Strategy Dimension in Repayment of Financial Credit: Youth Enterprise Development Fund in Kipkelion West, Kenya

Kipkorir Sitienei Chris Simon and Josphat Kipkirui Teigutwo

***Abstract*—Repayment of loan has been difficult requiring use of strategies by lending institutions. The study focused on the effect of appraisal, follow up, information communication technology and personnel training strategies on loan repayment of youth enterprise development fund. It provides insights towards efficient fund management and important to researchers, academicians and policy makers. McKinsey 7s model, descriptive research design, stratified and simple random sampling techniques were used. Target population was 950 youth and 5 staff and a sample size of 95. Questionnaire was valid and reliable for data collection. Descriptive and inferential statistics were tools for analysis and frequency distribution tables were used to present data. Management strategies positively determine loan repayment to a low extent. The values of t- statistics were not significantly different from 0, p values were more than 0.05 and null hypothesis was accepted. Loan repayment was below average and effective measures and mechanisms were recommended.**

***Index Terms*—Africa, Kenya, descriptive research design, strategy dimension in repayment of loan, strategic management.**

I. Introduction

Youth Enterprise Development Fund is dedicated to youth entrepreneurial activities to increase level of employment. One of the main challenges is the loan recovery (below 25% in 2016). The scenario is likely to prevent continuity of the revolving fund. If lenders and borrowers of financial credit are willing, then why is it that there is need to implement appropriate lending strategies and credible credit policies? Many lenders use appropriate strategies to prevent non repayment or recover loans. The loan crisis of 1980s and 1990s indicate that not all is well.

II. Objectives

To address the research problem we attempted to address the following objectives:

1. To examine the effect of appraisal strategy on loan repayment of Youth Enterprise Development Fund.
2. To investigate the effect of follow- up strategy on loan repayment of Youth Enterprise Development Fund.
3. To assess the effect of personnel training strategy on loan repayment of Youth Enterprise Development Fund.
4. To determine the effect of information communication technology strategy on loan repayment of Youth Enterprise Development Fund.

III. Literature Review

According to contextual review the following contribute to non payment of loan by the youth; Poor timing of disbursement (Okorie, 1986) [1]; lenders' policies, borrowers' unwillingness and inability to repay (Hogue, 2004) [2], poor loan repayment structures (Collins et al. 2001) [3]; years of farming, experience and level of education (Oladeebo, 2008) [4]; poor education and staff training structures (Herrington, Kew and Kew, 2009: p 47) [5]; inefficient appraisal ,monitoring techniques, high risk borrowers weak control tools fraud, corruption rapid credit expansion and macro-economic instability (Kwakwa, 2009p 20) [6]; not borrowers' unwillingness to repay loan but inadequate management (Kohansal and Maansori 2009) [7]. It is also caused by poor management of microfinance institutions hence failure to efficiently address specific factors (Njeru Warue (2012) [8]; house expenditure,inadequate supervision of borrowers on loan utilization in intended purpose and repayment (Bichanga and Aseya, 2013) [9]. Credit institutions focus on collection and little emphasize on loan repayment (Owusu-Dankwa, 2013) [10]; lender's inability to prevent the defaultdue to poor management structures or mechanism, borrowers diverting to unintended purpose and their unwillingness to repay (Olasupo, 2014) [11].

In empirical review the following are the findings of various researchers; follow up on applicants of a loan prevent defaulting (Mugisa, 1995) [12]. Proper follow up is significant and positively related to better repayment performance (Bhatt and Tang, 2002) [13]. Firms with low labour productivity have higher credit risk (Fernandez, 2005) [14]. High interest rates are the cause of high default rates (Okpugie, 2006) [15]. Trained borrowers have lower probabilities of defaulting financial credit (Roslan and Karim, 2009) [16]. Information Communication Technology increase lending and repayment significantly which in turn determine productivity of the banks (Stella 2010) [17]. Funded projects have poor management structures hence low repayment of loan (Amenya et al. 2011) [18]. Nahida Afroz (2013) [19] did a research on credit portfolio management Krishi bank and suggested that there is need to recruit and train fresh graduates on diversified activities financing, organize training programs for entrepreneurs, in service personnel training to motivate, change attitude and develop leadership.

