

**CREDIT MANAGEMENT AND FINANCIAL PERFORMANCE OF SELECTED
AIRLINES IN KENYA.**

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**A RESEARCH PROJECT PRESENTED TO SCHOOL OF BUSINESS IN
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DECLARATION

I declare that this research proposal is my original work and has not been presented for award of a degree at any other institution of learning.

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I confirm that this research project has been carried out under my supervision as the University appointed Supervisor.

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DEDICATION

This research project is lovingly dedicated to my wife Hellen, my dad Jotham and my mum Esther who have shown me great support in my quest for education.

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OPERATIONAL DEFINITION OF TERMS

Appraisal - Estimating or judging the nature or value of borrower.

Collateral security - Property or other assets that a borrower offers a lender to secure a loan.

Credit exposure - Amount of credit extended to a borrower by a lender

Credit management practices - Procedures and styles adopted in curbing debt levels in an organization

Credit management - Supervision, control and execution of debt levels in an organization

Financial performance - Mathematical measures used to evaluate how well a company is performing

Loan - Credit facility offered by a financial institution

Portfolio at Risk - Loans that is late in their repayments.

Provision - Pool of cash set aside to meet a future liability.

Local Airline - An Airline Company that is licenced by International Air transport Association to operate in Kenya.

Credit control system – A procedure used by business to make sure it gives credit only to customers who are able to pay.

Pre-borrowing evaluation – An evaluation of a potential borrower by a lender to determine whether a borrower qualifies for a loan from the lender.

Management of bad debts – A strategy developed and implemented to help a company manage its debts.

ACROYNMS AND ABBREVIATIONS

BS	-	Balance Sheet
CBK	-	Central Bank of Kenya
GDP	-	Gross Domestic Product
ICT	-	Information and Communication Technology
IAR	-	International Airline Report
IATA	-	International Air Transport Association
MFIs	-	Micro Finance Institutions
MBD	-	Management of bad debts
OER	-	Operating Expense Ratio
SMEs	-	Small and Medium Enterprises
SPSS	-	Statistical Package for Social Sciences
ToP	-	Theory of Performance
VIF	-	Variable Inflation Factor

ABSTRACT

Sound credit management is a prerequisite for a financial institution's stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. Firms must therefore ensure that the management of receivables is efficient and effective. On that basis, it is simply good business to put credit management at the front end by managing it strategically. Therefore this study sought to establish the effect of credit management on financial performance of selected airlines in Kenya. The study specifically sought to determine the effect of credit control system, management of bad debts, pre-borrowing evaluation and borrowing approval process on financial performance of selected airlines in Kenya. The study adopted a cross sectional descriptive survey design because it provides a clear outcome and the characteristics associated with it at a specific point in time. The target population for the study was three hundred and sixty nine employees in the selected seventeen airline companies locally licenced to operate in Kenya. Two senior employees in credit and accounting/finance departments in the seventeen local airline companies in Kenya were interviewed since these were the people with relevant knowledge on credit policies. The study adopted a census technique to select the respondents from the population. This comprised one senior staff from each department for the seventeen Airline companies with total respondents being sixty eight. The study obtained secondary data through a data collection form that indicated the performance of the selected airline companies. However, a semi- structured questionnaire was used to collect primary data. The researcher employed self-administration style of data collection. Responses in the questionnaires were tabulated, coded and processed using a computer Statistical Package for Social Science program. The relationship between the dependent variable and the independent variables were tested using multiple linear regression models. . The findings of the research show that borrowing approval process was the most influential variable affecting financial performance of airline companies in Kenya. Credit control system is the least influential variable affecting financial performance of selected airlines in Kenya. The study recommends the creation and strengthening of independent credit management authority to oversight and monitor best credit management practices in the airlines and even provide technical advice to the Airline companies when necessary. The researcher recommends a further research on the impact of non-performing loans on financial performance of airline companies in Kenya.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The importance of credit management by airline companies has attracted much attention making it an important topic for economists and policymakers working on financial and economic development. This interest is driven in part by the fact that airline companies account for the majority of buoyant firms in an economy and thus provide a significant share of employment (Demirguc-Kunt & Huzinga, 2013). Furthermore, the aviation industry is, by its very nature, a global industry (Mulaku & Anwar, 2014). The recent attention on credit management also comes from the perception among academicians and policymakers that airline companies that lack appropriate credit management mechanisms risk making huge losses as put in by Nzotta (2004), credit management greatly influences the success or failure of any organization.

In the modern environment of intense competitive pressures, volatile economic conditions, rising default rates and increasing levels of consumer and commercial debt, an organizations ability to effectively monitor and manage its credit could mean the difference between success and survival (Aduda & Gitonga, 2011). The past decade has seen airline companies that had been performing well suddenly announce large losses due to credit exposures that turned sour, interest rate positions taken, or derivative exposures that may or may not have been assumed to hedge balance sheet risk (Omondi, 2014). In response to this, airline companies have almost universally embarked upon an upgrading of their credit management and control systems. Due to the nature of their business, airline companies expose themselves to the risks of default from borrowers. Prudent credit assessment and creation of adequate

provisions for bad and doubtful debts can cushion the airline companies (Durge, 2011).

This airline industry continues to remain a large and growing industry, facilitating economic growth, world trade, international investment and tourism and therefore remains central to the globalization taking place in many other industries (Mulaku & Anwar, 2014). In order to survive and be prosperous in this industry, airlines have recognized the need for radical change. The new trends emerging in the aviation industry in a global scenario are the increased globalization of economies, liberalization of aviation policies, new technological developments in civil aviation, privatization of airlines and airports and liberal and open skies bilateral agreements.

The main aim of every airline company is to operate profitably in order to maintain its financial stability and improve in growth and expansion. According to IATA press release No. 3 (2008), airport performance is measured in three major areas; airports must deliver adequate capacity to ensure that markets are well served; they must ensure service levels that meet customer expectations; and they must have prices that reflect efficiency, effectiveness and quality customer care. This therefore, indicates that providing the right incentives is the most critical part of the privatization process in the aviation industry. However, private airline firms have been failing because of lack of effective and transparent credit regulation system in place (Omondi, 2014).

Credit management is one of the most essential activities in any organization (Gatuhu, 2013). Therefore, credit management cannot be overlooked by any economic enterprise engaged in credit irrespective of its business nature. Lack of sound credit management practices leads to

pitfalls in the airline sector. Scheufler (2002) summarizes these pitfalls as failure to recognize potential frauds, under-estimation of the contribution of bad debts, getting caught off guard by bankruptcies, failure to take full advantage of technology, and spending surplus resources on credit evaluations that are not related to reduction of credit defaults. With the rise in bankruptcy rates, the probability of any organization incurring losses has risen (Omboto, 2014).

Economic pressures and business practices are forcing organizations to slow payments while on the other hand resources for credit management are reduced despite the higher expectations. Therefore it is a necessity for credit professionals to search for opportunities to implement proven best practices (Gatuhu, 2013). Timely identification of potential credit default is important as high default rates lead to decreased cash flows, lower liquidity levels and financial distress. Companies that achieve financial performance enhance the management culture by decentralizing the decision-making process and allowing employees to contribute thus benefiting from multiple perspectives (Kungu, Desta & Ngui, 2014). Khan, Farooq and Ullah (2010) analysis shows that companies with the highest levels of financial performance also have high levels of credit management and staff engagement.

1.1.1 Credit Management

Credit management involves a set of practices and methods adopted by a firm to ensure that they maintain an optimal level of credit and its effective management (Myers & Brealey, 2003). It is an aspect of financial management involving credit analysis, credit rating, credit classification and credit reporting. Nelson (2002) views credit management as simply the means by which an entity manages its credit sales. Nzotta (2004) opined that credit management greatly influences the success or failure of commercial banks and other financial institutions. This is because the failure of deposit banks is influenced to a large extent by the quality of credit decisions and thus the quality of the risky assets. A key requirement for

effective credit management is the ability to intelligently and efficiently manage customer credit lines. In order to minimize exposure to bad debt, over-reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns. Credit management is concerned primarily with managing debtors and financing debts (Gatuhu, 2013).

