LOAN MANAGEMENT PRACTICES AND PERFORMANCE OF COMMERCIAL BANKS IN UGANDA: A CASE OF EQUITY BANK, KAMPALA REGION

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A POSTGRADUATE DISSERTATION PRESENTED TO THE FACULTY OF BUSINESS ADMINISTRATION AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS DEGREE IN BUSINESS A DMINISTRATION

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I extend my sincere thanks to my course mates for all the discussions.

May God Bless you all

DEDICATION

I dedicate this work to my children Austin, Anthony, Daphine for understanding and allowing me time away to accomplish my studies, my dear wife Allen Musiime Akiiki who stood by me at all times and took care of the family while I was always away, my mother Atwooki Fedress Burolerro, brothers and sisters whose tireless encouragement and love enabled me to go through my education.

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LIST OF ABBREVIATIONS AND ACRONYMS

APT	Arbitrage Pricing Theory
BBK	Barclays Bank of Kenya limited
BoU	Bank of Uganda
CAMP	Capital Asset Pricing Model
CRM	Customer Relationship Management
EBUL	Equity Bank Uganda Limited
GAAP	Generally Accepted Accounting Procedures
MFIs	Micro Finance Institutions
MPT	Modern Portfolio Theory
NGOs	Non-Governmental Organizations
NPLs	Non Performing Loans
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
VAR	Value at Risk

ABSTRACT

Banks are expected to be socially responsible, support local communities and ensure adequate supply of credit to all legitimate businesses and consumers and to price those loans reasonably in line with market determined rates without jeopardizing the viability of the institution. Therefore, the research was aimed at examining the effect of loan management practices on the performance of commercial banks in Uganda, a case study of equity bank, Kampala region. The study's specific objectives were; to assess the effect of risk management on the performance of commercial banks in Uganda, to examine the effect of obtaining collateral security on the performance of commercial banks in Uganda and to establish the effect of loan scheduling on the performance of commercial banks in Uganda. The study was guided by Goal setting theory and Contingency Theory.

A cross-sectional study design was used. Study population was 87 leading to a sample size of 70. Data collection techniques adopted were questionnaires, interview guide and document review, where qualitative and quantitative data about loan management techniques and Equity bank performance were gathered and analyzed. Study findings revealed that there is a strong positive and significant relationship between risk management and performance of commercial banks at (R) = 74.0% with variations in performance of commercial banks are explained by risk management at 53.8% (Adjusted R Square). There was also a strong positive and significant relationship between collateral security and performance of commercial banks at (R) = 66.8% with variations in performance of commercial banks are explained by collateral security at 43.5% (Adjusted R Square). Further still it was found out that a strong positive and significant relationship between loan scheduling and performance of commercial banks at (R) = 79.9% with variations in performance of commercial banks are explained by collateral security at 63.2% (Adjusted R Square).

Finally to enhance the suitable effective performance of loan management techniques, this study ends up with some recommendations where Equity Bank Uganda Ltd should improve the training of employees of the credit department to increase awareness on the rationale for risk management to avoid incompetence, considering collateral security for loans before they are disbursed and carefully reviewing loan scheduling to enable the bank meet the increasing competition in the industry and the dynamic demands of customers.

CHAPTER ONE
GENERAL INTRODUCTION

1.0 Introduction

Financing to the firms through the bank loans is vital for the overall economy all over the world, Clarke, and Cull, (2002). World Bank report (2009) suggested that there had been an improvement in commercial bank's share of the total loan portfolio and it needs to be sustained because agriculture is a most important sector in all economies. This study focused on the effect loan management practices and performance of Commercial Banks in Uganda, a case study of Equity Bank, Kampala Region. 'Loan management practices' was conceptualized as the independent variable whereas 'performance' was conceptualized as the dependent variable.

This chapter presents the background to the study, statement of the problem, the main objective of the study, the specific objectives of the study, the research questions, scope of the study, significance and justification of the study, definition of the key terms and the conceptual frame work.

1.1 Background to the study

Access to financing is an important aspect in the business operation of commercial banks. Examining loan management and performance of commercial banks is important because if borrowers do not repay, then there may not be sufficient funds to ensure that the liquidity position of the bank is maintained. The role of recovering loans is not an easy task as clients will go out of their way to prove inaccessible to the lender/bank (Swanson et al, 2008). It is important to note that credit recovery management, be of fresh loans or old loans, is central to Non-Performing Assets (NPAs) management. When there is a loss in the commercial bank liquidity due to high levels of non-repayment, the cyclical flow of funds between the bank and the borrowers will be interrupted. The result of this is a reduction in the efficiency of the bank's operation (Greuning et al 2009).

It has been argued that credit provides command over resources and facilitates the needed liquidity (Lipton 1976). Credit is assumed to be helpful for changing the composition and distribution of production in favor of deficit producers. Improved loan management practices to formal credit are supposed to shift rural borrowing from informal market to formal institutions. This can be much helpful when risk management, collateral security and scheduling activities are well managed. The National Bank examiners said that Bank loans have played an important role in both business activities and commercial banks themselves throughout the United States of America (USA) history, the finance to the sector has been essential to performance and development of new technologies in commercial banks.

According to Montana (2012), bank debt recovery is assuming an alarming trend as its growth is looking almost unstoppable. This growth can mostly be attributed to a poor economy, risk management, collateral security and loan scheduling which affect both consumers and markets around the world. Banks are individually devising new techniques and strategies to improve their loan repayment rate. With the expansion, however, the banking industry has increasingly faced a number of risks. Credit risk is the most important one reflecting the risk of defaults that financial institutions face, particularly those small players. The recent tarnishing bankruptcies in the United States (such as WorldCom, Enron, HealthSouth, Tyco) and many other high-profile banks failures in Asia have forced many banks and financial institutions to realize the need for a viable credit risk management (Finley 2008). Non-performing loans have been a hindrance to economic stability and growth of economies. Bailey et al. (2011) study finds that in China poor financial performance and high managerial expenses increase the likelihood of obtaining a bank loan, risk management collateral security making Chinese financial institutions face huge bad debts.

In Africa, the concept of loan recovery was largely appreciated in the 1950's when most banks started opening the credit sections and departments to give loans to white settlers (Egesa 2009). In Kenya, credit was initially given to the rich people and big companies and was not popular to the poor. In 1990s, loans given to customers did not perform, which called for an intervention. The concept of loan recovery became widely appreciated by Microfinance Institutions (MFI's) in the late 90s, but again this did not stop loan defaults to this date.

Over the last decade, many financial institutions were never so serious in their efforts to ensure timely credit recovery and consequent reduction of NPAs as they are today (Kasekende, 2008). In recent years, a growing number of countries have embarked on reforming and deregulating financial systems, transforming their institutions into effective intermediaries increasing efforts on risk management, collateral security, scheduling of loans and extending viable financial services on a sustainable basis to all segments of the population. Bank lending is also based on established international standards (Egesa 2009). According to Nelson and Schwedt (2006) the banking industry has also made strides in managing credit risk. Until the early 1990s, the analysis of credit risk was generally limited to reviews of individual loans, and banks kept most loans on their books to maturity. Today, credit risk management encompasses both loans reviews and portfolio analysis collateral security and scheduling of loans. Moreover, the development of new technologies for buying and selling risks has allowed many banks to move away from the traditional book and hold lending practice in favor of a more active strategy that seeks the best mix of assets in light of the prevailing credit environment, market conditions, and business opportunities. Much more so than in the past, banks today are able to manage and control obligor and portfolio concentrations, maturities, and loan sizes, and to address and even eliminate problem assets before they create losses. Many banks also stress test their portfolios on a business line basis to help inform their overall management.

Uganda's banking sector has evolved over time from a period of "financial repression" during the 1970s and 1980s to a period of liberalization that started in the late 1980s. The sector has also undergone several policy, legal and regulatory reforms with various degrees of results. With privatization and divestiture of Government from provision of banking services the dominance of state-owned banks in the 1960s, 1970s and 1980s, decreased as several private owned banks were opened in the 1990s (Beck and Hesse, 2006). The advent of the Financial Institutions Act, 2004 was embraced with a lot of excitement by all in the banking sector. The present possibility for banks to diversify into broader range of services and products make life easy for banking entrepreneurs and managers (BoU 2010). Since then, banks have undertaken several measures in improving access to financial services to low income earners and SMEs.

Commercial banks have intensified credit recovery strategies in order to reduce bad debts and improve their loan books (BoU, 2013). Over 76% of the commercial banks in Uganda in the year 2013 noted that they had focused their credit monitoring and recovery strategies on personal or household loans while 56% had focused their credit recovery strategies on the trade sectors (BoU, 2013).

As competition intensifies, many banks continue to seek profitable ways in which to differentiate themselves from the competitors. Some of these strategies have led to extension of loans which are unsecured. Banks have continued to face on average between 20-40% bad debts written off yearly (BoU, 2010). Relatedly, from 2007 to 2012, approximately Shs3 billion was written off by one bank as bad debt. Furthermore, Non-Performing Assets Recovery Trust report 2010 revealed that 84 billion shillings was still held in their books as unrecovered debt with 31 billion shillings being from the former Uganda Commercial Bank portfolio (Finance & Trade Report, 2010).The provision for bad loans in the general banking industry increased to 4.2 per cent at the end of December 2012, from 2.2 per cent the previous year, the African Alliance Banking Sector Report (2012) shows. It is against this background that the study seeks to examine the effect of loan management practices on the performance of commercial banks in Uganda. Equity Bank was to be reviewed as a case study.

1.2 Problem statement

Banks are meant to be socially responsible, support local communities and ensure adequate supply of credit to all legitimate businesses and consumers and to price those loans reasonably in line with market determined rates without jeopardizing the viability of the institution. Thus commercial banks' performance and sustainability is of great significance to the general public regardless of whether one is an account holder or not; as their failure affects the entire economy.The financial crisis of 2007–09, also known as the global financial crisis and the 2008-09 financial crisis, is considered by many economists to have been the worst financial crisis since the Great Depression of the 1930s. It threatened the collapse of large financial institutions, which was prevented by the bailout of banks by national governments, but stock markets still dropped worldwide. In many areas, the housing market also suffered, resulting in evictions, foreclosures and prolonged unemployment. The crisis played a significant role in the failure of key businesses, declines in consumer wealth estimated in trillions of U.S. dollars, and a downturn in economic activity leading to the Great Recession of 2008–2012 and contributing to the European sovereign-debt crisis. Prudent loan repayment strategies help banks to take control of its accounts receivable and save time and potential legal hassle down the road. Commercial banks in Uganda have emphasized debt recovery mechanisms to enable them recover debts. For instance, Equity bank has a debt recovery department and has undertaken rigorous screening measures in the credit assessment process, (Equity Bank Annual Report 2012). They have also attracted high qualified professionals in this area. It was also observed that credit department expenditure was increased by 10% (Management meeting Min 7/2014).

However, the commercial banks have persistently remained incurring debts accruing from loan default. The money lent to customers is often paid late or not paid at all, leaving the bank exposed to default risk (Equity bank's Annual Report 2012). This has led to poor quality loan portfolio, stagnated portfolio size, reduced profitability and clientele. It is not known whether poor strategies on loan risk management, less emphasis on collateral security and poor loan scheduling has contributed to this problem of undesired performance. The study therefore sought to examine the effect of loan management practices on the performance of commercial banks in Uganda.

1.3 Objectives of the study

1.3.1 General objective

The general objective of the study was to examine the effect of loan management practices on performance of commercial banks in Uganda, a case of equity bank, Kampala Region

1.3.2 Specific objectives

This study was guided by the following specific objectives:

i. To assess the effect of risk management on the performance of commercial banks in Uganda

ii. To examine the effect of collateral security on the performance of commercial banks in Uganda

iii. To establish the effect of loan scheduling on the performance of commercial banks in Uganda

1.4 Research questions

i. What is the effect of risk management on the performance of commercial banks in Uganda?

ii. What is the effect of collateral security on the performance of commercial banks in Uganda?

iii. What is the effect of loan scheduling on the performance of commercial banks in Uganda?

1.5 Scope of the study

1.5.1 Geographical Scope

The study covered Equity Bank branches in Kampala Region. There are 17 branches namely; Katwe, Ndeeba, Kyengera, Arua Park, Wandegeya, William Street, Market Street, New Taxi Park, Ovino, Venus, Kabalagala, Nakulabye, Oasis, Kawempe, Kajjansi, Buganda Road and Kasangati. These branches were chosen because they deal with a big number of businessmen who usually take out both small and big loans from the bank, hence exposing the bank to a risk of bad debts and or late payments.

1.5.2 Content scope

The study focused on the loan management practices and performance of commercial banks in Uganda. Specifically, the study assessed the loan risk management, collateral security and loan scheduling as dimensions of independent variable and dependent variable was measured by loan book quality, profitability, portfolio size, clientele and return on capital employed.

1.5.3 Time scope

The study focused on a period of five years. That is the period between 2011 and 2016. This is the period when Equity Bank operations started witnessing increase in their loan portfolio that exposed the bank to credit risk. This is the period when the organization experienced a significant drop in debt collection performance.

1.6 Justification of the study

As challenges posed by difficult economic development continue to increase, banking institutions are subsequently exposed to increasing risks. The magnitude of non-performing credits in the banking system is a cause for concern to different stakeholders, including shareholders who allocate huge resources as capital for the bank, bank management which grant the loans, depositors whose funds has been misappropriated and trapped and regulatory agencies responsible for protecting the banking system.

Ugandan banks have also continued to invest huge sums of funds to credit risk management modeling with a view to maximizing returns and minimizing bank's risk exposure through provisions for potential loan losses. This study comes in handy to provide solutions to proper ways of credit management.

