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Effect of Credit Management on Financial Performance of Commercial Banks in Eldoret, Kenya

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Abstract

Purpose: The main aim of the current study was to find out the effect of credit management on financial performance of commercial banks in Eldoret, Kenya. The study specifically focused on finding out the effects of credit terms, credit standards and collection policy on financial performance of commercial banks operating in Eldoret. The study was guided by both Asymmetric Information Theory, Credit Scoring Theory and Theory of Performance.

Methodology: A descriptive survey design was employed in the study with the target population comprising of 30 licensed commercial banks operating in Eldoret. The unit of observation comprised all branch managers and credit officers from each commercial bank making a total of 177 respondents. A census approach was employed where all the units of observation were included in the study. Both primary and secondary data was utilized in the study where questionnaires collected primary data whereas a secondary data collection sheet was utilized to gather secondary data from printed sources. The data collected was analyzed through both descriptive and inferential statistics. In the study, the descriptive statistics comprised of means, average and standard deviation whereas the inferential statistics comprised of regression correlation analysis. Both MS Excel and SPSS Software v25 was utilized to generate the statistics. The results of the study were presented in form of tables and figures.

Findings: The study established that credit terms, credit standards and collection policy affects financial performance of commercial banks in Eldoret to a positive and significant level. This depicted by beta values of 0.336, 0.404 and 0.304 and significance values of 0.000, 0.000 and 0.003 respectively.

Unique contribution to theory, practice and policy: The results have the implications that the levels of financial performance of the commercial banks increases with the respective beta

values following a unit increase in any of the independent variables. The study provided recommendations to the management of commercial banks operating in Eldoret to enhance the levels of practices surrounding credit terms, credit standards and collection policy since the practices translates into improved financial performance.

Key Words: *Credit Terms, Credit Standards, Collection Policy, and Financial Performance*

Background of the Study

Loans advanced to borrowers by the commercial forms its core assets. However, most commercial banks realize low and differing returns from one commercial bank to the other due to differing policies on credit management adopted by them. According to Makokha and Sakwa (2016) risk is defined as any situation where there is uncertainty about what outcome will occur. To a banker, risk is the perceived uncertainty connected with some event. Generally, when the borrowers' asset values exceed their indebtedness, they repay loans, when the borrowers' asset values are less than loan values, they do not repay. This therefore, leads to default of the loans. Adopting effective credit risk management is a great determinant of the institutions' viability and sustained growth. Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firms overall financial health over a given period of time and could be used to compare similar firms across the same industry. The financial performance of banks is measured using a combination of financial ratios analysis, benchmarking and measuring performance against budget. Banks form the critical part of financial system and play an important role in contributing to a country's economic development. If the banking industry fails to perform well, the effect to the economy will be adverse. Bank profitability is an important predictor of financial crises. Thus, the study of the determinants of the bank profitability became an important issue which can help banks understand the current conditions the banking industry is involved in and the critical factors they have to consider in making decisions and creating new policies either for recovery or improvement. Profitability ratios are often of high esteem as the indicators of credit analysis in banks since profitability is associated with the results of financial performance. ROE, ROA and loan performance index are the most commonly used ratios.

The quality level of ROE is between 15% and 30%, at least 1 % for ROA and 30% for loan performance index. The measurement of connecting profit to shareholders' equity is normally used to define the profitability in banks. ROE indicates the amount of earnings generated from equity. Increase in ROE is a hint that the profit is growing without additional of new capital to the company. ROE also takes the retained earnings from the previous periods into account and informs the investors how efficiently the capital has been invested. Johnson (2000) pointed out that the challenge for managers of FIs is to maximize shareholders' wealth while maintaining solvency and adequate liquidity. Bank regulators encourage both profitability and soundness of the banks. Credit risk management involves the process of making decisions relating to the investment of funds (Pandey, 2010).Such decisions are carefully analyzed as they are characterized by an element of uncertainty. Financial performance is a management initiative to upgrade the accuracy and timeliness of financial information to meet the required standards while supporting day to day operations. In any organizations especially commercial banks, financial performance is affected by credit risk. The role of commercial banks remains central in financing economic activity and their effectiveness of credit management will exert positive impact on overall economy. Thus; the determinant of bank performance attracts the interest of academic research as well as of bank management, financial markets and bank supervisors since the knowledge of the internal and external determinants of bank's profit was essential for various parties. Better credit management results in better bank performance. The firm's credit policies are the chief influences on the level of debtors, measuring the manager's position to invest optimally in its debtors and be able to trade profitably with increased revenue. Credit policy defines a firm's performance (Yao & Pan, 2021). Meaning, once a firm adopts an optimal credit policy, it will be able to maximize its investment revenue in debtors and this improves and promotes its financial. Therefore, a good credit policy decisions is positively related to high financial performance

