

IMPACT OF BANK MARKETING FACTORS ON NONPERFORMING LOANS: ETHIOPIAN BANKING INDUSTRY



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Art in Marketing Management**

By

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DECLARATION

I, **Thomas Fekadu**, hereby declare that this Master Thesis titled “**Impact of Bank Marketing Factors on Nonperforming Loans: Ethiopian Banking Industry**” is an original work. I have carried out the present study independently with the guidance and support of the research advisor, YibeltalNigussie(Asst. Prof). Any other research or academic sources used here in this study have been duly acknowledged. Moreover, this study has not been submitted for the award of any program or any other institution.

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ABSTRACT

This study intended to examine impact of bank marketing factors (knowledge and experience, customer relationship management, communication, bank size, loan size, lending interest rate and unfair competition) on nonperforming loans. The researcher used a questionnaire adopted from the previous studies and relevant literatures. Data was collected from credit professionals engaged in both private and state owned Banks in Ethiopia banking industry holding different positions using a self-administered questionnaire. The study validate that, bank marketing factors had an effect on nonperforming loan. The Pearson correlation coefficient of the study signifies that all independent variables and dependent variable have significant and positive relationships with one another and differently contribute among themselves.

Moreover, the findings of the study shows that inadequate knowledge and lack of practical experience of credit operators in credit processing, impractical customer relationship management implementation, ineffective communication practice and unfair competition among banks on scarce resources significantly attribute to the causes of loan default. Besides, bank size and loan size are among the bank marketing factors which have significant effect in nonperforming loan enhancement as their size increase in the banking industry of Ethiopia. However, the study outcome failed to support the existence of the association between banks' lending interest rate and occurrences of nonperforming loans.

The study suggests that banks should put in place human capital development specifically on knowledge and practical experience exposure of the credit operators, effective communication skills, and customer relationship management practice: that would results in proper customer selection, robust credit analysis, authentic sanctioning process, proactive monitoring and follow up and clear recovery strategies for defaulted loan. Moreover, banking industry works on developing the competency of credit staffs, information system management pertaining to credit and efficiency of the credit process that would reduce nonperformance of loans.

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ACRONYMS

AIB -	Awash International Bank
AIB-	Agricultural and Industrial Bank
AMC-	Asset Management Companies
BIB-	Buna International Bank
CAR-	Current Asset Ratio
CBB -	Construction and Business Bank
CBE-	Commercial Bank of Ethiopia
CBO-	Cooperative Bank of Oromia
CRM-	Customer Relationship Management
DBE-	Development Bank of Ethiopia
FDRE-	Federal Democratic Republic of Ethiopia
HSB-	Housing and Savings Bank
IMF-	International Monetary Fund
MGT-	Management
NBE-	National Bank of Ethiopia
NIB –	Nib International Bank
NPL-	Nonperforming loans
OIB-	Oromia International Bank
ROE-	Return on Equity
USA-	United States of America
VIF-	Variance Inflation factors
ZB-	Zemen Bank

CHAPTER ONE

This chapter is used to discuss the research problem, research questions and objectives for carrying out the study. The chapter begins with introductory background information about banking sector and its role, nonperforming loans and bank marketing, followed by statement of the problem, research questions, objectives of the study and hypotheses that gives direction and justify the reason for the study. Lastly, the subsequent section presents significance of the study, scope and limitation of the study, organization of the paper, and operational definitions respectively.

1.1 Back ground of the study

Banking sectors play a key role in the development of an economy. The development role undertaken by banking sector determines the step for development of economy. Hence, the stability of banking sector is a key for the development of an economy. The primary function of bank is mobilizing deposits from surplus units to deficit units in the form of loan and advances to various sectors such as agricultural, industry, personal and governments. However, in recent times, the banks have become very cautious in extending loans due to non-performing assets Sontakke and Tiwari (2013).

Moreover, the banking industry is undergoing a revolution caused by deregulation. This scenario is reflected in evolution of bank marketing. Therefore, the growth of branches and credit disbursements on the one hand and some loss-making branches, lack of transportation and communication networks as well as rising dissatisfaction of customers with banking services on the other, caused the banks to be aware of the marketing concept Venugopal and Raghu(2010)

After the banking sector reforms, marketing has developed as a more integrated function within financial service organizations like banks largely as a result of rapid changes in the operating environment Usha Kiran Rai (2012).Therefore, commercial banks are one of the banking sectors which are the main source of funding to business activities as well as other projects throughout the country. They play a key role in the economy by mobilizing deposits from surplus units to

deficit units in the form of loan and advances. As noted by Daniel and Wandera (2013) they play a vital role to emerging economies where most borrowers have no access to capital markets. Thus, they are considered as an intermediary between the depositors and borrowers.

According to Rawlin et al. (2012), the principal aim of any business is to make profits. That is why any asset created in conduction of business should generate income for the business. Since this issue is applicable for the banking sector business, banks should give due consideration on the management of loans because lending is the main business of commercial banks and loan is normally the main assets and vital source of revenue for the commercial banks Daniel and Wandera (2013). Therefore, banks do grant loans and advances to individuals, business organizations as well as government in order to enable them operates on investment and development activities as a mean of contributing toward the economic development of a country in general and aiding their growth in particular.

According to the directives of National Bank of Ethiopia “loan” or advances” means any financial asset of the bank arising from the direct or indirect advances by a bank to a person that are conditioned on the obligation of the person to repay the fund, either on a specified date or dates usually within interest Directives of National Bank of Ethiopia (2002).

Lending represents the heart of the banking industry. Loans are the dominant asset and represent 50-75 percent of the total asset of most banks, generating the largest share of operating income and represent the banks’ greater risk exposure Mac Donald and Koch (2006). Moreover, its contribution to the growth of any country is huge in that they are the main intermediaries between depositors and those in need of fund for their viable projects (creditors) thereby ensure that the money available in economy is always put to good use. Therefore, identifying and understanding and what brings and distorts the loan quality in a proper way not only have positive effect on the banks’ performance but also on a country as a whole Mac Donald and Koch (2006)

Deterioration in asset quality is much more serious problem of bank unless the mechanism exists to ensure the timely recognition of the problem. It is a common cause of banks’ failure. Poor

asset quality leads nonperforming loan that can seriously damage a banks' financial position having an adverse effect on banks operation Lafuente (2012).

A lot of studies were conducted on the difficulty of nonperforming loans for banking sectors. For instance, the study of Calice (2012) for the Tunisian banking sectors found as banking sector suffer from decline in asset quality. In addition, Blanco and Gimeno (2010) for South African banks and Kolapo (2012) for the Nigerian banks, nonperforming loans have an adverse effect on banking sectors survival. Thus, since nonperforming loans had an adverse effect on the banking sectors' survival, the cause for nonperforming loans should be given due consideration. Its causes are different in different countries that might be due to situational factors such as the level of economic condition in which the banking sectors are operating and also bank level factors.

Bank marketing is the aggregate of functions, directed at providing services to satisfy customers financial (and other related) needs and wants, more effectively and efficiently than the competitors keeping in view the organizational objectives of the bank. The formulation of marketing mix for the banking services is the prime responsibility of the bank professional who based on their expertise and excellence attempt to market the services and schemes profitably

Anil Kumar (2013)

According to this definition, the marketing functions in banking services are:-

- Identifying the customers' financial needs and wants
- Developing appropriate banking products and services to meet customers' need
- Determining prices for the products or services developed
- Advertising and promoting the product to the existing and potential customers of the banks
- Setting up of suitable distribution channels and bank branches
- Clearly identifying all people directly or indirectly involved in the consumption of banking services since Knowledgeable Workers, Employees, Management and other Consumers often add significant value to the total product or service offering
- Developing and adapting flow of activities: All the major activities of banks

In general, the issue of loan quality has gained increasing attentions in banking industry because the immediate consequence of large amount of poor loan quality in the banking system resulted in poor performance or bank failure. Theoretically there are so many reasons as to why loans fail to perform. According to Bercoff et al. (2002) the cause of poor loan quality is categorized in to Bank specific and Macroeconomic conditions. Thus, given the unique features of banking sector and environment in which they operate and also rapid expansion of banking institutions in Ethiopia, there was strong wishes to conduct a study on the impact of bank marketing factors on nonperforming loans of banking sector in Ethiopia.

1.2 Statement of the problem

Banks exist to provide financial intermediation services while at the same time endeavor to maximize profit and shareholders' value. Lending is considered the most important function of fund utilization of commercial Banks as major portion of their income is earned from loan and advances Radha (1980).

Despite the fact that loan is the major source of banks' income and constitutes their major asset, it is the risky area of the industry. That is also why securing loan quality activities are carried out by firms in the financial services industry.

Many researchers found that insolvent banking institutions always have high level of poor loan quality or non-performing loan prior to failure. From this point of view, identifying the major cause of nonperforming loan is a necessary condition to improve the financial strength of banks and even the economic status of a country Boateing (2004).

Whether default is random and influenced by unpredictable behavior or it is influenced by certain factors in a specific situation, therefore, needs a practical investigation so that the findings can be used by the bank to manipulate its lending programs for the better Khandker et al (1995).

Research shows that commercial banks bankruptcy has strong negative externalities. To some extent, these are the most important lessons learned from the Great depression of 1930s. Based on the understanding that the banking industry is different from other business, it is among the

most regulated industries in the world S. Mish kin (1995). Despite heavy regulation of the banking industry, the nonperforming loans problem is still a worldwide headache. Since the Second World War, many economies, both developed and developing, have suffered from the problem. The saving and Loan crises of U.S. by the end of 1980s, the non-performing loans problem of Japan in 1990s, and the 1997 Southeast Asian financial crises are the most well-known examples, Teshome, (2010). However, as a worldwide problem, the nonperforming loans problem in different economies does not necessarily share identical immediate causes. Then the less, all studies above did not specifically identify and evaluated the causes for loan becoming defaulted and its measures that should be undertaken by lending institutions. Even the studies do not give emphasis for the lending institutions marketing factors that cause loan to become defaulted.

Therefore, this study saw the impact of bank marketing factors on nonperforming loans of the bank industry of Ethiopia from the main principal aspect of bank marketing and marketing mix point of view.

1.3 Research question

The research will attempt to address the following questions:

1. What is bank specific impact of marketing factors on the nonperforming loans?
2. Does rapid banking growth and branch network expansion affect the loan performance of the bank?
3. Is there a relationship between loan size and nonperforming loans?
4. Is there relationship between price of the loan and nonperformance loan of the banks?
5. Does the competition among the banks for banking scarce resource has effect on nonperformance of loans?
6. What is the impact of customer relationship management and communication quality on loan quality deterioration?
7. What is the impact of knowledge and experience of credit employees in credit process on nonperformance loans?

1.4 Objective of the study

1.4.1 General objective

Quality of loan is one of the determinant factors that depict soundness of the banking sector. Thus, the main objective of the study is to examine the impact of bank marketing factors on nonperforming loans in Ethiopian banking industry.

1.4.2 Specific objectives

Specific objectives of the study was aimed:

1. To examine whether the relationship between nonperforming loan and rapid banking growth and network expansion will exist or not.
2. To evaluate if there will be a relationship between loan size and loan quality deterioration.
3. To analyze the impact of price of the loan and nonperforming loans.
4. To examine whether the competition among the banks for banking Scarce resources will affect the loans or not.
5. To assess whether the customer relationships management and communication quality of the banks' credit staff can affect the loan performance or not.
6. To examine how credit knowledge and experience in credit process affects loan performance.

1.5 Hypotheses

Based on the research questions developed above for this study the following hypotheses are demonstrated:

HO: Bank size has an insignificant and positive effect on nonperforming loan.

H1: Bank size has significant and negative effect on nonperforming loan.

HO: Loan size has an insignificant and positive effect on nonperforming loan.

H1: Loan size has significant and negative effect on nonperforming loan.

HO: Promotion/Communication has an insignificant and negative effect on nonperforming loan.

H1: Communication quality has significant and positive effect on nonperforming loan.

HO: Lending interest rate has an insignificant and positive effect on nonperforming loan.

H1: Lending interest rate has significant and negative effect on nonperforming loan.

HO: Credit employees' knowledge and experience in credit processing has an insignificant and negative effect on nonperforming loan.

H1: Credit employees' knowledge and experience in credit processing has significant and positive effect on nonperforming loan.

HO: Credit RCM has an insignificant and negative effect on nonperformance of the loan.

