

**THE EFFECT OF CREDIT MANAGEMENT TECHNIQUES ON THE
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

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DECLARATION

I, Evelyn Mureithi, do hereby declare that this research proposal is my original work and has not been presented for a degree in any other University

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This research project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This research project is dedicated to my family, friends and classmates for their encouragement and support in the period of my studies.

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LIST OF ABBREVIATIONS

| | |
|-----|---------------------------------|
| CAR | Capital Adequacy Ratio |
| CBK | Central Bank of Kenya |
| CDO | Collateralized Debt Obligations |
| CRA | Credit Rating Agency |
| CRM | Credit Risk Management |
| NPL | Non-Performing Loans |
| ROA | Return on Assets |
| ROE | Return on Equity |
| VaR | Value at Risk |

ABSTRACT

Sound credit management is a basic for an institutions in financial sector performance. With declining performance of the institutions due to increasing competition and changing regulatory framework, credit quality is imperative for continued wellbeing of the institutions in terms of financial performance. The greatest hazard in the credit business is loaning cash and not getting it back as with every single budgetary organization. Credit chance specifically is one of the greatest attentiveness toward banks since a portion of the loaning is unsecured. Some of the general population financed are new companies who do not have the capacity to give assurances or security against the cash acquired as assurance of that payment will be done which exposes the lenders. In this way this study tried to evaluate the impact of credit management procedures on the financial performance of business banks in Kenya. The indicator factors of the study were customer evaluation, Collection arrangement and Credit hazard control while the needy variable was money related execution of Commercial Banks in Kenya. This study embraced a descriptive research. The design was fit as it allowed a thorough investigation of the effect of credit management on the money related execution of banks in Kenya. The number of population in the study comprised of all the 45 banks in Kenya. . A census study was used to carry out the research. Data collection instruments that were used included questionnaires, financial statements, annual reports on record and data from the financial market. Primary data was collected using questionnaires where all the concerns on the questionnaire were addressed. Secondary data was collected from annual reports and financial statements. The secondary data from the financial statements included after tax profit, written off debt, total assets and value of loans outstanding. The researcher will administer the questionnaire to each respondent in the study. The questionnaire consisted both open and close ended questions. The closed ended questions was used to test the rating of various attributes and this helped to reduce the number of related responses so as to obtain more varied responses. The open-ended questions will provide additional information that will not have been captured in the close-ended questions. The study revealed that credit management techniques had a significant effect on the performance of the commercial Banks. Therefore the study recommended that there is need for CBK to enhance their client appraisal techniques so as to improve their financial performance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Banks are monetary organizations that are set up to offer services related to financial management and other non-financial services. Financial services offered by the banks include loaning of funds, receiving of cash for deposits to customer, trading in foreign exchange and facilitating investment in financial instruments like shares. Nonfinancial services offered by banks include acting as custodians for valuable documents in the safes on behalf of the customers (Campel, et. al., 1993). Banks offer these crucial services under strict laws in the respective countries meant to maintain sanity in the industry and protect the interest of the general public.

Lending is a basic component of keeping money business; it is itself at the heart of an economy's monetary foundation. The sum of amounts loaned out forms the debt portfolios of the financial institutions. Debts are presented as liabilities to the customers as they are under obligation to pay interest and principal upon maturity (Edwin, 2005). It is along these lines requires policy formulators constantly survey the credit market to minimize wasteful aspects that impede speedier monetary and economic development. Interest on loans constitute to a substantial source of bank income. However, while this is the case, banks are faced by credit risk when loaning out money where the loaned funds may not be repaid on time or interest and principal not paid at all. The risk facing loaned funds is the credit hazard which is the risk of fluctuations on future incomes and asset expected from loaned funds (Kargi, 2011).

Credit management according to Mensah (1999), handle merits uncommon accentuation on the grounds that legitimate credit administration impacts the achievement or disappointment of money related organization This shows credit arrangement ought to be joined by alluring and fitting credit strategies and approaches that upgrade execution of credit administration and shields the managing an account industry from failures. Credit administration implies the aggregate procedure of loaning beginning from inquisitive potential borrowers up to

recuperating the sum conceded or financed. In the banking business, administration of credit is about for exercises, for example, managing loan applications, advance examination, advance endorsement, observing and the recuperation of non-performing credits (Shekhar, 1985).

Hettihewa (1997) reiterate the need of credit function by insisting that credit Management is critical as giving credit is thought to be what might as well be called putting resources into a customer. Be that as it may, installment of the obligation ought not to be put off since a long repayment period and deferred installments imply terrible obligations and cost to the bank. Additionally, efficiency and adequacy in playing out every means of advance preparing utilizing different parameters has huge effect on the execution of credit management roles. The concern of this research work was evaluating the impact of management of credit procedures on the performance commercial banks in Kenya.

1.1.1 Credit Management

Organizations' biggest challenge historically is the management of credit. This is specifically so for institutions dealing with financial services like commercial banks. It would be too expensive for banks to ignore the aspects of credit management considering that it interest is the main source of banks' income. A financial institution that fails to give attention to the function, sooner or later will record poor performance characterized by lack non-performing loans. Myers and Brealey (2003) acknowledge administration of credit to be a critical methodology and strategy if adequately embraced by a firm guarantee an ideal level of credit. Credit administration is part of money related administration that includes credit examination, FICO assessment, credit order and credit reporting. Nelson (2002) reiterated that financial institutions credit management process will involve of techniques and process applied in systematic way.

Nzotta (2004) indicated that credit administration impacts the achievement or failure to achieve performance of banks and other monetary organizations. This is because of the way that the performance of banks is affected, all things considered, by the nature of credit

choices and henceforth the nature of the unsafe resources. Nzotta (2004) showed that, management of credit gives a high marker of the nature of a bank's credit portfolio. A noteworthy prerequisite for powerful credit administration is the capacity to proficiently and wisely deal with a client's credit lines. In attempt to minimize presentation to awful obligation and liquidations, banks ought to must understand the clients' monetary requirements, assess the credit trustworthiness, ability to pay among other aspects.

Credit management process starts with receiving applications and finishes just when the borrower meets all obligations of repaying the loaned funds. Credit management cannot be a success if the loaned funds will not be received in full. Standards of good loaning state that lending institutions should be worried with guaranteed returns from loans, beyond what many would consider possible that the borrower can make planned installments without delays or fail. Credit administration is concerned basically with financing obligations and overseeing indebted individuals. The essential destinations of credit administration can be pronounced as protected guarding of the clients' hazard and upgrading operational money streams. Approaches and methodology must be connected while agreeing credit to clients and amid the gathering of installments.

1.1.2 Financial Performance

Organization performance from finance aspect is an organization's capacity to produce new assets from everyday operations, over a given timeframe. A bank gives financial services which include receipt of cash, maintaining customer accounts which would refer to converting cash into plastic money and loaning the funds placed under custody of the bank (Campel, *et, al*, 1993). Financial performance is utilized to gage the general strength of an organization over a given timeframe and is utilized to analyze comparable or contending firms over an industry. Banks are the foundation of the budgetary business and assume an imperative part in the monetary framework and economy of a nation.

Demirguc-Kunt and Detragiache (1999) demonstrated that banks performance is an imperative indicator of performance of an economy as a whole and performance of the specific banks. Performance will measure the ability of the bank to generate enough resources or income to cover the costs. The performance outcomes are usually reflected in the company's reports both financial and financial. Financial performance will be evaluated using various measures including return on resources invested, quantifiable profit and market share or growth recorded.

Stoner (2003) as referred to in Turyahebya (2013), depicts financially related performance as the capacity of an organization element to work effectively, gainfully to survive, grow and respond to the ecological open doors and dangers. In concurrence with this, Sollenberg and Anderson (1995) focused on that execution is measured the effectiveness of an endeavor in the utilization of assets in accomplishing its goals. As per Hitt, et al (1996) numerous organizations' low execution are as a consequence of ineffectively performing resources.

