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RELATIONSHIP BETWEEN DEBT COLLECTION PRACTICES AND CUSTOMER SATISFACTION IN FINANCIAL INSTITUTIONS IN SOMALIA

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ABSTRACT

Customer satisfaction is crucial for performance of financial institutions hence the need to understand the factors that influence it. The relationship between debt collection strategy and customer satisfaction in financial institutions in Somalia was investigated through a cross sectional survey of 215 respondents from whom data was collected using a structured questionnaire. Specifically, the effect of reactive and proactive debt collection strategy as well as that of debt collection behavior on customer satisfaction in financial Institutions in Somalia was examined. Both descriptive and inferential statistics were used to analyze data and all hypotheses were tested at 5% significance level where reactive debt collection strategy and debt collector behaviour had a significant positive relationship with customer satisfaction. However, proactive debt collection strategy did not significantly influence customer satisfaction. It was recommended that financial institutions in Somalia should focus on enhancing their reactive debt collection strategies and debt collector behaviour to improve overall performance through customer satisfaction.

Key Words: *Reactive Debt Collection, Proactive Debt Collection, Customer satisfaction*

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INTRODUCTION

Customer satisfaction is an important measure of an organization's performance. Since the core of strategic management is performance, it is of interest to examine customer satisfaction with financial institution's products, services and procedures. The customers perspective to performance is crucial to the sustainability of the banks, Debt collection strategy and the associated activities are among the procedures implemented by financial institutions. These activities can impact customer satisfaction leading to decision to purchase more of the bank products or not depending on whether they are proactive, reactive as well as and the debt collector behaviour which include courtesy and effective communication with debtors.

Considering the increasing global competition in today's dynamic business world of constant change and ever-increasing complexity demands of customer satisfaction in all aspect of organizational operations, commercial banks in the recent past have played a great role and developed different financial products such as debt financing to satisfy their customers.

Unfortunately, most banks in Somalia have been experiencing low bill collection, that has led to increase bad debts for every year, which affects cash circulation and profitability of the banks, many times debts remain unpaid because customers are not able to pay them or they are just not willing to pay. The phenomenon greatly affects the customer satisfaction, which is most important factor to any organization customer's complaints are high and still continue. Customers still waste a lot of time in lines, and fraud on ATM is still available, credit card fraud or theft is high, this has partly led to reach equilibrium point without profits by the year 2019, deposits reduction, waste of efforts to develop service, and there was an increase in loan default rates (KAMB Annual General Meeting report, 2019)

On the other hand, many studies have been done on debt collections and profitability in Somalia and East African countries. While some others focused on debt collection and financial performance yet none have concentrated on how debt collecting practices affect customer satisfaction. This gap presents the motivation for this study.

Consequently, the overall aim was to investigate the influence of in debt collection practices and customer satisfaction among financial Institutions in Somalia.

Strategy and organisational performance

In today's dynamic and highly competitive business landscape, organizations face the constant challenge of achieving and sustaining high levels of performance. To navigate these complexities, companies must develop effective strategies that align their resources, capabilities, and goals. Strategy plays a crucial role in shaping an organization's direction, defining its competitive advantage, and driving its overall performance.

Strategy being the deliberate choices and actions taken by an organization to achieve its long-term objectives considering internal and external factors. SWOT analysis guides the competitive landscape, identifying opportunities, and formulating a roadmap for success. A well-crafted strategy provides a clear sense of purpose and direction, enabling organizations to allocate resources efficiently, make informed decisions, and adapt to changing market dynamics.

Organizational performance, highlights the outcomes and results achieved by an organization in relation to its goals. It reflects the overall effectiveness and efficiency with which an organization utilizes its resources to deliver value to its stakeholders. Performance is not limited to financial indicators but also includes non-financial aspects such as customer satisfaction, employee engagement, and operational efficiency. Further, the relationship between strategy and organizational performance is symbiotic. A strong strategy sets the foundation for high performance, while superior performance validates the effectiveness of the strategy. When strategy and performance are aligned, organizations can achieve sustainable competitive advantage, innovation, and growth.

Operations strategy

There are three levels of strategy namely corporate level, business level and functional or operation level strategy. Corporate level strategy deals with what businesses the organization as a corporate parent adds value to our various lines of businesses. The corporate strategy is focuses with the overall objective and scope business to fulfill stakeholders' expectation. On other hand business level strategy is concerned with how to compete in the choosing market through the deployment of generic strategy, which include cost leadership strategy, differentiation strategy and focus strategy.

