CREDIT MANAGEMENT AND BANK PERFORMANCE OF SELECTED COMMERCIAL BANKS IN KIGALI- RWANDA

A THESIS

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By:

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DECLARATION A

"This Thesis 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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APPROVAL SHEET

This Thesis entitled" credit management and bank performance in selected commercial banks" prepared and submitted by TUKUNDANE ADONIA in partial fulfillment of the requirements for the degree of masters in Finance and Banking has been examined and approved by the panel on oral examination

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DEDICATION

I dedicate this work to my parents; **Sabiiti Yosamu** and **Kempiha Lestatute**, brothers and sisters, friends and mentors, whose generous influence on my thinking and writing about this topic presents a rewarding challenge.

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Let me express my gratitude to God, with whose favor, compassion, love, grace and mercies. I have managed to make it to this level of Education. To my dear parents, brothers and sisters who worked tirelessly to see that I climb high ladders of life. Bless you almighty.

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LIST OF ABBREVIATION / ACRONYMS

CB : Commercial banks

NPLS : Non performing loans

MFI : Microfinance Institutions

SMES : Small-scale and Medium Enterprises

CBR : Central bank of Rwanda

AMFIR : Association of microfinance Institutions in Rwanda

SPSS : Statistical Package for Social Science

FRW : Rwandan franc

ABSTRACT

This study was undertaken with the primary purpose of determining if there is a relationship between credit management and bank performance in selected commercial banks-Kigali Rwanda. To accomplish this task, it was guided by the following research questions; what is the profile of the respondents in terms of age, sex, level of education, position in the bank and number of years in present position? What is the extent of credit management in terms of credit appraisal and approval procedures, debt collection strategy and credit monitoring procedures? What is the level of bank performance in selected commercial banks in Kigali-Rwanda? Is there a significant relationship between credit management and bank performance in selected commercial banks in Kigali -Rwanda?

The research was carried out using closed ended questionnaires based up on purposive samples of the banks in the target population (160). The data was analyzed using SPSS software package where frequencies, percentages, means and standard deviation were used.

The findings showed that the extent of credit management was poor with the overall total of 2.40; the level of bank performance was also rated at 2.2 indicating a low performance. The findings reveal a significant relationship between credit management and bank performance. The study further revealed that there were some weaknesses in credit implementation which resulted into low performance in selected banks. However the banks were advised to adopt an aggressive credit management strategy in place to improve on the performance.

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CHAPTER ONE

THE PROBLEM AND ITS SCOPE

Background to the study

According to the World Bank (2009), Rwanda's banking industry was described as extremely weak, with poor credit management strategies and some banks were on verge of collapse. From the years of economic mismanagement, political interference and poor practice of credit management, Rwanda's banking industry posted huge losses in the early 2008. It further notes that most of the banks failures were caused by poor credit management strategies. Many of the debts were attributable to imprudent lending strategies in particular insider lending and lending at high interest rates to borrowers in the most risky segments of the credit markets. This caused declining profitability and huge losses in 2011 among the banks.

The Bako bank was founded in 1983 as a credit trust and it became a fully licensed commercial bank in 1993, after receiving a banking license from the Rwanda's Central Bank. It operated as a microfinance institution until 2007 when it transformed to a commercial bank, although it still maintains the micro-loans component thus qualifying to be in Tier 1 of MFI ranking (AMFIR, 2007). However, due to intense competition in the banking industry, it had to open new branches in all the regions in the country, totaling to 29 branches to date. It has its headquarters in Kigali road. It has the third largest branch network in the country. Gatetee Bank is a commercial bank with a mid-sized financial services provider in Rwanda. It is involved in all aspects of commercial banking with a focus on the provision of banking services to foreign embassies and non-governmental organizations and their staffs. It started operations in 1995 after receiving a commercial bank license from the Bank of Rwanda.

According to the banks credit policies, it advances credit facilities with a credit period of months and years to various businesses and agencies. The credit limit depends on the nature of the client (credit worthiness and history) and the volume of business. Management of credit policy begins with adherence to the clients screening and approval procedures to ensure that credit is given to credit worth applicants then invoicing has to be done immediately so that the monitoring of the debt begins. Debt collection for all banks products are mainly done by the credit control section hand in hand with the sales executive and regional marketing officers. This is because of the latter's regular interface with the clients. Even members of the credit departments have a specific region as well as specific clients they handle in as far as debt collection is concerned.

According to CMRC (2008), the granting of trade credit by non financial firms to their customers is a wide spread practice in the United Kingdom and all other economies and has existed as long as business –to-business trade. Although extension of credit facilities has benefits like stimulating sales and improving the market share, it also has a number of challenges like failure to collect the outstanding debts at the due dates which has led to collapse of several businesses, huge losses and declining profitability most especially commercial banks- in reference to selected banks.

As a result banks globally and nationally have designed credit policies to ensure improved organizational performance by boosting their sales, market share and profitability. According to Richard et al. (2009) Bank performance encompasses three specific areas of firm outcomes. For example financial performance (profits, return on assets and return on investment), product market performance (sales, market share), and shareholder return (total shareholder return and economic value added). According to Rumple (2008), credit and information professionals are concerned about global economy as businesses are experiencing increased payments delays and bankruptcies are on the rise. This implies that it is becoming more difficult for firms to collect their trade receivables, which negatively affect their organizational performance forcing them to look for alternative sources of funding their working capital requirement.

According to bank of Rwanda study (2008), there is an increase in demand for trade credit. A net balance of banks (69%) reported that demand for credit by enterprises had increased over the last 6 months to December 2008, largely driven by demand from existing customers wishing to review their existing credit limits. The Demand for credit by SMES had increased at 63% of banks. The funding needs of most enterprises behind the demand for credit were cited to be funding for inventories, working capital, fixed investments and commercial real estate.

Problem statement

According to the World Bank (2009), Rwanda's banking industry was described as extremely weak, with poor credit management strategies and some banks were on verge of collapse. From the years of economic mismanagement, political interference and poor practice of credit management, Rwanda's banking industry posted huge losses in the early 2008. It further notes that most of the banks failures were caused by poor credit management strategies. Many of the debts were attributable to imprudent lending strategies in particular insider lending and lending at high interest rates to borrowers in the most risky segments of the credit markets. This caused declining profitability and huge losses in 2011 among the banks. According to the Central Bank of Rwanda Supervision Report (CBR, 2011), the level of bank performance has been declining steadily from FRW.97 billion in 2009, to FWR. 83 billion in 2010 to FRW.56 billion in 2011. This high level of declining bank performance continues to be an issue of major supervisory concern in Rwanda. Note that since the institution of credit policy management, there has not been any documented study aimed at assessing its effect on bank performance in Bako bank and Gatetee bank. The researcher is therefore interested in making assessment on how credit policy in place is managed and how it affects the bank performance in the selected commercial banks in Kigali -Rwanda.

Purpose of the Study

The purpose of the study is to assess how credit management affects the bank performance of selected commercial banks in Rwanda.

General objective of the study

To examine whether the credit management affects the bank performance of selected commercial banks in Rwanda

Objective of the study

The following Objectives guided the Study

1. To determine the profile of the respondents in terms of Age, gender, educational level, position in the bank, number of years in present position

2. To identify the extent of credit management in terms of credit appraisal and approval procedures, debt collection strategy and credit monitoring in selected commercial banks

3. To determine the level of bank performance in the selected commercial banks

4. To find out if there is significant relationship between credit management and bank performance of selected commercial banks in Kigali -Rwanda.

Research Questions

The following questions were posed during the study;

1. What is the profile of the respondents in terms of age, sex, level of education, position in the bank and number of years in present position?

2. What is the extent of existing credit policy management strategies in terms of credit appraisal and approval procedures, debt collection strategy and credit monitoring procedures?

3. What is the level of bank performance in selected commercial banks in Kigali - Rwanda?

4. Is there a significant relationship between credit management and bank performance in selected commercial banks in Kigali -Rwanda?

Null hypothesis

The study tested the following hypothesis;

There is no significant relationship between credit management and bank performance of selected commercial banks in Rwanda

Scope of the Study

Geographically, the study was carried out in Kigali city specifically in two selected commercial banks namely Bako bank and Gatetee bank.

Theoretically, the study was based on Price discrimination theory kakuru (2003) which says that as the demand for products varies, sellers can manipulate the product price through the variation of the credit terms offered to each customer. This allows a more flexible approach to pricing and discrimination among customers.

In ***time scope***, the study covered four years (2007-2010). The ***Content Scope*** focused on the credit management and how it affects bank performance in selected banks.

