CREDIT CONTROL AND FINANCIAL PERFORMANCE OF SELECTED COMMERCIAL BANKS IN KAMPALA, UGANDA

A Research Report

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In Partial Fulfillment of the Requirements for the

Bachelor of Business Administration,

Finance and Accounting

By:

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DECLARATION

"This research report is my original work and has not been presented for a degree or any other academic award in any university or institution of learning".

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Date: 15th AUGUST, 2013

APPROVAL SHEET

"I confirm that the work reported in this thesis was carried out by the candidate under my supervision".

Name: MBAGA RONALD Signature: ____________

Date: 16/08/2013

DEDICATION

I dedicate this report to my children Lamaro Joy Amelia and Obalim Maxwel for your love, support, encouragement, and inspiration.

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ABSTRACT

The study examined the relationship between Credit Control and Financial Performance of Fina Banks Kampala, Uganda and was based on four specific objectives: (a) to determine the demographic characteristics of the respondents in terms of age, gender, educational qualifications, and years in the present position; (b) to determine the level of credit control; (c) to determine the extent of financial performance; and (d) to establish if there is a significant relationship between the Credit Control and Financial Performance of Fina Banks Kampala, Uganda.

The study employed a descriptive correlation research design. SAQ were used to collect primary data from 100 out of 134 employees, using simple random sampling. Data analysis was done using SPSS's frequencies and percentages; means and PLCC.

Findings revealed that majority of the respondents were female, falling in the age bracket of 24 – 30 years, with bachelor's degree, and experience between 2 – 5 years. Also means showed a very satisfactory level of credit control systems and satisfactory level of financial performance in Fina Bank Uganda Limited. PLCC revealed a positive and significant relationship between Credit control systems and financial performance in Fina Bank while regression analysis showed that credit control contribute 52% to deviation in financial performance.

Basing on the above findings, the researcher made the following recommendations: (i) Manufacturing firms need to install automatic methods of inventory management and use bin cards to improve their efficiency and effectiveness; (ii) internal control system be strengthened i.e authorization, physical checking, and dispatch of goods should be controlled to ensure proper management of inventory management; (iii) firms should control costs in order to minimize the losses and (iv) firms should keep the price/earnings ratio of the organization high in order to optimize the credit controls .

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CHAPTER ONE

INTRODUCTION

Background of the study

The first recorded banking transaction was said to have occurred many centuries ago, in the era where the empire of Assyrian was established in the form of barter method between ancient Peoples (Basle 1996). Usually the assets that were accepted were those that had great value such as stones. This kind of exchange among traders was incorporated in the idea of banking system. The history of banking systems can be traced back as early as 12,000 years ago. In this era, it was said that the banking system already existed faultlessly (Basle 2001). The first pieces of evidence in the existence of banking system were first uncovered in 1890 by Heilpretch. The clan of Engadi – were the family who first built the banking system that ruled and facilitated the business and investment of the Assyrian Empire.

Through the history of banking systems, there were so many empires and civilizations that have folded to the increase and plunge of the valuable metals and other stuff that were being used in banking. This process is inevitable and therefore the banking institutions should also be flexible in order for them to cope very effectively on the changes that the fluctuations of money they create. (Brealey 1996)

Technology has influenced many aspects of business, but one of the areas affected the most is the financial processing of transactions. Technology has made global business possible by allowing businesses around the world to exchange funds online. Banks can now offer a wide variety of services to customers internationally that could not be offered without the Internet and dedicated applications. Electronic banking systems are general structures that let these transactions take place at a distance. (Taylor Lacoma2010)

The past decade however, has seen dramatic losses in the banking industry because firms that had been performing well, suddenly announced large losses due to credit exposures that turned sour, interest rate positions taken, or derivative exposures that may or may not have been assumed to hedge balance sheet risk. In response to this, commercial banks have almost universally embarked upon an upgrading of their risk management and control systems (Martin BrownBridge 2008)

The banking industry in Uganda's banking sector has evolved over time from a period of "financial repression" during the 1970s and 1980s to a period of liberalization that started in the late 1980s. The reforms were initiated with a view to addressing major misalignments in the financial sector that were believed to impede economic growth through inefficient performance of the banking sector (Brealey 1996). Major concerns included inefficient allocation of credit and limited access to financial services by the larger population. While cognizant of these important concerns in the banking sector was critical, equally important was the need, on the part of the central bank to ensure soundness of banks to guarantee security of depositors' money, among other things. Accordingly, the financial sector reforms Uganda implemented were aimed at achieving efficiency in financial intermediation on the one hand and strengthening the banking sector through efficient and effective supervision by the central bank study on the other (Basel II)

According to AAS Training Limited (2008) competitive pressures mean that many businesses have to give their Customers trade credit. Credit is an unsecured, interest-free loan to customers. The normal credit period offered to customers is 30 days, the average debt collection time is nearer 90 days because of slow payers.

Often small firms suffer most because they have fewer administrative staff available to chase debt. They are also reluctant to apply pressure to their larger customers for fear of losing them.

According to the medium strategy paper of November 2011, Fina Bank Uganda limited is a privately owned, has achieved qualitative and quantitative deliverables, especially, significant reduction in NPA levels, improved efficiency ratios and reasonable business numbers. It has to a large degree met the expectations of the regulators and customers and; to some extent those of the shareholders who have been continuously extending strong support. Government of Uganda has a minor shareholding of 8.06%, the remaining being with Fina Bank Ltd, Kenya (FBK). Essentially this makes FBR, across the border subsidiary of FBK

Statement of the Problem

The lack of confidence in the banking system and uncertainties and difficulties faced by the population and business people provides severe challenges and implications on the role of banking systems and credit control today. This is equally made difficult by the rigid process within which a number of these institutions rely almost exclusively on the long-established, inefficient, informal banking system. Commercial banks, including deposit taking, the provision of credit, and foreign exchange operations have had difficulties providing the necessary services which would help in managing credits within the private commercial bank spectrum and this consequently affect their financial position. Financial performance is not realized due to poorly structured systems, which have led to failure to recover funds. Further, the inability of the staff to follow the laid down rules and regulations governing all the lending and recovery procedures of the credit is a big problem which affect the bank to achieve the set financial objectives.

