**BINDURA UNIVERSITY OF SCIENCE AND TECHNOLOGY**

 **FACULTY OF COMMERCE**

 **DEPARTMENT OF BACC**



# **Influence of credit risk management on the financial performance of Commercial banks in Harare, Zimbabwe**

RESEARCH PROJECT IN ACCOUNTANCY

DONE BY

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#

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# DEDICATION

This research project is dedicated to my dearest mother, Mrs Maguma Gezana ,Mr Paul Gezana , my brothers and all my family members and my friends, for their unfaltering and visionary support during the hard times encountered when carrying out the research.

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# ABSTRACT

Up before ZAMCO's involvement in purchasing non-performing loans from commercial banks, Zimbabwean commercial banks continuously reported volatility in profit level margins. losses supposedly caused by commercial banks' poor credit management strategies. The goal of the study was to determine the credit management approaches employed by commercial towards the financial performance of commercial banks. Additionally, it looked for any connections between credit management and financial performance and the difficulties commercial banks face in properly managing credit. The researcher used both a descriptive research design and a correlation study design. A sample of 124 respondents was used, rather than the 162 respondents that made up the targeted demographic. Questionnaires and interview guides were utilized to gather data for this investigation. To evaluate the theory, a single regression analysis model was employed. According to the findings, all commercial banks employ credit management strategies before making loans to potential borrowers, and the strategies used were deemed sufficient in terms of loan payback and borrower evaluation. Commercial banks have acknowledged that they confront some difficulties in effectively managing credit despite having efficient credit appraisal methods. Additionally, research results indicated a favorable association between financial performance and credit management. Conclusions were drawn based on the findings, which showed that among the many credit management techniques, the 5Cs of credit management appear to be the methodology employed by Zimbabwean commercial banks to evaluate their borrowers and CAMPARI was the least used strategy. SWOT analysis, stress testing, and artificial neural networks were among the other credit appraisal methods utilized by Zimbabwean commercial banks. As a result, the study suggested that Zimbabwean commercial banks abandon traditional expert systems in favor of more adaptable ones, such credit information exchange systems. The report also suggested that serious efforts be made to improve credit risk management tools and that commercial banks be somewhat encouraged to embrace international credit standards in order to lessen some of the issues that face commercial banks.

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# CHAPTER I

# 1.0 INTRODUCTION

The goal of the study is to objectively evaluate how credit risk management has affected the performance of commercial banks in Harare, Zimbabwe. Therefore, this study provides a concise description of the research by describing the methodology, the backdrop of the research, the problem statement, and the research objectives. Additionally, it discusses the scope, limitations, and importance of the study.

# 1.1 BACKGROUND OF THE STUDY

Commercial banks began to embrace the idea of credit risk management in the 1990s, but to this day loan defaults have not been prevented, according to Modurh (2018). The main source of income for a bank is the creation of credit. Credit risk occurs when a credit borrower or counter party fails to carry out the coercions within the predetermined timeframe. Therefore, it is crucial to manage credit risk. In order to reduce losses and increase gains, managing credit risk is a systematic approach to recognizing, assessing, measuring, grading, regulating, and expressing risk in conjunction with bank activity or procedure. Due to improper credit risk management, Bangladesh's banking sector is also struggling with the issue of financial crime in Yeasin (2022), similar to many other banking industries in both established and developing economies.

Upal (2018) ,claims that lending is a difficult task for commercial banks because it causes significant issues that lead to bankruptcies, particularly if credit management techniques are not used effectively. Hamzah et al,( 2018) states that the risk-shifting feature of debt-based financing in Malysia has been acknowledged as the primary cause of an increasing number in of defaults and bankruptcies, contributing to the economic collapse .

Credit risk management in banking organizations has been vital up until this year, Zainudin, Sok-Gee & Shahrin,( 2018); Ahmad, (2020) & Kahyaoglu and Kurt,(2020).The majority of countries have established a thorough risk management process since risk management has a substantial impact on a bank's share performance. To offer stakeholders and depositors a margin of safety, the Central Bank of Nigeria (CBN) boosted the bank's capital to $25 billion in 2004,(Soyemi, 2014). The CBN's directive to capitalize banks using a capital basis of $25 billion forced certain money deposit banks to merge and be acquired, bringing their total number down from 39 to 21. Due to this mandate, Nigerian banks are now competitive on the international financial market and have a large capital base, which gives them the means to cover the costs of compliance with credit and market risk management. Sanusi (2020).

Techzim (2022)published that the government requires commercial banks to ensure effective credit risk management as there had been mismanagement of loans that led to the suspension of bank lending By seeking to improve bank financial performance and lessen the problem of bank losses and collapses, Governor Dr. Mangudya of the Reserve Bank of Zimbabwe enacted policies to reduce non-performing loans caused by inadequate credit risk management. While Zimbabwe's rate was 7.97% in June 2020, the global benchmark for non-performing loans was 5%. However, countries like the United States, Nigeria, and Southern African nations have recorded rates below 5%.

Dr. Mangudya, the governor of the Reserve Bank of Zimbabwe, emphasized in 2021 that many banks in [Zimbabwe are dealing with high percentages of non-performing loans as a result of lending sizable sums of money to businesses or to individual clients who lacked the necessary capacity to repay or undertaking projects that took time to take off and generate returns. In terms of achieving budgeted profits and returns on equity, this will have a significant impact on the financial performance of the bank.

Numerous issues have plagued the banking industry in Zimbabwe as a result of a number of factors, some of which are viewed as being bad credit management practices (Mambondiani et al, 2019). Business banks generally embraced the concept of credit management strategies in the 1990s, but they haven't yet figured out how to prevent loan defaults, in order to ensure that credit risk management contributes to financial performance Modurh (2018). The pandemic has put people's, businesses', and even governments' access to finance in jeopardy.

# 1.2 STATEMENT OF THE PROBLEM

The study was necessary because, despite the recent emphasis placed on credit risk management by commercial banks, the extent to which this aspect contributes to financial success has not been examined. So, using a sample of chosen banks in Harare, this study aims to determine the relationship between efficient credit management practices and financial performance of banks.

# 1.3 RESEARCH OBJECTIVES

1. To determine the credit management strategies used by commercial banks in Harare.

2. To identify the difficulties commercial banks in Harare are having in managing credit risk.

3. To ascertain the connection between Harare commercial banks' financial performance and their credit management.

# 1.4 RESEARCH QUESTIONS

What methods of credit management do commercial banks employ?

What difficulties do commercial banks in Zimbabwe have in managing credit?

What connection exists between Harare, Zimbabwe's commercial banks' loan management and financial performance?

# 1.5 RESEARCH PURPOSE

Investigating the credit risk management practices of commercial banks in Harare, Zimbabwe, was the study's main goal.

# 1.6 HYPOTHESIS FOR RESEARCH

The following is the hypothesis that will be assessed in relation to the study's goals of determining how credit management methods affect the financial performance of commercial banks in Zimbabwe:

H1: In Zimbabwe, commercial banks' financial performance and credit management have a positive correlation.

# 1.7 ASSUMPTIONS OF THE STUDY

Respondents will help with data collecting as this research is carried out.

The research tools will be effective enough to yield useful results.

The respondents will voice their opinions in order for the research findings to accurately reflect the issue and allow the researcher to draw more insightful conclusions and offer more useful advice.

# 1.8 IMPACT OF THE STUDY

* Commercial banks

The researcher anticipates that every commercial bank in Zimbabwe will benefit from the examination's findings. On this, as well as improved loan quality performance and a decrease in banking crises, financial performance is expected to increase. The credit workforce and bank directors can identify essential improvements that must be made in the credit management structure to increase financial performance by looking into credit management technique systems.

* Reserve Bank of Zimbabwe Reserve (RBZ)

The study will be helpful to RBZ since it will enable them to create credit management products that are more practical for market users. The findings of this study will also perhaps point out areas where the administrative procedures for credit management in the banking sector may be strengthened, and the central bank will be able to recommend required adjustments.

* Towards the University

Since this project will be added to the library and used by other academics to fulfill their research needs, the university will gain from it. The study will give students at Bindura University of Science and Technology a greater grasp of the techniques employed by commercial banks to manage credit, as well as providing them with crucial background reading for those who hope to do similar research in the future.

* To the researcher

The investigation of the research will provide the researcher with knowledge about the history of credit management practiced by commercial banks in Zimbabwe as well as the opportunity to integrate the theoretical foundations attained throughout his investigations with the practical aspects of business and credit management.

# 1.9 SCOPE OF THE STUDY: DELIMITATIONS OF THE STUDY:

In respect to the financial performance of commercial banks in Zimbabwe, this research is anticipated to serve as a reference source for students, lecturers, and researchers studying the same or related topics of asset quality, non-performing loans, and credit risk management. Only commercial banks in Zimbabwe with branches in Harare are the subject of the study, which serves as the descriptive sample.

## 1.10 THE STUDY'S LIMITATIONS

* Finance

The researcher had budgetary limitations in covering a wide range of respondents because the study was not financed by any organization, which limited the sample size. The researcher was able to send surveys via email and mobile services despite not having access to finances.

* Time

The amount of time the researcher had to conduct the study was limited. The researcher had to use both day and night as a strategy to overcome the time limit in order to finish the research on schedule.

* Confidentiality

Some managers and credit staff have been reluctant to provide information and support that is essential to the research's success. The consistency and veracity of the information provided by respondents also play a role in success. An official letter from the institution was received to affirm that respondents' information would only be used for academic purposes and to ensure their greatest privacy and confidentiality.

## 1.11 DEFINITIONS OF TERMS

* Commercial Bank

It is a financial institution that provides a range of financial services, including receiving depositors' money, investing it, and disbursing loans to both corporate and private borrowers.

* Credit management techniques

These methods are employed to evaluate a potential borrower's creditworthiness. The size and term of the loan, the collateral offered, and previous dealings with the borrower all have an impact on these strategies.

* financial performance

It is a specific indicator of how effectively a corporation can utilise resources from its main line of business and create money.

## 1.12 ORGANIZATION OF THE RESEARCH

In essence, this part will give a general summary of the five chapters' structure. The introduction will be the first chapter of the study and will include the study's history, a statement of the issue, research aims, research questions, significance and scope, limits, and definitions of key words.

Chapter 2 will only review pertinent literature in this area. A review of several works of literature and studies from other experts will be used to convey the research issue. In Chapter 3, the research methodology is described, including the study's research design, demographic and sample, sampling methods, research tools employed, and data presentation and analysis methods.

On chapter 4, data will be presented and study findings will be analyzed based on the research questions. The fifth and last chapter, which contains the study's summary, findings, and suggestions for additional research, will be the last one.

## 1.13 CHAPTER SUMMARY

By covering the history of the study of credit management methods of commercial banks' financial performance, this chapter lays the groundwork for chapter one. The statement problem, research aims, research questions, significance of the study, delimitations, and study constraints are also highlighted. The chapter finishes with a definition of the major words utilized in the research. The study's literature review will be thoroughly discussed in the following chapter.

# CHAPTER II

# 2.0 INTRODUCTION

This chapter focuses on establishing the theoretical framework for the study by analyzing pertinent research on the impacts of credit management strategies on the financial performance of commercial banks. Theories put out by numerous authors and academics that encouraged improvement of the theory were pondered about and examined. The correlation between credit management and the financial performance of commercial banks has been the subject of a basic analysis of empirical findings. The final research model is being outlined using discussion points and new suggestions.

