

**FACTORS INFLUENCING THE PERFORMANCE OF LOAN  
COLLECTION BY COMMERCIAL BANKS THROUGH  
OUTSOURCING OF NON-PERFORMING LOANS TO PRIVATE  
FIRMS: A CASE OF BARCLAYS BANK OF KENYA LIMITED,  
NAIROBI**

**BY**

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Requirements for the Award of the Degree of Master of Arts in Project  
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## **DECLARATION**

This research project report is my original work and has not been submitted for examination in any other university.

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This research project report has been submitted for examination with my approval as the university supervisor.

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## **DEDICATION**

To my wife Mercy Bulimu and sons Kelvin and Keyden for their motivation and emotional support during the long hours that were put into this study.

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## TABLE OF CONTENTS

DECLARATION .....	ii
DEDICATION .....	iii
ACKNOWLEDGEMENTS .....	iv
TABLE OF CONTENTS .....	v
LIST OF TABLES .....	viii
LIST OF FIGURES .....	ix
LIST OF ACRONYMS AND ABRREVIATIONS .....	x
ABSTRACT .....	xi
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1 Background of the Study .....	1
1.2 Statement of the Problem .....	5
1.3 Purpose of the Study .....	6
1.4 Objectives of the Study .....	6
1.5 Research Questions .....	6
1.6 Significance of the Study .....	7
1.7 Delimitation of the Study .....	8
1.8 Limitation of the Study .....	8
1.9 Assumptions of the Study .....	8
1.10 Definition of Significant Terms Used in the Study .....	8
1.11 Organization of the Study .....	9
<b>CHAPTER TWO: LITERATURE REVIEW .....</b>	<b>10</b>
2.1 Introduction .....	10
2.2 Non-Performing Loans .....	10
2.3 The Need for Debt Recovery .....	12

2.4 Outsourcing Debt Collection .....	14
2.5 Theoretical Review .....	16
2.6 Conceptual Framework.....	18
2.7 Knowledge Gap .....	19
<b>CHAPTER THREE: RESEARCH METHODOLOGY .....</b>	<b>20</b>
3.1 Introduction.....	20
3.2 Research Procedure.....	20
3.3 Target Population.....	20
3.4 Sampling Procedure .....	21
3.5 Research Instruments .....	22
3.6 Pilot Study.....	22
3.7 Validity of the study Instruments.....	22
3.8 Reliability of Study Instruments .....	23
3.9 Data Collection Procedure .....	24
3.10 Data Analysis .....	24
3.11 Ethical Consideration.....	25
3.12 Operational Definition of Variables.....	26
<b>CHAPTER FOUR: DATA ANALYSIS, INTERPRETATIONS AND PRESENTATIO....</b>	<b>27</b>
4.1 Introduction.....	27
4.2 Response Rate.....	27
4.3 Demographic Information.....	28
4.4 Firms Experience .....	31
4.5 Information Sharing .....	34
4.6 Geographical Spread.....	35

4.7 Remuneration of Staff.....	35
4.8 Effectiveness to Successfully Recover from Defaulting Customers .....	37
4.9 Extent for Contribution to Successful Recovery of NPLs by the Department .....	38
4.10 Correlation .....	40
4.11 Regression Analysis.....	41
<b>CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATION .....</b>	<b>44</b>
5.1 Introduction.....	44
5.2 Summary of the Key Findings .....	44
5.3 Discussions .....	46
5.4 Conclusion .....	48
5.5 Recommendations.....	49
5.6 Suggestions for Further Studies .....	50
<b>REFERENCES.....</b>	<b>51</b>
<b>APPENDICES.....</b>	<b>56</b>
Appendix i: Introduction Letter .....	56
Appendix ii: Interview schedule for management staff.....	57
Appendix iii: Questionnaire for collection staff .....	59
Appendix iv: Research Permit .....	61

## LIST OF TABLES

Table 1 : Target Population Barclays.....	20
Table 2 : Target Population Quest Holdings Ltd.....	21
Table 3 : Sample Size .....	21
Table 4 : Reliability Analysis Results.....	24
Table 5 : Response Rate.....	27
Table 6 : Line of Engagement with Barclays bank.....	28
Table 7 : Effectiveness to Successfully Recover from Defaulting Customers .....	40
Table 8 : Extent for contribution to successful recovery of NPLs by the department.....	41
Table 9 : Correlations.....	41
Table 10 : Model Summary .....	42
Table 11 : Summary of One-Way ANOVA results .....	42
Table 11 : Coefficients.....	42



## **LIST OF FIGURES**

Figure 1 : Length of service in the current department.....	29
Figure 2: Highest Level of Education.....	30
Figure 3 : Specialized Training in Loans Collections.....	31

## **LIST OF ACRONYMS AND ABBREVIATIONS**

<b>CBK:</b>	Central Bank of Kenya
<b>CRB:</b>	Credit Reference Bureau
<b>FSLIC:</b>	Federal Savings and Loans Insurance Cooperation
<b>ICT:</b>	Information Communication Technology
<b>NPL:</b>	Non-Performing Loan
<b>RTC:</b>	Resolution Trust Company
<b>SMS:</b>	Short Message Service
<b>SPSS:</b>	Statistical Package for Social Sciences
<b>USA:</b>	United States of America

## ABSTRACT

Banks are among the largest lenders of retail, commercial and corporate entities. Aside from deposit taking, lending forms a major part of banks income generating activities which means that depending on how lending as a business activity performs, the concerned bank may either make profits or losses. A loan that falls in default before its maturity, known as a non-performing loan is one of the ways that a bank can get into losses even when the risk has been calculated and predetermined. It has been noted by world bank and other notable sources that loses arising from non-performing loans keep rising in the Kenyan retail banks. If not well addressed, these loses can eventually lead to a gradual rise in the cost of credit for future borrowers which would push access to credit beyond the reach of many small and medium scale enterprises as well as individuals. With access to credit being a critical factor of economic growth, such an outcome can greatly affect the general economy. However, the loses from non-performing loans can be mitigated or reduced by using aggressive collection strategies where the banks or the affected lenders would use either their own in-house collection systems or outsource the services to firms that specialize in debt collection. The success in recovery of the otherwise bad debts will be determined by how effective the chosen system is. This study therefore sought to investigate how effective outsourcing of debt collection is to banks that elect to use that strategy in recovery of their non-performing loans. The study was guided by four specific objectives that included; to establish how a private debt collection firm's experience influences collection of non-performing loans; to assess the influence of credit information sharing on the collection of non-performing loans; to analyze the influence of private firms spread into different geographical locations on the collection of non-performing loans and to examine how remuneration of staff by private collection firms influence the collection of non-performing loans. The study which adopted a descriptive research design was undertaken using Barclays bank of Kenya Ltd as the case study and the findings were envisioned to be useful in guiding how similar organizations in the business of lending can best tackle the challenge of a growing non-performing loan portfolio. The researcher selected a sample of 48 respondents from Barclays bank and 11 respondents from Quest Holdings Ltd using stratified random sampling. The study employed use of questionnaires and interview schedules to obtain primary data. Data analysis tools used included SPSS and Microsoft excel which gave statistical output in form of percentages, tabulations, means and other central tendencies. Tables were used to summarize responses for further analysis and facilitate comparison. Regarding how a private debt collection firm's experience influences collection of non-performing loans, the study concludes that by outsourcing, the bank is able to access best business practice, expertise, technology and other resources that may be too expensive and unjustified to be built internally or hired on full time basis. Further the study concludes that collection staff of a private debt collection firm are adequately trained in collection and recoveries before being deployed to work and that their long years of operations gives them an upper hand for the tasks allocated by their clients. On the influence of credit information sharing on the collection of non-performing loans, the study revealed that credit information sharing enhances collection from customers whose contacts may have been lost. The study concluded that the collection firms have a better access to the national database of customer information as compared to the banks collection departments. In addition, there is a stronger collaboration and easier sharing of information among the debt collection firms which is not possible with the collection departments in the banks. This study therefore recommends that the banking sector should contract debt collection firms because these firms have better trained and experienced staff, access to the relevant technology and enjoy economies of scale hence they are flexible in their location.

# CHAPTER ONE

## INTRODUCTION

### **1.1 Background of the Study**

Institutions, companies and sometimes individuals use various kinds of debts to finance their operations. The various types of debt can generally be categorized into secured and unsecured debt, private and public debt, syndicated and bilateral debt amongst others. A debt obligation is considered secured if creditors have recourse to the assets of the company on a proprietary basis or otherwise ahead of general claims against the company. Unsecured debt comprises financial obligations, where creditors do not have recourse to the assets of the borrower to satisfy their claims. Private debt comprises bank-loan type obligations (Visaria, 2009).

Public debt is a general definition covering all financial instruments that are freely tradable on a public exchange or over the counter, with few if any restrictions (Swanson, et al., 2008). A basic loan is the simplest form of debt incurred by commercial banks such as Barclays Bank. It is usually advanced to finance asset acquisition by both clients and staff. It consists of an agreement to lend a fixed amount of money, called the principal sum, for a fixed period of time, with this amount to be repaid by a certain date. In commercial loans, interest is calculated as a percentage of the principal sum per year, will also have to be paid by that date, or may be paid periodically in the interval, such as annually or monthly (Dubois & Anderson, 2010).

But the greatest challenge to lending agencies has been the high rate of default in payments. This forces the lenders to incur more expenditure towards recovery of the loans which may eventually turn into a debt. Debt recovery is guided by some regulations that somewhat make it difficult to collect the money, resulting to the loan being written off. As a result, the strategic success of the lending company is compromised through this loss. The banking sector is the main lender to many organizations and businesses. It is therefore the sector that is most affected by defaulted loans which leads to non-performing loans (NPL). With the enormous amounts of Non-Performing Loans (NPLs) on bank balance sheets, many countries have established public asset management companies that manage the disposal of defaulted loans. Today, markets are more open and many of these public companies have become privatized. The first NPLs occurred in the USA in 1987 after that one of the most severe

financial crises hit the American stock market (Morgan, 2004). Surrounded by the Savings and Loan crisis, Federal Savings and Loans Insurance Cooperation (FSLIC) was the first company to be created in order to work out defaulted loans. However, the task of solving these loans turned out to be too extensive and FSLIC lost considerable amounts of money. In pace with growing problems the US government entered the market and invested huge amounts in the creation of the Resolution Trust Company (RTC) (Aaronson, 2004). Nevertheless, problems with NPLs are not in any way specific for the US market. Defaulted loans arise all over the world and governments are still struggling to come up with solutions (Morgan, 2004).

The outbreak of the Asian financial crisis in 1997 prompted Chinese leaders to tackle the issue of NPLs of banks. From 1998-2001 up to 1400 billion Yuan of NPLs of four major state-owned banks were separated to four corresponding financial asset management corporations. There were two ways of separation. One was that a financial asset management corporation issued full equivalent securities implicitly guaranteed by the government to the bank in exchange for its NPLs. The other was that a bank gave up its NPLs to the corporation and was compensated by the write-off of an equivalent amount of central bank lending to the bank.

Sweden has adopted two common methods to secure its non-performing loans. One is for banks to work out their defaulted loans themselves, by taking the case to court and get a verdict for compulsory auction. This system is very common, where banks can hand in an application to the Swedish enforcement officer. The other alternative is if banks decide to auction off defaulted loans in public. The procedure captures the interest of many companies who see opportunities in making profit from non-performing loans. The purpose of this method is to dispose of the assets as quickly and profitable as possible. This method where banks involve a third party is common in Italy due to different reasons. One is that Italy has a complex legal system which complicates the banks' ability to sell collateral at compulsory auction (Morgan, 2004).

It is accepted that the quantity or percentage of non-performing loans is often associated with bank failures and financial crises in both developing and developed countries (Caprio, 2002). In fact, there is abundant evidence that the financial/banking crises in East Asia and Sub-Saharan African countries were preceded by high non-performing loans. For instance, in Indonesia where over 60banks collapsed during the financial crisis, non-performing loans

represented about 75% of total asset portfolios (Caprio, 2002). The banking crisis which affected a large number of Sub-Saharan African countries in the 1990s was also accompanied by a rapid accumulation of non-performing loans (Caprio, 2002).

When left unsolved, non-performing loans can compound into financial crisis especially when they exceed the banks' capital in a relatively large number of banks. In Sub-Saharan Africa, of which Kenya is a case, the probability of a banking crisis occurring is even more important because non-performing loans-related risks are compounded by the structure of the banking system which is dominated by a few large banks (Fofack, 2005).