H1: Credit RCM has significant and positive effect on nonperformance of the loan.

HO: Unfair competition has an insignificant and positive effect on nonperformance of the loan.

H1: Unfair competition has significant and negative effect on nonperformance of the loan.

1.6 Significance of the study

The recent global financial crisis and the subsequent recession in many developed countries have increased households' and firms' defaults, causing significant losses for banks. This calls for regular monitoring of loan quality, possibly with an early warning system capable of alerting regulatory authorities of potential banks stress to ensure a sound financial system and prevent systemic crises.

Prudent risk management, with a special emphasis to credit risk is pivotal. To put in place adequate credit management tools, understanding factors that contribute to the occurrence of bad loan play a crucial role.

Thus, the study can help Ethiopian banks to get insight on what they will take to improve their loan qualities and particularly the Central Bank of Ethiopia (NBE) to examine its policy in banking supervision pertaining to ensuring loan quality that banks must maintain. In addition, the study contributed to the existing body of knowledge regarding the impact of bank marketing factors on nonperforming loans and motivating further research on Ethiopian Banking context; especially on other banks specific factors affecting loan quality which was not studied under this research.

1.7 Scope of the study

This study was limited to bank specific marketing factors influencing nonperforming loan of the Ethiopian bank industry though other bank specific and macroeconomic factor have a huge impact on qualities and performance of loans. Thus the study was not explored other bank specific and macroeconomic factors determining loan qualities.

1.8 Limitation of the Study

Due to the confidential policy of banks, access to marketing strategic documents and banks information, except officially disclosed financial information, was not possible. The study was also limited to bank employees' and officials' personal perception and officially disclosed financial data of banks. At last, lack of enough literature and time constraint was the other limitation of the study.

1.9 Operational Definition

Loan and advances: any financial asset granted by banks to borrower on a contract of an obligation to repay the principal amount with usually its interest either on due date or demand.

Nonperforming loans(NPL) - a loan whose credit quality has deteriorated and the full collection of principal and/or interest as per the contractual repayment terms of the loan/advances is in question and delayed for more than 90 days(NBE Directive, SSB/43/008).

Borrower: - the one who borrows money from the lender (Bank).

Bank specific factors: -are variables that are under the control of bank management. They can be directly/ indirectly stated in the financial statements of banks.

Bank marketing: - is the aggregate of functions, directed at providing services to satisfy customers financial (and other related) needs and wants, more effectively and efficiently than the competitors keeping in view the organizational objectives of the bank.

National Bank of Ethiopia (NBE):- It is the reserve or central bank of Ethiopia. Besides licensing and supervising banks, insurers and other financial institutions, NBE fosters a healthy financial system and undertakes other related activities that are conducive to rapid economic development of Ethiopia Proclamation No.592/2008, FDRE (2008).

1.10 Organization of the paper

The study was organized to have five chapters. The first introduces the background of the study, the research objectives, research questions and hypotheses. Besides, it encompasses significance of the study, the scope of the study, limitation of the study, and methodology of the study. The second chapter presents both theoretical and empirical review of the related literatures. The third chapter dealt with methodology of the study. The fourth chapter mainly concerned with the analysis of data collected. The last chapter which is chapter five presents the conclusion and the recommendation drawn from findings of the data in addition with implications for further research.

1.11 Ethical Consideration

As it is clearly expressed under the objectives of the study, the purpose of this research is to examine the impact of bank marketing factors on nonperforming loans in Ethiopian banking industry and also the research have been conducted only for the academic purpose. The results of this study was not connected with individuals as well as group aspects rather it can solve the current problem as well as inform bank industry the level of nonperforming loan with bank marketing and how to improve and deal with marketing. The anonymity of the respondents is guaranteed and therefore the answers were strictly confidential. Moreover, before data collection, permission was obtained from the management body of all the selected commercial banks through formal letter. The formal letter was taken from Addis Ababa University School of Commerce specifically from the marketing management department and then given to those bank managements and all other concerned officials to undertake the tasks freely and confidentially. Lastly, other researcher's ideas are clearly acknowledged in this report by citing the original work.

CHAPTER TWO

LITERATURE REVIEW

Several factors have impact on banks' operations and banks' loan performance, recognizing and understanding the underlying concepts and definitions of the banking sector is essential in order to vouch results and analyses. This chapter starts with presenting the general overview on banking, banking role, bank specific factors that impact on nonperforming loans and bank marketing concepts. Besides, bank loans including its bank specific factors were presented. Furthermore, concepts relating to nonperforming loans were discussed. Following this, different studies were reviewed by focusing on bank specific marketing impact and influence on NPLs is presented. Then after, the knowledge gaps from the reviewed literatures were outlined and conceptual frame work was designed.

2.1 Introduction

Financial System played a very important role in the development of a country. Through financial System, entire money or money equals are channelized in such a way so that each sector of economy like industry, agriculture and services can be developed rationally.

The banking industry is undergoing a revolution caused by deregulation. This scenario is reflected in the evolution of bank marketing. Banking system may vary in different parts of the world; the reason for the variation may be due to features like social banking, low degree of technological sophistication and cumbersome legal system Venugopal and Raghu (2010).

Now a day, banks are operating in a highly competitive and rapidly changing environment. In the changing economic scenario, a professional approach to business development is essential and the survival of a banking institution depends on its ability to take up challenges coming up in the environment. Developing business through marketing of bank's services is one of the crucial areas which need attention of the bankers to ensure profitable survival. Hence, the role of marketing in banking industry continues to change. For many years the primary focus of bank marketing was public relations. Then the focus shifted to advertising and sales promotion that

was followed by focus on development of sales culture. Now day banking sectors practice all elements of marketing concept Anil Kumar (2013).

Bank marketing is the aggregate of functions, directed at providing services to satisfy customers' financial (and other related) needs and wants, more effectively and efficiently than the competitors keeping in view the organizational objectives of the bank Venugopal and Raghu (2010).

2.2 Banking

Banks are financial institutions that accept deposits from the general public and obtain money from such other sources as may be available to them in order to extended loans to those in need of the money. As Goosen et al.(1999) cited by Wondimagegnehu N.(2012), banks provide channel (financial intermediation) for linking those who have excess funds with those who are in need of funds, thus ensuring the money available in economy is always put to good use. In so doing, banks earn income when they lend money out at a higher interest rate than they pay depositors for use of their money. Bank's main source of income is interest. A bank pays out at a lower interest rate on deposits and receives a higher interest rate on loans. The difference between these rates represents the bank's net income. Banks and other financial institutions exist in order to earn a profit and to ensure that shareholders' value is maximized.

Furthermore, Commercial bank is a depository institution that is relatively unrestricted in its ability to make commercial loan and that is largely permitted to issue checking accounts. Commercial banks are the most important of all depository institution Leroy and Vanhoos (2006).They creates money through lending and purchasing securities Thomas (2006). Commercial banks extend credit to different types of borrowers for many different purposes.

In the case of Ethiopia, banks, insurance companies and micro-finance institutions are the major formal financial institutions. The sector is closed for non-Ethiopian citizens. Proclamation No.592/2008 FDRE (2008) does not permit foreigners to own and operate banks in Ethiopia.

2.2.1 History of Banking in Ethiopia

The history of banking in Ethiopia starts with the establishment of the first bank, Bank of Abyssinia, in 1905. It was owned and managed by the British- National Bank of Egypt and it was given a banking monopoly for fifty years, including the right to issue notes and coins. However in 1931, the Bank of Abyssinia was replaced by the Bank of Ethiopia which was wholly owned by the government and members of the Ethiopian aristocracy, becoming the first 100% African- owned bank on the continent. It was also authorized to issue notes and coins and to act as the government's bank Martin and Charles (1998).

Following the Italian occupation between 1936-1941, the operation of bank of Ethiopia ceased whereas the departure of Italian and restoration of Emperor Haile Selassie's government established the state bank of Ethiopia in 1943. However, State bank of Ethiopia was separated into National bank of Ethiopia and commercial bank of Ethiopia S.C. to distinguish the responsibility of national bank from commercial banks in 1963. Then, on December 16, 1963 as per proclamation No.207/1955 of October 1963 commercial bank of Ethiopia controlled all commercial banking activities Fasil and Merhatbeb (2009).

Further, as per NBE (2010), due to change of government in 1974, and the command economic system which was prevailed in the country, the Commercial Bank of Ethiopia S.C. and other banks and financial institutions were nationalized on January 1, 1975. The nationalized banks were re-organized into commercial bank- the Commercial Bank of Ethiopia and specialized banks- the Agricultural and Industrial Bank (AIB), renamed as the Development Bank of Ethiopia (DBE) and a Housing and Savings Bank (HSB) currently named as the Construction and Business Bank (CBB); and one insurance company-the Ethiopian Insurance Corporation.

Following the change of Government in 1991 and the change of economic policy directions, financial institutions were re-organized to operate towards a market oriented policy framework. Proclamation No. 83/1994 which had allowed the establishment of private banks has marked the beginning of new era in the Ethiopian banking sector development. Commercial

Banks both public and private are currently operational in line with Banking Proclamation No. 592/2008.

Pertinent to the enactment of the banking legislations in the country in the 1990s, and relatively favorable environment for banking industry and other financial institutions in Ethiopia; as of June 30, 2014 the number of banks operating in the country were nineteen, of which sixteen were private and the remaining three state-owned NBE (2014).

2.3 Role of Banks

The banking sector makes a meaningful contribution to the economic growth of every country. Banks contribution to the growth lies in the role they play in mobilizing deposits and allocating the resources efficiently to the most productive investment in the real sector. So, making credit available to borrowers is one means by which banks contribute to the growth of economy.

Banks pool resources together for projects that are too large for individual shareholders to undertake Bagehot (1873). They are also considered the most important enabler of financial transactions in any country's economy and are the principal source of credit Rose (2002). Banks' intermediary function plays a vital role in the economic activity. Banks accept customer deposits and use those funds to give loans to other customers or invest in other assets that will yield a return higher than the amount bank pays the depositor McCarthy et al.(2010) cited by Zewdu(2010). It follows that customers' deposit is the primary source of bank loan and hence, increasing or guaranteeing deposits directly has a positive effect on lending. Therefore, bank credit is the primary source of available debt financing for most customers whereas good loans are the most profitable assets for the banks. The principal profit making activity of commercial banks is making loans to its customers. In the allocation of funds to earn the loan portfolio, the primary objective of bank management is to earn income while serving the credit needs of its community Reed and Gill (1989) cited by Zewdu (2010).

Loans and advances are defined in the respective laws of different countries. In Ethiopia, under Article 13 of Banking Business Proclamation No.592/2008 and Directive No.SBB/43/2008 Article 4 (4.5) loans and advances are defined as:

“Loans” and “Advances” means any financial assets of a bank arising from a direct or indirect advance (i.e. Unplanned overdrafts, participation in a loan syndication, the purchase of loan from another lender etc.) or commitment to advance funds by a bank to a person that are conditioned on the obligation of the person to repay the funds, either on a specified date or on demand, usually with interest. The term includes a contractual obligation of a bank to advance funds to or on behalf of a person, claim evidenced by a lease of financing transaction in which the bank is a lessor, and an overdraft facility to be funded by the bank on behalf of a person. The term does not include accrued but uncollected interest or discounted interest.

Loans and advances are the most profitable of all the assets of a bank. These assets constitute the primary source of income by banks. As a business institution, a bank aims at making a huge profit. Since loans and advances are more profitable than any other assets, it is willing to lend as much of its funds as possible. But banks have to be careful about the safety of such advances Radha, and Vasudevan (1980).

Therefore, like all debt instruments, a loan entails the redistribution of financial assets over time, between the lender and the borrower. The borrower initially receives an amount of money from the lender to pay back, but sometimes not always in regular installments, to the lender. This service is generally provided at a cost, known as interest on the debt. As one of the principal duties of financial institutions is to provide loans, it is typically the main source of income to banks. Besides, bank loans and credit also constitute one of the ways of increasing money supply in the economy Felix and Claudine (2008).

Loans are the largest single source of income for banks. Bank loan involves personal relationships between the bankers and borrowers. It has a highest degree of default risk than other bank assets. Loans yield the higher rate of return among bank assets in compensation for lower liquidity and higher risk Thomas (2006). A loan composition greatly varies among banks based on their size, location, trade area and lending experts MacDonald (2006).