Therefore there is need to do the following: conduct

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Chris Simon Sitienei kipkorir is with the Kenyatta University, Nairobi, Kenya (e-mail: kipkorircss@gmail.com).
Josphat Kipkirui Teigutwo is with the Kenya Power & Lighting Company Limited, Kenya (e-mail: jteigutwo@yahool.com).

management audit to identify weaknesses of a customer's business (Pandey, 2004) [20]; assessment of lenders' past records to determine ability to repay (Greenbaum, Thakor, and Boot, (Eds.) 2015) [21].Group lending demands the use of varied strategies to improve performance (Wood lock, 2001) [22]. Lending institutions that use online banking, electronic payments provide the best services (Berger, 2003) [23]. Training and development reduce risks of non repayment (Gray, 2013) [24].

IV. Framework

McKinsey's 7s model was authored by Pascale and Athos in 1981 and developed by Peters and Waterman in 1982 who worked as consultants at Micknsey and company in 1980s. It was named after a consulting company, McKinsey and Company, which conducted applied research in business and industry in over 70 large organizations. It has seven variables which include structure, strategy, systems, skills, style, staff and shared values. For an organization to perform well there is need to align and mutually reinforce all the 7s. Structure describes organisational chart. Strategy is the plan of action used to allocate resources to achieve organizational goals. Operations and performance of an organization is often determined by the structures (waterman *et al* 1980) [25].

The systems are the routine, processes and procedures and day to day activities of the organisations need support and implementation of strong systems. Modernising and new user friendly technologies in business make decision faster in a process which concerns customer (Lynch, 2005) [26]. Staff comprises of categories of personnel in terms of engineers, lawyers, accountants, support staff and managers etc. The skills variable constitutes the capabilities of the staff to perform work. Organisations need people who are agents in changing the business environment towards positive direction (Purcell and Boxal, 2003) [27].Staff should posses the fundamental experience and analytical skills in order to perform their work well. Style refers to the behaviour of key managers in achieving goals. Organizational culture is part of the style. The shared values are the guiding concepts (Peters and Waterman, 1982) [28]. The main item of focus was strategy. It consists of appraisal and follow up which is linked to structure, personnel training is associated with staff while Information Communication Technology is related to systems.

V. Methodology

The study used descriptive research design.

It is a blue print for collection, measurement and analysis of data as argued by Saunders et al (2003) [29]. It facilitates gathering of data by interviewing or administering a questionnaire to a sample of individuals (Orodho 2003) [30].

Regression model Y= a + 0.000x1+0.008x2+ (-0.006x3+ -0.006x4 + 0.001x5 was used to determine significant effect of independent variable on dependent variable under. Where: Y= repayment of loan, X1=Appraisal strategy, X2= follow up strategy, X3= personnel training strategy, X4= information communication technology strategy. Statistical package for social science (SPSS version 20) was used to aid in regression analysis. The hypotheses "there is no significant effect of management strategies on loan repayment" was tested at $\alpha = 0.05$ level of significance.

VI. Results and Discussion

The information was obtained using questionnaire on a Liker scale; strongly agree (SA), agree (A), undecided (U), disagree (D) and strongly agree (SD) rated 5-1 respectively.

