THE ROLE OF CREDIT MANAGEMENT ON FINANCIAL PERFORMANCE

By Dr Gabriel Alier Riak* and PhD Candidate Dut Bol Ayuel Bill
Upper Nile University

Corresponding Author: -

Abstract: -

The study examine the role of credit management on financial performance
This is the function within a bank or company to control credit policies that will improve revenues and reduce financial risks.
A key requirement for effective credit management according to the scholars like Parrenas, (2005), is the ability to intelligently and efficiently manage customer credit lines_ In order to minimize exposure to bad debt, over-reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns (AlTamimi and Al-Mazrooei, 2007. It should be noted that the firm's credit policy is greatly influenced by economic conditions (Pandey, 2008). As economic conditions change, the credit policy of the firm may also change. Microfinance Institutions and other finance institutions must develop a credit policy to govern their credit management operations (Pandey, 2008) and since microfmance institutions generate their revenue from credit extended to low income individuals in the form of interest charged on the funds granted (Central Bank Annual Report, 2010) the loan repayments may be uncertain. The success of lending out credit depends on the methodology applied to evaluate and to award the credit (Ditcher, 2003) and therefore the credit decision should be based on a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower

Keywords: - *role of credit management, financial performance*

CHAPTER ONE

1.0 INTRODUCTION.

This section covers the background of the study, statement of the problem, purpose of the study, research objective, research questions, and the scope of the study and the significance of the study.

In the whole world commercial bank is financial institution which accepts deposits, makes business loans, and offers related services (Fernando 2006). Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit These institutions are run to make a profit and owned by a group of individuals, yet some may be members of the Federal Reserve System. While according to Home (2007) commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses

A commercial bank is a bank that provides services such as accepting deposits, making business loans, and offering basic investment products (Anthony 2006), Commercial bank is a division of a bank that mostly deals with deposits and loans from corporations or large businesses (Westerfield&Jordan2008). In the US the term commercial bank was often used to distinguish it from an investment bank due to differences in bank regulation.. After the great depression, through the Glass—Steagall Act, the U.S. Congress required that commercial banks only engage in banking activities, whereas investment banks were limited to capital markets activities

In South Sudan, government has made a lot of reforms in the banking industry- to ensure that there is effective policy of regulating all the commercial bank in the country and this is done through the bank of south Sudan which provides guideline and formulates policies when they are providing functions to the business institutions and private individual these functions include. Processing of payments by way of telegraphic transfer, internet banking, or other means, issuing bank drafts and bank cheques, accepting money on term deposit, lending money by overdraft, installment loan, or other means and providing documentary and standby letter of credit, guarantees, performance bonds, securities underwriting commitments and other forms of off balance sheet exposures. In South Sudan capital city Juba commercial bank has played importance functions such advancement of credit facilities to business institutions this has led to transformation of South Sudan economy and audition of foreign investments from around East

African region and other parts of the continent Credit management is the process of controlling and collecting payments from customers

(Lawrence 2007). This is the function within a bank or company to control credit policies that will improve revenues and reduce financial risks.

A key requirement for effective credit management according to the scholars like Parrenas, (2005), is the ability to intelligently and efficiently manage customer credit lines_ In order to minimize exposure to bad debt, over-reserving and bankruptcies, companies must have greater insight into customer financial strength, credit score history and changing payment patterns (AlTamimi and Al-Mazrooei, 2007. It should be noted that the firm's credit policy is greatly influenced by economic conditions (Pandey, 2008). As economic conditions change, the credit policy of the firm may also change. Microfinance Institutions and other finance institutions must develop a credit policy to govern their credit management operations (Pandey, 2008) and since microfmance institutions generate their revenue from credit extended to low income individuals in the form of interest charged on the funds granted (Central Bank Annual Report, 2010) the loan repayments may be uncertain. The success of lending out credit depends on the methodology applied to evaluate and to award the credit (Ditcher, 2003) and therefore the credit decision should be based on a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower. Numerous approaches have been developed in client appraisal process by financial institutions. They range from relatively simple methods, such as the use of subjective or informal approaches, to fairly complex ones, such as the use of computerized simulation models (Horne, 2007

In the view of Jordan (2008) Financial performance; is a Subjective measure of how well a firm can use assets from its primary mode of business and generate revenues, this term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar films across the same industry or to compare industries or sectors in aggregation_ However, according to Neri (2001), financial performance is aimed at long-term profitability. To Jermanis, (2006), the higher the corporate revenues, the more likely the business will post rosy financial results. Haynes, &Senneseth (2001), stated the company with a low merchandise expense can adeptly manage its gross margin and increase profitability indicators over time. Lee, (2008), also stressed that the lower a company's inventory expense, the higher it's gross margin Sale Revenue: Sales revenue drives a company's profitability engine to commercial success. According to Rarnana (2005), he concluded that top leadership spends a sizable amount of time figuring out the best way to increase sales and establish appropriate marketing strategies. Corporate income may stem from selling goods, providing services, buying and selling financial products, anything in between or all of the above. However, according to Neri (2001) the main goal is to fuel long-term profitability and bring enough cash into corporate coffers so investors see the business as an attractive funding opportunity. In the research carried out by Jermanis(2006) the higher the corporate revenues, the more likely the business will post rosy financial results.

According to Liargovas,p, &Skandalis,k. (2008). _Cost of sale consists of money a business ponies up to buy raw materials and manufacture work-in-process items and finished goods. Heinemann and Reddy, (2001); Stated that Operating charges or operating expenses, as finance people call them range from office supplies and litigation to regulatory fines, rent, depreciation, shipping and utilities, the higher the charges, the lower the net result at the end of a given period such as a quarter or fiscal year, Company principals know that monitoring inventory expense is essential, but they also understand the importance of operating charges so investors don't use these costs as an eventual bargaining chip when the business seeks operating cash later on. Neri, (2001) stated that financiers might require that top leadership cut operating costs as a condition for financial assistance, and this scenario could force department heads to close factories and terminate personnel. Merika.& Skandalis (2006). Confirmed that net Income use when comes to comparing a corporate performance data with rivals' information. As a key profitability indicator, net income tells financial statement readers whether a business is experiencing fits and starts or whether it's a competitive force.