Purpose of the Study

The proposed this study examined the relationship between credit control system and financial performance in Fina Bank Uganda Limited.

Research Objectives

The study was based on the following specific objectives:

1. To examine the existing credit control systems used in Fina Bank Uganda Limited
2. To examine the level financial performance in Fina Bank Uganda Limited
3. To recommend strategies of improving financial performance in Fina Bank Uganda Limited

Research Questions

The study was guided by the following research questions:

1. What are the existing credit control systems used in Fina Bank Uganda Limited
2. What is the level financial performance in Fina Bank Uganda Limited
3. What strategies do you recommend to improve the financial performance of Fina Bank Uganda Limited

Hypothesis

The study was based on the following hypotheses.

Ho1: There is no significant difference in credit control system and financial performance in Fina Bank Uganda a Limited according to relevant demographic characteristics

Ho2: There is no significant relationship between the credit control system and financial performance in Fina Bank Uganda a Limited.

Scope of the study

Geographical Scope; the study was conducted in the branches of Fina Banka Uganda Limited.

Time Scope; the study covered a period of 6 months; from June - November 2013

Theoretical Scope

System Theory by Ludwig von Bertalanffy (1950) discovered principles that can be applied to all types of systems. System in an organization consists of components which are made up of inter related components which work together to produce desired outcome. Banks use the system for daily operations and control purposes.

Content Scope

The study intended to examine credit control. Credit control System focused on policies and procedures and financial performance

Significance of the Study

The findings of the study added new knowledge to the existing knowledge about credit control and financial performance literature; this helped the bank users to get new knowledge about the banking sector.

The study enabled the bank employees to offer efficient and effective banking services to its customers. This service enabled the bank attain its objectives of financial performance

The findings were based of formulation of credit policies for banks and other financial institutions. The findings helped bank authorities see how to improve on credit control and consequently its financial performance.

Operational Definitions of Key Terms

Banking system – is the infrastructure and practices which support financial institutions.

Credit control is just a set of simple steps taken to ensure your loan money is paid on time.

Commercial bank - A commercial bank is a type of financial institution and intermediary. It is a bank that provides transactional, savings, money market accounts and accepts time deposits.

CHAPTER TWO

LITERATURE REVIEW

Concepts from Authors

A system is a set of interconnected components that form a whole and show properties of the whole rather than of the individual components. This definition is valid for a cell, an organism, a society, or a galaxy. Therefore, as Joanna Macy expressed it, a system is less a thing than a pattern.

Banking has sprouted from the very primitive Stone-age banking, through the Victorian-age to the technology-driven Google-age banking, encompassing automatic teller machines (ATMs), credit and debit cards, correspondent and internet banking. Credit risk has always been a vicinity of concern not only to bankers but to all in the business world because the risks of a trading partner not fulfilling his obligations in full on due date can seriously jeopardize the affairs of the other partner (www.essays.se)

The main development objective of the Financial System Infrastructure is to ensure that successful implementation of financially enabled services has been duly achieved. This, according to Hart et al, (1994) involves using highly integrated computer systems to improve commercial bank operations. This is so to put in place an enabling infrastructure for basic financial services, primarily by modernizing the inter-bank payments system for large-value transactions, and, by developing norms, and standards for low-value payments systems. Key components address: 1) the development of a modernized inter-bank payments system, allowing to process electronic fund transfers, and facilitate secure, rapid transfers. A Real Time Gross Settlements System (RTGS) will be established, to be managed, and operated by the commercial banks. For this purpose, procedures will be incorporated to control credit risk, fraud, and maintain integral, confidential transactions. Subcomponents include: computerization, technical assistance and training, and, studies to identify interface standards for clearing banking activity payments; 2) the information systems of the commercial banks, which will include the technical infrastructure for the RTGS system, computer hardware, and software, supported by technical assistance, and training for both the RTGS system, and information systems in general; 3) telecommunications infrastructure support, involving a high capacity telecommunications optical ring network in Uganda, with links around the country; telecommunications hardware, and software installation; and training for telecommunications engineering, and security audits; and, 4) project management support, which includes, inter alia, and training to strengthen the project management unit capacity.

Online banking is meant for the entire banking system, which involves all the departments of the company. Each department in a company has some sort of data about the customer, may be not in the format required, may be shabbily maintained, which needs to be accessed and analyzed and made available to all the departments. If we take an example of a call center, they have a screen pop, which is a software application connected to their phone system. (Petersen, 1997)

According to Onyeagocha (2001), the term credit is used specifically to refer to the faith placed by a creditor (lender) in a debtor (borrower) by extending a loan usually in the form of money, goods or securities to debtor. Essentially, when a loan is made, the lender is said to have extended credit to the borrower and he automatically accepts the credit of the borrower.

Credit can therefore be defined as a transaction between two parties in which the creditor or lender supplies money, goods and services or securities in return for promised future payments by the debtor or borrower.

There are three major types of credit. These are commercial credit, consumer credit and investment credit.

Commercial credit can be bank credit such as overdraft, loans and advances; trade credit from suppliers; commercial papers (or note); invoice discounting; bill finance; hire purchase; factoring, etc. Consumer credit is a kind of permission granted an individual or a household to purchase goods like refrigerator, television, car, electronic sets, which could not be paid for immediately but for which installment payments are made over a period of time.(Brigham et al 1985)

The functions of credit are primarily two: it facilitates the transfer of capital or money to where it will be most effectively and efficiently used; and secondly, credit economizes the use of currency or coin money as granting of credit has a multiplier effect on the volume of currency or coin in circulation. Perhaps, we need to add here that the cost of credit (notably interest and discount rates) is one of the essential tools used to control and regulate money by the Central Bank through its monetary policy.