Credit management is a process that starts when a sale is closed and ends when the final payment is received (Aduda & Gitonga, 2011). It is as important as part of the deal as closing the sale. In fact, a sale is technically not a sale until the money has been collected (Diagne & Zeller, 2001). It follows that principles of goods lending shall be concerned with ensuring, so far as possible that the borrower will be able to make scheduled payments with interest in full and within the required time period otherwise, the profit from an interest earned is reduced or even wiped out by the bad debt when the customer eventually defaults.

To limit credit risk, it is important that clients are screened and assessed critically to ensure that they have the willingness and ability to repay a loan. Banks use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000). This model of assessment help banks to increase loan performance, as they get to know their customers better. These 5Cs of credit management are: character, capacity, collateral, capital and condition. Character refers to the trustworthiness and integrity of the business owners since it's an indication of the applicant's willingness to repay and ability to run the enterprise. Capacity assesses whether the cash flow of the business or household can service loan repayments. Capital refers to the assets and liabilities of the business or household. Collateral refers to access to an asset that the applicant is willing to cede in case of non-payment or a guarantee by a respected person to repay a loan in default. Finally, conditions refer to a business plan that considers the level of competition and the market for the product or services as well as legal and economic environment .The 5Cs need to be included in the credit scoring model.

Another model mostly applied by financial providers is CAMPARI. This is more similar to the 5 C's. The character, ability, means, purpose, amount, repayment and insurance is critical in assessing the borrowers during screening process. The more confidence the lender has in the borrower, the more chance the borrower is likely to receive capital. Presentation in terms of appearance and leadership is crucial.

Many loan applications will fail due to lack of ability and means to repay the loans. The purpose for which the loan is applied as supported by a business plan is essential. A repayment plan and a backup in terms of insurance will also assure the lender of security over their money.

1.1.2 Financial Performance

Turyahebya (2013) defines financial performance as the ability to operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg and Anderson (1995) assert that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. Companies that achieve financial performance enhance the management culture by decentralizing the decision-making process and allowing employees to contribute thus benefiting from multiple perspectives (Kungu, Desta & Ngui, 2014). Khan, Farooq and Ullah (2010) analysis shows that companies with the highest levels of financial performance also have high levels of credit management and staff engagement.

Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management (Turyahebya, 2013). It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a

given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Financial performance analysis includes analysis and interpretation of financial statements in such a way that it undertakes full diagnosis of the profitability and financial soundness of the business (Khan, Farooq & Ullah, 2010). The financial analyst program provides vital methodologies of financial analysis.

1.1.3 Airline Companies in Kenya

Local airline is a form of commercial flight within civil aviation where the departure and the arrival take place in the same country (Kariuki, 2010). There are several local airlines in Kenya amongst them Kenya Airways, African Express Airways, Aircraft Leasing Services (ALS), 748 Air Services, Fly 540, Jambo Jet and Safari link. Kenya Airways was established in January 1977 following the breakup of the East African Community and subsequent disbanding of the jointly-owned East African Airways. The Kenyan Government made the first move towards of Kenya airways by publishing the Sessional Paper No.1 of 1986 on 'Economic Management for Renewed Growth'. African Express Airways is an Airline based at the Jomo Kenyatta International Airport in Nairobi. It caters to business and leisure travellers operating daily departures. The airline operates both in international, regional and local markets like Egypt, United Arab Emirates, Yemen and Somalia. Safari link is Kenya's premier safari airline with a network of connecting domestic scheduled services to many destinations within Kenya and across the border into northern Tanzania.

1.2 Statement of the Problem

As of May 2015, based on trailing 12-month data from the International Airline Report, the average long-term debt to equity ratio of airline companies was 91.53 (IAR, 2016). The average long-term debt to equity ratio of companies in the major airlines industry was 104.89, which indicates that for every dollar of shareholders' equity, the average company in the

industry has one hundred and four dollars in total liabilities (IAR, 2016). Since the major airline industry is highly capital-intensive, companies in this industry tend to have high debt to equity ratios (IAR, 2016). Airlines use leases extensively to finance aircraft and facilities. The aircraft leases may be long-term finance leases that qualify as off-balance-sheet for accounting purposes, or operating leases typically of a three- to seven-year term (Abokiuy, 2014). Aircraft and fuel are priced in dollars, but airline revenues may be mostly in currencies that fluctuate widely relative to the dollar (IAR, 2016). This presents a significant credit risks for most airlines. Although airlines usually generate significant cash flow and generally do not need to invest in working capital to support growth, they typically do make significant capital expenditures to acquire aircraft and substantial bad debts and leases (Abokiuy, 2014).

Credit sales in the airline industry account for 70% of the total sales (IATA, 2015). Kenya Airways is the largest local Airline in Kenya. The Airline recorded revenue of Ksh 71.8 billion in the year 2009 with Ksh 50.2 billion representing credit sales. Debtors amounted to Ksh 9 billion. This translates to 18% of total credit sales, (KQ published accounts). Creditors amounted to Ksh 5.3 billion. In 2010 the airline reported Ksh 70.7 billion revenue with Ksh 49.5 billion in credit. Debtors amounted to Ksh 9 billion which was 18.1% of credit sales.

In 2014, the airline reported Ksh 106 billion revenue, Ksh 74.2 billion in credit and Ksh 18.2 billion in debtors representing 24.5% of total credit sales, (KQ published accounts). Debtors in 2015 amounted to Ksh 14.8 billion with creditors of Ksh 19.2 billion. This was a 39% increase from 2010. With the percentage of debtors on credit sales increasing from 18% in 2009 to 24.5% in 2014 and total creditors from 5.3billion to 19.9 billion in 2015, it's an indication that there is a weak credit policy in place and the credit standards are relaxed. In a bid to effectively manage credit and reduce the rate of defaulters, the credit period in the airline sector has been reduced from 30 days to 15 days effective 1st September 2016, (IATA,

2016).

According to Gitman (1997), the probability of bad debts increases as credit standards are relaxed. Sound credit management is a prerequisite for a financial institution's stability and continuing profitability, while deteriorating credit quality is the most frequent cause of poor financial performance and condition. Research conducted by the Forum of Private Business (2015) found that late payment is a major problem for a lot of airline companies in Africa, but can be eased by putting credit control facilities in place. The research on payment culture found that only 44% of airline companies had strict credit control facilities, and were much less likely to have a serious issue with late payment than the 16% with informal set-ups.

Numerous studies have been advanced on credit management and performance for organizations in various jurisdictions (Gieseche, 2014; Githui, 2012; Hosna, Manzura & Juanjuan, 2009; Puopiel, 2010). As evidenced in the empirical review little research attention has been devoted to measuring the influence that credit management has on financial performance of airline companies; a gap this study sought to fill.

1.3 Objective of the study

1.3.1 General Objective

The study sought to investigate the effect of credit management on financial performance of selected airlines in Kenya.

1.3.2 Specific Objectives

- i. To determine the effect of credit control system on financial performance of selected airlines in Kenya.

- ii. To establish the effect of management of bad debts on financial performance of selected airlines in Kenya.
- iii. To evaluate the effect of pre-borrowing evaluation on financial performance of selected airlines in Kenya.
- iv. To determine the effect of borrowing approval process on financial performance of selected airlines in Kenya.

1.3 Research Questions

This study sought to answer the following research questions:

- i. What is the effect of credit control system on financial performance of selected airlines in Kenya?
- ii. How does management of bad debts affect financial performance of selected airlines in Kenya?
- iii. What is the effect of pre-borrowing evaluation on financial performance of selected airlines in Kenya?
- iv. How does borrowing approval process affect financial performance of selected airlines in Kenya?

1.4 Significance of the study

The study findings will aid airline companies, the government, employees and other stakeholders. Airline companies will ascertain if the proper debt management framework is in place for effective borrowing from the findings of this study. The study findings will help in analysing the existing credit management practices that affect airline firms worldwide.

The study findings will help the policy makers re-evaluate the current methods used to

manage credit and possibly develop other means to improve performance. The regulators such as government agencies and IATA will use the findings of the study to further improve on their policy frameworks to better and tighten regulations in the aviation sector.

