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The Adoption of Credit Management Practices in Health Institutions: Evidence from the University of Ghana Health Service

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Abstract

This treatise assessed credit management practices at university of Ghana health services (UGHS) and their effect on performance. The main objectives of the study were to identify the credit management practice at university of Ghana health services and their effect on performance. This was against the backdrop of the increasingly risky nature of the financial landscape and the high incidence of non-performing loans due to the lack of well diversified and efficient strategies for credit delivery which has crippled a lot of financial institutions and plunged them into crisis. The descriptive survey method was used for the study. The sample size comprised of 33 respondents who were purposively selected in order to obtain the kind of data that was required for the study. Interviews were distributed in order to gather the primary data together with an interview guide.

Keywords: Credit Management Practices, Public Financial Administration, Economic management, Procurement Acts, Procurement System, Development Economics

1.0 INTRODUCTION

1.1 Background of the study

Credit management policies and practices comprise systems, guidelines and principles that serve as a framework for employees in the credit department in granting credit and managing the total collection of credit. A major prerequisite for being able to supervise credit delivery effectively is the capacity to effectively and competently administer the lines of credit to clients. Modern business cannot operate on cash basis alone. The granting of credit to clients is a form of trade credit which is a source of short-term finance available to businesses (Kestens, Van Cauwenberge & Bauwhede, 2012; Barrot, 2015). According to the small business development corporation (2007), credit management is "implementing and maintaining a set of policies and procedures to minimize the amount of capital tied up in debtors and to minimize the exposure of the business to bad debts". Credit is all about risk, and credit management is assessing and managing that risk - high risk calls for special terms but need not to prevent business. Credit risk is unavoidable, but it is a calculated risk (Bullivant, 2016; Gregory, 2012). To be able to reduce the risks associated with uncollectable debts, companies must exercise a better understanding of economic capacity of clients, history of customers' credit rating and varying repayment arrangements.

Hospitals are in business with the sole aim of providing quality healthcare to the citizenry. The healthcare sector is an invaluable sector of the Ghanaian economy. This sector can be categorized into; public/government hospitals, quasi-government hospitals and the private hospitals. Due to their not-for-profit orientation, the public hospitals rely mostly on government funding and control to successfully function. Private health institutions do not receive any funding from government, and therefore are generally profit oriented. Quasi-government hospitals on the other hand, indirectly receive funding from government through their parent institutions. These funding are received based on the budgetary allocations and they are not directly controlled by government.

However, these funding are always inadequate, hence they must internally generate revenue to sustain their operations. This feature portrays quasi-Government hospitals as profit oriented. Against this backdrop, granting of credit are part of the core business activities of quasi-government hospitals because without giving out credit and advances to individuals and firms, their objective for being in operation would be defeated. The success of lending out credit depends on the methodology applied to evaluate and to award the credit (Ditcher, 2003) and therefore the credit decision should be based on a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower.

The University of Ghana hospital was built and commissioned in 1957 and is officially owned by the University of Ghana with the goal of providing world class medical services to its staff, dependents, students and general public. The hospital currently has satellite clinics on the University's main campus, Accra City Campus, Korle-Bu, Nungua, Kpong and Kade. As a quasi-government hospital, granting of credit to individuals and corporate organisations comes with a lot challenges especially in ensuring payment of credit that are granted to client/patients. The management of credit in the health industry involves identification of potential risk factors, estimate their consequences, monitor activities exposed to the identified risk factors and put in place control measures to prevent or reduce the undesirable effects. It therefore becomes imperative for University of Ghana Hospital to establish a credit management system that seeks to effectively recover debts.

1.2 Statement of the Problem

The problem of credit default, which results from poor credit management practices, increases exposure to bad debts and risk of financial loss. This is evidenced in the hospital's corporate client's outstanding balances alone as at December, 2015 amounting to GHC 276, 937.10 (Two Hundred and Seven-Six Thousand, Nine Hundred and Thirty-Seven Ghana Cedis, Ten Pesewas) as a result of irregular repayments patterns by clients. According to Gitman (1997), the probability of bad debt increases as credit standards are relaxed. Generally, institutions are expected to take necessary measures to reduce credit defaulters as well as advancing credit in a fair and undiscriminating manner so as to continue offering service to their clients. A lot of research has been done on credit management amongst them are; The Effect of Credit Management On the financial Performance of microfinance institutions in Kenya (Gatuhu, 2013).

