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Abstract

The purpose of this study was to determine the effect of the ethics of credit officers on the level of loan quality and hence the performance loans in a commercial bank at the branch level. The study followed a positivist philosophy and a cross-sectional survey research design. Based on Slovin (1960), the study targeted 310 branches out of 1,384 population branches from 43 licensed commercial banks in Kenya. Lending ethics are measured using a score mimicking the Sustainability for Responsible Investment Services (SRIS) criteria for measuring the ethics indices. Loan performance was the five-year average of percentage-performing loans for a branch. Ordinary Least Square results ($R=0.211$; $R\text{-Square}=0.044$) confirmed a weak, positive relationship between lending ethics and loan performance. The ANOVA of the model was significant and (the coefficient= 0.237 ; significant value= 0.000) confirmed the positive relationship, which is statistically significant at 0.05 level of significance. It implies that bank branches or lenders who inculcate ethical lending can achieve higher loan recoverability. The results may not be generalisable in all contexts. Further testing of the relationship is needed in different contexts, including comparative analysis of bank strata and other lending institutions for inferential tests. However, the study provides a sound input on the issue of ethics in lending. The silence in research on the significance of lending ethics, loan quality, and credit market performance is incongruous with the potential damage of financial markets when messaging on the essence of ethics is relaxed. The paper provides implications for lenders to develop mechanisms to raise the bar on the ethics of their credit officers. Lenders should be blamed for internal causes of credit non-performance. But they can overcome the blame by overcoming the clash of the morals of their staffs and agents with the banks concept of ethics. Emphasis on utilitarianism, so that their officers focus is optimal lending by maximizing common good, and not individual gains can help. This paper fills the gap on why ethics at the specific point of lending need to be emphasised and enhanced to increase loan performance for a thriving, sustainable credit markets.

Key Terms: *Lending Ethics, Loan Performance, Commercial Bank Branches*

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1.1 Introduction

While credit markets are essential engines for economic prosperity, loan book management ensures the sustainability of lending activities. Loan performance, therefore, plays a critical role in the success of credit market (Shah, 2013). The advanced funds' recovery helps the market continue lending for seamless economic and societal development. Increased non-performance of loans is often associated with higher interest rates, more collateral demand, property auctions, credit rationing, and the global financial crisis. In such situations, Johnstone, Saridakis and Wilkinson (2019) argue that essential projects may fail to be implemented while job creation and employment are curtailed. Therefore, actions that avert the non-performance of loans can protect the credit markets and society from myriad problems. Understanding the actual causes of loan defaults and implementing adequate measures to maximise the collection of advanced funds is the most appropriate action for successful lending.

While some loan non-performance may be caused by other factors, including errors on the part of the credit officers, Kim, Surroca, and Tribó (2014) argue that bad ethics of the loan officers and the organisations they work for can lead to irresponsible lending, increasing default risk. For instance, Phillips (2009) and Shah (2013) fault the ethics of credit officers and the institutions they worked for the upshot of the 2007/8 global financial crisis, which arose from excessive, negligent lending. A sudden surge in defaults originated from the poor ethics of the officers in the lending institutions. Some executives publicly exonerated themselves from any blame and argued that "you do not quit dancing if the music is still being played," implying that they had to keep lending because there were loan applications (Shah, 2013). The result was massive defaults and global financial crisis.

The underpinnings of this study are anchored on the utilitarian theory of ethics. Mill and Bentham (1987) argue that utilitarian theory interprets actions as ethical if they pursue optimality. Optimisation can be achieved if the choices made seek to maximise the welfare of the majority (Bentham, 1996). In the context of lending and from the lender's point of view, ethical lending should achieve high loan performance and the lowest default rates. Non-performance hurts the lender, the market, and the current and future borrowers more harshly. Bermpei, Kalyvas and Leonida (2021) observe that the defaulting borrowers lose their assets declared as collateral and get a worse-off credit rating, making it harder for them to get financing in the future, while future borrowers may have to pay more interest as more default premiums are added to the compensate for the higher perceived risk. That occurs when lenders perceive the market as being riskier.