### **1.1.1 Recovery of Non-Performing Loans**

NPL portfolio relates to the loans which are overdue by 90 days (three months) (CBK, 2011). NPL is a major challenge to the banking sector as it erodes the efforts that banks make as they attempt to make money through lending. Globally, NPL has been a thorn in the flesh of bankers who have been trying to find possible solutions. The size of NPLs is generally considered the major threat for the banking system in Africa (Ping, 2003). Recent studies of bank efficiencies have directly included measures of NPLs in the cost of credit. The reasons provided for the adjustments are to control for the extra costs associated with NPLs and to control monitoring expenditures that influence loan quality.

Debt recovery is the process of pursuing loans which have not been repaid and managing to recover them by convincing the borrowers to make attempts to repay their outstanding loans. Normally, this role of recovering loans is not an easy task as clients will go out of their way to prove inaccessible to the lender (bank). The banking industry in most cases has a debt recovery unit which is in charge of following loans before they become delinquent and make attempts to recover the loans.

Debt recovery is a very important component of banking as it plays a key role in ensuring that the main objective of the bank results into the desired outcome of making a margin out of the loans advanced. It is evident that the presence of debt recovery puts pressure to the borrowers to pay up lest they get the dreaded calls from the banking staff through the debt recovery unit (Bennet, 2008). A 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 entails compiling a list of overdue loans and proactively managing the loans by calling up customers who are

overdue in their repayments. This unit is equally charged with the role of liaising with lawyers to draft demand letters to the loan defaulters and dispatching the same. (Bibangambah, 2005).

### **1.1.2 Outsourcing Debt Collection to Private Firms**

Banks can try to collect on their own, or they may outsource collections to third-party private firms. Without third-party debt collectors, banks would be forced to collect on their own and would tend to use lenient collection practices for fear of damaging their individual reputations which would reduce demand for their services (Watson, 2009). A third-party agency collecting on behalf of several creditors, on the other hand, may use harsher debt collection practices than the creditors would. Outsourcing collection appears to be more effective than the bank doing on its own and one reason is that collectors are paid on a commission basis for the loans collected. However, this can also be fraught with problems such as the collectors becoming high-handed in their approach and using gangster like tactics in forcing payment (Chester, 2004).

Most debt collection agencies work on commission, in which case they return net proceeds to the original creditors. Some debt collection firms purchase debt from original creditors for a fraction of its face value and retain all collection revenues they can generate on that debt. This activity is termed debt buying. The collection process is a human-intensive effort that requires debt collectors to constantly communicate with consumers. This communication is usually established over the telephone and by mail. Sometimes collection may require personal face-to-face contact, but such cases are rare. Debt collectors' compensation is customarily tied to the amount of collections they generate. Therefore, they have incentives to be persistent. The extent to which debt collectors can be persistent is determined by state law and by the way the law is enforced (Pearce, 2010).

### **1.1.3 The Banking Industry**

According to Central Bank of Kenya (2011), there are a total of 43 commercial banks in Kenya. In addition to these, Kenya has one Mortgage institution -Housing Finance Corporation of Kenya (HFCK). Out of the 43 banks, major players include Equity Bank of Kenya, Barclays Bank of Kenya (BBK), Kenya Commercial Bank (KCB), Standard Chartered Bank (SCB), Citibank N.A, Co-Operative Bank of Kenya (Co-Op Bank), National Bank of Kenya (NBK), Commercial Bank of Africa (CBA) and National Industrial Credit

(NIC). Banks in Kenya according to CBK are divided into tiers. These tiers range from Tier I to Tier III.

The banking sector experienced high non-performing loans in the years 2003-2007. This meant that debt recovery at bank level was not doing very well hence making loans being declared delinquent. Central bank reports that while the proportion of non-performing to total loans declined to 28.8% in June 2013 from 29.2% in June 2008, the absolute amounts of non-performing loans increased to KES 73.2 billion from KES 71.5 billion (CBK, 2014). Increasingly advanced levels of information technology embraced by banks have had a positive impact on loan issuance in the sector. The new and dynamic information systems adapted by most banks have enabled them to process data faster and efficiently. Complex ICT systems and programs have led to early detection of customers who would struggle to repay their loans thus reducing the pressure on debt recovery.

## **1.2 Statement of the Problem**

According to bank supervision annual report (2013), out of a loan book of KES 2.02 trillion in 2012, 5.3 billion was non-performing loans. In addition, Kenya Bankers Association has expressed concern on the likelihood of borrowers to default due to escalating interest rates at witnessed in 2015. Although interest rates have now been capped since 2016 through a bill that was passed in parliament, customers who had fallen behind on their repayment still have to catch up by clearing arrears before they enjoy the reduced rates which means that the proportion of NPLs may still remain high. This does not only call for banks to be prepared in tackling debt recovery but calls for strategies of debt recovery to be put in place so that as the industry, they are not caught flat foot. To further support the fact that debt recovery is a problem in Kenya is the high rate of non-performing loans in the country as observed by the World Bank. World Bank (2015) indicates that the rate of NPL to gross loan from 2012 to 2014 were 2012 (7.9 Billion), 2013 (8.3 Billion) and 2014 (9.4 Billion). Though the trend has assumed a reduction over the years, the amount of NPL is still high and requires further relook so as to reduce the NPL further.

Commercial Banks in Kenya have often been conducting their own initial collection efforts typically termed as first party collections, usually through the early stages of delinquency. Loans that are not being repaid are eventually removed from the balance sheet as they no longer qualify as earning assets. It is usually at this point that the account is placed for



collection by third party agencies. Since third party debt collectors facilitate more effective collections than individual creditors are able to implement on their own, their presence can increase the supply of credit and may raise total borrower welfare under certain conditions. However, there is no documentary evidence on the effectiveness of outsourcing to the third parties the non-performing loans recovery. Previous studies into debt have been conducted by Mugenda (2011), Karani (2010) and Githuku (2005). These studies have not considered effectiveness of debt collection by outsourcing to private firms. It is in this light that this study therefore sought to establish those factors that influence the effectiveness of debt collection by commercial banks through outsourcing to private firms a case of Barclays Bank of Kenya.

### **1.3 Purpose of the Study**

The purpose of this study was to evaluate the effectiveness of loan collection by Commercial Banks through outsourcing to private firms.

### **1.4 Objectives of the Study**

This study was guided by the following objectives;

- i. To establish how a private debt collection firm's experience influences collection of non-performing loans.
- ii. To assess the influence of credit information sharing on the collection of non-performing loans.
- iii. To analyze the influence of private firms spread into different geographical locations on the collection of non-performing loans.
- iv. To examine how remuneration of staff by private collection firms influence the collection of non-performing loans.

### **1.5 Research Questions**

This study was guided by the following research questions;

- i. To what extent does the experience of a private debt collections firm influence collection of non-performing loans?
- ii. How does credit information sharing affect the collection of non-performing loans?
- iii. How does the spread of private debt collection firms into different geographical locations affect collection of non-performing loans?

- iv. To what extent does the remuneration of staff by private debt collection firms influence collection of non-performing loans?

### **1.6 Significance of the Study**

This study aimed at contributing to the existing knowledge on recovery of non-performing loans using outsourcing as an alternative strategy. It also aimed at generating results which will be of benefit not only to Barclays Bank but the entire lending industry composed of banks, micro-finance organizations and savings and credit organizations (saccos) to address possible ways of reducing losses arising from NPLs. The application of some of the findings of this study will also give confidence to lenders to borrow a leaf from the operational strategies that Barclays Bank has put in place to address the default rate of their loans among its customers.

Credit Reference Bureaus (CRBs), will find it easier as their main work of listing doubtful and bad debtors will be reduced. Banks and other lenders will be in a position to proactively handle default related issues before they even issue loans hence making the loan evaluating process informed. Banks will learn the importance and methods of identifying borrowers who are likely to struggle to repay their loans before the actual loan is issued. At a macro level, this study will help reduce the risks that sometimes culminate in banks collapsing or struggling due to issues related with non-performing loans (NPLs) as it happened in the 90s and early 2000s in Kenya.

By focusing on debt outsourcing, this study opens up a business opportunity for new investors and expansion for existing ones. Findings from this study can be used in shaping discussions and strategies that can unlock great potential in debt collection. As banks move towards operating on tighter budgets but still work towards addressing their NPLs, the study gives a strong case for the expansion and growth of debt collection firms to respond to these emerging changes.

Lastly, the policy makers (legislature, as well as policy makers at banks and any lending levels) are also expected to derive a lot from this study as it will empower them to come up with stringent lending policy measures which will aim at making debt recovery an easier process.

### **1.7 Delimitation of the Study**

The study covered Barclays bank as an organization. The study focused on the effectiveness outsourcing of the firms doing the debt collection on behalf of Barclays Bank in Kenya and it was carried out in the 2017 financial year. The results of the study were limited to only business, scheme and non-scheme credit products offered by Barclays Bank because of the sampling population.

### **1.8 Limitation of the Study**

This study faced challenges arising from confidentiality policies that govern banking services. This was addressed through a formal request to the bank to allow for the study to take place in their organization. In addition, the instruments used may give varying data depending on the respondent used against. To address this challenge, a pilot study was conducted to ensure that the questions in the instruments are relevant, clearly understandable and make sense.

### **1.9 Assumptions of the Study**

The study assumed that all debt collection at Barclays bank is done from a centralized reporting line and that this being the case, the relevant respondents and sources of information would be acquired from one identified department. The study was also based on the assumption that the respondents were full time employees and that they would be readily available at all times and in the same location. It was also assumed that with confidentiality assured, the respondents would be willing to give information as sought by the researcher.

### **1.10 Definition of Significant Terms Used in the Study**

**Firm's Experience:** This refers to the knowledge or practical wisdom gained from what the firm's experts have observed, encountered, or undergone in the undertaking of their daily activities.

**Information sharing:** Information sharing describes the exchange of data between various organizations, people and technologies.

**Geographical location:** The term geographical location in this study refers to a point or an area on the earth's surface in identified by a boundary identifying common human and social attributes.

**Remuneration:** It is the compensation that one receives in exchange for the work or services performed. Typically, this consists of monetary rewards, also referred to as a wage or a salary. A number of complementary benefits, however, are increasingly popular remuneration mechanisms. Remuneration is one component of reward management.

### **1.11 Organization of the Study**

Chapter One comprises of the background of the study, statement of the problem, purpose of the study, objectives, research questions, and significance of the study, basic assumptions, limitations and definition of significant terms used in the study. Chapter Two covers the introduction and the body of the study where existing literature on the theme is discussed as well as the theoretical framework, conceptual framework and the identified knowledge gap which the research study seeks to fill. Chapter Three contains the following: research design, target population, sampling procedure, research instruments, pilot study, validity and reliability of the instruments, data collection procedure, data analysis, ethical consideration and operational definition of variables. Chapter Four contains data analysis and interpretation and presentation while Chapter Five gives the study summary, conclusions, recommendations and areas for further studies.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews relevant literature with specific reference to debt and debt recovery and its relevance to financial institutions. Literature review involves the review of existing information from academic literature sources such as books, journals, electronic library, national policy papers, past research studies and other scholarly works already published. This chapter also illustrates the theoretical and conceptual frameworks within which the study is based.

#### **2.2 Non-Performing Loans**

Pearce (2010) conducted a survey on outsourcing of collection of non-performing loans by financial institutions and noted a number of motives for outsourcing, namely, operational efficiency; efficient use of resources; and quick and reliable service delivery. Similarly, Antony (2003) revealed that although the benefits of outsourcing are evident, in practice, many banks believe that outsourcing introduces new challenges and risks. His study highlighted the benefits of outsourcing, suggesting; cost reduction; access to better technology and infrastructure and strategy of focusing on core activities; economies of scale which leads to improvement in synergies achieve diversification benefits or streamline services; focusing on core activities; free scarce resources; quality services; and flexibility.

Berg (2008) also conducted a survey on outsourcing in the banking industry. His findings suggest that banks outsource debt collecting services for a number of reasons, such as, enhanced performance; costs reduction; access to superior expertise; and strategic reasons. In addition, the study indicates that although there are many benefits derived from outsourcing of debts collection to private firms, the arrangement gives rise to potential risks. The risks identified are: strategic, reputation, credit, compliance, transaction and country risk.

In India, Visaria (2009) confirms that judicial arbitration is supportive in debt recovery strategy. He acknowledged that legal (judicial) enforcement is slow in assisting in debt recovery. He presupposes that difference in judicial quality in India affects the debt recovery through the legal means this is due to unobservable country specific factors that affect firm

performance, growth prospects and financial decisions. The introduction of judicial arbitration assisted in debt recovery in Indian banks.