Significance of the study

This study may enable commercial banks to appreciate the relationship between credit and bank performance and as such address the areas that need improvement. It is useful to other researchers as it will add to the existing literature /body of knowledge especially on proper credit management and how it affects the firm's performance of public listed companies and banking industry. Also this study helped to enhance the researcher's skills of conducting research, provide up to date literature for academicians, used by other researchers, students of Kampala international university, lecturers and administrators for future references. Finally this research will enable me to attain a master's degree.

Operational definitions of key terms

Credit - is the trust which allows one party to provide resources to another party where that second party does not reimburse the first party immediately (thereby generating a debt), but instead arranges either to repay or return those resources (or other materials of equal value) at a later date. The resources provided may be financial (such as granting a loan), or they may consist of goods or services (such as consumer credit). Credit encompasses any form of deferred payment. Credit is extended by a creditor, also known as a lender, to a debtor, also known as a borrower.

Credit policy - This is a policy that stimulated clear guidelines and procedures that firms use for granting credit to applicants or already existing customer while monitoring their credit performance for timely collection of receivables.

Credit management is a term used to identify accounting functions usually conducted under the umbrella of Accounts Receivables. Essentially, this collection of processes involves qualifying the extension of credit to a customer, monitors the reception and logging of payments on outstanding invoices, the initiation of collection procedures, and the resolution of disputes or queries regarding charges on a customer invoice. When functioning efficiently, credit management serves as an excellent way for the business to remain financially stable.

Receivables- refer to the amount due from individuals and companies. Receivables are claims that are expected to be collected in cash. These are frequently classified as: Accounts receivable, one of a series of accounting transactions dealing with the billing of a customer for goods and services they have ordered. Notes receivable, represents claims for which formal instruments of credit are issued as evidence of debt, such as a promissory note. The credit instrument normally requires the debtor to pay interest and extends for time period.

Management refers to the organization and coordination of the activities of an enterprise in accordance with certain policies and in achievement of defined objectives.

A **commercial bank** (or business bank) is a type of financial institution and intermediary. It is a bank that provides transactional, savings, and money market accounts and that accepts time deposits.

Bank performance refers to the organization ability to attain its goals by using resources in an efficient and effective manner. This is essential diagnostic function, tracking the progress of organization achievements against preset objectives and ultimate responsibility of managers is to achieve high performance.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

Concepts, Opinions, Ideas from Authors/Experts

Credit management

Horne (2002) defined a credit policy management as asset of guidelines designed to minimize costs associated with offering credit while maximizing the benefits from it. He further notes that a good credit policy should ensure operational constituency and adherence to uniform and sound practice. The objectives of credit policy are (a) to maximize sales, (b) to minimize bad –debt losses, (c) minimize the cost of investment in account receivable in extending credit to customers and the firm should ensure that receivables are collectible in full by due date. In extending credit to customers, the firm should ensure that receivables are collectible in full by the due dates.

ACCA (2007/2008) puts it clear that a credit policy is a balancing act that managers do in the management of receivables and this is a tradeoff between liquidity and profitability. Where by liquidity involves collecting sales receipts as quickly as possible to reduce the costs of financing receivables balances an profitability is the extending of credit period to customers to encourage additional sales. Inadequate credit management leads to late payments and these cause companies to "juggle" various forms of short term finance to fund their working capital requirements Cowton (1985).

Muele (2006) defines credit policy management as a tool that provides framework for the entire credit management process. Credit management is aimed at optimizing the efficiency of' credit management of commercial banks and other related credit institutions. The banks must gain an acceptable level of confidence to extend the loan facilities at the lowest possible risk of loss since the hank's funds are committed for returns. According to Halpen et al. (2007), Credit management involves the collection, compilation storage, analysis and retrieval of information regarding trading on credit.

Credit policies are guidelines set by the lending Institution to establish the features and rules for the types of credit product that it offers.

According to Frederic's Mishkin (1992), credit policy management is the activity of deciding whether a firm should grant credit to a customer and how much credit (that is. for what amount of money and the length of time) should be granted, ensuring that customers who have been granted credit are paying on time. Many policies are written to safeguard the lenders' assets by limiting the risk on the loan.

Brigham & Houston (2002), defined credit policy management as a set of decisions that include a firm, credit periods, credit standards, collection procedure and discounts offered. Gitman (1994), defined credit management as the determination of credit selection, credit standards, and credit terms. The extension of credit to customers by most manufacturers is a cost of doing business. By keeping its money tied by accounts receivable, the firm loses the time value of money and runs the risk of nonpayment by the customers. In return for incurring these costs, the firms can be competitive, attract and retain customers, and improve and maintain sales and profits.

In his writings, he indicates that the two variables that are credit management and profitability are related. A firm may follow a lenient or stringent credit policy. The firm following a lenient credit policy tends to sell on credit to customers on very liberal terms and standards. Credits are granted for longer periods, even to those customers whose credit worthiness is not fully known as or whose financial position is doubtful and this creates a lot of book debts and running costs and the firm utmost earns loses

According to (Kakuru 2003), Management of the credit policy starts with analyzing how its components operate and these are credit appraisal and operate and those are credit appraisal and approval procedures, credit monitoring and collection strategy. Credit appraisal is a process used to ascertain the risk associated with the extension of credit facility. It is necessary to appraise the credibility of potential customer in order to mitigate the credit risk which is the risk related to non-repayment of the credit obtained by the applicant. This process involves applicants being screened to assess their ability to repay back. This is done by gathering relevant information about their payment history with the company and other firms, information from credit reference bureaus about client's credits worthiness and ability to manage the business.

After the appraisal/ screening process of a customer, the trade credit is subjected to approval procedures the approval procedures involves defining the credit terms such as the credit limits, trade discounts and payment period. At this stage the amount trade approval is dependent on the client's size of potential business and the ranking as per credit scoring guidelines used in screening. The 5c's of credit. Credit monitoring constitutes policies that emphasize that credit limits are adhered to as well as location of responsibility to different account managers to reconcile and follow up debts for the various clients.

Proper monitoring of receivables require fast accurate and up to date information in form of reconciliations (invoice, statements) and continuous review of the position of receivables as part of the overall management of working capital. It helps to evaluate the overall effectiveness of credit policy in place, (Srinivasam, 1999). The required information for corrective action or monitoring is in form of aged receivables analysis reports, computed financial ratios and debtors trend analysis to identify causes of default and incidences of irrecoverable debts. The aged debtor's schedule provides a breakdown of all book debtors according to the length of outstanding debt, for example 30 days, 60days, 120 days and others.

Debt collection strategy involves a credit collection program, target for the account managers and mechanisms to ensure clients pay within the stated period. This particularly lays down clear act of collection procedures of reminders, telephone calls, field visits and litigation if need be. The bad debts and recovering money from slow payers; control costs should not over exceed the value of debts prevented from going bad, (Knott, 204).

Bank Performance

According to Richard et al (2009), performance encompasses three specific areas of firm outcomes: (a) financial performance (profits, return on assets and return on investment), (b) product market performance (sales and market share) and (c) shareholder return (total shareholder return and economic value added). Performance refers to the organization ability to attain its goals by using sources in an efficient and effective manner. This is essential diagnostic function, tracking the progress of organization achievements against preset objectives and ultimate responsibility of managers is to achieve high performance.

Steven (2004) states that financial performance indicators are in the form of ratios which cover a number of concepts and are grouped as profitability, liquidity, utilization, financial structures and investment. Financial performance refers to a subjective measure of how well a firm can use assets from its primary mode of business and generates revenue (htt;//www.Answers.Com/topic/financial performance). It represents the long term strategic objective of the organization and thus it incorporates the tangible outcomes of the strategy in traditional financial terms.

The three possible stages as described by Kaplan & Norton (1996) are rapid growth, success and harvest. Financial objectives and measures for the growth stage will stem from the development and growth of the organization which leads to increased sales volume, acquisition of new customer's growth in revenue and others. The sustain stage on the other hand will be characterized by measures that evaluate the effectiveness of the organization to manage its operations and costs by calculating the return on investment and the return on capital employed among others.

Finally the harvest stage is based on the cash flow back period for its projects and revenue volume. Some of the most common financial measures that are incorporated in the financial perspective are revenue growth, cost, profit margins, cash flows, net operating income and others.

