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DEBT COLLECTION STRATEGIES AND FINANCIAL PERFORMANCE IN MICROFINANCE BANKS

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ABSTRACT **RESEARCH ARTICLE**

Debt collection strategies involve developing a strong collection unit with clearly defined, documented and consistent policies and procedures that guide staff through the collections process and instruct them on how to respond in particular situations. For an effective debt collection strategy, a firm should have an effective and documented debt collection plan since such a firm with an elaborate plan of collecting its rates and levies will be able to implement the plan more easily that one which does not have such a debt collection plan. The purpose of the study was to make an evaluation of debt collection strategies on the financial performance of microfinance banks. The paper concluded that debt collection strategies that are employed by the MFB are, subcontracting of debt collection to third party agents that work on commission and this is also supplemented by use of internal debt collection unit in the MFB, adoption of both enforcement and proactive debt collection strategies. The paper also examines that MFB have a role to play by seconding experts to these debtors that will guide them on the debt recovery exercise

KEYWORDS: Debt; Collection; Strategies; Finance; Performance; Microfinance; Banks

INTRODUCTION

Debt Collection Techniques would enable the company gain care of the accounts receivable to save resources and future legal difficulties along the way. Getting debt collection plans in place allows you recognize the basic elements of successful debt collection and to use them to assess the policies in place at the organization; rating the accounts to help you organize and establish an effective and acceptable communication strategy; collecting all the knowledge required to start developing productive relationships with debtors on first contact; (Lewis, 2005). Debt collection techniques enable the company produce performance and hold the firm technically consistent with the government guidelines. Not only does the company need to grasp and comply by the legislation on collections, but it also wants to recognize the methods and tactics that can help to make communication and negotiate with debtors faster and more efficiently. From account categorization and prioritization to resource distribution and calling processes, the company has to create, execute and adopt a systematic method to handle all collections. The company has to implement clear techniques and methods to develop a structured debt settlement mechanism that can save time and money in calling debtors and handling unpaid accounts (Mori, 2006). Debt collection techniques include the establishment of a solid collection unit with well established, recorded and consistent policies and procedures that direct and advise personnel through the collection phase about how to respond to unique circumstances. These protocols and practises can involve a range of techniques. The trick to choosing the right approach is to weigh the risks and advantages of each available method depending on the amount of days gone by and the possibility of complete debt recovery. Communication plans which involve proactive measures, such as a payment alert, which should include a schedule specifying the dates of future interaction and the steps to be followed in the collection phase (Montana, 2005).

Performance assessment is one of the most significant organizational responsibilities and it has a subtle effect on people's actions. Business investors want success metrics tailored to optimize shareholder capital. Blair (1995) suggests five main fields in which financial results should be tested. They provide resilience, solvency, stability, financial efficiency and repayment power.

Assessment of Debt Collection Strategies on Financial Performance

Debt collection methods are now about constructive processes and practices, with a coordinated sequence of phone calls, letters, and even text messages where needed, personal visits and online payments. In the correct sort of operative, well educated and competent, further debt is restored and certain individuals who need to be monitored are profiled, found and dealt with accordingly. A collaborative, collaboration strategy, which acknowledges and helps discourage people from being burdened with debt by early action, as well as repayment services, but which still respects the legitimate interests of borrowers, may be essential to determining policies on local government debt. Sophisticated profiling will concentrate the required collection plan on the known debtors, even though it requires compliance. We do not really appreciate it, but as well as carrots, also there needs to be a stick (Lewis, 2005).

Businesses that are more competitive are those who utilize effective debt collection techniques. This helps us to recognize which balances are being charged and which delinquent obligations are being fulfilled. This would boost the cash flow to the company. Although it's a smart idea at any point, it's particularly necessary to revisit your debt collection methods to make sure they have the impact you expect. Debt recovery is a lawful and essential commercial practice where borrowers and collectors are willing to take fair action to obtain reimbursement from customers or companies legitimately obliged to compensate or redeem their debts. It is critical that any agency engaged with debt restructuring is mindful of their legal responsibilities. Debt collection techniques can direct a company to handle debtors and third parties equally, with consideration and courtesy. A firm should never threaten or coerce them, handle them unreasonably or deceive them with respect to the essence of their debt, their legal duties or the potential consequence if the debt is not paid. A business may therefore not pursue the debt of an individual until they have fair reasons to assume that the person is responsible for the debt (Mori, 2006).