Statement of the Problem

Commercial banks are predominant financial institutions and their changes in performance and structure have far reaching implications on the economy. The very nature of the banking business is so sensitive because more of their liability is deposits from depositors (Cornett, 2014).Banks use these deposits to generate credit for their customers, which by its nature is a revenue generating activity for most banks. This credit creation process exposes the banks to high default risk which might lead to financial distress like bankruptcy and poor performances. Additionally, the banks are exposed to losses resulting from increased non-performing loans. According to CBK Financial Sector Stability Report (2020), banks continues to face deteriorating profitability, increased credit risk, and liquidity risk. The report revealed that the commercial bank's asset quality decreased to 34.5% in 2018 from 37.6% in 2017 whereas liquidity went up to 43.7% while capital adequacy remained at 18.8% which was slightly above 14.5% required rate. On overall, the banking sector recorded a decrease of 9.6% in terms of profit before tax. Most banks are affected by borrowers' late and non-payment of loan obligations. This happens due to the banks' inability to collect anticipated interest earnings as well as the loss of principal resulting from loan defaults. Commercial banks in Uasin Gishu County carry out credit management as a measure of administering credit to borrowers. This is done by having a well-developed credit mechanism and procedure which include credit appraisal, training of staff and setting credit standards and terms so as to outdo the possibility for loss and improve on financial performance. Absence of empirical studies on credit recovery systems and recognition of the critical role played by the commercial banks in the economy are the principal motivation behind this study which sought to find out the effect of credit management on loan performance among commercial banks in Eldoret Town.

Objectives of the Study

i To find out the effect of credit terms on the financial performance of commercial banks in Eldoret, Kenya
ii To determine the effect of credit standards on financial performance of commercial banks in Eldoret, Kenya
iii To investigate the effect of collection policy on financial performance of commercial banks in Eldoret, Kenya

Research Hypothesis

i H_{01}: There is no significant relationship between credit terms and financial performance of commercial banks in Eldoret, Kenya
ii H_{02}: There is no significant relationship between credit standards and financial performance of commercial banks in Eldoret, Kenya
iii H_{03}: There is no significant relationship between collection policy and financial performance of commercial banks in Eldoret, Kenya

Literature Review

Theoretical Review

Asymmetric Information Theory

Asymmetric information theory refers to a situation in which one party in a transaction has more information than the other, which can lead to adverse selection and moral hazard problems. In the context of credit terms offered by commercial banks, asymmetric information theory is particularly relevant (PWC, 2002). Commercial banks rely on accurate information about the creditworthiness of potential borrowers in order to assess their risk and set appropriate terms for loans. However, borrowers may have better information about their own creditworthiness than the bank does, creating an asymmetry of information. This can lead to adverse selection problems, where borrowers with higher credit risk are more likely to seek loans from the bank, while borrowers with lower credit risk may seek loans elsewhere. As a result, the bank may end up with a portfolio of loans that are riskier than it had anticipated, which can increase the likelihood of loan defaults and other negative outcomes (Akerlof, 1970). Moral hazard problems can also arise when there is an asymmetry of information between the borrower and the bank. If the borrower knows that the bank has limited information about their creditworthiness, they may be more likely to engage in risky behavior or default on the loan, knowing that the bank is less likely to detect the risk. To address these issues, commercial banks may use various strategies to obtain more information about potential borrowers, such as requiring collateral, conducting credit checks, and establishing relationships with credit rating agencies (Stiglitz, 2002). Banks may also use risk-based pricing, where borrowers with higher credit risk are charged higher interest rates, to help mitigate adverse selection and moral hazard problems. The theory informs of the importance of accurate and complete information in credit decision-making, and the challenges that arise when there is an imbalance of information between the borrower and the bank.

Credit Scoring Theory

The credit scoring theory and competitive pricing of default risk was developed by Satyajit in 2004. The first step in limiting credit risk involves screening clients to ensure that they have the willingness and ability to repay a loan. Banks use the 5Cs model of credit to evaluate a customer as a potential borrower (Chatterjee & Corbae, 2020). The 5Cs help banks to increase loan performance, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition. Character refers to the trustworthiness and integrity of the business owners since it's an indication of the applicant's willingness to repay and ability to run the enterprise. Capacity assesses whether the cash flow of the business or household can service loan repayments. Capital refers to the assets and liabilities of the business or household. Collateral refers to access to an asset that the applicant is willing to cede in case of non-payment or a guarantee by a respected person to repay a loan in default. Finally, conditions refer to a business plan that considers the level of competition and the market for the product or services as well as legal and economic environment .The 5Cs need to be included in the credit scoring model. The credit scoring model is a classification procedure in which data collected from application forms for new or extended credit line are used to assign credit applicants to credit risk classes (Cox & Jansen, 2019). Thomas and Edelman (2017) notes that capital and collateral are major stumbling blocks for entrepreneurs trying to access capital. This is especially true for young entrepreneurs or entrepreneurs with no money to invest as equity; or with no assets they can offer as security for a loan. Any effort to improve access to finance has to address the challenges related to access to capital and collateral. This model supports the variables on credit standards evaluation and management of bad debts.