Credit Control

Is just a set of simple steps taken to ensure you loan money is paid on time. Effectiveness of credit control lies in procedures employed for judging a prospect's creditworthiness, rather than in procedure extracting the owed money.

Credit Policies

A technique for internal control of active management is the use of position limits, and/or minimum standards for participation. In terms of the latter, the domain of risk taking is restricted to only those assets of pre-specified quality standard. Then, even for those investments that are eligible, limits are imposed to cover exposures to counterparties, credits, and overall position concentrations relative to various types of risks. While such limits are costly to establish and administer, their imposition restricts the risk that can be assumed by any one individual, and therefore by the organization as a whole. In general, each person who can commit capital will have a well-defined limit. This applies to traders, lenders, and portfolio managers. Summary reports show limits as well as current exposure by business unit on a periodic basis. In large organizations with thousands of positions maintained, accurate and timely reporting is difficult, but even more essential.(Brigham et al 1985)

According to Brigham et. al. (1985), the success or failure of a business depends primarily on the demand for its products as a rule, the higher its sales, the larger its profits and the healthier the firm. Sales, in turn, depend on a number of factors, some uncontrollable yet others controllable by the firm. The major controllable variables which affect demand are sales prices, product quality, advertising, and the firm's credit policy.

Credit policy, consists of four variables which are: credit period, which is the length of time buyers have before they must pay for their purchases; the credit standards, which refer to the minimum financial strength of acceptable credit customers, the firm's collection policy, which is measured by its toughness or laxity in following up on slow-paying accounts and any discounts given for early payment. The credit manager is responsible for administering the firm's credit policy. However, because of the pervasive importance of credit, the credit policy itself is normally established by the executive committee.

One of the traditional methods of measuring credit quality is to investigate the potential buyer with respect to five factors called the five Cs of credit, which include: Character which refers to the probability that customers will try to honor their obligations. This factor is of considerable importance, because every credit transaction implies a promise to pay; Capacity is a subjective judgment regarding customers' ability to pay. It is gauged in part by their past records and their business methods, and it may be supplemented by physical observation of customers' plants or stores; Capital is measured by the general financial condition of a firm as indicated by an analysis of its financial statements. Special emphasis is given to risk ratios like the debt / assets ratio, the times-interest-earned ratio, and the fixed charge coverage ratio; Collateral is represented by assets that a customer may offer as security to obtain credit; Conditions refer to any general economic trends or special developments in certain geographic regions or sectors of the economy that might affect customers' ability to meet their obligations.

Information on these five factors is obtained from the firm's previous experience with each customer, supplemented by a well-developed system of external informationgathering groups. More and more firms and industries are setting up computerized data bases for storing and retrieving information on their customers and potential customers and of course, once the information on the five Cs is developed, the credit manager must still make a final decision on the potential customer's overall credit quality. This decision is normally judgmental in nature, and credit managers rely on their acquired skills and instincts.

A typical credit report would include the following pieces of information: A summary balance sheet and income statement, a number of key ratios, with trend information, Information obtained from the firm's suppliers telling whether it has been paying promptly or slowly, and whether it has failed to make payments; a verbal description of the physical condition of the firm's operations backgrounds of the firm's owners, including any previous bankruptcies, lawsuits, divorce settlement problems, and a summary rating, ranging from A + for the best credit risks down to F for those that are most likely to default.

Although a great deal of credit information is available, it must still be processed in a judgment manner. Computerized information systems can assist in making better credit decisions, but, in the final analysis, most credit decisions are really exercises in informed judgment. Even credit scoring systems require judgment in deciding where to draw the lines, given the set of derived scores (Brigham et al 1985).

The credit reference bureau was introduced by Financial Institution Act (2004) and requires all clients to register before applying for a loan.CRB gathers information about how borrowers use credit. This information is used by loan providers to decide whether or not to grant credit to borrowers in the future. Through the CRB the institution that is lending money will have enough information about the way you repay the loans you already have so that they can make responsible decisions about granting credit.

Modern credit managers practice management by exception. Under such a system, customers are first classified into five or six categories according to degree of risk, after which the credit manager concentrates time and attention on the customers that are most likely to cause problems

Collection policy refers to the procedures the firm follows to collect past-due accounts. For example, a letter may be sent to such accounts when the bill is 10 days past due; a more severe letter, followed by a telephone call, may be used if payment is not received within 30 days; and the account may be turned over to a collection agency after 90 days. The collection process can be expensive in terms of both out-of-pocket expenditures and lost goodwill, but at least some firmness is needed to prevent an undue lengthening of the collection period and to minimize outright losses. Again, a balance must be struck between the costs and benefits of different collection policies.

Credit control is a vital process for every business and is the dialogue initiated with customers through various means of communication. It is generally a simple procedure that escalates as the time between invoicing and payment increases.

Theoretical Perspectives

Systems theory provides a knowledge base that goes beyond disciplinary boundaries; it seeks isomorphism between and among concepts, principles, laws, and models in various realms of experience; it provides a framework for the transfer and integration of insights relevant to particular domains of research; and it promotes the unity of science through improving communication among disciplines.

The theoretical aspect of credit control is about determining the level of managing credit through various channels as evidenced in the commercial banks. In addition to borrowing from commercial banks, firms may be financed by their suppliers. Although there are many theories explaining why non-financial firms lend money, there are few comprehensive empirical tests of these theories. This research attempts to explain banking system and credit control. We focus on a sample of three major banks in Uganda which provide credits to its clients. We find evidence that the banks would to control credit through specific regulations that is illustrated by the banks in order to successfully manage and control risks associated with lending.

