

The Hire Purchase Business, Is It a Win-Win Situation

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Abstract

Hire purchase is a system by which a buyer pays for a thing in regular installments while enjoying the use of it. During the repayment period of ownership for the item does not pass to the buyer. Upon the full payment of the hire purchase facility, the title passes to the buyer. Hire purchases can accelerate the pace of growth and development. First, the increase in spending has the effect of increasing the multiplier effect on income in addition to encouraging aggregate investment. Increased income raises the level of expenditure further thus setting in motion a virtuous cycle of growth in consumption, investment, income, and development. Hire purchase also helps to sustain growth by making it possible for client to resist the downward adjustment of their consumption during a fall of their income. This paper discusses the contribution of Hire purchase to the organization and the client looking at the pros and cons to discern whether it is a win-win situation for the hire purchase companies, the client and economic growth. The study makes conclusion on the effect of hire purchase on the client and recommends possible actions to make it a win-win situation. The study used ANOVAs and regression analysis both simple and multiple to study the effect of independent variables on the dependent variable.

Background of the study

Hire purchase is a legal term for a contract, in which persons usually agree to pay for goods in parts or a percentage at a time.(Adera, A. 1995) In cases where a buyer cannot afford to pay the asked price for an item of property as a lump sum but can afford to pay a percentage as a deposit, a hire-purchase contract allows the buyer to hire the goods for a monthly rent, When a sum equal to the original full price plus interest has been paid in equal installments, the buyer may then exercise an option to buy the goods at a predetermined price usually a nominal sum or return the goods to the owner(Adera, A. 1995).

Atieno, R. (2001) Observes that Hire Purchase is frequently advantageous to clients because it spreads the cost of expensive items over an extended time period. If the seller has the resources and the legal right to sell the goods on hire purchase which usually depends on a licensing system in most countries, the seller and the owner will be the same person. But most sellers prefer to receive a cash payment immediately. To achieve this, the seller transfers ownership of the goods to a Finance Company, usually at a discounted price, and it is this company that hires and sells the goods to the buyer. (Crick, W.F. 2001) indicates that the introduction of a third party complicates the transaction when the seller makes false claims as to the quality and reliability of the goods that induce the buyer to "buy". In a conventional contract of sale, the seller will be liable to the buyer if these representations prove false. But, in this instance, the seller who makes the representation is not the owner who sells the goods to the buyer only after all the installments have been paid.

Beder, S. (2009) indicates that the acquisition of assets particularly expensive capital equipment is a major commitment for many people the acquisition is funding requires careful planning, Rather than pay for the asset outright using cash, it can often make sense for individuals to look for ways of spreading the cost of acquiring an asset, to coincide with the timing of the income generated by the individuals. The most common sources of medium term finance for investment in capital assets are Hire Purchase. (Brown, S. Granno et al. 2005) Africa is embracing the use of hire purchase service for the purchase of goods and services. Advances in technology and the development of smart cards have facilitated the diffusion of modern hire purchase facilities usage globally.

In Kenya the availability of hire purchase facilities and other forms of hire purchase is changing purchase and individual's behaviour, as buyers' purchase and consumption of goods and services are no longer constrained, at least in the short run, by current income, Buyers may also indulge themselves by buying what they ordinarily could not afford (Aryeetey et al. 1997)

Proponents of hire purchase regulation have argued that the 'playing field' in hire purchase markets is not level, but skewed in favour of hire purchase retailers. (Einzig, P. 2004) In particular, it is argued that hire purchase retailers have over the decades exploited the information asymmetry prevalent in hire purchase markets. In this regard that regulatory intervention has been advocated. Many governments have heeded the advice by instituting hire purchase regulations and other legal instruments which oblige lenders to disclose specified minimum hire purchase information to customers prior to their committing themselves to a hire purchase contract. Generally, these laws compel lenders to disclose information on the annual percentage rate of finance charges, declare calculations on interest charges, the amount of repayments, other fees and charges, and other non-price information details (Lee and Hogarth, 1999; Malbon, 2001).

Hire purchase companies strives to create transparency in the operations of purchasing matters relating to facility availability, price and purchasing terms and conditions, thereby arming the client with information that would enable them make informed decisions (Berlin and Mester, 2004; Braucher, 2004; Brown *et al.*, 2005; DeMong and Lindgren, 1999). With client choosing competitively, the market competitiveness improves, customer exploitation is curtailed and hire purchase markets improve on their efficiencies (Malbon, 2001). The degree of success that has been achieved by these interventions remains a subject for debate.

Statement of the Problem

Hire purchase has restriction for specific purposes and application procedure to their customers (Uviegharni, E 1996). The purpose of hire purchase procedures and restrictions is to mitigate the risk of customers default (Aryeetey, E & Udry, C. 1997). Default can result in collapse of hire purchase institutions as well as failure in the hire purchase sector and so giving hire purchase facilities to the purchasers, coupled with taking necessary measures to reduce hire purchase facility repayment default while at the same time advancing hire purchase items in a fair and undiscriminating manner so as to continue offering service to their customers. Weak hire purchase management is a primary cause of process failures Einzig, P *et al.*, (2004) carried out a study of Hire purchase institutions that failed in the mid 1980s in the U.S.A and found out that the consistent element in their failures was the inadequacy of the hire purchase management system for controlling the facility quality which led to their sale.

