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INFLUENCE OF DEBT MANAGEMENT SYSTEMS ON FINANCIAL PERFORMANCE IN SELECTED MICRO FINANCE INSTITUTIONS IN TRANS-NZOIA COUNTY

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***Abstract*: The relationship between debt management routines and financial performance of MFIs in Kenya is facing challenges in relation to debt management systems that are affected by internal control systems and client appraisal. Micro finance institutions are at a verge of collapse especially when debt management is not done efficiently and effectively handled. The main aim of the study was to analyze the influence of debt management systems on financial performance in selected Micro finances in Trans-Nzoia County. The study was guided by the following objectives; to establish influence of Debt Collection Policy on financial performance, to study the influence of Internal Control Structure on financial performance and to find out the influence of Client appraisal on financial performance in Micro Finance Institutions in Trans Nzoia County, Kenya. The research study was guided by the following theories; Debt management theory, The Grameen Solidarity Group Theory, Debt-snowball Theory and Credit Market Theory. The research design that was used was descriptive research design and the target population was 12 Microfinance institutions where the branch managers, Operations Managers, Supervisors and selected staffs from each MFI was given questionnaires and be interviewed. The study adopted a census approach because of the small number of target population. The research tools that were used included questionnaires. Piloting was done among two institutions that were outside the area covered by study to ensure validity and reliability of results. The results were presented using both descriptive and inferential statistics approaches. Descriptive statistics that was utilized including percentages mean scores and frequency distributions. Inferential statistics was used to show relationship between variables by use of Pearson correlation coefficients. The findings were presented using tables, pie charts and graphs. Regression analysis was utilized to test: the effect, level and Significance of the constructs where $p \leq 0.05$. Ethical consideration was implored to ensure confidentiality of respondents' information. The findings of the study guides the county governments in setting up a framework that guided policy and practice of debt collection not only in micro finance institutions in Trans Nzoia County but also in other state owned ventures as well as private ventures where applicable. The study findings showed client appraisal was used since it is a viable strategy for credit management. The study found also that there is regular contact and reminders send to the customer. This helps financial institution recover their loans issued to the clients. Further, the study found that payment options are stated clearly on invoices to make it easier for customer to pay loans. In conclusion the study found that there was a positive influence of debt management systems on financial performance in micro finance institutions. Debt collection policy has a significant effect on financial performance. Policy terms are put in place to ensure that borrowers easily honor their obligations with minimal cost to the institution. The study recommends to the microfinance managers are to give more emphasis on utilization of debt collection policy it helps the microfinance institutions to set a safe customer credit limits. The study also recommends to the microfinance managers to further prioritize the use of internal control system since the use of customer credit application forms improves monitoring and credit management as well. The study suggested that a future research can be carried on the challenges facing debt management systems on financial performance in micro finance institutions in Kenya.**

Keywords: **Debt collection policy, internal control system, Client Appraisal, Financial performance.**

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I. INTRODUCTION

Background of the study

Financial performance is the ability of the Micro Finance Institutions (MFIs) to operate efficiently, grow, profitably, survive, and react to the threats of the environment and opportunities (Hermes & Hudon, 2018). Financial performance gauges the proper use of MFIs' resources to maximize profit and wealth. The monetary financial tasks are performed periodically from the accounts, profit and loss statements or the balance sheets of the Enterprises to measure the extent of their business success (Bagh, Khan, Azad, Saddique & Khan, 2017).Debt management systems refers to structures, measures, and checks that an organization has in place to guarantee the effective gathering of customer payments thus minimizing danger from non-payment. Debt management systems are the methods and strategies adopted by a MFIs' to ensure that they maintain an optimal level of credit and its effective management. It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting (Mensah, 2018).

Global Perspective of the study

Financial performance measurement in MFIs has undergone tremendous changes from both external and internal point of views. These factors include: business environment, changes in technology, the involvement of commercial banks in MFIs and increased competition resulted in a shift in performance measurement trend MFIs with most of the stakeholder requiring improvement on financial performance measures and also a balance between financial and non-financial measures (Janda & Zetek, 2016). MFIs performance can be viewed as a triangle comprising outreach to the poor, poverty impact and financial sustainability. MFIs financial performance measurements involve four core areas; outreach to poor, sustainability, repayment rates and efficiency. Empirical evidence on the performance of microfinance institutions has reported different results across different MFIs (Nurmakhanova, Kretzschmar & Fedhila, 2015). In the United States of America, financial performance of MFIs earn revenue from loans and other financial services in the form of interest fees, penalties, and commissions. Financial revenue includes income from other financial assets, such as investment income. MFI"s financial activities also generate various expenses, from general operating expenses and the cost of borrowing to provisioning for the potential loss from defaulted loans. Profitable institutions earn a positive net income (i.e., operating income exceeds total expenses). A proper debt management system will lower the capital that is locked with the debtors, and also reduces the possibility of getting into bad debts. In some competitive markets, companies can be tempted by the prospects of increased business if additional credit is given, but unless it can be certain that additional profits from increased sales will outweigh the increased costs of credit, or said costs can be recovered through higher prices, then the practice is fraught with danger (Nurmakhanova *et al.,* 2015).

In Europe, financial performance report showed that most companies can readily see losses incurred by bad debts, customers going into liquidation, receivership or bankruptcy. The writing-off of bad debt losses visibly reduces the Profit and Loss Account. The interest cost of late payment is less visible and can go unnoticed as a cost effect. It is infrequently measured separately because it is mixed in with the total bank charges for all activities. The total bank interest is also reduced by the borrowing cost saved by paying bills late. Credit managers can measure this interest cost separately for debtors, and the results can be seen by many as startling because the cost of waiting for payment beyond terms is usually ten times the cost of bad debt losses (Gitman, Juchau & Flanagan, 2015).In Australia, financial performance report of MFIs indicates that effective management of accounts receivables involves designing and documenting a debt management policy. Many entities face liquidity and inadequate working capital problems due to lax credit standards and inappropriate credit policies. A sound debt management system is the blueprint for how the company communicates with and treats its most valuable asset, the customers. Debt management system creates a common set of goals for the organization and recognizes the credit and collection department as an important contributor to the organization's strategies (Ali, 2018).In Bangladesh on financial performance of Microfinance institutions showed that MFIs are seeking financial sustainability. Many MFIs were restructured in order to achieve financial sustainability and finance their growth. Sustainability is defined as the capacity of a program to stay financially viable even if subsidies and financial aids are cut off. It embraces "generating sufficient profit to cover expenses while eliminating all subsidies, even those less-obvious subsidies, such as loans made in hard currency with repayment in local currency (Sugie, 2019). Unless a seller has built into his selling price additional costs for late payment, or is successful in recovering those costs by way of interest charged, then any overdue account will affect his profit by setting price high guarantees a better debt management systems on recovery by MFIs (Alshatti, 2015).

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Regional Perspective of the Study

In sub-Saharan Africa, financial performance measures include indicators such as revenue growth; return on capital employed and profit growth. Many MFI's weak performances are as a result of poorly performing assets. These findings are reflected in the MFI's return on investment, return on assets, on performing loans and value added. Today, microfinance institutions are seeking financial sustainability. Debt management systems is a strategy that entails the process of designing a policy that governs how a MFI extends credit to its customer base and monitoring those systems. The aim of this process is to minimize as much as possible the amount of bad debts that the company will incur (Tadesse, Shiferaw & Erenstein, 2015).In South Africa, It is risky for microfinance to lend money without having efficient debtor recovery systems. Most micro-lending is unsecured hence making credit risk a primary concern for MFIs. The MFIs mainly focus on individuals who due to lack of the ability to provide security or guarantee against the money borrowed cannot secure credit from banks. Most of the banks do not extend credit to these kinds of people due to high-risk of defaulting to repay of interest and in some cases the principal amount itself. Therefore, MFIs are required to craft sound credit management that comprises of identification of existing and potential risks inherent in lending activities (Bond, 2015).

