# DEBT RECOVERY AS AN OPERATIONAL STRATEGY USED BY NIC BANK TO MANAGE NON PERFORMING LOANS PORTFOLIO

**By**

**Beatrice A. Ogolla**

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# DECLARATION

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

**Signature………………………………………… Date: ……………………………..**

**Beatrice A. Ogolla**

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

**Signature…………………………………..…… Date……………………………….**

**Eliud O. Mududa**

Lecturer,

School of Business

University of Nairobi.

# DEDICATION

This project is dedicated to the memory of my late mum Risper Ogolla, the Ogolla's family and to my dear Friend Jules for his support and encouragement.

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# ABSTRACT

The banking industry has been known to provide lending to support activities of Corporate, businesses as well as individuals. This loan offered by bank is derived from shareholders whose interest is simply to make profits. This makes banks key role to be lending and making a margin from funds lent so that it can provide a return on investment for the shareholders.

It has been difficult for banks to play this role with ease as the market is bedeviled with risks, risks which cannot be fully mitigated. The credit risk departments of the bank try as much as possible to offer calculated risks and come up with a proper analysis of anyone who wants to borrow. However, at the end of the day, banks still struggle with bad debt which leads to growth of non-performing loans (NPL) of the bank. If NPL is not tamed, a bank can go under.

The importance of debt collection strategies comes into play to mitigate risks related to the lending activities of the back. Various operational strategies are employed by banks and NIC Bank as highlighted in this research paper. In order to meet the objectives of the study, data was collected through personal interview of those involved in debt recovery and the credit risk department who are involved in the credit approval process.

This study seeks to study operational strategies that banks can put in place to ensure the NPL portfolio is kept at check through establishing operation strategies to debt recovery by NIC bank. In conclusion it was noted the operational strategies employed by NIC bank were effective and should be emulated by other banking institutions to reduce the growth of the NPL portfolio.

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# CHAPTER ONE : INTRODUCTION

## 1.1 Background of the Study

A company uses various kinds of debt to finance its 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. Public debt is a general definition covering all financial instruments that are freely tradeable 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 NIC-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, 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 compounded by bad economic situation. This forces them to incur more expenditure towards recovery of the loans. Debt recovery is guided by some regulations that somewhat make it difficult to collect the money, resulting to the loan being written off. Thus the strategic success of the company is compromised.

The banking sector is the main lender to organizations. It is the sector which is most affected by loan default which leads to non performing loans (NPL).

### 1.1.1 Non Performing Loan (NPL) Portfolio

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 China (Ping, 2003). Recent studies of bank efficiencies have directly included measures of NPLs in cost or production relationships. 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. Berg and Jansen (1992) made far reaching observations and included NPLs

### 1.1.2 Concept of Debt Recovery

Debt recovery is the process of pursuing loans which have not been repaid and managing to recover them by convincing the loanies 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 (to issue loans) 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 loanees to pay up lest they get the dreaded calls from the banking staff through the debt recovery unit. 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 defaulting. This unit is equally charged with the role of liaising with lawyers to draft demand letters to the loan defaulters and sending the same to the customers who are defaulting.

### 1.1.3 Operational Strategy

According to Slack and Lewis (2003), operations strategy is the sum total of pattern of decisions which shape the long term capabilities of the type of operations and their contribution to the overall strategy of an organization, through the reconciliation of environmental requirements with operations resources. Operations strategy is the tool that helps to define the methods of producing goods or a service offered to the customer.

Raounas, (2011) views operational strategy to entails refining and specifying an organization's business strategy and developing strategic initiatives and operational plans, aiming at enabling its clients to successfully implement its overall strategy. The work involves, challenging management on ways they perceive their business performing, and detailed analysis to identify any omissions or problems as well as areas for improvement, developing clear, achievable action plans, to deliver the strategy as promised, supporting staff in implementation of the action plans and measuring the results against predefined goals and key performance indicators. It basically relates to the short term activities performed within the organization. These activities are limited in scope and are very rigorous in their implementation. The concept of operations strategy is concerned with the specific decisions within an organization which shape and develop the long-term direction of the operations within the same organization.

### 1.1.4 The Banking Industry

According to Central Bank of Kenya (2011), there are a total of 43 commercial banks in Kenya (see appendix I). 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. Performance of many commercial banks also has improved tremendously as banks are beginning to return very good and encouraging figures in their annual income statements (Nyaoke, 2007).

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 2003 from 29.2% in June 2002, the absolute amounts of non-performing loans increased to KES 73.2 billion from KES 71.5 billion (CBK, 2003). 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.

### 1.1.5 NIC Bank Limited

NIC-Bank is an award winning commercial bank with a long track record in asset financing in Kenya. It was incorporated in Kenya in 1959, as one of the first non-bank financial institutions to provide hire purchase and installment credit finance facilities in Kenya. NIC Bank became a public company in 1971 and is quoted on the Nairobi Securities Exchange with approximately 22,000 shareholders (NIC Bank, 2011).

The bank obtained a commercial banking license in 1995 and merged in 1997 with African Mercantile Bank Limited (AMBank) by way of a share swap in order to allow the bank to enhance its market position, provide a broader and more efficient range of services to its customers and increase the returns to shareholders. The bank has more than 21 branches East Africa (NIC Bank, 2011).

The bank boasts of corporate banking, retail banking as well as Institutional banking products. NIC Bank currently operates in three east African countries i.e. Kenya, Uganda and Tanzania with Kenya being the headquarters. NIC Bank serves middle to upper class segment of the social class and is reputed with state of the art technology driven products as well as top notch customer service. The bank is the first of a kind in Kenya to introduce private banking through the Move concept in early 2000. The bank is a Tie II bank but is competing with Tier I banks for business.

## 1.2 Research Problem

Debt is an important component of everyday life. This is true for both individuals as well as business as debt drive commercial transactions world over. Debt allows people and organizations to do things that they would otherwise not be able, or allowed, to do. People use credit to purchase houses, cars and many other items too expensive to be bought in cash. Companies also use debt in many ways to leverage the investment made in their assets, leveraging the return on their equity. This leverage, the proportion of debt to equity, is considered important in determining the riskiness of an investment; the more debt per equity, the riskier. For both companies and individuals, this increased risk can lead to poor results, as the cost of servicing the debt can grow beyond the ability to repay due to either external events (income loss) or internal difficulties (poor management of resources) (Swanson, et al., 2008). Excesses in debt accumulation have been blamed for exacerbating economic problems such as deflation and credit crunch, as it compels the organizations to invest more in their recovery.