Studies on hire purchase institution performance have addressed the performance and efficiency of the hire purchase institutions from production and cost function approaches. The emphasis has been the impact of hire purchase management practices on their performance. Wanjiru (2000) undertook a study to determine factors that influence productivity of hire purchase officers in hire purchase institutions. Kitaka (2001) carried out a survey on the use of hire purchase performance indicators by micro finance institutions in Kenya. Mokogi (2003) studied the economic implications of hire purchase by micro finance institutions on medium and small enterprise MSEs), while Atieno (2001) assessed the access of hire purchase to small scale enterprises. It is quite clear from the foregoing that very little research studies have been done on factors affecting hire purchase allocation, yet it is through improved hire purchase procedure and systems that the potential customers would be increased, the hire purchase facility portfolio will enlarge and they would meet their ultimate goal of stimulating growth and performance in the economy. This study therefore undertakes to carry out and research to find out whether it is a win-win situation for the customer and the hire purchase institutions.

Literature Review

Effect of hire purchase standards on the customers

Hire purchase standards are the criteria which a firm follows in selecting customers for the purpose of facility allocation. The management of hire purchase essentially begins with the decision whether to grant a customer hire purchase facility and if so on what terms (Baek, E & Hong, G, 2004). The hire purchase institutions policies have a significant influence on the total hire purchase facility to be granted (Cox, R. 1997). In theory the firm should follow its quality standard for accounts accepted as long as the probability of hire purchase facility repayments exceeds the cost of granting hire purchase facilities and collecting payments.

According to Brown, S. Ganno et al, (2005) relaxing hire purchase standards has a cost in that while new clients are attracted because of relaxed hire purchase standards, collecting from these customers is likely to be slower than collecting from existing customers. In addition a more relaxed extension of hire purchase repayment period may cause certain existing customers to be less conscientious in paying their payments on time.

On the other hand a firm may have a tight hire purchase standard and may extend hire purchase only to the most reliable and hire purchase strong customers. According to Diemont, M & Aronstam, P.S. (1999) such standards will result in no bad debt losses and less cost of hire purchase administration. However such a policy may deny the company the required growth. The profit sacrificed on the hire purchase denied may be more than the cost saved by the firm and the hire purchase institution will have failed in its ultimate goal of granting hire purchase to stimulate economic growth. Thus, the choice of an optimal hire purchase standard involves a trade off between the incremental returns and incremental costs. There are two aspects of the quality of the hire purchase institution customers: the time taken by the client to pay and the default rate. The average collection period determines the speed of payment by clients while the default rate can be measured in terms of bad debt losses to total hire purchase facility granted. The bad debt losses ratio indicates the default risk. Default risk is the likelihood that a customer will fail to pay the hire purchase repayment obligation (Harberler, G. 2004).

Normally a customer must meet certain minimum standards in terms of hire purchase stability, before granting of hire purchase items. If the hire purchase institution's standards are set too high then sales and profit will be lost. According to Lee, J. & Horgath J.M. (1999), hire purchase standards have a direct effect on the level of investment in debtors overall. He notes that, relaxation of hire purchase standards will allow debtors balances to increase as customers who would have been previously rejected are now granted hire purchase. A common approach in assessing whether the customer meets the basic standard requirements for granting hire purchase facility include an assessment of Capacity, Capital, Character or Integrity, Collateral and economic conditions. Capacity is an assessment of the potential customer's ability to repay the debt. The assessment would include a hire purchase analysis of the customer's account with particular emphasis on liquidity and borrowings.

Information is also likely to be sought from sources such as hire purchase institutions and other suppliers including credit reference bureaus relating to the customers payment record elsewhere. An assessment of the capital resource and structure will give information to support the customer's ability to generate cash flows. The capital is a major element of the balance sheet as a collateral back up, and a measure of the extent to which the customer is prepared to take risk and also the level of commitment on the project. Character relates to an assessment of the honesty and integrity of the customer and his willingness to comply with hire purchase terms and conditions. Character references may be sought from hire purchase institution individual's contacts, Litigation bodies, HPI, MFI and associates where the customer has had dealings in the past. The customer should be made aware that information touching on his personal integrity may be sought from other sources. Collateral relates to an evaluation of the assets which the customer is willing to provide as security for the hire purchase facility required (Malbon, 2001)

Effect of Hire purchase Terms on facility Allocation

According to Uviegharni (1996) this is the period hire purchase institutions allow a customer before payment becomes due which may be short term or long term, depending on the type of hire purchase facility secured. Hire purchase term may also include any discount terms which may be offered as an incentive for prompt payment to reduce the risk of non-payment or grace period before starting the repayment. Under hire purchase terms the customer should be made aware about all the conditions of the hire purchase. For instance what penalty is charged to a customer who would wish to repay his hire purchase earlier than was anticipated. The condition of the interest rates, whether variable or fixed should also be made clear.(Ison, Terence, G.2005) the possibility of caps and floor as well as swap contracts should be specified. With a hire purchase agreement, after all the payments have been made, the individual's customer becomes the owner of the equipment. This ownership transfer either automatically or on payment of an option to purchase fee. For tax purposes, from the beginning of the agreement the individual's customer is treated as the owner of the equipment and so can claim capital allowances. Capital allowances can be a significant tax incentive for individuals to invest in new plant and machinery or to upgrade information systems. Under a hire purchase agreement, the individual's customer is normally responsible for maintenance of the equipment (Uviegharni, 1996).