Sastrosuwito and Suzuki (2011) studied Post Crisis Indonesian Banking System Profitability in Japan. The impact of loan intensity (credit/total assets) on bank profitability is found positive and significant; indicates the good quality of credit extended by the banks. The quality of the credit can be confirmed with the low level of non-performing loans (NPL) during the considered period.

Athanasoglou et al. (2006) examine the profitability behavior of bank-specific, industry-related, and macroeconomic determinants, using an unbalanced panel dataset of South Eastern European (SEE) credit institutions over the period 1998-2002. The estimation results indicate that, with the exception of liquidity, all bank-specific determinants significantly affect bank profitability in the anticipated way.

According to Omuodo (2003), as pressure amounts on the banking industry, profitability resulting from over reliance on interest income by banks is bad business, it is strategically imperative that banks focus on other revenue streams.

CHAPTER THREE

METHODOLOGY

Research Design

The researcher used descriptive correlation research design because the study measured the level of relationship between the study variables. Also a descriptive comparative design was employed because the study also intends to measure the difference in the independent and dependent variables according to the relevant respondents' demographic characteristics.

Research Population

The study was conducted in the branches of Fina Bank in Uganda. The categories of people involved in this study were both managerial and operational staffs because they had the required information. The target population included a total of 134 staffs. The managerial and operational staffs were involved because they are the planning body and implementers of the organizations vision and mission respectively.

Sample Size

The participants of this study were staffs of Fina Bank Uganda limited. Out of the population of 134 staff, the sample size was 100 respondents, determined by the Slovene's formula, which states as follows:

$$\mathbf{n} = \frac{N}{1+N(e^2)}$$

Where: n = the required sample size, N = the known population size, and e^2 = the level of significance, fixed at 0.05.

Sampling Procedure

The target population of 134 staffs of Fina Bank Uganda limited being large, a sample of 100 respondents was used, and got using stratified random sampling to reduce costs, time of doing research and to increase the degree of accuracy of the study. Regarding sample size, the sampling frames (i.e staffs) was stratified according to branches of Fina Bank, Uganda. Then proportionate systematic random samples were chosen from the respective stratum sampling frames or lists.

Research Instrument

A questionnaire was used as the main tools of data collection. The selection of tools was guided by the nature of data collected, the time available as well as the objectives of the study. Questionnaires were used because they collected a lot of information over a short period of time as the information needed was easily analyzed put in writing.

Validity and Reliability of the Instrument

The researcher incurred a lot of effort in a bid to ascertain both the reliability and validity of the instruments used to be in position to administer questionnaires. During the test, the researcher was guided by the assistance of the supervisor and other experts who gave their recommendations about the results and necessary alterations were made after a final copy of the data collected was compiled with the assistance of the supervisor

Research Procedures

An introduction letter was obtained from the College of Economics and Management for the researcher to solicit approval to conduct the study from respective managers. When approved, the researcher secured a list of the qualified respondents from the selected Branches in charge and selected through simple random sampling from this list to arrive at the minimum sample size. The respondents were explained to about the study and were requested to sign the Informed Consent Form. Reproduce more than enough questionnaires for distribution. Selected research assistants were briefed and oriented in order to be consistent in administering the questionnaires.

The respondents were requested to answer completely and not to leave any part of the questionnaires unanswered. The researcher and assistants emphasized retrieval of the questionnaires within five days from the date of distribution. On retrieval, all returned questionnaires were checked if all are answered. The data gathered was collated, encoded into the computer and statistically treated using the Statistical Package for Social Sciences (SPSS).

Data Analysis

The data was analyzed manually for the final completion of the report and frequency tables were drawn to the results of each research question and objective. These statistical parameters were employed to compute for the following (1) the frequency and percentage distribution for the demographic characteristics of the respondents; (2) the mean and item analysis for independent and dependent variables control; (3) ANOVA was used to analyze the first (difference) hypothesis; and (4) PLCC was used to analyze the second hypothesis (relationship between) the study variables.

Ethical Considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the following activities were implemented by the researcher: (a) the respondents and firms/ bank branches was coded instead of reflecting the names; (b) solicit permission through a written request to the concerned officials of the selected firms in the study; (c) requested respondents to sign in the Informed Consent Form; (d) acknowledge the authors quoted in this study and the author of the standardized instrument through citations and referencing; and (e) findings were presented in a generalized manner.

Limitations of the Study

In view of the following threats to validity, the researcher claimed an allowable 5% margin of error at 0.05 level of significance. Measures were indicated in order to minimize if not to eradicate the threats to the validity of the findings of this study.

1. Extraneous variables beyond the researcher's control such as respondents' honesty, personal biases and uncontrolled setting of the study.

2. Instrumentation: The research instrument is not standardized. Therefore a validity and reliability test were done to produce a credible measurement of the research variables.

3. Testing: The use of research assistants brings inconsistency in the administration of the questionnaires in terms of time of administration,

understanding of the items in the questionnaires and explanations given to the respondents. To minimize this threat, the research assistants were oriented and briefed on the procedures to be done in data collection.

4. Attrition/Mortality: Not all questionnaires were returned completely answered nor even retrieved back due to circumstances on the part of the respondents such as travels sickness, hospitalization and refusal/withdrawal to participate. In anticipation to this, the researcher reserved more respondents by exceeding the minimum sample size. The respondents were reminded not to leave any item in the questionnaires unanswered and were closely followed up as to the date of retrieval.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Respondents' demographic characteristics

The researcher described respondents' demographic characteristics in terms of gender, age, level of education, position, department and experience. Respondents were requested to state their characteristics for purposes of classifying them. The study utilized a structured researcher made self administered questionnaire to classify respondent's demographic characteristics and their responses were analyzed using frequencies and percentage distributions as shown in the table below.