## 2.1 CREDIT RISK MANAGEMENT PRACTICES

Yadav (2022) defines credit risk as the possibility of loan default. This occurs when a loan's lender defaults. Lenders are responsible for taking on all credit risk. As a result, the lender's overall costs go up and their ability to lend money drops. This lender's risk might be long-term, short-term, or even a total loss, which results in the loss of the lender's full primary amount. Credit risk is the chance that a debt won't be repaid. It could result in a loss or not. This risk includes the possibility that principal and interest payments won't be made, which would reduce the amount of cash available and raise the cost of collection. The amount of cash flow is impacted by a decline in cash.

## 2.2 RISK MANAGEMENT PROCESS

The crucial process of recognizing, analyzing, and accepting or minimizing uncertainty in financial decisions is known as risk management. The studies by Karami et al. identified this definition of risk management (2020). In these research, risk management is employed as a technique to quickly choose a favorable location while also comprehending the risks associated in the investment process. The idea of risk management was defined by Samimi Amir (2020) as a procedure for finding, assessing, and choosing management methods. Risks cannot, in theory, be completely removed. Risks may, however, be managed, monitored, and reduced. Risk management is a crucial component of every institution, but banks in particular. The banking system in every nation may be dramatically impacted by effective risk management. Gurendrawati (2020). (2020). The effectiveness of the company's governance, management, and operations may be impacted by effective risk management and internal control systems (Rimin et al., 2021; Ashari et al., 2021). Sound risk management, especially for banks, regulates how customers perceive the financial institution's level of service (Shah, Sukmana and Fianto, 2021).

Credit management is the procedure a business uses to monitor and ensure the collection of debt when it is due while adhering to its credit standards, taking calculated risks, establishing payment arrangements, and taking precautions to prevent default. Additionally, credit risk management can be seen as a proactive credit measure to identify potential risk, assess prospective losses, and develop ongoing follow-up to ensure that obligations are fulfilled by the due date (Euler Hermes USA.,2021). Lenders in developing countries believe it is challenging to assess the value of their borrowers without appropriate credit information frameworks, according to Biggar and Helmar (2019), who studied credit management approaches in developing countries. As a result, credit risk management is prioritized to ensure cash flow and institution profitability.

## 2.3 TOOLS FOR CREDIT RISK CONTROL;

### 2.3.1 AUTHORITY FOR APPROVING CREDIT

Banks can develop a multi-tier credit approval system where officers analyze the loan before authorizing it, claims Mayank (2022). It can aid in lowering the likelihood of any new credit risk. Banks can set up a grid of officers to function on various organizational levels, such as regional offices, zonal offices, head offices, etc., to optimize this value.

### 2.3.2Prudential Limits

According to Mayank (2022), banks can impose prudential restrictions on a variety of KPIs, including the debt-equity and profitability ratio, the debt service coverage ratio, and other significant ratios. Additionally, they must make sure that the maximum allowable deviation from these KPIs is mentioned in the lending policy. Banks can also limit the amount of credit they extend to people who have credit facilities that go over their capital requirements based on the concentration risk.

He continued by saying that banks might impose restrictions on each industry even when making loans to businesses. Banks can alter their exposure and lend with less risk based on the stress in each section. By restricting new advances against assets that may be subject to substantial price fluctuation and, consequently, credit risk, banks can achieve this. Banks must adequately support their credit with collateral and strategic considerations when lending to struggling industries. Prudent limitations must be periodically examined. It will enhance credit risk management and take into account additional market-related concerns.

### 2.3.3Risk Rating

Assessing the creditworthiness of borrowers is a common procedure among financial institutions. For internal use, however, banks may also develop a unique form of risk rating or scoring. As time goes on, it will provide loan officers a comprehensive grasp of the dangers involved. Banks will be better able to comprehend customer credit behavior and portfolio risk as a whole with the aid of risk rating. Financial analysis, predictions, and financial ratios are only a few examples of the quantitative and qualitative aspects that can be used to build the grade. Mayank (2022) (2022)

### 2.3.4 Risk Pricing

Mayank (2022) added that it's critical to base loan product pricing on borrowers' risk profiles in order to reduce credit risks. Borrowers with poor credit histories or inadequate financial standing are typically classified as high-risk individuals and susceptible to high interest rates.

He also suggested that banks charge credit risks based on predicted default probabilities in order to assure greater accuracy. The Risk-Adjusted Return On Capital (RAROC) framework, which adjusts interest rates depending on the projected loss on loans from the start itself, has been adopted by significant banks internationally. The banks then allot some capital to offset the losses on the potential loan that were incurred.

### 2.3.5 Analytics for Risk Detection and Control

Using AI and ML, banks can now examine consumer credit histories to predict changes in their credit behavior, claims Mayank (2022). Real-time understanding of customer behavior will enable banks to take preventative action because they can recognize any changes in the risk profile of the customer and make efficient lending choices. They can implement measures to lower credit risks and develop efficient credit frameworks with its assistance. Additionally, data analytics can be used to identify credit flaws and recreate challenging lending circumstances.

### 2.3.6Loan Review Mechanism

An LRM is a fantastic instrument for comprehending the quality of loan books and bringing qualitative improvements to credit-related decision-making, according to Mayank (2022). Banks that use LRM to manage credit risk can more effectively spot large loans with a high potential for credit weakening. LRMs are also highly beneficial in determining the sufficiency of and adherence to loan policies and processes. monitoring adherence to legal requirements and supporting the current credit risk management system.

##  2.4CREDIT MANAGEMENT TECHNIQUES;

According to Biggar and Helmar (2019), lenders in developing countries believe it is challenging to assess the value of their borrowers in the absence of proper credit information frameworks. Bryant (2016) claims that commercial banks were urged to extend credit to individuals who could merely demonstrate their creditworthiness. Additionally, he noted that commercial banks compete with one another for customers' credit, and that a bank seeking to grow its market share may cut its loan standards in order to do so.

Extraordinary guidelines must be observed when a borrower approaches a commercial bank for a credit. Okuru et al. (2016) claim that every commercial bank uses the best appraising procedures to its advantage when establishing a borrower's credit value. Commercial banks may use the following credit management reviews:

### 2.4.1CREDIT INFORMATION SHARING SYSTEM

Commercial banks and other credit providers provide information to credit referencing agencies about their customers as part of a process called credit information sharing, which allows the information to be shared with other credit providers (Brown and Zehdner, 2019). According to Jappelli and Pagano (2015), the primary goal of credit information sharing is to compile financial data on borrowers, including businesses, people, governments, and sole proprietors. Any financial institutions may seek access to the collected information. When evaluating the credit worthiness of potential borrowers in banking institutions, one of the finest credit management techniques is credit information sharing, according to Brown and Zehdner (2019).

### 2.4.2 CREDIT MANAGEMENT 5CS

In addition, Omara (2017) noted that each commercial bank has its own distinct financial and non-financial, objective, and abstract methods for figuring out how valuable a client is. He added that some commercial banks assess a borrower's creditworthiness using the 5Cs criteria for lending as well. According to Omobalane (2022), a credit assessment at a bank is an assessment the financial institution makes of bank funds to ascertain their capacity to repay in light of the bank's terms. The five Cs—character, capacity, condition, collateral, and capital—are used in this assessment.

* CHARACHTER

Character first evaluates the borrower's credit pattern and history, looking at how frequently he has been able to fulfill his obligations over the years and if he has ever filed for bankruptcy in order to assess the borrower's moral character (Tracy Sheppard, 2021). Additionally, the bank investigates further to determine if the borrower is qualified to use the loan by conducting the business for which it is being applied. Last but not least, the borrower's guarantee is taken into account.

• CAPACITY

Using the borrowers' previous debt as a reference, this analyzes the borrower's capacity to repay the loan. As the bank wants to know how the borrower will be able to manage his administrative costs as well, the cash flow of this business is crucial at this stage. Most lenders are likely to grant a loan to a borrower with a low debt to income (DTI) ratio. Troy Segal and others, 2021 .

• CONDITION

In order to establish if the borrower can fulfill his commitment, this credit assessment considers the borrower's additional source of income, the interest on the loan payment, and the capital required. The bank would also like to know how the cyclical turns of the firm relate to the economy and if there is a chance that low demand or the business' dissolution will result in loan default in the industry the borrower wishes to invest in. (2021) Tracy Sheppard

• COLLATERAL

This is a way to ensure that the loan that was obtained will be repaid. According to the loan type obtained, the bank takes into account the borrower's personal and business assets; this is known as a secured loan. In the event of a potential default, the bank goes further to determine the market value of the asset's collateral; however, a collateral with a high market value attracts low interest to the borrower. Troy Segal (2021 )

• CAPITAL

The 5Cs' capital examines any additional capital that the company might have, excluding bank loans. It demonstrates the amount to which the borrower is willing to accept risk as well as providing potential for a decrease in the interest rate that would be imposed on the loan sought when the borrower includes his own down payment, which goes beyond capital but also includes assets. (2021) Tracy Sheppard.

2.4.3CAMELS RATING

CAMELS is described by Omobolane (2022) as an analytical method used by banks to assess a bank's creditworthiness. Later, he emphasized that the addition of this instrument determines the creditworthiness of the bank and provides additional information regarding the likelihood of the bank going bankrupt, making it a supervisory tool used to check the institution. A lower rating indicates a better positioning for the financial institution, which is why most banks strive for a rating of 1, while a rating of 2 indicates a sense of weakness, a rating of 3 necessitates supervisory concern, a rating of 4 indicates that the institution is experiencing financial problems, and a rating of 5 is the worst and denotes a potential risk of a bank defaulting due to fundamental problems, which would also result in a higher premium CFI education Inc.,( 2021)

2.4.4 CAMPARI MODEL

According to Okuru et al. (2012), several commercial banks and lending institutions will generally use the CAMPRI display to evaluate the worth of their upcoming borrowers. They also stated that using this model rather than the crucial 5Cs of credit management is more appropriate for credit inspection. If the borrower legally owns the securities, it will be much easier for lenders to monetize them for payback purposes, which can have a substantial impact on the loan decision Siswanto, Arifin, and Cavin (2019). Accordingly, Koch and Macdonald (2016) noted that the CAMPARI model integrates other estimating characteristics, such as the purpose and margin, and is utilized to evaluate the borrower value. In this approach, margin is defined as the commission, costs, and fees that the commercial bank would assess against the office. Commission and expenditures typically depend on the amount of management-related work involved. However, the borrower's intended use of the loan is represented as the reason in this model, with the objective that the commercial bank would examine the extent to which the aim is satisfactory with regard to the bank's credit arrangements.

Gitman (2020) agrees that while methods typically differ, adopting credit management assessing methods that thoroughly examine the client worthiness are preferable to those that just break down broad categories. Omara (2017) supported this and argues that commercial banks should only get a special strategy that evaluates the crucial credit areas and is ultimately settled utilizing a credit information exchange framework.

## 2.5 RISK APPRAISAL AND BANK PERFOMANCE

Ndyagyenda (2020) describes credit risk appraisal as the procedure by which the lender evaluates the borrower's credit worthiness. Procedures for credit evaluation Character, collateral capability, and capacity are significant themes. It considers a number of variables, including the applicants' income, the number of their dependents, their monthly expenses, their ability to repay the loan, their employment history, the number of years they have worked there, and other elements that could affect their credit score. According to Luttenton Woodbury (2021), if your bank's risk assessment methodology is consistently in line with the organization's processes and procedures, risk can be proactively addressed and the organization can be more strategic and proactive about handling risk rather than wasting hours trying to coordinate information, reports, and queries.

## 2.6 DIFFICULTIES COMMERCIAL Banks Face in Managing Credit;

### 2.6.1 THE 5 C'S OF BAD CREDIT

The most crucial step in reducing credit risk, in the opinion of Phyo Zeyar Htun (2022), is loan appraisal.The appropriate loan officer or credit officer must verify the borrower's name, address, loan size suitability, co-borrower condition, loan grantor condition, income, and home and business expenditures. At the client's location, the loan officer must gather data and loan-related information. While gathering information at the client's location, loan officers need to complete the verification process.

