

# Assessment of Credit Risk Management Practises on Organizational Performance: A survey of Savings and Credit Co-operative Societies in Eldoret Town Kenya

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**Abstract**— Saccos main business as stated by the SACCOS Act is the acceptance of members savings and subsequently providing credit facilities to its membership. It is therefore correct to state that the core function of every savings and credit co-operative borders on loans. Saccos initially were expected to provide loans facilities to its membership. The purpose of this study is to assess the effects of credit risk management practices on organizational performance: a survey of savings and credit co-operative societies in Eldoret town. The objectives of this study was to establish the effects of credit risk identification methods on the performance of Savings and credit co-operatives, to assess the effect of risk analysis on the performance of Savings and credit co-operatives, to determine effects of risk monitoring on the performance of Savings and credit co-operatives, and to examine the effects of risk management mitigation measures on performance of Savings and credit cooperatives within Eldoret Town. Primary data was collected using a 5 point likert scale structured questionnaire. The researcher employed a descriptive survey research design. The researcher used purposive sampling to select 11 SACCOS from a target population of 22 Sacco's which are within Eldoret Central Business District. Census design was employed where it sampled all employees working on the credit section in the selected SACCOS. The validity of the research instrument was measured using a pilot study while reliability was measured by Cronbach Alpha. Descriptive statistics was used to analyse data which was later presented in frequency distribution tables and percentages. Multiple regressions was done to ascertain the relationship between credit risk management and organizational performance.

**Index Terms**— Credit risk identification, Credit risk analysis, Credit risk monitoring,

## 1 INTRODUCTION

The world economy as indicated by Huizinga, (2000) witnessed one of the worst financial challenges in modern times and the Kenyan financial sector has not been spared of this crisis. The shaky global financial market requires a wider thinking on how organizations can prevent themselves from the effects of huge financial losses. This has led to a critical examination of the many issues related to the operation of financial institutions to identify the origin of the problem.

A critical look at the most popular credit management practices include, credit-scoring and portfolio models. These models have shown a number of limitations when used on their own by experts. Previous Research confirms that credit risk management practices should be pooled for effective credit risk management. (Khambata, 2012).

Accordingly, these studies propose a structure on how to improve credit risk management which amalgamates the

ing the significance of the member's returns through improved business performance. The creation of a system for credit risk management is therefore extremely significant in ensuring the reliability and suitability of a financial institution's business.

Credit risk is a very important aspect of a vibrant economy which is very dynamic and erratic, because the economy is influenced mostly by the intervention of financial institutions Kaminski *et al.* (2008). Because of effect like that, financial institutions have been forced to commit themselves to prudent lending since it is now a major concern and discussion issue in a universal financial institutions context today. In this regard Khan and Ahmed (2001) pointed out that if there is no provision of credit from country's financial institution and more so by SACCO institutions, no development of a contemporary industrial community and nurturing of investment that is attaining the estimated target growth of economy by the country would have been possible. As a result most of the financial institution and SACCO firms are looking into managing their credit risks in diverse business cycle and environment that can help to ease crisis and major losses that could harm long term functions of the firms. Hence effective credit risk management is very important to achieve these economic aims and to maximize the financial performance of institutions. Credit risk is one of the main risks that extremely affect micro financial organizations success and performance (Khambata, 2012).

Credit risk can arise from the probable that a debtor is either unwilling to perform on an obligation or its ability to per-

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strengths of these practices and copes successfully in increas-

form such obligation is weakened resulting in economic loss to the financial institutions (Khambata, 2012). Hence these institutions are required to design sound credit risk management that includes to note the existence of and potential risks inherent in lending activities. SACCOS in Kenya are not different from the other world SACCO institutions. Therefore they are also permitted to design credible credit risk management so as to achieve their desired objectives.

The concept of credit can be traced back in history and it was not treasured until and after the Second World War when it was largely appreciated in Kenya and later in Africa (Kiiru *et. al*, 2008). Banks in USA usually gave credit to customers with high interest rates which at times demotivate borrowers hence the idea of credit didn't become widespread until the economic boom in USA which was experienced and seen in 1885 when the banks had excess cash reserves and wanted to lend the extra cash (Ditcher, 2003). In Africa the idea of credit was never valued as such and only until in the 50's when majority of banks commenced the credit sections and departments to give loans to the Europeans who had settled in Africa. In Kenya credit was initially given to the wealthy class and big firms and was not popular to the underprivileged as they were perceived as potential defaulters.