According to Zewdu (2010), lending is the provision of resources (granting loan) by one party to another. The second party doesn't reimburse the first party immediately there by generating a debt, and instead arranges either to repay or return those resources at a later date.

The credit quality of an exposure generally refers to the borrower's ability and willingness to meet the commitments of the facility granted. It also includes default probability and anticipated recovery rate Saunders & Cornett (2003). Credit assessment thus involves assessing the risks involved in financing and thereby anticipating the probability of default and recovery rate. A credit analysis is used by the credit official to evaluate a borrowers' character, capital, capacity, collateral and the cyclical aspect of the economy(condition), or generally referred to as the five C's Strischek (2000).

2.4 The Five C's of good Credit

The five C's are considered the fundamentals of successful lending and according to Murphey (2004a), these principles should be the cornerstone of every lending decision.

2.4.1 Character

Character is considered the most important and yet the most difficult to assess (Koch & MacDonald, 2003). The quality of management in the specific business is evaluated by taking reputation, integrity, qualifications, experience and management ability of various business disciplines such as finance, marketing and labor relations into consideration Sinkey (2002; Nathenson(2004). Therefore , Bankers recognize the essential role of management plays in a company's success. Critically analyzing quality of management has been one of the ways of assessing character. The history of the business and experience of its

management are critical factors in assessing a company's ability to satisfy its financial obligations.

2.4.2 Capacity

Capacity refers to the business's ability to generate sufficient cash to repay the debt. An analysis of the applicant's businesses plan, management accounts and cash flow forecasts (demonstrating the need and ability to repay the commitments) will give a good indication of the capacity to repay Sinkey (2002); Koch & MacDonald (2003).

2.4.3 Capital

Capital refers to the owner's level of investment in the business Sinkey (2002). Banks prefer owners to take a proportionate share of the risk. Although there are no hard and fast rules, a debt/equity ratio of 50:50 would be sufficient to mitigate the bank's risk where funding (unsecured) is based on the business's cash flow to serve the funding Harris (2003). Lenders prefer significant equity (own contribution), as it demonstrates an owner's commitment and confidence in the business venture.

2.4.4 Conditions

Conditions are external circumstances that could affect the borrower's ability to repay the amount financed. Lenders consider the overall economic and industry trends, regulatory, legal and liability issues before a decision is made Sinke (2002). Once finance is approved, it is normally subject to terms, covenants and conditions, which are specifically related to the compliance of the approved facility Leply (2003).

2.4.5 Collateral

Collateral (also called security) is the assets that the borrower pledges to the bank to mitigate the bank's risk in event of default Sinkey (2002) .It is something valuable which is pledged to the bank by the borrower to support the borrower's intention to repay the money advanced. Security is taken to mitigate the bank's risk in the event of default and is considered a secondary source of repayment Koch & MacDonald (2003).

In general, Lending represents the heart of the industry and Loans are the dominant asset and represent 50-75 percent to total amount of most banks; generate the largest share of operating income and represents the bank's greatest risk exposure MacDonald (2006). But according to Zewdu (2010), the sources of fund for lending are reserve, deposits and capital. All these sources may be affected by different factors and would have a direct influence on lending.

Since lending is the principal function of banking industry, the management of banks should give due attention, analyze and take the necessary measures on time on internal and external factors that affect or limit lending. Without lending, banks' incomes especially interest income would highly deteriorate and affect bank survival. In case, since nonperforming loans (NPLs) has a direct reflection of poor asset quality, the factors that influence banks loans have their own impact on NPLs Rawlin et al. (2012).

According to Brown, Mallett and Taylor, the losses that bad loans (NPLs) cause, by reducing the capital resource of the bank, affects its ability to grow and develop its business (Taylor, 1993) as cited by Wondimagegnehu (2012). Disclosure of the extent of these losses in its financial statements may lead to a loss of confidence in the bank's management and a reduction in its credit ratings. This will in turn increase the bank's cost of borrowing in the wholesale market and make it more expensive or more difficult to raise capital. In extreme cases, it can leads to a loss of deposits, the withdrawal of the bank's authorization and ultimately insolvency M.G. Taylor (1993). Thus, NPL is one of the concrete embodiments of credit risk which banks take. They have greater implication on the function of the banks as well as the overall financial sector development Wondimagegnehu (2012).

2.5 Nonperforming loan/Bad loan quality

There is no common definition of nonperforming loans (NPLs) in the whole country. Since it is recognized what is appropriate in one country may not be so in another. There is, however, some common opinion on this issue. Accordingly the IMF's Compilation Guide on Financial Soundness Indicators, NPLs is defined as: *"A loan is nonperforming when payments of interest and/or principal are past due by 90 days or more, or interest payments equal to 90 days or more have been capitalized, refinanced, or delayed by agreement, or payments are less*

than 90 days overdue, but there are other good reasons such as a debtor filing for bankruptcy to doubt that payments will be made in full" IMF (2005).

Besides, the Ethiopian banking regulation also defines NPL as follows:

"Nonperforming loan and advances are a loan whose credit quality has deteriorated and the full collection of principal and/or interest as per the contractual repayment terms of the loan and advances are in question" NBE (2008).

Generally, NPLs are loans that are outstanding both in its principal and interest for a long period of time contrary to the terms and conditions under the loan contract. Any loan facility that is not up to date in terms of payment of principal and interest contrary to the terms of the loan agreement is NPLs. Thus, the amount of nonperforming loan measures the quality of bank's assets Tseganesh (2012).

Moreover, Non -performing loans can be defined as defaulted loans, which banks are unable to profit from. Usually loans fall due if no interest has been paid in 90 days, but this may vary between different countries and actors. Defaulted loans force banks to take certain measures in order to recover and securitize them in the best way. Loans become nonperforming when it cannot be recovered within certain stipulated time that is governed by some respective laws. So, non-performing loan is defined from institutional point of view.

Many countries are suffering from nonperforming loans (NPLs) which creates a big influence on the overall economy. There are different ways to secure NPLs, such as allowing banks to handle themselves, or for banks to auction them in public Asset Management Companies (AMCs), whose purpose is to dispose of the assets as profitable as possible Patersson and Wadman (2004) as cited by Tihitina (2009).

There are a plenty of variables that affect the nonperforming loans of banking sectors. In this study, the researcher focused on impact of bank specific factors of nonperforming loans of commercial banks in Ethiopia. Internal factors are caused by internal functions and activities of bank, and are due to decisions and practices of officials and staffs' functions Biabani et al.

(2012). Besides, the study conducted in Ethiopia by Wondimagegnehu(2012) on “the determinants of Nonperforming loan on commercial banks of Ethiopia” also found as poor credit assessment, failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, aggressive lending, compromised integrity, weak institutional capacity, unfair competition among banks, willful defaults by borrower and their knowledge limitation, fund diversion for unexpected purposes and overdue financing has significant effect on non-performing loans.

In general, among bank specific factors of nonperforming loans the majority goes to bank marketing:- pricing, bank size/branches, competition, customer relationship management, size of loan(market share of loan/credit growth), communication, knowledge and experience of credit officials and etc.

2.6 Marketing in banking

The central idea of marketing is to match the origination’s capabilities with the needs of customers in order to achieve the objectives of both parties. If this matching process is to be achieved, then the organization has to develop strengths, either from the nature of the services it offers or from the way it exploits these services, in order to provide the customer satisfaction.

Since very few companies can be equally competent at providing a service for all types of customers, an essential part of this matching process is to identify those groups of customers whose needs are most compatible with organization’s strength and future ambitions. It must be recognized that the limitations imposed by an organization’s resources and the unique make-up of its management skills, make it impossible to take advantage of all market opportunities with equal facility. Companies who fail to grasp this fundamental point, which lies at the heart of marketing, are courting commercial disaster McDonald and Payne (2006).

Marketing approach in banking sector had taken significance after 1950 in western countries and then after 1980 in Turkey. New banking perceptiveness oriented toward market influenced banks to create new market. Banks have started to perform marketing and planning techniques in banking in order to be able to offer their new services efficiently. Marketing scope in banking sector should be considered under the service marketing framework GÜNAL ÖNCE (2013).

Performed marketing strategy is the case which is determination of the place of financial institutions on customers' mind. Bank marketing does not only include service selling of the bank but also is the function which gets personality and image for bank on its customers' mind. On the other hand, financial marketing is the function which relates uncongenially, differences and non-similar applications between financial institutions and judgment standards of their customers GÜNAL ÖNCE (2013).

The reasons for marketing scope to have importance in banking and for banks to interest in marketing subject can be arranged as:

- Change in demographic structure: Differentiation of population in the number and composition affect quality and attribute of customer whom benefits from banking services.
- Intense competition in financial service sector: The competition became intense due to the growing international banking perceptiveness and recently being none limiting for new enterprises in the sector. Increase in liberalization of interest rates has intensified the competition.
- Bank's wish for increasing profit: Banks have to increase their profits to create new markets, to protect and develop their market shares and to survive on the basis of intense competition and demographic change levels GÜNAL ÖNCE (2013).

Bank marketing is the aggregate of functions, directed at providing services to satisfy customers' financial (and other related) needs and wants, more effectively and efficiently than the competitor keeping in view the organizational objective Uppal (2010) as cited by Melkamu (2013). This aggregate of functions is the sum total of all individual activities consisting of an integrated effort to discover, create, arouse and satisfy customer needs. This means, without exception, that each individual working in the bank is a marketing person who contributes to the total satisfaction of customers and the bank should ultimately develop customer orientation among all the personnel of the bank. Different banks offer different benefits by offering various schemes which can take care of the wants of the customers. Marketing helps in achieving the organizational objectives of the bank. Therefore, banks have dual organizational objective –commercial objective to make profit and social objective which is a developmental role, particularly in the rural area Anil Kumar (2013).

On top of these, according to Popli and Vadgama (2012), Marketing of banking services is a device to maintain commercial viability and an approach to market the services profitably. It is a method to energize orientation. It is a managerial approach to excel competition. The marketing approach in bank services consists of the following elements:-

- ✚ To identify the financial requirements of the customers.
- ✚ To develop appropriate banking products and services to meet the requirements of the customer.
- ✚ To determine the fair and competitive prices for the products/services developed.
- ✚ Advertisement of the products and services to the existing and potential customers
- ✚ To set up suitable distribution channels and bank branches.
- ✚ Continuous focus on forecasting and researching of future market needs.

2.7 Bank Marketing Mix

The formulation of marketing mix for the banking services is the prime responsibility of the bank professional who based on their expertise and excellence attempt to market the services and schemes profitably due to the fact that formulation of marketing strategy is development of proper marketing mix, so as to satisfy the needs of the target group of customers. This would involve decisions regarding product, place, price, promotion, process, physical evidence, and people Venugopal and Raghu (2010).

2.7.1 Product

A product is the bundles of utilities consisting of various product features and accompanying services. Bank services are viewed in terms of the satisfaction they deliver and not just thing that are created with a value; bank account is seen in terms of customer satisfaction such as safety, convenience of paying dues, keeping records, transferring funds, statues, and pride in one's bank. The various deposits, loans and advances, consultancy services, international banking, safe deposit etc are the products sold by the bank Venugopal and Raghu (2010).

Moreover, recently, banks are in a period that they earn money in serving beyond selling money. The prestige is get as they offer their services to the masses. Like other services, banking

services are also intangible. Banking services are about the money in different types and attributes like lending, depositing and transferring procedures. These intangible services are shaped in contracts. The structure of banking services affects the success of institution in long term. Besides, the basic attributes like speed, security and ease in banking services, the rights like consultancy for services to be compounded are also preferred GÜNAL ÖNCE (2013).

2.7.2 Pricing

Pricing objectives can be either qualitative or quantitative or both. The quantitative objectives can be measured easily and include those objectives that are related to the firm's profit, sales, market shares and cost coverage. On the other hand, qualitative ones are associated with less quantifiable goals such as the relationship with customers, competitors, distributors, the long term survival of the firms and the achievement of social goals Avlontitis and Indounas (2005). Pricing in banking relates to the interest rates paid by the banker on deposits, interest charged by the banker on loans and demand drafts, charges for various types of transactions and fees for certain services Venugopal and Raghu (2010).