Pujals (2004) conducted a study on offshore outsourcing in the European Union financial services industry. Results of the study indicate that banking institutions may choose to outsource certain activities for various motives. Some of the motives cited are: cost reduction, access to new technology, focus on core activities, improvement of quality of services and greater flexibility. In addition, the study identified the following risks associated with outsourcing of financial services: loss of control over service, operational risks, loss of internal skills, loss of flexibility, cultural and social problems, technical constraints, decline in quality and competitive advantages.

In Africa, many banks have suffered financial distress and failure due to non-performing loans. In Kenya many of these banks have been closed due to regulatory authorities some of them restructured. In Kenya two (2) local banks were closed between 1984 and 1989 as well as ten (10) non-bank financial institutions. Still in Kenya, an additional ten (10) non-bank financial institution and a further seven (7) local banks were shut between 1993/94 (Brownbridge, 1998). The rise of consolidated bank is attributed to failure of a number of local Kenyan banks as they were placed under consolidation to take them through the recovery path.

High interest rates reduce the borrower's net worth, which has a negative impact on investment and financial intermediation leading to rising non-performing loans and bank failures. In these circumstances, it is high-return, high-risk projects that are financed suggesting instances of adverse selection and moral hazard. Ndii (2000) argues that high interest rates contribute to high default rates and the decline in interest margins implies bad borrowers may be able to resume servicing their facilities. It also means a shift in strategy among the banks with emphasis on margins from volumes and diversification to non-interest income streams. This scenario persisted for much of the last decade and while the Government had managed to control inflation by 1994, real interest rates remained high, indicating a continued high cost of investment.

Bindra (1998) questioned why Kenya had 55 banks in the first place in an economy this small and why so many of them were allowed to build up huge stocks of non-performing loans by

lending to "connected" individuals, with little or no security without any intervention from Central Bank. He concluded that the problem of non-performing loans was precipitated by poor regulation and supervision by the Central Bank of Kenya. Mohua (1998) argues that if the legal framework worked and there was a tradition of honoring contracts, disputes would likely not be tied up in courts for years. The failure to enforce rules and regulations now afflicts every sector of the Kenyan economy and even deny justice to banks who are eager to liquidate collateral security. He further lamented that nowhere can we see transparency and accountability; instead, graft and cronyism are pervasive, an economy built on patronage and underhand dealing does not produce world-class managers or competitive products, it produces charlatans and rejects. He concluded that ineffective administration of justice was indeed a major cause of non-performing loans as court cases take a longer period to be concluded. In Kenya studies have been undertaken regarding non-performing loans which shows clearly that debt recovery is still a challenge (Nyaoke, 2007 and Africa Economic Outlook, 2005). These studies show that banks still struggle with debt collection leading to the loans going into default.

### **2.3 The Need for Debt Recovery**

Debt recovery or realization process is one of the most important stages in the bank's lending cycle. This is because if the bank neglects to do so or the recovery process is unduly protracted, the impact may be severe (Johnson, 2005). The bank may end up with large loan portfolio arrears, which in turn would affect its capital ratios and consequently the ability to lend. If the problem grows out of hand and regulators begin to question a bank's ability to lend, it will threaten its existence (Dubois, 2010).

The effect of non-performing loans goes beyond its impact on lending institutions. Severe financial distress to lenders has a widespread negative impact on economic growth and development and this is particularly costly especially for the developing countries (Chester, 2004). The consequence of excessive delays in recovering debts can be severe. Borrowers may be encouraged to disregard their payment obligations, and take advantage of the weakness in the debt recovery process. Willing defaulters may obtain loans with deliberate intention of avoiding payment, and may dispose of their assets beyond the reach of lenders because of the tedious pace of debt recovery suits. In short, delays breed a credit culture of deliberate non-payment by defaulters (Berg, 2008).

If internal credit control policies are not in force, it will be difficult to hold individual officers responsible for either collecting loans accountable for a growing non-performing loan portfolio because the officers would lack the incentive to pursue debt recovery actively (Altman, 2004). As one lawyer commented, bank officers at times waste almost six years before a decision is taken to initiate legal proceeding to recover a debt, and then expect judges and lawyers to recover the money within a year. Credit review procedures adopted by banks may not be of high standards (Abai, 2003). Prompt recovery of non-performing loans not only facilitates the recycling of funds but also reduces the impact of non-performing loans. Banks have to incur substantial costs in terms of man power, legal and other administrative expenses to service and realize the problem loans. Though it is often difficult to quantify these costs, a bank with large portfolio of problem loans could be experiencing a decline in profitability arising from loss of interest, income and rising costs in terms of legal and other expenses (Bibangamah, 2005).

The recovery process is often legal and long drawn and in the meantime, the bank is continuously deprived of the opportunity to earn from such funds. Added to this, is the question of the bank's status and reputations which could be altered with an excessive portfolio of problem loans. Excessive problem loans have been compared to a problem bank which is dying slowly from several small wounds. According to Montana (2012), bank debt recovery is assuming an alarming trend as its growth is looking almost unstoppable. This growth can mostly be attributed to a poor economy which affects both consumers and markets around the world. Banks are individually devising new techniques and strategies to improve their debt collection/recovery.

The following are some of the recommended bank debt recovery tips, which are likely to help increase their debt collection success; flexible repayment plans for customers experiencing financial difficulty, well formulated hardship programs for borrowers that are late on their repayment, extend or lower payments, interest rates, or lower fees when you anticipate customer payment problems, create communication channels where customers can openly discuss their issues (Chester, 2004). By proactively reaching customers early, he points out, larger problems can be avoided later. This can be done by banks organizing regular pipelines of customer with issues and working towards assisting them make repayments through discussions, and outsourcing bank debt recovery to collection agencies in extreme circumstances when the debt is not likely to be recoverable by the bank staff.



According to African economic outlook (2005), use of reminders has proved to be a good measure to encourage debtors to pay up their debts although it's use alone is not guaranteed to ensure success. Even though some customers are genuinely not able to remember when their debts are due, it has been noted that others do not prioritize repayments of for what they owe.

The advent of Credit Reference Bureau (CRB) has however brought a lot of relief to the banking sector. Serial defaulters have been denied a chance to default across banks as banks now have a chance to report defaults and therefore lock out these defaulters from approaching other banks and taking loans from them therefore continuing with the loan default culture across banks. Many banks in their credit policy now check with CRB before issuing loans to borrowers (Nyaoke, 2007).

Other means of keeping in touch with borrowers exist too. Banks have continued to employ products such as direct debits, mobile banking loan repayment platforms, M-pesa, Airtel money agent banking and the most recent, pesa-link among others, add onto the traditional loan repayment techniques such as direct deposits, standing orders, checking system as well as salary check off system by employers. These channels have made it easy for borrowers to access the bank and therefore make good their repayments.

## **2.4 Outsourcing Debt Collection**

With the realization that non-performing loans greatly compromise profits, an increasing number of banks have embarked on aggressive debt collection strategies that involves rapid expansion of their collection departments, engaging legal firms or outsourcing to external debt collection firms(Barthelemy,2003). He further notes that outsourcing debt collection to an external firm is likely to result in better performance for the bank because of economies of scale, specialization and tactical focus.

### **2.4.1 Experience of debt collection firm**

According to Boyatzis (2007), the capability and underlying characteristic of an individual or by extension, a firm, can be related to effective or superior performance of the said individual or firm. With time and as the methods become routine, the staff who work in the debt collection firms get to sharpen their skills and create a knowledge base with which they train others. A theory attributed to Abraham Maslow suggests that initially individuals are unaware of what they do not know or are unconscious of their incompetence. However, gradually they

get to a stage where they recognize their incompetence and consciously work towards improvement. Eventually, the skill is perfected and the individual can utilize it without consciously thinking about it. Collectively therefore, it can be argued that over time the staff will acquire significant skills in debt collection as opposed to those who take on debt collection as part time engagement, as in the case of banking staff. By outsourcing, banks are able to access best business practice, expertise, technology and other resources that may be too expensive and unjustified to be built internally or hired on full time basis.

#### **2.4.2 Credit information sharing**

This involves the collection and management of credit information from one or more sources and the distribution of that information to other parties who often have a right to or a stake in that information. In 2006, lenders saw implementation of CRB Act which provided for the introduction of credit reference bureaus in Kenya. Currently, all lenders by practice subject their potential borrowers to checks at the bureaus before advancing credit facilities. In Kenya, the largest debt collection firms (CAL and Metropol) were given CRB Licences and it has been noted that at times they subcontract other smaller debt collection companies to serve their customers and clients. This shows a healthy network among debt collection firms and it is possible and easier for them to share credit information amongst themselves. Access to this credit information is likely to enhance collection from customers whose contacts may have been lost.

#### **2.4.3 Geographical spread of debt collection firms**

In most cases, loan collection is a centralized function of banks and in Kenya all the major banks have their collections departments located at their head offices based in Nairobi (CBK,2014). Since borrowers are spread all across the country, it would require additional costs to follow up on those who are located outside the commuter distance from Nairobi. It has been noted that most borrowers who default tend to be unreachable on the last known contacts and following up with telephone calls may not yield much success (Montana, 2012). On the other hand, debt collections firms are spread across the country and have a presence in almost all the major counties. This provides their clients a greater reach and possibly a higher rate of success in contacting and recovering from the otherwise unreachable defaulters.

Certain parts of the country may experience unique causal factors that end up affecting servicing of loans from those markets for example mass layoffs from a factory located in a

specific region, drought affecting farmers in a certain region, industrial strikes or closures of specific sets of industries. The effect of these causal factors may have a big impact on the performance of the credit facilities sold to the affected customers but rather than the lender having to set up offices in those affected location and budget for operations, debt collection firms may provide a more cost-efficient solution. Aside from the financial implications of setting up collection centres across the country, engagement of debt collection firms provides a faster response as opposed to the bureaucratic process of setting up departments. In addition, use of debt collection firms may be a more prudent solution especially if it is envisioned that the situation is temporary and scaling down operations would be necessary in the near future.

#### **2.4.4 Remuneration structure of debt collection firms**

Debt collection staff are normally exposed to a high stress environment because of the very nature of their day to day work (Bonin, 2001). However, he adds, the more seasoned staff often attract better terms and are in high demand because of the expertise and experience they bring with them. It can therefore be argued that the best debt collection firms will seek to attract the best staff and offer comparatively better remuneration packages. Aside from this, debt collection firms have incentive schemes that are based on the staff's performance and this is mainly done through commission based payments where the greater the amount collected, the higher the pay the staff takes home (Clott, 2004). Taken in context, the staff of debt collection firms are likely to be more motivated to undertake their work than their counterparts working for the banks who do not have these benefits.

#### **2.5 Theoretical Review**

This study was guided by the perceived risk theory. The risk-benefit analysis in decision theory compares the risks associated with and the benefits expected of a decision that is made, in order to achieve an optimal result. This concept has been discussed by Jurison (1995). When the concept is applied to outsourcing, it means that the manager or decision maker has to assess all the potential risks and benefits that may arise from outsourcing process. Perceived risk theory analyses the risk a person subjectively associates with the consequences of a decision and its impact on the intention to close a transaction (Bauer, 1967).

