LOAN MANAGEMENT AND THE SURVIVAL OF COMMERCIAL BANKS IN SELECTED DISTRICTS IN MERU REGION IN EASTERN KENYA

A Thesis
Presented to the School of
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In Partial Fulfillment of the Requirement for the Degree
Masters in Business Administration
(Finance and Banking Option)

By
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DECLARATION A

"This Thesis is my original work and has not been presented for a Degree or any other academic award in any University or Institution of Learning".

Silas Mwonyera M.

Name and Signature of Candidate

25/8/11

Date

DECLARATION B

"I/We confirm that the work reported in this dissertation was carried out by the candidate under my/our supervision".

GULEBYO MUZAMIR SAID

Name and Signature of Supervisor

26/08/2011

Date

APPROVAL SHEET

This dissertation entitled "**Loan Management and Survival of Commercial Banks in Selected Districts in Meru Region Eastern Kenya**" prepared and submitted by **Silas Mwongera Mwithimbu** in partial fulfillment of the requirements for the degree of **Masters in Business Administration(Finance and Banking Option)** has been examined and approved by the panel on oral examination with a grade of **PASSED**.

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DEDICATION

This work is dedicated to my wife Lucy Nkirote and my son Michael Mwongera for all the love, support, encouragement, and bearing with my absence from home during the study.

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ABSTRACT

This study sought to establish the relationship between loan management and survival of Commercial Banks in selected districts in Meru Region in Eastern Kenya. The study was guided by four research objectives; to determine the profile of respondents in terms of age, sex, designation and level of income; to determine the level of loan management in terms of secured loans, unsecured loans and mortgages management; to determine the level of survival of commercial banks in terms of loans issuance, market share, profitability, customer satisfaction, employee satisfaction and shareholders' wealth and establish the relationship between loan management and survival of commercial banks in Selected districts in Meru Region. It utilized descriptive correlation survey design using questionnaire as the research instrument. A sample of 112 bank employees was used as the respondents for the study. Stratified random sampling method was used to identify the respondents. The data collected was analysed using SPSS for means to determine level of the dependent and the independent variables. Using the Pearson's Linear Correlation Coefficient, the correlation between the two variables was determined. The study established that there is high level of loan management and high level of survival of commercial banks in selected districts in Meru Region and that the two variables (loan management and survival of commercial banks. This is in line with Vigenina and Kritikos (2004) who asserted that improved loan management can increase loan performance by up to 100%. It is recommended that banks adhere to strict loan management to ensure their survival. Banks should also lay emphasis on management systems that enhance recruitment and retention of customers to guarantee and continuously improve on their market share. Banks should also adhere to Central Bank regulations which are beneficial in loan management practices. Banks should venture in rural areas for as long as they have proper loan portfolio management systems the survival rate is high

TABLE OF CONTENTS

CHAPTER ONE
THE PROBLEM AND ITS SCOPE

Background of the Study

Before the year 2003 access to loans was very limited. The banking sector in Kenya was monopolized by few multinational banks including; Barclays Bank of Kenya, Standard Chartered Bank and the then state owned Kenya Commercial Bank. These banks seemed satisfied with loaning to the big corporate organizations. Also the government need for funds was met through domestic borrowing having failed to secure international funding for its projects. According to Kenya Bankers Annual Report 2004-2008, up to 60% of bank revenues accruing from interest charges were attributable to state borrowing. Following change of the political regime in 2003, the Government of Kenya liberalized the Economy which saw the entry of many players and this ushered in the era of competition among the banks. The other contributor to banking progress in Kenya was the increased availability of liquidity occasioned by reduced state borrowing from the domestic market. This is because the new regime was able to attract donor funding to bridge the gap in its budget. The banks opened doors to individual and small micro enterprises. Affordable loan products became available in the market hence breaking the hitherto difficulty that was obtaining a loan in Kenya. According to Kenya Bankers Association annual report of 2005 and 2006, the loan portfolio attributable to government borrowing shrunk considerably by up to 70%.As much as this increased revenue accruing from loan interest it presented the problem of loan default which has threatened the very survival of the commercial banks.

This study proposes seeks to investigate the survival of commercial banks in selected districts in Meru Region in Eastern Kenya and how this could be influenced by Loan Management.

Statement of the Problem

Some banks post very impressive interest income while others have undergone difficult times to survive in the lending business. This is apparent from banks quarterly reports, Kenya Bankers Association report (2009) and Central Bank of Kenya Reports (2004). Commercial banks can survive by ensuring they manage loans appropriately, as this safeguards loans portfolio, improved public image, and brand loyalty.

Unfortunately, commercial banks in selected Districts in Meru Region in Eastern Kenya have experienced an escalating trend of non performing loans which has threatened their survival. According Kenya Bankers Report (2008) some of the commercial banks were facing high incidents of non performing loans hence affecting their profitability, market share, shareholders' wealth, customer satisfaction and employee motivation among others, which puts the survival of commercial banks at risk.

Purpose of the Study

This study was to explore the various dimensions of loan management, survival of commercial banks and the cause and effect relationship of the two variables, test hypotheses of no significant difference and no significant relationship between loan management and survival of commercial banks, to bridge the various gaps of previous studies and to validate existing information based on the theory to which this study is based.

Research Objectives

General: This study established the relationship between loan management and survival of commercial banks in selected districts in Meru Region in Eastern Kenya.

Specific: This study achieved the following objectives:

1. To determine the profile of the respondents in terms of age, gender, rank, income level, and highest educational qualification.
2. To determine the level of loan management (secured, unsecured, and mortgage) in selected districts in Meru region in Eastern Kenya in terms of loan security, strict loan conditions, loan portfolio, risk management and loan analysis.
3. To determine the level of survival in terms of loans issuance, profitability, customer satisfaction, employee satisfaction and

increased shareholders' wealth of commercial banks in selected districts in Meru region in Eastern Kenya.

4. To establish the relationship between loan management and survival of commercial banks in selected districts in Meru region in Eastern Kenya.