Table 1
Respondents' Demographic Characteristics

Category of Respondents		Frequency	Percent
Gender	Male	34	34.0
	Female	66	66.0
	Total	**100**	**100.0**
Age	24 - 30 years	46	46.0
	31 - 36 years	24	24.0
	37 - 42 years	12	12.0
	43 - 49 years	10	10.0
	50 years and above	8	8.0
	Total	**100**	**100.0**
Level of Education	Certificate	16	16.0
	Diploma	22	22.0
	Bachelors	52	52.0
	Postgraduate	10	10.0
	Total	**100**	**100.0**
Position	Teller	42	42.0
	Banking Officer	26	26.0
	Supervisory position	8	8.0
	Managerial position	5	5.0
	Head of Department	6	6.0

	Technician	8	8.0
	Customer Consultant	5	5.0
	Total	**100**	**100.0**
Department	Operations	16	16.0
	Risk	11	11.0
	Credit	10	10.0
	Human Resource	11	11.0
	Finance	9	9.0
	Legal	8	8.0
	Transaction	7	7.0
	Personal Banking	7	7.0
	Executive Banking	10	10.0
	Business Banking	6	6.0
	Insurance and Audit	5	5.0
	Total	**100**	**100.0**
Experience	1 - 5 years	71	71.0
	6 - 10 years	9	9.0
	11 - 15 years	12	12.0
	16 - 20 years	8	8.0
	Total	**100**	**100.0**

Source: *Primary data 2013*

Table 1 shows that most respondents (66%) were female, while male were only 34%. This indicates gender inequality in employment in Fina Bank Uganda Limited. This gender inequality could be due to the fact that ladies are good as far as customer care is concerned yet customer care is a very essential factor as far as the banking sector is concerned.

When it came to age, the study discovered that most respondents belonged to the age group of 24 – 30 years (46%), this was followed by age bracket 31 – 36 years (24%), then age brackets,37 – 42 years, 43 – 49 years and 50 years above followed in that order with (12%, 10%, and 8%) respectively. This implies banks employee young people most fresh from institution of learning with the desire to explore and learn more their jobs

On the level of education, results revealed that banks employ majorly graduates; degree holders (52%); diploma holders (22%), certificate holders (16%) and those with postgraduate came last with (10%). This revealed adequate distribution of education among employees and high level of professionalism.

The study revealed that majority of respondents were Tellers with (42%), followed by Banking officers (26%), supervisors and technicians both tied with (8%), heads of departments (6%), managers and customer consultants also tied with (5%). This implies that all the relevant stakeholders participated in this study.

Concerning departments, the study revealed that majority of the respondents were from Operations department (16%), followed by both Risk and Human Resource departments at (11%), Credit and Executive banking departments both with (10%), followed by Finance department (9%), legal department (8%) transaction and personal banking departments also tied with (7%), followed by business banking department with (6%) and insurance and audit department came last with (5%)

The study indicated that (71%) had been in banking industry for a period of 1 – 5 years, 12% had served for 11 – 15 years, followed by (9%) and (8%) with experience of 6 – 10 years and 16 – 20 years respectively. These results reveal that fewer employees have got enough experience leading to a conclusion that there is some level of employee turnover in the banking sector.

Credit Control systems in Fina Bank Uganda Limited

The independent variable in this study was set credit control systems used in Fina Bank Uganda Limited, for which the researcher intended to find out how satisfactorily these financial performance systems were and the degree at which they stand when compared to other systems. Credit control systems were broken into items and all the aspects were measured using qualitative questions in the questionnaire, with each question having four points answer range, where 1= strongly disagree; 2 = disagree; 3=agree; and 4 = strongly agree. Respondents were required to rate how satisfactory each item was by showing the degree to which they agree or disagree with each. In doing this each respondent was directed to tick a number corresponding to his or her own best opinion, perception and thinking. Their responses were analyzed using SPSS and summarized using means, as indicated in table 2;

Table 2

Credit Control Systems used in Fina Bank Uganda Limited

Financial performance	Mean	Interpretation	Rank
The bank charges arrangement fees on loans	3.6500	Very Satisfactory	1
If payment is not received the bank follows procedures	3.6000	Very Satisfactory	2
The bank uses collection agencies	3.5700	Very Satisfactory	3
Your institution has a credit recovery department that handles collection of credits in default	3.5700	Very Satisfactory	3
After the due date you start chasing your customers	3.5400	Very Satisfactory	5
Before giving out loans banks discriminate between essential and non essential purposes	3.5100	Very Satisfactory	6
The bank loads limits on loan facilities	3.5100	Very Satisfactory	6
Any standardized procedures for handling credit recovery, and whether a general operation manual or guideline exists	3.4600	Very Satisfactory	8
The client is charged for exceeding their limit	3.4600	Very Satisfactory	9
The quality of service is improving to meet customer needs	3.4500	Very Satisfactory	10
On new accounts the bank obtains proof of customer's identity	3.4500	Very Satisfactory	10
Overdue accounts are reviewed regularly	3.4200	Very Satisfactory	12
Financial performance is centralized	3.3300	Very Satisfactory	13
The bank has an excess or top up facility for clients	3.2200	Satisfactory	14
Clients should have security when applying for a loan	3.2100	Satisfactory	15
Banks ensure that credit is not directed to undesirable purposes	3.1600	Satisfactory	16

Describe the key problems that exist in the creation, recording (registration) and enforcement of security and collateral credit recovery and credit risk	3.1600	Satisfactory	16
The bank is very strict on payment terms and periods	2.9900	Satisfactory	18
Average	**3.4033**	Very Satisfactory	

Source: *Primary data 2013*

Key: Rating Scale

Answer Range	**Response mode**	**Interpretation**
1.00-1.75	Strongly disagree	Poorly satisfactory
1.76-2.50	Disagree	Fairly satisfactory
2.51-3.25	Agree	Satisfactory
3.26-4.00	strongly agree	Very Satisfactory

Table 2; show that credit control systems in Fina Bank Uganda Limited were rated at different levels. Of the eighteen items, thirteen were rated very satisfactory with means ranging from 3.33 – 3.65 which is equivalent to strongly agree on our rating scale and five items were rated satisfactory with means ranging from 2.99 – 3.22 an equivalent to agree. Some of the items which were highly rated included the bank charges arrangement fees on loans; if payment is not received the bank follows procedures; the bank uses collection agencies; and your institution has a credit recovery department that handles collection of credits in default. This implies that respondents agreed with no doubt that their respective banks were doing on those respective items.

