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TOPIC

AN ANALYSIS OF THE EFFECTIVENESS OF CREDIT RISK MANAGEMENT PRACTICES BY ZIMBABWEAN BANKS. THE CASE STUDY OF STEWARD BANK.

DEDICATION

This research is dedicated to my father Tonny Kasuntha and my lovely mother Alice Kasuntha and all my family members for their unwavering support not forgetting my beloved friend Marshal Chapfika for the support he gave throughout the academic time.

DECLARATION

I, Paul kasuntha, do hereby declare that this dissertation is the result of my own investigation and research, except to the extent indicated in the Acknowledgements, References and comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other university.

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Supervisor Signature Date

ABSTRACT

The purpose of the research was to analyse the credit risk management practices by Steward Bank, Zimbabwe. The research was carried to give answers to the research questions, what are the current credit risk management practice that are being practiced by Steward Bank? To what extent are these practices effective in credit risk management of the bank? What measures can be recommended to improve credit risk management in the banking sector? Descriptive research design was adopted. The population of the study was drawn from the credit risk management team collected using questionnaire and interviews. The major findings of the research indicated that the authoriser's experience and skills in the area of credit risk management is very crucial. With the regards to the credit management practices, the bank was strongly affected by credit monitoring and debt collection efficiency, credit rating quality, approver or authorizer's level of training, skill and experience. The research concluded that Zimbabwean banks have effective credit risk management systems. The credit risk management was an end-to-end process cutting across risk assessment, loan approval, monitoring and control throughout the loan tenure and effective follow up to ensure minimum risk of default. The effectiveness of credit risk management hinged on the competence of the credit risk management team data quality, the system design, and effective external environmental forces management. In order to improve reliability, accuracy, effectiveness and efficiency, the bank should incorporate information systems while assessing credit risk exposure. The bank should copy up with technological advancement in information systems. The credit risk management staff should always consist of well trained, skilled, and well-informed personals to minimize the major challenges faced by studied the bank.

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LIST OF ABBREVIATIONS AND ACRONYMS

BIS – Bank of International Settlements.

DSS- Decision Support Systems

ES- Expert Systems.

MIS- Management Information Systems.

OAS- Office Automation Systems.

TPS- Transaction Process Systems.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter provides an introduction overview of the study focus areas. It outlines such aspects such as study background, and the statement of the problem pointing out why the research is chosen. The objectives of carrying out the research are also encompassed together with the study questions to be answered. The research’s importance to numerous stakeholders in the economy and definition of terms are detailed herein.

1.2 Background of the study

The recent global economic system has revealed some deficiencies in credit risk management of the financial institutions. Financial institutions such as banks are seen as the backbone of financial system, providing capital infrastructure, job creation and alleviation of the economically active poor in developing nations. Banks plays a vital role in Zimbabwe in promoting financial inclusion through availing credit and provides access to financial marginalized communities. In this regard, it was envisaged that banks play a critical role in meeting the funding needs of small loans for small businesses for example Kashagi loan by Steward bank and or individual organisation.

More so since the dollarization of the economy in 2009, most Zimbabwean banks continue to face credit risk management problems. The key challenge that the banks encountered is that of having the clients pay back borrowed funds in accordance with the agreed terms and conditions. Banks usually relies on the goodwill of their clients to service their loans which in turn aid the required circulation of funds in the firm.

Many clients are failing to honour their loans obligation and this behaviour is resulting in banks facing liquidity challenges. Increasing in liquidity risk suffocates the borrowing and lending cycle thereby bringing distress to both the banks, clients and the overall economy as a whole, at large. The problem has also contributed to the decline in economic growth for Zimbabwean economy. Most organisation business have faced difficult in gaining access to affordable funding that is appropriately tenured to fund their daily operation.

According to Reserve Bank of Zimbabwe (2020), the bank's macroeconomic diagnosis suggests that consumption and investment expenditure are currently the main drivers of the country's economic output but are being weighed down by lack of long-term lending. In fact, the analysis has shown that the country has been experiencing negative growth on real credit; a situation which dampens investment and the country's growth potential. These developments underscore the need for measures that selectively redistribute liquidity through promoting long-term savings for long-term lending to the productive sector and also to households for consumption investments.

1.3 Problem statement

Banks have been facing a higher level of credit risk. This had caused many bank losses due to the higher levels of credit risk. This has also caused the institutions to bear higher liquidity risk driven by the higher credit risk especially during the current Zimbabwean situation where there is covid 19 pandemic. Efforts have been made by the management to manage and control this risk but have resulted in clients criticizing banks, a movement to curb the problem of credit risk. It is against this background that has motivated this current study to critically analyse credit risk management practiced by banks.

1.4 Aims of the study

The study will be carried to assess challenges hindering the effectiveness of the credit risk management practices by Steward bank in light to current Zimbabwean situation. The study will also be carried to determine the best credit risk management practices that can be employed by banks in Zimbabwe**.**

1.5 Research objective

- To identify credit risk management practices by Steward bank.

- To assess the effectiveness of credit risk management practices at Steward bank.
- To recommend measures on how Steward bank should improve credit risk management.

1.6 Research questions

The research will aim to give answers to the following questions.

- What are the current credit risk management practice that are being practiced by Steward bank?
- What are the factors hindering the effectiveness of credit risk management of Steward bank?

- What measures can be recommended to improve credit risk management in the banking industry?

1.7 Significance of the study

The study is significant, as it will provide information to banks to understand their credit risk exposure, this will in turn help the institutions to put in place the necessary policies and practices to improve management of the risk.

1.7.1. To the organisation.

The study is of great significance to the organisation as it will point out factors disturbing effectiveness of organisation credit risk management practices. It will also provide an insight to the institutions on or as which needs much of attention and improvement in terms of management of credit risk and how to apply best management practices.

1.7.2 To Bindura University

This research is of paramount importance since it will be carried out in partial fulfilment of the requirements of the Bachelor of Commerce Degree in Banking and Finance at Bindura University of Science Education. The research will equip the researcher with valuable insight and approaches to this area of study and all in all it gives him hands on experience.

1.7.3 Government

This study is of enormous importance to the government as well, as the government is well involved in creating a sound operating and supportive framework and to monitor the direction in which policy makers should go in order to enhance good environment for banks to operate in.

1.8 Assumptions

- The information to be collected from any publication is a just exemplification, accurate and can be relied on.

- The information to be gathered from respondents is relevant, truthful, and timely and can be relied on.

- The respondents to be used have broad-spectrum appreciative of credit risk management.

- Data from respondents will be sufficient to deduce judgements, suppositions and recommendations.

1.9 Delimitations of the study.

The study deals with credit risk management practices practised by Steward bank and their effectiveness. The research will be carried out in Steward Bank Head Office, Corner 7th street and Livingstone, Harare. Nonetheless most of the findings of the study may apply to all financial institutions in Zimbabwe and abroad. Most of the information upon which the study is based is sourced from the credit and risk management department. Focus is narrowed down to the bank's retail section with particular reference to period from January 2019 to December 2021 where there was a movement by the government of Zimbabwe to try to protect the borrowers since the onset of covid 19 and the introduction of lockdown.

1.10 Limitation of the study

The following are considerable setbacks and constraints the researcher had been subjected to when carrying out the study;

- Confidentiality in the financial sector is very vital for security reasons, therefore, some of the vital information required by the researcher is deemed confidential by the organisation especially that of monetary figures but it is part of the researcher to assure the targeted respondents that there will be confidentiality on any information that will be collected.

1.11 Definition of terms

1.11.2 Risk

Risk is the probability that a decision will lead to a different outcome as thought due to the fact that decisions are made under uncertainty with imperfection information (Cendrowski and Mair, 2009).

1.11.3 Credit risk

Credit risk refers to the likelihood of loss due to failure of borrower to honour their obligations. Diamond and Rajan (2001) describe credit risk as the ancient hazard of suffering loss of not being able to extract the promised return from a business partner and it also includes counterparty and country risk. Credit risk or default risk involves the inability or unwillingness of a customer to meet commitments in respect of lending, hedging, trading or settlement of his/her financial obligations (Reserve Bank of Zimbabwe (2004)). Credit risk is the risk that the bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits, (Steward bank 2020). From the above definitions it can be concluded that credit risk means that payments may be delayed or ultimately not paid at all, this may be because of failure by the borrower to pay due to incapacitation, bankruptcy, or unwillingness by the borrower which will in turn cause cash flow problems and pose liquidity challenges to the lender.

1.11.4 Risk management

Risk management can be identified as a process for identifying, assessing, evaluation, and mitigation risks of different kinds, (Cendrowski and Mair 2009). As according to Stephen (2015) in his book Project Risk Management, he propounded that Risk management is the process of identification, analysis and acceptance or mitigation of uncertainty in investment. Risk is inherent in the bank’s activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the bank’s continuing profitability and each individual within the bank is accountable for the risk exposures relating to his or her responsibilities, Steward bank (2020).

1.11.5 Credit risk management

Credit management is the practice of ameliorating losses by understanding the adequacy of a financial institution or bank's capital and loan loss reserves at any given time.

1.12 Organisation of the study

This chapter provided an overview of why the study was undertaken that is, the background to the study and the problem statement) and what the study was mainly focusing on (that is the objectives of the research and the research questions). The chapter also highlighted the importance of the study in different dimensions and to a different people (how significance the study was) as well as giving assumptions, which enabled the study's results and conclusions to be valid. It also pinpointed the limitations of the study as well as outlining the scope covered by the study.

1.13 Chapter summary

The chapter focused on the introduction, study background, problem statement, research questions, and objectives of the study, signification, and delamination. Limitations and definition of terms.

CHAPTER TWO

2.1 LITERATURE REVIEW

The role of this chapter is to contextualize and synthesize information. It will also offer a basis for later recommendations in this research. The objective of the study is to analyse critically credit risk management of Steward bank in order to create a framework which can assist the sector in the effective management of credit risk. In order to do this, it is of paramount importance to identify the main facets of the study. This unit will also offer an overview of the context for the proposed research. Saunders (2008) put it clear that the chapter on literature review is divided into two main sections which are theoretical and empirical review.