In early 1990's loans given to customers did not perform which called for an intermediation. Most suggestions of loan management were for the evaluation of customer's ability to repay the loan, but this didn't work as loan defaults continued to be seen and felt by financial institutions (Modurch, 2005). The idea of managing credit became widely accepted by SACCOS's in the late 90s, but again this did not stop loan non-payment to this date and called for more studies to this field (Modurch, 2005). It is always hard to achieve the best credit policy as the best mixture of the variables of credit policy is quite difficult to find. A firm will change a few variables at a time and observe the effect. It should be seen that the firm's credit policy is majorly affected by economic conditions (Pandey, 2008). As these conditions change, the credit policy of the firm may also change from time to time.

SACCOS and other related financial firms must come up with a credit policy to manage their credit management operations (Pandey, 2008) and since SACCOS generate their revenue from credit extended to low income persons in the form of interest charged on the monies issued (CBK, 2010) the loan repayments may be uncertain and thus affects projections of the institutions. The success of lending out credit depends on the style applied to evaluate and to give out the loan (Ditcher, 2003) and hence the decision on credit should be based on a thorough evaluation of the risk conditions of the lending and the features of the borrower.

Many tactics have been developed in client appraisal process by financial institutions to assist them in credit evaluation and appraisal. They range from simple methods which are direct, such as the use of biased or informal approaches, to complex ones for large institutions, such as the use of computerized models (Horne, 2007). Many credit decisions by SACCOs are usually based on their subjective feelings about the way they perceive risk in relation to expected repayment by the borrower. SACCOS commonly use this approach because it is both simple and economical in all sense.

Credit risk management involves an elaborate process; before the credit decision is conceptualized, follow up and monitoring of credit commitments including all monitoring and reporting process as observed by Chua *et al.* (2000). He also distinguished that the credit decision is usually determined by the financial data and judgmental assessment of the market stance, borrower, management and shareholders. The follow-up is carried out through several reporting reviews of the SACCOS commitments by the customer to policy requirements (Chua *et al.* 2000). Credit risk management is always the key functions of the micro financial institutions since lending is to several people in small amounts. Those micro financial institutions, which analyse credit risks, protect themselves from adverse events, thus obtaining relative advantage over their existing and potential competitors. That is why careful credit risk management is important for smooth cash flow and achievement of overall financial performance of SACCO institutions.

For example KWFT financial institution started its business at around the year 2000 when the institution was registered as a company. The deterioration in KWFT loan book shows a challenging situation to the sustainability of the institution, job security of the employees and the clients profiting from their loans (CBK Report, 2010). It is upon this background that this research problem was conceived. The research project is an attempt to assess the extent to which credit risk management practices have had on the performance of SACCOs within Eldoret town and subsequent recommendations

## 2.0 BACKGROUND OF THE STUDY

Kenyan SACCOs adopt different credit risk management policies majorly determined by several factors; the type of clientele or membership, ownership of SACCOs, the range of products and services offered by SACCOs, Sacco's regulatory environment and the wisdom of the SACCO boards, (Koech, 2010). SACCOs may develop and produce good credit management policies but may not necessarily score or achieve high on performance. These has led to numerous cases of SACCO's institutions closing just after few years of operations as a result of poor credit management especially among SACCOs located in rural and semi- urban areas of the country. The market may thus be seen to regard an individual SACCOs' poor performance more lenient when the entire banking sector has been affected by an adverse avalanche such as a global financial crisis. SACCOs could be made to adjust their credit policy in line with other financial institutions in the market where loans provision is reduced dramatically by creating an induced cash crisis.

The empirical studies that have been reviewed have mainly focused on the different SACCO institutions issues that affect the performance of SACCO institutions. Also, most past studies involving credit risk management tried to examine the possible methods to manage credit risk and the impact of borrower's financial standing on credit risk management and the impact of the association of borrower and lender on credit risk management. However, it is possible to come to a conclusion that

although there have been various studies on risk management and related issues both in developed and developing countries, Kenya in particular, it has shown that these studies did not exhaustively and fully examine the credit risk management practices of SACCOs specifically in Kenya. As a result, this study is designed to fill the aforementioned gaps and provide further concrete recommendations having the main objective of assessing credit risk management on the performance of SACCO institutions, a survey of SACCOs within Eldoret Town.

## 2.1 Theoretical Review

Effective credit risk management often involves establishing an ample credit risk environment; working under a good loan issue process; keeping an appropriate credit management that involves a monitoring process as well as adequate controls over credit risk (Basel, 1999). It requires top tier management to ensure that there are proper and clear guidelines in managing credit risk. All guidelines should be stipulated and provided throughout the organization and everybody involved in credit risk management understand them.

