

## **Loan Administration and Financial Performance of Savings and Credit Co-Operative Societies in Kirinyaga County, Kenya**

Allan Muriithi Njogu<sup>1</sup>

Dr. Job Omagwa<sup>2</sup>

*Correspondent Author, School Of Business, Kenyatta University, Kenya<sup>1</sup>*

*Department of Accounting & Finance, School of Business, Kenyatta University, Kenya<sup>2</sup>*

### **ABSTRACT**

*This research project was done with an aim of determining the relationship between loan administration and financial performance of SACCOs in Kirinyaga County. Financial performance is the main objective for organizations when choosing investment channels from a number of available opportunities the investigation was geared to improve the same. Studies have shown that poor financial performance in organizations has led them to have failure in meeting their financial obligations which has threatened their sustainability. Financial performance of SACCOs in Kirinyaga County has been wanting in the last few years. The performance has been recording a declining trend from 2011 which was at 15% to 2015 which was at 14.5%. As the core business of SACCOs is to mobilize member savings then give loans to these members. Financial performance of SACCOs is only achievable if loan administration is effective. A good mix of loan products which are disbursed to members after undergoing proper appraisal process can enhance financial performance if close monitoring and adequate loan security are in place. It is against this background that this study was to assess loan administration as a factor determining financial performance with the aim of establishing the condition for social and financial enhancement. The key objectives were to determine the effect of loan product management, to establish the effect of loan lending, to investigate the effect of loan monitoring and to assess the effect of security administration in relation to financial performance of SACCOs in Kirinyaga County in Kenya. Various theories were incorporated in this study with a view to emphasize on some of the scholars principles. Transaction cost theory establishes the need for qualified staff in the SACCO to minimize cost. Agency theory which defines the boundaries between ownership and stewardship and Portfolio theory establishes how different loan products enhance financial performance. Some of relevant studies carried out by other researchers were incorporated in this study as a way to get the research gap. The research design used was descriptive design for soliciting information relevant for the determination of financial performance of the SACCOs' and data collected from a census of 36 SACCOs. Purposive sampling of 108 respondents three from each of the target population of SACCO in Kirinyaga County using questionnaires was instituted. Data was sorted using descriptive analysis such as standard deviation, multiple regression analysis, mean and correlation coefficient. The study findings were presented in form of tables, charts and also percentages. The mean and standard deviation reflected in study indicated very smaller variations in loan administration and financial performance hence high degree of agreement. The regression equation used in the study revealed that financial performance of the SACCOs in Kirinyaga County in Kenya was influenced by loan administration to a tune of 0.837 or 83.7% while 17.3% was due to other factors. The study also further revealed that there was a strong positive*

*correlation between loan administration and financial performance. The results showed that the four independent variables studied had strong positive correlation coefficients where loan product management had B of 0.002 and p-value of 0.014, loan lending had a B of 0.001 and p-value of 0.001, loan monitoring had a B of 0.003 and p-value of 0.022 and loan security management had a B of 0.004 and p-value of 0.000 all of which were less than the significance level of 0.05. The recommendations of this study were that SACCOs should have clear set loan products which should follow effective lending policy to enhance financial performance. There should also be clear set loan monitoring procedure and adequate charging and valuation of set loan security to facilitate smooth realization process if need be.*

**Key Words:** *Loan Administration, Financial Performance, Savings and Credit Co-Operative Societies, Kirinyaga County*

## **1. INTRODUCTION**

Financial performance has been of great interest for investors all over the world (Bettinger, 1986). The products and services offered by banking institutions have been faced by competition with new entrants and changes in the laws and regulations governing financial institutions (bush, 1987). Performance is a measure of how well and efficient the organization is able to utilise the resources at its disposal to achieve its main objectives (Sollenberg and Anderson 1995). Many savings and credit cooperatives poor achievement is due to non-performing loans (Hoque, 2004). Problems associated with working capital such as low liquidity levels are caused by lax credit standards and poor credit policies that are never revised to reflect current situations. SACCO's members believe in a number of ethical values like honesty, accountability, openness, social responsibility, and considering others interest (Bibby & Shaw, 2005). The principal activity of SACCOs are to mobilize savings from their members and provide them with an opportunity to accumulate their wealth thus create a common pool of funds from where lending can be made to these members at a considerable cost that can be used to cater for operation expenses, contribute to capital reserves and distribute fair and reasonable rates of interest (Cooperatives Digest, 2008).

Credit started as early as after the Second World War in Europe and later to Africa (Kiiru, 2004). This was appreciated there after by other continents and now it has spread everywhere in the whole world. According to Ditcher, (2003) the concept of credit didn't become popular due to high interest rates charged by Banks in USA. This discouraged borrowers but resurfaced back during the 1885 economic boom in USA when the banks had excess liquidity and wanted to lend the excess funds. Credit was largely appreciated in Africa in the 1950's when most banks started opening the credit sections and separate departments to deal with loans issues for the white settlers. In Kenya big companies and rich people were the first to access credit while the poor could not enjoy the facility. Loans granted to customers poor performed in 1990s which attracted attention and called for an intervention. Microfinance Institutions (MFI's) appreciated the concept of credit management in the late 90s, but this did not stop loan defaults to this date (Modurch, 1999). Loan has been classified as the major solution not only to fund the proportional cost of business than to finance working capital and expansion (Pandey, 2004). Loans facilitate growth in financial institutions and retain economical and financial viability (Gijselinckx & Devetere, 2007).