Research Questions

1. What is the profile of the respondents in terms of age, gender, rank, income level and highest educational qualification?
2. What is the level of loan management (secured, unsecured, and mortgage) of commercial banks in terms of loan security, strict loan conditions, loan portfolio, risk management and loan analysis in selected districts in Meru region in Eastern Kenya?
3. What is the level of survival of commercial banks in selected districts in Meru region in Eastern Kenya in terms of loans issuance, profitability, customer satisfaction, employee satisfaction and increased shareholders' wealth of commercial banks in selected districts in Meru region in Eastern Kenya.?
4. Is there a significant relationship between loan management and survival of commercial banks in selected districts in Meru region in Eastern Kenya?

Null Hypotheses

1. There is no significant difference in the level of loan management (secured, unsecured, and mortgage) and survival of commercial banks in selected districts in Meru region in Eastern Kenya.
2. There is no significant difference in level of survival in terms of loan issuance, market share, profitability, customer satisfaction, employee satisfaction and increase in shareholders wealth in selected districts in Meru region in Eastern Kenya.
3. There is no significant relationship between loan management and commercial banks survival in selected districts in Meru region in Eastern Kenya.

Scope

Geographical Scope

Geographically, the proposed study was carried out in the selected districts of Imenti North, Meru Central,Timau, Tigania and Igembe in Meru region of Eastern Kenya.

Theoretical Scope

Theoretically, the study was specifically based on Pyle, D.H (1997) Bank Risk management theory; to be consistent with market risk measurement, credit risks are defined as changes in portfolio value due to the failure of counter-parties to meet their obligations or due to changes in the market's perception of their ability to continue to do so. Ideally, a bank risk management system would integrate this source of risk with the market risks to produce an overall measure of the bank's loss potential. Traditionally, banks have used a number of methods such as credit scoring ratings and credit committees to assess the creditworthiness of counter-parties. At first glance, these approaches do not appear to be compatible with the market risk methods. However, some banks are aware of the need for parallel treatment of all measurable risks and are doing something about it. Unfortunately, current bank regulations treat these two sources of risk quite differently subjecting credit risk to arbitrary capital requirements that have no scientific validity. There is danger in this since it can lead to capital misallocation and imprudent risk-taking. If banks can "score" loans, they can determine how loan values change as scores change. If codified, these changes would produce over time a probability distribution of value changes due to credit risk. With such a distribution, the time series of credit risk changes could be related to the market risk and we would be able to be integrating market risk and credit risk into a single estimate of value change over a given horizon.

Content Scope

In content, the study focused on how loan management (secured, unsecured and mortgage) affected survival of Equity bank, Kenya commercial bank, Barclays bank, Family bank, Standard chartered and Consolidated bank in Meru region in Eastern Kenya and was of great importance as a model banks for upcoming banks.

The respondents in the research were employees of the banks in Meru region in Eastern Kenya, who were proportionately be represented.

Time Scope

The study considered the operations of banks in Meru region in eastern Kenya from 2009-2011 when the world had started experiencing the effects of the global financial crisis.

Significance of the Study

The findings of this research will be used by government agencies to evaluate the role of loan management on survival as they come up with policies affecting banks in Meru region in Eastern Kenya.

The study findings will help policy makers in the different banks to come up with informed decisions concerning loan management and survival of banks in Meru Region in Eastern Kenya.

The study findings will be used as reference for future researchers in this study or related studies having contributed to operational definition of concepts, literature and methodology for such future studies.

Operational Definitions of Key Terms

For the purpose of this study, the following terms are operationally defined:

Loan management refers to integrated solutions to support lending and other credit processes for corporate, private, consumer and personal loans.

Business survival refers to how the organization scores on the different dimensions such as financial performance indicators, customer service and corporate social responsibility.

Customer satisfaction refers to the feeling by the customers that a product or service has met their expectation.

Profile refers to the characteristics of the respondents which in terms of age, gender, employee designation or rank, position in the organization, level of income and highest educational qualification.

Secured loan refers to a loan in which the borrower pledges some asset (e.g., a car or property) as collateral (i.e., security) for the loan.

Unsecured loan refers to monetary loans that are not secured against the borrowers assets (i.e., no collateral is involved).

Mortgage refers to a type of debt instrument, used to purchase real estate. Under this arrangement, the money is used to purchase the property.

CHAPTER TWO
REVIEW OF RELATED LITERATURE

Concepts, Opinions, Ideas from Authors/Experts

Loan Management

According to Saunders (2000) loan management refers to integrated solutions to support lending and other credit processes for corporate, private, consumer and personal loans.

In this study, loan management is conceptualized to be referring to secured, unsecured and mortgage loans management in terms of loan security, strict loan conditions, loan portfolio, risk management and loan analysis.

Secured loan refers to when a borrower pledges an asset such as a car property as collateral for the loan which then becomes a secured debt owed to the creditor who gives the loan.

Unsecured loans refer to any type of debt or general obligation that is not collateralized by a lien on specific assets of the borrower.

Mortgages refer to a loans secured by real property through the use of a mortgage note which evidences the existence of the loan and the encumbrance of that realty through the granting of a mortgage which secures the loan.

According to Derban (2005), the causes of non-repayment could be grouped into three main areas: the inherent characteristics of borrowers and their businesses that make it unlikely that the loan would be repaid. Second, are the characteristics of lending institution and suitability of the loan product to the borrower, which make it unlikely that the loan would be repaid. Third, is systematic risk from the external factors such as the economic, political and business environment in which the borrower operates.

Vigenina & Kritikos (2004) found that individual lending has three elements namely the demand for non-conventional collateral, a screening procedure with combines new with traditional elements and dynamic incentives in combination with the termination threat in case of default, which ensure high repayment rates up to

100 percent. To mitigate the repayments problems, a close relationship between lender and borrower can be applied through monitoring, business adviser and regular meeting. Besides that, the lender can be introduced to a reward system to those that paid on time such as rebate or discount and introducing innovative ways of making the repayments. These findings reveal the relationship of loan management and business survival.