### 2.1.1 Portfolio theory

Since the 1980s, companies have applied successfully contemporary portfolio theory to market risk. Financial institutions currently use value at risk models to achieve their interest rate and market risk exposures. Regrettably, however, although credit risk remains the major risk facing most companies, the norm of applying modern portfolio theory to credit risk has remained evidently behind (Margrabe, 2007).

Companies recognize that credit accumulation can hugely affect financial performance of institutions. Therefore, a number of institutions are pursuing quantitative methods to measurement of credit risk. This industry is also making major progress toward developing tools and methods that help to measure credit risk in portfolio management. They also use credit derivatives to transfer risk efficiently while maintaining customer relationships. Portfolio quality ratios and productivity indicators have been adapted by various institutions (Kariuki, 2010). The combination of these developments has majorly improved progress in managing credit risk in a portfolio manner.

Customarily, organizations have taken an asset-by-asset method to credit risk management. While every company's method differs, in general this method involves periodically assessing the quality of credit exposures, using a credit risk rating, and combining the results of this analysis to identify a portfolio's most expected losses. The foundation of the asset-by-asset approach is a comprehensive credit review and internal credit risk rating system. The system helps management to recognize changes in individual credits, or portfolio trends in an appropriate manner. Using the changes identified, credit review, identification, credit risk rating system, management will always make necessary changes to portfolio methods or increase the supervision of credits in a better manner. Whereas the asset-by-asset approach is a very significant component to managing credit risk, it does not give a complete view of portfolio credit risk, where the term risk means the possibility that

losses may likely exceed expected losses in a transaction. Hence, to gain greater knowledge into credit risk, companies usually look to utilize the approach of asset-to-asset with a larger portfolio review using a credit model as alluded by (Kariuki, 2010). Companies increasingly try to address the failure of the asset-by-asset approach to show actual unexpected losses adequately by pursuing a portfolio approach. One weakness with the asset-by-asset approach is that it is not easy to identify and measure concentration. Concentration risk refers to additional portfolio risk arising from increased availability to credit extension, or to a group of associated creditors (Richardson, 2002).

### 2.1.2 Credit Risk Theory

Kipngetch (2015) dealt with the credit risk theory where he called it the structural theory which is said to be the default event derived from a firm's asset evolution modeled by a dispersal process with constant measurements. Such structural models are usually explained and depend on measurements relating to a certain issuer. A dynamic change of this kind is represented by a number of models where the loss arising on failure to meet an obligation is specific. In these models, the inability to meet the obligation can happen throughout all the period of a corporate bond and not only in maturity (Longstaff and Schwartz, 1995).

### 2.1.3 Tax Theory of Credit

Ditcher (2003) indicated that the decision of accepting or not accepting a trade credit depends on the ability to access other sources of funds. A potential borrower compares different financing choices to find out which among them is the best. In an according to Ditcher (2003) exchange contract between a seller and a buyer a future payment may be offered, but it is not free, there is an implicit interest rate which is included in the later final price. Hence, to find the best source of financing his or her business, the buyer should check out the real borrowing cost in other sources of funds. Brick and Fung (1984) suggested that the tax effect should be considered to compare the cost of trade credit with the cost of other financing alternatives.

The main reason according to Brick and Fung (1984) is that if buyers and sellers are in different tax brackets, they will have different borrowing costs, since interest expenses are tax deductible. Brick and Fung (1984) suggestion is that firms in a high tax bracket tend to offer more trade credit than those in low tax brackets. Again, Brick and Fung (1984) stressed that only buyers in a lower tax bracket than the seller will accept credit, because those in a higher tax bracket could borrow more cheaply directly from financial institutions. Another aspect always is that firms within a given industry and categorized in a tax bracket below the industry average don't profit from issuing trade credit. Hence, Brick and Fung (1984) recommended that firms cannot use and offer trade credit at the same time in their business.

### 2.1.4 Liquidity Theory of Credit

This theory, first suggested by Emery (1987), suggests firms that are credit rationed use more trade credit than those with normal access to financial institutions. The central point

as per Emery (1987) of this idea is that when a firm is financially constrained the offer of trade credit can fill for the reduced credit offer from financial institutions. In accordance with this view, Emery (1987) indicated that those firms showing good liquidity or improved access to capital markets usually have the ability to finance those that are credit rationed.