An Examination of Credit Management Practices of Rural Banks in Ghana (Ohene, 2015) and Assessing Credit Management Practices in Savings & Loans Companies in Ghana (Asante, 2015). To the researcher's understanding, no or very little study has been done in this study area on hospitals especially, in Ghana. Based on this evaluation, there is a knowledge gap in literature to warrant a research to be conducted in this industry. This study therefore seeks to fill the existing gap by investigating effectiveness credit management practices on financial performance of hospitals in Ghana specifically the University of Ghana Hospital. Furtherance to this, the study will be conducted to contribute to the existing literature from the Ghanaian business environment context. It is hoped that the findings of this study will have enormous policy implications to the health sector given the fact that the health sector is one of the engines of growth of the economy.

2.0 LITERATURE REVIEW

This chapter summarizes the information from the available literature in the same field of study. It will review theories of credit management as well as empirical studies on credit management and financial performance in Ghana and in other countries.

2.1 Credit Management

Credit management is primarily concerned with the effective management of debtors as well as judicious financing of receivables (Asante, 2015). The objectives of credit management can therefore be expressively stated as safeguarding the portfolio of the companies' investments in debtors and maximizing operational cash flows. Policies and practices ought to be rigorously enforced for granting credit facilities to customers, collection of repayments that are due and limiting the high-risk factor of non-payments. According to Asiedu-Mante (2011) credit management involves establishing formal legitimate policies and procedures that will ensure that proper authorities grant credit, the credit goes to the right people. In addition, Asiedu-Mante indicated that the credit is granted for the productive activities or for businesses which are economically and technically viable, the appropriate size of credit is granted, the credit is recoverable and there is adequate flow of management information within the organization to monitor the credit activity.

Nelson (2002) considers credit management as apparently the way by which an enterprise superintends over its credit sales in a manner that creates greater opportunities for making higher profits. This is a prerequisite for any business engaged in provision of lines of credit since it is not possible to

completely eliminate credit risk default. He continued by stating that to reduce over exposure to bad debts, overbooking and insolvency, financial institutions should have a better understanding of the financial strength of customers, credit account history and evolution of payment methods of clients.

2.1.1 The Essence of Sound Credit Management

Credit management is primarily concerned with the effective management of debtors as well as judicious financing of receivables. The objectives of credit management can therefore be expressively stated as safeguarding the portfolio of the companies' investments in debtors and maximizing operational cash flows. Policies and practices ought to be rigorously enforced for granting credit facilities to customers, collection of repayments that are due and limiting the high-risk factor of non-payments through sound underwriting principles, effective appraisal systems as well as a solid monitoring system. It also ensures that the process of credit granting is effectively carried out by ensuring that credit is granted to the right people who possess the character and capacity to pay.

2.2 Credit Management Policy

The credit policy is a document that specifies the course of action for granting credit and recurring credit activities. The credit policy has to be understood by, and communicated to, all relevant parties, particularly credit staff, sales staff and customers (Bullivant, 2016). To Bullivant, Credit policies need to be reviewed and monitored on a regular basis to take account of changing market conditions, company strategy, competition, and financial needs. A carefully documented credit policy is a fundamental requirement of sound credit management practice, and should serve at least the following purpose:

- to define the objectives of credit extension in the context of corporate strategy and organization structure
- To define the authority and responsibilities for credit granting, establishing and varying terms and the timing of collection actions
- To provide documented procedures in relation to the above that can be communicated to all staff
- To specify training policy for credit staff
- To specify performance targets and monitoring activities for credit staff
- To reinforce "one company – one customer" culture throughout the organization

The credit policy of a company should be developed in accordance with the strategic, marketing, financial and organisational context of the business and be designed to contribute to the achievement of corporate objectives.

