CREDIT MANAGEMENT PRACTICES AND LOAN PORTFOLIO PERFORMANCE OF COMMERCIAL BANKS IN UGANDA: A CASE STUDY OF CENTENARY BANK

BY

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A RESEARCH DISSERTATION SUBMITTED TO THE GRADUATE SCHOOL IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE MASTER'S DEGREE IN BUSINESS ADMINISTRATION (FINANCE OPTION) OF KYAMBOGO UNIVERSITY

NOVEMBER, 2020

DECLARATION

I Kham Kiragi Twinomugisha declare that this dissertation entitled "*Credit Management Practices and Loan Portfolio Performance* in commercial banks: A case study of *Centenary Bank"* has never been submitted or presented for any award in any university or institution of higher learning.

Signed……………………………… Date…………………………………

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APPROVAL

I certify that this dissertation entitled "*Credit Management Practices and Loan Portfolio Performance of* commercial Banks in Uganda: A case study of Centenary Bank*"* has been compiled under my guidance and supervision. It is now ready for submission with my approval.

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Date…………………

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Gerald Kasigwa (Dr.)

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Date…………………….

DEDICATION

I dedicate this work to God the Almighty and to my children – Taremwa Moses, Ashaba Nicole, Amanya Ryan, Liam Siima Ayebazibwe and my lovely wife, Safina Tukashaba Beine.

ACKNOWLEDGEMENT

In assorted ways, a number of people have contributed to making this study achievable. First and foremost, I would like to thank Dr. Dan Ayebale and Dr. Gerald Kasigwa my supervisors for having guided me throughout the entire process. Writing this dissertation would have been extremely difficult, almost impossible without the cooperation and assistance of Centenary Bank staff whom interviews and discussions were held. I am indebted to all of them for giving me their time and for facilitating my research. My sincere appreciations to the staff of Kyambogo University who gave me positive criticisms. Also, special thanks go to my fellow colleagues in the struggle especially Mr. Christone Arinda, Nazziwa Jacintah, Nsibambi Vincent and Kyumba 17 as a whole for the support and encouragement whenever the morale would be low. It must be emphasized, however, that I bear full responsibility for any weaknesses of this dissertation. There have been difficult moments but I hope we can share the fruits of this work together. Above all, I want to thank my family, who supported and encouraged me in spite of all the time it took me away from them. It was a long and difficult journey.

ABSTRACT

The study examined the Effect of credit management practices on Loan Portfolio performance of commercial banks in Uganda, a Case of Centenary Bank. The study aimed at establishing the effect of credit appraisal practices on loan portfolio performance in Centenary Bank, examining the effect of credit monitoring practices on loan portfolio performance in Centenary Bank and analyzing the effect of credit recovery procedures on loan portfolio performance in centenary Bank. In this study, a case study research design was adopted, stratified random sampling and purposive sampling techniques were used to select a sample of 92 employees from a population of 120 respondents. Out of 82 questionnaires administered only 68 respondents returned questionnaires making a response rate of 83% and out of 10 interviewees targeted only 8 interviewees responded making a response rate of 80%. The data was collected using questionnaires and interviews and analysis was done using regression analysis, and correlation coefficients for the quantitative findings. Findings revealed that credit appraisal practices significantly and positively affect loan portfolio performance in Centenary Bank (adjusted R^2 =0.727*, p-value = 0.000), secondly findings revealed that credit monitoring practices significantly and positively affect loan portfolio performance in Centenary Bank (Adjusted R^2 = 0.501*, p-value = 0.000) and thirdly, the findings revealed that credit recovery procedures significantly and positively affect loan portfolio performance in Centenary Bank (adjusted R^2 =0.780*, p value= 0.000). For qualitative findings, data was coded, correctly synthesized and patterns generated which were used to put qualitative data into context and findings were interpreted in line with the research objectives which enabled the assessment of literature reviews to reach a conclusion. The study concluded that all outstanding loans in the loan portfolio are continuously reviewed & closely monitored. Centenary bank has ensured that reviews are done on the collection policies to improve credit management. The study further recommended that Banks should value all information about the customers with a high level when doing their credit assessment because the information they may consider to be less important could be the cause of a failure in their decisions or, it could be the area from which the customer's default arises.

Key words: Loan portfolio performance, credit recovery Procedures, Commercial Banks, credit appraisal Practices and Credit monitoring practices.

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LIST OF ACRONYMS

AMFIU	Association of Microfinance Institutions in Uganda
ATM	Automatic Teller Machine
BOU	Bank of Uganda
CERUDEB	Centenary Rural Development Bank
CIA	Central Intelligence Agency
CRM	Customer relationship management
CVI	Content Validity Index
FOREX	Foreign Exchange
ICB	International Credit Bank
MDIs	Microfinance Deposit taking Institutions
MFIs	Microfinance Institutions
NGO	Non-Governmental Organisation
NPA	Nonperforming Assets
NPL	Non performing loans
STANCHAT	Standard Chartered Bank
SPSS	Statistical package for social sciences
UGX	Uganda shillings

CHAPTER ONE

INTRODUCTION

1.1 Introduction.

Commercial banks and other credit extending institutions have for long sought improved operational strategies to boost their loans' performance and increase profitability and attain competitive advantage (Kipkirui & Omagwa, 2018). Indeed, Myers and Brealey (2013) opined that such institutions adopt and always modify their credit management practices to attain effectiveness. Institutions develop credit management practices to not only recover their principal amount but also generate profits on their risk taken while lending (Dimelis, Giotopoulos, & Louri, 2013). Effective management of the loan portfolio and the credit function is fundamental to the bank's safety and soundness not only because loan portfolio constitutes the largest asset and main source of revenue but also because it is the main cause of bank losses and failures (Bhat, Tariq and Ahmed, 2020).

The study focused on examining the effect of credit management practices on loan portfolio performance of commercial banks in Uganda with specific focus on Centenary Bank. Credit management practices are conceived as the independent variables and loan portfolio performance is the dependent variable. This chapter presents the background to the study, statement of the problem, study purpose, research objectives, research hypotheses, conceptual framework, significance of the study and operational definitions.

1.2 Background to the study

The background is divided into four perspectives, the historical, theoretical, conceptual and contextual perspective as presented in detail below.

1.2.1 Historical background

Banking with regard to credit evolved in the 16th Century following the increase in trade in England during the time of King George VI. The major goal of banking at that time was to extend credit to the general public with the aim of getting profits (Brownbridge, 1998). By the time of the Industrial revolution in the 19th Century, banking had become a vibrant industry, focused on innovation. Many banks made a lot of profits through extending credit to entrepreneurs and industrialists.

The concept of credit extension and management dates back in history but was not appreciated until after the Second World War when it was largely recognized in Europe and later to Africa [Kitui, 2015].

In Africa, the concept of credit was largely appreciated in the 1950's when most banks started opening the credit sections and departments to give loans to white settlers. A substantial number of locally owned banks have failed mainly because of nonperforming loans (Brownbridge, 1998). A CBN/NDIC collaborative study of distress in Nigerian financial institutions in 1995 revealed that factors such as bad loans and advances, bad credit policy, bad management among other factors are responsible for bank and other financial distress (Okpara, 2009).

Before Uganda's independence in 1962, the banking sector was dominated mainly by foreign owned commercial banks (Bategeka, 2009). In 1966 the National Bank of India which later became the Grindlays Bank in Uganda did not extend loans to Ugandans without collateral security (Abuka and Egesa, 2010). According to Brownbridge (1998), it was observed that the foreign banks were not advancing credit to the local business community and as such in 1965 through an Act of Parliament the banks started extending credit to the local business community. Given this development there was need for a regulatory and institutional framework for banks to ensure control. Through the bank of Uganda Act of 1966, Bank of Uganda was established to regulate the banking industry in Uganda and in order to strengthen regulation the government enacted the Banking Act 1969 to provide a frame work for the

regulation and supervision of banks in Uganda. This was the first official act for the regulation of banks in Uganda.

In Uganda, the financial sector, like many others, had recovered from the economic decadence that resulted from a 15-year turmoil (1971 to 1986) and by the end of 2007, the BoU regulated financial institutions consisted of 16 commercial banks, 4 credit institutions, 4 MDIs, 2 leasing firms, 19 insurance companies, and 84 forex bureaus. This saw an increase in commercial bank branches up to 290 where Clients increased from below 300,000 to over 3.5 million by 2007 (Association of Microfinance Institutions in Uganda, 2008) and to 658 branches in 2015 (Association of Microfinance Institutions in Uganda, 2015). This trend has continued to explode till date as worsened by the Covid-19 Pandemic.

As the number of banks grows however, several challenges emerge that call for the need to have very sound risk management systems in order to avoid the 1990's scenario which saw several banks closed because of non-performing loans. According to the Bank of Uganda report (1999), four banks namely International Credit Bank (ICB), Greenland Bank, Cooperative Bank and Trust Bank, were closed by the Central Bank because of financial distress and bank failure as a result of nonperforming loans.

Over the years the provision for bad debts has become a major cost to banks within the financial market in Uganda. This is as a result of the ever-increasing loan book over the years by the Ugandan banks which has presented a number of challenges to management with concerns about the quality of mortgage, business and personal loans that are booked by the banks.

1.2.2 Theoretical background

The study was guided by the Loanable funds' theory (1930) by the Swedish Economist Knut Wicksell. Later on according to Laidler (2009), economists like Ohlin, Myrdal, Lindahl, Robertson and Viner have

considerably improved and contributed to this theory. In economics, the loanable funds doctrine is a theory of the market interest rate. According to this approach, the interest rate is determined by the demand for and supply of loanable funds. The term loanable funds include all forms of credit, such as loans, bonds, or savings deposits (Laidler, 2009). According to this theory, rate of interest is determined by the demand for and supply of loanable funds. In this regard this theory is more realistic and broader than the classical theory of interest. The demand for money as an asset was theorized to depend on the interest foregone by not holding bonds (here, the term "bonds" can be understood to also represent stocks and other less liquid assets in general, as well as government bonds). Interest rates, he argues, cannot be a reward for saving as such because, if a person hoards his savings in cash, keeping it under his mattress, he will receive no interest, although he has nevertheless refrained from consuming all his current income.

Laidler (2009) suggests eight risk determinants with two to four alone being significantly correlated with credit management of any one banking system. Among the factors used to identify risk, non -performing loans (NPLs) or impaired loans is a factor that has received central focus in the analysis of how credit risk built up after the 1997 Asian Financial Crisis. It emphasizes the use of quality control mechanisms to encourage challenge and sharpen our supervisory approach; and analyze better management information about the credit profiles of the firms and sectors banks supervise (Lindall, 2012).

The failure of many banks is not because of their inability to mobilize adequate deposits from the surplus sector to the deficit sector of the economy but mainly because their loan portfolios have been poorly managed. Some banks find it difficult to meet their obligations to their customers and owners due to weaknesses in managing their loan portfolios, and the shortcomings which could render them either illiquid or insolvent to meet their long term goals.

1.2.3 Conceptual background

According to Bert et al (2003) in Mafumba (2020), credit management is a process of granting credit, the terms it is granted on and recovering this credit when it is due hence entailing planning, control, coordination of the financial institutions loan portfolio. Commercial banks set credit policies to ensure control and minimize losses. The institutions establish the credit worthiness of customers and this involves the appraisal of the customers as well as establishing the customer's capacity to repay the loan. For purposes of this study, credit management practices refer to loan appraisal, loan monitoring and loan recovery procedures.

Loan portfolio performance refers to rate of return of an investment in various loan products (Krestlow, 1992). Thus it broadly looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery and the number of products on the chain. Loan portfolio performance will be greatly interpreted as the ability to attain increase of loans turnover, client goal attainment, client affordability to repay/service, loan recovery/collection rate, arrears rate, loan loss rate, portfolio risk and the ultimate reduction in non-performing loans (Mohammad, 2014).

For purposes of this study, loan performance is measured in terms of non-performing rate (NPR), loan loss rate, arrears rate, loan recovery/collection rate, client goal attainment, client affordability to repay/service and number of outstanding loans. A loan is nonperforming when payments of interest and principal are past due by 90 days or more, or at least 90 days of interest payments have been capitalized, refinanced or delayed by agreement or payments are less than 90 days overdue, but there are other good reasons to doubt that payments will be made in full (Bloem and Freeman, 2005). Nonperforming loans represent debts that are probably not going to be repaid, thus posing cash flow problems to their lenders (Chijoriga, 2011). Centenary bank has many nonperforming loans that have come under heavy scrutiny

from the regulators, which provides significant incentive to restructure or renegotiate nonperforming loans before they are too far gone to recover any money at all (Chijoriga, 2011). The nonperforming loans portfolio is an indication of the quality of the total portfolio and ultimately of a bank's lending decision. Another such indicator is the Banks collection ratio.