2.7.3 Promotion

One of the most important elements of marketing mix of services is promotion which consists of personal selling, advertising, public relations, and selling promotional tools Venugopal and Raghu (2010). Decision about promotion answers questions about communication with the customer. After getting information on needs and location of the prospective customer and after designing schemes to suit their needs, it is necessary to take decisions on making schemes known to the prospective customers through proper communicating media and through proper words, so as to bring out the salient features of the scheme. Actual delivery of the schemes at the counters and at the manager's desk also plays a vital role in determining the success of the scheme Anil Kumar (2013).

The objectives of promotion program in banking service are to inform about the new service product, to persuade the customer, to remind the customer, build an image of the bank, etc Venugopal and Raghu (2010). Moreover, promotion component plays three vital roles: providing needed information and advice, persuading target customers of the merits of a specific product, and encouraging them to take action at specific times.

2.7.4 Distribution channels/place

This marketing tool deals with making the banking service available and accessible to the customer. There are no intermediaries-services are sold through the branches. Therefore, the decision of place mainly deals with selection of a suitable location for the branch which should have adequate availability of transportation, communication, electricity and other necessary facilities for the smooth functioning of the branch Venugopal and Raghu (2010).

2.7.5 People

Many services depend on direct, personal interaction between customers and a firm's employees, all people directly or indirectly involved in the consumption of banking services are an important part of the extended marketing mix. Knowledge of Workers, Employees, management and other consumers often add significant value to the total product or service offering. It is the employees of a bank which represent the organization to its customers. In a bank organization, employees are essentially the contact personnel with customer. Therefore, an employee plays an important role in the marketing operations of a service organization. The attraction, development, motivation and retention of qualified employee-customers through need meeting job-products. Internal marketing paves way for external marketing of services. In internal marketing a variety of activities are used internally in an active way-marketing like manner and in a coordinated way. The starting point in internal marketing is that the employees are the first internal market for the organization. The basic objective of internal marketing is to develop motivated and customer conscious employees. A service company can be only as good as its people. A service is a performance and it is usually difficult to separate the performance from the People Anil Kumar (2013).

2.7.6 Process

According to Venugopal and Raghu (2010), process involves all activities right from product conception stage, to product designing and development down to its customers at branch level. There has to be adherence to certain rules and principles in the banking operations. Moreover, creating and delivering product elements to customers requires the design and implementation of effective processes. A process describes the method and sequence of actions in which service operating systems work. Badly designed processes are likely to annoy

customers when the latter experience slow, bureaucratic and ineffective service delivery. Similarly, poor processes make it difficult for front-line staff to do their jobs well, result in low productivity and increase the likelihood of service failures Lovelock; Vandermerwe; Lewis and Fernie (2004). Lastly, to deliver effective and productive services, the activities have been segregated into various departments accordingly: standardization, customization, simplicity and customer involvement Anil Kumar (2013).

2.7.7 Physical evidence

Physical evidence is the material part of a service. Strictly speaking there are no physical attributes to a service, so a consumer tends to rely on material cues Anil Kumar (2013).

2.8 Bank Marketing Strategies

2.8.1 Customer Relationship Management

It is natural that relationships are given a central place in the development of marketing model and concepts to be used in service contexts. Although, services and the marketing of services are based on relationship, there are sometimes situations where the customer does not want this relationship to be emphasized. In its broader context, it is a business strategy to learn more and more about customer behavior in order to create long term and sustainable relationship with them. Moreover, according to relationship perspective theory, the focus of marketing is value creation and value formation, rather than simply distributing ready-made value to customer Gronroos(2007)

On top of this, it is a comprehensive process of acquiring and retaining selective customers to generate value for the bank and its customers. Under CRM, acquisition of customers is done through personal visits, media advertisement or word of mouth from existing customers. Customer retention is carried out through data warehousing and mining tools, customer service and call services, and improved customer value is obtained through cross-selling and up selling to the retained customers Anil Kumar (2013). Relationship marketing or relationship Management is a philosophy of doing a business, strategic orientation, that focus on keeping and improving relationship with customers rather than on acquiring new customers Zeithaml, Bitner and Gremler(2013).

In general, relationship marketing is related to relationships between two or more parties in which there is process interaction of exchange, communication, administrative routines from which trust, commitment and attraction is the most important benefit among the parties Gronroos (2007).

2.8.2 Competition

Competition takes place where two or more providers of services/ goods put forward their products, as substitutes, to buyers in the same market. It would be difficult to enforce collusion (anti-competitive behavior) in a market where there are several suppliers. In addition, when the firms in the market are of similar size competition increases, as no one firm could dictate the market Korsah, Nyarko and Tagoe(2001). Banks must face competition from private banks, non-banking financial institutions, government banks and others. The competition is in the fields of deposits and credits, foreign trade, consumer credit and miscellaneous banking activities. The competition will benefit customers and force the banking system to raise its productivity, minimize expenses, and remain sensitive to evolving issues Venugopal and Raghu (2010).

According to Venugopal and Raghu (2010), to deal with the competition among banks, the commercial banks should go in for diversification and extension of services as well as expansion of products and business. Economic freedom and innovative spirit have contributed greatly to the success of the market-oriented financial sector in the Western countries.

2.9 Conceptual frame work

The main objective of this study is to examine the impact of bank marketing factors on nonperforming loans in Ethiopian banking industry. Based on the objective of the study, the following conceptual model is framed. Though literature on bank specific variables is not that extensive, as previously discussed in the related literature review parts and some studies mentioned under, nonperforming loans are influenced by bank specific factors. Bank specific factors are profitability, capital adequacy ratio, liquidity, diversification, bank size, poor credit assessment, failed loan monitoring, underdeveloped credit culture, lenient credit terms and conditions, aggressive lending, compromised integrity, weak institutional capacity,

unfair competition among banks, willful defaults by borrower and their knowledge limitation, and overdue financing deposit rate, and capital structure Shingjergji(2013), Berger and DeYoung(1997), Ali and Iva (2013) , functions Biabani et al.(2012) and Wondimagegnehu (2012).

Bank marketing factors

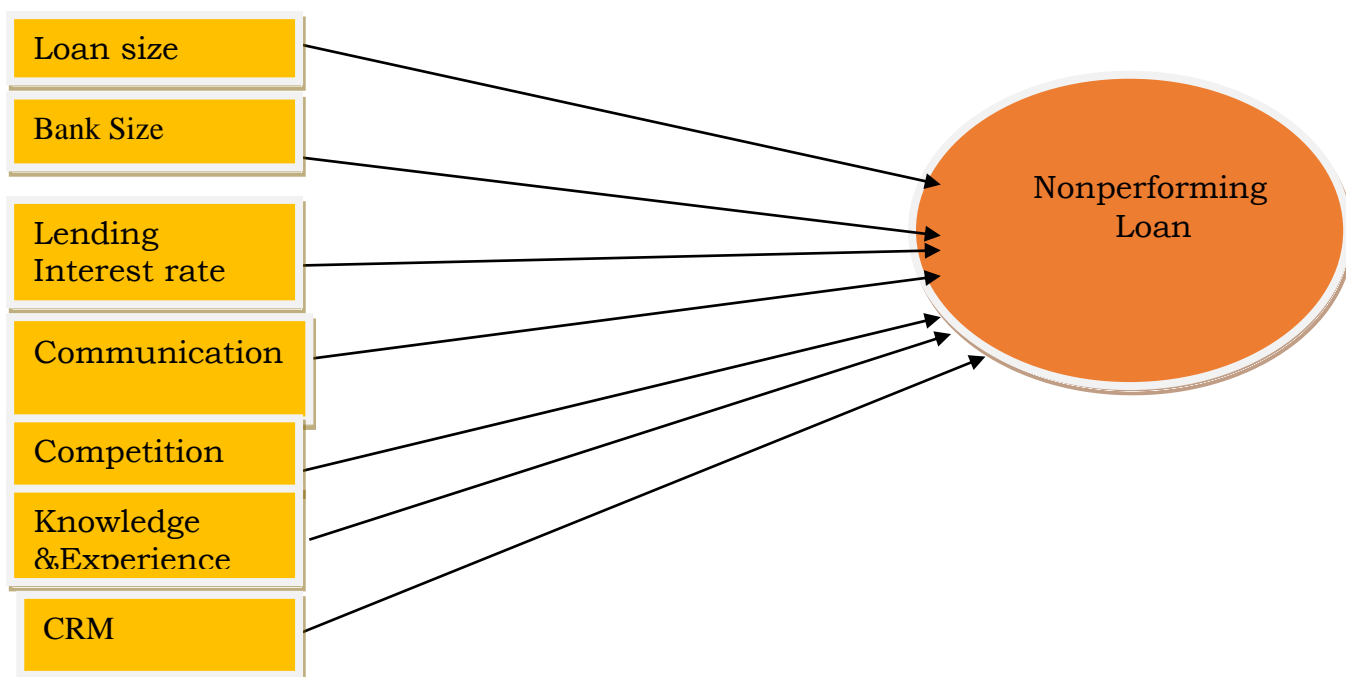


Figure 2-1: conceptual Frame work

Source: Extracted by the researcher (2015)

Different literatures and few studies have investigated the association of asset qualities with bank specific factors. For instance, Berger and DeYoung(1997) used USA commercial banks data over the period of 1985-1994 and employed granger causality test to investigate the direction of causality among cost efficiency, loan quality and bank capital. They presented and empirically tested four hypotheses in their study and found as poor performance, poor credit evaluation and monitoring skills and wrong collateral valuation leads to the growth in future non-performing loans.

Similarly, Shingjergji (2013) conducted study on the “impact of bank specific factors on nonperforming loans in Albanian banking system”. In his study, capital adequacy ratio, loan to asset ratio, net interest margin, and return on equity were considered as a determinant

factors of non-performing loans. The study utilized simple regression model for the panel data from 2002 to 2012 period and found as capital adequacy ratio has negative but insignificant whereas ROE and loan to asset ratio has negative significant effect on non-performing loans . Besides, total loan and net interest margin has positive significant relation with non-performing loans. The study justifies that an increase of the CAR will cause a reduction of the non-performing loans ratio. On top of these, an increase of ROE will determine a reduction of nonperforming loans ratio.

Ali and Iva (2013) who conducted study on “the impact of bank specific factors on non-performing loans in Albanian banking system” considered interest rate in total loan, credit growth, inflation rate, real exchange rate and GDP growth rate as determinant factors. They utilized OLS regression model for panel data from 2002 to 2012 period. The finding reveals a positive association of loan growth and real exchange rate, and negative association of GDP growth rate with non-performing loans. However, the association between interest rate and NPL is negative but week. And also inflation rate has insignificant effect on non-performing loans.

Thus, as to the knowledge of the researcher, there is no literatures and studies in Ethiopian banking industry with regard to the impact of bank marketing on nonperforming loans, with the exception of relevant few studies made by Wondimagegnehu (2012) on the determinants of NPLs of banking industry in Ethiopia and Gadise Gezu (2014) on determinants of nonperforming loans: empirical study in case of commercial banks in Ethiopia. Hence, this previous study by Wondimagegnehu (2012) utilized only bank specific factors.

Therefore, this study, wants to fill this gap by establishing relationship between bank marketing and nonperforming loans and its impact in case of Ethiopian banking industry.

CHAPTER THREE

RESEARCH DESIGN AND METHODS

The preceding chapter presented the review of the existing evidence on the impact of bank marketing on non-performing loans and identified the knowledge gap. The results from a review of the literatures are used to establish the relationship of the bank marketing and nonperforming loans. Therefore, the purpose of this chapter is to present the research question, the underlying principles of research methodology and the choice of the appropriate research method for the thesis.

3.1 Research design

The main objective of the study is to evaluate the impact of bank marketing factors on nonperforming loans. In order to achieve this objective, the study used descriptive, Pearson correlation and multiple regressions.

3.2 Research Approach

There are three types of research approaches namely, quantitative, qualitative and mixed methods approach Leedy and Ormrod (2005). According to Creswel(2003), in quantitative studies, researchers advance the relationship among variables and pose that in terms of questions or hypotheses. Quantitative approach is used to answer question about relationships among measured variables with the purpose of explaining, predicting and controlling phenomenon. Whereas according to Leedy and Ormrod (2005), qualitative approach is used to answer questions about the complex nature of phenomena and its purpose is describing and understanding the phenomena.

