposit taking SACCOs. Credit management became widely adopted by regulated deposit taking



SACCOs to improve financial performance. As with any financial institution, the biggest risk in cooperative is lending money and not getting it back or finding genuine customer.

### **Suggestion for Further Research**

The study was conducted on SACCOs in Nakuru County only. The findings can be verified by conducting a similar study on SACCOs based in other regions or the entire Country as well. This will help to identify if results from other regions will be similar or different. The study findings are according to the SACCO employees and management point of view. The scope of the study may also be extended to cover other financial institutions as well as other variables that may affect the financial performance of the SACCOs. A study can also be conducted on the relationship between credit management and debtors or borrower participation.

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