1.3 Problem statement

The nature of credit policy used in the commercial bank plays a big role in its financial performance. Equity Bank of South Sudan has experienced delayed payment by credit customers, diversion of loan funds, unreliable information, modified borrowing and default by some customers, This can be evidenced by the reduced recovery of loans disbursed from

g3.5%in 2004 to 66.8%in 2006 (Finance Trust Annual report 2012-2013) This has been due to nature of some collateral security like chattles, frustration in business, natural disasters, and high interest rate. To solve the above, the bank has requested for guarantors, monitoring of creditors and their business, legal action and sell of the collateral security_ Despite the above efforts, delayed payment and default continued. This could be due to the nature of credit policy. If the situation persists, the bank will continue losing lot of funds thus becoming a cost burden to thestake holders

13 General objectives

To study to assess the effectiveness of credit management systems on loan performance in micro finance institutions

1.3.1 Specific objectives of the Study

(i) To examine the effects of credit management on financial performance of commercial bank.
(ii) To establish the effects of others factors on financial performance commercial bank.
(iii) To examine the relationship between of credit management and financial performance of commercial bank_

1.4 Research Questions

- What are the effects of credit management on financial performance of commercial bank?
- What are the effects of other factors on financial performance of commercial bank?
- What relationship exists between the impacts of credit management and performance of commercial bank?

1.5 Scope of study

The study will focus on subject of the study, geographical scope and time scope of the study

1.5.1 Subject Scope

The research will focus on impact of credit management and performance of commercial bank

1.5.2 Geography Scope

The research will be carried in Royal Express bank in Juba City because it is one of the baggiest indigenous commercial bank In Juba.,

1.5.3 Time Scope

The study will cover period of 5 months, this period being the most recent and given the limited research time.

1.6 Significance of the Study

These findings will be used by policy likes government to improve in credit management and risk the risk involved in credit management

i) They finding will be very important to management of any business organization to have better policy of credit management in order to avoid bad debts

ii) This research also help researchers in furthering knowledge in the any other research to be carried on regards credit management and other variables

CHAPTER TWO
LITERATURE REVIEW
2.0 Introduction
This study will cover the review of related literature by other scholars on the effect of credit management on financial performance of banking institution and this will be in relation with the specific objectives of the study

2.1 The of credit management on performance of commercial bank
Credit is the money that is owed to a business or firm_ This arises when there is a gap or time lag between the points when credit is acquired and when payment is received from the client (Kalcitru, 2000). Credit policy is a framework formulated by an organization as a guide to credit decision,(Kakuru,2000). These involve guidelines on the analysis of credit worthiness of a customer, terms and conditions of credit and assessment of the ability to monitor the credit.
He further says that credit policy is a set of policy actions designed to minimize costs associated with maximizing the benefit.

Consumer credit is a philosophy of 'buy now; pay later" the organization delivers a service, a product now and allows a delay in receiving payment from the consumers_ The credit supplier must gain an acceptable level of confidence to extend the maximum of credit at the lowest possible risk of loss.

2.1.1 Credit Policy
According to **Banker (2012),** credit policy is an institution's method of analyzing credit request and its decision criteria for accepting or rejecting application. The term credit policy is used to refer to a combination of three decision variables including credit standards, credit terms and collection efforts (Ssewagudde 2000).
Credit policy; is a frame work which provides the guidelines, procedures and responsibilities involved in measuring, monitoring and controlling loan default risk. According to Ssewagudde (2000), a credit policy should provide parameters define responsibilities and establish a system of checks and balances. It should include general policies, specific loan strategies, miscellaneous loan policies and quality control committees whose role is to guide the credit decision taken by the bank. A credit policy should be specific, clear, concise, and relevant and should be supported by credit procedures.

2.1.2 Credit procedure
Credit procedures are steps clarifying the techniques used by the bank to execute its credit policy. Credit directives on the other hand are those to address credit policy issues in response to the market and economic changes. Credit directives provide general parameters for the type of clients and market the bank is willing to serve, the loan concentration levels and the acceptable risk in each market and industry. According to Fredrick (2010) when a bank strategy, credit policy procedures and directives have been carefully formulated and administered from the top and well understood all organizational levels, it enables the bank to maintain proper credit standards, avoid excess risk and evaluate business opportunities properly. Credit procedures are steps clarifying the techniques used by the bank to execute its credit policy (Gitman 2007) credit directives on the other hand are those to address credit policy issues in response to the market and economic changes_ Credit directives provide general parameters for the type of clients and market the bank is willing to serve, the loan concentration levels and the acceptable risk in each market and industry.

2.1.3 Credit Standard
Credit Standards are criteria which a firm follows in selecting customers for the purpose of credit extension (Gudara and Soumare2010) credit standards provide guidelines for determining whether to extend credit to a customer or not how much credit to extend. In order to analyze customers and set credit standards (Gudara and Soumare 2010),
It is defined as the length of time of net date and that a firm's credit period is governed by industry norms depending on its objectives of the firms (Sernukono, 1997), it can lengthen the credit period, on the other hand the firm may tighten the credit period if customers are frequently building up debts. credit evaluation procedures are accomplished and the decision to advance credit is made, then the process of credit negotiation takes place.
A proper negotiation process will also result a better quality loan portfolio. It ensures that the banker gives to the customer a credit product that is profitable and credit product that will be paid timely_ According to Chester (2003), banks need not involve in deal that will neither involve them in losses, nor involve their clients in loss making venture_ Once credit negotiation is completed, then the process of credit approval follows_ According to Epure and Lafuente (2012) the lender must weigh the pros and cons of specialization and concentration of lending to industry sector, groups and individuals borrowers to establish limits on their overall exposure to risk_ If the loans in the portfolio are highly concentrated and correlated with existing loans, then the lender is also concentrating loans on loan default risks. If loans portfolio risk becomes excessive, it manifests itself in the form of bad loans. High bad loans provisions and loan losses destroy the bank value (Kargi 2011)

2.2 Effects of others factors on financial performance

According to study carried by Ngok-Kisingula and Odongo (2013) they found out debt leverage is one of the factors that affect financial performance of all commercial banks. Ngok-KisingulaandOdongo (2013) they further argued debt leverage shows the degree to which a business is utilizing borrowed money. Companies that are highly leveraged may be at risk of bankruptcy if they are unable to make payments on their debt; they may also be unable to find new lenders in the future (Paudyal 2008). Leverage is not always bad, however; it can increase the shareholders' return on their investment and make good use of the tax advantages associated with borrowing (Muditomo , 2011).