TABLE I: Requirements Appraisal

	SA F %	A F %	UN F %	D F %	SD F %	MEAN
Business plan	4 4.3	78 83	4 4.3	2 2.1	6 6.4	3.77
Bank statements	2 2.1	79 84.1	3 3.2	7 7.5	3 3.2	3.09
Project progress report	2 2.1	82 87.2	3 3.2	3 3.2	4 4.3	3.09
Business records	3 3.2	4 4.3	4 4.3	78 83	5 5.3	2.14

Source: Research data (2015)

Table I indicates that 4 (4.3%) respondents strongly agreed that business plan is required during loan application, 78 (83%) agreed, 4 (4.3%) were undecided, 2(2.1%) disagreed and 6(6.4%) strongly disagreed. This description was established for comparison between the applied loan and intended business. Exactly 2 (2.1%) respondents strongly disagreed that bank statements are required during loan application, 79 (84.1%) agreed, 3 (3.2%) were undecided, 7 (7.5%) disagreed and 3 (3.2%) strongly disagreed. The table shows that 2 (2.1%) respondents strongly agreed that project progress reports are required during loan application, 82 (87.2%) agreed, 3 (3.2%) were undecided, 3 (3.2%) disagreed and 4 (4.3%) strongly disagreed. Three (3.2%) respondents strongly agreed business records needed during loan application, 4 (4.3%) agreed, 4 (4.3%) were undecided, 78 (83%) disagreed and 5 (5.3%) strongly disagreed.

Business plan and bank statements (mean of 3.77), project progress reports (mean of 3.09) greatly affect loan repayment. Business records (mean of 2.14), visits by loan officers (mean of 1.83), influence loan repayment to a low extent

TABLE II: Information Appraisal

	SA F %	A F %	UN F %	D F %	SD F %	MEAN
Sharing information on business with loan officers for loan approval	1 1.1	3 3.2	2 2.1	81 86.2	7 7.4	2.04
Disclosing information to loan officers	2 2.1	79 84	6 6.4	3 3.2	4 4.3	2.77
Visits by Loan officers for loan approvals	3 3.3	4 4.1	3 3.3	77 81.9	7 7.4	1.83

Loan officers sharing information about business (mean of 2.04) to a low extent; disclosing all information needed by loan officers (mean of 2.77) to a moderate extent; visits by loan officers (mean of 1.83) to a very low extent affect loan repayment in that order.

TABLE III: FOLLOW UP STRATEGY

	SA F %	A F %	UN F %	D F %	SD F %	MEAN
cell phone alert on Non repayment of loan	6 6.4	81 86.2	4 4.3	2 2.1	1 1.1	3.9
visits by loan officers when payment is skipped	4 4.5	79 84.8	3 3.1	4 4.4	3 3.2	2.53
Group members are regularly contacted by loan officers	3 3.2	3 3.4	4 4.3	82 87.1	2 2.0	2.15
Youth group officials report defaulted payments to loan officers	5 5.0	3 3.1	3 3.3	81 86.4	2 2.2	2.22
Loan officers have transport means to visit youth groups	2 2.4	2 2.5	2 2.2	805 89.3	3 3.6	1.86
During the visits by loan officers all group members are available	3 3.3	3 3.1	3 3.3	82 87.3	3 3.0	2.31

Source: Research Data (2015)