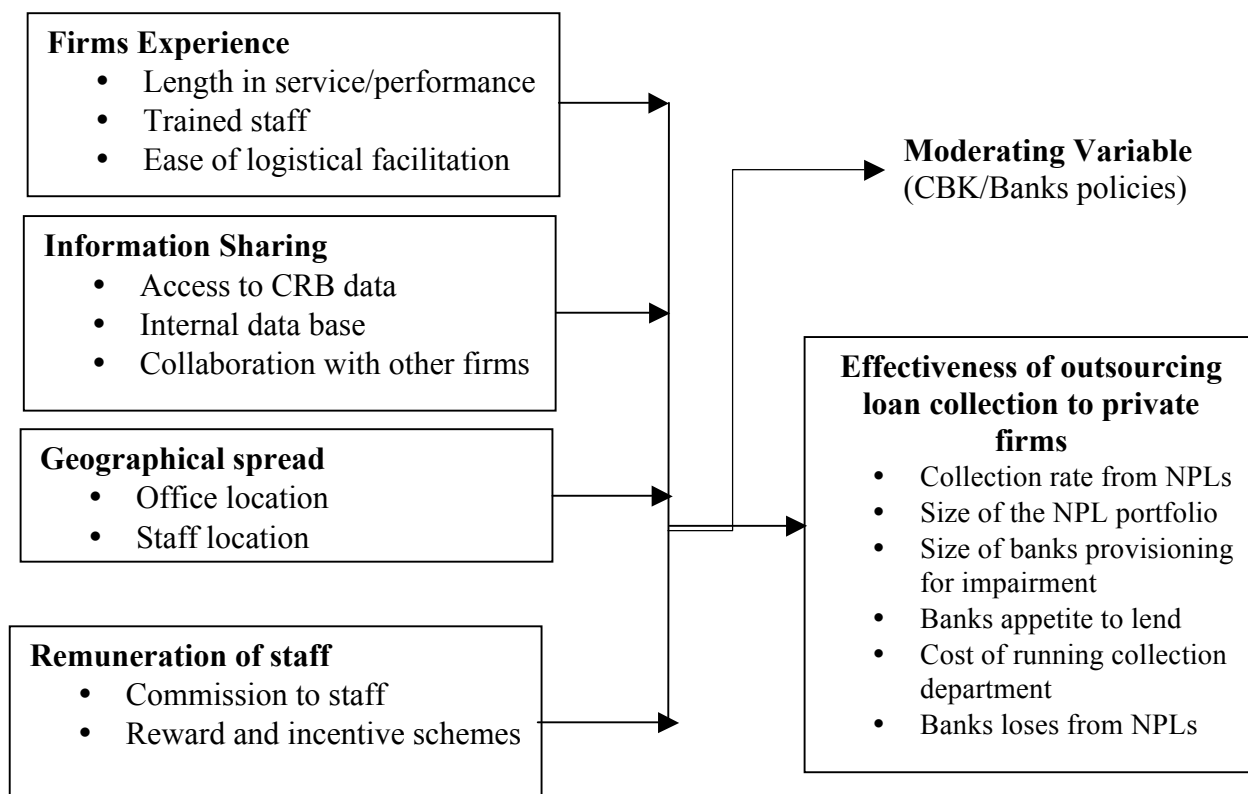
This theory is grounded on the fact that as long as the perceived benefits outweigh the perceived risks, the person in charge will have a positive attitude towards a particular decision. In information system research, perceived risk inherent in a transaction plays a critical role especially in adoption of technology. For example, Feartherman (2001) found that the overall potential risk may reduce the usefulness of an activity. Also, Pavlou (2001) noted that potential risk reduces individual intentions to conclude a deal. It is apparent that the individual perception towards outsourcing could either be positive or negative.

Negative perceptions of outsourcing are often equated with risks of outsourcing, that is, the possibility of outsourcing failure (Earl, 1996). Similarly, there are a number of outsourcing advantages, which may be summarized as outsourcing benefits. In this research, therefore the risk-benefit framework is applied to examine outsourcing decisions and its effectiveness. The framework is in line with decision theory regarding decisions that involve risk or uncertainty. This suggests that in making outsourcing decisions firm managers assess all the perceived risks and benefits. These factors are aggregated in arriving at the final decision to outsource a function or not. Consistent with this theory framework, it is plausible to argue that the decision to outsource is positively influenced by perceived benefits of outsourcing and negatively influenced by perceived risks of outsourcing.

## 2.6 Conceptual Framework

The relationship between dependent and independent variables is shown in the figure below.

### Independent Variable



The conceptual framework illustrated above gives the link between the dependent and the independent variables guiding the study. The effectiveness of outsourcing loan collection to private firms is the dependent variable which is influenced by a set of independent variables which includes: the firm's debt collection experience, credit information sharing, spread of the firm in different geographical locations and remuneration of staff.

### Intervening variable

This is a variable defined as one that might affect the relationship of the dependent and independent variables but it is difficult to measure or to see the nature its influence. For this study, the size of the institution seeking to recover the non-performing loans is an intervening variable.

### **Moderating Variable**

This is a variable that affects the strength of the relationship between the dependent and the independent variable. For this study, the bank's policies and management support are the moderating variables.

### **2.7 Knowledge Gap**

Controlling credit risk should be a key management goal in commercial banks because of the nature of their main business which is lending. Kiyai (2003), observes that established economic conditions have a link with levels of non-performing loans. However, to date, no research has been carried out on effectiveness of outsourcing of non-performing loans recovery to private firms. This study, primarily focused on outsourcing NPLs by a bank in a developing country setting, is an important extension of research on existing literature about outsourcing as general business strategy and the treatment of credit control.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter discusses the research design, target population, sample and sampling procedure, research instruments, piloting of the instruments, data collection and data analysis procedure that the study employed.

#### 3.2 Research Procedure

This study adopted a descriptive research design. According to Orodho (2003), a descriptive research design is suitable for obtaining information that describes existing phenomena by asking individuals about their perceptions, attitudes, behaviour or values. The descriptive research design can also be used to explain or explore the existing status of two or more variables. This type of research design may also be used for the purpose of developing a theory, identifying problems with a current practice, justifying a current practice, making judgments or determining what others in similar situations are doing (Sekaran, 2008). This study used descriptive research design because it was affordable, less time consuming and also because of the described nature of responses, a lot of information can be acquired.

#### 3.3 Target Population

According to Ngechu (2004) a study population is a well-defined or specified set of people, group of items, households, firms, services, elements or events which are being investigated. Thus, the population should fit a certain specification, which the researcher is studying and the population should be homogenous. This study focused on staff working at the collections and recoveries department at Barclays bank head office and collection staff of Quest Holdings Ltd, a firm contracted by Barclays to collect non-performing loans.

**TABLE 1**  
**Target Population Barclays**

<b>Section</b>	<b>Population</b>	<b>Percentage</b>
Senior management	10	6.25%
Middle level management	30	18.75%
Collection staff	120	75%
<b>Total</b>	<b>160</b>	<b>100%</b>

**Source: (Collections and Recoveries department Barclays bank, 2017)**

**TABLE 2**  
**Target Population Quest Holdings Ltd**

<b>Section</b>	<b>Population</b>	<b>Percentage</b>
Senior management	1	3.03%
Middle level management	2	6.06%
Collection staff	30	90.91%
<b>Total</b>	<b>33</b>	<b>100%</b>

**Source: (Collections and Recoveries department Barclays bank, 2017)**

### **3.4 Sampling Procedure**

The sampling frame describes the list of all population units from which the sample was selected Cooper & Schindler (2003). Ngechu (2004) underscores the importance of selecting a representative sample through making a sampling frame. From the population frame the required number of subjects, respondents and elements were selected in order to make a sample. The researcher selected a sample of 48 respondents from Barclays bank and 11 from Quest Ltd using stratified random sampling. The sample was selected from the 2 populations as shown in table 3 below.

**TABLE 3**  
**Sample Size**

<b>Barclays</b>	<b>Population</b>	<b>Sample Ratio</b>	<b>Sample</b>
Senior management	10	0.3	3
Middle level management	30	0.3	9
Collection staff	120	0.3	36
<b>Total</b>	<b>160</b>	<b>0.3</b>	<b>48</b>
<b>Quest Ltd</b>	<b>Population</b>	<b>Sample Ratio</b>	<b>Sample</b>
Senior management	1	0.3	0
Middle level management	2	0.3	1
Collection staff	30	0.3	10
<b>Total</b>	<b>33</b>	<b>0.3</b>	<b>11</b>

**Source: Author (2017)**



Using stratified random sampling, each population member has a known chance of being included in the sample. Statistically, in order for generalization to take place, a sample of at least 30 must exist (Cooper & Schindler, 2003).

### **3.5 Research Instruments**

The study employed use of questionnaires and interview schedules to obtain primary data. The questionnaires were divided into two parts. The first part dealt with the general information of the respondent whereas the second part was devoted to the identification of the factors influencing effectiveness of loan collections structured according to the variables of the study. The questionnaire used for the collection staff included both structured and unstructured questions. The structured questions were used to save time for the respondents as well as during analysis because the responses were in usable form. On the other hand, the unstructured questions were used so as to encourage the respondent to give an in-depth response without feeling held back in revealing of any other related information. This instrument was ideal for this study because it gave the respondents the flexibility to respond during their free time considering the busy and sensitive nature of their duties. The study also used interview guides for the middle level and senior management and was intended to collect a greater amount of information.

### **3.6 Pilot Study**

A pilot study was conducted by sending some few questionnaires and interview schedules to the bank to ensure that the in-research instruments are relevant, clearly understandable and make sense. These were filled by 10 employees at random from the selected levels of staff. From this pilot study, the researcher was able to detect questions that need editing and those with ambiguities. The final questionnaires were then printed and dispatched to the field for data collection with the help of a research assistant. The results of the pilot study were however not included in the actual study.

### **3.7 Validity of the study Instruments**

The pilot study carried out on the 10 employees was also used to pre-test and validate the instruments. The content validity in the pilot study was used to measure the degree to which data collected using the instruments represents a specific domain or content of a particular concept. However, Mugenda and Mugenda (1999), suggest that the usual procedure in

assessing the content validity of a measure is to use a professional or expert in a particular field.

### **3.8 Reliability of Study Instruments**

Reliability refers to the consistency of measurement and is often assessed using the test–retest reliability method. Reliability in this study was enhanced by including many similar items to be measured. This was done by the selection of a diverse sample of respondents and by using a uniform testing procedure. The researcher also computed a Cronbach alpha coefficient to test for internal consistency of the data. The coefficient ranges between 0 - 1. Scores between 0 - 0.6 indicate that the instrument has a low reliability while scores of 0.7 and above indicate that the instrument has a high level of internal consistency and reliability (Kothari, 2013).

**TABLE 4**  
**Reliability Analysis Results**

<b>Scale</b>	<b>Cronbach's Alpha</b>	<b>Number of Items</b>
Private debt collection firm's experience	0.811	4
Credit information sharing	0.728	4
Private firms spread	0.722	3
Remuneration of staff by private collection firms	0.791	5

Reliability analysis was done using Cronbach's Alpha which measured the internal consistency by establishing if certain item within a scale measures the same construct. Gliem and Gliem (2013) established the Alpha value threshold at 0.7, thus forming the study's benchmark. Cronbach Alpha was established for every objective which formed a scale. The table shows that private debt collection firm's experience had the highest reliability ( $\alpha=0.811$ ), followed by remuneration of staff by private collection firms ( $\alpha=0.791$ ) followed by Credit information sharing ( $\alpha=0.728$ ) and then Private firms spread ( $\alpha=0.722$ ). This illustrates that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.7.

### **3.9 Data Collection Procedure**

A research permit was sought from the National Commission for Science, Technology and Innovation (NACOSTI) and during the data collection, respondents were assured of confidentiality and that the information collected is to be used purely for academic purposes. The study used both qualitative and quantitative data collection which were achieved through the use of self-administered questionnaires and interview guides. The questionnaires were handed to the respondents and collected after completion whereas the interview schedule was administered by the researcher and the research assistants. Each research instrument was coded to further protect the identity of the respondents.

### **3.10 Data Analysis**

Once the data was collected it was checked for completeness and readiness for analysis. The data from the field was first coded according to the themes under research. This was enabled by the use of a computer in summarizing of data in tables. Frequency tables were produced

using the statistical package for social sciences (SPSS) package. This gave the distribution of responses in the questionnaire in form of percentages which was helpful in simplifying the data by reducing all number ranges to between 0 and 100. The output was presented in terms of tables, charts and graphs. In addition, advance statistical techniques (inferential statistics) was also considered. This was mainly the regression model to test relationship among variables (independent). Data analysis tools used included SPSS and Microsoft excels which gave statistical output in form of percentages, tabulations, means and other central tendencies. Tables were used to summarize responses for further analysis and facilitate comparison.

### **3.11 Ethical Consideration**

The study observed high levels of confidentiality by treating all the sensitive bank information with utmost care. During collection, analysis and interpretation of the data, the researcher remained objective and minimized bias as much as possible. The researcher also ensured proper respect for intellectual property by giving acknowledgement for all contributions to the study.

### 3.12 Operational Definition of Variables

Objective	Variable	Scales	Research approach	Data collection tool	Type of Analysis
To investigate the extent to which a private debt collection firm's experience influences collection of NPLs.	Experience of private debt collection firm	Ordinal	Qualitative and quantitative	Questionnaire	Descriptive
To assess the effects of credit information on the collection of NPLs.	Information sharing	Ordinal	Qualitative and quantitative	Questionnaire	Descriptive
To analyze the effects of private firms spread into different geographical locations on the collection of NPLs	Geographical spread of private debt collection firms	Ordinal	Qualitative and quantitative	Questionnaire	Descriptive
To examine how remuneration of staff by private collection firms influence the collection of NPLs	Remuneration of staff	Ordinal	Qualitative and quantitative	Questionnaire	Descriptive

## CHAPTER FOUR

### DATA ANALYSIS, INTERPRETATION AND PRESENTATION

#### 4.1 Introduction

This chapter analyses, interprets and presents the findings as per the aim of the study, whose purpose was to evaluate the effectiveness of commercial banks outsourcing collection of non-performing loans to private firms. Further the study sought to; establish how a private debt collection firm's experience influences collection of non-performing loans, assess the influence of credit information sharing on the collection of NPLs. Also, the study sought to analyse the influence of spreading private firms into different geographical locations on collection of NPLs and to examine how remuneration of staff by private collection firms influences the collection of NPLs.

