

Effect of Debt Recovery Techniques on Performance of Selected Financial Institutions in Eldoret Town

Hellen Kamar¹, Caroline Ayuma²

¹(School of Business and Economics/ Kisii university, Kenya)

²(School of Business and Economics/ Kisii University, Kenya)

ABSTRACT: *The purpose of the was to examine the effect of debt recovery techniques on performance of financial institutions. The study objectives were to examine the effect of account transactions, guarantors, auction and the effect of collateral retention on performance of financial institutions in Eldoret town. The study was guided by customer-supplier relationship theory. The research design adopted a descriptive survey design. The study was conducted on Financial Institutions within Eldoret town, Uasin Gishu County. The target population consisted of 185 employees from the credit and management department of selected financial institutions. The study targeted five commercial banks and four micro-finance institutions. The study used purposive sampling technique to select 125 respondents. The researcher used questionnaire as data collection instruments. The data collected in the study was analyzed by the use of descriptive statistics and inferential statistics. This includes the use of descriptive statistical methods to analyze data consisting of frequency, mean and standard deviation. The relationship between variables was done using multiple linear regression models. Graphs, tables and pie charts were used to present the results. Based on the findings of the study, the study recommended among others that financial institutions should review account histories as suggestion tools for accounts such as savings accounts, investment accounts and also retirement accounts for additional information on customer ability to repay their loans. The study suggests that same study be done in other financial institutions not considered in this study to allow generalizations and also provide rich advances for future studies. Further research is also required to study the factors determining debt recovery in financial institutions.*

Keywords: *Collateral, Debt recovery, Customer-Supplier, Credit monitoring*

I. INTRODUCTION

1.1 Background

According to [1] debt recovery techniques is a very essential component of the performance of banking institutions as it plays a key role in ensuring that the major goal of the bank is to issue loans that results into the preferred outcome of making a profit margin beyond the loans advanced. It is evident that the presence of debt recovery techniques ensures the loanees to pay up their debts. [2] states that debt recovery unit is involved in the day today role of ensuring that the loans issued to the bank's customers are repaid as per the schedule of contract signed by the customer and bank. The task of debt recovery involves compiling and accumulating a list of unpaid loans and practically managing and organizing the loans by following up on defaulters. The debt recovery unit interacts with lawyers to summarize demand letters to the loan debtors and sending the same letter to the customers who are defaulting.

Globally, most of the financial institutions use various types of debt recovery techniques to finance and improve its operations in order to enhance their performance [3]. For instance, in the United States of America (USA), [4] conducted a study of default recovery rates and credit risk modeling, the findings showed that as the default rate increases the debt recovery rate rises. It therefore calls for techniques and measures to be adopted to make sure that credit risk is quickly reviewed to reduce or lower default rate. In India, [2] confirms that court negotiation is supportive in debt recovery by financial institutions. [2] Acknowledged that legal enforcement is sluggish in assisting in debt recovery.[2] presupposes that difference in court negotiation in India affects the debt recovery techniques through the legal means this is due to unobservable country specific factors that affect performance, growth and financial decisions of financial institutions. The introduction of judicial arbitration assisted in debt recovery in Indian banks. In Africa, according to [5] many banks have suffered financial distress and failure due to poor use of debt recovery techniques and non performing loans. For instance, in Kenya many of these banks have been closed by regulatory authorities having some of them restructured. In Kenya the rise of consolidated bank is attributed to failure of a number of local financial institutions as they are positioned under consolidation.

According to [6], the banking sector in Kenya has experienced high non-performing loans in the years 2011-2015. This meant that debt recovery at bank level is not doing very well thus making loans being confirmed offending. Central bank of Kenya (CBK) reports that while the percentage of non-performing loans to total loans declined to 29.1% in June 2004 from 29.2% in June 2002 [7]. [8], state that in Eldoret town, a

basic loan is the simplest form of debt incurred by financial institutions especially in commercial banks. It comprises of a contract to provide a predetermined sum of money, known as the principal sum, for a certain period of time, with this amount to be repaid by a particular date [9] further states that in commercial banks, loans interest is calculated by use of the principal sum per year, will also be paid occasionally in the interval, have to be paid by the set date, or, such as monthly or annually. The utmost challenge to institutions that lend has been the high pace of evasion in loan payments led by bad economic situation. This forces them to obtain more expenses towards recovery of the debts and loans. It is therefore against this background that the study aims to evaluate the effect of debt recovery techniques on performance of financial institutions.

1.2 Statement of the problem

Most of the financial institutions utilize debt in different ways to influence the investment made in their assets which influences the return on equity. This influence, the debt equity amount and is considered significant in influencing the investment riskiness; the higher debt per equity, the more risky it is. For both financial institutions, individuals and companies, this increased risk can lead to poor performance/results, as the cost of servicing the debt can develop beyond the capacity to repay due to internal difficulties either due to poor resource management or income loss [3]. Ideally, debt recovery techniques have been used as a legitimate and necessary organizational activity where collectors and creditors are able to take reasonable steps and procedures to secure payment from businesses or customers or that are bound legally to repay cash they pay or owe.

According to CBK annual reports released shocking evidence that non-performing loans for 2015 was high. According to the annual reports on bank supervision 2015, out of loan book of KES 2.02 trillion in 2014, 5.3 billion was non-performing loans (debts). In addition, Kenya Bankers Association and parliamentary select committee on finance disagreed on the likelihood rise in default rates due to rising interest rates. This does not only call for banks to be prepared in tackling debt recovery but calls for different techniques of debt recovery to be put in place so that as the financial institutions are not caught unawares. To further support the fact that debt recovery is a problem in financial institutions in Kenya is the high rate of defaulted loans in the country. Moreover [10] indicate that the rate of debts to gross loan from 2011 to 2015 were 2011 (10.6 Billion), 2012 (9.0 Billion), 2013 (7.9 Billion), 2014 (6.3 Billion) and 2015 (5.4 Billion).

There are various studies done on debt recovery including [11] on factors that influence long term debt recovery by companies listed at the NSE, [8] carried out a study on expected common stock return and debt ratio from the NSE. [12] conducted a study on the relationship between growth opportunities and debt structure of firms listed by Nairobi stock exchange, [13] did a study on the analysis of assets structure and debt policy for companies listed at the Nairobi stock exchange, [14] did a study on the determinants of corporate debt maturity structure for companies listed by Nairobi stock exchange, [15] did a study on Comparison of interest rates between short and long term. This has necessitated the need for this study to fill the gap on the effect of debt recovery techniques on performance of financial institutions in Eldoret town.