Given the importance of loan performance and how ethics can potentially shape the crucial performance of credit markets, it is also imperative to evaluate those concepts in emerging economies. According to Heider and Inderst (2012), the ethics of loan officers can usurp lending policy, monitoring and regulations. Officers can lend to themselves, friends, relatives, and influential people in such environments even when the applications do not meet the required lending criteria. The result is generating loans that end up in default. That is supported by Schoen (2017), who argues that poor ethics undermines the lending criteria and

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monitoring phases, exacerbating defaults and disadvantaging the bank and borrower. To that end, lending institutions are expected to implement adequate measures to inculcate ethical conduct at all lending points to overcome the problem of unethical lending.

1.2 Problem Statement

Murfin (2012) observes that human behaviour and actions are to blame from both the point of view of the lender and the borrower. The participants in lending, such as lending institutions, their agents, and employees, can be swayed by selfish interests and pass suboptimal loans. Tersely, Tzioumis and Gee (2013) maintain that the ethics of the lending institutions and the agents they employ in the entire credit market chain can be blamed for the failure of the credit market. The inability of personnel or institutions involved in the credit market is culpable for originating bad loans either by design or by error. Cytonn Report (2018) argues that lending institutions often issue profit warnings, blaming the non-performance of loans.

More often, the borrowing community tends to bear the burden of loan non-performance. Lenders increase loan risk premiums, hence higher interest. They require more collateral, rationing some borrowers out of the credit market, which is another unethical situation. Akerlof (1970) explained that lenders could screen suitable applicants out of the credit market and keep lending to borrowers who cannot pay because of their ability to provide collateral. Besides, risky borrowers keep applying for credit even though borrowing costs, as presented by high interest charges and collateral requirements, are raised. Akerlof, Spence and Stiglitz (2001) argue that the two conduits of applicant rationing – interest rate and collateral demands can remain high to the disadvantage of borrowers.

That describes the situation in Kenya's credit market before 2016. Some Kenyan banks' interest rates were as high as 24%, prompting the government's intervention through an interest rate cap to a maximum of 4% above the central bank rate (CBK, 2017). Despite technology adoption in banking, including in loan applicant screening, Ertan, Loumioti, and Wittenberg-Moerman (2017) argue that ethics in the lending environment can cause suboptimal lending practices. Commercial banks need to inculcate lending ethics to maximise loan performance.

Lending ethics can ensure loan performance and sustain the overall credit market performance for the benefit of economy. The relationship between lending ethics and loan performance remains largely undocumented. Most studies on lending ethics relate to the Islamic religion, whereby earning interest income by lending money is viewed as unethical. Kim et al. (2014) and Ertan et al. (2017) observe that lenders who charge high interest on loans are considered unethical. The measurement of lending ethics as a subjective and qualitative concept has been limited in such research. Moreover, the term lending ethics is uncommon in the credit risk management literature.

The measurement of ethics in lending has varied. For instance, La Porta et al. (2003) used related lending, Berg, Puri, and Rocholl (2013) evaluated the number of scoring trials, while Agarwal and Ben-David (2018) employed experimental designs. Most studies were

conducted in developed market contexts like the US and UK. Research on the influence of lending ethics on loan performance in developing market contexts like African countries is scarce. Besides, the few available papers from different developed market contexts do not test the nature and strength of the relationship. Most of them are conceptual discussions (Kim et al., 2014), and the conclusions amongst different authors differ, while authors such as Agarwal and Ben-David (2018) used case study designs. An empirical test of the relationship statistically is necessary. This study, therefore, aims to answer the question, what is the relationship between lending ethics and loan performance in commercial bank branches?

2.1 Theoretical Review

The study is anchored on the utilitarian theory of ethics, where the right decision is the one that maximises happiness for the majority.