This is not surprising because it is an indication of how the hire purchase individuals, once a hugely popular mode of payment in Kenya, have lost its luster. At its peak between the 1970s and 1990s, hire purchase was a favorite mode of buying household goods, electronic assets like radios, TVs and fridges, utensils and furniture. (Diemont, M. A. Aronstan, P.S. 1999) Demand and competition was so intense such that dealers invoked various marketing strategies, the most popular being Kenya Broadcasting Corporation radio programme, Sanyo Juu Sanyo Tops by veteran broadcaster Fred Obachi Machoka.

The removal of foreign exchange controls opened the floodgates for electronic items coming into Kenya heralding a major challenge to the hire purchase industry," Mr Ernest Wangai, the managing director of Kenya Hire purchase Traders (KCT), one of the hire purchase firms in the country, indicated that Besides KCT, other household names in the hire purchase individuals, include Africa Retail Traders (ART), indeed the oldest and Amedo Centres Kenya Ltd, the franchise holder for Singer Sewing and Singer knitting machines in Kenya. KCT managing director said scrapping of the requirement that one must get a licence from the Kenya Broadcasting Corporation to own a TV set or radio also changed the playing surface for hire purchase dealers overnight. Acquiring and, therefore, possession of, especially television sets and radios was no longer in the hands of a select few (Malbon, 2001).

Atieno, A. (2001) Research, however, reads from a different script." The decline of hire purchase came as a result of increased access to hire purchase services especially personal hire purchase facility, from either hire purchase institutions or savings and hire purchase cooperative societies (Saccos) to most Kenyans the increased accessibility especially by teachers who formed the bulk of hire purchase clients, found it easier to take hire purchase facility whose proceeds they could then use to purchase the items they needed. Lack of independence in the system in form of guarantors etc, which hire purchase institutions and Saccos offer, saw a majority of the customers fall out with the former(Atieno, A. 2001) This is understandable. Besides the final cost of the item being by far higher than its actual price, the hire purchase process is cumbersome since it needs things like a guarantor and letters from the employer. For instance, if one pays cash, a 32-inch good quality LCD television set costs about Sh44,820. Acquiring it through ordinary hire purchase, one has to pay a deposit of Sh6,860 and subsequent monthly installments of Sh3,090, for a period spread over 20 months. By the end of the repayment period, a hirer with a guarantor, as it is the requirement with most hire purchase dealers, would have paid an additional Sh23,440, 52 per cent more than the cash price(Atieno, 2001)

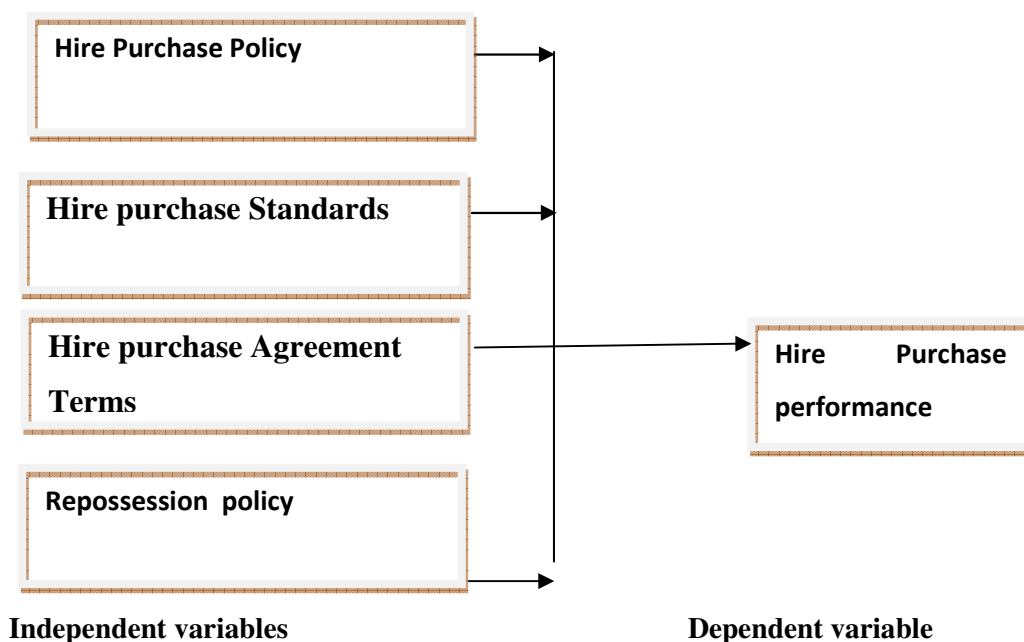
If a customer is employed, especially as a civil servant, he or she can opt for the check-off hire purchase system where he or she has to, among others, provide a letter of approval from the employer. Alternatively, if a customer is employed and is a member of a Sacco, he or she can take a hire purchase facility to buy the item while repaying the hire purchase facility. As an individuals model, hire purchase system has inherent challenges. (Mokogi, J.G. 2003) A report, Introduction of a Payroll Deduction Management Service, revealed in July last year that some civil servants took up hire purchase facility and hire purchase schemes that consumed all their salaries. This is beyond the two thirds (of salaries) allowed by the government to cater for their other needs. In a bid to address the challenge, the government signed an agreement with Payment Solutions Kenya late last year to enable hire purchase operators to access the hire purchase history of civil servants before a transaction is made. The Union of Kenya Civil Servants has, however, called upon authorities to cancel the deal. The system, if affected, will develop and run the payroll management service to validate all payroll data with a view to verifying employees' hire purchase status before they get hire purchase facility from hire purchase institutions , microfinance institutions and hire purchase organizations(Mokogi, J.G. 2003)