Scholars in the field of credit management can use the information to understand the state of the sector better. They might also use the information as a reference point to research on the credit strategy formulation and innovations in other industries. Finally, other firms can find the information useful in diagnosing the problems affecting their credit management and come up with regulative solutions.

1.5 Scope of the Study

The study focused on financial performance of seventeen selected airline companies for a five year period; 2011-2015. Average performance indicators were computed in view of the nature of independent variable. The study focused on four aspects of credit management which included credit control system, management of bad debts, pre-borrowing evaluation and borrowing approval process. The study focused on selected seventeen local Airlines operating in Kenya with a view of investigating the effect of credit management on financial performance.

1.6 Limitation of the Study

Staff members from the airline companies were hesitant to give information concerning their credit management and general performance due to the sensitivity of airline practices and privacy codes. However, the researcher clearly outlined the motive of the study to them before embarking on data collection.

1.7 Organization of the Study

The study was organised in five chapters. The first chapter is made up of the background of the study, statement of the problem, objectives of the study, research questions, significance of the study, scope of the study and limitation of the study. Chapter two reviews theoretical framework, related empirical literature, the summary of literature review and ethical considerations. Chapter three covers research methodology outlining the target population, sampling techniques, research instruments, data collection procedures and model specification. Data analysis and presentation are covered in chapter four. Chapter five covers the summary of findings, conclusion, recommendations and areas of further study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter is a review of relevant literature in line with the study variables and objectives. The chapter contains theoretical review, credit management practices, financial performance, and an empirical review of relevant studies and a conceptual framework that captures the link between the study variable.

2.2 Theoretical Review

The study was anchored on several theories and applicable models which are reviewed hereunder.

2.2.1 Credit Scoring Theory

The credit scoring theory and competitive pricing of default risk was developed by Satyajit in 2004. The first step in limiting credit risk involves screening clients to ensure that they have the willingness and ability to repay a loan. Banks use the 5Cs model of credit to evaluate a customer as a potential borrower (Abedi, 2000). The 5Cs help banks to increase loan performance, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition. Character refers to the trustworthiness and integrity of the business owners since it's an indication of the applicant's willingness to repay and ability to run the enterprise. Capacity assesses whether the cash flow of the business or household can service loan repayments. Capital refers to the assets and liabilities of the business or household. Collateral refers to access to an asset that the applicant is willing to cede in case of non-payment or a guarantee by a respected person to repay a loan in default. Finally, conditions refer to a business plan that considers the level of competition and the market for

the product or services as well as legal and economic environment .The 5Cs need to be included in the credit scoring model.

The credit scoring model is a classification procedure in which data collected from application forms for new or extended credit line are used to assign credit applicants to credit risk classes (Constantinescu, 2010). Inkumbi (2009) notes that capital and collateral are major stumbling blocks for entrepreneurs trying to access capital. This is especially true for young entrepreneurs or entrepreneurs with no money to invest as equity; or with no assets they can offer as security for a loan. Any effort to improve access to finance has to address the challenges related to access to capital and collateral. This model supports the variables on pre-borrowing evaluation and management of bad debts.

2.2.2 Asymmetric Information Theory

Asymmetric Information Theory was developed by Myers in 1984. Information asymmetry refers to a situation where business owners or manager know more about the prospects for, and risks facing their business, than do lenders (PWHC, 2002) cited in Eppy (2005). The theory describes a condition in which all parties involved in an undertaking do not know relevant information. In a debt market, information asymmetry arises when a borrower who takes a loan usually has better information about the potential risks and returns associated with investment projects for which the funds are earmarked. The lender on the other hand does not have sufficient information concerning the borrower (Edwards & Turnbull, 1994).

Perceived information asymmetry poses two problems for the organization, moral hazard (monitoring entrepreneurial behaviour) and adverse selection (making errors in lending decisions). Firms will find it difficult to overcome these problems because it is not economical to devote resources to appraisal and monitoring where lending or borrowing is

for relatively small amounts. This is because data needed to screen credit applications and to monitor borrowers or lenders are not freely available. Firms face a situation of information asymmetry when assessing lending or borrowing applications (Binks & Ennew, 1997). The information required to assess the competence and commitment of the entrepreneur, and the prospects of the business is either not available, uneconomic to obtain or difficult to interpret. This creates two types of risks for the firm (Deakins, 1999). The theory informed this study by focusing on the importance of having prior credit information or credit intelligence of trading partners in the business environment. It therefore supported the variable on borrowing approval process.

2.2.3 Theory of Performance

The Theory of Performance (ToP) by Elger (2007) develops and relates six foundational concepts to form a framework that can be used to explain performance as well as performance improvements: context, level of knowledge, levels of skills, level of identity, personal factors, and fixed factors. A performer can be an individual or a group of people engaging in a collaborative effort. Developing performance is a journey, and level of performance describes location in the journey (Tomlinson, Kaplan, Renzulli, Purcell, Leppien & Burns, 2002).

While some factors that influence improving performance are immutable, other factors can be influenced by the organization or by others (Elger, 2007). The factors that can be varied fall into three axioms for effective performance improvements. These involve a performer's mind set, immersion in an enriching environment and engagement in reflective practice (Bradford, Brown & Cocking, 2000). A ToP informs learning by organizations through the idea of examining the level of performance of the organization (Bradford et. al. 2000). This theory

will go to support the variable on financial performance.

2.3 Empirical review

2.3.1 Credit Control System and Financial Performance

A survey by Ghimire and Abo (2013) on Ivorian airline companies focused on credit systems: constraining factors and performance. The methodology adopted by the study included descriptive statistics, cross-tabulations along with dependency tests of Chi-square and Cramer's value. Moreover, correspondences analyses or joint-plots were computed, displaying the relationships between the most pertinent variables and bank performance. The study adopted structured questionnaires which were sent out to respondents in four major airline firms. The study targeted a total of fifty managers. Out of 50 questionnaires, only 36 responses were received. The computed percentage showed that firms having flexible credit systems and strict credit policies had achieved sales targets at 92% and 83.3% respectively. The findings revealed that credit control systems or automation indeed affect performance of the airline companies. However, the study focused on air ticket sale out targets as the only aspect of performance, a gap the current study seeks to fill.

Azende (2012) studied credit management and performance of banks in Nigeria. This study assessed the impact of credit management systems on performance of the banks; using banks in Benue and Nasarawa States as case study. Mean scores and standard deviation were used to present and analyse the primary data obtained via questionnaires. Correlation was used to substantiate whether there was similarity. Simple percentages combined with mean scores were used to test hypothesis one on credit control system and performance while Chi-square was used to test hypothesis two on collateral security and performance. The result showed that the banks with sound credit systems were significantly preferred by corporate clients for

loans than those with weak or no credit systems. Therefore, the study concluded that indeed credit management systems affected bank performance. However, the study mainly focused on banks and not airline companies, a gap the current study seeks to fill.

2.3.2 Management of Bad Debts and Financial Performance

A study by Iopev and Kwanum (2012) on how management of bad debts affects financial performance of airline companies was done in Nigeria. The study adopted a survey research design. To achieve the objective of the study, one hundred and ten (110) airline staff from Benue state were interviewed using an open-ended questionnaire. Data collected was analysed using descriptive statistics. The findings revealed that about eighty four percent of respondents agreed that bad debts affected performance. However, the study failed to give a detailed statistical relation between bad debts and the performance of the firms; a gap the current study sought to bridge.

Muguchu (2013) studied the relationship between level of bad debts and financial performance of MFIs in Nairobi, Kenya. The study sought to find out whether there was relationship between the two variables. The study focused on the imperfect information theory. The study used secondary sources of data. Secondary data was sourced from the financial records from the year 2008 to 2012. The study employed descriptive analysis as well as regression analysis to analyze the data collected. The target population under study was the licensed MFIs within Nairobi County. Cluster sampling of Bank in the central business district in Nairobi was done by clustering the banks based on the streets where they were located. A sample of 40 MFIs within the central business district was selected for the survey. Descriptive analysis as well as regression analysis found that there was a positive relationship between bad debts, credit scoring mechanism and return on investment for the

MFIs. The study recommended that a financial institution be set to have special lending structures for Bank to enable them access credit. However, the study used secondary data only and further focused on MFIs, a gap the current study sought to fill.