1.1.3 Effect of Credit Management on Financial Performance

Credit administration is the act of accumulation and control of installments on payments on customers. Myers and Brealey (2003) term acknowledge administration of credit as the techniques and procedures received by a firm in guaranteeing they keep up the most elevated amount of credit and its powerful administration. It is a feature of monetary administration including credit investigation, FICO score, and credit reporting and credit grouping

A suitable technique to manage credit will be crucial in safeguarding the performance of the commercial bank. Bad credit policy leads to inappropriate allocation of credit which results in bad debts and hence lost income in form of interest and banks' asset on the principal loaned out. Edwards (1993) expressed that unless a has appropriately structured the loan product where it is more expensive to repay the loan late, then, the bank may not do much in preventing bad debts. However, the banks ought to scrutinize the history of the borrowers to ensure that they loan only to low risk clients.

Scheufler (2002) stipulates that a credit arrangement function contributes enormously to financial performance of the organization and determines how well the companies perform in line with other organization goals and strategies. If the credit approach is effectively figured, practiced and all around surmised at all levels of the banking related establishment, it permits sustained legitimate practices of management of credit and allows evading of nonperforming loans which reduce performance of the banks and creates room for business improvement.

1.1.4 Commercial Banks in Kenya

A Commercial bank is a monetary organization that gives administrations, for example, receiving of deposits from customers, making business payments and offering other investment products. As per Rose (2002), it is a business enterprise with a definitive motivation behind amplifying the estimation of shareholder's investment and put resources of an organization to acceptable levels.

The banking sector in Kenya has a few business banks as money related mediators that go about as channels between the surplus and shortage financial units. Permitting of money related establishments in Kenya is finished by the service of fund through the CBK. The keeping money industry is administered by the organizations Act, the Banking Act and the Central Bank of Kenya. These Acts and the prudential rules which Central bank of Kenya issues now and again are utilized together. The CBK Act got to be operational with impact from 1966 when the Central Bank of Kenya was built up as an immediate aftereffect of the longing among the three East African nations to have autonomous money related and monetary approaches .The main protest of the CBK Act is to direct the foundation, business and operations of business banks in Kenya through permitting and supervision. The Act empowers Deposit Taking business banks authorized by the Central Bank of Kenya to assemble reserve funds from the general population, in this manner advancing rivalry, proficiency and get to.

There were 45 business Banks in Kenya as at June, 2010 (Central Bank of Kenya (CBK), 2010) that offered both corporate and retail keeping money administrations. Kenyan banks have seen huge development in customer loaning in the course of the last few years. The

resultant credit development has conveyed prominent advantages to the economy, however the data asymmetry that is existing in the loaning environment represents a genuine test as credit hazard for the saving money part in Kenya (CBK, 2008).

The managing an bank industry along these lines assumes an essential part in extending monetary markets and upgrading access to financial administrations and items by a lion's share of the Kenyans (Central Bank of Kenya, 2013). The saving money area in Kenya has seen an immense increment in credit development which has developed at a total rate of 17.8 for every penny for each annum in the course of the most recent 10 years in spite of loan cost instability, which has been driven fundamentally by expanding entrance inside the shopper and the little and medium-sized ventures (SME) part. Kenyan banks are presently loaning progressively and this has incited the banks to wind up more stringent on their credit chance administration systems to decrease the danger of awful obligations and thus bankruptcy.

1.2 Research Problem

Sound credit management is crucial in ensuring optimal and sustained financial performance of commercial banks among other financial institutions. Gitman (1997) supported this argument by indicating that the likelihood of terrible obligations increments from credit norms and practices were on the rise endangering survival and success of the banking industry. Firms should along these lines ensure that the administration of credit is efficient and capable of generating the desired results. Delays in the gathering of money from indebted individuals as they fall due has genuine financial ramifications, and results in expanded terrible obligations and influences client relations. On the off chance that installment is not made by any means, then a financial impact is felt by the banks and hence the objective of credit management will be to ensure earliest payment of instalments on loans.

The greatest hazard in business managing an credit is loaning cash and not getting it back as with every single money related foundation. Credit hazard specifically is one of the greatest attentiveness toward banks since a portion of the loaning is unsecured. Some of the general population financed are ready to go new companies who do not have the capacity to give certifications or security against the cash obtained as insurance. In this way banks are

required to outline a sound credit administration that involves the distinguishing proof of potential and existing dangers natural in loaning exercises.

Muasya (2009) broke down the effect of non-performing credits on the budgetary execution of the keeping money division in Kenya in the season of worldwide monetary emergency. The discoveries affirmed that non-performing credits do influence business banks in Kenya. Wanjira (2010) likewise examined the relationship between administration practices of non-performing advances and the money related execution of business banks in Kenya. The study reasoned that there is a requirement for banks to receive administration hones for non-performing credits and that there was a positive relationship between non-performing advances administration hones and the budgetary execution of business banks in Kenya which infers that the appropriation of non-performing advances administration hones prompts to enhanced money related execution of business banks in Kenya

Achou and Tenguh (2008) found that there was a huge relationship between credit risk administration (as far as advance performance) and monetary performance of organizations (as far as productivity) when they carried out research using a loan hazard administration and bank performance.

There have been endeavors in the past to evaluate the effect of credit management procedures on the monetary execution of business banks in Kenya yet much center has been on microfinances and credit risk. Little has been done to explore the effect of strategies used to manage credit strategies financial performance bank business in Kenya, and henceforth this exploration addressed that research gap by answering the question; which is the impact of credit management techniques on the financial performance of commercial banks in Kenya?

1.3 Research Objective

To establish the effect of credit management techniques on the financial performance of commercial banks in Kenya.

1.4 Value of the Study

The reverberations of the current study as documented herein is that it would lead to immense benefits to many different people with interest in banking industry and performance of organizations. Academicians and professionals in research field and not leaving behind the research analysts, as a result of the study will be able for view more space for future research as recommended in chapter five of this study. This will allow more future studies to expound more on banking including regulation, performance and mechanisms of deepening the financial sector.

This study will make particular commitments to information building and practice change in credit administration and money related execution. From a hypothetical perspective, the study will propose changes in credit administration that will enhance the budgetary execution of banks. It likewise expected that the study will help strategy creators in their push to redo the budgetary area and that it might be of extraordinary significance to the associations under study and in addition other money related organizations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the literature on commercial banks, credit management, administration and financial sector from both theoretical and empirical point of view. The chapter contains a number of sections including theoretical review, empirical literature, factors determining the performance of commercial banks and ends with chapter summary which summarizes the literature reviewed.

2.2. Theoretical Review

Studies have demonstrated that data asymmetry exists on bank loaning applications processing which mean that significant data is not known to every one of the gatherings required in an endeavor or exchange (Ekumah and Essel, 2003). Ponders on exchange costs have demonstrated that this occurs where borrowers fail to disclose crucial information relating to themselves in terms of credit worthiness and ability to repay the principal and interest on time. To appreciate and enable understanding of the nature of credit management, risks involved, commercial banks performance and relationship thereof, the study was directed by various hypothetical underpinnings including asymmetric information theory, transactions costs theory and portfolio theory. These theories are discussed below.

2.2.1 Asymmetric Information Theory

Information lopsidedness or as commonly called the asymmetry of information refers to a circumstance under which during credit evaluation and gathering one information, one person has more or preferable data over the other which the party is not willing to disclose. This leads to decision makers making in appropriate decisions leading to irregularity credit administration, which can infrequently bring about the exchanges to go astray, a sort of market disappointment in the most exceedingly terrible In an obligation advertise, data asymmetry emerges when a borrower who takes an advance for the most part has more data

about the potential dangers and returns connected with speculation ventures for which the assets are planned for. The loan specialist then again does not have adequate data in regards to the borrower (Edwards and Turnbull, 1994).

Binks ,et al. (1992) called attention to that apparent data asymmetry postures two issues for business banks, unfriendly determination (settling on mistakes in loaning choices) and good risk (observing entrepreneurial behavior).Banks think that its testing to defeat these issues since it is uneconomical to dedicate assets to examination and checking where the loaning is for generally unobtrusive sums. This is on account of the information required to screen credit applications and to screen borrowers are not uninhibitedly accessible to business banks.