He also observed that credit officers typically have the option of trading off the bank's approach after speaking with the borrower. Brilliant and Walker (2018) concur that commercial banks may rely on credit management strategies too often, which could be misleading. They also observed the five Cs of bad credit. Some of the five characteristics of bad credit—complacency, competition, carelessness, contingencies, and communication breakdown—are listed in Brilliant and Walker's list of the five Cs. Under the accompanying subheadings, they went on to list the five characteristics of negative credit:

* COMPLAINT

Lack of concern, according to Brilliant and Walker (2018), is the tendency to assume that since things were great in the past, they will continue to be great in the future. They also highlighted the fact that financial conditions can change. In accordance with this circumstance, Nguyen (2014) examined the 5Cs of credit management, focusing notably on character, and showed that character depends on the borrower's payment history, of which the past won't necessarily be an accurate predictor of the future. In response to this, Makwunye (2014) argues that, even though the future won't be exactly like the past, looking at the borrower's past behavior reduces the risk associated with credit rather than completely ignoring the borrower's payment history.

• COMPETITION

Brilliant and Walker (2018) demonstrated that when a commercial bank imitates the practices of its competitors in managing credit rather than upholding its own credit standards and credit arrangements, this is perceived as a challenge and is a sign of bad credit. The right to embrace what other commercial banks are doing isn't always upheld (Bassel, 2020). He went on to say that a bank shouldn't normally adhere to credit criteria and policies if doing so will result in a loss for the institution.

• CARELESS

According to Brilliant and Walker (2018), carelessness includes having weak endorsement, which is represented by inadequate loan documentation, a lack of financial or other pertinent information in credit reports, and a lack of defense clauses in the loan agreement. This makes it difficult to check a borrower's progress and may make it difficult to identify problems.

• CONTIGENCIES

According to Brilliant and Walker (2018), contingencies point to the banks' propensity to minimize or ignore potential reasons for a credit failure. Powell (2014) made the case that credit appraisal methodologies should be thoroughly analyzed in order to reduce the component of contingencies during the loan process. Inability to guide suitable credit assessment will cause loan defaults because it is unclear under what circumstances a loan may default, Chowdhury et al. (2012) observed.

• COMMUNICATION BREAKDOWN

Brilliant and Walker (2018) found that when a commercial bank's credit policies and objectives are not well communicated inside the bank, loan difficulties and non-performing loans occasionally increase. Loan officers in the credit division should be explicitly taught credit strategies by the office managers so that they are aware of the methods for lending money to clients.

### 2.6.2 LACK OF CREDIT RISK MANAGEMNET TOOLS

To make sure you're viewing the big picture, GDSLink (2021) states that recognizing portfolio concentrations or re-grading portfolios is crucial. A thorough risk assessment scorecard should be able to swiftly and visibly highlight the advantages and disadvantages of a loan.

When big financial services companies adopted big data programs, risk analytics advanced significantly, but small and mid-sized banks and credit unions found acceptance to be slower due to the investment required. Big data in banking is now more accessible than ever thanks to contemporary solutions that are now available to organizations of all sizes.

With the help of risk analytics, banks may better connect their strategy, governance, culture, business models, and technology to streamline the procedures of their risk management operations. Businesses can monetize the risk management process and improve their profits from lending practices by optimizing and managing risk variables.

Accessible analytics, improved infrastructure, strategic alliances with data clearinghouses, and credit scorecard systems optimized based on larger, more detailed datasets all contribute to this revolutionary change in financial services. Link GDS (2021)

### 2.6.3 LESS THAN INTUITIVEREPORTING AND VISUALIZING ;

Forget laborious spreadsheet-based methods; data and analysis must be presented in a clear, organized, and intuitive manner in order to yield the most insightful conclusions. The most important data can be found by removing the unnecessary data that stresses analysts and IT.

Modern risk management technologies offer versatile back-end setups and user-friendly front-end interfaces. Increased business flexibility results when banks and credit unions can use risk analytics software to integrate analytics capabilities across a wide range of procedures.

The capacity to completely visualize risk both throughout the enterprise and at the level of the individual borrower is necessary for employing analytics to drive transformation, though.

Analytics platforms need to be able to identify trends in the raw data and build models that produce insightful data so that users can justify investing in a digital transformation. In order to drive educated decisions across the lending environment, it is crucial to make sure data reaches the appropriate people at the right time in order to address major difficulties in credit risk management.

A comprehensive approach to risk analytics involves using intelligent data modeling for decision-making and utilizing alternative data sources across your credit application processing system. The provision of pertinent data at each stage of the process through comprehensive reporting and visualization tools promotes process speed, efficiency, and data-driven decision-making. Link GDS (2021)

### 2.6.4 INEFFECIENT DATA MANAGEMENT

Solutions for credit risk management must be able to safely store, organize, and search data using a range of criteria. Any database must be continuously updated to prevent potentially outdated information and be keyword optimized to enable quick access to data. Link GDS (2022)

### 2.6.5 LIMITED GROUP WIDE RISK MODELING INFRASTURE ;

Understanding the risk posed by a new borrower to the group requires taking a broad, complete picture of all risk factors as seen from above, which is sometimes not enough to do. Accurate risk assessment depends on strong stress-testing capabilities and model management that covers the entire modeling life cycle. Link GDS (2021)

## 2.7EMPIRICAL REVIEW

Based on previous studies, the impact of credit risk on financial performance is as follows:

The empirical framework displayed the relevant studies on credit risk management in connection to the financial success of commercial banks. These are they're;

When comparing the effectiveness of credit risk management between Islamic and conventional banks, Alta'ani et al. (2020) look at the correlation between credit risk management indicators and the financial performance of listed banks in Jordan. The researchers discovered that there is a negative and significant association between loan loss reserve ratio and ROA and ROE as well as a positive and significant relationship between capital adequacy ratio and ROA and ROE. Additionally, it was discovered that Islamic banks are more profitable and have superior credit risk management than traditional banks.

In their investigation on the relationship between credit risk management and the financial performance of a sample of banks listed on the Ghana Stock Exchange, Joshua et al. (2020) discovered that improving credit risk management boosts financial performance. Non-performing loans, loan loss insurance, capital sufficiency, and bank size serve as the study's controls while serving as independent variables. The financial performance of commercial banks is the dependent variable. This study discovered a substantial correlation between the credit risk management variables (NPL, CAR, and SIZE) and the profitability of listed banks in Ghana based on tests run on the data collected and results analyzed. Credit risk's effect on the financial performance of 18 South African banks from 2008 to 2018 was investigated by

Ephias Munangi et al. in 2020. The study's findings showed that credit risk and financial performance had a negative relationship. The results show that in order to reduce the prevalence of non-performing loans, banks should implement careful and strict credit regulations at the microlevel. The return on equity (ROE) and return on assets (ROA) are the dependent variables in this study (ROA). Non-Performing Loans Ratio (NPLR) and NPLs to Total Equity are the independent variables (NPLE). Size, growth, leverage, and capital adequacy ratio are the controlling factors (CAR). In order to reduce the danger of bank failure, authorities must increase oversight at the macro level to make sure that banks manage their credit risk in accordance with the rules.

In addition, Taofeek Sola Afolabi et al. (2020) investigated how credit risk affected the financial success of microfinance banks in Nigeria. According to the report, microfinance institutions should create credit policies to improve proper monitoring of their loan portfolios and lower default rates. Non-performing loans (NPL), loss-loss provisions (LLP), and empirical total loan advance rates (TLA) are the independent variables in this study. Consequently, the dependent variable in this study's returns on assets (ROA) is present. Non-performing loans have an adverse and considerable impact on the financial performance of MFBs in Nigeria, according to the panel model's results. This suggests that a large percentage of non-performing loans across banks diminishes profitability by lowering average returns on assets.

Rehman et al. (2019) investigated how risk management techniques, which intended to reduce or eliminate credit risk, affected the credit risk that Balochistan's commercial banks faced. To undertake a multiple regression analysis for this study, a qualitative research approach was used to collect responses from 250 employees on a questionnaire about four specific topics: diversification, hedging, capital adequacy ratio, corporate governance, and credit risk. It was determined that for the bank to function better, proper training and courses on asset management risk, risk control, and credit utilization should be provided to bank staff.

A comparative study on the impact of credit risk management adoption and strategy on the performance of the respective commercial banks was conducted between the United Arab Emirate and the United Kingdom in 2019 by Shahzad Karim. Utilizing primary data, information on these institutions was obtained, and three key variables—credit risk management tactics, risk management-influencing variables, and profitability of commercial banks—were found. The data was analyzed using SPSS and Excel, and the results of logistic regression, descriptive statistics, diagnostic tests, graphical representation, and thematic analysis revealed significant variations in organizational profitability adoption and credit risk management strategies between the financial institutions.

Hossain.M. Yeasin (2021) used a panel regression analysis model to explore the effect of credit risk management on the financial performance of commercial banks in Bangladesh. For this study's examination, secondary data was also used. The research took into account data from the selected commercial banks' Return on Assets (ROA), Non-Performing Loan (NPL), Capital Adequacy Ratio (CAR), and Loan to Deposit Ratio (LDR) over a ten-year period (2010-2019). According to his analysis, LDR had a considerable beneficial impact on the bank's performance, but the other explanatory variables had a significant negative impact.

According to Ghulam Saghir and Emad Tabassam Ch (2020), using two major risk methods—liquidity risk and credit risk—the credit risk has a significant and detrimental effect on the financial performance of Pakistani banks. It also showed that the lower the non-performing loan, the lesser the risk. The Hausman test was used to examine the short run and long run effects on the bank's financial performance over ten (10) years of financial report panel data (2008–2018).

The focus of Fabrice.T. Kegninkeu's (2018) study on the effects of credit risk management on Cameroonian commercial banks was on the evaluation of loan assessments. The trend analysis showed that while total loan to deposit and loan to total asset had an inverse link to the bank's performance, the nonperforming loan (NPL) to total loan ratio is a solid predictor of risk performance and is also significantly related to the performance of the bank. This conclusion was reached utilizing secondary data that was acquired from ratio analysis of BICEC's five (5) year financial statements.

Sangeetha R., Smarika Jain, and Dr. (2021) The conclusion is that since non-performing assets have a negative effect, management should concentrate more on them while managing credit risk. The capital adequacy ratio has no significant impact, but it is advised that they not focus too much on it. Instead, management should simply ensure that the capital adequacy ratio stays between 12 and 15 percent, a range above which the enterprises run the danger of experiencing financial underperformance.

Dr. Alok Satsangi and Sudip Basu (2019) The objectives of credit risk management are to successfully implement risk management controls and to lessen the likelihood that a credit transaction will result in a loss. To fulfill the goals and objectives of banks, this is essential. After doing a literature analysis, the researcher came to the conclusion that India's credit risk management procedures only had a few minor shortcomings. These rules include information about the target markets, acceptable levels of risk, and risk tolerance caps. As a result of its risk management practices, the bank will be stronger, giving it a market edge.

In this research, Ekinci and Poyraz (2019) want to examine how credit risk affects the efficiency of Turkish banks. Between 2005 and 2017, 26 banks made up their dataset. They employ ROA and ROE to measure performance, and NPL to measure credit risk. The findings indicate a considerable inverse relationship between performance and credit risk.