1.2.4 Contextual background

In Uganda, most banks have registered huge non-performing loans over time since 2011 and has been even worsened due to Covid-19 pandemic thus adversely affected Uganda's banking industry (Matovu, 2020). Total assets of credit extending institutions grew by 18.2 percent from Uganda shillings 30.1 trillion in 2019 to Uganda shillings 35.8 trillion in 2020 largely due to increased lending activity, loans and advances increased by 14% from 13.6 trillion in 2019 to 15.5trillion in 2020 while at the same time non-performing loans increased from 3.8% to 6.0% (Bank of Uganda, 2020). These institutions with huge non-performing loans include Stanbic Bank, Barclays Bank, DFCU, Standard Chartered Bank, Centenary Bank, Diamond trust bank, Baroda, Tropical Bank, Housing finance bank and NC bank. As a result of huge non-performing loans and increased bad loans written off by financial institutions in the banking industry, this study will take Centenary Bank Uganda Limited as a case study to investigate the effect of credit management practices on loans portfolio performance of commercial banks in Uganda.

In placing the study under its context, this study focuses on Centenary Bank. Centenary Bank limited was established in 1983 as a credit trust and went on to register as a fully-fledged commercial bank expanding from one branch on Nkrumah road to 70 branches country wide serving approximately a third of the banking population in the country (Centenary Bank Annual Report, 2019).

According to Bank of Uganda Annual report 2017, Centenary bank is also mentioned among the top banks with high non-performing loans which increased from Shs.35.6 billion in 2016, up to shs.62.2

billion Shillings in 2017.The bad debts written off increased to shs.18 billion in 2017, up from shs.11.2 billion in 2016(Centenary Bank Annual Report, 2017). The above performance when compared to the bank's loan portfolio performance in 2015, such figures are astonishing given that the bank's total assets had reached Ugx 1,974.4 billion from Ugx 1,635.1 billion in 2014 as net loans grew to Ugx 1,020.2 billion up from Ugx 830.9 billion in 2014 which represented a growth of 22.8 percent above the industry growth of 14.6 percent (Centenary Bank Annual Report, 2015). This staggering evidence of poor loan portfolio performance is a worry to the institution that aims at making profits. Despite the existence of credit management practices (credit appraisal, monitoring, and recovery procedures), there are still loan portfolio gaps in Centenary Bank and the gap continues to increase every passing day. Therefore, the study investigated the effect of credit management practices on loan portfolio performance of commercial banks in Uganda using Centenary Bank (Uganda) Ltd as a case study.

1.3 Statement of the problem

As the economy comes to a standstill as a result of the Covid-19 lockdown or restrictions in clients carrying out their activities freely, financial institutions such as banks have found it hard to manage non-performing loans (Matovu, 2020). However, according to Centenary Bank Annual Report (2019), the non-performing loans had grown to 3.6% in 2019 as compared to 2.6% in 2018 thus indicating a trend that was already getting out of hand even before the Covid-19 pandemic. The bank appears to have failed in achieving its planned loan portfolio performance thus causing failure in recovery of loaned money despite having policies like collaterisation of loans, loan tracking system and debt recovery unit as noted in the Centenary Bank Annual Report (2019) indicating that they have the capacity to manage any credit risk.

The Centenary Bank non-performing loans have increased from 39.8 billion in 2018 to 60.82 billion 2019 and the bad loans written off increased from shs.25.9 billion in 2018 to shs.128.8 billion in 2019

(Centenary Bank Annual Report, 2019). The rate of growth of non-performing Assets (NPA) and foreclosure has steadily increased over the years as noted in the above data transition (2018 to 2019 reporting). It is evident that Centenary bank loan loss rate increased from 1.0% in 2018 to 1.2% in 2019 and the number of outstanding loans increased from 1.53 billion in 2018 to 1.74 billion in 2019 (Centenary Bank Annual Report, 2019). Whether this is due to failure to recover the loaned money is the question subject to debate in this study. Hence if this situation continues, Centenary bank is more likely to lose its reputation there by causing discontent among its clients. This therefore raises concern hence prompting an investigation into examining how credit management practices affect Loan Portfolio performance of commercial banks in Uganda drawing an empirical investigation on Centenary Bank.

1.4 Purpose of the study

The purpose of this study was to investigate the effect of credit management practices on Loan Portfolio performance of commercial banks in Uganda. A Case of Centenary Bank

1.5 Objectives of the study

The objectives of this study were;

I. To establish the effect of credit appraisal practices on loan portfolio performance in Centenary Bank

II. To examine the effect of credit monitoring practices on loan portfolio performance in Centenary Bank

III. To analyze the effect of credit recovery procedures on loan portfolio performance in Centenary Bank

1.6 Research hypotheses

The study tested the following research hypotheses

H_1…… Credit appraisal practices have no significant effect on loan portfolio performance in Centenary Bank.

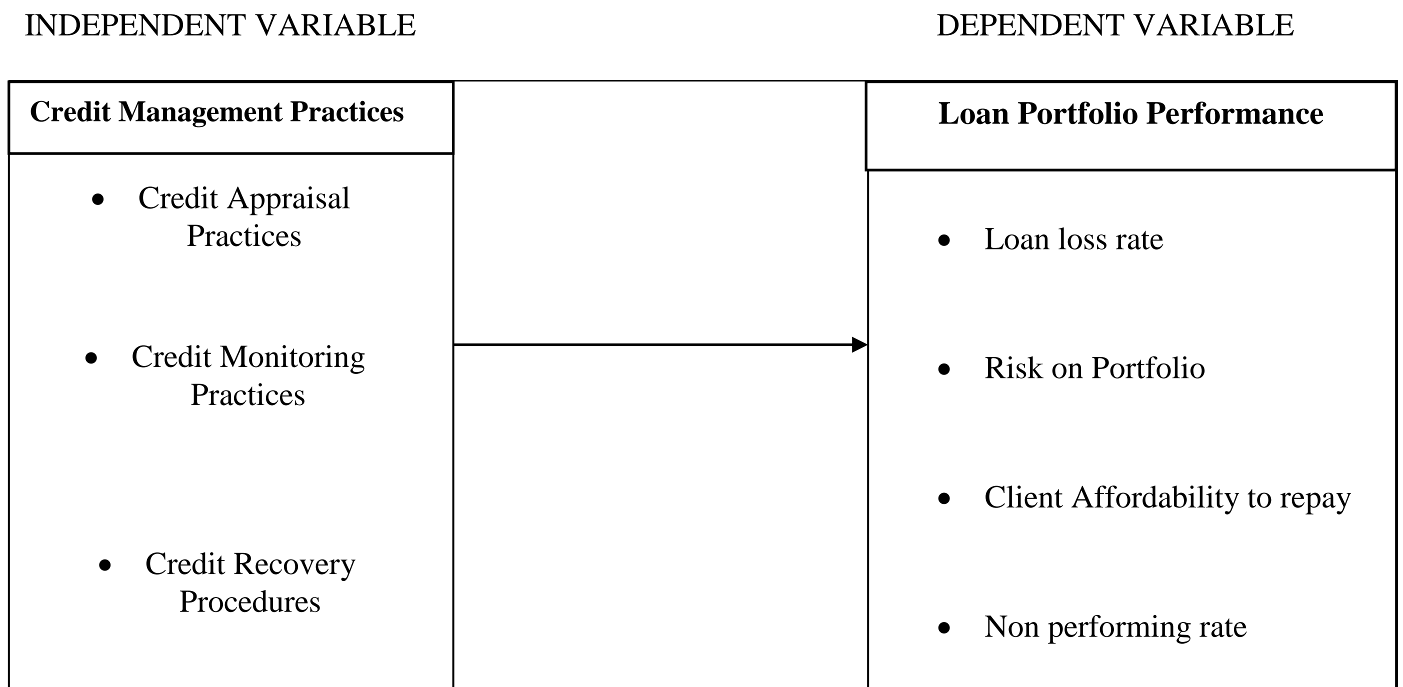
H_2…….. Credit monitoring practices have no significant effect on loan portfolio performance in Centenary Bank.

H_3…… Credit recovery procedures have no significant effect on loan portfolio performance in Centenary Bank.

1.7 Conceptual Framework

This sub section presents the conceptual framework of the study and provides a discussion of the main areas of focus. It seeks to delineate the palpable and crucial link between the issues and as a final point, it seeks to summarize the conceptual framework of the study.

Figure 1.2: A conceptual framework illustrating the relationship between credit management practices and loan portfolio performance



Source: Adapted from Mwembe (2019)

The independent variable is credit management practices and the dependent variable is loan portfolio performance. Credit management refers to credit appraisal practices, credit monitoring practices and credit recovery procedures. Credit appraisal is measured in terms of underwriting standards, credit requirements; credit monitoring is measured in terms of compliance with approved terms & conditions, credit reviews & classification and credit recovery procedures is measured in terms of reporting system and debt collection methods and procedures. As illustrated in Figure 1.2 above, it is argued that the different credit management practices identified would enhance the loan portfolio performance.

1.8 Significance of the Study

The study would be of significance in the following ways:

Policy and Decision makers: Over the years the provision for bad debts has become a major cost to commercial Banks. The decision makers like Bank of Uganda, will require commercial banks to provide for the expected loss arising from failure of a borrower to honor monthly Installment obligations through what is referred to as provision for bad debts.

Managers of Commercial Banks; The rate of growth of non-performing Assets (NPA) and foreclosure has steadily increased over the years. The failure to manage credit risk in Uganda over the years has led to the collapse of commercial banks, therefore managers will handle the matters of credit risk with a lot of care. Managers and Directors will greatly benefit from this research as it tackles a field which presents one of their biggest challenges in administration and management of commercial banks. The study findings would also help the bank to assess the effectiveness of its loan monitoring practices and will suggest adjustments if necessary, to arrest the prevailing occurrence of high non-performing loans and increased bad loans write off at the bank by focusing the attention to credit appraisal and evaluation processes.

Government: The results of the study may be used in policy formulation and implementation by policy makers in the banking industry especially in areas of credit monitoring and evaluation as well as appraisal processes to ensure effective debt and credit management among these commercial banks.

1.9 Justification to the Study

Loan portfolio is of great concern to financial institutions because it constitutes the largest asset and main source of bank revenue but also because it is the main cause of banks failure and closure, yet literature available in Uganda on the subject matter is limited. There is therefore need for more research on the subject matter because of its relevance to Ugandan financial institutions to avoid the history of closure of banks in Uganda like in the 1990s. This scenario warranties an urgent need for a study on credit management practices and loan portfolio performance in commercial banks.

1.10 Scope of the Study

This covered geographical, content and time aspects of the study.

1.10.1 Geographical scope

The study was conducted in Kampala at two branches of Centenary Bank that is the head offices (Mapera House) and Entebbe Road Branch. The head offices were chosen because this is where the key documents/records on credit management are kept and it is where the key credit decisions are taken.

1.10.2 Content scope

The study focused on examining the effect of credit management practices on loan portfolio performance of commercial banks. Credit management is the independent variable and quality loan portfolio performance is the dependent variable

1.10.3 Time scope

The study focused on the period 2013 to 2019 as it represents the period when Centenary Bank has continued to face poor loan portfolio performance on average between 20-40% bad debts written off

yearly, the loan loss rate increased from -0.10% to 2.81% and the number of outstanding loans increased from $18795 to $24479 (Centenary Bank Statistical Abstract, 2017). This trend has continued as the Non-performing loans have increased from shs.39.8 billion in 2018 to shs.60.82 billion in 2019. The bad debts written off also have continued to increase from shs,25.9 billion in 2018 to shs.128.8 billion in 2019. The loan loss rate increased from 1.0% in 2018 to 1.2% in 2019 and the number of outstanding loans increased from shs.1.53 billion to shs.1.74 billion in 2019 (Centenary Bank Annual report,2019).

1.11 Definitions to Key Terms and Concepts

A commercial bank is a profit-oriented organization/firm that is engaged in the business of receiving deposits and advancing credit to its clients (Jodarn, 2011).

Credit Management refers to the way banks lend out money after taking great consideration to avoid losing the money through bad debts (Mafumba, 2020).

Loan portfolio performance refers to rate of return of an investment in various loan products (Krestlow, 1992). Thus, it broadly looks at the number of clients applying for loans, how much they are borrowing, timely payment of installments, security pledged against the borrowed funds, rate of arrears recovery and the number of products on the chain. Loan portfolio performance will be greatly interpreted as the ability to attain, increase of loans turnover, client goal attainment, client affordability to repay/service, loan recovery/collection rate, arrears rate, loan loss rate, portfolio risk and the ultimate reduction in non-performing loans (Mohammad, 2014).

