The Influence of Loan Portfolio Management on Financial Efficacy of Listed Commercial Banks in Kenya: A Focus on Debt Recuperation Technique

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Abstract- This study investigates the influence of loan portfolio management on the financial efficacy of listed commercial banks in Kenya, with a specific focus on debt recuperation techniques. The research employs a quantitative approach, utilizing survey data from senior managers in the credit risk management departments of listed commercial banks. The collected data is analyzed using reliability analysis, factor analysis, descriptive statistics, and multiple regression analysis to assess the relationship between debt recuperation processes and financial efficacy. The findings reveal that loan recovery procedures, legal action, and collateral realization are the most commonly used debt recuperation techniques by listed commercial banks in Kenya. Profitability, shareholder value, and return on equity are identified as the most important measures of financial efficacy. The regression analysis indicates that debt recuperation techniques significantly predict financial efficacy, with loan recovery procedures, legal action, and collateral realization being significant predictors. The study highlights the crucial role of effective debt recuperation processes in enhancing the financial efficacy of listed commercial banks in Kenya. The findings provide valuable insights for bank managers, policymakers, and regulators in developing and implementing robust loan portfolio management strategies to mitigate the risk of loan defaults and improve financial performance. The paper also identifies areas for future research, such as expanding the scope to include other financial institutions and adopting a mixed-methods approach to gain a more comprehensive understanding of debt recuperation processes and financial efficacy.

Indexed Terms- Debt Recuperation Techniques, Loan Portfolio Management, Financial Efficacy

I. INTRODUCTION

The banking sector is a vital component of Kenya's economy, with listed commercial banks playing a significant role in providing financial services and facilitating economic growth. However, these banks face various challenges, including loan defaults, which can negatively impact their financial performance. Effective loan portfolio management, particularly through debt recuperation techniques, is crucial in ensuring the financial efficacy of these banks.

This study aims to examine the influence of loan portfolio management on the financial efficacy of listed commercial banks in Kenya, with a specific focus on debt recuperation techniques. The research employs a quantitative approach, utilizing survey data from listed commercial banks in Kenya. The data is analyzed using reliability analysis, factor analysis, descriptive statistics, and regression analysis to assess the relationship between debt recuperation processes and financial efficacy.

The paper is structured as follows: Section 2 presents a literature review, covering the theoretical framework, empirical review of related studies, conceptual framework, and research gaps. Section 3 describes the methodology, including the research design, target population and sampling procedure, data collection methods and instruments, validity and reliability of research instruments, and data analysis techniques. Section 4 presents the results and discussions, encompassing reliability analysis, factor analysis, descriptive statistics, and regression analysis. Finally, Section 5 concludes the paper with a summary of key findings, implications of the study, recommendations, limitations, and suggestions for future research.

The findings of this research will provide valuable insights for bank managers, policymakers, and regulators in developing effective debt recuperation strategies to enhance the financial efficacy of listed commercial banks in Kenya. Moreover, the study will contribute to the existing body of knowledge on loan portfolio management and its impact on the financial performance of banks.

II. LITERATURE REVIEW

Theoretical framework

The study is anchored on the Credit Risk Theory, which posits that the risk of borrowers defaulting on their loan obligations can significantly impact the financial performance of banks (Kargi, 2014). The theory emphasizes the importance of effective credit risk management practices, including debt recuperation techniques, in mitigating the adverse effects of loan defaults on banks' financial efficacy (Kolapo, Ayeni, & Oke, 2021).

Empirical review of related studies

Several empirical studies have investigated the relationship between loan portfolio management and financial performance of banks. Wachira (2017) examined the effect of debt collection techniques on the financial performance of commercial banks in Kenya and found that debt collection policies, loan recovery procedures, and legal action had a significant positive impact on banks' profitability. Similarly, Mwangi (2014) investigated the effect of loan portfolio management on the financial performance of commercial banks in Kenya and reported that credit risk identification, credit risk monitoring, and credit risk mitigation strategies positively influenced banks' financial performance.