To further compound the problem, CBK in its annual reports released shocking evidence that non performing loans for 2011 was high. According to bank supervision annual report (2011), out of loan book of KES 2.02 trillion in 2010, 5.3 billion was non-performing loans. In addition, Kenya Bankers Association as well as parliamentary select committee on finance were at loggerheads on the likelihood of borrowers to default due to escalating interest rates (currently at between 21% -28%). 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 (unawares). To further support the fact that debt recovery is a problem in Kenya is the high rate of non performing loans in the country. World Bank (2011) indicate that the rate of NPL to gloss loan from 2007 to 2011 were 2007 (10.6 Billion), 2008 (9.0 Billion), 2009 (7.9 Billion), 2010 (6.3 Billion) and 2011 (5.4 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. It is the operational strategies of a bank which can help in debt recovery which will see a reduction in NPL portfolio of a bank.

However, there is no documentary evidence of a systematic study on debt recovery as an operational strategy by researcher in this area. Previous studies into debt have been conducted by studies done by Mugenda (2011), Karani (2010), Githuku (2005), Mburu (2005), Ogolla (2003), Abai (2003), Muriithi (2003), Onsomu (2003), Kiyai (2003), and Mbogo (1982). These studies have not considered how debt recovery affects the strategic success of organizations by relating debt recovery to operational strategy of a bank.

Compared to other banks, NIC Bank's NPL portfolio has been reasonably small yet it has managed to tame the loan defaulters by having an efficient debt recovery strategy (Kestrel Capital, 2010). This called for the choice of NIC bank as our case study so that we may find out what clear strategies NIC employ which may benefit other banks. This leads to the following questions; To what extent does NIC Bank apply debt recovery as an operational strategy and what are the challenges encountered in the application of operations strategy?

## 1.3 Research Objectives

This research study sought to meet the following objectives;

i) To determine the extent to which NIC applies debt recovery as an operational strategy,

ii) To establish the challenges encountered in the application of such a strategy

iii) To establish whether debt recovery strategies will lower the NPL portfolio of NIC Bank.

## 1.4 Value of the Study

This study aims at contributing to existing literature on debt recovery. It also aims at generating results which will be of benefit not only to NIC bank but the entire banking fraternity at large. In addition, the banking industry will be the lead beneficiary as it benefits by reducing its non performing loan (NPL) book. The application of this study will span the entire lending organizations as they would like to borrow a leaf from best operational strategies that NIC puts in place to be able to tame the default rate by ensuring that their recovery efforts bear fruits.

The financial sector as well as the regulator will find it very easy to educate their clients based on the results of this study. Credit Reference Bureaus (CRB), will find it easy as their main work of listing bad debtors will be reduced. Banks will proactively handle debt related issues before they even issue loans hence making the loan evaluating process informed and therefore, banks will learn to identify those who will struggle to repay their loans before the actual loan is issued. This study will also ensure that banks do not collapse and struggle due to Non Performing Loans (NPL) as happened in the 90s and early 2000.

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

# CHAPTER TWO : LITERATURE REVIEW

## 2.1 Introduction

This paper looked at NIC Bank's debt recovery as an operational Strategy. The chapter therefore from a broad perspective brought out the understanding of Strategy. It then looked at the environmental challenges of banks in line with debt recovery. The chapter further looked at strategies that banks employ to recover debts. The chapter finally brings out the research problem of debt recovery.

This chapter, first, brought out the understanding of strategy as well as operational strategies and showed clearly how NIC Bank strategies of debt recovery stand out and is worth emulating by the other 42 banks in Kenya.

## 2.2 The Concept of Strategy

A strategy according to Andrews (1971) is an optimal match between environmental opportunities (e.g. Issuance of Loans) and threats (e.g. Loans default) and organizational strengths (i.e. NIC's debt recovery strategies) and weaknesses. Strategy is the way organizations endeavor to differentiate it positively from the competitors using relative corporate strengths to better satisfy customer needs Strategy is the practice of figuring out how to move from one undesired position to another desirable position. It may also be considered as a result of choices made to ultimately reach the long-term desired value of the firm. Strategy is more inclined to the winning mentality (how to win) within a turbulent environment (Ohmae, 1981).