## 2.2 Empirical Review

There are many conceptual studies that show the important aspects of risk management activity that organizations need to have in order to continue with risk management practices (Tchankova 2002). Below are the empirical related literatures of the specific aspects of risk management

### 2.2.1 Credit Risk Identification on Organizational Performance

Kargi, (2011) posited that in every financial institution the first way in determining credit risk is profiling customers and understanding the risk environment which surrounds loan products. In cases where these risks have been concluded and put under control there the organization can conclude that it has successfully identified credit risk. However in circumstance where risks have been identified, assessed and are not been put under control, the management will be made aware so as to come up with mechanism and plans to manage them. Kargi (2011) concluded by pointing out that risk identification is a key component of any financial institution regardless of size and economy. Lack of a risk identification process, Kargi (2011) warned that the organization could likely be unable to effectively manage its strategic risks and determine whether they are in control.

Wambugu *et. al* (2009) carried out a research on credit management practices in SACCOs offering front office services in Kenya. He established that risk identification is an important stage in credit risk management and should be applied effectively to identify the current credit risks confronting the organization, provide the likelihood of these risks occurring and reveal the type and amount of loss these risks are meant to cause if they occur. He concluded that an organization should establish a system that provide timely, accurate and relevant risk information in a clear, easily understood manner for the organization to operate and perform in the present unstable market.

It is also prudent for financial institutions to consider the risk categorization that it always implementing. Kimeu, (2008) advised that risk categorization will help organizations effectively and systematic comprehensive risk identification. In cases of SACCO's Kimeu, (2008) argued that it is advisable to use a combination of identification tools ranging from analysing data and building an collective view and also analysing factors or risk groups.

### 2.2.2 Credit Risk Analysis on Organizational Performance

After risk identification, Tchankova (2002) indicated that analysis should follow, this will provide a greater understanding of risk, and is important to the organization as it helps in making risk based. It further assist organizations as it will help to make comparison of risks against each other, which in the long run help organizations to make prioritize on risk events

Nawaz *et al* (2012) did a study on risks management in banks and identified that an effective analysis would typically assess the impact and probability of risks, which could be understood across the organization. They further cited that credit risk analysis should be reviewed regularly to ensure it stays relevant and appropriate to the nature and level of risk within the organization. In addition the frequency of review should reflect the profile of the risks in the organization which it maybe quarterly or after six months but not yearly.

Kolapo, Ayeni and Ojo (2012) carried out a study in Nigeria and he used panel data regression for the period 2000 to 2010. In this study he found that the effect of credit risk on performance of banks as indicated by the Return on Asset (ROA) of banks is cross sectionally invariant. Kolapo, Ayeni and Ojo (2012) concluded that the nature and managerial pattern of individual firms do not determine the impact. Also, Hosna *et. al* (2009) recommended the effect of credit risk management on profitability level of banks. They concluded that huge capital base commitment contributes in a positive way to bank's profitability. Nawaz *et al* (2012) used correlation, regression and descriptive methods to study whether credit risk affect banks performance in Nigeria from between the years 2004-2008. They also found that credit risk management has a significant impact on profitability of Nigerian banks.

Ouma, (1996) carried out a study in Kenya on effects credit risk on loan portfolio performance and from the study findings it was concluded that the analysis of inherent risk provides numerous benefits. Among the benefits identified by the study done by Ouma (1996) is that it assist the organization to understand credit limit figures in the event of a sudden huge control failure of an institution. In addition it helps in identifying major controls and their effectiveness plus providing a clear understanding of the nature of association between risks and their control mechanism

### 2.2.3 Credit Risk Monitoring on Organizational Performance

According to Margrabe, (2007) risk management is the identification, analysis, prioritization assessment of risks which is then is followed by a well-coordinated and economically allocation of resources so as to lessen, observe and finally control the impacts which may be caused by credit risk.

Crockford (1986) indicated that credit risk management is a practice of systematically selecting the cost effective approach so as to minimize the effects of threats to the overall organizational performance. It can be concluded that all risks can never be avoided because of financial situations and other variables. Hence, all financial organizations should have to accept a certain minimum level in their day to day doing of business, (Crockford, 1986).

According to Hubbard and Douglas (2009), risk management involves assigning an officer in charge of risk or a team member who is not the project manager responsible for predicting possible problems in the projects they carry out. Major characteristic of a person in charge of risk is a healthy skepticism. It also includes maintaining live project risk record in the organization. Every risk should have the following features: opening date, title, a brief description, likelihood and significance. Optionally a risk can be assigned a person in charge of

its resolution and a date when the risk must be determined by that time.

