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"INFLUENCE OF DEBTOR MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF MICRO FINANCE INSTITUTIONS IN KAKAMEGA COUNTY"

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Abstract

The study sought to determine the effect of debtor management practices on the financial performance of Microfinance Institutions in Kakamega County. The specific objective wasto establish the influence of credits terms and performance of micro finance institutions in Kakamega County. The target population comprised all MFIs in Kakamega County that ware already registered and had been in operation for at least five years 2011 to 2015.After stratifying the target population using stratified sampling, selective sampling technique was used to select the sample. 15 microfinance institutions chosen from Kakamega County were studied. At the microfinance a sample of five respondents were selected to be a representative of the entire microfinance and the study used questionnaire. To enhance validity, the researcher was exposed the instruments to experts in research for judgment. The SPSS version 20 was used to analyze questionnaires. Results from both Pearson correlation and regression analysis revealed that debtor management practices have a significant positive influence on the performance micro financial institution in Kakamega County.

Key Words: Credit terms, financial performance, microfinance institutions

1. Introduction

Micro Finance Institution is a term commonly used to define financial institutions which aim in assisting small enterprises, the poor, and households who have no access to the more institutionalized financial system, in mobilizing savings, and accessing the financial services (Mbaya, 2014). Through microfinance, small enterprises, low income people and women who are considered low income earners have been able to run small businesses which constitute a significant share of economic activity in developed and transitioning economies (Kwagala,2015).

Rasheed, (2010) indicated that 1980s represented the turning point in the history of microfinance institutions when pioneers such as Mohammad Yunus founded the Grameen Bank in Bangladesh. This initiative clearly demonstrated for the first time that poor borrowers, especially women were not only willing to take on small scale projects funded by loans (Kwagala2015). The experiment transformed from its initial success into the Grameen Bank, the world's first microfinance institution, which popularized group lending, in which loans were advanced to individual members of small, homogeneous groups, who collectively

guarantee loans issued to their members (Wanambisi, 2013). All members were barred from further access to credit in the case of default by one group member, providing strong incentives for the group to ensure repayment by each individual borrower is up to date. This microfinance model eventually spread around the world, especially in third world countries (Habibulla, 2010).

The microfinance sector has evolved over the past three decades. It came to prominence in the 1980s, although subsidized credit programs to targeted communities date back to the 1950s and early experiments in Bangladesh, Brazil and a few other countries began in the 1970s (Wanjiru, 2012). The important difference of microfinance sector was that it avoided the hurdles of an earlier generation of targeted development lending, by insisting on repayment, by charging interest rates that could cover the costs of credit delivery and by focusing on client groups whose alternative source of credit was the informal sector (Wanjiru, 2012).

Microfinance deals with all sectors of financial intermediation services; savings, credit funds transfer, insurance, pension remittances, provided to low-income households and enterprises in both urban and rural areas, including employees in the public and private sectors and the self-employed (Nelima, 2012). In micro-finance, growth can be considered at several levels of institutional, group, and individual and can relate to organizational, managerial, and financial aspects (Njenga, 2014). According to Namatovu, Katongole and Mulira, (2012) the basis of a sound credit management system include guidelines that clearly outline the scope and allocation of credit facilities and the manner in which the credit portfolio is managed that is how loans are originated, appraised, supervised and collected. Mbaya, (2014) recommended that borrowers should be screened especially by financial institutions in form of credit assessment. Ongore and Okoth, (2013) collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening as indicated by symmetric information theory. Nelima (2012) noted that if services are offered on credit, the profit is not actually earned unless the account is collected.

A significant part of debtors management involves the proper selection of customers because every credit sale involves the risk of delayed payment or non-payment of the value involved (Korir, 2012). According to Njenga (2014), in many organizations the growth in access to

credit has led to a rising level of consumer indebtedness which is having a significant impact on business profitability. Credit management is concerned with 'debt' owned to the firm by customers arising from sale of goods or services in the ordinary course of business" (Njenga, 2014).

