ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 7, Issue 4, pp: (94-115), Month: October - December 2020, Available at: www.paperpublications.org

EFFECT OF DEBT RECOVERY POLICY ON PERFORMANCE OF COMMERCIAL BANKS IN KITALE TOWN, KENYA

[1]Stephen, Murey ,Yego, [2] Dr.Joseph ,Gichure.

[1]Jomo Kenyatta University of Agriculture& Technology (Master of Business Administration Finance option)

[2]Jomo Kenyatta University of Agriculture & Technology (Lecturer, PhD).

Abstract: **Performance of commercial banks is essential in a dynamic and competitive world and therefore annual regular checking is needed. Most of the financial institutions utilize debt in different ways to influence the investment made in their assets which influences the return on equity. According to CBK annual reports released shocking evidence that non-performing loans for 2016 to 2019 was constantly increasing. It is therefore crucial to analyse whether the credit risk indicators are affecting the financial performance of the banks in the study attempting to make a modest contribution to literature on credit risk. The general purpose of the study is to evaluate the effect of debt recovery policy on performance of commercial banks in Kitale. The study was guided by the following objectives to evaluate the effect of credit terms on debt recovery and Performance of Commercial Banks in Kenya, to determine effect of customer appraisal on debt recovery and Performance of Commercial Banks in Kitale, to examine the effect of debt collection procedure on debt recovery and performance of commercial banks in Kitale, Kenya and to establish the effect of internal control on debt recovery and performance of commercial banks in 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.This study adopted a descriptive research design. The study targeted 123 respondents from 10 banks drawn from each tier in the three categories of banks. The study access population comprised 10 branch managers, 10 Operations Managers 20 supervisors and 83 staff working in selected Commercial Banks in Kitale. Research instruments of the study were Questionnaires. Data was analysed using descriptive statistics such as frequencies and percentages and the multiple regression analysis was used to analyse and summarize the data.Regression estimates was used to describe data and to explain the relationship between one dependent variable and one or more independent variables. The study found that credit terms has a positive and significant effect on the performance of commercial banks in Kitale Town, (β_1= 0.539, p=0.001); customer appraisal has a positive and significant effect on the Performance of Commercial Banks in Kitale Town, (β_2=0.277, p=0.002); debt collection procedure has a positive and significant effect on the performance of commercial banks in Kitale Town, (β_3=0.320, p=0.000) and internal control system has a positive and significant effect on the performance of commercial banks in Kitale Town, (β_3=0.390, p=0.000). This study concludes that commercial banks consider credit terms necessary for its financial success and thus debt collection policy is necessary. Commercial banks have engaged its customers in regular contacts to remind pending dues. Finally, credit officers monitor and controls internal funds to be allocated to customers. The study recommends to the bank managers to consider reviewing good credit terms when allocating loans to its customers. This is because credits might be unfair to larger potential population in the market.**

Keywords: **credit terms, customer vetting, collection procedure, financial performance and internal control.**

1. INTRODUCTION

Background of the study

Debt recovery policy is a very essential component of the performance of commercial bank as it plays a key role in ensuring that the major goal of the bank is to issue loans that result into the preferred outcome of making a profit margin beyond the loans advanced (Naqvi, Channar & Ahmed, 2018). It is evident that the presence of debt recovery ensures the

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loanees to pay up their debts. The 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 (Ndikumana, Mayanja & Omwono, 2019).Performance of commercial banks is the ability to generate new resources, from day- to- day operations, over a given period of time; performance is gauged by net income and cash from operations (Uddin, Billah & Hossain, 2017). A portfolio is a collection of investments held by an institution or a private individual. Financial performance can be measured using the following repayment rate, portfolio quality ratios, arrears ratio rate, portfolio rate and delinquent borrowers. Repayment rate measures the amount of payment received with respect to the amount due. Portfolio quality ratios; involves the arrears rate portfolio risk and the ratio delinquent borrowers. The arrears ratio rate shows how much of the loans have become due and has not been received. Portfolio rate refers to the outstanding balance of all loans that have an amount due. Delinquent borrowers determine the number of borrowers who are delinquent relative to the volume of delinquent loans (Naqvi *et al.*, 2018).

Commercial banks might supply lending on short, medium and long-run basis jointly of the various services rendered by commercial banks to their customers. Commercial banks offer loans and advances to numerous people, business organizations furthermore as government thus enabling them to begin investment and numerous development activities as a mean of aiding their growth particularly causative toward the economic development of a country normally (Bhattarai, 2019). Bank plays a very important role of savings, mobilization and monetary resource allocation to varied establishments. These roles create them a very important contribution towards economic process and development. By performing arts this role, commercial banks have the ability, prospects and scope to mobilize monetary resources and allocating them to productive investments. regardless of the sources of the generation of financial gain or the economic policies of the country, industrial banks would be additional willing to offer out loans and advances to their numerous customers bearing in mind, the principles that guide their operations that embrace, profitableness, liquidity and financial condition (Uddin *et al.,* 2017).

Global Perspective of Debt Recovery Policy on Performance of Commercial Banks

Globally, debt recovery policies apply equally to all members regardless of their professional or social standing. It is an object of the bank to be in compliance with applicable national and regional regulations, to follow Board approved procedures and guidelines, to adequately train staff to perform their duties, and to properly document loan files. Under special and pre-authorised circumstances, loan officers may collect loan payments from the field. Under such circumstances, when outside the office, the loan officer should use common sense in accepting payments for delinquent loan. If a decision is made to accept a payment, always provide a receipt for the borrower and get here/his signature verifying the amount (Makori & Sile, 2017).In Australia, there exist systems debt recovery policy and procedures that banks have in places so as to secure payment from their customers once payment becomes due. Systems begin, the follow up and late payment chasing procedures similar to letter and telephone calls. They are available in to operations once customers account becomes delinquent. Its only payment has been obtained from a client that the sale is complete (Mercylynne & Omagwa, 2017). Debt recovery policy is a very important part of the general credit risk management method among commercial banks. A good assortment policy is essential in dominant the investments in debtors and additionally reducing the danger of monetary loss and illiquidity through slow payment. If the collection policy is incredibly demanding, it's going to create customers get different suppliers and this could need putting a balance thus on guarantee business continuity. It's a reality that there'll be late payers in client base. Once payments square measure thought to be late varying of procedures and ways is also adopted to get payments (Johnson, 2018).In Canada, Commercial banks performance is measured by different parameters such as market share, branch network, asset base, profitability and the quality of the loan book. Debt recovery policy is essential to manage and control the risks associated with credit sales (Mercylynne & Omagwa, 2017). The purpose of credit management is to manage both the financial and political risks associated with credit sales. The policy on credit management comprises systems, guidelines and principles that serve as a blueprint for employees in the credit department in awarding loans and steering the total collection of credit facilities. Credit means trust and trust has to be based on knowledge for it to have any real meaning (Borroni & Rossi, 2019).

