

**THE EFFECT OF DEBT COLLECTION STRATEGIES ON FINANCIAL
PERFORMANCE OF LOCAL AUTHORITIES IN KENYA**

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DECLARATION

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

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DEDICATION

This research report is dedicated to my beloved husband Dr. Lucas Njoroge, my children Michelle and Melody and to my parents Mr. & Mrs. Wambugu, for always believing in me. Thank you for all the support provided.

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ABSTRACT

Debt collection strategies involve developing a strong collection unit with clearly defined, documented and consistent policies and procedures that guide staff through the collections process and instruct them on how to respond in particular situations. For an effective debt collection strategy, a firm should have an effective and documented debt collection plan since such a firm with an elaborate plan of collecting its rates and levies will be able to implement the plan more easily than one which does not have such a debt collection plan.

The purpose of the study was to investigate the effect of debt collection strategies on the financial performance of local authorities in Kenya and towards the realization of the research objective both a descriptive analysis and correlation and regression analysis was undertaken. Data was collected through the use of a questionnaire that was distributed to a sample of 40 local authorities selected from the population. The study found out that the popular debt collection strategies that are employed by the councils are, subcontracting of debt collection to third party agents that work on commission and this is also supplemented by use of internal debt collection unit in the councils, adoption of both enforcement and proactive debt collection strategies. The results show that the council's internal debt collection strategies are updated frequently to cope with the challenges that arise in the operating environment since the market will always develop mechanism to evade paying the rates and levies. The study found that the subcontracting of the debt collection to third parties and the enforcement strategies had a positive relationship with the level of debts while proactive debt collection strategies and the use of internal debt collection units were found to have a negative relationship with the level of debt collection in the councils.

The central government was identified to have a role to play by seconding experts to these councils that will guide the councils on the debt recovery exercise. In addition the councils should also adopt a more friendly system of collecting the debts since it has been found that positive compliance is more sustainable than one which is achieved through duress.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Debt Collection Strategies will help a firm take control of its accounts receivable and save time and potential legal hassle down the road. Having debt collection strategies in place helps in identifying the essential elements of effective debt collection and use them to evaluate the policies in place at your organization; ranking accounts to help you prioritize and determine an effective and appropriate contact strategy; gathering all information necessary to start building positive relationships with debtors upon first contact; motivating even slow pays, large accounts, and big clients by using benefits rather than consequences; addressing debtors' responses and reasons for nonpayment with positive and productive conversation; remaining calm and cool when clients get hot, and finally negotiating verbal agreements with debtors that will keep repayment on track and on schedule(Lewis,2005).

Debt collection strategies help a firm get results and keep the firm legally compliant with government guidelines. Not only does the firm need to understand and abide by collections law, but also needs to know the strategies and techniques that will help to easily and effectively contact and deal with debtors. From account categorization and prioritization, to resource allocation and contacting procedures, an organization needs to develop, implement, and follow a formal process for handling all collections. A firm needs to uncover specific techniques and strategies for developing a formal debt collection process that will save time and effort in contacting debtors and managing delinquent accounts (Mori, 2006).

Debt collection strategies involve developing a strong collection unit with clearly defined, documented and consistent policies and procedures that guide staff through the collections process and instruct them on how to respond in particular situations. Such policies and procedures should include a variety of strategies. The key to selecting the best method is weighing the costs and benefits of each available method based on number of days past-due and the probability of total debt collections. Contact policies may include preventative strategies, such as a payment reminder, and should include a plan defining dates of future contact and the steps to be taken in the collections process (Montana, 2005).

1.1.1 Financial Performance

The government's relationship to local authorities is similar to the relationship between a holding company and its subsidiaries; features of which include a strong interest in the financial performance of the authority, reporting and accountability arrangements that facilitate an appropriate oversight by the state and remedial action by the state were the authority's strategic direction deviates from that preferred and laid out by state guidelines(Chartered Institute of Public Finance and Accounting,CIPFA,2007).

Performance measurement is one of the most important management responsibilities because it subtly affects the way people behave. Owners of firms want performance measures to be designed with maximizing shareholders wealth. Blair (1995) puts forward five major areas in which financial performance can be examined. These include liquidity, solvency, profitability, financial efficiency and repayment capacity.

1.1.2 Effects of Debt Collection Strategies on Financial Performance

Debt collection strategies are now about proactive systems and procedures including a structured series of telephone calls, email, even text messages if it suits, personal visits and online payments. With the right kind of operatives, well trained and knowledgeable, more debt is recovered and those people who should be followed are profiled, identified and dealt with accordingly. In deciding policy for local authority debt, the key has to be a co-ordinate, partnership approach, which recognizes and helps prevent individuals becoming burdened with debt through early intervention, as well as repayment programs, but which also understands the legitimate needs of the creditors. Sophisticated profiling can focus the appropriate collection strategy to the identified debtors, even if this includes enforcement. We may not always like it, but as well as the carrot, there sometimes has to be a stick (Lewis, 2005).

Businesses that are the most successful are the ones that use effective debt collection strategies. This enables them to know which accounts are being paid and delinquent debts are being satisfied. This improves cash flow to the business. While it's a good idea at any time, it's especially important during economically tight times to review your debt collection strategies and make sure they really are having the effect you want. Debt collection is a legitimate and necessary business activity where creditors and collectors are able to take reasonable steps to secure payment from consumers or businesses that are legally bound to pay or to repay money they owe. It is important that any organization involved in recovering debt is aware of their legal obligations. Debt collection strategies should guide a firm to treat debtors and third parties fairly and with respect and courtesy. A firm should never harass or coerce them, treat them unconscionably or mislead them as to the nature of their debt, their legal obligations or any

possible outcomes if the debt is not paid. A firm should also not pursue a person for a debt unless they have reasonable grounds for believing the person is liable for the debt (Mori, 2006).

1.1.3 Local Authorities in Kenya

Local Authorities in Kenya are established under CAP 265 of the laws of Kenya. They are part of the government and are fairly autonomous in nature. Under the same Act the minister of Local government has powers to supervise the local authorities. The minister of local government is responsible for ensuring that local authorities have the institutional and policy framework, systems and capacity to effectively provide the required local services in a responsible, efficient accountable and transparent manner. Local authorities over the years are facing issues and challenges that have put stress on their ability to meet their objectives of keeping cities economically viable through high level services. Too often their revenue growth has failed to match with government spending pressures, a situation that has been made worse due to poor debt collection record (Republic of Kenya, 2005).

There are many challenges facing Local Councils in Kenya. Overwhelming demand placed on the council as a result of rapid growth without appropriate strategies to respond to the demand; correcting historical neglect, poor performance and lack of implementation of agreed initiatives and projects; poor image and reputation as a result of poor performance, attitudes/resistance and lack of support from stakeholders; lack of enforcement of existing laws and policies resulting in uncoordinated development and service delivery; insufficient financial resources coupled with inefficiency and waste; corruption; poor staff morale, attitudes, and inadequate competencies and skills; nonexistent or non responsive systems to support service delivery; external interferences, culture and attitude of external stakeholders towards the Council; Disconnect in

operations between Councillors and Chief Officers; on-facilitative legal framework; transforming the people who have been responsible for poor performance to turnaround the Councils and focus on the agreed mission, rigid structure that may inhibit performance improvement initiatives; and HIV/AIDS in the workplace which is costing the Councils dearly (ALGAK ,2006).