Theory of Performance

The Theory of Performance by Elger (2010) develops and relates six foundational concepts to form a framework that can be used to explain performance as well as performance improvements: context, level of knowledge, levels of skills, level of identity, personal factors, and fixed factors. A performer can be an individual or a group of people engaging in a collaborative effort. Developing performance is a journey, and level of performance describes location in the journey (Elger, 2012).While some factors that influence improving performance are immutable, other factors can be influenced by the organization or by others (Elger, 2010). The factors that can be varied fall into three axioms for effective performance improvements. These involve a performer's mind set, immersion in an enriching environment and engagement

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in reflective practice (Simpson & Cohen, 2017). A ToP informs learning by organizations through the idea of examining the level of performance of the organization (Bradford et. al. 2000). The theory informs on the financial performance aspect of the study.

Conceptual Framework

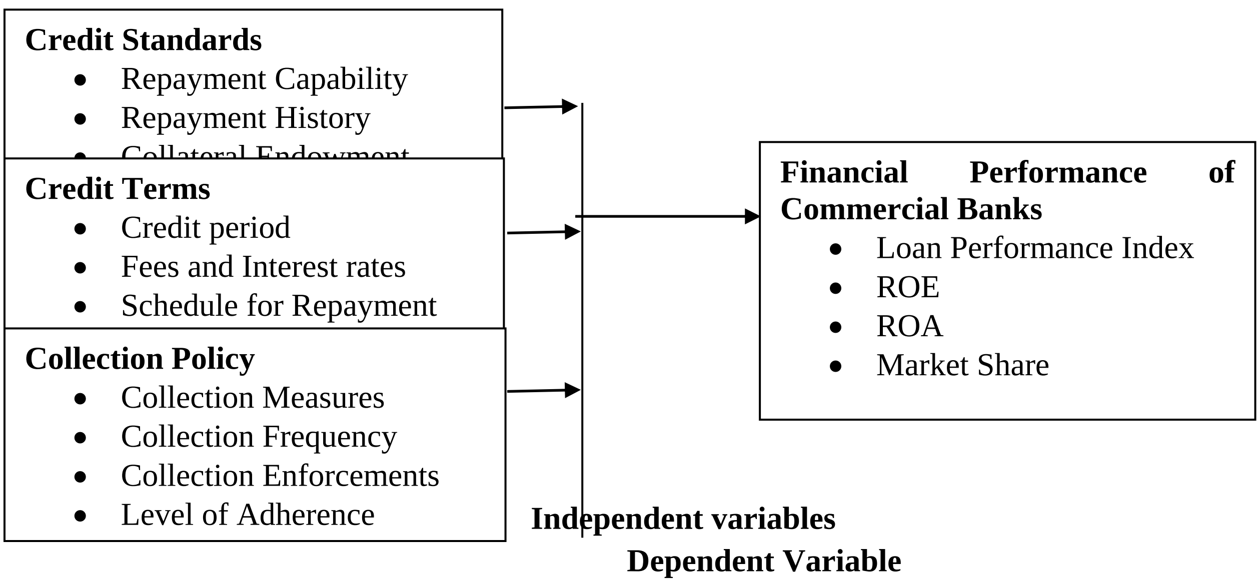

Figure 1: Conceptual Framework

Credit terms

This refers to the conditions under which financial institutions gives credit to its customers. The terms propose the type of credit it has and the services available. If a financial institution gives credit to a customer, then the credit terms will specify it period the credit period and interest rate. Credit period refers to the period of time in which the credit is granted. Interest rate refers to the charges of giving loans to customers (Ross, Westfield and Jordan, 2008). The length of the credit period is influenced by a number of factors like collateral value. If the collateral value is low then the credit period is likely to become shorter. Credit terms affect the performance in commercial banks. When the terms are favorable, then it means that the credit will perform. Assuming that commercial bank has a policy that is flexible in terms of loan repayment. This implies that clients will be able to repay the loan unlike when they are given strict deadlines. Thus, commercial banks should adopt credit terms which will enable their customers repay their loans frequently as agreed hence making the loan perform. If commercial banks charges high interest rates, borrowers may take loans because of pressing needs at the moment but later may tend to default due to the high to the high interest rate (Mburu et al., 2020). Commercial banks thus should adopt interest rates which are favorable to the customers and to the institution itself.

Credit Standards

Commercial banks use the 5Cs model of credit to evaluate a customer as a potential borrower (Agarwal & Jiang, 2015). The 5Cs help commercial banks as to increase loan performance as they get to know their customers better. These are: Character, capacity, collateral, capital and condition. Character basically is a tool that provides weighting values for various characteristics of a client appraisal and the total weighted score of the applicant is used to estimate his credit worthiness (Farooq & Ahmed, 2021). This is the personal impression the client makes on the potential lender. The commercial bank decides subjectively whether or not the client is sufficiently trustworthy to repay the loan. The educational background and experience in the business will be reviewed along with their credit score. It is important to manage your personal credit carefully. Statistics show that the way one handles personal credit is a strong indicator of how he/she manage his/her business credit. It entails the willingness to pay, morality, background, experience, abilities, ownership, legal form of business, favorable payment records, litigation and settlement.

