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EFFECT OF FINANCIAL RESOURCES ON THE EFFECTIVENESS OF DEBT COLLECTION IN COMMERCIAL BANKS

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Abstract

Purpose: The study aimed to examine the effect of financial resources on the effectiveness of debt collection in commercial banks.

Methodology: The research was carried out through descriptive survey design. The total population of the study was 1118credit managers/supervisors or branch managersof the 37 commercial banks. A sample size of 118 respondents was selected through random sampling technique, which represents a 10% of the population. The study used both secondary and primary data specifically the study used a questionnaire as the preferred data collection tool. The questionnaire had close ended questions only. Secondary data on the level of Nonperforming loans/Gross loans was also collected. This study used the quantitative method of data analysis. Quantitative methods of data analysis included inferential and descriptive statistics. Descriptive statistics included frequencies and measures of tendency mainly mean. Inferential statistics include correlation and regression analysis. The tool for data analysis was Statistical Package for Social Sciences (SPSS) version 20 program. The results were presented using tables and pie charts to give a clear picture of the research findings.

Results: Correlation results led to the conclusion that the relationship between financial resources and non-performing loans is negative and significant. This implies that an increase in the financial resources led to a decrease in non-performing loans. This further implies that financial resources influenced or affected non-performing loans negatively.

Policy recommendation:it is recommended that staff competence be emphasized in the banks as it has an effect on the overall achievement of effective debt collection practices. Therefore the management is urged to encourage sharingofpotentially sensitive information on costs, quality, and productivity on financial performance with other employees.

Keywords: *Financial Resources,Debt Collection*

1.1Background of the Study

Olufunso, Herbstand and Lombard (2009) did an investigation into the impact of the usage of debt on the profitability of small and medium enterprises in the Buffalo city municipality, South

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Africa and concluded that the usage of debt has a significantly negative impact on the profitability of SMEs. The study however did not link debt collection practices and profitability of commercial banks.

Nelson and Kalani (2009) conducted a study on commercial banking crises in Kenya: cause and remedies‘. The statement of the problem for the study is many financial institutions that collapsed in Kenya since 1986 failed due to non-performing loans. This study investigated the causes of nonperforming loans, the actions that bank managers have taken to mitigate that problem and the level of success of such actions. Using a sample of 30 managers selected from the ten largest banks the study found that national economic downturn was perceived as the most important external factor. Customer failure to disclose vital information during the loan application process was considered to be the main customer specific factor. The study further found that lack of an aggressive debt collection policy was perceived as the main bank specific factor, contributing to the non performing debt problem in Kenya.

Collection policies and procedures will apply equally to all members regardless of their professional or social standing. It is an object of the bank to be in compliance with applicable national and regional regulations, to follow Board approved procedures and guidelines, to adequately train staff to perform their duties, and to properly document loan files (Rajan, 2005). Under special and pre-authorised circumstances, loan officers may collect loan payments from the field. Under such circumstances, when outside the office, the loan officer should use common sense in accepting payments for delinquent loan. If a decision is made to accept a payment, always provide a receipt for the borrower and get here/his signature verifying the amount (Rajan, 2005).

1.2 Statement of the Problem

Financial institutions have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio risk management, or lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties (Gil &Diaz, 1994). In unstable economic environments, interest rates charged by banks are fast overtaken by inflation and borrowers find it difficult to repay loans as real incomes fall, insider loans increase and over concentration in certain portfolios increases giving a rise to credit risk. Bank failures in Mexico were attributed to improper lending practices, lack of experience, organizational and informational systems to adequately assess credit risk in the falling economy (Gil &Diaz, 1994). The same can be said about of banking crisis in Kenya in the 1980s and in Spain in the 1990s. The problem that this study wishes to address is that debt collection is a pertinent managerial problem that if not addressed would lead to lower profitability and in extreme cases bank failure. Do effective debt collection practices really matter to commercial banks? If they do, then they should significantly contribute to profits as high profits are expected to enhance shareholder value.

Several studies have analyzed the effect of debt collection management practices on profitability. Olufunso, Herbstand and Lombard (2009), Nelson et al. (2009) and Musyoki and Kadubo (2011) analyzed the impact of credit risk management on the financial performance of Banks in Kenya for the period 2000 – 2006 and concluded that default rate, bad debts costs and cost per loan asset have an inverse impact on banks' financial performance, however the default rate is the

most important determinant of bank financial performance vis-à-vis the other indicators of credit risk management. The research had a gap since it did not address the effect of debt collection management practices on profitability. Looking at the emphasis that is laid on effective debt collection management in Kenyan commercial banks, the level of contribution of this factor to profits has not been sufficiently analyzed. There is scarcity of studies done on determinants of effective debt collection in Kenyan commercial banks. Most studies on commercial banks have looked at the effect of credit risk management on performance of banks. It is therefore for these research gaps that this study wishes to establish the determinants of financial resources on the effectiveness of debt collection in commercial banks.