However, one item that scored less but still rated satisfactory and this was that there banks ensure that credit is not directed to undesirable purposes; the bank is very strict on payment terms and periods, describe the key problems that exist in the creation, recording (registration) and enforcement of security and collateral credit recovery and credit risk

The finds revealed that the credit control in Fina Bank Uganda limited, was at a very satisfactory basing on the overall mean index (grand average mean) for all the 18 items computed in credit control category, with (mean=3.4033), which confirms that credit control in selected commercial banks are admirable (high level) indicating that if properly implemented, the rate of credit loss or fraud in banks will be minimized

Financial Performance in Fina Bank Uganda Limited

The dependent variable in this study was financial performance in Fina Bank Uganda Limited, for which the researcher intended to find out how satisfactory they were and the level at which they stands. Financial performance were measured using qualitative questions in the questionnaire, with each question having four points answer range, where 1 = strongly disagree; 2 = disagree; 3 = agree; and 4 = strongly agree. Respondents were required to rate how satisfactory each item by showing the extent to which they agree with each. In doing this each respondent was directed to tick a number corresponding to his or her own best opinion, perception and thinking. Their responses were analyzed using SPSS and summarized using means, as indicated in table 3;

Table 3

Financial performances used in Fina Bank Uganda Limited

Financial Performance	Mean	Interpretation	Rank
After the due date you start chasing your customers	3.5400	Very Satisfactory	1
There are clear systems to help evaluate profit levels regularly	3.5400	Very Satisfactory	1
The stock turnover is adequate to meet short-term creditors	3.5100	Very Satisfactory	2
The stock turnover is adequate to meet short-term creditors	3.5100	Very Satisfactory	2
The cash flow statement is prepared to assess liquidity position	3.4700	Very Satisfactory	5
Any standardized procedures for handling credit recovery, and whether a general operation manual or guideline exists	3.4600	Very Satisfactory	6
Number of customers is increasing regularly	3.3800	Very Satisfactory	7

Infrastructures have increasing across in the past years	3.3000	Very Satisfactory	8
Business retain profits for reinvest and business future growth	3.3000	Very Satisfactory	8
Debtor collection period is favorable for the business	3.2700	Very Satisfactory	10
Debtor collection period is favorable for the business	3.2700	Very Satisfactory	10
Describe the key problems that exist in the creation, recording (registration) and enforcement of security and collateral credit recovery and credit risk	3.1600	Satisfactory	12
The business has plans to list on the stock exchange in future	3.1400	Satisfactory	13
The business reported adequate profits in past year	3.1200	Satisfactory	14
The business reported adequate profits in past year	3.1200	Satisfactory	14
Profits of the business are retained for expansion purposes	3.1000	Satisfactory	16
Business maintains an enough working capital	3.0300	Satisfactory	17
Internal controls and credit policies are favorable for the business	2.9800	Satisfactory	18
Available systems help to keep track on stock turnover	2.4800	Fairly Satisfactory	19
Average	**3.2463**	Satisfactory	

Source: *Primary data 2013*

Table 3 show that the level of financial performance was fairly satisfactory (mean = 2.31) this due to eleven out of nineteen items being rated satisfactory, seven fairly satisfactory and one fairly satisfactory.

Financial performance was rated highest on after the due date you start chasing your customers, there are clear systems to help evaluate profit levels regularly and the stock turnover is adequate to meet short-term creditors all of these were equivalent to satisfactory. Once account payables are favorable in terms of remitting them it gives organization ample time to properly plan its activities and it does not affect the normal functioning of the organization and this also does not affect the stock turnover because the organization gets adequate finances to meet shot term creditors.

However, lowest rated items were, business maintains an enough working capital, internal controls and credit policies are favorable for the business and lastly available systems help to keep track on stock turnover all equivalent to satisfactory apart from the last one. One organization is not in position to collect money from clients they demand, this has got much impact on the financial performance and functioning of the organization. The ability of stake holders to have access to annual operation expenses, it gives them discretion to make necessary financial decision as early as possible hence avoid unnecessary financial losses the organization. Lastly, the failure of the hospital to meet its current liability, greatly affects the image of the organization and it makes debts accumulate and in a long run when organization fails to remit its obligations, legal steps are taken which at times requires selling off property in order to settles such obligations

Difference in Credit Control Systems and Financial Performance According to relevant demographic characteristics

The researcher hypothesized that credit control systems and financial performance in Fina Bank does not significantly differ according to the relevant demographic characteristics. To achieve and test the stated null hypothesis, the computed mean indices in Tables 2 and 4 were compared according to the relevant demographic characteristics of staff in Fina Bank Uganda limited, results of which are indicated in Table 6.

Difference in credit control systems and financial performance between Male and Female Staff

The underlying assumption was that credit control systems and financial performance do not differ significantly between male and female staff in Fina Bank Uganda limited.