Capacity is the ability to pay which can be gauged by assessing the customer's capital and assets which he may offer as security. Capacity can also be said to be the financial position of the firm indicated by analysis of ratios and trends in the firm's working capital position. The commercial bank will consider the cash flow from the business, the timing of the repayment and the successful repayment of the loan. Cash flow is the cash a borrower has to pay his debt (Allen, Carletti, & Marquez, 2013). Cash flow helps the commercial bank to determine if the borrower has the ability to repay the debt. Collateral is any assets that a customer have to pledge against debt (Bannier, Hirsch & Kellner, 2019). Collateral represents assets that the company pledges as alternative repayment source of loan. Most collateral are in form of hard assets like real estates and office equipment. Alternatively, accounts receivable and inventory can be pledged as collateral. Lenders of short-term funds prefer collateral that has duration closely matched to the short-term loan. Current assets like accounts receivable and inventories are most desirable short-term collateral because they convert into cash much sooner than do fixed assets (DeYoung, Glennon & Nigro, 2013).

The interest rate charged on secured short-term loan is typically higher than the interest rate charged on unsecured short-term loans. Negotiating and administering secured loans is more troublesome for the lender than unsecured loans. The lender requires added compensation in form of service charge, a higher interest rate or both. Capital is measured by the general financial position of the borrower as indicated by financial ratio analysis, with special emphasis on tangible net worth of the borrower's business (Weston and Eugene, 1966). Thus, capital is the amount borrower has personally invested in the business and is an indication of how much the borrower has at risk should the business fail. Interested lenders will expect the borrower to have contributed from his own assets and to have undertaken personal financial risk to establish the business before asking commercial bank to commit any funding. Condition refers to the borrower's sensitivity to the external forces such as interest rates, inflation rates, business cycles as well as competitive pressure. The condition focuses on the borrower's vulnerability. Condition focuses on the indented purposes of the loan for instance how will the proceeds from the loan be utilized either to purchase the equipment. This will give information about the availability of funds to repay the money borrowed. Commercial banks consider the industry in which the borrowers are participating. This is because in a dynamic industry there are changes that affect borrower's capacity to pay back the money borrowed and these increases the level of uncertainty of the business profitability.

Collection Policy

There are various policies that an institution should put in place so as to ensure that credit management is done effectively. One of these policies is collection policy which is needed because all customers do not pay the firm's bills in time. Some customers are slow payers while some are non-payers. The collection effort should therefore aim at accelerating collections from slow payers and reducing bad debt losses (Taneta- Skwiercz, 2018). A collection policy should ensure prompt and regular collection. It is needed for fast turnover of working capital while keeping collection costs and bad debts within acceptable limits and maintaining collection efficiency. The collection policy should lay down clear-cut collection procedures. The collection procedures for fast dues should be established in an unambiguous terms. The slow paying customers should be handled very tactfully. The other policy should be the analysis of business and its management. Besides appraising the financial strength of the applicant, the firm should also consider the quality of management and the nature of the customer's business. The firm should conduct a management audit to identify the management weaknesses of the customer's business. An over centralized structure of the customer's business without proper management systems can degenerate into mismanagement over trading and business failure. If the nature of the customer's business is highly fluctuating or he has financially weak buyers or his business depends on a few buyers, then it is relating risky to extend credit (Weston, 1982). Credit limit should be a serious policy which should be observed as per the strength of the customer. A credit limit is a maximum amount of credit of credit which the firm will extend at a point in time. It indicates the extent of risk taken by the firm to extend the credit to the customer. At times, the customer may ask for the amount of credit in excess of his credit limit and credit period must be received periodically and only extended if returns are high as compared to costs involved in monitoring (Weston 1982).Though collection procedure be firmly established, individual cases should be dealt with in their own merits. Some customers may be temporarily in tight financial position and in spite of their best intentions to pay. The collection procedure against them should be initiated only after they have overcome their financial difficulties or it has been established that they do not intend to pay promptly (Pandey, 2010).

Empirical Review

Muasya (2009) analyzed the impact of non-performing loans on the performance of the banking sector in Kenya in the time of global financial crises. The findings confirmed that non-performing loans do affect commercial banks in Kenya. Further analysis of individual banks with more than kshs 25 billion worth of asset indicated that while the impacts are negative, the magnitude of non-performing loans to both interest income and profitability are not adverse for 5 analyzed banks and that asset quality of the whole banking sector has been improving to settle at 7.17%.

Wanjira (2010) studied the relationship between non-performing loans management practices and financial performance of commercial banks in Kenya. The study concluded that there is a need for commercial banks to adopt non-performing loans management practices. Such practices include ensuring sufficient collaterals, limiting lending to various kinds of businesses, loan securitization, ensuring clear assessment framework of lending facilities and use of procedures in solving on problematic loans among others. The study further concluded that there was a positive relationship between non-performing loans management practices and the financial performance of commercial banks in Kenya. This implies that that the adoption of non-performing loans management practices leads to improved financial performance of commercial banks in Kenya.

Ochola (2009) conducted a study of the relationship between credit risk management and non-performing loans. The objective of the study was to establish the degree of effect of employing different credit management techniques on the level of non-performing loans. In assessing this, the study sought to establish the relationship between credit risk management and non-performing loans by pursuing a survey in the Kenyan banking sector. The research found that in Kenyan setup, a combination of intensive credit risk management by the banks coupled with close supervision by the Central Bank has greatly enhanced the decline of non-performing loans ratio in the banking sector. Analyzing the asset quality of the financial sector for 2003 to 2008, the ratio of gross non-performing loans declined from a high 35% to a low of 9.23% in 2008.The decline of this ratio confirms a close relationship between non-performing loans and credit risk management.