In Ethiopia, debt management systems greatly influence the success or failure of commercial banks and other financial institutions. This is because the failure of deposit banks is influenced to a large extent by the quality of credit decisions and thus the quality of the risky assets. He further notes that, debt management system provides a leading indicator of the quality of deposit banks credit portfolio. A key requirement for effective debt management system is the ability to intelligently and efficiently manage customer credit lines. In order to minimize exposure to bad debt, over-reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns (Abebaw, 2016).

In Tanzania, financial performance has been contributed by provisions of Microfinance Institutions (MFIs) services which functions as a Savings and Credit and Credit Cooperative Organizations (SACCOs). The primary investment activity of microfinance institutions is extending these credits. For these financial services, poor people are willing to pay because of the added advantage they receive for not collateralizing anything. The management of debtors encompasses the management of collection policy, internal control systems, and client appraisal (Jeje, 2015). Debt management systems shall assist institutions in regulating its account receivables plus saving on time and any risks related to credit. By means of debt collection strategies identifying vital features on debt collection polices to weigh standards of an institution i.e ranking accounts to help you prioritize and determine an effective and appropriate contact strategy. It is a danger of nonpayer default which occurs when counterparty defaults on payment of their debts. The aims for loan delinquency are to help when the obligor is in a financially stressed situation (Ali, 2018).

Local Perspective the study

Microfinance institutions fill a needed gap within the financial services industry by offering small loans, or micro-loans, to people unable to access conventional loan services. Microfinance institutions vary in size and function with some organizations focusing entirely on micro financing, while others work as extensions of large investment banks. People living in under-developed areas can access needed financial resources through the services provided by microfinance institutions. In the past, microfinance institutions (MFIs) established using either an NGO or a savings and credit co-operative societies framework have been important sources of credit for a large number of low income households and SMEs in the rural and urban areas of Kenya.Registration of Micro finance Organizations in Kenya is grouped into three different categories which include: organizations which collect deposits, institution that only give credits, and non-formal organizations operated via an external agency apart from the government. Regulation of the establishment, processes and business of MFIs legalized through central bank of Kenya to enhance efficiency and access hence promoting competition by mobilizing savings from the public (Kanake & Mahesh, 2018). The microfinance organizations are common among millions of Kenyans who dependent on elementary needs such as clothing, shelter, food, medical expenses and school fees. They exist as viable and credible alternatives to formal banking organizations that are majorly beyond reach of common Kenyans. Additionally MFIs provide financial support based on their stable structure (Goto & Negash, 2016).

Furthermore MFIs are among major contributors to national economy since they have mobilized resources over kshs.150 billion. The Micro-Finance Act 2008 requires all loans policy and procedures manually specify all procedures appropriate

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to evaluation, processing, approval procedure, documentation and release of credit services in writing by every single licensed MFIs. Further, Kipchumba (2015) discussed that self-sufficient MFIs are profitable and perform better, on return on equity (ROE) and return on assets (ROA), than developing-world commercial banks and MFIs that have not attained self-sufficiency. In order to optimize their performance, MFIs are seeking to become more commercially oriented and stress more on improving their profitability; therefore self-sustainability. Here primary investing activity of micro finance agencies is giving out loans. The accesses of microcredit loan with alternatives services are limited in Kenya. Also getting access to microfinance loans and other services are limited in Kenya and other East African nations due to lack of collateral and the high-interest rates (Ismail & Atheru, 2017).

Statement of the Problem

Sound debt management system is a prerequisite for a financial institution's stability and continued profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. The probability of bad debts increases as debt standards are relaxed. Microfinance institutions must therefore ensure that the management of receivables is efficient and effective. Such delays on collecting cash from debtors as they fall due has serious financial problems, increased bad debts and affects customer relations. If payment is made late, then profitability is eroded and if payment is not made at all, then a total loss is incurred (Aron & Muellbauer, 2016). On that basis, it is simply good business to put debt management at the front end by managing it strategically.

Current problem and the biggest risk facing microfinance is lending money and not getting it back. Most of the people in the region cannot avail credit from banks and such other financial institutions due to the lack of the ability to provide guarantee or security against the money borrowed. These have mad microfinance institutions not extend credit to due to the high default risk for repayment of interest and in some cases the principle amount itself. Another challenge is the need for these microfinance institutions to redesign sound debt management system that entail the identification of existing and potential risks inherent in lending activities. Credit risk is a particular concern for MFIs because most micro lending is unsecured these is demonstrated by use of traditional collateral which is not often used to secure microloans. The purpose of this study is therefore to understand the influence of debt management systems on financial performance. There have been attempts in the past to study Micro financing and Micro lending but much focus has been on the impact of MFIs in poverty alleviation, especially in Kenya but much less has been done to investigate the influence of debt management system on financial performance of MFIs institutions in Kenya, therefore this research addresses that gap.

Objectives of the Study

The general aim of the study was to investigate the influence of debt management systems on financial performance in Micro Finance Institutions in Trans Nzoia County, Kenya.

Specific Objectives

I. To establish influence of Debt Collection Policy on financial performance in Micro Finance Institutions in Trans Nzoia County.

II. To study the effect of Internal Control System on financial performance in Micro Finance Institutions in Trans Nzoia County.

III. To find out the role of Client appraisal on financial performance in Micro Finance Institutions in Trans Nzoia County.

Research Questions

I. What is the influence of Debt Collection Policy on financial performance in Micro Finance Institutions in Trans Nzoia County?

II. What is the effect of Internal Control System on financial performance in Micro Finance Institutions in Trans Nzoia County?

III. What is the role of Client appraisal on financial performance in Micro Finance Institutions in Trans Nzoia County?

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Significance of the study

Policy makers

The findings of the study will guide the county governments in setting up legal framework that will guide policy and practice of debt collection not only in micro finance institutions in Trans Nzoia County but also in other state owned ventures. The study will help the management of micro finance institutions to understand the effects of debt management system on economic show of micro finance institutions in Trans Nzoia County.

Scholars

The findings will also aid other scholars with basic information to conduct research in the future. The study will also assist upcoming investors in micro finance institutions to acknowledge the importance of debt management system. The study will also assist the researcher to acquire statistics or facts concerning Micro Finance Institutions in debt management.

Justification

Microfinance institutions are key drivers of economic growth in Kenya. It is attributed to creating self-employment to small scale and medium enterprises since it is the source of credit or loan to many entrepreneurs. In Kitale town most of the microfinance institutions are doing poorly, slow to growth and faces incompetent loan recovery methods. The study is thus justified to proceed in investigating the influence of debt management systems on financial performance in Micro Finance Institutions in Trans Nzoia County, Kenya.

Scope of the study

The study will focus mainly on the influence caused by debt management systems on financial performance in micro finance organizations in Trans Nzoia County. The study will target 12 Microfinance institution; 12 Branch managers, 12 Operations Managers, 12 Supervisors and 60 Staff located in Trans Nzoia County as the respondents of the study. The study will cover a period of three months 2019.

2. LITERATURE REVIEW

Introduction:

This chapter reviews literature of the research study, relevant previous journals, articles, academic papers and dissertations that were researched on topics related to the influence of debt management systems on financial performance in Micro Finance Institutions. Specific reviews of the study was on the following variables; Debt Collection Policy on financial performance, Internal Control System on financial performance and Client Appraisal on financial performance. Further the study will review the theoretical reviews; the conceptual framework of the study; empirical reviews; Critique of the existing literature relevant to the study, Summary of reviewed Literature and Research Gaps.

Theoretical Review

A theory is a set of interrelated constructs, definitions, and propositions that present a systematic view of phenomena by specifying relations among variables with the purpose of explaining and predicting phenomena. Steps for how to select and integrate a theoretical framework to structure all aspects of the research process are described, with an example of how to thread theory throughout the research process. This section entails the theories related to the study variables namely; Debt Collection Policy on financial performance, Internal Control System on financial performance and Client Appraisal on financial performance. The research study was guided by the following theories; Debt management theory, The Grameen Solidarity Group Theory, Debt-snowball Theory and Credit Market Theory.