2.3.3 Pre-borrowing Evaluation and Financial Performance

Nkuah, Tanyeh and Gaeten (2013) studied the effect of borrowing evaluation methods on banks in Ghana: challenges and determinants of performance. The study focused on the credit rationing theory propounded by Stiglitz and Weiss (1981). The study employed the quantitative approach of research in which the probability sampling criteria; specifically the stratified and simple random sampling; were employed to select eighty bank staff from the Wa Municipality. The major findings for the study indicated that there exist significantly, positive relations between borrowing evaluation methods and bank performance. The study also revealed that some borrowing evaluation activities such as business tracking, documentation, and others also impact heavily on banks financial performance. However, the study only focused on banks and not airline companies; a gap the current study seeks to fill.

Minh (2012) empirical investigation was on the effects of borrowing evaluation on performance of banks in Vietnam. Due to the characteristics of data, the study could not aim at in-depth specific problems, but at general pictures of bank financing including endogenous and exogenous variables. The binominal logit model was used to assess the influence of credit monitoring style on financial characteristics of the banks such as credit worthiness and profitability. The study adopted discriminant and cluster analysis to contribute to the findings. Basing on logistic model, the study found that besides conclusions that were consistent with other studies, there were also interesting unprecedented conclusions. The study showed that, banks in Vietnam are largely affected by borrowing evaluation. However,

this did not apply to banks in Central North where it was extremely easy for small business to access funding. However, the study focused on banks and not airline companies, a gap the current study seeks to fill.

2.3.4 Borrowing Approval Process and Financial Performance

A recent study by Kobia and Ndiga (2013) on the influence of appraisal process of commercial banks towards their performance in Igembe South District, Meru County, Kenya; employed descriptive survey design where the target population was 10 bank staff and 240 small business owners in the district. The study used a questionnaire to collect data from forty respondents who were selected using simple random sampling. The study established that indeed appraisal process influenced the performance of the banks in the district. However, the study only interviewed seven bank staff and further focused on banks only; a gap this study seeks to fill.

A study on effects of appraisal systems and procedures on performance of SMEs was done by Tondeur, Valcke & van Braak (2013) in Flanders, the Dutch speaking region of Belgium. The study focused on firms with respect to ICT application in appraisal systems. Furthermore, it focused on the relationship between firm management and the actual use of ICT in the appraisal processes. To answer the research questions, the study adopted a representative sample of 53 mid-level managers for the interview. In addition, the interview data was supplemented with survey data of 574 employees from the small firms. What emerged from the analyses was that management using ICT supported appraisal systems had a significant effect on performance of the SMEs. However, the study focused on appraisal processes from an ICT perspective and further focused on SMEs only; a gap this study seeks to fill

2.4 Summary of Literature Review

The study focused on three theories which include credit scoring model, asymmetric information theory and theory of performance. The credit scoring model supports the variables on pre-borrowing evaluation and management of bad debts while the asymmetric information theory supports the variables on credit control system and borrowing approval process. The theory of performance supports the variable on financial performance. From the literature reviewed on credit management, most authors focus on bad debts and its effects on financial performance with a spotlight on elements such as credit analysis, rating and reporting.

From the literature reviewed on financial performance, the argument is that financial institutions have to be financially sustainable. Several measures of financial performance were advanced by various scholars making it difficult to synchronize the different interpretations of financial ratios. However, profitability and efficiency are advanced as the most preferable measures of performance.

Under empirical review, most of the studies reviewed focused on loan performance as the only aspect of bank performance. Others studies reviewed focused more on banks and ignored airline companies. Moreover, other studies reviewed used secondary data only thus ignoring primary data. These are the gaps the current study seeks to fill.

Table 2.1 Summary of Literature Review.

Author	Title	Findings	Research gap/Criticism
Ghimire and Abo (2013)	Credit Systems, Constraining factors and performance	Credit Systems affect performance of airline companies	The study focused only on air tickets sale as the only aspect of performance.
Azende (2012)	Credit management and performance of banks in Nigeria	Credit management systems affected bank performance	The study focused on banks and not airline Companies.
Lopev and Kwanun (2012)	Management of bad debts and performance of airline Companies	Bad debts affect performance.	The study failed to give a detailed statistical relation between bad debts and performance.
Muguchu (2013)	Level of bad debts and Financial performance.	There is a positive relationship between bad debts and credit scoring.	The study only used Secondary data focusing on MFLs,
Nkuah, Tanyeh and Gaeten (2013)	Credit rationing theory.	There is a positive relation between borrowing evaluation methods and bank performance	The study focused on banks and not airline companies

Minh (2012)	Effects of borrowing evaluation on performance of banks in Vietnam	Banks in Vietnam are largely affected by borrowing evaluation.	The study focused on banks and not airline companies
Kobia and Ndiga (2013)	Influence of appraisal process of commercial banks towards performance	Appraisal process influenced the performance of banks	The study only interviewed seven bank staff.
Tondeur, Valcke & Braak (2013)	Effects of appraisal systems on performance of SMEs	Management using ICT appraisal systems had significant effect on performance of SMEs.	Focused only on appraisal processes from an ICT perspective and on SMEs only

Source: (Researcher, 2016)

2.5 Research Gap

A survey by Ghimire and Abo (2013) on Ivorian airline companies focused on credit systems: constraining factors and performance. The findings revealed that credit control systems or automation indeed affect performance of the airline companies. However, the study focused on air ticket sale out targets as the only aspect of performance. The current study sought to fill this gap.

Azende (2012) studied credit management and performance of banks in Nigeria. This study assessed the impact of credit management systems on performance of the banks; using banks in Benue and Nasarawa States as case study. The result showed that the banks with sound credit systems were significantly preferred by corporate clients for loans than those with

weak or no credit systems. Therefore, the study concluded that indeed credit management systems affected bank performance. However, the study mainly focused banks and not airline companies, a gap the current study sought to fill.

A study on effects of appraisal systems and procedures on performance of SMEs was done by Tondeur, Valcke & van Braak (2013) in Flanders, the Dutch speaking region of Belgium. What emerged from the analyses was that management using ICT supported appraisal systems had a significant effect on performance of the SMEs. However, the study focused on appraisal processes from an ICT perspective and further focused on SMEs only; a gap this study sought to fill.

2.6 Conceptual Framework

Conceptual framework is a schematic presentation which identifies the variables that when put together explain the issue of concern. Conceptual framework provides the link between the research title, the objectives, the study methodology and the literature review (Coulthard, 2004). The relationship between the independent variables and the dependent variable is as shown in figure 2.1.