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Most of the financial institutions use various types of debt recovery policies and technique to finance and improve its operations in order to enhance their performance (Chalkiadis, 2019). For instance, in the United States of America (USA), 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 (Blanchard, 2019). In India, court negotiation is supportive in debt recovery by financial institutions. The legal enforcement is sluggish in assisting in debt recovery. 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 (Bluhm, Overbeck & Wagner, 2016).

Regional Perspective of Debt Recovery Policy on Performance of Commercial Banks

In Africa, many banks have suffered financial distress and failure due to poor use of debt recovery techniques and non-performing loans. Commercial banks debt recovery policy determines who the target customer is. The business sector is important to banks in its contribution to profitability. Although there are high risks associated with business lending, banks are compensated in terms of fees, interest margins and deposit balances held in the banks. Lending policies that are unfavorable to business customers are therefore likely to lower profitability for commercial banks. 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 (Offiong & Egbuka, 2017).Debt recovery policy is an activity of making individuals and business pay debts, usually one that they have not paid on time or that they are refusing to pay (Ehrhardt & Brigham, 2016). Also, Ohanka (2016) defines debt recovery as the job of collecting payments from people who have failed to repay the money they owe for goods, services that they have already received with many people owing billions and billions of dollars in debt, both creditors and collecting agencies are feeling the pressure. Debt collectors must employ techniques that will encourage debtors to pay. Successful debt recovery techniques will help the collectors get the account settled immediately. On top of the pressure to collect debt, debt collectors still have to be mindful of the laws that protect debtors (Roodman, 2012).

In Ghana, commercial banks have engaged the use of debt recovery policy management which involves the setting up of legal and formal systems and policies that will guarantee that the appropriately designated staff are well-positioned to grant credit, the facility goes to the people with the right credit history, the loan is given out for profitable activities or for businesses which have a strong financial and technical viability, the correct amount of credit is disbursed, the credit can be recovered and the flow of management information is sufficient within the organization to allow for effective monitoring of credit activity. It is recommended to put in place of systems that act as a check right from the credit granting process to the point of collection (Apanga, Appiah & Arthur, 2016).In South Africa, debt recovery policy helps to avoid extending credit to customers who are unable to pay their accounts. Credit policy for some larger businesses can be quite formal; involving specific documented guide lines, credit checks and customer credit applications, the policy for small businesses tends to be quite informal and lacks the items found in the formal credit policy of larger businesses. Many small business owners rely on their business instinct as their credit policy (Otto, 2018). Credit policy has direct effects on the cash flow of any business. Hence, a credit policy that is too strict will turn away potential customers, reduce sales and finally lead to a decrease in the amount of cash inflows to the business. On the other hand, a credit policy that is too liberal will attract slow paying (even non-paying) customers, increase in the business average collection period for accounts receivables, and eventually lead to cash inflow problems. A good credit policy should help management to attract and retain customers, without having negative impact on cash flow (Karanja, Bichanga, & Kingoriah, 2018).

Local Perspective of Debt Recovery Policy on Performance of Commercial Banks

Commercial banks in Kenya have suffered significant loan repayment default problems resulting into decreased employment levels and liquidity problems. Interest rate changes have also contributed to non-performing loans. Data collected from the Central bank supervision report for 2018 first quarter show that the total assets held by the commercial banks in Kenya amounted to KES 3.5 trillion with loans and advances of about KES 2 trillion. The deposit base stood at KES 2.5 trillion and the profit before tax of the sector in general stood at KES 30 billion (Mokaya, Jagongo, James & Ouma, 2018).Kenyan banks are inevitably exposed to credit risk because they grant credit facilities as they accept the deposits. Credit risk is the possibility of losing the outstanding loan partially or totally, due to credit events (default risk) (Juma, & Atheru, 2018). Credit risk is the exposure faced by banks when a borrower (customer) defaults in honouring

debt obligations on due date or at maturity (Wachira, 2017). Anthony and Othieno (2016) indicated that credit creation is the main income generating activity for the banks. As a result adequate management on loan processing is critical for the growth and survival of the banks otherwise the credit activity may lead to financial distress.CBK supervision annual report 2019 indicated that the ratio of non-performing loans to gross loans increased from 12.03 percent in December 2018 to 12.78 percent in March 2019.Non-performing loans are associated with bank failures because borrowers do not pay their loans in time which leads to financial crises for commercial banks in Kenya. Due to the nature of their business, commercial banks expose themselves to the risks of default from borrowers and this risk is known as credit risk. If the non-performing loans are kept existing and continuously rolled over the resources are locked up in unprofitable sector thus hindering the economic growth and impairing the economic efficiency.

Statement of the problem

Performance of commercial banks is essential in a dynamic and competitive world and therefore annual/regular checking is needed. Most of the financial institutions utilize debt in different ways to influence the investment made in their assets which influences the return on equity. The debt equity amount is considered significant in influencing the investment riskiness and general financial performance of commercial banks. The increased risk on investment can lead to poor performance on financial institutions, individuals and companies since 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. Ideally, debt recovery policy 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, there is shocking evidence that non-performing loan for 2016 to 2019 was constantly increasing. The annual reports on bank supervision 2019, Banking sector data compiled from the lenders' financial reports shows that gross non-performing loans increased by Sh27.5 billion or 8.7 percent in the first quarter of 2019. The value of bad loans in the banking sector hit a new high of Sh 345 billion at the end of 2019, raising questions on the health of the economy even as the lenders booked double-digit profit growth in the first three months of the year.

The increasing level of non- performing loan rates in banks books, poor loan processing, undue interference in the loan granting process, inadequate or absence of loan collaterals among other things are linked with poor and ineffective credit risk management that negatively impact on banks performance. It is therefore crucial to analyse whether the credit risk are affecting the financial performance of the banks in the study attempting to make a modest contribution to literature on credit risk.There are various studies done on debt recovery including on factors that influence long term debt recovery by companies listed at the NSE, Sandhar (2010) carried out a study on expected common stock return and debt ratio from the NSE. Githuku (2005) conducted a study on the relationship between growth opportunities and debt structure of firms listed by Nairobi stock exchange, Mwangi, Makau and Kosimbei (2014) did a study on the analysis of assets structure and debt policy for companies listed at the Nairobi stock exchange and Mulama (2014) did a study on the determinants of corporate debt maturity structure for companies listed by Nairobi stock exchange. The gap exists where debt recovery policy has not been attempted; this has however guided this research to fill the gap by evaluating the effect of debt recovery policy on performance of commercial banks in Kitale, Kenya a case of commercial Banks in Kitale Town.