2.2 Utilitarian Theory of Ethics

Utilitarianism, also referred to as Benthamism, after Jeremy Bentham, who advanced it (Blake, 2009), is an ethical theory that underpins the importance of considering the interests of all parties affected by choice. According to the theory of Mill and Bentham (1987), outcomes that ensure maximum happiness to those affected by a decision are considered good because they yield maximum satisfaction (utility) to the affected parties. Therefore, ethical actions produce the greatest good for most parties affected by a decision (Bentham, 1996). That makes utilitarian theory an appropriate moral reasoning for actions in business since it accounts for ethics in terms of benefits and costs.

However, the theory is criticised because benefits and costs are associated with each stakeholder in a decision not easily traceable (Posner, 1979). Measurement of the costs and benefits to each stakeholder is an equally daunting task. Moreover, the impact of most outcomes is felt in the future. Predicting the future with certainty to determine whether the outcome is good or bad is difficult (Clouser & Gert, 1990). However, the theory explains what humans should consider when making their decisions. Stressing the necessity always to consider the impact of choices on the benefits and costs impounded on all parties affected by a decision is a critical guide to ethical living.

Consequently, ethical people and organisations pursue the greatest common good for the most affected parties instead of individual gains (Bentham, 1996). For example, lending criteria that benefit all stakeholders, including; shareholders, bank officers, borrowers, and the general public, should be emphasised. Cole, Kanz and Klapper (2015) and Bermpei et al. (2021) explain that ethical lending decisions should realise the highest loan performance. Loan performance is consistent with utilitarianism's tenets because it benefits various stakeholders affected by a lending decision. For example, it benefits the bank through higher profitability and its officers through more bonuses and career growth opportunities. It also benefits the borrowers through less credit rationing tendencies like demand for more collateral and interest charges (Akerlof, 1970). The economy and society benefit through economic growth and job creation, a common effect of a vibrant credit market.

2.3 Empirical Review

Ethics and lending are both generic in their original disciplines, but the term lending ethics is uncommon. Observedly, ended institutions have struggled with the ethics and non-performance of loans throughout history because of various factors, including human-effort gaps in lending practices (Akerlof, 1970; Kim et al., 2014; Ertan et al., 2017). The impact of the non-performance of the loans calls for an investigation. It is important to note that while lending institutions are considered as the ones making loan advancement, the officers entrusted with this responsibility are the ones that make the lending decisions. Moreover, there could be a gap between the ethics of the loan officers and the organisations they work for (Cole et al., 2015). In that regard, employers should inculcate ethical lending behaviour in their workforce to ensure ethical consistency.

Kim et al. (2014) argue that institutions should achieve ethical lending. That is achievable through ensuring consistency in adherence to transparency and disclosure requirements, observance of policies and principles, and existence and loyalty management procedures to ensure rare ethical controversies are the fundamental factors to ethical lending. According to Yunus (2007), achieving high loan performance benefits many stakeholders and helps avert extremes such as credit market failure. Besides, the non-performance of loans is unethical in many ways. Even collateralised loans, which allow the borrower to use the asset as collateral to be financed to acquire it, enable the lender to recover the loan through auctioning of the asset if a borrower does default. That is disadvantageous to the borrower if the party to blame for poor screening is their credit officer through their various inducements.

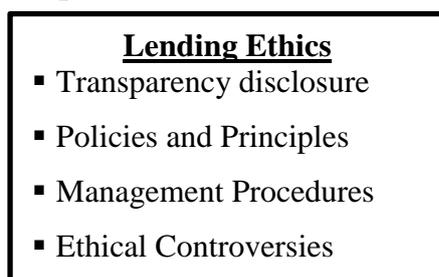
Moreover, La Porta et al. (2003) opine that many auctions do not follow the utilitarianism pattern because the assets are sold at prices lower than their market value, often leaving dependents in lesser condition than they had before they acquired the property. However, bad ethics on the part of the borrower can be to blame for loan non-performance. Some borrowers who borrow funds when they know their cash flow cannot meet their pay-up loan cannot be exonerated from blame. Schoen (2017) explains that lenders and their agents contribute to loan non-performance. Some credit officers can trick clients into borrowing because they have assets that can be claimed if they default. That negates the utilitarianism principle. Some officers can lend to relatives, friends, and business associates even when they know the applicant is not creditworthy (Heider & Inderst, 2012).