Debt management theory

Debt management theory was postulated by Donna Leong in 1999. Debt management theory demonstrates how the complete market outcome can be achieved by holding the right amount of non-contingent loans at different maturities. According to Faraglia (2008), there is tremendous literature on debt management on other tools to manage the same both structural component plus economic management component. The researcher similarly highlights on Debt Theory that it is very challenging to implore the markets aspect to solve debt. The Theory also stresses that maximum debt management

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plus that there are a number of objectives like cost minimization, risk management (Wolswijk and de Haan, 2012). This theory will therefore play a critical role in expounding on the research objectives of this study.In the portfolio approach, the importance of debt management for stabilization policy will depend on how substitutable different types of bonds are, and how the return on bonds varies with changes in other asset prices. If different types of bonds are not perfect substitutes, changing the mix of bonds in the private sector's portfolio could affect relative asset yields, and hence investment and economic activity. For example, suppose the return on long-term debt was positively correlated with the return on equities (that is, the two tended to move together over time) while the return on short-term debt was completely uncorrelated with equity returns. Then investors would prefer to use short-term debt rather than long-term debt to hedge against unexpected changes in equity returns. Reducing the supply of short-term debt and increasing the supply of long-term debt would therefore lead to excess demand for short-term debt and an excess supply of equities (at existing yields). For asset markets to clear either the return on equities must rise or the return on short-term debt must fall. If short-term rates are fixed for some reason, then equity returns must rise.

Debt management theory is important to the study because it supports Debt Collection Policy. The theory asserts that minimizing cost is often justified as an objective of debt management by the fact that, and therefore debt servicing costs lead to welfare losses. However, by itself, minimizing cost is an unsatisfactory objective. These are unlikely to be optimal policies, because they discourage investors, and hence increase costs over the longer term. For now, we assume that the loan borrowers is able to commit to policies which do not involve default, either partial (eg through the inflation tax) or complete default.

Debt-snowball Theory

Debt-snowball Theory was developed by Dave Ramsey in 2013. The theory of debt snowball theory explores on the micro finance strategy of debt management system. Dave indicated that the quickest way of accumulating a snowball was to store snow into a firm ball and then start to roll it through the yard. As it gained momentum, the snowball grew into something more like a snow boulder. Its good method of building snowballs , and even better style for paying off ones mortgage debt.This theory works by payment of the smallest financial obligations in full foremost while paying the larger financial obligations gradually until all debts are repaid fully. This method is commonly used to settle credit cards. According to Amar *et al.,* (2011) this method is popular in management of multiple debts. This theory is relevant to the study since it supports Internal Control System. It purports that repayment strategy can help you quickly and effectively gain momentum toward a debt-free lifestyle. The key to success is identifying a dollar amount that you can commit to debt reduction each month ($100 in the example below). Commit to increasing the minimum payment on your smallest debt while continuing to make minimum payments on all others. Once a debt is paid, use that money to accelerate your payment on the next debt. Continue this pattern until all debts are paid.

Credit Market Theory

Credit Market Theory was developed by Karl Brunner in 1966. The theory postulates that if collateral and other pertinent restrictions remain given, then it is only the lending rate that determines the amount of credit that is dispensed by the banking sector. Therefore with an increasing demand for credit and affixed supply of the same, interest rates had risen. Any additional risk to a project being funded by the bank should be reflected through a risk premium that is added to lending rate to match the increasing risk of default.The theory assumes that there exist a positive relationship between the default probability of a borrower and the interest rate charged on the advance. It is thus believed that the higher the failure risks of the borrower, the higher the interest premium (Ewer *et al,* 2000). Although this theory does not explicitly discuss how collateral would effect on the risk premium, it creates the impression that collateral has no effect on lending rate, and if risky borrower would wish to face the same lending rate as a borrower with a lower risk, then all that is required is to pledge more collateral to lower his risk profile and therefore enjoy a lower risk premium. This brings about the 'moral hazard' and 'adverse selection' phenomena, firstly because of information asymmetry existing between the lender and borrowers (Mason & Roger, 1998). This theory is fit for the study because it relates to the borrower and the lender. It states that the borrower has a more accurate assessment of the risk profile of this investment that is not known by the lender and thus may perform secret actions to increase the risk of his investment without the realization of the lender. The adverse selection problem appears as lenders raise their interest rates to shield themselves from default and on the other hand attract only high risk borrowers and eliminate low risk borrowers.

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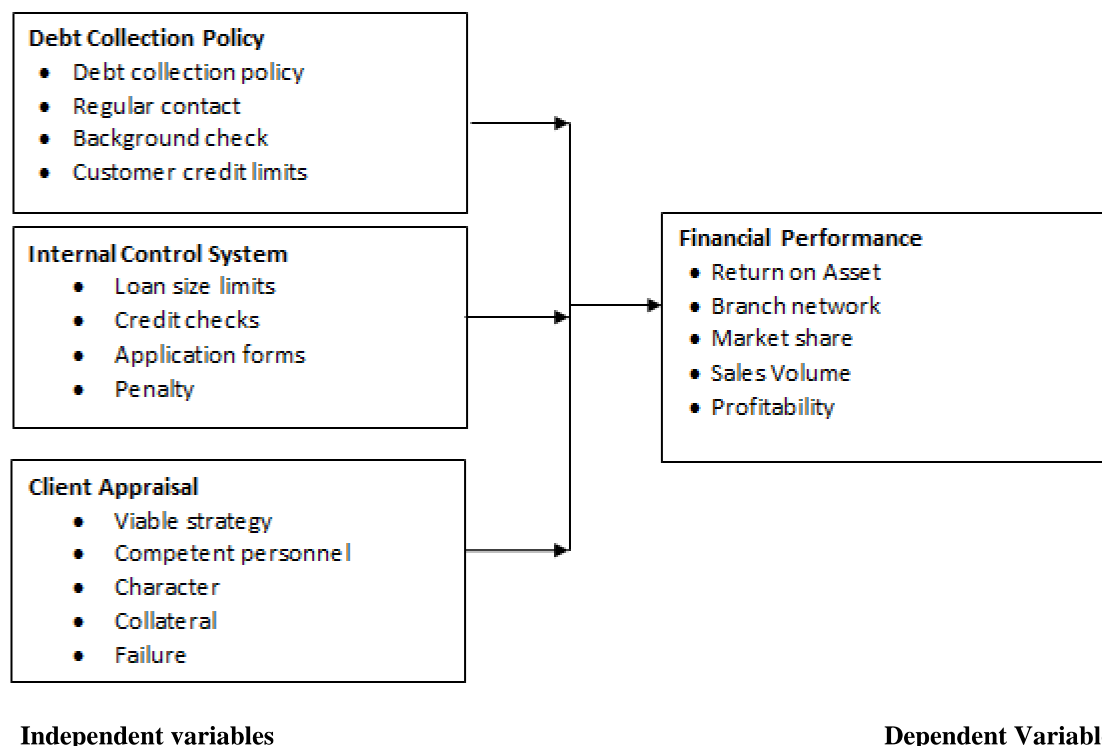
Conceptual Framework

Conceptual framework represents the researcher's synthesis of literature on how to explain a phenomenon. It maps out the actions required in the course of the study given previous knowledge of other researcher's point of view and the researchers' observations on the subject of research.



Independent variables **Dependent Variable**

Figure 2.1: Conceptual framework

The above figure shows the interrelationships between and among the variable in the study. The independent constructs was: internal control systems, client appraisal and debt collection policy. These variables were measured with financial performance of micro credit institutions in the research area.