Objective of the study

General objectives

The general purpose of the study was to evaluate the effect of debt recovery policy on performance of commercial Banks in Kitale Town, Kenya.

Specific Objectives

I. To evaluate the effect of credit terms on performance of commercial banks in Kitale Town, Kenya.

II. To determine effect of customer appraisal on performance of commercial banks in Kitale Town, Kenya.

III. To examine the effect of debt collection procedure on performance of commercial banks in Kitale Town, Kenya.

IV. To establish the effect of internal control system on performance of commercial banks in Kitale Town, Kenya.

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Research Questions

I. What are the effects of credit terms on Performance of Commercial Banks in Kenya?

II. What are the effects of customer appraisal on Performance of Commercial Banks in Kenya?

III. What are the effects of debt collection procedure on Performance of Commercial Banks in Kenya?

IV. What are the effects of internal control system on Performance of Commercial Banks in Kenya?

Significance of the Study

Commercial Institutions

The study is of great significance to the management on performance of commercial banks in Kenya as the findings reveal the importance of debt recovery policy and how it impact debt management. It also helps the management and employees understand on how to create clear debt recovery policy in order to manage and to reduce credit risk incurred in the bank.

Policy Makers

Managers and policy makers gain helpful information that guides in the formulation of policies. The study is of great insight to other financial institutions by providing information on how debt recovery policy plays an important role on debtor management. It also provides information on how to improve the performance of credit policy in order to increase debt collection.

Scholars

The study findings contribute knowledge and information in the field debt recovery policy. Future researchers used the findings as reference for studies related to debt recovery policy on performance of commercial banks. It also helps the researcher and other scholars understand how to improve debt recovery policy in order to increase debt collection.

Justification

Debt recoveries by Microfinance Institutions in Kenya encounter great challenges during debts collection. Some customers fail to comply the agreed terms of loan repayment schedule. The debt recovery policy needs to be strengthened for better debt recovery by commercial banks. No studies have attempted to examine on the same problem. Therefore this study seeks to determine the effect of debt recovery policy on performance of commercial banks in Kenya, a case of commercial Banks in Kitale Town.

Scope of the Study

The scope of the study was to determine the effect of debt recovery policy on performance of commercial banks in Kitale, Kenya a case of commercial Banks in Kitale Town. The target population of the study was all listed commercial banks in Kenya. The study used descriptive research design. This research was done over the months of March 2020 to May 2020.

2. LITERATURE REVIEW

Introduction:

Chapter itwoi reviews literature oof the research study, relevant previous journals, articles, academic papers and dissertations that were researched on topics related to the influence of debt recovery policy on performance of commercial banks in Kitale, Kenya a case of commercial Banks. The specific variables under the study was; Credit terms on debt recovery, customer appraisal on debt recovery, debt collection procedure on debt recovery and internal control on debt recovery and performance of commercial banks.The study also reviews the theories; 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 theoretical review 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

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example of how to thread theory throughout the research process. This section entails the theories related to the study variables namely; Credit terms on debt recovery, customer appraisal on debt recovery, debt collection procedure on debt recovery and internal control on debt recovery and performance of commercial banks. 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

Angeletos (2002) and Bueraand Nicolini (2004) demonstrate 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 plus that there are a number of objectives like cost minimization, risk management (Wolswijk and de Haan, 2012).This theory therefore plays a critical role in expounding on the research credit terms objective of this study.

The Grameen Solidarity Group Theory

The Grameen model was invented in 1976 by Professor Muhammad Yunus, the founder and managing director of Grameen Bank.This model is based on peer group pressure whereby loans are made to individuals in groups of four to seven.For group members to access subsequent loans is dependent on successful repayment by all the team members.It's evident from organizations such as Grameen Bank who use this type of microfinance model that these groups have proved effective in deterring defaults. A new branch of the MFI is set up in a village with a field officer and some qualified workers, who have already done research on the population there in advance and made their choice according to its potential demand plus its need for economic support.These employees in MFI support then up to 15 to 20 villages in the surrounding and strive to make the local, poor people aware of the microfinance possibilities through word of mouth and personal advisory.If clients are reliable and could pay back their loan, the remaining members qualify for a loan as well, since the group is jointly and severally liable for the individual members.Loans go first to two members of the group, then to another two, and then to the fifth group member.Given that loans are being correctly and timely repaid, the cycle of lending continues (Armendariz & Morduch, 2005). This theory puts more emphasis on the group members monitoring one another much more efficiently than the lender hence the risk for such borrowers is thus shifted from the MFI to the borrowers themselves.iIn theory, these sounds prudent, in practice borrowers may not be able to evaluate the riskiness of each other's projects and the inherent riskiness of their partners effectively.Most MFIs have adopted the Grameen approach.Theytiiuse the concept of Joint liability to reduce the risk as members have knowledge of the individual character and can screen potential borrowers.

Debt-snowball Theory

Dave Ramsey in his 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.This method is popular in management of multiple debts.

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.iIt 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..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.

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.