Loan portfolio quality refers to the general status of the loans in terms of loans paid in relation to the total principal outstanding expressed as a percentage (Jordan, 2011). For purposes of this study, loan portfolio will be measured in terms of non-performing rate (NPR), charge off/written off rate, loan recoveries and number of outstanding loans.

Loan appraisal practices is defined as all activities aimed at assessing the creditworthiness of a borrower by a lender before granting credit by collecting related information of customers and their projects or business to undertake through assessment of their technical, economic and financial feasibility and considering the borrower's character, collateral, capability and capacity (Osei, 2015).

Loan monitoring practices: though there is no amount of credit management procedures that can forecast all delinquencies to ensure a zero-default rate, the study defined loan monitoring practices as all activities aimed at minimizing the rate of loan defaults to the barest minimum (Wehinger, 2014).

Loan recovery practices refers to all measures aimed at creating a likelihood to help increase their debt collection success through availing flexible repayment plans for customers experiencing financial difficulty, well formulated hardship programs for borrowers that are late on their repayment, extend or lower payments, interest rates, or lower fees when you anticipate customer payment problems, create communication channels where customers can openly discuss their issues (Montana, 2012).

1.12 Conclusion

In this chapter the background to credit management practices and loan portfolio performance have been presented, the statement of the problem under study which can be summarized as being associated with inability of the commercial banks to avoid bad loans. Research objectives and key research questions under probe, the conceptual framework of the study, the significance and justification of the research have also been presented. It therefore offers direction that literature will take, the method used for studying the phenomena identified in the problem and a basis for interpretation of the results obtained from data collected.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the review of the related literature in line with the objectives of the study. Further, in this literature review the knowledge gap is identified, which forms the basis for the researcher's study and help in developing a methodology for the study. The literature reviewed is from journal articles, textbooks, working papers and dissertations.

2.2 Theoretical framework

The study was guided by the Loanable funds theory (1930) by the Swedish Economist Knut Wicksell. Later on according to Laidler (2009), economists like Ohlin, Myrdal, Lindahl, Robertson and Viner considerably improved and contributed to this theory. In economics, the loanable funds doctrine is a theory of the market interest rate. According to this approach, the interest rate is determined by the demand for and supply of loanable funds. The term loanable funds include all forms of credit, such as loans, bonds, or savings deposits (Laidler, 2009). According to this theory, rate of interest is determined by the demand for and supply of loanable funds. In this regard this theory is more realistic and broader than the classical theory of interest.

The demand for money as an asset was theorized to depend on the interest foregone by not holding bonds (here, the term "bonds" can be understood to also represent stocks and other less liquid assets in general, as well as government bonds). Interest rates, he argues, cannot be a reward for saving as such because, if a person hoards his savings in cash, keeping it under his mattress say, he will receive no interest, although he has nevertheless refrained from consuming all his current income. Investments that are more liquid are easier to sell fast for full value (Milkovich, 2016).

In relation to this study, issues of credit and how it's managed in commercial institutions in Uganda have created gaps hence either directly or indirectly affecting the institutions profitability, analyzed what an

effective credit risk management system entail and observed the establishment of a suitable credit risk environment which operates under a sound credit granting process with an appropriate credit administration that emphasizes Assessment, scoring, monitoring, evaluation and control over credit risk. Credit policies provide direction and guidance to credit officers involved in the assessment, scoring and approval of credit (Ahmed and Malik,2015). This is largely motivated by the desire to score out bad loans that probably may increase the risk of default hence affecting profitability. However, theory ignores board approval on matters of credit risk yet the credit risk most of the time is a concern of the board.

2.3 Review of Related Literature

The literature under study is reviewed according to the study objectives which are credit appraisal practices, credit monitoring practices and loan recovery procedures.

2.3.1 Loan Portfolio performance

Kiplimo & Kalio (2014) defined loan portfolio performance as the total amount of money given out in different loan products to different types of borrowers in form of salary loans, group guaranteed loans, individual loans and corporate loans. Loan performance concentrates on the number of clients with loans and the total amount of those loans. Nonetheless, Osei (2015) stated that loan repayment performance is affected by a number of socio-economic and institutional factors. Sindani (2012) suggests that the survival of any MFIs depended entirely on successful lending program that revolves around loan repayment management made to them by the clients through use of a restrictive credit control system to restrain from unnecessary lending thus improving on profitability of micro finance institutions.

Thiongo, Matata, & Simiyu (2016) hypothesized that growth in a bank's loan portfolio was a key measure of banks performance and hence evaluated the effect of growth in loan portfolio on financial performance of commercial banks in Kenya using a correlational research design and a population from

31 commercial banks. Multiple linear regression showed that growth in loan portfolio had a positive effect on financial performance of commercial banks in Kenya, but the effect was not significant. They thus concluded that growth in a bank's loan portfolio had a positive but insignificant effect on financial performance of commercial banks in the current year but the effect was adverse in the subsequent years. The study recommended that commercial banks should strategically execute their loan portfolio growth strategies so as to minimize the problem of loan losses in subsequent years. This current study is set to answer the call made by Thiongo et al (2016) through analyzing the effect of credit management practices on loan portfolio performance using Centenary Bank (Uganda) Ltd as a case study.

That observed, the following studies over the years tried to trace the effect of credit management practices on loan portfolio performance in their respective perspectives and contexts though they left certain areas of the practice unstudied. Lending is the principal business activity for most financial institutions and as such the lifeblood of every lending institution is in its loan portfolio quality and the success of the institution depends on how well that portfolio is managed (Milkovich, 2016). As already observed, the loan portfolio is the largest and predominant source of revenue and as such it is one of the greatest sources of risk to a bank's safety and soundness. Prudent risk selection is obviously vital to maintaining favorable loan quality. Therefore, the historical emphasis on controlling the quality of individual loan approvals and managing the performance of these loans continues to be very essential. This can be achieved by putting in place sound credit management guidelines, employing competent and trustworthy personnel and arming them with the relevant skills to manage the lending business.

Various indicators are used to describe loan portfolio quality but the most common indicator is the ratio of non-performing loans to total outstanding loans i.e. non performing rate (NPR). Non-performing loans generally refer to loans which for a relatively long period of time do not generate incomes. Agasha *et al.*

(2020) contends that the two standard measures of loan portfolio quality are the ratio of charge off/write offs i.e. written off bad loans to total loans, and the ratio of non-performing loans to total loans (NPR).

2.3.2 Credit Management Practices

According to Myers and Brealey (2013) credit management practices are the strategies used by an organization to ensure that the level of credit in the firm is acceptable and it is managed effectively. Currently, credit management practices are considered as an integral component for the success of the banks (Lalon, 2015). This is attributed to the fact that commitment to credit management practices ensures long term survival of the banking institutions through shielding from default loans (Kithinji, 2010). Muthoni *et al* (2020) concur with Kithinji (2010) in their findings where they noted that credit management practices in commercial banks contribute to 65.1% of the variations in loan performance and noted that the 34.9% variation could be due to other factors outside: debt collection policy, client appraisal and lending policy which they studied thus a gap that this study fills. This gap is with reference to the study of CRM from: Credit appraisal, credit monitoring and credit recovery perspectives thus the focus of the investigation of this study. Poor credit management practices have adverse negative effects on the banks resulting in reduced profitability and liquidity problems due to compressed profit margins from the rising NPLs hence bringing about the most challenging environment for banks (Saunders & Allen, 2010).

a. Credit Appraisal and Loan Portfolio performance

The Loan Appraisal is an application for funds evaluated by financial institutions focusing on purpose of the client, need genuineness, repayment capacity of the borrower, quantum of loan and security (Ahmed & Malik, 2015). Credit risk has over the years gained focal importance because of the huge financial losses faced by big international financial organizations (Nikolaidou & Vogiazas, 2014). Indeed, credit risk management constitutes a critical component of a comprehensive approach to risk management in

banking sector (Arora & Kumar, 2014). But García, Gimenez & Guijarro (2013) however noted that effective credit risk management practices have never been successful to eliminate the human element in making decisions about controlling risk and recommended stringent measures to scrutinize and appraise the loan applicant before awarding the loan.

Credit standards are looked at as the criteria banks used in selecting its customers for credit. It is the process by which institutions establish the credit worthiness of customers and involves the appraisal of the customer as well as establishing the customer's capacity to repay the loan (Segal, 2019). The viability of credit institutions depends critically on selecting applicants who have a high probability of repayment and rejecting those with high probability of non-repayment. The bank may follow a lenient credit standard where by credit is extended to selected customers with good records, whereas a stringent credit standard for credit to applicants with high probability of default. In evaluating the risk associated with customers, banks look at character, capacity, capital, collateral and condition. The researcher notes that once a decision has been made to grant credit to a customer, an organization has to decide the credit period, the amount of cash discount and the credit instrument to be used. A firm's credit terms have to specify whether or not to offer a cash discount for early payment of invoices or bills and if a discount is offered how much it should be.

The essence of effective credit management is portfolio management. Portfolio management aims to balance and contain overall portfolio risk by anticipating and controlling exposure to various identified markets, customers and operational conditions (Centenary Bank credit policy and procedures manual, 2008). Credit management has three major components of credit analysis/appraisal, credit administration and credit risk management or measurement (Onalo, Lizam and Kaseri, 2016). For purposes of this study,

credit management process covers the entire credit cycle from credit appraisal, credit monitoring and recovery procedures and includes sound practices in credit processing/appraisal, approval, documentation, administration, disbursement, monitoring, credit classification, managing problem credits and recovery. Credit appraisal is an important aspect of a bank's success and ensures that a lending institution will not take on more risk than it can handle (Oldfield &Santomero, 1997). Credit risk management is the Lending institution's primary line of defense to protect itself against customers who fail to meet the terms of the loans or other credit that was extended to them. The objective of credit risk management is to minimize the risk and maximize bank 's risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters (BIS, 2000). In a financial institution, the risk that resulted in the default of payment of the debtors must be expected. Banks and other financial institutions are exposed to many different types of risks and because of these, it is meaningful for a bank to keep substantial amount of capital to protect its solvency and to maintain its economic stability.

Centenary bank's credit management procedures are embedded in its credit policies & procedures manual (Centenary Bank Annual Report, 2019). This credit policy provides a framework for the entire management process and its objective standards and parameters that guide the granting of loans and management of loan portfolio. The policy defines the objectives of credit management, spells out the principles to be adhered to in credit management and outline the process to be followed in credit management. In bridging the gap, the credit management process is silent on submissions, processing of credit applications, and generation of compliance checklists for approval yet these are central in credit management.

Ahmed and Malik (2015) evaluated the influence of credit risk management practices on loan performance while taking the credit terms and policy, client appraisal, collection policy and credit risk control as the dimensions of the credit risk management practices. They applied statistical evaluation on primary data in cross sectional form collected from the managerial level credit risk management staff of microfinance banking sector in Pakistan. They employed multiple regression analysis and found that credit terms and client appraisal had a positive and significant impact on loan portfolio performance while the collection policy and credit risk controls had positive but insignificant impact on loan performance. There is also a lack of studies that effectively link and inter-relate levels of analysis – particularly those that focus on needs and impact of credit management practices in developing nations. Since client appraisal practices had positive significant impact on loan performance in Pakistan (Ahmed & Malik, 2015), generalization of their findings to the Ugandan setting might limit the effectiveness of their recommendations given the income disparity gap, differences in loan appraisal practices themselves (sharia-based practices vs. secular-based practices), and the types of customers in both countries. This contextual gap therefore has necessitated a thorough investigation of the same in Centenary Bank (Uganda) Ltd. It is imperative therefore for the researcher to hypothesize that there is no significant positive effect of credit management practices on loan portfolio performance in Centenary Bank.

Ssekiziyivu, Bananuka, Nabeta & Tumwebaze (2018) in reference to client loan appraisal investigated the contribution of borrowers' characteristics and credit terms on loan repayment performance of MFIs in rural areas of Uganda. They used cross sectional and correlational research designs and collected data through a questionnaire survey of 51 MFIs in Uganda. Results indicated that there was a significant relationship between credit terms and loan repayment performance among clients of MFIs unlike borrowers' characteristics. The gap was addressed by this current study through looking at other aspects

of loan performance like loan loss rate, arrears rate, portfolio risk, loan recovery/collection rate, client goal attainment, client affordability to repay/service and reduction in non-performing loan.

b. Credit Recovery Procedures and Loan Portfolio Performance

Credit policy is looked at as a framework guideline formulated by the organization to be followed in processing of credit extension to borrowers. Commercial banks set credit policies to ensure control and minimize losses. Credit policy is looked at as an institutions method of analyzing credit requests and its decision criteria for accepting and rejecting applications. According to Kakuru (2007) credit policy is a set of policy actions designed to minimize costs associated with credit while maximizing the benefits from it. The objective of this policy is to have optimal investment in debtors. Optimal investment is that level of investment where there is a tradeoff between the benefit and costs associated with it. In other words, at optimal level of investment, both objectives of profitability and liquidity are realized.