## 2.8 CHAPTER SUMMARY;

The researcher essentially conducted an audit of the literature on credit management challenges, strategies, and the connection between credit management and commercial banks' financial performance in this chapter. The opinions and commitments of various scholars, authors, analysts, and renowned specialists were discussed. On each of the topics discussed, it was seen that some researchers share a similar conviction while others hold a different opinion. Which implies that there isn't a clear, affirmative solution in the literature, necessitating the need for this inquiry. The part that follows will focus entirely on research technique, research design, and its advantages and downsides.

# CHAPTER III

# RESEARCH METHODOLOGY

## 3.1 Introduction

 The research methods used by the researcher to gather data for the study's research objectives are summarized in this chapter. The goal of this analysis is based on prior research that compared the performance of commercial banks with better or worse credit risk management (Serwadda, 2018; Ekinci & Poyraz, 2019). The research methodology includes the population, sample, sample size, sampling techniques, data sources, and research tools. This chapter assessed the validity and reliability of the research instrument used, as well as its advantages and disadvantages. Discussions also include data analysis and presentation.

## 3.2 Research Design

The researcher employed descriptive survey and correlational research approaches in order to ascertain fresh information about the impact of credit management strategies on the financial performance of commercial banks and to comprehend the respondents' perspectives on the issue. The goal of the research design, according to Sileyew (2021) is to offer a suitable framework for a study. The decision to be made regarding the research approach is a key step in the research design process since it defines how pertinent data for a study will be gathered. On a related note, Adwally (2014) hypothesized that the research design was an intellectualized operational and procedural plan implemented by the researcher in order to clearly, accurately, inexpensively, and impartially collect responses to the research questions.

Understanding the present use of credit management practices by commercial banks in Zimbabwe was the goal of this study. In order to incorporate human experience in relation to the efficacy of credit management appraisal policies as per the questionnaires provided by the researcher, the descriptive survey research design was chosen. According to Voxco (2021), descriptive survey research design refers to the employment of a variety of research techniques to examine the relevant variables. Although occasionally qualitative data is employed for descriptive purposes, it primarily uses quantitative data. Correlational study approach, on the other hand, was employed since it allowed the researcher to identify and quantify the strength of the link between

credit management and the financial performance of commercial banks in Zimbabwe.

### 3.3.1 Study population

The study population consisted of workers in the credit and accounting departments of all commercial banks, including credit committee members, credit staff, credit analysts, financial managers, and credit risk managers at a commercial bank in Harare, Zimbabwe. There are 13 registered commercial banks operating in Zimbabwe, according to the Reserved Bank of Zimbabwe's Mid-term Monetary Policy Statement from 2017. This specified that the study population would consist of 162 respondents because the field research found that each of the study segments had at least an average of 4 people, with the exception of jobs like financial manager, credit risk manager, and credit personnel, which are almost always represented by a single person in commercial banks.

|  |  |  |
| --- | --- | --- |
| **Targeted Population** | **Number of Respondents** | **Percentage of each %** |
| Agricultural Development Bank of Zimbabwe |  8 |  4.93 |
| BancABC Zimbabwe |  14 |  8.6 |
| First Capital Bank Limited |  16 |  9.88 |
| CBZ Bank Limited |  10 |  6.17 |
| Ecobank Zimbabwe Limited |  12 |  7.41 |
| FBC Bank Limited |  16 |  9.88 |
| Nedbank Zimbabwe Limited |  10 |  6.17 |
| Metbank |  14 |  8.64 |
| NMB Bank Limited |  12 |  7.41 |
| Stanbic Bank Zimbabwe Limited |  8 |  4.93 |
| Standard Chartered Bank Zimbabwe Limited |  14 |  8.64 |
| Steward Bank |  10 |  6.17 |
| ZB Bank Limited |  13 |  11.13 |
| **Total** |  **162** |  **100%** |

**SOURCE ;OWN COMPUTATION**

### 3.3.2Sample Size

According to Kaur (2021) the key element of research methodology is the sample size. Additionally, he described this as a process of selecting the number of observers or replicates to be included in the statistical sample size. 124respondents made up the sample size that was chosen using Roscoe's rule criteria (Mugenda, 2016). According to the principles, a researcher should choose a sample that is greater than 30 and fewer than 500, which is suitable for the majority of studies. According to the criteria, when dealing with an accessible population with a range of 100, a sample of about 40% of the accessible population is ideal. As a consequence, 38.3% of the total population was used to compute the sample size.

### 3.3.3 Sampling Procedures

In order to perform the study, the researcher used non-probability sampling approaches. Purposive sampling is a non-probability sampling method that was utilized in this investigation. In order to get more accurate and trustworthy information, commercial banks' credit risk managers, credit employees, and financial managers were chosen using the purposeful sampling technique, which entails focusing on particular respondents inside the sampling frame. Purposive sampling is usually employed in this situation to ensure that the selected sample is properly representative of the appropriate respondents.

## 3.4Research Instruments

Research instruments are defined as the tools or techniques utilized to gather data that is pertinent and appropriate to meet the goals of the study. The data collection tools include questionnaires, checklists, scheduled interview schedules, and tests (Giddaiah, 2013).

### 3.4.1Questionnaires

To gather sufficient primary data for determining how credit management strategies affect the financial performance of commercial banks, online questionnaires were used. A questionnaire, according to Cleave (2021) is solely focused on the questions that participants are asked to provide feedback on. The surveys were used by the researcher to assess how different attributes were ranked, which helped to develop more diversified and less similar answers. In order to gather the precise information required for the research on the under-reviewed issue, the researcher created a short, preplanned series of questions. The questionnaire was broken down into three sections: basic information, credit terms and appraisal, and difficulties and suggestions for credit management.

**Advantages of Questionnaires ;**

• Cost savings:

 An online questionnaire is far more affordable than one that is delivered in person, over the phone, or by mail because there are no labor costs, paper costs, printing costs, phone costs, or postal costs to consider.

• Immediately reach people:

 You may quickly reach out to your respondents and get their opinion by using a variety of distribution methods, such as emailing, texting, posting a link to your questionnaire on your website, or making it downloadable via a QR code.

You only need to offer them a link to your questionnaire, which may be done automatically through an email sent as part of a lead nurturing or customer onboarding campaign.

• Respondents' flexibility on where and when to finish their questionnaires:

 One fantastic feature of an online survey is that it gives respondents this flexibility. Increased response rates can be achieved by giving respondents extra time to complete your survey and even the option to start it and finish it later.

• Data accuracy:

Online questionnaire answers are automatically inserted into spreadsheets, databases, or other software packages, reducing the possibility of human error and enabling automatic validation of the data. This is in contrast to methods like face-to-face and over-the-phone questionnaires that require the interviewer to process respondent answers.

**Disadvantages of Questionnaires;**

• Unanswered questions:

When respondents are given free reign to respond to questions, some may choose to skip those they don't feel like responding, which could undermine the validity of your findings.

• Analyzing some questions can be challenging:

When creating your questionnaire, it's critical to carefully consider the questions you include. In particular, if you include too many open-ended questions, your data analysis will be more difficult and time-consuming.

• Difficulty in expressing sentiments and emotions:

 Unlike conducting a questionnaire face-to-face, an online questionnaire does not allow for the observation of emotions through facial expressions and body language. And without the ability to notice these subtleties, a lot of important information may be lost.

• Problems with accessibility:

If you didn't consider accessibility when building your questionnaire, it could be a threat.

• Questionnaire fatigue:

this affects those who have been overloaded by receiving too many questionnaire invitations, making them less likely to participate in your own one. It occurs before the process of completing a questionnaire even begins. Your response rates may consequently suffer as a result of this.

### 3.4.2 Interview Guide

The researcher made use of semi-structured interviews. This type of instrument was employed by the researcher since some respondents would rather talk than answer a questionnaire. Interviews were done by the researcher in order to collect data right away and to monitor non-verbal communication, which had an impact on the subject of the study. The researcher will be able to collect both objective and subjective data from semi-structured interviews because there will be a list of topics that must be covered.

Advantages

• It grants interviewers flexibility.

• The interview receives a higher response rate than questions sent via mail, and those who are illiterate can still respond to the questions.

• The interviewer can assess the respondent's nonverbal conduct.

• The interviewer has control over the order of the questions, just like in the questionnaire, and can assess the spontaneity of the respondent. • The interviewer can choose the location for an interview in a private and quiet place, unlike those conducted through emails, which can have a completely different environment.

Disadvantages

• Interview studies can be very time- and money-consuming to conduct.

• Biases may arise during an interview. For instance, the respondent's responses may vary depending on how he perceives the interviewer's race, class, age, or physical attributes.

Less anonymity is provided by interview research, which is a major worry for many respondents.

• Because respondents can be located in any part of the world or nation, there is a lack of accessibility to respondents (unlike when a study is conducted using mailed questionnaires).

## 3.5 Data Collection Procedures

To gather information for the study, the researcher employed online surveys and interviews. The questionnaires were followed up on by phone calls and electronic mail. Other questionnaires were collected as soon as respondents were finished by email, while some questionnaires were collected after 7 days to give respondents time to get accustomed to the form. tiroi, asplose and the taking, the the thel the aes in in an a Once a time and date had been agreed upon, the researcher conducted interviews according to the respondents' schedules while acting as the interviewer to standardize the data gathered. Through a pilot study, the questions were clarified.

In order to identify and resolve issues with the wording and structure of the questionnaires, a pilot study was done on them. A pilot study, commonly referred to as a "feasibility study," is a small-scale preliminary study carried out before any large-scale quantitative research in order to assess the possibilities for a future, full-scale project, according to Simkus (2022). To make sure that the questions weren't unclear, the researcher gave out a tiny initial batch of questionnaires to a small sample size of responders. Issues with the phrasing and organization of the questions were clarified and fixed.

## 3.6 Data Analysis and Presentation Procedures

### 3.6.1 Data Analysis

A variety of strategies were used to analyze the data that was gathered. The gathered data was reviewed to ensure that only appropriate and relevant questionnaires were considered in order to prevent destroyed surveys. Following screening, effective adequate and relevant questionnaires were then examined and coded using descriptive statistical models with the use of a program called statistical packages for social sciences (SPSS v20). Following the coding of the data, a correlation analysis was used to determine the variables' relationships by regression analysis.

### 3.6.2 Data Presentation

Data was gathered through interviews and questionnaires, most of which were quantitative in nature. After the data collection and processing process, the information was totaled and presented in a logical order, with questionnaire and interview data supporting each other. The researcher used pie charts, bar graphs, and histograms to visually represent this kind of data.

## 3.7 Validity and reliability

Since validity and reliability are closely related, the researcher double-checked all relevant information and requested the university dean's professional opinion to ensure the validity of the study instrument. Before distributing the questionnaires to the sampled respondents, the study instrument was first pilot tested, and any necessary revisions were performed.

## 3.8 Ethical consideration

This study was very careful to avoid getting too deep into private and delicate commercial bank issues. A commercial bank's branch managers were requested to give their consent before gathering data from credit staff. Because the research was conducted in accordance with ethical considerations guidelines, participation was voluntary in the sense that targeted commercial bank workers had the option of taking part or not. On the questionnaires, neither the respondents' identification nor any specific personal information pertaining to it was provided or to anyone who was not part of the of the study .

## 3.9 Chapter summary

The methodology of the study was reviewed in this chapter, including the research design, data gathering methods, and strategies for identifying the target population. This chapter also looked at how the suggested processes were justified. The validity and dependability of the study tools chosen were also highlighted by the researcher.