Business success heavily depends on the ability of the financial managers to effectively manage receivables, inventory, and payables (Korir, 2012). Accounts receivables management entails managing the firm's inventory and receivables in order to attain a balance between risk and returns and thereby contribute positively to the creation of a firm value (Kagoyire & Shukla, 2016). Excessive investment in inventory and receivables reduces the profit, whereas too little investment increases the risk of not being able to meet commitments as and when they become due (Omondi, 2014).

1.1 Statement of the Problem

According to Nelima (2012), even if granting credit may accrue benefits of increasing sales to the institution, there are high default risks that may adversely affect its future performance. Financial institutions therefore have to come up with appropriate credit management policies that will yield the maximum benefits and reduce the risk of defaults therefore Sound debt management is very important for a financial institution's stability and continuing, profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition (Nduta, 2013).

In the recent past years the performance of some companies has been dismal due to their high level of debt compared to equity (Chebii, Kipchumba & Wasike, 2011). For example, the financial statement of Eveready East Africa Limited (2012) shows that the total equity capital was Kshs 349.5 Million but the total short term liabilities, comprising bank loan, trade and other accounts payable and bank overdraft all added up to Kshs 695.8 Million, implying short-term debt capital was 99% above equity capital. The financial statement of Uchumi Supermarket Limited and Subsidiaries (2013), shows that the total for term loan, trade and other payables and bank overdraft was Kshs 2,619 Million compared to total equity capital of Kshs 2,925 Million (Uchumi Supermarket Financial report, 2013), giving a debt to equity capital ratio of 0.9:1.

Prior studies on the effect of debtor management practices on firm performance found

diverse results. Some researchers found that debtor management practices negatively affect the performance of micro finance institutions (Agu, Chigozie1 &Okoli, 2013). Valeriu and Nimalathasan, (2010) found a positive effect existing between debtor management practices and firm performance and hence a gap in knowledge for further research. Debtor management practices deals with resources which are borrowed with expectations of repayment (Isabwa, 2015). Gladys (2012) established the effect of debtor management techniques used to evaluate SMEs on the level of performance by Commercial banks in Kenya. The study established that there is a negative relationship between Credit management practices and financial performance of the firm. Hence this research sought to address this gap in knowledge by conducting a research on the effects of debtor management practices on performance of micro financial institutions in Kakamega County.

Mbaya (2014) studies the effect of debtor management practices on performance in microfinance institutions in Nairobi Kenya. The Study found that there is strong negative relationship between performances of microfinance institutions and debtor management practices. This is inconsistent to Chege, (2010) investigation on the relationship between debtor management practices and performance of Micro Finance Institutions in Kenya and found out that positive effect existed between debtor management practices and firm performance. Hence the author recommended further research to be done for other organizations.

1.3 Research Objectives

To establish the influence of credits terms and performance of micro finance institutions in Kakamega County.

2. Literature Review

2.1 Theoretical Framework

2.1.1 Transactions Cost Theory

Omondi (2014) in transactions cost theory of trade credit argues that trade credit reduces transactions costs by allowing the parties to separate payment and delivery cycles when delivery is uncertain. The customer can lower the transactions demand for cash if payment can be separated from delivery. Horace (2014) incorporate this basic idea in a formal two period model which incorporates the trade-off between inventories and trade credit under

conditions of stochastic demand. Maana, Mwita, and Odhiambo, (2010) derive empirically testable propositions with respect to accounts payable and accounts receivable and their relationship with changes in costs of inventories, profitability, risk profile, liquidity position of firms and bank loans

Martins (2010) argued that, all other things being equal, buyers with low effective tax rates would prefer trade credit and therefore are more likely to have customers rather than the firm and therefore differ from the information embedded in other assets. A transaction is a fundamental unit of economic activity where one party consents to take action in return for equitable reciprocal value. According to Mbaya (2014) transaction occurs if goods and services is transferred across a technologically separable interface and can therefore occur within the firm hierarchy or outside the firm market. Over six decades ago Ronald Coase, best known as the forefather of transaction cost theory, foresaw the transaction costs that arise when transactions are conducted through the market (Ayuma, 2014).