These financial performance indicators are derived from the following financial statements: (a) Income statement showing growth and profitability- Where profitability is the excess of the total sales revenue overall the operational costs increase profitability means that the business is growing, (b) Balance sheet showing whether the business is a going concern and can be sustained - This can be reflected in the level of bad debts provisions because of uncollected credit sales, (c) Cash flow statement showing the liquidity position of the company resulting from cash sales and collected receivables/ debtors. According to Norton and Kaplan's model (1996) of the balanced scored card, performance can be measured using four perspectives and these include customer, creativity and innovation, business processes and financial perceptivities.

Financial performance refers to the financial strength or weakness of firm. The management is normally interested in knowing financial strengths and weaknesses of the firm so that it is able to take a correct decision basing on its performance. In order to establish or assess the financial performance of a firm, financial analysis is carried out Kakuru (2005).

According to pandey (1995), establishing the performance of a business involves the analysis of changes in the financial position for the business. Credit policy provides a framework for the harmonization of the lending process, which affects the performance of the commercial bank. However, loans have carrying costs when unpaid in time as they constitute the credit risk factor with associated costs of supporting the credit functions since the cost of capital ill increase in relation to added risk as capital is outstanding for long period in the events of today payments. The dilemma of credit policy of varying the level of consumer credit or loans the tradeoff between profitability and liquidity or solvency of any commercial bank, affects its survival.

Theoretical perspectives

This study is based on the theory of Price discrimination (Price discrimination theory-Kakuru 2003). As the demand for products varies, sellers can manipulate the product price through the variation of the credit terms offered to each customer. This allows a more flexible approach to pricing and discrimination among customers as it is much easier to adjust credit terms (based on payment period) than product price.

Firms might offer trade credit to achieve covert price discrimination to evade legal sanctions against price discrimination or perhaps to hide price cuts from other customers. Therefore it is applicable in that due to the fact that there is high competition in the banking industry, some commercial banks charge their borrowers differently on interest rates depending on the economic conditions in the economy, nature of business and credit worthiness of borrowers.

Informational Frictions and Transaction Costs theory

Banks emerge in response to the frictions inherent in any financial system like information asymmetries (Leland and Pyle, 1977) and transaction costs (Benston and Smith, 1976). Initially the existence and magnitude of these transaction costs was held responsible for the emergence of bank as financial intermediaries (Benston and Smith, 1976). However this approach has since morphed and subsumed into an informational frictions approach.

The premise for this approach being that transaction costs are merely manifestations and a consequence of informational frictions, thus making them central to the emergence of banks and financial intermediaries in general. The informational frictions of interest here are the asymmetries in information between and within banks as financial intermediaries and the consumers of their services. These encompass the whole gamut from the availability, credibility, interpretation, and cost related concerns of information. Thus a theory on the emergence of financial intermediation tends to be rooted in concerns about optimal decision making given informational asymmetries (Capasso, 2004).

But in Khan and Senhadji (2000) the emergence of financial intermediaries is explained by technological and incentive based informational frictions. The incentive based frictions are manifest in incomplete contracting, asymmetrical information, and costly information acquisition while technological frictions reflect a lack of economies of scale in financial resource mobilization and allocation. Ramakrishnan and Thakor (1984) view financial intermediaries as coalitions of information producers for whom collaboration is optimal in reducing informational asymmetries, even absent scale economies. The motivation for this view arises from concerns about reputation capital and the minimization of monitoring costs to lenders.

Related studies

Gitman (1994) indicates that credit policy management and performance are related. A firm may follow a lenient or stringent credit policy. The firm following a lenient credit policy tends to sell on credit to customers on very liberal terms and standards. Credits are granted for longer periods, even to those customers whose credit worthiness is not fully known as or whose financial position is doubtful and this creates a lot of book debts and running costs and the firm utmost earns loses

Pandey (2003) & Kakuru (2003) noted that, a firm following a stringent credit policy sells on a credit on a highly selective basis only to those customers who have power credit worthiness and are financial strong and those firms will always have a high profit margin. Therefore the firm uses its credit policy variables to influence its investments in accounts receivables and to grantee profits. Credit standards influence organizational profit depending on how they are administered. Credit standards might be tight or loose. Tight credit standards make a firm loose a big number of customers and when credit standards are loose, the firm gets increased number of customers. But this does not mean that there will be the same increase in profitability because the increased number of customers leads to increased costs in terms of checking the added accounts and services added accounts of bad debts losses.

According to Gitman & Brigham (1985) credit standards must be emphasized such that the credit supplier gains an acceptable level of confidence to extend the maximum amount of credit at the lowest possible risk of loss. To be profitable, these scholars agree with others like Kakuru (2003) & Pandey (2003) that firms should make use of optimal credit standards in order to avenge out the weaknesses of both tight and loose credit standards. At the optimal tight level, the firm will be able to run its business with an acceptable level of risk hut he sure of increasing earning and profitability.

As already noted before Credit terms are stipulations under which a firm grants credit to customers, it refers to the period of time during which the entire loan must he paid accordingly. In an industry, customers frequently dictate the credit terms given Pandey, (2002). He therefore noted that, the closer the organization matches credit terms to its clients needs, the easier it is for client to car' the credit and the more likely that payments will he made on time and in fill. According to Brighan & Pandey (2003), there is a general agreement that a firm lengthens credit to increase its operating profits through expanded sales. However, the scholars also observed that there would be net increase only when the cost or extended credit period is less than the incremental operating profits.

Campsey & Brighan (1985) agree with Pandey (2003), that when a firm policy is loosened, its investment in account receivable becomes more risky resulting in slower paying and defaulting accounts. To this effect, the required rate of return tends to swing up wards. However, with a stringent credit policy, profitability reduces but liquidity does not increase. Looking at such trend, the scholars concurred that at an optimum level, the odds of both tight and loose credit management policy will be average out. Thus, the firm's optimum investment in receivables will be at a level of trade off between cost and profitability.

In granting credits, a firm determines how much effort to extend trying to distinguish between customers that will default as it directly influences portability and a case flow. The procedures and devices a firm uses to select a credit applicant are referred to as credit analysis and this involves gathering relevant information and determining the credit worthiness of an applicant using the credit scoring guidelines – 5 CS (Ross and Wethersfield 1988, Pandey, 2004). These guidelines are; Character – it is the willingness of the applicant both meet credit obligations or the image of integrity / honesty shown in various financial dealings, clients with high levels of integrity /

honesty are preferred because they make efforts to clear their obligations. Information such as bank and trade references, level of education, Occupational stability, Contact person and historical background are quite relevant, Capacity – ability of the applicant to meet obligations out of operating cash flows in the foreseeable future.

Green guard (2003) argued that care should be taken to assess both the existing and potential capacity to generate revenues in the future to finance the obligations because current capacity may be misleading, Capacity - is the applicant's financial reserves/amount of adequate cash flows to payback after meeting day to day obligations. Its measurement by which credit applicant will pay his obligation, (Rafuse, 1996 and Harris and Graham, 1999).

It is the contribution of the customer in the business and is measured by the tangible net worth (Assets-Liabilities), Collateral security; It is the pledged asset in case of default. Should easily be marketable, safe or free from any claims and it is the last thing to consider in the credit evaluation, (Kakuru, 2003), Condition; General economic, social legal political conditions of the business prospects/ futures conditions of the business that may affect the customer's ability and willingness to pay. If the environment assessment does not show good results, then granting unrestricted credit would be wrong decision.

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willingness to pay. If the environment assessment does not show good results, then granting unrestricted credit would be wrong decision.

According to Bass (1991), credit monitoring involves organization of a team in such a way that they are equipped for emergency staff as well as more detailed work like account reconciliations. There should be constant communications between sales people and credit control officers in as far as client's balances are concerned as well as any other problems that hinder collections in addition the staff need both professional and on the job training to equip them with the necessary skills to handle conflicts in real life situations to enable them develop skills of sound credit assessment.

They also need to be taught the effects or slow payments and insolvencies on profits. This helps them to detect early warning signs and probably suspend deliveries to reduce on the possible bad debts. Monitoring of receivables can be done by use of 80-20 rule whereby if 80 of the debt are in the hands of 20% of the customers then they can be categorized as special thus giving them special attention to ensure the business does not go under.

Regular meetings between credit control manger and his staff to discuss current problem and why certain clients are considered as high risk as well as meetings between credit manager and the sales team so that confidence is built and good working relations are built so that decisions of black listing some clients are made together to reduce the bad debts. Brealey & Meyers (1991), Brannel, (2003) and www. Bizhelp24.com explains that sales volume depends on overall credit policy objectives of the firm and customer loyalty. In that, if the policy is to minimize bad debts it will be stringent hence reducing customer base and volume of credit sales because a stringent policy gives credit on a highly selective basis .