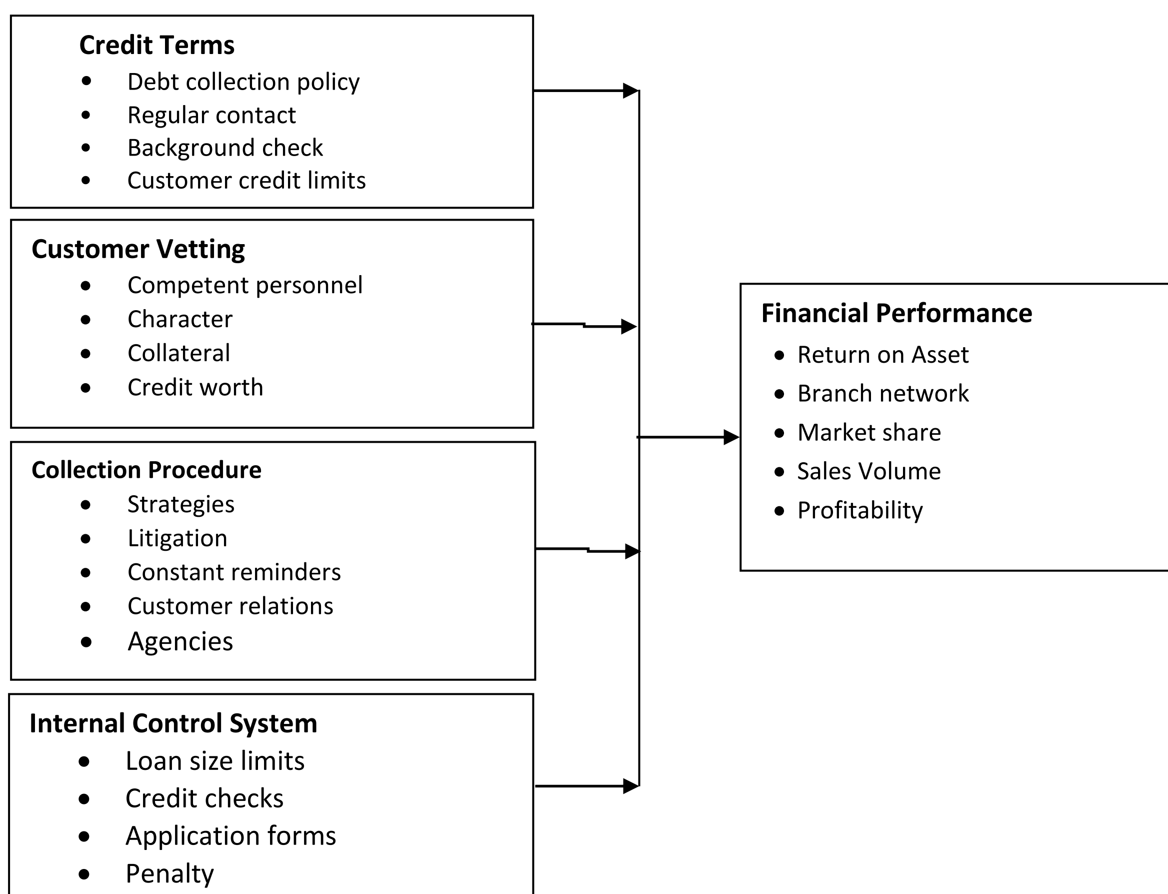

Figure 2.1 Conceptual framework

Empirical Literature Reviews

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

Credit Terms on Debt Recovery and Performance of Commercial Banks

Credit terms is the payment terms and conditions made by the lending party in exchange for the credit benefit (Githuku, 2005).The terms of interest payments, repayments, and loan maturity are detailed.They include the interest rates and date for repayment, if a term loan, or the minimum payment amount and recurring payment dates, if a revolving loan. Term loans usually last between one and ten years, but may last as long as 30 years in some cases.A term loan usually involves an unfixed interest rate that will add additional balance to be repaid.Tuyishime, Memba and Mbera (2016) sought to

determine the effect of credit Terms of management on the financial performance of commercial banks in Rwanda.The study adopted a descriptive survey design.Purposive sampling technique was used in sampling where the entire population was included in the study.Primary data was collected using questionnaires which were administered to the respondents by the researcher. Descriptive and inferential statistics were used to analyze data.The study found that client appraisal, credit risk control and collection policy had effect on financial performance of Equity bank. The study established that there was strong relationship between financial performance of Equity bank and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly influence financial performance of Equity bank. Collection policy was found to have a higher effect on financial performance and that a stringent policy is more effective in debt recovery than a lenient policy. The study recommends that Equity bank should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery.Stifler (2017) examined influence of debt collection terms and policies on the financial performance 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 used to collect the entire amount due from the borrower.

Sikolia, Juma and Otinga (2019) determined the influence credit terms of policy on the financial performance of SACCOs in Kakamega County. 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.

Customer appraisal on debt recovery and performance of commercial banks

Murigi (2018) discusses that credit appraisal of a term loan denotes evaluating the proposal of the loan to find out repayment capacity of the borrower.The primary objective is to ensure the safety of the money of the bank and its customers.The process involves an appraisal of market, management, technical, and financial. No lender approves and sanctions anybody’s personal loan application instantly without an evaluation. t is absolutely important for a lender to carry out a credit appraisal process in order to ensure that the borrower has the capacity to repay the entire loan amount on time without missing any payment deadlines.This is very crucial for a bank as this determines the interest income and the capital of the bank.The repayment behaviour of a borrower directly affects the performance of the bank.Kenya and Murigi (2018) studied on Customer appraisal and the findings revealed that MFIs use customer appraisal on debt recovery is of great importance extent.Customer 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. Customer appraisal considers the character of the customers seeking credit facilities and that MFIs have competent personnel for carrying out customer appraisal and client visit is mandatory before loan disbursement.Further, the study established that there was a strong relationship between customer appraisal process management and credit performance of MFIs. From the findings, the study found that customer 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 customer appraisal and credit performance of MFIs. Sungunya (2018) Study had sought to find out the Influence of Customer appraisal on Loan Performance of Women Enterprise Fund in Kenya: A Survey of Women Groups in Nakuru Town Sub-County.The objective of the study was to determine the customer 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 customer appraisal led to a rise in the performance of loans in MFIs in Baringo County.

ISSN 2349-7807

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Mori and Charles (2019) analyzed the impact of customer appraisal 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 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.

Debt Collection Procedure on Debt Recovery and Performance of Commercial Banks

According to Kamar and Ayuma (2016), debt collection is the process of pursuing payments of debts owed by individuals or businesses. A debt collection process is a cumulative concept for the fair and ethical recovery of delinquent amounts and past-due payments from an indebted subject on behalf of the creditor.Most collection agencies operate as agents of creditors and collect debts for a fee or percentage of the total amount owed.Usually the lender either collects the amount on his own, or hires a private recovery agency to represent him as a third-party in front of the debtor. If a collection agency is involved, the whole debt recovery process falls under the name interlocutory debt collections process.Okpala, Osanebi and Irinyemi (2019) evaluated the impact of Debt Collection Procedure on the liquidity and profitability of quoted chemical & paints manufacturing companies in Nigeria.The descriptive survey research design was implemented.500 staff representing 60% of the population were used as the sample population upon which copies of questionnaire were administered. 342 valid responses were returned by the participants and analyzed.One-way ANOVA was used for descriptive statistics, and a simple regression analysis method was used to test the formulated hypotheses. The result obtained indicated that the credit management strategies sub-variables-credit risk assessment, debt recovery strategy, receivable collection policy, have positive and statistically significant impact on the liquidity sub-variable-Ability to pay, level of bad debt, and cash inflow ($R=.654$ $R^2=.632$, $p=.0<.05$; $R=.692$, $R^2=.674$, $p=.0<.05$; $R=.621$, $R^2=.601$, $p=.0<.05$). The effect of liquidity on profitability was positive and statistically significant ($R=.723$, $R^2=.701$, $p=.0<.05$). The study recommended that organizations within the industry should improve liquidity to achieve the desired profit level by (i) having effective credit terms and proper risk assessment strategy, (ii) designed and implemented debt recovery plans to aid collection of the overdue debt, (iii) adopt a stringent credit collection method, and (iv) employ and retained qualified Accountants and Credit Administrators with excellent knowledge of credit control methodology.