Credit extending organizations particularly have been taking stringent measures to mitigate any forthcoming financial losses caused by mismanagement in loan allocations and credit recoveries (Nikolaidou & Vogiazas, 2014). In fact, previous studies indicate that such institutions need to have strong and effective credit risk management policies for ensuring consistent loan recoveries from clients (Frank, Simon, & Josephine, 2014). Therefore, if loans are not well-recovered, it may result in losses of high level and even failure of financial institutions (Chijoriga, 2011). The following studies have laboured to track the effect of loan recovery procedures by financial institutions on loan portfolio performance.

Kagoyire and Shukla (2016) analyzed the effect of credit management on the financial performance of commercial banks in Rwanda using a descriptive survey design and a target population of study consisted of 57 employees of Equity bank in credit department. Primary data was collected using questionnaires

which were administered, analyzed using descriptive and inferential statistics. The study found that client appraisal, credit risk control and collection policy had effect on financial performance of Equity Bank. The study established that there was strong relationship between financial performance of Equity bank and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly influenced financial performance of Equity Bank. Collection policy was found to have had a higher effect on financial performance and that a stringent policy was more effective in debt recovery than a lenient policy. Since the study by Kagoyire and Shukla (2016) was only descriptive, they must have omitted qualitative and in-depth feedback which ought to have generated explanations behind given statistical expressions. This methodological gap was addressed by also collecting respondents' opinions on interviews to generate triangulated findings.

In bridging the gap, therefore, Centenary Bank should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery. This study was investigated using a case study research design with the intention of providing in depth investigation of the underlying effect between the variables under study and this helped to find the effect of credit management practices on loan portfolio performance as a component of financial performance.

c. Credit Monitoring and Loan Portfolio performance

Credit extending institutions need monitoring systems to clearly and quickly highlight repayment problems so that loan officers and their supervisors can focus on delinquency/default before it gets out of hand (Warue, 2012). However, even when stringent loan monitoring practices are implemented, the performance of loans might not improve. This is because Nakayiza (2013) studied the contribution of interest rates on loan portfolio performance in commercial banks coupled with increase in clients defaulting on loan repayments. Although Centenary Bank (Uganda) has tried to follow strict procedures

and regulations in administering credit, there is an increase on the bad debts written off in the bank ultimately affecting profitability. Since Nakayiza (2013) recommended adequate loan review policies and strict enforcement to credit officers who issue credit without following the credit policies of the bank, this current study seeks to add to her findings by ascertaining if such strict enforcement (monitoring) practices when followed, shall help the financial institutions improve on their loan portfolio performance.

Capacity is the willingness of a customer to settle his obligations as they fall due. It mainly involves assessment of the moral factors. In analyzing the customer's character, marital status, the level of education, occupational stability, past records are evaluated. Capacity is the ability of a client to pay the credit advanced to him or her. It may be assessed using customers' records, amount and purpose of the loan (Gerd, 2016). Capital determines the contribution or interest of the customer in his business. The tangible net worth of the business should be looked at and is shown by capital=assets=liabilities. Condition is the prevailing economic and other conditions which may affect the customers' ability to pay for instance credit crunch, inflation, political factors among others (Kakuru 2015). In relation to this study, in a bid to make thorough scrutiny of bad credit more five Cs should be analyzed that is carelessness, communication breakdown, complacency, contingencies and competition.

Kakuru (2015) noted that Banks should formally analyze credit procedures including subjective evaluation of the borrower's request and insight review of all financial statements. The first quantitative analysis may be carried out by credit department employees for the loan officer which include spreading financial statements, collecting information for credit file, projecting the borrower's cash flows, evaluating collateral and writing a summary analysis and making recommendation (Kakuru, 2015). The credit files contain background information on the borrower including call report summaries, past and

present financial statements, credit reports, debt schedules such as aging of receivables. Previous customers should have copies of the last loan agreement, cash flow projections, collateral agreements and security documents, any narrative comments provided by prior loan officers and copies of the correspondences with customers. In filling the gap, the credit analyst uses the credit file data to spread the financial statements, project cash flow and evaluate collateral, however the viability of this is a big puzzle. This study in creating a nexus sought to establish the means of strengthening credit monitoring practices in Centenary Bank. Kakuru (2015) describes the monitoring process as one which is simple but at the same time very difficult to effectively implement. This process involves constant reconciliation by the bank of the client's loan account with project site visit reports. The idea is to continuously remind him that the funds in hands belong to somebody else and must be repaid back with a fee within a stipulated period of time. It is at the monitoring and recovery stages of the credit processing system when credit personnel cooperate with customers to reduce frequency of site visits and ignore updating loan records.

In bridging the gap, strengthening monitoring, recovery policies and implementation helps improve the loan recovery system. This calls for improving credit accounting records, and using competent accounting trained staff.

2.4 Summary of the Literature Reviewed and literature gap

The literature review above confirms that different scholars have conducted several studies to establish the correlation between credit management practices and loan portfolio performance. For example, Mulumba (2016) noted that credit management focuses on lending and managing loans hence the author is silent on the key constructs of credit management which are credit appraisal practices, credit monitoring practices and credit recovery procedures which was central in this study. A number of gaps have been identified for instance no studies have looked at investigation of the effect of credit management practices from the perspective of a combination of: Credit appraisal, credit monitoring and

credit recovery procedures on loan portfolio performance. Literature reviewed also indicates that credit management practices aspect of quality is viewed from a narrower perspective hence an opportunity to contribute to look at credit management practices from broader perspective.

Most of the studies on the subject are based on developed countries with a well-developed credit management and planning systems yet the study centered on Uganda. The scholars did not specifically focus on the variables as laid down in this study. Putting the above into consideration, the study focused on credit management practices and quality loan portfolio performance.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter presents the research design, study population, sample size and selection, sampling techniques and procedure, data collection methods, data collection instruments, data quality control (validity and reliability), procedure of data collection, data analysis and measurement of variables.

3.2 Research Design

The study adopted a case study research design with intention of providing in depth investigation of underling effect between the variables under study. Wedawatta *et al.* (2011) define a case study as a research strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real-life context using multiple sources of evidence. This design was selected because it narrows abroad area of research into one case with in that field. Since the area under study is to investigate the effect of credit management practices on loan portfolio performance of commercial banks in Uganda, a case study of Centenary Bank, this research design would be relevant to determine the effect that exist between variables under study. The study applied both quantitative and qualitative approaches. Creswell (2009) noted that quantitative methods are more objective and help to investigate the relationships between the identified variables. This study also applied qualitative approaches which involved in depths probe and application of subjectively interpreted data. Qualitative researchers aim to gather an in-depth understanding of human behavior and the reasons that govern such behavior (Earl-Babbie, 2013).

3.3 Study Population

A population is the aggregate or totality of objects or individuals having one or more characteristics in common that are of interest to the researcher and where inferences are to be made (Amin, 2005). The

population under study was 120 employees who included top level, middle level and lower level staff of all departments in Centenary Bank (Investment, procurement, finance, risk, legal, internal audit, benefits, compliance, customer service and data management unit) was used. The researcher believes that this category of people is knowledgeable enough about his area of study. The population was made up of respondents of both sexes (male and female).

3.4 Sample Size and Selection

The study was based on a sample size of 92 that was drawn from a population of 120. The sample size of 92 was determined using Krejcie and Morgan (1970).

Table 3. 1: Population, Sample Size and Sampling Techniques

Category	**Accessible population**	**Sample size**
Managing Director's office	1	1
Credit Department	20	17
Procurement Department	09	7
Finance/Accounts Department	15	11
Risk Department	12	11
Internal audit Department	11	8
Legal Department	14	6
Compliance Department	14	10
Customer service Department	18	15
Data management Unit	06	06
TOTAL	**120**	**92**

Source: Primary Data (2020)

3.4 Sampling Techniques and Procedures

3.4.1 Stratified random sampling

In order to get the desired information, stratified random sampling was used to sample the staff from different functional departments of managing director's office, credit, procurement, finance, risk, internal audit, legal and compliance departments using a questionnaire as a tool of data collection.

3.4.2 Purposive Sampling

Purposive sampling involves selecting respondents who are knowledgeable and experienced. According to Mugenda & Mugenda (1999), purposive sampling is restricted to specific types of people who possess the desired information and it enables the researcher pick a sample based on his own interest, knowledge and judgment. This technique was used to select 10 knowledgeable respondents who participated in the interviews. According to Creswell (2009), purposive sampling technique is a type of non-probability sampling that is most effective when one needs to study a certain cultural domain with knowledgeable experts within. The technique contributes to its efficiency and stays robust even when tested against random probability sampling.

3.5 Data Collection Methods

Data for analysis in this study was collected using the questionnaire survey and the interview methods.

3.5.1 Surveys

Surveys were used based on the fact that the variables cannot be observed such as views, opinions perception and feelings of the respondent (Sekaran, 1990). Surveys are popular as they allow the collection of a large amount of data in a highly economical way (Saunders et al, 2017). The researcher developed a survey; the surveys looked into how the employees felt about credit management and

whether it was effective in their opinion. Surveys were used because it allows in-depth research, to gain firsthand information and more experience over a short period of time (Kothari, 2004). Results are achieved quickly and questionnaires can be completed at the discretion of the interviewee. Surveys reduce bias or faults which were caused by the researcher's attitude. They offered a considered and objective view on the research question (Saunders et al, 2017).

3.5.2 Interview Method

An oral administration of a questionnaire or an interview schedule is therefore face to face encounter. To obtain accurate information through interviews, a researcher has to obtain the maximum co-operation from respondents. The researcher established a friendly relationship with the respondents prior to conducting the interviews (Mugenda & Mugenda, 1999). The researcher used interviews because they provide in depth data which was not possible to get using a questionnaire and they made it possible to obtain data required to meet specific objectives of the study. The interviews guard against confusing the question since the interviewer can clarify the question thereby helping the respondent give relevant responses. They are more flexible than questionnaires because the interviewer can adapt to the situation and get as much information as possible and they also yield higher response rates because people do not refuse to answer questions (Mugenda & Mugenda 1999). It is also less costly and time effective since the researcher can do it on phone. However, they would also be expensive if the researcher had to travel to meet the respondents and it requires communication and interpersonal skills and need to be trained to avoid bias. In total 10 interviews were to be conducted that included 01 from top management, 03 team leaders, 03 Heads of Departments and 03 Supervisors.

3.6 Data collection instruments

The key data collection instruments used were the questionnaires, interview guide

3.6.1 Questionnaire

Questionnaire is an important tool which is used to obtain important information about the population (Mugenda & Mugenda, 1999). The researcher prepared a semi structured questionnaire with closed ended questions which he sent to top managers, branch managers, supervisors and clerical staff of Centenary Bank to fill during the free time. Closed ended questionnaires were used because according to Amin (2005), questionnaires provide specific responses which are easy to analyze. Mugenda & Mugenda (1999) noted that questionnaires are economical to use in terms of time and money also easier to administer and apply. The variables were measured on a 5-point Likert scale (5 strongly Agree, 4 Agree, 3 Not sure, 2 Disagree and 1 strongly Disagree). The 5-point Likert scale is the most appropriate way to formulate the different questions for measuring different items from different variables. The questionnaires were administered to top level, middle level and lower level staff. A copy of the questionnaire is appended in the list of appendices labeled appendix (i).

3.6.2 Interview Guide

This involves presenting of oral verbal stimuli and reply in terms of oral verbal responses. Interviews were used to follow up ideas and carry out an in-depth investigation and provide information which written responses would conceal (Creswell, 2009). Interviews were person to person verbal communication in which one person or a group of people were interviewed at a time. Interviews were used because they have the advantage of ensuring probing for more information, clarification and capturing facial expression of the interviewees (Amin, 2005). In addition, they also gave an opportunity to the researcher to revisit some of the issues that had been an over-sight in other instruments and yet they are considered vital for the study. The interview guide was unstructured containing questions on all variables of the study. Interviews were used because they have the advantage of ensuring probing for more information, clarification and capturing facial expression of the interviewees (Basheka, Oonyu & Barifaijo, 2010).

3.7 Data Validity and Reliability

Data quality control techniques ensured that data collected is valid and reliable; the instruments were first tested to ensure validity and reliability.

