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Effect of Credit Risk Management Practices on Financial Performance of Savings and Credit Cooperative Societies in Meru County, Kenya

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Abstract

Savings and Credit Cooperative Societies (SACCOs) are central to Kenya's financial system through their contribution to savings mobilization, affordable credit provision, and expansion of financial inclusion. However, the increasing incidence of non-performing loans has continued to undermine their profitability, liquidity position, and long-term financial sustainability despite ongoing regulatory and supervisory reforms. Strengthening credit risk management has therefore become a strategic priority for enhancing loan portfolio quality and improving institutional performance. This study investigated the effect of credit risk management practices on the financial performance of Savings and Credit Cooperative Societies in Meru County, Kenya. The study was guided by Credit Risk Theory and employed a positivist research philosophy, quantitative research approach, and descriptive-correlational research design. The study targeted 186 management personnel from 50 SACCOs within Meru County, with all respondents included through a census approach. Primary data were collected using structured questionnaires whose validity and reliability were confirmed before the main data collection exercise. Data analysis involved descriptive statistics, Pearson Product Moment Correlation, and simple linear regression analysis. A total of 170 completed questionnaires were returned, representing a response rate of 91.4%. The results revealed a strong positive and statistically significant association between credit risk management practices and financial performance ($r = 0.661$, $p < 0.05$). Regression analysis further demonstrated that credit risk management practices significantly influenced financial performance ($\beta = 0.661$, $p < 0.001$), accounting for 43.7% of the observed variation in financial performance, leading to the rejection of the null hypothesis. The study concludes that strengthening borrower evaluation, credit appraisal procedures, loan monitoring, periodic portfolio reviews, and debt recovery processes substantially improves financial performance by reducing credit losses and maintaining healthier loan portfolios. The study recommends that SACCOs continuously strengthen their credit risk management frameworks, invest in staff training, adopt digital credit monitoring technologies, and regularly review lending policies to enhance financial sustainability and long-term institutional performance.

Keywords: *Credit risk management practices, financial performance, non-performing loans, Savings and Credit Cooperative Societies, credit risk, Kenya.*

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1. Introduction

Savings and Credit Cooperative Societies (SACCOs) have become an integral component of the financial sector by promoting financial inclusion, mobilizing member savings, extending affordable credit, and supporting socio-economic development across many countries (International Cooperative Alliance, 2023). As member-owned financial institutions, SACCOs facilitate access to financial services among individuals and small enterprises that are often underserved by commercial banks, thereby contributing to employment creation, household income improvement, enterprise growth, and poverty reduction (World Council of Credit Unions, 2024). Their expanding role in financial intermediation has further strengthened local economic development through increased domestic savings mobilization and financing of productive investments in both rural and urban economies (SASRA, 2023). Consequently, maintaining strong financial performance has become essential for sustaining institutional growth and competitiveness within increasingly dynamic financial markets (Maina & Miroga, 2025).

Financial performance reflects an institution's ability to maintain profitability, liquidity, operational efficiency, asset quality, and long-term financial sustainability (Brigham & Ehrhardt, 2022). Financially stable SACCOs are better positioned to expand lending services, improve member satisfaction, strengthen capital adequacy, and withstand economic shocks (Bessis, 2022). Nevertheless, increasing levels of non-performing loans continue to undermine institutional performance by reducing interest income, increasing impairment provisions, weakening asset quality, and constraining liquidity (SASRA, 2023). Mirichii et al. (2023) further observed that deteriorating loan portfolio quality remains one of the leading threats to the sustainability of deposit-taking SACCOs in Kenya. These challenges have heightened the need for effective credit risk management as a strategic mechanism for safeguarding financial performance.

Credit risk management refers to the systematic process through which financial institutions identify, assess, monitor, and control credit losses associated with lending activities (Saunders & Allen, 2020). The process encompasses borrower appraisal, credit assessment, loan monitoring, periodic portfolio review, collateral evaluation, and debt recovery mechanisms that collectively reduce the probability of loan default (Bessis, 2022). According to the Basel Committee on Banking Supervision (2023), institutions implementing comprehensive credit risk management frameworks are more likely to maintain healthier loan portfolios and stronger financial stability than institutions operating with weak lending controls. Saunders and Allen (2020) similarly argue that prudent credit management contributes significantly to profitability by minimizing credit losses and strengthening asset quality.

