FINANCE DATA MANAGEMENT PRACTICES ON LOAN PERFORMANCE OF SACCOS IN BUSIA. CENTRAL BUSINESS DISTRICT, COUNTY GOVERNMENT OF BUSIA; KENYA

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ABSTRACT

Loan performance refers to the financial soundness of a financial institution on the performance of their disbursed loan to various sectors. Savings and Credit Cooperative Societies (SACCOs) operate in an environment of considerate risks and uncertainty. Credit management is one of the main challenges faced by financial institutions as well as the savings and credit cooperative societies in many parts of the world. Thus, the objective of the study was to evaluate the impact of Finance Data Management on Loan performance of SACCOs in Busia Central Business District; Kenya. The study applied the descriptive survey research design and the target population of the study was eighty SACCO staff members belonging to the Credit and Operation managers from the registered deposit taking SACCOs in Busia County; Kenya. The study applied census technique on the study target population since it was manageable. The data collection instrument included structured questionnaires. The study employed computer software of Statistical Package for Social Sciences (SPSS 24) to generate and analyze data in order to respond to descriptive statistics; frequency , mean and standard deviations. Further, the software was used on Inferential Statistics that led to generation of statistics of correlation among the variables. Regression analysis was done and results were based on complying with the objectives of the study. The Conclusions was, Finance Data Management had a significant influence on Loan Performance of SACCOs in Busia Central Business District; Kenya. The recommendation of the study was that the SACCOs should embrace Finance Data Management Practices since it improves Loan Performance.

Key words: Finance Data Management, Credit Management Practices, Loan Performance

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INTRODUCTION

Savings and Credit Cooperative Societies (SACCOs) are mostly private or members owned intermediaries where members are sole owners through shares holding and membership is mostly open and voluntary, operating for profit basis by its members. Savings and credit cooperative societies have continued to provide savings, credits, and financial training at the grassroots level (Shieler, Emenike & Amu, 2017).Credit management is recognized in today's business world as an integral part of good management practice. It entails the systematic application of management policies, procedures and practices to the tasks of identifying, analyzing, assessing, treating and monitoring risk (Muriuki, 2019). Credit risk monitoring is defined as identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayments (Kiai, 2016).

According to Dugume and Han (2018) embrace, a sound and comprehensive credit risk management program need to address four areas: establishing an appropriate credit risk environment, operating under a sound credit granting process, maintaining an appropriate credit administration, measurement and monitoring process; and ensuring adequate controls over credit risk. Specific credits risk management practices may however differ among financial institutions depending upon the nature and complexity of their credit activities. These practices should also be applied in conjunction with sound practices related to the assessment of asset quality, the adequacy of provisions and reserves, and the disclosure of credit risk.

Credit risk grading management processes typically take into account a borrower's current financial condition and paying capacity, the current value and reliability of collateral and other borrower and facility specific characteristics that affect the prospects for collection of principal and interest (Mwaniki & Wamioro, 2018). Financial institutions should put in place policies that require remedial actions be taken when policy tolerances are exceeded. These institutions should also document

their validation process and results with regular reporting of the results to the appropriate levels of management. Additionally, the validation of internal credit risk assessment models should be subject to periodic review by qualified, independent individuals for example internal and external auditors (Tfaily, 2017).

A well-designed Financial Data Management program can help an organization to develop and maintain its own set of accounting procedures, streamline its internal workflow processes to minimize overhead and expense while maximizing efficiency and profit, consolidate data from among various departments, and generate custom financial reports and documents for a diverse set of suppliers and clients. The data these financial analytics tools explore will differ based on company size, although there is some significant overlap. Small businesses will focus more on aspects such as income and losses, bank accounts, assets, debts, and credit information. Larger enterprise-level companies and corporations must also focus on broader data such as their equity price, different financial ratios, assets, portfolio holdings, and more. One of the most widespread uses of these systems is to keep a compliant record of financial information. Most countries have stringent policies regarding the financial records companies must keep, and using financial data management systems helps companies easily ensure they can meet them. More importantly, it allows organizations to quickly print and prepare the right reports on demand.