Trvisani, Daniele (2007) recommended that “risk management involves; coming up of anonymous risk reporting network and every team member should have the likelihood to report risks that he/she predicts in the project”. Consequently it involves coming up of mitigation plans for certain risks that are chosen to be mitigated within the institution. The importance of the mitigation plan is to define how a particular risk will be controlled what, when, by whom and how will it will be executed to avoid it or reduce the subsequent consequences if it becomes a problem later. Finally risk management always include summarizing premeditated and possible risks, effectiveness of mitigation actions, and work spent for the risk management itself.

Hubbard and Douglas (2009) suggested the following risk management plans to select the appropriate controls and countermeasures to quantify every risk. Risk mitigation requires to be sanctioned by the suitable level of management as specified by the organization hierarchy. For example, a risk about the image of the organization should have top management decision behind it because the matter at hand is of great significance.

According to Kithinji, (2010), after risk assessment phase is done away with it includes preparing a Risk Treatment Plan, which always show the decisions about how each identified risk should be held. Mitigation of risks usually includes selection of security controls, which is documented in a Statement of Applicability, identifying which specific control objectives and controls from the standard have been designated, and why they have been chosen.

### 2.2.4 Credit Risk Mitigation on Organizational Performance

Risk mitigation areas of concern as discussed by Richardson, (2002) includes a lot and if tapped may include shifting from a compliance culture to a risk culture which is the norm to many institutions given the age of infrastructure and a number of well-publicized Sacco failures, it is not new that critical asset risk has board and senior management concern and attention.

Gaitho (2010) measured on credit risk management practices by SACCOs in Nairobi; conclusions revealed that most SACCOs used credit risk management practices to mitigate risks as a source for objective credit risk appraisal. Further, it was found out that majority of SACCOs depended heavily on the discretion and capability of portfolio managers to achieve effective credit risk management practices contrasting to a system that standardizes credit and credit risk decisions.

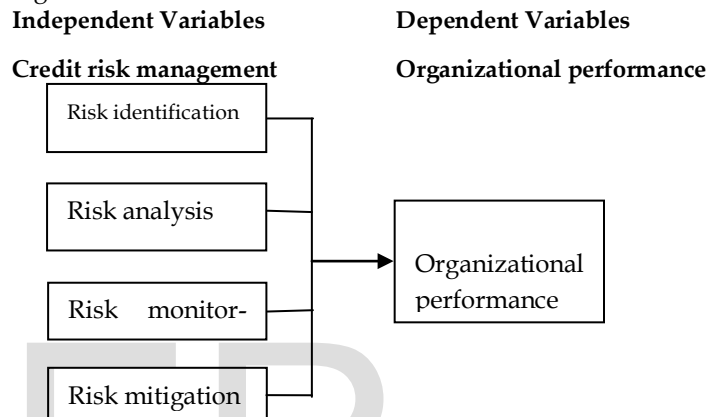
Anam *et. al* (2012) found out that Islamic banks liquidity risk management practices of Brunei Darussalam used two perspectives. Firstly the part covered the issue which deals with understanding risk and risk management in general, risk assessment and analysis, risk identification, risk monitoring, credit risk analysis and or risk management practices. The second issue covered the methods of risk identification including risks normally faced by the Islamic banks. The Study found out that, there are three imperative types of risks that challenge the Islamic banks in Brunei Darussalam.

The first risk is foreign exchange risk and the other risk is credit risk then finally the operation risk. The important methods used in risk identification of Islamic bankers revealed that, Inspection by Sharia’s managers, executive and supervisory staff; audit and physical inspection risk survey, analysis of financial statement are the most important aspects of risk identification. The study further found out that, Islamic banks in Brunei Darussalam are rationally efficient in risk assessing and analysis, risk management and finally risk identification.

### 2.3 Conceptual framework

The relationship between the Independent variables and the dependent variable can be explained using the conceptual framework below.

Fig. 1



### 3.0 METHODOLOGY

#### 3.1 Research design

Kothari *et. al* (2005) descriptive research design allows fact finding enquiries of different kinds in this case information regarding credit risk. In descriptive survey the researcher is able to define clearly, what he/she wants to measure and must get parameters of finding it together with a clear cut meaning of "population" he wants to study.

#### 3.2 Sample size and sampling procedure

The researcher then stratified the Sacco’s in Eldoret town into four strata’s these are matatu Sacco’s, farmers Sacco’s, teachers Sacco’s and employees Sacco’s afterwards the researcher selected 11 Saccos using purposive sampling. According to Mugenda and Mugenda (1999) a sample of 50% of the target population is appropriate when dealing with a survey design, therefore the 11 SAACCOs chosen by the researcher is ideal. With these 11 SACCOs the researcher further selected all the employees working on the credit section using census sampling which yielded a total of 41 employees. Census sampling technique is taking the whole target as the sample.