Business Survival

Bate (2009) refers to business survival as the output or results of an organization as measured against its intended outputs (or goals and objectives). In this study, business survival refers to how the bank scores on the different dimensions such as loans issued, market share, profitabilty, loans performance, sustained growth, consumer satisfaction and increased shareholder's wealth.

A bank must be able to collect deposits which enable it to meet loan demands from the customers Saunders (2000). According to Kinyua et al (2004) the lending of loans is the core business of a bank that secures interest income. The deposits collected and the interest income enable the bank to maintain its license with the regulatory authorities like the Central Bank.

Market Share

In order that a business firms thrives it must recruit and maintain its client base. In this respect the market share is such an important aspect of survival for any bank. This is closely linked to customer satisfaction discussed below.

Profitability

Profits are the financial returns or rewards that business owners aim to achieve to reflect the risk that they take and given that most entrepreneurs invest in order to make a return, the profit earned by a business can be used to measure the success of that investment. Profitability, rather than profit, is the key measure of a business's performance (Hawkins A, Turner C, 1997). Profit is also an important signal to other providers of finance to a business for instance banks, suppliers and other lenders are more likely to provide finance to a business that can demonstrate that it makes a profit (or is very likely to do so in the near future) and that it can pay debts as they fall due. Further profit is also an important source of finance for a business as the profits earned which are kept in the business (i.e. not distributed to the owners via dividends or other payments) are known as retained profits .

Consumer Satisfaction

Consumer satisfaction is a measure of how products and services supplied by a company meet or surpass customer expectation. Customer satisfaction is defined as the number of customers, or percentage of total customers, whose reported experience with a firm, its products, or its services (ratings) exceeds specified satisfaction goals or the extent to which consumers are happy with the products or services provided by a business. Consumer satisfaction is an important concept in business, because happy customers are those most likely to place repeat orders and explore the full range of services offered and as such consumer satisfaction has increasingly become a key element of business strategy Lantos (2010).

Employee Satisfaction

Employee satisfaction is the terminology used to describe whether employees are happy and contented and fulfilling their desires and needs at the work place; many measures purport that employee satisfaction is a factor in employee motivation, employee goal achievement, and positive employee morale in the workplace. Employee satisfaction, while generally a positive in your organization, can also be a downer if mediocre employees stay because they are satisfied with your work environment. Factors contributing to employee satisfaction include treating employees with respect, providing regular employee recognition, empowering employees, offering above industry-average benefits and compensation, providing employee perks and company activities, and positive management within a success framework of goals, measurements, and expectations. Similarly, when employees perceive that they were trusted by managers, then the organization's sales performance is increased (Searle and Skinner, 2011)

Shareholders Wealth

Any business must maximize the wealth of its owners who are capital owners. Satisfaction is regarded as one of the ultimate goals of business which includes returns on investment, earnings per share, ordinary dividends per share, dividend cover, and return on equity among others Moyer (2005).

Theoretical Perspectives

The commercial loan- theory of credit also known as the 'real bills document doctrine' dates back to 18th Century and is of English origin .It was formulated by Adam Smith in the Wealth of Nations (Basu et al, 2009). Eventually the discounting of Merchant bills developed into lending business. Although banks engage in other activities, lending has emerged as their core business. According to Roussakis (1997) income from loans accounted for 63% of all banks income in 1993. This shows that the very survival of banks depends on loans and its management is very crucial.

According to Basu (1995) the ability of a bank to manage credit risk safely, effectively and efficiently is the foundation on which a successful bank is built. This conclusion is supported by past failures in USA where this caused a drain of resources from the Federal Deposit Insurance Corporation (FDIC).

In this study, the researcher opted to view survival of commercial banks as a special case, and hence could make use of survival theories, which assert that there are factors (referred to as loan management in this study) that influence business survival and that loan management is one of the most important factors in the survival of the organization. Several studies have examined the causes of high and low survival from this theoretical orientation or perspective.

Related Studies

Several studies have discussed various aspects of management and survival of firms in different contexts and from different points of orientation.

Vigenina & Kritikos (2004) found that individual lending has three elements namely the demand for non-conventional collateral, a screening procedure which combines new with traditional elements and dynamic incentives in combination with the termination threat in case of default, which ensure high repayment rates up to 100 percent.

Khan (2005) studied sustainability and success of Mercedes Benz in Munich Germany, who established that sustainability contributes to success of Mercedes Benz Munich, Germany.

Hisrich (2010) in a study of time management and venture success in Eritrian fishing empirically showed that time management contributes to success in Eritrian fishing industry.

Kaye (2005) studied customer satisfaction and business success of MTN and established that customer satisfaction is one of the major factors that contribute to success of MTN in Uganda.

Delmar (1996) in a study of Entrepreneurial Behaviour and Business Performance of Small and Medium enterprises in Stockholm established that good entrepreneurial behaviour contribute to success of Small and Medium enterprises in Stockholm .

Nankya (2006) in the study of improved product functions and success of Toyota Uganda empirically showed that improved product functions contribute to success of Toyota Uganda.

Bogere (2006) in the study of product quality management and success of Nyanza Textiles Limited in Central Uganda established that product quality management is one of the factors that affect organization's performance among others because if the quality being produced is poor in this global competitive environment, buyers will shun low quality products, consequently sales will be low and so will be the profits and so the organization will be not able to meet its objectives.

Hume (1993) in his study promotion and business success in the United Kingdom food industry established that product promotion is one of the major factors that contribute to business success in United Kingdom food industry.

Kato (2002) in the study pricing and success of Coca-cola in Central Uganda established that pricing among other factors contribute to the success of Coca-cola in Central Uganda.

CHAPTER THREE

METHODOLOGY

Research Design

The study used a survey design; specifically descriptive correlation and descriptive comparative. The study was a survey since it involved a large sample; descriptive in that data collected was used to describe a phenomenon; co-relational in that it was interested in relating loan management (secured, unsecured and mortgages) to banks' survival and pertinent data was collected from the respondents once and for all to reduce on time and costs involved on such a large population; comparative, in that the study determined whether there was a significant difference in the level of loan management and survival of commercial banks in selected districts in Meru Eastern Kenya. The study also took quantitative approach in that it was based on variables measured with numbers and analyzed with statistical procedures. (Creswell, 2003; Kahn, 1993; Kothari, 2004).