Previous studies have examined how credit management negatively impact on bank's financial performance. However, they don't focus on the impact on loan repayment. The results from these studies show that credit management strategies impact on banks performance, but the impacts are of highly uncertain magnitude and conflicting direction. This study intends to cover this gap.

1.7 Significance of the study

To policy makers, the study will provide empirical data that will assist them in formulating appropriate policy environment for the operations of banks

To bank managers, the study will provide recommendations on various credit monitoring strategies. This would significantly help them in reviewing credit assessment procedures and policies, credit appraisal techniques among others

To academicians, the study will also add value to the existing knowledge in the strategic management and finance discipline. It would also form the basis upon which other related and replicated studies can be based on and also suggest potential research areas for future researchers.

1.10 Definition of key concepts

Credit Risk: the possibility that funds granted as loans/overdraft would not be repaid either fully or nothing at all and allow the lender incur a loss

Credit default: The study adopts the definition of Abel and Eberly (2004) who defined credit default as the failure of the borrower to repay a loan in accordance with the terms of the lender.

Loan delinquency: a credit facility with repayment overdue. Refers to the failure to repay an obligation when due or as agreed. Finance: amount of past due balances determined on either a contractual or a recency –of – payment basis.

1.8 Conceptual Framework

Mugenda and Mugenda (2003) define a conceptual framework a hypothesized model identifying the model under study and the relationship between the dependent and independent variables. Kothari (2004) defines an independent variable also known as the explanatory variable as the presumed cause of the changes of the dependent variable, while a dependent variable refers to the variable which the researcher wishes to explain. Below is a figurative representation of the variables to be explored by this study.

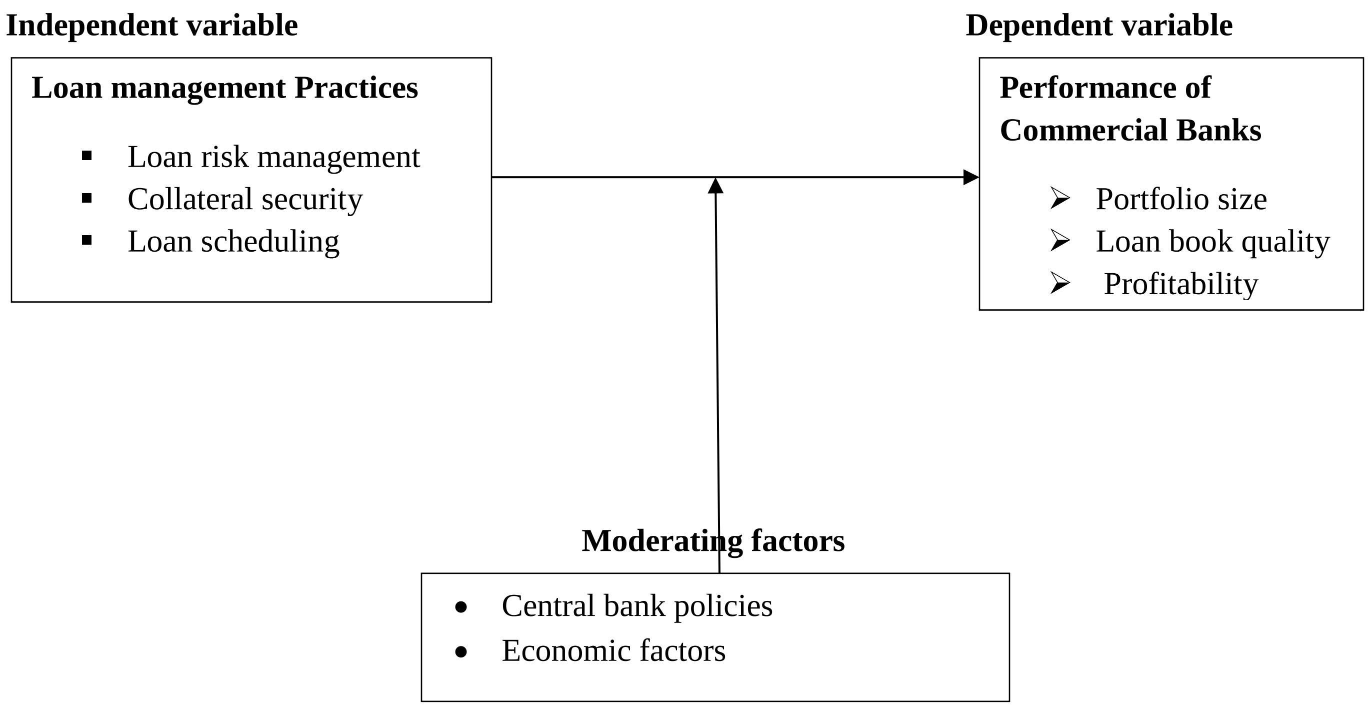

Figure 1: Conceptual framework on loan management practices and performance of commercial banks

Source: adopted and modified by the researcher from Egesa (2009) and Greuning et al (2009).

As illustrated by the conceptual framework, the independent variable is Loan management practices. On the other hand, performance is the dependent variable. It is presumed that effective Loan management practices such as loan risk management, collateral security and loan scheduling may lead to the increased levels of performance of commercial banks in form of portfolio size, loan book quality and profitability. The presumed relationship between the two sets of variables is hypothesized to be moderated by regulatory policies such as central bank - Bank of Uganda (BoU) policies, Customer Relationship Management (CRM) rules and economic factors such as high interest rates and inflation. In recent years, a growing number of countries have embarked on reforming and deregulating financial systems, transforming their institutions into effective intermediaries increasing efforts on risk management, collateral security, scheduling of loans and extending viable financial services on a sustainable basis to all segments of the population. Bank lending is also based on established international standards (Egesa 2009). Additionally, it is important to note that credit recovery management, be of fresh loans or old loans, is central to Non-Performing Assets (NPAs) management. When there is a loss in the commercial bank liquidity due to high levels of non-repayment, the cyclical flow of funds between the bank and the borrowers will be interrupted. The result of this is a reduction in the efficiency of the bank's operation (Greuning et al 2009).

1.11 Conclusion

The chapter has discussed the background of the study which emphasizes that high levels on non-repayment of debts leads to loss of commercial back liquidity. Furthermore, the banking industry has experienced credit risk which has been attributed to poor management and a poor economy among others. Due to competition, many commercial banks have devised strategies some of which have led to extension of loans which are unsecured. The chapter further brings out the missing gap where despite the debt recovery mechanisms adopted by the banks, performance has remained poor. Additionally, the conceptual framework is provided which explains the relationship of the variables involved in the study.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

The broad objective of this study was to determine the effects of loan management practices on loan recovery of commercial banks. In light of this, this chapter reviews empirical studies on loan management practices and performance of commercial banks. The chapter covers theoretical review, actual reviews done objective by objective and conclusion.

2.2 Theoretical review

2.1.2 Goal setting theory

The goal-setting theory by Latham and Locke (2002) as cited in Kyakulumbye (2013) highlights mechanisms that connect goals to performance outcomes, direct attention to priorities, and focused mind and efforts. Goals challenge employees of commercial banks to bring their knowledge and skills to bear and to increase their chances of success. The more challenging the goal, the more people will draw on their full repertoire of skills (Locke & Latham, 2002). The theory emphasizes goal setting and encouragement of decision rights as a basis for performance of commercial banks. The theory observes that taking responsibility for results requires that commercial bank members are given the opportunity to influence their results favorably and have the freedom to take action. In relation to loan management practices, the above theory implies that credit staffs in commercial banks have an obligation in defining the right Key Performance Indicators that will enable them achieve the desired goals. These goals therefore, require skills and knowledge by the staffs if the banks are to perform as expected. However, the existing loan management practices in commercial banks appears to be problematic or unsatisfactory, where some employees perceive loan management as a relegated human resource function that is not done in good faith and that the exercise rarely improved performance (MOPS 2008).

2.1.2 Contingency Theory

Contingency theory is not a new theory in organizational research because it has well established concepts in organizational literature (Sauser, Reilly & Shenhar, 2009). According to Islam and Hu (2012), contingency theory is an approach to the study of organizational behavior in which explanations are given as to how contingent factors such as technology, culture and the external environment influence the design and function of organizations. The theory was developed from the sociological functionalist theories of organization structure such as the structural approaches to organizational studies by Chenhall (2003) and Woods (2009).

The assumption underlying contingency theory is that no single type of organizational structure is equally applicable to all organizations. Rather, organizational effectiveness is dependent on a fit or match between the type of technology, environmental volatility, the size of the organization, the features of the organizational structure and its information system. In some other literature, contingency theory is still regarded as a dominant paradigm in management accounting research (Cadez & Guilding, 2008).

According to Flamholtz, Das, and Tsui (1985), contingency theory has been studied along three main traditions, namely: sociological, administrative and psychological perspectives. The focus of sociological perspective is on the entire organization and the larger groups within it. In this perspective, structural mechanisms of rules, policies, hierarchy of authority or coordinative units obtain control (Flamholtz et al., 1985). The administrative perspective focuses on the individuals or departments within an organization. The control mechanisms employed by the administrative theorists are risk management plans, collateral security, and loan scheduling. The psychological perspective emphasizes goal and standard setting, extrinsic and intrinsic rewards, feedback or interpersonal influence.

Although contingency theory is known to be one of those theories that is usually applied in management accounting and auditing research (Abushaiba & Zainuddin, 2012), the utilization of the theory may have different effects. Equally, its effectiveness depends upon the stage or field that has been proposed (Chenhall, 2003). Much as all the aforementioned propositions are true, contingency theory still enables a researcher to systematically introduce factors to explain or predict expected phenomena (Umanath, 2003). In this study therefore, contingency theory can be used to describe the relationships between the context and structure of the loan management effectiveness and the financial performance of commercial banks, a case study of Equity bank. The researcher's view is that the effectiveness of performance in commercial banks is contingent upon the components of loan management practices.

2.2 Review of the main concepts of the study

2.2.1 Loan Management Practices

Rose, (2007) defines successful loan repayment as the ability to repay the loan as per the loan agreement and loan defaulting as the inability to repay the loan by either failing to complete the loan as per the loan agreement or neglect to service the loan. On her study on the causes of default in government micro credit programs in Kenya, she found a strong relationship between major sources of income, diversion of funds, domestic problems and loan defaulting. Debt recovery management is the process of planning, testing, and implementing the recovery procedures and standards required to restore service in the event of a component failure; either by returning the component to normal operation, or taking alternative actions to restore service (Early, 2006). Recovery Management is the acknowledgement that failures will occur regardless of how well the system is designed. The intent is to anticipate and minimize the impact of these failures through the implementation of predefined, pretested, documented recovery plans and procedures. Credit risk is the possibility that the actual return on an investment or loan extended will deviate from that, which was expected (Conford, 2000)

Examining loan management is important because if borrowers do not repay, then there may not be sufficient funds to ensure that the liquidity position of the bank is maintained (Stearns 1995). When there is a loss in the bank liquidity due to high levels of non-repayment, the cyclical flow of funds between the bank and the borrowers will be interrupted. To attain financial viability, the bank must reach operational self-sufficiency first and in order to attain operational self-sufficiency, the bank must ensure that the operational cost can cover non-financial expenses. This can be achieved by low delinquency where the bank must maintain a low delinquency rate to ensure operational self-sufficiency.

2.2.2 Performance

Performance is referred to as being about doing the work, as well as being about the results achieved. It can be defined as the outcomes of work because they provide the strongest linkage to the strategic goals of an organization, customer satisfaction and economic contributions (Hanine Salem, 2003). Performance management and measurement systems developed as a means of monitoring and maintaining organizational control, which is the process of ensuring that an organization pursues action plans that lead to the achievement of overall goals and objectives. These goals should in turn be direct manifestation of the mission and strategic orientation of an organization. At its outset, performance measures were concerned with "inputs" aspects, mainly financial resources, a practice that was later criticized and mostly abandoned.

Performance comprises the actual output or result of an organization as measured against its intended output (or goals and objectives). Business performance is defined as a composite result of all performance indicators categorized in different perspectives, views and models (D. Andreesc 2008). Performance indicators have specific relevance for the business system performance which depends on the business's vision and direction. Business performance is further seen as the cumulative results of components and their interdependences (Bontis2006). Business performance has an important area that should be looked at, that is Business Performance Management.

2.3 Actual review

2.3.1 Loan risk management and performance of commercial banks

The Board of Directors should have responsibility for approving and periodically (at least annually) review the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and level of profitability the bank expects for incurring various credit risks (Basel 2006). Senior Management should have responsibility for implementing the credit risk strategy approved by the Board of Directors and for developing policies and procedures for identifying, measuring, monitoring and controlling credit risk. Such policies and procedures should address credit risk in all of the bank's activities and at both the individual credit and portfolio levels. Banks should identify and manage credit risk inherent in all products and activities. Banks should ensure that risks of products and activities new to them are subject to adequate risk management procedures and controls before being introduced or undertaken, and approval in advance by the Board of Directors or its appropriate committee.

Ogilo Fredrick (2012) states that Loans are the largest source of credit risk to commercial banks. However, other sources of credit risk exist throughout the activities of a bank, including in the banking book and in the trading book, and both on and off the balance sheet. Banks are increasingly facing credit risk (or counterparty risk) in various financial instruments other than loans, including acceptances, interbank transactions, trade financing, foreign exchange transactions, financial futures, swaps, bonds, equities, options, and in the extension of commitments and guarantees, and the settlement of transactions. While financial institutions have faced difficulties over the years for a multitude of reasons, the major cause of serious banking problems continues to be directly related to lax credit standards for borrowers and counterparties, poor portfolio risk management, or a lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties (Basel, 1999). Operating and financial ratios have long been used as tools for determining the condition and the performance of a firm. Through the effective management of credit risk exposure, banks not only support the viability and profitability of their own business, they also contribute to systemic stability and to an efficient allocation of capital in the economy (Psillaki, Tsolas, and Margaritis, 2010)

Banks must ensure that the credit granting function being properly managed and the credit exposures are within levels consistent with prudential standards and internal limits; and must further have a system in place for early remedial action on deteriorating credit, managing problem and similar workout situations. Once the decision is made to either create an internal collections unit or work with an outside collections agency, the bank must identify the position and roles in the collections process, if any, that should be filled by internal staff and selected accordingly based on the appropriate profile for each position (Horne 2007). It is important to define the roles and responsibilities of each participant in the collections process (e.g. field agents, call center, collections agencies, attorneys, etc.). This includes exact levels of participation. For example, call-center staff may contact the client, but should not negotiate payment, as they are not trained to take on this task.