Empirical Literature Reviews

Literature is reviewed based on the specific goals of the research study discussed below:

Debt Collection Policy and Financial Performance

Stifler, (2017) examined influence of debt collection policy; The Scourge of Abusive Debt Collection Litigation and Possible Policy Solutions. The study discussed that debt collection policy are terms and guidelines which any borrower should adhere to before and after loan advancement. They are the most key features of any financial institution and cannot be ignored by any enterprise engaged in money lending business regardless of nature and environment of their operation. The terms are put in place to ensure that borrowers easily honor their obligations with minimal cost to the institution. These policies are interest rates, time and the procedures the lender will use to collect the entire amount due from the borrower.

Gweyi (2018) determined the influence of debt management system on the financial performance of SACCOs in Kakamega County. Dependent variable was financial performance of the SACCOs. The study employed descriptive research design. Structured questionnaires were used as the instruments for data collection. The sample size was 99. The study employed purposive sampling technique in identifying the SACCOs and the respondents from the sampled SACCOs. Data was analyzed and presented with the aid of statistical package for social sciences (SPSS). The findings indicated that credit policy significantly affect financial performance. In order to recover cash lost the management should take key issues on customer assessment and evaluation. The SACCO management should develop credit procedures, policies and analytical capabilities. Debt management is an important issue in any organization since most business

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operations are based on credit terms agreed by both parties. This is because without a proper management of firm's debt components, it is difficult for the firm to run its operations smoothly. A range of challenges affects SACCOs because most of their clients earn a modest income. As a result members' default paying the loans disbursed to them.

Riegner (2016) evaluated governance Indicators in the Law of Development Finance: A Legal Analysis of the World Bank's 'Country Policy and Institutional Assessment. The study found that a debt management system outlines a structure or framework that act as guidelines when dispensing credit decisions which are some aspects and arrangements that an institution can set. This structure is fundamental principles and procedures for getting money back from clients, bearing in mind that not all borrowers will pay back since some of them will default since some customers are pay while others don't pay back their loans. The accumulation exertion should also consider going for quickening accumulations from averagely those who pay and as such reducing the possibility of a huge obligation burden. Immergluck (2016) examined Credit to the Community: Community Reinvestment and Fair Lending Policy in the United States: The study findings showed that an effective credit policy allows and insights full development of a chance for advancement in allocation and collection of credit. It is advisable for the SACCOs' management to ensure an efficient and effective debt management system. Properly formulated credit policy, implemented and well comprehended at every level of an organization enables the management to maintain and uphold proper standards of the credit amount, therefore, avoiding any possible uncertainties and risks thus aiding in assessing and selecting investment opportunities that lead to the growth of the business.

Areba (2018) evaluated Credit Risk Assessment for Customers of Kenyan Commercial Banks: A Case Of Co-operative Bank. Primary data was collected through questionnaires served on sixty (60) respondents of the bank. The findings from the study showed that the incidence of bad debts would be minimized if a sound debt management system is put in place. The study established that for a firm to ensure that debt management is well performed various polices should originated, such policies include debt collection policy that is needed since all customers do not pay the firms bills in time. The aim of collection effort should be to accelerate collections from slow payers and reducing bad debt losses. Results obtained indicated that the commercial banks increased their accounts, increased customer base, and improved their financial indices, thereby maximizing their profits. Usually, banks have unusually high and increasing average interest rate spreads and interest rate margins showing both highly poor competition and inefficiency. Eisele, Barnes, Beane, Spencer and Moody (2017) evaluated Johnson County debt Collection System Asset Management Program. The study showed that to properly analyze collections activities, it is necessary for the institution to have in place an efficient information system to facilitate the monitoring of past-due clients and the production of clear and precise reports. The system should also maintain a history of actions taken and collections activities implemented. The invention and use of new technologies also has fundamentally altered the debt collection business. Communication technologies, in particular, have spurred profound changes in this industry.

Dorsey and White (2018) examined How Maryland's Debt Collection Practices Deepen Poverty & Widen the Racial Wealth Gap. Findings show that technological innovations have increased exponentially the ability of creditors and debt collectors to obtain, store, and transfer data about consumers and their debts. Changes in database technologies have dramatically enhanced the ability of debt collectors to aggregate disparate pieces of information about consumers, thus making it cheaper and easier to locate and contact consumers. Technological innovations have also altered the methods that consumers can use to pay their debts. Systems such as credit cards, debit cards, stored value cards, electronic benefit transfers, and automated check clearinghouse debits—consumers now have available a host of options for paying their debts in addition to paying by cash or check.

Internal Control System and Financial Performance

Opiyo (2017) examined effect of internal control systems on financial performance in public institutions of higher learning in Nairobi City County. The study's specific objectives were; to determine the effect of control activities, risk assessment, control environment, information and communication and monitoring on financial performance of institutions of higher learning in Nairobi City County. The study was anchored on agency theory, stewardship theory, and positive accounting theory and attribution theory. The study used a descriptive research design. This study took a sample study approach with its target population being the different categories of staff in different departments of Public Institutions of Higher Learning in Nairobi City County, Kenya. It took on a sample of 96 employees. Primary data was collected from sample population using open and closed ended questionnaires. Descriptive statistics was used in the data analysis and information presented in statistical forms. A multiple linear regression was also used to analyze the relationship between

the dependent and independent variable. The study realized that the control environment, risk assessment, control activities and information and communication as indicators of internal control systems have a significant influence on the financial performance of the institutions of higher learning in Nairobi City County, Kenya. The variables explained 99.1% of the changes in financial performance of the institutions. The study recommends that internal control systems among the institutions need to be improved and accountability of organizational resources be upheld. Karadag (2015) discussed that most public institutions in many parts of the world have poor financial performance compared to private institutions. The poor financial performance can be attributed to financial management practice. The sound financial management practices require the institutions of strong internal control systems. However, there are limited empirical research findings regarding the relationship between internal control system and financial performance. In public institutions, there have been a lot of weaknesses in their policies and procedures and also in their Internal Audit, the extent to which employee's in positions handling cash fail to take regular leave and lack of rotation of employees handling very sensitive areas in finance and administration department.

Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities whereas Financial performance focused on Liquidity, Accountability and Reporting as the measures of Financial performance. The research was conducted using both quantitative and qualitative approaches using Survey, Correlation and Case study as Research Designs. Data was collected using Questionnaires and Interview guide as well as review of available documents and records targeting basically Deans, Associate Deans, Heads of Departments, Management Committee members and Finance and Accounts staff as respondents from a population of 270 Uganda Martyrs University staff. Data was analyzed using the Statistical Package for Social Scientists where conclusions were drawn from tables, figures from the Package. The study found that management of the institution is committed to the control systems, actively participates in monitoring and supervision of the activities of the University, all the activities of the Institution's activities are initiated by the top level management, that the internal audit department is not efficient, is understaffed, doesn't conduct regular audit activities and doesn't produce regular audit reports although the few reports produced by the internal audit department address weaknesses in the system. It was further revealed that there is a clear separation of roles, weaknesses in the system are addressed, and there is a training program for capacity building in the institution (Maas, Schaltegger & Crutzen, 2016).However, the study also found out that there is lack of information sharing and inadequate security measures to safeguard the assets of the University. It was also noted that there isn't enough cash to meet intended University goals, that the fees charged to students are not appropriate to cover costs, that all fees meant to be remitted to the University are not collected. It was however, revealed that all revenues and expenditures are properly classified, and that assets of the University have generally increased. The study established a significant relationship between internal control system and financial performance (Maas et al., 2016).