Table 1. Sample size

SACCO name	Employees on Credit section	Sample
Wareng Teachers	4	4
Moi University	5	5
Boresha SACCO	4	4
Stima SACCO	5	5

Harambee SACCO	3	3
Wakulima SACCO	3	3
Mwalimu national SACCO	4	3
Keiyo Housing Cooperative	3	3
Chepkoilel matatu SACCO	3	3
Refferal SACCO	4	4
Police SACCO	3	4
<b>Total</b>	<b>41</b>	<b>41</b>

### 3.3 Data collection method

Primary and secondary methods of data collection were used. Questionnaires and interview schedules were used to collect data.

### 3.4 Data analysis procedure

To analyze the data, the following Regression model was used.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where

Y is the dependent variable (Sacco's performance)

$\alpha$  is the constant.

$\beta_1, \beta_2, \beta_3$  and  $\beta_4$  are regression coefficients or the change induced in y by each  $x_i$  variable.

$X_1$  = risk identification

$X_2$  = risk analysis

$X_3$  = risk monitoring

$X_4$  = risk mitigation

$\epsilon$  = is the error term

These four parameters of performance were coded as per the respondent's response on the questionnaire and finally measured against the Sacco performance which was in terms of profitability, market share, and customer base. The results from the interview schedule will be discussed and presented alongside the findings of the questionnaire.

## 4.0 DATA ANALYSIS

### 4.1 Gender of the respondents

The researcher sought to know the gender of the respondents in the organization this was considered important as in many organizations gender dictates the nature of job an employee does.

It was established that 25 employees representing 63.2% were male while the remaining 13 that is 36.8% were female. These therefore indicate a gap between the female and male employees at the credit section in the sampled SACCOs.

### 4.2 Age bracket of the respondents

The researcher sought to know the age bracket of the respondents Age is also one of the determinants factors when it comes to employment and that is why the researcher decided to investigate to determine whether they were young, mature or old.

The results indicated that majority of the respondents had an age bracket between 26-35 years, there were 12 employees constituting of 31.6% of the total respondents. This was followed by those who have an age bracket of 35-45 years that is 10 respondents representing 26.3%. The employees who had an age bracket falling between 46-55 years were 6 or 15.8%. Those who were between 18-25 years were 8 or 21.1% while the remaining 2 or 5.3% were over 56 years. It was therefore concluded that employees were mature enough to execute issues related with credit well in the organization.

### 4.3 Level of education

The researcher sought to establish the level of education of respondents. This is a demographic feature that affects behaviors or perception of respondents. It was important to assess the level of education as it is believed that more learned employees can deal with risk management better than the less learned.

Forty percent of the respondents were degree holders, 33% of the respondents were diploma holders while only 27 % of the respondents had Masters. Those who possessed diploma as the level of education were further a Certified Public Accountant finalist. The researcher concluded that most of the employees in organization are learned and can understand the issues of credit risk in the organization.

### 4.4 Designation in the organization

The researcher sought to know the position in which the respondent holds in the organization. This was important as it determines the nature of strategic issues the respondent handles in the organization and also the nature and the level of credit risk is involved and also accorded in the organization.

The researcher sampled 11 loans officers who were same as the accountants and auditors which was in the sampled SACCOs. There were only 5 accounts clerks which participated in the survey. This can be concluded that the majority of the respondents understand well issues of credit risks right from identification, analysis, monitoring and mitigation as they work in the active part of the organization which is charged with credit control.

### 4.5 Working experience of the respondents.

The research sought to know the number of years the staff have worked in the organization, since this will indicate the exposure and experience that the staff have had in the organization and which may relate to the efficiency in employee work environment. Experience contributes to individual competence on execution of organization in enhancement of their performance.

Findings also revealed that 56.7% of the respondents had been in the SACCO credit section for 6-10 years, 20% of the respondents had been in the industry for 1-5 years, 16.7% of the respondents had been in the industry for 11- 15 years, 3.3% of the respondents had been in the SACCO industry for 16-20 years and above. The highest numbers of respondents have a good working experience as they have worked with the organization for more than 2 years which shows that they are aware with the organization issues relating to credit risk

#### 4.6 Importance of Risk Identification in Credit Risk Management

The researcher sought to find out the extent to which respondents concurred with the idea about the importance of risk identification in credit risk management.