The magnitude and level of loss caused by the credit risk as compared to other kind of risks is severe to cause high level of loan losses and even bank failure. Ogilo Fredrick (2012). Commercial banks should be properly managed and management should be “fit and proper” to be able to make decisions on credit risk management and that which should steer banks to high levels of profitability (Kithinji, 2010). Financial institutions are exposed to a variety of risks among them; interest rate risk, foreign exchange risk, political risk, market risk, liquidity risk, operational risk and credit risk (Yusuf,2003; Cooperman, Gardener and Mills, 2000). In some instances, commercial banks and other financial institutions have approved decisions that are not vetted, there has been cases of loan defaults and nonperforming loans, massive extension of credit and directed lending (Kithinji, 2010). Policies to minimize on the negative effects have focused on mergers in banks and NBFIs, better banking practices but stringent lending, review of laws to be in line with the global standards, well capitalized banks which are expected to be profitable, liquid banks that are able to meet the demands of their depositors, and maintenance of required cash levels with the central bank which means less cash is available for lending (Central Bank Annual Report, 2004).

Increasing amount of non-performing loans in the credit portfolio is inimical to banks in achieving their objectives. Non-performing loan is the percentage of loan values that are not serviced for three months and above (Ahmad and Ariff, 2007). Due to the increasing spate of non-performing loans, the Basel II Accord emphasized on credit risk management practices. Compliance with the Accord means a sound approach to tackling credit risk has been taken and this ultimately improves bank performance (Kolapo, T. Funso, Ayeni, R. Kolade, OKE, M. Ojo 2012)**.** According to the study carried out by Kargi (2011) on the impact of credit risk on the profitability of Nigerian banks, It concluded that banks' profitability is inversely influenced by the levels of loans and advances, non-performing loans and deposits thereby exposing them to great risk of illiquidity and distress.

Training is vital to achieving successful loan collections and good customer service. It is important to educate staff members in techniques and strategies, such as how to address the typical arguments of the delinquent client, how to relate to difficult people, what types of clients exist, tips and verbal cues for communication, the typical profile of the delinquent client, and negotiation techniques (Kagwa, 2003).Various studies have examined the impact of training on non-financial performance as turnover, quality, absenteeism and customer satisfaction. Krueger and Rouse (2008) reported that reading, writing and mathematics training had a positive effect on turnover. A majority of other studies also found that training had a positive effect on labor turnover. These results suggest that turnover has a powerful effect on employer decisions to provide training to employees.

Huppi and Feder (1990) revealed that effective monitoring leads to higher recovery of loans by exposing possible dangers (like loan diversions) and reminding borrowers of their obligations to the lending bank (i.e. calling for redoubling of efforts towards loan repayments). Monitoring of credit facilities has been concentrated typically on ensuring repayment when there are signs of defaults for either payment of interest or principal repayment by installments. Such practice, in the view of the researcher, fails to achieve desirable loan repayments since the facility might have already gone bad. The researcher believes that monitoring of loans should be total by following events right from the disbursement of the facility, ascertaining the deployment of funds on the intended project, following up and reviewing progress of the project, identifying shortcomings for possible advice through field visits and discussions, ensuring prompt repayment of proceeds from the project and advising on further expansion or re-direction of the project among others. “Armed-chair” monitoring invariably becomes a factor for non-repayment of credit facilities. Effective monitoring should be instituted by a lending institution and apprise management of the state of affairs of each project

According to PwC (2015), a financial institution should improve collections decision making by making use of advanced analytics and alternative data sources. The report adds that the bank must make its debt collections models dynamic and predictive. Many institutions rely primarily on account balances or credit scores to prioritize delinquent accounts and determine collections strategies. PwC (2015) adds that to more accurately prioritize delinquent accounts and determine enhanced collections strategies, lenders should apply analytics that consider both the probability of recovery and the expected dollar amount to be recovered. Nannyonga (2000) asserts that the primary means that banks have to identify the risk is by knowing their Customers, applying the traditional underwriting criteria known as the “Five Cs of Credit” to the transaction and understanding their markets. Although these may seem obvious, the history of Banking is rife with tales of Bankers ignoring these basic steps and jumping into a transaction without fully analyzing and managing the “downside” risk. Knowing your customers and the markets in which they invest are two of the simplest and most basic tools of understanding risk. Living, working and playing in the same community as your Borrower is a surefire way to know their business environment. It is also the best way to know what your Borrower’s reputation is for paying his or her bills. This knowledge of the customer is one of the Five Cs of Credit that Lenders use to determine risk levels. The study further concluded that there was a positive relationship between nonperforming loans management practices and the financial performance of commercial banks in Kenya which implies that the adoption of non- performing loans management practices leads to improved financial performance of commercial banks in Kenya.

2.3.2 Collateral security and performance of commercial banks

The granting of credit facilities is underpinned by the risk of being repaid when due. Williams and Heins (1985) indicated that risk identification is the process by which a business systematically and continuously identifies property, liability, and personnel exposures as soon as or before they emerge. The first step in business risk management in their view is to identify the various types of potential losses confronting the firm, and secondly, to measure these potential losses with respect to such matters as their likelihood of occurrence and their probable severity. It is therefore pertinent to assess the inherent risk of a credit facility, the existing operational management to mitigating the risk and determining the underlying actual risk. This assessment gives the idea of intended quality of the credit facility. The unlikelihood that there will be a loss arising from default at repayment of a credit facility granted is referred to as credit or default risk. The primary danger in granting credit is the chance that the borrower will not repay the loan. This therefore calls for critical assessment of any credit request with reasonable assurance that repayment would not be of much problem. A bank further covers the uncertainty of the repayment by demanding collateral.

Conventional wisdom in the banking community associates the use of collateral with observably riskier borrowers. As part of every pre-loan credit analysis, commercial lenders assess the riskiness of prospective borrowers and base the collateral requirements at least in part on this assessment.' (Berger & Udell, 1990). Hempel, Coleman, and Simonson (1986, p. 391) observe that large prime borrowers are more likely to get unsecured financing 'because [they] tend to have stronger equity support in their capital structures, more stable cash flows, and more certain investment opportunities'. The data suggest that secured loans are riskier than unsecured loans, that is, that the value of recourse against collateral does not fully offset the higher risk of secured borrowers (Berger & Udell, 1990).

According to Sinkey (1992), just as regular client contact is key to an effective collections process, so is the collection of quality client information necessary for successful client location. During the initial application process, the bank should request several pieces of information, including the client's full name, address and clear instructions on how to locate the client (map of location) telephone number and personal and commercial references. Darroch (2005) adds that during each step of the collections process and by each participant in it, this information should be verified and updated as necessary in order to facilitate seamless contact with the client throughout the process. The bank must develop tools and strategies for updating client information in the database, without compromising secure access controls or quality of information. One possible way to ensure integrity of the information is through the development of an incentive system for staff to encourage timely and accurate database updates.

Nannyonga (2000) states that a past-due committee is made up of branch staff who participates in the collections process, including loan officers, collections agents, branch managers, and others. Periodic meetings are held to discuss and analyze specific past-due clients and collections strategies and processes. During committee meetings suggestions may be offered, and participants learn from the errors identified in the evaluation and approval process/phase. The committee also discusses and analyzes portfolio statistics, challenges and achievements. The past-due committee is useful to develop a culture of good collections practices within the institution and helps provide feedback to management on the bank's collections strategies.

According to Papias & Ganesan, (2009), another methodology used to implement successful collections strategies is client segmentation. Effective client segmentation results primarily from identifying the cause of delinquency and classifying the client based on attitude, capacity to pay, solvency and location. Effective client segmentation is not achieved early on; classification is a difficult task, which is why it is important to follow up with clients and monitor the number of days any client falls past-due. As the number of past-due days increase, strategies should change as the bank and collections agents come to know the client better. At the beginning the focus is on retaining the client, but as the number of days past-due increases the focus changes to recovering the loaned funds. Segmentation is additional to the risk-level determination (data mining or score-based methodologies discussed above). However, if the institution does not have access to additional tools, the bank can apply a simple classification strategy, such as the following:

Clients who are willing and able to pay require simple collections activities. In many cases effective negotiation of new payment conditions is enough to recover the past-due amount and maintain the client. These individuals are usually clients who forgot to pay, did not receive the payment schedule indicating payment dates, or asked someone else who did not follow through to deposit their payment for them. Besanko and Thakor (1987) find that in a market where lenders are at an informational disadvantage with respect to borrower default probabilities, collateral may mitigate a credit-rationing problem. In equilibrium, low-risk borrowers pledge more collateral than high-risk borrowers. Clients who are willing but unable to pay require feasible alternatives and options. In these cases the most effective negotiating involves changing the loan conditions (restructuring, refinancing, etc.). Depending on the payment behavior after re-negotiating the conditions, this client could also be a candidate for renewal. Generally these clients have experienced an unforeseen emergency, are going through a difficult situation, are victims of an investment gone bad, or are outspending their income. Clients who are able but not willing to pay require banks to ponder a question is the lack of payment due to problems with the quality of service offered to this client? If the answer is "yes," such problems must be immediately resolved. If the answer is "no," collections must involve an immediate and more intensive strategy. If the new strategy is unsuccessful, then immediate legal action is recommended. It is not unusual to discover that these clients initially received erroneous information, that they disagree with the loan conditions or that payments were made but were not applied because of operational errors.

Clients who are neither willing nor able to pay require immediate legal action. Generally these are fraudulent clients with a bad credit history or poorly evaluated/approved credits. However, before moving forward it is important to determine their degree of solvency - that is whether the clients possess sufficient assets to obtain repayment. If they do not, any actions taken could be counterproductive. The bank must evaluate the cost/benefit of any action taken with these clients. It is evident from this proposed segmentation that there is a direct relationship between the client's intention to pay and the probability of recovering the loan - as the client's intention to pay diminishes over time, so does the probability of loan collections. For this reason, action must be taken immediately on past-due loans in order to increase the effectiveness of collections.

Collateral Liquidation: According to Kansiime (2006), where a loan is secured, the lender has claims on certain assets in the case of default such that can be converted in to cash to repay for the loan, before this option is taken, the bank should ensure that its interest is well perfected. Repossession of security is aimed at recovery of dues and not to deprive the borrower of the property. The recovery process through repossession of security will involve repossession, valuation of security and realization of security through appropriate means (Kariuki 2010).

2.3.3 Loan scheduling and performance of commercial banks

Debt rescheduling signifies a change in the existing terms of a loan. A financial institution should consider rescheduling a debt when it has determined that the rescheduling is in the government's interests and that recovery of all or a portion of the debt is reasonably assured (Maphartia, 2004). As with installment payments, before rescheduling a debt, the agency should reassess the debtor's financial position and ability to repay the debt if rescheduled. The agency should also determine if it should require the debtor to use pre-authorized debit to make payment. In regard to any repayment arrangement, the terms and conditions of the rescheduling, including the acceleration clause, must be in writing and signed by the debtor. The bank should discourage informal workout arrangements with debtors. Each bank should establish uniform policies, procedures and criteria for rescheduling and other types of workouts for each program area (Maphartia, 2004).

The advent of Credit Reference Bureau (CRB) has brought a lot of relief to the banking sector. Serial defaulters have been denied a chance to default across banks as banks now have a chance to report defaults and therefore lock out these defaulters from approaching other banks and taking loans from them therefore continuing with the loan default culture across banks. Many banks in their credit policy now check with CRB before issuing loans to borrowers (Nyaoke, 2007). Further, Hansen et al, (2004), highlighted that many borrowers prudently make their loan repayments but due to lack of any proper records of the same no credits accrue to them for future reference when they want to make another borrowing. Whenever there are cases of loan defaults, all customers bear the cost when interest rates are raised to manage the default risk. Put simply - good borrowers are paying for bad. Credit reference bureaus help banks to identify the defaulters from the diligent payers.

It is easy to forget the strategic importance of consumer collections. After all, if everything goes right, it should never be needed; it is a function no one wants to need. However, the implications of getting collections right can have far-reaching impacts (PwC, 2015). The principal objective of a collections function is to increase profitability by increasing recovery on bad debt. Therefore, that will necessarily be a prime focus on any rethinking of existing processes, practices and strategies. However, identifying and considering opportunities to foster cross-selling, customer loyalty, and providing services across multi-customer households are also recommended. Collections functions can consider expanding their strategies to also address increasing the lifetime value of customer and household relationships.

According to Montana (2012), bank debt recovery is assuming an alarming trend as its growth is looking almost unstoppable. This growth can mostly be attributed to a poor economy which affects both consumers and markets around the world. Banks are individually devising new techniques and strategies to improve their debt collection/recovery. The following are some of the recommended bank debt recovery tips, which are likely to help increase their debt collection success. Loan recovery methods can be broadly grouped into two; aggressive and non-aggressive methods: The aggressive method involves the demand of loans to the group whose member has defaulted on the loan. Aggressive method also takes into account the use of punitive interest rate on defaulters and rebates for beneficiaries who repay promptly (Greuning & Bratanovic 2003).