According to (Liyugi 2009) financial performance of commercial Bank is affected by Taxes on income that is taxes on income deduct commercial banks incomes and other business organizations.

2.2.1 Average tax rate

The public finance literature on corporate taxation distinguishes between forward- and backward-looking measures of effective corporate tax rates (Gordon, Kalambokidis, and Sleinrod, 2007). Both measures differ from the statutory corporate tax rate, which is the nominal tax rate levied on taxable income at the corporate level_ In most countries, including Germany, the statutory rate does not depend on the level of corporate profits, and the corporate tax assessed is proportional to taxable corporate income (Fredrick 2010).

2.2.2 Board Role

According to Kuckreja, (2005) The board of director should acknowledges the rights of all interested parties envisaged by the legislation in force, and aims at cooperation with such parties in order to provide steady development and ensure financial stability of the Company. Ch an. (2005). Stated that the board of directors has primary responsibility for the corporation's external financial reporting functions, Williamson (2006) The Chief Executive Officer and Chief Financial Officer are crucial participants and boards usually have a high degree of reliance on them for the integrity and supply of accounting information

2.3 **The relationship between of credit management and financial performance**

Credit management is basically divided into three major aspects which if properly managed then credit will be considered to have been effectively handled in the company (Jackson 2011),

Those three aspects include evaluating credit, applicants advancing loans to only successful applicants and monitoring advanced loans to maintain a performing loanportfolio. Sufficient information should be collected about applications/applicants (Jackson 2011), Gurdmundssoa, Ngok-Kisingula and Odonuo (2013) examined that a firm needs to continuously monitor and control its credit clients to ensure the success of efforts, however he cautions that a firm should not extend collection periods since this delays cash inflow

s, impairs the firms' liquidly:,

Some work missing

According to Oladejo and Oladipupo (2011), both credit management policies and Joan recovery are related in a sense that credit management policies is depended upon by loan recovery; in other wards loans recovered in any financial institution after a given financial year end, depend on how the loans disbursed were managed or rather administer. Therefore if financial management is efficient, and then in return, a high rate of loan recovery will be enjoyed, while as in case the management of loans was poor, loan recovery too will be poor (Jackson 2011).

2.3.1 Financial performance:

Basing on the study carried out by Poudel (2012) financial performance is measured by using accounting ratios, profitability ratios is commonly use to measure director performance that it measures the return on capital employ return on capital employed and return on assets. Similarly, economic value added can be as an alternative to purely determine shareholder value added by the directors. Other measures of financial performance in profit making organizations are Capital adequacy, Asset quality, Management, Earnings and Liquidity which are commonly known as CAMEL Model.

The current study on private institution by Knobena&Oerlemansab(2006), Profit making organizations will measure Financial Performance in terms of actual profitability ratio, efficiency ratios, dividend yield ratios and interest cover ratios. According to Stoner (2003), financial performance is the ability to operate efficiently, profitability, survive grow and react to the environmental opportunities and threats. Jermanis (2006) asserts that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. Jackson (2011) they found out that accounting- based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively. The attributes are

2.3.2 Working Capital

According to Lai and Soumare (2010) working capital is the difference between current assets and current liabilities. Current assets are the most liquid of your assets, meaning they are cash or can be quickly converted to cash (Kandil 2006) Working capital measures what is leftover onceyou subtract your current liabilities from your current assets, and can be a positive or negative amount (Boelens 2009)

According to the study carried out by Caramani and Spathis (2006), working capital Influences Company's ability to meet its trade and short-term debt obligations, as well as to remairifinancially viable.

2.3.3 Earning per share

According to Kinthinji (2010), earnings per share are a portion of a company's profit allocated to each outstanding share of common stock. Earnings per share are a company's total earnings divided by the total number of shares outstanding (Kinthinji, 2010), But according to (Mustafa 2011) earnings per share is calculated by using annual earnings, usually after interest and taxes arid after deducting the preference shares dividends, so as to compute the portion of total profit which is attributable to the ordinary shareholders. In this case, total earnings would be divided by the total number of ordinary shares outstanding. There are three types of EPS numbers: A trailing EPS (calculated using the previous year's earnings), a current EPS uses the current year and Forward EPS is a projection for the coming year Vyasi and Manmeet (2008)

In study earned out by Jackson (2011), contended that earning per share is used as a considerable tool-indicator of a firm's performance. It measures performance from the perspective of investors and potential investors. Additionally, it shows the amount of earnings available to each ordinary shareholder, so that it indicates the potential return on individual investments. These results can be achieved by comparing the EPS of either different entities or the same entity's in different accounting periods.or even better, using both. Sometimes, the trend in EPS may be more accurate performance indicator than the trend in profit, though it is based on profit on ordinary activities after taxation (Fink, R. 2001).

2.3.4 Profitability

According to Ngok-Kisingula and Odongo(2013) profitability measures shows how the company is performing in the market compare to other company and it also measure how the management are performing in term of adding value on capital invested many studies were been carried out by many researchers such as Kolapo(2012) found out that profitability measure company performance in the market further research was also carried Simon (2008) he found out that profitability enable the company to increase its market shares and measure how the company is performing in the market

According to IASB (2006, 2008), profitability is the degree of costs, an increase in costs will decrease profits, this could include labour costs, raw material costs and cost of rent Dechow and Dichev (2002) further they contended that if a firm increases its productivity by improving technology then profits also increase.

CHARPTER THREE
RESEACH METHODOLOGY

3.0 Introduction

This section will be covering the methods and instrument that will be used to collect data for the study. It will include research design, study population, samples size, sampling methods, and sources of data collection methods and instrument, presentation, analysis and interpretation of findings

3.1 Research design

The research used a combination of descriptive and analytical cross-sectional survey. The descriptive and analytical design was appropriate because data was easily analyzed using frequency counts, averages/percentages derived from questionnaires and interviews, the cross-sectional survey was also appropriate because it captured the state of the available at a particular point in time in the different areas of an organization.