3.7.1 Data Validity

Validity means the degree to which results obtained from the analysis of the data represents the actual phenomenon under study (Mugenda & Mugenda, 1999). Content validity according to Amin (2005) is the degree to which the test actually measures the traits for which it was designed and is measured by expert judgment. The validity of the instrument quantitatively was established using the Content Validity Index (CVI). This involved the expert scoring of the relevance of the questions in the instrument in relation to the study variables. The instruments that yield a CVI above 0.7 were within the accepted ranges. Amin (2005) notes that a CVI of more than 0.7 implies that the tool is valid. Content validity Index (CVI) was computed using the formula below:

$$CVI = \left[\frac{n}{N}\right] X100$$

Where; n = Number of items rated as relevant.

N = Total number of items in the instrument.

Table 3. 2: Content validity Index Results

Content validity Index Results for Questionnaires		
Variables	*Content Validity Index*	*Number of items*
Credit appraisal practices	0.708	11
Credit monitoring practices	0.766	8
Credit recovery practices	0.754	6
Loan portfolio performance	0.705	10

Source: Primary Data (2020)

3.7.2 Reliability of Data

This refers to the measure of the degree to which a research instrument yields consistent results or data after repeated trials and it's influenced by random error as noted by Mugenda & Mugenda (1999). Reliability of an instrument is the degree to which an instrument consistently measures whatever it is supposed to be measuring. Therefore, an instrument is said to be reliable if it produces the same results whenever it is repeatedly used to measure traits from the same respondents even when it is administered by others (Amin, 2005).

To ensure the reliability of instruments, the Cronbach's coefficient alpha test was carried out. For the results from the test were more than 0.70, the researcher had to proceed with the instruments and administer them to respondents. This is because Mugenda &Mugenda, (1999) suggests that a coefficient of 0.70 and above implies that there is a highly degree of reliability of the data.

Table 3. 3: Content validity Index Results

Cronbach Alpha Coefficient Results for Questionnaires		
Variables	Cronbach Alpha Coefficient	*Number of items*
Credit Appraisal practices	0.709	11
Credit Monitoring practices	0.734	8
Credit recovery practices	0.722	6
Loan portfolio performance	0.804	10

Source: Primary Data (2020)

The Cronbach Alpha Reliability test was carried out and the test results revealed that credit appraisal practices had a reliability result of 0.709, credit monitoring practices had a reliability test result of 0.734, credit recovery procedures had a reliability test result of 0.722 and lastly the dependent variable (loan portfolio performance) had a reliability test result of 0.804. All the variables had results above the standard value of .70 (70%) which showed that all items in the instruments were reliable.

Qualitative data

Qualitative data was collected basing on trustworthiness between the researcher and the respondents to ensure credibility of the study findings. Therefore, the researcher explained extensively the purpose of the study to the respondents as its specific purpose was to extract more knowledge on how credit management practices affect loan portfolio performance and that information provided was only to be used for academic purposes and be treated with a lot of confidentiality.

3.8 Data Collection Procedures

The researcher approached Centenary bank Uganda Limited with an introductory and data collection letter from Kyambogo University for a general permission to carry out research in their organization. The

researcher explained to different respondents the purpose of the study and how their responses were to be treated with confidentiality and were for academic purposes only. Then, various instruments were administered to different respondents as per schedule and then collected when completed for purposes of data analysis.

3.8.1 Quantitative Data Analysis

This dwelt on analysis of quantitative data. Quantitative data from questionnaires was sorted using the Statistical Package for Social Sciences (SPSS) method. Both Excel and SPSS have a similar feel, with pull-down menus, a host of built-in statistical functions and a spreadsheet format for easy data entry. SPSS has faster and easier basic function access, it has a wider variety of graphs and charts and it is easier to find statistical tests (Kothari, 2004). The analysis relied on both descriptive and inferential statistics. Quantitative data got from the questionnaires was computed into frequency counts and percentage. The descriptive statistics included use of frequency tables, mean, and standard deviation. The researcher adopted a multiple regression analysis in analyzing the effect between the study variables. The hypotheses were tested using Pearson Correlation Coefficient. In addition to frequency distribution tables, mean, standard deviation and other measures of central tendency were used in data analysis with their interpretation being focused on the degree of consensus deduced from frequencies and degree of consistency deduced from mean and standard deviation. The higher the frequency of response on specific items under investigation for a particular independent variable, the more the dependent variable is reliant on it.

3.8.2 Qualitative data analysis

Qualitative data was summarized into relatively shorter and meaningful phrases that capture the overall views of different respondents. The summarized views were reported in verbatim, indirect and direct quotations. Where necessary, part of qualitative data was coded to determine the frequency of key ideas

and phrases. Data collected was coded in a code book, correctly synthesized and interpreted using patterns generated, frequencies of occurrences, commonalities and differences and relationships from the information gathered (Mugenda & Mugenda, 1999). These patterns commonalities and differences were used to put qualitative data into context and the findings were interpreted in line with the research objectives using narratives supported by secondary literature from various journals.

3.9 Measurement of Variables

The five (5) rating scale of Likert was used to measure the effect of credit management on quality loan portfolio performance, Respondents were asked the degree of agreement with the statements in the questionnaire classified from 1-Strongly disagree to 5-Strongly Agree. Basing on the responses, analysis was done to measure the respective variables. Credit management was measured using variables such as credit appraisal, credit monitoring and loan recovery procedures. Quality loan portfolio performance was measured using loan loss rate, risk on portfolio, effectiveness and efficiency in operation and client affordability to repay/service.

3.10 Data Analysis Techniques

Data analysis involved use of qualitative and quantitative techniques where SPSS-17 was used for quantitative aspect for data collected using the questionnaires. The data in the questionnaires was first coded then entered in the SPSS software and afterwards various parameters were derived for descriptive and inferential statistics. Content analysis based on themes was used for qualitative aspects that come with data collected using interview guide. The interviewee responses were given codes for identification so as to completely mask identity of the interviewees.

3.11 Ethical Considerations

The researcher sought permission from respondents after explaining the purpose of the study to them. Only those respondents with informed consent were included in the study. The researcher ensured that

participants have a complete understanding of the purpose and methods used in the study, the risks involved, and the demands placed upon them as participants. The participants were informed that they have the right to withdraw from the study at any time. The researcher ensured confidentiality of the information and names of the respondents. Privacy was ensured for both respondents and the information was used for academic purposes only. This was done by informing the respondents not to write their names on the questionnaires and the researcher coded numbers to describe the respondents. The researcher ensured intellectual property rights are observed by acknowledging all works cited, no plagiarism of other authors' work was done. This means the researcher recognized the author's work where due and no misrepresentation of author's work.

3.12 Study Limitations & Delimitations

Since the study's findings and conclusions were generated from a sample of 92 respondents and this posed a limitation on the application of its far-reaching recommendations when it comes to large multinational credit extending institutions. The researcher would therefore sanction a similar study but on a multinational scale to increase the reliability of its findings globally.

3.13 Conclusion

This chapter identifies case study research design as the best research design to explore the relationship between credit management practices and loan portfolio performance with study population identified as all staff of Centenary bank head office totaling to 120. In this chapter it has also been noted that sample size of 92 was drawn using Krejcie and Morgan (1970) table from the population and sampling techniques of simple random for purposes of questionnaire surveys and purposive for interviews purpose use in the study. Data collection methods (interviews and questionnaires), data collection instruments (interview guide and questionnaire survey), data quality control (validity and reliability), procedure of data collection, data analysis and measurement of variables have been explored so as to obtain relevant

data to support the research objectives interpretation. Ethical considerations in relation to privacy, confidentiality and consent were also catered for in this chapter.

CHAPTER FOUR

PRESENTATION OF DATA, ANALYSIS AND INTERPRETATION OF FINDINGS

4.0 Introduction

This chapter presents the response rate, a description of the background characteristics of the respondents, data analysis, and interpretation of the findings. The study investigated the effect of credit management practices on Loan Portfolio performance of commercial banks in Uganda drawing on the case study of Centenary Bank. The study aimed at investigating the following objectives: to establish the effect of credit appraisal practices on loan portfolio performance in Centenary Bank, to examine the effect of credit monitoring practices on loan portfolio performance in Centenary Bank and to analyze the effect of credit recovery procedures on loan portfolio performance in Centenary Bank.

4.1 Response Rate

In the Table 4.1 below the response rate in the study is presented.

Table 4.1: Response Rate

Instrument	Target response	Actual response	Response Rate
Questionnaire	82	68	83%
Interview	10	8	80%
Total	**92**	**76**	

Source: *Primary Data, 2020*

As indicated in Table 4.1, for the qualitative information, out of the 10 respondents who were expected to be interviewed, 8 accepted and participated in the study making a response rate of 80%. For the quantitative information, 82 questionnaires were distributed and 68 were completed and returned making

83% response rate. This response rate was considered sufficient since according to Mugenda & Mugenda (1999), a response rate of 50% and above is good enough for a study.

4.2 Demographic characteristics of the respondents

The background characteristics of respondents including age, gender, education, occupation, and duration at work were examined. The information regarding the respondents included in this study according to these characteristics is Table 4.2.

Table 4.2: Demographic characteristics of the respondents

Characteristic	Frequency	Percentage (%)
Age		
20-29 years	16	21
30-39 years	22	29
40 and Above	38	50
Total	**76**	**100**
Gender		
Female	42	55.6
Male	34	44.4
Total	**76**	**100**
Marital status		
Married	51	67.5
Single	21	27.4
Widow/Widower	4	5.1
Total	**76**	**100**
Education levels		
Others	6	7.7
Diploma	16	20.5
Certificate	4	5.1
Degree	34	45.3
Masters	16	21.4
Total	**76**	**100**

Source: *Primary data, 2020*

From the above Table 4.2, all the respondents that took part in the study were above the age 18 years and of which 21% were between the age of 20-30 years, 29% were between the age of 30-40 years, above 40 years 50%. Thus the respondents were mature and knowledgeable on the subject matter.

Further, the majority of the respondents (42) were females (55.6%) and 34 of them were males (44.4%). This distribution indicates that the variation in gender representation was not very big to cause worry arising from gender bias. It can also be observed from Table 4.2 that the majority of the respondents were married (67.5%) a sign that they were responsible. In terms of the level of education, many of respondents were degree holders (45.3%) followed by 21.4% belonging to the category of Masters, 20.5% diploma holders ,7.7 others and 5.1% certificate holders. The results indicate that the respondents had reasonably good education qualifications and the desired skills and knowledge to enable them read and interpret the issues presented to them in the questionnaires and interviews.

4.4 Descriptive statistics on the study variables

This section gives the extent of practice of the different credit management practices in the study setting as well as the level of loan portfolio performance in terms of the means and standard deviations. These are represented in terms of the different items used to represent the variables of interest on a five-point Likert scale where 1 is strongly disagree (SD) and 5 strongly agree (SA) while 2 is disagree (D), 3 is neither agree nor disagree and 4 is agree (A).

4.4.1 Descriptive statistics of credit appraisal practices

In order to assess different credit appraisal practices available in the bank, the following practices were presented to respondents and their opinions and responses generated are presented in Table 4.3 below.

Table 4.3: Descriptive statistics for credit appraisal practices and loan portfolio performance

Item measures for credit appraisal practices	**Mean**	**Standard Deviation**	**Agree**	**Min**	**Max**
The repayment history of a client is key before giving out a loan	3.896	0.678	69.10%	1	5
Credit worthiness and guarantee of clients is aligned with the size of the loan to be issued.	2.012	0.5002	29.10%	1	5
The credit appraisal committee approves the loan that is issued	4.009	0.432	80.00%	1	5
Clients submit their business plans before getting of loans	4.201	0.7098	75.20%	1	5
The credit department records various loans applicants	3.02	0.3012	50.30%	1	5
The utilization of loan funds acquired differing from the acquisition purpose brings about non-performing loans.	4.009	0.432	80.00%	1	5
The loan department sometimes fails to discover the client credit history which may be characterized by multiple loan acquisition from different financial institutions.	4.201	0.7098	75.20%	1	5
There is approving and disbursing loan funds beyond the clients capacity to service the loan	3.02	0.3012	50.30%	1	5
Under funding a loan may lead a client to acquire other loans from other financial institutions.	3.896	0.678	69.10%	1	5
The bank analyses the financials of clients before extending loans.	2.012	0.5002	29.10%	1	5
The character of the borrower is paramount when extending loans to clients	4.201	0.7098	75.20%	1	5
Grand Mean	**3.5**				

Source: *Primary Data*, *2020* N=68

Generally, the results as presented in the above Table 4.3 indicate a high degree of occurrence of most of the items of credit appraisal practices included in the study though the grand mean score is close to average.

Specifically, the findings reveal that the majority of the respondents, 69% agreed that the repayment history of a client is key before giving out a loan with a mean score of 3.90 indicating that commercial banks most of the time consider this to be an important aspect in the credit appraisal process. Further, the need to align credit worthiness of clients to the size of the loan to be issued ranked among the lowest occurrence in the study context with the mean score of 2.00. The extent to which credit appraisal committee approves the loan received the mean score of 4.2 with majority of the respondents (80%). It was also established that the majority of the respondents 75.2% agreed that clients are required to submit their business plans before getting of loans with a mean score of 4.2.