The procedures of debt collection range from sending reminders/ delegacy letters informing the client of the past due status of the account, making telephone calls in relation to outstanding balances, employing collection agency , refusing to grant additional credit to customers until debts are cleared, factoring of accounts receivables to taking legal auction. Factoring of receivable enables the company to pass over the responsibility or debt collection to discount and factor houses (Rafuse 1996 and Burgess and Bryant 2001).

However, as much as the above have been cited slow paying customers need to be handled cautiously to avoid collection errors (Harris & Graham, (1999) and Schmidt (2003). Where long term patronage of business is desirable, legal procedures should not be used, as they tend to mark a final point of business dealings between two parties. A business that considers a change of policy from cash basis to granting credit should do so only if it estimates additional profits on increased sales will yield a return greater than the opportunity cost depends on the volume of credit sales and average collection period. If a firm has control over the volume of credit sales and average collection partners of the firm's credit policy, their profitability and liquidity is guaranteed Ross& Westerfield, (1988).

Hill, R (1979) noted that granting of credit could cause bad debt expenses, which reduce profitability of the firm. Credit associated costs are broadly categorized into carrying and opportunity costs. Carrying costs are associated with investment in debtors like losses from bad debts, cost of managing debt like making telephone calls, sending reminders, costs of supervising, production and selling costs because of increased business and costs of field visits. While opportunity costs are because of lost sales from refusing to offer credit. Brigham & Gapenski (1997), highlights that firms encourage "sales" to very weak firms in order to report made, total sales are increased and inventories reduces leading to reduced cost of sales and thus the gross profit reported is high. Proper management of a company's credit policy means debtors settle their obligations on time there by enabling enough working capital for day-to-day operations as well as money for fixed assets investments.

Delewa (2003) argues that nonperforming assets are not easily turned into cash. The level of debtors per say is not the problem but it is the quality which is of managerial concern and it should be worked on so that money is not tied up. According to Burgess (2001), Horne (20002) and Schmidt (2003), effective credit policies to take into consideration variable like; credit terms, credit monitoring and collection efforts and credit sales which defines the level of credit sales and receivable as well as the extent of credit risk exposure to the company. Extension of credit terms boots sales, increases debtors and purchases the stock levels required to support higher level of sales, Knott (2004) cash flows will therefore be affected by the delayed payment of debtors.

Kansiime (2005), notes that the influence of credit on performance is either way: first credit earns financial institution interests that contribute to its profitability and on the other hand, the borrowers benefits by way of achieving a financial boost in business but which depends on the commercial banks innovativeness, exhibited or manifested on the credit policy as well as outreach by way of branch coverage.

According to the journal for the capital markets industry, Uganda volume 11 No. 3 July - September 2007: Credit rating is the assessment of both qualitative and quantitative information which maximizes impact on an entities ability to repay its loans. Quantitative factors include financial information on liquidity and debt while qualitative information includes financial information on liquidity and management depth and lately corporate go is the core competence of the commercial banks. However credit risk evaluation (credit rating model) focuses narrowly on the likelihood of default on a loan.

The World Bank Washington D.C concluded that in determining the credit terms of any customer the following need to be considered: credit policies and procedures, prior loss experiences, loan quality and depth of management in the landing areas, loan collection like recovery procedures, changes in natural and local economic business conditions and general economic trends. Therefore many banks and regulations believe that an understanding of a bank's credit risk management provides a leading indicator of the quality of the bank's loans portfolio at a given period of time.

Visy (2002) finds evidence of higher firm performance in countries with better protection of minority share holders. Corporate governance is highly correlated with better operating performance. he also document that the firm level corporate governance provision matter happens more in countries with weak legal environments.

Black & Jang (2oo3) provides empirical evidence that there is a positive correlation between corporate governance and bank performance.

Drobetz (2004) also finds that higher corporate governance rating is related to higher performance. He suggested that good corporate governance leads to higher firm valuation (performance), hence investors are willing to pay a premium, and bad corporate governance is punished in terms of valuation discounts.

CHAPTER THREE

METHODOLOGY

Research Design

The study used a descriptive correlational design and across-sectional and expost-facto design. The descriptive correlational design was used to describe the relationship between independent and dependent variables. It used across sectional design, since data was collected for a short time. The expost facto design was used because the researcher was extracting the facts from the field or respondents and presented them as they exist, without changing them at all.

Target population

The study Population comprised of 160 employees from the selected banks (Bako and Gatetee banks) which include; loan officers, accounting officers, operational staff and marketing officers as distributed across various banks branches; in Bako bank, four branches were visited- Kigali Road - Main branch, Annex branch, Mamba branch – Kigali road. In Gatetee bank, four branches were also visited-Kigali road branch - (Head Office), Nakivalebo road branch, Kiraka branch, Kyago branch - Kigali. The six branches were purposively selected from the two commercial banks because they were the ones relevant for this study.

Table 1

Sample size distribution

n=120

Bank category	Bank branch	Size of study population	Sample Size
Bako bank	Kigali Road Main branch	33	22
	Annex branch	22	19
	Mamba branch	25	19
	Average mean	**80**	**60**
Gatetee bank	Kigali road branch	28	20
	Nakivalebo road branch	25	18
	Kiraka branch	27	22
	Average mean	**80**	**60**
	Overall mean	**160**	**120**

Source: Primary data 2011

Sample Size

The minimum sample size was computed using the Sloven's formula. This states that, for any population, the required sample is given by; n = $\frac{N}{1+Ne^2}$, Where; n= the required sample size; N=the total population size; and e= the level of significance which is =0.05. A sample of 120 was selected from two selected commercial banks.

Sampling strategy

The target population of this study was 160 employees from the selected banks (Bako and Gatetee banks). To get the respondents sample size to participate in the study, the researcher set a selection criterion where respondents were selected basing on their job position. A list of administrative and operational staff was obtained from the human resource management directorate categorized in their respective departments to act as the sample. Purposive sampling technique was used to collect data from various bank departments according to employee's level of operation in the bank. There after a sample was obtained.

Research instrument

A Questionnaire was used to get relevant data from the field according to the researcher. The questionnaire was administered to respondents by the researcher so as to get information related to the study. The questionnaire was grouped into three sections each section involved questions relevant to the research variables. These Sections include; a profile of respondents, B contained 22 questions and section B contained 10 questions. The questionnaire was closed ended because it helps in collecting accurate data since more people do not want to reveal their identity and can only give data in privacy. By so doing relevant detailed data was collected. The mode of response and interpretations include;

Response Mode	**interpretation**
Strongly agree	you agree with no doubt at all
Agree	you agree with some doubt
Strongly Disagree	you disagree with no doubt at all
Disagree	you disagree with some doubt

Validity and Reliability of the Instrument

To ensure validity of the instrument, the research employed the expert judgment method. After constructing the questionnaire, the researcher contacted the supervisor to go through it to ensure that it measured what it was designed to measure and necessary adjustments were made after consultation. This ensured that the instrument was clear, relevant, specific and logically arranged. Secondly, a pre-test was conducted in order to test and improve on the reliability of the questionnaire. The content validity index was calculated from the formula below:

CVI=n/N

Where CVI: Content Validity Index

N: Total number of items in questionnaire

n: Number of relevant items in the questionnaire

CVI=09/10=0.9

The above expression indicates that the number of questions on the questionnaire, were above the required 0.7 scores. Hence, the instrument used was valid.

Data gathering procedure

The following data collection procedures were followed:

Before the administration of the questionnaires

The researcher requested for an introduction letter from the School of Postgraduate Studies and Research addressed to the authorities of the universities under study for him to be permitted to conduct the research study. The letter contained the criteria for selecting the respondents and the request to be provided with the list of qualified academic administrators. After approval, the requested list of respondents provided to the researcher by the selected commercial banks, were used by the researcher to guide him in identifying the participants of the study. Pre-testing of the instrument on credit policy was followed. The researcher prepared the questionnaires and met with selected supervisor to discuss and brief him on the sampling techniques and data gathering procedures.

During the administration of the questionnaires

The researcher requested the respondents the following: (1) to sign the informed consent; (2) to answer all questions hence should not leave any item unanswered; (3) to avoid biases and to be objective in answering the questionnaires.

The researcher tried to retrieve the questionnaires within two weeks from the date of distribution. All questionnaires retrieved were checked if completely filled out.

After the administration of the questionnaires

The data gathered was edited, coded into the computer and statistically treated using the Statistical Package for Social Science (SPSS).