The question that needs an answer is whether the ethics of the lender and their agents influence loan performance. While the borrower's ethics and other external factors influence loan non-performance, the lender's and its agents' ethics should not be exonerated. If it does happen, it means there is a gap between the beliefs and interests of the lending firm and its agents, who should be eradicated (Ertan et al., 2017). People are naturally inclined to act in consistency with their beliefs. Ethics should be the principal factor influencing the decision-making process because choices are established on a foundation that has the maximum benefit to the majority (Schoen, 2017). Suppose it happens that the lender or its agents end up making suboptimal choices consciously or subconsciously. In that case, there is a gap in ethics as far as lending ethics is concerned.

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In that regard, lending institutions should establish a framework that fits into their conception of ethics. Employees should be methodically developed to attain the institution's ethics and compliance mechanisms to ensure that the organisation's ethics need to be deepened. According to Kim et al. (2014), Ertan et al. (2017), and Schoen (2017), ethical lending can be attained through structured behaviour modelling to ensure the personnel encourages transparency and fairness, policies and principles as well as management procedures that seek to reduce unethical lending practices. Lending to qualified candidates by following the stipulated procedures could minimise default rates. This study is guided by the following conceptual diagram (figure 1).

Independent Variable



Dependent Variable

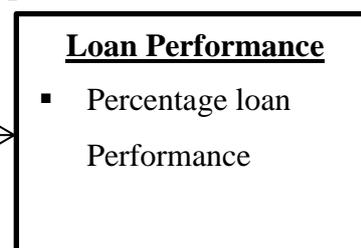


Figure 1: Conceptual Model

Source: Researcher (2023)

The study hypothesis that this study sought to test was:

H₀: The relationship between lending ethics and loan performance is not significant.

3.1 Methods

This study followed the positivism philosophy. According to Saunders, Lewis, and Thornhill (2012), researchers are said to have adopted a positivist philosophy when a deterministic research approach is adopted. In such research, hypotheses are developed for testing a relationship that takes the form of cause and effect. Moreover, a study falls under that philosophy when, as is the case in this study, it is founded on existing theories and past research (Cooper, Schindler & Sun, 2006). It also relies on large samples for generalisable conclusions. The hypotheses are tested quantitatively using statistical techniques.

Because of the nature of the study, concepts being conducted, lending ethics, and loan performance, the study follows a cross-sectional survey research design. The data were collected within the same period. That helped to collect the data from different bank branches within the same period for timing and cost efficiency. Data could be obtained through surveys from various branches at approximately the same time for uniformity and comparability of the responses (Cooper et al., 2006). Lending institutions are affected by external factors like regulations, work volume, reporting requirements, and unprecedented shocks from the economies in which they operate.

The study targeted 1,384 commercial bank branches in Kenya 2019 from 43 CBK licensed banks as of July 31 (CBK 2018). A sample equivalent to 310 can suffice, based on Slovin's

(1960) sample size calculation formula $n = [N / (1 + Ne^2)]$ Where: n = sample size; N = target population; e = margin of error. Since population ($N = 1,384$) and preferred margin of error ($e = 0.05$) because Sample size $n = [1,384 / (1 + 1,384 \times 0.05^2)] = 310$.

Since Kenyan banks were categorised as large, medium, and small during this study, the researchers used stratified random sampling through computer software. That ensured that precisely 30% of each branch in each large, medium, and small stratum was represented. The study used primary data from questionnaires administered to the credit officers at the bank branches. A data collection form for loan performance variables for the previous five years from the data collection date was included with the questionnaire.