According to Kiyai (2003), Equitizing letters to a customer is one of the most commonly used methods of debt collection. It is often preferred to other methods because of its unique advantages of maintaining a hard copy of the reminder with the client and this advantage is lost when the lender uses verbal reminders like telephone calls however its often regarded as being a relatively poor way of obtaining payments due to the slowness of Equity age reminder by fax seems to be more productive than normal Equity age. The letter should not only identify the debt but should in addition give a deadline as to when the debt should be paid. Such a letter, which may be written in red ink, is a letter by solicitor. In the event that all attempts to contact them have failed, consider sending a letter of demand. This should be only done as a last resort, as it can damage your relationship with the customer. Telephone calls; this method of debt recovery is a bit more costly than reminder letters but where large sums of money are involved; they can be an efficient way of accelerating payments from slow paying debtors. Namara (2005) asserts that the officer in charge should regularly call customers whose accounts are due to find out why the customers are failing to honor their obligations when they are planning to pay and the means of payments they prefer to use. However, while this method is generally regarded as efficient but it’s quite costly especially where small sums of money are involved. This becomes a burden to commercial banks that are sometimes seeking to cut costs.

There exist multiple means of keeping in touch with borrowers. Banks have continued to employ products such as direct debits, mobile banking loan repayment platforms, Mpesa, Airtel money and agent banking among other methods to add onto the traditional loan repayment techniques such as direct deposits, standing orders, checking system as well as salary check off system by employers. These channels have made it easy for borrowers to access the bank and therefore make good of their repayments. In its efforts to recover a delinquent debt, a bank may use the services of private collection agencies (Early, 2006). Private collection agencies charge fees, which are paid out of amounts collected. The creditor agency retains the final authority to resolve disputes, compromise debts, suspend or terminate collection action, and refer accounts to Credit Reference Bureaus (Montana, 2012). The credit reference agency ought therefore to supplement and inter-pose between the lending institution/creditor and the borrower/debtor. The other point to be taken up is about levels of intervention between the creditor, debtor, and the lawyer. Lending institutions simply require seeking advisory and other services if credit activity will not be paralyzed by the phenomenon of bad debts. These services will take the shape of credit brokerage, debt adjusting, collecting, counseling, and factoring services and ultimately recovery action.

Legal action: This is often the last resort in debt collection after all other responsibilities have failed. The legal judgment will either make the debtor pay or have his collateral sold off in favor of the bank. Kipyego et al (2013) says the length of the undue delay period forms a basis of clarifying non-performing loans (NPLs). Where a debtor is unwilling to pay, the bank may go to court to prove the debt and take-over the assets of the debtor after obtaining judgment in its favor. This is done where no security was taken or where there is no security taken or was not perfected. Again litigation could be restored to where the security has been realized, but the procedure is insufficient to pay the debt and balance may have to be proved to the court of law.

Almazari (2011) studied the financial performance of seven Jordanian commercial banks. He reveals that the inflexibility in the structure of loan repayments, for example, has led to an increase in the variability of net income over the repayment period. In particular, the obligation to meet loan repayments during bad periods has forced clients to either fail to repay and thus lose reputation and future access to credit. This means that credit may be beneficial to some and catastrophic to others. It is from this note that in October 2001, the B.O.U aligned its loan classification criteria to international standards, and issued circulars in April and July 2002, to adequately capture NPLs in the system. Owojori et al (2011) on a study of commercial banks in Nigeria highlight that available statistics from the liquidated banks clearly showed that inability to collect loans and advances extended to customers and directors or companies related to directors/managers was a major contributor to the distress of the liquidated banks. They add that at the height of the distress in 1995, when 60 out of the 115 operating banks were distressed, the ratio of the distressed banks' non-performing loans and leases to their total loans and leases was 67%. The ratio deteriorated to 79% in 1996; to 82% in 1997; and by December 2002, the licences of 35 of the distressed banks had been revoked.

Wanjira (2010) studied the relationship between non- performing loans management practices and financial performance of commercial banks in Kenya. The study concluded that there is a need for commercial banks to adopt non-performing loans management practices. Such practices include ensuring sufficient collaterals. Prior to bank lending credit to borrower, it often request for securities or collateral. According to the diagnosis of the banking system, some of the securities held by banks before any lending is made to any individual, enterprise, or government have been noted to be rather unsatisfactory. Some banks request borrowers to pledge immovable securities such as buildings, heavy plants and machinery, land among others. The aforementioned collateral is advantageous given that it is stationary, and as such banks can be confident to recover their debts in case of loan default. It is alleged that, sometimes fraudulent bank officials are bribed before approving loans, while others bargain the percentage of the credit to be granted to them prior to the loan approval. The foregoing leads to poor appraisal of such credit facility, in addition to the danger of becoming a doubtful debt since the concerned bank officials may lack the moral justification to pursue and recover the advanced loan.

Olufunso, Herbstand and Lombard (2009) did an investigation into the impact of the usage of debt on the profitability of small and medium enterprises in the Buffalo city municipality, South Africa and concluded that the usage of debt has a significantly negative impact on the profitability of SMEs. The study however did not link debt collection practices and profitability of commercial banks. Nelson and Kalani (2009) conducted a study on commercial banking crises in Kenya: cause and remedies. The statement of the problem for the study is many financial institutions that collapsed in Kenya since 1986 failed due to non-performing loans. This study investigated the causes of nonperforming loans, the actions that bank managers have taken to mitigate that problem and the level of success of such actions. Using a sample of 30 managers selected from the ten largest banks the study found that national economic downturn was perceived as the most important external factor. Customer failure to disclose vital information during the loan application process was considered to be the main customer specific factor. The study further found that lack of an aggressive debt collection policy was perceived as the main bank specific factor, contributing to the non performing debt problem in Kenya. The research had a gap since it did not address the effect of debt collection management practices on profitability.

Athanasoglou et al. (2005) suggest that bank risk taking has pervasive effects on bank profits and safety. This has the net effect of increasing the ratio of substandard credits in the bank's credit portfolio and decreasing the bank's profitability. The banks supervisors are well aware of this problem, it is however very difficult to persuade bank mangers to follow more prudent credit policies during an economic upturn, especially in a highly competitive environment. They claim that even conservative mangers might find market pressure for higher profits very difficult to overcome. Oluwu and Wunsch (2003) assert that sound revenue collection strategies and debt collection strategies by local authorities are an essential part of authorities for the success of fiscal decentralization and improved performance. Efficient debt collection strategies are an integral component of overall corporate strategy to create shareholder wealth.

The cash flow problems of many firms are exacerbated by poor collection strategies (Jarvis *et al*, 1996). Debt collection performance depends on an efficient credit policy used by the firm. Timely debt collections are made possible as timely realization of payments from debtors and also improve current position of the institution and financial reporting, investment in securities and meeting client's obligation. Some authors link the repayment performance with firm characteristics such as Nannyonga (2000), Oke et al. (2007) and Roslan and Mohd Zaini (2009). Oke et al. (2007) and Nwaru (2004) mention that firm's profit significantly influenced loan repayment. Khandker et al.,(1995) raise the question of whether default is random, influenced by erratic behavior, or systematically influenced by area characteristics such as rural electrification, road width, primary educational infrastructure and commercial bank density that determine local productions conditions or branch-level efficiency. Meanwhile, Godquin (2004) suggests that the provision of non-financial services such as training, basic literacy and health services has a positive impact on repayment performance.

In contrast, Hulme and Mosley (1996) argue that the important factors contribute to loan repayment performance are the design features of the loan. They categorize the design features into three categories namely access methods, screening methods and incentive to repay. Access methods generally ensure that poor people access the loans not the richer ones and the features include maximum loan ceilings and high interest rate. While, screening methods are used to screen out bad borrowers. Papias M. Malimba & Ganesan P. (2009) analyzed repayment behavior in credit and savings cooperative society from rural Rwanda where the purpose of the paper was to examine the factors contributing to credit repayment behavior among the members of savings and credit cooperative societies in rural Rwanda. The results from the tested empirical model show that age, gender and size of the household, purpose for credit, interest rate charges and number of official visits to the credit societies, have a strong effect on loan repayment performance (statistically significant at $p<0.05$) whereas size of credit disbursed, credit processing and disbursing time, borrowers' market place and income transfer from relatives and friends are more or less statistically significant at $p<0.20$ level. The remaining factors have logical and explainable sings but are not statistically significant.

Hulme & Mosley (1996) argue that the important factors contribute to loan repayment performance are the design features of the loan. They categorize the design features into three categories namely access methods, screening methods and incentive to repay. Access methods generally ensure that poor people access the loans not the richer people and the features include maximum loan ceilings and high interest rate. Screening methods are used to screen out bad borrowers.

2.4 Conclusion

The literature review above expressly detailed the different debt collection strategies and factors associated with debt collection strategies around the globe. However, there are no direct references to the effects of debt collection strategies on financial performance in commercial banks in Uganda, therefore a research gap exists. To fill the existing gap, this study seeks to establish the effects of debt collection strategies on financial performance of commercial banks in Uganda.

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter presents the methodology that was used during the study. It discusses and describes the research design, sample size and selection, sampling techniques, the data collection methods, tools/instruments, data collection procedures, processing and analysis of data, data quality management as well as steps that were taken to ensure validity and reliability during the study.

3.1 Research Design

A cross-sectional study design was adopted for this research because it enabled an in-depth study and facilitates the collection of data at a one point in time, as Sekaran (2003) states. This research design was also adopted because it provides a snapshot of a population in a certain point in time. Thus for this particular study the design assisted in determining the traits of the branches of Equity Bank in Kampala region to obtain an insight of commercial banks' performance. In addition, the study, both quantitative and qualitative techniques were employed in the data collection process, analysis, presentation and discussion of findings in relation to loan management practices and performance of commercial banks. The qualitative approach helped in getting in-depth analysis basing on the respondents' opinions through the interviews regarding loan management practices and performance of commercial banks. The quantitative approach was based on testing variables, measured with numbers, and analyzed with statistical procedures basing on data collected by use of questionnaires.

3.2 Area of the study

This was conducted at equity bank branches in Kampala Region. Equity bank, Kampala Region covers 17 branches namely; Katwe, Ndeeba, Kyengera, Buganda Road, Arua Park, Wandegeya, William Street, Market Street, New Taxi Park, Ovino, Venus, Kabalagala, Nakulabye, Oasis, Kawempe, Kajjansi and Kasangati.

3.3 Study population

A population is the complete collection (or universe) of all the elements (units) that are of interest in a particular investigation (Amin, 2005). The study population comprised Equity Bank, loan department staff. That is credit managers and credit supervisors. Also 17 Branch managers for 17 Equity bank branches in Kampala Region were included. According to Equity Human Resource Department records (2016), there are 40 credit supervisors and 30 credit managers in the branches making a total population of 87.

3.4 Sampling procedures

3.4.1 Sample size

The sample size was 70 respondents drawn from the categories of respondents. The size was determined using the sample size table by Krejcie and Morgan (1970) cited in Amin, (2005) (See in appendices). The details are presented in the table below:

Table 3.1: Sample size and how samples were selected

Category of respondents	Population	Sample size	Sampling technique
Branch managers	17	14	Purposive sampling technique
Credit managers	30	24	Simple random sampling
Credit supervisors	40	32	Simple random sampling
Total	**87**	**70**	

Source: Primary data (2016)

3.4.2 Sampling Techniques

The researcher used probabilistic and non-probabilistic sampling techniques on the selection of respondents according to the study needs. Two sampling techniques were used for this study, thus, Purposive and simple random sampling.

Purposive Sampling

Purposive sampling represents a group of different non-probability sampling techniques. Also known as judgmental, selective or subjective sampling, purposive sampling relies on the judgment of the researcher when it comes to selecting the units (for instance; people, cases/organizations, events) that were to be studied. Usually, the sample being investigated was quite small, especially when compared with probability sampling techniques. Purposive sampling was used to select the branch managers since they were few and they have the knowledge and relevant information which was needed in this study.

Simple Random Sampling

Random sampling is where the researcher selects respondents without the influence of his or her interests. The respondents to be interviewed were got by calculated probability. Simple random sampling provides equal chances for all the respondents to be selected and thus avoids biasness (Mugenda, 1999). Simple random sampling technique was used for the selection of the team under credit managers and credit supervisors because each of them had an equal chance of being picked at any selection point and each was selected independently of the others. This sampling method was preferred for its reliability, generalizability and representativeness of the population as per Sarantakos (1998).

3.5 Data collection methods

The study used both primary and secondary data that was attained using questionnaires and interviews. Secondary data was got from reading literature.

3.5.1 Questionnaire survey method

This method was used as the main method to collect data from respondents in the category of branch managers and some members of the credit section. The researcher was able to deliver the questionnaires to the respective respondents and within one week the questionnaires were collected from them.

This method was chosen for use due to a number of benefits. It was found suitable for collecting data since it is applicable where the sample size is big. It also enabled faster work progress whereby the researcher dropped most of the questionnaires and picked them after the respondents had filled them. The method also helped to avoid researcher biases since respondents filled the questionnaires without face-to-face contact of the researcher or research assistants.

3.5.2 Interview method

Interviews in this study helped the researcher obtain more information on the subject. This method was adopted by the researcher because it offers an opportunity to adapt questions, clarify the questions by using the appropriate language, clear doubts and establish rapport and probe for more information (Sekaran, 2003). The interview guide is important because it provides in-depth data which may not be possible to obtain when using self-administered questionnaires (Mugenda & Mugenda, 2003).