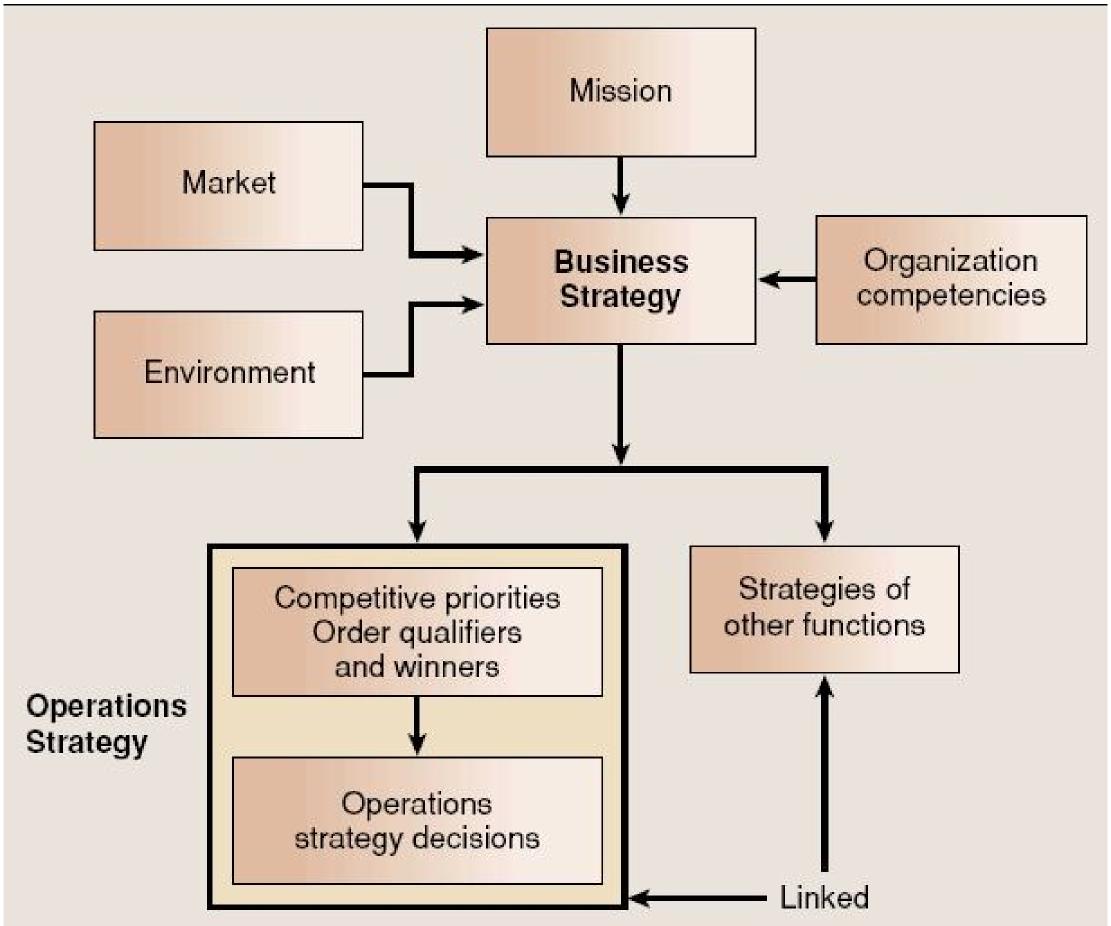
### 2.3 Operational Strategies

Operations strategy entails the development of a long-term plan by using the major resources of the firm for a high degree of compatibility between the resources and the firm's long-term corporate strategy. Operations strategy addresses very broad questions about how the major resources should be configured to achieve the desired corporate objectives of the larger organization (it is concerned with getting things done in an organization). Operational strategy is further concerned with how the operations of an organization contribute to the competitive advantage of the firm (Porter, 1985). Operational strategy focuses on how each part of the business is organized in accordance to the direction of the corporate as well as the business level strategy.  It is part of operations plan of an organization and is usually concerned with the resources, the processes, the people, and the culture within an organization. An operational strategy describes a company's operations including plans for ordering, storing, producing, outsourcing, and selling. Lots of savings can be obtained when a company carefully plans its operations around an operational strategy (Johnson, Scholes and Whittington, 2005).

An organization's business strategy is a plan or set of intentions which set the long-term direction of the necessary actions needed to ensure future organizational success. It is however evident that no matter how grand the business plan, or how noble the intention is, an organization's strategy can only become a meaningful reality, if it is operationally enacted. Operations strategy therefore entails "walking the talk." An organization's operations are strategically important precisely because most organizational activity comprises the day-to-day actions within the operations function. It is these daily actions of operations, which when considered in their totality that constitute the organization's long-term strategic direction. The relationship between an organization's strategy and its operations is a key determinant of its ability to achieve long-term success or survival. Organizational success is only likely to result if short-term operations activities are consistent with long-term strategic intentions and make a contribution to competitive advantage. Organizations must therefore ensure that their actions in line with operations strategy are anchored in the long term strategic direction of the organization (Barney, 1991).

According to Hammer (2004), an operation strategy ensures that a company timely, efficiently, and effectively deliver its product or service to the customer. Operations are generally considered the heart of any organization. Fundamentally, organizations exist to create value, and the operational strategy involves tasks that create value addition to the products or services offered by the organization. Hammer (2004) believes that operational strategy provides organizations with long-term strategic advantages over their competitors. An organizational operations strategy provides a framework for determining how it prioritizes and utilizes its resources to gain a competitive advantage in the marketplace despite the numerous challenges as well as strategic issues facing the organization. It is for this reason that an organization must develop effective strategies (both business and operational) as well as lay down well thought-out and proper implementation mechanism throughout the organization and to be able to balance on the long-term as well as short-term success. The implementation of operational strategies, need to be well managed so as to ensure that they contribute not only to the short- term objective of the organization but to the long- term success of the firm.

**Figure I: The Operational Strategy Process**




**Source:** Mintzberg and Quinn, (1992) The Strategy Process

## 2.4 Competitive Advantage

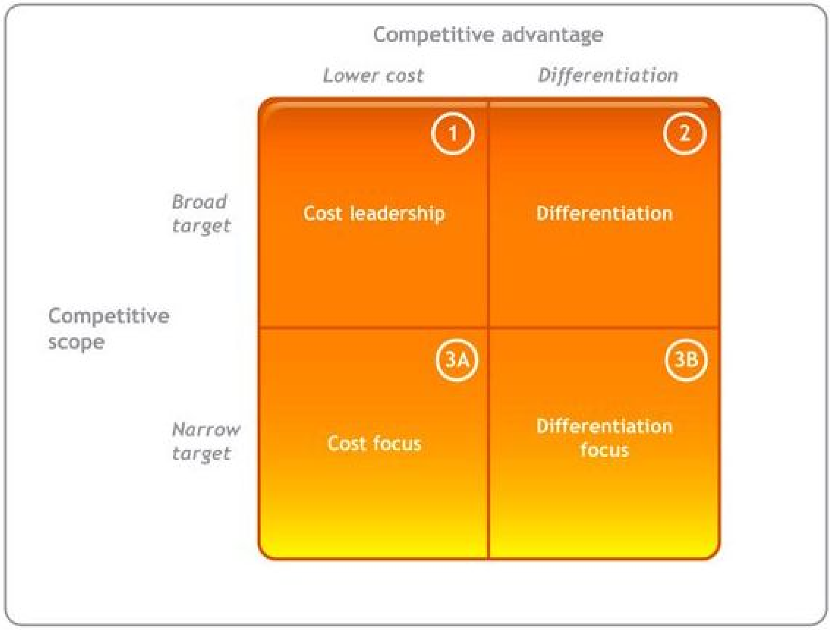
Barney (2002) believes that a firm experiences competitive advantages when its actions in an industry or market create economic value. He further emphasizes that for competitive advantage to be achieved; few competing firms should be engaging in similar actions. Barney goes on to tie competitive advantage to performance, by arguing that a firm obtains above normal performance when it generates greater than expected value from the resources it employs. The length by which a firm is capable of retaining the competitive advantage makes the firm have sustainable competitive advantage which is when a firm is assured of long term success.

Porter (1980) emphasize that firms need to build competitive advantage into their strategies. He claims that competitive advantage is at the heart of a firm's performance in any competitive market and thus firms need to create and be able to sustain a competitive advantage in an industry in the long run to remain profitable. Porter believes that to achieve competitive advantage, there are three main strategic options that are open to organizations to pursue (Cost Leadership, Differentiation and Focus strategies)

Porter further argues that competitive advantage means having low costs, differentiation advantage, or a successful focus strategy. In addition, he claims that competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. The better NIC Bank is capable of recovering debt, the higher the ROI for its shareholders as less cash is declared bad this ultimately makes the shares at NSE to be attractive to shareholders.

This research would be interested in the focus strategy or niche strategy as Porter (1980) believes that a firm cannot pursue multiple strategies above or else they will be "stuck in between." Focus strategy requires that an organization focuses its efforts and resources on a narrow defined segment of market. An example is when a bank such as Equity bank concentrates on the mass market and NIC bank targets customers who are in the middle class and upper middle class social strata. It is this niche focus which makes the debt recovery department at NIC Bank successful and we're out to establish this through research in this study.