1.3 Purpose of the Study

The purpose of this study was determinants of financial resources on the effectiveness of debt collection in commercial banks.

1.4 Research Questions

The study was guided by the following research questions:

1.4.1 To what extent do financial resources affect the effectiveness of debt collection in commercial banks?

2.0 LITERATURE REVIEW

2.1 Empirical Review

2.1.1 Resources and Effectiveness of Debt Collection

Wernerfelt (1984) argued that a resource is anything which could be thought of as strength or a weakness of a given firm. More formally, a firm's resource at a given time could be defined as those (tangible and intangible) assets which are tied semi permanently to the firm. Examples of resources are: brand names, in-house knowledge of technology, employment of skilled personnel, trade contracts, machinery, efficient procedures, and capital.

Grant (1991), resources are the inputs into the production process. Amit and Shoemaker (1993) defines resources as all input factors, both tangible and intangible, human and non-human, that are owned and controlled by the firm and that enter into the production of goods and services to satisfy human wants. Itami (1987) distinguishes that the two categories of resources are tangible and intangible. The tangible resources are the easiest to identify and evaluate. They are reflected on the balance sheets of the firm and are valued with accounting criteria. Intangible resources are more difficult to identify and value. No property rights are clearly defined as they are based on noncodified information. Hall (1993) considers intangible resources as the intellectual property, rights of patents, trademarks, copyright and registered designs, trade secrets, contracts and licenses, databases, information in the public domain, personal and organization networks, employee know how, professional advisers, suppliers and distributors, reputation of products and company, and organizational culture.

2.1.2 Resource Based View Theory

Resource Based-View (RBV) was developed by Penrose (1959) who suggested that a company should be considered as a collection of physical and human resources bound together in an organizational structure. Furthermore, Hafeez et al. (2007) classified resources as physical assets

and intellectual assets. Physical assets (i.e. plant and equipment) are easily distinguishable due to their tangible existence (Hafeez et al., 2007). Intellectual capital is relevant to the intangible aspect of human resource such as employee skill, knowledge and individual competencies (Hafeez et al., 2007). Overall, the RBV addresses two key points (Gottschalk & Solli-Sæther, 2005). First, the RBV indicates a resource should provide economic value and must be currently scarce, difficult to imitate or copy, non-substitutable, and not readily accessible in factor markets to create competitive advantage (McIvor, 2009). Second, resources determine firm performance (Gottschalk & Solli-Sæther, 2005; McIvor, 2009).

Newbert (2007) categorized theoretical approaches into four types: resource heterogeneity, organizing approach, conceptual-level, and dynamic capabilities. The resource heterogeneity approach argues that a specific resource, capability, or core competence controlled by a firm, affects its competitive advantage or performance. The organizing approach tends to indicate firm-level conditions in which the effective exploitation of resources and capabilities is implemented. Scholars utilizing the conceptual-level approach try to investigate if the attributes of a resource identified by Barney (1991) such as value, rareness, and inimitability, can effectively explain performance. The dynamic capabilities approach emphasizes specific resource-level processes influencing on competitive advantage or performance, in which a specific resource interacts with a specific dynamic capability as an independent variable

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2.2: Conceptual Framework

3.0 METHODOLOGY

The research was carried out through descriptive survey design. The total population of the study was 1118credit managers/supervisors or branch managersof the 37 commercial banks. A sample size of 118 respondents was selected through random sampling technique, which represents a 10% of the population. The study used both secondary and primary data specifically the study used a questionnaire as the preferred data collection tool. The questionnaire had close ended questions only. Secondary data on the level of Nonperforming loans/Gross loans was also collected. This study used the quantitative method of data analysis. Quantitative methods of data

analysis included inferential and descriptive statistics. Descriptive statistics included frequencies and measures of tendency mainly mean. Inferential statistics include correlation and regression analysis. The tool for data analysis was Statistical Package for Social Sciences (SPSS) version 20 program. The results were presented using tables and pie charts to give a clear picture of the research findings.

4.0 RESULTS FINDINGS

4.1: GENERAL INFORMATION

4.1.1 Bank Provides Vehicles for Staff Mobilization

The study sought to find out if the bank provides vehicles for staff mobilization while carrying out their duties, forty two point five percent of the respondents agreed and another 32.2% strongly agreed bringing to a total of 74.7% of those who agreed. Thirteen point eight percent of the respondents disagreed, 3.4% strongly disagreed and 8% were neutral. Results are presented on Table 1 below.