According to Myers and Brealey (2003) credit is where assets and or services are provided with an intention of recovery in a future stated period at a cost as stipulated in the terms of agreement.

A big portion of disbursed loans by SACCOs unfortunately become delinquent and finally result in bad debts hence negative implications on the overall performance (Mwaura, 2005). For the SACCOs to achieve its objective they should enhance their financial performance to a considerable level to increase their profit which is generated from loans. Such profits must be adequate to boost capital reserves which would sustain organization's capital and distribute interest to shareholders. Capital reserves and accumulated retained profit which the SACCO society has generated over time as a result of retained profit constitute the core capital of any organization. Loan administration greatly influences the success or failure of commercial banks and other financial institutions (Nzotta, 2004).

According to Ofei, (2001) mobilization of savings and disbursement of credit that is well managed to empower organization's members forms the main objective of SACCOs. Remember SACCOs have been struggling had in order to achieve this anticipated objective. In Kenya, for instance, savings and credit co-operatives societies have been able to mobilize more than Kshs.230 billion in form of savings, which is approximate 43% of National Domestic Saving (SACCO Times, 2016). The biggest puzzle in the loaning policy is the risk of the loss of the finances by defaulting from the customers. Credit risk is most simply defined as the potential that a financial institutions borrower will fail to meet its obligations in accordance with agreed terms of repayment of loans. The target of loan security management is to maximize a financial institutions risk-adjusted rate of return by sustaining credit risk exposure within acceptable levels. Financial institutions need to manage the risk inherent in the whole portfolio as well as the risk in each loan or transactions (Nnanna, 2005). Financial institutions should consider the correlation between loan risk and other risks. The effective management of loan risk is an important component of a comprehensive approach to loan security management and essential to the success of any financial institution.

SACCO Societies Act, 2008 requires SACCOs to have a written loan policy consistent with the relevant provisions of the Act, and which contains loaning procedures and their documentation, requirements for grant of a loan. SACCOs loan in both short term and long term and provide other facilities like deposit taking at an interest shared from profit realised. The consideration of loans depends with the borrower's capacity to pay and the savings contributed in the SACCO. Loans are granted for different purposes ranging from investments in real estate to emergency issues. Some SACCOs grant loans to group which meet the set requirements. Loans such as education and emergency are granted to cater for short form needs and they last for a period of not more than 12 months at a considerable interest rate which is charged every month on reducing method. The amounts are limited by deposits held and secured by guarantee. The law has been silent on reporting requirements to facilitate compliance monitoring. This omission has had potential dangers for SACCOs because early warning signs have been missed. The Co-operative Societies Act No.12 of 1997 contributed to the end of direct government control of co-operatives that led to the collapse of many SACCOs due to the loan defaults and mismanagement among others. The Cooperative Societies (Amendment) Act, 2004 came into being to curb the cases of mismanagement among others (Manyara, 2003). The government identified the unique needs of SACCOs and the volumes of financial responsibilities and enacted the SACCO Act No.14 of 2008. The implementation of the Act led to the enactment of SACCO Societies Regulatory Authority (SASRA) (KUSCO, 2008).

SACCOs are vital in economic growth since for a long time they have created wealth and employment in the world. Democracy, equality and equity are the bases that govern cooperatives while self-help and self-responsibility forms the roots of these organizations. Cooperative societies are recognized by Kenya's vision 2030 as important players in deepening financial access since they mobilize savings for investments in enterprises and personal development. The cooperative movement in Kenya is vibrant and dynamic in its operation such that it's the strongest and competitive as compared to other counter parts in Africa. The SACCO movement forms a major role in the country's economy thereby controlling around 43 percent of Kenya's domestic product (GDP).

In Kenya more than 300,000 people are employed by the cooperative movement. It also provides opportunities for self-employment to many others. Five percent of Kenyans are members of cooperative societies. This translates to around eight million Kenyans who have directly joined the cooperatives around the country while more than 20 million depend on the movement indirectly (SACCO Times, 2016). The annual turnover constituted by the SACCO movement in Kenya is in the tune of Ksh 440 billion which translates to more than 43 percent of the country's GDP. SACCO movement contributes handsomely to country's economy hence this stipulates that it is an important integral part of the nation development that can't be dispensed with. The SACCOs movement have mobilized savings from the members to the tune of over Ksh230 billion which is used to provide affordable loans of over Kshs185 billion to borrowers (Sacco times, 2016).

As per Procasur report on overview of SACCOs in Kenya as at March 2012, there were 2959 active SACCOs in Kenya as at 31 December, 2010 out of which 1% of them were registered in Kirinyaga County (SACCO Times, 2016). It therefore follows that Kirinyaga County constitute a proportion of SACCOs registered in Kenya. The co-operative societies in Kirinyaga started as early as 1950 with coffee and cotton farming. This was prompted by the need to come together under the common bond and undertake an economic activity for the common benefit of members. Currently there are 104 cooperative societies cutting across various sectors such as coffee, dairy, housing, irrigation based, savings and credit and multipurpose (Kirinyaga County circular, 2015).