Brokers confront circumstances of data asymmetry when loaning applications by carrying out through due diligence on the clients (Binks & Ennew, 1997). To make this decision, the evaluators of the ability to pay has to rely on diverse sources of information including what is provided by the client themselves. Since the lender is not appropriately placed to get all information relating to the client, the lender is always disadvantaged and may end up making wrong decision on whether to offer credit (Deakins, 1999). Derban, Binner and Mullineux (2005) prescribed that borrowers ought to be screened particularly by managing an account organizations in type of credit appraisal. Accumulation of solid data from imminent borrowers gets to be basic in finishing viable screening as demonstrated by symmetric data hypothesis.

Subjective and quantitative strategies can be utilized as a part of surveying the borrowers albeit one noteworthy test of utilizing subjective models is their subjective nature. However as per Derban, Binner and Mullineux (2005), borrowers properties surveyed through subjective models can be allotted numbers with the aggregate of the qualities contrasted with an edge. This method minimizes handling costs, diminishes subjective judgments and conceivable predispositions. The rating frameworks will be essential on the off chance that it shows changes in expected level of credit advance misfortune. The danger of antagonistic choice which happens when banks loan to organizations which at long last falls flat (sort II

blunder), or when they don't loan to organizations with a possibility to develop or which later get to be effective (sort I mistake) Altman (1971).

2.2.2 Transactions Costs Theory

The theory was proposed by Schwartz (1974), this hypothesis deduces that providers may have a high ground over customary loan specialists in checking the credit value or genuine monetary circumstance of their clients. Providers additionally have a favored capacity to screen and pressure reimbursement of the credit. Every one of these superiorities may give providers a cost favorable position when contrasted and money related organizations.

There are three wellsprings of cost preferred standpoint as characterized by Petersen and Rajan (1997); securing of data, controlling of the purchaser and rescuing esteem from existing resources. The main wellspring of cost preferred standpoint can be clarified by the premise that dealers can get data about purchasers at lower cost and speedier since it is acquired in the ordinary course of business.

That is, the sum and recurrence of a purchaser's requests may give a provider a thought of the customer's circumstance; the purchaser's dismissal of rebates for early installment may serve to caution the provider of a debilitating in his credit-value, and dealers generally visit clients more regularly than budgetary organizations.

2.2.3 Portfolio Theory

Organizations have effectively connected current portfolio hypothesis to market hazard since the 1980s. Numerous organizations now utilize the esteem at hazard models to deal with their loan fee and market chance exposures. Tragically, despite the fact that credit chance remains the biggest hazard confronting most organizations, the act of applying advanced portfolio hypothesis to credit chance has slacked (Margrabe, 2007). Companies perceive how credit fixations can contrarily affect budgetary execution. Therefore, various banks are effectively

seeking after quantitative ways to deal with credit risk estimation. This industry is additionally gaining critical ground toward creating devices that measure credit hazard in a portfolio setting. They are additionally utilizing credit subordinates to exchange hazard proficiently while saving client connections. Portfolio quality proportions and profitability pointers have been adjusted. (Kairu, 2009). The mix of these advancements has unfathomably quickened advance in overseeing credit chance in a portfolio setting.

Customarily, associations have adopted a benefit by-resource strategy to credit chance administration. While every organization's technique fluctuates, by and large this approach includes occasionally assessing the nature of credit exposures, applying a credit chance rating, and amassing the consequences of this examination to distinguish a portfolio's normal misfortunes. The establishment of the advantage by-resource approach is a sound credit survey and inward credit hazard rating framework. This framework empowers administration to recognize changes in individual credits, or portfolio drifts in an opportune way. In view of the progressions distinguished, credit recognizable proof, credit survey, and credit hazard rating framework administration can make fundamental changes to portfolio procedures or increment the supervision of credits in an auspicious way.

While the benefit by-resource approach is a basic segment to overseeing credit chance, it doesn't give an entire perspective of portfolio credit hazard, where the term chance alludes to the likelihood that real misfortunes surpass expected misfortunes. Subsequently, to increase more prominent knowledge into credit hazard, organizations progressively hope to supplement the advantage by-resource approach with a quantitative portfolio audit utilizing a credit demonstrate (Mason and Roger, 1998). Organizations progressively endeavor to address the failure of the benefit by-resource way to deal with measure sudden misfortunes adequately by seeking after a portfolio approach. One shortcoming with the advantage by-resource approach is that it experiences issues distinguishing and measuring fixation. Fixation hazard alludes to extra portfolio chance coming about because of expanded introduction to credit expansion, or to a gathering of corresponded loan bosses (Richardson, 2002).

2.3 Determinants of financial Performance

A different of monetary proportions are utilized for evaluating the performance of organizations in the banking industry. Money related performance can be characterized as an estimation of the consequences of an association's policies and operations in fiscal terms. Despite the fact that it is at times hard to synchronize the diverse elucidations of the considerable number of proportions, they give elective viewpoints in evaluating the execution of banks for each of the areas in particular, benefit, proficiency, influence and hazard.

2.3.1 Financial Profitability

The essential measures of productivity in banks incorporate Return on Assets (ROA) and Return on Equity (ROE). ROA identifies with the wage earned by the bank to the advantages it utilized as a part of the business operation. It tracks a company's capacity to create wage in view of its benefits. It is usually characterized as net salary (or pre-assess benefit)/add up to resources. It gives data about administration's execution in utilizing the benefits of the business to produce income. Profit before duty is perfect since estimations utilizing net salary after expense figures may indicate slants due essentially to changes in the rates of tax collection (Bodie et al 2009). Return on Assets financial measure provides a more reliable measure of financial performance. This is justified on the grounds that firms should use the assets to generate income. In the banking industry, return on assets measures the efficiency in which the bank is utilizing the assets to generate money by ensuring that the banks collect most deposits, loans and invests the same.

Return on Equity (ROE) measures the profits created for the proprietors, is the proportion measures an enterprise's productivity by uncovering how much benefit an organization creates with the cash that the shareholders have put resources into it. The higher the proportion, the more effective is the money related execution of productivity of a bank. Such benefit proportions measure the monetary execution and the administrative proficiency of

bank. ROE is computed as Profits after tax/ capital at beginning of the period while ROA is determined as after-tax profits/ total assets for a period.

2.3.2 Credit Risk Exposure

The credit risk exposure (CR) (CR) is measured by the aggregate of the level of advances past due 30 days or progressively and as yet gathering interest in particular Portfolio at Risk (PAR-30). In heartiness tests we incorporate further measures of credit hazard by evaluating different econometric details for three extra unique illustrative factors; the discount proportion (WOR) which is the estimation of advances discounted amid the year as uncollectible, as a rate of normal gross advance portfolio throughout the year. An extra measure of credit hazard is the Risk Coverage Ratio (RC) which is measured as the Adjusted Impairment Loss Allowance/PAR>30 Days lastly Loan Loss Reserve Ratio (LLR). This is measured as the proportion of advance misfortune stores to gross advances or essentially put as Loan misfortune save/Value of advances remarkable. It is a pointer of the amount of the gross credit portfolio has been accommodated yet not charged off. It is critical to note that exclusive WOR and LLR are measures of default, while PAR is a measure of danger of default.

2.4 Empirical Review

Pyle (1997), in his study on bank risk management noted that banks and other financial institutions need to meet forth coming regulatory requirements for capital and risk measurement. However, meeting regulatory requirements is not the sole or most important reason for establishing a sound, scientific risk management system. Managers need reliable risk measures to direct capital to activities with the best risk/reward ratios. They need estimate of the size of potential losses to stay within limits imposed by readily available liquidity by customers, creditors and regulators. They need mechanisms to monitor positions and create incentives for prudent risk taking by individuals and divisions.

Achou and Tenguh (2008) also conducted research on credit risk management and bank performance and found that there is a significant relationship between credit risk management and financial institutions performance. Good credit risk management results in good performance. Thus, it is important for financial institutions to practice prudent credit risk management and safeguard the assets of the institutions to protect the investor's interests.