Theoretical review are the theories that relates to the area of research or study. Empirical review is the researcher's reviewed work of various scholars and researchers clearly and thoroughly examine and critically analysing their articles in the field of finance respectively. The aim is to recognise what other scholars and researchers wrote identifying consistencies and inconsistencies, clarifying issues and ensuring that the area under study has not been studied before and results published anywhere.

2.2.1 Theoretical Literature Review.

2.2.2 BANK DEFINED.

Indian company law defined bank as a banking company which receives deposits through current account or other forms and other withdrawal through cheques or promissory notes. Commercial banks activities are legal transactions in their daily business such as lending, investment and foreign currency trading depending on the objectives and size of the bank. According to Best (2005) banking activities depend on the economic policies of its sovereign state, ranging from access to central bank funding system to being object to regulatory mandates for sound operating standards.

2.2.3 Concept of credit.

According to Kitua (1996), Credit was largely embraced in Europe and later on advanced to Africa to improve business structure. Greuning and Bratanovic (2003) also identified credit as a strong faith the lender has in the borrower of transferring resources without immediate payment. The same was also supported by Onyeagocha (2001), where credit has been explained as the lender's confidence in the borrower to repay the loan amount prolonged in the form of money, goods or securities. Onyeagocha (2001) further identifies credit as a belief that whenever loan is extended to the third part, the creditor will have to entrust the borrower to repay the amount prolonged in full at a later.

2.2.4 Risk faced by banks.

The collectability of a loan is determined the day the loan was disbursed. This is to say the correctness of credit rating and credit decision by the credit analyst determines the quality of the loan. According to Dixon *et al*. (2006), in order to lower the risk of non-performing loans the emphasis should be on quality loans and a risk portfolio not exceeding 5%. Ojah and MakoaleliMokoteli (2010) postulate that adverse selection arises when the lenders cannot distinguish between safe and risky borrowers, adverse selection as a component of information asymmetry is a problem of hidden information where the borrower has more information about the state of their affairs than the lender. Therefore, from the lender's point of view it is of paramount importance to make sure that accurate information regarding the potential borrower is available before credit decision is made.

Banks face a range of risks which the biggest is possibly the risk of client defaults. Oberdoof (1999) states that those banks, who can successfully manage risk, will be successful. Successful banks have tight internal supervision, good internal audit practices, good financial procedures and sound financial risk management. The challenges in risk management in banking industry therefore lie on the internal control of the institutions. Bank failures are caused by several factors which can be managed to foster the sustainability of the institutions.

Microeconomic causes include, inadequate assessment of credit risks, an insufficiently diversified loan book (credit risk), lending to connected enterprises (credit risk), (Bank of International settlements (BIS) policy papers (2009). The policy paper continues to say, these included environment is conducive to the development of an efficient banking industry, government direction of credit may prevent banks from developing loan assessment skills, inadequate legal framework may limit the effectiveness of the banking system and inadequate regulatory or supervisory deficiencies have been a major source of trouble.

2.2.5 Credit risk management practices

Coyle (2000) define credit risk management as the identification, measurements, monitoring and control of risk arising from the possibility of default in the loan repayment. Miller (1996) identifies credit risk management as one that covers both the decision-making process before the credit decision is made, and the follow-up credit commitments and reporting process. Credit risk exposure is also controlled through continuous analysis of the ability of existing clients and potential clients to meet capital and interest repayments obligations. Cendrowski and Mair (2009), add on to say credit risk management strategy consist of risk identification, risk evaluation and risk mitigation.

2.2.6.1 Risk identification

Risk identification should comprise the use of business indicators, data analysis, market information and portfolio analysis. It should focus on strategic and business objectives by considering risk hindering the various revenue streams, the critical business processes, sustainability dimension of business and legitimate interest and expectations of stakeholders

2.2.6.2 Risk assessment /evaluation

After identification, assessment and mapping of risk a company must have a procedure to rank, categorize and anticipate them. The ranking of risks is guided by the risk size or its impact and the likelihood or probability of its occurrence. According to King 3 Report the anticipation of risks is guided by the following characteristics,

Insight - the ability to identify the root of the risk where there are multiple root causes of risk. Information- comprehensive information about all aspects of risk sources especially of financial risks,

Independence - the ability to view the company independently from its environment,

Interconnectivity - the ability to identify and understand how risks are related, especially when their relatedness might exacerbate the risk.

2.2.6.3 Risk mitigation

After the risk have been quantified and the risk magnitudes have been recognized and controls have been appraised, risk ameliorating strategy should be implemented. This strategy focuses on risks that seem unbearable to the banks. This process might include methods, procedures, application and management systems and the use of appropriate resources that reduce the probability or possible severity of the risk.

2.2.7 Credit rating management strategies

Banks attempt to ease the risk of lending to borrowers by carrying out a credit evaluation on businesses and individuals applying for a new credit loan or account. This process is hinged on five factors which predict the likelihood of a borrower defaulting on his/her debt called the five Cs of credit.

Character, capital, capacity, collateral and conditions, are a framework used by many financial institutions to evaluate potential borrowers. There is no automatic formula or guaranteed percentages that are used with the Five C's as asserted by Mason (2007). A C average may feel middle-of-the-road on an academic scale, nailing the five Cs of credit is the key to getting business financing from traditional lenders and other financial institutions. There are only a variety of key factors that financial institutions appraise to determine how risk is the applicant to the financial firm.

2.2.7.1 Capacity.

To evaluate potential borrower creditworthiness, the bank, analyse borrower's capacity. Capacity is an evaluation of the borrower's or company's ability to repay the loan based on the amount and terms. It is of paramount importance for the lender to have the knowledge on the ability of the borrower to repay the loan before disbursal of the loan. Gitman (2004) supported the fact when the author postulated that capacity to repay a loan is the most significant factor used to determine applicant's creditworthiness. The ability of the borrower to repay the loan is measured by the cash flow and income statement of the borrower. The potential of the borrower to pay is indicated by the calculation of liquidity and profitability ratios of the firm. The liquidity ratios will indicate how liquid is the business in meeting its obligations both short and long term. The profitability ratios are being used to measure the capacity of the borrower to generate income using the capital invested in the business. Brealey, Myers and Marcus (1995) assets that where the borrower is a firm the lender use financial statements to determine the profitability and liquidity levels of the firm. Cash flows are used to assess the movement of cash in the business it is also noted that a business can be profitable but suffering from liquidity challenges. For business loan application the lender reviews the firm's past cash flow statements to determine how much revenue is expected from operations.

Individual borrowers provide detailed information about their employment stability and income they earn. Brigham and Ehrhardt (2004) add on to say in case of individual, employment history and income earned of borrower are factors that must be evaluated to determine borrower's capacity to repay. Capacity is also determined by evaluating the number and amount of outstanding debt obligations, compared to monthly expected revenue and income. The ratios in conjunction with cash flow will enable the bank to evaluate the capacity of the borrower or the ability to repay of the borrower. Contingent sources (mainly used to individual borrowers) of payment is also another element to look at under capacity as it refers to additional or other sources of income that can be used to honour the obligation. If a potential customer has other sources of income, it increases his or her chances of getting a loan from an institution offering a loan (bank).

2.2.7.2 Capital

Banks also analyse borrower's capital to evaluate or determine the creditworthiness of potential borrower. Capital refers to the resources invested in business by the owner (Gitman (2006). Brealey *et al*. (1995) add on to say capital consist of personal investment consist into the firm, retained earnings, and other assets controlled by the business owner. For personal- loan applications capital consists of savings or investment account balances. Capital invested by the owner into the business shows the amount of risk that the owner is willing to take (risk tolerance). Banks are more eager to lend to owners who have invested some of their own funds into the scheme. It shows that owner has skin in the game.

It also reflects the confidence that the owner has in the future of the business. Capital can be calculated as total assets fewer total liabilities. This element is one of the important when credit analyst assesses the credit worthiness of the potential borrower. RRC (2008) supported the idea when the writer stressed that capital is the most vital attribute since weight is given on statement of financial position. Assets should supersede the firm's obligations. Capital also reflects the going concern of the firm which is one of the important factors that are being considered most by banks when assessing the loan. Banks view capital as a supplementary means to repay the debt obligation should revenue or income be interrupted while the credit is still in repayment.

2.2.7.3 Character.

Character is also another factor which Banks consider when evaluating the creditworthiness of a potential customer. It is a highly subjective assessment of personal history of business owners. Character signifies borrower's record or reputation vis-à-vis financial matters. It can also refer to a lender's opinion of a borrower's general trustworthiness, credibility and personality. According to Gitman (2006) character demonstrates the capability and willingness to do the right thing. The old adage that past behaviour is the best predictor of future behaviour is one that the credit analyst devoutly subscribes to. Different banks have diverse approach for identifying applicant's character, honest, and reliability, but this valuation typically includes both quantitative and qualitative methods. The subjective ones comprise examining the debtor's employment history and educational background; calling personal or business references, and conducting a personal interview with the applicant. More objective approaches include reviewing borrower's credit or history, which credit reporting agencies standardise to common scale. Although each of these factors plays a part in identifying the applicant's character. Banks want to lend to applicant who keep commitments and who are responsible. If the clients have not honoured past instalments well or has a previous bankruptcy, their character is reasoned less acceptable than a client with a clean history.

2.2.7.4 Collateral

Banks also use collateral to analyse credit worthiness of a potential customer. Collateral refers to personal assets pledged by applicant as security for a loan. Business borrowers may use equipment or accounts receivable to secure a loan, while individual debtors often pledge vehicles, savings, or a home as collateral. Applications for a secured loan are looked upon more favourably than those for an unsecured loan because the lender can collect the security should the borrower stop honouring loan instalments.