Data analysis

After data collection from the field, the researcher analyzed it using the Statistical Package for Social Science (SPSS) software package. Frequencies and percentage distributions which were used to analyze data on the respondent's profile, Means were used levels of credit policy management strategies and bank performance in selected commercial banks in Kigali-Rwanda. Pearson's linear correlation coefficient was used to establish whether there is a significant relationship between independent and dependent variables.

Mean range and interpretation

Mean Range	Description	Interpretation
3.26-4.00	Strongly Agree	Very Good
2.51-3.25	Agree	Good
1.76-2.50	Disagree	poor
1.00-1.75	Strongly Disagree	Very Poor

Ethical considerations

To ensure that ethics is practiced in this study as well as utmost confidentiality for the respondents and the data provided by them, the following were done: (a) coding of questionnaires, (b) the respondents were requested to sign the informed consent, (c) authors mentioned in this study were acknowledged within the text (d) findings were presented in a generalized manner.

Limitations of the study

1. Intervening/confounding variables which were beyond the researchers control such as honesty of the respondents and personal biases. To minimize such conditions the researcher requested the respondents to be as honest as possible and to be impartial/ unbiased when answering the questions.
2. The research environments was classified as uncontrollable settings where extraneous variables may influence on the data gathered such as comments from other respondents, anxiety, stress, motivation on the part of the respondents while on the process of answering the questionnaires. Although these were beyond researcher's control, efforts were made to request the respondents to be objective as possible in answering the questions.
3. Testing. The use of research assistants may render inconsistencies such as differences in conditions and time when the data shall be obtained from respondents. This will be minimized by orienting and briefing the research assistants on the data gathering procedures.
4. Instrumentation. The research instruments are none standardized hence validity and reliability test will be done to arrive at a reasonable measuring tool.
5. Attrition/mortality. Representative sample may not be reached as computed due to circumstances within the respondents and beyond the control of the researcher. Exceeding beyond the minimum sample size was done by the researcher to avoid this situation.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

Respondents in this study were described in terms of Age, gender, educational level, position in the bank, number of years in present position. Their responses were summarized using frequencies and percentage distributions as indicated in table 2.

Table 2

Profile of respondents

n=120

Main category		Frequency	percentage
Gender	Male	73	53.3
	Female	47	47.2
	Total	120	100.0
Age	25 and below	5	4.5
	26-35	53	48.2
	36-45	37	33.6
	46 and above	15	13.6
	Total	120	100.0
Level of education	Diploma	9	8.2
	Degree	81	73.6
	Postgraduate	19	17.3
	PhD	1	0.1
	Total	120	100.0
Job position	Loan officer	20	18.2
	Accounting officer	20	18.2
	Operational staff	52	47.3
	Sales marketing	18	16.4
	Total	120	100.0
Experience	1-5 years	15	13.6
	6-10 years	25	22.7
	11-15 years	46	41.8
	16& above years	24	21.8
	Total	**120**	**100.0**

Source: Primary data 2011

From table 2 it can be clearly seen that majority of the respondents were males that is 53.3% while the minority were females 47.2%.

For the case of age, it is revealed that majority respondents were in the age category of 26 – 35 representing (48.2%), while the minority was in the age category of 25years and below representing (4.5%). Therefore this implies that although all age categories were represented, 26 – 35 respondents were the majority young people with active memory hence information obtained from them can be trusted and looked at as a true good representation of the information the researcher was looking for.

In response to education level, majority of the staff were degree holders representing 73.6% followed by post graduates holder representing 17.3% while 8.2% were diploma holders. This shows that the banks have well educated staff and therefore the information got from them is reliable and accurate to the research study.

Concerning the category of work, majority were the operational staff representing (47.3%), followed by loans officers with (18.2%), accounting officers with (18.2 %), while the minority was sales marketing officers with (16.4%). With experience, (41.8%) respondents had served for a period of 11-15 years while minority (13.6%) had served a period of 1- 5 years in the bank. Therefore this clearly indicates that information got from respondents is reliable because of their good experience in the area of study.

Extent of credit management in selected commercial banks

The second objective was to determine the extent of existing credit policy management strategies in selected commercial banks in terms of credit appraisal and approval procedures, credit monitoring and debt collection. To measure this, different questions were asked using closed ended questions for all respondents to indicate the extent to which they agree or disagree with each of the statements by ticking the number that described their perception. All the questions on of credit appraisal and approval procedures were put on a Likert scale using 4 points ranging from 1 = Strongly Disagree, 2= Disagree, 3 = Strongly Agree 4 = Agree. Their responses were analyzed and described using means as summarized in the table 3.

Table 3

Descriptive Statistics on credit appraisal and approval procedures

(Item analysis n =120)

credit appraisal and approval procedures	Mean	Interpretation	Rank	Standard Deviation
Credit vetting policy, processes and procedures are well documented	3.4	good	1	0.334
Additional information about credit applicants is always sought from external sources before credit is given	2.5	Poor	5	0.235
Credit vetting of existing customers is done before additional credit for other services are granted	2.3	poor	6	0.244
There is a well established reference bureau in the country	1.6	poor	10	0.136
There is a credit vetting team that reviews and takes decisions and credit applications	2.2	poor	7	0.235
Clients are screened to establish whether they are credit worth with other banks	1.8	poor	9	0.184
Clients bank are visited and vetted before credit approval	2.4	Poor	4	0.233
Clients bank statements are reviewed before credit approval	2.2	Poor	8	0.266
Sales and credit staff are coordinated on vetting of customers	3.3	good	2	0.347
Collateral security is sought from a client before credit approval	3.2	Good	3	0.239
Average mean	**2.50**	poor		

Source: Primary data 2011

Interpretation guide for mean's responses

Mean Range	**Response mode**	**Interpretation**
3.26-4.00	Strongly Agree	Very Good

2.51-3.25	Agree	Good
1.76-2.50	Disagree	poor
1.00-1.75	Strongly Disagree	Very Poor

The results in table 3 indicate the extent of credit policy credit appraisal and approval procedures in selected commercial banks Most items on credit appraisal and approval procedures were rated to be relatively poor considering sub-total mean=2.5 which is equivalent to Disagree on the Likert scale. This shows that there were some weaknesses in the implementation of credit appraisal and approval procedures in selected commercial banks.

On this note, it was reported that credit was offered to clients before visiting and vetting them, no view of bank statements as well as a limited search for additional information about the credit applicants from external sources. The weak client vetting procedures were due the lack of well established credit reference bureaus in the country to collaborate information for evaluating credit worthiness of potential applicants.

However, there are some cases where respondents rated items to be good. For example the respondents rated the extent of existing credit vetting policy, processes and procedures was rated to be very well documented (mean = 3.4) which is equivalent to strongly agree on the Likert scale, collateral security which is sought from clients before credit approval was rated to be relatively good (mean=3.2), coordination of sales and credit staff was rated to be relatively good (mean 3.1) equivalent to Agree respectively.

Table 4 is in line with the second objective which was to determine the extent of existing credit policy management strategies in selected commercial banks in terms of credit monitoring procedures. To measure this, different questions were asked using closed ended questions for all respondents to indicate the extent to which they agree or disagree with each of the statements by ticking the number that described their perception. All the questions on credit monitoring procedures were put on a Likert scale using 4 points ranging from 1 = Strongly Disagree, 2= Disagree, 3 = Strongly Agree 4 = Agree. Their responses were analyzed and described using means as summarized in the table 4.

Table 4

Descriptive Statistics on Credit monitoring procedures

(Item analysis n =120)

Credit monitoring procedures	Mean	Interpretation	Rank	Standard Deviation
The bank has a credit control department which monitors loans-receivables	3.5	Very good	1	0.345
The roles of credit department in credit policy management are clearly defined	3.2	good	2	0.235
Customers are notified in time to make payments as they approach the credit limits	1.6	poor	4	0.123
Customers are not allowed to exceed their credit limits and are suspended when the limits are reached	1.8	poor	5	0.128
There are cases of under due influences on the credit control team from senior management	1.5	Poor	3	0.157
Average mean	**2.4**	poor		

Source: Primary data 2011

Interpretation guide for mean's responses

Mean Range	**Response mode**	**Interpretation**
3.26-4.00	Strongly Agree	Very Good
2.51-3.25	Agree	Good
1.76-2.50	Disagree	poor
1.00-1.75	Strongly Disagree	Very Poor

Many items on credit monitoring procedures were rated to be relatively poor considering sub-total mean=2.4 which is equivalent to Disagree on the Likert scale and this highlights weak credit monitoring procedures in the selected commercial banks. However, there are some cases where respondents rated items to be good. For example Credit control department which monitors loans was rated to be very good (mean = 3.5) equivalent to Strongly Agree and credit department roles was rated to be relatively well defined (mean=3.2) Agree respectively.