Soke Fun Ho and Yusoff (2009), in their study on the credit risk management strategies of selected financial institutions in Malaysia found that the majority of financial institutions and banks losses stem from outright default due to the inability of customers to meet obligations in relation to trading, lending, settlement and other financial transactions. Credit risk emerges from a bank's dealing with individuals, financial and corporate institutions or sovereign entities.

The aim of credit risk management is to maximize a bank's risk-adjusted rate of return by ensuring that the credit risk exposure is maintained within an acceptable boundary. Efficient credit risk management is a crucial part of the overall risk management system and is important for the survival of all banking establishments. Credit decisions should therefore be made by a sound analysis of risks involved to avoid harm to a bank's profitability and going concern.

Mekasha (2001) investigated the credit risk management and its impact performance on Ethiopian Commercial Banks. The researcher used 10 years panel data from the selected commercial banks for the study to examine the relationship between ROA and loan provision, non-performing loans and total assets. The study revealed that there is a significant relationship between bank performance and credit risk management.

Ben-Naceur and Omran (2008) in an attempt to examine the influence of bank regulations, concentration, financial and institutional development on commercial banks' margin and profitability in Middle East and North Africa (MENA) countries from 1989- 2005 have found that bank capitalization and credit risk have positive and significant impact on banks' net interest margin, cost efficiency and profitability. Felix and Claudine (2008) have investigated the relationship between bank performance and credit risk management. It could be inferred

from their findings that return on equity (ROE) and return on assets (ROA) both measuring profitability were inversely related to the ratio of non-performing loan to total loan of financial institutions thereby leading to a decline in profitability. Kithinji (2010) has assessed the effect of credit risk management on the profitability of commercial banks in Kenya. Data on the amount of credit, level of non-performing loans and profits were collected for the period 2004 to 2008. The findings revealed that the bulk of the profits of commercial banks are not influenced by the amount of credit and nonperforming loans, therefore suggesting that other variables other than credit and nonperforming loans impact on profits.

Al-Khouri (2011) has examined the impact of bank's specific risk characteristics, and the overall banking environment on the performance of 43 commercial banks operating in 6 of the Gulf Cooperation Council (GCC) countries over the period 1998-2008. Using fixed effect regression analysis, results showed that credit risk, liquidity risk and capital risk are the major factors that affect bank performance when profitability is measured by return on assets while the only risk that affects profitability when measured by return on equity is liquidity risk. Kargi (2011) has evaluated the impact of credit risk on the profitability of Nigerian banks. Financial ratios as measures of bank performance and credit risk were collected from the annual reports and accounts of sampled banks from 2004-2008 and analyzed using descriptive, correlation and regression techniques. The findings revealed that credit risk management has a significant impact on the profitability of Nigerian banks. It concluded that banks profitability is inversely influenced by the levels of loans and advances, nonperforming loans and deposits thereby exposing them to great risk of illiquidity and distress.

Chen and Pan (2012) have examined the credit risk efficiency of 34 Taiwanese commercial banks over the period 2005-2008. Their study used financial ratio to assess the credit risk and was analyzed using Data Envelopment Analysis (DEA). The credit risk parameters were credit risk technical efficiency (CR-TE), credit risk allocative efficiency (CR-AE), and credit risk cost efficiency (CR-CE). The results indicated that only one bank is efficient in all types of efficiencies over the evaluated periods. Overall, the DEA results show relatively low average efficiency levels in CR-TE, CR-AE and CR-CE in 2008. Epure and Lafuente (2012) have assessed bank performance in the presence of risk for Costa-Rican banking industry

during 1998-2007. The results showed that performance improvements follow regulatory changes and that risk explains differences in banks and non-performing loans negatively affect efficiency and return on assets while the capital adequacy ratio has a positive impact on the net interest margin.

Fredrick (2012) has analyzed the impact of credit risk management on the financial performance of commercial banks in Kenya. The study has used CAMEL model as a proxy for credit risk management. The author found that the strong impact of CAMEL (credit risk components) on the financial performance of commercial banks. Paudel (2012) has examined the impact of credit risk management on the financial performance of commercial banks in Nepal using the financial report of 31 banks for eleven years (2001-2011). The methods of data analysis in the study were descriptive, correlation and multiple regressions. The financial performance indicator used in the study was return on assets (ROA). The predictors of the banks' financial performance used in the study were: default rate, cost per loan assets and capital adequacy ratio. The author asserts that all these parameters have an inverse impact on banks' financial performance. However, among the risk management indicators, default rate (NPLR) is the single most influencing predictor of bank financial performance in Nepal whereas cost per loan assets is not significant predictors of bank performance. The author concludes that credit risk management is crucial on the bank performance since it have a significant relationship with bank performance.

Abiola and Olausi (2014) have investigated the impact of credit risk management on the performance of commercial banks in Nigeria. Financial reports of seven commercial banking firms were used to analyze for seven years (2005–2011). Panel regression model was employed for the estimation of the model. In the model, return on equity (ROE) and return on assets (ROA) were used as the performance indicators while non-performing loans (NPL) and capital adequacy ratio (CAR) as credit risk management indicators. The study revealed that credit risk management has a significant impact on the profitability of commercial banks in Nigeria.

Alshatti (2015) has examined the effect of credit risk management on financial performance of the Jordanian commercial banks during the period 2005-2013 using capital adequacy ratio, credit interest/credit facilities ratio, provision for facilities loss/ net facilities ratio, leverage ratio and non-performing loans/gross loans ratio as independent variables. The dependent variables represent the profitability measured by ROA and ROE. The author concludes that all the credit risk management indicators used in the study have significant effect on the financial performance of the Jordanian commercial banks.

Kodithuwakku (2015) has analyzed the impact of credit risk management on the performance of the commercial banks in Sri Lanka by using both primary and secondary data. The return on assets (ROA) is used as performance indicator and loan provision to total loan (LP/TL), loan provision to non-performing loans (LP/NPL), loan provision to total assets (LP/TA) and non-performing loans/ total loans (NPL/TL) were used as indicators of credit risk. The result shows that non-performing loans and provisions have an adverse impact on the profitability.