Loan are not repaid by collateral, but by cash hence, collateral should not drive lending decisions which means that it must not be the primary consideration for lending that is the creditor has to look for other factors and see the viability of the business as well the potential for a customer to repay the loan. In support Mataruke and Jubenkanda (2005) asserts that collateral should serve as a fallback position to the lender and not to substitute borrower's ability to repay the credit. Collateral must be regularly inspected and valued by qualified individuals because in one way or the other, collateral is never there when needed as it may be vanished or non-existent.

2.2.7.5 Conditions

Refer to the intent purpose of the loan. Will the loan be used for working capital, additional equipment or inventory? The bank will also deliberate local economic conditions and the overall climate, both within your industry and in other industries that could affect the business. Brearley *et al*. (1995) add on to say condition refers to overall economic climate within the borrower's industry and economic in general which affect the ability of borrower honour the obligation. Bank can consider various factors such as borrower's industry trends, industry potential short and long-term growth and current business when assessing the condition in which the applicant condition.

2.2.7.6 Credit score

The use of scoring system such as credit score is done by bank when appraising the credit worthiness of a potential customer. A credit score is a statistical variable that evaluates a customer's creditworthiness and it is usually based on credit history. Credit score is used to assess the likelihood that an individual will repay his or her debts. An individual credit score ranges from 300 to 850 and generally the higher the score, the more financial trustworthy applicant is considered to be. The scores enable fast processing of loans by the bank as the scoring system is based on customer's credit data thus enabling them to quickly evaluate the credit worthiness of the customer. Those loan applications that do not tally with the bench mark set by lenders in score in a satisfactory range is likely to be turned down by the bank.

2.3.1 Credit risk management

Effective and efficient credit risk management has a direct influence on the financial performance of banks. Henceforth credit risk management determines the financial stability of a bank and empowers it to become potent and achieve stable growth. Coyle, (2000) identified credit risk management as the identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayment. Afriyie and Akotey, (2012) add on to say credit risk management is meant to manage uncertainties through risk assessment, developing strategies and mitigating risk through the use of managerial resources. According to Binks and Ennew, (1997), poor credit risk management has been revealed by previous literatures to be caused by the existence of information asymmetry in evaluating bank lending applications.

Machiraju (2008) enumerates that financial institutions can reduce credit risk by; raising credit standards to reject risky loans, obtaining collateral and guarantees, ensuring compliance with loan agreement, transferring credit risky by selling standardized loans, transferring risk of changing interest rates by hedging in financial futures, options or by using swaps, creating synthetic loans through a hedge and interest rate future to convert a floating rate loan and making loans to a variety of firms whose returns are not perfectly positively correlated. The first step in effective management of credit risk is to gain complete appreciative of institutional overall credit risk by viewing credit risk at the individual client and portfolio levels.

While a bank strives for a cohesive risk understanding of their risk profiles, much information is often strewn among business divisions. Without a thorough risk valuation, a bank has no way of knowing if capital reserves correctly reflect risks or if loan loss reserves adequately cover potential short-term credit losses. The key to reducing loan losses and ensuring that capital reserves appropriately reflect the risk profile is to implement an integrated quantitative credit risk solution. This solution should get bank up and running quickly with simple portfolio measures. It should also lodge a path to more sophisticated credit management measures as need evolve. The solution should comprise enhanced model management that lengths the entire modelling life cycle, real time scoring and limits monitoring, vigorous stress-testing capabilities, business intelligence and data visualization capabilities tools that get significant information into the hands of those who need it, when they need it.

2.3.2 Credit risk management strategies.

Afriyie and Akotey (2013) highlighted that credit risk management is a structured approach to manage uncertainties through assessment of risk, developing strategies to manage and mitigating of managerial resources. Credit risk management strategies are procedures banks can adopt to do away with credit risk or to reduce loan defaults. Effective and comprehensive credit risk management strategies are of greater significance in that they reduce credit risk and increase the liquidity of the firm thereby fostering firm stability. Components of credit risk management strategies are best presented in Figure 2.1 below

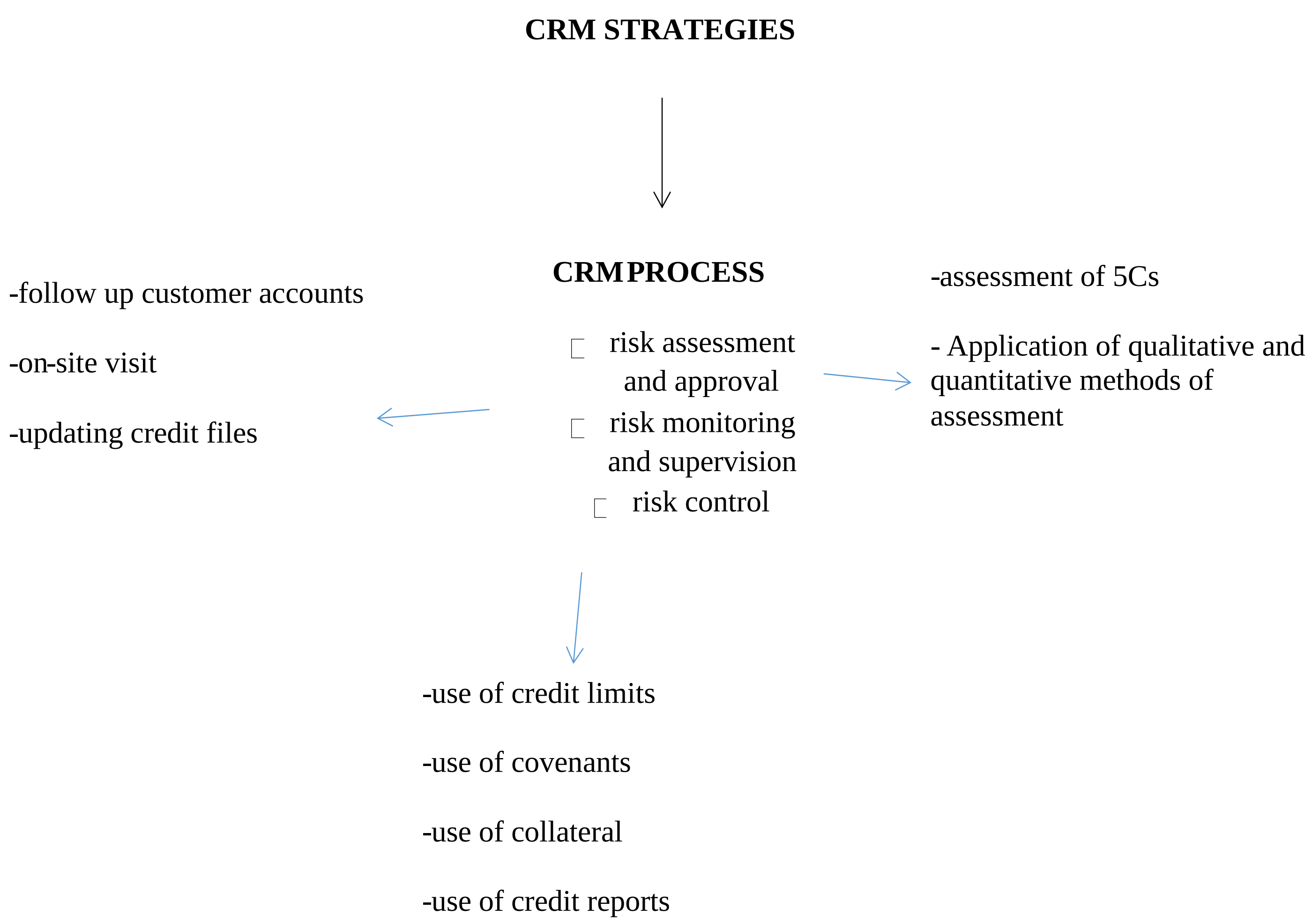

Figure 2.1 Components of CRM strategies

Source: Richard, Chijoriga, Kaijage, Peterson and Bohman (2008)

Factors affecting the effectiveness of the credit risk management practices

Lender -Hafsa (2013) postulate that poor financial and credit management practise is actually at the heart of the late payment problem. Clients can default payments simply because the financial institution debt collection is inefficient. Kong *et al*. (2014) add on to say this arises from borrowers /customers who are dominant in relation to the financial institutions' exercising market power and obtaining a cheap form of finance, the latter being power-less to impose sanctions. Political interference may be a major obstacle in managing an effective credit system. Success of a credit system, in terms of both effectiveness and cost, is largely determined by policy established within the company **(**Zhang, 2012). Richard *et al*. (2010) argue that a well-documented credit management policy elaborating the products offered and the respective credit management activities to be performed as well as a credit manual outlining who, how and what should be done in assessing, approving, authorizing, monitoring and controlling credit, should be in place for an effective credit management system. Shafique *et al.* (2013) indicated that inefficient systems of credit management make it questionable on whether they will be able or indeed willing to collect the interest due to them.

Insufficient risk tools, too, hinders the successful management of credit risk since without a robust risk solution, lenders may not be able to identify clearly any portfolio concentrations or regrade portfolios often enough to effectively manage risk (Paul and Boden, 2011). Kong, Turvey and Xu (2014) enumerates that cumbersome reporting poses a major challenge in the successful management of credit risk since manual, spreadsheet-based reporting processes may overburden analysts and cause delays in the credit risk management system. The magnitude to which default risk has been inserted in the decision-making process is a key triumph factor. The firm's internal audit effectiveness in appraising risk controls and corporate governance in general is essential in effective credit risk management. Hafsa (2013) indicated that Lenders need to embrace a culture control were credit risk management is entrenched within the organization as part of the day-today activities. Nevertheless, local line managers can only lead risk control effectively, risk responsibility must be taken at every institution level. Controlling loss is an operational technique intended to lessen but not to entirely ameliorate losses experienced by a lender.