# CHAPTER 4

# RESULTS AND DISCUSSION

## 4.1 Introduction

This research chapter concentrated on data analysis, data presentation, and survey interpretation. The information will be used to look into the impact of credit management practices on the financial performance of Zimbabwean commercial banks. Data was collected through self-administered questionnaires distributed to commercial bank personnel and interviews conducted in accordance with the schedule outlined in the previous chapter. In this chapter, the questions are combined to form a single integrated questionnaire that is simple to quantify and interpret. Tables, bar graphs, and pie charts were used to present the data.

## 4.2 Response Rate

### 4.2.1 Rate of Questionnaire Response

The table below shows the satisfactory response rate from a sample of 124 targeted respondents. Out of the 124 questionnaires that were distributed, 108 questionnaires were successfully completed and returned for analysis.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Details | Frequency | Percent | Valid percent | Cumulative percentage |
| Questionaire completed | 108 | 87.1 | 87.1 | 87.1 |
| Valid Questionaire uncompleted | 16 | 12.9 | 12.9 | 100 |
| **Total** | **124** | **100** | **100** |  |

Questionnaire Response Rate (Table 4.1)

A total of 124 questionnaires were generated and distributed to various targeted employees of commercial banks in the sampling frame, and a total of questionnaires were completed and returned, yielding an 87 percent response rate. Mugenda (2016) stated that a response rate of 50% or higher is adequate for analysis and reporting, implying that the 87% response rate in this study is sufficient to produce reliable results. The response rate is consistent with Grays (2015), who claimed that regardless of how the researcher distributed the questionnaire, whether physically or via email, the response rate is generally high. The table above depicts the response rate.

### 4.2.2 Interview Successful Rate

The table below depicts the interview success rate obtained after conducting interviews in commercial banks in Harare, Zimbabwe.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Details | Frequency | Percent | Valid Percent | Cumulative Frequency |
| Interview Successful | 24 | 85.7 | 85.7 | 85.7 |
| Valid Interview Unsuccessful | 4 | 14.3 | 14.3 | 100 |
| **Total** | **28** | **100** | **100** |  |

Table 4.2: Success Rate of Interviews

The researcher planned twenty-eight interviews with various targeted commercial bank employees, but only twenty-four interviews were conducted. The researcher achieved an interview success rate of 85%. Mugenda (2016) stated that an interview success rate of 50% or higher is sufficient for analysis and reporting, implying that the interview success rate of 85% in this study is sufficient to produce reliable results.

## 4.3 Results and Discussion

### 4.3.1 Professional Experience

The table below shows how long respondents had been in their respective positions.

Figure 4.3: Professional Experience

Figure 4.1 depicts the findings, which show that 11.11% of respondents had less than one year of work experience, while 29.6% had work experience ranging from one to four years in the banking industry. 25.9% of all respondents had worked in the banking industry for more than 5-10 years, and 31.1% had work experience ranging from 10 years to more.

Employees with work experience ranging from 5 to 10 years have a combined total of more than 50%, indicating that respondents have extensive knowledge and experience in the field, allowing for insightful depth of credit management techniques.

### 4.3.2 Designation of respondents

The study sought to determine the current position of respondents within commercial banks.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Details** | **Frequency** | **Percent** | **Valid percent** | **Cumulative percent** |
| **Credit personnel** | **32** | **29.6** | **29.6** | **29.6** |
| **Credit risk manager** | **24** | **22.22** | **22.22** | **51.82** |
| **Financial/ branch manager** | **8** | **7.41** | **7.41** | **59.23** |
| **Credit analyst** | **36** | **33.33** | **33.33** | **92.56** |
| **Other titles** | **8** | **7.41** | **7.41** | **100** |
| **Total**  | **108** | **100** | **100** |  |

Table 4.4: Respondent Designation

Credit analysts made up 33.33% of the total respondents in table 4.3 above. According to the study, 29.6% of the respondents were credit personnel, while 22.22% of the total respondents were credit risk managers. Financial or branch managers and other titles accounted for the smallest proportion of total respondents, accounting for 7.41% and 7.41%, respectively. This is usually an acceptable idea if the researchers only need to know the basic characteristics of the household; however, most of the time, researchers need to collect data from one specific person in the household, i.e., translate the sample of units into a sample of individuals (Mugenda, 2016).

### 4.3.3 Highest level of education attained

The study was designed to determine the respondents' highest educational qualifications achievements in order to determine whether they are able to fully understand the questions and provide solutions that are relevant and reliable to the study's success.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent |
|  | Degree | 56 | 51.9 | 51.9 |
| Masters | 20 | 18.5 | 18.5 |
| Other | 32 | 29.6 | 29.6 |
| Diploma | 0 | 0 | 0 |
| Total | 108 | 100.0 | 100.0 |

Figure 4.5: Highest Qualification Level

According to the findings shown in figure 4.2 above, 51.9% of respondents have a bachelor's degree and 18.5% have a master's degree. According to respondents, 29.6% of the total respondents hold other qualifications such as ACCA, CIMA, and CIS, and none of the respondents 0% hold a diploma certificate as their highest academic qualification.

According to Danielson and Scott (2011), one's level of education strongly influences one's competence and the need to implement policies; thus, the study is composed of educational respondents to provide a strong foundation basis for the study.

## 4.4 Credit management techniques;

The study sought to identify and comprehend the credit appraisal techniques employed by commercial banks in Zimbabwe.

4.4.1 Credit Management's Five Cs



Figure 4.1: Credit Management's Five Cs

According to the findings in figure 4.3 above, 66.7% of total respondents strongly agree that commercial banks operating in Zimbabwe use the 5Cs of credit management to a greater extent to evaluate their borrowers, while 25.9% agree and 7.40% disagree.

40% of all interviewees confirmed that they use traditional expert systems methods to evaluate borrowers (the 5Cs of credit management), while 60% confirmed that they use other methods to evaluate borrowers.

The aggregate agreed percentage of total respondents of 96.1% clearly indicates that the 5Cs of credit management are the most commonly used credit appraisal method for evaluating prospective borrowers by commercial banks operating in Zimbabwe. Makomeke (2016) conducted a similar study and discovered that, of the ten commercial banks studied in Zimbabwe, seven of them (70%) confirmed that they use the 5Cs of credit management as their credit appraisal technique. The researcher's findings are consistent with Makomeke's (2016) study, as an aggregate of 96.1% agreed with the use of 5cs as a credit appraisal technique.

This method is supported by Menkhoff, Suwaporn, and Neuberger (2013), who stated that traditional expert methods revolve around the same principles, but concluded that the 5Cs of credit management are the most commonly used credit management technique among traditional expert system methods. This is consistent with the findings of the researcher. Brown and Zehdner (2019) argue that financial institutions are increasingly abandoning traditional expert methods in favor of more flexible alternatives.

### 4.4.2 Credit Information Sharing

The graph below depicts credit information sharing among Zimbabwean commercial banks.

in commercial banks in Zimbabwe.

|  |  |  |
| --- | --- | --- |
| **Details** | **Frequency** | **Percent** |
| Strongly agree | 56 | 51.5 |
| Agree | 36 | 33.33 |
| Unsure | 12 | 11.1 |
| Disagree | 4 | 4.7 |
| **Total**  | **108** | **100** |

Figure 4.4: Credit information sharing

According to the findings in figure 4.4 above, 51.5% of commercial banks in Zimbabwe use credit information sharing as a credit appraisal technique, with a corresponding 33.33% also agreeing. 11.11% of all respondents were unsure about the use of credit information sharing, while 4.7% disagreed that this credit technique is used in Zimbabwean commercial banks.

20% of interviewees confirmed that credit information sharing is their primary credit appraisal technique, while 80% mentioned other credit appraisal methods besides credit information sharing.

According to the majority of respondents, 81.6% agree that commercial banks in Zimbabwe use credit information sharing. According to TDQ Le (2021), credit information sharing generally makes lending easier in a variety of ways, and better information may mitigate negative outcomes. Onsarigo (2018) agrees with the use of credit information sharing techniques, concluding in his study that credit information sharing has helped correct and improve the financial performance of the savings and credit corporation.

### 4.4.3 CAMPARI MODEL

The results of the CAMPARI Model used as a credit appraisal method in Zimbabwean commercial banks are shown in the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Details** | **Frequency** | **Percent** | **Valid percent** | **Cumulative percent** |
| Strongly agree | 24 | 22.22 | 22.22 | 22.22 |
| Agree | 36 | 33.33 | 33.33 | 55.56 |
| Unsure | 48 | 44.44 | 44.44 | 100 |
| **Total**  | **108** | **100** | **100** |  |

Model CAMPARI (Table 4.4)

According to the findings in table 4.4 above, 22.22% strongly agree that the CAMPARI Model is used as a credit appraisal method in Zimbabwean commercial banks, while 33.33% of the total respondents agree with the strongly agreed respondents on the same issue. 44.44% of commercial banks in Zimbabwe were unsure about using this credit management technique. During the interview, none of the interviewees mentioned the use of the CAMPARI model.

An aggregate percentage of the total respondents (44.44%) clearly shows that of the total respondents who were unsure that the CAMPARI model is being used in Zimbabwean commercial banks, implying that the CAMPARI model is the least used technique for evaluating potential borrowers among the credit appraisal techniques used in Zimbabwe. However, this contradicts Makomeke (2016)'s study of 10 commercial banks in Zimbabwe, which found that the CAMPARI model was not the least used technique, with 45% representing it slightly above the least used technique 40%.

Okuru et al. (2012) supported this appraisal technique, stating that it is more appropriate in appraising potential borrowers because it includes other measuring parameters such as purpose and margin than other common credit management techniques. This viewpoint is consistent with Gitman's (2020) observation that, because credit appraisal techniques differ, financial institutions should strive to adopt a method that thoroughly examines the client's worthiness rather than analyzing general factors.

### 4.4.4 ; CAMELS RATING

The graph below depicts the results of commercial banks in Zimbabwe using the CAMELS rating as the credit appraisal model when evaluating the worthiness of prospective borrowers.



CAMELS RATING MODEL (Figure 4.4)

40.7% of the total respondents in figure 4.5 above strongly agree that CAMELS rating is one of the credit appraisal models used by commercial banks in Zimbabwe when evaluating the worthiness of prospective borrowers, while 37.03% agree and 22.27% disagree.

20% of all interviewees confirmed that they use the CAMELS rating as their credit appraisal method, while the remaining 80% mentioned other credit appraisal techniques.

The majority of respondents, 80.8%, agreed to the use of CAMELS rating, indicating that this traditional expert method is regarded useful and relevant by commercial banks operating in Zimbabwe when determining whether to advise a loan or not to prospective borrowers.

4.5Challenges confronting banks in credit management

One of the primary goals of the study was to identify the obstacles that commercial banks face in managing credit in the most efficient and effective manner.

### 4.5.1 Insufficient credit risk management tools

Figure 4.6: Credit risk management tool analysis

According to the findings in figure 4.6 above, 48.1% of commercial banks strongly agree that they face the challenge of insufficient credit risk management tools to manage credit, while a corresponding 40.7% of total respondents agreed on the same issue. 3.7% of all respondents were unsure, while 7.41% completely disagreed.

60% of the total interviewees quickly stated that commercial banks lack proper or effective credit risk management tools that protect them from effectively managing credit, while 40% mentioned other challenges they face in credit management.

The majority of respondents (88.5%) agreed that a lack of credit risk management tools was the most significant challenge they faced, indicating that among the challenges faced by commercial banks operating in Zimbabwe, respondents felt the impact of a lack of vital credit risk management tools and regarded this challenge as a major challenge affecting credit management.

Joshua et al. (2020) discovered that improving credit risk management boosts financial performance in their study of the relationship between credit risk management and the financial performance of a sample of banks listed on the Ghana Stock Exchange. supports the findings of this study, as a lack of credit risk management tools was identified as a major challenge in credit management.