The firm is a contractual structure with joint production, several input owners, one party who is common to all the contracts of the joint inputs, who has rights to renegotiate any input's contract independently of contracts with other input owners, who holds the residual claim, and who has the right to sell his central contractual residual status (Nanjala, 2015). Ayuma (2014)on the internal economics of the organization, suggested that resource allocation processes that are internalized are those which are not efficiently carried out in a decentralized manner that is to say, where equilibrium are inefficient. Due to the nature of many of the important constructs central to transaction cost theory, there is scarce empirical work effectively measuring these constructs. Because of the positivist view dominating much of the organizational sciences research, the quantification and measurements have been emphasized (Mbaya, 2014).

The transaction cost theory suffers the criticism of lack of sufficiently tested hypotheses. The most common criticism is that the central assumptions of transaction cost theory are flawed (Horace, 2014). The assumption of opportunism has been criticized for ignoring the contextual grounding of human actions and therefore presenting an under socialized view of human motivation and over socialized view of institutional control (Horace, 2014). Williamson responded to such criticisms by re-stating that in his model, opportunism or

bounded rationality may differ from person to person much as personality or intelligence do, but when transaction costs change they do so because of changes in the environment, not in the person (Mbaya,2014).

Omondi, (2014) criticized the validity of transaction cost theory on the grounds that the opportunism with guile is bad for practice. Transaction cost theory is normative or prescriptive theory and if opportunism with guile assumption is taken seriously by managers there will be negative consequences for firms. Martins (2010) argue that the application of transaction cost theory will increase the occurrence of opportunism rather than decreasing it. Horace (2014) also criticized transaction cost theory for failing to point out how opportunism is reduced through alternative governance structures. Omondi (2014) argued that the problem with transaction cost theory is Williamson's description of the determinants of opportunism; and that there is a difference between the propensity to behave opportunistically (a behavioral trait) and the psychological state of opportunism. The same uncertainty condition that may lead some individuals to behave opportunistically it may lead others to trust.

The transaction cost theory has been further criticized as only looking into two relative extremes methods of facilitating transactions that do not really exist. The critics argued that the market versus hierarchy dichotomy is somewhat misleading since many transactions are actually carried out through a hybrid governance form (Nduta, 2013). Martins (2010) stated that the distributions of transactions would be a "bell-shaped" normal distribution if discrete transaction would be located at the one extreme (market), highly centralized and hierarchical transactions on the other, and hybrid transactions franchising, joint ventures, and other forms of nonstandard contracting in between.

2.2 Conceptual Frame Work

Independent Variable (Credit Terms) **Dependent Variable (Financial Performance)**

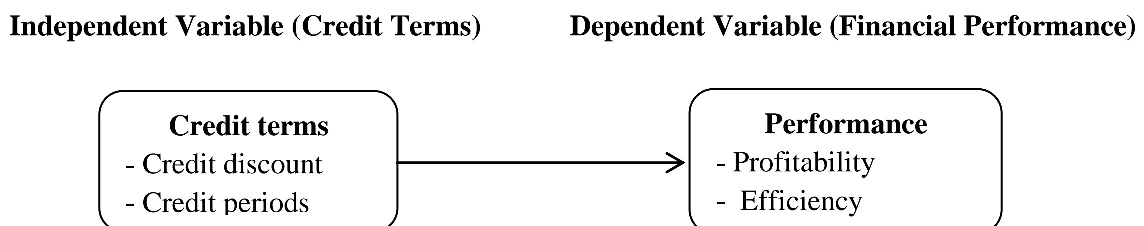

Figure 1: The conceptual framework

Source: Researcher (2016)