On a more analytical level, using financial data management systems helps expedite the discovery and data preparation process. This in turn helps generate faster results and simplify the querying process for users. In the world today, systems for financial management are not a fresh phenomenon. Apparently, financial information recording is the one of the earliest known methods of record maintenance and can be traced back to thousands of years Duguma &Shkla, 2015). Despite this monetary information has long presented challenges, predominantly since the introduction of

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money. The current financial management stems back to the 15th century when the accounting system in use today of double entry was codified by (Omilola & Lerven, 2019)

In Kenya, majority of SACCOs are faced by several obstacles in their managerial systems due to poor implementation of Integrated Financial Information Systems (IFIS) in their institutions. From recent studies, it is revealed that most of the SACCOs in Kenya including their branches are using traditional and old way in doing daily banking activities and also most of their systems and computers are old and without advanced software and new computer applications. Investors require efficient information before deciding to invest in SACCOs and the quality of information they require can only be given using Integrated Financial Information Systems. Tfaily (2017), Savings and Credit Co-operative Societies (SACCOs), which are initiated locally, are more striking to customers, thus, they are extremely entrenching themselves in the financial sectors of many countries. In fact, they have solid bases of small saving accounts constituting a stable and relatively low-cost source of funding and low administrative costs (Kiai, 2016). In addition, SACCOs are able to advance loans at lower interest rates than those charged by other financial providers. In addition, SACCOs have the aptitude and chance to reach customers in areas that are unappealing to banks including remote or poor areas. The main objective of SACCOs is to guarantee members enablement through deployment of savings and credit disbursement (Muriuki, 2019).

In Kenya, integrated financial management information system (IFMIS) was first applied in government ministries in 2003 and to the county governments in 2013, while its re-engineering course began in 2011 in order to stabilize and augment the IFMIS implementation. In its simplest form, an IFMIS is more or less like an accounting system designed to work according to the requirements and provisions of the setting in which it is in use. In general, the word "IFMIS" refers to the application of data and communications technology in fiscal processes to back the budget and institutional choices, fiduciary tasks, and the organization of monetary statements. An IFMIS store classifies and makes accessibility of financial information easier (Kimani & Kiptoo, 2018)

According to SASRA (2012), SACCOs are bogged with challenges of wanting adoption of technology and inadequate IT skilled and knowledgeable manpower who fully comprehend Sacco operations. Concerns have been raised concerning the lack of satisfactory transparency in provision of information to the market about scores granted which has influenced IFMIS efficiency in warranting a free flow of information. In general, introducing an IFMIS in SACCOs implies essential deviations in operating processes. This could be effected flawlessly by focusing on information flows plus the manner in which the flows are prepared, managed, conveyed, revised and applied to ease-making of decisions. IFMIS design is heralded by thorough functional examination that reinforces current practical procedures, processes, customer profiles and specifications that can be supported by the new system. Thus, the need for IFMIS in SACCOs operations is so crucial since it is an invaluable player in the Kenyan socio-economic advancement. SACCOs cut across all sectors of the economy and deliver an imperative framework for deployment of both human and capital resources. The purpose of this study was to determine the effect of data financial management information system on loan performance among SACCOs in Busia central business district.

Statement of the Problem

A number of studies have been done locally and internationally in relation to Finance Data Management and loan performance. Omilola and Lerven (2019) carried out an assessment of the credit management process of credit unions and the study found that credit unions are deficient in the credit control department. Kiptoo and Kimani (2018) asserted that strategic risk, credit risk and liquidity risk are the most frequent risks; whereas reputation and subsidy dependence risks occur at a

very low incidence for Micro Finance Institutions (MFIs) located in Kisii area. Juma, Otuya and Kibati (2018) established that there was a strong relationship between client appraisals and loan performance in MFIs. Mwaura and Wanyoike found that there was a positive correlation between credit risk assessment and management of microfinance institutions.

Finance Data Management being one of the functional elements for Credit Management Practices, it is vital for the organizations' management to find out the relevance of the Finance Data Management on Loan Performance. Mwaniki and Wamioro (2018) in their study found a significant relationship between loan performance and Finance Data Management in MFIs in Nairobi, Kenya. Further, a study by Kipkoech (2015) revealed a positive relationship between credit risk management practices and financial performance of MFIs. A study by Noor, Njeru and Muoria (2017) however, investigated impact of Credit Management practices on loan performance of deposit taking microfinance institutions in Kenya and found there exist relationship among the variables. Juma, Otuya and Kibati (2018) concluded the existence of a significant relationship between credit risk management and performance and that credit risk management impacts performance of MFIs. However, most of these studies have been done but with less studies focusing on individual variable Finance Data Management on Loan Performance. Further the studies have general conclusions though organizations differ in terms of management, resources and geographical placement. This study therefore sought to bridge the literature gap in the vital area of credit risk management and singled on Finance Data Management on Loan Performance in the SACCOs of Busia CBD, Kenya.