Loan performance was calculated as the arithmetic mean of the loan performance of five years. Lending ethics was computed using an ethics index constructed using the method utilised by Sustainalytics for Responsible Investment Services (SRIS), a US-based institution tracking and reporting responsible practices for sustainable corporate firms (Kim et al., 2014). The ethics score was an arithmetic mean of the credit officer's answer to a 5-point Likert scale question about the indicators: Transparency Disclosure, Policies and Principles, Management Procedures, and Ethical Controversies.

The study used regression analysis on the data through the Statistical Package for Social Sciences (SPSS) version 25. The effect of lending ethics on loan performance was evaluated using the following regression model.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where; Y = Loan performance

β_1 - are the coefficients, and ε - is the error term.

β_0 = Constant intercept

X_1 = is the composite index of ethics

ε = error term

4.1 Results and Discussion

The empirical results include both descriptive and inferential results. The section consists of the response rate, other descriptive results, and the test of relationships between lending ethics and loan performance.

4.2 Response rate and Descriptive statistics of the data

From the target of 415 commercial bank branches, 269 completed questionnaires were realised, as shown in Table 1. That was equivalent to adequate representation since it amounts to 64.8%. That response rate sufficed because Baruch and Holtom (2008) determined after analysing 1607 studies between 2000 and 2005 that the typical response rate for social sciences is 52.70%. Moreover, Fan and Yan (2010) concur that a 50% response rate is adequate in social sciences.

As indicated in Table 1, the three bank tiers were represented with 35, 54, and 180 as small, medium, and large bank branches. Large banks have more extensive branch networks

nationwide, hence more representation, amounting to 66.9%. The banks generally target all clients (72.1%), with a few indicating that their main customers were corporate borrowers (5.6%), SMEs (8.2%), and personal loans (14.1%).

Table 1: Response Rate and Target Clientele

Feature	Category	Frequency	Percent
Lending Institution tier group	Small	35	13.0
	Medium	54	20.1
	Large	180	66.9
	Total	269	100.0
Target Clientele	Corporate borrowers	15	5.6
	Small and Medium Enterprises (SMEs)	22	8.2
	Personal Loans	38	14.1
	All audience	194	72.1
	Total	269	100.0

Source: Research data 2023

The study analysed the data using descriptive statistics – the mean and standard deviations. Table 2 shows the results. The means for the small, medium, and large tier groups were 4.095, 4.041, and 3.993, while the standard deviations were 0.367, 0.311, and 0.366, respectively. The means are almost the same, supported by the standard deviations, which did not differ significantly. For the loan performance, the means for Small, medium, and large bank branches were 5.656, 7.406, and 6.361, while their standard deviations were 2.417, 6.076, and 3.849. The results indicate that while the lending ethics did not differ significantly, loan performance differs across the tiers, with non-performance being more significant in the medium-size category. The standard deviation (6.076) shows that non-performance varies much more than in other categories, with performance in small bank branches having less dispersion.

Table 2: Descriptive Statistics for Sampled Firms in each Tier Group

Variable	Tier Group	Mean	Std. Deviation	Valid N
Lending Ethics	Small	4.0952	0.36693	35
	Medium	4.0412	0.31058	54
	Large	3.9926	0.36571	180
Loan Performance	Small	5.6563	2.41656	35
	Medium	7.4063	6.07561	54
	Large	6.3611	3.84948	180
Total	Lending Ethics	4.0157	0.35609	269
	Loan Performance	6.4792	4.26723	269

Source: Research data 2023

4.3 Reliability and Validity

The reliability of the instrument of the research instrument was assessed through Cronbach's alpha. The latent variable's internal consistency was tested through composite reliability. The scale's reliability was analysed through item-to-total correlations for all study indicators. The model's internal consistency was assessed through average variance extracted (AVE) values. Content validity was ascertained through a concise review of the literature and corroborations of expert opinions obtained from the University of Nairobi lecturers during the proposal.