Wachira (2017) sought to establish how various credit risk management procedures affect performance of commercial banks in Nyeri County in Kenya. Even though commercial banks face several types of risks, credit risk stands out as the most severe. Credit risk is the possibility of loss to the lender on non-performing loans. Financial practice as well as theory provides a scientific process of credit risk management in financial institutions. However, lenders still face loan default and consequently this study sought to find out how those practices affect the performance of commercial banks in Nyeri County, Kenya. A census study was conducted where a population of 86 respondents was targeted comprising of branch managers, credit managers and credit officers. The findings of the study were that all commercial banks had a well written credit policy which is strictly and consistently followed. Only few commercial banks conduct a quantitative credit

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
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scoring model. In all banks, initial screening is done by credit officer and approval done at different levels depending on the amount. Majority of the banks check post borrowing activities of the borrower. In conclusion, credit risk management has an effect on loan performance amongst commercial banks. Thus, managers should evaluate more accurately the ability to pay back of a customer since the better the screening the better the performance of commercial banks.

Internal Control on Debt Recovery and Performance of Commercial Banks

According to Ahmed and Muhammed (2018), internal control system ensures that the borrowings and advances are within the limits and the persons involved are duly authorized and that they are acting within their powers to borrow. The internal control is designed in such a way that it shall ensure all the legal and other regulatory procedures relating to the borrowings are duly complied with.

Opiyo (2017) examined effect of internal control on debt recovery and 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 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 among the institutions need to be improved and accountability of organizational resources be upheld.

Ahmed and Muhammed (2018) examined Internal Control Systems and Its Relationships with the Financial Performance in Telecommunication Companies. 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.

Critique of the existing literature relevant to the study

Tuyishime *et al.,* (2016) established that there was strong relationship between financial performance of Equity bank and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly influence financial performance of Equity bank. Collection policy was found to have a higher effect on financial performance and that a stringent policy is more effective in debt recovery than a lenient policy. The study recommends that Equity bank should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery

Immergluck (2016) discussed that an effective credit policy terms 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

ISSN 2349-7807
International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
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the growth of the business.Sungunya (2018) further indicated that there was a strong relationship between client vetting and loan performance in Microfinance institutions. Otieno (2016) also critique that the main debt collection strategies at SCB included litigation, debt collection agencies, change of payment terms and constant reminders. The findings also indicated that the most effective debt collection strategies were change of payment terms and constant reminders while litigation and debt collection agencies were found to be ineffective and costly.Opiyo(2017) examined effect of internal control on debt recovery and financial performance in public institutions of higher learning in Nairobi City County. The study realized that the control environment, risk assessment, control activities and information and communication as indicators of internal control have a significant influence on the financial performance of the institutions of higher learning in Nairobi City County, Kenya.The study 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.However, the study also found out that there is lack of information sharing and inadequate security measures to safeguard the assets of the commercial banks.

Summary

In summary, the research study shall be guided by the following theories; Debt management theory, The Grameen Solidarity Group Theory, Debt-snowball Theory and Credit Market Theory.Most of the microfinance institutions relied mostly on accounting based method and subjective analyses to quantify their organization risk exposures, hence it was recommended that management of these microfinance institutions should make it a point to build the capacities of their credit administration department on a regular basis since any mishap in their duties may lead to series of loan defaults. Adams (2017) properly analyze debt collection 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.iThe 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.iCommunication technologies, in particular, have spurred profound changes in this industry.

Mori and Charles (2019) 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 the capabilities of credit appraisal techniques to significantly reduce loan performance problems .Odonkor (2018) also concluded that rural banks that have implemented rigorous credit risk management policies were exposed to few challenges in managing credit risk as compared to rural banks with poorly implemented credit risk management policies. This affirms the point that a comprehensive credit risk management system should be adopted and implemented well by rural banks in Ghana.

Lastly, Kinyua et al., (2015) noted that internal control including internal audits is 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.

Research Gap

The study reviews indicated that most researchers have focused on Credit Risk Management Practices and Internal Control Systems and Its Relationships with the Financial Performance for example Odonkor (2018) assessed credit risk management practices of Adansi Rural Bank Limited, Tawiah, and Asante (2018) evaluated Credit Management in Microfinance Institutions: A Case Study of Some Selected Microfinance Institutions in the Ashanti Region of Ghana.Muturi and Rotich (2016) determined the effects of credit management practices on Loan performance in deposit taking microfinance banks in Kenya. Ahmed and Muhammed (2018) examined internal control systems and its relationships with the financial performance in telecommunication companies. 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

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 7, Issue 4, pp: (94-115), Month: October - December 2020, Available at: www.paperpublications.org

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.The study realized that none of the scholars have evaluated the effect of debt recovery policy on performance commercial banks in Kenya.This study therefore seeks to fill the gap by evaluating the effect of debt recovery policy on performance of commercial banks in Kitale, Kenya a case of commercial Banks in Kitale Town. The variables under the study are effect of credit terms on debt recovery and performance of commercial banks, effect of customer appraisal on debt recovery and performance of commercial banks, effect of debt collection procedure on debt recovery and performance of commercial banks and effect of internal control on debt recovery and performance of commercial banks.

3. RESEARCH METHODOLOGY

Introduction

This chapter identifies the procedures and techniques that were 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 explanation on the effect of debt recovery policy on performance of commercial banks in Kitale, Kenya.

Research Design

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 (Denzin, 2017).The research employed a descriptive research design.The study fit within the provisions of descriptive research design because the researcher collected data from commercial banks in Kitale, Kenya and reports them according to the data given by respondents.A survey research design enabled the researcher get information that is relevant on debt recovery policy on Performance of Commercial Banks.

Target Population

According to Azzalini (2017), 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.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.The target population of the study is all the commercial banks in Kenya while the accessible population is all the commercial banks in Kitale Town, Kenya.The study targeted 123 respondents' from 10 banks and the study access population comprised 10 branch managers, 10 Operations Managers 20 supervisors and 83 staff working in selected Commercial Banks in Kitale.The target population of this study therefore was 123 respondents as tabulated in Table 3.1.

Table 3.1 Target Population

Bank	Branch Managers	Operations Managers	Supervisors	Staff	Total
Barclays Bank of Kenya Ltd	1	1	2	4	**8**
Co-operative Bank of Kenya Ltd	1	1	2	12	**16**
Diamond Trust Bank Ltd	1	1	2	10	**14**
Equity Bank Ltd	1	1	2	13	**17**
Family Bank Ltd	1	1	2	7	**11**
Kenya Commercial Bank	1	1	2	9	**13**
National Bank of Kenya Ltd	1	1	2	8	**12**
Standard Chartered Bank Ltd	1	1	2	7	**11**
NCBA Bank	1	1	2	6	**10**
Sidian Bank	1	1	2	7	**11**
Total	**10**	**10**	**20**	**83**	**123**

Source:CBK Annual Report (2019)

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
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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 commercial banks in Trans-Nzoia County, which includes the branch managers, operational managers, supervisors and other support bank staff.The sampling frame describes the list of all population units from which the sample would be selected (Cooper & Schindler, 2003).