Table 5 is in line with the second objective which was to determine the extent of existing credit policy management strategies in selected commercial banks in terms of Debt collection strategy. To measure this, different questions were asked using closed ended questions for all respondents to indicate the extent to which they agree or disagree with each of the statements by ticking the number that described their perception. All the questions on Debt collection strategy were put on a Likert scale using 4 points ranging from 1 = Strongly Disagree, 2= Disagree, 3 = Strongly Agree 4 = Agree. Their responses were analyzed and described using means as summarized in the table 5.

Table 5

Descriptive Statistics on Debt collection strategy

(Item analysis n =120)

Debt collection strategy	Mean	Interpretation	Rank	Standard Deviation
Your bank dedicated account managers who contact people to handle both payments and complaints for services	3.6	Very good	1	0.347
Follow up of outstanding debts is done mainly through telephone calls	2.2	poor	3	0.236
Regular personal visits are done by debt collection team to follow up debts	2.5	Poor	5	0.233
Reminder letters are regularly sent by the bank when accounts are overdue	2.3	poor	6	0.288
Occasionally the legal department is involved in the debt recovery	2.7	good	4	0.277
Sometimes members of senior management get involved in debt collection of debts	2.3	Poor	6	0.236
Private debt collection agencies and bailiffs are hired by the bank to collect overdue accounts	3.5	Good	2	0.365
Average mean	**2.3**	**poor**		0.244
Overall average on credit management	**2.4**	**poor**		

Source: Primary data 2011

Interpretation guide for mean's responses

Mean Range	**Response mode**	**Interpretation**
3.26-4.00	Strongly Agree	Very Good
2.51-3.25	Agree	Good
1.76-2.50	Disagree	poor
1.00-1.75	Strongly Disagree	Very Poor

It can be observed that many items on Debt collection strategy were rated to be relatively poor considering sub-total mean=2.3 which is equivalent to Disagree on the

Likert scale and this shows a relatively poor Debt collection strategy in selected commercial banks. This was mainly due to weak implementation of credit standard and analysis procedures at credit approval level as well as reliance On telephone calls as a key means of following up on outstanding debts.

However, there are some cases where respondents rated items to be good. For example Accountant managers who contact people to handle both payments and complaints was rated very good (mean=3.6) and debt collection of overdue accounts by private debt agencies and bailiffs was rated good (mean=3.5) equivalent to agree.

Level of Bank performance

The dependent variable in this study was Bank performance and the third objective of this study was to determine the level of Bank performance Kigali-Rwanda. To measure this, different questions were asked under this variable using closed ended questions where respondents were asked to indicate the extent to which they agree or disagree with each of the statements by ticking the number that described their perception. All the questionnaires on Bank performance were put on a Likert scale using 4 points ranging from 1 = Strongly Disagree, 2= Disagree, 3 = Strongly Agree 4 = Agree. Their responses were analyzed and described using means as summarized in the table 6.

Table 6

Descriptive Statistics on Bank performance

(Item analysis n =120)

Bank performance	**Mean**	**Interpretation**	**Rank**	**Standard Deviation**
The level of debtors has been decreasing in every financial year	1.6	poor	6	0.197
The profitability of the bank has been increasing over the past 3 years	1.5	poor	7	0.666
Your bank continues to offer new banking products to the clients	3.3	good	2	0.435
Debt default rate is declining among the borrowers over the past 3 years	1.8	poor	4	0.199
There has been a reduction of bad debts over the past 3 years	1.5	Poor	7	0.126
Your bank has improved the quality of its customer services-like quick loan process	3.3	good	2	0.388
Your bank has increased borrower outreach through diversification of products	1.7	poor	5	0.199
Your bank has increased its capital base due to high demand for banking services from borrowers	3.1	Good	3	0.476
Your bank assets continues to grow over the past 3 years	3.4	good	1	0.384
Overall average on Bank performance	**2.2**	**poor**		

Source: Primary data 2011

Interpretation guide for mean's responses

Mean Range	**Response mode**	**Interpretation**
3.26-4.00	Strongly Agree	Very Good
2.51-3.25	Agree	Good

1.76-2.50	Disagree	poor
1.00-1.75	Strongly Disagree	Very Poor

Looking at overall bank performance, it was almost rated to be relatively poor considering overall mean=2.24 which is equivalent to Disagree on the Likert scale and this shows a relatively low performance in selected commercial banks. This was due to lack of proper credit vetting procedures especially for new clients where there was insufficient information for the credit applicants as well as limited reference bureaus in the country. As a result of this, new clients were offered credit without much knowledge about their financial capability and as such these clients were expected to make their good obligations as they fell due but unfortunately some defaulted.

On the other hand, there are some cases where respondents rated items to be good. For example the improvement of customer service delivery was rated good (3.3) equivalent to agree on the Likert scale, the increase in capital base due to high demand for banking services was rated good (mean=3.1) equivalent to agree and the rapid growth of the bank's assets was rated to good (mean=3.4) equivalent to agree on the Likert scale respectively.

From table 5, it is observed that the overall credit policy management strategies employed by commercial banks were weak due to poor appraisal, monitoring and debt collection strategy. This is reflected by a low rating at (2.4) which is the overall total mean. It is this poor implementation credit policy that caused low bank performance (overall mean=2.2) as it is indicated in table 6.

Relationship between credit management and bank performance

The fourth objective in this study was to determine if a significant relationship between credit policy management strategies and bank performance in selected commercial banks Kigali- Rwanda, for which it was hypothesized that the two variables are not significantly correlated. To test this hypothesis, Pearson's Linear Correlation coefficient (PLCC) was used. The summary of r-value of those variables is presented in table 7.

Table 7

Relationship between credit management and bank performance (Level of significance is at 0.05)

n=120

Variable correlated	R-value	Sig.value	Interpretation	Decision on Ho
Credit appraisal and approval procedures Vs. performance	.848	.000	Positive and significant	rejected
Credit monitoring vs. performance	.543	.000	Positive and significant	rejected
Debt collection strategy vs. performance	.695	.000	Positive and significant	rejected

Source: Primary data 2011

Table 7 presents correlation results between Credit appraisal and approval procedures with bank performance. It indicates that the correlation between Credit appraisal and approval procedures with bank performance is significant(r=0.848, sig. =0.000). This implies that the Credit appraisal and approval procedures highlighted in the existing credit policy had a positive relationship to bank's performance. This is an indicator that the better the implementation of the Credit appraisal and approval procedures, the better bank performance.

The positive relationship could be explained by the fact that Credit appraisal and approval procedures were mainly followed for existing customers as opposed to new entrants. This meant that the existing customers could have already created a working relationship and already contributing to the bank performance. The challenge came with new customers who are sometimes offered credit without much knowledge about their financial discipline. This is because many of the sales executives and marketing officers were after hitting their monthly sales target so that they don't lose their jobs due to non – performance. In case of default debt, recovery for such clients was a challenge and it ended up affecting the overall bank's performance.

A correlation analysis between credit monitoring and performance resulted into a rank correlation value of (=0.543, sig. = 0.000) showing a positive correlation relationship between 2 variables. This implies that if implementation of credit monitoring procedures is done, it will result into better performance. Therefore at 0.05, the null hypothesis is rejected and research hypothesis is accepted to the fact that credit monitoring procedures influences performance in selected commercial banks.

According to Bass, (2004), credit monitoring is a key function of the credit policy and ultimately affects performance it therefore needs organization of a team in such a way that they are competent in handling emergency work like getting outstanding balances as well as a more detailed work like account reconciliations. Existence of credit control section working in hand with the sales department ensured close monitoring of the debt which had a positive effect on performance. More so, credit monitoring attributes such as timely notification of customers as they approach credit limits, prompts updating of client accounts with payments and regular sending of customer statements leads to minimal default.

Correlation analysis between debt collection strategy and performance yielded a rank of correlation value of (r= 0.695, sig. = 000) this depicts that there exists a positive relationship between debt collection strategy and bank performance which implies that the debt collection strategy employed by the banks credit control affect performance in the positive direction. Therefore at 0.05, the null hypothesis is rejected and research hypothesis is accepted to the fact that debt collection strategy influences performance in commercial banks.

Regression analysis on the relationship between credit management and bank performance

All the analysis made has revealed that all the elements of credit management strategies were correlated to bank performance. However to establish the contribution of each, a multivariate tool was used. The factors used as explanatory variables of bank performance are; Credit appraisal and approval procedures, Credit monitoring procedures and Debt collection strategy.