2.2.1 Credit terms

Credit terms refer to standards or negotiated terms (offered by a seller to a buyer) that control the monthly and total credit amount, maximum time allowed for repayment, discount for cash or early payment, and the amount or rate of late payment penalty (Agu, Chigozie & Okoli,2013). The majority of MFIs still face inadequate financing to support their private initiatives. This is due to the high transaction costs and inability of firms to provide collateral required by banks (Waweru, 2010). Organisation find it difficult to obtain commercial bank financing, especially long-term loans, for a number of reasons, including lack of collateral, difficulties in proving credit worthiness, small cash flows, inadequate credit history, high interest rates (Byaruhanga,2013).

According to Kipngetich, (2015), credit terms comprise factors such as interest rate, collateral and loan repayment periods. Collateral required by commercial banks in developing countries has been a contentious issue for microfinance institutions. However, real-estate collateral provides an incentive and a justification to lend and repay, as well as a means to offset losses in case of default. Due to problems of asymmetric information and agency, banks have difficulty distinguishing good risks from bad risks and in monitoring borrowers once funds have been advanced (Kariuki, 2010).

Byaruhanga (2013) studied the relationship between Credit Terms, Credit Accessibility and Performance of Agricultural Cooperatives in Rwanda. The purpose of this study was to examine the empirical relationship between credit terms, credit accessibility and the performance of agricultural cooperatives in Rwanda. She adopted a descriptive research design. The findings revealed a positive and significant relationship between credit terms, credit accessibility and the performance of agricultural cooperatives. Credit terms may include; Length of time to approve loans, this is the time taken from applicants to the loan disbursement or receipt. It is evaluated by the position of the client as indicated by the ratio analysis, trends in cash flow and looking at capital position (Nelima, 2012). Maturity of a loan, this is the time period it takes loan to mature with the interest there on Cost of loan, this is interest charged on loans, different micro finance institutions charge differently basing on what their competitors are charging (Mirach, 2010) .

Nyangoma (2012) studied the effects of credit terms, access to finance and financial performance of micro finance in Kampala. The study adopted a cross-sectional survey design because of limited resources in terms of time and finances. A sample size of 384 respondents was selected from a population of 110,714 firms using simple random sampling method. In conclusion, it was observed that there was a positive significant association among the study variables which included credit terms, access to credit and financial performance of firms. Nelima (2012) studied the Effectiveness of Credit Management System on Performance: Empirical Evidence from Micro Finance Sector in Kenya. This study was aimed at assessing the effectiveness of credit management systems on performance of microfinance institutions. Specifically she sought to establish the effect of credit terms, client appraisal, credit risk control measures and credit collection policies on loan performance. She adopted a descriptive research design. The study concluded that the Interest rates charged had a negative effect on the performance, the higher the interest rates the lower performance. Riach (2010) observes that credit terms are normally looked at as the credit period terms of discount and the amount of credit and choice of instrument used to evidence credit.

2.2.2 Firm Performance

Performance is best looked at in two ways that is, end results and a means to achieve the results. According to Kagoyire and Shukla (2016) Performance is the ability to distinguish the outcomes of organizational activities. Performance could either be financial and non-financial performance (Ittner, 2008). The non-financial performance is measured using operational Key Performance Indicators such as Market share, innovation rate or customer satisfaction (Hyvonen, 2037). Financial performance is a subjective measure of how well a firm can use its assets from its primary role of conduction of business and its subsequent generation of revenues Ngima (2014). Financial performance is also used as a general measure of a firm's overall financial status over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in totality (Okoth, 2013).

The financial performance is measured using accounting Key Performance Indicators such as Return on assets, Earnings before interest and tax (Nelima, 2012). The advantage of these measurements is their general availability, since every profit oriented organization produces these figures for their yearly financial reporting (Chenhall, 2037).