3.5.3 Document review

The researcher reviewed documents in order to obtain recorded information that is related to the issue under investigation. The advantage of this method was that it enabled the researcher access data at his convenient time, obtain data that was thoughtful in that the informants have given attention in obtaining them and will enable the researcher obtain data in the language of the respondent (Oso & Onen, 2008). For this study, the checklist included training reports, HR manual and policies on rewards, Sales evaluation reports and staff Performance appraisal reports, journals, credit procedure manuals, and financial statements of Equity Bank Uganda Ltd.

3.6 Data collection instruments

3.6.1 Questionnaires

Questionnaires were the main data collection tool for this study (Appendix 1). Respondents were able to fill the questionnaires on their own at their time and filled copies were picked later. The questionnaire, being the primary data collection instrument, collected both qualitative and quantitative data. The questionnaire was based on five point Likert scale of 1 to 5, implying; 1-strongly disagree; 2- disagree; 3–not sure; 4- agree; 5- strongly agree. This scale was vital for gauging attitude and perception of respondents towards the variables studied. The use of questionnaires enabled collection of data from a large sample of respondents. It was also possible to get responses related to a common subject that enhanced the quality of data analysis.

3.6.2 Interview guide

Interview guides were used for two purposes to collect primary data; Semi-structured Interview guides were used during interviewing sessions with key informants and during the focus group discussion with selected respondents (Appendix 1). Interview guides facilitated the researcher to obtain more qualitative information in support of the responses provided to the questions in the questionnaires.

3.9 Quality assurance

Quality assurance of data was achieved by use of the following measures;

3.9.1 Reliability

Reliability is the degree to which an assessment tool produces stable and consistent results when used different times under the same conditions with the same subjects (Roberts et al, 2006). Reliability was tested to ensure that the questions in the tool used are clear and in simple language. Short and precise phrases of questions in the tool were made. Efforts were made to avoid multiple sentences and ambiguous questions. Reliability of the questionnaire was tested using Cronbach's alpha in SPSS software. This test expressed the reliability of the tool numerically as a coefficient as reflected in Table 3.2. The coefficient obtained reflects the extent to which the tool was free from error variance. Pre-test data collected from 10 respondents within the target population but outside the sample was entered in SPSS data analysis software (V.16). Cronbach's Alpha test was run for every construct of each variable as indicated in table 3.2.

Table 3.2: Reliability test results after pretest

Variable	Cronbach's Alpha	N of Items
Risk management	0.928	9
Collateral security	0.863	8
Loan scheduling	0.880	9
Performance of commercial banks	0.874	10
Average	**0.886**	

Source: Primary Data (2016)

Reliability test results in table 3.2 above were obtained indicating an average Chronbach's Alpha coefficient of 0.886. According to Johns (2010), an Alpha coefficient above 0.6 is acceptable. Therefore, the Alpha coefficient of 0.886 implies that the internal consistency of the tool was high and the results obtained by use of the tested tool and reported by this study are acceptable.

3.9.2 Validity

Validity of a measurement instrument is the extent to which the instrument measures what it is supposed to measure (Amin, 2005). Face validity and content validity of the questionnaire used in data collection was tested and assured. To test face validity, the researcher shared the tool with fellow students to obtain their opinion about the clarity of the questions in relation to variables measured. Research supervisors also reviewed and provided tremendous opinion on face validity of the tool. These opinions were taken into consideration to improve the tool. Content validity focuses on the extent to which the content of an instrument corresponds to the content of the theoretical concept it is designed to measure (Amin, 2005). Content validity in this tool was enhanced by including most of the attributes about the variables being measured by the instrument. Content validity was tested by determining the Content Validity Index (CVI). To determine CVI, four expert persons in corporate governance were identified and each provided with a copy of the questionnaire. The experts were requested to identify and check all content valid questions in the tool. Total validity was obtained by calculating the average of the ratios out of 36 total questions as provided by the four experts. The results per expert person were calculated to obtain total validity as follows;

$$\text{Expert 1} = \frac{34}{40} = 0.85, \quad \text{Expert 2} = \frac{33}{40} = 0.83, \quad \text{Expert 3} = \frac{35}{40} = 0.87, \quad \text{Expert 4} = \frac{36}{40} = 0.90$$

$$\text{Therefore, } \frac{0.85 + 0.83 + 0.87 + 0.90}{4} = 0.86$$

According to Amin (2005), a questionnaire with Content Validity Index (CVI) of 0.7 and above is valid and therefore 0.86 obtained here was acceptable for use of the tool to produce valid research results.

3.10 Data management and analysis

The persons who supported the process of data collection were thoroughly trained on the use of the questionnaire especially interpretation and translation of the questions and answers. Each questionnaire filled by respondents was critically reviewed for completeness and accuracy. All data instruments were securely kept throughout the study period to ensure confidentiality.

3.10.1 Qualitative analysis

Qualitative data was analyzed continuously, during and after data collection. Qualitative data was obtained especially from interviews with key informants, open ended questionnaires and documentary review. Qualitative data was also collected by semi-structured questionnaires. This data was collected and organized according to the themes guided by the research objectives and variable indicators. The information from qualitative data was used directly in the report as quotes of responses to give qualitative impression regarding the study findings.

3.10.2 Quantitative analysis

Quantitative data analysis was performed using SPSS software (V.18). Quantitative data was coded, entered in SPSS and cleaned for analysis. Data in SPSS greatly facilitated the running of key statistical measurements of the research. The key statistical information run included frequencies regarding the level of responses on different questions of the research variables.

Pearson correlation coefficient analysis was run to measure the relationship and the strength of that relationship between the loan repayment management practices and performance of commercial banks.

Linear regression was run to determine and predict the effect of the independent variable on the dependent variable per objective. Multiple regressions were run to test the combined effect of the three constructs of the independent variable on the dependent variable.

Presentation of information from the analysis was done in varying formats including narrative statements to describe behavior of the variables and tables. Frequency tables generated from SPSS outputs were used to present information all variables.

3.11 Measurement of the variables

Loan management practices and its dimensions (risk management, collateral security and loan scheduling) were measured on a 5 point Likert Scale (1- strongly disagree, 2-Disagree, 3-Not sure, 4- Agree and 5-Strongly agree). The choice of this measurement is that each point on the scale carried a numerical score which is used to measure the respondents' attitude and it is the most frequently used summated scale in the study of social attitude.

3.12 Ethical considerations

The first step before going for fieldwork was acquiring a formal letter from the university to introduce me as a research student to the areas I went to. I showed this letter to all those I intended to talk to during my field work.

Before the researcher started data collection, he sought permission from the bank management and was duly approved by the Head of Operations and later introduced to the concerned branches by the Manager Human Resources.

The researcher also sought for permission from the bank to access different official documents, outlining the purpose of the research and inviting their participation. He also made it clear to potential participants that participation was voluntary and that the subject could withdraw at any time without penalty; that information would be held in confidence; and that the risks and benefits of participation would be completely disclosed.

There was no identifiable information on individuals (either offenders or Supervisors) in this study and recordings and notes were destroyed on completion of the Study. All the information was obtained from correspondents out of consent.

The researcher made sure all the information was made accurate and no personal feelings were added into the research without using first person narrative. He was honest to all the correspondents and to all those responsible to the study during my research.

3.13 Limitations of the study

The study findings were only obtained from the branches of Equity Bank in Kampala region to draw conclusions on commercial banks' performance. This was however overcome by acquiring additional information from the secondary sources to supplement the primary data since commercial banks in Uganda are controlled and by one body (BOU).

Secondly, due to confidentiality issues of the bank, some important documents that would have supplemented the primary data were not availed. However, the use of a detailed questionnaire and an interview guide were very important in fulfilling the intentions of the research study.

The study subjects chosen for the study were limited to only bank staff in the credit section and managers excluding other bank staff. It should however be recognized that the bank deals with different stakeholders who might have the necessary knowledge about credit that were not involved. However, this was solved by collecting as much information from secondary sources as possible to complement this data.

The respondents were busy and usually uncooperative. Banking is time consuming and the respondents are unwilling to take time off their work to answer the questionnaires. As a result, the researcher had to go to the respondents many times before getting a fully filled questionnaire.

3.14 Conclusion

The above chapter discussed the cross sectional survey design to be used in the study. It also shows how the qualitative and quantitative approaches were used in the study.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Introduction

In this chapter, data regarding loan management practices and performance of commercial banks in Kampala Region has been presented, analyzed and discussed. The presentation is arranged in line with the study objectives which were; to assess the effect of risk management on performance of commercial banks in Uganda, to examine the effect of collateral security on performance of commercial banks in Uganda and to establish the effect of loan scheduling on performance of commercial banks in Uganda**.** The chapter begins with the response rate and respondent background information.

4.1 Response rate

During research, sometimes the researcher may not meet the targeted respondents as presented in the sample size. It was therefore, prudent to compute the response rate after data collection to ascertain whether or not the response rate was sufficient or insufficient because this can affect the reliability of the findings. In this study, the response rate is presented in Table 4.1 below.

Table 4.1: Showing the Response Rate of the Respondents

Details	**No. of questionnaires issued/interviews**	**No. returned filled/interviews**	**Non response**	**Total Response rate for questionnaires & interviews**
Numbers	64/6	53/6	11/0	84%

Source: Primary Data (2016)

From Table 4.1, it can be noted that out 64 questionnaires issued to respondents, only 53 were returned fully filled forming 83% response rate for questionnaires. However, an additional 6 branch managers were interviewed thus making the total number of participants 59. Therefore, from a sample size of 70, 59 respondents participated providing a total response rate of 84.3% This was regarded adequate in line with literature by Mugenda and Mugenda (1999) which recommends 70% as a good response rate when quantitative data is collected.

4.2 Demographic characteristics

The researcher sought to identify the gender of respondents and the respondents were required to indicate whether they are male or female. The results are as presented below:

4.2.1 Respondents' gender distribution

Table 4.2: Gender of respondents

	Frequency (N)	Percent (%)
Valid	1	1.9
Male	37	69.8
Female	15	28.3
Total	53	100.0

Source: Primary data (2016)

The results from table 4.2 indicate that 37 (69.8%) of the respondents were male and 15 (28.3%) of the respondents were female. This means that the difference between the males and females is considerable, suggesting that Bank perhaps has either not been gender sensitive in staff recruitment or males are deemed to be more productive than females. This implies that since most of the bank activities such as credit are field based and at times need motorcycle riders, the bank might have preferred males as they are flexible in the use of motorcycles which are cost effective and can reach even places of impassable roads to motor vehicles. Males always tend to be flexible in case of transfers, they have less interference and have more chances of commitment while on job compared to the females who have many responsibilities and their nature may necessitate a number of days off duty. Therefore it can be said that male domination in Equity Bank has been one strategy of enhancing performance of the bank.

4.2.2 Education level of respondents

The researcher sought to establish the distribution of the respondents by education level and findings were as can be seen below;

Table 4.3: Education level of respondents

		Frequency (N)	Percent (%)
Valid	Degree level	45	84.9
	Master's level	7	13.2
	Others (Specify)	1	1.9
	Total	53	100.0

Source: Primary data (2016)

Majority of the respondents 45(84.9%) were holders of Bachelor’s Degrees, followed by 7(13.2%) who had acquired Masters Degrees. These findings suggest that majority of the employees are graduates. Most studies show a close relationship between academic qualification and performance as knowledge and skills are vital components while deciding on the type of human resource to get for the organization. This means that Equity Bank has suitable qualified employees who are professional and skilled thus efficient to pursue its organizational goals since performance increases with career development.

4.2.3 Respondents' age distribution

The study sought to establish the age distribution of the respondents and the findings were as follows;

Table 4.4 : Respondents' Age bracket

		Frequency (N)	Percent (%)
Valid	20years and below	2	3.8
	21-30 Years	30	56.6
	31-40 Years	19	35.8
	40years and above	1	1.9
	Total	52	98.1
Missing	System	1	1.9
Total		53	100.0

Source: Primary data (2016)

Findings show that; majority 30(56.6%) were aged 21-30 years, followed by 19(35.8%) that were aged between 31-40years, while 2(3.8%) fell in the age group of 20 years and below, with the least 1(1.9%) were in the age 40years and above. This means that most employees of Equity Bank are youthful, productive, eager to learn, energetic, innovative and desire to impress the organization hence capable of achieving a lot for the Bank with the support of the few older staff that are deemed to be experienced. Those respondents who were in the category of 20 years or less may have been students under internship in the credit section.

4.2.4 Duration of service with Equity Bank

The study also sought to establish the period individual staff had worked with the Bank and findings were as follows;

Table 4.5: Period worked with Equity Bank

		Frequency (N)	Percent (%)
Valid	Less than one year	3	5.7
	1-2 Years	21	39.6
	3-5 Years	17	32.1
	6Years and above	11	20.8
	Total	52	98.1
Missing	System	1	1.9
Total		53	100.0

Source: Primary data (2016)

Most respondents 21(39.6%) had served at Equity Bank for at least 1-2 year, followed by 17(32.1%) that had served for 3-5years, then 11(20.8%) that had served for 6years and above, while 3(5.7%) had served for less than one year. Since most staff had worked with the bank for a period between 1-2 years, it is possible that they can perform highly due to their being new and enthusiastic to show their potential. However, given their lack of experience, there is a risk of compromising quantity with quality which might negatively affect the banks' performance.

This means that there is a controlled turnover for staffs that are between 2-4 years which may affect the bank's productivity as a lot is spent to bring new people on board therefore the bank should improve their wages after confirmation and engage them in core activities so that they can feel a sense of belonging. These results also suggest that the mix of both inexperienced and experienced staff in the issues provide the required opportunity to balance quantity with quality especially when the staffs that have worked for a longer period are in management positions whereby they can influence quality.

4.3 Loans Management and Performance of Commercial Banks

The section below provides the descriptive statistics obtained on the effect of loan management practices on the performance of commercial banks, a case of Equity bank, Kampala Region. The results are presented according to the study objectives.