Ahmed and Muhammed, (2018) examined the internal control function. The study established that, other than the prevention and detection of fraud; internal controls should portray the overall strength of the accounting environment in an organization as well as the accuracy of its financial and operational records. There is also need to decide the form of contract with your customer. Thirdly to assess each client's creditworthiness this depends on your personal experience and available source of information for its customers. Fourthly establish practical credit terms after determining your customer standing credit. Finally, you must collect; this requires tactic and judgment. The research recommended that; PBZ management should design more efficient internal control systems in all aspects. Kinyua, Gakure, Gekara and Orwa (2015) examined effect of internal control environment on the financial performance of companies quoted in the Nairobi Securities Exchange. The findings showed that internal control systems including internal audits are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization. Internal control therefore has a much broader purpose in the organization level. Internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation. Control measures are structured in place to avert, detect and eliminate fraudulent occurrence thereby creating an atmosphere for profitability. Effective Internal control system support profitability and growth of an organization by protecting the general assets and resources thereby averting cases of loss. Strong internal control system help to prevent, minimize, transfer or eliminate risks, which may affect a profitable operation.

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Client appraisal and Financial Performance

Aliija and Muhangi (2017) revealed that MFIs use client appraisal in Credit management to a great extent. Client appraisal is a viable and necessary strategy for managing credit. Aspects of collateral are considered while appraising clients, failure to assess customer's capacity to repay results in loan defaults. Client appraisal considers the character of the customers seeking credit facilities and that MFIs have competent personnel for carrying out client appraisal and client visit is mandatory before loan disbursement. Further, the study established that there was a strong relationship between client appraisal process management and credit performance of MFIs. From the findings, the study found that client appraisal had positive effect on credit performance of MFIs. The study established that there was strong relationship between credit performance of MFIs and client appraisal. The study revealed that a unit increase in client appraisal would lead to an increase in credit performance of MFIs in Uganda; this is an indication that there was positive association between client appraisal and credit performance of MFIs.

Kiplimo and Kalio (2014) Study had sought to find out the Influence of Client Evaluation on Loan Performance of Microfinance Institutions in Baringo County. The objective of the study was to determine the client appraisal on loan performance of microfinance institutions in Baringo County. The descriptive research design methodology was employed based on a survey of Microfinance institutions in Baringo County. Provided that all county/branch managers and staff from credit side, were directly targeted in the study Census sampling technique was appropriate. Inferential with descriptive statistics was used in data analysis. The study findings indicated that there was a strong relationship between client appraisals and loan performance in Microfinance institutions. The study showed that an increase in client appraisal led to a rise in the performance of loans in MFIs in Baringo County.

Khan and Rahaman (2018) studied on client appraisal and the study findings showed that granting of credit depends on the confidence the lender has in the borrower's credit worthiness. Creditors and lenders utilize a number of financial tools to evaluate the credit worthiness of a potential borrower. When both lender and borrower are businesses, much of the evaluation relies on analyzing the borrower's balance sheet, cash flow statements, inventory turnover rates, debt structure, management performance, and market conditions. Creditors favor borrowers who generate net earnings in excess of debt obligations and any contingencies that may arise. Following are some of the factors lenders consider when evaluating an individual or business that is seeking credit: Credit worthiness. A history of trustworthiness, a moral character, and expectations of continued performance demonstrate a debtor's ability to pay. Creditors give more favorable terms to those with high credit ratings via lower point structures and interest costs. Creditors seek borrowers whose earning power exceeds the demands of the payment schedule. The size of the debt is necessarily limited by the available resources. Creditors prefer to maintain a safe ratio of debt to capital. Creditors prefer large loans because the administrative costs decrease proportionately to the size of the loan.

Ahmed and Malik (2015) analyzed the impact of credit appraisal techniques employed by microfinance institutions in improving loan performance. The research secondary objectives included the credit appraisal techniques used by micro-finances, impact of the used techniques on reducing portfolio at risk, effect of credit terms on loan performance and other components of credit risk management that microfinance institutions can employ to increase loan performance. Exploratory and descriptive research designs were used that enabled the researcher to organize the collection of data. In order to make the research effective in achieving its defined objectives, the researcher mainly targeted loans officers, credit risk analysts, recoveries officers and the managers. The research was based on a sample of 12 registered and operational Zimbabwean Micro finance institutions. Simple random sampling and judgmental sampling were used for the research. Primary data collection methods adopted in this research included questionnaires and personal interviews while secondary sources of data were also used to compliment primary data. The research findings revealed that although all microfinance institutions in Zimbabwe use credit appraisal techniques, one of the major causes of poor loan performance amongst the institutions is ineffective credit appraisal. Major causes for non-performing loans and defaulting borrowers which are directly linked to credit appraisal included high levels of non-performing loans, large exposures to a single borrower or group of related borrowers and high prevalence of connected loans.

This study also found that, most microfinance institutions do not use loan performance ratios as a benchmark for loan quality. The study concluded that microfinance institutions in Zimbabwe are experiencing severe deteriorating loan performance thus most of them are continuously experiencing problems with non-performing loans and defaulting loans since 2009 due to weak credit appraisal techniques. It was also noted that, most micro-finances in Zimbabwe undermine

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the capabilities of credit appraisal techniques to significantly reduce loan performance problems. The study recommends micro-finances should adopt and develop effective and efficient credit risk management tools that are in line with international best practices to prevent exposure and in turn maximize shareholders wealth. Further study should be carried out to establish the efficiency and feasibility of other credit appraisal techniques being used by banks in microfinance setup.

Gutierrez-Nieto, Serrano-Cinca and Camón-Cala (2016) evaluated a credit score system for socially responsible lending. The study showed that credit standards applied in making loans have been accompanied by the use of special methods of credit appraisal. In extending medium-term credit, bankers look beyond seasonal or temporary business transactions of the borrower, and expand their credit investigations beyond the limits that are usually set in making short-term loans. The influence of business cycles and of long-term economic forces upon the financial position of the borrower is carefully weighed. Moreover, term credit analysis, although strongly resembling that used by investment bankers, differs from the techniques applied to public issues of corporate bonds or notes. As term loans and debt securities privately purchased from issuing concerns are not marketable assets, lenders cannot look to factors directly affecting market prices, except where the borrowing concern has a similar issue of securities outstanding in the hands of the public. Since a lending institution often cannot look to a public market for a continuing appraisal of the borrower's credit or the liquidation of a loan, it must increase its requirements with respect to quality and augment the care with which it scrutinizes such credits.

Stanley, Deville and Montgomerie (2016) evaluated digital debt management and client's evaluation on performance of microfinance. The study concluded that debt management is an act of trying to get one's debt under control and become responsible for repaying associated obligations. It can therefore be inferred that debt management is a conscious measure taken by a debtor or agents hired on their behalf to reduce the debt burden or strategize to eliminate the debt through acceptable payment terms. A reasonable debt level improves welfare and enhances growth but high level debts can lead to a decline in growth of a firm. Debt impacts positively to the growth of a firm only when it is within certain levels. A firm becomes vulnerable to financial crisis when the ratio goes beyond certain levels. Stern Stewart and Company shares a similar view that high level of debt increases the probability of a firm facing financial distress. Further over borrowing by a firm can cause bankruptcy and financial ruin. Accumulating high levels of debt by a small scale enterprise will constrain its ability to undertake project that are likely to be profitable. This is because it would not be able to attract new debt from financial institutions.

Critique of the existing literature relevant to the study

The study reviewed several empirical research findings which were related to the variables under the study. Gizaw, Kebede and Selvaraj (2015) examined the impact of credit risk on profitability of commercial banks in Ethiopia. According to the research findings, loan loss provisions, non-performing loans, credit risk measures and inadequacy in capital affected the commercial banks profitability in Ethiopia. Bich (2016) evaluated effect of capital structure and legal status on financial sustainability of MFIs in developing countries. The study findings show that many MFIs need to be integrated, by having in place proper legal structures, so that their mission can be realized in order to achieve prosperity. By so doing their financial performance are likely to be better, resulting to effectively and effectiveness on delivery of financial services. Lending policies are more market friendly in terms of loan amount application procedures, credit relation, terms of payments, required collateral and the provision of supplementary services.