2.3 Empirical Studies

Nelima (2012), studied effectiveness of Credit Management System on Loan Performance: Empirical Evidence from Micro Finance Sector in Kenya found out that Credit terms formulated by the microfinance institutions do affect loan performance; the involvement of credit officers and customers in formulating credit terms affects loan performance. Interest rates charged had a negative effect on the performance of the loans, the higher the interest rates the lower the loan performance.

Mulema, (2011) investigated effects of credit policy on financial performance in microfinance institutions. The study objectives included, examining credit management policies of Uganda Finance Trust, to evaluate the portfolio performance of Uganda Finance Trust and to establish the relationship between credit policies and financial performance. The researcher used a combination of descriptive and analytical, cross-sectional survey. A sample of 40 respondents was selected to represent the views of the entire population. The study indicated that credit policies if not clearly designed could negatively impact on the performance of micro finance institutions. It was concluded that although there is a positive relationship, there are other factors affecting the loan performance levels of the organization. These may include; poor working environment, low motivation levels and low wages. Hence the researcher recommended further studies to be conducted in the following areas, the impact of information technology on performance of micro finance institutions, the impact of customer service on customer retention in micro finance institutions and Credit management and financial performance in micro finance institutions.

2.4 Gap to be filled by the Study

Nduta, (2013) studied the effect of credit management practices on the financial performance of microfinance institutions in Kenya. The study adopted a descriptive survey design. The population of study consisted of 59 MFIs in Kenya that are members of AMFI. From the findings, the study found that client appraisal; credit risk control and collection policy had effect on financial performance of MFIs. The study established that there was strong relationship between financial performance of MFIs and client appraisal, credit risk control and collection policy. The study revealed that a unit increase in client appraisal, credit risk control and collection policy would lead to increase in financial performance of MFIs in Kenya; this is an indication that there was positive association between client appraisal, credit

risk control and collection policy and financial performance of MFIs, an increase in credit risk control would lead to increase in financial performance of MFIs in Kenya, which shows that there was positive relationship between financial performance of MFIS and credit risk control and a unit increase in collection policy would lead to increase in performance; this is an indication that there was a positive relationship between financial performance of MFIs and collection policy.

Mwithi (2012) Set to establish the relationship between credit policy management approaches employed by MFIs in Nyeri County. A descriptive study of credit policy management techniques was used to carry out the research. Primary data of the research was collected through administering questionnaires to 44 respondents selected MFIs from their various levels of employment. The study established that there is a negative relationship between Debt Management practices and nonperforming loans. Due to the turbulent nature of the business environment for example technology, risks and uncertainties, the researcher recommend that it will be appropriate to replicate this study after duration of ten years and establish the relationship between credit management practices and loan performance as at that time then determine whether there are areas of commonalities or unique factors. The fact that this study limited itself to deposit taking microfinance institutions in Kenya, he further suggested that comparative study should be conducted in micro financial institutions in order to assess whether there are any similarities or differences from the results of this study.

3. Methodology

This study adopted the descriptive survey design. The target populations was all the 15 Micro Finance institutions Kakamega County that ware already registered and had been in operation for at least five years 2011 to 2015 this was provided by (AMFI,2012). The sample involved branch managers, credit managers, operation manager; relationship manager and section head which made a total of 5 respondents in every micro - finance making a total of 75 respondents. The study used questionnaire to collect primary data. The researcher also conducted a pilot study where by inappropriate questionnaire items was discarded or rephrased. Validity was determined by use of content validity. To assess the reliability of instruments, the test re-test technique was used on participants during the pilot study. The instruments were used twice to the same members at different times. The SPSS version 20 was used to analyze questionnaires. This study used frequencies and percentages for

descriptive data while inferential analysis comprised of Pearson correlation and linear regression analysis.