SACCOs in Kirinyaga County, Kenya started in mid 1970s with KICOWO SACCO now Nufaika SACCO in 1974 and Muhigia SACCO now Ollin SACCO in 1976. The co-operative sector has the ability to generate and accumulate savings for enabling their members start small and medium enterprises which has led to the growth of well-established financial infrastructure in the Kirinyaga County (SACCO Times, 2016). Financial performance is paramount for developing economy (Chelogoi, 2013). A strong structure of well-established loans is important for inspiring member's confidence which encourage them to invest and thus stimulate economic growth. This therefore reduces opportunity for loan default, thus creating an attractive economic climate (Kirinyaga County cooperative circular, 2014). Kirinyaga County has 36 registered SACCOs with a membership of 254,342. These SACCO's have mobilized savings from their members to the tune of Kshs 3,472,336,535.4, share capital of Kshs 610,499,429.1 and loan Ksh.3,258,233,325.7 (Kirinyaga County biodata, 2015).

## **2. STATEMENT OF THE PROBLEM**

Financial performance of SACCOs has been inhibited by several challenges relating to effective credit administration (Chelogoi, 2013). Financial performance of SACCOs in Kirinyaga County, Kenya has been declining over the last 5 years from 2011 to 2015. The average growth of net income in 2011 was reported at 15% while in 2015 it stood at 13% which indicated a declining trend. However the SACCOs performance on average has been highly affected. In the period 2011-2015, profits before tax (PBT) have been declining adversely (Kirinyaga County audit report, 2015). In the year 2015 the SACCOs in the county recorded a growth of 13% in PBT unlike the rate recorded in 2014 of 13.7%. In the year 2013 the SACCOs in the county recorded a growth of 13.9% in PBT unlike the rate recorded in 2012 of 14.2%. Year 2011 had recorded a growth of PBT of 15% (SACCO Times, 2016).

Sacco's income is generated from interest realised from loans extended to the members but they do not grow significantly due to poor lending practices (Gaita, 2007). The rising levels of non-performing loans has increased the level of credit risk for the last 5 years as indicated by the ministry of cooperative (Supervision Report, 2015). This situation has adversely impacted on the SACCO's profitability (Kirinyaga County audit report, 2015). There have been delays in loan disbursement in SACCOs which indicate high risks of liquidity. The viability and sustainability of the SACCOs performance has been threatened by credit risk which also hinders the achievement of the objective for which they were formed. This was to provide credit to the members (Kirinyaga County Cooperative circular, 2015). A portion of the loans disbursed by SACCOs becomes delinquent due to poor loan administration practices and thus contribute to bad debts which influence financial performance. Despite there being stringent rules from the Ministry of Cooperative and SACCO society regulatory authority, some SACCOs have had tough annual general meetings and mostly on the rate of dividend (Arko, 2012).

Some of the SACCOs membership has been declining despite the big numbers observed during inception. There has been a significant shift of members from some SACCOs to the banks indicating a sense of dissatisfaction and in the past few years most studies undertaken focused mainly on the credit models impacting on the profitability for the SACCOs (Migiri, 2002). The principal motivation behind this study was the absence of sufficient empirical studies on loan product management, lending, credit monitoring systems and loan security administration which tried to find out the effectiveness of loan administration on financial performance among SACCOs in Kirinyaga County, Kenya.

Various scholars have tried to establish the relationship between loan administration and financial performance of SACCOs in their research work. For example, the relationship between loan policy and financial performance was studied in Nairobi County (Ajiambo, 2013) and Mutua, (2016) study on the impact of credit risk management on financial performance of SACCOs was done in Kitui County, Kenya. Hence despite this empirical evidence, it remains unclear if loan administration significantly affects financial performance especially in Kirinyaga County since there is very little or no evidence to that extent. The current study seeks to consequently seal the gap by answering the research question pertaining to impact of loan administration and financial performance of SACCOs in Kirinyaga County in Kenya.

## **3. OBJECTIVES OF THE STUDY**

The general objective of the study was to establish the influence of loan administration on financial performance of SACCOs in Kirinyaga County, Kenya.

The study sought to achieve the following specific objectives:

- i) To determine the effect of loan product management on financial performance of SACCOs in Kirinyaga County, Kenya.
- ii) To establish the effect of loan lending on financial performance of SACCOs in Kirinyaga County, Kenya.
- iii) To investigate the effect of loan monitoring on financial performance in SACCOs in Kirinyaga County, Kenya.
- iv) To assess the effect of security administration on financial performance in SACCOs in Kirinyaga County Kenya.

### **3. THEORETICAL REVIEW**

The theoretical review of the study relates to the philosophical basis on which the study will take place and from the link between the theoretical aspect and practical components of the study to be undertaken (Swanson, 2013). The study explores the following theories that relate to the variables and the study generally.

#### **3.1 The Transaction Cost Theory**

Ronald Coase developed Transaction cost theory in 1937. This theory recognizes that SACCOs can determine their profitability through reduced cost in their operations. According to Ronald Coase (1937), every SACCO will expand as long as its activities can be performed cheaply within the organization. The theory explains the different inherent in similar organisation enjoying the same business climate but realizing substantially different profits. Lower transaction costs are desirable for increased SACCO's income. The SACCO will grow because it is able to perform its activities more cheaply hence realise a large margin for the profit. Transaction costs theory establishes the need for competitive personnel who would contribute to SACCO's financial performance enhancement (Abdullah & Valentine 2009). According to Williamson (1981), costs are incurred every time products or services are transferred from one position to another. This may involve use of technological capabilities which transforms the product or the service. According to Coase (1937) the size of the firm is dependent on the costs of using the price mechanism, and on the costs of organization of other entrepreneurs. These two factors together determine how many products of loan a SACCO produces and how much of each kind of the loan.