Research Population

Target Population

In this study the target population involved 156 employees of the selected banks in selected districts in Meru region in Eastern Kenya. All the categories of employees (top level managers, middle level managers, and lower level managers) were involved because they are all directly affected by whatever policy is made on loan management which in turn affects the bank's survival.

Table 1

Respondents of the Study

District	Total Target Population	Sample Size
Imenti North	47	36
Meru Central	19	12
Timau	22	14
Tigania	33	24
Igembe	35	26
Grand Total	156	112

Sample Size

The minimum sample size was computed using the Sloven's formula, which states that, for any given population, the required sample size is given by;

$n = \frac{N}{1+N(e^2)}$, Where; n = the required sample size; N = the known population size; and e = the level of significance, which is = 0.05. Given a total population of 156 respondents in banks in selected districts in Meru region in eastern Kenya, a sample was 112 respondents as illustrated in Table 1.

Sampling Procedures

The target population of 156 (which included 47 bank employees in Imenti North, 19 Bank employees in Meru Central, 22 Bank employees in Timau, 33 Bank employees in Tigania and 35 Bank employees in Igembe), respondents were got using stratified random sampling to reduce costs, time of doing research and to increase the degree of accuracy of the study. (Saunders *et al*, 2000). Regarding sample size, the sampling frames (i.e employees) in the selected commercial banks were stratified according to departments in the banks in Meru region in Eastern Kenya. Then proportionate systematic random samples was chosen from the respective stratum sampling frames or lists (Creswell, 2003).

Data Collection Methods

The researcher used secondary and primary data collection approaches.

Secondary data was got from reviewing text books, journals articles, manuals, periodicals, dissertations, internet sources to mention but a few.

Primary data was got using research questionnaires as the data collection instruments because of their cost effectiveness in a survey involving literate respondents.

Research Instrument

There were three sets of questionnaires directed towards employees in banks in Meru region in Eastern Kenya; one was respondents' bio-data, another was on level of advertising and other on survival. The questionnaire also consisted of the main title and introductory letter, with a section of 6 bio-data questions, assisted in classifying respondents.

The questionnaire on loan management (independent variable) consisted of 8 questions divided in three sub-sections distributed as follows; 3 questions on secured loans, items 1-3; 3 questions unsecured loans, items 4-6 and 2 questions on mortgages, items 6-8. All questions in this section were close ended, based on four Likert Scale, ranging from one to four; where 1=Strongly Disagree, 2= Disagree,3=Agree, 4= Strongly Agree.

The questionnaire on survival of commercial banks (dependent variable) consists of 31 questions divided in six sub-sections distributed as follows; 4 questions on loan issuance, items 1-4; 5 questions on market share, items 5-9; 5 questions on profitability items 10-14, 5 questions on customer satisfaction items 15-19; 7 questions on employee satisfaction items 20-26 and 5 questions on increased shareholders wealth items 27-31. All questions in this section are close ended, based on four Likert Scale, ranging from one to four; where 1=Strongly Disagree, 2= Disagree,3=Agree, 4= Strongly Agree.

Validity and Reliability of the Instruments

The researcher tested the validity and reliability on the loan management questionnaire which was non-standardized, where content validity was done by ensuring that questions or items in the questionnaire conformed to the study's conceptualization. Supervisors and other senior staff in KIU who are experts in the field of study evaluated the relevance, wording and clarity of questions and items in the instrument. Pre-testing for reliability was done by administering the questionnaire to employees in selected banks who were not included in the actual study.

Construct validity was ensured using Factor Analysis. Reliability of the instrument on multi item variables (e.g secured loans, unsecured loans and mortgages) was tested using the Cronbach Alpha Methods and a Cronbach alpha (α) of at least 0.7. The formula determining the Cronbach alpha value used is rk /[(1+k-1)r] where k= is the number of items considered and r = mean of the inter item correlations that led to the questionnaires to be declared reasonably reliable or consistent. (Amin, 2005).

While on survival of commercial banks, the construct and criterion validity of the survival of commercial banks questionnaire was empirically proven by Porter (1980) that was adopted in this study.

Data Gathering Procedures

The following data collection procedures were implemented:

A. Before the administration of the questionnaires

The researcher requested for an introduction letter from the School of Postgraduate Studies and Research addressed to the authorities of the commercial banks under study for the researcher to be permitted to conduct the study. The letter contained the criteria for selecting the respondents and the request to be provided with the list employees from the selected banks. After approval, the requested list of respondents that was provided to the researcher by the selected commercial banks was used by the researcher as a guide in identifying the participants of the study, after which pre-testing of the instrument on innovation followed.

The researcher prepared the questionnaires and sat with selected research assistants to discuss and brief them on the sampling techniques and data gathering procedures.

The researcher utilized the table on respondents (Table 1) to determine the number of participants.

B. During the administration of the questionnaires

Specifically, the researcher together with researcher assistants requested the respondents: (1) to sign the informed consent; (2) to answer all questions hence should not leave any item unanswered; (3) to avoid biases and to be objective in answering the questionnaires.

The researcher together with research assistants ensured that retrieving the questionnaires was done within two weeks from the date of distribution.

All questionnaires retrieved were checked to ensure they were completely filled out.

C. After the administration of the questionnaires

The data collected was organized, collated, summarized, statistically treated and drafted in tables using the Statistical Package for Social Sciences (SPSS).

Data Analysis

To determine the profile of the respondents, the frequency and percentage distribution was used.