Table 1. Importance of risk identification in credit risk management

Importance of risk identification in credit risk management	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	mean	stddev
Ensures risk management function is recognized throughout the whole institution	46.7	26.7	20.0	0	6.7	1.9	1.1
Risk identification helps to sort risk according to their importance in the Sacco	23.3	26.7	26.7	16.7	6.7	2.6	1.2
Risk identification helps management to come up with risk management strategy to allocate resources efficiently and efficiently	10.0	46.7	20.0	13.3	10.0	2.7	1.2

The findings in this item echoed the sentiments of Richardson, (2002) who demonstrated that risk identification is important because when an organization identifies risk, the management can make use of certain credit simulations which is as an important tool be used to determine the level of lending and measuring the risk.

#### 4.7 Risk analysis in Credit Risk Management

The study sought to find out the extent that respondents agreed with the issue about risk analysis in credit risk management. The responses are as shown below

Table 2. Risk analysis in credit risk management

Risk analysis in credit risk management	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	mean	stddev
Risk analysis and assessment includes risk identification of the outcomes	23.3	33.3	36.7	3.3	3.3	2.9	1.0
Risk analysis and assessment includes rises estimation the magnitude of the consequences	13.3	26.7	23.3	33.3	3.3	2.3	1.1
Risk analysis and assessment includes the probability of those outcomes	13.3	20.0	43.3	20.0	3.3	2.9	1.0

The researcher concluded that the findings on risk analysis were same as what Ouma, (1996) wrote in the literature that the analysis of inherent risk provides numerous benefits such as: assisting the understanding of exposure level in the event of a significant control failure of an institution and providing better understanding of the nature of association between risks and their related controls.

#### 4.8 Risk Monitoring in Credit Risk Management

Table 3. Extent to which Respondents concurred with the issue about Risk Monitoring in Credit Risk Management

Extent to which Respondents concurred with idea about Risk Monitoring in Credit Risk Management	strongly agree	Agree	neutral	disagree	strongly disagree	Mean	Stddev
Risk monitoring is utilized to make sure that risk management practices concur with proper risk monitoring.	33.3	40.0	13.3	6.7	6.7	2.8	1.0
Risk monitoring helps the SACCOs management to discover mistake at early stage	26.7	30.0	30.0	13.3	3.3	2.3	1.0
The director's report on risk monitoring enables the shareholders to assess the status of the corporation thoroughly and knowledgeably	6.7	30.0	23.3	33.3	6.7	2.1	1.1

The study therefore collates with the study by Migiri, (2012) who indicated that management should constantly and timely monitor and controls the credit task and importantly control loans with members so as to manage credit

#### 4.9 Risk Monitoring in the SACCOs to Ensure Performance

The study sought to find out the extent that risk monitoring in the SACCOs considers the following types of risks to ensure performance.

Table 4 Risk Monitoring to ensure performance

Risk Monitoring to ensure performance	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Technology risks	23.3	46.7	16.7	10.0	3.3
Market rate risks	13.3	30.0	33.3	16.7	6.7
Credit risks	33.3	26.7	26.7	10.0	3.3

It can be concluded that credit risk is being considered within SACCOs and therefore most SACCOs are in agreement of what Khambata (2012) wrote that credit risk is one of the main risks that extremely affect micro financial institutions viability and performance.

#### 4.10 Extent to which Respondents concurred with the idea about Credit Risk

Table 5. Extent to which Respondents Agreed with the issue about Credit Risk Management Practises in the SACCOs

Extent to which Respondents concurred with the idea about Credit Risk Management Practises in the SACCOs	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
To facilitate credit risk management, a substantial degree standardization of process and documentation is required	30.0	34.3	25.7	10.0	0
Credit risk management leads to standardized ratings between borrowers and a credit range report that presents appropriate data on the general quality of the credit portfolio.	16.7	30.0	30.0	20.0	3.3

Through standardized procedures, the SACCOs can report the quality of its loan portfolio, within the lines of the report presented.	6.7	36.7	26.7	23.3	6.7
Credit management procedures ensure that all credits must be monitored, and reviewed periodically	26.7	23.3	16.7	23.3	10.0
Credit management procedures leads to periodic but appropriate results on the worth of the credit portfolio and its change from month to month	16.7	20.0	26.7	16.7	20.0

The research findings mirrored what Ditcher, (2003) discussed that the success of lending out credit depends on the style applied to evaluate and to give out the loan and the decision on credit decision should be based on a thorough evaluation of the risk conditions of the lending and the features of the borrower.