2.5 Conceptual Framework

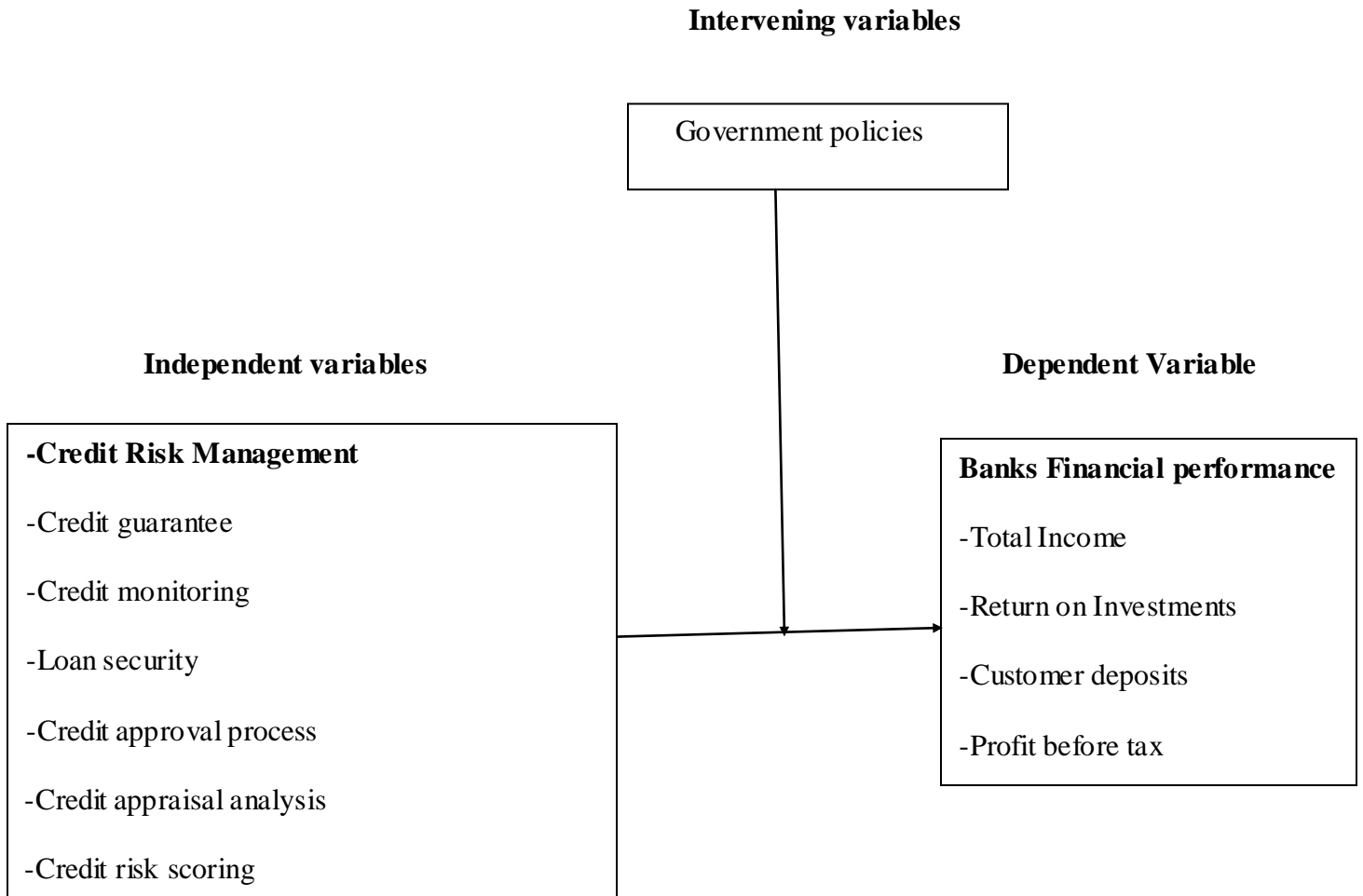


Figure 2.1: Conceptual Framework

2.6 Summary of Literature Review

The chapter has provided a brief discussion on the key theoretical approaches and discoveries reported in prior related studies on credit management and administration and money related performance. The chapter has reviewed asymmetric Information Theory and the Transactions costs hypothesis. The chapter has additionally focused on exact features of credit administration and financial performance of commercial banks. Recent studies that have been done on the banking and credit management have not concentrated on the effect of credit Management strategies on the financial performance of banks thus there is a crevice in the exact proof accessible.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter was set out the various stages and phases that were followed in completing the study. Specifically the chapters contains research design, data collection instruments, data collection procedures and data analysis.

3.2 Research Design

The study adopted a descriptive survey design. Descriptive research is used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to the conditions or variables in a situation. The technique was appropriate as it involved a careful in depth study and analysis of the impact of credit management on the financial performance of banks in Kenya.

3.3 Population

The population of study consisted of all the 45 banks in Kenya. A census study was used to carry out the research.

3.4 Data Collection

Data collection instruments used included questionnaires, financial statements, annual reports on record and data from the financial market. Primary data was collected using questionnaires where all the concerns on the questionnaire were addressed. Secondary data was collected from annual reports and financial statements.

The secondary data from the financial statements was included after tax profit, written off debt, total assets and value of loans outstanding. The researcher administered the

questionnaire to each respondent in the study. The questionnaire had both open and close ended questions. The closed ended questions was used to test the rating of various attributes and this helped to reduce the number of related responses so as to obtain more varied responses. The open-ended questions provided additional information that was not have been captured in the close-ended questions.

3.4.1 Data Validity and Reliability

The reliability of a research instrument concerns the extent to which the instrument yields consistent results. An instrument ought to reliably quantify what it is planned to gauge. Despite the fact that trickiness is constantly present to a specific degree, a great arrangement of consistency in the aftereffects of a quality instrument can be guaranteed id information is accumulated at various times. The propensity toward consistency found in rehashed estimations is alluded to as dependability (Carmines and Zeller, 1979).

The Internal consistency strategy was utilized to test for unwavering quality. The inner consistency technique gives a gauge of unwavering quality to the given test organization and for the most part alludes to the degree to which two factors have a direct association with each other. The most well-known inside consistency unwavering quality gauge is given by Cronbach's alpha, a measurement computed from the pairwise relationships between items being studied..

Legitimacy is characterized as the degree to which the instrument measures what it is planned to quantify (Allen and Yen, 1979).Content legitimacy alludes to the degree to which a measure speaks to all aspects of a given social develop of intrigue. The poll was planned and tried with a couple of individuals from the populace for further enhancements. This was done to improve the legitimacy and precision of information to be gathered for the study.

Table 3.1: Reliability Test Results

| Variables | Items | Cronbach's Alpha |
|----------------------------|-------|------------------|
| CA | 5 | 0.757 |
| CP | 4 | 0.783 |
| CRC | 12 | 0.708 |
| FP | 12 | 0.887 |
| Overall alpha (α) | 30 | 0.78375 |

CTP: Credit terms, CA: Client appraisal, CP: Collection policy, CRC: Credit risk control, FP: Financial performance (ROA).

Table 3.1 above shows the mean of Cronbach's alpha as calculated through SPSS. Mean Cronbach's value of 0.78375 was obtained. This result was greater than the threshold 0.7 and the items were therefore considered as reliable

3.5 Data Analysis

The data that was collected through questionnaires was tabulated and analyzed using the Statistical Package for the Social Sciences (SPSS) software package which includes mean and standard deviations. Descriptive statistics was used to analyze data.

3.5.1 Analytical Model

Before preparing the data analysis, the complete questionnaires were altered for culmination and consistency. The information was coded to enable analysis. The finding were displayed utilizing tables, organizations and rates. Tables was utilized to abridge reactions for further investigation and to encourage correlation.

For this study, the researcher was interested in establishing the effect of Credit Management techniques on financial performance of commercial banks. The model used in the study was take the form below:

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

Where:

Y= Financial Performance as measured (Return on Assets),

X1= Client Appraisal

X2= Credit risk controls

X3= Collection policy

ϵ = Error term

β = Measure of change in financial performance due to change in independent variables.

A Null hypothesis indicated that there was no significant relationship between credit management techniques and financial performance of commercial banks

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

The Chapter presents the findings and discussion of the data, the organization of this chapter is based on the research question. First, the findings that answer the research questions are presented to show the relationship of the independent variables to dependent variables. Therefore the result of the regression model presents how the independent variables affect the dependent variable and finally the result of the model will be discussed in line with the empirical results.

4.2 Descriptive Statistics

4.2.1 Demographic Information

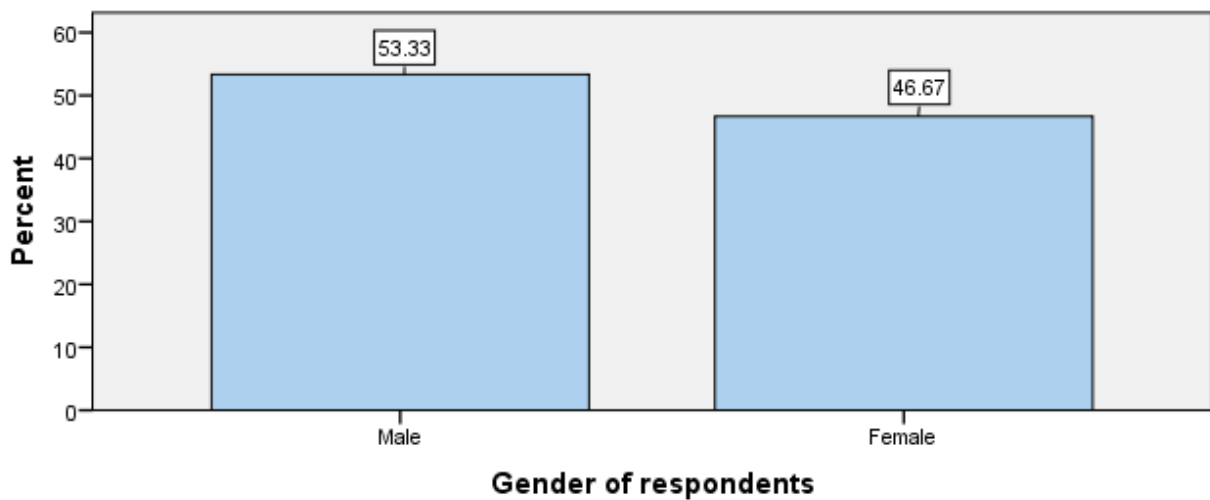


Figure 4.2: *Gender of respondents*

The Figure 4.2 above shows the distribution of Gender, the majority (53.33%) of the respondents were male while 46.67% were female.