Transaction cost theory, is concerned with enhancing proper cost management by managers through minimization of operation cost like labour and other expenses that go with a running institution so as to maximize shareholders' interest which is achievable through cost cutting measures and reduced learning time caused by labour turn over (Padilla, 2002). According to the transaction cost theory revenue expenditure should be charged in the respective period incurred while capital costs should be spread over life time of the cost and apportioned appropriately to enhance financial sustainability. In this study Transaction cost theory will be of importance since financial performance will be achieved through cost minimization in SACCO's operations. Cost minimization can be reduced through having competent staff, low labour turn over and diversification (Townsend, 1979).

### **3.2 Agency Theory**

Jensen and Meckling developed Agency Theory in 1976. The theory separates the SACCO Society to two stakeholders; agents, and the shareholders (Clarke, 2004). According to this theory there is a clear boundary established between the agent and the owner. It is a management tool where the principal's goals are supposed to be discharged by the agent for the benefit accruing to the principal at some cost paid to the agent (Judge & Stahl, 1995). According to the theory, SACCO members expect the management to make policies which should govern the financial institution and act as a blue print which should be followed by other staff to discharge duties assigned to them for the benefit of shareholders interest (Padilla, 2002). This theory defines the role of various stakeholders as pertaining to ownership and control (Bhimani, 2008). In order to facilitate working towards a common goal, Agency Theory holds that there should be proper synergy between the agent represented by management and its shareholders.

The theory protect and safeguards member's interest with the view of improving the benefit accruing from the SACCO's business without forfeiting the interest of the agents who should be motivated to achieve the intended end (Abdullah & Valentine, 2009). It therefore follows that the management ensure perfection in the organization achievement so as to enhance financial performance which contributes to all stakeholders' interest (Daly et al., 2003). According to Donaldson & Davis (1991) agency theory appreciates the importance of effective organization structures which empowers the management and also allows for their autonomy which is built on trust. The theory involves professionalism in the conduct of business to enhance accountability and responsibility which are essential element for a sound performing firm (Abdullah & Valentine 2009). When there is economic recession or when there is tough competition agency theory suggests a professional approach towards economic situations (Zetsche, 2007). This theory will assist the management in coming up with a credit policy that will assist the loan administration hence the overall performance of the business. It will also assist in identifying the role of the organization's officers in the achievement of SACCO's goal pertaining to financial enhancement in Kirinyaga County.

### **3.3 Portfolio Theory**

Portfolio theory was developed by Markowitz in 1952. It was later improved by Fischer Black and Myron Scholes in 1973. This theory tries to maximize portfolio expected return within a given level of portfolio risk. It also tries to minimize the risk associated with a certain loan product for a given level of expected return, by carefully choosing the proportions of various loan products (Markowitz, 1952). The theory provides a practical insight into how SACCOs' should manage their loan portfolio to enhance their goals. According to Portfolio theory, it's feasible to construct an efficient and effective portfolio of loan products generating the maximum possible expected returns from a variety of loans available. According to Diamond (1984) the main reason behind product existence in the financial institutions is diversification in these products to maximize their returns. SACCO's goals can be seen as generating super profit which is ultimately achieved from the institutions ability to add economic value for its customers at the risk of oversimplification (Padilla, 2002). There should be avoidance of large losses which may be caused by poor lending practices. Since profit is the ultimate goal of SACCOs, effective risk diversification and careful loan monitoring can help keep the likelihood of poor performance at a tolerable level (Lin *et al.*, 2008).

According to Portfolio theory the loan interest rate cannot be determined in isolation based on its risk and return features but also other factors like competition. The actual issue faced by SACCO member is how their deposits in the organisation earn high return despite the risks associated in their own portfolios. James Tobin (1958) improved on Markowitz's work by establishing a risk-free asset to the analysis. The third goal in Portfolio theory gives a different aspect on risk and return. A good example from portfolio theory is a loan that is risky in the sense that its repayment is bound to change highly due to the nature of the borrower's income. Within a larger number of products these movements have low correlation with the overall loan product thus they should tend to be washed out due to effect of law-of-large-numbers. In contrast, adding a loan product which appears to be less volatile but which is highly correlated with the overall loan products could raise loan portfolio volatility disproportionately. Portfolio theory stipulates that financial institutions should seek stable loan products which would increase the interest of loans that are less correlated with the competitor's interests relative to high beta loan (Bennett, 2014).

It is necessary for financial institutions lending money to know how portfolio theory helps to reconcile the inherent tension between profitability through specialization and the need to spread risk through diversification to maximise benefit and minimize cost. SACCOs aiming at diversifying into new products faces the heightened cost of advertisement and diluted profitability because of the expertise required for sound and profitable lending. Portfolio theory in banking was first published by Fischer Black and Myron Scholes (1973). This model provided SACCOs with a strategy on how to diversify in different loan products to help maximize their profits (Padilla, 2002). Portfolio theory plays an important part in today's financial industry and has provided financial institutions with a very important tool in combating default and loss of profit. This theory will be of use in my study since a portfolio of different loans products like short term and long term loans with different interest rate will be involved in the study. This theory will help to get the best combination of loans products that will maximize the expected returns for financial performance to be achieved.