3.2 Study Population

The research was carried out in Royal Express bank and it included management, credit officers and clients of a total of 1000 people.

3.3 Sample Size

The sample 50 respondents were selected to represent the views of entire population. This was selected in different propositions as presented in the Table below

Table: showing the Study population and Sample Size

Categories of Population	Population	Sample Size
Branch manager	6	4
Credit officers	40	20
Bank accountants	40	20
Customers	14	6
Total	100	50

Source; Primary data

3.3 Sampling Technique

The design sampling was stratified random sampling to select respondents from the selected department because there was homogeneity within each department. Purposive judgmental techniques were employed because the method confined to specific types of people who provide the design information either because they are the only ones who posses it or conform to the criteria set by researcher (Kothari 2001).

3.4 Data sources

Two sources of data used, primary and secondary, through the study is basically primary sources of data given the nature of the research problems

This include the banker's arrears rate records, debtors scheduled and portfolio growths records (relating to years 2000-2004) other secondary sources included relevant text books, journal and other research reports.

3.5 Data collection sources and instrument

Administration questionnaires were given to a selected sample of banker and staff credit clients to obtain attitudes and information about the influence of effects of credit management on financial performance. Questionnaires increase the response rate due to their clarity and simplicity

3.51. Questionnaires

Self –administration questionnaires were given to select of the banker and staff credit clients to obtain attitudes and information about the influence of effects of credit management on financial performance. Questionnaires increase the response rate due to their clarity and simplicity.

3.5.2 Interviews

Faces to face consultative were carried out with different senior staff and heads of department, and other respondents deemed necessary with the help of interviews guide. The purpose of the interviews was to capture the views of different respondents in as far as designing a credit policy to solve specific in Royal Express bank financial performance.

3.6 Data Processing Analysis

3.6.1 Data processing

Data from the field was carefully classified, edited basing on clarity completeness, accuracy and consistence to ensure reliability.

3.6.2 Data analysis

Data analysis based on the objectives of the study by use of statically tests performed on collection data to draw meaningful interpretation and conclusion to given findings and suggestions. Data was presented using pie charts, bar graphs and tables

3.7 Anticipated Limitations of the study

A number of limitations were encountered; among these were the misconceptions people normally have about people carrying out research that they have a lot of money to give out to respondents.

- Fear to release information, researcher has a fear that some of the research questionnaire questions may not be answered and returns by some of the respondents because they fear to release their company information due so that fact researcher is spying their company.
- Language Barrier, as one of the limitation to the research study some of the respondents they do not understand the language especially English this makes it very difficult for the researcher to get accurate and reliable information from respondents
- Nonresponse. Most questionnaires questions not be answered returned by respondents because they it is waste their time.

CHARPTER FOUR
DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

This chapter presents analysis and discussion of the findings made from the study on the effect of credit Management on Financial performance in Royal Bank. The findings were got from a sample of credit officers, management and banking officers who's their total number was 50 people

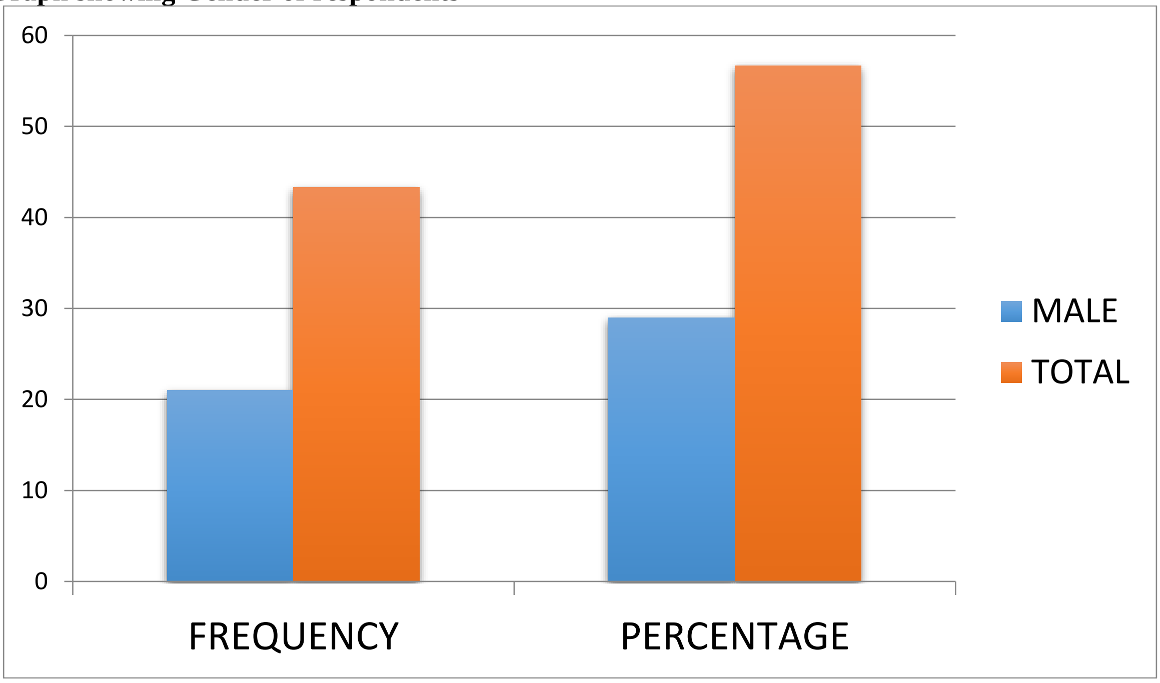
4.1 findings on Gender Bio Data of respondents

Table 4.1 Gender and Bio Data of respondents

	Frequency	Percentage
Male	21	43.3
Female	29	56.7
Total	50	100.0

From the finding researcher found out female respondents are the majority of respondents with 56.7% of total respondents that were given questionnaires questions and male were 43.3% of the total respondents that were given questionnaires question, this indicates female staffs highest number in Equity Bank compare to male staffs.