Contrary to quantitative research, qualitative research consists of a body of research techniques that do not attempt to measure, but rather seek insight through a less structured and more flexible approach, Gray (2004). The mixed method approach is used when the researcher combines elements of both quantitative and qualitative approaches. Quantitative and qualitative research approach (mixed) is appropriate for answering different kinds of questions. Thus, the

study deployed quantitative research techniques:-descriptive statistics, Pearson correlation and multiple linear regressions.

3.3 Source of Data

Data will be collected from primary sources. Target population for the primary data was Ethiopian bank industry's credit employees/ professionals at head office of each sampled banks.

3.4 Sample design

Sample design deals with the sample frame/ population, sample size, sampling techniques. According to Diamantopoulos & Schlegelmilch (2006), a population is a group of items that a sample will be drawn from. A sample, on the other hand, refers to a set of individuals/companies/ selected from an identified population with the intent of generalizing the findings to the entire population. A sample is drawn as a result of constraints that make it difficult to cover the entire research population Leedy and Ormord (2005).

3.4.1 Population

For this research the target population is all commercial banks registered by the National Bank of Ethiopia (NBE) and under operation before the fiscal year 2011/12. The cut off year is set due to the importance of experience in the industry to understand impact of bank marketing factors on nonperforming loans. In accordance with this, sixteen banks fall in the sample frame.

3.4.2 Sample size

Due to the fact that there is time and budget constraint to survey all the aforementioned banks and willing of the banks officials to get the expected data, a representative sample was selected purposively from among the banks. Accordingly, eight banks based on interest of the bank officials towards the research, their mature experience and the personal relationship of the research to get support from the target sample constitute the sample selected; out of which two of them from government banks and six from private banks. Finally, based on bank size measured in terms of their total branches 160 questionnaires were distributed among the eight samples. Therefore, as per the under summarized table 3.1 questionnaires were personally administered to each selected banks at their head office.

Table 3.1: List of Banks in their branch number

No	Bank	Date of Establishment	Bank size in terms of number of branches	Number of Questionnaires distributed
1	CBE	1942	875	35
2	CBB	1975	115	20
3	AIB	1994	169	30
4	NIB	1999	93	10
5	CBO	2004	105	20
6	ZB	2008	5	10
7	OIB	2008	109	20
8	BIB	2009	50	15
Total Sample				160

*Source: Survey outcome and own computation (2015)

3.5 Units of analysis

The unit of analysis is the major factors that are going to be analyzed in the research paper. As it is indicated in the research title the area of concern is the impact of bank marketing factors on nonperforming loan in Ethiopian banking industry. Therefore, the main unit of analysis in the research is; primary sources of data from the credit employees of the Ethiopian banking industry.

3.6 Data collection Methods

In order to analyze the impact of bank marketing factors on nonperforming loans of banks, the primary data through structured questioners was collected from bank officials from the selected sample banks.

3.6.1 Questionnaires

Questionnaires that were distributed to the bank officials are used as primary data collection method. These questionnaires were used as quantitative data sources. A total of 160 questionnaires were distributed to eight banks that was filled by bank officials from credit directors to credit officers including credit analyst, credit relationship managers and recovery officers and supervisors. The questionnaires designed to address the bank marketing issues with main emphasis on bank marketing factors (communication, lending interest rate/loan price, customer relationship, competition, bank size, loan size, and credit knowledge and experience in credit processing).

3.7 Method of Data Analysis

The data was analyzed with the help of SPSS package. The primary sources of data that was collected from survey were carefully coded and checked for consistency and entered into the SPSS spreadsheet.

Descriptive statistics was used to analyze data and the results were tested with Pearson correlation coefficient and linear regression to investigate both the correlation and relationship between dependent variables(nonperforming loan) and the independent variable in bank marketing factors (Bank Size, lending Interest rate, Loan Size, Credit Relationship management, effective communication, competition, Employees' knowledge and Experience). Besides, measures of central tendency (mean, standard deviation) were used to analyze the questionnaire survey result.

In general, the summarized data was interpreted vis-à-vis hypotheses and research question designed based on literature review of the study to arrive at meaningful conclusion, to interpret data and to forward recommendation.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

In this chapter data editing and coding, response rate, result of test of data reliability and respondents profile was detailed. Furthermore, descriptive analysis, Pearson correlation, multiple linear regression analysis and hypotheses testing was undertaken.

4.1 Result Analysis

4.1.1 Data Editing and Coding

Once the primary data was collected, prior to the analysis, the questionnaire was reviewed and it was to certify that if questionnaires were filled appropriately. Any incomplete or missing responses were rejected from the subsequent analysis. The steps which stated in the data analysis section such as coding, eliminating coding and data entry error, known as “clearing the data”, Rubin & Babbie (2010) were performed in this research.

4.2 Response Rate

The questionnaires were physically distributed to credit related professionals of eight Banks. From the total of 160 questionnaires 129 were collected and the remaining 31(19%) were not responded. The nominal response rate of the collected questionnaires was (81%); however, out of these due to incompleteness and missing values only 118 (74%) were useable for further analyses and the remaining 11(7%) were discarded. According to Rubin & Babbie (2010), a response rate of 70% is “very good” for further assessment. Therefore, in this case response rate of 74% is significant.

Table 4.1: Survey response rate

Sample size	160
Completed and returned questionnaires	118
Response rate	74%

**Source: Survey outcome and own computation (2015)*

4.3 Exploratory Factor Analysis (EFA)

Exploratory factor analysis was conducted by using SPSS20.0 on the impact of bank marketing factors and nonperforming loans from the data collected through questionnaires. Factor analysis was used to reduce data set to more manageable size, Field (2000). Before the extraction of factors the Bartlett test of Sphericity ($\chi^2 = 2062.023$), Kaiser-Mayer-Olkin(KMO) test was conducted and KMO measure of sampling adequacy score was 0.728. Factors with Eigen value greater than 1 were retained for further analysis. Accordingly, four factors (having large number of borrower and desire to maximize profit from loan size, organization commitment to serve the customer from customer relationship management and employees' knowledge and experience from the dependent variables) were reduced. Moreover, principal component factor extraction method with direct Oblimin rotation was used and eight factors were obtained. Therefore, eight factor model was expected to represent the collected data explaining 69.17% of the total variance (Table 4.2 and 4.3)

Table 4.2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.728
Approx. Chi-Square		2062.023
Bartlett's Test of Sphericity	Df	406
	Sig.	.000

*Source: Survey outcome and own computation (2015)

Table 4.3: Total Variance Explained

Factor	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	7.219	24.894	24.894	6.831	23.556	23.556	3.237	11.161	11.161
2	3.628	12.509	37.404	3.303	11.389	34.945	3.051	10.522	21.684
3	2.612	9.007	46.410	2.295	7.913	42.857	2.909	10.032	31.716
4	2.034	7.015	53.425	1.699	5.858	48.716	2.626	9.056	40.771
5	1.766	6.090	59.515	1.377	4.750	53.465	2.396	8.261	49.032
6	1.509	5.205	64.720	1.157	3.991	57.456	1.910	6.587	55.620
7	1.290	4.449	69.169	.913	3.147	60.603	1.445	4.983	60.603
8	1.130	3.123	72.292	.812	2.991	63.594	1.233	2.789	63.392

Extraction Method: Principal component Factoring.

when factors are correlated, sum of squared loadings cannot be added to obtain a total variance

*Source: Survey outcome and own computation(2015)

4.4 Reliability Test

The reliability of a measuring instrument was defined as its ability to consistently measure the phenomenon it was designed to measure. Reliability, therefore, refers to test consistency, Robert Ho, (2006). According to Robert Ho (2006), if Cronbach's alpha is high (0.80 or higher), then it suggests that all of the items are reliable and the entire test is internally consistent. Besides, George and Mallery(2003), provide the following rules of thumb: > 0.9 excellent, >0.8 good, >0.7 acceptable, >0.6 questionable, > 0.5 poor and <0.5 unacceptable as cited by Yonnas Tsegaye (2014).

Table 4.4: Cronbach's alpha

Factors	Cronbach's alpha	Number of Items
Knowledge & Experience	0.839(Good)	5
Communication	0.838(Good)	7
Loan Size	0.771(Acceptable)	3
lending Interest Rate	0.804(Good)	4
Customer Relationship Mgt	0.891(Good)	4
Bank Size	0.833(Good)	4
Unfair competition	0.746(Acceptable)	2
NPLs	0.866(Good)	3
Grand	0.882(Good)	32

*Source: Survey outcome and own computation (2015)

Based on the above table 4.4, value of Cronbach's alpha ranges from 0.746 to 0.891 and all the items were reliable and the entire test was internally consistent.

4.5 Respondents' profile

From a total of 118 usable questionnaires returned, 84(71.2%) were male credit employees which overshadow the female respondents of 34(28.8%). Looking to the age group of the respondents, 12(10.2%) of them were below the age of 25 indicating very young participants and only 5(4.2%) of them were above 45 years. Majority of the respondents who participated in the survey 82(69.5%) of them were those credit employees between the age of 25 to 35 years and 19(16.1) were those employees whose age ranges between 35 to 45 years (Table 4.5)

Table 4.5: Gender and Age Frequency

Gender percentage		Frequency	Percent	Cumulative Percent
Valid	Male	84	71.2	71.2
	Female	34	28.8	100
	Total	118	100	
Age Percentage		Frequency	Percent	Cumulative Percent
Valid	Below 25	12	10.2	10.2
	25 to 35	82	69.5	79.7
	35 to 45	19	16.1	95.8
	Above 45	5	4.2	100
	Total	118	100	

*Source: Survey outcome and own computation (2015)

Regarding the employment, 68.6 percent of survey respondents were employed in private banks while the rest 31.4 percent were employed in state owned banks (Table 4.6)

Table 4.6: Bank ownership type

	Frequency	Percent	Valid Percent	Cumulative Percent
Government Owned Bank	37	31.4	31.4	31.4
Valid Private Owned Bank	81	68.6	68.6	100.0
Total	118	100.0	100.0	

*Source: Survey outcome and own computation (2015)

From the total usable respondent 71.2 percent, the majority, had first degree in terms of their academics status while the second largest number that was 22.9 percent had master's degree and above and the remaining 5.9 percent hold diploma (Table 4.7).

Table 4.7: Educational back ground

	Frequency	Percent	Valid Percent	Cumulative Percent
Diploma	7	5.9	5.9	5.9
Valid Bachelor Degree	84	71.2	71.2	77.1
Master's Degree and Above	27	22.9	22.9	100.0
Total	118	100.0	100.0	

*Source: Survey outcome and own computation (2015)

Looking at the results of survey (Table 4.8) with regards to their position, respondents revealed that 11(9.3%) were loan officer, 36(30.5%) were bank customer relationship managers, 49(41.5%) were credit analyst and 14(11.9%) of them were recovery/monitoring officers while 6(5.1%) were division heads. Besides, about 2(1.7%) of the respondents were bank credit directors. On top of that, most of the employees were (44.1%) experienced on credit area for about greater than 4years and less than 10 years while 12.7% had an experience of more than 10 years and less 15years. In addition, 42.4% had an experience of less than 4 years on credit area while 0.8% had greater than 15 year.

From this one can conclude that majority of the respondent knew much more about bank marketing factor, nonperforming loans and their implication on one another from their endowed experience, qualification and the composition of the position they had.

Table 4.8: Position and Year of Experience in credit area

Position hold in credit area		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Loan office	11	9.3	9.3	9.3
	Relationship manager	36	30.5	30.5	39.8
	Credit Analyst	49	41.5	41.5	81.4
	Recovery/Monitoring Officer	14	11.9	11.9	93.2
	Credit director	2	1.7	1.7	94.9
	Division Head	6	5.1	5.1	100.0
	Total	118	100.0	100.0	
Experience in credit area		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 4	50	42.4	42.4	42.4
	4 to 10	52	44.1	44.1	86.4
	10 to 15	15	12.7	12.7	99.2
	Above 15	1	.8	.8	100.0
	Total	118	100.0	100.0	

**Source: Survey outcome and own computation (2015)*

As indicated in table 4.9 below, out of the total 76.3% and 73.7% of respondents revealed that knowledge and experience and good customer relationship management respectively of the credit employees had an impact over nonperforming loan reduction. From this one can infer that professional and practical experience based credit processing and understanding the interpretation of the assessment with collaboration and cooperation of customers on credit issues have lions share in nonperformance loan reduction. Whereas 5.9 percent and 10.2 percent

respectively responded that it had no any impact on nonperformance loan. However, 17.8 percent and 16.3percent of the respondents stated that they have negative impact on NPLs i.e. it enhances its nonperformance.