Table 6. Regression analysis model summary of Credit Risk management and organizational performance

Model	R	R. Square	The Adjusted R Square	Std Error of the Est.
1	.877 <sup>a</sup>	.790	.133	.3385

The model summary explains the extent changes in the dependent variable can be clarified by the variation in the independent variables or the amount of percentage of the variation in the dependent variable (Performance) that is explained by all the four independent variables (Risk identification, Risk analysis, Risk monitoring and Risk mitigation.). The four independent variables that were studied, explain only 79% of the performance as represented by the R2. This indicates that several other important factors not studied in this research contribute 21% of the Performance of SACCOs. Therefore, more research should be done to investigate the other factors which contribute to 21% Performance.

The multiple regression analysis was conducted so as to determine the relationship between Performance and the four variables. The equation

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

generated before therefore becomes:

Table 7. Relationship between Credit Risk management and SACCOs Performance

Model	Unstandardized Coeff.	Std. Error	Standardized Coeff. Beta	t	Sig.
(Constant)	3.747	1.033		0.787	0.255
Risk Identification	1.589	0.107	0.159	1.091	0.001
Risk analysis	0.898	0.139	0.085	0.687	0.003
Risk monitoring	0.654	0.097	0.145	0.97	0.011
Risk mitigation	0.544	0.069	0.210	0.349	0.012

$$Y = 3.747 + 1.589 X_1 + 0.898 X_2 + 0.654 X_3 + 0.544 X_4 + \epsilon$$

Where Y is the dependent variable (SACCOs Performance), X1 is the Risk identification variable, X2 is Risk analysis variable, X3 is Risk monitoring variable and X4 is Risk mitigation

According to the regression equation established, taking all other factors into account (Risk Identification, Risk analysis, Risk monitoring and Risk mitigation) constant at zero, Performance will be 3.747. The data results examined also show that keeping all independent variables at zero, a unit increase in Risk identification in the sampled SACCOs will lead to a 1.589 increase in Performance; a unit increase in Risk analysis will lead to a 0.898 increase in performance, a unit increase in Risk monitoring will lead to a 0.654 increase in Performance, a unit increase in Risk mitigation will lead to a 0.544. The researcher therefore concludes that Risk identification contributes more to the Performance followed by Risk monitoring.

At 5% level of significance and 95% level of confidence, Risk identification had a 0.001 level of significance; Risk analysis had 0.003 level of significant, Risk monitoring showed a 0.011 level of significant, Risk mitigation had a 0.012 level of significant; therefore the most major factor is Risk identification.

The findings concur with Previous Research done by Khambata (2012) which concluded that credit risk management practices should be pooled for effective credit risk management. Furthermore this study coincides with what Kargi, (2011) wrote that the very first process of identifying the risk process is understanding the risk profile and assessing and always identifying the significant risks contained within it and where it has been concluded risks are under control.

## 5.0 CONCLUSION

Study findings revealed that majority of the SACCOs within Eldoret town are very considerate to risk identification as a process in credit risk management to a very great extent and also considers interest rate risk in a very great extent but considers exchange rate risk to a moderate extent.

The key findings further revealed that the sampled SACCOs involve internal auditors largely to identify risk. Also external auditors are used in the risk identification process. The SACCOs too involve middle and senior employees to identify risks that affect SACCOs.

The researcher further established that risk identification ensures that the risk management function is established throughout the whole corporation. Risk identification helps to sort risk according to their importance. Therefore risk identification assists the management to develop risk management strategy to allocate resources efficiently.

The study also found that risk analysis as a credit risk management procedure in the SACCOs the application of modern approaches to risk capacity, especially for credit and overall risks is important for SACCOs.

The findings revealed that the level of credit risk analysis and management was high in the SACCOs. All the SACCOs



within Eldoret town follow procedures when assessing and managing credit risk and that credit risk analysis and management affects credit risk in the SACCOs.

Credit risk management is a structured approach to managing uncertainties by assessing risk, strategy development to manage it, and risk mitigation utilizing managerial resources. The strategies include: avoiding the risk, shifting to another party, dropping the harmful effects of the risk and accommodating some or most of the costs of a specific risk.

Risk monitoring helps the SACCOs management to discover mistake at early stage and that risk monitoring utilized to make sure that risk management practices concur with credit function proper risk monitoring

According to the findings, the director's report on risk monitoring enables the shareholders to look into the nature of the SACCOs knowledge on credit risk and risk monitoring helps the management to discover mistake at early stage. Further risk monitoring utilized to make sure that risk management practices concur with proper risk monitoring.

The study further indicated that SACCOs in Eldoret town has numerous ways of mitigating credit risks, however the issue of members signing an MOU which could be used to prosecute if they fail to repay loan was not a strategy.

Further, SACCOs considers credit risks techniques to ensure profitability and that credit risk identification contributes greatly to organizational performance; this is followed by credit risk analysis.

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