Bar Graph showing Gender of respondents



4, 1.2 Finding on Age Bracket

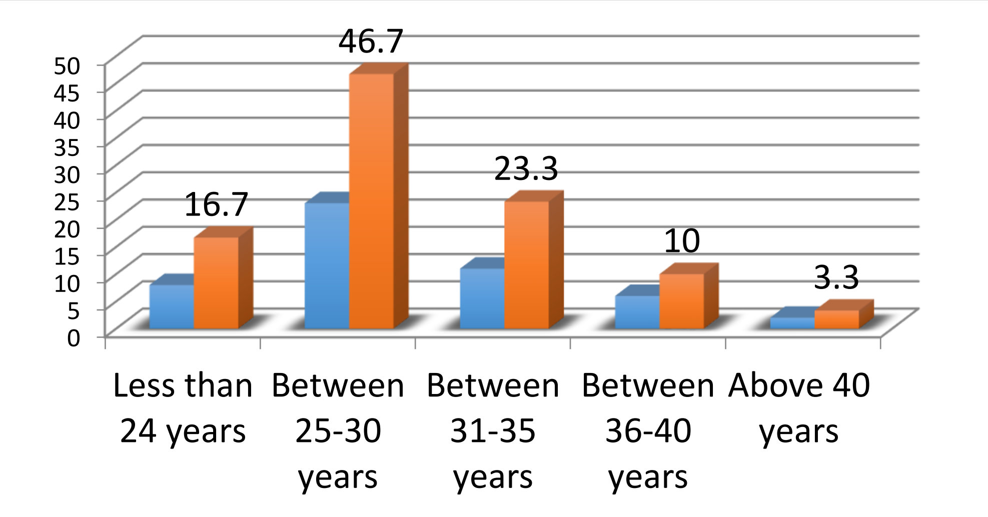
Table 4.2 Age brackets of respondents

		Frequency	Percentage
	Less than 24 years	8	16.7
	Between 25-30 years	23	46.7
	Between 31-35 years	11	23.3
	Between 36-40 years	6	10.0
	Above 40 years	2	3.3
	Total	50	100.0

Sources; primary data

Finding in tables 4.2 indicated that majority of the respondents were 46.75 which were between the age bracket of 25 to. 30 years, followed by 23.3 with the age of 31-35 years, 16.7% below 24 years, and 3.3% above 40 years. This is implies were adequate representation of the study population and data provided represented the views of age groups.

Figure 4.1.2: A bar graph showing age brackets of respondents



4, 1.3 finding on education level of respondents

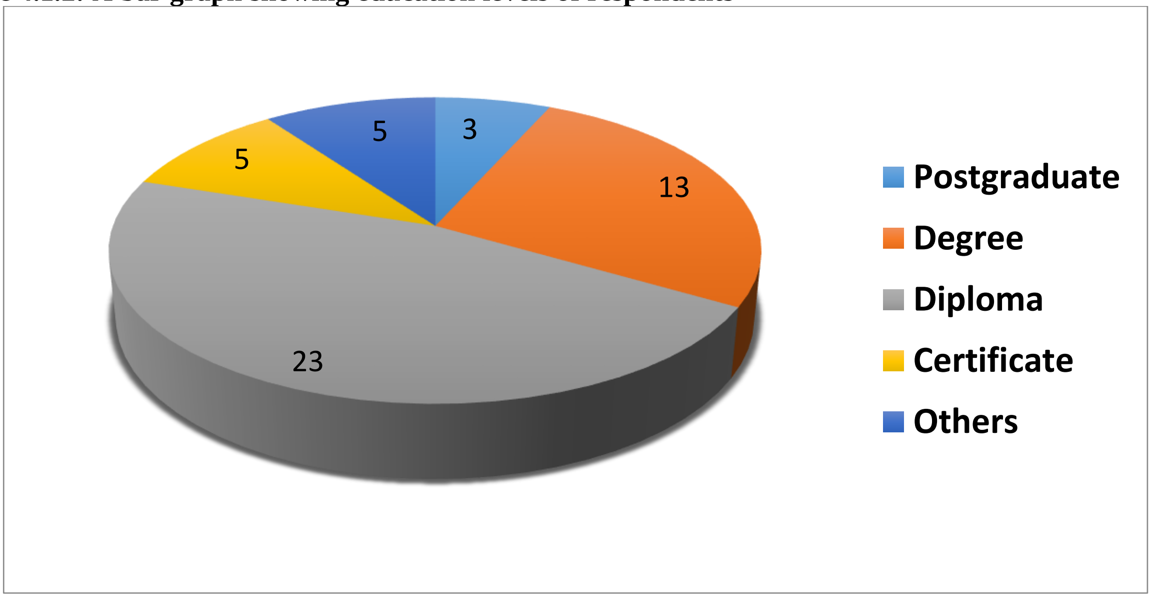
Tables 4.3 education level of respondents

		Frequency	Percentage
	Postgraduate	**3**	**6.7**
	Degree	**13**	**26.7**
	Diploma	**23**	**46.7**
	Certificate	**5**	**10.0**
	Others	**5**	**10.0**
	Total	**50**	**100.0**

Sources: primary data

From table 4.3 respondents are the majority of respondents with 46.7% of total respondents that were given questionnaires questions and male were 26.3% were disagree holder. This implies that the staffs and customers have at least a minimum level of education which makes the works easier for the management of Royal Express Bank