1.3 Objectives of the study

The study purpose was to examine the effect of debt recovery techniques on performance of financial institutions in Eldoret town. The study was guided by the following specific objectives;

- i. To examine the effect of account transactions on performance of financial institutions in Eldoret town.
- ii. To establish the effect of guarantors on performance of financial institutions in Eldoret town.
- iii. To determine the effect of auction on performance of financial institutions in Eldoret town.
- iv. To assess the effect of collateral retention on performance of financial institutions in Eldoret town.

1.4 Research Hypotheses

The study was guided by the following research hypotheses:

H₀₁: There is no significant relationship between account transactions and performance of financial institutions in Eldoret town.

H₀₂: There is no significant relationship between guarantors and performance of financial institutions in Eldoret town

H₀₃: There is no significant relationship between auction and performance of financial institutions in Eldoret town.

H₀₄: There is no significant relationship between collateral retention on performance of financial institutions in Eldoret town.

II. LITERATURE REVIEW

2.1 Theoretical review

The techniques used in debt recovery are about the relationship that is present between the institution that lends and the borrower of funds. Therefore it is a mutual benefit that accrues to both the lender and

borrower when the debt is fully collected. The lender gains profits from the scope between lending rate and interest on deposits rate. On the other hand, the borrower is assured of a favourable account transactions score from the lender upon full repayment of debts. The study discussed three types of theories that explain the relationship between debt recovery techniques and performance of financial institutions here are three main theories that explain the types of relationships that exist between the lender and the borrower, they include the following:

2.1.1 Customer-Supplier Relationship Theory

The Customer-Supplier Relationship theory was proposed by [16] and cited in [17]. The customer-supplier relationship theory holds that there are costs and benefits that accrue to both the lender and the borrower in their relationship created by the debt recovery techniques. The four types of costs in the debtor-creditor relationship range from presale, production, distribution and post-sale service costs.

According to [18] the main benefits include customer economics, power, the nature of the decision-making unit and the institutional link between the creditor and the debtor. Therefore, depending on the quantity of interest charged on the loan there is always a wide range of profit margins that would accrue to the creditor if the debt is fully repaid and also accrue to the debtor if they fail to pay on the debt repayment. The proponents of this theory use a portfolio approach to analyze customer-supplier relationships and use it to recommend a classification matrix.

This theory thus implies that debt recovery techniques is a significant aspect of the performance of financial institution whereby debt repayment is a matter of association between the creditor and debtor and the continuation of mutual interests in terms of gains for both parties.

2.1.2 The Expected Utility Theory

The expected utility theory was proposed by [19]. The expected utility theory is supported on logical explanations related in social and human psychology. It contends that individuals have limited information processing capabilities, that exhibit systematic bias in processing information.

They therefore hold that behaviors like default on debt repayment are motivated by risk aversion with an expected utility of unwarranted gains through earnings from the unpaid debts. However, this theory is not plausible since it fails to provide a reason behind the default decisions made under uncertainty like business failures, loss of employment and accidents [18]. [20] recommended that collecting reliable information from potential borrowers becomes significant in achieving effective screening in debt recovery techniques that are used to enhance performance of financial institutions as suggested by the expected utility theory. [21] further states that though the trend has assumed a reduction over the years, the amount of debts is still high and requires further relook so as to increase the performance of financial institutions. Compared to other banks in other towns, financial institutions in Eldoret town debt portfolio has been reasonably small yet it has managed to tame the loan defaulters by having an efficient debt recovery technique.

This theory postulates that in the presence of risky outcomes, a lender makes use of the expected value criterion to ensure their debt recovery. Some people would be averse to risk enough preferring the sure thing, although it has a less expected value, while the less risk averse customer would choose the risk and higher mean lender.

2.1.3 Value Based Portfolio Theory

The study will also be guided by Value Based Portfolio Theory developed by [22]. The value based portfolio theory explains that different components of portfolios play different roles in expanding the overall value of the total portfolio. The specific value gained from each component of the portfolio includes the ratio of contribution to the portfolio outputs like the resale value, safety, reliability and comfort. It also includes the value that customers get from a product in relation to inputs like the price and running costs that customers have to convey in exchange. The derived value of efficiency can be understood as the customers' return investment. Therefore, the debts that have created products offering a maximum customer value are similar to other alternatives which are efficient and experience little possibilities of default and vice-versa [18].

This theory suggests that debt recovery techniques from the perspective of the debtor, is determined by the value that the debt has added to the existing portfolio of investments. Since the 1980s, companies have productively employed a portfolio theory that is modern to market risk. Many companies are now using value at risk models to control their market and interest rate exposures. Unfortunately, however, although credit risk remains the biggest risk challenging most organizations, the duty of applying modern portfolio theory to credit risk has lagged [23]. Financial institutions recognize how debt recovery techniques can adversely impact the performance of financial institutions. Due to this, most of the financial institutions are aggressively employing different approaches to debt recovery.

This industry is also making considerable development in the direction of developing apparatus that determine debt recovery techniques in a portfolio background. Organizations are also using debt recovery derivatives to shift risk efficiently while safeguarding customer relationships.