#### 4.2 Response Rate

The study targeted 48 respondents from Barclays bank and 11 from Quest Ltd giving a total of 59 respondents. The respondents were distributed in strata as follows; senior management, middle level management and the collection staff as drawn from each of the two companies.

**Table 5**  
**Response Rate**

<b>Institutions</b>	<b>Questionnaires Received</b>	<b>Questionnaires not Received</b>	<b>Response Rate</b>
Barclays			
Bank Staff	47	1	97.9
Quest Ltd	11	0	100

Out of the 48 respondents from the Barclays bank 47 responses were obtained which gave a response rate of 97.9%. For Quest Ltd, out of the 11 respondents 11 responses were received giving a response rate of 100%. Mugenda (2012) states that whereas a 50% response rate is adequate, 60% is good and above 70% is rated very well. In the scenario for this study, it can therefore be concluded that the response was rated very well. This high response rate of 97.9% for this study was achievable mainly because the researcher personally administered the questionnaires and followed up with personal visits and phone calls to remind the

respondents to fill-in and return the questionnaires on time. In the descriptive statistics part of the study, relative frequencies and percentages were used in some questions and others were analysed using mean scores with the help of Likert scale ratings in the analysis.

### 4.3 Demographic Information

The study was also interested in establishing some characteristics of the respondents in terms of nature of engagement with Barclays, their length of service in the collections department, their level of education as well as any special trainings they may have attended.

#### 4.3.1 Line of Engagement with Barclays Bank

The respondents were asked to indicate their line of engagement with Barclays Bank and the study findings were as presented in Table 6.

**TABLE 6**  
**Line of Engagement with Barclays bank**

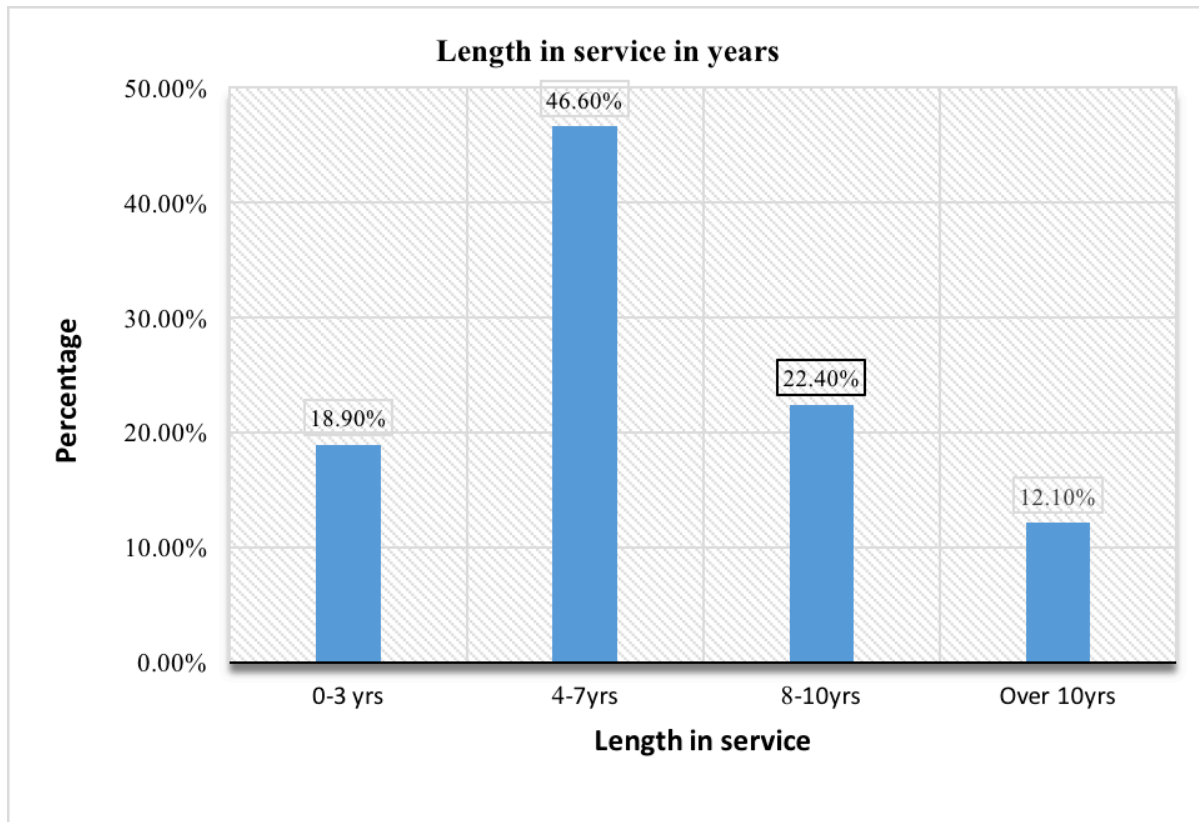
<b>Management Levels</b>	<b>Quest Ltd Employee</b>	<b>Barclays Bank Employee</b>
Senior management	0	3
Middle level management	1	8
Collection staff	10	36
<b>Total</b>	<b>11</b>	<b>47</b>

As shown in Table 6, the study indicated that majority of the respondents from Barclays bank and Quest Ltd were in the collection staff category. These are the individuals involved in the day to day collection activities at both the bank and the outsourced firm. Being the ones in direct contact with customers, this implies that they interact the most with the customers and hence they are in a much better position to give credible information relating to this study.

#### 4.3.2 Length of Service in The Current Department

The respondents were asked to indicate their length of service in the current department. The study findings are represented in figure 1.

**Figure 1**  
**Length of service in the current department**



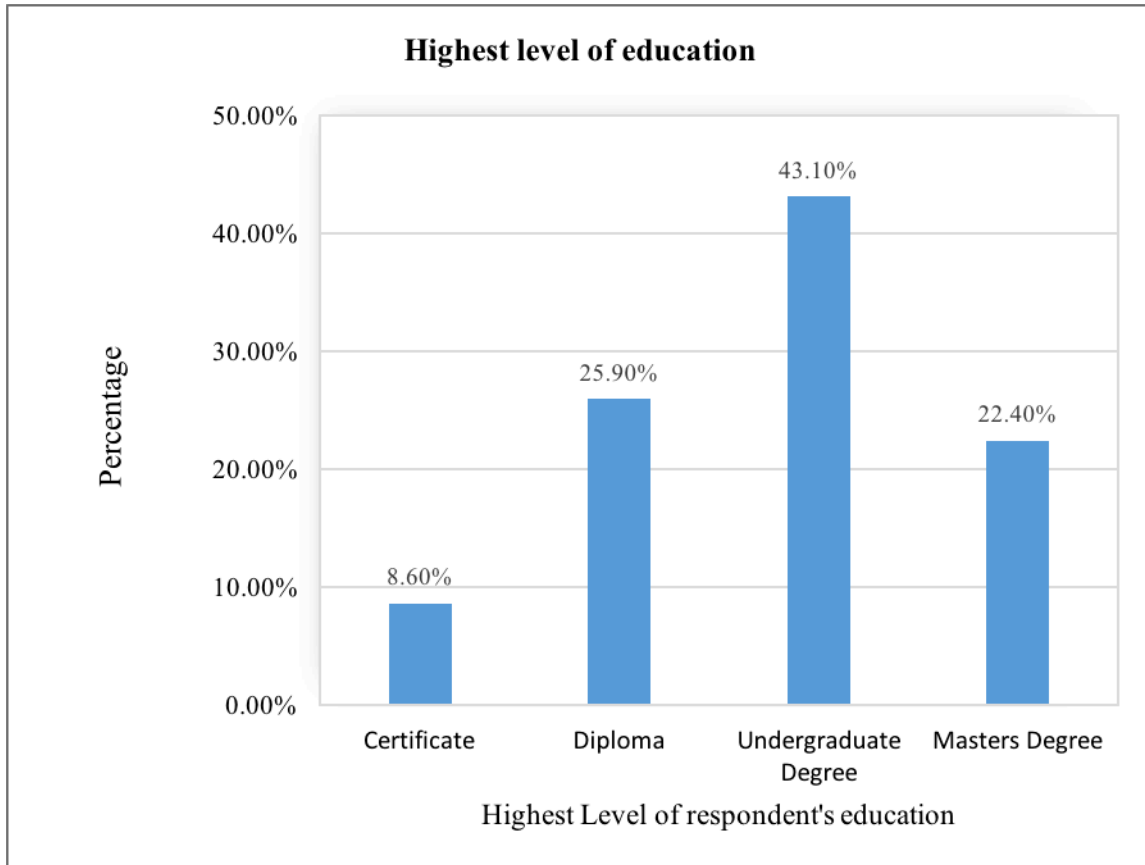
As shown in figure 1, the research study indicated that 46.6% of the respondents had worked in their departments for a period of between 4 to 7 years, 22.4% indicated that they had worked for a period of between 8 to 10 years. Further the study indicated that 18.9% of the respondents had been working in their departments for a period of up to 3 years and 12.1% of the respondents indicated that they had worked in their departments for a period of over 10 years. This shows that most of the respondents had been working in their respective departments for more than four years and were therefore well placed to give reliable information that the study sought to get.

#### **4.3.3 Highest Level of Education**

The respondents were asked to indicate their highest level of education. The study findings were as presented in the figure 2.



**Figure 2**  
**Highest Level of Education**

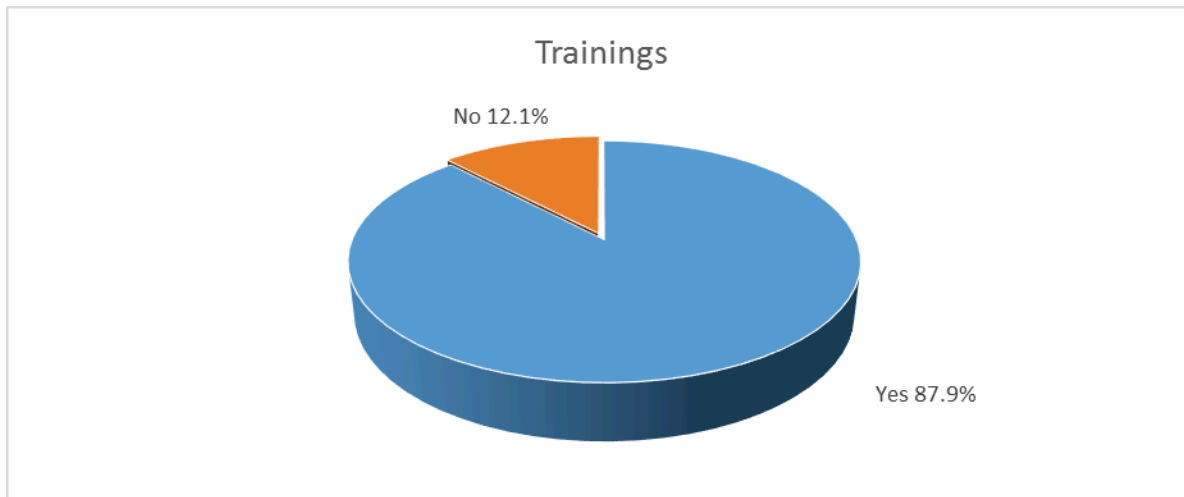


As shown in figure 2, the study showed that 43.1% of the respondents had a bachelors degree as their highest education level, 25.9% indicated that they had a diploma as their highest education level, 22.4% indicated that they had a masters degree and 8.6% indicated that they had acquired a certificate being their highest education level. This shows that most of the employees had at least a bachelors' degree as their lowest educational level and hence they understood the questions presented to them during the interview.

#### **4.3.4 Specialized Training in Loans Collections**

The respondents were asked to indicate if they do have specialized training in loans collections. The study findings were as shown in the figure 3.

**Figure 3**  
**Specialized Training in Loans Collections**



As was shown in figure 3, 87.9% of the respondents agreed that they have specialized training in loans collections whereas 12.1% of the respondents were of the contrary opinion. This shows that majority of the respondents companies have specialized training in loans collections. Further, the respondents were asked to indicate the specialized training in loans collections they were receiving. Majority of the respondents indicated that they received training on negotiation skills and customer retention where the collection activity is geared towards recovering as much as possible while still maintaining a healthy relationship between customer and the credit provider. Also, the respondents indicated that they were receiving periodic training throughout the year in new products and policy changes that relate to credit facilities.