Evidence from developed economies consistently demonstrates that effective credit risk management enhances financial performance. Berger et al. (2022) established those financial institutions adopting comprehensive credit appraisal systems and continuous loan monitoring recorded lower default rates and higher profitability than institutions with weaker lending controls. Similarly, Fiordelisi and Mare (2021) found that structured credit risk management improved operational efficiency, asset quality, and long-term financial sustainability among

cooperative financial institutions in Europe. Worthington (2023) further reported that institutions investing in modern credit risk management systems exhibited greater resilience during periods of financial uncertainty.

Comparable findings have been reported across Africa. Amoako et al. (2022) established that effective borrower appraisal and continuous loan monitoring significantly reduced non-performing loans among cooperative financial institutions in Ghana. In Nigeria, Adeyemi and Olalekan (2023) reported that weak credit assessment procedures and ineffective debt recovery mechanisms contributed to declining financial performance. Likewise, Nuwagaba et al. (2022) found that Ugandan financial institutions implementing structured credit risk management systems maintained healthier loan portfolios and achieved stronger financial sustainability than institutions relying on weak credit administration practices.

The Kenyan SACCO sector reflects similar experiences. Although regulatory reforms have strengthened governance and prudential supervision, non-performing loans continue to present a significant challenge to institutional performance (SASRA, 2023). Mwangi and Muiruri (2022) established that comprehensive borrower appraisal and continuous loan monitoring significantly improve financial performance by reducing credit losses. Mirichii et al. (2023) similarly found that effective credit risk management strengthens liquidity, profitability, and loan portfolio quality among deposit-taking SACCOs. More recently, Maina and Miroga (2025) reported that institutions implementing robust credit risk management practices achieved superior financial performance and greater institutional sustainability. However, relatively few empirical studies have isolated credit risk management practices as an independent predictor of financial performance among Savings and Credit Cooperative Societies operating in Meru County, Kenya. The present study therefore sought to address this contextual and empirical gap by examining the effect of credit risk management practices on the financial performance of SACCOs in Meru County, Kenya.

1.1 Problem Statement

Savings and Credit Cooperative Societies (SACCOs) are expected to achieve sustainable financial performance through effective credit risk management practices that promote prudent lending, minimize loan defaults, preserve loan portfolio quality, and safeguard members' savings (Saunders & Allen, 2020). Comprehensive borrower appraisal, continuous credit monitoring, and efficient loan recovery enable financial institutions to maintain profitability, liquidity, operational efficiency, and long-term financial sustainability (Bessis, 2022). Consequently, effective credit risk management is widely recognized as a critical determinant of institutional performance within regulated financial institutions (Basel Committee on Banking Supervision, 2023).

Despite these expectations, many SACCOs in Kenya continue to experience increasing levels of non-performing loans that undermine financial performance (SASRA, 2023). According to the Sacco Societies Regulatory Authority, non-performing loans among licensed deposit-taking SACCOs increased from KES 41.82 billion in 2022 to KES 46.17 billion in 2023, representing 6.1% of the gross loan portfolio (SASRA, 2023). Rising loan defaults have weakened asset quality, reduced interest income, increased loan loss provisions, constrained liquidity, and limited SACCOs' ability to expand lending and improve members' returns (Mirichii et al., 2023). Although regulatory interventions such as strengthened prudential supervision, enhanced credit appraisal procedures, stricter provisioning requirements, and

improved loan recovery mechanisms have been implemented, non-performing loans remain persistently high (SASRA, 2023).