### 4.5.2 Inadequate Credit Report Development

The graph below depicts the slow development of credit reports in Zimbabwean commercial banks.

Figure 4.6: Poor Credit Report Development

According to the findings in figure 4.7 above, 44.48% strongly indicated that poor development of credit reports is a major challenge to managing credit, while 29.62% agreed and 25.9% were unsure that poor development of credit reports was a challenge to managing credit.

In an interview, 40% of the interviewees confirmed that there was a poor credit reporting structure or channel through which banks could have managed credit effectively, and 60% indicated that there is a poor credit reporting structure channels, while 60% highlighted other challenges commercial banks are facing.

The findings above clearly indicate that poor credit report development in Zimbabwean commercial banks is regarded as a critical challenge, while a small number of 28 out of 108 were unsure about the issue at hand, implying that the conclusion is based on the responses of the majority of respondents.

### 4.6.3 The Five Cs of Poor Credit

The table below shows the results of the 5Cs of bad credit, which were a challenge in Zimbabwean commercial banks.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Details**  | **Frequency**  | **Percent** | **Valid percent**  | **Cumulative percent** |
| Stongly agree | 20 | 18.5 | 18.5 | 18.5 |
| **Agree** | **36** | **33.4** | **33.4** | **51.9** |
| **Valid Unsure** | **32** | **29.6** | **29.6** | **81.5** |
|  **Disagree** | **20** | **18.5** | **18.5** | **100** |
| **Total**  | **108** | **100** | **100** |  |

Table 4.6: The Five Cs of Poor Credit

In the table 4.6 above, 18.5% of the total respondents strongly agree that the 5Cs of bad credit are a challenge for commercial banks, while 33.4% agree, 29.6% are unsure, and 18.5% disagree.

None of the interviewees confirmed the five Cs of bad credit as a challenge.

The mode 53.8%, which represents slightly more than half of the respondents from the minority, agreed that the 5Cs of bad credit were a challenge to credit management, indicating that, among the challenges faced by commercial banks, this challenge (5Cs of bad credit) is not regarded as the primary challenge to credit management, as represented by a lower mode.

This challenge is supported by Golden and Walker (2014), who state that the 5Cs of bad credit are a major challenge to management credit because elements of the 5Cs depend on lenders and management staff responsible for making credit policies, emphasizing that failure to make proper decisions will affect the bank. According to Joseph et al. (2012), the 5Cs of bad credit are a major challenge because credit officers tend to compromise with borrowers, compromising also the appraisal technique used, resulting in a major challenge within commercial banks. According to Golden and Walker (2014) and Joseph et al (2012), a mode of 53.8% was achieved, indicating that 5Cs is regarded as a challenge by commercial banks operating in Zimbabwe, but not as a major challenge.

### 4.6.4 Communication Problems

The graph below depicts the findings that communication issues play a role in creating a challenge in commercial banks toward effective credit management.

Figure 4.6: A Communication Problems

According to the findings in figure 4.8 above, 11.15% agree that communication problems play a role in creating challenges in commercial banks toward effective credit management, while 29.6% are unsure. 37.03% of total respondents disagree that communication problems were a challenge, and 22.22% of total respondents strongly disagree.

None of the interviewees mentioned the five Cs of bad credit as a problem. The majority of respondents (61.3%) did not agree that communication problems were a challenge for commercial banks operating in Zimbabwe, implying that credit terms, credit standards, and credit policies are clearly communicated within commercial banks in Zimbabwe. This also means that, of all the challenges that commercial banks face, communication issues were ruled out because few respondents felt the effects of communication issues.

This viewpoint is supported by Golden and Walker (2014), who argue that commercial banks, particularly top management staff, should clearly state the bank's credit policies and communicate them to credit personnel in an efficient manner.

## 4.7 Regression Analysis Findings

For regression administration, the researcher used the regression analysis command. The output of the SPSSv20 commands is then displayed.

## 4.7.1 Variance analysis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Model** | **Sum of squares** | **Df** | **Mean square** | **F**  | **Sig**  |
|  Regression  | 1.195 | 1 | 1.195 | 2.504 | 0.003\*b |
| 1 Residual | 11.459 | 24 | 0.477 |  |  |
|  **Total** | **12.654** | **25** |  |  |  |

a. Dependent Variable: Asset Return

b. (Constant) predictors: lending rate

The table above summarizes the results of the model's analysis of variance. The regression row in the table displays information about the variation that the model does not account for. The mean squares in the table are the sum of the squares divided by the degrees of freedom. The P-value in the model is 0.003, which is less than the maximum threshold of 0.005, indicating that the Return on Asstes model is significant. If the F statistics (significant value) is small, it indicates that the independent variables are effective in explaining the variations in the dependent variables.

### 4.7.2 Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model** | **R** | **R Square** | **Adjusted R square** | **Std .error of the estimate** |
| **1** | **0.767\*a** | **0.647** | **0.601** | **5.69097** |

**Table 4.8: Model summary**

a. Predictors: (Continuous), ASSETS, LR

The model's explanatory power is R- 0.767. This means that lending rate predictors explain 76.7% of changes in commercial banks' Return on Assets, with the remaining percentage explained by other variables. R square ranges from 0 to 1, but a low value indicates that the model does not fit well. According to the table above, the independent variables explained the dependent variable by 64.7%. The regression model results showed that credit management techniques have a reasonable effect on financial performance (Return on Assets), with credit management (LR) having a 60.1% chance of predicting the variance in Return on Assets of commercial banks.

### 4.7.3 Results and Discussion

The results of the relationship between credit management and financial performance are shown in the table below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Model** | **Unstandadised coefficient** | **Standardized coefficient** |  | **T**  | **Sig**  |
|  | **B**  | **Std. error** | **beta** |  |  |
| **Constant**  | **0.272** | **0.231** |  | **1.017** | **0.055** |
| **Lending rate** | **0.414** | **0.262** | **0.307** | **1.582** | **0.027** |

1. Dependable vaiable : Return on Assets

**Source : SPSS Regression Output**

From the above table, linear regression equation thus take the following formulas:

*Y1 =* β0 + β*1 X 1* + *є1*

*Y* = 1.272 + 0.414 LR + *є1*

## 4.7 The link between credit management and financial performance (Return on Assets)

According to the study's findings, credit management has an impact on the financial performance of commercial banks in Zimbabwe. Credit management's independent variables play a critical role in determining commercial banks' profitability as measured by Return on Assets. The independent variable has a positive coefficient of 0.414, indicating that improving credit management (LR) will increase commercial bank profitability (Return on Assets).

This is consistent with the findings of other scholars, such as Kolapo's (2015) study of Nigerian commercial banks and Bakaeva's (2019) study of Swedish commercial banks, which found a positive relationship between credit management and profitability. However, the findings contradict Musyoki and Kadubo's (2012) findings in Kenyan commercial banks, which concluded that there is a negative relationship between credit management and profitability.

## 4.8 Chapter Summary

 This chapter has dealt with the analysis and presentation of field data collected via questionnaires and interviews. The study discovered a link between credit management and financial performance of commercial banks in Zimbabwe, as well as challenges and weaknesses in credit management appraisal methods. The fifth chapter discusses the major findings, conclusions, and recommendations, as well as areas for further research.

# CHAPTER IV

## RESULTS AND DISCUSSION

## 4.1Introduction

This research chapter concentrated on data analysis, data presentation, and survey interpretation. The information will be used to look into the impact of credit management practices on the financial performance of Zimbabwean commercial banks. Data was collected through self-administered questionnaires distributed to commercial bank personnel and interviews conducted in accordance with the schedule outlined in the previous chapter. In this chapter, the questions are combined to form a single integrated questionnaire that is simple to quantify and interpret. Tables, bar graphs, and pie charts were used to present the data.

## 4.2 Response Rate

### 4.2.1 Rate of Questionnaire Response

The table below shows the satisfactory response rate from a sample of 124 targeted respondents. Out of the 124 questionnaires that were distributed, 108 questionnaires were successfully completed and returned for analysis.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Details | Frequency | Percent | Valid percent | Cumulative percentage |
| Questionaire completed | 108 | 87.1 | 87.1 | 87.1 |
| Valid Questionaire uncompleted | 16 | 12.9 | 12.9 | 100 |
| **Total** | **124** | **100** | **100** |  |

Questionnaire Response Rate (Table 4.1)

A total of 124 questionnaires were generated and distributed to various targeted employees of commercial banks in the sampling frame, and a total of questionnaires were completed and returned, yielding an 87 percent response rate. Mugenda (2016) stated that a response rate of 50% or higher is adequate for analysis and reporting, implying that the 87% response rate in this study is sufficient to produce reliable results. The response rate is consistent with Grays (2015), who claimed that regardless of how the researcher distributed the questionnaire, whether physically or via email, the response rate is generally high. The table above depicts the response rate.

### 4.2.2 Interview Successful Rate

The table below depicts the interview success rate obtained after conducting interviews in commercial banks in Harare, Zimbabwe.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Details | Frequency | Percent | Valid Percent | Cumulative Frequency |
| Interview Successful | 24 | 85.7 | 85.7 | 85.7 |
| Valid Interview Unsuccessful | 4 | 14.3 | 14.3 | 100 |
| **Total** | **28** | **100** | **100** |  |

Table 4.2: Success Rate of Interviews

The researcher planned twenty-eight interviews with various targeted commercial bank employees, but only twenty-four interviews were conducted. The researcher achieved an interview success rate of 85%. Mugenda (2016) stated that an interview success rate of 50% or higher is sufficient for analysis and reporting, implying that the interview success rate of 85% in this study is sufficient to produce reliable results.

## 4.3 Results and Discussion

### 4.3.1 Professional Experience

The table below shows how long respondents had been in their respective positions.

Figure 4.3: Professional Experience

Figure 4.1 depicts the findings, which show that 11.11% of respondents had less than one year of work experience, while 29.6% had work experience ranging from one to four years in the banking industry. 25.9% of all respondents had worked in the banking industry for more than 5-10 years, and 31.1% had work experience ranging from 10 years to more.

Employees with work experience ranging from 5 to 10 years have a combined total of more than 50%, indicating that respondents have extensive knowledge and experience in the field, allowing for insightful depth of credit management techniques.

### 4.3.2 Designation of respondents

The study sought to determine the current position of respondents within commercial banks.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Details** | **Frequency** | **Percent** | **Valid percent** | **Cumulative percent** |
| **Credit personnel** | **32** | **29.6** | **29.6** | **29.6** |
| **Credit risk manager** | **24** | **22.22** | **22.22** | **51.82** |
| **Financial/ branch manager** | **8** | **7.41** | **7.41** | **59.23** |
| **Credit analyst** | **36** | **33.33** | **33.33** | **92.56** |
| **Other titles** | **8** | **7.41** | **7.41** | **100** |
| **Total**  | **108** | **100** | **100** |  |

Table 4.4: Respondent Designation

Credit analysts made up 33.33% of the total respondents in table 4.3 above. According to the study, 29.6% of the respondents were credit personnel, while 22.22% of the total respondents were credit risk managers. Financial or branch managers and other titles accounted for the smallest proportion of total respondents, accounting for 7.41% and 7.41%, respectively. This is usually an acceptable idea if the researchers only need to know the basic characteristics of the household; however, most of the time, researchers need to collect data from one specific person in the household, i.e., translate the sample of units into a sample of individuals (Mugenda, 2016).