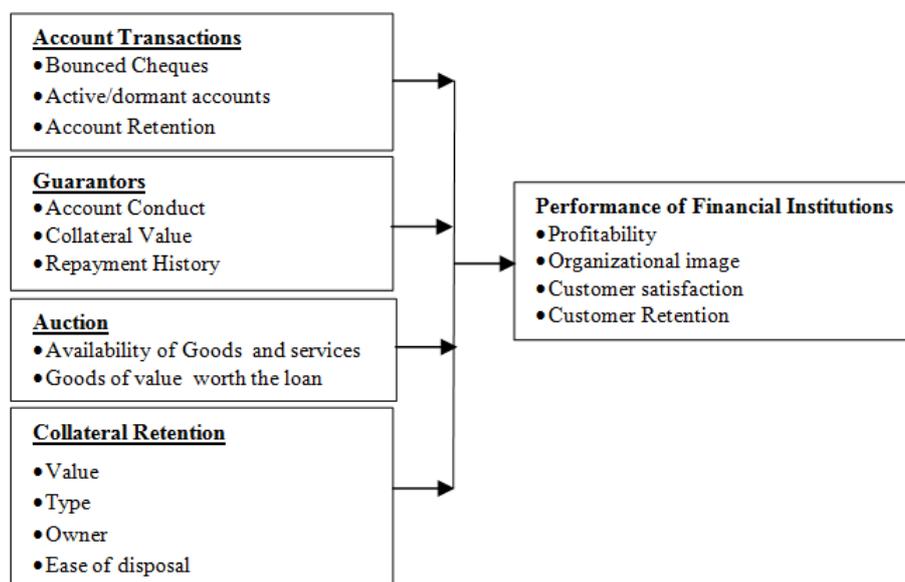


Figure 1: Conceptual framework

2.2 conceptual Framework

The conceptual framework in figure1 shows the relationship between the independent variables which is debt recovery techniques (account transactions, auction, collateral and guarantors), the dependent variable which is performance of financial institutions conceptualized by profitability, organizational image, customer satisfaction.

2.3 Empirical Review

2.3.1 Effect of Account Transactions on Performance of Financial Institutions

According to [24] the history of a bank account transaction is a significant part and parcel of any form of financial account. This account history gives a wide range of list of all transactions of a certain account. It illustrates all of the deposits and expenses for the planned account, over a certain period of time. In the history of account the bank can also observe when the account was overdrawn and if there are any associated fees with the overdraft. Histories of an account are used as suggestion tools for accounts such as checking accounts, savings accounts, investment accounts and also retirement accounts. If the bank needs to make a payment reference, deposit or expense, the bank should go to the history of the account for additional information, [21].

According to [25] most of the less-developed countries nowadays follow strategies of growth similar with agrarian change. At the same time, most try to encourage and construct a suitable financial system which is consistent with broader aims of macroeconomic. The difference with the both 18th and 19th century is lack of patterns and the idea of financial development planning through the phases of growth was much less evident. There were instances of state pushes for growth and expansion for example, Germany started its growth in 1870, but on the whole, such changes happen on a more little by little and unplanned basis, [20].

A small number of economies stay committed to a certain structure for a very long period of time. As the growth structure changes, so do the financial intermediation needs. Sometimes the changes between stages are steady; at times it is violent. One early view of the importance of the development stage to the financial structure and policy [26] idea that the financial system structure was a purpose of comparative backwardness. The shorter an economy developed comparative to Great Britain, the additional its financial structure was subjected by institutional factors designed at raising the capital supply. This could involve government involvement in a large scale.[26] analysis has been somehow criticized on a fronts number, not least with consideration to the complexity of actually crucial development stages. [26] work also appears to be based on case studies which are narrow and does not embrace up well to examination.

Nonetheless, as economies shift between growth phases determined by, for example, trade, agriculture, consumption or investment, the outlook of the financial services demand for changes. More complicated economies tend to entail greater choice, such as for insurance services and housing finance. But the disagreement is by no means uncomplicated, and there may be instances when an apparently straightforward

system suits the economy needs and is perhaps the only practical option available. [25] noted that between 1945 to 1960 period, account transactions were significantly increasing in Britain and the United States than in Germany.

However, one of the factors behind bank's successful debt recovery is certainly the banking system's role and its ability to take a long-standing view of financing in the corporate sector [27]. Would a higher debt in the period of postwar, reflect more non-banking intermediation involvement, have actually hindered growth and expansion during the old age. So much would have relied on precisely how the enlargement of the financial pie and in this particular scenario, it is quite possible that there was no truly practical option. However, the suitability of the structure will change over time [28]. According to the economist chief of the World Bank's chief currently noted in are port on optimal financial structure, there is to some extent optimal financial structure for the economy at every development stage [29].

There are shocks that seriously influence an economy's basics, and can come in a variety of forms. Periods of hyperinflation have been a widespread undermining factor, whether in 1923 in Germany, 1980s in Argentina, or the last few years in Zimbabwe, [30]. This can strongly affect liquidity preferences, redistribute economic power, cause currency instability, undermine confidence generally and of course wipe out savings. War financing and Wars can greatly influence financial stability, and for years after that, they influence banks' ability to in-between due to challenges on their balance sheets. At times, new banks are created for facilitating public financing in the stir of the fiscal strain war. Account transactions shows that severe business cycles can influence the system of the banking attitudes to forms of financing for a long period afterwards. [31] argue that the 1873 to 1875 depression in France left so many financial institutions like banks with lessened organizational securities on their books that they move away from such financing for long time afterwards.

2.3.2 Effect of Guarantors on Performance of Financial Institutions

[32] conducted a study on determinants of long term debt decisions by quoted companies at the NSE. A descriptive research design was used and the population of interest was forty seven companies quoted at the Nairobi Stock Exchange and the response rate was 38 companies. The primary data was collected by use of questionnaires and liner regression method was used to analyze collected data. The study established that to be a guarantor is a critical responsibility and if the borrower does not meet the bank's payment commitments below a credit contract, the guarantor may be indebted to pay the debt, or the lender may be able to repossess and sell property that the guarantor has written as security for the debt. A guarantor is a person who agrees with the terms and conditions of paying the debt that the borrower has defaulted.

[33] conducted a study on an evaluation of the servicing and structure on the public debt in Kenya. The study employed data which is secondary from documents of the Central Bank of Kenya and Kenya Government and the data that was collected was analyzed using financial ratios and trend series modified from debt servicing and indicators employed by the Maastricht Treaty of the European Union and World Bank. The study established that guarantors are responsible for loans guaranteed in agreement with the guarantee commitment [33]. The percentage of debt the guarantor has to pay is the quantity the creditor fails to get from the debtor due to debt restructuring. If the guarantor is also not capable of paying, the guarantor could apply for debt restructuring. Support is available from debt and financial counsellors. The guarantor may apply for security liability or separate debt of security may perhaps be extensive by means of these processes, but it does not influence the amount of debt [34].

According to [32] almost all of the cooperatives had written policies which they implemented strictly to their members. Each cooperative had a credit committee; however, only few staff engaged in loans. The requirements of the Cooperatives for borrowing loans were share capital, guarantors, collaterals, and savings deposit and business plan. The loan default rate was still increasing despite these strategies of reducing delinquency.