The mean was used to compute the level of loan management and survival of commercial banks. An item analysis based on the mean scores reflected the strengths and weaknesses of the respondents in terms of loan management and survival of commercial banks. To interpret the obtained data, the following numerical values and descriptions were used:

Mean Range	Description	Interpretation
3.26-4.00	Strongly Agree	Very High
2.51-3.25	Agree	High

1.76-2.50	Disagree	Low
1.00-1.75	Strongly Disagree	Poor

A multiple correlation coefficient to test the hypothesis on correlation (Ho#2 and Ho#3) at 0.05 level of significance using the F-test was used.

Ethical Considerations

To ensure utmost confidentiality for the respondents and the data provided by them as well as reflect ethics practiced in this study, the following was done:

1. All questionnaires were coded to provide anonymity of the respondents.
1. The respondents were requested to sign the informed consent.
2. Authors quoted in this study were recognized through citations and referencing.
3. A written communication to the authors of the standardized instrument on organization' performance to solicit permission to use the standardized questionnaire.
4. Presentation of findings was generalized.

Limitations of the Study

The researcher claims an acceptable (0.05 level of significance) 5% margin of error in view of the following anticipated threats to validity with relevance to this study:

1. *Testing*: Differences in conditions and time when the data was obtained from respondents by different persons on different days at different hours. This was minimized by orienting and briefing the research assistants on the sampling techniques and data gathering procedures.
2. *Instrumentation*: The research instrument on loan management was not standardized. A validity and reliability test was done to produce a credible research tool.

3. *Extraneous variables*: The researcher did not have control over the extraneous variables such as honesty of the respondents, personal biases and descriptive nature of the Design. For untruthfulness where some of the respondents were expected not to say the truth, the researcher probed the respondents further to establish the truth when it was deemed necessary and personal biasness were also avoided by the researcher.
4. *Attrition*: The researcher experienced loss of respondents over the course of a study, such as employees retired, resigned or died but the researcher gave out more questionnaires than the required number to reduce on this.
5. Biasness of respondents in fear of giving the real responses

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Introduction

This chapter presented the analyzed data and interpretations made there of following the study objectives. It specifically showed data on profile of respondents, level of loan management, level of survival and the relationship between loan management and Survival of commercial banks.

Profile of Respondents

Respondents in this study were described according to age, gender, rank, income level and highest education level, age group and district. In each case, respondents were asked through a closed ended questionnaire, to provide their respective profile information, to enable the researcher classify and compare them accordingly. Their responses were analyzed using frequencies and percentage distributions as summarized in table 2 below;

Table 2: Profile of respondents

	Frequency	Percent
Age		
20 - 39	78	70
40 - 59	34	30
Total	**112**	**100**
Gender		
Male	52	46
Female	60	54
Total	**112**	**100**
Rank		
Top level manager	6	5
Middle level manager	8	7
Lower level manager	98	88
Total	**112**	**100**
Level of income		
Low	53	47
Medium	43	38
High	16	14
Total	**112**	**100**
Education level		
Diploma	33	30
Bachelors	76	67
Masters	3	3
Total	**112**	**100**

Source: Primary data

Table2 shows most respondents in the study sample were women (54%), indicating that the area of the study is dominated by women as compared to men (46%). Regarding designation or rank, most respondents in the study were lower level employees (88%) while 7% were middle level managers and only 6 respondents (5%) were top level managers. Such a distribution of individuals at banks is expected as it is normal that most employees are recruited at lower levels. Regarding level of income, results indicate that majority bank employees earn lower salaries as per bank remuneration norms (47%). 38% of bank workers in Meru Region earn middle level income and 14% are high level income earners. This is as would be expected in this kind of organization.

Regarding education level, results indicate that bank employees in Meru Region are relatively educated with 67% having bachelor's degrees, 30% with diploma level education and only 3% with master's level of education.

About respondents' age group, majority of them are youth between the age of 20-39 years (70%), while the rest (30%) are elderly, which is in line with the population distribution in most African countries where the biggest portion of the population lies below 35 years and very few are above 60 years.

Description of the Level of Loan management

The independent variable in this study was loan management, operationalised into secured loans, unsecured loans and mortgages. Secured Loan management was measured using three qualitative questions in the questionnaire; unsecured loan management and mortgages management were each measured using three and two items respectively. All items on unsecured loan management were Likert scaled using four points ranging between 1= strongly disagree, 2= disagree, 3= agree, 4=strongly agree. The first objective in this study was set to determine the level of Loan management, for which respondents were required to indicate the extent to which they agree with each of the items or statements by ticking the number that best describes their perceptions. Their responses were analyzed and described using means as summarized in table 3 below;

Table 3: Level of Loan Management

Loan management	Mean
Secured Loans	
Your organization asks security for the loans it gives	3.78
Your organization has strict conditions to give secured loans to its clients.	3.86
Your organization reviews securities after each three years.	3.08
Sub total	**3.57**
Unsecured Loans	
Your organization gives unsecured loans such as bank overdrafts, corporate bonds, credit card debt.	3.69
Your organization has risk unit that manages unsecured loans in arrears.	3.84
Your organization has strict conditions for giving unsecured loans	3.63
Sub total	**3.72**
Mortgages	
Your organization does thorough analysis prior to giving mortgage loans.	3.43
Your organization has strict conditions on giving mortgage loans.	3.56
Sub total	**3.50**
Overall total	**3.60**

Source: Primary data

Results in table 3 indicate that there are different levels of loan management on different aspects. For example, respondents rated the level of loan management to be high on secured loans (mean=3.57), equivalent to strongly agree, secured loan (mean=3.72) equivalent to strongly agree and ranked as very high mortgages. Overall, all items on loan management was ranked rated 3.6 equivalent to strongly agree indicating very high levels of loan management in Meru Region.