### 4.3.3 Highest level of education attained

The study was designed to determine the respondents' highest educational qualifications achievements in order to determine whether they are able to fully understand the questions and provide solutions that are relevant and reliable to the study's success.

|  |  |  |  |
| --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent |
|  | Degree | 56 | 51.9 | 51.9 |
| Masters | 20 | 18.5 | 18.5 |
| Other | 32 | 29.6 | 29.6 |
| Diploma | 0 | 0 | 0 |
| Total | 108 | 100.0 | 100.0 |

Figure 4.5: Highest Qualification Level

According to the findings shown in figure 4.2 above, 51.9% of respondents have a bachelor's degree and 18.5% have a master's degree. According to respondents, 29.6% of the total respondents hold other qualifications such as ACCA, CIMA, and CIS, and none of the respondents 0% hold a diploma certificate as their highest academic qualification.

According to Danielson and Scott (2011), one's level of education strongly influences one's competence and the need to implement policies; thus, the study is composed of educational respondents to provide a strong foundation basis for the study.

## 4.4 Credit management techniques;

The study sought to identify and comprehend the credit appraisal techniques employed by commercial banks in Zimbabwe.

4.4.1 Credit Management's Five Cs



Figure 4.1: Credit Management's Five Cs

According to the findings in figure 4.3 above, 66.7% of total respondents strongly agree that commercial banks operating in Zimbabwe use the 5Cs of credit management to a greater extent to evaluate their borrowers, while 25.9% agree and 7.40% disagree.

40% of all interviewees confirmed that they use traditional expert systems methods to evaluate borrowers (the 5Cs of credit management), while 60% confirmed that they use other methods to evaluate borrowers.

The aggregate agreed percentage of total respondents of 96.1% clearly indicates that the 5Cs of credit management are the most commonly used credit appraisal method for evaluating prospective borrowers by commercial banks operating in Zimbabwe. Makomeke (2016) conducted a similar study and discovered that, of the ten commercial banks studied in Zimbabwe, seven of them (70%) confirmed that they use the 5Cs of credit management as their credit appraisal technique. The researcher's findings are consistent with Makomeke's (2016) study, as an aggregate of 96.1% agreed with the use of 5cs as a credit appraisal technique.

This method is supported by Menkhoff, Suwaporn, and Neuberger (2013), who stated that traditional expert methods revolve around the same principles, but concluded that the 5Cs of credit management are the most commonly used credit management technique among traditional expert system methods. This is consistent with the findings of the researcher. Brown and Zehdner (2019) argue that financial institutions are increasingly abandoning traditional expert methods in favor of more flexible alternatives.

### 4.4.2 Credit Information Sharing

The graph below depicts credit information sharing among Zimbabwean commercial banks.

in commercial banks in Zimbabwe.

|  |  |  |
| --- | --- | --- |
| **Details** | **Frequency** | **Percent** |
| Strongly agree | 56 | 51.5 |
| Agree | 36 | 33.33 |
| Unsure | 12 | 11.1 |
| Disagree | 4 | 4.7 |
| **Total**  | **108** | **100** |

Figure 4.4: Credit information sharing

According to the findings in figure 4.4 above, 51.5% of commercial banks in Zimbabwe use credit information sharing as a credit appraisal technique, with a corresponding 33.33% also agreeing. 11.11% of all respondents were unsure about the use of credit information sharing, while 4.7% disagreed that this credit technique is used in Zimbabwean commercial banks.

20% of interviewees confirmed that credit information sharing is their primary credit appraisal technique, while 80% mentioned other credit appraisal methods besides credit information sharing.

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### 4.4.3 CAMPARI MODEL

The results of the CAMPARI Model used as a credit appraisal method in Zimbabwean commercial banks are shown in the table below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Details** | **Frequency** | **Percent** | **Valid percent** | **Cumulative percent** |
| Strongly agree | 24 | 22.22 | 22.22 | 22.22 |
| Agree | 36 | 33.33 | 33.33 | 55.56 |
| Unsure | 48 | 44.44 | 44.44 | 100 |
| **Total**  | **108** | **100** | **100** |  |

Model CAMPARI (Table 4.4)

According to the findings in table 4.4 above, 22.22% strongly agree that the CAMPARI Model is used as a credit appraisal method in Zimbabwean commercial banks, while 33.33% of the total respondents agree with the strongly agreed respondents on the same issue. 44.44% of commercial banks in Zimbabwe were unsure about using this credit management technique. During the interview, none of the interviewees mentioned the use of the CAMPARI model.

An aggregate percentage of the total respondents (44.44%) clearly shows that of the total respondents who were unsure that the CAMPARI model is being used in Zimbabwean commercial banks, implying that the CAMPARI model is the least used technique for evaluating potential borrowers among the credit appraisal techniques used in Zimbabwe. However, this contradicts Makomeke (2016)'s study of 10 commercial banks in Zimbabwe, which found that the CAMPARI model was not the least used technique, with 45% representing it slightly above the least used technique 40%.

Okuru et al. (2012) supported this appraisal technique, stating that it is more appropriate in appraising potential borrowers because it includes other measuring parameters such as purpose and margin than other common credit management techniques. This viewpoint is consistent with Gitman's (2020) observation that, because credit appraisal techniques differ, financial institutions should strive to adopt a method that thoroughly examines the client's worthiness rather than analyzing general factors.

### 4.4.4 ; CAMELS RATING

The graph below depicts the results of commercial banks in Zimbabwe using the CAMELS rating as the credit appraisal model when evaluating the worthiness of prospective borrowers.



CAMELS RATING MODEL (Figure 4.4)

40.7% of the total respondents in figure 4.5 above strongly agree that CAMELS rating is one of the credit appraisal models used by commercial banks in Zimbabwe when evaluating the worthiness of prospective borrowers, while 37.03% agree and 22.27% disagree.

20% of all interviewees confirmed that they use the CAMELS rating as their credit appraisal method, while the remaining 80% mentioned other credit appraisal techniques.

The majority of respondents, 80.8%, agreed to the use of CAMELS rating, indicating that this traditional expert method is regarded useful and relevant by commercial banks operating in Zimbabwe when determining whether to advise a loan or not to prospective borrowers.

4.5Challenges confronting banks in credit management

One of the primary goals of the study was to identify the obstacles that commercial banks face in managing credit in the most efficient and effective manner.

4.5.1 Insufficient credit risk management tools

Figure 4.6: Credit risk management tool analysis

According to the findings in figure 4.6 above, 48.1% of commercial banks strongly agree that they face the challenge of insufficient credit risk management tools to manage credit, while a corresponding 40.7% of total respondents agreed on the same issue. 3.7% of all respondents were unsure, while 7.41% completely disagreed.

60% of the total interviewees quickly stated that commercial banks lack proper or effective credit risk management tools that protect them from effectively managing credit, while 40% mentioned other challenges they face in credit management.

The majority of respondents (88.5%) agreed that a lack of credit risk management tools was the most significant challenge they faced, indicating that among the challenges faced by commercial banks operating in Zimbabwe, respondents felt the impact of a lack of vital credit risk management tools and regarded this challenge as a major challenge affecting credit management.

Joshua et al. (2020) discovered that improving credit risk management boosts financial performance in their study of the relationship between credit risk management and the financial performance of a sample of banks listed on the Ghana Stock Exchange. supports the findings of this study, as a lack of credit risk management tools was identified as a major challenge in credit management.

### 4.5.2 Inadequate Credit Report Development

The graph below depicts the slow development of credit reports in Zimbabwean commercial banks.

Figure 4.6: Poor Credit Report Development

According to the findings in figure 4.7 above, 44.48% strongly indicated that poor development of credit reports is a major challenge to managing credit, while 29.62% agreed and 25.9% were unsure that poor development of credit reports was a challenge to managing credit.

In an interview, 40% of the interviewees confirmed that there was a poor credit reporting structure or channel through which banks could have managed credit effectively, and 60% indicated that there is a poor credit reporting structure channels, while 60% highlighted other challenges commercial banks are facing.

The findings above clearly indicate that poor credit report development in Zimbabwean commercial banks is regarded as a critical challenge, while a small number of 28 out of 108 were unsure about the issue at hand, implying that the conclusion is based on the responses of the majority of respondents.

### 4.6.3 The Five Cs of Poor Credit

The table below shows the results of the 5Cs of bad credit, which were a challenge in Zimbabwean commercial banks.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Details**  | **Frequency**  | **Percent** | **Valid percent**  | **Cumulative percent** |
| Stongly agree | 20 | 18.5 | 18.5 | 18.5 |
| **Agree** | **36** | **33.4** | **33.4** | **51.9** |
| **Valid Unsure** | **32** | **29.6** | **29.6** | **81.5** |
|  **Disagree** | **20** | **18.5** | **18.5** | **100** |
| **Total**  | **108** | **100** | **100** |  |

Table 4.6: The Five Cs of Poor Credit

In the table 4.6 above, 18.5% of the total respondents strongly agree that the 5Cs of bad credit are a challenge for commercial banks, while 33.4% agree, 29.6% are unsure, and 18.5% disagree.

None of the interviewees confirmed the five Cs of bad credit as a challenge.

The mode 53.8%, which represents slightly more than half of the respondents from the minority, agreed that the 5Cs of bad credit were a challenge to credit management, indicating that, among the challenges faced by commercial banks, this challenge (5Cs of bad credit) is not regarded as the primary challenge to credit management, as represented by a lower mode.

This challenge is supported by Golden and Walker (2014), who state that the 5Cs of bad credit are a major challenge to management credit because elements of the 5Cs depend on lenders and management staff responsible for making credit policies, emphasizing that failure to make proper decisions will affect the bank. According to Joseph et al. (2012), the 5Cs of bad credit are a major challenge because credit officers tend to compromise with borrowers, compromising also the appraisal technique used, resulting in a major challenge within commercial banks. According to Golden and Walker (2014) and Joseph et al (2012), a mode of 53.8% was achieved, indicating that 5Cs is regarded as a challenge by commercial banks operating in Zimbabwe, but not as a major challenge.

### 4.6.4 Communication Problems

The graph below depicts the findings that communication issues play a role in creating a challenge in commercial banks toward effective credit management.

Figure 4.6: A Communication Problems

According to the findings in figure 4.8 above, 11.15% agree that communication problems play a role in creating challenges in commercial banks toward effective credit management, while 29.6% are unsure. 37.03% of total respondents disagree that communication problems were a challenge, and 22.22% of total respondents strongly disagree.

None of the interviewees mentioned the five Cs of bad credit as a problem. The majority of respondents (61.3%) did not agree that communication problems were a challenge for commercial banks operating in Zimbabwe, implying that credit terms, credit standards, and credit policies are clearly communicated within commercial banks in Zimbabwe. This also means that, of all the challenges that commercial banks face, communication issues were ruled out because few respondents felt the effects of communication issues.

This viewpoint is supported by Golden and Walker (2014), who argue that commercial banks, particularly top management staff, should clearly state the bank's credit policies and communicate them to credit personnel in an efficient manner.

## 4.7 Regression Analysis Findings

For regression administration, the researcher used the regression analysis command. The output of the SPSSv20 commands is then displayed.

### 4.7.1 Variance analysis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Model** | **Sum of squares** | **Df** | **Mean square** | **F**  | **Sig**  |
|  Regression  | 1.195 | 1 | 1.195 | 2.504 | 0.003\*b |
| 1 Residual | 11.459 | 24 | 0.477 |  |  |
|  **Total** | **12.654** | **25** |  |  |  |

a. Dependent Variable: Asset Return

b. (Constant) predictors: lending rate

The table above summarizes the results of the model's analysis of variance. The regression row in the table displays information about the variation that the model does not account for. The mean squares in the table are the sum of the squares divided by the degrees of freedom. The P-value in the model is 0.003, which is less than the maximum threshold of 0.005, indicating that the Return on Asstes model is significant. If the F statistics (significant value) is small, it indicates that the independent variables are effective in explaining the variations in the dependent variables.