The third level of strategy is the operations strategy, which covers the day-to-day activities of the organization, which are crucial part of the organization. These activities can be viewed as operation and are directly linked to the chosen business strategy. These operations are also referred to as competitive priorities or in other words key success factors; they may include speed, flexibility, quality and customer service. Since operational strategy is essentially a functional level strategy, organizations implement this strategy in functional areas such as in marketing, finance, and production. For any organization revenue collection is an important operation or activity, which has mobilization for the performance of the organization and thus requires an effective strategy which should include debt collection with the accompanying customer relation approach. In this study debt collection activities are used to operationalize and measure operations strategy.

Debt collection

Debt collection is a deliberate attempt by a business to collect an obligation that has become past due. In normal transactions between two businesses, an invoice is rendered and payment is due within 30 days—unless, by special arrangement, a more generous schedule of payments has been agreed upon

There are three levels of strategy namely; corporate level, business level and functional or operation level strategy. Corporate level strategy deals with what businesses the organization as a corporate parent adds value to our various lines of businesses. The corporate strategy is focuses with the overall objective and scope business to fulfill stakeholders' expectation. On other hand business level strategy is concerned with how to compete in the choosing market through the deployment of generic strategy, which include cost leadership strategy, differentiation strategy and focus strategy.

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Bank offers a wide variety of loans to individual customers and companies of all sizes as well. The banks have established different sets of loans to provide customers with options to choose. The bank offers loans for customers who need a small sum as soon as possible, those who need a significant amount of money and those who need a loan for a long period.

Customer satisfaction

Globally, in any type of organization, customers are the key for the survival of the company. In order to be profitable, the company must satisfy their customers. Customer satisfaction refers to the degree to which customers' expectation of a product or services are met (Paul & Abauma, 1989). It can as well be defined as a

state of mind that customers have about a company when their expectations have been met or exceeded over the lifetime of the product or service (Kevin, 2009).

Customer satisfaction depends on the product's perceived performance and the service delivered relative to buyer expectations. If the service delivered falls short of expectation, the customer is dissatisfied. If the service delivered exceeds expectation, the customer is highly satisfied. Consequently, all marketing strategies will, therefore focus on satisfaction of customers in order to be profitable and long-term survival of the company. The service given by the company should be evaluated whether they satisfy or not their customer (Kotler & Keller 2012).

Considering the increasing global competition in today's dynamic business world of continuous change and ever-increasing complexity demands of customer satisfaction in all aspect of organizational operations. Furthermore, customers are the key way of running business successful and the satisfied customers are the base of the business for the growth in profitability and in the competitive business market. It has been considered that customer satisfaction is the core element for every type of business. By this element companies can make impressive goodwill, market and profit growth and improvement in service quality as well.

This paper is anchored on operations strategy for debt collection and its influence on customer satisfaction which is an important measure of performance of organizations. In this study, the organizations are financial institutions in Somalia which have an imperative to succeed by satisfying customers. The objective of this study was to assess the influence of debt collection practices on customer Satisfaction among Micro Financial Institutions in Somalia. The question which this study attempted to answer was: What is the relationship between debt collection strategy and customer satisfaction in financial institutions in Somalia.

THEORY AND HYPOTHESIS

This study is informed by various theories.

Stakeholder Theory

With emphasis on the importance of being transparent and building relationships with stakeholders to achieve business goals, stakeholder strategy focuses on the company's purpose and the shared values that bring stakeholders together. Customer satisfaction is prioritized as it is vital for organizational success. In this study, stakeholder theory was used to evaluate the impact of debt collection practices on financial institutions in Somalia, recognizing that customer satisfaction leads to loyalty, repurchase, and improved profits, benefiting shareholders. Stakeholder theory guides organizations in taking actions to ensure customer satisfaction, resulting in positive performance indicators like profits, market share, and customer loyalty.

Relational theory

This theory focuses on the complex relationships between companies and their environment, particularly in terms of corporate citizenship and stakeholder engagement. Relational theory offers emphasis on responsible conduct and relationship-building with stakeholders. The theory highlights the interaction between business and society, the importance of considering economic, social, and environmental performance (triple-bottom-line), and the transformation of stakeholder interests into products and services. Corporate citizenship goes beyond philanthropy and emphasizes global perspectives. Social responsibility is viewed as an implicit expectation of society, and businesses should maintain harmonious relationships with customers during debt collection activities, considering the bond between the bank and its clients.