The government has been concerned about the escalating below standard performance of the local authorities and has instituted reforms to them. New forms of leadership, institutional reforms and local networks are required for local authority to cope with emerging trends and challenges of urbanization. Globally, local authorities have been blamed for poor planning of their mandate of revenue improvement, infrastructure and service delivery to residents. Revenue collection has become an issue in local authorities and this can be seen in the ever increasing debtors to the local authorities (Nanyumba, 2010).

1.2 Statement of the Problem

In many Authorities, for instance, tax-payers have become debtors having progressed through the system as non-payers, encouraged by lax management and political interference. Without the balance of an appropriate enforcement regime and the political will to implement it, it is perhaps difficult to see how the majority of serial debtors can be brought into line. Debt collection has taken on a more modern approach, becoming an extension of revenue and credit management with increasing emphasis on early intervention techniques, where debtors are treated as customers (Lewis, 2005).

In Kenya, the ministry of local government faces a number of challenges in its endeavour to achieve its mission emanating from both the internal and external environment. The challenges

facing local authorities include poor performance and lack of adequate resources for service delivery. Financial base and financial management is the backbone of any institution. Poor financial management in local authorities has resulted in poor revenue collection, poor revenue and expenditure documentation and tracking. These shortcomings have resulted in unpaid land rates, rents, licences and other bills, hence resulting in large debts owed to local authorities (Gathuya, 2010).

In recent times many local authorities have been quoted as being over burdened with debt. Local authority debt now runs into many millions of shillings. But not only do councils have a huge challenge on their hands to collect debt, they also have to do it against a backdrop of changing legislation. Debt for council rates, housing and sundry services runs into many millions. In pure statistical terms, debt collection seems very simple. However, the reality is very different and local authority debt is hugely complex.

Many studies have been done on local authorities but none has focused on debt collection strategies. Mitullah (2007) conducted a study on revenue sources in the City council of Nairobi. Mwangi (2008) did a study on factors influencing local authority tax compliance. Nyanumba (2010), conducted a study on factors affecting revenue collection in the City Council of Nairobi, he found out that debt collection needs to be an integral part of revenue enhancement in local authorities. Kariuki, (2002) conducted a survey of revenue enhancement strategies by local Authorities. He observed that to enhance revenue collection by LA's, political will, reforms, tax payer education and incentives to those involved are required so as to enhance revenue mobilization effort.

It is evident that these studies did not focus on effects of debt collection strategies on financial performance of local authorities. Therefore there is a research gap hence a need to formulate studies to provide an understanding of how debt collection strategies affect financial performance. This study therefore aims to investigate debt collection strategies in local authorities and seeks to answer the following question; what are the effects of debt collection strategies on financial performance of local authorities in Kenya?

1.3 Objective of the Study

The objective of the study is to investigate the effects of debt collection strategies on the financial performance of local authorities in Kenya.

1.4 Significance of the Study

Management

The management, especially the top level management of local authorities will use the study to understand the effects of debt collection strategies on financial performance of Local Authorities, hence guide them in policy formulation with regard to debt collection strategies.

Employees

From the study, the employees of local authorities will understand the effects of debt collection strategies on financial performance in local authorities and findings will guide them in practice of debt collection strategies.

Other Firms

From this study, other firms both in the public and private sector will get to understand effects of debt collection strategies on financial performance hence influence their decisions in regard to policy and practice of debt collection.

Other researchers

Researchers will use the study to get information about debt collection strategies and how they affect financial performance of local authorities, the findings will be an important resource in development of theory and further research in the area of debt collection strategies.

The Government in General

The findings of the study may also guide the government in setting up legal framework that will guide policy and practice of debt collection in local authorities and other state owned enterprises.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The broad objective of this study was to determine the effects of debt collection strategies on financial performance of local authorities. In light of this, this chapter reviews empirical studies on debt collection strategies and financial performance. According to Mugenda and Mugenda (2003), literature review involves the systematic identification, location and analysis of documents containing information related to the research problem being investigated. The rest of the chapter is organized as follows 2.2 covers theoretical review, section 2.3 covers review on debt collection strategies and financial performance, section 2.4 covers factors of debt collection strategies, 2.5 covers empirical review of studies on debt collection strategies and section 2.6 is the conclusion of the chapter.

2.2 Theoretical review

2.2.1 Stakeholder Theory

Stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business. It asks managers to articulate the shared sense of the value they create and what brings its care stakeholders together. It also pushes managers to be clear about how they want to do business, specifically what kind of relationships they want and need to create with stakeholders to achieve their purpose. The focus of stakeholder theory is articulated in two core questions. First, it asks what the purpose of the firm is. This encourages managers to articulate the shared sense of the value they create, what brings its care stakeholders together.

This propels the firm forward and allows it to generate outstanding performance, determined both in terms of its purpose and market place financial metrics. Secondly, stakeholders theory asks what the responsibility management has to stakeholders. This pushes managers to articulate how they want to do business specifically the kinds of relationships they want and need to create with the stakeholders to deliver on their purpose. Many firms have developed and run their businesses in terms highly consistent with stake holder theory (Freeman, 1994).

2.2.2 Systems Theory

Systems theory is the trans-disciplinary study of the abstract organization of phenomena, independent of their substance, type or spatial or temporal scale existence. It investigates both the principles common to all complex entities and the models which can be used to describe them.

This theory was proposed in the 1940s by Ludwig and furthered by Ross Ashby in 1956. They emphasized that real systems are open to, and interact with their environments, and they can acquire qualitatively new properties through emergence, resulting in continual evolution. Rather than reducing an entity the properties of its parts or elements/systems theory focus on the arrangement of and relations between the parts which connect them into a whole. Systems analysis developed independently of systems theory, applies systems principles to aid a decision maker with problems or identifying, reconstruction, optimizing and controlling a system while taking into account multiple objectives, constraints and resources. It aims to specify possible courses of action, together with their risks, costs and benefits (Nanyumba, 2010).

2.3 Debt Collection Strategies

The first step in debt collection strategies is for a firm to confidently identify factors that help to determine a debtor's repayment potential, prioritize collection strategy using amounts owed, days late, and repayment potential, utilize tools that will help foster positive relationships with the debtors, define collections harassment or abuse and ensure that the organization does not engage in any practices defined as such, choose the right options for legally locating debtors and applying greater pressure on them, handle angry and offended debtors when discussing financial situations.

Debt collection strategies are a set of coordinated, appropriate, and timely activities aimed at full collection of debts from clients. The process is intended to convert receivables into liquid assets as quickly and efficiently as possible, while at the same time maintaining the goodwill of the client in case of future transactions. As such, the collections process requires significant interaction with the client, beginning with a careful analysis of the client's situation and continuing through timely and frequent contact over the duration of the debt. Clients should be offered payment alternatives that are timely and appropriate to each situation, and all collections activities should be recorded to facilitate continuous monitoring and follow-up as well as control of client compliance with negotiated agreements (Branchfield, 2004)

A firm must plan collections strategies. Best practices strive to create proactive strategies. They recognize the valuable role that well-trained internal and external collections staff perform. They offer suggestions for the precise collection and maintenance of data, segmentation of clients and offering of collections products or payment alternatives tailored to the needs of the client. And,

finally, they provide a listing of policies and procedures that contribute to successful collection of debts.

