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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 6, Iss. 2, pp 1524 - 1530, May 17, 2019. www.strategicjournals.com, ©Strategic Journals

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Accepted: May 16, 2019

ABSTRACT

The point of the investigation was to decide the impact of credit risk mitigation on the money related execution of Invest and Grow Sacco in Kakamega County concentrating on IGs development, gainfulness and execution. The target population was 90 employees of 6 branches of Invest and Grow Sacco in Kakamega County. A census was adopted to select respondents to participate in the study. Essential information was gathered utilizing organized surveys. Pilot testing was done and examined instruments had Cronbach's alpha qualities 0.7 or more affirming their dependability. Information was dissected utilizing measurable bundle for sociologies rendition 24 and both enlightening and inferential investigation demonstrated that all conceptualized examination factors. The examination presumes that Sacco's should embrace the credit risk mitigation policy as a credit risk mitigating factor. This would ensure maximum returns on the Sacco and reduction in bad debts cases which would eventually lead to Sacco financial performance. A further study can be done using a panel study and time series data so as to compare results.

Key Words: *Credit Risk Mitigation, Financial Performance, Invest and Grow Sacco*

CITATION: Sikolia, A. X., Juma, D., & Otinga, H. N. (2019). Effect of credit risk mitigation on financial performance on invest and grow Sacco in Kakamega County. *The Strategic Journal of Business & Change Management,* 6 (2), 1524 –1530.

INTRODUCTION

Advance administration rehearses are related with better money related execution of Sacco's. Strategies by Sacco's to improve money related execution must be coordinated with appropriation of credit the executives rehearses that furnish Sacco's with supportable upper hand over the opponents. There are different advance administration approaches. In any case, this examination will grasp credit terms, gathering exertion, credit norms and acknowledge hazard moderation as study factors. An ideal advance administration is accomplished through appropriate change of credit norms, credit terms, credit chance moderation and accumulation endeavors, these are the controllable choice factors that ought to be considered in the augmentation of credit to upgrade interest in records receivable (Wachira, 2015).

Credit risk mitigation is the employment of various methods to reduce the risks to lenders, banks and other business which offer credit. Banks utilize various strategies to relieve the credit dangers to which they are uncovered. For instance, exposures might be collateralized by first need claims, in entire or to some degree with money or securities, an advance introduction might be ensured by an outsider, or a bank may purchase a credit subsidiary to balance different types of credit hazard.

Financial performance is long term, short term decisions and techniques which have the same objective of enabling an organization growth by ensuring that return on capital exceeds cost of capital, without making high financial risks (Pandey, 2010). It refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

How best a company is seen to be performing maybe analyzed at in form of profits and returns. Execution is estimated by the final product of an association's approaches and activities in monetary terms. Loaning is unsafe to most Sacco's because of repayment of advances will once in a while be completely verified. As per (Brown, 2006), understood contracts among loan specialists and borrowers, in this manner, loaning connections will energize high exertion and opportune reimbursements. (Foluso, 2008), also ensure that long-run connections zone solid device. Markets of credits are liable to short collaborations, borrowers may exclusively be activated to reimburse in the event that they get that, on account of detailing of credit, their present conduct is seen by various loan specialists. (Foluso, 2008), in his investigation demonstrates the job of providing details regarding advance example of repayment and execution of market using a loan relies upon the exertion of relationship. Subsequently, when common connections are impractical, the credit showcase basically falls inside the nonappearance of worthy client conduct.

SACCOs in Kenya are currently among the leading sources of the co-operative credit for socio-economic development (Alila and Obado, 1990). Cooperatives in Kenya were started in 1908 and membership was limited to white colonial settlers. The first cooperative was established at Lumbar, present day Kipkelion area. In 1944 colonial officers allowed Africans to form and join cooperatives (Gamba and Komo, 2012).

Invest and Grow (IG) Sacco has encountered massive switch and developed its rich history consistently. As per its improvement and expansion approach, the Sacco rebranded from Kakamega Teachers Sacco Ltd, KATECO to IG (Invest and Grow) Sacco Ltd in 2015 getting a strong, striking, consistent and common brand. IG goes with

The Strategic Journal of Business & Change Management. **ISSN** 2312-9492 (Online) 2414-8970 (Print). www.strategicjournals.com

another re-engaged soul of tireless organization with an exceptional touch to her people and society. IG Sacco attempts to build up an unfaltering society of contributing among its people along these lines fiscal improvement.