2.3.3 Capability -McHugh and Ranyard (2012) assert that, transaction volumes, the authorizer in case of manual processes, and the attitude of the borrowers /applicants also affect the efficiency and effectiveness of the credit management process. Variation in transaction volumes may cause undue pressure and delays on the authorizers and approvers, this may lead to the authorisation of bad credit. Shafique *et al*. (2013) puts it clear that the use of manual authorization procedures as opposed to the use of automatic procedures (via risk management systems and expert systems) may have a negative effect on accuracy and hence the effectiveness of credit. A well-trained, experienced and capacitated approver is able to develop his/her own heuristics or procedures to detect bad credit than less experienced can do. According to Tafri (2011) credit management process is more effective where the applicant is willing and ready to provide all the necessary information, and where the authorizers' authorization limits (in terms of amount) are clearly defined.

2.3.4 Systems -Tafri, Rahman, and Omar (2011), point out that, the level of computerization affects the effectiveness of the credit management system in a big way. Technological advancement in information systems have made computers a very important and useful tool in credit analysis, monitoring and control. Use of information systems such as expert systems (ES), decision support systems (DSS), Office automation systems (OAS), Transaction processing systems (TPS) and management information systems (MIS) make it easy to keep track on trends in credits and offer valid, timely and reliable information. Richard *et aI.* (2010) alludes that poor record keeping and lack of effective database systems hinders the effective credit risk management of credit. However, Richard *et al.* (2010) stipulated that technology is only a tool and in the wrong hands, it is useless.

2.3.5 Quality of employees -According to Richard *et al*. (2010), quality of credit risk management staff is a key success factor in credit management. It is the responsibility of staff to ensure that depth of knowledge and judgment needed is always obtainable. Personal verdict and intuition by staff play a big role in credit assessment. The credit department staff should ensure that the design and operation of the system is effective and efficient. Varotto (2011) concurred with the idea when the writer alludes that the quality of the loan authorization process depends on the personnel processing the loan application (Garbage-in-garbage-out) and is a key determinant of the effectiveness of the credit management system.

2.3.6 Borrower- Borrower's capital base is a key determining factor of the effectiveness of credit management practices. McHugh and Ranyard (2012) states that undercapitalized borrowers are likely to rely heavily on short-term finance, some borrowers operate on the principle of 'pay when paid' and thus exacerbating the late payment problem. Kong *et al.* (2014) add on to say other factors that may affect the effectiveness of credit management systems include, the effectiveness cash flow planning by the borrowers, use of incentives for prompt repayment, imposition of charges or penalties for late payment, use of collateral to discourage unauthorized extension of credit periods, and the aggressive follow up and collection of overdue debts sound cash flow planning provides a good knowledge of when payments are expected. Insufficient cash flow or improper timing thereof may lead to default. Educating borrowers on effective credit risk management procedures may add towards the lessening of default payments. According to Richard and Chijoriga (2008) Managers who speak freely to the borrowers about the strict credit management procedures are paid soonest**.**

2.3.7 Volatility of financial market- Volatility of financial market have direct influence on the effectiveness of the credit risk management practices. Firms need to come up with methodologies to measurement extreme market events and unpredictability in credit spreads. Companies should be insured as a hedging strategy, which serves as a buffer against potential loss and help firms to regularize income, assure financial integrity and promote stability. Han and Wang (2013) support the notion when the writer alludes that it allows the insured to transfer contractually the potential financial consequences of a loss exposure. Credit risk management should perform the function of identifying loss exposure and match them to the accessible insurance coverage.

2.4.1 theoretical frame work.

2.4.2 Asymmetric information theory.

The theory was first developed by Schwartz (1994), the theory alludes that suppliers may have an advantage over traditional lenders in checking the real financial situation or the credit worthiness of their clients. Suppliers also have a better ability to monitor and force repayment of the credit. All these superiorities may give suppliers a cost advantage when compared with financial institutions. Petersen and Rajan (1997) classified three sources of cost advantage as follows information acquisition, controlling the buyer and salvaging value from existing assets. Sellers are able to get information about buyers cheaper and faster since they can obtain it in normal course of business. Rejection of discount on early payments by the buyers can serve to alert the supplier of the weakening in the credit worthiness of the buyer. Usually sellers have upper hand concerning the information of buyers than the financial institutions since they usually visit customers more often than financial institutions do.

2.4.3 Shiftability theory

This theory was advocated by H. G. Moulton who asserted that if the banks continue a substantial amount of assets that can be moved to other banks for cash without any loss of material. In case of requirement, there is no need to depend on maturities. Shiftability theory states that, for an asset to be perfectly transferable when there are need, it must be directly transferable without incurring loss of capital. This is chiefly used for short term market investments, like treasury bills of exchange which can be directly sold whenever there is need to raise funds by the banks.

2.4.4 Pecking order theory

The theory was made popular by Stewart Myers and Nicolas Majluf in 1984, the theory states that managers follow a hierarchy when considering sources of financing. The theory is also known as the Pecking Order Model, relates to a Firm's capital structure. Capital structure refers to the amount of debt or equity employed by a firm to finance its operations and assets. The structure is typically expressed as a debt to equity ratio. Debt and equity ratio capital are used to finance a firm's operations, capital expenditures, acquisitions. This theory is significant because it signals company performance to the public. If a firm finance itself internally, that means it is strong. If a firm finance itself through debt, it is a pointer that a company management is confident the firm can meet its monthly obligations. If a firm finance itself through issuing new shares, it is normally a negative signal, as the institution thinks its stock is overvalued and it seeks to make money prior fall of its stock price falling.

2.5.1 EMPIRICAL REVIEW

2.5.2 Ngwenya and Ndhlela (2016) Effectiveness of credit risk management system on individual financial loan performance after Dollarization: a study of commercial banks in Zimbabwe, period 2012 to 2015.

The researchers carried the research to analyse various credit risk management systems on financial loan performances in financial institutions in Zimbabwe. The research was carried to answer the following questions, what is the current status of commercial bank's loan repayment performance? To what extent do the commercial banks manage credit risk in terms of credit terms and conditions, debt collection policy and credit policy (borrower appraisal)? The research revealed that commercial banks issued short term loans up to period of three months since the risk of long period debt are very high. Banks have a debt collection procedure and channel designed by legal personnel which they use as part of their policy for debt collection. The study also reviewed that the borrower reputation and behaviour play a crucial role in the enforcement of credit contracts. The researchers recommended that credit management system identified to be existing in the banks must maintain the standards. Banks were also recommended to improve on debt collection policy to ensure that the increase 75% target on short term loans. The researchers concluded by saying there is greater need for the banks to improve on credit limit, high interest rate and credit period before advancing credit to improve loan repayment.

2.5.3 Apang, Appiah and Arthur (2015) Credit risk management of Ghanaian listed banks.

The research was carried with the aim to assess credit risk management practises by Ghanaian financial institutions. Specifically, the research compares Basel II (1999) credit risk management with credit risk management practices by listed banks in Ghana. The research analysis was based on data from procedure manuals, semi-structured interviews and discussion with credit managers, use questionnaires. The study finds that the credit risk management practices within the Ghanaian banks are in line with sound practices. The only dissimilarity was the role of the board of directors in defining acceptable types of loans and maturity of various types of loans. The research also finds that the banks in Ghana are exposed to credit risk associated with advancing loans to both corporate and small business and the use of collateral to mitigate their credit risk exposures.

2.5.4 Afande (2014) Credit risk management practices of commercial banks in Kenya.

The researcher carried out a research with aim to investigate the current credit risk management practices by banks in Kenya. The study was guided by the following objectives: to evaluate the extent to which banks used the credit risk management practices and techniques in dealing with different types of risk; to assess the factors that influence effectiveness of credit risk management practices used by commercial banks, and to examine the internal performance measures of bank lending used by banks. The researcher used the descriptive research to carry out the study. The researcher finds out that the banks in Kenya make use of credit risk management practices that includes: thorough loan appraisal, asking for collateral, and checking the credit history of the borrower. The research also discloses that banks in Kenya use covenants, credit rationing, loan securitisation and loan syndication as risk management defence. The research also disclose that factors affecting the effectiveness of credit risk management systems in Kenya include establishment of credit policy that clearly outline the scope and the allocation of bank credit facilities, maintenance of a credit administration system with adequate credit controls , top management support , communication of credit guidelines to every officer in the credit department, screening potential borrowers, employing well trained staff, constant review of the borrower's liquidity and the use of supportive technology in credit analysis.

2.5.5 Kassim and Rahman (2018) Handling default risk in banks: the case study of Bangladesh.

The researchers provided a study aimed to identify incidents of default risks in bank. Semi structured interviews were used to gather data. Sample of forty respondents where used in the study and results were interpreted by a comprehensive contend analysis. The research identifies incidences of defaults in banks, which are technical assistance, weekly payment, accessible data base, family member illness, post disbursement monitoring, inexperienced field workers, hiding business, over-stretched financial commitments and lack of motivation. Among these incidences the researchers concluded that post- disbursement supervision is highly relevant in ensuring the success of banks because eighty percent of the bank's clients are illiterate women.

2.5.6 Appiah *et al*. (2016) Evaluating the credit risk management practices of banking institutions in Ghana: evidence from Capital Line Investment Ltd. And Dream Finance Ltd.

The researchers carried out the research to evaluate credit risk management practices by banks in Ghana. The research was carried to answer the questions, how to ensure effective credit risk management of credit risk. Using the survey approach and convenience non-probability sampling technique, the researchers also apply the risk management feedback loop concept by GZT (2000) to evaluate the credit risk in order to minimize the loans default. The research findings indicated that ineffective client information verification system increases the rate of bad loans in banking institutions. The researchers recommended that measures that reduce credit risk should be strengthened to ensure improvement of the management of the credit risk management. The researchers also recommended that verification of client information before loan disbursal should be strengthened. Specifically, a detailed scrutiny of the client should be done before making loan disbursal.

2.5.7 Muchoki (2015) The effectiveness of credit risk management practices for microfinance institutions in Kenya: the case study of Unaitus sacco Limited.