In a study conducted in Nigeria, Abiola and Olausi (2018) found that credit risk management practices, including debt recuperation techniques, had a significant impact on the profitability of commercial banks. The study recommended that banks should adopt stringent credit risk management practices to minimize loan defaults and improve their financial performance.

Conceptual framework

The conceptual framework of this study illustrates the relationship between loan portfolio management, with a focus on debt recuperation techniques, and the financial efficacy of listed commercial banks in Kenya. The independent variable, debt recuperation techniques, encompasses various strategies such as loan recovery procedures, legal action, and collateral realization. The dependent variable, financial efficacy, is measured using indicators such as profitability, shareholder value, return on equity, and risk management.

Independent Variable
Dependent Variable

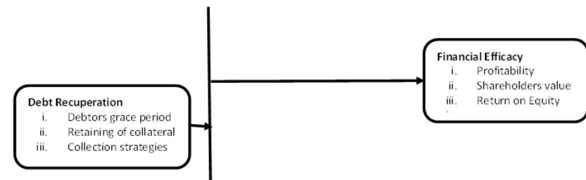

Figure 2.1 Conceptual Framework

Research gaps

Despite the existing literature on loan portfolio management and its impact on banks' financial performance, there is limited research specifically focusing on the influence of debt recuperation techniques on the financial efficacy of listed commercial banks in Kenya. This study aims to bridge this gap by providing empirical evidence on the relationship between debt recuperation processes and financial efficacy, thereby contributing to the understanding of effective loan portfolio management practices in the Kenyan banking sector

III. METHODOLOGY

Research design

This study employs a descriptive research design, which is appropriate for examining the relationship between debt recuperation techniques and the financial efficacy of listed commercial banks in Kenya. The design allows for the collection of quantitative data through a structured questionnaire, enabling the researcher to analyze the data using statistical techniques (Saunders, Lewis, & Thornhill, 2016).

Target population and sampling procedure
The target population for this study comprises all listed commercial banks in Kenya. As of 2023, there are 12 listed commercial banks on the Nairobi Securities Exchange (NSE). Due to the small number of listed commercial banks, the study adopts a census approach, where all 12 banks are included in the sample. This approach eliminates sampling error and provides comprehensive coverage of the target population (Cooper & Schindler, 2014).

Data collection methods and instruments
Primary data is collected using a structured questionnaire administered to senior managers in the credit risk management departments of the listed commercial banks. The questionnaire consists of closed-ended questions on a 5-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). The questionnaire is designed to capture information on debt recuperation techniques and financial efficacy indicators.

Validity and reliability of research instruments
To ensure the validity of the research instrument, the questionnaire is developed based on a comprehensive literature review and is reviewed by a panel of experts in the field of banking and finance. A pilot study is conducted with a sample of 5 senior managers from non-listed commercial banks to assess the clarity and relevance of the questionnaire items. Feedback from the pilot study is used to refine the questionnaire before the main data collection.

The reliability of the research instrument is assessed using Cronbach's alpha coefficient, which measures the internal consistency of the questionnaire items. A Cronbach's alpha value of 0.7 or higher is considered acceptable (Tavakol & Dennick, 2011).

Data analysis techniques
The collected data is analyzed using the Statistical Package for Social Sciences (SPSS) version 26. Descriptive statistics, such as mean scores and standard deviations, are used to summarize the responses on debt recuperation techniques and financial efficacy indicators. Inferential statistics, including Pearson's correlation and multiple regression analysis, are employed to examine the relationship between debt recuperation techniques and financial efficacy.