Table 1: Bank Provides Vehicles for Staff Mobilization

Statement		Frequency	Percent
The bank provides vehicles for staff mobilization while carrying out their duties	Strongly disagree	3	3.4%
	Disagree	12	13.8%
	Neutral	7	8.0%
	Agree	37	42.5%
	Strongly agree	28	32.2%

Source: Author (2014)

4.1.2 Bank Provides Airtime for Debt Collection

The study sought to find out whether the bank provides airtime for staff in debt collection department for follow up calls. A majority (50.6%) of the respondents strongly agreed and another 36.8% agreed bringing to a total of 87.4% of those who agreed, 3.4% disagreed. Only 6.9% of the respondents were neutral. Results are presented in Table 2 below.

Table 2: Bank Provides Airtime for Debt Collection

Statement		Frequency	Percent
The bank provides airtime for staff in debt collection department for follow up calls	Strongly disagree	2	2.3%
	Disagree	3	3.4%
	Neutral	6	6.9%
	Agree	32	36.8%
	Strongly agree	44	50.6%

Source: Author (2014)

4.1.3 Enough Personnel in Debt Collection Department

The study sought to find out if the bank has enough number of staff in the debt collection department, forty one point four percent of the respondents agreed and another 27.6% strongly agreed bringing to a total of 69% of those who agreed. Seventeen point two percent of the respondents strongly disagreed, 10.3% disagreed and 3.4% were neutral. Results are presented on Table 3 below.

Table 3: Enough Personnel in Debt Collection Department

Statement		Frequency	Percent
The bank has enough number of staff in the debt collection department	Strongly disagree	15	17.2%
	Disagree	9	10.3%
	Neutral	3	3.4%
	Agree	36	41.4%
	Strongly agree	24	27.6%

Source: Author (2014)

4.1.4 Employees are well remunerated

The study sought to find out whether the employees of the bank are well remunerated to avoid corruption issues. A majority (37.9%) of the respondents strongly agreed and another 37.9% agreed bringing to a total of 75.8% of those who agreed, 11.5% disagreed and 3.4% strongly disagreed. Only 9.2% of the respondents were neutral. Results are presented in Table 4.12 below.

Table 4: Employees are Well Remunerated

Statement		Frequency	Percent
The employees of the bank are well remunerated to avoid corruption issues	Strongly disagree	3	3.4%
	Disagree	10	11.5%
	Neutral	8	9.2%
	Agree	33	37.9%
	Strongly agree	33	37.9%

Source: Author (2014)

4.1.5 Bank has Invested in Technological Resources

The study sought to find out whether the bank has invested heavily in technological resources to ensure smooth work flow of employees. A majority (39.1%) of the respondents strongly agreed and another 36.8% agreed bringing to a total of 75.9% of those who agreed, 16.1% disagreed and 1.1% strongly disagreed. Only 6.9% of the respondents were neutral. Results are presented in Table 5 below.

Table 5: Bank has Invested in Technological Resources

Statement		Frequency	Percent
The bank has invested heavily in technological resources to ensure smooth work flow of employees	Strongly disagree	1	1.1%
	Disagree	14	16.1%
	Neutral	6	6.9%
	Agree	32	36.8%
	Strongly agree	34	39.1%

Source: Author (2014)

4.2 Non Performing Loans

Table 4.20 indicates that there was a slight increase of the non-performing loans in the year 2011 to the year 2012 and a decline in the following year from 1132735 to 1008214. This implies that the banks had put effective measures on debt collection hence the decline in the number of amount of the non performing loans.

Table 6 : Descriptive Statistics for Non-Performing Loans

Year	Minimum	Maximum	Mean	Std. Deviation
2011	0	9342775	1008214	1656600
2012	0	10475335	1132735	1796020
2013	0	9342775	1008214	1656600

Source: Author (2014)

4.3 Inferential Statistics

This section presents the correlation and regression analysis.

4.3.1 Bivariate Correlation

The correlation results between banks profitability and independent variable are presented. Table 7 displays the results of correlation test analysis between the dependent variable (non performing loans) and independent variables (staff competency, resources and information management) and also correlation among the independent variables themselves. Results on Table 7 show that non performing loansisnegatively correlated with all the independent variables. This reveals that any negative change in staff competency, resources and information management led to increased number of nonperforming loans in the commercial banks.

Table 7: Bivariate Correlation

Variable		AverageNPL
AverageNPL	Pearson Correlation	1
	Sig. (2-tailed)	
Resources	Pearson Correlation	-0.408
	Sig. (2-tailed)	0.000

Source: Author (2014)

4.3.2 Regression Analysis

In order to establish the statistical significance of the independent variables on the dependent variable (non performing loans) regression analysis was employed. The regression equation took the following form.

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$

Where

Y = Non Performing Loans

X_2 = Resources

In the model, β_0 = the constant term while the coefficient β_ii= 1….3 was used to measure the sensitivity of the dependent variables (Y) to unit change in the predictor variables. μ is the error term which captures the unexplained variations in the model.