The study was carried with the purpose to determine the credit risk management practices adopted by Unitas microfinance institution in Kenya, assessing their effectiveness and to make recommendations on best practice. The research questions where what credit management practices has Unaitas adopted? What factors affect their effectiveness? How do these practices impact the company's ability to grow and survive? The research used descriptive research design and data was gathered using a structured questionnaire. The major findings of the research showed that, in terms of credit, with regard to factors affecting the effectiveness of credit risk management practices, credit risk exposure was inversely correlated to factors such as: borrower's financial planning skills, credit monitoring, credit rating system, underwriter's competency level, use of incentives, and imposition of penalties, aggressive debt collection and availability of insurance cover. The researcher recommend that credit risk should be done using expert systems to improve on accuracy, reliability, efficiency and effectiveness. The researcher adds on to say computerized credit risk management systems can be used to check the credit scores of an applicant using statistical techniques. The researcher also enumerates that the credit risk management team should always comprise of well trained, skilled, and knowledgeable staff. The institution was also recommended to always strive to strike a balance to ensure customer satisfaction while securing profits for growth and survival.

2.6 Research gap

Credit risk management practices has attracted a number of researchers and studies have been carried out on credit risk management, effectiveness of credit risk management, evaluating credit risk management practices and assessing the effectiveness of credit risk management tools to mention but a few. Unfortunately, no study has been carried under the current Zimbabwean situation where firms are facing environmental turbulence, where businesses are facing unpredictable challenges. The studies that were carried, some were conducted in countries that have better economic performance than Zimbabwe and those that have been carried in Zimbabwe were carried when the economy was performing better. The study will be of paramount importance in the sense that it is going to be carried in Zimbabwe specifically for Steward bank and at a period when the country is facing severe economic hardship.

2.7 Chapter Summary

The chapter focused on the literature review of the study. It elucidated the conceptual framework as well as the theoretical and empirical frame work of the research. It looked at the concept of credit, credit risk management, credit risk management practices by banking institutions and factors affecting effectiveness of credit risk management. The subsequent chapter three concentrates on the research methodology.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter is going to look at the research methodology for the research. The main aim of this chapter is on justifying the approach that the writer will take in gathering the data to meet the research objectives. The chapter is going to look at the research design, data collection procedures, sample population, data analysis procedure, data presentation and the chapter summary.

3.2 Research Methodology

Jankowizc (2000) identified methodology as a system of explicit rules and procedures in which research is based and against which claims of knowledge are valued. The major focus of this section is to highlight research design, methods of data collection, data sources, techniques to be used to analyse data providing justification, use and to provide arguments for the approach that the researcher will employ for data gathering in order to provide solutions to research questions and attain objectives. The chapter will be divided into sub-section which include, research design, target population, sampling techniques, research instruments, data collection procedures, validity and reliability of data and chapter summary.

3.3 Research Design

Research design is very essential since it act as a blue print of how the study will address the aims. Research design also gives set of procedures that allow the researcher to conceptualize and observe the problem under research. Voig (1993) defined research design as a science and art of planning procedures, for conducting studies so as to get the most valid findings, these can be a set of decisions that make master plan specifying the methods and procedures for collecting and analysing the needed information. The same was further explained by Lee and Lings (2008) as a general plan of how the research is going to be carried and mainly concentrates on giving solutions or objectives or for testing the research hypothesis. Cooper and Schinder (2013) identified three main types of research design which are explanatory, descriptive and casual. For the purpose of this study, the research will make use of descriptive research design which allows both qualitative and quantitative communication from the respondents and it allows the research to obtain a picture of respondents' ideas of a particular scenario.

3.3.1 Descriptive research design

The study will use descriptive research design in collecting data from banking institution under review. Descriptive research design is concerned with the conditions or relationships that exist, opinion that are held, processes that are going on and effects that are evident (Best and Khan, 1993). They continue to say descriptive research as a method that comprises systematic collection of data across a sample of cases and statistical analysis of findings. According to (Kotler 1997) descriptive research design also provides answers to questions such as who, what, when, where and how of topic under study

3.3.2 Justification of descriptive research design.

Through descriptive research design the researcher managed to use both secondary and primary data, which could not be possible if explanatory was employed. Descriptive research design provides the best combination of research instruments such as questionnaires and interviews which have been used by the researcher. This type of research provides a complete picture of what is happening at a given period. The data from descriptive research design include observations, surveys and case studies and provides several positions on the data. This type of research enhanced the researcher to meet the objectives of the research and it made the statistical data obtained to be simply expressed. The same was supported by Cooper and Schindler (2013) when the authors postulated that Descriptive research design is a better method that identifies the attitudes and opinions of the sample population although it took considerable time to organise.

3.3.3 Research approach

The researcher will use mixed methods (both qualitative and quantitative) research approach to reduce limitations of one approach. Quantitative researcher approach was identified as one which the researcher crucially makes use of post positivity claims, collects data on predetermined instruments that yield statistical data as well as employing strategies of enquiry for example survey and experiments by Cresswell (2003). Cooper and Schindler (2005) explained qualitative approach as an enquiry process of understanding a social or human problem, based on building complex, holistic pictures, formed with words, reporting detailed views of informant, and conducted in natural settings. To foster objectivity the researcher will use quantitative approach which makes use of questionnaires which will be structured with closed ended questions to cater for subjectivity of interviews which allows respondents to give answers based on their perceptions.

3.4 Research subjects

This section will look at the size of the sample for the study and the population from which it will be drawn and the technique which will be used.

3.4.1 Research population

A population is the entire group of objectives of particular type under study (Mudimu and Machengetwa, 2002). Population was explained by Wenger (2000) as the collection of all observations of a random variable under study and about which one is trying to draw conclusions in practice. Kotler & Armstrong (2011) also defined population as a group of people, element or events which are of interest to the researcher and what is going to be investigated. In this case the researcher used the credit risk management team including the analysts and debt collectors to gather information.

3.4.2 Sample size

Mudimu and Machengetwa (2002) defined a sample as a subset of a population under study. This coincides with the idea of sounders and Cornet (2007), that a sample is a representative portion of population. Kumar (2011) also identified sample as a selected subgroup of the population which the researcher is interested in. In the study the researcher will use sample size of twenty-one drawn from the bank. The sample was made up of managers, credit analysts, debt collectors who were acquainted with the macro lending business in Zimbabwe. This involved selecting a few managers or debt collectors from the list of those selected as research population.

Below is the table showing how the sample size of twenty-one was determined,

Table 3.1

Group under study	**Population**	**sample**	**Percentage**
Managers	13	9	66.23%
Debt collectors	9	6	66.67%
Credit analyst	10	6	60%
Total	**32**	**21**	65.6

3.4.3.0 Sampling technique

This section presents the sampling techniques used in the study**.**

3.4.3.1 Stratified random sampling

Stratified random sampling was used to select respondents because of the composite nature of respondents under consideration. It involves first dividing a population into sub-populations and then applying random sampling methods to each sub-population to form a test group. According to Bhattacherjee (2012) stratified sampling, the sampling frame is split into homogeneous and nonoverlapping subgroups called "strata", and a mere random sample is drawn amongst each subgroup. Kothari (2004) add on to say that stratified sampling is a sampling within peculiar sections of the target groups which results in more detailed and reliable information. From the above definitions it can be deduced that stratified random sampling involve first dividing the population into smaller groups, or strata based on share characteristics. A random sample is taken from each stratum in direct proportion to the size of the stratum, compared to the population. In this case the researcher started grouping the workers according to their jobs and from the group random sampling was carried out from the stratas

Advantages of stratified random sampling

Stratified random sampling accurately reflects the population being studied because the researcher stratifies the entire population before applying random sampling method.

- Stratified random sampling provides better coverage of the population since the researcher have the control over the subgroup to ensure all of them are represented in the sampling.

Disadvantages of stratified random sampling

The results may be a misrepresentation or inaccurate reflection of the population due to overlapping resulted from subject that may fall into multiple subgroups which increase the likeliness of those who are in multiple subgroups to be chosen.

3.**5 Sources of Data**

This section presents the source of data used in the study. The study used primary data which is further explained below.

3.5.1 Primary data

Kothari (2004) explained primary data as that data which is collected anew and for the first time, and hence happened to be original. The same was also explained by Wenger (2010) as that data which is captured at the origin that is obtained after carrying out research of the issue for the first time. Primary data is not organised or analysed and it is collected in many ways particularly by descriptive and survey researches. According to Kothari (2004) they include observation method, interview method, through questionnaires, through schedules and using mechanical devices. The study will use personal interviews and self- administered questionnaire to collect primary data.

3.5.1.1 Justification for primary data

The researcher will use primary data to carry out the research as it enables the researcher access to first-hand information as the information would have been collected straight from the respondents who are directly involved in the credit and liquidity risks management through the use of questionnaires and interviews. Primary data also allows the researcher to draw own conclusions and to have human judgment to areas which respondents could not have fully answered.

3.6 Research Instruments

This refers to the tools that will be used in the data collection and they will include interviews and questionnaires. The two are explain further below.

3.6.1 Questionnaires

A questionnaire is a document that contains structured questions which may be open –ended or close-ended for the purpose of gathering information from respondents about knowledge, attitudes, feelings and beliefs. Sounders and Cornett (2007) concurred with the idea that a questionnaire is a set of questions given to respondents to answer questions pertaining to the problem under study. The research questionnaire will consist of open-ended and closed-ended questions which will be designed using a combination of research questions and objectives. These types of questions will be used with intention of obtaining adequate information on the credit risk management practices by bank. Open-ended questions will be kept at minimum so as to avoid the risk of diversion from the main objectives of the study. Closed-ended questions are objective and arbitrary, that is they do not reveal reactions, rationales and other individual responses aspects since they limit respondent choice.

Closed-ended questions offers a limited number of answers as its name suggest. For an instance the respondents may choose a response from a panel of given proposal or a sample yes or no. Kothari (2004) postulate that closed-ended questions are of the type 'yes' or 'no' and they are used where possible answers are known. Closed-ended questions are used in qualitative studies and the assumption is that a detailed knowledge is available on the attitudes of interests so pre-specifying the categories is made easy. Closed-ended questions had been used in this study to ensure that the respondents abide to the subject matter addressed.