Most of the cooperatives conducted credit investigation and monitored the projects of their borrowers to ensure that the loans were used properly. The cooperatives forced the borrowers to pay or return immediately their loans or they would not be granted loans once the cooperative found out that the loan was not being used for the intended purpose. The challenge of a guarantor is commitment by using the manner of approving to the phrases and conditions of the mortgage and bearing legal responsibility to the quantity of the loan collectively with the hobby and other fees. Commonly a guarantor isn't always required for domestic loans. There can however be little doubt that guarantors can have an impact on monetary improvement drastically, although care need to be taken to differentiate between the ones whose characters stand out because of incompetence or fraud versus those who've had a greater lengthy-term effect and fabric on structural developments[32]

There is no decrease of individuals for the previous categories in the most recent economic development phase. History, too, is under attack with individuals who have had an influence, usually poor, on financial development. [14] states that, the emergence of banks that are trustee in Germany's cooperative banks and in Scotland were considered to particular men who are clergy in those countries, and the involvement of

those individuals only were a contributing factor to the growth of a set of institutions whose existence was by now in progress. At the nineteenth century, Wall Street was linked with a flurry of colorful characters, but they were merely products of fundamental economic conditions were not the drivers of those conditions.

This can be accomplished either by involving economic goals that identify a financial reaction from a up till the non-enthusiastic financial sector, or extra directly by encouraging the establishment of specific financial institutions meant at filling alleged gaps in the process of intermediation or in consistent with redrawn and new political objectives, [35]. By including more financing to market forces as contrasting to obligation of more practical measuring mechanisms a country would improve the economic efficiency of its capital usage. A counterargument is that at particular stages of development, it is intellect for a state that has go on board on one path of growth to apply an extent of financial repression, since a speedy move to more market that is open may depart the system open to abuse. One recent study by [35] emphasizes the need to think carefully about financial reforms, particularly in connection with exchange rate and tax policies. In effect, about financial liberalization, collective with definite incentives that are taxable and a fixed exchange rate rule, formed a powerfully environment that was offset by existing fiscal policy.

2.3.3 Effect of Auction on Performance of Financial Institutions

[12] proposes that an auction is a practice of buying and selling services and goods through offering those (goods) due bid, receiving bids, and then selling the goods to the bidder who bids the highest. The open increasing price auction is possibly the most common form of auction used today. Contestants bid frankly against one another, with each subsequent bid need to be higher than the previous bid. Bidders may call out their bids themselves, an auctioneer may have a proxy or announce prices and call out a bid on their behalf, or bids may be presented electronically with the highest present publicly displayed bid.

The auctioneer starts with a high asking price for some quantity of like items; the cost is lowered until a member is willing to accept the auctioneer's price/cost for some quantity of the goods and services in the lot is met. A bank account transaction history is a significant part of any financial account; it comprehensively shows the list of transactions of a particular account. That is the deposits and expenses for the account, over a certain time period.

Account histories are used as tools for reference for accounts like; savings accounts, checking accounts, retirement accounts and also investment accounts. If one needs to reference a payment, expense or deposit, he should go to the account history for more information, [12]. Many developing countries nowadays practice growth strategies in equivalent with agrarian transformations. At the same time, many try to encourage and construct a suitable financial system in line with wider macroeconomic aims. The contrast with the 18th and 19th centuries is that there is lack of precedents then, and the planning concept financial development through phases of growth was much less evident. There were instances of national advocating for growth for instance, Germany starting in 1870, but on the whole, such transformations took place on a more gradually and informal basis, [36]. Few economies remain committed to a certain structure for a very long time. Sometimes the transition between stages is gradual; sometimes it is violent.

Several studies have documented inconsistent yields, relative to some benchmark, on treasury bonds throughout and around auctions. Many of these studies compare the typical yield bid within the auction to the yield on another instrument that at the time of the auction resembles the auctioned bond.[37] in his study indicated a small under pricing of treasury auction securities within the order of magnitude of a basis of higher yield. Recent proof for low rating of the auctioned bond is given by [38].[39] study the returns of U.S treasury bonds on days close the auctions, Their study findings shows positive yield changes prior to the auction and negative yield changes the auction as a results of the auction-driven position changes.

They conjointly show that the larger the position modification, the larger the yield effects. [38] document that yields within the U.S. secondary market increase before auction days and decline once more within the days when the auction. The result is kind of giant and roughly constant for two, five and ten year maturities, specifically around two to five basis points in a five-day window round the auction. [40] adds to the current literature by work the result of bid-to-cover ratios on U.S. Treasury interest rates throughout the Nineties. He finds that a higher-than-expected bid-to-cover quantitative relation, that indicates robust auction demand, tends to push the yield of five and 10-year Treasury notes down. Conversely, a lower quantitative relation, indicating a weak auction demand, is related to hyperbolic interest rates.

Most of the bonds within the auctions are bought by a comparatively little range of primary dealers. If these primary dealers have restricted risk-bearing capability, for instance as a result of this they're risk indisposed or their capital is dear, they have to be remunerated for his or her giant position within the quality and also the worth risk they combat their inventory. This compensation comes within the sort of higher auction yields from that the dealers generate trading profits [39]. If the dealers' risk aversion or the worth risk is larger, one might expect them to charge a better yield at the auction. Different series, and above all those that come are extremely correlative with the return on the new series, will see a rise within the yield. Hence, throughout the

run-up to the auction organizations expect a rising yield on the issue of constant maturity, whereas when the auction tends to expect a decrease within the yield of the new (and the old) series because the primary dealers unload their positions within the new issue. For equity markets, empirical evidence in aid of the inventory theory has been found by [41] and [42].

2.3.4 Effect of Collateral Retention on Performance of Financial Institutions

Collateral is a form of property or assets such as equipment, automobiles, or real estate or tools that is assured as security for a loan. Banks will use collateral retention to make sure they are in a more stable situation when a loan is made. If a bank wants to make a larger loan to a business or consumer, it may require some type of collateral retention. When a bank has collateral as security, it assists to reduce its debt recovery and risk. When a customer evades on agreement of a loan, the bank can foreclose or repossess to take possession of the stated collateral, collateral reduces the loss that a bank will incur [29].