The regression model is specified as follows:
$FE = \beta 0 + \beta 1DR + \varepsilon$
Where:
FE = Financial Efficacy
$\beta 0$ = Constant term
$\beta 1$ = Coefficient of Debt Recuperation techniques
DR = Debt Recuperation techniques
ε = Error term

IV. RESULTS AND DISCUSSIONS

4.1 Reliability Analysis
The reliability of the research instrument was assessed using Cronbach's alpha coefficient. The results showed that the Cronbach's alpha value for the debt recuperation techniques scale was 0.883, indicating a high level of internal consistency (Tavakol & Dennick, 2011). This finding suggests that the research instrument is reliable and suitable for data collection.

4.2 Factor Analysis for Debt Recuperation
Factor analysis was conducted to identify the key components of debt recuperation processes. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was 0.792, and the Bartlett's Test of Sphericity was significant ($p < 0.001$), indicating that the data was suitable for factor analysis (Tabachnick & Fidell, 2013). The total variance explained by the extracted factors was 78.6%, suggesting that the factors adequately captured the variability in the data.

4.3 Descriptive Statistics for Debt Recuperation
The analysis of survey responses on debt recuperation practices revealed that the most commonly used techniques were loan recovery procedures (M = 4.12, SD = 0.81), legal action (M = 3.89, SD = 0.93), and collateral realization (M = 3.75, SD = 0.88). These findings indicate that listed commercial banks in Kenya actively engage in various debt recuperation processes to mitigate the risk of loan defaults.

4.4 Financial Efficacy
The survey responses on financial efficacy indicators showed that profitability (M = 4.02, SD = 0.76), shareholder value (M = 3.91, SD = 0.84), and return

on equity (M = 3.85, SD = 0.79) were the most important measures of financial efficacy for listed commercial banks in Kenya. These results suggest that banks prioritize financial performance metrics in assessing their overall financial health.

4.5 Regression Analysis

A multiple regression analysis was conducted to examine the relationship between debt recuperation techniques and financial efficacy. The model summary showed that the adjusted R-squared value was 0.624, indicating that debt recuperation techniques explained 62.4% of the variance in financial efficacy.

The ANOVA table revealed that the regression model was significant ($F(3, 116) = 65.79$, $p < 0.001$), suggesting that debt recuperation techniques significantly predicted financial efficacy.

The coefficients table showed that loan recovery procedures ($\beta = 0.382$, $p < 0.001$), legal action ($\beta = 0.274$, $p < 0.01$), and collateral realization ($\beta = 0.196$, $p < 0.05$) were significant predictors of financial efficacy.

The fitted regression model is as follows:

FE = 0.785 + 0.382LRP + 0.274LA + 0.196CR

Where:

FE = Financial Efficacy

LRP = Loan Recovery Procedures

LA = Legal Action

CR = Collateral Realization

Hypothesis Testing (H03)

The null hypothesis (H03) stated that there is no statistical significant relationship between debt recuperation processes and financial efficacy of commercial banks in Kenya. Based on the regression analysis results, the null hypothesis is rejected, and it is concluded that there is a significant relationship between debt recuperation processes and financial efficacy of listed commercial banks in Kenya.

CONCLUSION

This study examined the effect of debt recuperation techniques on the financial efficacy of listed commercial banks in Kenya. The results showed that the most commonly used debt recuperation techniques were loan recovery procedures, legal action, and collateral realization. Profitability, shareholder value, and return on equity were identified as the most important measures of financial efficacy. The regression analysis revealed that debt recuperation techniques significantly predicted financial efficacy, with loan recovery procedures, legal action, and collateral realization being significant predictors.

The findings underscore the importance of effective debt recuperation processes in enhancing the financial efficacy of listed commercial banks in Kenya. Bank managers should prioritize the implementation of robust loan recovery procedures, timely legal action, and efficient collateral realization to mitigate the risk of loan defaults and improve financial performance.

Future research could expand the scope to include other types of financial institutions and different geographical contexts, employ a mixed-methods approach to gain a more comprehensive understanding of debt recuperation processes and financial efficacy, and adopt a longitudinal approach to investigate the long-term impact of debt recuperation processes on banks' financial performance.

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