Closed-ended questions are quick and easy to answer. Answers to closed-ended questions are easily understood and they are easier to compare and rate. However, on the other hand when using closed-ended questions it is not easy to determine if the respondents has misunderstood the question and this can frustrate the respondent as they are unable to adequately express their opinion.

Open-ended questions are questions that allows the respondents to express their feelings and opinions freely on a given subject. These types of questions are non- directive and allows interviewee or respondents to use their own terms and direct their response at their convenience. Open-ended are used in explanatory studies where the researcher is not able to pre-specify the response categories (Remenyi, 2009). Open ended questions are to be used in this study to promote critical thinking and to increase participation of respondents.

Open-ended questions make the respondents feel that they are receiving personal attention and prosper is relied on their opinion. Open-ended questions allow the researcher to understand the information points and logic that has led the respondents to form their opinion. It also enables the researcher to have a deeper understanding of the topic under research. On the other hand, the use of open-ended question may take long time to extract answers if the group under investigation is large. Open-ended questions can lead to a lot of noise than closed questions, the noise can make it difficult for the researcher to have a deeper understanding of the underlining factors of the issue.

3.6.2 Justification of questionnaires

Questionnaire will allow the researcher to reach respondents which cannot be easily reached due to distance since the questionnaire can be send through emails thereby cutting cost of travelling and reduce time consumption. Use of questionnaire will provide enough time to the respondents to give well informed responds. It is also a solution to the verbal communication barriers as it makes use of written questions.

3.6.3 Interview

According to sounders and Cornett (2007) interviews involves meeting face with respondents in order to obtain information. Bhattacherje (2012) argued that an interview is a purposeful discussion between two or more people. Interview is a face to face oral communication started by the interviewer to obtain information from the interviewee. Kothari (2004) added to say the interviewee may at times ask question and the interviewer responds. The researcher used interviews to gather data for the study from the respondents. The researcher made use of telephone to targeted individuals since meeting with some individual face to face was very difficult due to their ranks in the company. The questions asked were very short to avoid too much costs on part of the business on time lost due to interviews.

3.6.4 Justification of interviews

The researcher will use personal interviews to collect the qualitative data that the questionnaire might have failed to address. Interview allows the researcher to judge the non-verbal behaviour of the respondents and to record interviewee own words. Interview allows the researcher to control over the order of the questions, as in the questionnaire, and can evaluate the spontaneity of the respondent as well.

3.6.5 Validity and Reliability of Data

Brown and Ball (2008) postulate that validity has to do with notion of truth and how the findings actually deliver a true depiction of what is being studied. According to MacDonald and Headlam (2006) data validity refers to the degree to which research findings can be said to be reliable and accurate, and the degree to which conclusions are justified. Data validity will be guaranteed by the researcher through the use of reliable sources of data which will be attained by gathering responses from those who were assumed to be more knowledgeable about credit risk. The questionnaire will be constructed based on the research purposes and questions of the research to increase objectivity.

Reliability is the degree of outcome being consistent overtime and an accurately represent the total population under study (Joppe, 2005). This ultimately means whether the data represent what the researcher thinks they signify. Dependability of this study will be ensured by piloting questionnaires to determine the extent to which respondent's answer diverge from what the research had asked. Safety measures will be taken to guarantee perfect answering of questions by respondents and recording of data. Questions will be short and precise checked by looking whether the conclusion did justice to the complexity of problem under investigation.

7.1 Data Presentation and Analysis Techniques

Data collected from questionnaires will be analysed using statistical package for social sciences (SPSS) version twenty (20). In this study, data will be presented in chapter four grounded on the research problem and research questions. Data will be presented in the form charts, tables and graphs. The use of graphic and tabular presentation in line with research aims will be presented in such a way that provide a visual look to make elucidation. Completed interview guides will be verified and coded as they will be carried by the interviewer after completion. Qualitative research information will be coded in numerical terms for easy analysis and tabulated in appropriate tables, charts and graphs to carry out analysis correctly and easier. The same information will be used to establish the gaps which needed to be filed by the research, to allow conclusions and recommendations.

3.8 Chapter Summary

The chapter looked into the research methodology to be employed to carry out the study. The research design, population, sampling, sources of data, research instruments, data collection procedures and data analysis to be used to bring out the research were stressed. The next chapter presents research findings in detail and looks at a critical analysis of primary data.

CHAPTER FOUR

4.1 Introduction

The chapter is intended to present the research outcomes and findings. The chapter presents the demography of the respondents. It is alienated into two segments based on the study questions. The first section presents the discoveries on the credit risk management practiced by Steward Bank. The second section the assessment of the effectiveness of credit risk management by Steward Bank. Out of the 21 distributed questionnaires administered, a total of 20 questionnaires were successfully filled and returned. This equate to a response rate of 95%. According to Nulty (2008) 60% response rate is excellent to warranty reliable outcomes. With a margin of 36% beyond the predetermined response rate of 60 per cent, the rate was very noteworthy and as a result a substantial conclusion could be drawn from the selected scenarios. The table below shows the respond rate.

Table 4.1 Response rate

Category	**Frequency**	**Percent**
Responded	20	95
did not respond	1	5
Total	**21**	100

Source: Primary data

4.2 DEMOGRAPHICS OF RESPONDENTS

4.2.1 Gender of respondents

The distribution of respondents by gender is represented in the table 4.2 below. The table displays that 45.8% of the respondents were male while 54.2% of the respondents were female. In light of the results presented below it can be concluded that majority of the respondents were female.

Table 4.2 Gender distribution

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	9	45	45	45
Female	11	55	55	100.0
Total	20	100.0	100.0	

Source: Primary data

4.2.2 Age of respondents

The age distribution of respondents is shown in the table 4.3 below. The table indicate that 35 of the respondents were aged 25 and below, 30 were aged between 25-35 years. The respondents aged between 35-45 years were 20 while those above 45 years were 15. From the results presented it can be noted that most of the respondents were above 25 years of age.

Table 4.3 Age group distribution of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
25 and below	7	35	35	35
25-35 years	6	30	30	65
35-45 years	4	20	20	85
46 and above	3	15	15	100.0
Total	20	100.0	100.0	

Source: Primary data

4.2.3 Education level

The respondents were also asked to indicate their highest level of education. As shown in the table 4.4 below 5% of the respondents attained ordinary level,35% attained advanced level certificate. Twenty-five percent of the respondents had at least one college diploma while 25% a university honours degree as the highest level of education attained. Of the respondents 5% had attained master’s degree whereas the remaining 5% had attained doctorate degree. Therefore, the majority of the respondent hold a college diploma going upwards which denotes that a greater fraction of the respondents is well conversant and literacy about the study subject even though those with advanced level certificate constitute the highest percentage of 35%.

Table 4.4 Distribution of respondents by education

	Frequency	Percent	Valid Percent	Cumulative Percent
ordinary level	1	5	5	5
A' level	7	35	35	40
Diploma	5	25.0	25.0	65
honours degree	5	25.0	25.0	90
master's degree	1	5	5	95
doctorate degree	1	5	5	100
Total	20	100.0	100.0	

Source: Primary data

4.3.1 RESEARCH FINDINDS

The research objective 1: to identify the credit risk management practices by steward bank.

4.3.2.1 The experience of respondents in the bank.

The research sought to determine the workers’ experience at the bank. The results are shown in the table below 4.5 below.

Table 4.5: Experience of respondents at Steward bank.

Experience	Percentage
Less than 1 year	-
1-2 years	14.23%
3-5 years	57.24%
More than five years	28.53%

Total	100%

Source: Primary data.

From the result it was found that 57.41% respondents had experience working in the bank 3-5 years. Whereas, the respondents who had working experience in banking sector more than five years was 28.57%, 1-2 years was 14.23% and less than one year was null.

4.3.2.2 Experience of respondents in the area of risk management.

In regards to respondents' experience the study sought to determine if the bank has a larger number of well experienced workers in the field of credit risk management. The outcome is shown in the table 4.6 below.

Table 4.6: Experience of respondents in the area of risk management

Response	Percentage
Less than 1 year	2.38%
1-2 years	45.24%
3-5 years	33.33%
More than five years	19.05%
Total	**100%**

Source: Primary source

The result revealed that 45.24% respondents had experience working in risk management area 1-2 years. Whereas, the respondents who have working experience in risk management 3-5 years was 33.33%, more than 5 years was 19.05% and 1 to 2 years was 2.38%.

4.3.2.3 The expectation from credit risk management.

With the regards to expectation of the credit risk management the respondents were asked their expectations on credit risk management and the results are shown in the table below.

Table 4.7: The expectation from credit risk management

Expectation	Percentage
Reduce financial loss	26.14%
Improve communication with customers	22.76%
Improve decision making	37.10%

Improve resource allocation	14.00%
Total	**100%**

Source: Primary source

The results show that 26.14%respondents expect credit risk management can be done by reducing financial losses, 22.76% of the respondents expect effective credit risk management can be done by improving communication with customers 37.10% respondents expect effective credit risk management can be done by improving decision making and, 14.00% respondents expect effective credit risk management can be done by improving resource allocation.

4.3.2.4. The percentage of who has the authority to establish credit risk management in organization

With the regards on the issuance of credit the study sought to determine the percentage of authorities who have the authority to establish credit risk management in the organisation and the results are shown below.

Table 4.8: The percentage of who has the authority to establish credit risk management in organization

Authority	**Percentage**
Chief executive officer	-
Chief financial officer	-
Board/committee	95.25
Executive management committee	4.75
Internal auditor	-
Staff	-
Total	**100%**

Source: Primary source

In the beginning, the researcher asked a question about commitment and support from top management. In the table above, the respondents asked to identify who has the authority to establish credit risk management in their organization. The results of this question were closely expected because it assumed the top-level should have the authority to establish risk management. As it can be seen in the table, the majority of the respondents (95.25%) specify that the board and committee have the authority to establish risk management. Next was the executive management team (4.75%).