Figure 4.1.2: A bar graph showing education levels of respondents



4.1.4 Finding on Marital status of respondents

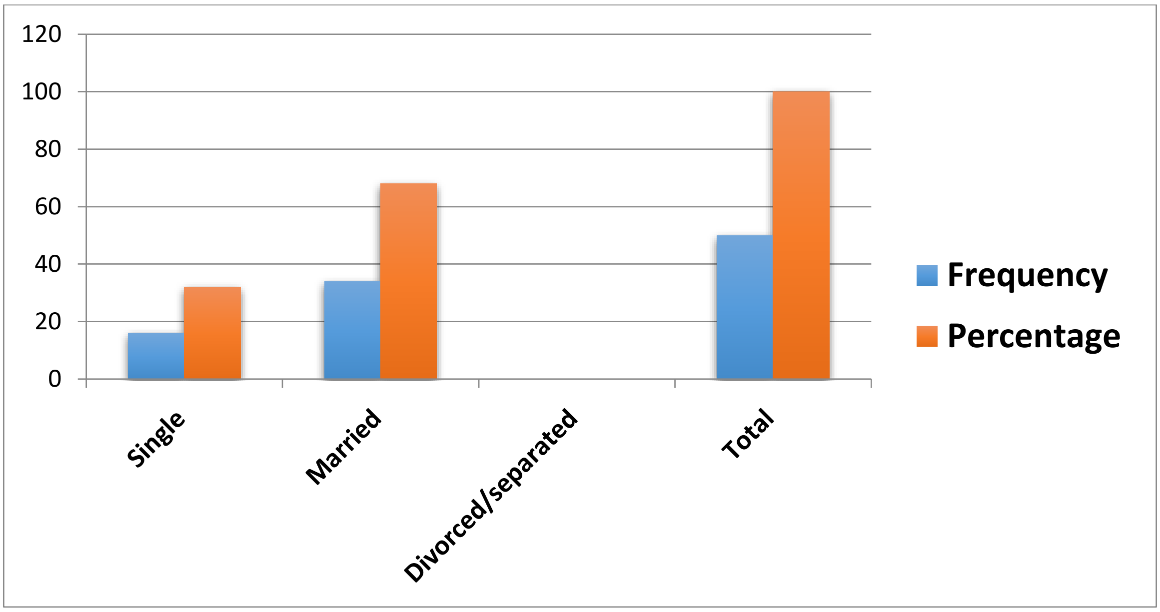
Table 1: Marital status of respondents

Status	Frequency	Percentage
Single	16	32
Married	34	68
Divorced/separated	-	-
Total	50	100.0

Sources: primary data

From 2 that indicate 68& of the respondents were married and 32% were single. The Respondents mainly married. This implies, financial performance in Royal Express bank influence by married staffs and thus the organization performance are also highly influenced by married staff compared to single and divorced/separated

Bar Graph showing married status of respondents



4, 1.5 Findings on period worked for the organization

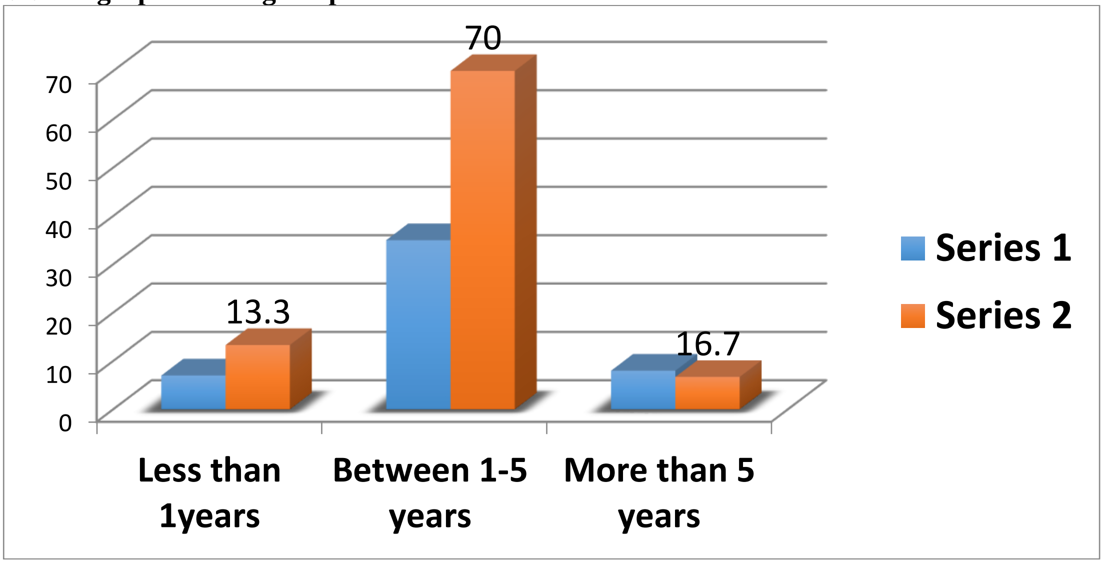
Table 4.4 periods for the originations

	Frequency	Percentage
Less than 1years	7	13.3
Between 1-5 years	35	70.0
More than 5 years	8	6.7
Total	50	100.0

Sources: primary data

Table 4,4 clearly that the biggest percentage of 70% have worked for a period of 1 to 5 years in the organization, 16.7% for more than 5 years, 13.3% for less than one years. This may implies that they are aware of current changes in the organizational policies

Figure 4.1: bar graph showing the period worked



4.2 Relationship between study variables

Spearman correlation coefficient was used to determine the degree of the relationship between the study variables as showed in the table 4.2.1 below.

Credit management (1)

Financial performance (2)

	1	2	3	4
Credit management (1)	1.000			
Financial Performance (2)	.726**	.599**	1.000	

** Correlation is significant at the .01 level (2-tailed)

Source: primary data computed

4.2.1 The relationship between internal control and financial performance

The results in table 4.2.1above indicates a positive relationship between credit management and financial performance (r=0.599, p- value ≤ 0.01) which implies that good financial performance can occur when proper credit management are used in the bank.

4.3 Regression analysis

Regression analysis was used to examine the credit management and financial performance of the bank.

Table 4.3.1 below shows the regression model for credit management and financial performance in the bank.

Model	Un-standardized coefficient		Standardized coefficient		
	βeta	Standard Error	βeta	T	Sig
Constant	13.159	13.608		.967	.388
Credit management	.502	.160	.494	-3.138	.035
Financial performance	.288	.160	.265	1.792	.148

R- Square=0.463, Adjusted R-Square= 0.235, F=34.792, Sig= 0.003

Source: Primary data computed

The results in table 4.3.1 above show a positive relationship between credit management and financial performance in the bank (F=34.792, Sig=0.0003)

Credit management (βeta=1.009) explained more to financial performance (βeta= 0.265). However, all the factors showed a positive relationship in influencing the level of financial performance. The tests used in the illustration above are reliable for giving satisfactory results that can be used for final conclusions and recommendations.

4.4 The factor loadings of credit management and financial performance.
4.4.1 Factor analysis of credit management

Table 4.4.1 factor analysis of credit management.