#### **4.4 Firms Experience**

The respondents were asked to indicate for how long their department been undertaking collections. Respondents in Barclays bank gave an account of how the collection department has evolved over the last 10 years. Before 2002, the rate of default was considered to be not of a significant level and therefore the individual branches could comfortably contain the few defaulting customers. In addition, most of the credit facilities were secured and the bank would easily realize the security when future repayment was deemed to be completely hopeless, normally 2 years after the last full instalment repayment. The respondents also added that because the securities were generally valued more than the credit sought,

defaulting was not so common and where it occurred, borrowers would go to great lengths to redeem their securities.

From the senior management at Barclays bank, it was established that collection and recoveries expanded from 2007 as a reaction to a change in strategy resulting from a sharp increase in the loan book and a corresponding rise in NPLs as expected. The rise in the loan book was attributed to the change in the Kenyan banking industry where unsecured lending was gradually and steadily gaining popularity. However, this growth in the loan book came with its fair share of challenges. First, there was a drive to increase sales for loan products and during data capture, costly errors were sometimes made where scanty information on borrowers would be available. Contacting these borrowers later would be a challenge since crucial information about them would be missing. Secondly, with the drive to get more sells, sales staff were retained on short contracts often each contract lasting just three months. Coupled with demands for a high performing sales force, business targets were tightened and hence a lot of staff attrition was witnessed. Follow up though sales staff on defaulters was therefore not possible. With time, the NPLs grew to a point where there was a need to establish a new department specifically tasked with the collection of NPLs. Hence in 2007, the collection and recovery department was formed and has been growing ever since to respond to the size of the growing NPL. Along the line in the year 2010, the bank started exploring the benefits of outsourcing collections and has ever since been outsourcing some chunks of its NPLs.

On the other hand, respondents from Quest indicated that the business of collections was started in 2007 as a response to an anticipated business opportunity which presented itself in the way banks were aggressively selling unsecured loans. It was started by a small group of former staff of a credit management company. Their selling point to banks and other potential clients is that by outsourcing, the client is able to access best business practice, expertise, technology and other resources that may be too expensive and unjustified to be built internally or hired on full time basis. Since inception, it is reported that Quest has significantly acquired a good number of banks as its clients.

The respondents were also asked to comment on the performance of collections since 2007 and discuss the possible reasons for the performance observed for that period. It came out that in the first three years since inception of the department, there was no corresponding improvement in collections of NPLs despite the department growing in size to almost double the initial size. Both the rate of collection and volume of amount collected remained more or

less the same over the three-year period. Majority of the respondents in Barclays indicated that because of business policies, staff get job rotations quite often and do not get to undertake the same roles for more than two years. Much as they remain in the same department, they do not get to do the same task long enough to perfect it. However, majority of the respondents from Quest indicated that with time and as the collection procedures and methods become routine, the staff get to sharpen their skills and create a knowledge base with which they train others. Gradually they get to a stage where they recognize their own incompetence and consciously work towards improvement through an elaborate annual staff appraisal system.

Further still, the respondents were asked to indicate whether the collection staff are adequately trained in collection and recoveries before being deployed to the teams. Majority of the respondents from the Barclays indicated that the collection staff do not get always get training in collection and recoveries before being deployed to the teams because sometimes they are simply transferred from one department and the time to hand over and start working may not permit adequate training. Additionally, training in collections is viewed as a costly undertaking because it is conducted by external trainers and often times away from the office premises. This is partly because the bank has not developed adequate training content and material on the subject. On the other hand, staff at Quest are taken through a 4-week continuous training at the point of joining the organization before they are deployed for duty. Some of the courses they are trained on include customer service, negotiation skills, information risk management, communication skills and debt management. In addition, they are assigned to an experienced staff to work with for at least 3 months so that they get hands on experience before being allocated client accounts.

Regarding logistical provisions, the respondents were asked to indicate if their department faces any challenges in providing the required resources and tools for its operations. Majority of the respondents from Barclays strongly indicated that their department faced logistical challenges in providing these resources and tools. Barclays being an international bank has in place formal lengthy steps and procedures for procurement of equipment and incurring other general expenses. It is common to have a request go through several approvals and sometimes the request may not be successful. Additional staff for example is a case that takes over a year to be approved. Similarly purchase of tools such as computers and telephones equally takes a long time for the capital expenditure (capex) to go through. Respondents from

Quest on the other hand strongly feel that they faced minimal logistical challenges in providing the same. Being a relatively smaller institution, it is faster to make business decisions that hardly take a week to conclude. They indicated that they were able to avail both staff and equipment immediately a justifiable need arises.

#### **4.5 Information Sharing**

The respondents were asked to indicate the effect of credit reference bureaus in the collection and recovery of non-performing loans. Majority of the respondents from both Barclays and Quest indicated that all lenders by practice subject their potential borrowers to checks at the bureaus before advancing credit facilities. However, this only scopes in borrowers from the year 2010 and later and from the respondents, they strongly feel that this has in a way reduced instances of intentional default where customers would borrow while not intending to pay back. In terms of the existence of collaboration among industry players, respondents from Quest indicated that there is a healthy network among the debt collection firms and the credit reference bureaus.

It was further indicated by majority of respondents from Quest that it is possible and in fact easy to share credit information amongst themselves. Aside from the CRB data, debt collection firms have set up and continue to build on an up to date database of customer information which they share amongst themselves. Based on this database, it is easier for them to cross check and even trace defaulters who had become untraceable. They get this information from various sources such as supermarkets, employers, phone service providers, saccos, recruiting agencies among others. Respondents from Barclays however indicated that it was not possible to collaborate with other players in the industry except to just outsource.

Quest does not have restrictive policies relating to collaboration with other organizations which makes it possible to collaborate. Unlike private firms, Barclays bank operates within strict policy guidelines that restrict engaging other parties as regards customer information. Respondents from Barclays also added that it was not acceptable to trace customers using their employers, family members or even friends because of the confidentiality clause.

#### **4.6 Geographical Spread**

The respondents were asked to describe the spatial distribution of their department country-wide. Respondents from Quest indicated that they have regional offices in major counties of Mombasa, Kisumu, Nakuru, Eldoret, Kericho, Kisii and Tran-Nzoia. They also have offices in neighbouring countries of Uganda and Tanzania but which are run in partnership with other firms in those countries because of cost rationalization and the scale of work. In other words, they have a physical presence not just in major counties but in neighbouring countries as well. This, they added, has been made possible because of the big number of clients they have. Using economies of scale, they are able to sustain operations in these satellite branches. At the same time, Quest is able to quickly set up new office locations based on clients needs. Respondents from Barclays on the other hand indicated that loan collection is a centralized function of the bank and their collections departments is located at their head office based in Nairobi. Previously when collections department was established in 2007, there were some small collection units at certain branches but which over time were closed because they seemed not sustainable to the business. Respondents from Barclays added that because NPL volumes in branches keep varying month after month and from branch to branch, it was not justifiable to set up collection units in some branches and not others. Thus, the study shows that the private debt collection firms have a better geographical distribution of their departments as compared to Barclays bank. This study finding regarding the geographical spread agrees with that of Kamau (2014) who argued that in most cases, loan collection is a centralized function of banks and in Kenya all the major banks have their collections departments located at their head offices based in Nairobi.

#### **4.7 Remuneration of Staff**

The respondents were asked to indicate if the collection staff are paid through a standard salary or a commission based structure. Majority of the respondents from Quest indicated that they are paid both a standard salary and in addition a commission based on their performance for the month. They also added that more seasoned staff often attract better terms and are in high demand because of the expertise and experience they bring with them. Some have even resigned from banks to go and work in the private debt collection firms because of the offers they were given. The respondents further indicated that the best debt collection firms will seek to attract the best collection staff and offer comparatively better remuneration packages. Respondents from Barclays indicated that they are paid a standard salary as per the collective bargaining agreement for bankers. There are no commissions paid on top of salaries.

Regarding existence of a reward and recognition scheme, respondents from Quest indicated that the firm has developed a system that identifies high performers and gives them quarterly cash bonuses as well as other motivational benefits such as holiday trips and trophies. Some clients also seek to recognize best performers and directly award them. On the other hand, respondents from Barclays indicated that the bank initially had a reward scheme for collection scheme but which was scrapped just a year after its introduction in the year 2013. The only existing recognition scheme currently is one where parameters of assessing one's performance are broad so as to make it possible to measure peers from different departments using the same yard stick.

Respondents were also asked to indicate if there are external factors that affect the collection and recovery of non-performing loans by the banks. In response majority of the respondents from both Barclays and Quest strongly agreed that there are external factors that affect the collection and recovery of NPLs by banks. Among the factors the respondents indicated includes operational efficiency of the hired collecting firm, access to information technology services and the level of investment on infrastructure and human resources.

Finally, the respondents were asked to mention the considerations that they would suggest for successful and improved collection and recovery of NPLs in their organization. Majority of the respondents indicated that at the policy level, there should be avenues to fast track legal processes especially in the Insolvency Act which have been known to take far too long to conclude. In addition, they expressed the need to open up inter-bank collaboration where banks can easily and quickly flag a customer who defaults with one bank but continues to operate other accounts in other banks. Some respondents indicated that banks should seek to integrate social media identities in traditional customer information and make sure that capturing data is accurate and frequently updated. Regarding remuneration, respondents from Barclays suggest having a commission on top of their salaries as an incentive for the hard work they put in unlike their colleagues in other departments. This suggestion agrees with finding of Clott (2014) who argued that debt collection firms have incentive schemes that are based on the staff's performance and this is mainly done through commission based payments where the greater the amount collected, the higher the pay the staff takes home.

#### 4.8 Effectiveness to Successfully Recover from Defaulting Customers

The respondents were asked to indicate their extent of agreement on various factors that contribute to their effectiveness to successfully recover from defaulting customers. The study findings were as presented in table 7.

**TABLE 7**  
**Effectiveness to Successfully Recover from Defaulting Customers**

<b>Statements</b>	<b>Mean</b>	<b>Standard Deviation</b>
Availability of modern office equipment and information technology	4.259	1.069
Your access to customers from whom you are recovering from	4.328	1.081
Company's logistical facilitation for visits	4.000	0.822
Availability of an incentive scheme for staff	4.172	1.036
Your induction and continuous training as a collection staff	3.862	0.884
A higher remuneration package compared	4.259	1.013
Organization's response to staff feedback on concerns related to their work	4.034	0.922

As shown in the Table 7 majority of the respondents agreed that to a large extent; Their effectiveness to recover from defaulting customers will be higher if they have access to those customers as indicated by a mean of 4.328 and a standard deviation of 1.081, also that their effectiveness to recover from defaulting customers will be higher if there is a higher remuneration package at entry level by a mean of 4.259 and a standard deviation of 1.013. Respondents also agreed to a large extent that their effectiveness to recover from defaulting customers will be high if there is availability of modern office equipment and information technology as indicated by a mean of 4.259 and a standard deviation of 1.069. Further respondents agreed that their effectiveness to recover will be higher if there is availability of an incentive scheme for staff as indicated by a mean of 4.172 and a standard deviation of 1.036. The respondents indicated that their effectiveness will be higher to a great extent because of their organization's response to staff feedback on concerns related to their work and this was indicated by a mean of 4.034 and a standard deviation of 0.922.



The study findings agree with those observed by Pearce (2010) who noted that outsourcing of collection services of NPLs by financial institutions has a number motives such as operational efficiency; efficient use of resources; and quick and reliable service delivery. Similarly, Antony (2013) argued that there are benefits of outsourcing such as; cost reduction; access to better technology and infrastructure and strategy of focusing on core activities; economies of scale which leads to improvement in synergies achieve diversification benefits or streamline services; focusing on core activities; free scarce resources; quality services; and flexibility.

#### **4.9 Extent for Contribution to Successful Recovery of NPLs by the Department**

The respondents were asked to indicate the extent to which they thought that the listed factors contributed towards successful recovery of NPLs by their departments. The study findings were as presented in Table 8.