**Figure II: Competitive Advantage**




**Source**: Porter (1985) Competitive advantage

The sustainability of Competitive advantage has been called to question since no firm is capable of sustaining the competitive advantage for long. The environmental turbulence (Ansoff, 1984) and dynamism of the market coupled with technologies has called into question the sustainability of organizations competitive advantage. More firms are under pressure to improve quality, increase productivity and produce in a speedily manner. These pressures have resulted in change in operational improvements yet these gains have rarely translated in to sustainable profitability. It has been observed (Porter, 1996) that as firms push to improve on all fronts, they have moved further away from viable competitive positions.

Porter (1996) argues that operational effectiveness although necessary to support, superior performance is not sufficient because its techniques are easy to imitate more so in this new world of technology. The remedy to sustaining competitive advantage is to choose unique and valuable positions rooted in systems of activities that are more difficult to imitate. It is important to note that strategy is useless unless the results of the strategy are understood by everyone (Porter, 2008)

## 2.5 Environmental Challenges

Today's operating environment of the firm is very dynamic. This is due to the increasing rate of change and the ever drastic nature of the many anticipated and realized changes in the environment. This therefore compels organizations to strive for new management techniques of doing things just to keep pace with the changes in the environment. The environment is difficult to understand as it encapsulates many different influences, it is diverse and this diversity brings about its complexity (Johnson, Scholes and Whittington, 2005). The environment is made up of interrelated parts, understanding the connections between the parts is of vital importance in building a strategic 'picture' of the organization. Johnson, Scholes and Whittington emphasize that for a good strategy to be formulated, the environment must be understood since the environment influences the strategy of the firm. The understanding of the environment is key to strategy formulation as a web of relationships exist which influence the strategy to be employed. The increased complexity and uncertainty of today's environment confronts managers with many challenges. Environmental characteristics and uncertainty have been important factors in explaining organizational structure, strategy, and performance.

Pearce and Robinson (1991) described the external environment as all the conditions that affect an organization's strategic options but which are beyond the organization's control. Ansoff and McDonnel (1990) also noted that the changing environment brings about environmental turbulence due to the unpredictability nature of the environment. Aosa (1992) noted that this environmental turbulence brings about challenges to management as management has to design new ways of handling the challenge in the environment. Chandler (1962) and Daft (1986) separately argued that organizations are environmentally dependant and changes in the external environment shapes the opportunities facing the organization. They therefore advocate for the understanding of the environment to help the organization objectively and rationally develop strategies that can cope with challenges affecting them. According to Porter (1996), the environment is important in providing initial insight that underpins competitive advantage. The required inputs, accumulated knowledge and skills over time are forces needed to keep progressing.

## 2.6 Factors to consider when giving debt

There are various factors which lenders take into account before advancing loans to borrowers. In most banks the department in charge of application is referred to us credit analysis. The staff in the Credit Department goes through the application as delivered to them by the Relationship managers and Relationship Officers requesting for a loan on behalf of the customer.

According to Lough, (2009) lending organizations are concerned particularly with Four things; First, the interest of making short-term loans. Second, the ability of the funds lent to be reconverted into cash. Third, a thorough understanding of the person or enterprise the bank is lending to including the inside workings of the firm or if an individual, how the person is going to spend the funds burrowed and finally, the security or collateral to be attached on the loan. The bank would be interested in placing an acceptable proof that the collateral will cover the cost of the loan and not leave the bank exposed (worse off) and that the security should easily be convertible to cash.

Many local banks use some key factors before lending, such as; credit scoring, reputation of individual or firm, guarantee or Security, creditworthiness assessment and use of Credit Reference Bureau among other methods to extend debt.

## 2.7 Debt recovery as an Operational Strategy

There is no much literature related to debt recovery as much of the debt recovery measures by banks is related to individual bank's in house process and in most cases not standardized. This void has partially influenced the need to conduct and document this study so as to offer some future literature. In Germany, Elsas et al. (1998) questioned in their study the rationale for commercial banks to arrive at credit decision. Their study emphasized the need to look at the following aspects of lending as they all influence the ability of a loan to go on default hence warrant recovery measures. These are; credit risk measurements, credit rating evaluation, relationship-lending, determinant of bank loan performance, bank behaviour based on internal credit ratings and credit securitization and credit derivatives.

In the United States of America (USA), Altman et al. (2004) in their study of Default Recovery Rates in Credit Risk Modeling noted that as the default rate increase so does the debt recovery rate increase. It therefore calls for measures to be put in place to ensure that credit risk is quickly reviewed to reduce or lower default rate.

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.

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.

In Kenya studies have been undertake 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.

## 2.8 Strategies for Debt Recovery

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. By proactively reaching customers early, you can prevent larger problems 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), the following can be used to reduce debt recovery problems in African banks; use of reminders has proved to be a good measure to encourage debtors to pay up their debts. Some customers are genuinely not able to remember when their debts are due. In this case, reminders such as short text (SMS), email or a simple telephone call does the magic and enable the client remember their obligation to the bank thereby making them be in a position to repay their debts. The advent of Credit Reference Bureau (CRB) has 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).

There exist multiple means of keeping in touch with borrowers. Banks have continued to employ products such as direct debits, mobile banking loan repayment platforms, Mpesa, Airtel money and agent banking among other methods to 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 of their repayments.

# CHAPTER THREE : RESEARCH METHODOLOGY

## 3.1 Introduction

This chapter sets out the research methodology to be used in this study. The chapter provided insight into the appropriate research design, the population of interest, the sample design, data collection method and data analysis techniques to be employed.

The study utilized case study to collect data from a purposive sample of NIC Bank management and a random sample of NIC Bank staff in all the 18 branches in Kenya. The collected data was then collated, analyzed and reported.

## 3.2 Research Design

This study employed a case study to establish operational strategies that NIC Bank employed to respond to the challenge of debt recovery to reduce NPL portfolio. The study sought to determine debt recovery as an operational strategy by NIC Bank. A case study was the most suitable design to make this investigation. The choice of case study as a design was appropriate in that it provided an avenue of relating descriptions, looking at an in depth study of NIC Bank and offer better generalizability to the entire banking industry (Nachmias & Nachmias, 1996).

Choice of NIC Bank for this study was due to its success in debt recovery as shown by it small NPL portfolio book (NIC-Bank, 2011). Similar studies had been carried out using this design and the results were satisfactory. Ogola (2003) and Onsumu (2003).

### 3.3 Data Collection

As a case study; NIC bank would offered the required data for analysis. The study relied on primary as well as secondary data collected from the company's existing documents as well as interviews with loan affiliated staff as supported by Deming (1990).