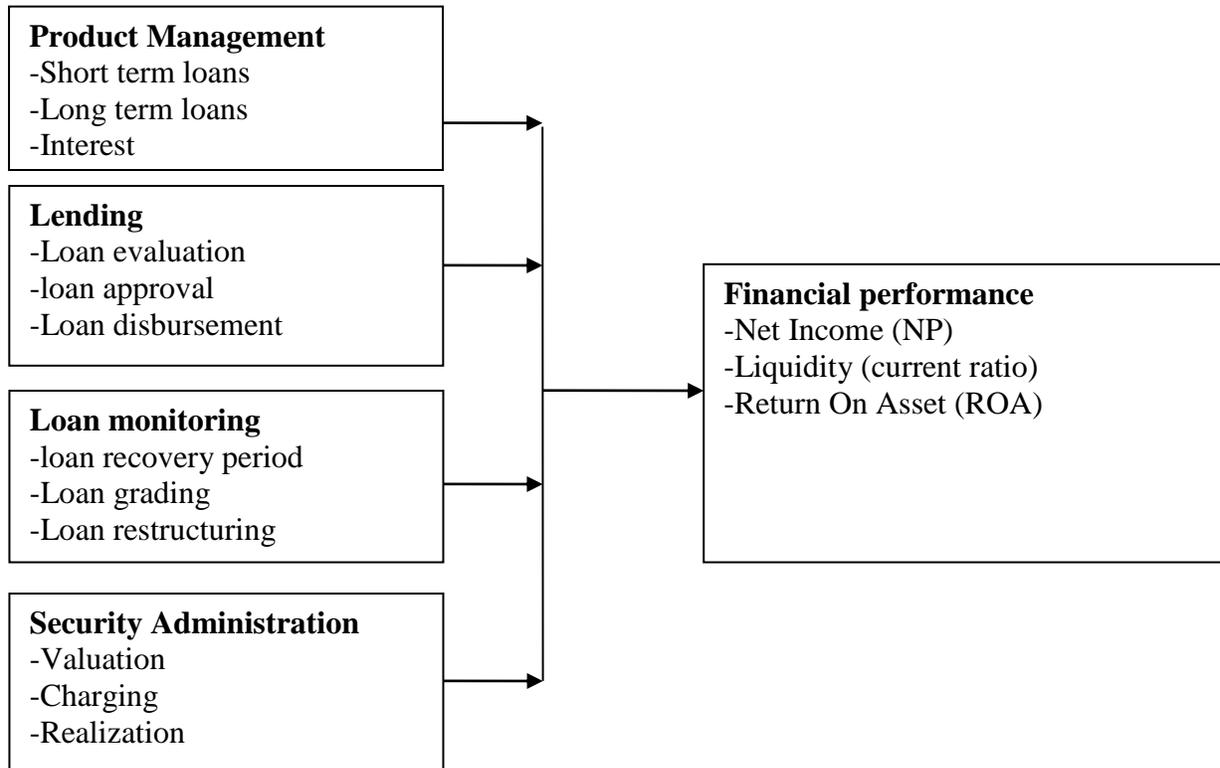
#### **4. CONCEPTUAL FRAMEWORK**

The research will adopt the conceptual framework illustrated in the figure below. The independent variables identified are product management, lending, loan monitoring and security administration. These variables shall be studied to identify their significance to financial performance.

**Independent Variables**

**Dependent variable**

**Loan administration**



*Figure 2.1 Conceptual Framework*

**5. RESEARCH METHODOLOGY**

This study used descriptive survey in describing the behavior of different existing phenomenon and gathering relevant information on loan administration and financial performance of SACCOs in Kirinyaga County. The researcher focused on 36 SACCOs registered by Kirinyaga County Government (Kirinyaga County audit report, 2016). The target respondent was 3 officers from each of the 36 SACCOs that is two from the credit department and one from the accounts department. At the SACCO level the study used a census of the 36 SACCOs registered by the Kirinyaga County Government. Respondents were picked using purposive sampling. In particular, 3 respondents were purposively selected from each of the SACCOs making a sample size of 108 respondents. These were two loan officers and one accounts officer. Data collection was based on primary and secondary sources where primary data was obtained through the use of research questionnaires as the main data collection instrument. Relevant books in different libraries and university's annual reports acted as the main source of secondary data. Questionnaires were both open and close ended and also qualitative and quantitative in nature to capture all aspects of the factors influencing financial performance in SACCOs. The research was carried out using secondary data extracted from the SACCOs inspection reports, by-laws, loan policies, published audited accounts, and annual reports from the Department of Co-

operative Development and Marketing. The data collection source was justified by the fact that all the SACCOs filed the above stated documents with the Department of Co-operative Development and Marketing.

The research instrument was divided into three parts where part A covered general information, part B consisted of questions focusing on loan administration and C focused on financial performance of SACCOs in Kirinyaga County. The questionnaires were administered through drop-and-pick technique. The researcher attached letter of introduction which explained the reason for the study. The researcher identified the respondents from the SACCOs website and some by inquiring with the SACCOs customer service staff. The respondent were given a period of one week to complete and return the questionnaires. The secondary data was collected through review of the data from the SACCO's annual reports and publications. The study data analysis involves the transformation of the same through editing, error correction, establishing of omission and finally consolidating in to more meaningful information for decision making. Data was sorted using descriptive analysis such as standard deviation, multiple regression analysis, mean and correlation coefficient.

## 6. RESEARCH FINDINGS

The study sought to establish the relationship between loan administration and financial Performance of SACCOs in Kirinyaga County in Kenya. Coefficient of Correlation analysis was used to achieve this end. Table 4.8 shows that there were significant correlation coefficients established between loan administration and financial performance (net income). Good and positive linear relationships were established between financial performance (net income) and: Loan products ( $r_1 = 0.763$ ); lending ( $r_2 = 0.712$ ); loan monitoring ( $r_3 = 0.822$ ) and loan security management ( $r_4 = 0.672$ ). Strong and positive relationship was established between financial performance (Net Income) and Loan monitoring ( $r_3 = 0.822$ ). This depicts that loan administration influenced financial performance (Net Income) of SACCOs in Kirinyaga County in Kenya.