Githinji (2010) conducted a study of the relationship between credit scoring practices by commercial banks and access to credit by small and medium enterprises in Kenya concludes that there is a relationship between credit scoring by Kenyan banks and access to credit by SMEs noted that the benefits gained from the use of credit scoring include accuracy in decision making process. The study thus recommended that banks need to use various credit assessment methods before availing loans to SMEs. In addition, the banks need to regularly review their credit policies. Gaitho (2010) conducted a survey of credit risk practices by SACCOs in Nairobi. The findings revealed that majority of the SACCOs use credit risk management practices to mitigate risks as a basis for objective credit risk appraisal. Majority of the respondents agreed that credit risk management practices have impacted positively to their organizations by ensuring efficiency in carrying out its obligations and in meeting its objectives.

Ngare (2014) conducted a survey of credit risk management practices by commercial banks in Kenya. The specific areas of research were directed towards identifying the sources of credit risk exposures in banks and strategies that the banks in Kenya have adopted to monitor and militate against the credit risk exposures inherent in the operations of their business. From their study, it was found that banks use qualitative loan assessment methods to make credit granting decisions while liquidity runs on the borrowers' credit concentration and adverse trading by the borrowers were the main sources of credit risk among the banks in Kenya. In addition, most banks were found to use loan diversification, bank guarantees and bank covenant to mitigate against credit risk.

Muthee (2010) conducted a research on the relationship between credit risk management and profitability in commercial banks in Kenya. The findings and analysis revealed that credit risk management has an effect on profitability in all the commercial banks analyzed. The study used regression analysis to establish the relationship between NPLR and ROE. A forecasting model was developed and tested for accuracy in obtaining predictions. The finding of the study indicated that the model was moderately significant NPLR as an independent variable was linearly related with the dependent variable ROE thus simple linear regression was used.

Abidifatah (2010) in his study, a comparative analysis of credit risk management practices of Islamic and conventional banks in Kenya found out that Islamic banks do not have well established credit risk management practices as compared to conventional banks. This was observed by the disparities in monitoring of the credit risk levels, the duration taken by the institution to know that the customer has defaulted and how the institutions deal with difficult to pay on time clients. He concluded that both the conventional and Islamic banks take risks equally important with an exception of interest rates risk in Islamic banks as their loans do not accrue interest thus have no risk with interest rates.

Mathara (2007) in a study of the response of National Bank of Kenya to the challenge of non-performing loans in the bank noted that lack of adequate credit policy guidelines, poor credit risk management practices, use of quantitative methods of loan assessment and poor monitoring and evaluation systems were the sources of non-performing loans in the bank. The study indicated that the absence of regularly updated credit policy and inadequate monitoring of loans have led to a rising portfolio of non-performing loans and the failure by the bank to notice the increasing default rate of the borrowers. Credit policy defines a firm's performance, meaning that once a firm adopts an optimal credit policy, it will be able to maximize its investment revenue in debtors and this improves and promotes its financial standing and performance therefore a good credit policy decisions is positively related to high financial performance.

Research Methodology

The research design used in this study was descriptive survey design. This study targets commercial banks operating in Eldoret Town and licensed by Central Bank of Kenya (2021). According to CBK Supervisory Report (2021) there are 30 licensed commercial banks operating in Eldoret. The unit of observation comprised all branch managers and credit officers from each commercial bank. A census of all the 30 branch managers and 147 credit officers in 30 commercial banks in Eldoret Town was conducted. The entire population should be used as a sample when the population is 200 or less. This study made use of the questionnaire as the research instrument for data collection. The filled questionnaires were checked, cleared, edited to ensure that they are correctly and completely filled. The data was then be coded and analyzed using statistical package for social sciences (SPSS). The raw data collected from the study was organized through descriptive statistical methods to help analyze and interpret the data obtained. Descriptive statistics such as percentages and frequencies were used and inferential statistics mainly correlation and regression analysis was used for testing the hypothesis at 5% level of significance. Results of data analysis was presented in cross tabulation frequencies, percentages, correlation analysis and regression analysis. The study used the following regression model:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon}$$

Where Y = Financial Performance, β_0= Regression Constant or Intercept, X_1 = Credit Terms, X_2 = Credit Standards, X_3 = Collection Policy, $\beta_1, \beta_2, and\ \beta_3$ = coefficients of various independent variables and ε =error term assumed to be normally distributed with a zero variance.

Results

177 questionnaires were distributed to the study's respondents, who comprised of branch managers and credit officers. 126 questionnaires were fully filled and returned. This represented a 71.2% response rate. According to Mugenda and Mugenda (2013), a response rate of 70% and above is very good for analysis. A close follow up, constant reminders and drop and pick methods that the researcher applied during the data collection contributed to the high response rate.