2.2.1 Setting a Credit Policy

Bullivant is of the view that, a credit policy should start at the highest level, be agreed at all levels, and be inclusive of all those areas of the business operation which leads to satisfying customer requirements. Every employee in the business should know:

- what the credit terms are;
- how and why, they have been arrived at; and
- how, why and when they are implemented.

When a credit policy has been decided, it should be signed by the Board of Directors and issued to all departments to show its importance to the cash flow and profitability of the company.
According to Pearse 2014, Policies may be set on three different levels:

1. Restrictive: This is a low-risk strategy where there are tough criteria for new clients. This may be due to the nature of the business and the risk involved, e.g., building material and supply companies in the construction industry generally have a strict criterion for credit.
2. Moderate: Here businesses are willing to take some calculated risk and credit is provided on some middle ground i.e., the credit limit is set in advance.
3. Liberal: This is a high-risk strategy and credit is available relatively easily. Businesses with high profit margins or with the intention of gaining market share usually adopt this strategy.

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The success of a credit policy largely depends on the processes and procedures used for the implementation of the policy.

2.2.2 Credit Procedures

Pearse (2014) further outlined processes and procedures used for implementing A Successful Credit Policy as follow:

- Know Your Client: Do your homework on the client and check their standing. Do this for existing clients at regular intervals as well. Remember a customer may be coming to you because they cannot get credit elsewhere!
- Early Invoicing: Send your bill quickly and ensure it is accurate.
- Contact After Invoice Is Issued: Contact the client early to deal with any queries. Do not wait until the debt is overdue. An early phone call to confirm everything is in order restricts the customer from subsequently raising issues regarding the invoice and refusing to pay.
- Contact Before Payment Is Due: This way they can prioritise your payment. A good tactic is to call the customer ahead of the payment date and confirm that you will be receiving funds on that day.
- Contact When Payment Not Received On Due Date: The initial query may be to find out if there was anything wrong that delayed the payment. Then advise the client of the penalties (if applicable) or consequences of the late payment. Ensure that a proper record is kept of all communications.
- On Hold, Stop Supply: When you get to this stage the risk of not collecting is growing. Again, knowing your customer will mean that you will know how badly he needs to be supplied by you, in which case you should have the upper hand in negotiations. However, if there are a number of alternative suppliers, then stopping supply may increase the risk of a bad debt. The key is to not let the process get this far!
- Penalties: Add late payment interest or other penalties (if applicable). If you are going to apply penalties, ensure they have been included in your terms and conditions and be consistent with their application.
- Economic: It may come to a stage where you have to do a cost benefit analysis on whether you will continue to chase the amount. If you do, options include:
  1. Debt Collector – Forward the case to debt collectors; or
  2. Legal – Secure your debt if the debtor can't or won't pay now.

To accomplish the great objectives of credit administration strategy, Franklin (2010) instructed that credit systems incorporate guidelines on what information to be utilized for credit examination and investigation procedure, provide information regarding procedure, account supervision and cases needing administration's notice. Such credit gathering endeavours incorporate the utilization of reminders, adoption of insurance, the application of legal procedures, the factoring of debtors and final write-offs

2.2.3 Characteristics of Credit Management

Key Credit management characteristics include;

2.2.3.1 Client Appraisal

A lot of financial institutions tend to utilize the 5Cs model of credit also known as credit standards to appraise a customer as a potential borrower (Abedi, 2000). The 5Cs act as a guide for financial institutions to improve loan portfolio, as they get to know their customers better. These 5Cs are: character, capacity, collateral, capital and condition.

2.2.3.2 Character

This assesses the client's qualities in order to examine the willingness of the prospective client to meet the credit commitments. Kakuru (2000) highlighted the accompanying variables to consider when investigating applicant's character. This is carried out by factoring the client's savings conduct from the bank records, the level of training, mental status, occupation dependability, contact, connection to government offices and the past dealings with bank. The borrower who seeks to be a loan beneficiary of cash endowed to the bank by its depositors must be very honest-someone who will keep their word and who can be trusted. Current trends in technology allow for credit investigation to be carried out helping to not just uncover past impressive and awful conduct in reimbursement of advances and handling of obligations but will likewise uncover the degree of a man's acquisition of credit limit. The higher the building up of a person's credit profile, the higher the response of the person to changes in interest rates or individual circumstances.