Ntiamoah, Egyiri, Diana Fiaklou, and Kwamega (2014) carried out assessing credit management and loan performance. The study obtained that there is a high positive correlation in the middle of the credit terms and policy, lending, credit analysis and appraisal, and credit risk control and loan performance. Wanjiru *et al.,* (2017) highlighted the impacts of loan policy on monetary institution performance in selected Rwandan Commercial banks. The outcomes obtained indicated Rwanda's commercial banks had increased their accounts, increased customer base, and improved their financial indices, thereby maximizing their profits. Usually, banks have unusually high and increasing average interest rate spreads and interest rate margins showing both highly poor competition and inefficiency.

Summary

In summary, the research study was guided by the following theories; Debt management theory, The Grameen Solidarity Group Theory, Debt-snowball Theory and Credit Market Theory. from the literature review Stifler, (2017) examined

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influence of debt collection policy; The Scourge of Abusive Debt Collection Litigation and Possible Policy Solutions and the study discussed that debt collection policy are terms and guidelines which any borrower should adhere to before and after loan advancement. Eisele, Barnes, Beane, Spencer and Moody (2017) evaluated Johnson County debt Collection System Asset Management Program and the study showed that to properly analyze collections activities, it is necessary for the institution to have in place an efficient information system to facilitate the monitoring of past-due clients and the production of clear and precise reports. Opiyo (2017) also examined effect of internal control systems on financial performance in public institutions of higher learning in Nairobi City County and the variables explained 99.1% of the changes in financial performance of the institutions. The study recommends that internal control systems among the institutions need to be improved and accountability of organizational resources be upheld.

Kiplimo and Kalio (2014) Study had sought to find out the Influence of Client Evaluation on Loan Performance of Microfinance Institutions in Baringo County and the study findings indicated that there was a strong relationship between client appraisals and loan performance in Microfinance institutions. The study showed that an increase in client appraisal led to a rise in the performance of loans in MFIs in Baringo County. Huang *et al.,* (2016) determined if there is a relationship between regulations and financial performance. Regulations are the independent variable while financial performance is the dependent variable. Financial performance is measured using financial ratios such as return on capital, return on equity, return on assets, credit risk, liquidity ratio, interest coverage ratio, core capital to total risk weighted assets ratio, total capital to total risk weighted assets ratio and core capital to total deposit liabilities ratio. In summary, debt requires prudent planning.The study thus seeks to find the effects of debt write off policy, debt weight policy, debt collection Process and credit control Policy. This intended for the analysis of micro finance institutions, thus an area further studies should consider the same study to be conducted but on micro finances on the purposes of making a comparison of the findings with those of the present study.

Research Gap

Review of studies had focused on determining the effect of credit management on the financial performance of MFIs in Kenya and the connection between capital structure, and financial performance of MFIs in Kenya. Yosep (2017) carried out a study on sustainability and profitability of microfinance institutions and noted that efficiency and effectiveness were the main challenges facing Kenya on service delivery, Ronoh (2017) did a study on the relationship between capital structure and financial performance of microfinance institutions in Kenya. Gitau (2010) did a study on assessment of strategies necessary for sustainable competitive advantage in the microfinance industry in Kenya with specific focus to Faulu Kenya. Achou and Tenguh (2008) also conducted a research on bank performance and credit risk management and found that there is a significant relationship between financial institutions performance (in terms of profitability) and credit risk management (in terms of loan performance). It's, therefore, evident that studies evaluating the effects of debtors management system on financial performance of MFIs in Trans Nzoia County, Kenya remain indefinable. As a result, the study focuses on the gap in the empirical evidence available. The purpose of this study seeks to bridge the gap by setting out to investigate the influence of debt management systems on financial performance in Micro Finance Institutions in Trans Nzoia County, Kenya.

3. RESEARCH METHODOLOGY

Introduction

This chapter identified the procedures and techniques to be used in collection, processing and analysis of data. The specific areas under the study were: research design, target population and sample frame, sampling and sampling procedures, instrumentation, data collection, data processing and analysis. A research model was also formulated to further explain the influence of debt management systems on financial performance in Micro Finance Institutions.

Research Design

According to Michelle and Jolley (2013) research design is the plan that guides the research process to help identify the participants in the research and how to collect data from them. According to Kothari (2004) choosing an appropriate research design depends on; the nature of the research questions and hypotheses, the variables, the sample of participants, the research settings, the data collection methods and the data analysis methods. The study employed a descriptive survey research design. The study was fit within the provisions of descriptive survey research design because the

researcher collected data from microfinance institutions within Trans Nzoia County and report them according to the data given by respondents. A survey research design enabled the researcher get information that was relevant on debt management systems on financial performance in Micro Finance Institutions.

Target Population

Population is a complete set of elements (persons or objects) that possess some common characteristics defined by the sampling criteria established by the researcher. They are composed of two groups of population; target population and accessible population (Azzalini, 2017). Target population is the entire group of population to which the researcher wishes to generalize the study findings, the meet a set of criteria or interest to the researcher. Accessible population is the portion of the population to which the researcher has reasonable access; it may be a subset of the target population (Flick, 2018). The target population of the study was the microfinance institutions in Trans Nzoia County, Kenya while the accessible population was all the microfinance institutions in Trans Nzoia County, Kenya. The study access population comprised of 12 branch managers, 12 Operations Managers, 12 supervisors and five (5) staffs from each of the Microfinance institutions in Trans Nzoia County. The study therefore targeted 96 respondents from the 12 microfinance institutions in the county.

Table 3.1: Target Population

Position of Microfinance Staff	No. of Staff
Branch managers	12
Operations Managers	12
Supervisors	12
Staff	60
Total	**96**

Sampling Frame

According to Martinez-Mesa (2016) a sampling frame is a list of the sampling units that is used in the selection of a sample. The sampling frame of this study was drawn from a list of employees from microfinance institutions in Trans Nzoia County which include the branch managers, operational managers, supervisors and other support staff. The sampling frame describes the list of all population units from which the sample would be selected (Cooper and Schindler, 2003).

Sample size and Sampling Technique

Sampling involves the selection of a few items from a particular group to be studied with a view to obtaining relevant data, which help in drawing conclusions regarding the entire group (Yin, 2017). The study employed census method of which all respondents was picked since the target population is less than a hundred 96 respondents, the maximum number acceptable for census method.

Data Collection Instruments

The research used questionnaire as the main tool of data collection. The questionnaire was used to collect mainly quantitative data. The researcher administered the questionnaire to each member of the target population. The questionnaire was designed and tested with at least 10 members of the population for further improvements. This was done so as to enhance the validity and accuracy of data to be collected. The structured questions were in the form of a five point Likert scale, whereby respondents was required to indicate their response on a scale of 1 to 5. The questionnaire was used since it was easy to administer and with data obtained easy to analyse (Saunders *et al.*, 2014). The questionnaire is structured into two sections, Section A dealing with the demographic information of respondents. Section B presents questions related to the study objectives from roman I-IV using a Likert scale of 1- 5. (1= strongly disagree, 2=disagree, 3= Neutral, 4=agree and 5=strongly agree) in the questionnaire. A 5 - point Likert-type scale was used to increase response rate and response quality.

Data Collection Procedure

In the procedure of data collection, the researcher administered the research tools upon prior visit to the commercial microfinance. The visit provided a rough picture of the expectations. The researcher together with the target population agreed on when the research instruments was to be administered as the specific date of collecting data using questionnaires. The research first sought permission upon approval of the project from the Jomo Kenyatta University of Agriculture and Technology, which is an introductory letter in writing to allow the researcher apply and get a permit for collecting data from The National Commission for Science, Technology and Innovation (NACOSTI). After acquiring the permit, the researcher used the permit to get permission from MFI managers to collect data. The study administered the Questionnaires to all the 96 respondents. Data collection was done immediately after the administration and all the response sheets were received back from the respondents when the questionnaires were fully filled.