Overview of Debt Collection Strategies

The first phase in the debt collection approach is for a company to accurately classify variables that can assess the repayment capacity of the debtor, analyze recovery methods utilizing sums due, days late, and repayment ability, utilize resources that can help promote constructive interactions with the debtor, describe collections of intimidation or violence, and guarantee that the company does not participate in debt collection.

Debt collection techniques are a series of organized, effective and prompt debt collection practises for customers. The method is structured to turn receivables into net assets as rapidly and effectively as feasible while at the same time retaining the client's goodwill in the event of potential sales. As such, the collection phase involves a substantial relationship with the borrower, starting with a thorough review of the condition of the client and progressing by prompt and regular communication throughout the lifetime of the debt. Clients should be given payment options that are prompt and acceptable to each case, and all collection actions should be registered in order to encourage ongoing supervision and follow-up as well as oversight of customer compliance with signed agreements (Branchfield, 2004). The company wants to prepare selection techniques. Best practices are dedicated to creating constructive techniques. They understand the important role of well-trained internal and external selection personnel. They provide tips for correct data storage and management, client segmentation and providing items for collections or payment alternatives customized to the customer's needs. And, ultimately, they have a list of policies and practices that lead to the effective debt collection phase.

Debt Collections methods take an enormous amount of time and money to be well executed. The financial services company has a decision to make—whether to employ a specialist collection agent or to set up an internal collection team. Before choosing, though the company must closely examine the choices, note the available tools, risks and advantages involved with each direction and how the approach blends into the system A well-designed collection strategy incorporates the strengths and limitations of the institution, discussing general concerns such as whether collections can be managed internally or externally by a third party (Misino, 2004).

Outsourcing Strategy: Outsourcing to third party debt collection agencies is one strategy option. Third party debt collection agencies are professionals and they use proven tactics that yield effective results from past due debtors. Collection agencies have an arsenal of resources, software, tools, databases and other options at their disposal that make them far more efficient and effective at finding otherwise unreachable delinquent customers Collections agencies offer trained and specialized staff that are able to dedicate the appropriate time to collections activities. The costly control and supervision of collections activities are transferred to the collections agency.. The third party impact can be a powerful incentive for customers to respond As many customers are concerned and care about damaging their good credit (Montana, 2005).

Internal Debt Collection Unit Strategy: A firm has an option of creating an internal debt collection unit, which has several advantages including; internal units have more thorough knowledge of the client and the market. They are careful to maintain a relationship with the client, leading to possible client reactivation. Internal units facilitate internal feedback on the collection process as a whole. An internal debt collection unit also makes staff feel more committed to the organization and to its objectives. The control and supervision of collections activities and staff also imposes high costs. There is a lack of personal and professional recognition for collections staff. Collections have a reputation of being not very enjoyable, and, in some cultural contexts, quite negative (Brachfield, 2000).

Proactive Debt Collection Strategy: Adopting Proactive Strategies involves addressing the problem before there is a problem. This proves to be one of the most effective strategies available in reducing debt accumulation. Some pre-emptive measures can help you avoid making collection calls in the first place. This would include; making sure your payment methods are clear and simple, Create clean invoices. Confirm the contact information, include an online payment option if possible and keep your payment instructions simple. Preventive action is less costly, and the best collections activities are those that manage clients who are not yet past due carefully. Involving the client in the establishment of mutually agreeable payment dates may increase the probability of payment (Jarvis et al 1996).

Enforcement Strategy: Employing legal options is also part of debt collection strategies. If deemed necessary, some delinquent cases can be pursued legally. Effectively enforced penalty measures for non- payment or duly delayed payment is an important element of a debt collection strategy. Some governments have begun dealing with the debt collection problem with a variety of reform measures. The most effective one appears to be strict enforcement and rapid legal procedures and automatic tax liens on delinquent property (Alms, 1997).Causes of Poverty in Rural Community in Nigeria. Factors Militating against Effective Debt Collection Strategies There are many factors that influence debt collection strategies in some microfinance banks, the most important being staff selection and motivation, information and communication technology, and political and external forces.