Table 4.2: Age of the Respondents

| | Frequency | Percent |
|----------------|-----------|---------|
| 18 to 22 years | 4 | 13.33% |
| 22 to 26 years | 12 | 40% |
| 26 to 30 years | 8 | 26.66% |
| Above 30 years | 6 | 20% |
| Total | 30 | 100.0% |

The Table 4.2 above shows that the majority (40%) of the respondents were aged between 22 to 26 years, 26.66% were aged between 26 to 30 years while the minority (13.33%) were 18 to 22 years.

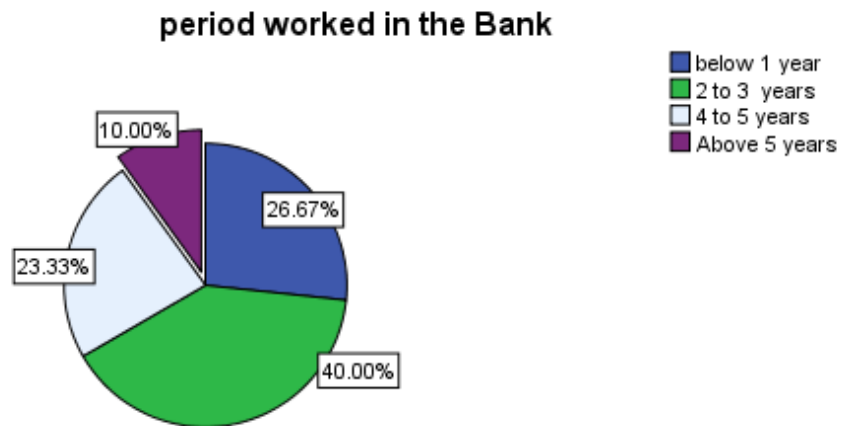


Figure 4.3: Period worked in the Bank

The Figure 4.3 shows that majority (40%) of the participants have worked in the bank for a period of 2 to 3 years, this indicates the respondents have enough experience in Banking and

therefore information given is reliable. 26.67% below 1 year while 10% have worked for a period of 5 years and above.

Table 4.3: Education Level

| | Frequency | Percent |
|-----------------|-----------|---------|
| Diploma | 6 | 20.0% |
| Bachelor Degree | 15 | 50.0% |
| post graduate | 9 | 30.0% |
| Total | 30 | 100.0% |

The statistics from Table 4.3 above shows that most (50%) of the respondents are had Bachelor Degrees, 30% post graduate while 20% had Diploma.

4.2.2 Descriptive statistics of (dependent and independent) variables

Table 4.4: Descriptive statistics

| | Minimum | Maximum | Mean | Standard Deviation |
|-----|---------|---------|--------|--------------------|
| CA | 1.00 | 5.00 | 4.4306 | 0.4432 |
| CP | 1.00 | 5.00 | 4.5812 | 0.5234 |
| CRC | 3.14 | 4.51 | 3.234 | 0.2565 |
| FP | 1.45 | 5.00 | 4.3428 | 0.5423 |

CA: client appraisal, CP: Collection policy, CRC: Credit Risk Control, FP: Financial performance (ROA)

The statistics from Table 4.4 above shows that the average of the series of the client appraisal (CA) is also about 4 and the same average response of the respondents has been captured as is noted in the series of credit term. However, the response is varying from respondent to respondent as showing by the value of the standard deviation exists in the data of the credit appraisal, which is showing 44% variation. CP is showing the average response 4.5 and it

also vary from one respondent to another as depicting by the value of the standard deviation i.e. 0.5234, which is explaining 52% dispersion in the data of the credit policy. CRC, has the average value 3.234, which shows that approximately average response of the respondent is 4, which means the respondents are agree with the CRC implemented in the banking sector. However, the variation in this series is 26% as demonstrated by the value of the standard deviation. Furthermore, the average response of the respondents for the FP is 4.3, which means the average performance of the banks is good according the respondents however, the respondents have contradiction by responding the questionnaires regarding the FP as showing by the value of the standard deviation i.e. 0.5423 (54%).

4.3 Client Appraisal

Table 4.5: Use of Client Appraisal in Credit Management

| | Frequency | Percentage |
|-----------------|-----------|------------|
| Great extent | 11 | 36.7% |
| Moderate extent | 14 | 46.6% |
| Low extent | 5 | 16.7% |
| Total | 30 | 100% |

The findings from the Table 4.5 above indicates the extent to which Commercial Bank used client appraisal in Credit Management. From the findings 36.7% of the respondents indicated to a great extent, 46.6% of the respondents indicated to a moderate extent whereas 16.7% of the respondents indicated to a low extent, this implies that Commercial banks used client appraisal in Credit Management to a moderate extent.

Table 4.6: Level of Agreement on Client Appraisal

| Statement | SA | A | N | D | SD |
|--|-----------|----------|----------|----------|-----------|
| Client appraisal is a viable strategy for credit management | 18% | 26% | 6% | 31% | 19% |
| The banks has competent personnel for carrying out client appraisal | 23.23% | 24.67% | 3% | 26.98% | 22.12% |
| Client appraisal considers the character of the Customers seeking credit facilities. | 20.1% | 12% | 22% | 30.35% | 15.55% |
| Aspects of collateral are considered while Appraising clients. | 13.2% | 32.87% | 21.67% | 23% | 9.26% |
| Failure to assess customers capacity to repay results in loan defaults | 13% | 21.89% | 12% | 23% | 30.11% |

SA=strongly agree A=Agree N=Neutral D= Disagree SD=strongly disagree

The statistics from Table 4.6 shows that majority (31%, 26.98 and 30.35%) of the respondents disagreed that Client appraisal is a viable strategy for credit management, The banks has competent personnel for carrying out client appraisal and client appraisal considers the character of the Customers seeking credit facilities respectively, 32.87% agreed that aspects of collateral are considered while Appraising clients and 30.11% strongly disagreed that failure to assess customers capacity to repay results in loan defaults.

4.4 Credit Risk Controls

Table 4.7: Commercial Banks and Application of Credit Risk Control in Credit Management

| Extent of Application | Frequency | Percentage |
|------------------------------|------------------|-------------------|
| Great extent | 12 | 40% |
| Moderate extent | 8 | 26.7% |
| Low extent | 10 | 33.33% |
| Total | 10 | 100% |

The findings from the Table above reveals the extent to which Commercial Banks used credit risk control in Credit Management. The majority (40%) of the respondents indicated to a great extent, 33.33% of the respondents indicated to a low extent whereas 26.7% of the respondents indicated to a moderate extent, this implies that Commercial Banks used credit risk control in Credit Management to a great extent.

Table 4.8: Level of Agreement on Credit Risk Control in Commercial Banks

| Statement | SA | A | N | D | SD |
|--|-----------|----------|----------|----------|-----------|
| Imposing loan size limits is a viable strategy in credit management | 20% | 20.8% | 20.2% | 21% | 18% |
| The use of credit checks on regular basis enhances credit management | 13% | 32% | 10% | 22% | 23% |
| Flexible repayment periods improve loan repayment | 21% | 30% | 22% | 12% | 15% |
| Penalty for late payment enhances customers commitment to loan repayment | 22% | 28% | 10% | 18% | 22% |
| The use of customer credit application forms improves monitoring and credit management as well | 26% | 14% | 5% | 30% | 25% |
| Credit committees involvement in making decisions regarding loans are essential in reducing | 18% | 21% | 9% | 40% | 12% |

| Statement | SA | A | N | D | SD |
|--|-----------|----------|----------|----------|-----------|
| default/credit risk | | | | | |
| Interest rates charged affect performance of loans in the bank | 20% | 12% | 7% | 31% | 30% |

SA=strongly agree A=Agree N=Neutral D= Disagree SD=strongly disagree

Table 4.8 above shows the level at which respondents agreed or disagreed with the above statement relating to credit risk control in Commercial Banks.