Banks will sometimes evaluate and appraise the collateral making sure it can be used as collateral. They do not commonly make a loan for extra than what the collateral is worth. When a bank decides to use collateral retention, it usually files a lien on a mortgage, against the property, with the county courthouse. This information is entered into the public records. If a customer has a loan and the bank has collateral, the customer should pay off the loan of the bank from the profits of the sale. When a customer records an appeal for liquidation because he has too much debt, he must go on to pay a bank loan if he wants to keep the collateral [43]. Collateral also plays a major role in loaning decisions. Collateral retention represents as a secondary source of repayment for loan and is usually the measure of final resort when all other debt recovery efforts have failed. The collateral in use should have traits like be easily transferable and have a ready market, have intrinsic & extrinsic value [44]. The collateral taken should be incredible the borrower would generally not want to lose, in addition to tangible collateral retention and forced savings, there exists social force for a person to pay, so as to stay of good standing in society. Political forces may have a great bearing on economic shape.

This affect might take the command-type economy, with a massive percent of financing taking place via authorities-controlled and government establishments. This would include the superseding of marketplace mechanisms by using state planning and paperwork. Collateral retention should determine political shape [45]. Some observers felt that the move toward a union of customs in nineteenth century in Germany, it signified the 1870 shift to national cooperation and the push for growth. The waves of nationalizations a number of countries practiced at certain stages were not always the effect of a financial shock but quite a feedback to shifting political attitudes. The nationalizations in France under Mitterrand were specifically compared using the political statement compared to the current trend of involvement of the government in banks today.

This factor is worth accepted; especially in awaken of the recent financial crisis. There has been a widespread political backlash in the financial system that has necessitated a confusion of proposals on liquidity, remuneration issues, leverage controls and capital regulation, governance, and has provoked fundamental questions about the social significance of useful parts of the financial system, [44]. It remains to be perceived how this subsequent regulatory, supervisory responses and reaction basically influence financial structure and the behavior of borrowers and lenders. [46] When this starts to happen, it may expose some of the less robust business models. Collateral retention provides a lender with an alternative source to repay the loan if the business is not successful. Other than cash, the lender must make an educated guess at the value of most collateral. The guarantor has pledged assets to back part or the entire guaranty. Lenders assess the collateral by reviewing the accounts receivable, balance sheet, and personal financial statements of guarantors, appraisals of equipment or real estate [44].

III. RESEARCH METHODOLOGY

3.1 Research Design

The researcher used descriptive research design because the study aimed at collecting information from respondents on their experiences and perceptions of effect of debt recovery techniques on performance of financial institutions. According to [47] a descriptive survey is a way of collecting the necessary information by administering a questionnaire to a sample of respondents.

3.2 Target Population

Target population is the whole group of respondents a researcher is interested in; the group about which the researcher wishes to draw conclusions [48]. The target population of the study consisted of employees from the credit and management department of selected financial institutions. The study targeted 185 respondents including the management, credit risk officers, credit controllers and debt recovery officers from five commercial banks which include, Equity bank, Barclays Bank, Kenya Commercial Bank Limited, Cooperative Bank and K-Rep Bank and four micro-finance institutions which include; Kenya Women Trust Fund (KWFT), Rafiki, Faulu and Boresha Sacco. Table 1 shows the target population of the study.

Table 1 Target Population

Financial Institution	Management	Credit Risk Officers	Credit Controllers	Debt Recovery Officers	Total Population
Equity bank	1	9	9	8	27
Barclays Bank	1	11	8	4	24
Kenya Commercial Bank Ltd	1	10	11	6	28
Cooperative Bank	1	7	7	7	22
K-Rep Bank	1	6	6	5	18
Kenya Women Trust Fund	1	8	9	3	21
Rafiki	1	9	7	2	19
Faulu	1	5	5	4	15
Boresha Sacco	1	4	3	3	11
Total	9	69	65	42	185

3.3 Sample Size and Sampling Procedures

The study employed purposive sampling to select the respondents. According to [49], purposive sampling starts with a purpose in mind and the sample is thus selected to include people of interest and exclude those who do not suit the purpose. The sample size of the study was calculated using the formula below as recommended by [50].

$$nf = \frac{n}{1 + \frac{n}{N}}$$

Where;

nf = Sample size to be determined (when the population is less than 10,000).

n = Sample size (when the population is more than 10,000); set as 384.

N = Estimate of the population size; 185

Substitution;

$$nf = \frac{384}{1 + \frac{384}{185}} = 125 \text{ Respondents}$$

3.4 Data Collection Procedures

The data collecting instrument that was employed in the study was questionnaires. The questionnaires contained both the structured and semi- structures questions. The reliability of data collection instruments was determined from a pilot study where the researcher administered the research instruments to the respondents of organizations not included in the sample. Crobach Alpha was used to determine a reliability index. The piloting of the questionnaire was used to figure out errors hence improve its reliability. The original survey questionnaire had 20 items which were related to five variables: account transaction (4 items), guarantors (4 items), auction (4 items), collateral retention (4 items) and performance of financial institutions (4 items). The reliability coefficients of each variables as follows: account transaction (0.938), guarantors (0.725), auction (0.793), collateral retention (0.770) and performance of financial institutions (0.757).They are all above 0.7,which concurs with the suggestion made by [51], who stated that a reliability index of at least 0.7 is considered ideal for the study.

3.5 Data Analysis and Presentation

The data collected in the study was analyzed by the use of descriptive statistics and inferential statistics. This includes the use of descriptive statistical methods to analyze data consisting of frequency, mean and standard deviation. The study used multiple regression to determine the relationship between debt recovery techniques and performance of financial institutions. Graphs, tables and pie charts will be used to present frequencies and percentages.

The multivariate regression model for this study was;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$$

Where Y was performance of financial institutions and;

X₁= Account transactions

X₂= Guarantors

X₃= Auction

X₄= Collateral Retention

α=constant value

μ =error term

IV. DATA ANALYSIS, FINDINGS AND INTERPRETATION

From the study the study used descriptive statistical methods to analyze data consisting of frequency, percentages, mean and standard deviation. The means were analyzed on a five (5) point Likert scale (where 1= strongly disagree 2= disagree, 3= neutral, 4= agree and 5= strongly agree). The scores of ‘strongly disagree’ and ‘disagree have been taken to represent a statement, response of which is to no extent, equivalent to mean score of 0 to 2.5. The score of ‘neutral’ has been taken to represent a statement response of which is to a moderate extent, equivalent to a mean score of 2.6 to 3.4. The score of ‘agree’ and ‘strongly agree’ have been taken to represent a statement response of which is to a great extent equivalent to a mean score of 3.5 to 5.