Moreover, out of the total respondent, the majority of them indicated, that expansion of bank size, lending interest rate increment and large loan size (41.5%, 50.8% & 60.2%) respectively had negative impact on nonperforming loans while (26.6%, 25.4% & 29.7%) of them respectively stated that it had positive impact on NPLS. Nevertheless, there were also respondent who had responded that bank size expansion, interest rate increment and large loan size (33.9%, 23.7 % & 10.2%) respectively neither have positive nor negative impacts i.e. they have no impact on the nonperformance of loans.

With regards to effective communication and unfair competition, the mainstream of the respondents(44.1%) believed that effective communication has positive impact on nonperforming loan, at the same time (39.8%) believed that unfair competition on scarce resource has positive impact on NPLs. Besides, 39 percent of the respondents responded that effective communicationhas no impact on NPLs while the remaining 16.9 percent responded that it creates favorable conditions to increase nonperformance loan. Lastly, 32.2 percent of them said unfair competition on scarce resource among banks had no impact while the remaining 28 percent said it had negative consequence on nonperformance loans.

Table4.9: Impact of Bank marketing factors on NPLs

Factors	B/size		I/rate		L/size		CRM		Commu'n		Kn & Exp		Uncomp	
	f	%	f	%	f	%	f	%	f	%	F	%	f	%
Positive Impact	29	24.6	30	25.4	35	29.7	87	73.7	52	44.1	90	76.3	47	39.8
Negative Impact	49	41.5	60	50.8	71	60.2	19	16.1	20	16.9	21	17.8	33	28.0
Have no Impact	40	33.9	28	23.7	12	10.2	12	10.2	46	39.0	7	5.9	38	32.2
Total	118	100.0	118	100.0	118	100.0	118	100.0	118	100.0	118	100.0	118	100.0

**Source: Survey outcome and own computation (2015)*

4.6 Descriptive Statistics

The descriptive statistics of the mean scores and standard deviation of 32 attribute were discussed in the following subsequent tables in each categories. The interpretation was made based on the following measurement scale intervals or ranges. Logically, Means4.51-5.00

strongly agreed, 3.51-4.50 agree, 2.51-3.5 neutral, 1.51-2.50 disagree and 1.00-1.50 strongly disagree.

4.6.1 Knowledge and Experience

The mean rating and the standard deviation of the respondents' evaluation about the knowledge and experience factors on Table 4.10 indicates that respondents overall mean rating was 4.35.

It showed that the respondent agreed (4.35) on credit employees' knowledge and experience about the 5 C's of good credit processing to have prudent lending.

Accordingly, all the mean value of the respondents indicated agreed results. From this one can infer that, respondents agreed that good credit knowledge and experience of credit employees about the character, capital, capacity, condition and collateral of the credit customers in loan processing activities had significant influence on prudent lending and very good decision making. Lastly, the standard deviation lied between 0.765 to 1.019 indicated how closer and far from each observation of the average.

Table 4.10: Knowledge and experience about 5C'S

	N	Minimum	Maximum	Mean	Std. Deviation
Knowledge & experience about character	118	1	5	4.42	0.899
Knowledge & experience about capital	118	2	5	4.29	0.907
Knowledge & experience about capacity	118	1	5	4.52	0.759
Knowledge & experience about condition	118	1	5	4.41	0.765
Knowledge & experience about collateral	118	1	5	4.11	1.019
Knowledge and Experience	118	1.6	5	4.3475	0.68309

*Source: Survey outcome and own computation (2015)

4.6.2 Communication/Promotion

The mean rating and the standard deviation of the respondents' evaluation about the communication factors on Table 4.11, indicated that respondents overall mean rating was 4.30 and this implied that respondents agreed (4.3) effective communication has influence in loan processing and decision making. From that point of view, all the mean value of the respondents showed agreed results. Thus, respondents agreed that effective communication (reminding, persuading, providing relevant and needed information, and feedback based action) had significant importance on loan decision making and management. Finally, the standard deviation lied between 0.606 to 0.883 indicated how closer and far each observation from the average.

Table 4.11: Communication

	N	Minimum	Maximum	Mean	Std. Deviation
Providing information	118	2	5	4.43	.606
Advice and consultancy	118	1	5	4.56	.723
Persuading	118	2	5	4.15	.883
Encouraging	118	2	5	4.19	.809
Distinctive information	118	2	5	4.19	.743
Relevant information	118	2	5	4.31	.759
Feed back	118	2	5	4.26	.821
Communication	118	2.29	5.00	4.3015	.54703

*Source: Survey outcome and own computation (2015)

4.6.3 Loan Size

As the result revealed in the table 4.12, respondents overall mean rating was 3.66 which indicated that loan size is one of the bank marketing factors which is influenced by factors (rapid credit growth, aggressive lending and high risk appetite) was agreed. Therefore, the respondents agreed that loan size was influenced by factors like rapid credit growth, aggressive lending and high risk appetite which again can be a reason for loan quality deterioration at the standard deviation ranging from 1.038 to 1.182.

Table 4.12: Loan size

	N	Minimum	Maximum	Mean	Std. Deviation
Rapid credit growth	118	1	5	3.67	1.038
Aggressive lending	118	1	5	3.59	1.127
High risk appetite	118	1	5	3.70	1.172
Loan size	118	1.67	5.00	3.6554	.92237

*Source: Survey outcome and own computation (2015)

4.6.4 Bank size

As the result shown in the table 4.13, respondents overall mean rating was 3.5 and indicates that bank size is one of the banks marketing factors which is influenced by factors like having large and diversified number of branch all over the country, high market share, large fund mobilization and individual borrower limit. Since the mean rating of 3.5 is neutral, respondents were also neutral on the fact that factors (number of branch, market share, capital of the bank and individual borrower limit) can be a reason for bank size determination and which in turn has influence on loan quality deterioration at the standard deviation ranging from 1.027 to 1.115.

Table 4.13: Bank Size

	N	Minimum	Maximum	Mean	Std. Deviation
Number of branch	118	1	5	3.62	1.045
Market share	118	1	5	3.39	1.046
Capital of bank	118	1	5	3.36	1.115
Individual borrower limit	118	1	5	3.5	1.027
Bank size	118	1.5	5	3.4682	0.86451

*Source: Survey outcome and own computation (2015)

4.6.5 Lending Interest Rate

As the summary shown in understated table4.14, respondents overall mean rating was 3.66 and it indicated that lending interest rate was influenced by factors like cost of saving, loan period, competitors' lending rate and large interest rate and renegotiation capacity of the borrower. Respondents agreed (3.66) that lending interest is affected by cost of saving, loan period, competitors' lending rate and large interest rate and renegotiation capacity of the borrower which in turn has influence on nonperformance loan of banks at the standard deviation ranging from 0.951 to 1.056.

Table 4.14: Lending Interest rate

	N	Minimum	Maximum	Mean	Std. Deviation
Saving rate	118	1	5	3.62	1.012
Loan period	118	2	5	3.75	.951
Competitor lending rate	118	1	5	3.66	1.031
Large lending rate vs renegotiation	118	1	5	3.66	1.056

*Source: Survey outcome and own computation (2015)

4.6.6 Unfair competition

On the other hand table4.15 depicted (mean 3.98, standard deviation 0.78) respondents agreed that unfair competition is influenced by expansion of network and product diversification that led to loan default

Table 4.15: Unfair competition

	N	Minimum	Maximum	Mean	Std. Deviation
Diversification	118	1	5	3.97	.847
Expansion	118	1	5	3.99	.882
Unfair competition	118	1.00	5.00	3.9788	.77182

**Source: Survey outcome and own computation (2015)*

4.6.7 Customer Relationship Management

Table 4.16 revealed (mean 4.16, standard deviation 0.752) respondents agreed that customer relationship management is associated with organizational commitment, proactive problem solving, cooperation and collaboration, consistent and standard service delivery and integrity and trust deployment in between the parties. This is one of the bank marketing factors which affect the nonperformance loan of the bank industry.

Table 4.16: Customer Relationship Management

	N	Minimum	Maximum	Mean	Std. Deviation
Organizational commitment	118	2	5	4.24	.736
Problem solving	118	2	5	4.21	.738
Cooperation and collaboration	118	1	5	4.17	.809
Consistent standard service	118	1	5	4.20	.948
Integrity and trust	118	1	5	4.05	.950
Customer relationship management	118	1.50	5.00	4.1589	.75154

**Source: Survey outcome and own computation (2015)*

4.6.8 Nonperforming loans

Moreover, table 4.17 (mean 3.514, standard deviation 0.94) respondents agreed that nonperforming loans have direct association with knowledge and experience of credit employees, customer relationship management, bank size, loan size, lending interest rate and unfair competition on the expansion of branch network and product diversification that all lead to loan default.

Table 4.17: Impact of Bank marketing factors on NPLs

	N	Minimum	Maximum	Mean	Std. Deviation
Impact of knowledge and experience	118	1	5	4.05	.950
Reasons of NPLs(BS, LS & LIR)	118	1	5	3.62	1.045
Impact of CRM	118	1	5	3.47	1.044
Impact of unfair competition	118	1	5	3.45	1.099
NPLS	118	1.00	5.00	3.5141	.94346

**Source: Survey outcome and own computation (2015)*

4.7 Correlation Analysis

The forgoing discussion indicated that the Pearson correlation coefficient of seven variables (knowledge & Experience, Bank size, lending interest rate, Loan size, communication,

competition and CRM) has relationship with nonperforming loans. The result showed that Pearson correlation coefficient of Knowledge and Experience, Bank size, interest rate, Loan size, effective communication, competition and CRM of seven variables were 0.587, 0.992, 0.081, 0.293, 0.411, 0.179 and 0.371 respectively.

As per the guide line suggested by Field (2005), the strength of relationship 0.1 to 0.29 shows weak relationship; 0.3 to 0.49 is moderate; >0.5 shows strong relationship between two variables. Therefore, as Table 4.18 showed, there was strong relationship between the independent variables (bank size and knowledge and experience of credit employees) and the dependent variables (nonperforming loans). The other independent variables (communication and customer relationship management) had moderate relationship with the dependent variable (nonperforming loans). Besides, loan size of the banks had weak relationships with nonperforming loans. However, interest rate and unfair competition has no relationship with nonperformance loans. Furthermore, there is moderate relationship among the independent variables: - knowledge and communication, knowledge and interest rate and knowledge and customer relationship management and communication and customer relationships, communication and interest rate.

To put the data in sequential order, the highest positive correlation was found between Bank size and nonperformance loan ($r=0.929$, $p<0.01$) and the lowest level of relationship lied between loan size and nonperforming loan ($r=0.293$, $p<0.01$).

Based on the above facts and the specific objectives of the research:

Evaluating the relationship between loan size and loan quality deterioration.

Examining whether the relationship between nonperforming loan and rapid banking growth and network expansion will exist or not and evaluating if there will be a relationship between loan size and loan quality deterioration which more or less revolves around the bank marketing factors and nonperforming loans in due attention to some of the research questions like:

- Is there a relationship between loan size and nonperforming loans?
- Is there relationship between price of the loan and nonperformance loan of the banks?

One can realize that, as the research confirmed there as weak relationship between loan size and nonperforming loans, whereas the relationship between price of the loan and nonperformance loan of the bank would exist but it was insignificant.