**Table 1: Correlation coefficients**

---

Loan administration variables	financial performance (net income)	
Loan product management	$r_1$	0.763
Lending	$r_2$	0.712
Loan monitoring	$r_3$	0.822
Loan security management	$r_4$	0.672

---

Table 1 shows that there is a strong positive correlation between loan product management and financial performance. There is also a strong positive correlation between loan lending and financial performance. There is also a strong positive correlation between loan monitoring and financial performance. Loan security management has fairly strong positive correlation with financial performance. This shows that unit increase in Loan product management, loan lending, and loan monitoring and loan security management increases financial performance in

SACCO. A unit decrease in Loan product management, loan lending, loan monitoring and loan security management led to a decrease in financial performance of SACCOs.

The study sought to establish the relationship between loan administration and financial performance of SACCOs in Kirinyaga County in Kenya. To achieve this, a multiple linear regression was done on net income proxy dependent variable for financial performance against Loan product ( $x_1$ ), lending ( $x_2$ ), loan monitoring( $x_3$ ) and security management ( $x_4$ ) as proxy independent variables of loan administration.

**Table 2: Model's Goodness of Fit Statistics**

R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin- Watson
.917a	.841	.837	.757	2.019

a. Predictors: (Constant), Loan products, Lending, loan monitoring and loan security.

b. Dependent Variable: financial performance (Net Income)

Table 2 above shows that there is a good linear association between the dependent and independent variables used in the study. This is shown by a correlation (R) coefficient of 0.917. The determination coefficient as measured by the adjusted R-square presents moderately strong relationship between dependent and independent variables given by a value of 0.837. This depicts that the model accounts for 83.7% of the variations in financial performance (Net Income), while 16.3% was not established by the regression model. Durbin Watson test was used as one of the foremost test for regression analysis which tested whether there was a chance of autocorrelation within the model's residuals. There was no autocorrelation in the model's residuals since Durbin Watson value was close to 2 (2.019). In view of pearsons correlation (R), there was a strong positive correlation between loan administration and financial performance of the SACCOs studied.

**Table 3: Analysis of Variance (ANOVA)**

	Sum of Squares	df	Mean Square	F	Sig.
Regression	114.451	5	22.890	35.037	.000 <sup>b</sup>
Residual	27.659	37	.748		
Total	142.11	42			

a. Predictors: (Constant), Loan products, Lending, loan monitoring and loan security.

b. Dependent Variable: financial performance (Net Income)

The ANOVA statistics presented in Table 3 was used to present the regression model significance. The p - value of 0.000 indicates that the regression was significant in predicting how loan administration influenced financial performance of SACCOs in Kirinyaga County in Kenya. Since the P-value is less than 0.05 the model overall is a good fit. The F critical at 5%

level of significance was 35.037 since F calculated is more than F critical (value =2.371), this shows that the overall model was statistically significance in explaining financial performance. Thus, the model is very significant.

**Table 4: Regression Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
constant	2.413	.861		10.055	.487
Loan product	.002	.097	.001	.016	.014
Lending	.001	.115	.010	.014	.001
Loan monitoring	.003	.137	.002	.022	.022
Loan security	.004	.212	.003	.031	.000

*a. Dependent Variable: financial performance (Net Income).*

The regression analysis was conducted for the research so as to determine the how loan administration influenced financial performance of SACCOs in Kirinyaga County, Kenya. Results in table 4 above indicates that according to the regression equation established, taking all factors (loan products, lending, loan monitoring and loan security management) constant, the financial performance of the SACCOs in Kirinyaga County will be 2.413. The data findings also reflects that taking all other independent variables constant a unit increase in loan product management leads to a 0.002 unit increase in financial performance all else held constant; a unit increase in loan lending leads to a 0.001units increase in financial performance all else held constant; a unit increase in loan monitoring leads to a 0.003 unit increase in financial performance all else held constant and a unit increase in loan security management leads to a 0.004 unit increase in financial performance all else held constant.

The study shows that there is fairly positive effect of loan administration on financial performance of the SACCOs in Kirinyaga County in Kenya. In view of results in table 4.7 Loan product management has p-value of 0.014 which is less than the significance level of 0.05. Hence, Loan product management has a significant effect on financial performance of SACCOs. Consequently i reject the null hypothesis associated with the study that loan product management does not have significant effect on financial performance. The results indicate that loan lending has p-value of 0.001 which is less than the significance level of 0.05. Hence, loan lending has a significant effect on financial performance of SACCOs. Hence we reject the null hypothesis associated with the study that lending does not have significant effect on financial performance. In addition loan monitoring has p-value of 0.022 which is less than the significance level of 0.05. Hence, loan monitoring has a significant effect on financial performance. Consequently we reject the null hypothesis associated with the study that loan monitoring does not have significant effect on financial performance. Lastly loan security management has a p-value of 0.000 which is less than the significance level of 0.05. Hence,

loan security management has a significant effect on financial performance of SACCOs. Hence we reject the null hypothesis associated with the study that loan monitoring does not have significant effect on financial performance of SACCOs in Kirinyaga County in Kenya.