The surveys show that respondents identified commitment and support from top management as the most important. Top-level management responds to business processes and manages credit risk. Most of the organizations believe that it is the responsibility of the Board of Directors or Committee and Executive Management team to establish credit risk management. Top management decides the objectives and strategies for organizational credit risk management activities, mission and overall objectives.

The respondents indicated that there are many ways in which top management can support risk management policy as showed in the table 4.8. They set up a particular credit risk management teams, regularly revision of risk management plans, clear to allocate credit risk management responsibilities, strictly obey in credit risk management policy, listen to a problem from employees and allocate appropriate resources. Most of the organizations have a policy to support the development of credit risk management. The benefit of top management support is effective decision making to manage risks. This is one of the expectations from the respondents.

4.3.2.5 Documentation of credit risk management guideline or policy.

The study sought to establish if the organisation documented credit risk management guideline or policy and the results are shown in the table 4.9 below.

Table 4.9

Response	**Percentage**
Yes	100%
No	-
Total	**100%**

Source: Primary source

In this table, yes/no questions were used to ask the respondents if their organization have a documented credit risk management guideline or policy. 100% of respondent replied yes. This helps the organization to manage their credit risk since the employees of the organization work under the guideline or policy developed by the organization.

Organizational structure involves an organization's internal pattern in relationships, authority and communication. Structure is comprised of formal lines of authority and communication, and the information as well as data that flow along these lines (Stank, Daugherty and Gustin, 1994). Structure and processes of the organizations are most effective when their design function match their environment and impact to organization's strategies (Hunter, 2002). The respondents agree that their organization have a documented guideline or policy for risk management.

4.3.2.6 The percentage of guidelines that support the goals and objectives of credit risk management.

The study sought to determine the percentage of guidelines that support the objectives of credit risk management and the results are shown in the table 4.10 below.

Table 4.10

Response	Percentage
Yes	100%
No	-
Total	**100%**

Source: Primary source

In this table, shows that 100% of respondents replied that they had guidelines that support the goals and objectives of credit risk management. All of the respondents believed that the guideline supports the goals and objectives of risk management. As Hasanali (2002) argue, one of the most important aspects of effective risk management is organizational structure. Organizational structure provides concepts, guidelines, direction and support to employees that conducted by the steering committee. The respondents understand the risk management guideline or policy.

4.3.2.7 Understanding of the credit risk management guideline or policy.

The study sought to find out if the workers understood the credit risk management guideline or policy and the results were shown in the table 4.11 below.

Table 4.11: The percentage of yes/no question that asked about do you understand the credit risk management guideline or policy

Response	Percentage
Yes	95.24%
No	4.76%
Total	**100%**

Source: Primary Source

From the result it was found that 95.24% of respondents understood the risk management guideline or policy. 4.76% did not understand the risk management guideline or policy. From the table it can be generalized that almost all the worker of credit risk management understands the guidelines that were developed by their organizations, this enables the employee to manage the credit that arise in their organization.

4.3.2.8 Changing of organisation's guidelines or policies to manage risk.

The researcher sought to find out if the bank changes its guidelines or policies to manage risk and the results are shown on the table 4.12 below.

Table 4.12: The percentage of how often the respondents' organizations change its guidelines or policies to manage risk

Response	Percentage
Once per year	66.67%
Once per two years	23.81%
Once in more than two years	9.52%
Never	-
Total	**100%**

Source: Field Survey

From the result it was found that most of the respondents (66.67%) replied that their organization changes their guidelines or policies to manage credit risks once per year. 23.81% of the respondents replied that their organizations changed their guidelines or policies one every 2 years and changing once in more than 2 years had 9.52%. That means that most of the organizations think they should change their guidelines or policies to manage credit risks once per year.

Since the financial world is always in fluctuation, Carey (2001) suggests that organizational structure must be reviewed regularly and adjusted to adapt to changing financial environments. All of the respondents stated that their organization changes its guidelines or policies in order to manage credit risks. Most of the organizations implement changes and review their organizational structure every year. Moreover, Grabowski and Roberts (1999) suggest that risk management is primarily associated with the fluidity of organizational structures. It is a flexible approach to respond in different ways and respond quickly in the face of changing conditions.

In terms of the policy to support the development risk management the researcher sought to find out if the bank has a policy to support the development of risk management and the results are shown in the table 4.13 below.

Table 4.13: The percentage of the bank which has a policy to support the development of risk management

Response	Percentage
Yes	92.86%
No	7.14%
Total	**100%**

Source: Primary Source

The results show that the number of respondents who chose yes was 92.86%, which means that top management is willing to support the development of future risk management policy and 7.14% respondents replied no.

4.3.2.9 Training of workers.

The study also sought to find out if the bank is training workers in the related area of study and the results are shown in table 4.14 below.

Table 4.14: The percentage of how many organizations offer training for new employees

Response	Percentage
Yes	100%
No	-
Total	**100%**

Source: Primary source

The results showed that 100% have a training course for employees. That mean most of the respondents' organizations think training employees is important. Risk management becomes a part of good business practice and should include training staff appropriately. The main reason for an education and training program is to ensure that the members are comfortable with the system and increase the expertise and knowledge level of the members. Most companies offer training courses for new employees. The purpose of training is to improve knowledge, skills and attitudes that in turn increase confidence, motivation and job satisfaction (Fill and Mullins, 1990).

4.3.2.10 Risk management courses.

In as far as courses are concerned the researcher was determined to find out if the bank is offering courses in the risk management courses and the results are shown below.

Table 4.15: The percentage of how often organization provide risk management training courses

	Percentage
Never	-
1 time per year	69.05%
2 times per year	14.29%
More than 2 times per year	16.66%
Total	**100%**

Source: Primary Source

The results show that most of the respondents' organizations (69.05%) had a risk management training course once a year. 16.66% have a risk management training course two times per year and, more than 2 times per year percentage, 11.89%. Since the purpose of training is to improve knowledge, skill and attitudes to job satisfaction it is better to know how frequent the organizations provide training for employees. The ability to respond to changing conditions in an organization's operation is related to a range of activities including the development of risk training courses and involvement of staff in responding to an early warning system (Carey, 2001). According to table 11 it can be concluded that the organizations give training to employees once a year. This is a short period and enables employees to understand the credit risk management practices and to do better effort in the behalf of the organization benefit.

4.3.2.11 The percentage of the bank which has established procedures for keeping up to-date and informed with changes in regulations

The research was determined to show if the bank has procedures for keeping up to date and informed with changes in regulations and the results are shown below.

Table 4.16

Response	**Percentage**
Yes	90.48%
No	9.52%
Total	**100%**

Primary source

The results show this graph show that 90.48% of the respondents answered yes, the bank does have established procedures for keeping up-to-date and informed with changes in regulations and only 9.52% did not. From the table it can be concluded that the organization is in the way to provide training to its employee for the changes that will be happen in the regulations of credit risk management. The ability to respond to changing conditions in an organization's operation is related to a range of activities including the development of risk training courses and involvement of staff in responding to an early warning system (Carey, 2001). The respondents state that their organizations have established procedures for keeping up-to-date and informed with changes in regulations to their staff. In addition, they provide risk management training courses at least once per year. The other companies also offer training courses more than once a year.

4.3. RESEARCH OBJECTIVE 2. To assess the effectiveness of credit risk management practices at Steward bank.

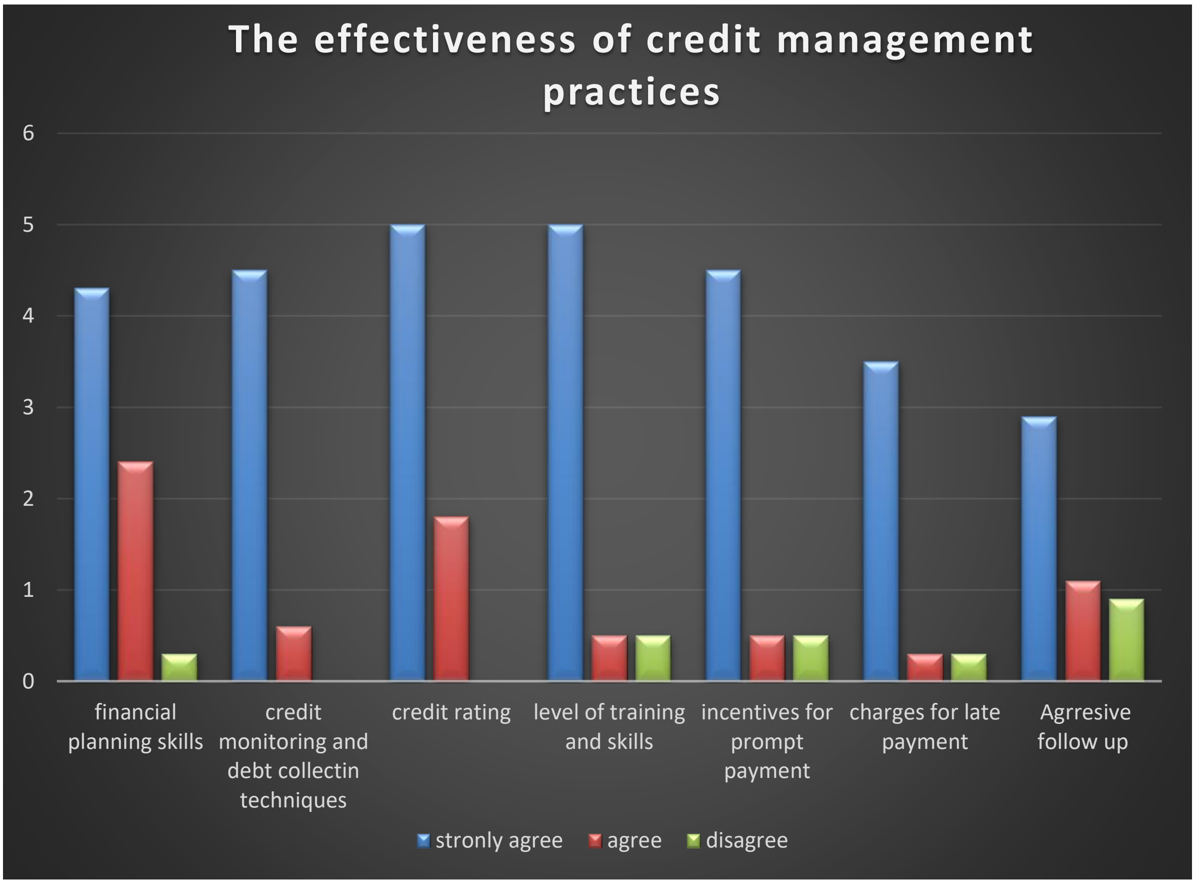

Fig 4.1 Source: Primary data

n=20

From the findings presented above 66.7% of the respondents strongly agree, 33.3% agree, 0% disagree and 0% strongly disagree with the fact that financial planning skills of the lender affect the effectiveness of the credit risk management practices of the bank. From the presented results respondents concurred that financial planning skills of the loan authoriser affect the bank credit risk management. This implies that credit risk exposure of the bank is reduced with increase in the worker's ability to make sound financial plans.