Sample Size iand Sampling Technique

The study obtained its sample size and sampling technique as discussed below;

Sample Size

According to Czaja, Boot, Charness and Rogers (2018) a sample size is part of the target population that has been procedurally selected to represent the entire population.The researcher used the Yamane's formula to calculate a sample size.According to Fetcher (2009), if the target population is less than 10,000, then the sample can be determined using a formula. The sample size of this study was drawn using Yamane (1967) formula for determining the sample size is given by:

n = N / (1 + Ne^2) ………………………………………………………. Equation 3.1

Where

n= corrected sample size, N = population size, and e = Margin of error (MoE), e = 0.05 based on the research condition.

$n=123/(1+123*0.05^2)$

n=94

Thus, the sample size of the study was 94 respondents.

Table 3.2 Sample Sizes

Category	Target Population	Sampling	Sample size
Branch Managers	10	10/123*94	7
Operations Managers	10	10/123*94	7
Supervisors	20	20/123*94	15
Staff	83	83/123*94	65
Total	**123**	123/123*94	**94**

Sampling Technique

According to Dwivedi (2006), sampling involves the selection of a few items from a particular group studied with a view to obtaining relevant data, which help in drawing conclusions regarding the entire group. The study employed simple random sampling technique when collecting data from 7 managers and 87 other employees, which included clerical and sales staff.The study further employed purposive sampling technique to collect data from 7 branch managers According to Etikan, Musa and Alkassim (2016). The main objective of a purposive sample is to produce a sample that can be logically be assumed representative of the population.Sampling was accomplished by applying expert knowledge of the population to select in a non-random manner a sample of elements that represents a cross-section of the population.Fowler (2013) describes a sample in a survey research context as a subset of elements drawn from a larger population.

Data Collection Instruments

The study collected primary data using questionnaires.

Questionnaire

Schwab (2005) defines questionnaires as measuring instruments that ask individuals to answer a set of questions or respondent to a set of statement.Structured questionnaires were used to collect the required information from the supervisors of the different bank branches in Kitale town.iThe questionnaires consisted of two parts: first part was

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International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
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demographic information and the second part of the questionnaire contained a Likert type of scale, which was used to obtain information from the respondents as per the objectives.This method is select because it enables the study to obtain a lot of information in a small (Kothari, 2008).

Data Collection Procedure

In the procedure of data collection, the researcher administered the research tools upon prior visit to the commercial banks.The visit provides a rough picture of the expectations.The researcher together with the target population agreed on when the research instruments was administered.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 to 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 bank managers of commercial banks to collect data.The study sampled 94 participants who were administered with the Questionnaire.The secretary assisted during the administration of the instruments by helping researcher to access branch managers and bank supervisors from each commercial bank identified.iData collection was done immediately after the administration and all the response sheets were received back from the respondents when the questionnaires are fully filled.

Pilot Testing

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 study conducted a pilot study on 9 respondents in commercial banks within Eldoret to test the data collection instruments validity.Connelly (2008) suggests that a pilot study sample should be 10% of the proposed for the sampled parent study. The instrument of data collection was refined before the actual study take place.The study then conducted a reliability test on the data collected.iThe study targeted an alpha result of 0.7 and above, as the lowest value, which is acceptable (Gray, 2009). iA Pilot study enabled avoidance of costly errors, which would otherwise lead to deviations on the objectives of the study.

Validity Testing

Validity describes the extent to which the results correspond to the reality (Voorhees et al., 2016). The procedure involves use of professionals and experts to test the validity of questionnaire by trying to assess what 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.

Reliability Testing

Reliability refers to the degree to which a research instrument yields consistent results or data after repeated trials (Becker, Ringle, Sarstedt & Volckner, 2016). 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. In the quest of avoiding respondent contamination and possible resistance, those respondents identified for the pilot survey was not 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 $\geq$ 0.7.The Cronbach alpha result of $0.5 > \alpha$ mean that the 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 finally, $\alpha > 0.9$ means excellent (Singh, 2017).

Data Processing and Analysis

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 and inferential statistics (Ngumi, 2013) and inferential statistics, including correlation matrix and multiple regression models. The data collected was analyzed using descriptive and inferential statistics.Descriptive statistics is the discipline of quantitatively describing the main features of a collected data, which provides simple summaries about the sample and about the observations that have been made (Davenport & Harris, 2017).The descriptive statistics that was used include

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International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
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frequencies, tables and percentages.The inferential statistics regression analysis was used to test research hypothesis.Data analysis was done using SPSS, a computerized statistical package by encoding responses from questionnaires and providing understandable descriptive results.The inferential statistics involved the use of multiple regression analysis technique.Multiple regression analysis involves combining several predictor variables in a single regression equation.With multiple regression analysis, we can assess the effects of multiple predictor variables (rather than a single predictor variable) on the dependent measure (Becker et al., 2016).Data was presented in form of tables and figures. Multiple regression analysis is defined by the formula;

Model Specification

$Y_i= \beta_0+\beta_1X_1 + \beta_2X_2+ \beta_3X_3 +\beta_4X_4 + \varepsilon$... **Equation (i)**

Where

Y = Financial Performance

X_1 = Credit Terms

X_2 = Customer appraisal

X_3 = Collection Procedure

X_4 = Internal Control System

β_0 = Y intercept in the equation

$\beta_1, \beta_2, \beta_3$ and β_4 = coefficients of the independent variable

ε = error term

4. RESEARCH FINDINGS AND DISCUSSIONS

Introduction

Chapter four discusses research findings of each of the study objectives and hypotheses. The following subsections are discussed; the response rate of the sample size, background information of the respondents and the descriptive and inferential statistical findings of each objective are discussed. Hypotheses are also tested with the study accepting or failing to rejecttested hypotheses depending on the p values found by the study.

Response Rate

The research study administered 94 questionnaires and 90 were filled and returned for data analysis.The response rate of this research study was 95.6 %. The response rate of questionnaires was appropriate for the study analysis based on Van Buuren (2018) who asserted that the response rate of 70 percent and above is satisfactory to conduct adequate data analysis. The study response rate is shown in table 4.1.