Descriptive Findings and Analysis

Descriptive statistics were used in the study to allow the researcher explain the distribution of the responses of the items found in each variable in the questionnaires. Frequency, standard deviations and means were used in the study to describe the distributions. The questionnaire items were assessed on a Likert scale of 1 to 5, with 5 denoting strongly agree, 4 agree, 3 neutral, 2 disagree, and 1 strongly disagree. The scale was used to ask respondents to rate how much they agreed or disagreed with each item related to each variable. For each statement, the mean response and mean standard deviation were then calculated.

Credit Standards

The descriptive results on credit standards presented in table 1 shows that respondents agreed with the statements that the repayment capability is assessed prior loan extension (mean=4.62), that the amount of loan is determined by the how the loanee repaid past loans(mean=4.01), that the bank assesses the loanee past repayment history prior extending the loan(mean=4.11) and that the bank assesses collaterals of the loanee prior extending loans(mean=3.98). Respondents further agreed with the statements that the collaterals acts as the bank's security in case the loanee fails to repay the loan(mean=4.06) and that the levels of laid down credit standards determines credit performance in the bank(mean=3.88). On average, all respondents agreed with the statements on credit standard as show by average response mean of 4.11 and average standard deviation of 0.426. The results concurs with Ross, Westfield and Jordan (2008) who noted that credit standards affect the performance in commercial banks in that when the terms are favorable, credit will perform.

Table 1: Descriptive Statistics on Credit Standards

Statement	N	Mean	Std.Dev
The repayment capability is assessed prior loan extension	126	4.62	0.215
The amount of loan is determined by the how the loanee repaid past loans	126	4.01	0.223
The bank assesses the loanee past repayment history prior extending the loan	126	4.11	0.249
The bank assesses collaterals of the loanee prior extending loans	126	3.98	0.731
The collaterals acts as the bank's security in case the loanee fails to repay the loan	126	4.06	0.397
The levels of laid down credit standards determines credit performance in the bank	126	3.88	0.741
Average	**126**	**4.11**	**0.426**

International Journal of Finance

ISSN 2520-0852 (Online)

Vol. 8, Issue No. 1, pp 81 - 103, 2023

Credit Terms

The descriptive results on Credit Terms presented in table 2 shows that respondents agreed with the statements that the bank has set strict terms of credit to ensure only credit worthiness clients access loans (mean=4.33), that there is a stipulated credit period for which a loan is to be repaid (mean=4.59), that defaults fees ensures clients puts efforts in repaying a loan (mean=3.75) and that the levels of increment in penalties enhances compliance in loan repayment (mean=3.54). Respondents further agreed with the statements that there are set interest rates determined by the amount and repayment period of loans (mean=4.21), that the bank negotiates with the clients on loan repayment schedule (mean=3.78) and that lack of compliance with the repayment schedules attract fees and penalties (mean= 4.49). On average, all respondents agreed with the statements on credit terms as shown by average response mean of 4.1 and average standard deviation of 0.47.

Table 2: Descriptive Statistics on Credit Terms

Statement	N	Mean	Std.Dev
The bank has set strict terms of credit to ensure only credit worthiness clients access loans	126	4.33	0.309
There is a stipulated credit period for which a loan is to be repaid	126	4.59	0.148
Defaults fees ensures clients puts efforts in repaying a loan	126	3.75	0.616
The levels of increment in penalties enhances compliance in loan repayment	126	3.54	0.871
There are set interest rates determined by the amount and repayment period of loans	126	4.21	0.334
The bank negotiates with the clients on loan repayment schedule	126	3.78	0.905
Lack of compliance with the repayment schedules attract fees and penalties	126	4.49	0.108
Average	**126**	**4.1**	**0.47**

Collection Policy

The descriptive results on collection policy presented in table 3 shows that respondents agreed with the statements that the bank has put in place strict collection measures for all issued credit (mean=4.31), that the measures ensures that the correct collection is made in the right time

International Journal of Finance

ISSN 2520-0852 (Online)

Vol. 8, Issue No. 1, pp 81 - 103, 2023

(mean=3.79) and that the bank has set up frequencies for credit collection (mean=3.56). Respondents further agreed with the statements that the frequencies provided the banks with easy way of following up with the clients (mean=3.67), that the bank has a set up collection enforcement practices (mean=3.79) and that the degree of enforcement of the practices determines the collection levels in the bank (mean=3.74). An average response mean of 3.81 and average standard deviation of 0.72 shows that all respondents agreed with the statements on collection policy. The results are in tandem with Taneta- Skwiercz (2018) who noted that the collection effort should therefore aim at accelerating collections from slow payers and reducing bad debt losses

Table 3: Descriptive Statistics on Collection Policy

Statement	N	Mean	Std.Dev
The bank has put in place strict collection measures for all issued credit	126	4.31	0.328
The measures ensures that the correct collection is made in the right time	126	3.79	0.758
The bank has set up frequencies for credit collection	126	3.56	0.897
The frequencies provided the banks with easy way of following up with the clients	126	3.67	0.761
The bank has a set up collection enforcement practices	126	3.79	0.776
The degree of enforcement of the practices determines the collection levels in the bank	126	3.74	0.802
Average	**126**	**3.81**	**0.72**