Pilot Study

Pilot study ensures soundness of research conclusions and the degree that results are repeatable. Pilot tests acceptability of a questionnaire and uncover difficulties arising from the procedure and feedback adjustments (Durrheim and Wassenaar, 2002; Kothari, 2009).The researcher conducted a pilot study on 16 respondents (2 MFIs) in microfinance within Kabarnet to test the data collection instruments' validity. According to Connelly (2008) who suggests that a pilot study sample should be 10% of the sample projected for the larger parent study. The instrument of data collection was then refined before the actual study takes place. The study then conduct a reliability test on the data collected and determine the level of reliability. The study targeted an alpha result of 0.7 and above, as the lowest value, which is acceptable (Gray, 2009). A Pilot study enabled avoidance of costly errors, which would otherwise lead to deviations on the objectives of the study.

Validity Study

Validity describes the extent to which the results correspond to the reality (Voorhees *et al.,* 2016). The researcher relied on the supervisors' expertise in fine tuning the questionnaire by assessing the concept the instrument was trying to measure and the accuracy of representation of the concept under research. Pilot test was carried out to test validity of research objectives and instruments. The study employed content validation measure, which is usually subjective, thorough and representative of the wider body of material that the research was trying to assess.

Reliability Study

Reliability refers to the degree to which a research instrument yields consistent results or data after repeated trials (Hoffman, 2005). The pilot units, equivalent to one-tenth of the proposed sample size, were obtained from comparable members of the population from which the sample for full study was taken. This size is informed by (Abayo and Oloko, 2017) who regarded the proportion as sufficient for pilot testing. In the quest of avoiding respondent contamination and possible resistance, those respondents identified for the pilot survey will not be included in the completions. Data for reliability to test internal consistency of an instrument was based on split-half reliabilities of data from all possible halves of the instrument. Reliability test was done using the Cronbach Alpha Scale of alpha ≥ 0.7. The Cronbach alpha result of $0.5 > \alpha$ will mean instrument are unacceptable, $0.6 > \alpha > 0.5$ means poor, $0.7 > \alpha > 0.6$ means questionable, $0.8 > \alpha > 0.7$ means acceptable, $0.9 > \alpha > 0.8$ means good and while, $\alpha > 0.9$ means excellent (Diem, 2009).

Data Processing and Presentation

According to Gall and Borg (2007) data processing and analysis refers to the process of inspecting, cleaning, transforming, and modeling data with the goal of discovering useful information, suggesting conclusions, and supporting decision-making. The study used descriptive (mean, frequencies, percentages and standard deviations) and inferential statistics (correlation matrix and multiple regression models) to analyze its data. The inferential statistics, regression analysis, was also used to test research hypothesis. It was used to measure the relative influence of each independent variable based on its covariance dependent variable and was useful in forecasting. Data analysis was done using SPSS, a computerized statistical package by encoding responses from questionnaires and providing understandable descriptive results. The inferential statistics used involved multiple regression analysis technique. Multiple regression analysis involves combining several predictor variables in a single regression equation. The effect of multiple predictor variables (rather than a single predictor variable) on the dependent variable can be assessed by the multiple regression model/analysis (Hair *et al.,* 2010). Data was presented in form of tables, figures and charts.

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The multiple regression models that were adopted are as shown below:

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ ……………………………………………..Equation .

Where;

Y represents financial performance

β_0 represents Constant while,

β_1, β_2, and β_3 represents Coefficients of the independent variables where;

X_1 represents Debt Collection Policy

X_2 represents Internal Control Structure

X_3 represents Client appraisal

ε represents the error term

4. RESEARCH FINDINGS AND DISCUSSIONS

Introduction

In chapter four analysis, interpretation and discussion of collected data from sampled respondents were presented. The study investigated the influence of debt management systems on financial performance in Micro Finance Institutions in Trans Nzoia County, Kenya. Data analysis were based on the following study variables; Debt Collection Policy, Internal Control System, Client appraisal and financial performance.

Questionnaire Return Rate.

The total number of questionnaires collected was 85 after administering 96 questionnaires to the sampled respondents. Therefore the study used 85 which represented 88.5% response rate which is supported by Bable (1995) who posits that a response rate of 70% and above is satisfactory to conduct adequate data analysis.

Table 4.1: Response Rate

Category	Frequency	Percentage
Administered	96	100.0
Returned	85	88.5

Pilot Study Results

Pilot study ensures soundness of research conclusions and the degree that results are repeatable. Pilot tests acceptability of a questionnaire and uncover difficulties arising from the procedure and feedback adjustments (Durrheim & Wassenaar, 2002; Kothari, 2009). The researcher conducted a pilot study on 9 respondents (2 MFIs) in microfinance within Kabarnet to test the data collection instruments' validity. According to Connelly (2008) who suggests that a pilot study sample should be 10% of the sample projected for the larger parent study. The instrument of data collection will then be refined before the actual study takes place. The study then conduct a reliability test on the data collected and determine the level of reliability. The study targeted an alpha result of 0.7 and above, as the lowest value, which is acceptable (Gray, 2009). A Pilot study enabled avoidance of costly errors, which would otherwise lead to deviations on the objectives of the study.

Validity Study

Validity describes the extent to which the results correspond to the reality (Voorhees *et al.,* 2016). The researcher relied on the supervisors' expertise in fine tuning the questionnaire by assessing the concept the instrument is trying to measure and the accuracy of representation of the concept under research. Pilot test was carried out to test validity of research objectives and instruments. The study employed the use of a content validation measure, which is usually subjective, thorough and representative of the wider body of material that the research is trying to assess.

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Reliability Study

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Demographic characteristics of the Respondents

The demographic characteristics of the respondents were examined and the following respects were evaluated: Distribution of Respondents by Work experience, Distribution of Respondents by Gender, Distribution of Respondents by age bracket and Distribution of Respondents by level of Education. The study thus viewed Distribution of Respondents by Work experience as follows.

Distribution of Respondents by Work experience

The study findings on distribution of respondents by work experience of the respondents showed that 42.4% of the respondents had worked in the microfinance for a period of 1-5 years, 29.4% had worked for a period of 6 to 10 years in the microfinance institution, 18.8% had worked for a period of 11 to 20 years in the microfinance institution and the remaining 9.4% of the respondents had worked for a period of 20 years or more in the microfinance institution. Majority of the respondents had experience working in the microfinance industry and thus provided accurate information as shown in table 4.2;

Table 4.2: Distribution of Respondents by Work experience

	Frequency	Percent
1-5 years	36	42.4
6-10 years	25	29.4
11-20 years	16	18.8
Above 20 years	8	9.4
Total	**85**	**100.0**

Distribution of Respondents by Gender

The study findings on Distribution of Respondents by Gender showed that 52.9% of the respondents were male while the remaining 47.1% of the respondents were female. The study findings on gender rule was not biased, both male and female responses were utilized in the study. The results were as shown in table 4.3; Distribution of Respondents by Gender.

Table 4.3: Distribution of Respondents by Gender

	Frequency	Percent
Male	45	52.9
Female	40	47.1
Total	85	100.0

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Distribution of Respondents by Age bracket

The findings on distribution of respondents by age bracket show showed that 20.0% of the respondents fall in the age bracket between 20 to 30 years, 50.6% fall in the aged between 31 to 40 year, 20.0% fall in the aged between 41 to 50 year and the remaining 9.4% of the respondents fall in the age bracket of over 50 years. All the respondents were capable of providing accurate information based on their experience as shown in table 4.4.

Table 4.4: Distribution of Respondents by Age bracket

	Frequency	Percent
20-30 years	17	20.0
31-40 Years	43	50.6
41-50 Years	17	20.0
Above 50 Years	8	9.4
Total	85	100.0

Distribution of Respondents by Education level

The findings on distribution of respondents by education level showed that 7.1% of the respondents were post-graduate, 32.9% of the respondents were degree holders, 50.6% of the respondents were diploma holders and the remaining 9.4% of the respondents were certificate holders. The findings implied that all the respondents were educated and they could provide easily read and understand research questions thus provided accurate information as shown in table 4.5.