2.2.3.3 Capacity

This assesses the client's capacity to pay the obligation when given in the obliged time period. This is fundamental particularly for business, regardless of whether advances are included. This is determined by assessing the estimation of client's capital and resource offered as guarantee against the advance. The borrower must be, in any event, capable, if not a specialist at their employment or in their calling and should be able to produce strong evidence to support the viability or otherwise of the business.

2.2.3.4 Capital

This alludes to the general state of the organization. "This is ascertained by the analysis of the financial statements with special emphasis on the risks and the debt-equity ratios and also evaluating the customer's firm working capital positions" according to Floucks (2001). The budgetary supervisor can likewise survey the accounting report to discover how much the proprietor has put into the business as his own stake (BPP, 2000). A decent dependable guideline would be that a bank would not wish to put in more cash than the borrower.

2.2.3.5 Collateral

This alludes to properties like lands, houses, business and private bequests or whatever other property of quality offered as security of the estimation of the credit given out to the borrower (Kakuru, 2001). It is obtained by a lender as a claim on the borrower and on the asset that is secured, and provides a recourse that is available to a bank should the terms of the loan be breached by the borrower. The collateral ought to be secure, readily merchantable and that its quality ought to have the capacity to meet the obligation when sold off in the event that the borrower defaults in payment (Van Horne, 2007).

2.2.3.6 Conditions

These points to the predominant monetary and economic environment which may influence or be a hindrance to the borrower's capacity to pay the obligation and which may turn out to be unbeneficial to the creditor firm. Case in point, under inflationary conditions, it is inappropriate to extend credit as the leaser is certain to incur forfeiture on the lent sum if not getting lower returns. The credit officer must have a keen sense of judgment in regards to the possibilities of default and appraise the likelihood of losses under such conditions Pandey (2008). It is critical that the credit guidelines are situated based on individual applications, calling to attention the importance of gathering credit data, credit investigation and credit limits Golin (2013). Key credit controls include loan product design, credit committee and Delinquency management (Chrchill and Coster, 2001).

2.3 Credit Risk Controls

Key credit controls include loan product design, credit committee and Delinquency management (Chrchill and Coster, 2001).

2.3.1 Credit Committees

The establishment of a committee of persons to take decisions with regard to the granting of advances is a vital control in reducing credit (and misrepresentation) hazard. In the event that an individual has the ability to choose who will be loan beneficiaries, which advances will be written off or rescheduled, and the states of the advances, this level of influence can without much of a stretch be mishandled and concealed. While advance officers can serve on the credit board, no less than one other individual with more prominent power ought to likewise be included. The credit advisory group has the obligation for endorsing credit facilities, as well as for observing their advancement and, ought to get involved in delinquency management when borrowers start showing signs of non-repayment.

2.3.2 Delinquency Management

To minimize such delinquency, financial institutions can use the following delinquency management methods: Institutional Culture: One critical way of dealing with delinquency is building an organization ethic that is completely intolerant to defaults and is able provide the avenue where defaulting customers can easily be tracked for repayment.

2.3.3 Staff Incentives

Opportunities ought to be created for staff to be actively involved in the loan management process through the establishment of an incentive system that rewards performance. Staff can for example be given commissions for the effort put in the recovery of bad debts as a way of motivating them and this goes a long way to improve productivity as well as the financial position of the organization.

2.3.4 Collection Policy

For credit management to be effective, organzations should establish collection policies which is needed because all customers do not pay the firms bills in time. Some customers are slow payers while some are non-payers. The collection effort should, therefore aim at accelerating collections from slow payers and reducing bad debt losses (Kariuki, 2010). A debt collection policy happens to be one of the key elements utilized by management to achieve results. This policy is important because not all loan customers demonstrate the same level of commitment as some honour their obligations on time while others do not. Some customers are slow payers while some are non-payers. The goal of such a policy should be aimed towards fast tracking the collectibles from non-committed customers or slow payers whiles reducing losses that may arise from debts that might be going bad (Kariuki, 2010).