Hire-purchase system is a special system of purchase and sale of goods. Under this system purchaser pays the price of the goods in installments. The installments may be annual, six monthly, quarterly, monthly fortnightly etc. Under this system the goods are delivered to the purchaser at the time of agreement before the payment of installments but the title on the goods is transferred after the payment of all installments as per the hire-purchase agreement. The special feature of a hire-purchase transaction is that the payment of every installment is treated as the payment of hire charges by the purchaser to the hire vendor till the payment of the last installment.(Crick, W.F, 2001) After the payment of the last installment, the amount of various installments paid is appropriated towards the payment of the price of the goods sold and the ownership or the goods is transferred to the purchaser.

The characteristics of Hire purchase Agreement

Versey, M. (2005) states that the characteristics of hire-purchase system include a Hire-purchase agreement; a contract between the hire purchase vendor and the hire purchaser regarding the sale of goods under certain conditions. Usually every hire-purchase agreement shall contain the following terms: the price at which goods may be purchased against cash payment. The hire purchase price means the total amount which is payable by the hire-purchaser under the agreement. (Berlin, M. & Mester. L.G. 2004) the date on which the hire-purchase agreement will commence. The description of the goods that will be delivered to the hire-purchaser at the commencement of the agreement. The number of installments to be paid by the hire-purchaser along with the amount of each installment and the date of payment of each installment. The down payment if any, the down payment means the amount which is required to be paid by hire-purchaser to the hire vendor at the time of commencement of hire-purchase agreement. The rate interest charged by the hire vendor/optional (Versey, M. 2005)

Figure 2.4 Conceptual Framework diagram



Source: Researcher Own Conceptualization (2012)

Research Methodology

This section outlines the methods that were used in conducting the research study. The study design and population has been described in each respective section including the sample and sampling procedure and the instruments and procedures that were used in data collection.

Research Design

The research design used for this study was descriptive survey. Quantitative data was used to measure the strengths of the relationships between the independent variables and the dependent variables. While descriptive survey was used to obtain the perceptions of the subjects by administering a questionnaire to a sample of the population to save time, cost and avoid biasness.

Target Population

Mugenda & Mugenda (1999) define population as a complete set of individuals, cases or objects with some common observable characteristics. The population of this study comprises of selected hire purchase institutions in Kenya.

Table The target population

Population Characteristic	Frequency (Managers)
Electronic Companies	460
Furniture Companies	20
Household Companies	20
Total	500

Source: Researcher (2012)

Sample size

According to Mugenda & Mugenda (1999) purposive sampling allows the study to use cases that have the required information with respect to objectives of the study. The purposive sampling technique was employed to obtain a representative sample. From the above population of 500, a sample of 20% was obtained using stratified random sampling as indicated in table the below. The sample of 20% is considered representative because it is at least 10 % of the population of interest. Stratified Random Sampling is normally used when population of interest is not homogeneous and in this case the target was the managers and top management of the population directly involved in hire purchase allocation.

Table Sample selection

Population Characteristic	Target Population (Managers)	Sample Ratio	Sample Size
Electronic companies	460	0.2	92
Furniture companies	20	0.2	4
Household companies	20	0.2	4
Total	500		100

Source: Researcher (2012)

Data Collection Methods

The study used only primary data. Primary data was obtained through self-administered questionnaires with closed and open-ended questions. The closed ended questions enabled the research study to collect quantitative data while open-ended questions were used to enable the research study to collect qualitative data.