4.1 Account Transactions and Performance of Financial Institutions

According to [24] the history of a bank account transaction is a significant part and parcel of any form of financial account. The researcher sought to determine the effect of account transactions on performance of financial institutions. This was on a five (5) point Likert scale (where 1 = strongly disagree 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree). The scores of ‘strongly disagree’ and ‘disagree have been taken to represent a statement, response of which is to no extent, equivalent to mean score of 0 to 2.5. The score of ‘neutral’ has been taken to represent a statement response of which is to a moderate extent, equivalent to a mean score of 2.6 to 3.4. The score of ‘agree’ and ‘strongly agree’ have been taken to represent a statement response of which is to a great extent equivalent to a mean score of 3.5 to 5. This is shown in table 4.6

Table 4.1: Account Transactions and Performance of Financial Institutions

Effect of Account Transactions	N	M	SD
The presence of bounced cheques is important to determine the transaction of the borrower for performance of the bank	103	3.84	1.251
The credit department checks for active and dormant accounts to facilitate the debt recovery technique	103	3.96	1.075
The bank ensures that the lender has retained his account for a long period of time with the bank to be considered for a loan	103	4.17	1.004
The increase in the number of transactions made influences the debt recovery hence increased performance	103	4.12	1.132

From the findings respondents indicated that the presence of bounced cheques is important to determine the transaction of the borrower for performance of the bank was supported by a mean of 3.84 and a standard deviation of 1.151, The credit department checks for active and dormant accounts to facilitate the debt recovery technique was supported by a mean of 3.96 and a standard deviation of 1.075, The bank ensures that the lender has retained his account for a long period of time with the bank to be considered for a loan had a mean of 4.17 and a standard deviation of 1.075 and the increase in the number of transactions made influences the debt recovery hence increased performance with a mean of 4.12 and a standard deviation of 1.132. This implies that account transactions include determine the transaction of the borrower for performance of the bank, facilitate the debt recovery technique, ensures that the lender has retained his account for a long period of time with the bank and finally influences the debt recovery hence increased performance.

4.2 Effect of Auction on Performance of Financial Institutions

According to [12] an auction is a practice of buying and selling services and goods through offering goods due bid, receiving bids, and then selling the goods to the bidder who bids the highest. The researcher sought to determine the effect of auction on performance of financial institutions. This was on a five (5) point Likert scale (where 1 = strongly disagree 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree).

Table 4.2: Auction and Performance of Financial Institutions

Effect of Auction	N	M	SD
The value of the goods and services provided influences the profitability of the institution	103	3.82	1.391
The availability of goods from the borrower significantly influences the loan repayment	103	4.04	1.196
The type of goods offered by the borrower affects the performance of the institution	103	4.33	.964

On the findings on the extent to which auction affects performance of financial institutions, respondents strongly agreed that the value of the goods and services provided influences the profitability of the institution 3.82 spread from the mean at 1.391; the availability of goods from the borrower significantly influences the loan repayment had a mean of 4.04 with a standard deviation of 1.196 and the type of goods offered by the borrower affects the performance of the institution was supported by a mean of 4.33 spread at standard deviation of 0.964.

4.3 Collateral Retention on Performance of Financial Institutions

According to [29] Collateral is a form of property or assets such as equipment, automobiles, or real estate or tools that is assured as security for a loan. Banks will use collateral retention to make sure they are in a more stable situation when a loan is made. The researcher sought to determine the effect of collateral on performance of financial institutions. This was on a five (5) point Likert scale (where 1 = strongly disagree 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree).

Table 4.3: Collateral Retention on Performance of Financial Institutions

Effect Of Collateral retention	N	M	SD
The value of the collateral retention greatly influence the performance of financial institutions	103	3.67	1.360
The type of collateral influences the image of the institution	103	3.85	1.175
Ease of disposal of collateral greatly affects debt recovery of the institution	103	4.21	.977
The institution ensures that the owner of the collateral pay the loan on time for improved performance	103	4.07	1.031

Respondents were further asked to rate the effect of collateral on performance of financial institutions in Eldoret Town. From the findings in table 4.3, the respondents agreed that the value of the collateral retention greatly influence the performance of financial institutions with a mean of 3.67 and standard deviation of 1.360, The type of collateral influences the image of the institution 3.85 and a standard deviation of 1.175, Ease of disposal of collateral greatly affects debt recovery of the institution 4.21 spread at 0.977 standard deviation and the institution ensures that the owner of the collateral pay the loan on time for improved performance 4.07 and standard deviation of 1.031. This implies that financial institutions use collateral retention to make sure they are in a more stable situation when a loan is made.

4.4 Debt Recovery Techniques and Performance of Financial Institutions

The researcher sought to determine the effect of debt recovery techniques on performance of financial institutions. This was on a five (5) point Likert scale (where 1= strongly disagree 2= disagree, 3= neutral, 4= agree and 5= strongly agree).

Table 4.4: Debt Recovery Techniques and Performance of Financial Institutions

Performance	N	M	SD
The bank has improved in terms of profitability	103	3.80	1.360
The bank has improved its organizational image	103	4.03	1.107
Customers are satisfied with the banks products and services satisfaction	103	4.36	.895
Debt recovery has increased customer retention of the bank	103	4.16	1.007

From the findings on Table 4.4 on the effects of debt recovery techniques on performance of financial institutions, majority of the respondents agreed that banks has improved in terms of profitability with a mean of 3.80 and standard deviation of 1.360, the bank has improved its organizational image had a mean of 4.03 and standard deviation of 1.107, customers are satisfied with the banks products and services satisfaction was supported by a mean of 4.36 with spread from the mean at a standard deviation of 0.895 and debt recovery has increased customer retention of the bank was supported by a mean of 4.16 with a mean of 1.007. This implies that debt recovery techniques is a very essential component of the performance of banking institutions as it plays a key role in ensuring that the major goal of the bank is to issue loans that results into the preferred outcome of making a profit margin beyond the loans advanced.