4.3.1 Risk Management and Performance of Commercial Banks

The objective one was to determine the effect of risk management on employee performance in commercial banks in Uganda. Under this objective, the researcher sought to answer the research questions on risk management performance of commercial banks in Uganda. The descriptive results from data collected are as presented below:

Table 4.6: Risk management

		1	2	3	4	5
1.	Equity bank has set targets on loan recovery	3.8% (2)	5.7 (3)	5.7% (3)	30.2% (16)	54.7% (29)
2.	Loan appraisal is always conducted before loan disbursement	3.8% (2)	5.7% (3)	3.8% (2)	11.3% (6)	75.5% (40)
3.	There is a loan risk management team in the bank	1.9% (1)	7.5% (4)	3.8% (2)	28.3% (15)	58.5% (31)
4.	The bank has clear loan risk management policies in place	3.8% (2)	5.7% (3)	3.8% (2)	32.1% (17)	54.7% (29)
5.	Equity bank has an established appropriate credit risk environment	5.7% (18)	7.5% (4)	9.4% (5)	43.4% (23)	34.0% (18)
6.	The bank has ensured adequate controls over credit risk	3.8% (2)	5.7% (3)	15.1% (8)	47.2% (25)	28.5% (15)
7.	The loan risk management committees has competent staff to monitor loan risk		9.4% (5)	13.2% (7)	62.3% (33)	15.1% (8)
8.	The bank has trained all concerned staff members on risk management		11.3% (8)	17.0% (9)	56.6% (30)	15.1% (8)
9.	The bank has used advanced analytics and alternative data sources to reduce loan risk	7.5% (4)	7.5% (4)	34% (18)	34% (18)	13.2% (7)

Source: Primary data (2016)

Key: 1-Strongly disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly agree

On whether Equity bank has set targets on loan recovery, findings in table 4.6 above, majority 29(54.7%) strongly agreed, and16(30.2%) agreed with the statement, then 3 (5.7%) disagreed and 2(3.8%) strongly disagreed, with 8.2% that were not sure whether Equity bank has set targets on loan recovery. Related responses were expressed by managers in the interview sessions where by majority of them admitted that there were set targets for loan recovery in the bank. One credit officer commented that,

"A system has been put in place where officers are able to record all covenants/agreements made for defaulting customers. This can be viewed by all the stakeholders within the credit line upon authorization. This enables uniformity and sharing of information"

Findings suggest that most employees at Equity Bank (9.5%) disagreed that Equity bank has set targets on loan recovery. This is in line with (Basel 2006) who suggested that there should be strategy that reflects the bank's tolerance for risk and level of profitability the bank expects for incurring various credit risks. This implies that in order to ensure performance of commercial banks, the bank would need to review loan set targets on recovery.

The study sought to establish whether loan appraisal is always conducted before loan disbursement, findings in the above table 4.6 reveal that; majority 40(75.5%) strongly agreed, followed by 6(11.3%) that agreed, with only 2(3.8%) and 3(5.7%) that strongly disagreed and disagreed respectively that loan appraisal is always conducted before loan disbursement. During an interview, one Assistant branch manager asserted that, "*loan files are appraised &analyzed by credit staff at branches but the risk department rarely puts in efforts to confirm what is actually agreed versus what is presented by appraising offers"*.

This implies that most employees at Equity Bank appreciate the loan appraisals done, with only few that were not in agreement. This is in line with Signoriello and Vincent J. (1991) stated that banks must establish a system of independent, on-going assessment of the bank's credit risk management process and the results of such reviews should be communicated directly to the Board of Directors and senior management., According to the above findings, it is possible that loan appraisal has enhanced performance of Equity Bank.

In order to ascertain respondents' views on the whether there is a loan risk management team in the bank, respondents' views were collected on the subject findings from table 4.6 above reveal that; majority of the respondents 31(58.5%) strongly agreed, and 15(28.3%) agreed with the statement, whereas 2(3.8%) were not sure may be due to less exposure to the information regarding risk team, while 4(7.5%)disagreed, with 1(1.9%) strongly disagreeing. However, one credit officer commented that,

"Improvement is required to avoid bad loans"

The researcher sought to establish whether the bank has clear loan management policies in place and level of job performance and findings in table 4.6 above shows that; majority 29(54.7%) strongly agreed, and 17(32.1%) agreed, with 3(5.7%) and 2(3.8%)disagreeing and strongly disagreeing respectively that the bank has clear loan management policies in place. This means that the bank has the bank has clear loan management policies in place which can be followed to enhance performance.

The above findings are related to what Huppi and Feder (1990) revealed that effective monitoring leads to higher recovery of loans by exposing possible dangers. So, in order to improve banks performance, loan management policies must be emphasized and not to assume that strictly following of these policies may lead to red tape.

The responds were required to rank their level of agreement to the statement provided in the questionnaire which needed to understand whether Equity bank has an established appropriate credit risk environment. Findings from the above table 4.6 show that; majority of the respondents 23(43.4%) and 18 (34.0%) were in agreement, while 4(7.5%) 3(5.7%) were in disagreement and 5(9.4%) were not sure whetherEquity bank has an established appropriate credit risk environment. Similar responses were got from Credit Management staff who acknowledged that a few employees had acquired necessary knowledge in risk management. One Credit officer commented that,

"The branches seems not to put on a lot of emphasis on credit risk environment"

This implies that as much as most branches have an established appropriate credit risk environment, others are not. This is in contradiction with Nannyonga (2000) asserts that the primary means that banks have to identify the risk is by knowing their Customers, applying the traditional underwriting criteria known as the "Five Cs of Credit" to the transaction and understanding their markets.

The study sought for responses on whether the bank has ensured adequate controls over credit risk and findings in the above table 4.6 shows that; majority 25(47.2%) of the respondents were in agreement, with 15(28.3) also strongly agreeing with the statement that the bank has ensured adequate controls over credit risk while3(5.7%) and 2(3.8%) were in disagreement, with 8(15.1%) that were not sure. This implies that to a larger extent the bank has ensured adequate controls over credit risk. This tally with Clark (2002), who contends that monitoring of credit facilities granted to customers, is a significant function in ensuring the success of the project for which repayment is made.

In order to determine whether the loan risk management committees has competent staff to monitor loan risk, table 4.6 shows that; majority of the respondents 33(62.3%) and 8(15.1%) were in agreement respectively, while 5(9.4%) were in disagreement and 7(13.2%) were neutral that the loan risk management committees has competent staff to monitor loan risk. This implies that to a greater extent, respondent showed a positive view on the statement. Indeed one manager added; *"Credit risk team tends to try hard to mitigate the risks. This make them become more risk oriented. In fact, they don't look at the opportunities in lending but only look for risk areas and criticize"*

This implies that risk management committee has been a motivator for quality improvement among performance of Equity Bank as much as many risks have not affected their quality of work. Therefore it can be deduced that risk management committee may not automatically lead to improved improvement, but may enhance it.

On finding out whether the bank has trained all the concerned staff members on risk management, findings in table 4.14 above revealed that 38(71.7%) of the respondents showed positive response, whereas 6(11.3%) disagreed and 9(17.0%) were neutral. This means that the bank has trained all the concerned staff members on risk management. The findings agrees with (Kagwa, 2003) who observed that it is important to educate staff members in techniques and strategies, such as how to address the typical arguments of the delinquent client, how to relate to difficult people, what types of clients exist, tips and verbal cues for communication, the typical profile of the delinquent client, and negotiation techniques.

To whether the bank has used advanced analytics and alternative data sources to reduce loan risk, finding in table 4.15 above revealed that 7(13.2%) and 18(34.0%) strongly agree and agree respectively while 18(34.0%) where neutral and 8(15.0%) disagreed with the statement. This means that the bank has used advanced analytics and alternative data sources to reduce loan risk. Clark (2002) adds that leveraging predictive modeling can help determine the loss exposure under a range of collections strategies by forecasting each borrower's likelihood of repayment as a function of each strategy, which in turn can help identify the ideal collections strategy to implement.

4.3.2 Effect of collateral security on performance of commercial banks

The objective two was to examine the effect of collateral security on performance of commercial banks in Uganda. Under this objective, the researcher sought to answer the research questions on the effect of collateral security on the performance of commercial banks in Uganda. The descriptive results from data collected are as presented below:

Table 4.7: Collateral security

		1	2	3	4	5
1.	I believe that good collateral security improve on loan recovery in Equity Bank	3.8% (2)	3.8% (2)	5.7% (3)	39.6% (21)	47.2% (25)
2.	Equity bank strictly follows loan policies and regulations		11.3% (6)	7.5% (4)	47.2% (25)	34.0% (18)
3.	In Equity bank loan is disbursed after receipt of collateral security	5.7% (3)	5.7% (3)	5.7% (3)	34.0% (18)	47.2% (25)
4.	The bank always ensure that collateral security is of adequate value	5.7% (3)	5.7% (3)	3.8% (2)	41.5% (22)	43.4% (23)
5.	The bank has ever sold securities in case of default to repay for the loan	3.8% (2)	7.5% (4)	1.9% (1)	37.7% (20)	49.1% (26)
6.	The bank follows due process of law before selling customer's asserts	3.8% (2)	7.5% (4)	9.4% (5)	37.7% (20)	41.5% (22)
7.	The bank asks for securities that customers are able to give	5.7% (3)	13.2% (7)	18.9% (10)	39.6% (21)	22.6% (12)
8.	Valuable securities have encouraged customers to pay promptly	5.7% (3)	9.4% (5)	18.9% (10)	30.2% (16)	35.8% (19)

Source: Primary data (2016)

Key: 1-Strongly disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly agree

The researcher sought to establish to whether thee employees believed that good collateral security improve on loan recovery in Equity Bank. Table 4.7 shows that; 25(47.2%) and 21(39.6) strongly agree and agree respectively, while 4(7.6%) were in disagreement and 3(5.7%) were neutral with the statement that they believed good collateral security improve on loan recovery in Equity Bank. Similar responses were given by a majority of credit supervisors who said they believed good collateral security improve on loan recovery in Equity Bank. One Branch manager commented,

"*The loan margins are dependent on for security and its location"*

However, one of the low cadres commented, "*some of the loans are disbursed before collateral security is taken care of*"

The above findings indicate that though collateral security may be important in improving loan recovery, sometimes is not considered before they give out loans. This has led to reduced banks performance especially in urban areas where people have no permanent and known homes. This agrees with Williams and Heins (1985) who indicated that risk identification is the process by which a business systematically and continuously identifies property, liability, and personnel exposures as soon as or before they emerge.

Respondents were required to give their views on whether Equity bank strictly follows loan policies. Findings from table 4.7 show that; majority of the respondents 40(81.2%) were in agreement, while 6(11.3%) were in disagreement and 4(7.5%) were not sure that Equity bank strictly follows loan policies and regulations. This implies that fewer mistakes are done since they strictly follow loan policies and regulations which would lead to loss of money in solving such mistakes. The built-in spirit for employees is to strive for high performance throughout the entire evaluation of policies and regulations, means that the performance of the bank may be consistently high.

On the question" In Equity bank a loan is disbursed after receipt of collateral security", results in table 4.7 above indicates that 25(47.2%) strongly agree and 18(34.0) agree with the statement that in Equity bank, a loan is disbursed after receipt of collateral security. While 6(11.4%) disagreed and 3(5.7%) were neutral. This implies that collateral security would be first received before the loan is issued out. Indeed one respondent had this to say

"*The bank has approved valuers and their figures are relied on upon the loan disbursements they assess if the margin (percentage) is that should enable the bank adequate money incase client default".* The findings agree with Kansiime (2006), who urges that a loan is secured, the lender has claims on certain assets in the case of default such that can be converted in to cash to repay for the loan, before this option is taken, the bank should ensure that its interest is well perfected.

To whether the bank always ensures that collateral security is of adequate value, results in the table above indicated that 45(84.9%) were in agreement whereas 6(11.4) gave a negative response, 2(3.8%) were neutral. This means that the bank always ensures that collateral security is of adequate value, an indication of adequate loan recovery. (Kariuki 2010) proposes that the recovery process through repossession of security will involve repossession, valuation of security and realization of security through appropriate means.

On finding out whether the bank has ever sold securities in case of default to repay for the loan, findings in table 4.7 above shows that 26(49.1%) and 20(37.7%) strongly agree and agree respectively. 1(1.9) were neutral whereas 4(7.5%) and 2(3.8) disagreed with the statement that the bank has ever sold securities in case of default to repay for the loan. This implies that has ever sold securities to recover its loan fund leading to reduction to losses. In fact one respondent said

"*Though theoretically Equity bank knows that lending should not dependent on the value of the security, security is the major yard stick to determine whether one will be financed or not".*

This means that collateral security plays a big role in loan recovery.

On whether the bank follows due process of law before selling customer's assets, findings showed that 44(79.1%) agreed with the statement that the bank follows due process of law before selling customer's assets while 6(11.3%) did not agree and 5(9.4) where neutral. This implies that to a larger extent, due process is followed before selling customer's assert. This is in line with (Umoh, 2007) who contends that the bank will take all reasonable care for ensuring the safety and security of the property after taking custody, in the ordinary course of the business.