## **7. CONCLUSION**

The study fought to determine the effect of loan administration on financial performance of SACCOs in Kirinyaga County in Kenya. The objectives were arrived at by delving in to the four research hypothesis;  $H_{01}$  Loan product management does not have a significant effect on financial performance,  $H_{02}$  Loan lending does not have a significant effect on financial performance,  $H_{03}$  Loan monitoring does not have a significant effect on financial performance and  $H_{04}$  Loan security administration does not have a significant effect on financial performance. Based on the results from data analysis and findings the study came up with the following conclusion. There was an indication of smaller variations in loan administration and financial performance which is reflected by the mean and standard deviation hence implying a greater degree of agreement. Return on asset (ROA) declined with time which shows under investment of SACCO assets.

In view of results in regression analysis loan product management has a significant effect on financial performance of SACCOs. Consequently we reject the null hypothesis associated with the study that loan product management does not have significant effect on financial performance. The results also indicate that loan lending has a significant effect on financial performance of SACCOs. Hence we reject the null hypothesis associated with the study that lending does not have significant effect on financial performance. In addition loan monitoring has a significant effect on financial performance. Consequently we reject the null hypothesis associated with the study that loan monitoring does not have significant effect on financial performance. Lastly loan security management has a significant effect on financial performance of SACCOs. Hence we reject the null hypothesis associated with the study that loan monitoring does not have significant effect on financial performance of SACCOs in Kirinyaga County in Kenya.

There is a strong positive correlation between loan product management and financial performance, loan lending and financial performance and also loan monitoring and financial performance. There is a fairly strong positive correlation between loan security management and financial performance SACCOs in Kirinyaga County in Kenya. The results postulate that loan administration variables studied are statistically significant to financial performance thus it implies that all the variables studied are important determinants of financial performance in SACCOs and such financial institutions should put a lot of emphasis on loan product management, loan lending, loan monitoring and loan security management to foster financial performance.

## **8. RECOMMENDATIONS**

SACCO should continuously review their credit policies. This should accommodate a variety of loan products as pertaining to short term and long term loans. Short term loan will assist keep check on liquidity position of the SACCOs while long term will attract higher interest due to risk involved. They should enhance assessment of loan applications forms and ensure that loan applications are accurately appraised and considered according to borrower's merit. SACCOs should ensure the approval process is adhered to and timely loan disbursement to facilitate loan recovery, minimize default and administrative costs for financial performance of SACCOs to be

achieved. SACCOs should establish loan monitoring procedures to keep track on loan performance put in place delinquent loan provision; adopt loan security management system that is in line with the current technology to ensure system notification for overdue loans and this should be supported by loan security realization process which is effective. This will ensure that loan default will be well managed.

The study recommended that the management should also adopt sound loan policies to ensure performance of loans as they increase disbursement of loans to increase the loan book from which the interest will be paid. Loan should have adequate security and proper charging of collateral to reduce chances of loan loss. The researchers noted there were large loan risks involved and therefore the SACCO management should ensure the formulation of a well-defined credit policy that should govern loan security. This would reduce the chances of liquidity risk and improve financial sustainability of the financial institutions. The process of security realization should be well spelt out to avoid ambiguity and make it simple for administration. To researchers and academicians, the study provided an opportunity for further specific studies to be carried on. These include studies on risk management that pertains to loan security management which requires more insight since it's wide and requires more time and wide scope. To the regulator, The SASRA, the study recommended that they should review legal framework for the SACCOs to ensure sound loan policies are put in place for improved financial performance. They should also ensure networking with other SACCOs to promote information sharing to reduce chances of default by fraudulent customers. Offer education and training to stakeholders and encourage participate in corporate social responsibility.

## REFERENCES

- Ajiambo, E. N. (2013). *The relationship between loan policy and financial performance in Saccos in Nairobi County, Kenya*. Research project submitted in partial fulfilment of the requirements for the award of degree of masters of business administration.
- Alemaheyu, D. (2011). *Basic Research Methods*. Berlin: Grobus Publishing.
- Almazari, A. A. (2011). Financial Performance Evaluation of Some Selected Jordanian Commercial Banks. *International Research Journal of Finance and Economics*. ISSN 1450-2887 Issue 68 (2011) © Euro Journals Publishing, Inc. 2011.
- Arko, S.K. (2012). *Determining the causes and impact of nonperforming loans on the operations of microfinance institutions: A case of Sinapi Aba Trust*. An executive MBA thesis. Kwame Nkrumah University and Technology, Accra, Ghana.
- Augusto, G. (2003). *The monetary theory of production*. London: Combridge University press.
- Bettinger, C. 1986. Facing the day-to-day challenge of practical strategic planning. *American Banker*, 3(1)4-6.
- Bibby, A., & Shaw, L. (2005). *Making a difference: Cooperative solution to Global poverty*. Manchester, UK: Cooperative
- Bonin, J. P., Huang, Y. (2001). Dealing with the Bad Loans of the Chinese Banks. *Journal of Asian Economics*, 12(2) 197-214
- Bryman, A. and Cramer, D. (2012). *Quantitative Data Analysis with SPSS for Windows*. Routledge, London
- Bush, R. (1987) *Banking industry note on Strategic Management*. Columbus, OH: Merrill Publishers.
- Central bank annual report (2010). *Financial Institution Supervision Department (FISD)*. Central Bank of Kenya