4.5. Assumption of Linearity

Linearity assumption; in this study was assumed that the relationship between variables is linear. From the study Pearson product moment correlation was used to assess the linearity among the variables of the study which include; account transactions, guarantors, Auction, collaterals and performance of financial institutions. From the results in Table 4.5 below there was positive relationship between the dependent and independent variables of the study thus assumption of linearity was supported.

Table 4.5: Assumption of Linearity

		Performance	Effects of Accounts Transaction	Effect of guarantors	Effect of Auction	Effect of Collateral Retention
Performance	Pearson Correlation	1	**			
	Sig. (2-tailed)					
	N	103				
Effects of Accounts Transaction	Pearson Correlation	.795**	1			**
	Sig. (2-tailed)	.000				
	N	103	103			
Effect of	Pearson Correlation	.865**	.764**	1		**

guarantors	Sig. (2-tailed)	.000	.000			
	N	103	103	103		
Effect of Auction	Pearson Correlation	.871**	.737**	.854**	1	*
	Sig. (2-tailed)	.000	.000	.000		
	N	103	103	103	103	
Effect of Collateral Retention	Pearson Correlation	.905**	.798**	.872**	.865**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	103	103	103	103	103

** . Correlation is significant at the 0.01 level (2-tailed).

4.6 Assumption of Normality

Multiple regression for this study assumes that all the variables have normal distribution [52]. The test of assumption of normality was done using the four variables of the study which include; account transactions, guarantors, Auction and collaterals. Normality was then tested using kurtosis and skewness. Skewness involves the symmetry of the distribution. Skewness that is normal involves a perfectly symmetric distribution. Kurtosis involves the peakedness of the distribution The distribution was considered normal If the values for asymmetry and kurtosis between negative two and positive two are considered acceptable in order to prove normal univariate distribution for a larger sample size [53], further [54] states that for a small sample the value for skewness and kurtosis should be between ± 1.96 . Thus from the findings on Table 4.5 shows all variables with corresponding skewness and kurtosis values did not violate or are at least close enough to the assumption of normality.

4.7 Model Summary

From the results on model summary as shown in Table 4.6, R = 0.930, R- square = 0.864, adjusted R-square = 0.859, and the SE = 0.270. Multiple correlation R coefficients indicate the degree of linear relationship of debt recovery techniques with all the predictor variables, whereas the coefficient of multiple determinations R-square shows the provision of the total variation in performance of financial institutions that is explained by the independent variables, account transactions, guarantors, Auction and collaterals in the regression equation. The R-square gives us the coefficient of determination between the variables the results from the regression analysis According to [55], R² between 1.0 and 5.9 percent is considered small, between 5.9 and 13.8 percent is medium, and above 13.8 percent is considered large. It can be observed that the coefficients of determination of determination (R²) gave a value of 0.864, which means that 86.4% of the independent variables cause the change on dependent variable (performance of financial institutions). R² between 1.0 and 5.9 percent is considered small, between 5.91 and 13.8 percent is medium, and above 13.8 percent is considered large.

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.930 ^a	.864	.859	.270	1.955
a. Predictors: (Constant), Collateral, Accounts Transaction, Auction, guarantors					
b. Dependent Variable: Performance					

4.8. Analysis of Variance (ANOVA)

The significance of the regression model was tested using Analysis of Variance (ANOVA) which provides information about levels of variability within the regression ANOVA shows the importance of the relationship between the independent and the dependent variables Table 4.7 presents the results of this test.

Table 4.7: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	45.538	4	11.385	155.905	.000 ^b
	Residual	7.156	98	.073		
	Total	52.694	102			
a. Dependent Variable: Performance						
b. Predictors: (Constant), Effect of Collateral Retention, Effects of Accounts Transaction, Effect of Auction, Effect of guarantors						

As shown from the Table 4.7 above, F = 155.385, p = 0.000, one way ANOVA was used to test for preferences differences among three variables for 5 % levels of significant in predicting how account transactions, guarantors, Auction and collaterals affected performance of financial institutions. The F test provides an overall test of significance of the fitted regression model. The F value of 155.385 indicates that all the study variables are essential hence the overall regression is significant.

4.9 Hypotheses Testing

Multiple regression analysis was employed to examine the association between debt recovery dimensions (Account transactions, Guarantors, auction and collateral retention) and Performance of Selected Financial Institutions in Eldoret Town. It is a constructive statistical technique that can be used to analyze the association between a single dependent and several independent variables [56]. One of the vital considerations in multiple regression analysis [56] is the sample size of the data. Based on this method, the four main independent variables (Account transactions, Guarantors, auction and collateral retention) and dependent variable (Performance of Selected Financial Institutions) were entered individually as follows.

i. Relationship between account transactions and performance of financial institutions

The study hypothesized that there is no significant relationship between account transactions and performance of financial institutions in Eldoret town. The results are shown in table 4.8

Table 4.8 Coefficients of account transactions and performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.454	.253		9.683	.000
	Account transactions	.393	.059	.550	6.623	.000

a. Dependent Variable: Performance

Results from the regression model above on the relationship between account transactions and performance of financial institutions indicated that there was a significant relationship ($p = 0.000$) between account transactions and performance of financial institutions in Eldoret town. This was interpreted to mean that account transactions are used as suggestion tools for accounts consisting of checking accounts, savings accounts as well as retirement accounts. If the bank needs to make a payment reference, deposit or expense, the bank should go to the history of the account for additional information.

ii. Relationship between guarantors and performance of financial institutions

The second hypothesis of the study indicated that there is no significant relationship between guarantors and performance of financial institutions in Eldoret town; the results are shown in Table 4.9.

Table 4.9: Coefficients Relationship between guarantors and performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.948	.184		5.142	.000
	Effect of guarantors	.785	.045	.865	17.344	.000

a. Dependent Variable: Performance

Results from the regression model above also indicated that there was a significant relationship ($p = 0.000$) between guarantors and performance of financial institutions in Eldoret town. This was interpreted to mean that a guarantor is responsible for any loan they have guaranteed in accordance with the guarantee commitment these results concur to that of [33].

iii. Relationship between auction and performance of financial institutions

The third hypothesis indicated that, there is no significant relationship between auction and performance of financial institutions in Eldoret town. The results are shown in table 4.10.