Objective of the Study

The study objective was to evaluate the impact of Finance Data Management on Loan Performance of SACCOs in Busia Central Business District, Kenya;

Research Hypothesis

Finance Data Management has no significant effect on Loan Performance of SACCOs in Busia Central Business District; Kenya

LITERATURE REVIEW

Theoretical Review;

Modern Portfolio Theory

Modern Portfolio Theory (MPT) is a theory of investment which tries to maximize return and minimize risk by carefully choosing different assets (Markowitz, 1952). The primary principle upon which Modern Portfolio Theory is based is the random walk hypothesis which states that the movement of asset prices follows an unpredictable path: the path as a trend that is based on the long-run nominal growth of corporate earnings per share, but fluctuations around the trend are random (Chandra & Shadel, 2007). Since the 1980s, financial institutions have successfully applied Modern Portfolio Theory (MPT) to market risk. Many financial institutions are now using Value at Risk (VAR) models to manage their interest rate and market risk exposures. Unfortunately, even though credit risk remains the largest risk facing most financial institutions, the practical use of MPT to credit risk has lagged (Margrabe, 2007).

Financial institutions 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 (Saunders & Cornett, 2007).

Financial institutions can reduce portfolio risk simply by holding combinations of risk weighted

assets that are not perfectly positively correlated (correlation coefficient). In other words, financial institutions can reduce their exposure to individual asset risk by holding a diversified portfolio of assets. Diversification may allow for the same portfolio expected return with reduced risk. These ideas have been started with Markowitz and then reinforced by other economists and mathematicians such as Andrew Brennan who have expressed ideas in the limitation of variance through portfolio theory (Smith, 2013). The modern portfolio theory is therefore relevant for the study since managing credit risk from a portfolio context would be more effective than an asset-by-asset approach.

The modern portfolio theory determines that a portfolio approach as opposed to an asset-by-asset approach is more efficient in measurement and monitoring of risk. The MPT tries to maximize return and minimize risk by carefully choosing different assets i.e. creating a portfolio. Financial institutions have traditionally taken an asset-by-asset approach to credit risk measurement which according to the MPT has difficult in identification, measurement and monitoring of concentration. Concentration risk refers to additional portfolio risk resulting from increased exposure to a borrower, or to a group of correlated borrowers and is among the chief forms of credit risk facing financial institutions (Margrabe, 2007). The theory infers that better measurement and monitoring of risk through a portfolio approach would result in minimization of risk and maximization of returns. Further, it proposes a positive relationship between credit administration, measurement and monitoring and the performance of loans brought about by decreased default which is very important in any microfinance bank. For this reason, the theory was found to be very relevant to this study; however, it did not explain issues of relationship development with clients. Thus agency theory filled the gap of relationship between SACCOs and customers. This theory works well on Credit Risk Management and Credit Risk Mitigation Management variables

putting in consideration that the theory minds of minimizing risks and maximizes the returns.

The Agency Theory

Agency theory is the study of the agency relationship and the issues that arise from this, particularly the dilemma that the principal and agent, while nominally working toward the same goal, may not always share the same interests. The literature on agency theory largely focuses on methods and systems and their consequences that arise to try to align the interests of the principal and agent (Delves & Patrick, 2000). An agency relationship is one in which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. Perhaps the most recognizable form of agency relationship is that of employer and employee. Other examples include lender (principal) and borrower (agent); constituents (principal) and elected representative (agent); or shareholders (principal) and CEO.
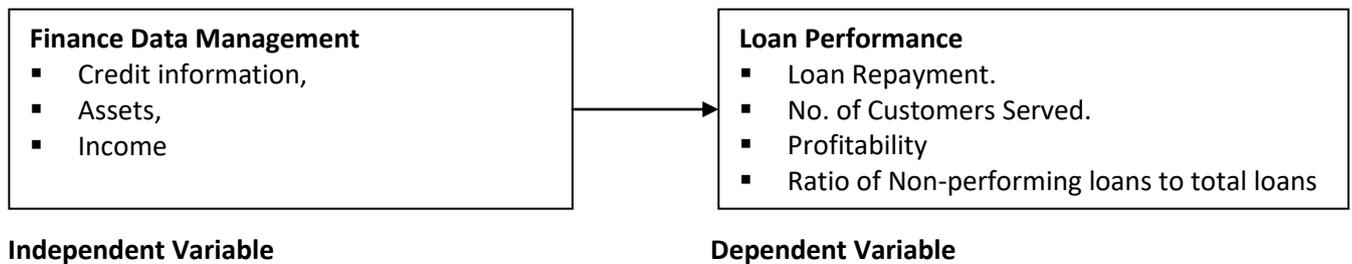
According to the agency theory, a firm consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources (Jensen & Meckling, 1976). The theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by agents. As such, the theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behavior of agents (Abdel-Khalik, 1993).

