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EFFECTS OF CREDIT RISK MANAGEMENT ON THE FINANCIAL PERFORMANCE OF SMALL SCALE TEA FACTORIES IN KERICHO AND BOMET COUNTIES IN KENYA

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Abstract: **There is a general credit that inability to pay agriculturists' normal extra has been because of general poor management and additionally the high expense in producing and long and wasteful production network. This has raised many questions on the management of risks in finance within Factories. The study aimed at investigating how credit risk management affects the financial performance. The study utilized descriptive research design comprising a population of 80 managers together with the accountants. Simple random sampling method was used in selecting the sample size. Questionnaires were used in collecting data. Both descriptive and inferential statistics were used. The credit risk management has a positive and significant relationship on performance of SMEs. The study therefore recommends that the management of these factories should include experts in financial issues to advice on how to avoid occurrence of financial risks so as to enhance the financial performance.**

Keywords: **Credit Risk Management, Financial Performance.**

1. INTRODUCTION

Organizations are created with a goal of getting to profits, be productive and enhance in piece of the overall industry. The organizations' constructs their objective with respect to budgetary capacity. These budgetary impacts aid organizations procedures and the utilization of those systems by employees of the firm (Greenwood & Jovanovic, 1990). Risk in finance is a deviation of incomes and this incorporates liquidity, risks in markets and credit as indicated by Holton (2004). As per Tapiero, (2004) financial risk administration, then again, implies the act of building up monetary incentive in an organization by utilizing budgetary devices to control or rather do away with losses. The Small Scale Tea Factories faces various challenges in managimg risks and the capacity to deal with the introduction to money related risk is essential segment of corporate function of finance.

Greenwood and Jovanovic (1990) argue that performance is a metric measure on changes in an organizational budgetary condition. This aids basic leadership process and utilization of choices of the organizations. It is likewise the money related result or proportion of progress in monetary exercises of a firm and effect of implantation and sort of administration choices and approaches of the firm. Execution depicts a quantifiable subject in view of the prosperity of an association to utilize capacities in creating pay. Henceforth normally utilized as proportion of company's cash related prosperity inside certain timeframe and furthermore utilized by different firms in recognizing their monetary position.

Anderson (2011) observe that stability in finance is significance in enabling the organization to get to adequate net resource enhancing the administration, organization abilities, representative fulfillment and compensation and decrease of credit chance. This is additionally basic to partner; masters, organizational directors, government and overall population on the decrease misfortunes and risks. Small Tea Factories have been noted to make real commitments to business age and remote trade income and arrangement of substantial piece of work (Kiarie, Wambui & Kagwathi, 2012).

2. STATEMENT OF THE PROBLEM

Management of risks lessens organizations costs as it alters authoritative prosperity to the necessities of value suppliers (Ameer, 2010). As per Geczy *et al.* (1997) contention of that organization uses cash related management of risk to decrease fluctuation in income which could some way or another deflect organizations to place assets into different improvement prospects. Extending investors regard by redesigning organizations motivating forces through the risk exposure administration is the essential focus of management of risk programs. Small Scale Farmers attribute the inability to be paid well to general botch and also the mind-boggling expense of creation and long and wasteful inventory network. Also, the sub-area faces challenges including; diminishing area measure with time rising up out of a regularly extending populace, increment age cost, troublesome atmosphere, rising work cost and the elevating cost of intensity and fuel (Kimathi and Muruiki, 2012). The outrageous impact might prompt corporate bankruptcy except if proper money related risk management approaches are received and supported.

3. LITERATURE REVIEW

Ali (2015) study examined how credit risk management affects the performance focusing on Jordanian commercial banks. The study established that credit risk management metrics had critical impact on Jordanian business banks performance. Regardless of the study revealing insight into credit risk administration and performance relationship, its emphasis was on keeping money industry which is not the same as tea industry.

Mwangi (2014) study investigated on how liquidity impacts the financial performance of on deposit taking microfinance in Kenya and found a positive association among liquidity and financial performance. The study concluded that the process of empowering the MFIs' liquidity would result to small variation of budget hence affects the MFI’s financial performance.

Barasa (2014) carried out a study on sustainable supply chain management on organizational competitive advantage. The study adopted a mixed research design was utilized to develop the research. The outcome of the study uncovered to wind up maintainable in worldwide market, it is imperative to utilize inventory network administration as an economical instrument in getting intensity of the association.

Kithinji (2010) led an investigation using a credit risk controlling and benefit of business banking industry utilizing nonperforming acknowledge portfolio as a marker of the sufficiency of credit administration practices. The examination by Kithinji (ibid) shifts from this study in a couple of respects; the maker used discretionary data just while this examination will use basic data from review and helper data from the Tea mechanical offices. Besides, the examination concentrated on business banks while this examination is on Small Scale Tea Factories.

4. RESEARCH METHODOLOGY

The study adopted descriptive research design. The target population of the study was Small and Medium enterprise factories in both Kericho and Bomet Counties. The total number of respondents was 80 comprising of 20 managers and 20 tea operators who selected using simple random sampling and questionnaires were administered to them to obtain primary data and secondary data was obtained from the factories financial statements. Multiple regression analysis models were used to analyse and present data.

5. FINDINGS

The study examined how credit risk management affects the financial performance of SME factories in Both Kericho and Bomet Counties. The results are shown in the following tables.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.087[a]	.008	-.011	8.66762

Source: Researcher (2018)

The value of R (0.87) shows how the variables correlate with each other, The value of R- square (0.08) shows that credit risk management varies at 0.8% with financial performance SMEs in both Kericho and Bomet Counties which shows a weak relationship between the two variables

Table 2: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.374	1	30.374	.404	.528[b]
	Residual	3981.767	53	75.128		
	Total	4012.141	54			

The significance value is far much more than the 0.05 which can be deduced that the credit risk management does not reliably predict the financial performance.

Table 3: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.946	8.842		1.012	.316
	credit risk management	1.472	2.315	.087	.636	.528

The table above indicated Credit Risk Management had no significant influence on the financial Performance since p value is greater than 0.05. The null hypothesis is therefore accepted which imply that there is no significance relationship between credit risk management and financial performance of SME factories.

6. CONCLUSIONS AND RECOMMENDATIONS

Credit risk management should be taken into consideration when determining the financial performance of SMEs factories in both Kericho and Bomet Counties due to its positive and significant effect. It ought to likewise be overseeing since it dependably predicts the budgetary execution however it doesn't impact it and credit chance has no impact to the money related execution of the Factories. In light of the examination revelations, the study therefore recommends that the Small Scale Tea Factories ought to viably include experts in financial issues to advice on how to avoid occurrence of financial risks so as to enhance the financial performance.

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