Previous studies have been done using similar data collection methods with outstanding results obtained. Kiyai (2003) when carrying out research on Bad Debt, and Ouso (2004) to carry out a survey on the use of incentive marketing in promotion of domestic tourism.

An interview guide was used (see appendix III) as well as existing company reports, online publications of financial statements and memos. The interview was divided into two sections: Section A gathered information about NIC Bank, the department and the role of respondent in the department while Section B addressed Debt recovery as an operational strategy by NIC Bank.

The interview was administered through physical discussion (interview) with respondents. The interview targeted respondents dealing with loan issuance as well as recovery. This research targeted all employees within debt recovery and credit risk departments. An interview was also conducted with the senior managers of the bank in charge of loans and debt recovery. Secondary data came from the bank's publications to complement primary data received from the interview.

### 3.4 Data Analysis

This study used content analysis as the main tool of analysis. According to Berelson (1980), content analysis is used to conduct an analysis on a text, after the text is coded, into manageable categories on a variety of levels or word, phrase, sentence, or theme, and then examined using one of content analysis' basic methods: conceptual analysis or relational analysis. The results are then used to make inferences about the messages within the text. The study collated data gathered from interviews into tables and as percentages to be able to come up with charts and graphs to aid in the analysis (Nachmias and Nachmias, 1996).

# CHAPTER FOUR : DATA ANALYSIS RESULTS AND DISCUSSIONS

## 4.1 Introduction

This chapter presented the findings of the study based on the data collected. The responses were compiled into frequencies and converted into percentages and presented in tabular form; this was to facilitate easy analysis. Out of the 18 branches of the bank, the study set out to interview at least two staff from each of the 18 branches. This gave a target population of 36 respondents. Out of these respondents only 20 interviews were administered. This represented a 56% success rate. Out of these interviews, 10 came from debt recovery department, 3 from legal department and 7 came from other departments like relationship management as well as customer facing units of the bank.

The analysis was done based on each question asked by the researcher in the interview guide. However the findings and interpretations were done on the basis of study objectives.

## 4.2 The Respondents

Data was received from respondents who were mainly drawn from debt recovery department, relationship management as well as credit risk departments. The study heavily depended on data from the debt recovery department as this is the department charged with the operational issues in line with debt recovery.

### 4.2.1 The Environmental Conditions

The banking industry is made up of 43 banks divided into three tiers based on the capital base. NIC bank is a major player in tier II bank even though it is a leading lender in asset finance in the entire industry. The banking industry is made of customers who are multi banked meaning that customers have capability of knowing which banks offer the best interest rates as well as accommodative repayment schedules.

Competition within the and between banks has continuously made banks to strategically hide information from each other although most banks are beginning to show willingness to share information due to the fear of loss of funds coupled with the encouragement by CBK for banks to share more information to reduce instances of bad debt.

### 4.2.2 Strategic Choice

Porter (1985) indicated that it is not tenable to pursue multiple strategy since one with be "stuck in the middle." NIC banks has demonstrated that in the wider offering that banks make to their customers, it chooses to pursue aggressively asset financing as its niche. This strategic choice placed NIC bank in a very strategic position as it controls 30% of assets in the country.

The decision by NIC bank to get into asset financing does not however prevent the bank from offering other superior products as the bank boasts of a robust cash management as well as corporate offering which demonstrates that the bank is employing differentiation strategy.

### 4.2.3 Financial Performance

The banking industry is a leading player at the securities exchange (NSE). This position has led to most banks to be considered blue chips and must buy at the burse. The fact that shareholders are willing to invest in a counter at the stock exchange is based majorly on the profitability as well as the return on investment that the counter attracts. Leading banks in terms of profitability are; Kenya Commercial Bank, Barclays bank of Kenya, Equity bank, Standard Chartered, NIC bank among others other banks. In the years 2009, 2010, 2011, NIC bank broke ranks with small banks and begun to return profits in the tune of over one billion annually. By 2012, the bank returned 3.6 B which was a good feat compared to the challenges which were brought about by the environment especially the political environment after post election violence.

## 4.3 Attractiveness of NIC bank to borrowers

The following are reasons why NIC bank excels in asset finance over the other banks;

### 4.3.1 Shorter turn around time

NIC has a short response to customer loan needs and this makes it appealing and attractive to customers. The Speed by which the banks processes loan needs of its customers is fast and most customers are impressed by this turn around time. This gives the bank an edge over its competition.

### 4.3.2 Collaborations and Partnerships

NIC bank boasts of a greater percentage of customers despite having a paltry 18 branches. The fact that the banks has employed a seamless partnership with motor vehicle car dealers has strengthened its asset finance offering to the extent that even the areas where NIC is not existing, its customers find it easy to take up loans. This strategic positioning has given NIC bank an edge above competition as customers find the bank's products accessible and closer to their reach.

### 4.3.3 Flexibility in Loan Repayment

NIC bank not only offers many different loans, but also provides a reasonable and flexible repayment plan. When a customer is in any financial difficulty, NIC bank is willing to extend the repayment period to accommodate its customers. This has made NIC bank a house hold name especially when the interest rates go up and become unbearable.

The speed by which other banks pursue collaterals and attach customer collaterals is not what NIC bank is known for. The bank will listen to its customer needs and come up with a repayment plan which will lead to a win-win situation between the bank and the customer.

### 4.3.4 Alternative Repayment Avenues

Most banks still operate in the brick and motor attitude. Conversely, NIC bank is dependent on innovations which have proved very supportive when it comes to loan repayments. NIC bank has rolled out a myriad of  payment platforms which range from cheque deposits, card payment, Mpesa payment, agent banking, direct debit just to mention a few. These products have made it attracting for borrowers since they do not need to bank with NIC bank to take up NIC loans.

### 4.3.5 Technological Support

In the current world, it is impossible to operate without relying on technology. Technology has proved to be a deal breaker and NIC bank has not been left behind in this advancement. Use of technology has made NIC customer see the bank to be attractive as their repayment schedules are explained electronically and promptly.

Using technology has made it possible for the bank to keep reminders and send them out before due dates as short messages. This has made most customers who would default due to forgetfulness to consider making their repayment plan in good time before their loans fall due.

## 4.4 Non Performing Loans of NIC Bank

The NPL of NIC bank was a challenge five years ago when the bank did not have a department to handle cases of default before they become bad loans. Right now, NIC bank boasts of a fully fledged recovery, collections and legal department handling different parts of the recovery process. As a bank, NIC in addition have commercial agents such as credit reference bureaus, Kenya School of

Credit and Auctioneers who are also tasked by the bank to assist in debt recoveries. It is on these grounds that NIC bank has managed to keep down its NPL book to the envy of other banks especially in tier II.