**TABLE 8**  
**Extent for contribution to successful recovery of NPLs by the department**

	<b>Mean</b>	<b>Standard Deviation</b>
Adverse listing by credit reference bureaus	4.224	0.986
Access to a detailed internal database	4.241	1.011
Ease of collaboration with other firms	3.966	0.863
Access to trainings and training materials	4.328	1.048
How strategies are formulated and executed	3.948	0.742
Response time of the organization to market changes	4.310	1.069
Resourcing and staffing of the department	4.069	0.839

As shown in Table 8 the study indicated that majority of the respondents agreed that; access to trainings and training materials contributes to a large extent in the successful recovery of NPLs as was indicated by a mean of 4.328 and a standard deviation of 1.048, also that the response time of the organization to market changes contributes a large extent to the successful recovery of NPLs as was indicated by a mean of 4.310 and a standard deviation of 1.069. Further the respondents agreed that access to a detailed internal database contributes to a large extent in the successful recovery of NPLs as was shown by a mean of 4.241 and a standard deviation of 1.011 and also that adverse listing by credit reference bureaus

contributes to a large extent in the successful recovery of NPLs as was shown by a mean of 4.224 and a standard deviation of 0.986.

Also the respondents agreed that resourcing and staffing of the department contributes to large extent in the successful recovery of NPLs as was indicated by a mean of 4.069 and a standard deviation of 0.839 and also that the ease of collaboration with other firms contributes a large extent to successful recovery of NPLs as was indicated by a mean of 3.966 and a standard deviation of 0.863. In addition, the respondents agreed that how strategies are formulated and executed contributes to a large extent on the successful recovery of NPLs as was shown by a mean of 3.948 and a standard deviation of 0.742.

The findings agree with those of Berg (2008) who asserted that banks outsource debt collecting services for a number of reasons, such as, enhanced performance; costs reduction; access to superior expertise; and strategic reasons. In addition, the study findings indicate that although there are many benefits derived from outsourcing of debts collection to private firms, the arrangement gives rise to potential risks. The risks identified are: strategic, reputation, credit, compliance, transaction and country risk.

The respondents were asked to indicate the considerations they would suggest for successful and improved collection and recovery of NPLs in their organization. Majority of the respondents indicated that they should educate the borrowers about product features and collection fees and charges, establish a mutual agreeable payment dates, address the customer service complaints quickly and also respondents indicate that they should use positive reinforcements for debt recovery.

## 4.10 Correlation

**Table 9**  
**Correlations**

		Effectiveness of outsourcing loan collection to private firms	Firms Experience	Information Sharing	Geographical spread	Remuneration of staff
Effectiveness of outsourcing loan collection to private firms	Correlation Coefficient	1.000	.653	.633	.602	.648
	Sig. (1-tailed)	.	.476	.439	.335	.958
	N	46	46	46	46	46
Firms Experience	Correlation Coefficient	.653	1.000	.142	.037	.001
	Sig. (1-tailed)	.000	.	.000	.003	.002
	N	46	46	46	46	46
Information Sharing	Correlation Coefficient	.633	.142	1.000	.046	.008
	Sig. (1-tailed)	.002	.001	.	.000	.000
	N	46	46	46	46	46
Geographical spread	Correlation Coefficient	.602	.037	.046	1.000	.124
	Sig. (1-tailed)	.002	.000	.001	.	.002
	N	46	46	46	46	46
Remuneration of staff	Correlation Coefficient	.648	.001	.008	.124	1.000
	Sig. (1-tailed)	.000	.001	.003	.000	.
	N	46	46	46	46	46

On the correlation of the study variable, a Pearson moment correlation was conducted. From the finding in the table above, the study found that there was strong positive correlation coefficient between effectiveness of outsourcing loan collection to private firms and firms experience, as shown by correlation factor of 0.653, this relationship was found to be statistically significant as the significant value was 0.000 which is less than 0.05. The study found strong positive correlation between effectiveness of outsourcing loan collection to private firms and information sharing as shown by correlation coefficient of 0.633, the significant value was 0.002 which is less than 0.05. The study found strong positive correlation between effectiveness of outsourcing loan collection to private firms and geographical spread as shown by correlation coefficient of 0.602, this too was also found to be significant at 0.002 and finally the study found strong positive correlation between effectiveness of

outsourcing loan collection to private firms and remuneration of staff as shown by correlation coefficient of 0.648 at 0.000 levels of confidence.

#### 4.11 Regression Analysis

##### 4.11.1 Model Summary

In this review, a numerous relapse investigation was directed to test the impact among indicator factors. The examination utilized (SPSS V 21.0) to code, enter and process the estimations of the numerous relapses. The model summary is presented in Table 10.

**TABLE 10**

**Model Summary**

<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.818 <sup>a</sup>	.669	.652	.37290

The study used coefficient of determination to evaluate the model fit. The adjusted R<sup>2</sup>, also called the coefficient of multiple determinations, is the percent of the variance in the dependent explained uniquely or jointly by the independent variables. The model had an average adjusted coefficient of determination (R<sup>2</sup>) of 0.652 and which implied that 65.2% of the variations in effectiveness of outsourcing loan collection to private firms are explained by the independent variables under study (firms experience, information sharing, geographical spread and remuneration of staff).

##### 4.11.2 ANOVA

The study further tested the significance of the model by use of Analysis of Variance (ANOVA) technique. The findings are tabulated in Table 11.

**TABLE 11**

**Summary of One-Way ANOVA results**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
	Regression	0.294	3	0.294	4.083	.001 <sup>b</sup>
1	Residual	1.008	42	1.008		
	<b>Total</b>	<b>1.302</b>	<b>45</b>	<b>1.302</b>		

Critical value =2.50

From the ANOVA statics, the review set up the relapse demonstrate had a significance level of 0.1% which means that the information was perfect for making a conclusion on the populace parameters as the estimation of noteworthiness (p-value) was under 5%. The calculated value was greater than the critical value ( $4.083 > 2.50$ ) an indication that firms experience, information sharing, geographical spread and remuneration of staff have a significant effect on effectiveness of outsourcing loan collection to private firms. The significance value was less than 0.05 indicating that the model was significant.

#### 4.11.3 Coefficients of Determination

In addition, the study used the coefficient table to determine the study model. The findings are presented in the Table 12 below.

TABLE 12

**Coefficients**

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
(Constant)	.176	.317		0.555	0.592
Firms Experience	.417	.096	.397	4.344	.000
Information Sharing	.596	.143	.670	4.168	.001
Geographical Spread	.569	.118	.394	4.822	.000
Remuneration of Staff	.492	.122	.413	4.033	.003

As per the SPSS generated output as presented in table above, the equation ( $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \epsilon$ ) becomes:

$$Y = 0.176 + 0.417X_1 + 0.596X_2 + 0.569X_3 + 0.492X_4$$

From the regression model obtained above, a unit increase in firm experience would lead to an increase in effectiveness of outsourcing loan collection to private firms by a factor of 0.417; a unit change in information sharing increase effectiveness of outsourcing loan collection to private firms by a factor of 0.596, a unit increase on geographical spread would lead to an increase in effectiveness of outsourcing loan collection to private firms by a factor

of 0.569 and a unit change in remuneration of staff would lead to an increase in effectiveness of outsourcing loan collection to private firms by a factor of 0.492 and vice versa. The criteria for comparing whether the predictor variables were significant in the model was through comparing the obtained probability value and  $\alpha=0.05$ . If the probability value was less than  $\alpha$ , then the predictor variable was significant otherwise it wasn't. All the predictor variables were significant in the model as their probability values were less than  $\alpha=0.05$ .

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter presents a summary of the findings, conclusions and recommendations for adoption in practice and possible future research on related aspects of the problem. The main objective of the study was to evaluate the performance of loan collection by commercial banks through outsourcing of collection of NPLs to private firms. Breaking it further, the study sought to; establish how a private debt collection firm's experience influences collection of NPLs, assess the influence of credit information sharing on the collection of NPLs, to analyze the influence of private firms spread into different geographical locations and to examine how remuneration of staff by private collection firms influence the collection of NPLs.

#### 5.2 Summary of the Key Findings

This study sought to investigate how effective outsourcing of debt collection is to banks that elect to use that strategy in recovery of their NPLs. The study was undertaken using Barclays bank of Kenya Ltd as the case study and the findings will be useful in guiding how similar organizations in the business of lending can best tackle the challenge of a growing bad debt portfolio. The researcher selected a sample of 48 respondents from Barclays bank and 11 from Quest Ltd using stratified random sampling. The study employed use of questionnaires and interview schedules to obtain primary data. Data analysis tools used included statistical package for social sciences (SPSS) and Microsoft excel which gave statistical output in form of percentages, tabulations, means and other central tendencies. Tables were used to summarize responses for further analysis and facilitate comparison. The summary of the findings for the four objectives of the study are as follows.

##### 5.2.1 To Establish How a Private Debt Collection Firm's Experience Influences Collection of NPLs

As per the first objective of the study which was how a private debt collection firm's experience influence its collection of NPLs, the study revealed that the private debt collection firms often seek the best staff in the market and offer better payment packages and therefore they are able to recruit and maintain a high performing and competent collection team. They also have well developed training modules which they subject their staff to leading to a

highly trained and qualified work force. Being private companies with simpler organization structures, private debt collection firms are able to quickly make business decisions, deploy logistical resources and quickly respond to market changes and client needs. By outsourcing, the bank is able to access best business practice, expertise, technology and other resources that may be too expensive and unjustified to be built internally or hired on full time basis. Further findings from the respondents indicated that with time and as the methods and procedures of collections become routine, the staff who work in the debt collection firms get to sharpen their skills and create a knowledge base with which they train others and also that gradually they get to a stage where they recognize their incompetence and consciously work towards improvement. Eventually, the skill is perfected and the employees can utilize it without consciously thinking about it. Banks on the other hand routinely rotate their staff in different roles which does not allow the collection staff adequate time to fully get as much exposure as their counterparts from private debt collection firms.

### **5.2.2 To Assess the Influence of Credit Information Sharing on The Collection of NPLs**

With regards to information sharing, the study revealed that there is a good network among the debt collection firms and the credit reference bureaus hence it is possible to access and share credit information amongst themselves. Private debt collection firms have been able to build and maintain a database of customer information from various sources and this database is useful when tracing defaulters who have become untraceable. On the other hand, the study found that unlike private debt collection firms, Barclays bank does not have access to this database and is in fact restricted from engaging third parties when tracing customers. Further the study revealed that the bank is prohibited from collaborating with other players when seeking to recover its NPL from defaulters. These restrictions result from group policies and because of the complex organizational structure of the bank they are not easy to be changed or flexed. Since most defaulters are not reachable because of obsolete or changed contact information, availability of an up to date database is a great asset in collection hence an advantage to the private debt collection firms.

### **5.2.3 To Analyse the Influence of Private Firms Spread into Different Geographical Locations on the Collection of NPLs**

With regards to the geographical spread of private debt collection firms, the study revealed that the private firm was widely spread in the major counties of the country. This is because of their advantage of anchoring on economies of scale given the volume of the clients. In



addition, the private debt collection firm is able to quickly set up branches depending on market or client needs. This is partly because of their organizational structure that does not require long chains of approval. This geographical spread is intended to give the firm a great regional coverage to cater for its different clients. Barclays bank on the other hand has a centralized collection department that is located in Nairobi and where all collection operations are undertaken from.

#### **5.2.4 To Examine How Remuneration of Staff by Private Collection Firms Influence the Collection of NPLs**

Regarding the remuneration of the staff the study revealed that collection staff at Barclays are paid through a standard salary but those in the private firm are paid both a salary and a commission on top. The study also revealed that more seasoned staff often attract better terms and are in high demand in private debt collection firms because of the expertise and experience they bring with them. A reward and incentive scheme is available in private firms but not the bank. The scheme was developed by the firm to and is aligned towards achieving high individual performance. It works in such a way that promotions and are based on consistent good performance and also a quarterly bonus cash award given to the overall best performer. Further the study revealed that there are external factors that affect the collection and recovery of NPLs by the banks and this includes a lengthy litigation process and loopholes in security perfection. Finally, the study highlighted the need for the regulatory authorities to support in enhancing existing legislation that fast tracks conclusion of litigation and encourage arbitration as alternative paths to resolution of creditor-debtor conflicts.

### **5.3 Discussions**

#### **5.3.1 To Establish How a Private Debt Collection Firm's Experience Influences Collection of NPLs**

This study revealed that employees of private collection firms acquired significant skills in debt collection as opposed to those who took on debt collection as part time engagement, as in the case of banking staff. In addition, the study revealed that in the banking sector the collection staff received inadequate training in collection and recoveries before being deployed to the teams as when compared to employees from the Quest limited who indicated that they received adequate training with regards to collection and recoveries before being deployed to the teams. In addition, the study revealed that to a great extent; collection staff in

the collection company have access to trainings and training materials and also that there is response time of the organization to market changes.