Financial Performance of Commercial Banks

The descriptive results on financial performance of commercial banks presented in table 4 shows that respondents agreed with the statements that the levels of non-performance loans in our banks has decreased (mean=3.98), that the bank has recorded an increase in the levels of Return on Investment (mean=3.83) and that the bank has recorded an increase in the levels of Return on assets (mean=3.79). Respondents were further in agreement with the statements that their banks had recorded an increased market share (mean=3.55) and that loan performance index in their bank had increased (mean=4.04). On average, all respondents were in agreement with the statements on financial performance of commercial banks as shown by average response mean of

International Journal of Finance

ISSN 2520-0852 (Online)

Vol. 8, Issue No. 1, pp 81 - 103, 2023

3.84 and average standard deviation of 0.675. The results are in tandem with Yao and Pan (2021) who noted that credit policy defines a firm's performance implying that once a firm adopts an optimal credit policy, it will be able to maximize its investment revenue in debtors and this improves and promotes its financial. Therefore, a good credit policy decisions is positively related to high financial performance

Table 4: Descriptive Statistics on Financial Performance of Commercial Banks

Statement	N	Mean	Std.Dev
The levels of non-performance loans in our banks has decreased	126	3.98	0.616
Our bank has recorded an increase in the levels of Return on Investment	126	3.83	0.716
Our bank has recorded an increase in the levels of Return on assets	126	3.79	0.814
There is an increased market share in our bank	126	3.55	0.919
Loan performance index in our bank has increased	126	4.04	0.308
Average	**126**	**3.84**	**0.675**

Inferential Statistics

The explanation of inferential statistics, which includes correlation and regression analysis, is presented in this section. The purpose of incorporating inferential statistics into the study was to evaluate existence of a relationship between the study variables.

Correlation Analysis

The study included a correlation analysis to determine whether the independent variables (credit standards, credit terms and collection policy) and the dependent variable (Financial Performance) were correlated. The results outlined in table 5 shows that credit standards bears a positive and significant correlation with financial performance of commercial banks. This is shown a Pearson correlation value of 0.421 and a significant value of 0.000. The results bears the implications that enhancing credit standards leads to enhanced financial performance of commercial banks operating in Eldoret Town. The results concurs with Ross, Westfield and Jordan (2008) who noted that credit standards affect the performance in commercial banks in that when the terms are favorable, credit will perform. The results further shows that credit terms bears a positive and significant correlation with financial performance of commercial banks operating in Eldoret Town. This is shown a Pearson correlation value of 0.504 and a significant value of 0.000. The results bears the implications that enhancing credit terms leads to enhanced financial performance of commercial banks. The results also shows that collection policy bears a positive and significant correlation with financial performance of commercial banks operating in Eldoret Town. This is shown a Pearson correlation value of 0.313 and a significant value of 0.009. The results bears the implications that enhancing levels of collection policy leads to enhanced financial performance of commercial banks. The results are in tandem with Taneta- Skwiercz (2018) who noted that the collection effort should therefore aim at accelerating collections from slow payers and reducing bad debt losses

Table 5: Correlation Results

		Credit Standards	**Credit Terms**	**Collection Policy**	**Financial Performance**
Credit Standards	Pearson Correlation	1			
	Sig. (2-tailed)				
Credit Terms	Pearson Correlation	0.083	1		
	Sig. (2-tailed)	0.066			
Collection Policy	Pearson Correlation	0.101	-0.107	1	
	Sig. (2-tailed)	0.078	0.046		
Financial Performance	Pearson Correlation	0.421	0.504	0.313	1
	Sig. (2-tailed)	0	0	0.009	
	N	126	126	126	126

Multiple Regression Analysis

A multiple regression was incorporated in the study to assess how the combined independent variables relates with the dependent variable. The study adopted a 0.05% level of significance. The results outlined in table 6 shows that there exists a high relationship between the combined independent variables and the dependent variable as shown by R-value of 0.795. The value of R-Square otherwise referred to as the coefficient of determination was 0.632 implying that 63.2%

of variations in the financial performance of commercial banks operating in Eldoret Town can be attributed to credit standards, credit terms and collection policy.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.795[a]	0.632	0.598	0.14967

a. Predictors: (Constant), Credit Standards, Credit Terms and Collection Policy

The ANOVA was included in the study to assess the statistical significance of the model linking the independent variables with the dependent variable. The results outlined in table 7 shows that the significance value was 0.013 which was less than 0.05 implying that the model was statistically significant thus a good fit for assessing the relationship.

Table 7: ANOVA

Model		Sum of Squares	df	Mean Square	f	Sig.
1	Regression	106.862	3	35.6207	14.6255	0.013[b]
	Residual	297.134	122	2.4355		
	Total	403.996	125			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Credit Standards, Credit Terms and Collection Policy

The regression coefficient results outlined in table 4.9 shows that credit standards positively and significantly affects financial performance of commercial banks operating in Eldoret Town. This is shown by a beta value of 0.336 and a significance value of 0.000. The results bears the implications that increasing credit standards with one unit results to 0.336 units increase in the levels of financial performance of commercial banks operating in Eldoret Town. The results concurs with Ross, Westfield and Jordan (2008) who noted that credit standards affect the performance in commercial banks in that when the terms are favorable, credit will perform.