Before the tests of reliability and validity, Kaiser-Meyer-Olkin (KMO) Bartlett's test of Sphericity was undertaken. Table 3 shows the results. The indicator with the least KMO measure (Management Procedures) for the three study indicators measuring lending ethics was 0.572. The KMO for Transparency disclosure was 0.765, while the statistic for Policies and Principles was 0.828. Kaiser and Rice (1974) argue that the KMO test should be at least 0.5, but a statistic above 0.7 is preferred. Based on the results, the KMO statistic is acceptable. Based on Bartlett's Sphericity, p-values for the indicators were $0.000 < p < 0.05$. That implies that the indicator's measurements have a strong correlation, meaning that the respondents measured the same questionnaire; hence, there was adequate consistency for the factors.

Table 3: The Kaiser-Meyer-Olkin and Bartlett's test

Independent variable	Indicators	KMO Measure	Approx. Chi-Square	df	Sig
Lending Ethics	Transparency disclosure	0.765	592.202	15	0.000
	Policies and Principles	0.828	994.249	15	0.000
	Management Procedures	0.572	166.268	15	0.000

Source: Research data 2023

4.4 Correlation Analysis

Correlation analysis was measured using the Pearson correlation coefficient between the independent variable (lending ethics) and the dependent variable (loan performance). Correlation tests the direction and strength of the relationship between two factors. The result is presented in Table 4. According to the results, the Pearson correlation coefficient ($R=0.211$, $p\text{-value}=0.000 < 0.05$). That indicates a positive correlation between lending ethics and loan performance, and the correlation is significant at the 0.05 level (2-tailed). With significant correlation, linear regression models can be used to statistically test the significance of the relationship between the variables and the related hypotheses.

Table 4: Pearson Correlation Coefficients

		Lending Ethics	LN Loan Performance
Lending Ethics	Pearson Correlation	1	.211**
	Sig. (2-tailed)		0.000
	N	269	269
LN Loan Performance	Pearson Correlation	.211**	1
	Sig. (2-tailed)	0.000	
	N	269	269

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

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

Source: Research data (2023)

4.5 Lending Ethics and Loan Performance

The main objective of this study was to determine the relationship between lending ethics and loan performance in commercial bank branches. The null hypothesis was that lending ethics does not affect loan performance. A linear regression model $Y = \beta_0 + \beta_1 X_1 + \epsilon$, with Y being the natural logarithm of loan performance, β_0 the intercept/constant, X_1 the composite index measuring lending ethics, and ϵ is an error term. A relationship exists since the Pearson correlation coefficient R, shown in Table 4, is significant at 0.05.

However, the significance can be ascertained statistically if the coefficient β_1 is significant. The results are presented in Table 5. The results in Table 5 show that the correlation coefficient (R) and coefficient of determination (R-Square) were 0.211 and 0.044, respectively. That indicates a weak relationship between lending ethics and loan performance. It means that lending ethics contributes a mere 4.4% of the change in loan performance, while the factors not included in the model account for 95.6% of its variation.

However, the regression sum of squares (RSS) was 2.019 concerning the total sum of squares (TSS) 45.42, with F-statistic (1,267) as 12.423, which is a high and the significant value of this ANOVA test is 0.000. That means that the variations in the means of the factors in the model are significant enough that it would happen just by chance. That is supported by the t-statistic 3.525 and a significant value equal to 0.000 corresponding to the lending ethics factor. This means that the effect is statistically substantial at 0.05 significant levels. Since the coefficient 0.237 is positive, the relationship between lending ethics and loan performance is positive. Therefore, as lending ethics improve, loan performance improves.

Table 5: Lending Ethics and Loan Performance

Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.211 ^a	.044	.041	.40318		
a. Predictors: (Constant), Lending Ethics						
ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.019	1	2.019	12.423	.000 ^b
	Residual	43.401	267	.163		
	Total	45.420	268			
a. Dependent Variable: LNLOANPERFORM						
b. Predictors: (Constant), Lending Ethics						
Coefficients ^a						
Model		Unstandardised Coefficients		Standardised Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.820	.269		3.051	.003
	Lending Ethics	.237	.067	.211	3.525	.000
a. Dependent Variable: LNLOANPERFORM						