**Table 4.1: Data Presentation for Debt Recovery as an Operational Strategy**.

| | **Operational Strategies for Debt Recovery** |
|---|---|
| 1 | Demand Notice |
| 2 | Frequent Reminders |
| 3 | Normative Commitment |
| 4 | Legal Arrangement |
| 5 | Outsourcing Debt recovery |
| 6 | Invoking guarantees |
| 7 | Threat of CRB |
| 8 | Customer Closeness and visits |
| 9 | Repossession Orders |
| 10 | Seeking to take up collaterals used for borrowing |
| 11 | Relationship Management |
| 12 | Peer Pressure from Friends/groups e.g. Chama |
| 13 | Re-ageing loans by extending loan period |
| 14 | Dunning and Skip Tracing |
| 15 | Revamped credit policies |
| 16 | Empowered and well staffed debt recovery unit |
| 17 | Availing alternative payment points e.g. Agent Banking, Mpesa, Airtel Money etc |
| 18 | Relying on ICT to provide exceptional reports for debt |

**Source: Author**

The Table below shows the operational strategies that NIC bank uses to reduce its debt exposure arranged by order of importance

### 4.5 Interpretation of the Debt Recovery strategies

Based on the results of the content analysis as collected from the interview conducted on the staff of NIC Bank, it is clear that the dominant strategies the bank employs in reducing debt recovery are legal strategies, debt management as well as relationship management. These strategies have been used by NIC bank in its debt recovery measures and they have proved a point in supporting NIC bank's debt recovery strategies. There are a number of operational strategies that NIC bank puts in place to address the challenge of debt recovery. From the foregoing, it is clear that about 18 operational variables (strategies) as considered by the respondents affect the debt recovery department.

### 4.5.1 Legal Strategies

This entails the use of demand notice to customers who have not respondent to calls and emails send by the bank as well as short messages delivered through phone. The bank goes further to issue repossession orders which must follow the law so as to have an impact. In other scenarios, where a guarantee was given, the bank calls up the guarantee to enforce repayment. The legal strategies also employ the use of repossession orders from courts which they present to borrowers to enable them collect the security (e.g. motor vehicle). Repossession is done by outsourced companies and the manner in which it is carried out is punitive as the vehicle can be clamped in parking or a borrower may be stopped in a round about and the vehicle taken away. This is not only effective in enforcing compliance but is also embarrassing and very few borrowers would wish to be removed from their vehicle in the eyes of other (in public).

One major success in this legal strategies is the use of CRB to threaten defaulters that they will be reported to CRB and it will tarnish their names such that no bank will lend them until after 7 years when their names is removed from CRB. This has led to so much success in debt recovery as most borrowers do not want their names to appear in CRB for fear of not being in a position to borrow in future.

### 4.5.2 Debt Management Strategy

One thing the bank is willing to do is make debt recovery as humane as possible. Most borrowers would engage the bank whenever they are in financial difficulties and the bank would listen. In situations where the customer is being elusive and cannot be reached or when they are found, they become non committal, then the case is escalated to a further decision. However, the bank keeps customer very close and occasionally, bank staff may visit customers and understand their business as well as discuss the challenges they are facing.

Debt management strategy of NIC bank also entails the use of peer pressure especially on loans borrowed in groups (chama loans). The bank engages the other friends or group members so that the borrowers gets challenged and pay up. This is a concept borrowed from the Savings and Credit Corporative Societies (SACCO) as hardly do you find SACCO borrowers defaulting as much as bank's borrowers do.

For borrowers who happen to come from far flung areas, the bank has put up measures to ensure that alternative payment methods or points are availed for them to pay at. NIC bank makes use of Mpesa from Safaricom, Agency banking through Postbank as well as use of post dated cheques to pay up loans even for duration of 36 months. Where post dated cheques are used, the bank keeps a register of these Cheques and banks them on due dates.

### 4.5.3 Relationship Management Strategy

The most successful strategy for NIC towards debt recovery is relationship management. This strategy has made worse situations look good in many instances at the bank. Through the use of relationship management, the bank may decide to re-age a loan by extending loan period. This comes up through the discussions relationship managers are having from their customer difficulties.

Through relationship management, the credit department can also be approached to relax it credit policies which makes it difficult for borrowers to seek loans from the bank for fear of defaulting.

In summary, NIC bank's operational strategies towards debt recovery have yielded much fruit going by the manner in which NIC bank's debt recovery unit is operating as well as by looking at the NPL book of NIC bank in comparison with its peers. The strategies revolving around Legal, Debt Management and Relationship Management have come out strongly to be the reason for the success of NIC bank.

## 4.6 Challenges Encountered by NIC Bank in Debt Recovery

There is no success without challenges and this is why the study sought to also look at the challenges that NIC bank faces when they recover debt. This will lead to others learning from NIC and following through their strategies to avoid the same challenges.

The following are some of the challenges the Bank faces when dealing with debt recovery;

### 4.6.1 Dealing with High Net-worth Clients

The political class has always been a hard nut to crack. Some of these personalities borrow and do not bother to make efforts to repay in good time. NIC bank has not been left behind when it comes to this challenge and some of these people would go out of their way to abuse and even threaten staff of the bank. More often than not, they are always uncooperative when they are called upon to pay back debt.

### 4.6.2 Legal huddles

Customers have become so empowered and most of them nowadays know their rights. They will go out of their way to use the courts to delay recovery through attachment of collaterals or repossessions. The court system is a good system when it comes to protecting the rights of banks as well as customers. However, when cases are filed in courts, and due to the backlog of court cases in the country, it takes long sometimes as long as three years to complete a case. Some borrowers have taken advantage of this process to keep the bank off any repossession and this has seriously hurt the bank's debt recovery process.

### 4.6.3 Corrupt Customers Attempting to Bribe for Leniency

Corruption has equally taken away the values of this nation. Some borrowers have gone to the extent of bribing re-possessors as well as bank staff to delay their recovery something which does not assist the bank in anyway at its debt recovery strategies. The bank has however reacted to this thereat by firing its staff who gets engaged in such malpractices. NIC bank holds a very high integrity when it comes to dealing with customer's money and staff are always reminded to handle all their dealings above board.

### 4.6.4 Lack of Credible Information on Borrowers

Banks normally keep proper Know Your Customer (KYC) information. This information in most cases has not assisted in tracing defaulters. When bankers send errand messengers to deliver demand letter or repossession orders, they fail to trace the whereabouts of the lonees. This has proved a big challenge as it is impossible to even present court orders to defaulters.

### 4.6.5 Missing Collaterals

In situations where the bank has attached collaterals, it has always been difficult to find the collateral in good shape. To make it worse, some collaterals are untraceable a situation which is very grave. This makes recovery complicated as it now forces the bank to employ legal machinery to file cases which extends the repayment period as well as making the process costly.