Data Analysis and presentation of results

The collected data was thoroughly examined and checked for completeness and comprehensibility. Primary data was collected using questionnaires which were administered using drop and pick method. The data was then summarized, coded, tabulated and analyzed using both descriptive and inferential statistics. Descriptive statistics included those of the mean, standard deviation and frequency distribution while inferential statistics involved use of correlations and multivariate regression analysis. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency tables. This ensured that the gathered information was clearly understood. SPSS was used to perform the analysis as it aided in organizing and summarizing the data by the use of descriptive statistics such as tables. The study used ANOVAs and regression analysis both simple and multiple to study the effect of independent variables on the dependent variable.

Linear Regression model

The study attempted to estimate and predict the population mean or average value of the dependent variable in terms of the independent variables so as to determine their relationship. The applicable regression model that was used was of the generic:-

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \pi$$

Where Y is the dependent variable, Hire purchase institutions and X1-4 are the independent variables.

β = Regression coefficient

- β_0 is the Intercept, the value of Y when X values are zero.
 X_1 = Hire Purchase policy variable
 X_2 = Hire purchase Standard variable
 X_3 = Hire purchase Terms variable
 X_4 = Repossession Policy variable
 π = Error term normally distributed about the mean of zero

3.5 Reliability and Validity Assurance

Participant errors were minimal because the respondents possessed the relevant information, understand their role as respondents or interviewees and were given adequate attention to cooperate. Response-based errors are outside the control of this research; however, there were no questionnaire response errors because the target respondents had the relevant skill, knowledge and ability to answer the questions. SPSS was used to obtain Cronbach's alpha to test the reliability of the data. Cronbach's alpha is a reliability coefficient that indicates how the items in a set are positively correlated. The closer the reliability coefficient is to 1, the higher the internal consistency reliability. In general terms a cronbach alpha of 0.8 is good, 0.7 is an acceptable range while if it is 0.6 and below, is poor. From the table, the study's Cronbach alpha is 0.701 and therefore acceptable since it lies within the acceptable range.

Data Analysis, Interpretation and Presentation

4.1 Response Rate

A total of 100 respondents comprising of 8 top managers of Hire purchase institutions , 54 hire purchase customers, 20 staff who are members of hire purchase approval committee, 8 Branch coordinators , 4 Branch Managers, 6 credit officers were given questionnaires. Out of this, 91 responded representing a response rate of 91%.

Table 4.1: Questionnaire Response

Category	Sample Size	Responses	Percentage
Top Hire purchase institution Manager	10	10	100
Hire purchase customers	54	50	93
Staff Members of hire purchase approval committee	20	15	75
Branch coordinators	8	6	75
Branch Managers	4	4	100
Credit officers	4	4	100
Total	100	91	

Source: Researcher, 2012.

The study established that the overall reliability of the questionnaires for top Hire purchase institution Managers was $\alpha = 0.694$, which means that the test was 69% reliable. The reliability test for hire purchase customers, $\alpha = 0.923$, meaning 92% reliable, hire purchase approval committee members had reliability $\alpha = 0.84$, meaning 84% reliable while Branch coordinators and others registered reliability α of 72% and 70% respectively. This shows that the value for all the instruments is greater than 0.5 and therefore represent high reliability.

Table 4.2 Reliability statistics.

Category	Cronbach's Alpha	Number of Items
Top Managers	0.694	5
Hire purchase customers	0.923	5
Hire purchase Approval Committee	0.841	5
Branch coordinators	0.723	5
Others	0.701	5

Source: Researcher, (2012)

4.1.2 Years of experience in the Hire purchase institutions

The study sought to establish the experience in years for the staff members dealing with matters of hire purchase facility allocation. The results are shown in figure 4.3 below.