Table 4.18: Correlation coefficient

Variables		knowexp	Comm	L/Size	I/Rate	CRM	B/Size	UnfairComp	NPLS
knowledge & Exp	Pearson Correlation	1	.462**	.253**	.340**	.314**	.184*	.272**	.587*
	Sig. (2-tailed)		0	0.006	0	0.001	0.046	0.003	0.042
	N	118	118	118	118	118	118	118	118
Commun' II	Pearson Correlation	.462**	1	0.112	.334**	.497**	0.046	.296**	.411*
	Sig. (2-tailed)	0		0.229	0	0	0.624	0.001	0.034
	N	118	118	118	118	118	118	118	118
Loan Size	Pearson Correlation	.253**	0.112	1	.283**	-.195*	.233*	.210*	.293**
	Sig. (2-tailed)	0.006	0.229		0.002	0.035	0.011	0.023	0.001
	N	118	118	118	118	118	118	118	118
Interest Rate	Pearson Correlation	.340**	.334**	.283**	1	.188*	0.138	.195*	0.081
	Sig. (2-tailed)	0	0	0.002		0.041	0.137	0.034	0.382
	N	118	118	118	118	118	118	118	118
Customer R/ship	Pearson Correlation	.314**	.497**	-.195*	.188*	1	0.085	0.168	.371*
	Sig. (2-tailed)	0.001	0	0.035	0.041		0.359	0.069	0.047
	N	118	118	118	118	118	118	118	118
Bank Size	Pearson Correlation	.184*	0.046	.233*	0.138	0.085	1	.262**	.929*
	Sig. (2-tailed)	0.046	0.624	0.011	0.137	0.359		0.004	0
	N	118	118	118	118	118	118	118	118
Unfair Comp	Pearson Correlation	.272**	.296**	.210*	.195*	0.168	.262**	1	0.179
	Sig. (2-tailed)	0.003	0.001	0.023	0.034	0.069	0.004		0.052
	N	118	118	118	118	118	118	118	118
NPLS	Pearson Correlation	.587*	.411*	.293**	0.081	.371*	.929**	0.179	1
	Sig. (2-tailed)	0.042	0.034	0.001	0.382	0.047	0	0.052	
	N	118	118	118	118	118	118	118	118
**. Correlation is significant at the 0.01 level (2-tailed), *. Correlation is significant at the 0.05 level (2-tailed).									
Source: Survey outcome and own computation									

4.8 Multicollinearity

Multicollinearity refers to the situation in which the independent/predictor variables are highly correlated. When independent variables are multicollinearity, there is “overlap” or sharing of predictive power. Thus, the impact of multicollinearity is to reduce any individual independent

variable’s predictive power by the extent to which it is associated with the other independent variables. “Tolerance” and “variance inflation factors”(VIF) values for each predictor is a means of checking for multicollinearity. Tolerance value below 0.1 and VIF value above 10 percent indicate a multicollinearity problem, (Robert Ho,2006).

In this study, Table 4.19 showed that the collinearity statistics analysis of variance inflation factors (VIF) value ranges from 1.147 to 1.679 and Tolerance value ranging with 0.596 to 0.872 indicated that there was no collinearity problem.

Table 4.19: Collinearity Statistics for Nonperforming loan factors

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Knowledge and Experience	.689	1.451
	Communication/Promotion	.596	1.679
	Loan Size	.745	1.341
	Lending Interest Rate	.795	1.257
	Customer Relationship	.650	1.538
	Bank Size	.872	1.147
	Unfair Competition	.826	1.210

**Source: Survey outcome and own computation*

4.9 Regression Analysis

Regression analysis is a statistical method to deal with the formulation of mathematical model depicting relationship amongst variables which can be used for the purpose of prediction of the values of dependent variables, and given the values of the independent, Kothari (2004). Linear regression estimates the coefficients of the linear equation, involving one or more independent variables that best predicts the value of the dependent variable. Multiple linear regressions were conducted to identify the relationship and to determine the most dominant variables that influenced the nonperformance loans of Ethiopian Banking industry. Moreover, multiple regression analysis in this research was conducted to test the effect of the independent variables (knowledge and experience of credit customers, communication, loan size, loan interest rate, credit customer relationships management, bank size and unfair competitions) on nonperformance loans. The reason for using multiple regression analysis was to examine the direct impact of bank marketing factors on nonperformance loan of Ethiopian Banking industry

and the output was given in the table below. In order to indicate the impact that each factor has on the dependent variables, the study checked the standardized coefficients.

Table 4.20: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.940 ^a	0.884	0.876	0.33204	0.884	119.23	7	110	0

- a. Predictors: (constant), knowledge and experience, customer relationship management, lending interest rate, bank size, and loan size, communication, and unfair competition.

**Source: Survey outcome and own computation (2015)*

As indicated in the model summary of the analysis in the above table 4.20, R (.940^a) indicated correlation of the seven independent variables with the dependent variables (Nonperforming loans) affecting approximately 88 % (R Square) of the variance of nonperforming loans and the remaining percent (12%) was explained by other factors. This result also viewed that there may be other variables that could have been discussed by this study in predicting nonperforming loans.

Table 4.21: ANOVAa Independent variables as predictors to Nonperforming loans

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	92.016	7	13.145	119.229	.000 ^b
	Residual	12.128	110	0.11		
	Total	104.143	117			

- a. Dependent Variable: Nonperforming loans
 b. Predictors: (Constant), Unfair Competition, Customer Relationship Management, Lending Interest Rate, Bank Size, Loan Size, knowledge and experience, Communication/promotion

**Source: Survey outcome and own computation (2015)*

As indicated in Table 4.21 of ANOVA test, F value of 119.23 is significant at $p < 0.01$. Therefore, from the result, it can be inferred that with 88% of variance (R Square), nonperforming loan is significant and the model appropriately measured the dependent variables.

Table 4.22: Coefficientsa: Regression Results for bank marketing factors affecting Ethiopian banks Nonperformance loan

Model	Un standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.125	.296		.423	.673
Knowledge and Experience	-.055	.054	-.040	-1.012	.014
Communication/Promotion	-.095	.073	-.055	-1.304	.071
Loan Size	.125	.039	.122	3.233	.002
Lending Interest Rate	.083	.043	.071	1.947	.541
Customer Relationship	-.072	.051	-.057	1.417	.029
Bank Size	1.005	.038	.921	26.441	.000
Unfair Competition	.095	.044	.077	2.162	.033

a. Dependent Variable: NPLS

*Source: Survey outcome and own computation (2015)

Multiple linear regression analysis, revealed the impact of bank marketing factors and their significance on nonperforming loans within the Ethiopian banking industry. Based on the results shown in table 4.22, all bank marketing factors; independent variables except lending interest rate had statistically significant impact on nonperforming loans. Among the significant variables which had impact on NPLs, bank size was significant at 1% significance level since the p-value for the variable was 0.000. Whereas, variables like knowledge and experience, size loan, customer relationship management and unfair competition were significant at 5% significance level. Finally, communication was significant at 10% significance level (p-value=0.071).

Also, table 4.22 shows that the coefficient of bank size, loan size, and unfair competitions were positive as far as the coefficients for those variables are positive 0.921, 0.122 and 0.077 respectively. This revealed that there were direct relationship between the above three independent variables and dependent variable(nonperforming loans). Therefore, the increase of those variables had led it to increase in NPLs.

On the other hand, variables like knowledge and experience, customer relationship management, and communication had negative relationship with nonperforming loans as far as their respective coefficients were negative -0.040, -0.057, and -0.055. It indicates that there was an inverse relationship between the aforementioned three independent variables and nonperforming loans. Thus, the increase of those variables led to a decrease in nonperforming loans.

In general, as per the regression results provided in table 4.22 of the regressions used in this study six of them were significant. The researcher has discovered the degree of nonperformance loan can be determined by those identified independent variables as indicated in the understated regression model:

$$Y=B_0+B_1X_1+B_2X_2+B_3X_3+B_4X_4+B_5X_5+B_6X_6$$

Where Y= Nonperforming Loans

X1 = Bank Size, X2= Loan Size, X3= Unfair Competition, X4=knowledge and experience, X5=Communication and X6= Customer Relationship Management

Therefore, the regression equation model developed was:-

$$Y= 0.125+0.921X_1+0.122X_2+0.077X_3-0.040X_4-0.055X_5-0.057X_6$$

4.10 Hypotheses Testing

There were seven hypotheses constructed for this study to answer the research questions. Hence, regression analysis was used to test the effect/influence of the independent variable on the dependent one, the research selected as a good model for the analysis.

Table 4.23: Hypotheses Testing

Hypotheses	Result	Reason
HO: Bank size has an insignificant and negative effect on nonperformance loan. H1: Bank size has significant and positive effect on nonperformance loan	HO: Rejected H1: Accepted	$\beta=0.921, p<.05$
HO: Loan size has an insignificant and negative effect on nonperformance loan. H1: Loan size has significant and positive effect on nonperformance loan.	HO: Rejected H1: Accepted	$\beta=0.122, p<.05$
HO: Promotion/Communication has an insignificant and positive effect on nonperformance loan. H1: Promotion/Communication has significant and negative effect on nonperformance loan.	HO: Rejected H1: Accepted	$\beta=-0.055, p<.05$
HO: Lending interest rate has an insignificant and negative effect on nonperformance loan. H1: Lending interest rate has significant and positive effect on nonperformance loan.	HO: Accepted H1: Rejected	$\beta=0.071, p>0.05$
HO: Credit employees' knowledge and experience in credit processing has an insignificant and positive effect on nonperformance loan. H1: Credit employees' knowledge and experience in credit processing has significant and negative effect on nonperformance loan.	HO: Rejected H1: Accepted	$\beta=-0.040, p<.05$
HO: Credit RCM has an insignificant and positive effect on nonperformance loan. H1: Credit RCM has significant and negative effect on nonperformance loan.	HO: Rejected H1: Accepted	$\beta=-0.057, p<.05$
HO: Unfair competition has an insignificant and negative effect on nonperformance loan. H1: Unfair competition has significant and positive effect on nonperformance loan	HO: Rejected H1: Accepted	$\beta=0.077, p<.05$

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

This is the final chapter and it presents the findings of the study, conclusion and recommendation of the study. Accordingly, the first section of the chapter described the finding of the study that presents a brief summary, and the conclusion drawn from it. Lastly, the followed section reveals the recommendation for the finding and highlights the direction for further studies.

5.1 Summary of Findings

The major findings of the study are summarized here under

- Majority of the respondents agreed on the five point scale that among the independent variables bank size, loan size, lending interest rate and unfair competition had positive impact on nonperforming loans while the remaining knowledge and experience, customer relationship managers and effective communication had negative impact on nonperforming loans.
- All bank marketing factor except lending interest rate and unfair competition, had positive and significant relationship with nonperforming loans.
- Among those who had relationship; bank size and knowledge and experience had exhibited strongly and positively correlated with nonperforming loans while loan size had weak and positive correlation.
- Customer relationship management and effective communication on the other hand moderately correlated but positively with nonperforming loans.
- All the constructs of bank marketing factors had significant impact on nonperforming loans except lending interest rate.
- Among bank marketing factors three of them namely: bank size, loan size and unfair competition had positive effect on nonperforming loans in Ethiopian banking industry. And again, bank size alone demonstrated highest influence on nonperforming loans while unfair competition showed lower influence on nonperforming loans in Ethiopian banking industry.

- Those of remaining bank marketing factors; knowledge and experience, customer relationship management and communication had exhibited negative influence on nonperforming loans. From these three factors having negative effect, customer relationship management was the highest significant negative influence on nonperforming loans in Ethiopian banking industry.

5.2 Conclusion

The main objective of this study was to examine the impact of bank marketing factors on nonperforming loans in Ethiopian banking industry based on the data obtained through structured questionnaires distributed to eight banks. Analyzing the collected data from 118 respondents of credit staffs of those eight different banks of the Ethiopian banking sector, the study concluded that the majority of the banks in the sample do believe that bank marketing factors had impact up on the nonperforming loan.

The study validate that, bank marketing factors had an effect on nonperforming loan. The Pearson correlation coefficient of the study signified that all independent variables and dependent variable had positive relationships with one another. As the whole, bank size and knowledge and experience of credit employees had strong relationship with nonperforming loans while communication and customer relationship management had moderate relationship with nonperforming loans. Contrary to this, loan size of the bank had week relationships with nonperforming loans. However, interest rate and unfair competition had no relationship with nonperformance loans.

Moreover, when bank marketing factors are linearly regressed, they had cause and effect relationship with nonperforming loans at statistically significant $p < 0.05$ with the exception of lending interest rate which had p - value > 0.05 .

The study concluded that having good knowledge and experience in credit assessment attributing to capacity adequacy of credit operators and institutional capacity building that also led set profession and practical terms and conditions that had been properly discussed with borrowers were the factor for nonperforming loans reduction in the industry. Moreover, as

understanding the interpretation and implications of the assessed data that were based on knowledge and practical experience by credit decision making organs helps to minimize the default rate probability.

In addition, the study also found out that due good credit communication and credit orientations channeled between borrowers and credit employees would help both parties to get deep knowledge in the credit areas. It also gave input to the borrowers in their proper utilization of the loans advanced for intended purpose and at a time it made regular loan repayment from their cash flow as per terms and condition of the banks.