Table 8

Regression analysis on the relationship between credit management and bank performance

Variable regressed	**Adjusted R-square**	**F-value**	**Sig.value**	**Interpretation**	**Decision on Ho**
credit management vs bank performance	0.67	96.917	0.000	Positive and Significant	Rejected
coefficients	**Beta(β)**	**t value**	**Sig.value**	**Interpretation**	**Decision on Ho**
(Constants)	0.016	0.108	.000	Positive and significant	Rejected
Credit appraisal and approval procedures Vs. performance	0.408	5.635	.000	Positive and significant	rejected
Credit monitoring vs. performance	0.307	5.987	.000	Positive and significant	rejected
Debt collection strategy vs. performance	0.306	3.394	.000	Positive and significant	rejected

Source: Primary data 2011

According to regression analysis results in table 8, credit management factors considered were collectively good explanatory variable of bank performance (F=96.92; sig=0.000) accounting for 67 of the variation in bank performance. The table further reveals that Credit appraisal and approval procedures has the largest beta coefficient (β =0.408), followed by Credit monitoring (β =0.307) and Debt collection strategy (β =0.306) at 5% level of significance. These results led to a conclusion that credit management strategies significantly influence bank performance.

This is backed by A bass (2004) who asserted that credit management affects bank performance. it therefore needs organization of a team in such a way that they are competent in handling emergency work like getting outstanding balances as well as a more detailed work like account reconciliations. Existence of credit control section working in hand with the sales department ensured close monitoring of the debt which had a positive effect on performance.

CHAPTER FIVE

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The study is based on credit management and bank performance in selected commercial banks. It was guided by four research objectives that were set to determine the profile of the respondents in terms of Age, gender, educational level, position in the bank, number of years in present position, to identify the extent of credit management in terms of credit appraisal and approval procedures, debt collection strategy and credit monitoring, to determine the level of bank performance and to find out if there is significant relationship between credit management and bank performance in selected commercial banks in Kigali-Rwanda.

Summary of findings on the profile of respondents

The first objective of this study was to determine the profile of respondents in terms of Age, gender, educational level, position in the bank, number of years in present position in the bank. The findings on this objective indicate that the majority of respondents were operational staff with (47.3%), are aged between 26-35 years. Concerning educational background, the biggest number of respondents (73.6%) is degree holders meaning that the majority were young people with active memory. Hence information obtained from them can be trusted and looked at as a true good representation of the information the researcher was looking for.

Concerning gender, 2 it can be clearly seen that majority of the respondents were males that is (53.3%) while the minority were females (47.2%). With experience, (41.8%) respondents had served for a period of 11-15 years while minority (13.6%) had served a period of 1- 5 years in the bank. Therefore this clearly indicates that information got from respondents is reliable because of their good experience in the area of study.

Summary of findings on extent of credit management

The second objective was to determine the extent of credit management in selected commercial banks in terms of credit appraisal and approval procedures, credit monitoring and debt collection. Data analysis using Statistical Package for Social Science's (SPSS) descriptive statistics revealed that the credit appraisal and approval procedures in selected banks stands at mean of 2.5 which is equivalent to poor (disagree), credit monitoring procedures and control stands at mean of 2.4 which is equivalent to poor (Disagree), Debt collection strategy stands at mean of 2.3 which is equivalent to poor (Disagree) respectively. Despite the bank's incorporating these attributes within its credit management; this has not resulted into proportional better performance.

Summary of findings on the level of bank performance

The third objective was to determine the level of bank performance in the selected commercial banks. The findings show that Bank performance stands at mean of 2.2 which is equivalent to disagree (poor) on the likert scale. This indicated existence of low performance due to lack of proper credit vetting procedures especially for new clients where there was insufficient information for the credit applicants as well as limited reference bureaus in the country. As a result of this, sometimes new clients were offered credit without much knowledge about their financial capability and as such these clients were expected to make their good obligations as they fell due but unfortunately some defaulted and yet no collateral security was held by the bank.

Summary of findings on relationship between credit management and bank performance

The fourth objective was to find out if there is significant relationship between credit management and bank performance of selected commercial banks in Kigali -Rwanda. The findings from Pearson's correlation shows a significant and positive relationship between Credit appraisal and approval procedures with performance is ($r=0.848$, sig. $=0.000$).This finding is backed by Horne (2002), who noted that there exists a direct relationship between credit appraisal and Performance. He further argued that the more liberal and well defined credit appraisal and approval procedures are, the higher the likely hood the level of receivables because more customers are willing to take credit sales and vice versa in respect to selected commercial banks.

According to Rampler (2008), there is a proportional relationship between credit terms and Performance in that if credit terms are agreeable to both parties, the better the management of trade credit and as such better performance. In accordance with selected commercial banks, credit terms moderately impacted on the banks performance in positive direction. Furthermore, the findings from Pearson's correlation show a significant and positive relationship between credit monitoring and performance resulted which into a rank correlation value of (r=0.543, sig. = 0.000) showing a positive correlation relationship between two variables. This finding is backed by (Kakuru, 2003) who argues that a firm to financially benefit from credit sales there must be a well organized and credit monitoring process in existence to minimize cases of defaulters.

This study found out that the banks credit management had well laid down monitoring procedures which positively impacted on performance although the study highlighted weaknesses in credit monitoring procedures; the offered credit was not closely monitored through timely payment notifications, prompt crediting of payments to client accounts, good coordination between sales and credit control departments and ensuring clients received their statements. These ingredients ensured that offered credit was followed up on a regular basis and in case of defaulting; the issue in most cases would not be the client ignorance of his/ her debt status.

More so, the findings from Pearson's correlation show a significant and positive relationship between between debt collection strategy and bank performance yielded a rank of correlation value of (r= 0.695, sig. = 000).This is reflected in Westerfied, 1988) findings who argues that if a firm has control over the volume of credit sales and average debt collection period parameters of its credit policy, the profitability and liquidity is guaranteed. However Delewa, (2003) argues that sometimes the debt collection strategy is not the problem but it's the quality which is of managerial concern.

CONCLUSION

The purpose of the study was to assess how credit management affects the bank performance of selected commercial banks in Kigali-Rwanda. As demonstrated by the evidence cited throughout literature review, Credit management involves the policies managers follow in receiving payments from their customers. It involves putting in place a credit policy, which is a set of clear, written guidelines that set the terms and conditions for supplying goods on credit, customer qualifications criteria, procedure for making collections and the steps to be taken in the case of customer's delinquency.

The study indicated that on the overall respondents, they were not convinced about the mechanism of screening new applicants in as far as credit approval is concerned. In this case, respondents rated credit appraisal and approval procedures to be relatively poor (mean=2.4) as indicated in the table 2.

In regard to credit monitoring procedures, the credit policy management was well laid down and documented but credit limits were not properly enforced since almost many respondents rated credit monitoring to be poor (mean=2.3) as indicated in table 3. It is evident from the study that as much as presence of a credit management, it is important in attaining good bank performance, the technology used and quality of staff in terms of experience and training is also very crucial.

The findings further revealed that there is positive relationship between the debt collection strategy and bank Performance. This was mainly due to weak implementation of credit standard and analysis procedures at credit approval level as well as reliance on telephone calls as a key means of following up on outstanding debts. There is no doubt therefore a weak screening procedure contributed to a poor bank performance. In addition, as much as debt collection strategy is vital but the existing competition in the industry also affect bank Performance in that the firm is forced to take on some clients only on the basis' of increasing its sales which may never be collectible.

RECOMMENDATIONS

Based on the research findings the following was the recommendations;

Though credit policy highlights credit standards and analysis procedures before credit approval there is a need to further streamline this function measurement criterion. This can be done through the introduction of credit ratings and scores at client approval level. Here a standard set of client vetting variables are put in place with scores for example ranging from one to ten. A threshold of the sum score upon which to approve credits is set. The client is settled based on these variables and his /her score per variable noted and the sum score of all variables is measured Vs the set threshold score. The client is approved for credit only when she/he scores the threshold value and this system of rating would be applicable to all bank clients.

In addition, there is a need to focus on mechanizism of obtaining client information externally before any credit is approved. This information might include bank statements, credit worthiness in respect to other clients and balance progress. This would act as an internal credit reference bureau for the bank and always referred to in the process of client screening. Further more staff handling clients should be encouraged to visit their business premises before and after credit approval for purposes of assessing progress, sustainability and credit monitoring.