Independent Variables

Dependent Variable

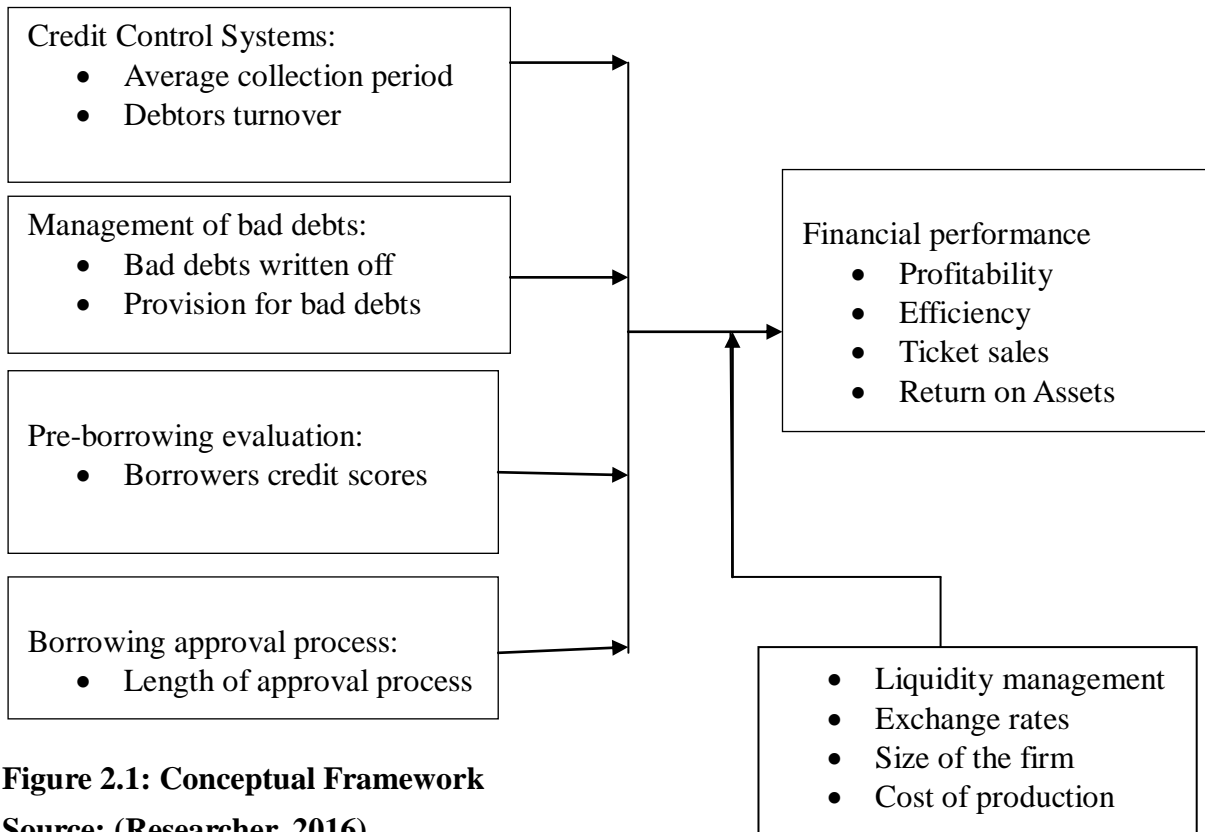


Figure 2.1: Conceptual Framework

Source: (Researcher, 2016)

Intervening variables.

The conceptual framework shows how credit control systems, management of bad debts, pre-borrowing evaluation and borrowing approval process being the independent variables affect the financial performance of airline companies measured by profitability, ticket sales, liquidity and return on assets.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was used to carry out the study. It further describes the research design, type and source of data and research instruments to be used to collect data. It also describes the target population and the data analysis method. This chapter further provides the sampling design that was used in the study as well as the data collection techniques and instrument to be used in data collection and the justification for the choices. Data reliability and validity is also provided in this chapter together with the technique of data analysis. The chapter finally ends with the ethical considerations.

3.2 Research Design

According to Kothari (2007), research design is defined as framework that shows how problems under investigation will be solved. This study adopted a cross sectional descriptive survey design because it provides a clear outcome and the characteristics associated with it at a specific point in time. Descriptive design was relevant for this study since it focuses at one point in time and does not require several rounds of monitoring. This design is suitable for this study because it involves collection of cross-sectional data at one point in time.

3.3 Target Population

According to Mugenda (2003), population is an entire group of individuals, events or objects having a common observable characteristic. The target population for the study were all the 17 local Airline companies in Kenya as at December 2015; (IATA 2015). The respondents were the head of credit departments, Finance director and Operations Directors in the airline companies under the study.

3.4 Sampling Size and Sampling Procedure

A sample is a small proportion of a population selected for observation and analysis while sampling is a deliberate rather than a haphazard method of selecting subjects for observation to enable scientists infer conclusions about a population (Kothari, 2007). According to Mugenda and Mugenda (2003), at least 10% to 30% of the population is a valid sample size for a considerably small population size. The study applied census where all the 17 Airline companies were fully covered. The head of Credit departments, Credit officer, Finance Director and Finance Manager of each Airline companies were interviewed thereby giving a sample size of sixty eight.

3.5 Data Collection Procedure

The researcher also obtained an introductory letter from the University and a research permit from NACOSTI. This was used to collect data from the airline companies. The researcher then personally delivered the questionnaires to the companies and had them filled in his presence. The researcher employed self-administration style of data collection and monitored the process to ensure that unintended people did not fill the questionnaires. The questionnaires were filled and assistance was sought where possible thus raising the reliability.

3.5.1 Test of Reliability

Golafshani (2003) stated that validity and reliability are conceptualized as trustworthiness, rigor and quality and that validity would determine whether the research truly measures that which it was intended to measure or how truthful the research results are. It is the degree to which an individual's responses on a survey would stay the same over time.

The researcher used Cronbach's alpha to test reliability. With a Cronbach's alpha, α of 0.816, the researcher deduced that there is internal consistency and hence high reliability. That is why more items had been included in the scale to measure the variable of interest and thus the scale becomes more reliable.

3.5.2 Validity of Research instruments

The researcher ensured validity by confirming the items in the questionnaire were reflected in the research questions and objectives of the study.

The researcher obtained an introductory letter from the University to collect data from the airlines, then personally delivered the questionnaires to the Airlines and had them filled in his presence. The researcher also employed self-administration style of data collection and monitored the process to ensure that unintended people did not fill the questionnaires. The questionnaires were filled and assistance was sought where possible thus raising the reliability.

3.6 Data Analysis and Presentation

The process of data analysis involved several stages namely: data clean up, editing and coding. Secondary data was analysed using content analysis. Descriptive statistics (means and standard deviation) and standard multiple regression analysis was used to analyse the data. The primary data was then coded and checked for any errors and omissions (Kothari, 2007). Frequency tables, percentages and means were used to present the findings. Responses in the questionnaires were tabulated, coded and processed by use of a computer Statistical Package for Social Science (SPSS) program to analyse the data. The responses from the open-ended questions were listed to obtain proportions appropriately; the responses were reported by descriptive narrative. The relationship between the dependent variable (Y) and

the independent variable (X) were tested using multiple linear regression model which was captured below.

3.6.1 Model Specification

$Y_i = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$ where:

Y_i = Financial performance

X_1 = Credit c control system

X_2 = Management of bad debts

X_3 = Pre-borrowing evaluation

X_4 = Borrowing approval process

α = Constant

ϵ = Error term

3.7 Ethical Considerations

This study observed confidentiality and privacy of respondents. Consent was sought from all respondents before data collection. Humane treatment was observed throughout the study. The researcher ensured nothing can be traced back to any of the respondents should the findings of this study be published. Where possible, pseudonyms were used unless in cases where respondents preferred use of their real names.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This chapter presents the results based on the study objectives and discusses its interpretation. The chapter presents the findings highlighting the influence of credit management on financial performance of selected airline companies in Kenya. This is presented and discussed in line with the objectives of this study which were to determine the effect of credit control systems, establish the effect of management of bad debts (MBD), evaluate the effect of pre-borrowing evaluation and determine the effect of borrowing approval process on financial performance of selected airlines in Kenya.

4.2 Response Rate

Out of the sixty eight (68) questionnaires distributed, only fifty (50) were fully filled with relevant information that could be entered and analysed. This represents a response rate of 73.53%. The findings indicate that majority (76%) of the respondents were male, 24% were female. Of the total respondents served with questionnaires, 19 were women representing 27.94% while 49 were male, 72.06%.

Table 4.1 Response rate by gender.

	Non-respondents			Respondents			Total	
	n	%		n	%	n	%	
Male	11	22.45%	61.11	38	76%	49	100%	72.06
Female	7	38.89%	36.84	12	24%	19	100%	27.94
Total	18	26.47%	100	50	73.53%	68	100%	100%

Source: (Researcher, 2016)

4.3 Descriptive Analysis

4.3.1 Credit control Systems and Financial Performance

When the respondents were asked to indicate the extent of the influence of credit control systems on financial performance of selected airlines in Kenya, the mean was 1.754 denoting little extent.

Table 4.2: Extent of Influence of Credit control systems

Description	Mean	Standard deviation
To what extent does credit control systems influence financial performance	1.754	0.7014

Source: (Researcher, 2016)

The following table displays the feedback from the respondents regarding credit control systems and financial performance of selected airlines in Kenya.