### 4.7.2 Model Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Model** | **R** | **R Square** | **Adjusted R square** | **Std .error of the estimate** |
| **1** | **0.767\*a** | **0.647** | **0.601** | **5.69097** |

**Table 4.8: Model summary**

a. Predictors: (Continuous), ASSETS, LR

The model's explanatory power is R- 0.767. This means that lending rate predictors explain 76.7% of changes in commercial banks' Return on Assets, with the remaining percentage explained by other variables. R square ranges from 0 to 1, but a low value indicates that the model does not fit well. According to the table above, the independent variables explained the dependent variable by 64.7%. The regression model results showed that credit management techniques have a reasonable effect on financial performance (Return on Assets), with credit management (LR) having a 60.1% chance of predicting the variance in Return on Assets of commercial banks.

### 4.7.3 Results and Discussion

The results of the relationship between credit management and financial performance are shown in the table below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Model** | **Unstandadised coefficient** | **Standardized coefficient** |  | **T**  | **Sig**  |
|  | **B**  | **Std. error** | **beta** |  |  |
| **Constant**  | **0.272** | **0.231** |  | **1.017** | **0.055** |
| **Lending rate** | **0.414** | **0.262** | **0.307** | **1.582** | **0.027** |

1. Dependable vaiable : Return on Assets

**Source : SPSS Regression Output**

From the above table, linear regression equation thus take the following formulas:

*Y1 =* β0 + β*1 X 1* + *є1*

*Y* = 1.272 + 0.414 LR + *є1*

## 4.7 The link between credit management and financial performance (Return on Assets)

According to the study's findings, credit management has an impact on the financial performance of commercial banks in Zimbabwe. Credit management's independent variables play a critical role in determining commercial banks' profitability as measured by Return on Assets. The independent variable has a positive coefficient of 0.414, indicating that improving credit management (LR) will increase commercial bank profitability (Return on Assets).

This is consistent with the findings of other scholars, such as Kolapo's (2015) study of Nigerian commercial banks and Bakaeva's (2019) study of Swedish commercial banks, which found a positive relationship between credit management and profitability. However, the findings contradict Musyoki and Kadubo's (2012) findings in Kenyan commercial banks, which concluded that there is a negative relationship between credit management and profitability.

## 4.8 Chapter Summary

 This chapter has dealt with the analysis and presentation of field data collected via questionnaires and interviews. The study discovered a link between credit management and financial performance of commercial banks in Zimbabwe, as well as challenges and weaknesses in credit management appraisal methods. The fifth chapter discusses the major findings, conclusions, and recommendations, as well as areas for further research.

# CHAPTER 5

# SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

## 5.1 Introduction

This chapter provides a summary of all previous chapters, conclusions, and recommendations based on the major findings in accordance with the research objectives. Following an examination of the primary research findings as well as the literature on the subject under consideration, the study proceeded to draw conclusions and make recommendations. The researcher then conducted an analysis to determine whether or not the study's objectives were met.

## 5.2 Conclusions Summary

The following are the research's summary findings:

4 The five Cs credit management technique is the most commonly used credit management technique in Zimbabwean commercial banks, as evidenced by a 96.1 percent mode.

5 The study also revealed that credit information sharing , documents, and CAMPARI models are all commonly used credit management techniques by commercial banks in Zimbabwe, with 81.6 percent, 78.6 percent, and 51.8 percent, respectively, using the CAMPARI model.

Other credit management techniques used by commercial banks in Zimbabwe include SWOT analysis, stress testing, and artificial neural networks.

7 According to an 88.5 percent mode, the main problem affecting commercial banks in Zimbabwe is a lack of credit risk management tools.

8 According to the study, the limited development of credit reports and the 5 Cs of bad credit are also issues that impede Zimbabwe's commercial banks, with percentages of 73.1 and 53.8. As demonstrated by the proven scenario, the study found that credit management has a significant impact on the financial performance of commercial banks operating in Zimbabwe.

9 The findings show a positive relationship between credit management and financial performance.

##  5.3 Conclusions

### 5.3.1 Credit management methods

The study concluded that commercial banks use credit management techniques such as credit rating models, 5C, CAMPARI, documents, stress testing, SWOT analysis, and artificial neural networks to ensure effective borrower evaluation.

In Zimbabwean commercial banks, the 5 C's of credit management are the most commonly used method of credit evaluation, while the CAMPARI model is the least commonly used method of credit assessment.

Furthermore, most commercial banks use a variety of credit evaluation approaches to determine the profitability of potential borrowers, with the least used method, Model CAMPARI, being used in conjunction with other methods.

### 5.3.2 Commercial banks' challenges

The study concluded that a number of factors or issues impede successful credit management. Commercial banks identified issues such as a lack of credit risk management tools, poor credit report development, the 5Cs of bad credit, and communication. It was also concluded that many commercial banks operating in Zimbabwe have weaknesses or a lack of credit risk management tools, preventing them from effectively increasing credit. Some commercial banks are even unaware of the credit risk management tools that are currently available. Zimbabwe's commercial banks are free of communication issues, but they face other challenges that affect their performance in credit portfolio management.

### 5.3.3 Credit management and financial performance are related.

According to the findings of the study, there is a positive relationship between credit management and the financial performance of commercial banks in Zimbabwe. As a result, we reject the null hypothesis, which states that there is no relationship between credit management and financial performance. The obtained ratio is direct, implying that good credit management improves or raises profitability. The obtained results were statistically acceptable and consistent with Zimbabwe's current banking sector realities.

## 5.4Recommendations

The following recommendations are made based on the preceding conclusions:

I Commercial banks are encouraged to test their systems before implementing credit assessment methods such as credit rating models to ensure that they meet international standards.

ii) Typically, credit risk management instruments are deficient or absent in commercial banks operating in Zimbabwe, so intensive efforts should be made to improve credit risk management instruments and, to some extent, commercial banks in Zimbabwe should adopt international credit risk management strategies.

iii) Officials and employees working in commercial banks' credit departments must participate in development programs and receive ongoing training to stay abreast of changing trends in credit management techniques.

iv) It is also a fundamental requirement for Zimbabwean commercial banks to practice and develop a driver for scientific credit risk in order to improve the efficiency of credit analysis and mitigate the main problem faced by Zimbabwean commercial banks, which is the lack or weakness of a credit risk management instrument.

v) The Bank of Zimbabwe's research should focus on developing the public credit register with the help of commercial banks, as well as mitigating the negative effects of asymmetric information.

see. Commercial banks are encouraged to transition from traditional expert system methods such as CAMPARI, PAPERS, and so on to techniques that are most favorable for credit assessment, such as credit information systems, which analyze borrowers' advances automatically.

vi) Due to the dynamic nature of the environment in which commercial banks operate, it is recommended that commercial banks review the efficiency of credit assessment methods on an annual basis.

## 5.5 Additional Research

The study focuses primarily on credit management techniques that are now used by commercial banks to improve financial performance, so the research is not conducted to evaluate the effectiveness of credit assessment techniques in improving the quality of assets and the scope of credit information systems to improve the quality of loans to commercial banks' financial performance.

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**BINDURA UNIVERSITY OF SCIENCE AND TECHNOLOGY**

**QUESTIONNAIRE**

My name is Ngaatendwe Gezana .I am 4th year student at Bindura University of Science and Technology .Iam undertaking research titled

*Influence of credit risk management on the financial performance of commercial banks in Harare ,Zimbabwe*

*Kindly assist this research by responding to the questions by circling in the appropriate circles and boxes and fill spaces provided.*

**Appendix II: Questinnaire**

* Do not write your name on the questionnaire
* Show response by circling respective circles in the answers provided
* Where applicable give your opinion on the blank space provided

**QUESTIONS**

**Section A: General Information**

**A1) Please indicate your work experience:**

* Less than 1 year
* 1-4 years
* 5-10 years
* more than 10 years

**A2) What is your current designation within the bank?**

* Credit personnel
* credit risk manager
* financial/branch manager
* Other titles within credit department (*please specify*)………………………………………………

**A3) Please indicate your highest level of educational qualification achieved;**

* Diploma
* Degree
* Masters
* Other (*please specify*)……..……………

**Section B: Credit Appraisal and Terms**

**B1) Do you use credit appraisal methods?**

* **Strongly Disagree**
* **Disagree**
* **Neutral**
* **agree**
* **strongly agree**

**B2) To what extent do you agree with the use of the following credit appraisal techniques in Zimbabwean commercials banks?**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Credit management technique** | **Strongly Agree** | **Agree** | **Not sure** |  **Disagree** | **Strongly disagree** |
| Credit information sharing system  |  |  |  |  |  |
|

|  |
| --- |
| 5Cs (collateral, character, capacity, capital  |

and condition)  |  |  |  |  |  |
| CAMPARI Model (character, ability, margin, purpose, amount, insurance)  |  |  |  |  |  |
| CAMELS RATING  |  |  |  |  |  |

Other methods ( *please state below*)

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

**B3) In your answer in (B2) above, how do you rate your credit appraisal method in terms of loan repayments by borrowers?**

* Strongly Disagree
* Disagree
* Neutral
* agree
* strongly agree

**B4) On the sectional distribution of loans, which category constitutes most of your loans?**

* Individual
* Corporate
* SMEs
* Other ( *please state below*)

**B5) In your own view, what do you think has been the major cause of non-performing loans in Zimbabwe?**

* Imprudent lending practices by banks
* Poor design and implementation of lender protection features
* Poorly performing economy
* Unwillingness by borrowers
* Inefficient credit risk management techniques

**B6) Please indicate the extent to which you agree with each of the following statements.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Facts of credit management techniques and credit terms** | **Strongly agree** | **Agree** | **Not sure** |  **Disagree** | **Strongly disagree** |
| Client appraisal is a practical strategy for credit management  |  |  |  |  |  |
| Aspects of collateral and character are considered while assessing borrowers  |  |  |  |  |  |
| Failure to evaluate customer capacity to repay the loan results in loan defaults |  |  |  |  |  |
| Is implementing credit size limits a practical strategy in credit management  |  |  |  |  |  |
| Loan interest are established in relation to the risk of the borrower  |  |  |  |  |  |
| Penalty for late payment improves the performance of loans  |  |  |  |  |  |
| High/Low bank interest charges affect performance of loans  |  |  |  |  |  |
| Loan applications pass through the credit approval committee for approval process  |  |  |  |  |  |

*(do not indicate if your bank does not have a credit committee)*

**Section C: Challenges and Recommendations of Credit Management**

|  |
| --- |
|  |

**C1) What are the challenges that you are facing when managing credit?**

* Lack of credit risk management tools
* Poor development of credit reports
* Communication problems within the credit department

**C2) Given the challenges (in C1 above), what do you think will be the best policy to mitigate those challenges?**

* Creation of credit portfolio models
* Internal credit rating
* Creation of credit limits
* Clear credit policy
* Other (*please state below*)

**C3) What do you think needs to be done to improve credit appraisal techniques?**

**C4) Furthermore, in your opinion, does the implementations of international credit standards manage to ensure profitability?**

* YES
* NO

*End of Questionnaire*

*Thank you very much for your time*

**Appendix III: Interview Guide**

1. What are the credit management technique that you use to assess your borrowers?
2. Explain how your technique is improving financial performance in terms of profitability?
3. Given the various credit management appraisal methods, explain the choice of your method in (1 above) as compared to other methods
4. What are the challenges you usually face when appraising your borrowers and managing credit?
5. Is there a relationship between credit management and financial performance?
6. What measures do you take into account when dealing with credit risk and what do you think needs to be done to improve credit management appraisal techniques so as to minimize credit risk?