In relation to whether or not the credit department records various loans applicants, the mean score was 3.02, indicating the less significance of this area of credit appraisal practice. In the study context of terms of the utilization of loan funds acquired differing from the acquisition, it was established that this is a highly likely occurrence with the mean of 4.00, while the extent to which the loan department sometimes fails to discover the client's credit history which may be characterized by multiple loan acquisition from different financial institutions was relatively high with the score of 4.2.

In the area of whether approval and disbursing of loan funds are sometimes beyond the client's capacity to service the loan, the respondents reported a moderate score of 3.02. Further, the majority 69% of the respondents agreed that under funding a loan may lead a client to acquire other loans from other financial institutions with a mean score of 3.90. On the contrary, the mean statistic shows that it is rarely considered to analyze the financials of clients before extending loans with a mean score of 2.00. Furthermore, the findings revealed a mean score of 4.02 for the extent to which the character of the borrower is paramount when extending loans to clients in the case studied.

Interview findings further revealed that at the case study various tools for controlling credit losses are utilized. According to interviewee04 *these include "covenants, collateral, credit rationing, loan securitization, and loan syndication".*

Tools like covenants, collateral; credit rationing, loan securitization and loan syndication have been used by banks in developing world in controlling credit losses. Further, the findings revealed that Centenary bank cannot just give credit to a customer without guarantee that they are going to have their money back as this can be backed up by the responses from the respondents with mean score of 2.012. The bank tries to know of the guarantee by looking into the credit worthiness of the company in question. This is done by using certain information about the company or customer. Different banks may rank the importance of this information differently and there is always some hidden information about the customer that is unknown to the bank (asymmetry information).

Reviewing the answers from the respondents for questions related to collaterals, 15% of the respondents interviewed acknowledged its importance but this comes in the second place after the assessment process using the information as earlier mentioned. This is because the collateral gives a guarantee that in case of default or bankruptcy, the bank could be able to at least recuperate some money from the sale of it. When asked how the collateral is assessed, respondents with mean of 4.012 said the technique they use to do the assessment differs according to the type of collateral. They are described in the pre-memorial and depend on how big the risk is in case of default.

The risk is then compared with the collateral to know how much risk is involved. Another respondent said they do their evaluation themselves using their own techniques and compare the results to what they have in the company's annual report because that is where they find the facts. "A good collateral availability is no guarantee for credit granting in Centenary Bank". A respondent said. "This is because

any company/individual (even though with poor management), can provide good collateral especially if it knows that this will act as an incentive for the bank to grant it credit". If the bank falls in this pit and does so when at the end the company can't pay its money back, it obviously leads to greater problems because the bank will be going through a lot of stress even at the stage of selling the collateral. Also, collateral made available at a point in time can be something which has a good market at then but, what if at the time of default (given the changing environment) the bank cannot find a good market for the collateral?
It will obviously encounter problems. So, a good collateral is not necessarily any guarantee for credit granting. Credit loss is something they expect even though they do not want it. When this loss goes up, the bank pulls back and then it is hard to loan money.

Interviewee02 noted that "*client appraisal considers the character of the customers seeking credit facilities*". Interviewee03 said that "*aspects of collateral are considered while appraising clients; client appraisal considers the character of the customers seeking credit facilities*"

Interview study findings revealed that collateral comes in the second place after they have looked at the cash flow, the management and view of possibility to survive. Even if these criteria proved good but the lack of 100% guarantee gives them the go ahead to ask for the collateral which even if though cannot pay the money, can at least be sold to recover it. So, that is why they need collateral.

Interviewee04 noted: "*We do the evaluation of these collaterals ourselves or use of agents (in case of real estates) and compare it to what we have in the annual reports because that is where we find the facts*."

There is no situation where the collateral is the determining factor for loan granting because those will be the bad decisions. “It can happen that we grant a loan basing on collateral now when the market is going well and everything is fine but after a few years, everything goes down”. This will lead to a loss in value of the collateral and less money on our part. This is so because the default has something to do with the market around it and if the market is not going well, the value of the collateral will go down too. So, it is not really a good thing to base the credit decision on the collateral.

In connection to the interviews carried out above a respondent noted “they think collaterals are good in credit granting decisions because it is one of the basic points in banking and it is in the legislation”. The banking business is built on lending towards collaterals so that incase of default, they can make up for it. The assessment of this collateral is very advanced in banking. They always describe in the pre-memorial how big the risk is in case of default. They then look at the risk and compare it with the collaterals to know how much risk is involved. The techniques used for the different collaterals are described in the policies. They do all types of risk valuation with some easy and some complicated.

Interviewee05 observed in relation to customer relationship management that “*building a good customer relationship with the borrower is also good for the bank because this will help the borrower to develop loyalty and trust and they will know that if they present the bank with a difficulty, they are not going to get a blank stare*.

It will also help the borrower to bring to the notice of the bank in advance of any problem they might be facing thus giving the bank greater chances and possibility of handling the problem in advance. In the case of a good relationship, the bank can also give the customer advice on how to handle a problem in

advance before it dawns on them. This will go a long way to profit the bank because the customer will be able to pay back their credits in time.

This can lead to better advice in time before things go off hand. However, if the relationship is not good as indicted with a mean score of 3.512, it will lead to totally negative consequences from the ones mentioned above and even in a situation of difficulty the bank will only come to realize when the customer is not able to pay back the credits or bankrupt and this will go a long way to affect the bank negatively as well.

4.4.2 Descriptive statistics of credit monitoring practices

In order to assess how credit monitoring practices, affect and relate to loan portfolio performance, different items on the study variables were presented to respondents to express their opinions and the findings collected after administering questionnaires as presented in the table 4.4 below;

Table 4.4: Descriptive statistics for credit monitoring practices

Items on Credit monitoring practices	**Mean**	**Standard Deviation**	**Agree**	**Max**	**Min**
Loan Department periodically meets loan clients for further advice.	3.848	0.1056	65.60%	5	1
The bank periodically gathers information about loan clients.	2.106	0.6903	14.90%	5	1
All bank debtors are visited regularly to assess the financial performance of their businesses.	1.888	0.666	22.30%	5	1
The loan department hold recovery meetings regularly with the clients	2.111	0.5912	37.70%	5	1
The loan department officials periodically send notifications to clients of the outstanding amount.	3.248	0.7056	51.60%	5	1
Credit supervisors sometimes do not review portfolio management reports of the branches which makes monitoring work difficult.	2.106	0.6903	14.90%	5	1
Compliance of the approval terms and conditions is strictly enforced and monitored.	3.588	0.666	63.30%	5	1
Regular reviews are done on collection policies to improve state of credit management.	2.111	0.5912	43.70%	5	1
Grand mean	**2.626**				

Source: *Primary Data, 2020* N= 68

Generally, with a grand mean score of 2.626, the results as presented in the above Table 4.4 indicate a relatively low degree of rating. Basing on survey findings, it was established that loan department periodically meets loan clients for further advice as indicated by the mean =3.848 and SD =0.1056. This indicated that the majority of the respondents agreed with the practice. The respondents were asked to state whether the bank periodically gathers information about loan clients, with the mean score of 2.106 the majority of the respondents disagreed with practice.

The survey findings further revealed that majority of the respondents disagreed with the practice that all bank debtors are visited regularly to assess the financial performance of their businesses with a mean score of 1.888 with SD= 0.666.

The respondents were asked to state whether the loan department hold recovery meetings regularly with the clients. The trend of responses indicate that majority of the respondents disagree with the mean score of 2.111 with SD=0.592. When asked about whether the loan department officials periodically send notifications to clients of the outstanding amount, a mean of 1.84 and SD of 0.467 on this item indicated that the majority of the respondents disagreed with the occurrence of this practice.

In relation to the above interviewee06 noted that all "*outstanding loans in the loan portfolio are continuously reviewed and closely monitored.*

Interview findings further revealed that Centenary Bank uses various tools for controlling credit losses. These included covenants, collateral, credit rationing, loan securitization, and loan syndication.

The survey findings indicated that credit supervisors sometimes do not review portfolio management reports of the branches which make monitoring work difficult henceforth a mean of 2.100 indicated disagreement implying that compliance of the approval terms and conditions is not strictly enforced and

monitored. When asked whether regular reviews are done on collection policies to improve state of credit management, a mean score of 2.111 indicating disagreement with the existence of this practice.

Interview findings revealed that in Centenary Bank, top management support is required to ensure that there are proper and clear guidelines in managing credit. Monitoring of borrowers is given weight as current and potential exposures change with both the passage of time and the movements in the underlying variables and also very important in dealing with moral hazard problem; and supportive technologies and equipment such as computers are useful in credit analysis, monitoring and control, as they make it easy to keep track on trend of credits within the portfolio. Considerations that form the basis for sound CRM system include: policy and strategies (guidelines) that clearly outline the scope and allocation of bank credit facilities and the manner in which a credit portfolio is managed.

4.4.3 Descriptive statistics of credit recovery procedures

In order to assess different credit recovery practices available in the bank, the following practices were presented to respondents and their opinions and responses generated are presented in Table 4.5 below.

Table 4.5: Descriptive statistics on credit recovery procedures

Item measures for credit recovery practices	Mean	Standard Deviation	Agree	Min	Max
The bank reminds clients of their repayment installments prior to the due date through SMS/calls.	3.81	0.5001	66.50%	1	5
The bank reminds clients of their repayment date through SMS/calls.	2.22	0.3012	30.30%	1	5
The clients' files are tracked and surveyed from loan acquisition to final payment of the principal.	4.045	0.7034	90.90%		5
The bank tracks collateral from loan acquisition to repayment	3.77	0.5567	64.80%	1	5
Defaulters are given stringent repayment conditions once they default on the first instalment	3.88	0.3012	70.30%	1	5
The credit Department continuously assesses the accounts of Debtors	3.98	0.3019	71%	1	5
Grand Mean	**3.545**				

Source*: Primary data, 2020* N= 68

Basing on survey findings presented in Table 4.5 above, it was established from the respondents that the bank reminds clients of their repayment installments prior to the due date through SMS/calls with the mean score of 3.810. In relation to the item that stated that the bank reminds clients of their repayment date through SMS/calls, the mean = 2.220 indicated that the majority disagreed with this particular practice.

Whether the clients' files are tracked and surveyed from loan acquisition to final payment of the principal, the mean score was 4.045 indicating high prevalence of this practice. As to whether the bank tracks collateral from loan acquisition to repayment, a mean of 3.777 indicated that the majority agreed with the item to that effect. As to whether defaulters are given stringent repayment conditions once they default on the first instalment, the mean = 3.88 indicated reasonable level of agreement.

Interviewee04 noted that "*action points from the recovery/management meetings are recorded and diligently followed up by management of Centenary Bank*.

Similarly, Mulumba (2016) noted that it is important to ensure good recovery of loans. This necessitates frequent contact with borrowers, creating an environment that the bank can be seen as a solver of problems and trusted advisor, development of the culture.

Interviewee07 noted that "*the bank's legal department has an effective mechanism for recovery of bad loans; they have dealt with many clients who have habitually defaulted on loans*.

Similarly, Centenary Bank Annual Report (2018) noted that internal performance measures include good loan recovery procedures of bank lending using legal means; bank profitability; operational ratios; developed benchmarks; and measuring productivity of loan officers.

When asked how often customers default in Centenary Bank;

Interviewee08 said "*customers default happens a bit so often that some customer default which she thinks happens because of sickness, poor management, priorities*.

To handle such cases, the steps to follow are already programmed in the system. The system automatically gives out reminders and if after the reminder the customer does not still pay, they phone them. They make the customer to understand that the bank payments should be a priority and points out the consequences the customer will face if he defaults. After this stage if the customer still doesn't pay, the proceedings will continue and even goes to court.

4.4.4 The descriptive statistics of loan portfolio performance at the case study

In order to examine the levels of loan portfolio performance available in the bank, the following measures were presented to respondents and their opinions and responses generated as presented in Table 4.6 below.