Further the study revealed that to a great extent collection staff in a collection company had access to a detailed internal database and also that there is adverse listing by credit reference bureaus. These findings are in line with those of Githuku (2005) who argued that over time the staff in private firms will acquire significant skills in debt collection as opposed to those who take on debt collection as part time engagement, as in the case of banking staff. By outsourcing, banks are able to access best business practice, expertise, technology and other resources that may be too expensive and unjustified to be built internally or hired on full time basis.

### **5.3.2 To Assess the Influence of Credit Information Sharing on The Collection of NPLs**

This study also established that banking policies restricted collaboration and sharing of information with other organizations operating out of the banking sector. With the Quest employees, they indicated that their organization allowed them for the collaboration and sharing of information with other organization. On information sharing the study findings agrees with those of Barthelemy (2013) who asserted that with the realization that NPLs greatly compromise profits, an increasing number of banks have embarked on aggressive debt collection strategies that involves rapid expansion of their collection departments, engaging legal firms or outsourcing to external debt collection firms. He further notes that outsourcing debt collection to an external firm is likely to result in better performance for the bank because of economies of scale, specialization and tactical focus.

The findings also concur with those of Lough (2009) who asserted that a healthy network among debt collection firms makes it easier for them to share credit information amongst themselves. Access to this credit information is likely to enhance collection from customers whose contacts may have been lost.

### **5.2.3 To Analyze the Influence of Private Firms Spread into Different Geographical Locations on the Collection of NPLs**

This study established that loan collection in a banking sector is a centralized function though they have small departments in the various bank branches. Majority of the private firm collecting NPLs have branches were distributed according to their clients' needs. Thus, the study shows that the collection departments of the collection companies have a better spatial

distribution of their departments nationwide as compared to the banking sector collection departments.

The study findings regarding the geographical spread agrees with those of Kamau (2014) who argued that in most cases, loan collection is a centralized function of banks and in Kenya all the major banks have their collections departments located at their head offices based in Nairobi. Further Montana (2012) established that debt collections firms are spread across the country and have a presence in almost all the major counties. This provides their clients a greater reach and possibly a higher rate of success in contacting and recovering from the otherwise unreachable defaulters.

#### **5.3.4 To Examine How Remuneration of Staff by Private Collection Firms Influence the Collection of NPLs**

Regarding the collection staff on the factors that contribute to their effectiveness to successfully recover from defaulting customers the study revealed that to a great extent; there is collection staff access to customers from whom they are recovering from also that there is a higher remuneration package compared to bankers at entry level and also that there is availability of modern office equipment and information technology. Further the study revealed that; to a great extent there is availability of an incentive scheme for staff, there is organization's response to staff feedback on concerns related to their work and also that there is company's logistical facilitation for visits. In addition, the study revealed that to a great extent there is induction and continuous training as a collection staff.

The findings are in line with those of Clott (2004) who found out that debt collection firms have incentive schemes that are based on the staff's performance and this is mainly done through commission based payments where the greater the amount collected, the higher the pay the staff takes home

#### **5.4 Conclusion**

Regarding how a private debt collection firm's experience influences collection of NPLs, the study concludes that by outsourcing, the bank is able to access best business practice, expertise, technology and other resources that may be too expensive and unjustified to be built internally or hired on full time basis. Further the study concludes that collection staff of a private debt collection firm are adequately trained in collection and recoveries before being

deployed to the teams and that their long years of operations gives them an upper hand for the tasks allocated by their clients.

On the influence of credit information sharing on the collection of NPLs, the study concludes that credit information sharing enhances collection from customers whose contacts may have been lost. Also, the study concludes that the collection firms have a better access to the national database of customer information as compared to the banks collection departments themselves. Further there is more collaboration and sharing of information with other organizations by the collection firms than the collecting departments in the banks.

The third objective of the study was to analyze the influence of private firms spread into different geographical locations on the collection of NPLs. The study concludes that the banks have a major headquarters in Nairobi in the collection department and the private firms are flexible as they operate according to their client's orders. The collection departments of the collection firms have a better spatial distribution of their departments nationwide as compared to the banking sector collection departments.

The fourth objective of the study was to examine how remuneration of staff by private collection firms influence the collection of NPLs. The study concludes that the collection staff in the banks have a basic salary that is not necessarily based on the commissions. Also the study concludes that the best debt collection firms will seek to attract the best staff and offer comparatively better remuneration packages that are based on the staff's performance and this is mainly done through commission based payments where the greater the amount collected, the higher the pay the staff takes home.

## **5.5 Recommendations**

This study therefore recommends that the banking sector should hire the collection firms as they are more trained and more experienced to conduct debt collection in a manner that will not affect the reputation of the bank and also not interfering with its operations. the banks should further hire the private firms to do debt collection on their behalf even for them to enjoy the economies of scale provided by the private collection firms. Also, the study recommends that the CRB should provide database to the banks for efficient business operations.

Banks should have decentralized collection departments to all parts of the country that they are operating from since the customers of its loans products are spread all across the country. More private collection firms should be hired to reach out to NPLs where the banks can not economically access back their loans.

The study further recommends that banks should outsource all collection services and their employees given other tasks in the bank. The employees of the collection firms should receive commissions with regards to the collected debts to motivate them. The banks should be educating borrowers about product features and collection fees and charges, establish a mutual agreeable payment dates, address the customer service complaints quickly and also that they should use positive reinforcements for debt recovery.

### **5.6 Suggestions for Further Studies**

The purpose of this study was to evaluate the effectiveness of loan collection by Commercial Banks through outsourcing to private firms a case of Barclays bank of Kenya. This study recommends another possible area of importance that can be studied in credit risk may be evaluating the effectiveness of credit information sharing by the Commercial Banks on the collection of NPLs.

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**APPENDICES**  
**Appendix i: Introduction Letter**

Antony Jacob Wandera,  
P.O. Box 50808 00200,  
NAIROBI

Dear Respondent,

**RE: DATA COLLECTION FOR RESEARCH STUDY**

I am a student at the University of Nairobi pursuing a master's degree in Project Planning and Management. As part of the curriculum, I am conducting a study on the factors influencing effectiveness of loan collection through outsourcing and you have been selected as a respondent in the data collection.

Kindly answer the following questions honestly and objectively to the best of your knowledge, the information obtained will be treated with strict confidentiality. Please do not write your name on the questionnaire. Thank you in advance for your acceptance and support.

Yours faithfully

Antony Jacob Wandera

## **Appendix ii: Interview schedule for management staff**

I am a student undertaking my Master of Arts in Project Planning and Management of the University of Nairobi. This questionnaire is meant to assist me in collection of data. The information you will provide will strictly be used for this study only and confidentiality is assured. Kindly answer all questions by filling in the spaces provided.

### **SECTION A: GENERAL INFORMATION**

- 4 Name of firm.....
- 5 Position held.....
- 6 Number of direct reports.....
- 7 Length of service in current role.....

### **SECTION B: STUDY VARIABLES**

#### **a) Firms Experience**

- 8 How long has the department been undertaking collections? Is the performance tracked and monitored? If yes, please give a summary of the performance for that duration.
- 9 What are the possible reasons for the performance observed for that period?
- 10 Are collection staff adequately trained in collection and recoveries before being deployed to the teams? If yes, please list the types of training.
- 11 Does your department face any logistical challenges in providing the required resources and tools for it's operation?

#### **b) Information Sharing**

- 12 What has been the effect of credit reference bureaus in the collection and recovery of non-performing loans(NPLs)?

- 13 Does your organization have access to a national database of customer information?
- 14 Does the policy of your organization allow for collaboration and sharing of information with other organizations?

**c) Geographical Spread**

- 15 How is the spatial distribution of your department nation-wide? Is there a strategic reason behind that approach?

**d) Remuneration of staff**

- 16 Are the collection staff paid through a standard salary or a commission based structure?
- 17 Has a reward and recognition system been developed by the organization and aligned towards achieving high individual performance? Please explain.
- 18 Are there external factors that affect the collection and recovery of NPLs by banks?
- 19 What considerations would you suggest for successful and improved collection and recovery of NPLs in your organization?

**THANK YOU FOR YOUR PARTICIPATION**

### Appendix iii: Questionnaire for collection staff

I am a student undertaking my Master of Arts in Project Planning and Management of the University of Nairobi. This questionnaire is meant to assist me in collection of data. The information you will provide will strictly be used for this study only and confidentiality is assured. Kindly put a tick on the boxes provided

#### SECTION A : GENERAL INFORMATION

2) What is your line of engagement with Barclays Bank ?

- i) Senior Management
- ii) Mid level Management
- iii) Collection Staff

3) What is your length of service in the current department

- i) 0-3 years           [ ]
- ii) 4-7 years           [ ]
- iii) 8-10 years       [ ]
- iv) Over 10 years     [ ]

4) What is your highest level of education ?

- i) Certificate       [ ]
- ii) Diploma        [ ]
- iii) Degree           [ ]
- iv) Master           [ ]
- v) Others            [ ]
- vi) Specify .....

5) Do you have specialized training in loans collections ?

- i) Yes                [ ]
- ii) No                [ ]

6) If yes kindly indicate which one.

.....

.....

.....

.....

.....

**SECTION B: STUDY VARIABLES**

7) To what extent does the following factors contribute to your effectiveness to successfully recover from defaulting customers?

	Very great extent	Great extent	Moderate	Less extent	Not at all
Availability of modern office equipment and information technology					
Your access to customers from whom you are recovering from					
Company's logistical facilitation for visits					
Availability of an incentive scheme for staff					
Your induction and continuous training as a collection staff					
A higher remuneration package compared to bankers at entry level					
Organization's response to staff feedback on concerns related to their work					

8) To what extent do you think the following factors contribute to successful recovery of NPLs by your department?

	Very great extent	Great extent	Moderate	Less extent	Not at all
Adverse listing by credit reference bureaus					
Access to a detailed internal database					
Ease of collaboration with other firms					
Access to trainings and training materials					
How strategies are formulated and executed					
Response time of the organization to market changes					
Resourcing and staffing of the department					

9) What considerations would you suggest for successful and improved collection and recovery of NPLs in your organization?

**THANK YOU FOR YOUR PARTICIPATION**

**Appendix iv: Research Permit**

**THIS IS TO CERTIFY THAT:**

**MR. ANTONY JACOB WANDERA  
of UNIVERSITY OF NAIROBI, 0-200**

**Nairobi, has been permitted to conduct  
research in Nairobi County**

**on the topic: FACTORS INFLUENCING  
THE PERFORMANCE OF LOAN  
COLLECTIONS BY COMMERCIAL BANKS  
THROUGH OUTSOURCING OF  
NON-PERFORMING LOANS TO PRIVATE  
FIRMS.A CASE OF BARCLAYS BANK OF  
KENYA LTD.**

**for the period ending:  
5th September,2018**

.....  
**Applicant's  
Signature**

**Permit No : NACOSTI/P/17/88444/18684**

**Date Of Issue : 7th September,2017**

**Fee Received :Ksh 1000**



*Galenga*

.....  
**Director General  
National Commission for Science,  
Technology & Innovation**



## **CONDITIONS**

- 1. The License is valid for the proposed research, research site specified period.**
- 2. Both the Licence and any rights thereunder are non-transferable.**
- 3. Upon request of the Commission, the Licensee shall submit a progress report.**
- 4. The Licensee shall report to the County Director of Education and County Governor in the area of research before commencement of the research.**
- 5. Excavation, filming and collection of specimens are subject to further permissions from relevant Government agencies.**
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**REPUBLIC OF KENYA**



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RESEARCH CLEARANCE  
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**Serial No.A 15589**

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**NATIONAL COMMISSION FOR SCIENCE,  
TECHNOLOGY AND INNOVATION**

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NAIROBI-KENYA

Ref. No. **NACOSTI/P/17/88444/18684**

Date: **7<sup>th</sup> September, 2017**

Antony Jacob Wandera  
University of Nairobi  
P.O. Box 30197-00100  
**NAIROBI.**

**RE: RESEARCH AUTHORIZATION**

following your application for authority to carry out research on *“Factors influencing the performance of loan collections by commercial banks through outsourcing of non-performing loans to private firms. A case of Barclays Bank of Kenya Ltd”* I am pleased to inform you that you have been authorized to undertake research in **Nairobi County** for the period ending **5<sup>th</sup> September, 2018**.

You are advised to report to **the Chief Executive Officer, Barclays Bank of Kenya Ltd, the County Commissioner and the County Director of Education, Nairobi County** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit **a copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

**GODFREY P. KALERWA MSc., MBA, MKIM  
FOR: DIRECTOR-GENERAL/CEO**

Copy to:

The Chief Executive Officer  
Barclays Bank of Kenya Ltd.