Description of the Level of survival

The dependent variable in this study was survival of commercial banks, which was broken into six sections namely land loan issuance, market share, profitability, customer satisfaction, employee satisfaction and shareholders' wealth. The component for loan issuance was measured using four items or questions in the questionnaire. The component of profitability was measured using five items or questions of the questionnaire. The component of customer satisfaction was measured using seven items or questions of the questionnaire. The component of employee satisfaction was measured using five items or questions of the questionnaire and shareholders' wealth was measured using four items or questions in the questionnaire. Each question was rated with four point Likert scale, ranging between one to four, where 1=strongly disagree, 2=disagree, 3=agree and 4= strongly agree. The second objective in this study was set to determine the level of survival, for which respondents were required to rate the level of survival by indicating the extent to which they agree with each item in the table. They had to do this by ticking the number that best describes their perceptions. Their responses were analysed and described using means as summarized in table 4 below;

Table 4: Level of Survival of Commercial Banks

Indicators of Organisational Survival	Mean
Loan Issuance	
Loans issued by the organisation are increasing compared to other players in the market	3.66
The loan portfolio in your organization is set to be increasing in future.	3.45
Loans interest rates in your organization are as good as the best player in the market	2.81
Loans issuance in your organization meets your organization's expectation.	2.82
Sub total	**3.19**
Market Share	
Market share of the organisation is big compared to other players in the market	2.94
Market share of your organization is set to be increasing becouse of charging affordable and competitive interest rates	2.74
Market share of your organization is set to be increasing in the future compared to other players in the market.	3.69
Market share of your organization is set to be increasing in the future compared to other players in the market	3.15
Market share of your organization is as big as the organisation expects	3.21
Sub total	**3.14**
Profitability	
Market share of your organization is as big as the organisation expects	2.91
Net profits (after deducting taxes and interest) in your organization are high after deducting taxes and interest after taxes.	1.68
Net profits in your organization are set to be increasing in future.	2.83
Net profits in your organization are as good as the best player in the market.	2.84
Net profits in your organization satisfy your organization's expectation.	3.03
Sub total	**2.66**
Customer Satisfaction	
Your organization offers services that are reliable.	2.19

Your organization provides services in time (without causing delays to the consumers).	3.42
Your organization communicates to consumers in a language they understand best and listens to consumers	3.13
Your organization gives consumers value for their money	3.00
Sub total	**3.05**
Employee Satisfaction	
Your organization keeps consumers informed.	3.72
Your organization offers good after sales service.	3.12
Your organization pays you on time.	2.79
Your organization pays you commensurately to your efforts.	2.74
Your organization gives employee benefits that are adequate.	3.79
Your organization is committed to non discrimination of employees.	3.46
Your organization offers safe working environment for its employees.	2.80
Sub total	**3.20**
Shareholders' Wealth	
Your organization pays dividends on time.	3.33
Your organization's earnings per share are better than those of other players in the market.	3.12
Earnings per share in your organisation are set to be increasing	3.59
Your organization is committed to keep safe earning per share for its shareholders.	3.33
Your organization keeps share holders informed of the latest development.	3.12
Sub total	**3.30**
Overall Total	**3.09**

Source: Primary data

Table 4 results indicate that the level of survival of commercial banks is relatively high in Meru Region. All the six components over which survival was measured was relatively high except for profitability. These were rated as perceived by the respondents. For example, loan issuance was rated as relatively high (total mean =3.19), which falls under agree on the Likert scale and was ranked as high; Market Share was rated relatively high (mean=3.14), falling under agree on the

Likert scale and ranked as high. Profitability was also rated as relatively high (mean=2.66), falling under agree on the Likert scale and ranked as highly. Customer satisfaction was also rated high (mean 3.05), falling under agree on the likert scale and ranked high. Employee satisfaction was also rated as relatively high (mean=3.20), falling under agree on the likert scale and ranked high. Shareholders wealth was also rated high (mean= 3.30), falling under agree on the likert scale and ranked high. To get a summary picture on how respondents rated the level of survival of commercial banks, a mean index for all the six resources whose level was being rated, was computed which turned out to be 3.09 or approximately 3, which falls under agree on the likert scale and ranked as high level.

Relationship between Loan Management and survival of Commercial Banks in in Meru Region

The fourth and last objective in this study was to determine the relationship between loan management and survival of commercial banks in Meru Region Eastern Kenya, for which it was hypothesized that the two variables are not significantly correlated. To test this null hypothesis, the researcher correlated all the mean perceptions computed in Table 3 and 4 above, using the Pearson's Linear Correlation Coefficient (PLCC, r). Results of this test are indicated in table 5 below;

Table 5: Relationship Between Loans Management and Organisational Survival

Variables Correlated	r-value	*Sig.*	Interpretation	Decision on Ho
Loans Management Vs Loans Issuance	0.933	*.000*	Positive and significant	Rejected
Loans Management Vs Market Share	0.917	*.000*	Positive and significant	Rejected
Loans Management Vs Profitability	0.899	*.000*	Positive and significant	Rejected
Loans Management Vs Customer Satisfaction	0.866	*.000*	Positive and significant	Rejected
Loans Management Vs Employee Satisfaction	0.905	*.000*	Positive and significant	Rejected
Loans Management Vs Shareholders' Wealth	0.882	*.000*	Positive and significant	Rejected

Source: Primary data

Table 6 indicates that loan management in terms of secured loans, unsecured loans and mortgages is positively and significantly correlated with all the six components of survival of commercial banks (all p-values<0.05). For example, loan management is positively and significantly correlated with loan issuance (r=0.933, sig. =0.000); market share (r=0.917, sig. =0.000), profitability (r=0.899, sig. 0.000), customer satisfaction (r=0.866, sig 0.000), employee satisfaction (r=0.905 sig 0.000) and shareholders' wealth (r=0.882 sig 0.000).

Table 6: Regression Analysis Between Loans Management and Organisation Survival

Variables Regressed	Adjusted R square	F	Sig.	Interpretation	Decision on Ho
Loans Management Vs Organisation Survival	.897	161.684	000	Significant effect	Rejected

	Beta Coefficient	t	Sig
Constant		11.655	0.000
Loans Issuance	0.635	4.107	0.000
Market Share	0.765	4.919	0.000
Profitability	0.402	3.378	0.001
Customer satisfaction	-0.543	-3.692	0.000
Employee satisfaction	-0.072	-0.605	0.546
Shareholders' Wealth	-0.247	-.933	0.056

Source: Primary data

According to the regression analysis results in table 6, the variables included in the model account for over 90% variations in dependent variable, indicated by a high adjusted r-square of 0.897. Results further suggest that the independent variables included in the model significantly influences changes in the dependent variable (survival of commercial banks) (F=161.684, sig. =0.000). These results lead to a conclusion that loan management significantly explains the high levels of survival of commercial banks in Meru Region. The coefficients table further shows that of all the components of survival of commercial banks, market share (ß=0.765, sig. = 0.00) accounts for the biggest variations in survival of commercial banks, accounting for over 77% as compared to the other two factors; loan issuance .635 (ß=.635, sig. =0.000) and profitability (ß=0.402, sig. = 0.000).