### 4.6.6 Diversion of funds

There are situations where the bank has lent customers for specific projects. However, some borrowers once they get the cash from the bank, they decide to engage in some other business whose intention was not why the borrowed the funds. This has made such clients in most cases loose the money altogether putting the bank in a precarious position. Other borrowers have ended up purchasing cars with funds for construction which either makes them do a shoddy job because they lack enough funds to complete project.

### 4.6.7 Cost of debt recovery

Despite the fact that debt recovery is a good measure which ensures that the NPL is reduce, it has a cost and the cost is proving to be very heavy with time. The cost of employing a whole department, cost of court cases, cost of recovery, awareness as well as the cost of filing returns with CRB is so much that banks are incurring cost to recover borrowed funds.

## 4.7 Interpretation of Debt Recovery Challenges

With a well trained work force, NIC bank is capable of maintaining touch with the borrowers to the extent that the bank can be sure that its is loans are safe with borrowers. This not withstanding, it has increasingly become very difficult to keep track of all borrowers as some of these borrowers have malicious intention in that after they borrow, they go into hiding. These are borrowers who do not care whether they are listed with CRB or not.

In addition to the above challenge, there are crooks in this industry whose role is to steal. Cases have been seen where GPRS trackers of prime movers have been tampered with using the latest technology where GPRS jammers have been used to remove or interfere with the proper functioning of the gadgets such that the bank will not be in a position to track these assets. The assets are then sold to other nations like Rwanda, Tanzania, DR Congo and Uganda. This has proved very costly to the bank and therefore a major drawback and challenge to the debt recovery unit of the bank.

A further challenge to debt recovery encountered by the debt recovery strategy of NIC bank is where some borrowers work in cahoots with a cartel of crooks both at the bank and Kenya Revenue Authority to defraud the bank. These crooks present collaterals of heavy machinery and motor vehicles while in actual sense, the security paper (e.g. Log book) is a log book of a motor cycle. At KRA, the security reads prime mover while on the ground, the physical security is not worth the money the bank has lent. This is a serious challenge which the bank has been working to prevent in its entirety.

**4.8 Effects of Debt recovery on NPL of NIC bank**

This was the final objective of the study. The below is an analysis on the effects of debt recovery on NPL of NIC bank. The response gathered supported the fact that debt recovery operational strategies have reduced NPL book at NIC bank.

**Table 4.2: Data presentation on whether the Debt Recovery Strategies lower NPL**

| | Does Debt Recovery Lower NPL of the Bank | Number of Responses | Percentage response |
|---|---|---|---|
| 1 | YES | 16 | 80% |
| 2 | NO | 3 | 15% |
| 3 | N/A | 1 | 5% |

**Source: Author**

As a final objective of study, this tested the effects of debt recovery on the NPL of NIC bank. This was the best way to evaluate whether the debt recovery operations strategies of NIC bank have any impact on the NPL of the bank. From the interview conducted, it was evident that NIC bank has reduced its NPL from KES 400 M in 2009 to as low as KES 105 M in 2011 financial results despite the fact that its loan book has been growing. It is expected that with the growing loan book, NPL will equally grow. However, this has not been the case with NIC bank as it has managed to reduce its loan book.

According to response received from the study, the loan book of the bank is very big and it keeps growing with time. It is encouraging that the bad debt is reducing and this can only be attributed to the debt recovery strategies of the bank which have been demonstrated to contribute to the reduction in NPL book of the bank.

The industry has faced increase interest rates in 2011 to 2012, this has not affected the bank's NPL as it is the expectation of economists that whenever the interest rate goes up, default rate on loans is likely to go up as people struggle to pay up loans.

By using the debt recovery unit, NIC bank has shown that proper operational strategies on debt with a well empowered work force can help a bank managed its debt recovery strategy. This is a testimony that NPL can be reduced through a clear and well coordinated operational strategies using debt recovery measures.

### 4.8.1 Interpretation of Influence of Debt Recovery Operational Strategies on NIC Bank's NPL

There is tremendous contribution of debt recovery department in the reduction of NPL book of NIC bank and this is met by the aggressive nature by which the bank's operations strategies contribute in pursuing customers who would default. NIC bank establishes a customer engagement avenue which is supported by relationship management making it ideal for the bank to have a constant talk with its customers such that any issues arising from customer difficulties especially in cash flows is detected early and the customer is managed in such a way that they see no need to go into hiding but keep engaging the bank until such a time that their financial position improves. This has seen NIC perform well in its debt recovery measures. Figure 4.7 shows that idealized debt recovery strategies play a significant role in reducing NPL book of NIC Bank at 80%.

# CHAPTER FIVE : SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1 Introduction

This chapter summarizes the findings as analyzed in the previous chapter. The summary is based on the objectives of the study. The purpose of the study was to study debt recovery as an operational strategy used by NIC bank to manage non performing loans portfolio.

## 5.2 Summary of Major Findings

The study has strongly supported the three strategies that the bank has employed in managing the loan book of the bank through operational strategies (Legal strategies, Debt portfolio management as well as relationship management)

It is evident from the study that the bank has put various measures to ensure loans don’t go bad and before they go bad, enough efforts have been put in place to seek early recovery and in effect reducing the exposure even if it means getting a small part of the loan and writing off the accumulated interest.

It was also evident from the findings that the introduction of CRB has contributed positively in lowering the NPL book of banks. This is in line with studies conducted earlier such as that of Nyaoke, (2007).

## 5.3 Conclusion

From the study, many banks in Kenya need to emulate what NIC bank is doing through replication. Efforts must been made by banks to ensure shareholders hard investment is safeguarded and there is no better way to do so than put measures by way of operational strategies to cub an loan going bad hence increasing NPL book of a bank. This study attest to the fact that a good and diligent lender becomes attractive hence the reason that makes NIC bank the market leader in asset finance lending.

## 5.4 Recommendations

The study recommends that banks and lending institutions need to establish clear cut operational strategies which should be in a position to support business as well as corporate strategies of the bank. Debt recovery unit needs to above all support credit risk as well as relationship management of the bank to be able to have an impact. It is the understanding of this study that banks which want to succeed in the debt recovery must ensure there is synergy between recovery strategies as well as relationship management and credit risks. This will ensure that loans granted are good loans hence the recovery efforts will be reduced.

## 5.5 Limitation of the Study

This study would have taken a different dimension had it been conducted on the entire banking industry. However, due to time constraint, this would not be possible hence the choice of a case study. Other limitations are related to the staff of NIC bank whose response was not very reliable as some of the critical questions went unanswered for fear of disclosing the bank’s strategies to competitors.