Table III shows that on cell phone alert on non repayment of loan, 6 (6.4%) respondents strongly agreed that is sent,81 (86.2%) agreed,4 (4,3%) were undecided, 2 (2.1%) disagreed and 1 (1.1) strongly disagreed; 4 (4.3%) respondents strongly agreed that loan officers visit the loanees when payment is skipped, 79 (84.1%) agreed; 3 (3.2%) were undecided 4 (4.3%) disagreed and 2 (2.1%) strongly disagreed. On loan officers making regular contacts with group members, 3 (3.2%) respondents strongly agreed 3 (3.2%) agreed, 4 (4.3%) were undecided, 82 (87.1%) disagreed and 2 (2.1%) strongly disagreed. Five (5.0%) respondents strongly agreed that officials of youth groups inform loan officers when there is non- repayment 3 (3.2%) agreed 3 (3.2%) were undecided, 81 (86.4%) disagreed and 2 (2.1%) strongly disagreed. About 2 (2.1%) respondents strongly agreed that loan officers have transport means to visit groups 2 (2.1%) agreed, 2 (2.1%) were undecided, 8 5(89.3%) disagreed and 3 (3.2%) strongly disagreed. During visits by loan officers, 3 (3.2%) respondents strongly agreed that members are available 3 (3.2%) agreed all group, 3 (3.2%) were undecided, 82 (87.1%) disagreed and 3 (3.2%) strongly disagreed. In case of non-repayment, 3 (3.2%) respondents strongly agreed that loan officers visit the defaulters at their homes 1 (1.1%) agreed, 4 (4.3%) were undecided, 84 (88.4%) disagreed and 2 (2.1%) strongly disagreed. Cell phone alert on Non repayment of loan (mean of 3.9) to a greater extent affect repayment of loan. The mean of 2.5, signals that on average borrowers are visited by loan officers when non- payment occurs. Loan officers rarely make regular contacts with group members (mean of 2.15); Officials of youth groups are reluctant to inform loan officers when there is non- repayment of financial credit (mean of 2.22). Loan officers have inadequate transport means to visit youth groups (mean of 1.86). It encourages members to be unsatisfactorily available during the rare visits by loan officers to defaulters' homes (mean of 2.31).

TABLE IV: PERSONNEL TRAINING STRATEGY

	SA F %	A F %	UN F %	D F %	SD F %	MEAN
Training is done before loan is disbursed	3 3.2	5 5.3	2 2.1	81 81.9	3 7.4	1.74
Training has helped improve repayment of loan	1 1.1	2 2.1	5 5.0	81 87.2	5 5.3	1.71
There is training on business skills before the fund is applied for	5 5.3	2 2.1	5 5.3	79 84	3 3.2	2.22
Change business after being trained	0 0	2 2.1	81 86.2	3 3.2	8 8.5	2.81
Have constant contact with the trainer	1 1.3	2 2.0	4 4.3	82 87.1	5 5.3	1.21
Training has increased knowledge on business management	1 1.1	1 1.1	2. 2.1	84 89.4	6 6.4	2.00

Source: Research Data (2015)

In Table IV 3 (3.2%) respondents strongly agreed that training is done before loan is disbursed 5 (5.0%) agreed. 2 (2.1%) were undecided 81 (86.4%) disagreed and 2 (2.1%) strongly disagreed. One (1.1%) respondent strongly agreed training has helped improve repayment 2 (2.1%) agreed, 5(5.0%) were undecided, 81(86.4%) disagreed and 3 (3.2%) strongly disagreed. Five (5.0%) respondents strongly agreed that business skills are imparted to before the fund is groups before the youth fund is applied for, 2 (2.1%) agreed 5 (5.0%) were undecided, 79 (84.0%) disagreed and 3 (3.2%) strongly disagreed. None (0%) of the respondents strongly agreed that there is change of business after training 2 (2.1%) agreed, 4 (4.3%) were undecided, 81 (86.2%) disagreed and 8 (8.5%) strongly disagreed. In regard to trainees having constant contact with the trainer, 1(1.3%) respondent strongly agreed 2 (2.0%) agreed, 4 (4.3%) were undecided, 82 (87.1%) disagreed and 5 (5.0%) strongly disagreed. Concerning knowledge on business management, 1 (1.1%) respondents strongly agreed training has increased knowledge on production 1 (1.1%) agreed, 2 (2.1%) were undecided, 84 (89.4%) disagreed and 6 (6.4%) strongly disagreed. The mean of 1.74 and 1.71 show that training is rarely done before loan is disbursed and it has not helped improve repayment of loan. There is little acquisition of business skills before the fund is provided (mean of 2.22). On average youth change business activities after being trained (mean of 2.81). Mean of 1.21 and 2.0 indicate that trainees have inadequate contact with the trainer while training has not significantly increased knowledge on production.