Table 4.1 Response Rate

Category	Frequency	Percentage
Administered	94	100.0
Returned	90	95.6

Source; (Survey data, 2020)

Pilot Study Results

Validity describes the extent to which the results correspond to the reality (Voorhees et al., 2016).Pilot study data was used to test for validity and reliability of the research instruments. The validity of the research instruments was determined through the content validity. Content validity involves use of constructive criticism from project supervisor who have an extensive experience and expertise in questionnaire construction. Research instruments were revised and improved according to the supervisors' advice and questions.Reliability refers to the degree to which a research instrument yields consistent results or data after repeated trials (Yin, 2017). In reliability test, Cronbach's Alpha value

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
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above 0.7 was considered acceptable. The results of the piloted research instruments enabled the researcher to determine the consistency of responses that was made by the respondents and adjust the items accordingly by revising the document. In planning of this research study, appropriate research instrument was chosen. Research instruments were developed carefully to fit the research design and the plan of data analysis so that the data collected to facilitate the answering of research questions.The study findings showed that all values of Cronbach's Alpha were above 0.7, this implicated that all the research instruments were reliable (Voorhees *et al.,* 2016). The study result indicates that all the study variables had a Cronbach's Alfa of above 0.7 with credit terms as 0.848, customer appraisal as 0.824, debt collection procedure as 923, internal control system as 0.798 and Performance of Commercial Banks as 0.848. This implied that all the research questions in study instruments were reliable.

Demographic characteristics of the Respondents

The demographic statistical data of the respondents were examined and the following respects were covered: Gender characteristics of the respondents, age bracket of the respondents, the level of academic qualification of the respondent and the working duration of the respondents.

Gender characteristics of the respondents

The study findings on gender characteristics of respondents by showed that 51.1% of the respondents were male while the remaining 48.9% 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 study findings are shown in table 4.2.

Table 4.2 Distribution of Respondents by Gender

Gender	Frequency	Percent
Male	46	51.1
Female	44	48.9
Total	**90**	**100.0**

Age bracket

The study findings on age bracket of the respondents showed that 17.8% of the respondents fall in the age bracket between 21 to 30 years, 45.6% fall in the aged between 31 to 40 years, 25.6% fall in the age bracket between 41 to 50 years and the remaining 11.1% fall in the age bracket of above 50 years. All the respondents were capable of providing accurate information based on their experience as shown in table 4.3.

Table 4.3 Age bracket

Age	Frequency	Percent
Between 21-30 years	16	17.8
Between 31-40 years	41	45.6
Between 41-50 years	23	25.6
Over 50 years	10	11.1
Total	**90**	**100.0**

Level of Education

The study findings on the level of education of the respondents showed that majority of the employees 46.7% were degree holders, 44.4% were diploma holders and the remaining 8.9% were postgraduate. This implied that all the respondents were educated and they provided accurate information.The study findings are shown in table 4.4.

Table 4.4 Level of Education

Education	Frequency	Percent
Postgraduate	8	8.9
Degree	42	46.7
Diploma	40	44.4
Total	**90**	**100.0**

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
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Working Experience

The study results on respondents on working experience of the respondents showed that 18.9% of the respondents had worked in the commercial banks for less than 5 years, 44.4% had worked for 6-10 years in the bank. Also 28.9% of the respondents had worked for 11-15 years in the commercial bank and the remaining 7.8% of the respondents had worked for 16 years and above in the commercial banks. This implied that majority of the respondents had experience in working in a bank and thus provided accurate information. The study findings are shown in table 4.5;

Table 4.5 Working Experience of the Respondents

Work period	Frequency	Percent
0-5 years	17	18.9
6-10 years	40	44.4
11-15 years	26	28.9
Above 16 years	7	7.8
Total	**90**	**100.0**

Descriptive Findings and Discussions

The study discussed descriptive data of the research objectives; credit terms, customer appraisal, debt collection procedure and internal control system.Respondents were asked to present their views in Likert scale of 1 to 5. Where1 represent Strongly Disagree (SD); 2 represent Disagree (D); 3 represent Neutral (N); 4 represent Agree (A); 5 representstrongly Agree (SA). The descriptive studies 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.

Credit Terms and Performance of Commercial Banks

The study sought to evaluate to evaluate the effect of credit terms onperformance of commercial banks in Kitale Town, Kenya. Table 4.6 presents views of the respondents on the descriptive statistics for effects of credit terms on the performance of commercial banks.The study findings showed that 81(90.0%) agreed and 9(10.0%) of the respondents disagreed with the statement that debt collection policy is available and it is effective (mean≈4.16, Std. Deviation>1.070). Commercial banks consider credit terms necessary for its financial success and thus debt collection policy is necessary. Tuyishime et al (2016) was in agreement that debt collection policy was found to have a higher effect on financial performance and that a stringent policy is more effective in debt recovery than a lenient policy. The study recommends that commercial banks to enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery.

Respondents also, 83(92.3%) agreed and 6(6.7%) disagreed with the statement that regular contact to the customers has enabled more recovery and collection of credit (mean≈4.46, Std. Deviation>1.040).Commercial banks have engaged its customers in regular contacts to remind pending dues. Dorsey and White (2018) supported that regular contact of customers has been achieved by changes in database technologies which 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 .Another response revealed that 78(86.7%) agreed and 3(3.3%) disagreed with the statement that background check of financial status, use and transaction of money is done before issuing of the credit (mean≈4.43, Std. Deviation>0.808). Further response revealed that 87(96.7%) agreed and 1(1.1%) disagreed with the statement that customer credit limits has been established depending of financial strength of an individual (mean≈4.57, Std. Deviation>0.601).Credit terms are important checks that guide in setting customer credit limit to suit each customer and as well ensure the commercial bank does not encounter a loss by trusting customers that cannot comply by paying back the loan. Gutierrez-Nieto et al., (2016) supports the findings by the findings that extending medium-term credit limits, bankers look beyond seasonal or

ISSN 2349-7807

International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 7, Issue 4, pp: (94-115), Month: October - December 2020, Available at: www.paperpublications.org

temporary business transactions of the borrower, and expand their credit investigations beyond the limits that are usually set in making short-term loans.