Table 4.3: Credit control systems and Financial Performance

Factor	Response	Percentage	Mean	Standard deviation
Credit control systems has affected airline profitability for the last five years	Strongly agree	27.27%	1.9	0.70
	Agree	54.45%		
	Neutral	27.27%		
	Total	100%		
Credit control systems has affected airline loan sales for the last five years	Strongly agree	54.54%	1.5	0.52
	Agree	45.45%		
	Total	100		
Credit control systems has affected airline client base for the last five years	Strongly agree	54.54%	1.5	0.69
	Agree	36.36%		
	Neutral	9.09%		
	Total	100%		
Credit control systems has affected airline liquidity for the last five years	Strongly agree	27.27%		
	Agree	63.63%		
	Neutral	9.09%		

years	Total	100%	1.7	0.9
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Source: (Research data, 2016)

The findings indicate that most (54.45%) of the respondents agreed and 27.27% strongly agreed with the statement that Credit control systems affects airline profitability for the last five years. However an equal number (27.27%) of the respondents neither agreed nor disagreed. This could mean that credit control systems may or may not affect profitability of airline companies. The study further indicated that most majority (63.63%) agreed and (27.27%) with the statement that credit control systems has affected airline liquidity for the last five years.

The respondents agreed that regulation of credit control systems has affected airline profitability for the last five years. The mean response was 1.9, denoting agreement. The respondent further confirmed that credit control systems has affected airline loan sales for the last five years; with a mean of 1.5; denoting agreement. The same mean of 1.5 was obtained when the respondents were asked if registration Credit control systems has affected airline client base for the last five years. This means that the respondents actually agree. The respondents agreed that credit control systems have affected airline liquidity for the last five years. The mean response was 1.7, denoting agreement.

4.3.2 Management of Bad Debts and Financial Performance

When the respondents were asked to indicate the extent of the influence of MBD on financial performance of selected airlines in Kenya, the mean was 4.215 denoting great extent.

Table 4.4: Extent of Influence of Management of bad debts.

Description	Mean	Standard deviation
To what extent does MBD influence financial performance	4.125	0.6901

Source: (Researcher, 2016)

The following table displays the feedback from the respondents regarding how management of bad debts (MBD) affects financial performance of selected airlines in Kenya.

Table 4.5: Management of Bad Debts and Financial Performance

Factor	Response	Percentage	Mean	Standard
Management of bad debts has affected airline profitability for the last five years	Strongly agree	18.18%	2.1	0.83
	Agree	63.63%		
	Neutral	9.09%		
	Disagree	9.09%		
	Total	100%		
Management of bad debts has affected airline loan sales for the last five years	Strongly agree	27.27%	1.8	0.6
	Agree	63.63%		
	Neutral	9.09%		
	Total	100%		
Management of bad debts has affected airline client base for the last five years	Strongly agree	72.72%	1.2	0.47
	Agree	27.27%		
	Total	100%		
Management of bad debts has affected airline liquidity for the last five years	Agree	27.27%	3.1	0.99
	Neutral	36.36%		
	Disagree	27.27%		
	Strongly disagree	9.09%		
	Total	100%		

Source: (Research data, 2016)

Most (63.60%) of the respondents agreed and (9.09%) disagreed with the statement that management of bad debts has affected airline profitability. The findings further indicated that majority (72.72%) of the respondents strongly agreed that management of bad debts has affected airline client base. The study findings further revealed that about 36.36% of the respondents neither agreed nor disagreed that management of bad debts has affected airline liquidity.

The respondents agreed that management of bad debts has affected airline profitability for the last five years. The mean was 2.1 denoting agreement on a slight note. The respondents also agree that management of bad debts has affected airline loan sales for the last five years; the mean was 1.8 denoting agreement. Moreover, the respondents strongly agree that management of bad debts has affected airline client base for the last five years. The mean was 1.2 denoting strong agreement. However, the respondents were neutral on whether management of bad debts has affected airline liquidity for the last five years. The mean was 3.1 denoting neutrality.

4.3.3 Pre-borrowing Evaluation and Financial Performance

When the respondents were asked to indicate the extent of the influence of post-lending mechanism on financial performance of selected airlines in Kenya, the mean was 3.117 denoting moderate extent.

Table 4.6: Extent of Influence of Pre-borrowing Evaluation

Description	Mean	Standard deviation
To what extent does pre-borrowing evaluation influence financial performance	3.117	0.5271

Source: (Researcher, 2016)

The following table displays the feedback from the respondents regarding how pre-borrowing evaluation affects financial performance of selected airlines in Kenya.

Table 4.7: Pre-borrowing Evaluation and Financial Performance

Factor	Response	Percentage	Mean	Standard deviation
Pre-borrowing evaluation has affected airline profitability for the last five years	Disagree	18.18%	4.8	0.40
	Strongly disagree	81.815		
	Total	100%		
Pre-borrowing evaluation has affected airline loan sales for the last five years	Strongly agree	72.72%	1.3	0.47
	Agree	27.27%		
	Total	100%		
Pre-borrowing evaluation has affected airline client base for the last five years	Neutral	18.18	4.2	0.75
	Disagree	45.45		
	Strongly disagree	36.36		
	Total	100%		
Pre-borrowing evaluation has affected airline liquidity for the last five years	Agree	27.27%	3.3	0.97
	Neutral	27.27%		
	Disagree	36.36%		
	Strongly disagree	9.09%		
	Total	100%		

Source: (Researcher; 2016)

These findings indicate that majority (81.81%) of the respondents strongly disagreed and 18.2% disagreed with the statement that pre-borrowing evaluation has affected airline

profitability for the last four years. About 27.27% agreed that indeed pre-borrowing evaluation affects airline liquidity.

The respondents strongly disagree that pre-borrowing evaluation has affected the selected airlines profitability for the last five years. The mean is 4.8 denoting strong disagreement. However, the respondents further strongly agree that pre-borrowing evaluation has affected airline loan sales for the last five years. The mean was 1.3 denoting strong agreement. The respondents disagree that pre-borrowing evaluation has affected the selected airlines client base for the last five years. The mean was 4.2 denoting disagreement. However, the respondents remain neutral when asked if Pre-borrowing evaluation has affected the selected airline liquidity for the last five years; with a mean of 3.3 denoting neutrality.

4.3.4 Borrowing Approval Process and Financial Performance

When the respondents were asked to indicate the extent of the influence of borrowing approval process on financial performance of selected airlines companies in Kenya, the mean was 4.593 denoting very great extent.

Table 4.8: Extent of Influence of Borrowing Approval Process

Description	Mean	Standard deviation
To what extent does borrowing approval process influence financial performance	4.593	0.5813

Source: (Researcher, 2016)

The following table displays the feedback from the respondents regarding how borrowing approval process affects financial performance of selected airlines in Kenya.

Table 4.9: Borrowing Approval Process and Financial Performance

Factor	Response	Percentage	Mean	Standard deviation
The borrowing approval process has affected airline profitability for the last five years	Disagree	18.18%	1.8	0.40
	Strongly disagree	81.815		
	Total	100%		
The borrowing approval process has affected airline loan sales for the last five years	Strongly agree	72.72%	2.7	0.47
	Agree	27.27%		
	Total	100%		
The borrowing approval process has affected airline client base for the last five years	Neutral	18.18	2.2	0.75
	Disagree	45.45		
	Strongly disagree	36.36		
	Total	100%		
The borrowing approval process has affected airline liquidity for the last five years	Agree	27.27%	3.9	0.97
	Neutral	27.27%		
	Disagree	36.36%		
	Strongly disagree	9.09%		
	Total	100%		

Source: (Researcher, 2016)

From the findings of the study, most (72.72%) of the respondents strongly agreed that the borrowing approval process has affected airline loan sales. About 9% of the respondents strongly disagreed with the statement that the borrowing approval process has affected airline liquidity for the last five years.

The respondents agree that the borrowing approval process has affected airline profitability for the last five years. The mean is 1.8 denoting agreement. However, the respondents were

neutral when asked whether the borrowing approval process has affected airline loan sales for the last five years. The mean was 2.7 denoting neutral state. The respondents agree that the borrowing approval process has affected airline client base for the last five years g. The mean was 2.2 denoting agreement. However, the respondents disagree when asked if the borrowing approval process has affected airline liquidity for the last five years; with a mean of 3.9 denoting disagreement.

4.4 Inferential Statistical Analysis

4.4.1 Regression Analysis

The following table displays the results from the regression analysis.