4. Findings

4.1 Descriptive Analysis of the Variables in the Study

Descriptive analysis included an assessment of the credit terms and financial performance of Micro Finance Institutions. The statements were anchored on a five point Likert-type scale ranging from 5=Strongly Agree to 1= strongly agree and respondents were asked to indicate the extent to which they agreed to the statements. Descriptive measures included percentage, frequency, mean and standard deviation. To measure credits terms, a set of five statements were formulated. The respondents were asked to indicate the extent of agreement with each of the Credits terms statements. The pertinent results are presented in Table 1.

Table 1: Credit Terms

Credits terms	SD	D	NI	A	SA	Mean	SDV
My organization has the credit terms and conditions which are clear and documented	2 (2.9)	5 (7.25)	20 (28.99)	29 (42.03)	13 (18.84)	3.66	.960
My organization requires the borrower to signs for the terms and conditions before each issue of loan is released	2 (2.9)	3 (4.35)	25 (36.23)	29 (42.03)	10 (14.49)	3.60	.894
In My organization discount is accorded to customers who repay before due date.	2 (2.9)	6 (8.7)	23 (33.33)	27 (39.13)	11 (15.94)	3.56	.962
My organization repayments dates and deadlines are clear and known to the borrower	4 (5.8)	7 (10.14)	22 (31.88)	26 (37.68)	10 (14.49)	3.44	1.05
My organization ensures repayment amounts are clear, segregated as principal, interest and share amounts.	3 (4.35)	7 (10.14)	21 (30.43)	27 (39.13)	11 (15.94)	3.52	1.02

Note: SD=Strongly Agree, D=Disagree, N=Neutral, A=agree, SA=Strongly Agree
Source: Researcher (2016)

Table 1 revealed Credits terms results, 13 (18.84%) of the respondents strongly agreed that MFIs has the credit terms and conditions which are clear and documented, 29 (42.03%) agreed while 20 (28.99%) of the respondents were neutral, 5 (7.25%) of the respondents disagreed and, 2 (2.9%) of the respondents strongly disagreed (mean = 3.6667, SD = 0.96508. Majority, that is (60.87%) of the respondents confirmed that MFIs has the credit terms and conditions which are clear and documented.

On requirement of the borrower to signs for the terms and conditions before each issue of loan is released, 10 (14.49%) of the respondents strongly agreed that MFI requires the borrower to signs for the terms and conditions before each issue of loan is released, 29 (42.03%) of the respondents agreed on the same and 25 (36.23%) of the respondents were neutral. However, 3 (4.35%) disagreed while 2 (2.9%) of the respondents strongly disagreed (mean = 3.6087, SD = .89471). More than half of the respondents 56.52% confirm that MFIs requires the borrower to signs for the terms and conditions before each issue of loan is released.

In relation to discount is accorded to customers who repay before due date, 11 (15.94%) of the respondents strongly agreed that MFIs discount is accorded to customers who repay before due date. 27 (39.13%) agreed while 23 (33.33%) of the respondents were neutral. However, 6 (8.7%) of the respondents disagreed while 2 (2.9%) strongly disagreed to the same (mean = 3.1014, SD = .90983). Over half of the respondents (55.07%) confirmed that discount is accorded to customers who repay before due date.

The respondents were also asked if the MFIs repayments dates and deadlines are clear and known to the borrower. The results were such that 10 (14.49%) of the respondents strongly agreed, 26 (37.68%) agreed, 22 (31.88%) were neutral, 7 (10.14%) disagreed and 4 (5.8%) strongly disagreed (mean = 3.4493, SD = 1.05072). Majority of the respondents (52.17%) confirmed that MFI repayments dates and deadlines are clear and known to the borrower.

Finally, 11 (15.94%) of the respondents strongly agreed that MFIs ensures repayment amounts are clear, segregated as principal, interest and share amounts, 27 (39.13%) agreed and 21 (30.43%) of the respondents were neutral. However, 7 (10.14%) of the respondents disagreed and 3 (4.35%) strongly disagreed (mean = 3.5217, SD = 1.02338) on MFIs ensures repayment amounts are clear, segregated as principal, interest and share amounts. Majority of

the respondents 37 (53.62%) agreed that MFIs ensures repayment amounts are clear, segregated as principal, interest and share amounts.