2.3.5 Credit information

This comprises the utilization of dependable and opportune data which becomes useful in dealing with the credit system. This is important in that it leads to a reduction of losses that may arise as a consequence of disbursing available funds to untrustworthy loan customers Kakuru (2001). Such data ought to incorporate; the clients' years in present business, the time spent at the present area of operation, monetary information, credit assessment with different merchants and credit scoring organizations, and data about the directors of the organization and other related intelligence. Information is so vital in the credit management process as it provides the basis for a sound credit granting process. When information becomes scanty, the probability of loss outcomes becomes increased since, it does not provide the platform to put in place mechanisms that can help forestall any known dangers associated with the credit disbursement and this sets the ground for inheriting huge losses which could have been avoided. The goal of the research work is to help establish the kind of information that is also vitally needed and utilized by financial institutions in the credit management process.

2.3.6 Credit limit

This is the highest measure of credit which the firm can advance to clients at a particular point in time. The loan specialist's insight of the business sector and environment in which the client works is extremely crucial. In determining the extent of credit that can be disbursed, attention must be given to what it will take to augment profits in relation to customer’s level of trade and furthermore the money related qualities of the client to determine whether he will have the capacity to pay the credit commitment.

It is critical to also establish whether the borrower's cash flow forecast can adequately cater for regular repayments with interest. All the more along these lines, as far as possible the limit ought to be adaptable and revisable so frequently to suit the dynamisms and capitalize on the advantages that are available in the business sector of operation to generate optimal returns on the loan given out.

2.3.7 Credit Terms

Credit terms allude to the conditions which guide the firm or the bank organization in offering funds to prospective clients Pandey (2008). They refer to the stipulations under which a monetary organization stipends credit to its clients. In the event that a financial establishment disburses a loan to a client, then the credit terms will indicate the credit period and interest rates. This in this manner will have an impact on the execution of credits since it stipulates the season of advance reimbursements and subsequently establishing a platform where reimbursements can be made auspiciously thereby leading to a diminishing in default rate. Pandey prescribes the accompanying as the credit terms:

2.4 Measures of Performance

There are certain performance measures that are used to evaluate the performance of financial institutions as a way of determining whether the institution is experiencing more growth through the making of gains or is retrogressing through the generation of losses and these include: Kumbirai and Webb (2010) stated that one of the several approaches used to measure banks performance is the accounting (financial ratios). These financial ratios have over the years been employed by financial institutions for assessing their performance. Artrill and McLaney (2011) expressed that financial ratio provide a quick and relatively simple means of assessing financial strength of a bank. The authors further stated that through the applications of financial ratios, banks are able to examine various aspects of their financial position and performance. As far as this study is concerned, some of the various financial ratios adopted to examine the performance of rural banks specifically, Return on Equity (ROE); Return on Assets (ROA)

2.4.1 Return on Equity (ROE)

Watson and Head (2008) underscored that return on equity measures how much institutions are performing after each Ghana Cedi invested in the shareholders' equity of the company. Islam and Salim (2011) also revealed that ROE measures banks' efficiency at generating profits from every cedi or pesewa of shareholders' equity.

2.4.2 Return on Assets (ROA)

The Return on Assets (ROA) is an indicator that measures how much a bank is earning after each cedi or pesewa invested in the assets of the institution. According to Van Horne (2005), return on assets indicates the profitability on banks assets after all expenses and taxes. Pinprayong and Siengthai (2012) indicated that the Return on Assets (ROA) is a suitable measure of overall company performance, since it reveals how profitable organizations assets are generating revenues for the company.

2.4.3 Profitability

According to Artrill and McLaney (2011), profitability is the ability to generate more revenues than its expenses, and that banks generally exist with the primary purpose of creating wealth for their owners. The author stressed that high credit risk affects the profitability of banks, thereby eroding the shareholders' wealth. Credits granted by the banking and non-banking institutions are expected to be the major source of generating income and are expected to have positive impact on profitability. Better credit management results in better performance. Nduta (2013) established that credit management practices have a strong relationship with financial performance in terms of profitability. She underscored that credit appraisal, credit risk control and collection policy to a great extent enhance the financial performance of Micro-Finance Institutions in Kenya. This is also true for health institutions in Ghana.