4.3.3 Effect of loan scheduling on performance of commercial banks

The objective three was to establish the effect of loan scheduling on performance of commercial banks in Uganda. Under this objective, the researcher sought to answer the research questions on loan scheduling performance of commercial banks in Uganda. The descriptive results from data collected are as presented below:

Table 4.8: Loan scheduling

		1	2	3	4	5
1.	Loans are always approved by credit committee	3.8% (2)	3.8% (2)		26.4% (14)	66.0% (35)
2.	There is strong and effective internal loan scheduling in Equity Bank		9.4% (5)	13.2% (7)	43.4% (23)	34.0% (18)
3.	Credit staff follow approved loan schedules to recover the loans		7.5% (4)	15.1% (8)	35.8% (19)	41.5% (22)
4.	There are proper loan scheduling policies and procedures followed in Equity bank		7.5% (4)	9.4% (5)	49.1% (26)	32.1% (17)
5.	The loan scheduling in the bank are reviewed at the end of every month	7.5% (4)	11.3% (6)	20.8% (11)	39.6% (21)	20.8% (11)
6.	SMS are sent to customers who are not paying on schedule as a methods of debt collection		9.4% (5)	26.4% (14)	32.1% (17)	32.1% (17)
7.	Telephone calls have been an efficient way of accelerating payments from slow paying debtors	1.9% (1)	9.4% (5)	28.3% (15)	37.7% (20)	22.6% (12)
8	Appropriate loan scheduling has led to timely payments	7.5% (4)	7.5% (4)	22.6% (12)	43.4% (23)	18.9% (10)
9.	Continuous customer reminders on loan schedules help in improving loan repayment management practices	5.7% (3)	3.8% (2)	5.7% (3)	43.4% (23)	37.7% (20)

Source: Primary data (2016)

Key: 1-Strongly disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly agree

The researcher sought to establish whether Loans are always approved by credit committee. Findings in the above 4.8 table shows that; majority of the respondents, 49(92.4%) were in agreement, while 4(7.6%) were in disagreement that Loans are always approved by credit committee. Related views were given by a credit management staff who said that at least loans must be approved before disbursement. On the other hand one credit manager commented that,

"Sometimes salary loans are not well scheduled to loan repayments and clients end up paying penalties"

The above findings suggest that not all loans are properly scheduled and approved by loans committee, an indication of unsatisfactory performance. This agrees with Maphartia, (2004) who suggests that each bank should establish uniform policies, procedures and criteria for rescheduling and other types of workouts for each program area. Therefore it can be said that the more the loans are approved properly, the more the commitment to their work, leading to high performance.

The study sought to ascertain whether there is strong and effective internal loan scheduling in Equity Findings in table 4.8 above show that majority 41(77.2%) were in agreement, while 5(9.4%) were in disagreement, with 7(13.2%) that were not sure whether there is strong and effective internal loan scheduling in Equity bank. The above findings indicate that to greater extent, respondents were comfortable with the loan scheduling that was being used at equity bank.

This agrees with Oluwu and Wunsch (2003) who asserts that sound revenue collection strategies and debt collection strategies by local authorities are an essential part of the success of fiscal decentralization and improved performance. This indicates that loans committee have been highly productive as compared to those that were not, making it clear that there is a relationship between loan scheduling and performance of commercial banks, hence the better the loan scheduling, the higher the performance.

The researcher sought to establish whether Credit staff follows approved loan schedules to recover the loans. Findings in table 4.8 reveal that; majority 22(41.5%) and 19 (35.8) were in agreement while 4(7.5%) were in disagreement, with 8(15.1%) that were neutral. This means that credit staff follows approved loan schedules to recover the loans. The results are in contradiction with interviews findings as one respondent said *"Sometimes the schedules do not follow customer's cash flows which leads to late payments and arrears".* This implies that some respondents were not satisfied with how Credit staff follows approved loan schedules to recover the loans.

The researcher sought to establish whether there are proper loan scheduling policies and procedures followed in Equity bank. Table 4.8 shows that; 43(81.2%) were in agreement, while 4(7.5%) were in disagreement and 5(9.4%) were neutral. This means that majority of respondents agreed that there are proper loan scheduling policies and procedures followed in Equity bank. The findings suggest that loan scheduling policies and procedures had led to improved performance at Equity Bank, while a few believed that had not improved performance of the bank. The above findings are in harmony with what Bobakovia (2003) asserts that the profitability of a bank depends on its ability to foresee, avoid and monitor risks, possible to cover losses brought about by risk arisen. This has the net effect of increasing the ratio of substandard credits in the bank's credit portfolio and decreasing the bank's profitability. In addition to that, Wanjira (2010) studied the relationship between non- performing loans management practices and financial performance of commercial banks in Kenya. Indeed one respondent said "*I strongly agree that continuous follow up and reminders helps improve on loan repayment".*

On the question "The loan scheduling in the bank are reviewed at the end of every month", findings from the table 4.8 above indicates that 11(20.8%) strongly agreed and 21(39.6%) agreed that he loan scheduling in the bank are reviewed at the end of every month. However, 6(11.3%) disagree and 4(7.5%) strongly disagreed with the statement, while 11(20.8%) where neutral. This implies that Equity bank controls its performance.

On findings out whether SMS are sent to the customers who are not paying on schedule as a method of debt collection, results from table above revealed that 34(64.2%) gave a positive response whereas 5(9.4%) disagree with the statement, while 14(26.4%) were neutral. This means that SMS are sent to the customers who are not paying on schedule as a method of debt collection. Related to the above, a respondent commented that "*several ways including visiting the customers physically is also used to accelerate payments SMS, and letters are also written apart from calls".* These findings coincide with Kiyai (2003), urges that writing letters to a customer is one of the most commonly used methods of debt collection. Namara (2005) asserts that the officer in charge should regularly call customers whose accounts are due to find out why the customers are failing to honor their obligations when they are planning to pay and the means of payments they prefer to use. However, Nassali (2011) asserts that letters are sometimes abused by clients who pretend not to have seen them, hence justifying their loan default.

Findings on whether telephone calls have been an efficient way of accelerating payments from slow paying debtors, results showed that 12(22.6%) and 20(37.7%) strongly agreed and agreed with the statement respectively while 5(9.4%) and 1(1.9%) disagreed and strongly disagreed that telephone calls have been an efficient way of accelerating payments from slow paying debtors and 15(28.3%) were neutral. This implies that Equity bank has a high rate of loan performance.

Results on whether appropriate loan scheduling has led to timely payments revealed that 33(62.3%) gave a positive response whereas 8(15.0%) did not and 12(22.6) were neutral. This means that appropriate loan scheduling has led to timely payments. Godquin (2004) suggests that the provision of non-financial services such as training, basic literacy and health services has a positive impact on repayment performance. A respondent from credit office said that
"Customers always need good relationship management to repay their loans". This finding confirms that more is needed if bank performance is to be improved.

On whether Continuous customer reminders on loan schedules helps in improving loan repayment management practices, findings in table above indicated that 43(81.1%) agreed that Continuous customer reminders on loan schedules helps in improving loan repayment management practices. However, 5(9.5%) disagreed and 3(5.7%) were neutral. Related to the above result, Deininger and Liu (2009) conducted a study in India examined whether and how repayment performance is affected by the source of loan, insurance substitute together with loan and group characteristics. Findings of their study showed that loan monitoring, audit, payment frequency and in-kind credit increase repayment performance in India.

4.3.4 How performance is managed in commercial banks

Respondents were required to give their views in relation to performance of commercial banks and the following results were acquired basing on the subjects that were included in the data collection instruments.

Table 4.9: Performance of commercial banks

		1	2	3	4	5
1.	Equity bank has competent staff for credit services	1.9% (1)	11.3% (6)	13.2% (7)	50.9% (27)	22.6% (12)
2.	The bank loan management practices have led to good loan recovery rate.		7.5% (4)	26.4% (14)	58.5% (31)	7.5% (4)
3.	I always enjoy quality of credit services rendered to Equity bank customers	5.7% (3)	15.1% (8)	32.1% (17)	34.0% (18)	13.2% (7)
4.	Most of the loan issued are recovered in time	5.7% (3)	17.0% (9)	34.0% (18)	41.5% (22)	1.9% (1)
5.	There is always specified payment time for every loan issued	3.8% (2)	5.7% (3)	9.4% (5)	43.4% (23)	37.7% (20)
6.	Equity bank has retained loan book quality for a long time		24.5% (13)	43.4% (23)	28.3% (15)	1.9% (1)
7.	Equity bank currently has its desired portfolio size in the bank	11.3% (6)	37.7% (20)	28.3% (15)	17.0% (9)	5.7% (3)
8.	Equity bank has enjoyed a clean clientele.	9.4% (5)	32.1% (17)	37.7% (20)	18.9% (10)	1.9% (1)
9.	Equity bank has enjoyed increased return on capital employed over last two years.	1.9% (1)	24.5% (13)	30.2% (16)	35.8% (19)	7.5% (4)
10	Loan management practices have improved banks profitability	3.8% (2)	9.4% (5)	15.1% (8)	52.8% (28)	18.9% (10)

Source: Primary data (2016)

Key: 1-Strongly disagree, 2- Disagree, 3- Neutral, 4- Agree, 5- Strongly agree

On whether Equity bank has competent staff for credit services, findings revealed that 1.9%(1) strongly disagreed with the statement, 11.3%(6) disagreed , 13.2% were neutral , 50.9% agreed and 22.6% strongly agreed with the statement .Thus implying that Equity bank as a competent staff. Documentary review indicated that most of the staff had necessary qualifications.

To whether the bank loan management practices have led to good loan recovery rate, results indicated that 7.5%(4) disagreed with the statement , 26.4%(14) were neutral about the statement while 58.5%(31) and 7.5%(4) agreed and strongly agreed respectively, this means that at a large extent, the bank loan management practices have led to good loan recovery rate. However, one respondent said *"The collection and debt recovery department are not so well composed and the structures are not streamlined to the required standard"*

On finding out if they always enjoy quality of credit services rendered to Equity bank customers, findings showed that 5.7 %(3) strongly disagreed , 15.1%(8) disagreed , 32.1%(17) were neutral about the statement while 34.0%(18) and 13.2%(7) agreed and strongly agreed respectively about the statement. This implies that customers enjoy the services rendered by Equity loan department.

On the question "Most of the loan issued are recovered in time", respondents revealed that 5.7%(3) strongly disagreed, 17.0%(9) disagreed with the statement,34.0%(18) were neutral while 41.5%(22) agreed and 1.9%(1). This implies that there is a minimum amount of respondents agreeing with the statement that most loans are recovered in time

To whether there is always specified payment time for every loan issue, findings in table 4.9 above indicated that 3.8%(2) strongly disagreed with the statement, 5.7%(3) disagreed, 9.4%(5) were neutral and 43.4%(23) and 37.7%(20) agreed and strongly agreed respectively, This means at a large extent there is always specified payment for every loan issue. Basel (2006) argues that the Board of Directors should have responsibility for approving and periodically (at least annually) review the credit risk strategy and significant credit risk policies of the bank. The strategy should reflect the bank's tolerance for risk and level of profitability the bank expects for incurring various credit risks.

On whether Equity bank has retained loan book quality for a long time, results showed that 24.5%(13) disagreed , 43.3%(23) were neutral while 28.3%(15) and 1.9%(1) agreed and strongly agreed respectively. This means that at a large extent respondents did not agree that equity bank has retained loan book quality for long time. Indeed one interviewee said "*The bank aims to maintain a high quality loan book and all is aimed to give high quality loan".*

On the question "Equity bank currently has its desired portfolio size in the bank". The findings showed that 11.3%(6) strongly disagreed with statement, 37.7%(20) disagreed , 28.3%(15) were neutral while 17.0%(9) and 5.7%(3) agreed and strongly agreed respectively. This means that few respondents agree that equity bank has desired portfolio size in the bank while the majority don't. On the other hand a respondent said *"credit staff do not do loan monitoring, no frequent checks for good clients, their focus is only defaulters which is not best practice"*

On finding out whether Equity bank has enjoyed increased return on capital employed over last two years, findings indicated that 1.9 %(1). Strongly disagreed with the statement, 24.5 %(13) disagreed with the statement, 30.2 %(16) were neutral while 35.8% and 7.5 %(4) agreed and strongly agreed with the statement. This means that most respondents agreed that the bank has enjoyed increased return on capital employed over the two years. This finding agree with Capon (2002) who asserts that debt recovery is a very important component of banking as it plays a key role in ensuring that the main objective of the bank (to issue loans) results into the desired outcome of making a margin out of the loans advanced.

On whether loan management practices have improved banks profitability, results revealed that 3.8%(2) strongly disagreed , 9.4%(5) disagreed with the statement , 15.1%(8) were neutral while 52.8%(28) and 18.9%(10) agreed and strongly agreed respectively, this implies that a large extent, respondents agree that loan management practices have improved banks profitability. In relation to this finding, one respondent observed that customers are reminded two weeks before the due date. This is in line with Maphartia (2004) who suggests that the primary objective of recovery management is to ensure that service level requirements are achieved.

4.4 Correlations between loan management practices and performance of commercial banks

This section provides the correlations between loan management practices (risk management, collateral security and loan scheduling) and performance of commercial banks. The correlations were to determine the relationships as per the specific objectives and also the strength of the relationships of the mentioned variables.

Table 4.10: Correlations between risk management and performance of commercial banks

		Performance of banks	Risk management
Performance of banks	Pearson Correlation	1	.740**
	Sig. (2-tailed)		.000
	N	53	53
Risk management	Pearson Correlation	.740**	1
	Sig. (2-tailed)	.000	
	N	53	53

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

Source: Primary data (2016)

The findings in the table above revealed that there is a strong positive and significant relationship between risk management and performance of commercial banks at (r) = 0.740 (74.0%), at the level of significant P = 0.000 (2-tailed) given by the Pearson correlation. This indicates that when risk management is improved, performance of commercial banks is likely to also improve. This also implies that risk management has an association with performance of commercial banks.