## 5.6 Suggestions for Further reading

This study would wish to recommend that a similar study be carried our in a cross section of banks to verify what this study has established in one bank. Due to limitation of time, it was impractical to carry out the study in a cross section of banks and other lending institutions.

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# APPENDICES

## Appendix I: LIST OF COMMERCIAL BANKS OPERATING KENYA

| | |
|---|---|
| 1 | African Banking Corporation, Nairobi |
| 2 | Bank of Africa Kenya, Nairobi |
| 3 | Bank of Baroda, Nairobi |
| 4 | Bank of India, Nairobi (foreign owned) |
| 5 | Barclays Bank of Kenya, Nairobi (listed on NSE) |
| 6 | CFC Stanbic Bank, Nairobi (listed on NSE) |
| 7 | Chase Bank Ltd, Nairobi |
| 8 | Citibank, Nairobi (foreign owned) |
| 9 | City Finance Bank, Nairobi |
| 10 | Co-operative Bank of Kenya, Nairobi |
| 11 | Commercial Bank of Africa, Nairobi |
| 12 | Consolidated Bank of Kenya Ltd, Nairobi |
| 13 | Credit Bank Ltd, Nairobi |
| 14 | Development Bank of Kenya, Nairobi |
| 15 | Diamond Trust Bank, Nairobi |
| 16 | Dubai Bank Kenya Ltd, Nairobi |
| 17 | Equatorial Commercial Bank Ltd, Nairobi |
| 18 | Equity Bank, Nairobi |
| 19 | Family Bank, Nairobi |
| 20 | Fidelity (Commercial) Bank Ltd, Nairobi |
| 21 | Fina Bank Ltd, Nairobi |
| 22 | First Community Bank Ltd, Nairobi |
| 23 | Giro Commercial Bank Ltd, Nairobi |
| 24 | Guardian Bank, Nairobi |
| 25 | Gulf African Bank Ltd, Nairobi |
| 26 | Habib Bank A.G. Zurich, Nairobi (foreign owned) |
| 27 | Habib Bank Ltd, Nairobi (foreign owned) |
| 28 | Housing Finance Co. Ltd, Nairobi (gov) (listed on NSE) |
| 29 | Imperial Bank, Nairobi |
| 30 | I&M Bank Ltd (former Investment & Mortgages Bank Ltd), Nairobi |
| 31 | K-Rep Bank Ltd, Nairobi |
| 32 | Kenya Commercial Bank Ltd, Nairobi (gov) (listed on NSE) |
| 33 | Middle East Bank, Nairobi |
| 34 | National Bank of Kenya, Nairobi (gov) |
| 35 | National Industrial Credit Bank Ltd (NIC Bank), Nairobi (listed on NSE) |
| 36 | Oriental Commercial Bank Ltd, Nairobi |
| 37 | Paramount Universal Bank Ltd, Nairobi |
| 38 | Prime Bank Ltd, Nairobi |
| 39 | Southern Credit Banking Corp. Ltd, Nairobi |
| 40 | Standard Chartered Bank , Nairobi (listed on NSE) |
| 41 | Trans-National Bank Ltd, Nairobi |
| 42 | UBA Kenya Bank Ltd., Nairobi |
| 43 | Victoria Commercial Bank Ltd, Nairobi |

Source: CBK, (2011)

## Appendix II: Letter of Introduction

## UNIVERSITY OF NAIROBI

School Of Business

Telephone: +254-2-318262 Beatrice Ogola

Telegrams: "Varsity", Nairobi P.O. Box 30711 00100

Telex: 22095 Varsity Nairobi, Kenya

**Dear Sir/Madam,**

**<u>RE: REQUEST OF PARTICIPATION IN MBA RESEARCH PROJECT</u>**

The bearer of this letter, Beatrice Ogolla is a Postgraduate student undertaking a Master of Business Administration (MBA) degree at the School of Business, University of Nairobi. She is Majoring in Strategic Management. As part of his course work assessment, she's required to submit a research project report on Debt Recovery as an operational Strategy by NIC Bank to manage NPL.

Kindly assist her by completing the attached questionnaire. We assure you that the information provided is purely for academic purpose only and will be treated with utmost confidentiality.

Should you be interested in the findings of the research, a copy will be availed to you on request by the student. In addition a copy will also be availed at the University of Nairobi Library.

Thanks you for your cooperation.

E.O. Maduda
Chairman MBA Department
Tel 020318262

Beatrice Ogolla
MBA Student
Tel 0202888000

## Appendix III: Interview Guide

**DEBT RECOVERY AS AN OPERATIONAL STRATEGY TO MANAGE NON PERFORMING LOANS**

**Introduction:**

To be able to improve the debt recovery operations of the bank, we need to establish operational strategies which can be used to address the NPL growth. This has called for the need to conduct a study in this area so as to assist NIC as well as the industry address bad debts which manifests in the annual NPL reporting of the bank.

**Section A. Introduction – Information about the Bank**

i.) What is your role at the Bank………………………………………………………

ii.) How long have you been in this department……………………………

iii.) What is your education background?..........................................

iv.) What professional qualifications in your opinion would you suggest for anyone holding this position…………………………………………………………………………………………..

**Section B: Debt recovery operational strategy by NIC Bank**

1.) How do you measure Credit risks?

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2.) How do you evaluate credit applications?

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3.) What segment of the population form the bulk of the bank's lending clientele?

a.) [ ] SME b.) [ ] Retail c.) [ ] Corporate d.) [ ] Institutions e.) [ ] High Networth

4.) How is the performance of the bank's loan recovery measured?

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5.) What strategies do you have in place for your debt recovery?

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6.) How does debt recovery, relationship management, and credit risk departments work together to address bad debt? ___________________________________________________________

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What strategies influence the success of your debt recovery?

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7.) How would you rate NIC Bank's debt recovery performance compared to its peers in the Kenyan market?

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8.) What challenges do you encounter in debt recovery?

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9.) How are you trying to address these challenges?

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**SECTION C: NON PERFORMING LOANS (NPL) REDUCTION STRATEGIES**

1.) What is your understanding of NPL?

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2.) How does the bank's NPL Portfolio look?

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3.) Are you worried at the size of NPL portfolio? [ ] Yes [ ] No.

If yes state why_____________________________________________________

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4.) What is the bank doing to reduce the size of NPL book for NIC bank?

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5.) Are the debt recovery strategies playing any positive role in the reduction of NPL portfolio at NIC Bank?

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Are you optimistic that the bank is doing enough to reduce NPL book?

[ ] Yes [ ] No.

7.) What suggestions can you recommend that the bank should employ to address the issue of debt recovery (operationally)

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8.) Please kindly let us know if you have any other further comment(s) which will improve the debt recovery operations at NIC bank.

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**~Thank you ~**