The students' independent t-test was used to verify this hypothesis and as indicated in Table 6A

Table 4

Difference in credit control systems and financial performance between Male and Female Staff

	Gender	Mean	T	Sig	Interpretation	Decision on Ho
Credit Control Systems	Male	3.6013	7.522	.007	Significant difference	Rejected
	Female	3.3013				
Financial Performance	Male	3.5093	12.169	.001	Significant difference	Rejected
	Female	3.1108				

Source: *Primary data 2013*

As indicated in Table 4, credit control systems and financial performance significantly differ between male and female employees in Fina Bank Uganda limited with female staff dominating; (t = 7.522, Sig. = 0.007) and (t = 12.169, Sig = .001) for credit control and financial performance respectively.

Difference in credit control systems and financial performance in Fina Bank Uganda Limited according to Age

The underlying assumption was that credit control systems and financial performance do not differ According to Age in Fina Bank Uganda limited. The Fishers' One Way ANOVA was used to test the null hypothesis that credit control systems and financial performance in Fina Bank Uganda limited in the different age groups do not significantly differ

Table 5
Difference in credit control systems and financial performance Fina Bank Uganda Limited according to Age

	Age	Mean	F	Sig.	Interpretation	Decision on Ho
Credit Control Systems	24 - 30 years	3.3175	2.704	.072	No significant difference	Accepted
	31 - 36 years	3.6010				
	37 - 42 years	3.6111				
	Total	3.4033				
Financial Performance	24 - 30 years	3.1729	3.056	.052	No significant difference	Accepted
	31 - 36 years	3.3636				
	37 - 42 years	3.5658				
	Total	3.2463				

Source: *Primary data, 2013*

Results in Table 5 shows that both credit control and finance performance do not differ significantly among staff in the different age groups and these were; (F = 2.704, Sig = 0.072) for credit control and (F = 3.056. Sig = 0.052) for financial performance. This implies that staffs in advanced age group are not any better compared to those in their early age group as par this study.

Difference in credit control systems and financial performance in Fina Bank Uganda Limited according to Job experience

The underlying assumption was that credit control systems and financial performance do not differ According to job experience in Fina Bank Uganda limited. The Fishers' One Way ANOVA was used to test the null hypothesis that credit control systems and financial performance in Fina Bank Uganda limited does not significantly differ according to one's experience on the job.

Table 6

Difference in credit control systems and financial performance Fina Bank Uganda Limited according to Job experience

		Mean	F	Sig.	Interpretation	Decision on Ho
Credit Control Systems	1 - 5 years	3.3130	2.169	.097	No significant difference	Accepted
	6 - 10 years	3.6852				
	11 - 15 years	3.6250				
	16 - 20 years	3.5556				
	Total	3.4033				
Financial Performance	1 - 5 years	3.1327	4.640	.004	Significant difference	Rejected
	6 - 10 years	3.5029				
	11 - 15 years	3.5658				
	16 - 20 years	3.4868				
	Total	3.2463				

Source: *Primary data 2013*

As indicated in Table 6 both credit control systems in Fina Bank Uganda limited did not differ significantly with experience on the job or position (all Sigs. > 0.05). This implies that, there is no major difference among staffs that have spent more years on job or with experience in exhibiting their knowledge in terms of credit control compared to those with without enough experience. Basing on these results the null hypothesis are accepted, leading to a conclusion that more years one spends on the job, does not lead to any improvement or deterioration in credit control in Fina Bank Uganda Limited. However, the study results indicate a significant difference with (F = 4.640, Sig = 0.004).

Relationship between Credit control systems and Financial performances in Fina Bank Uganda Limited.

The second hypothesis of this study was "there is a significant relationship between credit control systems and financial performances in Fina Bank Uganda Limited. Here the researcher stated a null hypothesis that there is no significant relationship between credit control systems and financial performance in Fina Bank Uganda Limited. To test this null hypothesis, the researcher correlated the means for credit control systems items and those on financial performance using the Pearson's Linear Correlation Coefficient, as shown in table 6

Table 7

Pearson's Linear Correlation Coefficient Test Results for Credit control systems and Financial performance in Fina Bank Uganda Limited, Uganda

Variable Correlated	R- Value	Sig	Interpretation	Decision on Ho
Banking System Vs Financial performance	.727	.000	Positive and Significant relationship	Rejected

Level of significance at 0.05

Table 7 indicate that Credit control systems are significantly correlated with financial performances in the Fina Bank Uganda Limited (sig. <0.05). Results also indicate that Credit control systems are positively correlated with aspects of financial performance in the Fina Bank Uganda Limited (r-values>0). This implies that an improvement in the credit control systems significantly improves financial performances as per this study. Basing on these results, the stated null hypothesis is rejected at a 0.05 level of significance. These results lead to a conclusion that an improvement in the credit control systems is likely to improve financial performances in the Fina Bank Uganda Limited by a coefficient of 0.727 (r-value on financial performance index) see table 7.

Table 8

Regression Analysis between Financial performance Index and Credit control systems in Fina Bank Uganda Limited, Uganda

Variables Regressed	Adjusted R^2	F	Sig.	Interpretation	Decision on Ho
Financial performance Vs Credit control systems	.524	110.111	.000	Positive and Significant effect	Rejected

Level of significance at 0.05

The Linear regression results in Table 7 above indicate Credit control systems significantly affects Financial performance (F=110.111, sig. =0.000). The results indicate that all credit control systems items included in the regression model contribute over 52% towards variations in financial performance in Fina Bank Uganda Limited (Adjusted R^2 =0.524). This implies that streamlined credit control systems should be put in place and the existing ones be improved for Fina Bank Uganda Limited are to control their credit.

CHAPTER FIVE

FINDINGS, CONLUSIONS AND RECOMMENDATIONS

Findings

The study on Credit control systems and financial performances in Fina Bank Uganda Limited, intended to test the hypothesis of no significant relationship between the level of banking system and the level of financial performance. And it was based on five specific objectives; (a) to examine the existing credit control systems (b) examine the level financial performance; and (c) recommend strategies of improving financial performance in Fina Bank Uganda Limited

Data analysis done using SPSS's descriptive statistics, revealed that majority of the respondents were female, and were married in the age bracket of 24 – 30 years, degree holders dominated the study, tellers contributed the largest percentage when it came to position and operations was highly represented compared to other departments whereas most respondents had a working experience of 1 – 5 years.