Table 4.10: Partial regression coefficients

Model		Un-standardized		Standardized	t	Sig.
		Coefficients		Coefficients		
		B	Std. Error	Beta		
1	(Constant)	-4.722	8.169		-0.209	.78
	Credit control systems	4.343	.377	0.197	5.475	.033
	Management of bad debts	7.667	.258	0.276	6.587	.045
	Pre-borrowing evaluation	4.667	.395	0.331	4.421	.041
	Borrowing approval process	3.944	.438	0.497	5.984	.046

Source: (Researcher, 2016)

The beta coefficients give the rate of standard deviations change on the dependent variable (financial performance) that was produced by a change on the independent variables. From the findings of this study, borrowing approval process takes a lead with 0.497 deviations followed by pre-borrowing evaluation at 0.331, management of bad debts at 0.276 and credit control systems at 0.197 deviations. This could mean that borrowing approval process had the

major impact on financial performance of the airline companies while credit control systems had the least effect on the financial performance of the commercial airlines. The results of this study relate to those of Tondeur, Valcke & van Braak (2013) in Flanders, the Dutch speaking region of Belgium; who found out that all variables demonstrated average variance extracted between 0.420 and 0.775, borrowing approval process was higher than the benchmark of 0.5. In their study, all the variables displayed a higher composite reliability than 0.60. Another study done by Kobia and Ndiga (2013) displayed slightly similar deviations when the independent variables were compared to the dependent variable; borrowing approval process taking a lead with 0.55 deviation followed by lending procedures at 0.33, then credit control systems at 0.21.

4.5 Model Summary

The following table displays the results for the coefficient of determination.

Table 4.11: The coefficient of determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.587(a)	.395	.389	11.858

Source: (Researcher; 2016)

The value of R was 0.587 and R square was 0.389 (38.9%) as shown in the table above. This means that credit control systems, management of bad debts, pre-borrowing evaluation and borrowing approval process contributed to 38.9% variation on financial performance of the airline companies in Kenya. This finding is similar to that of Lopez and O’Neal (2014) who found out that management of bad debts alongside other similar factors affected financial performance of airlines in Nigeria. However, the study found a high and significant relation

between management of bad debts and financial performance. The findings of this study do not relate to those of Gapo (2014), who studied factors affecting financial performance of airlines in America;, and concluded that credit management rarely affected financial management of airlines as compared to government regulations and corporate governance.

4.5.1 Correlation analysis.

The following table displays the results of correlation among independent variables.

Table 4.12 Correlation among independent variables

Variables	Credit Control	Pre-borrowing	Bad debts	Approval process
Credit Control	1			
Pre-borrowing	0.61451	1		
Bad debts	0.50443	-0.05216	1	
Approval process	-0.17197	-0.42575	0.755985	1

Source: (Researcher; 2016)

From the table above, there exist a weak relationship between management of bad debts and pre-borrowing evaluation as revealed by r (-0.05216). This indicates a negative linear relationship between the two variables.

There is a fairly weak relationship between credit control systems and borrowing approval process. The correlation coefficient, r is -0.17197. The researcher therefore deduced that the two variables were negatively correlated.

There was no or very little relationship between management of bad debts and credit control systems. The r was 0.50443 and r square was 50.4%

There exist a weak relationship between pre-borrowing evaluation and Credit control Systems with r being 0.61451 and r square at 61%.

4.5.2 Multicollinearity Test results.

Collinearity test was necessary to determine whether the identified independent variables

were correlated. Using tolerance and variance inflation factors (VIF) as suggested by Makau, Wawire and Ofafa (2010), the collinearity test was performed and the tolerance and variance inflation factors for each of the variables is as shown in table 4.13.

Table 4.13: Multicollinearity test Results.

Factor	Variable	Collinearity statistics	
		Tolerance	VIF
Credit control systems	Collection	0.54	1.86
	Debtors	0.36	2.78
Management of bad debts	Write offs	0.93	1.08
	Bad debt Provision	0.65	1.53
Pre-borrowing evaluation	Credit score	0.60	1.66
Borrowing approval process	Duration of approval	0.87	1.16
	System of approval	0.87	1.14

Source: (Researcher, 2016)

As shown in the Table 4.13, tolerance values for the two credit control systems indicators, that is effect of collections and number of debtors, were 0.54 and 0.36 respectively which was within the acceptable limits of not greater than 1.0 while the variance inflation factors for the two variables were 1.86 and 2.78, respectively further indicating that multicollinearity was not evident among the two variables. The acceptable levels for Variable Inflation factor (VIF) should be less than 10. The two variables were therefore used to compute the composite value for credit control systems.

Under management of bad debts, write offs and bad debt provision were found to have tolerance values of 0.93 and 0.65 respectively, indicating that multicollinearity was not a problem. The VIF for the two variables were found to be 1.08 and 1.53 respectively.

Pre borrowing evaluation policy was found to be highly correlated and therefore was omitted from the logit model and consequently the analysis. Credit score had a Variance inflation factor of 1.66 and tolerance value of 0.60 thus, multicollinearity with other variables was ruled out. Credit score was therefore used as indicator of Pre borrowing evaluation.

Under borrowing approval process, duration of approval and system of approval were found not to be correlated. The tolerance values for both duration of approval and system of approval were found to be 0.87 while VIF were 1.16 and 1.14 for duration of approval and system of approval respectively. Therefore, multicollinearity was not detected and the two variables were used to compute the composite variable for borrowing approval process. Pre borrowing evaluation policy was found to be linearly correlated, and was thus omitted from the regression analysis.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.1 Introduction

This chapter gives a summary of the findings and an analysis of the results and findings focusing on the objectives, research questions, recommendations and the various areas to focus on for further research.

5.2 Summary of Findings

The result of automated data analysis (SPSS) reveals that credit control systems, management of bad debts, pre-borrowing evaluation and borrowing approval process can be held responsible for the fluctuations in financial performance of selected airlines in Kenya. Since the value of R square is less than 50%, the researcher deduced that the proportion of variation of financial performance associated to the independent variables (credit control systems, management of bad debts, pre-borrowing evaluation and approval process) had a moderate effect. This further gives the answer to the research questions: what is the effect of credit control systems on financial performance of selected airlines in Kenya? What is the effect of management of bad debts on financial performance of selected airlines in Kenya? What is the effect of pre-borrowing evaluation on financial performance of selected airlines in Kenya? And what is the effect of borrowing approval process on financial performance of selected airlines in Kenya? The implication is that a variation in any of the above four independent variables resulted in a variation in the financial performance of selected airlines in line with the prior expectation.

5.2.1 Influence of credit control Systems on financial performance.

Results indicate that most (54.45%) of the respondents strongly agreed with the statement that credit control systems affects airline profitability, majority (54.54%) agreed that credit

control systems affected airline loan sales. From the study findings, most (54.54%) of the respondents agreed with the statement that credit control systems affects airline client base. Most (63.63%) of the respondents agreed with the statement that credit control systems affects airline liquidity position.

The findings reflected findings in a survey by Ghimire and Abo (2013)

5.2.2 Influence of management of bad debts on financial performance.

The findings indicate that most (63.63%) of the respondents agreed that management of bad debts affected the performance. The study findings also indicate that majority (36.36% of the respondents agreed with the statement that management of bad debts has affected airline liquidity position. From the study findings, most (72.72% of the respondents also agreed that management of bad debts has affected airlines client base for the last five years. Majority (63.63%) of the respondents also agreed that management of bad debts affected airline loan sales for the last five years. These findings coincided with findings in a study by Iopev and Kwanum (2012) on how management of bad debts affected financial performance of airline companies in Nigeria.

5.2.3 Influence of pre-borrowing evaluation on financial performance.

The study findings indicate that most (81.815%) of the respondents strongly disagreed that pre-borrowing evaluation affects airline profitability, majority (72.72%) disagreed with the statement that pre-borrowing evaluation influence airline loan sales.

From the findings, 45.45% disagreed that pre-borrowing evaluation affects airline client base. Majority (36.36%) disagreed that pre-borrowing evaluation affects airline liquidity position.