Debt Collections strategies command an immense amount of time and resources in order to be implemented well. A firm's financial management has a choice to make—whether to hire a specialized collections agency or to create an internal collections unit. Before deciding, however, the firm must analyze its options carefully, noting available resources, costs, and benefits associated with each path and how the strategy fits the structure. A well designed collections strategy weighs the strengths and weaknesses of the institution, addressing general questions such as whether collections should be handled internally or externally through a third party (Misino, 2004).

2.3.1 Outsourcing Strategy

Outsourcing to third party debt collection agencies is one strategy option. Third party debt collection agencies are professionals and they use proven tactics that yield effective results from past due debtors. Collection agencies have an arsenal of resources, software, tools, databases and other options at their disposal that make them far more efficient and effective at finding otherwise unreachable delinquent customers. Collections agencies offer trained and specialized staff that are able to dedicate the appropriate time to collections activities. The costly control and supervision of collections activities are transferred to the collections agency.. The third party impact can be a powerful incentive for customers to respond. As many customers are concerned and care about damaging their good credit (Montana, 2005).

2.3.2 Internal Debt Collection Unit Strategy

A firm has an option of creating an internal debt collection unit, which has several advantages including; internal units have more thorough knowledge of the client and the market. They are careful to maintain a relationship with the client, leading to possible client reactivation. Internal units facilitate internal feedback on the collection process as a whole. An internal debt collection unit also makes staff feel more committed to the organization and to its objectives. The organization's internal database holds information for the development of predictive debt collections. This also ensures the organization retains control over the client interface, thus having more direct control and ensuring collections practices remain in line with institution's ethical standards. Creating an internal debt collection unit has several disadvantages such as, internal units require specialized staff training that few firms have the time or resources to offer. The control and supervision of collections activities and staff also imposes high costs. There is a lack of personal and professional recognition for collections staff. Collections have a reputation of being not very enjoyable, and, in some cultural contexts, quite negative (Brachfield, 2000).

2.3.3 Proactive Debt Collection Strategy

Adopting Proactive Strategies involves addressing the problem before there is a problem. This proves to be one of the most effective strategies available in reducing debt accumulation. Some pre-emptive measures can help you avoid making collection calls in the first place. This would include; making sure your payment methods are clear and simple, Create clean invoices. Confirm the contact information, include an online payment option if possible and keep your payment instructions simple. Preventive action is less costly, and the best collections activities

are those that manage clients who are not yet past due carefully. Involving the client in the establishment of mutually agreeable payment dates may increase the probability of payment (Jarvis et al 1996).

2.3.4 Enforcement Strategy

Employing legal options is also part of debt collection strategies. If deemed necessary, some delinquent cases can be pursued legally. Effectively enforced penalty measures for non payment or duly delayed payment is an important element of a debt collection strategy. Some governments have begun dealing with the debt collection problem with a variety of reform measures. The most effective one appears to be strict enforcement and rapid legal procedures and automatic tax liens on delinquent property (Alms, 1997). The Local Authorities' provide services to the residents as per the Local Government Act Cap 265 and other Government priorities as documented in various Acts of Parliament and policy documents. There are over 30 statutes that guide its operations.

2.4. Factors Influencing Debt Collection Strategies

There are many factors that influence debt collection strategies in local authorities, the most important being staff selection and motivation, information and communication technology, and political and external forces.

2.4.1 Staff Selection and Motivation

A debt collection strategy is only as good as the staff involved in its implementation.

The firm must identify the position and roles in the collections process, if any, that should be filled by internal staff and selected accordingly based on the appropriate profile for each

position. It is important to define the roles and responsibilities of each participant in the collections process. Training is vital to achieving successful debt collection and good customer service. It is important to educate staff members in techniques and strategies, such as how to address the typical arguments of the delinquent client, how to relate to difficult people, what types of clients exist, tips and verbal cues for communication, the typical profile of the delinquent client, and negotiation techniques. Additionally, firms must ensure staff members have a full understanding of the accurate application of collections tools and knowledge of relevant legal resolutions. Incentives are established to motivate staff to direct their considerable talents to obtaining desired results. In addition to improving the effectiveness of collections, incentives may also promote a workplace environment of healthy competition. The incentives could be defined based on results of collections activities, according to changes in percentages of past-due amounts at each different stages of delinquency. A simple system of commission for collections could be put in place. Incentives could be monetary or in-kind, depending on what form best suits the environment (Mori, 2006).

2.4.2 Information and Communication Technology

Quality information gathering and management is an integral part of debt collection strategies.

The precise and opportune information about debtors and important information that brings feedback is relevant for successful collections. A firm needs to develop efficient information and support systems. To properly analyze collections activities, it is necessary for the institution to have in place an efficient information system to facilitate the monitoring of past-due clients and the production of clear and precise reports. The system should also maintain a history of actions

taken and collections activities implemented. The invention and use of new technologies also has fundamentally altered the debt collection business. Communication technologies, in particular, have spurred profound changes in this industry (Kovacic and Jones, 2009).

Technological changes not directly tied to communication also have had a profound impact on the debt collection industry. Technological innovations have increased exponentially the ability of creditors and debt collectors to obtain, store, and transfer data about consumers and their debts. Changes in database technologies have dramatically enhanced the ability of debt collectors to aggregate disparate pieces of information about consumers, thus making it cheaper and easier to locate and contact consumers. Technological innovations have also altered the methods that consumers can use to pay their debts. With the emergence of electronic payment technologies and systems—such as credit cards, debit cards, stored value cards, electronic benefit transfers, and automated check clearinghouse debits—consumers now have available a host of options for paying their debts in addition to paying by cash or check (Kovacic and Jones, 2009).

2.4.3 Political and External Forces

Political forces account for the difference in choice of corporate strategies among governmental agencies. Political forces, party systems, political institutions, political orientations and coalitions, ideologies and interest groups, are the primary determinants of the relationships among managers, owners, workers and other stakeholders of the firm (Roe, 2003). Local Government administration system has been in a state of neglect and has suffered loss of integrity in the eyes of both the Government and the general public because of gross mismanagement and poor performance.

2.5 Financial Performance

A firm's performance can be measured using either financial or non-financial measures. Financial measures as a form of business performance measurement still remains an important part of measuring performance of an entity, especially in the current economic climate. Most businesses target increased profits, liquidity and solvency as a measure of sound financial health of an organization. Liquidity measures the ability of a firm to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business. Solvency on the other hand measures the amount of borrowed capital used by the business relative the amount of owner's equity capital invested in the business. Profitability as a measure of financial performance indicates the extent to which a business generates a profit from the factors of production: labor, management and capital (Mesquita and Lara (2003)).

Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business, (Mesquita and Lara (2003)). Other researchers have pointed out that financial measures do not convey the full picture of a company's performance, especially in today's competitive environment where companies are competing in terms of product, quality, delivery, reliability, after-sales service and customer satisfaction (Bozac, 2005). Many companies are using both qualitative and quantitative non-financial indicators such as; quality, lead time, number of customer complaints and warranty claims, delivery time, non-product hours, and system down time.