According to the theory, in order to harmonize the interests of the agent and the principal, a comprehensive contract is written to address the interest of both the agent and the principal. The agent-principal relationship is strengthened more by the principal employing an expert and systems (auditors and control systems) to monitor the agent

(Jussi & Petri, 2004). Further the theory recognizes that any incomplete information about the relationship, interests or work performance of the agent described could be adverse and a moral hazard. Moral hazard and adverse selection impact on the output of the agent in two ways; not possessing the requisite knowledge about what should be done and not doing exactly what the agent is appointed to do. The agency theory therefore works on the assumption that principals and agents act rationally and use contracting to maximize their wealth (Jensen & Meckling, 1976).

This theory is applicable to this study simply because customer relationship management is one of many mechanisms used in business to address the agency problem by reducing agency costs that affects the overall performance of the relationship as well as the benefits of the principal (Payne, 2003). In this study, independent ongoing credit risk assessment and early remedial action on deteriorating credits which is handled by the principals and agents as posited by this theory was evaluated by the study making the theory very relevant. The Agency theory dwells on principal and agency issues of the organization and effect of associated cost; hence, the theory consider effect of Finance Data Management which would be relevant to the stakeholders at large in making decisions. More so, Bad Debt Management would also be of essence putting into consideration the right position of bad debt should be known to the stakeholders.

Finance Data Management	Loan Performance
- Credit information, - Assets, - Income	- Loan Repayment. - No. of Customers Served. - Profitability - Ratio of Non-performing loans to total loans
Independent Variable	Dependent Variable

Figure 1: Conceptual Framework

METHODOLOGY

Descriptive research survey design was used to determine an association between the conceptualized independent and dependent variables as shown in the study's conceptual model. This study targeted 80 employees of the SACCOs in Busia Central Business District, County Government of Busia; Kenya. Sampling frame consisted of employees of SACCOs of the Central Business District of Busia; County Government Busia, Kenya. As per the population of the study, there were only 20 active SACCOs and thus, the study opted to employ census technique to cover all of them as a samples size which is over 50%. The study sample size was 20 savings and credit cooperative societies. Primary data was collected by means of self-administered questionnaires. The questionnaires had structured questions. These questionnaires were structured and designed in multiple choice formats. Data collected from the field was coded, cleaned, tabulated and analyzed using both descriptive and inferential statistics with the aid of specialized Statistical Package for Social Sciences (SPSS).version 24 software. Descriptive statistics such as frequencies and percentages as well as measures of central tendency (means) and dispersion (standard deviation) was used. Data was also organized into graphs and tables for easy reference. Further, inferential statistics such as regression and correlation analyses was used to determine both the nature and the strength of the relationship between the dependent and independent variables. Correlation analysis is usually used together with regression analysis to measure how well the regression line explains the variation of the dependent variable. The linear and multiple regression plus correlation analyses were based on the association between two (or more)

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variables. SPSS version 24 is the analysis computer software that was used to compute statistical data. Study conceptualized Regression Model;

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

Y = Loan Performance

β_0 = Constant

X_1 = Finance Data Management Practice

$\{\beta_1\}$ = Beta coefficients

ε = the error term

FINDINGS AND DISCUSSIONS

The study involved 80 questionnaires being dispatched for data collection, 64 questionnaires were returned completely filled, representing a response rate of 80% which was good for generalizability of the research findings to a wider population.

Descriptive Statistics

Descriptive statistics: Finance Data Management on Loan Performance

These are summarized responses on whether Finance Data Management Practice has influence on Loan Performance of SACCOs of Busia Central Busines District, County Government of Busia; Kenya.

Most respondents agreed (56.2%) and strongly agreed (20.3%) that the SACCO captures all debtors always, and (9.4%)disagreed, since a higher percentage of respondents agreed on the statement it implies that when all debtors are captured then it gives a true picture of loans performance in the SACCOs. Regarding the use electronic system, (50%) agreed, (18.8%) strongly agreed and (10.9)) were uncertain; however (9.4%) disagreed. This statement gave an impression of majority embracing the electronic system, hence with use of electronic system efficiency and effectiveness would be reflected. Concerning the reminding of defaulters always, (54.7%) agreed and (17.2%) strongly agreed, whereby (7.8%) were uncertain. This implied that not all respondents found it important remind the defaulters hence such this could affect loan performance. Customers'

data being reviewed was encouraged strongly by 17.2%, more so (51.6%) agreed and (12.5%) of respondents were uncertain, implying not all embraced the reviewing of data for customers before being awarded another loan. Regarding guarantors' data evaluation before the loan is disbursed out, (46.9%) agreed, (18.8%) strongly agreed, (14.1%) were uncertain and (9.4%) disagreed. This statement implies that not all respondents would have wished for guarantors' data to be evaluated. Regarding enforcement when the customer defaults (46.9%) agreed while (17.2%) strongly agreed and (12.5%) were undecided as (10.3%) disagreed.