The results also shows that credit terms positively and significantly affects financial performance of commercial banks operating in Eldoret Town. This is shown by a beta value of 0.404 and a significance value of 0.000. The results bears the implications that increasing credit terms with one unit results to 0.404 units increase in the levels of financial performance of commercial banks operating in Eldoret Town. The results concurs with Ross, Westfield and Jordan (2008) who noted that credit standards affect the performance in commercial banks in that when the terms are favorable, credit will perform. Yao and Pan (2021) who noted that credit policy defines a firm's performance implying that once a firm adopts an optimal credit policy, it will be able to maximize its investment revenue in debtors and this improves and promotes its financial. Therefore, a good credit policy decisions is positively related to high financial performance.

The results further shows that collection policy positively and significantly affects financial performance of commercial banks operating in Eldoret Town. This is shown by a beta value of 0.304 and a significance value of 0.003. The results bears the implications that increasing collection policy with one unit results to 0.304 units increase in the levels of financial performance of commercial banks operating in Eldoret Town. The results are in tandem with Taneta- Skwiercz (2018) who noted that the collection effort should therefore aim at accelerating collections from slow payers and reducing bad debt losses.

Table 8: Model Coefficient

	Unstandardized Coefficients		**Standardized Coefficients**		
Predictors	**B**	**Std. Error**	**Beta**	**t**	**Sig.**
(Constant)	0.958	0.245		3.9102	0.006
Credit Standards	0.336	0.166	0.291	2.0241	0.000
Credit Terms	0.404	0.138	0.356	2.9275	0.000
Collection Policy	0.304	0.257	0.243	1.1829	0.003

The optimal model thus becomes:

Financial Performance = 0.958 +0.404(Credit Terms) + 0.336(Credit Standards) + 0.304(Collection Policy)

Hypothesis Testing

The study employed the results from the regression analysis to either reject or accept the hypothesis formulated in the study. The summary of the hypothesis testing is formulated in table 4.11.

Table 9: Hypothesis Testing

Hypothesis	Method and Criteria	Remark
H_{01}: There is no significant relationship between credit terms and loan performance of commercial banks.	Multivariate regression analysis ($P < 0.05$)	Reject **H_{01}**
H_{02}: There is no significant relationship between credit standards and loan performance of commercial banks.	Multivariate regression analysis ($P < 0.05$)	Reject **H_{02}**
H_{03}: There is no significant relationship between collection policy and loan performance of commercial banks	Multivariate regression analysis ($P < 0.05$)	Reject **H_{03}**

Conclusion

Credit standards positively and significantly affects financial performance of commercial banks operating in Eldoret Town. Additionally, practices on credit standards such as assessing the loan repayment prior loan extension, determining the amount of loan is by the how the loanee repaid past loans, assessing the loanee past repayment history and collaterals prior extending the loan, and ensuring availability of laid down credit standards that determines credit performance in the bank further enhances the levels of financial performance of commercial banks operating in Eldoret Town. Credit terms positively and significantly affects financial performance of commercial banks operating in Eldoret Town. Additionally, practices on credit terms such as setting strict terms of credit, having a stipulated credit period for which a loan is to be repaid, setting defaults fees to ensure clients puts efforts in repaying a loan, setting up penalty levels to enhance compliance in loan repayment and ensuring that lack of compliance with the repayment schedules attract fees and penalties further enhances the levels of financial performance of commercial banks operating in Eldoret Town. Collection policy positively and significantly affects financial performance of commercial banks operating in Eldoret Town. Additionally, practices on collection policy such as putting in place strict collection measures for all issued credit which ensures that the correct collection is made in the right time, setting up frequencies for credit collection which provides the banks with easy way of following up with the clients and setting up collection enforcement practices which determines the collection levels in the bank further enhances the levels of financial performance of commercial banks operating in Eldoret Town.

Recommendations for the Study

The study recommends the need to enhance credit standards by commercial banks operating in Eldoret town since the practice bears a positive and significant effect financial performance of banks. The commercial banks can achieve this through adopting credit standard practices such as assessing the loan repayment prior loan extension, determining the amount of loan is by the how the loanee repaid past loans, assessing the loanee past repayment history and collaterals prior extending the loan, and ensuring availability of laid down credit standards that determines credit performance in the bank. The study also recommends the need to enhance credit terms by commercial banks operating in Eldoret town since the practice bears a positive and significant effect financial performance of banks. The commercial banks can achieve this through adopting credit terms practices such as setting strict terms of credit, having a stipulated credit period for which a loan is to be repaid, setting defaults fees to ensure clients puts efforts in repaying a loan, setting up penalty levels to enhance compliance in loan repayment and ensuring that lack of compliance with the repayment schedules attract fees and penalties. The study further recommends the need to enhance collection policy by commercial banks operating in Eldoret town since the practice bears a positive and significant effect financial performance of the banks. The commercial banks can achieve this through enhancing practices in collection policies such as putting in place strict collection measures for all issued credit which ensures that the correct collection is made in the right time, setting up frequencies for credit collection which provides the banks with easy way of following up with the clients and setting up collection enforcement practices which determines the collection levels in the bank.

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