2.6 Empirical Review

In Zambia, local authorities were not delivering services due to poor financial performance aggravated by poor financial management strategies including debt collection strategies. A good number of authorities are limping financial and administrative management coupled with low caliber of elected councilors, (Ngombe, 2001). Oluwu and Wunsch (2003) assert that sound revenue collection strategies and debt collection strategies by local authorities is an essential part of authorities for the success of fiscal decentralization and improved performance. Shah (1998) and Oales (1998) assert that the local authority revenue mobilization has the potential to foster political and administrative accountability by empowering committee.

According to Bardhan and Mookherjee (2001) most local authorities in Africa use complicated and non transparent revenue and debt collection system which is costly to administer and capable of facilitating corruption and mismanagement. Efficient debt collection strategies are an integral component of overall corporate strategy to create shareholder wealth. The way in which debtor are managed can have a significant impact on both liquidity and profitability of a firm (Targgart (1977). Debt collection as part of revenue collection is concerned with making sure firms have cash to fund operations hence improve on performance.

The cash flow problems of many firms are exacerbated by poor collection strategies (Jarvis et al 1996). Debt collection performance depends on an efficient credit policy used by the firm. Timely debt collections are made possible as timely realization of payments from debtors and also improve current position of the institution and financial reporting, investment in securities and meeting client's obligation.

Van Horns, (1994) states that accounts receivables perspective emphasizes two main variables that is revenue and liquidity in a credit policy, and contends that curriculum between the two is the key to successful performance of a credit institution. This perspective is derived from the bankers' dilemma of liability and asset management which is focused on maintaining balanced levels of return and liquidity to highlight significant relationship between the credit management and institutional performance.

According to Deloof (2003), firms profitability can be increased by shortening accounts receivables period. Using correlation and regression tests he found a negative relationship between gross operating income and debts. On the basis of this he suggested managers should create value for their shareholders by having debt collection strategies that reduce collection days to a reasonable minimum. Debt collection strategies hence are concerned with making sure firms have cash to fund operations.

Davidson and Nientied (1991) in their research asserted that what is needed in developing countries is dynamic management that has a sound understanding of key urban development problems and potentials. In their recommendations, they stated that among the most critical management functions of urban managers are policy making and management, development, development planning and institutional development.

Becker (1994) asserts that many African cities are faced with problems of inadequate boundaries, unstable political systems, interfering rather than supportive governments, unqualified staff and technical resources, (poor strategies) which all affect performance of local authorities. Nanyumba (2010) cited debt collection as a major problem in local authorities. Collection problems stem from inadequate staff as well as inadequate strategies.

According to Kanter (1977), management of debt collection will require tuning into the environment, challenging assumptions, crafting a vision, using diplomatic skills to get favorable response, keeping actions moving by handling interferences and resistance, maintaining the momentum incorporating emergent developments and never lose sight of the overall goals debt collection to improve performance. According to Olowu (2003), LA's that lack sufficient financial management capacity and strategies, fail to deliver effective services.

Debt collection strategies differ among local authorities. However common elements affect these strategies, the most important being absence of effectively enforced penalty measures for non payment or unduly delayed payments. Collection problems may stem from inadequacy of staff as well as from the structure of the organization, which all affect performance (Nyanumba, 2010).

Outsourcing as a debt collection strategy has several disadvantages which include; Collections agencies lack experience with the low-income sector. They have little interest in client relationships, making client reactivation difficult. Communication between the firms and the collections agency may become complicated. There may be duplication of efforts or contradictions presented to the client. The collections agency's direct contact with the client may reveal problems within the firm resulting in a loss of confidentiality. The external collections agents may not adhere to the same ethical standards as promoted by the firm. These may result in non collection (Brachfield, 2000).

According to Alm (1997), a frequently cited problem is that many delinquents do not have the capacity to pay, hence debt collection strategies have no effect. Some governments in the

continent have begun to deal with these problems with a variety of reform measures. The most effective one however appears to be strict enforcement, including prompt identification of delinquent payers, rapid legal procedures, and automatic tax liens on delinquent property.

Positive reinforcement, as simple as it seems, also plays a valuable role. The organization can recognize and reward clients who pay on time by offering them immediate access to renewals, preferential (lower) rates, certificates of good payment, training and prizes. These actions should be implemented with the support of the public relations department and integrated into the corporate strategy (Montana, 2005).

2.7 Conclusion

The literature review above expressly detailed the different debt collection strategies and factors associated with debt collection strategies around the globe. However, there are no direct references to the effects of debt collection strategies on financial performance in local authorities, therefore a research gap exist. To fill the existing gap, this study seeks to establish the effects of debt collection strategies on financial performance of local authorities in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Kothari (2003) asserts that the purpose of the research methodology is to give details regarding procedures used in conducting the study. The chapter outlines the methodology, section 3.2 describes the research design, 3.3 the target population, 3.4 Sampling, 3.5 Data Collection, 3.6 Data Analysis, and finally 3.7 Validity and Reliability.

3.2 Research Design

Research design refers to the way the study is designed, that is the method used to carry out the research (Mugenda, 2008). Descriptive research is the investigation in which quantity data will be collected and analyzed in order to describe the specific phenomenon in its current trends, current events and linkages between different factors at the same time. Descriptive research design is chosen because it enables the researcher to generalize the findings to a larger population. The study applied a causal-comparative approach. This is a design that attempts to determine reasons or causes for an existing condition in groups or individuals; in this case the financial performance of local authorities in Kenya in relation to debt collection strategies.

3.3 Target population

The population can be defined as a compute set of individuals, cases, or objects with some common observable characteristics of a particular nature from other population. According to Mugenda and Mugenda (2003), a population is a well defined set of people, services, elements

and events, group of things or households that are being investigated. The population of this study is the local authorities in Kenya. Currently there are 175 local authorities in Kenya (appendix 1), which include city councils, municipal councils, town councils and county councils with the Ministry of Local Government as the overall overseer of their operations (Waema, 2005). This is the group from which the sample was drawn.

3.4 Sampling

Systematic random sampling method was used to select a sample of 40 local authorities from the target population. The sample size is greater than 30 ($n > 30$). The researcher used systematic random sampling because it gives equal chance of selection of the sample units from the target population, a starting point is chosen at random and thereafter at a regular interval of 5.

3.5 Data Collection

The study used both primary and secondary data. The researcher has developed a questionnaire which was used to collect important information from the population. A self administered questionnaire is the only way to elicit self report on people's opinion, attitudes, beliefs and values. The questionnaire contained both close ended and open ended questions. Primary data was collected using the semi structured questionnaire. The questionnaire was administered using drop and pick method. This gave the respondents time and free environment in which to respond. Secondary data refers to information obtained from articles, books, newspapers, internet and magazines. Secondary data was collected from the financial statements and management reports of the local authorities.

3.6 Data Analysis

The researcher used qualitative and quantitative techniques in analyzing the data collected. After collecting the questionnaires from the respondents, the responses were edited, classified, coded and tabulated to analyze quantitative data using the Statistical Package for Social Science (SPSS) version 17.0. Tables and charts were used for presentation for easy understanding. The data collected was examined and checked for completeness and comprehensibility. The data was then summarized, coded and tabulated.

Inferential statistics was used to establish the relationship between debt collection strategies and the performance of local authorities. The inferential statistics seeks to establish a causal effect relating independent variables to the dependent variable. While the variables debt collection strategies were quantified from likert questions, correlation analysis was used to establish the strength of the relationship between debt collection strategies and financial performance of local authorities.