5.2.4 Influence of borrowing approval process on financial performance.

From the study findings, most (81%) of the respondents disagreed that borrowing approval process has an effect on airline profitability, 72.72% strongly disagreed that borrowing

approval process affected airline loan sales and 45.4% of the respondents disagreed that borrowing approval process has affected airline client base. The findings also indicated that majority (36.3%) of the respondents disagreed with the statement that borrowing approval process affects airline liquidity.

From the estimated multiple regression equation, the research revealed that borrowing approval process had the main effect on financial performance of the airline companies while credit control systems had the least effect on financial performance of the commercial airlines.

5.2.5 Multicollinearity results

The study findings confirmed that there was no cases of high correlation between independent variables apart from pre-borrowing policy which was omitted from the logit model and consequently the analysis.

5.3 Conclusion

The first objective was to determine the effect of credit control systems on financial performance of selected airlines in Kenya. From the findings, it can be concluded that indeed credit control systems has an effect on the overall financial performance of airline companies. This can be seen from the high response rate who responded in the affirmative.

The second objective was to establish the effect of bad debts management on the financial performance of selected airlines in Kenya. Findings from the study demonstrated that the airline's client base is highly affected by the level of bad debts. This has a direct effect on airline's profitability which is a measure of financial performance.

The third objective was to evaluate the effect of pre-borrowing evaluation on financial performance of selected airlines in Kenya. The findings of the study concludes that the

financial performance is least affected by pre-borrowing evaluation. The client base is least affected.

The fourth objective was to determine the effect of borrowing approval process on financial performance of selected airlines in Kenya. The study findings concluded that the financial performance of selected airlines is highly affected by the borrowing approval process.

An important finding is that the variables in the model result in the direct influence on the financial performance of selected airlines in Kenya. The project also provides preliminary evidence regarding the relative influence of credit control systems, management of bad debts, pre-borrowing evaluation and borrowing approval process on financial performance of selected airlines in Kenya.

Specifically, the findings show that borrowing approval process was the most influential variable affecting financial performance of airline companies in Kenya. However, the findings reveal that a credit control system was the least influential variable affecting financial performance of selected airlines in Kenya.

5.4 Recommendations

This study recommends that: the government of Kenya strengthens then Kenya Airline Association to come up with mitigation measures to control the external factors that interfere with roles and duties of credit management committees; with a possible measure to cushion airlines from weak laws on approval processes, pre-borrowing evaluation and management of bad debts.

The study further recommends the creation and strengthening of an independent credit management authority to oversight and monitor best credit management practices in airlines and even provide technical advice to airline companies when necessary.

This study also recommends that there is need for airline companies to review and tighten the

borrowing approval processes to avoid exposure to financial difficulties.

5.5 Areas for Further Study

From the study and subsequent conclusions, the researcher recommends a further research on the impact of non-performing loans on financial performance of airline companies in Kenya.

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APPENDICES

Appendix I: Letter of Transmittal

Kipkijo Daniel,
Kenyatta University,

Dear Respondent,

RE: SURVEY DATA COLLECTION

My name is Daniel Kipkijo. I am an MBA (Finance) student from Kenyatta University. I am conducting a survey on credit management and financial performance of selected airlines in Kenya. The information provided by you will be treated confidentially and will not be disclosed to any third party. Information will only be collected for the purposes of research in order to establish the relation of the two variables. I therefore request you to feel free and provide honest answers without fearing any intimidation or disclosure of the information.

Your assistance and cooperation will be appreciated.

Kind Regards.

Kipkijo Daniel,
Researcher,
Kenyatta University.

Appendix II: Questionnaire

I am conducting a survey on Credit management and financial performance of selected Airlines in Kenya. The details provided by you in regard to the study will be treated with confidence and will only be used for the purposes of this research. This research is part of the requirements for my Masters Course. I therefore request your participation.

SECTION A: GENERAL INFORMATION

A: DEMOGRAPHIC FACTORS

1. Gender: Male Female {Tick Appropriately}

2. Whats your highest level of education? {Tick as appropriate}

Diploma Undergraduate Postgraduate Other

4. Choose Department {Tick as appropriate}

Credit Finance/Accounts Operations

5. Fow how long have you worked in the department?

Less than 1yr	1-5yrs	6-10yrs	11-15yrs	Over 16yrs
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

SECTION B: CREDIT CONTROL SYSTEM AND FINANCIAL PERFORMANCE.

6. To what extent does credit control system influence financial performance of the firm?

Very great extent.....

Great extent.....

Moderate extent.....

Little extent.....

No extent..... []

7. Kindly indicate by scoring on a scale of 1-5 the extent to which you agree with the statement below.

Key: 1- Strongly agree, 2- Agree, 3- Neutral, 4- Disagree, 5- Strongly Disagree

{Tick once against each factor as appropriate}

ELEMENTS	1	2	3	4	5
Credit control system has affected profitability for the last five years					
Credit control system has affected ticket sales for the last five years					
Credit control system has affected liquidity for the last five years					
Credit control system has affected ROA for the last five years					

SECTION C: MANAGEMENT OF BAD DEBTS AND FINANCIAL PERFORMANCE.

8. To what extent does management of bad debts affect financial performance of your institution?

Very great extent..... []

Great extent..... []

Moderate extent..... []

Little extent..... []

No extent..... []

9. To what extent do you agree with the statement relating to effect of management of bad debts on financial performance of your firm? 1 = strongly agree, 2=Agree, 3=Neutral, 4=Disagree

5=strongly disagree

{Tick once against each element as appropriate}

Element	1	2	3	4	5
Management of bad debts has affected profitability for the last five years					
Management of bad debts has affected ticket sales for the last five years					
Management of bad debts has affected liquidity for the last five years					
Management of bad debts has affected ROA for the last five years					

SECTION D: PRE-BORROWING EVALUATION AND FINANCIAL PERFORMANCE

10. To what extent does pre-borrowing evaluation affects financial performance of your institution?

Very great extent..... []

Great extent..... []

Moderate extent..... []

Little extent..... []

No extent..... []

11. To what extent are you agreeable on the following statement relating to the influence of pre-borrowing evaluation on financial performance in your institution?

1 means Strongly agree, 2= Agree, 3=Neutral, 4=Disagree, 5=Strongly disagree

{Tick *once against each element as appropriate*}

Element	1	2	3	4	5
Pre-borrowing evaluation has affected profitability for the last five years					
Pre-borrowing evaluation has affected ticket sales for the last five years					
Pre-borrowing evaluation has affected liquidity for the last five years					
Pre-borrowing evaluation has affected ROA for the last five years					

SECTION E: BORROWING APPROVAL PROCESS AND FINANCIAL PERFORMANCE

12. To what extent does the borrowing approval process influence financial performance of your institution?

Very great extent..... []

Great extent..... []

Moderate extent..... []

Little extent..... []

No extent..... []

13. To what extent do you agree with the following statements relating the influence of borrowing approval process on financial performance of your institution?

1 means Strongly agree, 2= Agree, 3=Neutral, 4=Disagree, 5=Strongly disagree

{Tick once against each element as appropriate}

Element	1	2	3	4	5
The borrowing approval process has affected profitability for the last five years					
The borrowing approval process has affected ticket sales for the last five years					
The borrowing approval process has affected liquidity for the last five years					
The borrowing approval process has affected ROA for the last five years					

Thank you for filling the questionnaire

Appendix

Appendix IV: Data Collection Form

NAME OF AIRLINE FIRM					
YEAR	2011	2012	2013	2014	2015
Profitability					
Ticket sales					
Liquidity					
ROA					

APPENDIX V: Local Airline Companies in Kenya.

1. Kenya Airways Ltd
2. African Express Airways (K) Ltd
3. Fly Five forty Aviation Ltd
4. Safarilink Aviation
5. Air Kenya Express Ltd
6. East African Safari Air Express Ltd
7. Jamb jet
8. 748 Air Services
9. Mombasa Air Safaris
10. Jet Link Express
11. ALS – Aircraft Leasing Services
12. Jubba Airways
13. Aberdare Aviation
14. Fast Jet Kenya
15. Blue Sky Aviation
16. Sky trail Air Safaris
17. Skyward Express

Source: International Air Transport Association