5.1 Summary of Findings

The main objective of this study was to determine the relationship between lending ethics and loan performance in the context of commercial bank branches in Kenya. The study followed the positivism philosophy through a cross-sectional survey research design. The population included 1,384 commercial bank branches in Kenya from 43 CBK-licensed banks as of July 31, 2018. Slovin's (1960) sample size calculation formula yielded 310 sample sizes from that sample. However, the study targeted 30% of the population, which was 415, as suggested by Kothari (2004), to take care of the non-response. Stratified random sampling was done through computer software whereby 30% of each stratum's small, medium, and large bank branches were considered.

The overall study realised 269 completed questionnaires, of which 13% were from small bank branches, while 20.1% and 66.9% were from medium and large bank branches. Large branches were more because they have a more extensive network throughout the country's major towns and cities. The result established that 72.1% of the branches generally targeted all clients. In comparison, 14.1%, 8.2%, and 5.6% tended to recruit individual borrowers, SMEs, and corporate clients, respectively. Conclusively, the bank branches generally targeted all clients. Lending ethics was measured using the composite index, an arithmetic mean of the respondent's extent of agreement with various Likert scale questions related to indicators, latent variables: transparency, disclosure, policies and principles, and management procedures.

The mean of measurement of lending ethics was 4.0157 while the standard deviation was 0.3561, which shows minor variations of the index for various branches. The mean for loan performance was 6.4792, while the standard deviation was 4.2672. The regression results established that the correlation coefficient was 0.211 and statistically significant at 0.01. The

coefficient of determination (R-squared) was 0.044, implying positive but weak causation. However, the regression SS was 2.019 relative to the total SS of 45.42, with F-statistics (1,267) being 12.423, which was high enough, yielding a significant value equal to 0.000. That implies that the variations in the results due to the changes in the factor were significant enough to be by chance. The coefficient 0.237 was positive, the corresponding t-statistic was 3.525, and the significant value 0.000 implies a statistically significant relationship.

5.2 Conclusions

The findings show a positive relationship between lending ethics and loan performance in commercial bank branches. Therefore, the study concludes that lending ethics can improve loan performance. The conclusion agrees with the utilitarian theory of ethics, which argues that ethical actions tend to yield higher satisfaction for all parties affected by the decisions of an individual. It means a higher utility of lending is achieved when the loan performs. The benefits include a reduced tendency to increase interest rates, collateral demand, property auctions due to defaults, credit rationing, and associated financial crises. The finding augments the necessity of banks to emphasise inculcating ethical lending practices.

5.3 Implications of the Study

This study contributes to the concept of ethics in lending and how it influences performance in a developing market and at the bank branch level. Past researchers have used usurious lending, property auctions, and loan performance to measure ethics in lending. This study considers ethics a moral principle traceable to culture and people's way of life. When people join lending institutions, they understand what is good and bad. Banks that can establish their moral standing and put it into their credit officers can yield better loan performance. The results of this study in the context of the emerging economy will stimulate more research on the concept of ethics in credit markets and how it can be enhanced for participants to post superior loan performance. Moreover, the study's findings affirm the authors' results on the significance of lending ethics and loan performance.

5.4 Limitations of the Study

The major limitation of this study for future researchers is the sensitivity of the concept of ethics. As a moral principle, lent ethics can only best be studied by analysing the individuals or their proxies, such as the results of their actions. Due to the sensitivity of such information, participants may have challenges giving relevant information about themselves or their departments because they are part of the system. Due to the confidentiality of data because of competition and privacy regulations, relevant documentation to prove the purpose of the data is essential.

Moreover, bank officers are busy with work piles and daily targets, so they may take longer to complete the questionnaires. Some questionnaires may be partly filled out, and one has to target larger samples or populations. Moreover, the construction of the lending ethics index is a subjective process. Future researchers need to employ mechanisms that include as many constructs as possible for the completeness of measurement of the lending ethics concept.

Notably, this research's methodology gives the foundation for future researchers to build further.

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