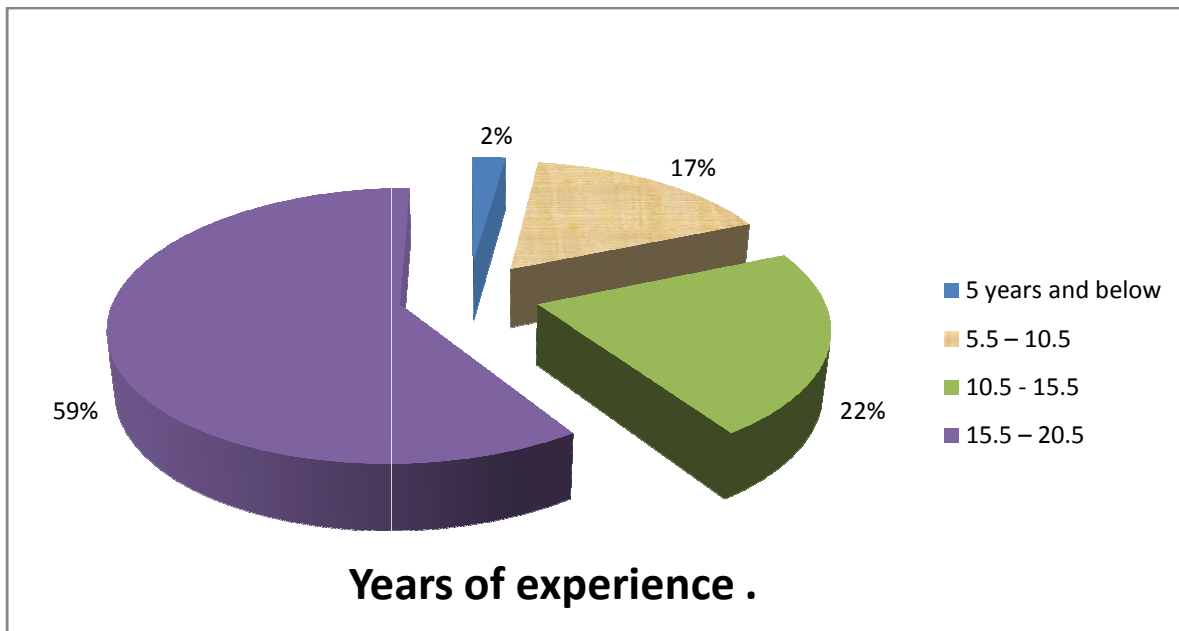


Figure 4.6 – Respondent years of experience

The study shows majority respondents have experience ranging from 5 – 20 years, with the respondents having 16-20 years representing 59% and those with experience ranging between 10-15 year, constituting about 35%. Overall, the staffs involved in hire purchase allocation have a wealth of experience which is necessary for the appraisal of hire purchase facility in line with the motto know your clients well and spur hire purchase allocation.

4.2 Effect of Hire Purchase Policy on Hire purchase facility Allocation.

In this section the study sought to establish the effects of hire purchase policy on hire purchase facility allocation. The findings of the study are presented in table below.

4.2.1 The Hire purchase Committee.

The respondents were asked to indicate whether Hire purchase Committee was involved in matters of hire purchase allocation. The outcome of the study is as shown in the table 4.4 below.

Table 4.4 – Hire Purchase Policy Respondents

Category	Frequency	Percentage
Strongly agree	73	80
Agree	14	15.4
Neutral	4	4.6
Others	0	0
Total	91	100

Source: Researcher, 2012

The results show that 80% of the respondents strongly agree to the involvement of Board of Hire purchase committee with 15% saying they agree and only 4% saying they are neutral. There was no respondent who indicated non involvement of a hire purchase committee in allocation of hire purchase.

The respondents were also asked if the company observed the limit for the total hire purchase facility, and if there was efficiency on hire purchase facility portfolio. The result from the study indicated that there was no restriction on total hire purchase facility limit. However most of the respondents indicated that the hire purchase facility portfolio was skewed and commercial hire purchase facility with these two types of hire purchase facility constituting 80% of the commercial Hire purchase institutions Total hire purchase facility portfolio. 20% of the respondents indicated that there was deliberate effort from hire purchase institutions to popularize the other type of hire purchase facility with a view to diversifying their hire purchase facility portfolio.

4.3 Effect of Hire purchase Standard on Facility allocation

The study's finding was that hire purchase statements, character, capacity, and Hire purchase institution hire purchase reference reporting are the most important factors considered on hire purchase allocation with 80% of the respondents alluding to the use of these factors. Also, 10% of the respondents have indicated that hire purchase statements and collaterals are mainly used when considering corporate hire purchase facility with the remaining 10% indicating that they are neutral meaning such factors may not be used in hire purchase allocation. The respondents 10% agreed that all hire purchase policies aim at maximizing income to the company hence the need for periodic review of such policies. Asked about the level of defaulters in relation to hire purchase standard, 75% of the respondents indicated that there are generally few defaulters in the Hire purchase institution sector save for hire purchase facility received through fraud.

4.4 Effect of Hire purchase Terms on Hire purchase Allocation.

The respondents were asked to indicate the effect of hire purchase terms on hire purchase facility allocation. The study's finding was as follows: Of the total respondents, 90% indicated that they strongly agree that Hire purchase institutions strictly observe hire purchase terms with 10% indicating that they are neutral. However these latter groups were quick to add that hire purchase terms are only strictly followed in cases of performing hire purchase facility but for non performing hire purchase facility other terms must be agreed upon so as to ensure collection. For instance a case in point was quoted where a customer had taken a 5 year personal unsecured hire purchase facility repayable at Kshs.32, 500 per month. The customer lost the job at just after two years and the hire purchase institution rescheduled the hire purchase facility to be paid at the rate of Ksh.12, 500 per month at the request of the customer. This finding was important to this study.

The respondents were also asked to state their view with regard to risk management policy. The result of the study was that 90% of the respondents strongly agree that risk management policy always serves its purpose adding that hire purchase institutions are very keen in their risk management policy and that staff is well trained to handle the risk management aspect of hire purchase. However 10% of the respondents were neutral.

4.5 Effects of Hire Purchase Policy on repossession of the facility

The respondents were asked to state their view with regard to the Hire purchase institutions policy on repossession of the facility. The study found that about 72% of Hire Purchase institutions indicated that they strongly agree are efficient in collecting due debts. This group indicated that hire purchase institutions have self serving system of collecting due debts and all such debts will be collected provided that the hire purchase facility are performing. However, 25% of these respondents indicated that they agree (4) that institutions are efficient in their debt collection. This in effect means that 97% of the respondent allude to efficiency in collecting due debt with only 3% indicating that they are neutral.