Further the negative beta values indicate that if loan management is extremely tightened, this may have a negative impact on customer satisfaction (-0.543), employee satisfaction(-0.072) and shareholders' wealth(-0.0247)

This concurs with Vigenina & Kritikos (2004) among others who asserted that improved loan management could increase loans repayment to up to 100%.

CHAPTER FIVE
FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

FINDINGS

This study was set out to establish the relationship between loan management and survival of commercial banks in selected districts in Meru Region in Eastern Kenya which was guided by the following objectives; to determine the profile of the respondents in terms of age, income level, highest educational qualification;to determine the level of loan management (secured, unsecured and mortgages) in selected districts in Meru Region in Eastern Kenya; to determine the level of survival of commercial banks in terms of loan issuance, profitability, customer satisfaction, employee satisfaction, and shareholders' funds in selected districts in Meru Region in Eastern Kenya; to establish whether there is a significant relationship between loan management and survival of commercial banks conflict in selected districts in Meru Region in Eastern Kenya.

Data was analyzed using SPSS's descriptive statistics for means and it showed that; (i) level of loan management (secured loans, unsecured and mortgages) (mean ≈ 4); (ii) level of survival of commercial banks in terms loan issuance, profitability, market share, customer satisfaction, employee satisfaction, and shareholders' funds (mean ≈ 3);(iii) and whether there is a significant relationship between loan management and survival of commercial(loan management is positively and significantly correlated with loan issuance (r=0.933, sig. =0.000); market share (r=0.917, sig. =0.000), profitability (r=0.899, sig. 0.000), customer satisfaction (r=.866, sig 0.000), employee satisfaction (r=.905 sig 0.000) and shareholders' wealth (r=.882 sig 0.000).)

Regression analysis results indicated that the independent variable (loan management) included in the model significantly influences changes in the dependent variable (survival of commercial banks) (F=161.684, sig. =0.000); which led to a conclusion that loan management significantly explains the high rates of survival of commercial banks in Meru Region.

Data analysis using SPSS's descriptive statistics showings means indicated that the level of loan management was high for secured loans (mean ≈ 4), for unsecured loans (mean ≈ 4) and for mortgages (mean≈4). In general the overall level of loan management was high (mean≈4) for loan issuance, market share, profitability, customer share, employee satisfaction and shareholders wealth. On the overall all the six components of survival of commercial banks considered in the study were found to be at high level (mean ≈ 3).

The Pearson's linear correlation coefficient results indicated a significant relationship loan management against the various components of survival of commercial banks; for Loan issuance (F=0.933, sig. 0000), for Market Share (F=0.917, sig. 000), for Profitability (F= 0.899, sig 000), FOR customer care (F=0.866, sig 000), for Employee satisfaction (F=0.905, sig 000) and for Shareholders' wealth (F=0.882, sig 000).

Finally regression analysis results found that loan management in the selected districts of study in Meru Region significantly affect survival of commercial banks contributing over 90% towards variations in the level of survival (adjusted square = .897) and of all the three components of unsecured loans, secured loans and mortgages, market share appeared to be the most significant factor contributing to survival of commercial banks with a beta coefficient of 0.765 or 77%.

CONCLUSION

There was a high level of loan management among commercial banks in Meru Region. There was also a relatively high level of survival of commercial banks in terms of loans issuance, market share, profitability, customer satisfaction, employee satisfaction and shareholders wealth.

The level of loan management in Meru Region is significantly correlated with survival of commercial banks, indicating that the high level of loan management is significantly responsible for the survival of commercial banks conflict in this region.

RECOMMENDATIONS

This section deals with recommendations arising from the pertinent findings and conclusions of this study, following the study objectives and hypotheses.

Banks should embrace strict loan management systems. This will enable the banks to safeguard their survival.

Banks should lay emphasis on customer satisfaction to ensure sustainable market share. This will enhance the customer loyalty to help improve market share.

The central bank of Kenya should be vigilante on enforcing banking regulations as this contributes to strict loans. Loans management is the major component of banking regulations.

Banks should lay emphasis on enlightening their employees on the importance of profitability. It was apparent during this study found respondents either apathetic or not knowledgeable in this area.

Banks should consider rural penetration as the study found that their survival is high. This should be coupled with sound loan management practices.

SUGGESTED AREAS FOR FURTHER RESEARCH

There is need to do research in loan interest and survival of commercial banks, further research can also be done in adherence to central bank regulations and survival of banks.

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**OFFICE OF THE COORDINATOR, BUSINESS AND MANAGEMENT
SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH (SPGSR)**

May 20, 2011

RE: REQUEST FOR SILAS MWONGERA MWITHIMBU MBA/20080/82/DF TO CONDUCT RESEARCH IN YOUR ORGANIZATION

The above mentioned is a bonafide student of Kampala International University pursuing a Masters of Business Administration (Banking and Finance).

He is currently conducting a field research of which the title is "**Loan Management and Survival of Commercial Banks in Selected Districts in Meru Region Eastern Kenya.**"

Your organization has been identified as a valuable source of information pertaining to his research project. The purpose of this letter is to request you to avail him with the pertinent information he may need.

Any information shared with him from your organization shall be treated with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,

Mr. Malinga Ramadhan
Coordinator
Business and Management, (SPGSR)

KAMPALA INTERNATIONAL UNIVERSITY SCHOOL OF POSTGRADUATE STUDIES P.O. BOX 20000, KAMPALA

APPENDIX 1B

TRANSMITTAL LETTER FOR THE RESPONDENTS

____

Dear Sir/ Madam,

Greetings!