The analysis went ahead to reveal that the level of credit control systems was at high level (mean=3.4033). The reasons behind this level are imbedded in all the nine items which were rated high; and only four being rated moderate. Secondly, the level of financial performance also stood at high level (mean=3.2456) here, eleven items were rated high, six moderate and only one rated low.

Results using Pearson's Linear Correlation Coefficient establish that credit control systems are significantly and positively correlated with financial performance ($r=0.727$, sig.=0.000). Regression analysis results indicated that credit control systems were found responsible for over 52% variation towards financial performance in Fina Bank Uganda Limited with (Adjusted $r^2=0.524$).

Conclusions

In this section, the researcher gives conclusion to the study findings in relation to the study objectives and the tested null hypothesis.

Respondents' profile

The respondents demographic characteristics were measured in terms of gender, age, marital status, highest level of education, position, department and experience, and this leads to a conclusion that banks employ female staff, aged between 24 – 30, with degrees and tellers are more and operations department is more staffed and retention of staff is not emphasized a lot

Credit control systems in Fina Bank Uganda Limited

The independent variable was set to determine the credit control systems used in Fina Bank Uganda Limited and it was concluded the level of credit control systems was at high level (mean=3.4033)

Financial performance in Fina Bank Uganda Limited

The dependent variable of the study was set to determine of financial performances in Fina Bank Uganda Limited, Uganda and it was concluded that the overall level of financial performance was at high level (mean=3.2456).

The relationship between Credit control systems and Financial performances in Fina Bank Uganda Limited

The study hypothesized that there was no significant relationship between credit control systems and financial performances in the Fina Bank Uganda Limited. Basing on the findings, the null hypothesis was rejected leading to a conclusion that the level of credit control systems positively and significantly influences financial performances in the Fina Bank Uganda Limited. The justification to this is revealed by the level of significant value that is less than 0.05 for example (r=0.727, sig=0.000). The same results were supported by the Linear regression results which also indicate that credit control systems influence financial performance in Fina Bank Uganda Limited (F=110.111, sig.=0.000). The same results also indicate that aspects of credit control systems included in the regression model contribute over 52% towards variations in financial performance in Fina Bank Uganda Limited (Adjusted R^2=0.524).

Recommendations

Basing on the findings, the researcher made the following recommendations to both the management and all the key stakeholders in Fina Bank Uganda Limited.

i) Bank should increase on the range of services and products they offer to their clients
ii) To increase on the numbers of clients fully finance loans, banks and management should first carry out investigation to ascertain whether these people have got viable incomes to finance the loans they get from banks
iii) Bank offering credit funds to attract customers
iv) The efficiency of ATMs facilities need to be improved to serve 24 hours a day.
v) Banks should come up with standardized procedures for handling credit recovery, whether at general operation manual or guideline.

Areas for future Research

The researcher recommends that future researchers need to conduct a study on lending policies and credit access in financial Institutions in Uganda so that an assessment is done to examine how these policies either facilitate or deter borrowers from accessing credits from financial institutions.

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APPENDICES

Research Instrument

Dear Respondents,

I am a candidate for Masters of Business Administration, at .... University and presently embarking on my dissertation entitled **Credit Control systems and Financial Performance of Fina Bank Uganda Limited**. In view of this requirement, am requesting you to be part of this study by answering the questionnaire. The information you provide shall be kept with utmost confidentiality and will be used for academic purposes only.

Thank you in advance

Yours faithfully

....

Joel

PART A: RESPONDENTS' BACKGROUND INFORMATION

GENDER (Please tick)

____1. Male

____2. Female

AGE

____1. 19 years and below

____3. 20 – 39 years

____4. 40 – 59 years

____5. 60 years and above

Education Qualifications

____1. Certificate

____2. Diploma

____3. Bachelors

____4. Postgraduate

Position: ____________________

Branch: ____________________

Experience

____1. 1 – 6 months

____2. 7 – 12 months

____3. 1 – 3 years

____4. 4 – 6 years

____5. 7 years and above

PART B: CREDIT CONTROL SYSTEMS

Direction

As honestly as you can, rate according to the scoring system given according to the extent to which the following statements may be applicable to your organization as regards to credit control. Tick in the box containing the number that corresponds with your opinion against each item.

Scoring guide

Score	**response**	**description**
4	strongly agree	you agree without any doubt
3	agree	you agree but with some doubt
2	disagree	you disagree with some doubt
1	strongly disagree	you disagree with no doubt at all.

Credit Control	**1**	**2**	**3**	**4**
The client is charged for exceeding their limit				
Banks ensure that credit is not directed to undesirable purposes				
Clients should have security when applying for a loan				
On new accounts the bank obtains proof of customer's identity				

If payment is not received the bank follows procedures				
The bank charges arrangement fees on loans				
The quality of service is improving to meet customer needs				
The bank uses collection agencies				
The bank loads limits on loan facilities				
Your institution has a credit recovery department that handles collection of credits in default				
Credit control is centralized				
The bank has an excess or top up facility for clients				
The bank is very strict on payment terms and periods				
Overdue accounts are reviewed regularly				
Before giving out loans banks discriminate between essential and non essential purposes				
Describe the key problems that exist in the creation, recording (registration) and enforcement of security and collateral credit recovery and credit risk				
After the due date you start chasing your customers				
Any standardized procedures for handling credit recovery, and whether a general operation manual or guideline exists				

PART C: FINANCIAL PERFORMANCE

Direction

As honestly as you can, rate according to the scoring system given according to the extent to which the following statements may be applicable to your organization as regards to financial performance. Tick in the box with the number that corresponds with your opinion against each item.