Table 4.10 Coefficients between auction and performance of financial institutions

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.605	.198		3.053	.003
	Effect of Auction	.854	.048	.871	17.839	.000

a. Dependent Variable: Performance

Further the results on the relationship between auction and performance of financial institutions in Eldoret town, the regression model above also indicated a significant relationship ($p = 0.000$) between auction and performance of financial institutions in Eldoret town. The findings implied that auction plays a significant role in ensuring performance of financial institutions in Eldoret Town and are supported by expected utility theory which hold that behaviors like default on debt repayment are motivated by risk aversion with an expected utility of unwarranted gains through earnings from the unpaid debts. However, this theory is not plausible since it fails to provide a reason behind the default decisions made under uncertainty like business failures, loss of employment and accidents [18].

iv. Relationship between collateral retention and performance of financial institutions

The fourth hypothesis indicated that, there is no significant relationship between collateral retention on performance of financial institutions in Eldoret town. The results are shown in Table 4.11.

Table 4.11 Coefficients between collateral retention and performance of financial institutions

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.918	.152		6.057	.000
	Effect of Collateral Retention	.801	.038	.905	21.321	.000

a. Dependent Variable: Performance

Lastly the results on the relationship between collateral retention on performance of financial institutions in Eldoret town indicated that there was a significant relationship (p = 0.000) between collateral retention on performance of financial institutions in Eldoret town. This was interpreted to mean that when a customer evades on agreement of a loan, the bank can foreclose or repossess to take possession of the stated collateral. These findings are in agreement to [44] who stated that collateral plays a major role in loaning decisions. He stated that collateral retention represents as a secondary source of repayment for loan and is usually the measure of final resort when all other debt recovery efforts have failed.

Table 4.12 Regression coefficients of the relationship between account transactions, guarantors, Auction, collaterals and performance of financial institutions.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
	(Constant)	.394	.167		2.366	.020
	Effects of Accounts Transaction	.137	.065	.134	2.111	.037
	Effect of guarantors	.157	.077	.173	2.047	.043
	Effect of Auction	.254	.080	.259	3.181	.002
	Effect of Collateral Retention	.374	.082	.422	4.579	.000

The coefficients in Table 4.18 indicate the corresponding change in the dependent variable when a change of one unit is effected in the independent variable. Thus, a 1% improvement of account transaction will lead to a 13.7 % change in the performance of financial institution; a 1% improvement on the effects guarantors would lead to a 15.7% change in performance of financial institution, 1% improvement on the effects of auction will lead to a 25.4 % change in the performance of financial institution and a 1% improvement in the effects of collateral retention would result in 37.4% change in performance of financial institution. Besides, the magnitude of the t values indicates that Collateral Retention (t = 4.579) is the main predictor variable for performance of financial institutions this is followed by effect of Auction (t = 3.181) then effects of auction (t = 2.047) and finally account transaction (t = 2.111).

Thus the regression equation becomes;

$$Y = 0.394 + 0.137X_1 + 0.157X_2 + 0.254X_3 + 0.374X_4 + \epsilon$$

Where Y is corporate governance

β_0 -The regression model constant (Y-intercept) and

X1 = Accounts Transaction

X2 = Guarantors

X3 = Auction

X4 = Collateral Retention

ϵ = error term

Table 4.13: Summary of the results of Hypotheses Testing

Hypothesis	Results Rejected/Accepted
H ₀₁ : There is no significant relationship between account transactions and performance of financial institutions in Eldoret town.	Hypotheses Rejected (P< 0.037).
H ₀₂ : There is no significant relationship between guarantors and performance of financial institutions in Eldoret town	Hypotheses Rejected (P< 0.043).
H ₀₃ : There is no significant relationship between auction and performance of financial institutions in Eldoret town.	Hypotheses Rejected (P< 0.002).
H ₀₄ : There is no significant relationship between collateral retention on performance of financial institutions in Eldoret town.	Hypotheses Rejected. (p< 0.000)

V. CONCLUSION

Based on the results, analysis and discussion of research on the effects of account transactions, The study concluded that the presence of bounced cheques is important to determine the transaction of the borrower

for performance of the bank, the credit department checks for active and dormant accounts to facilitate the debt recovery technique, the bank ensures that the lender has retained his account for a long period of time with the bank to be considered for a loan and the increase in the number of transactions made influences the debt recovery hence increased performance, this concurs with the supplier customer-supplier relationship theory which implies that debt recovery techniques is a significant aspect of the performance of financial institution whereby debt repayment is a matter of association between the creditor and debtor and the continuation of mutual interests in terms of gains for both parties as stated by [18].

On the effect of guarantors on Performance of financial institutions, the study concluded that account conduct of the guarantors is a significant factor affecting loan repayment and performance, the collateral value of the guarantor influences the performance of the institution, the institution checks the repayment history of the guarantor to offer loan to the borrower and the character of the guarantor influences the shares of the institutions, this concurs with the expected utility theory proposed by [19] which postulates that in the presence of risky outcomes, a lender could use the expected value criterion as a rule of choice to make sure that their debts are recovered. Some people would be averse to risk enough preferring the sure thing, although it has a less expected value, while other less risk averse people would still choose the riskier, higher-mean lender to the borrower.

Further the study on the effects of auction on performance of financial institutions concluded that, the value of the goods and services provided influences the profitability of the institution, the availability of goods from the borrower significantly influences the loan repayment and the type of goods offered by the borrower affects the performance of the institution, these are supported by the Customer-Supplier Relationship theory proposed [16], it postulated that debt recovery techniques is a significant aspect of the performance of financial institution whereby debt repayment is a matter of association between the creditor and debtor and the continuation of mutual interests in terms of gains for both parties.

Lastly on the effect of collateral retention on performance of financial institutions in Eldoret Town, the study concluded that, the value of the collateral retention greatly influence the performance of financial institutions, the type of collateral influences the image of the institution, Ease of disposal of collateral greatly affects debt recovery of the institution and the institution ensures that the owner of the collateral pay the loan on time for improved performance, this is supported by value based portfolio theory developed by [22] which postulates that debt recovery techniques from the perspective of the debtor, is determined by the value that the debt has added to the existing portfolio of investments.

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