A linear regression model of financial performance versus debt collection strategy factors was applied to examine the relationship. The model treats performance of local authorities as the dependent variable while the independent variables were the debt collection strategies which include; Outsourcing strategy, Internal Debt Collection Unit strategy, Proactive Debt Collection Strategy, Enforcement /Aggressive debt Collection strategy. The responses on debt collection strategies will be measured by computing indices based on the responses derived from likert-scaled questions.

The relationship equation was represented in the linear equation below;

$$Y=a+b_1x_1+b_2x_2+b_3x_3+b_4x_4+e$$

Where Y= Financial Performance indicated by increase in revenue

a =Constant term

b=Beta coefficient,

X1= Outsourcing strategy

X2=Internal Debt Collection Unit strategy

X3=Proactive Debt Collection Strategy

X4=Enforcement /Aggressive debt Collection strategy

e =Error term

3.7 Validity and Reliability

Validity indicates the degree to which the instrument measures the constructs under investigation(Mugenda and Mugenda,2003).There are three types of validity test which include content, criterion and related construct validity. This study used content validity because it was a measure the degree to which the sample items represent the content the test is supposed to measure. Piloting was carried out to test the validity and reliability of the questionnaire for data collection. From the pilot study the researcher was able to detect questions that need to be edited and come up with a final questionnaire for data collection.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The research objective was to investigate the effects of debt collection strategies on the financial performance of local authorities in Kenya. This chapter presents the analysis and findings with regard to the objective and discussion of the same. The findings are presented in percentages and frequency distributions, mean and standard deviations. Finally a regression analysis is used to analyze the data to answer the research objective.

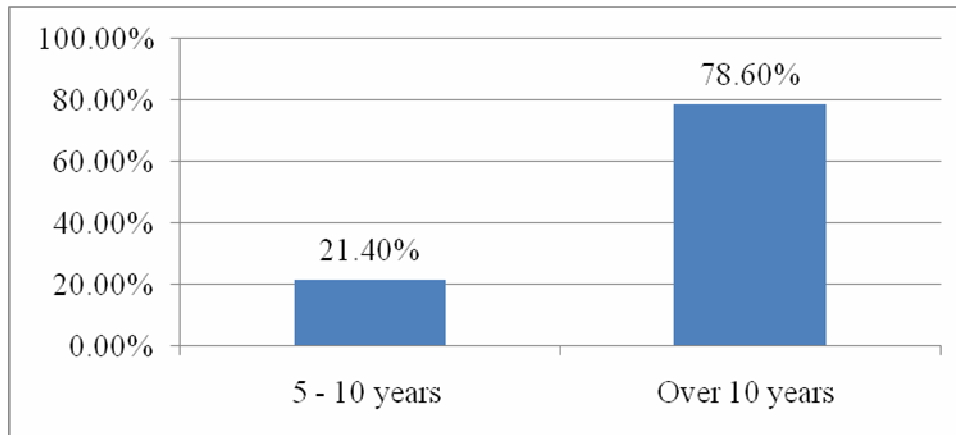
4.2 Local Authority debt collection Plans

4.2.1 Operational Life of the Organization

The respondents were asked to indicate the duration in which the local authorities had been in operation. This section was intended to assess council experience in developing and executing debt collection plans. It is expected that those local authorities that have been in operation for longer periods will have put in place adequate mechanism to collect any debt due to the council.

The findings of the question is presented in Figure 4.1 below

Figure 4.1: Age of the Local Authority



Source: Researchers data

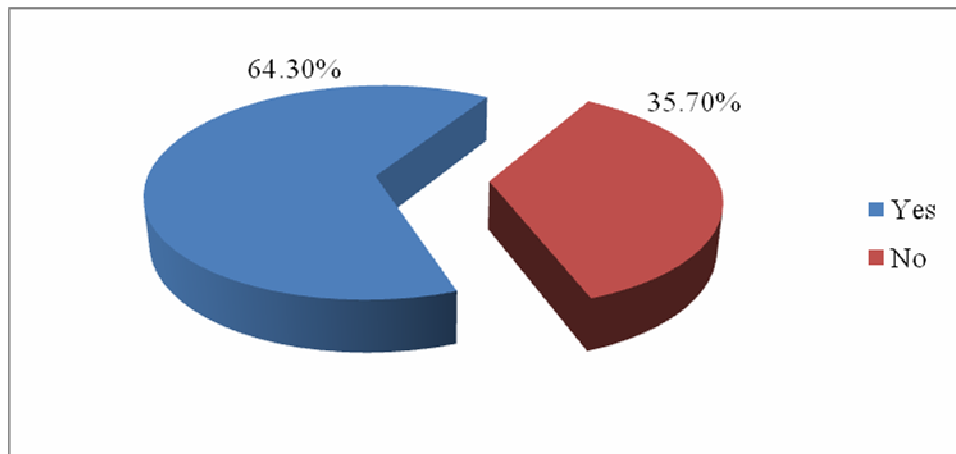
The results from Figure 4.1 above show that most of the local councils that were surveyed had been in existence for more than 10 years, representing 78.6% while only 21.4% of the respondents had been created more recently and therefore operated for less than 10 years. This findings mean that majority of the council where the research was contacted had operated for a long enough period to have put in place adequate mechanism to collect the debt. Bearing in mind that the councils depend mostly on levies and rates to finance their operation, their ability to collect these revenue will determine their sustainability.

4.2.2 Documented debt collection plans

For an effective debt collection strategy, there should be a documented plan of how, when, where the same collection should be executed at. A council that has an elaborate plan of collecting its rates and levies will be able to implement the plan more easily that one which does not have such a debt collection plan. Figure4. 2 below show the findings on the proportion of local councils that have a documented debt collection plans and those that do not have such a plan. From the

findings, it shows that 64.3% of the councils have a debt collection plan while the remaining 35.7% did not have such a plan. This results show that there are some local councils which have operated for more than 10 years and yet they do not have a plan or strategy to collect the revenue.

Figure 4.2: Documented debt collection plans



Source: Researchers data

4.3 Debt collection strategies

The respondents were requested to indicate the debt collection strategies employed by the local authorities in a five point Likert scale. The range was ‘strongly disagree (1)’ to ‘strongly agree’ (5). The scores of strongly disagree have been taken to represent a variable which had mean score of 0 to 2.4 on the continuous Likert scale; ($0 \leq S.D < 2.4$). The scores of ‘moderate’ have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: ($2.5 \leq M.E. < 3.4$) and the score of both agree and strongly agree have been taken to represent a variable which had a mean score of 3.5 to 5.0 on a continuous Likert scale; ($3.5 \leq S.A. < 5.0$). A

standard deviation of >0.8 implies a significant difference on the impact of the variable among respondents. The results are presented in Table 4.1.