In respect to efficiency of the bank credit monitoring and debt collection the questionnaire was to establish whether efficiency of the bank's credit monitoring and debt collection reduces the effectiveness of credit risk management. The results indicated that 83.7% of the respondents strongly agree, 16.7% agree, 0% disagree and 0% strongly disagree to the fact that efficiency of the bank credit monitoring and debt collection affect the effectiveness of credit risk management. From the analysis presented respondents were seen in agreement that efficiency of credit monitoring and debt collection have effects in the bank credit risk management. These results go in tandem with recommendation by Tetteh (2012) that banks should intensify their credit risk monitoring through supervision efforts. This implies that credit monitoring and debt collection have a direct effect on the credit risk management performance. The result therein implies that as debt collection and credit monitoring is intensified, credit risk exposure to the bank is reduced. Therefore, this denotes effectiveness and efficiency of monitoring control aspect of sound credit risk management practice. This go in consistence with the proposition put forward by Richard *et al* (2010) who asserts that a financial institution such as the bank need to monitor carefully the risk return profile of their loan portfolio to ensure long term survival. The scholars rightly stressed that monitoring of borrowers is very significant as present and potential exposures change with both the passage of time and the underlying variables movements and it also suggest a key measure in mitigating the moral hazards problem

Regarding quality of the bank's credit rating, the results showed that 87.5% of the respondents strongly agree, 12.5% agree, 0% disagree and 0% strongly disagree to the fact that quality of credit rating has an effect on the credit risk management of the bank. From the analysis presented all the respondents were in agreement that quality of the bank's credit rating affect the effectiveness of the bank credit risk management. This implies that staff obedience to the credit rating system reduces credit risk exposure, which then entails effectiveness of credit risk management practice adopted by Steward bank.

Focusing on approver or authorizer level of training skills and experience, the respondents indicated that 87.5% strongly agree, 12.5% agreed, 0% disagreed, 0% strongly disagreed that approver or authorizer level of training skills have a direct effect on bank's credit risk management. All of the respondents were in agreement that experience and training skills of the approver or authorizer directly affect the effectiveness of the bank credit risk management. Related outcomes established that the credit loan officer's competency level, indicated by approver's level of training skills and experience strongly affect effectiveness of the bank's credit risk management. The results imply that the bank employment of more experienced and trained loan officers' help to mitigate risk of loan defaults. To apply well-established lending principles, loan officers often rely on personal judgement and experience. This go in tandem with observation by Tafri et al. (2011), who asserts that a well trained and experienced approver will already have developed his own heuristics or methodology to detect bad credit as opposed to a less experienced one.

With respect to use of incentives for prompt payment, the researcher found that 58.3% of the respondents strongly agree, 20.8% agree, 20.8% disagree, 0% strongly disagree with the view that use of incentives for prompt payment affect the effectiveness of the bank credit risk management. From the presented findings most of the respondents were in agreement that incentives for prompt payment affect the effectiveness of the bank's credit risk management.

Regarding imposition of charges or penalties for late payment, the results reviewed that 75% of respondents strongly agree, 12.5% agreed, 12.5% disagree and 0% strongly disagree with the notion that imposition of charges or penalties on late payment affect the effectiveness of the bank credit risk management. From the analysis presented most of the respondents were in agreement that imposition of charges or penalties for late payments affect effectiveness of the bank credit risk management.

The above results on use of incentives for prompt payment and imposition of charges signify that the usage of incentives or penalties are effective in the bank credit management practices as it helps to minimize the bank credit risk exposure. The results concurred with the findings by Pederson and Olsen (2013) who hypothesized that use of incentives for prompt payment and imposition of charges or penalties for late payment may affect the effectiveness of credit risk management systems

Focusing on aggressive follow up and collection of overdue debts, the researcher found that 79.2% of the respondents strongly agree, 12.5% agreed, 8.3% disagree and 0% strongly disagree with the fact that aggressive follow up and collection of overdue debts have a direct impact on the bank credit risk management. From the findings most of the respondents concurred that aggressive follow up affect the effectiveness of the bank credit risk management.

4.4 Chapter Summary

The chapter has presented, analysed and discussed the data collected in the study. The chapter has shown credit risk management practiced by Steward Bank and the effectiveness of credit risk management practices by Steward Bank. The subsequence chapter five will concentrate on the summary of the outcomes, the conclusion and recommendations.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter condenses the outcomes obtained in the preceding chapter, to enable conclusion to be drawn on the effectiveness of the bank credit risk management. It further provides conclusions of the research that are in consistence with the aims of the research. At the end of the chapter the researcher gives some recommendations to particularly the banks operating in the same environment in which the study was conducted.

5.2 Summary of major findings

The research was impelled by the need to determine the credit risk management practices and the effectiveness of credit risk management practices in the bank. Through employment of descriptive research design while making use of questionnaires and interviews the research found that experience of the authoriser is always obligatory when issuing a loan. The researcher also found out that the training of the of workers participating the area of credit risk management is also crucial. The research further found that the bank should always update credit files.

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5.3 Conclusion

The researcher concludes that the current credit risk management practices that are being practiced by Steward bank in Zimbabwe are

- The planning skills of the loan authorisers is crucial in credit risk management. Failing to plan is planning to fail, so a well-planned documentation will always produce the best results.
- Also experience of the loan authorisers is very important as the number of years taken in the field will determine the successful credit risk management as an experienced worker knows all the bubby traps in the area.
- The bank has effective debt monitoring systems and arrears collection processes in place at all times. Should a payment turn out to be arrear, action against defaulters would be taken with records kept of all actions and agreements. The borrower would be contacted

to secure payment plan and guarantors will be sanctioned in order to institute recovery measures.

- Regarding approval and authorization of the loan it can be concluded that it goes through the application forms with a checklist to ensure accuracy and completeness. They used a scoring based on a predetermined criterion in their approval process. The bank have a standard, computerised terms and conditions of the loan and they also have an approval officer who is not the reviewer responsible for approving or declining of application on the basis of the credit rating, debt ratio and shares held.

On the effectiveness of credit risk management of the bank the researcher concludes that the credit risk management effectiveness is directly affected by

- The competence of the credit risk management team, data quality, the system design and effective management of external environmental forces. That is the triumph of credit management system which deeply depend on the credit risk management team's knowledge, judgment, experience, integrity and diligence.
- Credit risk team level of experience and training skills.
- Use of incentives for prompt payment.
- Imposition of charges or penalties for late payment
- Aggressive follow up and collection of overdue debts and,

5.4. Recommendations

Credit risk management practices adopted by the bank should always be geared towards client satisfaction, firm profitability and growth of the firm in the long run. To heighten customer satisfaction, the bank should speedy up their credit risk appraisal and increase its accuracy, loan applications should be approved within the agreed timelines and the results should be conveyed to applicants without any undue delays. On the other side, the institution should, at the same time minimize the risk of accepting bad credit. In order to improve reliability, accuracy, effectiveness and efficiency, the bank should incorporate information systems while assessing credit risk exposure. The bank should increase their computerization level to increase the effectiveness of the credit management system. The bank should copy up with technological advancement in information systems by incorporating systems such as expert system (ES), office automation systems (OAS), decision support systems (DSS), transaction processing systems (TPS) and management information systems (MIS) to make it easy to keep track on trends in credit and offer valid, timely and reliable information.

The study also suggests managers to impose stringent or supplementary lending criteria when issuing loans to high-risk clients, for example by requiring additional collateral and qualifying periods for applicants without credit history.

The research also suggests that the bank must operate within encyclopaedic, well clear credit granting standards. These criteria should comprise of a clear indication of the bank's target market and a thorough appreciation of the borrower or counterparty, purpose and structure of the credit, and loan source of repayment. There is also need that, the bank should have a clearly established practice in place for approving new clients as well as the, renewal, amendment and re-financing of existing clients

On the effectiveness of Credit Management Practices, the credit risk management staff should always consist of well trained, skilled, and well-informed personals to minimize the major challenges faced by the bank of implementing established credit risk management strategy put in place by the top officials of the bank. The bank should consider reviewers and approvers with several years of job experience since effective credit assessment require personal judgment and intuition. The research also suggests the bank to implement credit management systems which are user friendly and efficiency.

A well detailed documented credit management policy delineating the products offered by the institution, approver's authorization limits, guidelines and credit control procedures should be in place and conversed to all relevant stakeholder groups. The bank should establish clear governance structure with audit committees being set up to instil accountability, integrity and police and procedure adherence.

The bank to consider having a management board charged with the responsibility of managing and determining acceptable credit risk level. The bank should develop mechanisms for tracking, measuring and responding to external environmental changes.

5.5 Recommendation for Further research

The research focused on the credit risk management practices adopted by the bank. Further researches could be done focusing on the other financial institutions specifically within the financial sector in Zimbabwe. A cross sectional research should be carried out to compare the various credit risk management practices embraced by different credit corporative and to scrutinize their relative effectiveness.

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