When asked as to whether there are systematic written down steps in handling the defaulting customers, the respondents were 100% in agreement. The respondents were also asked whether the institution often take defaulting customers to court. The study found out that Hire purchase institutions take customers to court just as a last resort and again in rare cases save for corporate clients. Of the responded 63% had indicated strongly disagree, 18% disagree, 15% indicated neutral while 4% agreed to taking customers to court.

The respondents were also asked whether clients are encouraged to reconcile their statements with the institution and the result showed 5% disagreed, 25% of the respondents were neutral, 30% agreed and 40% strongly agreed. These finding indicate that the Hire purchase institutions would like their clients to reconcile their statements with the institutions.

However some respondents added that there was lukewarm willingness on the part of Hire purchase institutions. Some respondents said that hire purchase institutions do include declaration in statements sent to clients that the statement sent is considered valid if the clients does not complain within a specified period from the date of the statement.

The respondents were also asked to indicate whether they analyze outstanding hire purchase to total deposits and the result was unanimous. All respondents indicated they strongly agree that such analysis is always done and is computer generated. The result also indicated that there is an increasing proportion for the total hire purchase to total deposits with hire purchase institutions registering an average of 60% total hire purchase to total deposits.

4.7.2 The Correlation Analysis

The study also investigated the correction between the independent variables individually with the dependent variable. The purpose was to determine whether regression analysis is suitable. The result of study shows all the four independent variables had strong linear correlation with the dependent variable.

The variables under the study are:

Y – Dependent variable - hire purchase facility allocation.

Independent variables:

X₁ – Hire Purchase policy

X₂ – Hire purchase standard

X₃ – Hire purchase terms

X₄ – Repossession policy

The study ran multi regression and correlation analysis for the four independent variables against the dependent variable Y. The results show that there is a positive correlation between the independent variables and the dependent variable where the hire Purchase policy and repossession policy are the most significant with correlation values of 0.86 and 0.72 respectively. However, in order to safeguard the finding of the multiple regressions, we opted to analyze the correlation between the individual independent variables individually. The result of the study indicated that there was very low almost, negligible correlation amongst the independent variables, all below 0.25. As a result, the fear of inter correlation between the independent variables does not arise and multiply regression was carried out. The results also indicate that hire purchase standard policy variable X₂, and Hire purchase term policy variable X₃ significantly affect hire purchase allocation at 0.01, 0.05 and 0.1 confidence levels. The combined multi regression and correlation analysis is given in table 4.7 below:-

Table 4.7 Correlation Matrix

	X1	X2	X3	X4
X1	1.0			
X2	0.21**	1.0		
X3	0.19*	0.11	1.0	
X4	0.15	0.13	0.14	1.0
Y	0.86	0.53	0.61	0.72

Source: Researcher, 2012

** Significant at 0.01; 0.05; 0.1 confidence levels.

4.7.2 Regression Analysis

The ordinary least square regression was used to determine the factors (predictor variables) affecting hire purchase facility allocation. The results are shown in table 4.8 below:-

Table 4.8: Model Summary – Coefficients of Determination and Correlation coefficient

Model	R	R square	Adjusted R Square	Std error of Estimate
I	0.774	0.60	0.559	10.023

The result of the study show that the value of R squared is 0.600. This means that independent variables investigated in the study namely hire purchase policy, hire purchase standard.

Hire purchase terms and repossession policy account for or explain 60% of the dependent variable, hire purchase allocation.

The regression equation appears useful for making predictions in hire purchase facility allocation since R squared of 60% is considered significant.

The study shows that hire purchase facility allocation is significantly affected by the four independent variables investigated and that all the four independent variables are positively correlated with the dependent variable under the study.

The regression coefficients are both individually and jointly statistically significant. From the values of the coefficients, we conclude that the independent variables hire purchase standard policy affect hire purchase allocation significantly, ($\beta=2.740$; p-value =0.0183); followed by hire purchase terms ($\beta=2.012$; p-value=0.0052), then hire purchase repossession policy ($\beta=0.772$; p-value=0.0299) a hire purchase policy ($\beta=0.302$; p-value=0.0011) in that order as shown in table 4.9 below.

Table 4.9: Results of Multiple Regression Analysis.