Table 4.6: Descriptive Statistics for Loan Portfolio Performance at the case study

Item measures for Loan portfolio performance	Mean	SD	Agree	Min	Max
The bank does alter the repayment period in case of default.	2.807	0.7092	34.30%	1	5
Interest rates variation affects loan portfolio performance.	2.201	0.9701	38.30%	1	5
The costs of loan recovery affect loan portfolio performance	3.503	.5.301	57.40%	1	5
Collusion between bank staff and clients during loan acquisition affects loan portfolio performance.	2.746	0.6034	49.50%	1	5
Increased charges during repayment may affect the loan recovery process	3.92	0.3012	51.30%	1	5
The structuring of some repayment schedules affects loan portfolio performance	1.666	0.5567	27.80%	1	5
I expect an improvement in clients' loan repayment for the coming years.	3.603	0.5301	61.40%	1	5
The bank registers an increase in the number of loan applicants.	3.746	0.6034	68.50%	1	5
Loans not paid on time are eventually recovered	1.52	0.3012	20.30%	1	5
The bank registers annual decline in loan related costs.	1.666	0.5567	27.80%	1	5
Grand Mean	**2.738**				

Source: *Primary data, 2020* N= 68

Generally, the results as presented in the above Table 4.6 indicate a moderate low of almost all the items that measured loan portfolio performance based on the mean score of 2.738 which were scaled on the basis of a maximum score of 5 and the minimum score of 1 since the survey instrument had a 5 Likert scale

The quantitative results presented above reflect the perception of the respondents. However, there are findings from interviews and documentary reviews that give the status of the variables on loan portfolio performance.

Basing on survey findings, it was established from the respondents in relation to item 1 that stated that the bank does alter the repayment period in case of default; a mean score of 2.807 with SD= 0.7092 showed that the majority of the respondents disagreed with the item implying that the bank does not alter the repayment period in case of default.

When the respondents were asked to state whether the costs of loan recovery affect loan portfolio performance, a mean of 3.503 indicated the majority of respondents agreed with the item. In relation to item three, the respondents were required to state whether the costs of loan recovery affect loan portfolio performance.

The respondents were further asked to state whether collusion between bank staff and clients during loan acquisition affects loan portfolio performance. The statistical grand mean of 2.746 implied that the majority of respondents disagreed with the items provided.

In connection to the item that stated that increased charges during repayment may affect the loan recovery process. A mean value of 3.920 implied that the majority of the respondents agreed with the fact that an increase in loan charges may affect its recovery process.

In relation to the survey findings, the respondents revealed that the structuring of some repayment schedules affects loan portfolio performance. The computed test figures reveal that the mean score of

1.666 suggests that the majority of the respondents disagreed with the item implying that the structuring of some repayment schedules is not affecting loan portfolio performance.

In relation to the survey findings, the respondents revealed that they expect an improvement in clients' loan repayment for the coming years. The computed test figures revealed that the mean score of 3.603 suggests that the majority of the respondents agreed with the item implying that they do expect an improvement in clients' loan repayment for the coming years.

Interviewee02 noted that "*credit staff always present correct information or analysis to the loan committee*.

Mulumba (2016) noted that credit staff is supposed to provide information to loan management so as to work on the capital and non-performing loans, at least until further research has established on them. It also provides supervisors with an expression whether the regulated ratio has an effect on banks' profitability. A branch manager narrated a situation where there are collusion cases among credit staff and clients to secure approvals of fraudulent loans and this has led to loss of jobs and imprisonment.

As to whether the banks have ensured liquidity, it was observed that liquidity depends on the credit policy of the bank. Thus it can be deduced that a lending institution that accepts deposits must have a certain measure of liquidity to maintain its normal daily operations. Loans given to its customers are mostly not considered liquid meaning that they are investments over a longer period of time. Although a bank will keep a certain level of mandatory reserves, they may also choose to keep a percentage of their non-lending investing in short term securities to ensure that any monies needed can be accessed in the short term.

4.5 Correlation analysis

The inferential statistics were conducted by running a correlation and regression analysis. Before this was done, several tests including normality tests were conducted for ensuring that the data is normally distributed and meets the required assumptions of these tests. Pearson correlation was conducted and the results generated after running correlations using SPSS as presented in the table 4.7 below.

Table 4.7: showing relationship between the study variables

Items	**Credit Appraisal Practices**	**Credit Monitoring**	**Credit Recovery**	**Loan Portfolio Performance**
Credit Appraisal practices	1			
Credit Monitoring	·356**	1		
Credit Recovery	.439*	.466*	1	
Loan Portfolio Performance.	.892**	.734**	.885**	1

N=68, Correlation is significant at *$p< 0.05$ and **$p<0.01$ levels of significance.

From the results in Table 4.7 the relationship between credit appraisal practices and loan portfolio performance was strong positive and statistically highly significant ($R=0.892$, $P<0.000$) Therefore, for a given increase in ensuring credit management practices, perception with regard to loan portfolio performance increases by 0.892. The relationship between credit monitoring and perception with regard to loan portfolio performance was also strong positive at $R=0.734$ and statistically highly significant at $p<0.000$.

This shows that there is a strong and highly significant positive relationship between credit monitoring and perception with regard to loan portfolio performance in Centenary Bank, since the P value is less than the significance level figure ($p<0.01$).

The relationship between credit recovery procedures and perception with regard to loan portfolio performance was also strong positive (R=0.885) and statistically highly significant at p<0. 000. The relationship between credit recovery practices and loan portfolio performance in Centenary Bank is a strong positive and statistically highly significant implying that an improvement on credit recovery will lead to a significant improvement on loan portfolio performance in Centenary Bank. From all the results the alternate hypothesis earlier stated in chapter one is upheld.

4.6 Regression analysis

Regression analysis was carried out to determine the predictability potential of the independent variables on the dependent variable that's to say credit management policies on loan portfolio performance. All the assumptions for regression analysis to be conducted were satisfied (normality and multi-collinearity tests) to ensure the analysis is appropriate.

4.6.1 Regression Results for Credit Appraisal Practices and Loan Portfolio Performance in Centenary Bank

In order to assess how Credit Appraisal Practices, affect loan portfolio performance, simple linear regression analysis was conducted using SPSS and the results are presented in Table 4.8 below.

Table 4.8: Regression Analysis for Credit appraisal and loan portfolio performance

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.892a	.796	.727	.93818
a. Predictors: (Constant), credit appraisal practices				

ANOVA for Credit appraisal practices and Loan portfolio performance

		Sum of square	Df	Mean Square	F	Sig
1	Regression	9.978	1	69.997	79.5	0.000
	Residual	18.484	67	.880		
	Total	28.462	68			

Source: *Primary Data, 2020*

From the results presented in the Table 4.8, the results indicated that credit Appraisal Practices strongly and positively (r=0.892) affect loan portfolio performance and its effect is significant at p<0.01. The 0.727 adjusted R square value indicates that 72.7% variations in loan portfolio performance can be explained by credit Appraisal practices in the bank.

4.6.2 Regression Results for credit Monitoring and Loan portfolio performance in Centenary Bank

In order to assess how credit monitoring affect loan performance, simple linear regression analysis was conducted using SPSS and the results are presented in the table 4.9 below.

Table 4.9: Statistics from the Regression Analysis for Credit monitoring and loan portfolio performance

	Summary Out put					
	Regression Statistics					
	R	0.734				
	R Square	0.538				
	Adjusted R Square	0.501				
	Standard Error	0.50252				
	ANOVA					
		Sum of square	Df	Mean Square	F	Sig
1	Regression	3969.98	1	3969.9	44.688	0
	Residual	7345.34	67	93.011		
	Total	11315.3	68			
Step	Variable	B	SE	Beta	T	Sig
1	Constant	60.712	0.411		32.992	0
	Credit monitoring	0.708	0.11	0.734	5.021	0

Source: *Primary Data, 2020*

From the findings presented in the table 4.9, the results indicated that credit monitoring positively and significantly affect perception with regard to loan portfolio performance ($r=0.732$, $P<0.01$). The adjusted R square value of 0.501 indicates that credit monitoring practices included in the study explain 50.1% variation in loan portfolio performance with F value of 44.68 significant at p- value =0.01.

4.6.3 Regression Results for credit recovery practices and Loan portfolio performance in Centenary Bank.

In order to assess how credit recovery practices, affect loan portfolio performance, linear regression analysis was conducted using SPSS and the results are presented in the table 4.10 below.

Table 4.10: Regression Analysis for credit recovery procedures and loan portfolio performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R square change	F Change	df1	df2	Sig. F Change
1	.885	.783	.780	1.0567	.780	71.346	1	68	.000

Predictors: (Constant), Credit recovery practices

From the Table 4.10, the regression model results for credit recovery practices and loan portfolio performance in Centenary Bank was positive and significant. The results of the adjusted R squared (R^2) which tells how a set of independent variables explains variations of a dependent variable yielded an adjusted R Square of 0.780. This means that the independent variable dimension of control environment accounts for 78.0% of the variations in perception with regard to loan portfolio performance in Centenary Bank.

The model further shows F-statistics value of credit recovery practices as being positive (71.346). Therefore, holding other factors constant, one unit of improvement in credit recovery practices would result into an improvement in loan portfolio performance in Centenary Bank by a magnitude of 0.780 units. The regression findings were in agreement with the earlier correlation findings and therefore serves to further explain that the alternate hypothesis that credit recovery practices significantly contributes to loan portfolio performance in Centenary Bank is confirmed and validated.

Table 4.11: Coefficients for credit recovery procedures and loan portfolio performance

Independent variables	B	T	Sig
credit recovery procedures	.885	56.633	0.000

$R=0.885$; $R^2= 0.783$; $F= 78.0$); significant level at $P\leq0.05$.

Source: *Primary data, 2020*

From table 4.11, the results of the simple regression analysis showed that there is significant positive relationship between credit recovery and loan portfolio performance in Centenary Bank ($\beta=0.885$) at level of significance ($P<0.01$).

4.6.4: Multiple regression analysis results for presenting the effect of credit management practices on Loan portfolio performance

To address the purpose of the study aiming at investigating the effect of credit management practices on loan portfolio performance of commercial banks, a multiple regression analysis between three dimensions of an independent variable that included credit appraisal practices, credit monitoring practices and credit recovery procedures and loan portfolio performance as a dependent variable was conducted and the results from analysis are presented in the model summary and coefficients tables below.

Table 4. 12: Regression model summary and Coefficients for the effect of credit management practices on loan portfolio performance.

		Model Summary				
Model	R	R Square	Adjusted R Square	F-statistic	Std. Error of the Estimate	Sig
1	.798[a]	.637	.606	7.658	.221	.002[a]
		a. Predictors: (Constant), credit Appraisal Practice, Credit Recovery Procedures, Credit Monitoring practices.				

Model		Unstandardized Coefficients		Standardized Coefficients	
		B	Std. Error	Beta	Sig.
1	(Constant)	3.011	.470		.025
	Credit Appraisal Practice	.429	.105	.036	.000
	Credit Monitoring	.225	.196	.305	.006
	Credit Recovery practices	.572	.136	.095	.003

Source: Primary data, 2020

Tables 4.12 showing the model summary statistics above, the F value of 7.66 with a p-value = 0.002 that is less than 5% level of significance indicates that credit appraisal, credit monitoring and credit recovery practices have a role in predicting and affect the bank's loan portfolio performance.

An adjusted R square of 0.606 from the findings implies that the credit management practices included in the study accounts for 60.6% variations in the perceptions on loan portfolio performance of the

commercial bank studied. Basing on such findings, the researcher therefore concluded that credit management practices significantly affect loan portfolio performance of commercial banks.

In conclusion, both the qualitative and the quantitative data convey the same message on the study as discussed in the next chapter 5.

CHAPTER FIVE

SUMMARY, DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of study findings, discussion, conclusions, recommendations and areas for further study based on the study objectives.

5.2. Summary of the study findings

The summary of the major study findings is presented based on the study objectives as laid in chapter one of this report.

5.2.1: Credit appraisal practices and loan portfolio performance

The results showed that the correlation coefficient was 0.892 and its significance level 0.000, which was positive with probability value (p = 0.01) showing a significant positive relationship between credit appraisal practices and loan portfolio performance in Centenary Bank (Adjusted R^2=0.727, P-value=0.000). Therefore, an improvement on credit appraisal practices will lead to a significant improvement on loan portfolio performance in Centenary Bank. From all the results the alternate hypothesis earlier stated in chapter one is upheld.

5.2.2: Credit monitoring practices and Loan portfolio performance

The results show that the correlation coefficient was 0.734 and its significance level 0.01. This shows that there was a strong and highly significant positive relationship between credit monitoring practices and loan portfolio performance in Centenary Bank (Adjusted R^2=0.501, P-value=0.000). Therefore, the results can be interpreted that the better the credit monitoring, the better their loan portfolio performance in Centenary Bank and the reverse is also true. The higher the loan portfolio performance as a consequence of effective credit monitoring practices can be reflected in supervision, monitoring and control, holding other factors constant.

5.2.3: Credit Recovery procedures and Loan Portfolio Performance

The results showed that the correlation coefficient was 0.885 at p value less than 0.00 equal, which shows a significant and positive relationship between credit recovery procedures and loan portfolio performance in Centenary Bank (Adjusted R^2=0.780 P-value= 0.000). Therefore, an improvement on credit recovery procedures will lead to a significant improvement on the loan portfolio performance in Centenary Bank.