Table 4.1: Debt collection strategies

	Mean	Std. Deviation
Outsourcing to third parties		
The local authority has outsourced debt collection exercise to third parties	2.6429	1.09593
The outsourcing to third parties has yielded higher returns to the council	3.0714	.97861
The outsourcing strategy has led to better satisfied debtors	3.5000	1.03638
Internal debt collection unit		
The local authority has an debt collection unit	2.0714	1.30323
The autonomous debt collection unit has increased the level of debt collection	2.2857	1.24297
The debt collection strategies are continuously up dated to cope with changes in the market	2.8929	1.19689
The current internal collection strategies are considered sufficient	3.3214	1.18801
Proactive debt Collection Strategies		
The local authority employs a stringent debt collection strategy on the debtors	2.4643	.96156
The gathering and management strategy employed by council influences the revenue collection	2.2857	.89679
The gathering and management strategy employed by council influences the revenue collection	1.5714	.92009

The adoption of the proactive strategy by the local authority has led to improved revenue collection	2.0357	1.03574
Enforcement strategy		
The local authority has a clear guidelines on the enforcement of debt collection	1.9643	.99934
The aggressiveness or conservativeness of the debt collection influences the revenue collection	1.9643	.88117
Positive reinforcement adopted by the Council has had a positive effect on the revenue collected	1.5714	.74180

The findings in Table 4.1 were that the most effective strategy for collecting debts in the Kenyan local authorities is to subcontract the exercise to third parties. The respondents pointed out that with subcontracting of the debt collection for local authorities, the level of debtor satisfaction (mean 3.5) is found to increase. This is a good indication since with a satisfied customer base; the sustainability of revenue collection can be achieved. This finding is in tandem with the observation that non financial measures are at the present operating environment that a firm should not concentrate more on financial satisfaction but rather should aim to have a satisfied customer base (Kovacic and Jones, 2009). In the case of a local authority the residents in a given local authority should aim to get a voluntary adherence by the residents but not through threats.

The findings also show that a local authority should also have internal debt collection strategies. The results shows that the internal debt collection strategies should update its internal debt collection (mean 2.8929) since the market will always develop mechanism to evade paying the rates and levies. The local authorities also were found to have adequate internal collection strategies that are thought to be sufficient (mean 3.3214). With effective internal debt collection

strategies to supplement the effort of third parties that has been outsourced, the respondents pointed out that the local authorities' revenue collection will be increased.

The proactive debt collection strategies employed also came out as a moderate factor that will influence the revenue collection of a local authority. The adoption of a stringent debt collection strategy on the debtors (mean 2.4643) came out to be a factor that will influence the level of revenue collected by local authorities. They also need to gather and manage the council strategy in a many that will not interfere with the existing relationship with the residents.

The enforcement strategy as a means of enhancing revenue collection in local authorities came out as the least popular strategy. Positive reinforcement strategies such as waivers were the least effective strategy to be adopted by the council (mean 1.5714). This means that with the current trend in which local authorities have more recently opted to offer penalty waiver, taking shape, the current findings suggest otherwise. What this findings show is that a local authority will be advised to adopt a less aggressive strategy of collecting debts and instead concentrate in educating the residents on the importance of complying with the council rules and by laws.

4.4 Quantitative Analysis

For quantitative analysis the study used two methods. At first, correlation is used to measure the degree of association between different variables under consideration. As multiple variables are influencing the problem, the study identified the crucial factors associated with debt collection strategies. Pearson and Spearman correlations are calculated for all variables used in the study starting with the Pearson's correlation results. Secondly, a regression analysis is contacted on the data to establish the regression analysis between the variables under consideration.

4.4.1 Pearson and Spearman's Correlations

Table 4.2 below shows the Pearson and Spearman's correlation coefficient generated from the data. Consistent with Shin and Soenen (1998), the spearman's rank correlation coefficients are on the upper right triangle while the Pearson product moment correlation coefficients are on the lower left triangle. Pearson's Correlation analysis is used for data to see the relationship between variables such as those between independent variables and financial distress level of the firms.

Table 4.2: Pearson and Spearman's Correlation Coefficient

Correlations						
		DC	X1	X2	X3	X4
DC	Pearson Correlation	1	.186	-.579**	-.663**	-.406*
	Sig. (2-tailed)		.343	.001	.000	.032
	N	28	28	28	28	28
X1	Pearson Correlation	.186	1	-.207	.184	-.096
	Sig. (2-tailed)	.343		.292	.349	.627
	N	28	28	28	28	28
X2	Pearson Correlation	-.579* *	-.207	1	.607**	.418*
	Sig. (2-tailed)	.001	.292		.001	.027
	N	28	28	28	28	28
X3	Pearson Correlation	-.663* *	.184	.607**	1	.515**
	Sig. (2-tailed)	.000	.349	.001		.005
	N	28	28	28	28	28
X4	Pearson Correlation	-.406* *	-.096	.418*	.515**	1
	Sig. (2-tailed)	.032	.627	.027	.005	
	N	28	28	28	28	28
**. Correlation is significant at the 0.01 level (2-tailed).						
*. Correlation is significant at the 0.05 level (2-tailed).						

If an independent variable increases revenue collection, then one should expect a positive relationship between the measures and increase in revenue collection performance. The results from the above table show that there is positive relationship between a local council outsourcing from third parties the debt collection strategies and the improvement in the debt collection of the local authorities (correlation .186). However, the study shows the correlation between the internal debt collection strategies, debt collection policy and the enforcement strategy all had a negative correlation with the capacity of the council to increase its revenue collection from the debt recoveries. What the findings actually show is that a firm should endeavor to increase contracting of the debt collection exercise to third parties with necessary expertise and resources. However, aggressive enforcement of the debt collection by the council staff will be counterproductive and should be discouraged.

4.4.2 Regression Analysis

The determinants of success in debt collection in a council are investigated for all 28 local authorities researched on. From Table 4.3 below, the established multiple linear regression equation becomes:

$$DC = 4.839 + 0.288 X_1 - .130X_2 - 0.767X_2 + 0.005X_4$$

Table 4.3: Results of General Least Square

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	4.839	.692		6.996	.000
	X1	.288	.167	.273	1.720	.099
	X2	-.130	.176	-.143	-.738	.468
	X3	-.767	.255	-.629	-3.002	.006
	X4	.005	.218	.004	.024	.981

Source: Researcher data

DC= Financial Performance represented by level of debt collection

β_0 =Constant term

X₁= Outsourcing strategy

X₂=Internal Debt Collection Unit strategy

X₃=Proactive Debt Collection Strategy

X₄=Enforcement /Aggressive debt Collection strategy

The results of this regression indicate that the coefficient of outsourcing strategy is positive and is significant at $\alpha = 5\%$. It implies that the use of third parties to collect debts from the council leads to an increase in debt collection. This suggests that the local councils should consider outsourcing the services if they have not done so already. This result was also achieved in the correlation above. The internal debt collection units and enforcement of aggressive debt collection strategies on the other hand were found out to have a negative coefficient and also

significant at the 95% confidence level. The proactive debt collection strategy was also found to have a positive coefficient and was found to be insignificant at the $\alpha = 5\%$. The model had the y-intercept constant being 4.839 and was insignificant at the 5% confidence level. This means that if the local authorities do not employ any debt collection strategies, then only 4.839 units of their total debt collection will be achieved though the constant is highly insignificant at the 5% confidence level.

Table 4.4: Model Summary for debt collection with the predictor variables

	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.741 ^a	.549	.471	.683

a. Predictors: (Constant), X4, X1, X2, X3

The adjusted R^2 , also called the coefficient of multiple determinations, is the percentage of the variance in the dependent variable explained uniquely or jointly by the independent variables (outsourcing strategy, internal debt collection unit, proactive debt collection strategy and enforced debt collection strategies) and is 54.9 %. This means that 54.9 % of the changes in the debt collected will be explained by the changes in the independent variables and control variables in the model. The remaining 45.1% of the changes in the revenue from debt collection will be explained by other factors not in the model.