Variables	Credit policy	Credit procedures	Credit standards
The organization credit policies when set are implemented and followed by the bank staffs	.818		
The credit policy; is a frame work which provides the guidelines	.793		
The credit management has effect on commercial bank	.863		
The procedures are steps clarifying the techniques used by the bank to execute its credit policy		.821	
The credit directives help to identify the type of clients and markets the bank is willing to serve		.804	
There are credit procedures efforts that are applied in order to accelerate the collection from slow paying customers		.785	
The credit standards are criteria follows in selecting customers for credit extension			.869
The credit standard defined length of time that a firm's credit period is governed by industry			.851
The credit standards effort increase the firm liquidity level in the bank			.815
Eigen value	2.280	1.415	.211
Variance %	72.079	18.374	9.264
Cumulative	72.079	88.453	97.717

Source: Primary data computed

The results in the table 4.4.1 above shows the factor analysis results of the credit management; three factor were extracted, component one (Credit policy) explained 72% followed by Credit procedures with 18.4% then Credit standards with 9.3% of the variance of the credit management

The factor analysis results of credit management under credit policy attribute were explained, the organization credit policies when set are implemented and followed by the bank staffs. 81%, the credit policy; is a frame work which provides the guidelines 79% and that the credit management has effect on commercial bank 86%, under credit policy attribute, they were explained that , the procedures are steps clarifying the techniques used by the bank to execute its credit policy 86%, the credit directives help to identify the type of clients and markets the bank is willing to serve 85% and that there are credit procedures efforts that are applied in order to accelerate the collection from slow paying customers 81% with credit standards attribute, the results were explained that, the credit standards are criteria follows in selecting customers for credit extension 80%; the credit standard defined length of time that a firm's credit period is governed by the bank, 82% and that the credit standards effort increase the firm liquidity level in the bank 80%

4.4.2 Factor analysis of financial performance

Table 4.4.2 factor analysis of financial performance

Variables	Working capital	Earnings per share	Profitability
The working capital is amount of money needed daily running of business	.875		
The financial performance is measure by working capital earning per share, profitability and markets share	.790		
The bank board is responsible to set credit standard	.905		
There is earnings per share refer to the return per share in the bank		.915	
The bank fully met the management financial expectations		.823	
The use of cost of capital in discounting cash flow for organizational performance efficient for effective decision making in the bank		.814	
It is very easy to determine level of profitability in the bank			.806
The increase of costs of credit collection decreases profit of the bank			.794
The decline in profitability levels is as a result of inappropriate loan recovery policies			.769
Eigen value	2.486	0.785	0.464
Variance %	62.151	19.622	11.595
Cumulative	62.151	81.773	93.368

Source: Primary data computed

The results in table 4.4.3 above shows the factor analysis results of financial performance, three factors were explained, component one (working capital) 62.2% followed by Earnings per share with 19.6% and then the Profitability with 17.6% of the variance of the financial performance.

The factor analysis of financial performance under working capital attribute were explained that, the working capital is amount of money needed daily running of business 87%, the financial performance is measure by working capital earning per share, profitability and markets share 79% and that, the bank board is responsible to set credit standard 90%.

Under earnings per share attribute explained that; there is earnings per share refer to the return per share in the bank 91%, that, the bank fully met the management financial expectations 82%, and the use of cost of capital in discounting cash flow for organizational performance efficient for effective decision making in the bank 81%.

With profitability attribute, the results explained that, it is very easy to determine level of profitability in the bank 80%, the increase of costs of credit collection decreases profit of the bank 79% and that, the decline in profitability levels is as a result of inappropriate loan recovery policies 76%.

CHAPTER FIVE
SUMMARY AND DISCUSSION OF FINDINGS

5.0 Introduction this presents a summary of findings, conclusions and recommendations based on the study objectives

5.1 Effects of credit Management on performance of commercial bank

The findings showed that Royal Express bank its financial performance is affected by effects of credit management. In addition the findings showed that the organization sets and follows the credit policies, on centrally findings revealed that the organization do not credit standard and management The design sampling was stratified random sampling to select respondents from the selected department because there was homogeneity within each department. Purposive judgmental techniques were employed because the method confined to specific types of people who provide the design information either because they are the only ones who posses it or conform to the criteria set by researcher manager can be very the able level of receivable in keeping with the tradeoff between profitability and risk

5.1.1 Effects of other factors on financial performance of commercial bank

The findings shows that financial performance in Royal Express Bank inaffected of other factor like average tax and liquidity position of the bank this in line with the findings as seen in the table above which shows that, shows that 36% respondents agreed that there are effects credit management on financial performance of Royal Express Bank, 26% strongly disagreed 20.% strongly agreed, 33.3% not sure and 3.3% disagreed. Majority of the respondents agreed, this is implies effects management credit management on financial performance of Royal Express Bank. This findings is in line with the finding of Fredrick (2010) who postulated the credit policy when it well set and put in place and followed by staffs of the bank it helps bank to increase its performance in items of earning per share profitability.

5.1.2 Credit procedure.

The findings indicated that there is no credit procedures put in place by Royal Express Bank that are to be followed by credit office and customers. As revealed in table 4.8 the finding show 4.8 the finding showed that the Organization profit of the respondents this is implies effects management credit management financial performances who agues is a way through which a financial manager can effects the volume of credit sales and collections period and consequently investment in accounts receivable, this is through the credit procedures

5.1.3 Credit Standard

The finding indicated that there is no credit standard set by Royal Express Bank as revealed in table 4.9 the findings showed that they organization profits are declining which could be attributed to lack of credit procedures. However finding are not line Agyei (200), who argues that there is a way through which financial manager can affects the volume of credit sales and collection period and consequently investment in account receivable, this is through the changes in credit procedures

5.1.3 Credit Standards

The findings indicated that there is no credit standard set by Royal Express Bank as revealed in table 4.9, the findings showed that the financial performance of the Royal Express Bank can negatively be affected due to lack of credit standards set by the bank and this lead poor financial performance through declining of profit. However findings are not in line with Felix and Claudine (2008). Whom they augured that management must set standard to be followed by the bank staffs when giving Loan to the customers every time in order to ensure better credit management that may lead to improvement in financial performance.

4.1.4 Credit collection effort

FindingThe findings indicated that there is no credit standard set by Royal Express Bank as revealed in table 4.9, the findings showed that the financial performance of the Equity Bank can negatively be affected due to lack of credit standards set by the bank and this lead poor financial performance through declining of profit. Customers in more effectives and way. However this is in line with Hosna, and Manzura and juanjuan (2009), they contended that for organization to ensure better financial performance, credit collection effort must be enforced and monitoring over time.