5.3. Discussion of study findings

The study findings are discussed on the basis of the study objectives as laid down in chapter one

5.3.1: Credit appraisal practices and loan portfolio performance

Study findings revealed that there was a significant positive relationship between credit appraisal practices and loan portfolio performance in Centenary Bank. Study findings revealed that Centenary bank has competent personnel for carrying out client appraisal and these come from different disciplines. Qiu (2015) noted that adequate staffing is a must for healthy credit risk management. Fundamentally the credit officers at the transaction office follow what is stated in the lending procedures, especially the documentation of the credit rating.

Study findings revealed that a bank cannot just give credit to a customer without guarantee that they are going to have their money back. The bank tries to know of the guarantee by looking into the credit worthiness of the company in question. This is done by using certain information about the company. Reviewing the answers from the respondents for questions related to collaterals, all of them acknowledged its importance but this comes in the second place after the assessment process using the information as earlier mentioned. This is because the collateral gives a guarantee that in case of default that money will be paid back both interest and the principle.

A good collateral availability is no guarantee for credit granting. This is because any company (even though with poor management), can provide good collateral especially if it knows that this will act as an incentive for the bank to grant it credit. While a number of meta-analytic reviews suggest that there is a positive (albeit small) link between credit appraisal and performance, this study found a significant strong positive relationship between credit appraisal practices and loan portfolio performance.

The study established that as Centenary Bank engages in credit appraisal, enhances its competitive advantage. The study looked at loan portfolio performance as a strong factor for remaining in Business thus the study explains and hypothesizes the link between credit appraisal dimensions and loan portfolio performance from both a theoretical and empirical lens. The dimensions that relate to credit appraisal practices focused on performance of the credit extending institutions.

5.3.2: Credit monitoring practices and loan portfolio performance

The study reveals that there is significant positive relationship between credit monitoring practices and loan portfolio performance; Compliance with approval terms& conditions is strictly enforced and loans are reviewed & closely monitored by credit officers although they find difficulty some times. Similarly, Gerd (2016) noted that the comparatively more difficult situations encountered by a loan officer become capacity and condition because in addition to the understanding and analysis of the information about capacity and condition, it is also necessary to determine whether any future changes will affect the financial situation and the loan repaying ability of an enterprise.

Client security files are properly coded and contain all security documents and support documents and are securely kept under lock & key. Similarly, Newton (2000) noted that the assessment of borrowers can be performed through the use of qualitative as well as quantitative techniques for example good safety of

their documents. However, borrowers' attributes assessed through qualitative models can be assigned numbers with the sum of the values compared to a threshold.

Findings further revealed that all branches have an updated record of inventory of all loan securities in branch custody.

It was revealed that loan funds are disbursed only to clients that exist and can be identified. Consistent with the above, Mulumba (2016) noted that tools like covenants, frequent meetings, collateral, credit rationing, loan securitization and loan syndication have been used by banks in developing world in controlling credit losses.

It was observed that all securities are verified by the credit administration before disbursement of loans. Bategeka (2009) noted that high-quality CRM staff are critical to ensure that the depth of knowledge, securities are verified and judgment needed is always available, thus successfully managing credit. The Centenary Bank Report (2015) noted that establishment of an appropriate credit environment through policy and strategies (guidelines) that clearly outline the scope and allocation of bank credit facilities; maintenance of an appropriate credit appraisal that involves monitoring process as well as adequate controls over credit; top management support is required to ensure that there are proper and clear guidelines in managing credit.

5.3.3 Credit recovery procedures and loan portfolio performance

The Study reveals that there is positive significant relationship between credit recovery procedures and loan portfolio performance in Centenary Bank and action points from the recovery/management meetings are recorded and diligently followed up by management of Centenary Bank, a practice Mulumba (2016) notes as being important for loan recovery.

The study also revealed that the loan recovery procedures are still inadequate given the existing gaps like many cases of bad debt in Centenary Bank.

Findings further revealed that the bank's legal department has an effective mechanism for recovery of bad loans, they have dealt with many clients who have habitually defaulted on loans. Similarly, Abuka and Egesa (2010) noted that internal performance measures include good loan recovery procedures of bank lending using legal means, bank profitability, operational ratios, developed benchmarks, and measuring productivity of loan officers.

5.4 Conclusions

Study findings revealed that there was a significant and very strong positive relationship between credit appraisal and loan portfolio performance and therefore rejected the null hypothesis in favor of the alternative hypothesis. Therefore, it is concluded that an improvement on credit appraisal will enhance improved loan portfolio performance in Centenary Bank.

The study also rejected the null hypotheses and concluded that credit monitoring practices and recovery procedures affect significantly and very strongly positively loan portfolio Performance of commercial Banks. Therefore, an improvement on credit monitoring will lead to an improvement on loan portfolio performance. Centenary bank has ensured that reviews are done on the collection policies to improve credit management. Monitoring of borrowers, credit approval guidelines and clear established processes have a positively and strongly affect the level of nonperforming loans in Commercial Bank.

On the general objective, the study rejects the null hypothesis and concludes that credit management practices have a very strong positive and significant effect on loan portfolio performance of Commercial Banks.

Thus this study has brought in an understanding that to reduce loan defaults; credit appraisal system, credit monitoring and recovery procedures have to be efficient and effective in any commercial bank.

5.5 Recommendations

The study recommends that; Credit risk management teams in banks should look at credit risk management as a continuous process that runs through post-approval as well. Post-approval processes being monitored by customized document associated with bookkeeping principles.

Banks should design instruments that collect as much information about a customer as possible and should not ignore any information collected but analyzed critically while doing their credit assessment.

Professionals stick to documented credit management processes which often incorporate familiarization with customers. The use of Know Your Customer concept should be also implemented in the other way round (Know Your Bank) thus outreach activities must be invested in by banks especially with the innovation of agency banking.

Also premised on the conclusions drawn from the study findings that improvement on credit appraisal will enhance improved loan portfolio performance in Centenary Bank, the researcher recommends that psychometric test be part of the credit appraisal processes so infer how the client and business will get closure or apart. Also implement the following: Move from manual interventions to automation for greater accuracy; Deploy analytics to improve credit decision; Engage with an offshore partner that has robust credit processing capabilities to mitigate losses from delinquency and reduce costs.

The researcher also recommends that Centenary bank staff should: As often as possible compile a watch list of possible defaulters thus define indicators that qualify the client to be in that watch list such as poor communication in the course of the relationship and take action as soon as any risk matures tight from the point of extending the loan

5.7 Further research

Replication of this study in other different sectors especially in micro finance institutions like cooperatives needs to be carried out in order to explain a complete picture on how credit management affects loans portfolio performance in the finance sector.

In this study, only three dimensions that included credit monitoring, credit appraisal practices and credit recovery procedures were used to conceptualize credit management. Therefore, the research conclusions are only based on those few dimensions. However, there are a number of dimensions that conceptualize credit Management which appear to be outside this study content scope for example credit risk assessment procedures and customer creditworthy evaluation for which further research should be conducted.

The study also only focused on centenary bank; there is need for comparative study with at least three quarters of the commercial banks in Uganda to come up with a meaningful generalization on the effect of credit management practices on loan portfolio performance.

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APPENDIX 1: QUESTIONNAIRE FOR TOP ADMINISTRATORS AND EMPLOYEES OF CENTENARY BANK

My name is Kham Twinomugisha Kiragi a student of Master's in Business Administration of Kyambogo University. In partial fulfillment of the requirements for the degree, I am required to conduct a research in an area of my interest. My interest in this study is to investigate the effect of Credit Management practices on Loan Portfolio Performance of Commercial Banks in Uganda: A Case Study of Centenary Bank. You have been sampled to participate in this study and the information you give will be used strictly for academic purposes and will never be used against you or your office. The information obtained from you will be kept highly confidential. You are also requested not to write your name on this questionnaire. Fill out the questionnaire and return to me.

Thank you for your cooperation.

SECTION A BIO-DATA

Please tick the appropriate option

Age	20-29	30-39	40-49	50 Above	
Sex	Male	Female			
Marital status	Married	Single	Widowed	Divorced	
Level of Education	Masters	Bachelors	Diploma	Certificate	Others Specify

Instructions from question 1- tick the number that best indicates your opinion on the questions using the following scale.

Scale	5	4	3	2	1
	Strongly agree	Agree	Not sure	Disagree	Strongly disagree

SECTION B: Please rank the following statement on Likert scale ranging from strongly disagree to strongly agree; Where; 1= strongly disagree, 2= disagree, 3= not sure, 4= agree, 5= strongly agree

Statements	1	2	3	4	5
Credit Appraisal practices	1	2	3	4	5
A1. The repayment history of a client is key before giving out a loan					
A2. Credit worthiness and guarantee of clients is aligned with the size of the loan to be issued.					
A3. The Credit Appraisal Committee approves the loan that is issued					
A4. Clients submit their business plans before getting of loans					
A5. The credit Department records various loans applicants					
A6. The utilization of loan funds acquired differing from the acquisition purpose brings about non-performing loans.					
A7. The loan department sometimes fail to discover the client credit history which may be characterized by multiple loan acquisition from different financial institutions.					
A8. There is approving and disbursing loan funds beyond the clients capacity to service the loan					
A9. Under funding a loan may lead a client to acquire other loans from other financial institutions.					
A10.The bank analyses the financials of clients before extending loans.					
A11. The character of the borrower is paramount when extending loans to clients					

Statements	1	2	3	4	5
Credit Monitoring practices	1	2	3	4	5
B1. Loan Department periodically meets loan clients for further advice.					
B2. The bank periodically gathers information about loan clients.					
B3 All bank debtors are visited regularly to assess the financial performance of their businesses.					
B4 The loan department hold recovery meetings regularly with the clients					

B5 The loan department officials periodically send notifications to clients of the outstanding amount.					
B6. Credit supervisors sometimes do not review portfolio management reports of the branches which makes monitoring work difficult.					
B7. Compliance of the approval terms and conditions is strictly enforced and monitored.					
B8. Regular reviews are done on collection policies to improve state of credit management.					
Statements	1	2	3	4	5
Credit Recovery practices	1	2	3	4	5
C1. The bank reminds clients of their repayment installments prior to the due date through SMS/calls.					
C2. The bank reminds clients of their repayment date through SMS/calls.					
C3. The clients' files are tracked and surveyed from loan acquisition to final payment of the principal.					
C4. The bank tracks collateral from loan acquisition to repayment					
C5. Defaulters are given stringent repayment conditions once they default on the first instalment					
C6. The credit department continuously assesses the accounts of debtors.					

Statements	1	2	3	4	5
Loan Portfolio performance	1	2	3	4	5
D1. The bank does alter the repayment period in case of default.					
D2. Interest rates variation affects loan portfolio performance.					
D3.The costs of loan recovery affects loan portfolio performance					
D4. Collusion between bank staff and clients during loan acquisition affects loan portfolio performance.					

D5. Increased charges during repayment may affect the loan recovery process					
D6. The structuring of some repayment schedules affects loan portfolio performance					
D7. I expect an improvement in clients’ loan repayment for the coming years.					
D8. The bank registers an increase in the number of loan applicants.					
D9. Loans not paid on time are eventually recovered					
D10. The bank registers annual decline in loan related costs.					

APPENDIX III: INTERVIEW GUIDE FOR TOP ADMINISTRATORS AND EMPLOYEES

CREDIT APPRAISAL

What do you have to say about the quality of underwriting standards/quality of appraisal in the bank?

What do you consider to be the main challenge?

In which way do the challenges under (ii) above affect the loan portfolio quality?

How do the credit committees handle loan approvals?

CREDIT MONITORING

How does the loan department keep in touch with the debtors after acquisition?

How effective are the strategies in (i) above?

Comment on the view that the bank notifies the debtors of the instalments to be paid and the dates when the amount is due.

CREDIT RECOVERY PROCEDURES

Comment on the debt collection methods. Are they adequate?

How has the bank's legal machinery performed as far as debt is concerned?

LOAN PORTFOLIO PERFORMANCE

How have the loan performance trends been in the past 3 years in your bank?

What do you consider to be the major contributors to the above trend?

Do you see an increase or a decrease in the written off loans in the future as a result of the above trend?

APPENDIX IV: DOCUMENT REVIEW CHECLIST

The researcher reviewed the following;

The organizations policies

Risk Management Plans

Risk Management Reports

Annual work plans

Budgets

Audited books of accounts

Loan recovery schedules and disbursement schedules

Krejcie & Morgan Table for Determining Size

Table for Determining Sample Size for 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.

Source: Krejcie & Morgan, 1970