Previous studies have established a positive relationship between credit risk management and financial performance in commercial banks, microfinance institutions, and SACCOs operating in different geographical and regulatory contexts (Berger et al., 2022; Amoako et al., 2022; Mwangi & Muiruri, 2022). However, limited empirical evidence exists on the specific effect of credit risk management practices on the financial performance of SACCOs in Meru County, Kenya. This contextual and empirical gap motivated the present study.

1.2 Research Objective

To assess the effect of credit risk management practices on the financial performance of Savings and Credit Cooperative Societies in Meru County, Kenya.

1.3 Research Hypothesis

H_{01}: Credit risk management practices have no statistically significant effect on the financial performance of Savings and Credit Cooperative Societies in Meru County, Kenya.

2. Literature Review

2.1 Theoretical Review

This study was anchored on Credit Risk Theory, which originated from the work of Altman (1968) on credit risk assessment and bankruptcy prediction. The theory explains how financial institutions manage credit risk by identifying, assessing, monitoring, and controlling borrower default risk to minimize credit losses and improve institutional performance (Altman, 1968). It provides a foundation for prudent lending by emphasizing systematic credit appraisal, continuous loan monitoring, and effective risk mitigation throughout the credit cycle (Saunders & Allen, 2020). Owing to its emphasis on sound credit administration, the theory has been widely applied in banking and financial management to explain the relationship between credit risk management and organizational performance (Bessis, 2022). Recent studies have similarly applied Credit Risk Theory to explain financial performance among regulated financial institutions, including Savings and Credit Cooperative Societies (Mirichii et al., 2023; Maina & Miroga, 2025).

Credit Risk Theory assumes that every lending decision exposes financial institutions to the possibility of borrower default because repayment capacity and willingness vary across borrowers (Bessis, 2022). The theory therefore advocates comprehensive borrower appraisal, rigorous credit assessment, prudent loan approval, continuous borrower monitoring, and effective debt recovery to minimize credit losses and maintain loan portfolio quality (Saunders & Allen, 2020). Basel Committee on Banking Supervision (2023) similarly argues that institutions adopting comprehensive credit risk management frameworks are more likely to maintain healthy loan portfolios, lower non-performing loan ratios, and stronger financial performance. Consequently, prudent credit risk management is regarded as an essential mechanism for promoting financial stability and institutional sustainability.

Within the SACCO sector, Credit Risk Theory provides an appropriate explanation of how effective credit risk management practices influence financial performance. Comprehensive borrower appraisal, periodic credit review, continuous loan monitoring, and efficient debt recovery reduce loan defaults and strengthen loan portfolio quality (Mirichii et al., 2023).

Improved loan portfolio quality subsequently enhances profitability, liquidity, operational efficiency, and institutional resilience (Maina & Miroga, 2025). Although the theory places limited emphasis on macroeconomic and behavioural factors that may influence borrowers' repayment behaviour, it remains appropriate because it directly explains how prudent credit risk management contributes to improved financial performance (Bessis, 2022). Accordingly, Credit Risk Theory provided the theoretical foundation for examining the effect of credit risk management practices on the financial performance of Savings and Credit Cooperative Societies in Meru County, Kenya.

2.2 Empirical Review

2.2.1 Credit Risk Management Practices and Financial Performance

Credit risk management practices are widely recognized as a critical determinant of financial performance because they enable financial institutions to identify, assess, monitor, and mitigate credit risk throughout the lending cycle (Saunders & Allen, 2020). Effective credit risk management incorporates borrower appraisal, credit analysis, loan approval procedures, continuous loan monitoring, collateral management, periodic credit review, and debt recovery mechanisms that collectively reduce the likelihood of loan default and strengthen loan portfolio quality (Bessis, 2022). According to the Basel Committee on Banking Supervision (2023), institutions implementing comprehensive credit risk management frameworks are more likely to preserve asset quality, improve liquidity, and achieve sustainable profitability than institutions operating with weak credit administration systems.