Model	Independent Variable	Coefficients Beta values	Std error (π)	t-value	Significant p-value
I	Constant	4.391	0.386	11.376	0.0000
	Hire purchase policy	0.302	0.074	4.081	0.0011
	Hire purchase standard	0.740	1.026	2.671	0.0183
	Hire purchase terms	0.012	0.610	3.298	0.0052
	Repossession policy	0.772	0.320	2.413	0.0299

The multiple Regression results also show that each of the four independent variables has a significant beta value. This is evidenced by the relevant t-values coupled with the p-values for each independent variable being less than 0.05, thereby indicating the significance level for each independent variable. The coefficients of the regression line were:-

$$Y = 4.391 + 0.302X_1 + 0.740X_2 + 0.012X_3 + 0.772X_4$$

Summary of Findings, Conclusions and Recommendations

5.2 Summary of Findings

The study aimed at establishing the effect of hire purchase policy on facility allocation. The objective was addressed by the null hypothesis .The study established that hire purchase collection policy is the third most important factor affecting hire purchase allocation with a mean score of 3.846 only after to hire purchase policy with a mean score of 4.563 and hire purchase standard with a mean score of 4.124. This is again consistent with the literature that hire purchase firms are quite efficient in collecting their due debts and that they observe the collection periods given to each client although they rarely take their clients to court if default occurs, preferring to re-negotiate and assist in the client's ability to pay (Mc Menamin, 1999). The findings also showed that hire purchase institutions are very efficient in keeping of the client's records but were not quite willing in encouraging their clients to reconcile their statements. This indicates that it is very important for clients to be conversant with the hire purchase institutions' policy, make every effort to reconcile their statements regularly and keenly to avoid any controversies thereafter. With the emergence of hire purchase reference reporting bureaus clients should make sure that their transactions with the Hire purchase institution are transparent and according to hire purchase terms and should seek to confirm this with the hire purchase reference reporting bureaus.

5.6 Conclusion

The study established that hire purchase allocation is affected by the four factors namely; hire purchase policy, hire purchase standard, hire purchase terms and repossession policy. The study further established that among these factors, hire purchase standard policy significantly effected hire purchase allocation, followed by hire purchase terms and then collection policy and hire purchase policy in that order.

More importantly the study established that Hire purchase institution will formulate their hire purchase policies bearing in mind the need to increase income to their institutions. It therefore follows that if clients can be made aware of these factors that affect hire purchase allocation, then they would service their hire purchase facilities so as to conform to the hire purchase requirements and this will improve their hire purchase rating. The study additionally established that hire purchase institutions do incorporate reference to hire purchase statements, the character, capacity of the customer and reference to hire purchase bureaus in their hire purchase standards as requirements to be evaluated before hire purchase allocation is granted. This lays a solid foundation of the requisite hire purchase standards. The study further established that hire purchase institutions rarely prefer to take their clients to court on hire purchase facility repayment default, preferring to re-negotiate with the customer to enable repayment according to the client's prevailing repayment ability. Hire purchase institutions should therefore have systematic documented procedures to address the collections from defaulting customers and minimize taking them to court.

5.7.1 Recommendation

The study established that hire purchase policy, collection policy, hire purchase terms and hire purchase standard are positively correlated with hire purchase allocation and that hire purchase institutions do formulate their hire purchase policy bearing in mind the increase of income to the institution. The study therefore recommends that hire purchase institutions educate their clients about their hire purchase policies so that both the existing and potential clients wishing to apply for a hire purchase facility would conform to certain requirements. This will in turn improve the clients' hire purchase rating thereby enhancing their chances of being granted hire purchase once they apply. The study therefore recommends that hire purchase institutions inform their clients whenever they are seeking information relating to their past hire purchase facility serving from the hire purchase reference reporting Bureaus. They should encourage their clients to go and discuss such information with the hire purchase reference bureaus so as to establish their rating.

The study further recommends that hire purchase institutions should consider the conditions prevailing at the time the client was reported to the hire purchase reference bureau and the conditions prevailing at the time the client is applying for another hire purchase facility and evaluate whether the client should be denied hire purchase on the basis of past hire purchase facility serving or not. The study also recommends that hire purchase institutions should have an education day with their clients on their hire purchase policies and even the prevailing hire purchase terms. This will encourage clients to apply or renegotiate the terms of their previous hire purchase facilities as the case may be. Such action will improve the hire purchase institution's hire purchase base. In addition, it is recommended that hire purchase institutions should have systematic documented procedures to address the collections from defaulting customers and minimize taking them to court.

5.7.2 Suggestions for further Research

The results of the study indicated that currently hire purchase institutions are unable to judge whether the use of information from hire purchase reference reporting bureaus enables them to determine the quality of the clients. The study therefore recommends that further research be carried out to assess the quality of clients that had been advanced hire purchase facilities based on information from hire purchase reporting bureaus. Additionally, further research should be carried out to determine the defaulting rate for Hire purchase institution since the emergence of hire purchase reference reporting bureaus and also to establish the prevalence level of hire purchase sharing information amongst the hire purchase institutions as well as customers.

In the Regression analysis, the study established that the four factors affecting hire purchase allocation accounts for 60% of the hire purchase allocation. The study recommends that further research be carried out to determine other factors that would affect hire purchase allocation such as political consideration and the prevailing economic conditions. The study also established that the interest rate charged was adequate to cover both the hire purchase cost and enable the hire purchase institutions make reasonable profit. It is therefore recommends that further research be carried out to establish the extent to which there could be hidden costs besides the interest rate charged and make appropriate recommendation.

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