- Chodechai, S. (2004). *Determinants of Bank Lending in Thailand: An Empirical Examination for the years 1992 – 1996*, Unpublished Thesis.
- Clement, O., & Martin, O. (2012) Financial Practice as a Determinant of Growth of Savings and Credit Co-Operative Societies' Wealth. (A Pointer to Overcoming Poverty Challenges in Kenya and the Region). *International Journal of Business and Social Science* Vol. 3 No. 24 [Special Issue – December 2012].
- Collins, D. (2003), Presenting survey instruments: an overview of cognitive methods. *Quality of Life Research*,6,67-70.
- Cooperate Bank of Kenya. (2010). *Co-operative Movement in Kenya*. Nairobi: Cooperate Bank of Kenya.
- Diamond, D. W. and Verrecchia, R. E. (1984), "Optimal Managerial Contracts and Equilibrium Security Prices", *Journal of Finance*, 37, 275-287.
- Ditcher, B. (2003). *Corporate Finance and Investment: Decisions and Strategies*. England; Prentice Hall.
- Ellis A. (2007). *Gender and economic growth in Kenya: Unleashing the power of women*. Washington DC. World Bank Publications.
- Fraenkel, J. R. and N. E. Wallen. (2001). *Educational Research: A Guide to the Process*.
- Fraser, D.R, Philips, W., & Rose, P.S.(1974). A Canonical Analysis of Bank performance. *Journal of Financial and Quantitative analysis*, 9(2), 87-95
- Frenzyied, (2013). *Loan Policy* (Accessed 14th March 2014) Available from World Wide Web: [www. Loan Policy Co-operative Movement in Kenya.htm](http://www.LoanPolicyCo-operativeMovementinKenya.htm).
- Gaita, S. (2007). Factors that influence the growth of enterprises. A case study of enterprises participating in Msingi loan from Bomas in Thika District, JKUAT, MA Thesis, Jomo Kenyatta University of Agriculture and Technology, Juja, Kenya
- Kothari,C.R. (2004). *Research Methodology: Methods and Techniques*,2<sup>nd</sup> Edition. New Delhi:New Age International limited.
- Khrawish, H.(2011). Determinant of commercial banks performance in Jordan. *International Journal of finance and economics*,32(4),429-439.
- KUSCCO. (2007). *The Sacco Family Union Newspaper*. Nairobi, Kenya Union of Savings Credit Co- Operative Unions [KUSCO].
- Ledgerwood, J. 1999. *Microfinance handbook: An institutional and financial perspective*. Washington DC: Worldbank Publications.
- Leedy,p.d.,& Almond, J.E.(2005). *Practical research: planning and design*, 8<sup>th</sup> edition. Upper Saddle River, NJ: Prentice Hall.
- Lin, C.H., Peng, C.H., & Kao, D.T. (2008). The Innovativeness Effect of Market Orientation and Learning Orientation on Business Performance. *International Journal of Manpower*, 29 (8), 752-772.
- Manyara, K. M. 2003. *The Development of Cooperative Law and Policy in Kenya*.
- Markowitz H.M (1952), *Portfolio Selection*. *Journal of Finance*, Vol 7 no1.
- Ministry of Industrialization and Enterprise Development 2013. Ministry of Industrialization and Enterprise Development. Accessed on 2 October, 2013 from <http://www.industrialization.go.ke>
- Morduch, J. (1999), "The Microfinance Promise," *Journal of Economic Literature*, Princeton University.
- Mugambi & Ondabu (2015) study on effect of Loan Repayment on financial performance of

deposit taking SACCOs in Mount Kenya Region.

- Mugenda, M. & Mugenda, G. (2003). *Research Methods: Quantitative and qualitative Approaches*. Nairobi: Acts Press.
- Muruana, M. N. (2007). *Effects of inflation on share capital and loan portfolio with the co-op organisations in Kenya*. A case study of Chai saving and credit co-operative society. MBA thesis, Moi University, Eldoret, Kenya.
- Muthoni, J. M. (2011). *Measuring Bank Operational Efficiency using Data Envelopment Analysis: A Case study of Kenya Commercial bank LTD* (Unpublished MBA Research Project). University of Nairobi.
- Odhiambo, J., (2013). *The relationship between working capital management and financial performance of deposit taking savings and credit co-operative societies licensed by SACCO societies regulatory authority in Nairobi county*. (Published Masters Thesis) University of Nairobi.
- Pandey, I. M. (2010). *Financial management*. 9th Edition, New Delhi: India Vikas publishing House PVL Ltd.
- Republic of Kenya (2007). *Kenya vision 2030*, The National economic and social council of Kenya (NESC)
- Scheufler, B. (2002). *Five Risks You Can Target with Best Practices*. [On-line]. Available <http://www.dnb.com> (19/05/13)
- Sharma, S. (1989) Identification and Analysis of Moderator Variables. *Journal of Marketing Research* 56, 77-81.
- Trochim, W .M.(2005). *The Research Methods Knowledge Base*, 2<sup>nd</sup> Edition. New York: Irwin/McGraw-Hill.
- Wanjiru, A.N. (2016) study on factors affecting financial performance of SACCOs in Kiambu County, Kenya
- Wen, W.(2010). Ownership Structure and Banking Performance New Evidence in China. University of Barcelona, *Development of Economics*, 62(4), 8-21.

**This is an open-access article published and distributed under the terms and conditions of the  [Creative Commons Attribution 4.0 International License](https://creativecommons.org/licenses/by/4.0/) unless otherwise stated. Authors seeking to publish with an International Peer Reviewed Journal should consider [www.ijcab.org](http://www.ijcab.org) by writing to the Editor at [editor@ijcab.org](mailto:editor@ijcab.org). List of our Journals are Available at [www.ijcab.org/journals](http://www.ijcab.org/journals)**