Table 4.11: Correlation between collateral security and performance of commercial banks

		Performance	Collateral security
Performance	Pearson Correlation	1	.668**
	Sig. (2-tailed)		.000
	N	53	53
Collateral security	Pearson Correlation	.668**	1
	Sig. (2-tailed)	.000	
	N	53	53

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

Source: Primary Data (2016)

The findings in the table above revealed that there is a strong positive significant relationship between Collateral security and performance of the banks at (r) = 0.668 (66.8%), at the level of significant P = 0.000 (2-tailed) given by the Pearson correlation. This indicates that when Collateral security is improved, performance is likely to also improve. Therefore, collateral security has an association with performance of commercial banks.

Table 4.12: Correlation between loan scheduling and performance of commercial banks

		Performance	Loan Scheduling
Performance	Pearson Correlation	1	.799**
	Sig. (2-tailed)		.000
	N	53	53
Loan Scheduling	Pearson Correlation	.799**	1
	Sig. (2-tailed)	.000	
	N	53	53

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

Source: Primary Data (2016)

The findings in the table above revealed that there is a strong positive significant relationship between loan scheduling and performance of the banks at (r) = 0.799 (79.9%), at the level of significant P = 0.000 (2-tailed) given by the Pearson correlation. This indicates that when loan scheduling is improved, performance of commercial banks is likely to also improve. Therefore, loan scheduling has an association with the performance of commercial banks.

4.5 Regression Analysis

This section provides the model summaries for the regressions loan management practices (risk management, collateral security and loan scheduling) on the performance of commercial banks. An analysis is thus provided to ascertain how each of the specific indicators predicts the variations in performance. The results are therefore presented in a systematic order in line with the specific objectives as indicated below.

Table 4.13: Model summary of risk management and performance of commercial banks

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.740[a]	.547	.538	.403

a. Predictors: (Constant), risk management

Source: Primary Data (2016)

The model summary table above revealed that an Adjusted R Square of 53.8% was obtained at a correlation of 74.0%. This therefore implies that 53.8% (0.538 *100) variations in performance of commercial banks are explained by risk management while the remaining 46.2% is explained by other factors.

Table 4.14: Model summary of Collateral security and performance of commercial banks

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.668[a]	.446	.435	.446

a. Predictors: (Constant), Collateral security

Source: Primary Data (2016)

The model summary table above revealed that an Adjusted R Square of 43.5% was obtained at a correlation of 66.8%. This therefore implies that 43.5% (0.435 *100) variations in performance of commercial banks are explained by collateral security while the remaining 56.5% is explained by other factors.

Table 4.15: Model summary of loan scheduling and performance of commercial banks

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.799[a]	.639	.632	.360

a. Predictors: (Constant), loan scheduling

Source: Primary Data (2016)

The model summary table above revealed that an Adjusted R Square of 63.2% was obtained at a correlation of 79.9%. This therefore implies that 63.2% (0.632 *100) variations in performance of commercial banks are explained by loan scheduling while the remaining 36.8% is explained by other factors.

4.6 Conclusion

Chapter four above provides the study findings obtained through both the questionnaires and the interviews carried out with respondents. It should be noted that from the sample size of 70, a response rate of 84% was obtained. Both frequency tables were used to ascertain the responses relating to their agreement levels. Both correlations and regressions were also generated to ascertain the relationships of the variables and the effect of the independent variables on dependent variables respectively. The next chapter (five) presents the summary of the study findings, the conclusions, recommendations and also suggestions of areas for further study.

CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the summary of findings, conclusions according to the findings on each of the study objectives and recommendations as well as suggestions for further research.

5.1 Summary of the study findings

The summary of findings has been captured under the following sub-titles: effect of risk management on performance of commercial banks, effect of collateral security on performance of commercial banks and effect of loan scheduling on performance of commercial banks.

5.1.1 Effect of risk management on performance of commercial banks

Findings revealed that majority of respondents agreed that Equity bank has set targets on loan recovery. Also one credit officer commented that, *"A system has been put in place where officers are able to record all covenants/agreements made for defaulting customers. This can be viewed by all the stakeholders within the credit line upon authorization. This enables uniformity and sharing of information"*

Findings in the above table reveal that; majority 46(86.8%) agreed that loan appraisal is always conducted before loan disbursement. Study findings further revealed that there is a strong positive and significant relationship between risk management and performance of commercial banks at (R) = 74.0% with variations in performance of commercial banks are explained by risk management at 53.8% (Adjusted R Square).

5.1.2 Effect of collateral security on performance of commercial bank

Most respondents were in agreement that they believed good collateral security improving on loan recovery in Equity Bank. However, one of the low cadres commented, "*some of the loans are disbursed before collateral security is taken care of*". Also majority of the respondents 40(81.2%) were in agreement that Equity bank strictly follows loan policies and regulations. This implies that fewer mistakes are done since they strictly follow loan policies and regulations which would lead to loss of money in solving such mistakes. The built-in spirit for employees is to strive for high performance throughout the entire evaluation of policies and regulations, means that the performance of the bank may be consistently high. Furthermore results in table above indicated that 45(84.9%) were in agreement that the bank always ensures that collateral security is of adequate value, an indication of adequate loan recovery. There was also a strong positive and significant relationship between collateral security and performance of commercial banks at (R) = 66.8% with variations in performance of commercial banks are explained by collateral security at 43.5% (Adjusted R Square).

5.1.3 Effect of loan scheduling on performance of commercial banks

Findings indicated that majority of the respondents, 49(92.4%) were in agreement, while 4(7.6%) were in disagreement that Loans are always approved by credit committee. On the other hand one assistant manager commented that, *"Sometimes salary loans are not well scheduled to loan repayments and clients end up paying penalties".* Also majority of respondents agreed that Continuous customer reminders on loan schedules helps in improving loan repayment management practices. It was also found out that a strong positive and significant relationship between loan scheduling and performance of commercial banks at (R) = 79.9% with variations in performance of commercial banks are explained by collateral security at 63.2% (Adjusted R Square).

5.2 Conclusions

5.2.1 Effect of risk management on performance of commercial banks

Study findings revealed that there is a strong positive significant relationship between risk management and performance of commercial banks at (r) = 0.740^{**}, at the level of significant P = 0.000 (2-tailed) given by the Pearson correlation. This indicates that when risk management is improved, performance of commercial banks is likely to also improve, and implies that management of Equity bank has to enhance risk management if bank performance is to be improved.

5.2.2 Effect of collateral security on performance of commercial banks

Findings in the table above revealed that there is a strong positive significant relationship between Collateral security and performance of the banks at (r) = 0.668^{**}, at the level of significant P = 0.000 (2-tailed) given by the Pearson correlation. This indicates that when Collateral security is improved, performance is likely to also improve, and implies that management of Equity bank has to enhance Collateral security if bank performance is to be improved.

5.2.3 Effect of loan scheduling on performance of commercial banks

Findings in the table above revealed that there is a strong positive significant relationship between loan scheduling and performance of the banks at (r) = 0.799^{**}, at the level of significant P = 0.000 (2-tailed) given by the Pearson correlation. This indicates that when loan scheduling is improved, performance of commercial banks is likely to also improve, and implies that management of Equity bank has to enhance loan scheduling if bank performance is to be improved.

5.3 Recommendations

Management should put up strategies to improve risk management such as; conduct frequent trainings, promotion and recognition of staff in order to improve performance in Equity Bank and to ensure continued survival and success of the bank loans in the current highly competitive financial field of Uganda.

Equity Bank human resource department needs to improve on the modes of recognizing better performing staff so that they are motivated to produce more. This may include improved commissions on the employees who beat their monthly targets.

Equity Bank human resource department needs to increase staff awareness on the rationale for risk management to avoid incompetence among credit cadres due to their being ignorant of the processes policies and procedures. Emphasis should also be put on recruitment process to get required level of education and not only performance so as to encourage career growth.

Equity Bank human resource department need to consider collateral security since it has an effect on performance of the bank. It should be made clear to all credit officers that securities has the same meaning with the loan disbursed.

Equity Bank management staff need to upwardly review confirmed loan scheduling, thus there should be strictly follow of needed procedure. However this should be done carefully since it can lead to red tape. Loan scheduling should be reviewed annually to enable them meet the increasing competition in the industry and dynamic demands of customers.

5.4 Areas for further research

Based on this study, loan management practices is a complex subject which cannot be exhausted at ago. More needs to be discovered so as to help managers improve on their loan management practices and forge ways forward which can bring improved performance of commercial banks as they strive to achieve their goals. The researcher therefore suggests further research in the following areas:

1. Loan Supervision and Performance of commercial banks
2. The composition and organizational structures and debt recovery in commercial banks

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Appendices

Appendix 1: Questionnaire for respondents

I am a student of Uganda Martyrs University pursuing a Master’s degree in Business Administration.

I am conducting a study on loan management practices and performance of commercial banks, a case of Equity Bank, Kampala region. This questionnaire has been designed purposely for data collection on loan management practices and performance of commercial banks. You have been carefully identified as a potential person who can provide useful and reliable data that will help policy makers and implementers to improve on loan management practices and performance of commercial banks, specifically in Equity Bank. The information generated will be handled with utmost confidentiality and will be used for academic purposes.

Thank you in advance for your cooperation by giving your valuable time and effort to fill the questionnaire.

Yours faithfully,

Musiime Julius Musaki Apuuli

(STUDENT)

Section A: Demographics

Please tick the most appropriate answer in the corresponding box

1. **Gender :** 1)Male ☐ 2)Female ☐

2. **Age:** 1) 20 years and below ☐ 21-30 years ☐ 2) 31-40 years ☐

   3) 41 years and above ☐

3. What is your highest level of education?

   1) Primary Level ☐ 2) "O" levels ☐ 3) 'A' Level ☐

   4) Diploma Level ☐

   5) Degree Level ☐ 6) Master's Degree ☐ 7) others (specify) ----------------

4. How long have you been in this organization?

   1) Less than 1 year ☐ 2) 1-2 years ☐) 3-5 years ☐) 5years and above ☐

Section B: Loan management practices and performance of commercial banks

Please, use the scale below to answer the questions that follows by ticking the number that corresponds to your opinion.

1	2	3	4	5
Strongly disagree	Disagree	Neutral	Agree	Strongly agree

Section C: Risk management in Equity Bank, Kampala Region

		1	2	3	4	5
1.	Equity bank has set targets on loan recovery					
2.	Loan appraisal is always conducted before loan disbursement					
3.	There is a loan risk management team in the bank					
4.	The bank has clear loan risk management policies in place					
5.	Equity bank has an established appropriate credit risk environment					
6.	The bank has ensured adequate controls over credit risk					
7.	The loan risk management committees has competent staff to monitor loan risk					
8.	The bank has trained all concerned staff members on risk management					
9.	The bank has used advanced analytics and alternative data sources to reduce loan risk					

Do you have any comment(s) you would wish to make on the way the loan risk management is carried out in Equity bank? Please specify

……………………………………………………………………………………………………

……………………………………………………………………………………………………

Section D. Collateral security

		1	2	3	4	5
1.	I believe that good collateral security improve on loan recovery in Equity Bank					
2.	Equity bank strictly follows loan policies and regulations					
3.	In Equity bank loan is disbursed after receipt of collateral security					
4.	The bank always ensure that collateral security is of adequate value					
5.	The bank has ever sold securities in case of default to repay for the loan					
6.	The bank follows due process of law before selling customer's asserts					
7.	The bank asks for securities that customers are able to give					
8.	Valuable securities have encouraged customers to pay promptly					

Do you have any comment(s) you would wish to make on the way the Collateral security is carried out in Equity bank? Please specify

……………………………………………………………………………………………………

……………………………………………………………………………………………………

Section E. Loan scheduling in Equity bank

		1	2	3	4	5
1.	Loans are always approved by credit committee					
2.	There is strong and effective internal loan scheduling in Equity Bank					
3.	Credit staff follow approved loan schedules to recover the loans					
4.	There are proper loan scheduling policies and procedures followed in Equity bank					
5.	The loan scheduling in the bank are reviewed at the end of every month					
6.	SMS are sent to customers who are not paying on schedule as a methods of debt collection					
7.	Telephone calls have been an efficient way of accelerating payments from slow paying debtors					
8.	Appropriate loan scheduling has led to timely payments					
9.	Continuous customer reminders on loan schedules helps in improving loan repayment management practices					

Do you have any comment(s) you would wish to make on the way the Loan scheduling is carried out in Equity bank? Please specify

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Section F. Performance of commercial banks

		1	2	3	4	5
1.	Equity bank has competent staff for credit services					
2.	The bank loan management practices have led to good loan recovery rate.					
3.	I always enjoy quality of credit services rendered to Equity bank customers					
4.	Most of the loan issued are recovered in time					
5.	There is always specified payment time for every loan issued					
6.	Equity bank has retained loan book quality for a long time					
7.	Equity bank currently has its desired portfolio size in the bank					
8.	Equity bank has enjoyed a clean clientele.					
9.	Equity bank has enjoyed increased return on capital employed over last two years.					
10	Loan management practices have improved banks profitability					

Do you have any comment(s) you would wish to make on the way the loan recovery is managed in Equity bank? Please specify

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Thank you for your time to fill this questionnaire.

Appendix 11: Interview Guide

1. Does the bank have clear loan risk management policies in place
2. How has the loan risk management been carried out in Equity bank?
3. Does the bank always ensure that collateral security is of adequate value?
4. Do you have any comment(s) you would wish to make on the way the Collateral security is carried out in Equity bank? Please specify
5. Do Credit staffs follow approved loan schedules to recover the loans
6. Do you have any comment(s) you would wish to make on the way the Loan scheduling is carried out in Equity bank? Please specify

Appendix II: Table for determining sample size from a given population

N	S	N	S	N	S	N	S	N	S
10	10	100	80	280	162	800	260	2800	338
15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	246
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	340	181	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	181	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

Note: "N" is population size

"S" is sample size.

Krejcie, Robert V., Morgan, Daryle W., "Determining Sample Size for Research Activities", Educational and Psychological Measurement, 1970.