I am a Masters in Business Administration candidate of Kampala International University. Part of the requirements for the award is a thesis. My study is entitled, **Loan management and Survival of Commercial Banks in Meru Region in Eastern Kenya.** May also I request you to participate in this study by answering all questions. Any data you will provide shall be for academic purposes only and no information of such kind shall be disclosed to others.

May I retrieve the questionnaire within five days (5)?

Thank you very much in advance.

Yours faithfully,

Mr. Silas Mwongera Mwithimbu

APPENDIX 11
CLEARANCE FROM ETHICS COMMITTEE

Date_______________

Candidate's Data

Name_______________________________________

Reg.# ______________________________________

Course ______________________________________

Title of Study

____

____

____

Ethical Review Checklist

The study reviewed considered the following:

___ Physical Safety of Human Subjects

___ Psychological Safety

___ Emotional Security

___ Privacy

___ Written Request for Author of Standardized Instrument

___ Coding of Questionnaires/Anonymity/Confidentiality

___ Permission to Conduct the Study

___ Informed Consent

___ Citations/Authors Recognized

Results of Ethical Review

___ Approved

___ Conditional (to provide the Ethics Committee with corrections)

___ Disapproved/ Resubmit Proposal

Ethics Committee (Name and Signature)

Chairperson ______________________________

Members

____

APPENDIX III

INFORMED CONSENT

In signing this document, I am giving my consent to be part of the research study of Mr. Silas Mwongera Mwithimbu that will focus on Loan Management and Survival of Commercial Banks in Meru Region in Eastern Kenya.

I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime.

I have been informed that the research is voluntary and that the results will be given to me if I ask for it.

____

Name and Signature of Respondent

Date_________________________

APPENDIX 1VA

FACE SHEET: PROFILE OF THE RESPONDENTS

Age__________

Gender__________

Employee designation or Rank____________________________________

Level of income____________________________

Highest Educational Qualifications________________________

APPENDIX IVB

QUESTIONNAIRE ON LEVEL OF LOAN MANAGEMENT

Please describe the level of loan management in your organization; respond to each item by using the scoring guide below. Kindly write your best choice in the space before each item. Be honest about your options as there is no right or wrong answers.

Score	Response	Description
4	Strongly Agree	You agree with no doubt at all
3	Agree	You agree with some doubt
2	Disagree	You disagree with some doubt
1	Strongly Disagree	You disagree with no doubt at all

____1. Your organization asks security for the loans it gives.

____2. Your organization has strict conditions to give secured loans to its clients.

____3. Your organization reviews securities after each three years.

__4. Your organization gives unsecured loans such as bank overdrafts, corporate bonds, credit card debt, credit facilities or lines of credit, personal loans.

_____5.Your organization has risk unit that manages unsecured loans in arrears.

____6. Your organization has strict conditions for giving unsecured loans

__ 7. Your organization does thorough analysis prior to giving mortgage loans.

_____8. Your organization has strict conditions on giving mortgage loans.

APPENDIX 1VC

QUESTIONNAIRE TO DETERMINE THE LEVEL OF BUSINESS SURVIVAL OF COMMERCIAL BANKS

Please describe the level of survival in your organization; respond to each item by using the scoring guide below. Kindly write your best choice in the space before each item. Be honest about your options as there is no right or wrong answers.

Score	Response	Description
4	Strongly Agree	You agree with no doubt at all
3	Agree	You agree with some doubt
2	Disagree	You disagree with some doubt
1	Strongly Disagree	You disagree with no doubt at all

____1. Loans issuance in your organization is high compared to other players in the market.

____2. The loan portfolio in your organization are set to be increasing in future.

____3. Loans interest rates in your organization are as good as the best player in the market.

____4. Loans issuance in your organization meets your organization's expectation.

____5. Market share of your organization is big compared to other players in the market.

____6. Market share of your organization is increasing because of charging affordable and competitive interest rates.

____7. Market share of your organization is set to be increasing in the future compared to other players in the market.

____8. Market share of your organization faces little or no challenges to maintain.

___9. Market share of your organization is as big as the organization expects.

___10. Net profits in your organization are high compared to other players in the market.

___11. Net profits (after deducting taxes and interest) in your organization are high after deducting taxes and interest after taxes.

____12.Net profits in your organization are set to be increasing in future.

____13. Net profits in your organization are as good as the best player in the market.

____14.Net profits in your organization satisfy your organization's expectation.

____15. Your organization offers services that are reliable.

____ 16. Your organization provides services in time (without causing delays to the consumers).

___ 17. Your organization provides services that are accessible to consumers when ever needed.

____18. Your organization communicates to consumers in a language they understand best and listens to consumers.

___ 19. Your organization gives consumers value for their money

____20.Your organization keeps consumers informed.

____21.Your organization offers good after sales service.

____22.Your organization pays you on time.

____23.Your organization pays you commensurately to your efforts.

____24.Your organization gives employee benefits that are adequate.

____25.Your organization is committed to non discrimination of employees.

____26.Your organization offers safe working environment for its employees.

____27.Your organization pays dividends on time.

___28.Your organization's earnings per share are better than those of other players in the market.

___29.Earnings per share in your organization are set to be increasing in the future.

___30.Your organization is committed to keep safe earning per share for its shareholders.

___31.Your organization keeps share holders informed of the latest development.

Source: Porter (1980).

RESEARCHER'S CURRICULUM VITAE

Personal Profile

Name: Silas Mwongera Mwithimbu

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Educational Background

2005-2006	Strathmore University	Certified Information Systems Auditor, CISA
1996-2000	Strathmore University	Certified Public Accountant of Kenya, CPA(K)
1992-1996	University of Nairobi	BA
1987-1990	Meru School	KCSE

Work Experience

2000-To date	Finance Manager
1996-2000	Manager(CEO)
1996-1997	Accountant