Kakamega County was made because of the protected change that was proclaimed in the year 2010, formerly known as Western province. Kakamega hosts western region political, commercial and industrial capital. Kakamega County is located in the Western part of Kenya and borders Vihiga County to the South, Siaya County to the West, Bungoma and Trans Nzoia Counties to the North and Nandi and Uasin Gishu Counties to the East. There are two main ecological zones in the county namely; the Upper Medium (UM) and the Lower Medium (LM). The Upper Medium covers the Central and Northern parts of the county with sub counties; Ikolomani, Lurambi, Malava, Navakholo and Shinyalu, Lugari and Likuyani. The second ecological zone, the Lower Medium (LM), covers a major portion of the southern part of the county which includes; Butere, Khwisero, Mumias East, Mumias West and Matungu hence totaling to 12 subcounties. Kakamega county was chosen because it is the home of invest and grow Sacco which also serve as headquarters for the Sacco in Kenya. Hence the information acquired would be of great importance.

Statement of the Problem

The overall objective of Sacco is credit delivery and therefore requires stable regulation that safeguards member's funds. Sacco's operate on agreed framework and on the principle of solidarity based on funds generated from member's savings. Sacco's have started competing with banks and other financial institutions with similar products to banks. Due to growth in similar products, Sacco's have been forced to operate deposit taking business to sustain loan and other products demands. Prudential loan management rehearses is of pith for survival of Sacco's which convey money related administrations to white collar class and low class workers with little access to monetary foundation (Obamuyi, 2007). Nonetheless, the money related execution of Sacco's has gotten a general global disappointment in spite of the way that universal and national improvement programs have being giving high need on Sacco's for a long time. Thusly, some have turned to cutting back while others have shut down. This has caused real misfortunes, laying off of specialists and high running costs which influence their benefit and long haul survival (Wafula, 2011). Because of the underperformance of Sacco's, poor people and low salary workers are not ready to get to formal money related establishments and are hence left with no desire for breaking the neediness line (Arsyad, 2015).

Several studies have been carried on loan management and performance of Sacco's. A study was conducted by Murungu (2005) on Sacco's and stated that Sacco's have heavily relied on particular credit policies techniques which are not adequate to militate against loan losses in a dynamic and competitive lending environment. Credit risk mitigation depicted negative correlation with performance. All these studies used financial metrics in measurement of performance of Sacco's. However, they showed variance in their findings. Most studies on debt management practices and performance were not done in Africa. Therefore, the study focused on identifying the effect of credit risk mitigation on the financial performance of Sacco's in Kakamega County, Kenya.

Objective of the study

The objective of this study was to determine the effect of credit risk mitigation on financial performance on invest and grow Sacco in Kakamega County.

Research Hypotheses

H_{01}: There is no significant relationship between credit risk mitigation and financial performance of Invest and Grow Sacco.

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LITERATURE REVIEW

Theoretical Review

Asymmetric Information Theory

Financial institutions, commonly, do now not understand the actual credit-worthiness in their consumers and additionally customers do now not have information about their quality of service. To remedy this problem, Smith (2007) developed a model in which financial institutions give two-section credit terms, to empower them secure potential defaults quicker than monetary mediators. Smith likewise suggested that with hilter kilter data about item incredible, money related establishments give change FICO assessment to allow clients to check item high caliber sooner than charge. The intention that leads money related establishments.

Exchange credit has a few points of interest in examination with unconditional promises and guarantees. Initially, in a very instance of cash back or guarantees, if the merchant isn't ready to go any more, the customers are regularly broken. Second, when installment is made at the season of offer, a customer, looking for the advantages of the cash back framework, could endeavor to induce the seller that the standard of the product isn't as secure (Wei, 2007).

The hypothesis will be pertinent to this examination since little enterprises will in general supply a great deal of exchange credit than huge partnerships, since minor organizations still got the chance to build up their name concerning item quality companies with longer creation cycles draw out their collection sum, they need to turn out top notch item organizations advertising item whose quality is hard to live broaden long acknowledge periods because of clients ought to have sufficient opportunity to evaluate quality. Associations could endeavor to pass them off as superb item amid this case, in light of the fact that the cost of broadening exchange credit will expand, these enterprises can have less motivation to deceive the information on quality. Financial institutions have insider information on loan policies which should be given or disclosed to the borrowers before the loan is given or approved this will reduce loan defaults hence repayment will be high and leads to improved Sacco's performance.

Review of Study Variable

According to Kitprem et al., (2013) Credit risk mitigation is the work of different techniques to diminish the dangers to loan specialists, banks and different business which offer credit. The techniques can incorporate hazard based estimating, or altering the cost of credit as per the credit quality of the borrower; credit fixing, or decreasing the measure of credit accessible to higher hazard candidates; expansion, or expanding the portfolio blend of borrowers and acquiring credit protection. Banks utilize various strategies to relieve the credit dangers to which they are uncovered. For instance, exposures might be collateralized by first need claims, in entire or to some degree with money or securities, an advance introduction might be ensured by an outsider, or a bank may purchase a credit subsidiary to balance different types of credit hazard.