Agency Theory

Through agency theory, the focus on maximizing shareholder value has been prominent in business schools in recent years. However, social interests and stakeholder satisfaction are also important for shareholder value. "Enlightened value maximization" considers long-term value and stakeholder interests. Corporate social responsibility (CSR) and customer satisfaction are crucial for shareholder value. Agency theory helps

understand the relationship between managers and stakeholders, while also explaining debt collection strategies used by banks to satisfy shareholders in financial institutions in Somalia.

Behavioural management theory

Behavioral management theory, also known as the human relations movement, focuses on understanding human behaviour in the workplace to enhance productivity. It examines factors such as motivation, conflicts, desires, and group dynamics. The theory emphasizes that behaviours are learned from the environment and that organizational procedures should balance employee care and output maximization. In this context, managers should provide incentives and support to debt collectors to motivate them effectively.

Hypotheses

The following three hypotheses were tested in this study:

H₀₁: There is no relationship between proactive data collection and customer satisfaction in financial institutions in Somalia

H₀₂: Reactive debt collection has no influence on customer satisfaction in financial institutions in Somalia.

H₀₃: Debt collection behavior does not influence customer satisfaction in financial institutions in Somalia

METHODOLOGY

Study Design: The research applied cross sectional survey with descriptive and correlational design to provide status of debt collection strategy and customer satisfaction as well as establish the relationship between debt collection practices and customer satisfaction.

Population and sample: This study population included customers of financial institutions in Somalia, including commercial banks, credit unions. The target design sample comprised 334 corporate and individual customers, as well as bank employees from nine financial institutions across 68 branches. A sample of 215 was surveyed from a population of 2028.

Data collection Instruments: Primary data was collected using a structured questionnaire which was translated into the Somali language. It consists of a series of structured questions designed to gather information from participants regarding their experiences, perceptions, and opinions relating to the practice of debt collection including reactive strategy, proactive strategy and debt collection behavior of employees of financial institutions. The relationship between debt collection practices and customer satisfaction in financial institutions in Somalia was assessed from the collected data using correlation as well as regression analysis.

Data collection methods: An introduction letter was obtained from Kenya Methodist University upon approval by the ethics committee. Recruiting and training research assistants for data collection was done prior to drop and pick method administering of the questionnaire. The questionnaire was translated into Somali language to facilitate ease of communication with the respondents.

The researcher met with branch managers at bank headquarters, explained the purpose of the research, and requested their assistance in distributing the questionnaires or providing a list of customers. After collecting completed questionnaires, they were checked for completeness, numbered, and coded. The data was then entered into a computer and processed for analysis using SPSS version 26.

Data Analysis: The data collected in this study was analysed using both descriptive and inferential statistics in SPSS Version 26. Descriptive statistics comprising frequencies, means and standard deviations were used to quantify survey responses. Demographic data were analysed through frequency distribution and percentage. Mean and standard deviation were used to explore the extent of practice of debt collection strategies used in debt collection, and customer satisfaction. Inferential statistics (correlation and regression analysis) were employed to test the relationships and influence of the debt collection practices on customer satisfaction.

In particular, while correlation analysis was used to examine the relationship between debt collection strategy (proactive, reactive and debt collection behavior) and customer satisfaction, binary logistic regression analysis was employed to determine the relationship between debt collection practices and customer satisfaction.

RESULTS AND DISCUSSION

Characteristics of responses

The study included a diverse multi-generational workforce in micro financial institutions in Somalia, with employees ranging in age and skills. The majority of respondents fell within the 31-40 age bracket (61%), while employees aged 21-30 represented only 3%. This suggests a limited representation of millennials in these institutions. The educational qualifications of the respondents were relatively high, with 57% having university education and 1% holding postgraduate degrees. This indicates efforts to attract and engage highly qualified individuals. The income distribution revealed that 34% of respondents earned \$500 or less, 37% earned between \$501 and \$1000, 21% earned between \$1001 and \$3000, and 8% earned over \$3000. These demographic characteristics of the respondents provide confidence in the reliability of the study's results, as the participants had the understanding and ability to respond to the questionnaire items effectively.

Practice of debt collection strategy and customer satisfaction

The description of debt collection strategy (proactive, reactive and debt collection behavior) is presented in Table 1.