TABLE V: ICT STRATEGY

	SA F %	A F %	UN F %	D F %	SD F %	MEAN
Electronic Payment is made	2 2.1	78 83	1 1.1	1 1.1	12 12.8	3.6
Electronic Recording	2 2.1	0 0	7 7.4	8 87.2	3 3.2	2.11
Repayment of loan is electronically shared	1 1.1	2 2.1	80 85.1	5 5.3	6 6.4	2.36
computer literacy	3 3.2	5 5.3	5 5.3	80 85.1	1 1.1	2.04
ICT has improved repayment of loan	4 4.3	77 81.9	3 3.2	6 6.4	4 4.3	3.76

In Table V 2 (2.1%) respondents strongly agreed that loan is electronically repaid, 78 (83.0%) agreed, 1 (1.1%) was undecided, 1 (1.1%) disagreed and 12 (12.8%) strongly disagreed. Pertaining records being kept in electronic form 2 (2.1%) respondents strongly agreed 0 (0%) agreed, 7 (7.5%) were undecided, 82 (87.1%) disagreed and 3 (3.2%) strongly disagreed. Essentially 1 (1.1%) respondent strongly agreed that information on repayment of loan is electronically done 2 (2.1%) agreed 2 (2.1%) were undecided, 80 (85.1%) disagreed and 6 (6.4%) strongly disagreed. Three (3.2%) respondents strongly agreed that all group members are computer literate 5 (5.0%) agreed, 5 (5.0%) were undecided, 80 (85.1%) disagreed and 1 (1.1%) strongly disagreed. Concerning Information Communication Technology 4 (4.3%) respondents strongly agreed that it has increased repayments of loan, 77 81.9%) agreed, 3 (3.2%) were undecided, 6 (6.4%) disagreed and 4 (4.3%) strongly disagreed. Respondents who strongly agreed that mobile phone alert is received when non-repayment occurs were 6 (6.4%), 81 (86.2%) agreed, 4 (4.3%) were undecided, 2 (2.1%) disagreed and 1 (1.1%) strongly disagreed.

Electronic usage (mean of 3.61) is greatly related to the efficiency of repayment of loan while records being kept in electronic form (mean of 2.11) are rated low. The electronic sharing of information on repayment of loan (mean of 2.36) has little influence. A mean of 2.04 indicates that a significant number group of members are computer illiterate. In general Information communication technology has improved repayment of loan to a great extent (mean of 3.76).

Regression analysis (coefficient) on effect of strategies on loan repayment using SPSS version 20)

If the 2-tailed p- value is greater than 0.05 then there is statistically no significant correlation between the variables. Increase or decrease in one variable do not significantly relate to increase or decrease in the other variables. However, significant correlation between the variables exist when the value is less than or equal to 0.05. Increase or decrease in one variable do significantly relate to change, increase or decrease in the other variables.

TABLE VI: REGRESSION ANALYSIS

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	1.941	0.821		2.364	0.020
APPRAISAL STRATEGY	0.000	0.072	-0.003	- 0.010	0.992
FOLLOW UP STRATEGY	0.008	0.071	0.041	0.119	0.906
PERSONNEL TRAINING STRATEGY	- 0.006	0.052	-0.016	- 0.115	0.909
ICT STRATEGY	0.001	0.054	0.003	0.018	0.985

Source: Research Data (2015)

Using alpha of 0.05, the coefficient (t-statistics) of appraisal strategy is -0.000, follow up strategy is (0.119); personnel training is (-0.115) and of coefficient of ICT strategy is (0.018). They are not significantly different from 0 because their p-values (0.992), (0.906), (0.909) and (0.985) respectively are greater than 0.05. However, the intercept (2.3644) is significantly different from 0 at alpha level 0.05 because its p value (0.020) is less than 0.05.