4.2 Financial Performance

To determine the financial performance of microfinance institutions in Kakamega County, each respondent was asked to evaluate the financial performance with respect to the following six dimensions: bank profits, employee salary, assets size, capital base, number of employees and dividend payout. The results are presented in Table 2.

Table 2: Financial Performance

Financial performance	SD	D	NI	A	SA	Mean	SDV
My organization profit have increased for the last five years	2 (2.9)	4 (5.8)	8 (11.59)	32 (46.38)	23 (33.33)	4.014	.977
My organization salary for the employees have improved in the recent years	3 (4.35)	3 (4.35)	17 (24.64)	22 (31.88)	24 (34.78)	3.884	1.07
My organization have grown in size in terms of the assets	3 (4.35)	4 (5.8)	12 (17.39)	37 (53.62)	13 (18.84)	3.768	.972
My organization capital base has increased from previous years	2 (2.9)	5 (7.25)	24 (34.78)	22 (31.88)	16 (23.19)	3.652	1.012
My organization has increased the number of employees in the recent past.	3 (4.35)	3 (4.35)	18 (26.09)	27 (39.13)	18 (26.09)	3.782	1.027
My organization dividend payout has increased for the last five years.	3 (4.35)	4 (5.8)	26 (37.68)	23 (33.33)	13 (18.84)	3.565	1.00

Note: SD=Strongly Agree, D=Disagree, N=Neutral, A=agree, SA=Strongly Agree,
Source: Researcher (2016)

Table 2 revealed that, 23 (33.33%) of the respondents strongly agreed that their profit have increased for the last five years, 32 (46.38%) of the respondents agreed on the same though 8 (11.59%) were neutral and 4 (5.8%) of the respondents disagreed and 2 (2.9%) strongly agreed (mean = 4.014, SD = .97758). Majority of the respondents, 32 (46.38%) agreed that profit have increased for the last five years.

The finding also indicated that 24 (34.78%) of the respondents strongly agreed that the salary for the employees have improved in the recent years (31.88%) of the respondents agreed on the same and 17 (24.64%) were neutral. However, 3 (4.35%) of the respondents disagreed and 3 (4.35%) strongly agreed (mean = 3.884, SD = 1.07835). Less than half of the respondents, 24 (34.78%) strongly agreed that the salary for the employees have improved in the recent years

The findings revealed that 13 (18.84%) of the respondents strongly agreed the MFIs have grown in size in terms of the assets while 37 (53.62%) of the respondents agreed on the same statement and 12 (17.39%) remained neutral. Nonetheless, 4 (5.8%) of the respondents disagreed with statement and 3 (4.35%) strongly agreed (mean = 3.768, SD = .97234). Majority of the respondents, 37 (53.62%) agreed that MFIs have grown in size in terms of the assets

From the findings, 16 (23.19%) of the respondents strongly agreed the MFIs capital base has increased from previous years 22 (31.88%) of the respondents agreed on the same with 24 (34.78%) remained neutral. It was further revealed that 5 (7.25%) of the respondents disagreed with statement and 2 (2.9%) strongly agreed (mean = 3.652, SD = 1.01208). Majority of the respondents, were undecided whether MFIs capital base has increased from previous years

The findings also indicted that, 18 (26.09%) of the respondents strongly agreed and 27 (39.13%) agreed that MFI has increased the number of employees in the recent past with 18 (26.09%) decided to remain neutral. However, 3 (4.35%) of the respondents disagreed with statement and 3 (4.35%) strongly disagreed (mean = 3.782, SD = 1.02713). Less than half of the respondents agreed that MFI has increased the number of employees in the recent past.