Table 1. Status of debt collection practice and customer satisfaction

	Mean	SD
Proactive debt collection activities	3.21	1.26
Reactive Debt Collection Practices	2.11	0.74
Debt Collector Behavior	2.05	0.81
Customer Satisfaction	2.25	0.90

The study findings revealed the mean scores and standard deviations for various factors. Proactive debt collection activities had a mean score of 3.21 and a standard deviation of 1.26, indicating that organizations that prioritize proactive strategies are more effective in dealing with challenges. Reactive debt collection practices had a mean score of 2.11 and a standard deviation of 0.74, aligning with the notion that strict enforcement and rapid legal procedures are effective measures in addressing debt collection issues. Behavioural debt collector activities received a mean score of 2.05 and a standard deviation of 0.81, emphasizing the importance of effective communication and persuasiveness in debt collection interactions. Surprisingly, the overall mean score for customer satisfaction was 2.25, with a standard deviation of 0.90. This contrasts with the view that customer satisfaction is reflected in indicators such as overall satisfaction, loyalty, repurchasing, and likelihood of recommending to others.

Relationship between debt collection operations and customer satisfaction

The relationship between debt collection strategy and customer satisfaction was examined using correlation analysis and the result was presented in Table 2.

Table 2. Relationship between debt collection strategy and customer satisfaction.

Variable/su b-variable	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Proactive debt collection	1												
2. Reactive_management information system	-0.003	<i>1</i>											
	0.971												
3. Reactive_Staff incentives	0.067	.535**	<i>1</i>										
	0.330	<0.001											
4. Reactive communication	0.029	.488**	.556**	<i>1</i>									
	0.676	<0.001	<0.001										
5. Reactive_Reinforcement	0.089	.461**	.588**	.588**	<i>1</i>								
	0.193	<0.001	<0.001	<0.001									
6. Reactive debt collection	0.029	.723**	.811**	.784**	.788**	1							
	0.67	<0.001	<0.001	<0.001	<0.001								
7. Debt collector behavior	0.024	0.065	0.054	.237**	.185**	.167*	<i>1</i>						
	0.726	0.345	0.43	<0.001	0.006	0.014							
8. Debt collector communication	0.052	-0.028	-0.012	0.119	0.075	0.064	.825**	<i>1</i>					
	0.447	0.679	0.867	0.082	0.273	0.35	<0.001	<0.001					
9. Debt collector behavior	0.038	0.024	0.026	.192**	.142*	0.126	.964**	.946**	1				
	0.575	0.73	0.709	0.005	0.038	0.065	<0.001	0					
10. Loyalty	0.066	0.002	0.121	.177**	.213**	.177**	.451**	.426**	.460**	<i>1</i>			
	0.337	0.976	0.076	0.009	0.002	0.009	<0.001	<0.001	<0.001				
11. Trust	.136*	0.062	0.101	.164*	.203**	.161*	.385**	.413**	.416**	.858**	<i>1</i>		
	0.046	0.368	0.139	0.016	0.003	0.018	<0.001	<0.001	<0.001	<0.001			
12. Intention to purchase	.154*	-0.033	-0.069	0.057	.198**	0.049	.348**	.405**	.391**	.694**	.749**	<i>1</i>	
	0.024	0.628	0.317	0.409	0.003	0.477	<0.001	<0.001	<0.001	<0.001	<0.001		
13. Customer satisfaction	0.12	0.053	0.075	.164*	.198**	.152*	.399**	.429**	.432**	.905**	.949**	.788**	1
	0.079	0.44	0.275	0.016	0.004	0.026	<0.001	<0.001	<0.001	<0.001	<0.001	<0.001	
	215	215	215	215	215	215	215	215	215	215	215	215	215

* Correlation is significant at the 0.05 level (2-tailed).

** Correlation is significant at the 0.01 level (2-tailed).

Proactive debt collection had a weak significant correlation with *Trust* and *Intention to purchase* (*Trust*: $r = 0.136, p = 0.046 < 0.05$; *Intention to purchase*: $r = 0.154, p = 0.024 < 0.05$). However, there was no significant relationship between proactive debt collection and customer satisfaction ($r = 0.12, p = 0.079 > 0.05$). Furthermore, there was a significantly weak relationship between loyalty and customer satisfaction and reactive debt collection ($r = 0.177, p = 0.009 < 0.05, r = 0.161, p = 0.018 < 0.05$ and $r = 0.152, p = 0.026 < 0.05$ respectively).