The majority (20.8%, 32%, 30% and 28%) of the respondents agreed that Imposing loan size limits is a viable strategy in credit management, the use of credit checks on regular basis enhances credit management, Flexible repayment periods improve loan repayment and Penalty for late payment enhances customer’s commitment to loan repayment respectively. While (30%, 40% and 31%) of the total population sampled disagreed that The use of customer credit application forms improves monitoring and credit management as well, Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk and Interest rates charged affect performance of loans in the bank respectively

4.5 Collection Policy

Table 4.9: Commercial Banks Use Collection Policy in Credit Management

| Application Extent | Frequency | Percentage |
|---------------------------|------------------|-------------------|
| Great extent | 18 | 60% |
| Moderate extent | 10 | 33.33% |
| Low extent | 2 | 6.67% |
| Total | 30 | 100% |

The majority (60%) of total population sampled indicated that commercial banks use collection policy at a great extent, 33.33% moderate extent while 6.67% at low extent as revealed in the Table 4.9 above.

Table 4.10: Level of Agreement on Collection Policy of Commercial Banks

| Statement | SA | A | N | D | SD |
|---|-----------|----------|----------|----------|-----------|
| Available collection policies have assisted towards effective credit management | 21% | 22% | 16% | 21% | 20% |
| Formulation of collection policies have been a challenge in credit management | 18% | 37% | 6% | 29% | 10% |
| Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults | 22.16% | 56.76% | 9% | 14% | 11.6% |
| Staff incentives are effective in improving recovery of delinquent loans | 12% | 11% | 16% | 23% | 38% |
| Regular reviews have been done on collection Policies to improve state of credit management. | 13% | 30% | 14.1% | 14% | 28.9% |
| A stringent policy is more effective in debt recovery than a lenient policy | 16% | 17% | 3% | 22% | 42% |

SA=strongly agree A=Agree N=Neutral D= Disagree SD=strongly disagree

The Findings from the Table 4.10 above indicates that majority (22%, 37% and 56.76%) agreed that available collection policies have assisted towards effective credit management, Formulation of collection policies have been a challenge in credit management and Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults respectively, 38% strongly agreed that Staff incentives are effective in improving recovery of delinquent loans, 30% agreed that Regular reviews have been done on collection Policies to improve state of credit management while 42% strongly disagreed that A stringent policy is more effective in debt recovery than a lenient policy.

4.6 Inferential Analysis

The study sought to determine the relationship between credit management techniques on the financial performance of commercial banks in Kenya therefore multiple regressions model was used. Multiple regressions is a flexible method of data analysis that is appropriate whenever quantitative variables (the dependent) is to be examined in relationship to any other factors (expressed as independent or predictor variable) (Cohen, West and Aiken, 2003). The regression model was applied as follows:

4.6.1 Regression Analysis

Table 4.11: Model Summary

| R | R square | Adjusted R Square | Std. Error of Estimate |
|---------|----------|-------------------|------------------------|
| .765(a) | .645 | .872 | .1578 |

a. Predictors: Client appraisal, credit risk control and collection policy

Adjusted R squared explains the variation in the dependent variable due to changes in the independent variable, the findings in the above Table 4.11 the value of adjusted R squared was 0.872 an indication that there was variation of 87.2% on performance of commercial banks in Kenya this was because of changes in client appraisal, credit risk control and collection policy at 95% confidence interval. Therefore 87.2% changes in performance of commercial Banks in Kenya could be accounted for by client appraisal, credit risk control and collection policy.

R is the correlation coefficient that indicates relationship between the studies variables, the findings shows that there was a strong positive relationship between the study variables 0.765.

Table 4.12: ANOVA

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|-------|------|
| I | Regression | 0.849 | 4 | .21225 | 1.634 | .024 |
| | Residual | 6.234 | 48 | .1299 | | |
| | Total | 7.083 | 52 | | | |

From the ANOVA statistics in Table 4.12 above, the population parameters had a significance level of 0.024 which shows that the data is ideal for making a conclusion on the population's parameter as the value of significance (p-value) is less than 5%. This shows that client appraisal, credit risk control and collection policy significantly influences financial performance of Commercial Banks in Kenya. The significance value is < 0.05 the conclusion is made that the model was statistically significant.

Table 4.13:Coefficients

| Model | | Unstandardized | | Standardized | | |
|-------|----------------------|----------------|------------|--------------|-------|-------|
| I | | Coefficients | | Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| I | Constant | .232 | .242 | | 1.332 | .031 |
| | Client Appraisal | .347 | .198 | .283 | 1.738 | .048 |
| | Credit risk controls | .462 | .243 | .008 | 1.363 | 0.046 |
| | Collection policy | .465 | .143 | .367 | 1.635 | 0.024 |

a. Dependent variable commercial banks performance

The Coefficients Table 4.13 provides us with a Constant (β_0) (.232) and the co-efficient of client appraisal variable (.347), Credit risk controls (.462), and Collection policy (.465) which helps in formulation of the linear regression equation

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + E$$

$Y = \text{commercial banks performance in Kenya}$

$\beta_0 = \text{Intercept}$

$\beta_1 = \text{slope of a line of variable 1, Client Appraisal.}$

$X_1 = \text{variable 1, Client Appraisal.}$

$\beta_2 = \text{Slope of line variable 2, Credit Risk control}$

$X_2 = \text{Variable 2, Credit Risk Control.}$

$\beta_3 = \text{slope of line variable 3, Collection Policy.}$

$X_3 = \text{variable 3, Collection Policy.}$

$\varepsilon = \text{error term}$

From the data in the above table the established regression equation was

$$Y = .232 + .347(\text{Client Appraisal}) + .462(\text{Credit risk controls}) + .465(\text{Collection policy})$$

The above regression equation revealed that holding client appraisal, credit risk control and collection policy to a constant zero, performance of commercial Banks in Kenya would be 0.232, a unit increase in client appraisal would lead to increase in performance of commercial Banks in Kenya by a factor of 0.347, a unit increase in credit risk control would lead to increase in performance of commercial Banks in Kenya by a factor of 0.462 and also unit increase in collection policy would lead to increase in performance of commercial Banks in Kenya by a factor of 0.465.

The study also revealed that the p-values of client appraisal (.048) Credit risk controls (0.046) and Collection policy (0.024) < Alpha (0.05) this shows that the effects of client appraisal, Credit risk controls and Collection policy was enough to improve financial performance of commercial Banks in Kenya.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusion and recommendations of the study. Suggestions for further research are also made at the end of the chapter.

5.2 Summary of the Major Findings

The study revealed that credit management techniques had a significant effect on the performance of the commercial Banks. These finding relate to that conducted Mekasha (2001), he investigated the credit risk management and its impact performance on Ethiopian Commercial Banks. The study used 10 years panel data from the selected commercial banks for the study to examine the relationship between ROA and loan provision, non-performing loans and total assets. The study revealed that there is a significant relationship between bank performance and credit risk management.

The study is also supported by Abiola and Olausi (2014) findings, they investigated the impact of credit management techniques on the performance of commercial banks in Nigeria. Financial reports of seven commercial banking firms were used to analyze for seven years (2005–2011). Panel regression model was employed for the estimation of the model. In the model, return on equity and return on assets were used as the performance indicators while non-performing loans and capital adequacy ratio as credit management indicators. The study revealed that credit management techniques had a significant impact on the profitability of commercial banks in Nigeria.