Table 4.5: Distribution of Respondents by Education level

	Frequency	Percent
Postgraduate	6	7.1
Degree	28	32.9
Diploma	43	50.6
Certificate	8	9.4
Total	**85**	**100.0**

Descriptive statistics

The study reviewed views of the respondents on the influence of debt management systems on financial performance in Micro Finance Institutions in Trans Nzoia County, Kenya. Respondents were asked to present their views in the likert scale of 1 to 5. Where; 1 represent Strongly Disagree (SD); 2 represent Disagree (D); 3 represent Neutral (N); 4 represent Agree (A); 5 represent strongly Agree (SA). The descriptive statistics that were used in the study included; frequencies, percentages, mean scores and standard deviation. Frequencies were used to show the number of responses citing particular responses while the percentages were used to show the portion of the respondents giving a particular response out of the total number of number of respondents. According to Orodho and Kombo (2002) means scores were used to show the tendency of the respondents in responding to the study questions and standard deviation was used to show the spread of the respondents across the possible responses and also the level of consensus among the respondents in rating the extent of various matrix in the study.

Debt Collection Policy and financial performance

The study sought to establish influence of Debt Collection Policy on financial performance in Micro Finance Institutions in Trans Nzoia County. The study sought information on debt collection policy, regular contact, background check and customer credit limits. The study sought views of the respondents on the influence of Debt Collection Policy on financial performance. The descriptive findings of debt collection policy were presented in Table 4.7.The researcher asked respondents to give their opinion on the statement that the institution has a debt collection policy. The study respondents showed that 85.9% agreed that institution has a debt collection policy, 2.4% were neutral on the statement and 11.8% of the respondents disagreed with the statement that institution has a debt collection policy.The study asked respondents to

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opine on the statement that there is regular contact and reminders send to the customers. Respondents showed that 88.2% agreed that there is regular contact and reminders send to the customers, 8.2% were neutral and 3.6% disagreed on the statement that there is regular contact and reminders send to the customers. Eisele et al., (2017) that the system should also maintain a history of actions taken and collections activities implemented. The invention and use of new technologies also has fundamentally altered the debt collection business. Communication technologies, in particular, have spurred profound changes in this industry.

The study asked respondents to give their views on the statement that the microfinance have set a safe customer credit limits. Findings showed that 81.1% of the respondents agreed that the microfinance have set a safe customer credit limits, 5.9% were neutral on the statement that the microfinance have set a safe customer credit limits and 13.0% disagreed with the statement that the microfinance have set a safe customer credit limits. The research study asked respondents to give their opinion on the statement that all payment options are stated clearly on invoices to make it easier for customer to pay loans. Findings showed that 87.9% of the respondents agreed that all payment options are stated clearly on invoices to make it easier for customer to pay loans, 7.1% were neutral on the statement all payment options are stated clearly on invoices to make it easier for customer to pay loans and 4.7% disagreed with the statement that all payment options are stated clearly on invoices to make it easier for customer to pay loans.The researcher asked respondents to give their opinion on the statement that there is thorough background check on a business before offering credit. The study findings showed that 84.7% of the respondents there is thorough background check on a business before offering credit, 5.9% were neutral on the statement and 9.4% disagreed with the statement that there is thorough background check on a business before offering credit. The findings agree with Immergluck (2016) that properly formulated credit policy, implemented and well comprehended at every level of an organization enables the management to maintain and uphold proper standards of the credit amount, therefore, avoiding any possible uncertainties and risks thus aiding in assessing and selecting investment opportunities that lead to the growth of the business.

Table 4.6: Debt Collection Policy and financial performance

		Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
The institution has a debt collection policy.	F	0	10	2	47	26
	%	0.0	11.8	2.4	55.3	30.6
There is regular contact and reminders send to the customers.	F	2	1	7	38	37
	%	2.4	1.2	8.2	44.7	43.5
The microfinance have set a safe customer credit limits.	F	1	10	5	41	28
	%	1.2	11.8	5.9	48.2	32.9
All payment options are stated clearly on invoices to make it easier for customer to pay loans.	F	1	3	6	49	26
	%	1.2	3.5	7.1	57.6	30.6
There is thorough background check on a business before offering credit.	F	0	8	5	45	27
	%	0.0	9.4	5.9	52.9	31.8

Multiple Regression Analysis

The study used multiple linear regression analysis to determine the combined linear relationship between the dependent variable (financial performance of micro finance institutions) and the independent variables (debt collection policy, internal control system and client appraisal). The findings as shown in Table 4.7 showed that (R^2 = 0.51.8). This implied that there is a positive influence of debt management systems on financial performance in micro finance institutions and therefore 51.8% of variation in financial performance in micro finance institutions is accounted by debt management systems (debt collection policy, internal control system and client appraisal) in the study whereas 48.2% of the financial performance in micro finance institutions is accounted by other factors out of the study.

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Table 4.7: Multiple Regression Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.647[a]	0.518	0.397	0.37854

Assessing the Fit of the Model Summary

Analysis of variance was used to determine if the multiple regression model was fit for the data. The results as shown in table 4.8 indicated that that the effect of dependent variable was statistically significant (F=17.415; p<0.05). This implied that the multiple regression model was fit for the data, therefore the overall regression model for all the variables Debt collection policy, Internal control system and Client appraisal was statistically significant and affects financial performance in micro finance institutions.

Table 4.8: ANOVA Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.346	3	2.782	19.415	.000[b]
	Residual	11.607	81	0.143		
	Total	19.953	84			

5. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

This chapter presents the summary of the key data findings, discussion of the findings; conclusions drawn from the findings highlighted and recommendation made based on the findings. The conclusions and recommendations were drawn to addressing the influence of debt management systems on financial performance in micro finance institutions in Trans Nzoia County, Kenya.

Summary of the Findings

This section presents the summary of the findings of the study based on the objectives of the study.

Debt Collection Policy and Financial Performance

The first objective sought to establish influence of Debt Collection Policy on financial performance in Micro Finance Institutions in Trans Nzoia County. Respondents accepted that there is regular contact and reminders send to the customer. This helps financial institution recover their loans issued to the clients. Also all payment options are stated clearly on invoices to make it easier for customer to pay loans. This implied that clients are given several options which they choose from it the most convenient way of repaying the loan.

Conclusion

In conclusion the study found that there is a positive influence of debt management systems on financial performance in micro finance institutions. Debt collection policy has a significant effect on financial performance. Policy terms are put in place to ensure that borrowers easily honor their obligations with minimal cost to the institution. Internal control system has significant influence on financial performance in Micro Finance Institutions.

Recommendations

The study provides recommendations on strategic alliances based on the findings of the study.

Recommendation to the policy makers

The study recommends to the microfinance managers to give more emphasis on utilization of debt collection policy it helps the microfinance institutions to set a safe customer credit limits. The study also recommends to the microfinance

managers to further prioritize use of internal control system since the use of customer credit application forms improves monitoring and credit management as well. In addition the study recommends to the microfinance managers to ensure that client appraisal is appropriately used because client appraisal considers the character of the customers seeking credit facilities.

Recommendation for Theory

Debt management theory suggest that managers ought to minimize cost which is often justified as an objective of debt management by the fact that, and therefore debt servicing costs lead to welfare losses. However, by itself, the theory recommends to the microfinance institutions to minimizing cost an unsatisfactory objective. The theory assumes that the loan borrowers are able to commit to policies which do not involve default, either partial.

Areas for further Research

The main focus of the study was to investigate the influence of debt management systems on financial performance in Micro Finance Institutions in Trans Nzoia County, Kenya. The study therefore suggests that a future research can be carried on the challenges facing debt management systems on financial performance in micro finance institutions in Kenya.

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