The Effect of Financial Leverage on Distress in Savings and Credit Cooperative Organizations in Kenya

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Abstract

Financial distress is disruptive and costly, and especially relevant due to the impact on workers, shareholders, customers, suppliers, communities, and the financial entities. Extreme financial distress often leads to bankruptcy; part of the creative self-destruction phenomena that contribute to the dynamics of innovation and economic renewal. The aim of this study was to establish the effect of financial leverage on distress in savings and credit cooperative organizations in Kenya. Despite the increased supervision of SACCOs in Kenya through various mechanisms such as introduction of SASRA a significant number of SACCOs still face financial distress which has led to the winding up of these SACCOs this study therefore establish the current financial management strategies used in mitigating financial distress to predict future performance. A descriptive survey research design was used to establish the determinants of financial distress. The target population included 30 deposit taking SACCOs. Secondary data was obtained from Sacco's records published by SASRA. Data collected was analyzed using STATA computer software. The study established that financial leverage had insignificant relationship with probability of financial distress of the DT SACCOs implying that financial leverage did not determine financial distress of the DT SACCOs in Kenya ($r=-.0956368$, $p=0.476>0.05$). Although the study did not find any significant relationship between financial leverage and distress, any financial institution, SACCOs included should develop strategies of leveraging its finances, that is, increasing the rate of cash conversion cycle. This is because the SACCOs profitability is generated from this cycle.

Key Words

Financial Leverage, Financial Distress, Cash conversion Cycle, Financial Investment.