Reactive reinforcement had a weak significant relationship with loyalty, trust, intention to purchase and customer satisfaction ($r = 0.213, p = 0.002 < 0.05, r = 0.203, p = 0.003 < 0.05, r = 0.198, p = 0.003 < 0.05$ and $r = 0.198, p = 0.004 < 0.05$ respectively).

Debt collector behaviour had a significant moderate relationship with loyalty, trust, intention to purchase and customer satisfaction ($r = 0.460, p < 0.001 < 0.05, r = 0.416, p < 0.001 < 0.005, r = 0.391, p < 0.001 < 0.05$ and $r = 0.432, p < 0.001 < 0.05$ respectively).

With $r = 0.135, p = 0.047 < 0.05$, and $r = 0.167, p = 0.014 < 0.005$ there was a significant weak relationship between loyalty and customer satisfaction; and trust and, customer satisfaction

Influence of debt collection strategy on customer satisfaction

The influence of proactive debt collection, reactive debt collection and debt collection behaviour on customer satisfaction.

Table 3. Influence of debt collection strategy on customer satisfaction

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	119.469 ^a	0.181	0.342

a Estimation terminated at iteration number 6 because parameter estimates changed by less than .001.

Variables in the Equation							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step							
1a	Proactive debt collection	0.502	0.261	3.697	1	0.055	1.651
	Reactive debt collection	1.416	0.44	10.346	1	0.001	4.12
	Debt collector behavior	1.354	0.274	24.503	1	<0.001	3.873
	Constant	-10.501	1.93	29.588	1	<0.001	<0.001

a Variable(s) entered on step 1: Proactive, Reactive debt collection, Debt collector behavior

While *reactive debt collection strategy* and *debt collection behavior* significantly influenced customer satisfaction in financial institutions in Somalia, *proactive debt collection strategy* had no significant influence on consumer satisfaction at 5% significance level (Wald=3.697, $p = .055 > .05$, OR=1.651).

Proactive Debt Collection and Customer Satisfaction

The findings of the study indicated that proactive debt collection had a significant impact on customer satisfaction in micro financial institutions in Somalia. There was a clear linear relationship between proactive debt collection and customer satisfaction, as confirmed by regression and correlation results. The study revealed that an increase in proactive debt collection led to a proportional increase in customer satisfaction. This aligns with the notion that proactive business strategies are designed to anticipate challenges, and organizations emphasizing proactive approaches are often more effective at dealing with obstacles. Consequently, micro financial institutions in Somalia can enhance customer satisfaction by prioritizing proactive debt collection practices.

Reactive Debt Collection and Customer Satisfaction

Reactive debt collection was also determinant of customer satisfaction in micro financial institutions. The study found a positive linear relationship between reactive debt collection and customer satisfaction. The regression model showcased that variations in customer satisfaction could be explained by reactive debt collection, accounting for a significant portion of the relationship. Therefore, to increase customer satisfaction, micro financial institutions in Somalia must focus on improving their reactive debt collection strategies. This finding is consistent with the understanding that organizations have implemented strict enforcement and rapid legal procedures to tackle debt collection problems effectively.

Debt Collector Behavior and Customer Satisfaction

The study highlighted the significance of debt collector behavior in influencing customer satisfaction. It revealed a positive linear relationship between debt collector behavior and customer satisfaction in micro financial institutions in Somalia. The regression model demonstrated that variations in customer satisfaction were explained by debt collector behaviour. Enhancing debt collector behaviour can, therefore, lead to an increase in customer satisfaction. Effective communication and persuasiveness of debt collectors are crucial aspects in this regard. By emphasizing positive debt collector behavior, micro financial institutions can enhance their overall customer satisfaction levels.

CONCLUSION AND APPLIED IMPLICATIONS

From the findings, debt collection strategies, specifically proactive and reactive approaches, significantly impact customer satisfaction in micro financial institutions in Somalia. Proactive debt collection has a positive linear relationship with customer satisfaction, emphasizing the importance of anticipating challenges and implementing effective strategies. Similarly, reactive debt collection demonstrates a positive association, highlighting the significance of prompt and efficient debt recovery processes. Debt collector behavior plays a crucial role in shaping customer satisfaction, emphasizing the need for effective communication and persuasive skills. To enhance customer satisfaction, micro financial institutions should prioritize proactive debt collection, and improve debt collector behaviour.

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