5.3 Financial performances

Findings shows that 76.% respondents strongly agreed that there are effects of other factors on financial performance of Royal Express Bank, 12.% strongly disagreed 8% agreed, 4% not sure, since the Majority of this strongly agreed this implies credit management affects financial performance of Royal Express Bank. This finding agrees with the finding of Epure, and Lafuente (2013) whom they found out that financial performance is highly affected by the effect of credit management of organizations they further contended that better credit management of bank leads to the increase in liquidity and profitability of the bank.

5.3.1 Working capital

The findings shows that 44.% respondents strongly agreed that there are effects of other factors on financial performance of Royal Express Bank, 38.% strongly disagreed 14% agreed, 8% not sure, since the Majority of this strongly agreed mains that better credit management improve working capital of Royal Bank
The research carried out in banking sector of Kenya by Gumundssoa, Ngoka-Kisingul and Odongo (2013), they confirmed that working capital is one of the measurement of financial performance of bank that is the higher the working capital of any bank better financial performance, high levels of working capital is affected by better credit management of an organization

5.3.3 Earning per share

The findings reveal that 46.% respondents strongly agreed that there are effects of other factors on financial performance of Royal Express Bank, 36.% strongly disagreed 12% agreed, 6% not sure, since the Majority of this strongly agreed this implies credit management improve earnings per share of Royal Express Bank
According to research carried out in banking sector in Guanada by Gudara, and Soumare (2010), the findings was in line with this research which they confirmed that earning per share increase when banks put in place better credit management.

5.3.4 Profitability

shows that 42.% respondents strongly agreed that there are effects of other factors on financial performance of Equity Bank, 34.% strongly disagreed 20% agreed, 4% not sure, since the Majority of this strongly agreed this implies credit management improve Profitability of Royal Express Bank.
This finding is in line with the Kinthinji (200), who postulated that profitability is one of the measures of financial performance which is highly affected by the credit management.

5.4.3Relationship between effects of credit management and financial performance

The findings indicated a positive significant relationship between effects of credit management and financial performance levels of Royal Express bank by a magnitude of 83.7%
Consultation on credit management policies of financial Trust: it can be concluded that the credit policies are not fully implemented in Uganda financial trust ltd on top of failing to train the employees on credit terms and controls in place.
To establish the relationship between credit management policies and loan portfolio performance; it can be concluded that although there is a position relationship there are other factors affecting the loan performance levels of the organization. There may include: low wages and salaries, poor working environment, low motivation levels organization policies

CHAPTER SIX
CONCULSION AND RECOMMENDATION

6.0 Introduction ‘this chapters conclusion and recommdation of the finding

6.1 Conclusions of the findings

6.1.1 Effects credit Management on performance of commercial bank

The finding showed that Royal Express bank its financial performance is affected of credit management; in addition the findings showed that the organization set and follows the credit policies. On centrally revealed that the organization do not set standard and procedures that are supposed to be followed by both customers and the staffs on credit management and terms making it hard to comply with the policies are the chief influences are in agreement with Soumare (2010), who contends that credits policies are chief influences on the level of affirm accounts receivable, as with other current assets the manager can vary the level of receivable in keeping with the tradeoff between profitability and risk therefore this research concluded that effects of credit management influence financial performance in Royal Express bank that implies that this requires Equity bank to put in place all measure to take sure effects of credit management is well manage in order to being positive result in financial performance

6.1.2 Effects of other factors on financial performance of commercial bank

The finding showed that Royal Express bank its financial performance is affected of other factor like average tax rate and liquidity position of the bank this in line with findings as seen in the table above which shows that shows that 36% respondents agreed that there are effects credit management on financial performance of Royal Express Bank, 26% strongly disagreed 20. % strongly agreed 33.3% not sure and 3.3% disagreed. Majority of the respondents agreed, this is implies effects management credit management on financial performance of Royal Express Bank. This finding is in line with the finding of Fredrick (2010) who postulated the credit policy when it well set and put in place and followed by staffs of the such out of research concluded that other factor such as average tax and liquidity position affects financial performance of the Royal express bank.

6.1.3 Relationship between Effects of Credit Management and Financial performance

The finding showed that Royal Express bank its financial performance is affected of other factor like average tax rate and liquidity position of the bank this in line with findings as seen in the table above which shows that shows that 36% respondents agreed that there are effects credit management on financial performance of Royal Express Bank, 26% strongly disagreed 20% strongly agreed 13.3% not sure and 3.3% disagreed. Majority of the respondents agreed, this is implies effects management credit management on financial performance of Royal

Express Bank. This finding is in line with the finding of Fredrick (2010) who postulated the credit policy when it well set and put in place and followed by staffs of such out of research concluded that other factor such hare profitability . From the study carried out by researcher, the research confirmed there is relationship between effects of credit management and financial performance.

6.2 Recommendation

According to the findings, the following recommendation should be implemented by Royal Express Bank in order to improve financial performance:

- Setting good credit policy: Royal Expressbank should set its credit policy that help in credit management and this will help the company to improve its financial performance sustain growths.
- Credit standards: Royal Express bank should set up credit standards that are to be followed by the staffs and the customers. This help to regulate the process of giving loans and loan collection from customers
- Credit procedures: the bank must design credit procedures the helps to provide guidelines in staffs and customers
- Respond quickly to customers complaints to avoid losing them to competitors
- Improve on the quality and offer high quality products at completive prices from example interest rates being high should be revised to an attractive level.

6.3 Areas for further research

1. Loan recovery and profitability levels in MFT's further research should endeavor to carry a study on profitability levels in Micro financial institution with the emphasis on loan recovery as inappropriate loan recovery procedures could attribute to poor financial performance
2. Effects of credit services on poverty reduction in rural areas; the researcher take a serious study on persistent poverty levels looking at the credit services offered to the poor by MFT's Uganda. More so he/she should put in consideration interest rates on loan offered to the poor as they might be so high therefore scaring their ability to access the loans.
3. Credit management and financial performance in MFT's; credit management is one of the setbacks that affecting the majority of NFT's therefore a study is necessary in this area

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