On a more analytical level, using financial data management systems helps expedite the discovery and data preparation process. This in turn helps generate faster results and simplify the querying process for users. In the world today, systems for financial management are not a fresh phenomenon. Apparently, financial information recording is the one of the earliest known methods of record maintenance and can be traced back to thousands of years Duguma &Shkla, 2015). Despite this monetary information has long presented challenges, predominantly since the introduction of money. The current financial management stems back to the 15th century when the accounting system in use today of double entry was codified by (Omilola & Lerven, 2019).In Kenya, majority of SACCOs are faced by several obstacles in their managerial systems due to poor implementation of Integrated Financial Information Systems (IFIS) in their institutions. From recent studies, it is revealed that most of the SACCOs in Kenya including their branches are using traditional and old way in doing daily banking activities and also most of their systems and computers are old and without advanced software and new computer applications.

Inferential Statistics;

Influence of Finance Data Management on Loan Performance

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This tested the direct influence of Finance Data Management on Loan Performance of SACCOs in Busia; Kenya. The results are shown table 1.

Table 1: Influence of Finance Data Management on Loan Performance

					Model Summary				
				Std. Error of		Change Statistics			
			Adjusted R	the	R Square				Sig. F
Model	R	R Square	Square	Estimate	Change	F Change	df1	df2	Change
1	.752[a]	.567	.562	.80708	.567	98.422	1	75	.000

		ANOVA[b]				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	64.110	1	64.010	98.422	.000[a]
	Residual	48.854	75	.652		
	Total	112.964	76			

		Coefficients[a]				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	.920	.269		3.422	.001
	Finance Data Management	.802	.081	.753	9.921	.000

a. Dependent Variable: Loan Performance

From table 1, the model summary showed that $R^2 = 0.567$; implying that 56.7% variations in the Loan Performance of SACCOs in Busia Central Business District; Kenya is explained by Customer Data Finance Management while other factors not in the study model accounts for 43.3% of variation in Loan Performance of SACCOs in Busia ; Kenya. Further, coefficient analysis showed that Customer Data Finance Management has positive significant influence on Loan Performance of SACCOs in Busia; Kenya (β = 0.802 (0.081); *at p<.01*). This implies that a single improvement in effective Customer Data Finance Management will lead to 0.802 unit increase in the Loan Performance of SACCOs Busia; Kenya. Therefore, the linear regression equation was;

$$Y = \mathbf{0.920 + 0.802X_2}$$
Where;
Y = Loan performance of SACCOs in Busia Central Business District
X_1 = Finance Data Management

Study hypothesis (H_{01}) First**, study hypothesis one (H_{01})** stated that Finance Data Management Practices does not significantly influence Loan Performance of SACCOs in the Central Business District of Busia, County Government of Busia ; Kenya. However, regression results indicate that Finance Data Management significantly influence Loan Performance of SACCOs of Central Business District of Busia, County Government of Busia; Kenya (β = 0.802 (0.081) at *p<0.01*). **Hypothesis one is therefore rejected**. The results indicate that that a single improvement in effective Finance Data Management Style will lead to 0.919 unit increase in the Loan Performance.

CONCLUSIONS AND RECOMMENDATIONS
This tested the influence of Finance Data Management on Loan Performance of the Central Business District of Busia, County Government of Busia; Kenya. The study found that Finance Data Management Practice had a significant influence on Loan Performance. The study results were consisted

with earlier researchers that found that Finance Data Management benefits the organizations by improvement on Loan Performance.

The study concluded that SACCOs effectively recognize utilization of Finance Data Management practices in organizations; hence improving the Finance Data Management leads to improvement on the Loan Performance.

The study recommended that SACCOs to employ the application of Finance Data Management in the organization's functions; hence such would improve the performance of loans as well the performance of the industry at large.

Areas for further research

Similar study can be done on other organizations especially those organizations dealing with loaning up clients by use of different methods of analysis for comparison of the findings.

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