4.5 Discussion of the Findings

A poor financial management in local authorities results poor revenue collection, poor revenue and expenditure documentation and tracking. With these shortcomings, the level of unpaid land rates, rents, licences and other bills, has increased and with the consequence that large debts are owed to local authorities which has also resulted in deterioration of service delivery to the residents of these councils (Gathuya, 2010). Debt collection is a legitimate and necessary business activity where creditors and collectors are able to take reasonable steps to secure payment from consumers or businesses that are legally bound to pay or to repay money they owe. It is on this position that local authorities have been encouraged to adopt a more efficient strategy in collecting the debt from the defaulters. The debt collection strategy employed should not just be adopted for the sake of it, rather the council should employ an appropriate strategy that will result in increased revenue collection from the debt collected. Debt collection has taken on a more modern approach, becoming an extension of revenue and credit management with increasing emphasis on early intervention techniques, where debtors are treated as customers (Lewis, 2005).

The findings of the study are that local authorities should consider employing a mix of aggressive debt collection strategy and also employing third party agencies to collect the same. Most of the local councils were found not to have adequate manpower to oversee the debt collection strategy and where they even have, the methods they employ has been found not to be effective since it is based on intimidation. The study found out that the use of debt collection agencies will be the most effective strategy in increasing the level of revenue collection from debt defaulters. This could be because of the expertise that these agencies have and the

manpower capacity that is enhanced unlike the local councils. Further, there is need to establish a fully fledged and independent debt collection units in the councils with well trained and motivated staff.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary

The study aimed to investigate the effects of debt collection strategies on the financial performance of local authorities in Kenya and towards the realization of the research objective both a descriptive analysis and correlation and regression analysis was undertaken.

For an effective debt collection strategy, the study found out that there should be an effective and documented debt collection plan and in this case, it was found out that majority of the local councils especially those that had been in operation for a longer period of time. A council that has an elaborate plan of collecting its rates and levies will be able to implement the plan more easily than one which does not have such a debt collection plan. On the strategies that can be adopted by a council to collect their debt, subcontracting of the task to third parties came out more strongly as a more effective system that leads to more revenue collection to the councils. The main reason of why agency results to more debt collection is that debt collection agents have necessary expertise and since they are paid on the basis of the total collection, there is an incentive to collect more. In addition, their approach is also found to consider the care of customers which increases compliance by the residents.

The results show that the internal debt collection strategies are updated frequently to cope with the challenges that arise in the operating environment since the market will always develop mechanisms to evade paying the rates and levies. The proactive debt collection strategies

employed also came out as a moderate factor that will influence the revenue collection of a local authority while the adoption of a stringent debt collection strategy on the debtors came out to be a factor that will influence the level of revenue collected by local authorities. However, the enforcement strategy as a means of enhancing revenue collection in local authorities came out as the least popular strategy to result in increased revenue collection.

The p-statistic values and R^2 were used to determine the significance and magnitude of the relationship between the dependent variable and the independent variables while to test for correlation of the variables a Pearson rank correlation analysis was also undertaken. In general, the results of general least squares method with cross section weights indicate the same interpretation that the independent variables identified affects the level of the debt collections by the councils with a 54.9% of the debt collection level being influenced by the four identified strategies by the councils. The study found that the contracting of the debt collection strategies to third parties and the enforcement strategies had a positive relationship with the level of debts while pro active debt collection strategies and the internal debt collection departments were found to have a negative relationship with the level of debt collection in the councils.

5.2 Conclusions

This paper attempted to investigate the effects of debt collection strategies on the financial performance of local authorities in Kenya. By using both descriptive and regression analysis it shows that the financial problems that the local councils face for nonpayment by the residents of the local authority can be solved by employment of appropriate debt collection strategies. It can also be concluded that the most effective strategy will be the ones that don't antagonize the

debtors but instead a system of contracting the debt collection to third parties came out as a better strategy. With the devolution of the local governments to the counties, it became imperative that these councils become self-reliant in revenue and this can be achieved through adoption of appropriate debt collection strategies.

From the above results, it can also be concluded that giving out waivers on penalties resulting from nonpayment of the levies does not lead to an increase in revenue collection due to compliance by the council. Instead, what the councils should be pursuing is to educate the residents of complying with the payment since it is from the revenue collected that the council can offer better services. Aggressive debt collection through threats, though it will result in an instant increase in revenue collection, the same cannot be sustained for a long time. The internal debt collection units in the councils should be given a free hand to perform their task and should be given adequate resources in the form of manpower and finances to carry out their tasks.

5.3 Policy Recommendations

This study makes a few recommendations that have policy implications for decision makers. The study found out that not all local councils have in place a documented debt collection plan and it is recommended that such councils should develop such guidelines. The central governments have also a role to play by seconding experts to these councils that will guide the councils on the debt recovery exercise. In addition, the councils should also adopt a more friendly system of collecting the debts since it has been found that positive compliance is more sustainable than one which is achieved through duress. The management of such councils should also consider eliminating waivers because the study found out that the same system is not sustainable.

5.4 Limitations of the Study

The study only concentrated with local councils that operate in Kenya at present. The study did not cover a period of time in the local councils operations in which the revenue collection could be established when different debt collection strategies were being adopted. This is because adoption of different strategies will have different success in revenue collection in the council.

In addition the study did not differentiate between the sizes of the local authorities. This is because some local authorities with revenue income will adopt different revenue collection strategies depending on the level of revenue collected in the council. A well established council that has been in operation for a long period of time will be expected at the same time to have put in place adequate collection strategies unlike a council which has not been existence for a longer period.

In addition, the time constraint was the other limitation faced by the researcher and there is need of a more exhaustive research to be undertaken that will involve more funding and time coverage.

5.5 Suggestions for Further Studies

It is recommended that a study be undertaken to cover more local authorities for a comparison to be made on the success of different debt collection strategies employed by the councils. A time based study should also be undertaken to establish the effectiveness of an introduction of debt collection strategies on the revenue collected over a given time period.

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APPENDIX I

QUESTIONNAIRE

Part A: General Information

1. Name of the Local authority

2. For how long has the local authority been in existence?

a) Less than five years ()

b) 5-10 years ()

c) Over 10 years ()

3. Does the Local Authority have documented debt collection strategies?

Yes [] No []

4. How often are reports on debt collection strategies made to management?

Daily [] Quarterly []

Weekly [] Semi annually []

Monthly [] annually []

5. Please indicate the extent to which you agree with the following statements relating to the outcomes of the local authority debt collection strategies?

Key

5) Strongly Agree 4) Agree 3) Moderate extent 2) Disagree 1) Strongly Disagree

Statement	5	4	3	2	1
The debt collection strategies adopted by a local authority influences it's efficiency in collections and					

ability in meeting performance objectives					
The debt collection strategies adopted by the local authority has led to the improvement in the revenue collection					
Debt collection strategies have more benefits than costs hence increases revenue of councils					

Part B: Debt collection Strategies

6.) The table below presents statements regarding a number of debt collection strategies that could be adopted by a local authority. Please indicate the extent to which you agree or disagree with each statement by ticking on the appropriate column, using the scale below.