Empirical evidence from developed economies consistently supports the positive contribution of credit risk management to institutional performance. Berger et al. (2022) established that banks implementing comprehensive credit appraisal procedures and continuous loan monitoring recorded significantly lower non-performing loan ratios and higher profitability than institutions with weaker credit controls. Similarly, Fiordelisi and Mare (2021) found that effective credit risk management improved loan portfolio quality, operational efficiency, and long-term financial sustainability among cooperative financial institutions in Europe. Worthington (2023) further reported that institutions adopting structured credit risk management systems demonstrated greater financial resilience and stronger organizational performance during periods of economic uncertainty.

Comparable findings have been reported across Africa. Amoako et al. (2022) found that effective borrower appraisal and continuous loan monitoring significantly reduced loan defaults and enhanced profitability among cooperative financial institutions in Ghana. In Nigeria, Adeyemi and Olalekan (2023) established that inadequate credit appraisal, weak borrower monitoring, and ineffective debt recovery mechanisms contributed to poor financial performance among financial institutions. Likewise, Nuwagaba et al. (2022) observed that Ugandan financial institutions implementing structured credit risk management systems maintained healthier loan portfolios and achieved stronger financial sustainability than institutions operating with less effective credit management practices.

The Kenyan context presents similar evidence. Mwangi and Muiruri (2022) established that comprehensive borrower appraisal, continuous credit monitoring, and effective loan recovery significantly reduced non-performing loans and improved financial performance among Savings and Credit Cooperative Societies. Mirichii et al. (2023) similarly found that effective credit risk management enhanced loan portfolio quality, strengthened liquidity, and improved

profitability among deposit-taking SACCOs. Maina and Miroga (2025) further reported that SACCOs implementing robust credit risk management practices experienced greater financial stability, improved operational efficiency, and enhanced institutional sustainability.

Although previous studies consistently demonstrate that effective credit risk management positively influences financial performance, most have focused on commercial banks, microfinance institutions, or SACCOs operating in different geographical, institutional, and regulatory contexts (Berger et al., 2022; Amoako et al., 2022; Mwangi & Muiruri, 2022). Furthermore, many studies have examined credit risk management as part of broader credit management or enterprise risk management frameworks rather than as an independent predictor of financial performance (Mirichii et al., 2023). Consequently, empirical evidence on the specific effect of credit risk management practices on the financial performance of Savings and Credit Cooperative Societies in Meru County remains limited. The present study therefore sought to address this contextual and empirical gap by examining the influence of credit risk management practices on the financial performance of SACCOs operating in Meru County, Kenya.

2.3 Conceptual framework

The conceptual framework illustrates the relationship between the independent and dependent variables, as presented in Figure 1.