Regression analysis was conducted to empirically determine whether staff competency, resources and information managementwere significant determinant of non performing loans in commercial banks. Regression results in Table 4.22 show that the coefficient of determination also called the R square is 41.9%. This means that the combined effect of the predictor variables, resourcesexplains 41.9% of the variations in nonperforming loans. The correlation coefficient or R of 64.7% indicates that the combined effect of the predictor variables has a strong and positive correlation with non-performing loans.

Table 8: Regression Model Fitness

Indicator	Coefficient
R	0.647
R Square	0.419
Std. Error of the Estimate	1310091

Source: Author (2014)

Analysis of variance (ANOVA) on Table 8 shows that the combined effect of information management was statistically significant in explaining changes in non-performing loans. This is demonstrated by a p value of 0.000 which is less that the acceptance critical value of 0.05.

Table 9: ANOVA

Indicator	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.03E+14	3	3.42E+13	19.939	0.000
Residual	1.42E+14	83	1.72E+12		
Total	2.45E+14	86			

Source: Author (2014)

Table 9 displays the regression coefficients of the independent variables. Results further indicate that resources and non-performing loans had a negative and significant relationship (beta= -

1075872, p value 0.049). The findings imply that an increase in resources availability by one unit leads to a decrease in non-performing loans by 1075872units.

Table 10: Regression Coefficients

Variable	Beta	Std. Error	t	Sig.
Constant	7089303	1239821	5.718	0.000
Resources	-1075872	293866.5	-3.661	0.000

Source: Author (2014)

5.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

. The study findings indicated that majority of the respondents agreed with the statements that the bank provides vehicles for staff mobilization while carrying out their duties, the bank provides airtime for staff in debt collection department for follow up calls, the bank has enough number of staff in the debt collection department, the employees of the bank are well remunerated to avoid corruption issues and the bank has invested heavily in technological resources to ensure smooth work flow of employees. The relationship between financial resources and non-performing loans is negative and significant (r= -0.408, p=0.000). This implies that an increase in the financial resources led to a decrease of non-performing loans. This further implies that financial resources influenced or affected non-performing loans negatively.

5.2 Resources and Debt Collection Practices

The study findings indicated that majority of the respondents agreed with the statements that the bank provides vehicles for staff mobilization while carrying out their duties, the bank provides airtime for staff in debt collection department for follow up calls, the bank has enough number of staff in the debt collection department, the employees of the bank are well remunerated to avoid corruption issues and the bank has invested heavily in technological resources to ensure smooth work flow of employees. The relationship between financial resources and non-performing loans is negative and significant (r= -0.408, p=0.000). This implies that an increase in the financial resources led to a decrease of non-performing loans. This further implies that financial resources influenced or affected non-performing loans negatively.

The findings also agree with Draker (1999) who asserts that today's challenge of organizations is measuring and enhancing the worker productivity. Therefore, managers are required to recognize, motivate, and optimize the great hidden power of organizations' human talents and take into account the factors creating instrumental motivation (such as salary and wages, bonus, facilities, working physical environment, and safety) and non-instrumental motivation (like unity of jobs, job security, justice in organizations and training), since these factors do really affect productivity.

5.3 Conclusions

5.3.1 Resources and Debt Collection Practices

The study sought to determine the effect of financial resources on the effectiveness of debt collection in commercial banks. Results led to the conclusion that resources helped in staff

mobilization while carrying out their duties thus effective debt collection measures. It was inferred that the bank provided all the resources required by the staff while working such as air time, good salary and remuneration to the staff and enough personnel to carry out the duties effectively and efficiently. It was concluded that the bank also had invested heavily intechnological resources to ensure smooth work flow of employees. Correlation results led to the conclusion that the relationship between financial resources and non-performing loans is negative and significant. This implies that an increase in the financial resources led to a decrease in non-performing loans. This further implies that financial resources influenced or affected non-performing loans negatively.

5.4 Recommendations

5.4.1 Resources and Debt Collection Practices

The study recommends that banks should invest enough resources in the credit department to ensure that their objectives and goals are met without constraints. Specifically, banks should invest in a robust Information technology system as this can certainly help companies to create satisfied and loyal customers. This is because customer relationship management is driven by technologyrather than a well-articulated customer strategy. In addition, it is recommended that banks need to allocate adequate resources for debt collection. In this, critical resourcessuch as information and knowledge necessary foraddressing customers problem must not be the preserveof a particular unit but organizations must re-align itsinternal architecture and leverage such resources acrossthe spectrum of the organization to enable people dealwith customer issues promptly.

5.4.2 Recommendations for Further Studies

The study recommends that further investigation be done on the effect of staff competency, resources and information management on debt collection practices on other financial institutions. For instance the study can be replicated in other micro financing organizations such as SACCOs and MFIs

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