SA – Strongly Agree **A** – Agree **MD** -Moderately Agree
D – Disagree **SD** – Strongly Disagree

Statement	SA	A	MA	D	SD
Outsourcing Services from Third Parties					
1.) The local authority has outsourced some of its collection duties to third parties to improve its revenue collection					
2.) The outsourcing of debt collection services to third parties has yielded to improved collection					
3.) Outsourcing of the debt collection has led to a satisfied debtors					

Internal Debt Collection Unit Strategy					
1.) The local authority has an debt collection unit					
2.) Establishment of an autonomous debt collection unit in the council has improved revenue collection					
3.) Internal strategies employed by the debt collection unit are continuously updated to match new challenges arising					
4.) We find the internal collection strategies to be sufficient					
Proactive debt Collection Strategies					
1.) The local authority employs a stringent debt collection strategy on the debtors					
2.) The gathering and management strategy employed by council influences the revenue collection					
3.) The gathering and management strategy employed by council influences the revenue collection					
4.) The adoption of the proactive strategy by the local authority has led to improved revenue collection					
Enforcement Strategy					
1.) The local authority has a clear guidelines on the enforcement of debt collection					

2.) The aggressiveness or conservativeness of the debt collection influences the revenue collection					
3.) Positive reinforcement(eg waivers, payment plans) adopted by the Council has had a positive effect on the revenue collected					

APPENDIX II: POPULATION OF THE STUDY-LOCAL AUTHORITIES IN KENYA

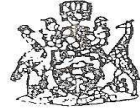
<u>Nairobi</u> city council	Kiambu county council
<u>Kikuyu</u> town council	<u>Kerugoya/Kutus</u> municipality
<u>Sagana</u> town council	Murang'a county council
<u>Ol Kalou</u> town council	<u>Nyeri</u> municipality
<u>Karatina</u> municipality	<u>Thika</u> municipality
<u>Ruiru</u> municipality	Maragua county council
<u>Makuyu</u> town council	Kilifi county council
<u>Kwale</u> town council	<u>Lamu</u> county council
<u>Malindi</u> municipality	<u>Mombasa</u> municipality
<u>Taveta</u> town council	Tana river county council
Embu county council	<u>Isiolo</u> county council
<u>Kiambu</u> municipality	<u>Limuru</u> municipality
<u>Karuri</u> town council	Kirinyaga county council
<u>Murang'a</u> municipality	<u>Kangema</u> town council
Nyandarua county council	Nyeri county council
<u>Othaya</u> town council	Thika county council
<u>Maragua</u> town council	<u>Kandara</u> town council
<u>Kilifi</u> town council	<u>Mariakani</u> town council
Kwale county council	Malindi county council
Taita-Taveta county council	<u>Voi</u> municipality
<u>Embu</u> municipality	<u>Runyenjes</u> municipality
<u>Kitui</u> municipality	Kitui county council
Makueni county council	<u>Machakos</u> municipality
<u>Mavoko</u> municipality (Athi River town)	<u>Matuu</u> town council
Mbeere county council	Meru county council
Myambene county council	<u>Chogoria</u> town council
<u>Moyale</u> county council	Mwingi county council

<u>Garissa</u> municipality	<u>Mandera</u> town council
<u>Wajir</u> county council	<u>Ogembo</u> town council
<u>Nyamarambe</u> town council	<u>Tabaka</u> town council
Homa Bay county council	Gusii county council
<u>Suneka</u> town council	<u>Kisumu</u> municipality
<u>Kehancha</u> municipality	Migori county council
<u>Wote</u> town council	<u>Mtito Andei</u> town council
Masaku county council	<u>Kangundo</u> town council
<u>Marsabit</u> county council	<u>Meru</u> municipality
<u>Maua</u> municipality	<u>Chuka</u> municipality
Meru south county council	<u>Mwingi</u> town council
<u>Tharaka</u> county council	Garissa county council
Mandera county council	<u>Ijara</u> county council
Gucha county council	<u>Nyamache</u> town council
<u>Homa Bay</u> municipality	<u>Kisii</u> municipality
<u>Keroka</u> town council	<u>Masimba</u> town council
Kisumu county council	<u>Migori</u> municipality
<u>Rongo</u> town council	<u>Awendo</u> town council
Nyamira county council	<u>Oyugis</u> town council
Rachuonyo county council	Siaya county council
<u>Ugunja</u> town council	<u>Mbita Point</u> town council
<u>Bondo</u> town council	Nyando county council
<u>Ahero</u> town council	Baringo county council
Bomet county council	Buret county council
<u>Iten/Tambach</u> town council	<u>Kajiado</u> town council
<u>Kericho</u> municipality	<u>Londiani</u> town council
<u>Eldama Ravine</u> town council	<u>Nanyuki</u> municipality
<u>Nyahururu</u> municipality	Marakwet county council
<u>Nakuru County Council</u>	<u>Molo</u> town council

<u>Nyamira</u> town council	<u>Nyansiongo</u> town council
<u>Kendu Bay</u> town council	<u>Siaya</u> municipality
<u>Yala</u> town council	<u>Ukwala</u> town council
Suba county council	Bondo county council
<u>Muhoroni</u> town council	<u>Kabarnet</u> municipality
<u>Bomet</u> municipality	<u>Litein</u> town council
<u>Sotik</u> town council	Keiyo county council
<u>Olkejuado</u> county council	Kipsigis county council
<u>Kipkelion</u> town council	Koibatek county council
Laikipia county council	<u>Rumuruti</u> town council
<u>Nakuru</u> municipality	<u>Naivasha</u> municipality
<u>Kapsabet</u> municipality	Nandi county council
<u>Narok</u> town council	<u>Maralal</u> town council
<u>Trans Mara</u> county council (Kilgoris)	Nzoia county council
Turkana county council	<u>Wareng</u> county council
<u>Kapenguria</u> municipality	<u>Chepareria</u> town council
Bungoma county council	<u>Sirisia</u> town council
<u>Webuye</u> municipality	Busia county council
<u>Nambale</u> town council	<u>Butere-Mumias</u> county council
Mount Elgon county council	Kakamega county council
<u>Lugari</u> county council	Teso county council
Vihiga county council	<u>Nandi Hills</u> town council
Narok county council	Samburu county council
<u>Kitale</u> municipality	<u>Lodwar</u> municipality
<u>Eldoret</u> municipality	<u>Burnt Forest</u> town council
Pokot county council	<u>Bungoma</u> municipality
<u>Kimilili</u> municipality	<u>Malakisi</u> town council
<u>Busia</u> municipality	<u>Funyula</u> town council
<u>Port Victoria</u> town council	<u>Mumias</u> municipality

<u>Kakamega</u> municipality	<u>Malava</u> town council
<u>Malaba</u> town council	<u>Vihiga</u> municipality
<u>Luanda</u> town council	

APPENDIX III: LETTER OF INTRODUCTION



UNIVERSITY OF NAIROBI SCHOOL OF BUSINESS MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE 27/08/2012

TO WHOM IT MAY CONCERN

The bearer of this letter Martha K. Hambugu

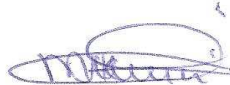
Registration No. DE1/62839/2010

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


IMMACULATE OMANI
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE