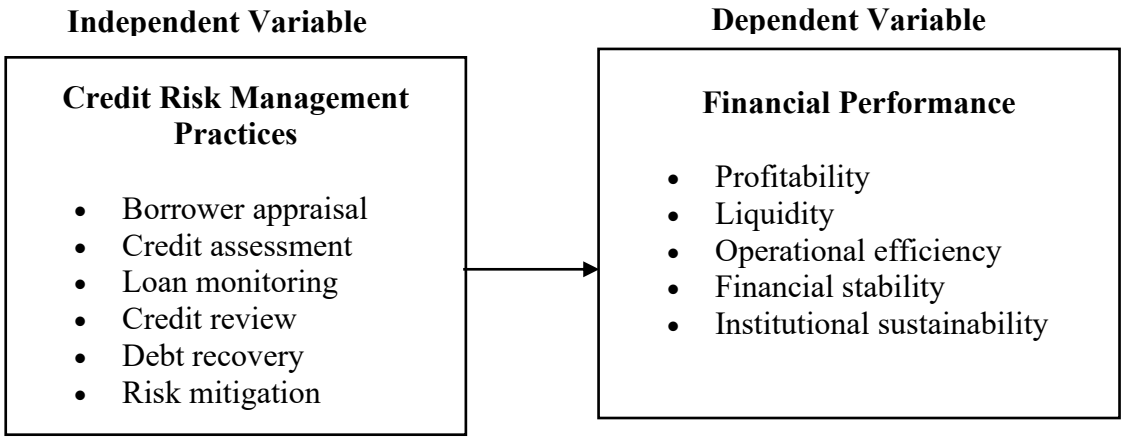

Figure 1: Conceptual Framework

3. Methodology

The study adopted a positivist research philosophy and a quantitative research approach to examine the effect of credit risk management practices on the financial performance of Savings and Credit Cooperative Societies (SACCOs) in Meru County, Kenya. The positivist philosophy was appropriate because it facilitates objective measurement of observable phenomena using empirical data and statistical analysis (Creswell & Creswell, 2023). The study employed both descriptive and correlational research designs. The descriptive design was used to describe the prevailing credit risk management practices and the level of financial performance among SACCOs, while the correlational design was used to determine the relationship between the two variables (Kothari, 2004; Creswell & Creswell, 2023).

The target population comprised 186 management staff drawn from 50 SACCOs operating in Meru County. The respondents included branch managers, credit managers, finance managers, accountants, internal auditors, loan officers, and other management personnel involved in credit administration and financial management. Given the relatively small population, the study adopted a census approach, including all 186 respondents. A census was considered appropriate because it minimizes sampling error and enhances the representativeness of the findings (Kothari, 2004).

Primary data were collected using a structured questionnaire comprising two sections. The first section captured respondents' demographic characteristics, while the second contained five-point Likert scale items measuring credit risk management practices and financial performance. The questionnaire was developed from established empirical studies and adapted to the SACCO context. Prior to the main survey, a pilot study involving 15 management staff from SACCOs in the neighbouring Tharaka Nithi County was conducted to evaluate the suitability of the research instrument. The pilot respondents were excluded from the main study. Content validity was established through expert review, while reliability was assessed using Cronbach's Alpha, adopting the recommended threshold of 0.70 (Cronbach, 1951; Hair et al., 2022).

Data collection commenced after obtaining the necessary approvals from the university, the National Commission for Science, Technology and Innovation (NACOSTI), and other relevant authorities. The questionnaires were administered directly to the respondents, and follow-up visits were conducted to improve the response rate. Completed questionnaires were screened for completeness, coded, and analyzed using the Statistical Package for Social Sciences (SPSS) Version 27.

Data analysis involved both descriptive and inferential statistics. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarize the study variables. Pearson Product Moment Correlation was used to determine the relationship between credit risk management practices and financial performance, while simple linear regression analysis was employed to examine the effect of credit risk management practices on financial performance. Diagnostic tests for normality, linearity, homoscedasticity, multicollinearity, and independence of errors were performed to verify that the data satisfied the assumptions of regression analysis. The study tested the research hypothesis at the 5% level of significance (Gujarati & Porter, 2021; Field, 2024).

4. Results and Discussion

4.1 Response Rate

The study targeted 186 management staff drawn from Savings and Credit Cooperative Societies (SACCOs) operating in Meru County, Kenya. Of the 186 questionnaires administered, 170 were successfully completed and returned, yielding a response rate of 91.4%, while 16 questionnaires were not returned, representing 8.6%. According to Babbie (2021), a response rate above 70% is considered adequate for quantitative survey research because it reduces the likelihood of non-response bias and enhances the credibility of the findings. Therefore, the response rate achieved in this study was considered sufficient to support reliable descriptive and inferential statistical analyses.

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Table 1: Response Rate

Response Category	Frequency	Percentage (%)
Returned questionnaires	170	91.4
Unreturned questionnaires	16	8.6
Total distributed questionnaires	186	100.0

The high response rate was attributed to obtaining the necessary research approvals, direct administration of the questionnaires, and consistent follow-up with respondents throughout the data collection period. Before analysis, all returned questionnaires were screened to ensure completeness and consistency, after which they were coded and entered into SPSS Version 27 for analysis. The high level of participation enhanced the representativeness of the study and increased confidence that the findings accurately reflect the views of management staff in Savings and Credit Cooperative Societies operating in Meru County (Creswell & Creswell, 2023).