Staff Selection and Motivation

A debt collection strategy is only as good as the staff involved in its implementation. The firm must identify the position and roles in the collections process, if any, that should be filled by internal staff and selected accordingly based on the appropriate profile for each position. It is important to define the roles and responsibilities of each participant in the collections process. Training is vital to achieving successful debt collection and good customer service. It is important to educate staff members in techniques and strategies, such as how to address the typical arguments of the delinquent client, how to relate to difficult people, what types of clients exist, tips and verbal cues for communication, the typical profile of the delinquent client, and negotiation techniques. In addition to improving the effectiveness of collections, incentives may also promote a workplace environment of healthy competition. The incentives could be defined based on results of collections activities, according to changes in percentages of past- due amounts at each different stages of delinquency. A simple system of commission for collections could be put in place. Incentives could be monetary or in-kind, depending on what form best suits the environment (Mori, 2006).

Information and Communication Technology

Quality information gathering and management is an integral part of debt collection strategies. The precise and opportune information about debtors and important information that brings feedback is relevant for successful collections. A firm needs to develop efficient information and support systems. To properly analyze collections activities, it is necessary for the institution to have in place an efficient information system to facilitate the monitoring of past-due clients and the production of clear and precise reports. The system should also maintain a history of actions taken and collections activities implemented. The invention and use of new technologies also has fundamentally altered the debt collection business. Communication technologies, in particular, have spurred profound changes in this industry (Kovacic and Jones, 2009).

Political and External Forces

Political forces account for the difference in choice of corporate strategies among governmental agencies. Political forces, party systems, political institutions, political orientations and coalitions, ideologies and interest groups ,are the primary determinants of the relationships among managers, owners, workers and other stakeholders of the firm(Roe,2003).

Systems Theory

Systems theory is the trans-disciplinary study of the abstract organization of phenomena, independent of their substance, type or spatial or temporal scale existence. It investigates both the principles common to all complex entities and the models which can be used to describe them.

This theory was proposed in the 1940s by Ludwig and furthered by Ross Ashby in1956.They emphasized that real systems are open to, and interact with their environments, and they can acquire qualitatively new properties through emergence, resulting in continual evolution. Rather than reducing an entity the properties of its parts or elements/systems theory focus on the arrangement of and relations between the parts which connect them into a whole. Systems analysis developed independently of systems theory, applies systems principles to aid a decision maker with problems or identifying, reconstruction, optimizing and controlling a system while taking into account multiple objectives, constraints and resources. It aims to specify possible courses of action, together with their risks, costs and benefits (Nanyumba, 2010).

Conclusions

This paper aimed to examine the influence of debt collection techniques on financial results of financial institutions. Using both a descriptive and regression study, it demonstrates that the budgetary issues posed by city governments for non-payment by local authorities can be overcome by employing effective debt collection techniques. It may also be inferred that the most successful approach would be those that do not antagonise the debtors, but instead that the debt collection programme has come out to third parties as a stronger strategy. With the devolution of the S to the counties, it is crucial that these councils become self- reliant in income, and this can be done by the implementation of effective debt collection techniques.

It may also be inferred from the aforementioned findings that the awarding of fines arising from non- payment of levies would not contribute to a rise in tax generation owing to enforcement by the Council. Instead, what the councils could be pursuing is to educate the people to comply with the payment, because it is from the money received that the council can provide quality facilities. Aggressive debt collecting by intimidation, while it can result in an immediate rise in tax collection, cannot be maintained for a long period. Internal debt collection units in the councils should be granted a free hand to carry out their tasks and sufficient support should be provided in the form of manpower and finance to carry out their tasks.

Recommendations

- ❖ This report provides a set of suggestions that have strategic consequences for decision- makers. The study advises that companies should have recorded debt collection policies in effect, and it is suggested that the company should establish these protocols.
- ❖ Management also has a role to play by seconding professionals to the debt selection who will lead the company in the debt recovery exercise.
- ❖ In addition, the Councils could also follow a more accommodating debt recovery method, since constructive enforcement has been shown to be more durable than those accomplished by duress.

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