The findings was also supported by Alshatti (2015) who examined the effect of credit risk management on financial performance of the Jordanian commercial banks during the period 2005-2013 using capital adequacy ratio, credit interest/credit facilities ratio, provision for facilities loss/ net facilities ratio, leverage ratio and non-performing loans/gross loans ratio as

independent variables. The dependent variables represent the profitability measured by ROA and ROE. The study concluded that all the credit risk management indicators used in the study have significant effect on the financial performance of the Jordanian commercial banks.

Similar conclusion was made by Kodithuwakku (2015) who analyzed the impact of credit management techniques on the performance of the commercial banks in Sri Lanka by using both primary and secondary data. The result shows that non-performing loans and provisions have an adverse impact on the profitability.

5.3 Conclusions

The main purpose of the study is to investigate the effects of credit management techniques on the performance of commercial banks in Kenya. Client appraisal, credit risk control and collection policy, have been taken into account and the directions of their influence on the performance of loan have been hypothesized. The findings of the study concluded that client appraisal had positive and significant impact on the banks performance, CP and CRC had also a positive and significant influence on the performance of the banks. These results are in line with the earlier findings as have been discussed in the literature.

5.4 Recommendation

The study also recommends that there is need for CBK to enhance their client appraisal techniques so as to improve their financial performance. Through client appraisal techniques, the Commercial banks in Kenya will be able to know credit worthiness of clients and thus reduce non-performing loans. There is also need for CBK to enhance their credit risk control. This may help in decreasing loan default levels. This may help in improving their financial performance.

5.5 Suggestions for Further Studies

The study concentrated on only three credit control techniques that include client appraisal techniques, credit risk controls and collection policy. Therefore, further study should be carried out on the topic to point out the other factors that enhance mitigation of credit risk to improve performance of commercial banks in Kenya.

Further studies should be conducted using various methods of data collections such as interviews and focus group discussion to improve on accuracy of the results. Larger sample size should also be used for more accurate findings.

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APPENDICES

Appendix I: Letter of Introduction

Evelyn Mureithi

P.O Box 4387 – 01000,

Thika

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: APPLIED QUESTIONNAIRE

I am a student at the University of Nairobi undertaking a Master of Science Finance. I am currently undertaking a postgraduate research project on **The Effect of Credit Management Techniques on the Financial Position of Commercial Banks in Kenya** as a partial fulfillment of my degree requirements.

Attached herewith is a questionnaire that I am requesting to be completed. All the information you will provide will remain strictly confidential.

If you are interested in the findings of this research, it shall be mailed to you upon request.

Your cooperation and existence will be highly appreciated.

Sincerely,

Evelyn Mureithi

Appendix II: Questionnaire

SECTION A

1 Demographic Information

a. Bank Particulars

Name of the Bank (Optional)

b. Respondent Particulars

Gender: Male

Female

c. Age

Age Bracket (tick as appropriate)

| No | Age Bracket | Tick as Appropriate |
|------|----------------|---------------------|
| i. | 18 to 22 years | |
| ii. | 22 to 26 years | |
| iii. | 26 to 30 years | |
| iv. | Above 30 years | |

d. Period worked in the Bank

| No | No. years | Tick as Appropriate |
|------|---------------|---------------------|
| i. | Below 1 year | |
| ii. | 2 to 3 years | |
| iii. | 4 to 5 years | |
| iv. | Above 5 years | |

e. Education level

| No | Education level | Tick as Appropriate |
|------|--------------------|---------------------|
| i. | Diploma | |
| ii. | Bachelor Degree | |
| iii. | Post graduate | |

SECTION B

2. Client Appraisal

a. To what extent do the banks use client appraisal in Credit Management?

| | | | |
|--|-----------------|------|--|
| | | Tick | |
| | Great extent | | |
| | Moderate extent | | |
| | Low extent | | |

b. This section has statements regarding the level of agreement on the client's appraisal. Kindly respond with the response that matches your opinion. Please tick as appropriate in the boxes using a tick (√) or cross mark (x).

| Statement | Strongly agree | Agree | neutral | disagree | Strongly disagree |
|--|----------------|-------|---------|----------|-------------------|
| Client appraisal is a viable strategy for credit management | | | | | |
| The banks has competent personnel for carrying out client appraisal | | | | | |
| Client appraisal considers the character of the Customers seeking credit facilities. | | | | | |
| Aspects of collateral are considered while Appraising clients | | | | | |
| Failure to assess customers capacity to repay results in loan defaults | | | | | |

SECTION C

Credit Risk Controls

a. To what extent do the banks use Credit Risk Controls in Credit Management?

| | |
|-----------------|------|
| | Tick |
| Great extent | |
| Moderate extent | |
| Low extent | |

b. This section has statements regarding the level of agreement on the credit risk control Commercial banks in Kenya. Kindly respond with the response that matches your opinion. Please tick as appropriate in the boxes using a tick (√) or cross mark (x).

| Statement | Strongly agree | Agree | neutral | disagree | Strongly disagree |
|---|----------------|-------|---------|----------|-------------------|
| Imposing loan size limits is a viable strategy in credit management | | | | | |
| The use of credit checks on regular basis enhances credit management | | | | | |
| Flexible repayment periods improve loan repayment | | | | | |
| Penalty for late payment enhances customers commitment to loan repayment | | | | | |
| The use of customer credit application forms improves monitoring and credit management as well | | | | | |
| Credit committees involvement in making decisions regarding loans are essential in reducing default/credit risk | | | | | |
| Interest rates charged affect performance of loans in the bank. | | | | | |

SECTION D

Collection Policy

a. To what extent do the banks use Collection Policy in Credit Management?

| | |
|-----------------|------|
| | Tick |
| Great extent | |
| Moderate extent | |
| Low extent | |

a. The section has statements regarding the level of agreement on the Collection Policy of Commercial banks in Kenya. Kindly respond with the response that matches your opinion. Please tick as appropriate in the boxes using a tick (√) or cross mark (x).

| Statement | Strongly agree | Agree | neutral | disagree | Strongly disagree |
|--|----------------|-------|---------|----------|-------------------|
| Available collection policies have assisted towards effective credit management | | | | | |
| Formulation of collection policies have been a challenge in credit management | | | | | |
| Enforcement of guarantee policies provides for loan recovery in case of loan defaults | | | | | |
| Staff incentives are effective in improving recovery of delinquent loans | | | | | |
| Regular reviews have been done on collection Policies to improve state of credit management well | | | | | |
| A stringent policy is more effective in debt recovery | | | | | |
| Interest rates charged affect performance of loans in the bank than a lenient policy | | | | | |

Thank you

Appendix III

LIST OF COMMERCIAL BANKS IN KENYA

| | |
|-----|---------------------------|
| 1. | Kenya Commercial Bank |
| 2. | Barclays |
| 3. | Cooperative |
| 4. | Standard Chartered |
| 5. | Equity |
| 6. | CFC Stanbic |
| 7. | Commercial Bank of Africa |
| 8. | Citibank |
| 9. | National Bank of Kenya |
| 10. | Diamond Trust |
| 11. | NIC |
| 12. | Prime Bank |
| 13. | Baroda |
| 14. | Ecobank |
| 15. | Bank of Africa |
| 16. | Chase |
| 17. | Family Bank |
| 18. | Bank of India |
| 19. | Imperial |
| 20. | Fina Bank |
| 21. | Development Bank of Kenya |

| | |
|-----|----------------------|
| 22. | Consolidated |
| 23. | Equatorial |
| 24. | ABC |
| 25. | Giro |
| 26. | Gulf African |
| 27. | Fidelity |
| 28. | Habib AG Zurich |
| 29. | Habib AG Zurich |
| 30. | Spire bank |
| 31. | First Community Bank |
| 32. | Victoria |
| 33. | Habib Bank |
| 34. | Transnational |
| 35. | Oriental |
| 36. | Credit |
| 37. | Paramount |
| 38. | Middle East |
| 39. | UBA |
| 40. | Dubai Bank |
| 41. | Jamii Bora |
| 42. | Sidian |
| 43. | Housing Finance |
| 44. | I & M |