4.2 Descriptive Analysis of Credit Risk Management Practices

The study examined respondents' perceptions of credit risk management practices among Savings and Credit Cooperative Societies (SACCOs) in Meru County, Kenya. The findings presented in Table 2 indicate that respondents generally agreed that their SACCOs had implemented effective credit risk management practices, as reflected by an aggregate mean score of 3.86 (SD = 0.798). This suggests that most SACCOs had established structured credit risk management systems aimed at enhancing loan portfolio quality and supporting financial performance.

Among the indicators assessed, continuous monitoring of loans after disbursement recorded the highest mean score (M = 3.94, SD = 0.732), indicating that most SACCOs regularly monitor borrowers to identify potential repayment challenges and take timely corrective action. Periodic review of borrowers' repayment performance also recorded a high mean score (M = 3.91, SD = 0.764), suggesting that ongoing credit review is an integral component of credit administration. Respondents further agreed that borrowers undergo comprehensive appraisal before loan approval (M = 3.89, SD = 0.781), reflecting the importance of borrower evaluation in supporting sound lending decisions. Similarly, credit assessment procedures were perceived to effectively identify repayment risks (M = 3.84, SD = 0.815), while debt recovery mechanisms were considered effective in minimizing loan defaults (M = 3.81, SD = 0.842).

The lowest mean score was recorded for the regular review and updating of credit risk management policies (M = 3.77, SD = 0.856). Although respondents agreed that such reviews were undertaken, the relatively lower rating suggests that periodic policy evaluation could be strengthened to improve the effectiveness of credit risk management.

Overall, the findings indicate that SACCOs in Meru County have adopted relatively strong credit risk management practices characterized by effective borrower appraisal, credit assessment, loan monitoring, repayment review, and debt recovery. These findings are consistent with Credit Risk Theory, which posits that prudent credit administration and

continuous monitoring reduce credit losses and improve institutional performance (Saunders & Allen, 2020; Bessis, 2022). They also agree with the Basel Committee on Banking Supervision (2023), which emphasizes that comprehensive credit risk management frameworks strengthen loan portfolio quality and enhance the financial stability of lending institutions.

Table 2: Descriptive Analysis of Credit Risk Management Practices

Statement	N	Mean	SD
Borrowers undergo comprehensive appraisal before loan approval.	170	3.89	0.781
Loans are continuously monitored after disbursement.	170	3.94	0.732
Credit assessment procedures effectively identify repayment risks.	170	3.84	0.815
Borrowers' repayment performance is periodically reviewed.	170	3.91	0.764
Effective debt recovery mechanisms minimize loan defaults.	170	3.81	0.842
Credit risk management policies are regularly reviewed and updated.	170	3.77	0.856
Aggregate Mean / SD		3.86	0.798

4.3 Descriptive Analysis of Financial Performance

The study examined respondents' perceptions of the financial performance of Savings and Credit Cooperative Societies (SACCOs) in Meru County, Kenya. The results presented in Table 3 indicate that the sampled SACCOs had attained a relatively high level of financial performance, as reflected by an aggregate mean score of 3.88 (SD = 0.763). This suggests that the institutions generally maintained satisfactory financial outcomes in terms of profitability, liquidity, operational efficiency, financial stability, and long-term sustainability.

Among the performance indicators, financial stability recorded the highest mean score (M = 3.96, SD = 0.706), indicating that respondents perceived their SACCOs as financially stable despite the challenges associated with credit risk. Profitability also received a high rating (M = 3.92, SD = 0.741), suggesting that most SACCOs had generated satisfactory financial returns from their lending and operational activities. Operational efficiency recorded a mean score of 3.87 (SD = 0.758), implying that respondents believed their institutions were utilizing financial and operational resources effectively to support service delivery.

Respondents further agreed that liquidity levels remained adequate to support day-to-day operations (M = 3.84, SD = 0.793), enabling SACCOs to meet their financial obligations and continue serving members effectively. Institutional sustainability recorded the lowest, though still positive, mean score (M = 3.82, SD = 0.817), indicating confidence in the long-term

viability of the institutions while suggesting that further improvements could strengthen future performance.