Lastly, the findings revealed that, 13 (18.84%) of the respondents strongly agreed that dividend payout has increased for the last five years while 23 (33.33%) agreed on the same statement with 26 (37.68%) decided to remained neutral. Furthermore, 4 (5.8%) of the respondents disagreed with statement and 3 (4.35%) strongly agreed (mean = 3.565, SD = 1.03701). Majority of the respondents were undecided whether the dividend payout has increased for the last five years.

4.3 Inferential Statistics

The main objective of the study was to investigate the influence of debtor management practices on financial performance of micro finance institutions in Kakamega County. Inferential statistics were used to determine the relationships between credits terms and financial performance of the micro finance institutions in Kakamega County. This comprised of correlation analysis and regression analysis. Correlation analysis by means of Pearson Product Moment Correlation Coefficient technique was used to determine nature and magnitude of the relationships between debt management practices and financial performance.

4.3.1 Correlational Analysis

		Credits terms	Performance
Credits terms	Pearson Correlation	1	
	Sig. (2-tailed)		
	N	69	
Performance	Pearson Correlation	.794**	1
	Sig. (2-tailed)	.000	
	N	69	69

Source: Researcher (2016)

Table 3: Correlational Analysis

In establishing the effect of credit terms on financial performance of micro finance institutions in Kakamega County, the study established a coefficient of correlation (r) as 0.794**. This implies that the financial performance increase with increase in Credit terms and decrease in Credit terms lead to decrease in financial performance. The results indicated that the relationship between Credit terms and financial performance is positive and significant ($r = .794^{**}$, $p < 0.01$). The findings of this study are similar to Byaruhanga (2013) who established that credit terms has positive and significant relationship with the performance of agricultural cooperative in Rwanda. However, Nelima (2012) revealed that credit terms such as interest rates had negative effect on the performance of Micro Finance Sector in Kenya, the higher the interest rates the lower performance. Moti, Masinde and Mugende (2012) revealed there is a significant inverse relationship between interest charged

and performance since the computed p- value (0.000) is less than 0.05 at 95% confidence level. Therefore interest rate terms affect the performance in microfinance institutions and the relationship is inversely proportional.

4.4 Regression Analysis for Credit Terms and Financial Performance

Model	R	R^2	Adj. R^2	df	F	Sig.
Credit terms	.794	.631	.626	(1,69)	114.630	.000

Source: Researcher (2016)

Table 3: Regression Analysis

The results revealed a coefficient of determination (r2) of 0.631 for credit terms. Meaning Credit terms can explain 63.1 % of the variance in financial performance of micro finance institutions in Kakamega County in Kakamega town. The F test gave a value of (1, 69) =114.630, P<0.01, which was large enough to support the goodness of fit of the model in explaining the variation in the dependent variable .It also means Credit terms is a useful predictor of financial performance. The results are in line with Nyangoma (2012) who found out that credit terms had significant positive association with the financial performance of microfinance in Kampala. More favorable credit terms had significant relationship with performance of MFIs.

5. Conclusions and Recommendations

Results from both Pearson correlation and regression analysis revealed that credit terms has significant positive influence on the performance micro financial institution in Kakamega County. This was shown by r=.794**, p<0.01 as obtained from Pearson correlation revealing that an increase in credit terms would results to an increase in performance of MFIs in Kakamega County. Besides, regression results revealed that credit term is a significant factor in influencing performance of MFIs in Kakamega County F(1,69)= 114.630, P<0.01 which is significant at 95% confidence level. The value of coefficient of determination R squared value is 0.631 which indicates that 63.1% of variance in dependent variable can be explained by credit terms while the rest 36.9% by other factors. The MFIs were found to have clear and document credit terms and conditions and borrowers were required to sign before loan is issued to them. Further, the MFIs ensured that repayment amounts are clear, segregated as

principal, interest and share amounts as well as repayments dates and deadlines are clear and known to the borrower.

Based on the findings, the study recommended that in order to improve the financial performance of MFIs, there is need by the management to improve credit terms in conditions and terms and the customers should be aware before loan release. This will help the borrowers to comply with their credit obligation as per the terms and conditions

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