Conceptual Framework

Credit Risk Mitigation	→	FINANCIAL PERFORMANCE
▪ Credit insurance ▪ Signing of covenants		▪ Return on Asset (ROA)

Independent variable **Dependent variable**

Figure 1: conceptual framework

Source: Author (2019)

METHODOLOGY

The researcher adopted descriptive survey design in investigating the effect of credit risk mitigation on financial performance of Invest and grow Sacco in Kakamega County focusing on IGs. Cooper and Chandler (2007) indicated that a descriptive study aims at finding out who, what, where and how of a phenomenon as a descriptive study. Population of this study was 90 employees of Invest and Grow Sacco. The study used a census approach to pick all the 6 branches with total of 90 employees in the cadres indicated above in Invest and Grow Sacco. The data collection instrument was questionnaires. It is believed that questionnaires provide the researcher with quick, simple and cost effective method of fact finding (Nandagopal & Vivek, 2009; Pervez & Gronhaug, 2005).

FINDINGS

Table 1: Descriptive statistics. Credit Risk Mitigation

	SA	*A*	*N*	*D*	*SD*	*Mean*	*Standard deviation*
The Sacco uses credit insurance to mitigate credit risk.	36.6%	36.6%	12.2%	8.5%	6.1%	3.98	1.089
The Sacco use of collateral to secure loans granted to borrowers.	42.7%	36.6%	8.5%	6.1%	6.1%	4.19	0.968
Third party guarantors are used to guarantee loans granted to members	21.9%	20.7%	24.4%	20.7%	12.2%	3.74	0.876
Enforcement of penalties for defaulting is done immediately a member defaults.	8.5%	31.9%	6.1%	42.7%	10.8%	3.17	1.001
Signing of agreement is done just in case defaulting occurs.	20.8%	25.8%	18.3.0%	14.6%	12.2%	3.61	0.988

The research findings on Table 1 indicated that 79.3%) agreed that The Sacco use of collateral to secure loans granted to borrowers. (Mean=4.19, SD=0.968). There was neutrality among larger majority of the respondents (24.4%) on whether Third party guarantors were used to guarantee loans granted to members (mean=3.74, SD=0.876). Enforcement of penalties for defaulting was done immediately a member defaults had increased the profitability of invest and grow Sacco according to 40.5% of the respondents (mean=3.17, SD=1.001). Majority of respondents (46.6%) held neutral opinion on whether the Signing of agreement was done just in case defaulting occurred (mean=3.61, SD=0.988). Since the standard deviations or respective mean values were close to zero, it was evident that data was close to the mean values of the indicator.

Table 2: Linear Regression Results; Influence of credit risk mitigation on Performance

Model Summary

1	.940	.883	.882	.429	.883	604.125	1	80	.000

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	111.050	1	111.050	604.125	.000
	Residual	14.706	80	.184		
	Total	125.756	81			

Coefficients[a]

a. Dependent Variable: Sacco financial performance

The model summary above showed that that R squared; R^2 = 0.883 implying Thus the linear regression model is;

(i) $Y = 0.880 + 0.830X_2 + \varepsilon$

Where:

Y = Financial Performance

X_2 = credit risk mitigation

ε = error term.

The results were supported by Otieno et al. (2016) assessed the connection between credit chance relief and money related. The outcomes demonstrated that credit chance alleviation had a solid negative connection with both ROA and ROE execution measure. In this way, the investigation inferred that credit hazard relief impacts execution of MFIs. The investigation suggested that credit administrators ought to work under a sound acknowledge conceding process for well-characterized credit-allowing criteria specifying the MFI's objective market, an intensive comprehension of the borrower's motivation and wellspring of reimbursement among other measures. Since it was impacting their loaning portfolio, all things considered, with a subsequence impact on productivity.

Further, Mulondo (2011) additionally examined the connection between credit hazard relief and advance execution of two improvement money establishments in Uganda. The examination found that advance evaluation demonstrated a solid noteworthy relationship when contrasted with other hazard the executives strategies, for example, chance exchange and hazard enhancement. The investigation suggested that thinking plan examination process/methods in addition to organize that subtleties methods for catching all the credit chance. The examination procedure ought to recognize and break down sufficiency, limit of candidate, estimation of security, and reimbursement history.

CONCLUSIONS

Credit risk mitigation significantly influences performance of Sacco's, thus Sacco's that adopt effective credit risk mitigation practices especially use of collateral to secure loans granted to borrowers will definitely experience an improvement in financial performance.

RECOMMENDATION

Sacco's should definitely embrace the credit risk mitigation policy as a credit risk mitigating factor. This would ensure maximum returns on the Sacco and reduction in bad debts cases which will eventually lead to Sacco financial performance.

Areas for further research

A similar research can be done using a panel study and time series data so as to compare results. A further study can target Sacco's in many counties in Kenya, using SASRA regulations so as to assess their significant influence on financial performance of Sacco's in Kenya.

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