Overall, the findings indicate that the SACCOs had achieved relatively strong financial performance across the selected indicators. The positive ratings on profitability, liquidity, operational efficiency, financial stability, and institutional sustainability suggest that the institutions were operating soundly despite the challenges posed by credit risk. These findings are consistent with Saunders and Allen (2020), who argue that effective credit risk management enhances profitability, liquidity, and institutional stability. They also support Bessis (2022), who contends that prudent credit administration contributes to sustainable financial performance by preserving asset quality and minimizing credit losses.

Table 3: Descriptive Analysis of Financial Performance

Statement	N	Mean	SD
Profitability has improved over recent financial periods.	170	3.92	0.741
Liquidity levels remain adequate to support operations.	170	3.84	0.793
Operational efficiency has improved.	170	3.87	0.758
Financial stability has strengthened.	170	3.96	0.706
Institutional sustainability has improved.	170	3.82	0.817
Aggregate Mean / SD		3.88	0.763

4.4 Bivariate Correlation Analysis

The results presented in Table 4 indicate a strong positive and statistically significant relationship between credit risk management practices and the financial performance of Savings and Credit Cooperative Societies (SACCOs) in Meru County, Kenya ($r = 0.661$, $p < 0.05$). The findings imply that improvements in credit risk management practices are associated with corresponding improvements in financial performance. Specifically, SACCOs that implement comprehensive borrower appraisal, effective credit assessment, continuous loan monitoring, regular credit review, and efficient debt recovery mechanisms are more likely to achieve higher profitability, stronger liquidity, improved operational efficiency, enhanced financial stability, and greater institutional sustainability.

The positive correlation demonstrates that effective credit risk management is an important component of prudent financial management within SACCOs. Institutions that consistently identify, assess, monitor, and control credit risk are better positioned to maintain high-quality loan portfolios, reduce non-performing loans, minimize credit losses, and strengthen overall financial performance. These findings suggest that robust credit risk management practices contribute to improved resource utilization and long-term institutional resilience.

The findings are consistent with Saunders and Allen (2020), who argue that prudent credit risk management enhances financial performance by improving loan portfolio quality and reducing credit losses. Similarly, Bessis (2022) maintains that effective credit appraisal, continuous

monitoring, and timely recovery mechanisms strengthen institutional profitability and financial stability. The results also agree with Mirichii et al. (2023), who established that effective credit risk management positively influences the financial performance of deposit-taking SACCOs in Kenya through improved asset quality and reduced loan default rates. Furthermore, the findings support Credit Risk Theory, which posits that financial institutions adopting sound credit risk management systems experience lower default rates, healthier loan portfolios, and superior financial performance (Altman, 1968; Saunders & Allen, 2020).

Table 4: Pearson Correlation Analysis

Category	X_1	Y
Credit Risk Management Practices (X_1)		
Pearson Correlation	1	
Sig. (2-tailed)		
N	170	
Financial Performance (Y)		
Pearson Correlation	.661*	1
Sig. (2-tailed)	.000	
N	170	170

Correlation is significant at the 0.05 level (2-tailed).

4.5 Bivariate Linear Regression Analysis

The study examined whether credit risk management practices significantly influence the financial performance of Savings and Credit Cooperative Societies (SACCOs) in Meru County, Kenya. The null hypothesis (H_{01}) stated that credit risk management practices have no statistically significant effect on the financial performance of SACCOs in Meru County, Kenya.

The model summary results presented in Table 5 indicate a correlation coefficient (R) of 0.661, demonstrating a strong positive relationship between credit risk management practices and financial performance. The coefficient of determination ($R^2 = 0.437$) shows that credit risk management practices explained 43.7% of the variation in financial performance. The adjusted R^2 value of 0.434 further confirms the stability of the regression model after adjusting for sample size. These findings suggest that improvements in borrower appraisal, credit assessment, loan monitoring, credit review, and debt recovery are associated with better financial performance among SACCOs. According to Gujarati and Porter (2021), a higher coefficient of determination indicates that the independent variable has substantial explanatory power in predicting the dependent variable.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.661	.437	.434	.438

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Credit Risk Management Practices

The ANOVA results presented in Table 6 further confirmed that the regression model was statistically significant (F = 83.914, p = 0.000). The findings indicate that credit risk management practices significantly explain variations in the financial performance of SACCOs and that the observed relationship was unlikely to have occurred by chance. Gujarati and Porter (2021) argue that a statistically significant F-test confirms the overall predictive ability of a regression model.