Credit control staff needs to devise a mechanism of knowing when certain clients reach their credit limits and this can be done by purchasing /developing a program/ software that helps in credit monitoring that is capable of notifying users/ clients who have reached their credit limits. For example if a client has exceeded his/her credit period, the software warns the responsible manager/generates a reminder for approval. In this case, credit control will be more involved in following up client accounts more effectively. The software should as well have the capacity to put in consideration coordination linkage between credit control, design house, booking office and the sales executive.

Management should come up with client incentives in cases of advance payment and disincentives for the case of breach of credit terms. Incentives would aim at encouraging early payment for goods and service. This can include issues like setting up a discount structure for early payment. Disincentives would discourage defaulters and an example is to consider charging of interest on debts that are highly overdue such types or incentives and disincentive should be well documented in the credit policy and made known at all credit approval levels.

Areas for further research

On the basis of the findings in this study, the researcher recommended the following areas for the future research.

1. Assessment of how credit policy management can be used as a competitive marketing tool in business.

2. Interest rates and performance of commercial banks.

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APPENDIX I-A

KAMPALA INTERNATIONAL UNIVERSITY
EXPLORING THE HEIGHTS

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Fax: +256- 41- 501974
E- mail: admin@kiu.ac.ug,
Website: www.kiu.ac.ug

OFFICE OF THE COORDINATOR, BUSINESS AND MANAGEMENT
SCHOOL OF POSTGRADUATE STUDIES AND RESEARCH (SPGSR)

August 21, 2011

RE: REQUEST FOR TUKUNDANE ADONIAMBA/42858/92/DU TO CONDUCT RESEARCH IN YOUR ORGANIZATION

The above mentioned is a bonafide student of Kampala International University pursuing a Masters of Business Administration.

He is currently conducting a field research of which the title is **"Credit Policy Management Strategies and Bank Performance in Selected Commercial Banks in Kigali Rwanda."**
Your organization has been identified as a valuable source of information pertaining to his research project. The purpose of this letter is to request you to avail him with the pertinent information he may need.

Any information shared with him from your organization shall be treated with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,

Mr. Malinga Ramadhan
Coordinator
Business and Management, (SPGSR)

"Exploring the Heights"

APPENDIX I1-A

APPOINTMENT LETTER

BAKO POPULATRE DU RWANDA
ANNEX BRANCH
TEL: +250 5666324567
Kigali 25th August 2011

To: Mr .TUKUNDANE ADONIA

RE: your request for Research

Dear,

Referring made to your letter wrote in August 21 2011 attached with KIU's recommendation regarding to your research opportunity, the Branch Management Team with pleasure to inform you that your request has been accepted and you should start immediately as you wished.

Thank you and you are well come.

DARASA TOM

Branch Manager

APPENDIX II1-A

APPOINTMENT LETTER

GATETEE BANK

GATETEE BANK ltd
Head office
Kigali road
P.O Box 5722 Kigali Rwanda
Tel phone:+250 586300222

Date 10th /06/2011

TO: **TUKUNDANE ADONIA**

<u>RE your request of research</u>

Dear:

In response to your recommendation letter requesting to conduct your research in our institution Gatetee Commercial Bank of Rwanda, has pleasure to inform you that you are allowed to conduct your research according to your topic

"Credit management and bank Performance of selected commercial banks in Kigali Rwanda."

Regards

Musa Victa.

Branch' manager

APPENDIX 1 B

TRANSIMITAL LETTER FOR RESPONDENTS

____

Dear Sir/madam

Greetings!

I am a candidate for Masters in Business Administration at Kampala international university with a thesis on **"Credit management and bank Performance"** in selected commercial banks in Kigali- Rwanda. As I pursue to complete this academic requirement, May I request your assistance by being part of this study? Kindly provide the most appropriate information as indicated in the questionnaires and please do not leave any item unanswered. Any item from you shall be for academic only and will be kept with utmost confidentiality and will be used for academic purposes only.

May I retrieve the filled out questionnaires after 2weeks after you receive them? Thank you very much in advance.

Yours faithfully,

TUKUNDANE ADONIA.

APPENDIX 111

INFORMED CONSENT

In signing this document, I am giving my consent to be part of the research study of Mr. TUKUNDANE ADONIA on credit management and bank performance in selected commercial banks in Kigali- Rwanda.

I shall be assured of privacy and confidentiality and I will be given the option to refuse participation or withdrawal my participation at any time.

I have been informed that the research is voluntary and that the results that will be given to me if I requested for it.

Initial:..............................

Date:...............................

APPENDIX 1v A

FACE SHEET: PROFILE OF THE RESPONDENTS

Gender ....

Age ....

Level of education ....

Experience ....

Job position ....

APPENDIX 1v B

QUESTIONNAIRE TO DETERMINE THE EXTENT OF CREDIT MANAGEMENT

Please respond to the options and kindly be guided with the scoring system below. Write your rating in the space provided.

Mean Range	Score	Response Mode	Description
3.26 -4.00	4	strongly Agree	you agree with no doubt at all
2.6 -3.25	3	Agree	you agree with some doubt
1.76 -2.50	2	strongly Disagree	you disagree with no doubt at all
1.00 -1.75	1	Disagree	you disagree with some doubt

Credit appraisal and approval procedures

____ (1). Credit vetting policy, processes & procedures are well documented

____ (2). Additional information about credit applicants is always sought from external Sources before credit is given

____(3). Credit vetting of existing customers is done before additional credit for other Services are granted

____(4).There is a well established credit reference bureau in the bank

____(5).There is a credit vetting team that reviews & takes decisions on credit Applications

____(6).Clients are screened to establish whether they are credit worth with other banks

____(7).Clients bank are visited and vetted before credited approval

____(8).Client's bank statements are reviewed before credit approval

____(9).Sales & credit control staff are coordinated on vetting of customers

___(10).Collateral security is sought from a client before credit approval

Credit Monitoring Procedures and Credit Control

___(11).The bank has a credit control department which monitors receivables (loans)

___(12).The roles of credit department and sales department in credit policy

Management are clearly defined

___(13).Customers are notified in time to make payments as they approach the credit

Limits

___(14).Customers are not allowed to exceed their credit limits and are suspended

Automatically when the limits are reached

___(15).There are no cases of under due influences on the credit control team from

Senior management

Debt Collection Strategy

___(16).your bank dedicated account managers who contact people to handle both

Payments and complaints for all services

___(17).Follow up of outstanding debts is done mainly through telephone calls

___(18).Regular personal visits are done by debt collection team to follow up debts

___(19).Reminder letters are regular sent by the bank when accounts are over due

___(20).Occasionally the legal department is involved in the debt recovery

___(21).sometimes members of senior management get involved in collection of debt

___(22).Private debt collection agencies and bailiffs are hired by the bank to collect

Overdue accounts

Thank you.

APPENDIX 1v C

QUESTIONNAIRE TO DETERMINE THE LEVEL OF THE BANK'S PERFORMANCE

Please respond to the options and kindly be guided with the scoring system below. Write your rating in the space provided.

Mean Range	Score	Response Mode	Description
3.26 -4.00	4	strongly Agree	you agree with no doubt at all
2.6 -3.25	3	Agree	you agree with some doubt
1.76 -2.50	2	strongly Disagree	you disagree with no doubt at all
1.00 -1.75	1	Disagree	you disagree with some doubt

___(23).The level of debtors has been decreasing every financial year

___(24).The profitability of the bank has been increasing in the past 3 years

___(25).Your bank Continue to offer new banking products to its clients

___(26).Debt default rate is declining among the borrowers over the 3 past years

___(27).There have been reduction of bad debts over the past 3 years

___(28).Your bank has improved the quality of its customer services-like quick loan Process

___(29).Your bank has increased borrower outreach through diversification of products

___(30). Your bank has increased its Capital base due to high demand for banking Services from borrowers

___(31).Your bank assets continues to grow over the 3 past years

RESEARCHER'S CURRICULUM VITEA

To document the details, his competency in writing a research and to recognize his effort and qualification, this part of the research report is thus

Personal profile

Name	:	TUKUNDANE ADONIA
Gender	:	Male
Date of birth	:	09-10-1983
Marital status	:	Single
Nationality	:	Ugandan
Tel. No.	:	+256774344080
Email address	:	adoniatukundane@yahoo.com

Education background

Master of Business Administration Finance and Banking KIU	2010- 2011
Bachelor of Business Administration Finance and Banking KIU	2006-2009
UACE plus Two High School Bushenyi western Uganda	2004-2005
UCE Kyabugimbi Secondary School Bushenyi	2000 – 2003
PLE Kajunju primary school Bushenyi	1992-1999

REFEREES

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Ministry of defense