Table 4.6 Credit Terms on Debt Recovery

Statement		SD	D	N	A	SA	Total	Mean	Std. Dev
Debt collection policy is available and it is effective	F	6	3	0	43	38	90	4.16	1.070
	%	6.7	3.3	0.0	47.8	42.2	100.0		
Regular contact to the customers has enabled more recovery and collection of credit.	F	6	0	1	23	60	90	4.46	1.040
	%	6.7	0.0	1.1	25.6	66.7	100.0		
Background check of financial status, use and transaction of money is done before issuing of the credit.	F	3	0	9	24	54	90	4.43	.808
	%	3.3	0.0	10.0	26.7	60.0	100.0		
Customer credit limits has been established depending of financial strength of an individual.	F	1	0	2	32	55	90	4.57	.601
	%	1.1	0.0	2.2	35.6	61.1	100.0		

Customer appraisal and Performance of Commercial Banks

The study sought to determine effect of customer appraisal onperformance of commercial banks in Kitale Town, Kenya.Table 4.8 presents views of the respondents on the descriptive statistics for effects of customer appraisalon the performance of commercial banks.The study findings on customer appraisal reveal that 85(94.4%) agreed and 3(3.3%) disagreed with the statement that customer appraisal is done by checking competence of the person who requires the loan (mean≈4.41, Std. Deviation>0.792).Commercial banks ensure that they check the customer appraisal before issuing out any amount of loans. The financial performance of the customer is an important element to consider when deciding the amount of loan to be given out.

The study response also revealed that 71(78.9%) agreed and 6(6.6%) disagreed with the statement that responsible and trustworthy character is desirable for the commercial bank to offer credit (mean≈4.16, Std. Deviation>1.048).Kenya and Murigi (2018) findings concurred that customer appraisal considers the character of the customers seeking credit facilities and that commercial banks have competent personnel for carrying out customer appraisal and client visit is mandatory before loan disbursement. Further, the study established that there was a strong relationship between customer appraisal process management and credit performance of commercial banks.That study response also showed that 80(88.9%) agreed and 7(7.8%) disagreed with the statement that the type of collateral matters a lot depending on the amount of credit loan to be issued (mean≈4.27, Std. Deviation>1.036). The aspects of collateral are considered important while appraising clients, failure to assess customer's capacity to repay results in loan defaults. Collaterals gives a good security against unknown fear that customer may not pay back the loan borrowed. In addition the study response also revealed that 79(87.7%) agreed and 3(3.3%) disagreed with the statement that credit worthiness of the customer is checked before issuing loan (mean≈4.34, Std. Deviation>0.901).Seznec and Mosis (2018) are in agreement that 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 condition.

Multiple Regression Analysis

The regression analysis produced three tables: Model summary Table, ANOVA Table for model fitness and regression coefficient table. The model summary of the study shows coefficient results from correlation coefficient (R) and determination (R^2), which is the degree of association between innovative strategies and Performance of Commercial Banks.

Table 4.7 Model Summary

Model	R	R Square	Adjusted R Square
1	.715[a]	.512	.489

ISSN 2349-7807
International Journal of Recent Research in Commerce Economics and Management (IJRRCEM)
Vol. 7, Issue 4, pp: (94-115), Month: October - December 2020, Available at: www.paperpublications.org

The results in table 4.7on model summary indicated that R=0.715, R^2=0.512 and adjusted R=0.512. R-value gives an indication that there is a linear relationship between innovative strategies and performance of commercial banks. The R^2 value indicates that explanatory power of the independent variables is 0.512. This means that the study variables (credit terms, customer appraisal, debt collection procedure and internal control system) accounts for 51.2% for the performance of commercial banks whereas 48.8% of performance of commercial banks is accounted by other factors that are not included in the study.

Fitness of Regression Model

Table 4.8 show ANOVA test results for assessing fitness of the model, which provides an overall test of significance of the fitted regression model. The F value indicates that the variable in the equation is important hence regression is significant. The F-statistics produced (F=22.263) which was significant at p=0.000 thus confirms the fitness of the model. Therefore, there is statistically significant association between innovative strategies and Performance of commercial banks. This means that the independent variable is a significant predictor of the dependent variable.

Table 4.8 ANOVA for Testing Multiple Regression Model

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	7.842	4	1.960	22.263	.000[b]
	Residual	7.485	85	.088		
	Total	15.326	89			

b. Predictors: (Constant), credit terms, customer appraisal, debt collection procedure and internal control system

5. SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

Introduction

Chapter five concludes this project. It summarizes the findings based on the statistical interpretation, give conclusion and recommend key items based on the discussion. Generates conclusions from questions that were answered by the respondents in the questionnaires and suggested further research areas based on the study findings.

Summary of the Findings

The study summarizes findings of each objective as follows;

Credit terms and Performance of Commercial Banks

The study sought to evaluate the effect of credit terms onperformance of commercial banks in Kitale Town, Kenya. The study found out commercial banks consider credit terms necessary for its financial success and thus debt collection policy is necessary. Commercial banks have engaged its customers in regular contacts to remind pending dues. Credit terms are important checks that guide in setting customer credit limit to suit each customer and as well ensure the commercial bank does not encounter a loss by trusting customers that cannot comply by paying back the loan. Further the study found that credit terms has a positive and significant effect on the performance of commercial banks in Kitale Town, (β1= 0.539, p=0.001). This implies that credit terms greatly affect financial performance of commercial banks. If credit terms used are good then performance will be acceptable and appropriate.

Conclusion

This study concludes that commercial banks consider credit terms necessary for its financial success and thus debt collection policy is necessary. Commercial banks have engaged its customers in regular contacts to remind pending dues. Commercial banks also check the customer appraisal before issuing out any amount of loans. The financial performance of the customer is an important element to consider when deciding the amount of loan to be given out. However, creditors and lenders utilize a number of financial tools to evaluate the credit worthiness of a potential borrower. Debt collection procedures are efficient but some customers default the payment process. However, at the point of total failure by the customer to comply with the credit terms creditors use litigation measures to enforce payments. Finally, credit officers monitor and controls internal funds to be allocated to customers. They ensure that the bank cannot run at a loss by

implementing good measures on flow of the money in circulation. Commercial banks have prepared loan application statement forms that they issue to their customers.

Recommendations

The study made the following recommendations based on the study objectives; first, the study found that credit terms has significant effect on the Performance of Commercial Banks. Thus, the study recommends to the bank managers to consider reviewing good credit terms when allocating loans to its customers. This is because credits might be unfair to larger potential population in the market.

Areas for further research

The focus of the study was to assess the effect ofinnovative strategies on Performance of commercial banks in Kitale Town, Kenya. However, the study suggests further research to examine the moderating role of transformational leadership in formulation, implementation and monitoring of innovative strategies on the performance of Commercial banks.

ACKNOWLEDGEMENT

Working on this research has been a worthy experience and I would like to acknowledge the following for their invaluable contributions and support. Above all, I am most grateful to God for His graciousness throughout the time of my study.I am greatly indebted to Jomo Kenyatta University of Agriculture and Technology for giving me the opportunity to study. My deepest appreciation goes to my supervisor Dr. Joseph Gichure (PhD), for his steadfast support in this research and the entire course. I also wish to acknowledge the support of my colleagues and friends for the encouragement, insight, time, effort and counsel given to me in this project.

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ISSN 2349-7807

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