Table 6: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	25.481	1	25.481	83.914	.000
Residual	32.779	168	.195		
Total	58.260	169			

a. Dependent Variable: Financial Performance
b. Predictors: (Constant), Credit Risk Management Practices

The regression coefficients presented in Table 7 indicate that credit risk management practices had a positive and statistically significant effect on financial performance (B = 0.714, β = 0.661, t = 9.160, p = 0.000). The results imply that a one-unit improvement in credit risk management practices is associated with a 0.714-unit increase in financial performance, holding other factors constant. Consequently, the null hypothesis was rejected, leading to the conclusion that credit risk management practices significantly influence the financial performance of SACCOs in Meru County, Kenya.

The findings demonstrate that strengthening borrower appraisal, improving credit assessment procedures, continuously monitoring loan performance, conducting regular credit reviews, and implementing effective debt recovery mechanisms contribute significantly to improved profitability, liquidity, operational efficiency, financial stability, and institutional sustainability. These findings support Credit Risk Theory, which argues that prudent credit administration minimizes credit losses and enhances institutional performance through effective risk identification, assessment, monitoring, and mitigation (Altman, 1968; Saunders & Allen, 2020). The findings are also consistent with Bessis (2022), who observed that comprehensive credit risk management improves asset quality and financial performance. Similarly, Mirichii et al. (2023) found that effective credit risk management significantly

enhances the financial performance of deposit-taking SACCOs by reducing non-performing loans and strengthening loan portfolio quality.

Table 7: Linear Regression Coefficients

Predictor	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficient (Beta)	t	Sig.
Constant	1.143	.236	—	4.843	.000
Credit Risk Management Practices	.714	.078	.661	9.160	.000

Dependent Variable: Financial Performance

5. Conclusion

The study established that credit risk management practices have a positive and statistically significant influence on the financial performance of Savings and Credit Cooperative Societies (SACCOs) in Meru County, Kenya. The findings demonstrated that effective borrower appraisal, rigorous credit assessment, continuous loan monitoring, regular credit portfolio reviews, and efficient debt recovery mechanisms contribute to improved profitability, stronger liquidity, enhanced operational efficiency, greater financial stability, and long-term institutional sustainability. The regression analysis confirmed that credit risk management practices are a significant predictor of financial performance, leading to the rejection of the null hypothesis. The study therefore concludes that effective credit risk management is essential for reducing non-performing loans, improving loan portfolio quality, and enhancing the financial performance and sustainability of SACCOs.

6. Recommendations

Savings and Credit Cooperative Societies should strengthen their credit risk management practices by enhancing borrower appraisal procedures, improving credit assessment systems, conducting continuous loan monitoring, undertaking regular reviews of loan portfolios, and implementing effective debt recovery mechanisms. Management should also ensure that lending decisions are guided by comprehensive credit analysis and appropriate risk mitigation strategies to minimize loan defaults and improve loan portfolio quality.

The Sacco Societies Regulatory Authority (SASRA), the Kenya Union of Savings and Credit Cooperatives (KUSCCO), and other stakeholders in the cooperative sector should strengthen capacity-building initiatives by providing continuous training on modern credit risk management, credit analytics, loan monitoring, and debt recovery practices. SACCOs should also invest in technology-driven credit risk management systems that support real-time borrower monitoring, early detection of potential loan defaults, and timely corrective action. These measures will enhance institutional resilience, strengthen financial sustainability, and improve the long-term financial performance of Savings and Credit Cooperative Societies in Kenya.

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