At 5% significance level ($\alpha = 0.05$), the study examined if the regression model is useful in establishing the correlation between variables in their contribution towards loan repayment. The null Hypothesis 'there is no significant effect of management strategies on loan repayment.' mathematically expressed as H0: $\beta1 = \beta2 = \beta3 = 0$ was accepted because p-values are more than 0.05. Therefore there is no statistically significant correlation between appraisal; follow up, personnel training, and ICT strategies on repayment of loan. Increase or decrease in one variable do not significantly relate to increase or decrease in the other variables

VII. CONCLUSION

The appraisal strategy has improved the repayment of loans by the borrowers. However, it was noted that there were still challenges on how appraisal was carried out and it led to the low repayment of loan. Majority of respondents agreed that business plan, bank statements and progress reports of businesses are required during loan application but disagreed that business records are needed. They strongly agreed that sharing of the information is done and agreed that all information needed by loan officers is disclosed. The results showed that follow up strategy positively influenced loan repayment. Most respondents agreed that their group members were visited by loan officers when repayment of loan is skipped. However, they disagreed that the normal visits are regular, means of transport is available and group officials inform loan officers when there is none repayment.

There is inadequate training of borrowers before loan is disbursed hence no improvement on repayment. There is little emphasis on training on business skills before the fund is applied for. Majority of respondents disagreed that training had increased their knowledge on business management. Well trained and competent staff is able to identify risks associated with borrowers and loan portfolio. However, several factors such as interest rates, age, marital status, location and numbers play a role. These factors determine the level of default on loan repayment. There is need for management staff to have fundamental credit handling, experience, analytical and marketing skills for better performance of their tasks. The results indicated that Information Communication Technology had a positive effect on loan repayment. However, computer illiteracy led to the low electronic usage in keeping records.

The study concluded that the four variables (appraisal, follow up, personnel training and Information Communication Technology strategies) have an effect on loan repayment of the Youth Enterprise Development Fund.

VIII. Recommendations

There is need to ensure that training is done before giving out loans. Use of Information Communication Technology should be emphasized. Full information should be shared between the group members and loan officers. Environmental factor and economic changes require consideration. Close monitoring and appraisal of borrowers will greatly reduce the risks associated with non-repayment of financial credit

IX. Recommendations for Further Research

Larger sample size be used to carry out the same study in other Sub counties before the results could be generalized to other counties in the country.

Research can be done on the influence of institution structures, personal behaviour, environment and economic factors on repayment of loan.

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Chris Simon Sitienei Kipkorir was born in Kenya in 1963. He earned a doctor of philosophy in business administration (Ph.D BA) from University of San Carlos, Cebu City, Philippines in 2013. He finished his master of business administration and bachelor of education degree in arts from Kenyatta and Moi Universities, Kenya in 2008 and 1994 respectively.

He is now with Kenyatta University, Nairobi, Kenya as a full-time faculty member, and coordinator of e-learnng, academic adviser and internal examiner.

Dr. Kipkorir has received academic conference certificates, as judge, best paper ward, best presenter and Published articles entitled "A Study on the Extent of Efficiency of the Production Process of Chebut Tea Factory in Kenya*" Devotio journal of Business and Economic studies of University of San Carlos, Philippines, vol. 7, no. 2 July –Dec. 2013;* "Trade Policy Implications on Food Security in Rice and Maize in Kenya and the Philippines" Business & Economics Review of De La sale university, Philippines, vol. l 24(2) 2015, pp. 47-66; "Empirical Evidence of ISO 9000: 2008 Certification Practices on Operational Performance of Kenya Seed Company, Kenya" in JPAIR Multidisciplinary Research vol. 24, no. 1 March 2016.

Josphat Kipkirui Teigutwo was born in Kenya in 1978. He earned a master of business administration MBA (strategic management) from Kenyatta University, Nairobi, Kenya in 2014. The author finished bachelor of arts degree in development studies from Bugema University, Uganda. He was with social economic empowerment of women (SEEWO) as a project manager. He is now with Kenya Power & Lighting Company Limited as a public relation officer in Kericho, Kenya, Buchana Hse Kenyatta Rd, 296-20200, Kericho.