Customer relationship management is considered to be essential for building long-term relationship establishment with customers in order to achieve mutual benefits of both parties. The finding supported the viewpoints that: customer relationship management can enhance the quality of the loan/ reduce the amount of nonperformance loan or reduce the probability that loan gets defaulted. One more, it is one of the vital strategies in the banking industry to make close follow up on loan utilization, cooperating and collaborating in business value chain for mutual benefit, proactively solving the problems aroused in the business. Integrity and trust which is the pillar of customer relationship management would also help loan quality enhancement of the banking industry.

In addition, despite the fact that enough knowledge and experience about five C's(character, capital, capacity, condition and collateral) of the customer in credit processing, applicable credit relationship management and good communication and consultancy to credit customer play significant role in ensuring loan collection failure. Again study revealed that to do that properly due to large bank size and loan size were also found to be the cause for default. In general, the research indicated that over financing or under financing due to rapid credit growth and aggressive lending over large geographical distribution of customer, which ends up with poor credit assessment, compromised integrity of credit operators were causes for active incidences of nonperforming loans.

The study also depicted that unfair competition among the banks on scarce resources along with the aggressive expansion of branches, customer discrimination and unnecessary product diversification which resulted in poor portfolio management, poor customer selection and which lead to price war among the banks were the reasons for the loan defaults.

On the other hand, the study did support the existing literature that state occurrences of nonperforming loan is influenced by banks' lending interest rate, but insignificantly since $p > 0.05$.

5.3 Recommendation

After close examination and analysis of the research findings, the following recommendations are suggested:

Banks should invest on human capital development that would encompasses training and development in capacitating credit employees who directly or indirectly participates on proper customer selection, vigorous credit analysis, genuine sanctioning process, proactive monitoring and follow up and clear recovery strategies for defaulted loan based on knowledge and practical experience. Moreover, banking industry works on developing the competency of credit staffs, information system management pertaining to credit and efficiency of the credit process that would reduce nonperformance of loans.

Banks should put in place the advising and consultancy services that can clearly show direction on credit areas to the customer based on clear policy framework that address issues of information and knowledge gaps on financing which leads to default.

Based on the study findings, banking industry should have customer relationship management practice and communication office in credit process due to the fact that customer relationship managers regularly works on solving the problem aroused, cooperate and collaborate in strategic and operational plans and activities, and develop integrity and trust with the customer which is again vital factor in nonperforming loan reduction and management.

Banks should follow a balanced approach of profit maximization and risk taking appetite when they engage in aggressive branch network expansion and lending and unhealthy competition that lead to selecting borrowers that would default.

I, as the practitioners of this research recommended that, other researchers on similar sector are also appreciated to conduct further detailed researches to their best for generalization.

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APPENDICES

Appendix A

Rotated Factor Matrix^a								
	Factor							
	1	2	3	4	5	6	7	8
Your Knowledge and experience about 'character' of credit customer in credit processing used to understand credit worthiness and honest of the customer	.947							
Your Knowledge and experience about 'capital' of credit customer in credit processing used to understand financial soundness and market standing.	.850							
Your Knowledge and experience about 'capacity' of credit customer in credit processing used to aware about the legal standing and management expertise	.745							
Your Knowledge and experience about 'condition' of credit customer in credit processing used to understand economic and industry specific env't	.672							
Your Knowledge and experience about 'collateral' of credit customer in credit processing used to understand secondary source of repayment	.466							
Providing needed information to credit customer help to have proper prudent lending		.758						
Good Credit Advice and Consultancy to credit customer help for good decision		.735						
Persuading credit customer on credit issues help to manage over and under financing problem		.732						
Encouraging credit customer to take action in their decision help to have good loan performance		.695						
Providing distinctive information to credit customer help to have trust worthiness in lending decision		.571						
Providing relevant information to credit customer used make quick fix decision in their business		.529						
Taking action based on feedback from credit customer is good to amicability relationship		.383						
Providing needed information to credit customer help to have proper prudent lending			1.019					
Good Credit Advice and Consultancy to credit customer help for good decision			.846					
Persuading credit customer on credit issues help to manage over and under financing problem			.619					
Encouraging credit customer to take action in their decision help to have good loan performance			.614					
Your credit market share is proportional to branch size				.905				
Your bank capital of determines your bank size				.847				
Your individual borrower limit determines your bank size				.762				
Your credit market share is proportional to branch				.523				

size								
Lending rate is main affected by saving rate					.963			
Lending interest rate is based on loan duration and loan type.					.873			
Lending interest is based on competitors lending price.					.548			
Loans' with high interest rate discourage re-negotiation of sick loans					.423			
Your credit market share is proportional to branch size						1.011		
Your bank capital of determines your bank size						.666		
Your individual borrower limit determines your bank size						.530		
There is Unfair expansion of branches and products to attract/retain selected credit customers to scarce resources in your bank							.895	
There is Unfair product diversification for competition in your bank							.655	
High interest rate , large bank size and large loan size of your bank are some of the reasons to increase your banks NPLS								.831
Your aggressive promotion and good relationship management with credit customer has impact in NPLs reduction								.801
Unfair competition among bank on scarce resource can be a reason for NPLs increment								.734

Extraction Method: Principal Axis Factoring.
Rotation Method: Varimax with Kaiser Normalization.
Rotation converged in 8 iterations.

Annex B

Coefficients ^a									
Model	Un standardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
(Constant)	.125	.296		.423	.673	-.462	.712		
Knowledge and Experience	-.055	.054	-.040	-1.012	.014	-.053	.162	.689	1.451
Communication/Promotion	-.095	.073	-.055	-1.304	.071	-.239	.049	.596	1.679
Loan Size	.125	.039	.122	3.233	.002	.048	.201	.745	1.341
Lending Interest Rate	.083	.043	.071	1.947	.541	.168	.001	.795	1.257
Customer Relationship	-.072	.051	-.057	1.417	.029	-.029	-.172	.650	1.538
Bank Size	1.005	.038	.921	26.441	.000	.930	1.081	.872	1.147
Unfair Competition	.095	.044	.077	2.162	.033	.181	.008	.826	1.210

a. Dependent Variable: PLS

Appendix C

Addis Ababa University

School of commerce

Dear Bank Official/ Respondents,

My name is **Thomas Fekadu Bekele** and I am currently conducting research for the component of Master's degree in Marketing Management at Addis Ababa University, School of Commerce.

This questionnaire on "**Impact of Bank Marketing factors on Nonperforming Loans: - Ethiopian Banking Industry**" is intended to be filled by the credit Directors/Managers/

Analysts/Relationship Managers/Appraisal Managers/Recovery Managers. The overall objective

of this questionnaire is to gather first-hand information on the aforementioned issue. You have

the rights not to answer the questions in full or in part; however, I kindly request you to respond

all questions given as they are not requiring any secret information. On Ethical part, I assure you

that the data will be exclusive kept confidential, anonymous and will be used only for the

intended research purposes. **I sincerely thank you so much for your kind support and**

cooperation!

For any further information please contact me with the following address:

Mobile:-+251 913012178

Email:- bfekadu11@gmail.com

Respondent's Profile (Please “✓” one) [Questions 1 to 6]

- 1) Gender: 1.1) Male 1.2) Female
- 2) Age : 2.1) Below 25 2.2) 25 to 35 2.3) 35 to 45
2.4) Above 45
- 3) Position in credit Dept: 3.1) Loan Officer 3.2) Relationship manager
3.3) Credit analyst 3.4) Recovery/ monitoring officer
3.5) Credit Director 3.6) Dept Manager
3.7) Division Head
- 4) Total Experience in credit Dept: 4.1) Below 4 4.2) 4 to 10
4.3) 10 to 15 4.4) Above 15
- 5) Bank ownership type you working for: 5.1) Government owned Bank
5.2) Private owned Bank
- 6) What is your educational back ground?: 6.1 Diploma 6.2 Bachelor Degree
6.3 Master's Degree and above
- 7) Please mark “1” if the following factors have positive impact on NPLs “2” if they have negative impact on nonperforming loans and” 3” if they have no impact.

Bank marketing Factor	Impact
Large Bank Size	
High lending Interest rate	
Large Loan Size	
Good Credit Relationship management	
Aggressive promotion /Communication	
High banks competition on scarce resources	
Good Employees knowledge and Experience on 5c's in credit processing	

Please indicate your degree of agreement or disagreement to the statements concerning importance of your knowledge and experiences in credit processing.

	Strongly agree(5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree(1)
8) Your Knowledge and experience about ‘character’ of credit customer in credit processing used to understand credit worthiness and honest of the customer					
9) Your Knowledge and experience about ‘capital’ of credit customer in credit processing used to understand financial soundness and market standing.					
10) Your Knowledge and experience about ‘capacity’ of credit customer in credit processing used to aware about the legal standing and management expertise					

11) Your Knowledge and experience about 'condition' of credit customer in credit processing used to understand economic and industry specific env't					
12) Your Knowledge and experience about 'collateral' of credit customer in credit processing used to understand secondary source of repayment					

Please indicate your degree of agreement or disagreement to the statements concerning communication in credit area.

	Strongly agree(5)	Agree (4)	Neutral (3)	Disagree(2)	Strongly Disagree(1)
13) Providing needed information to credit customer help to have prudent lending					
14) Good Credit Advice and Consultancy to credit customer help for good decision					
15) Persuading credit customer on credit issues help to manage over and under financing problem					
16) Encouraging credit customer to take action in their decision help to have good loan performance					
17) Providing distinctive information to credit customer help to have trust worthiness in lending decision					
18) Providing relevant information to credit customer used make quick fix decision in their business					
19) Taking action based on feedback from credit customer is good to amicability relationship					

Please indicate your degree of agreement or disagreement to the statements concerning loan size

	Strongly agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
20) Having large number of borrowers affects loan size and is one of the reason for week follow up					
21) Rapid credit growth is main reason in having large loan size and week portfolio management					
22) Aggressive lending is one of the reason to have large loan size and take unnecessary risk					
23) High risk appetite distorted asset quality of the bank					

24) Desire to max. profit is one of the reason to have large loan size					
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Please indicate your degree of agreement or disagreement to the statement concerning to lending interest rate.

	Strongly agree(5)	Agree (4)	Neutral (3)	Disagree(2)	Strongly Disagree(1)
25) Lending rate is main affected by saving rate					
26) Lending interest rate is based on loan duration and loan type.					
27) Lending interest is based on competitors lending price.					
28) Loans' with high interest rate discourage re-negotiation of sick loans					

Please indicate your degree of agreement or disagreement to the statements concerning Customer relationship management.

	Strongly agree(5)	Agree (4)	Neutral (3)	Disagree(2)	Strongly Disagree(1)
29) Your bank has Organizational commitment to serve the credit customer					
30) Your bank have proactive problem Solving with your credit customers					
31) You have good cooperation and collaboration with customers request in their credit area					
32) Your always deliver consistent, standard and reliable service to your credit customers					
33) You have integrity and Trust to the customers whom you serve in your work area					

Please indicate your degree of agreement or disagreement to the statements concerning bank size.

	Strongly agree(5)	Agree (4)	Neutral (3)	Disagree(2)	Strongly Disagree(1)
34) You have Large number of branch all over the country					
35) Your credit market share is proportional to branch size					
36) Your bank capital of determines your bank size					
37) Your individual borrower limit determines your bank size					

Please indicate your degree of agreement or disagreement to the statements concerning unfair banking competition.

	Strongly agree(5)	Agree (4)	Neutral (3)	Disagree(2)	Strongly Disagree(1)
38) There is Unfair expansion of branches and products to attract/retain selected credit customers to scarce resources in your bank					
39) There is Unfair product diversification for competition in your bank					

Please indicate your degree of agreement or disagreement to the statements concerning the overall effect of bank marketing factor on NPLs in your bank.

	Strongly agree(5)	Agree (4)	Neutral (3)	Disagree(2)	Strongly Disagree(1)
40) Your good knowledge and experience is one of the factor for your banks in NPLs reduction					
41) High interest rate , large bank size and large loan size of your bank are some of the reasons to increase your banks NPLS					
42) Your aggressive promotion and good relationship management with credit customer has impact in NPLs reduction					
43) Unfair competition among bank on scarce resource can be a reason for NPLs increment					

44) If you have further comments on the bank marketing impact on nonperforming loans of Ethiopian Banks please use the space below.

End of the questionnaire

Thank you very much!!