2.4.4 Liquidity

Liquidity is the ability to meet financial obligations as they fall due. Asiedu-Mantse (2011) indicated that very low deposits and high default rates have plunged some rural banks into serious liquidation problems, leading to the erosion of the general public confidence in rural banks in Ghana. He further stressed that improper lending culture and ineffective monitoring and recovery of credit facilities to customers have contributed to high credit risk and pose liquidity risk in most rural banks.

2.4.5 Assessment of Borrowers Credit Worthiness

Analyzing the credit worthiness includes the collection, screening and analyzing of data on the credit applicant. A critical component of this information flow is the existence of credit rating. Credit rating is not a popular activity in Ghana due to the lack of technological and communication infrastructure as well as the lack of cooperation from firms in providing information that pertains to them as well as their customers.

2.5 Empirical Review

Matere (2013) in his study of The Relationship between Credit Risk Management Practices and Financial Performance of Private Hospitals in Kenya found that private hospitals considers risk identification as a process in credit risk management. Credit risk management procedures can be used to influence profitability of the private hospitals and recommends the management of the private hospitals to oversee facilitation of credit risk management as a substantial degree of standardization of process and documentation. In addition, the study concludes that director's report on risk monitoring enables the private hospital management to discover mistake at early stage and make sure that risk management practices are in line with proper risk monitoring.

Gatuhu (2013) in conducting a study on The Effect of Credit Management on the financial performance of microfinance institutions In Kenya found that client appraisal, credit risk control and collection policy had effect on financial performance of MFIs in Kenya. The study established that there was strong relationship between financial performance of MFIs and client appraisal, credit risk control and collection policy. The study established that client appraisal, credit risk control and collection policy significantly influence financial performance of MFIs in Kenya. Collection policy was found to have a higher effect on financial performance and that a stringent policy is more effective in debt recovery than a lenient policy. The study recommends that MFIs should enhance their collection policy by adapting a more stringent policy to a lenient policy for effective debt recovery

Asante (2015), in his study on Assessing Credit Management Practices in Savings & Loans Companies in Ghana, revealed that one of the hallmarks of the credit management practices was the client appraisal adopted by the institution which allowed for a comprehensive assessment of clients as well as identify any inherent risks. It was also discovered that the institution had a credit management policy in place and that it was effective in managing the credit risk associated with the credit granting processes and that if strictly complied with, helped reduced non-performing loans as well as improve the quality of loan portfolio. Credit risk management strategies of selected financial institutions in Malaysia pointed out that

Appiah (2015) additionally directed an Evaluation of Credit Management and its Effect on Performance of Rural Banks in Ghana and indicated that credit management has significant impact on the performance of the bank. The study further revealed that the main factors causing loan default are laxity in loan monitoring, diversion of credit on the part of customers and customer business failure. The result also showed that the bank has been performing creditably well in the area of credit management through effective appraisal system and efficient recovery strategy. This falls in line with one of the goals of the research work which is establish the relationship between credit management practices and institutional performance in credit granting institutions in Ghana with profitability being one of the performance measures to be utilized.

2.6 Summary of Literature Review

The chapter also concentrated on empirical facets of credit management and financial performance. Local studies that have been done on credit management do not focus on the effect of credit management on the financial performance of hospitals, there is therefore a gap in the empirical evidence available. This study seeks to bridge the gap.

3.0 METHODOLOGY

3.1 Research Design

This study will adopt the qualitative method approach because it will provide deeper information into the phenomenon under study which makes the information richer. The qualitative approach will rely on a case study design. It also provides a more in-depth examination of the phenomenon. A case study examines a research topic or phenomenon within its ambience or within a number of real-life contexts was employed in the research. Yin (2009) highlighted the importance of context, adding that, within a case study, the boundaries between the phenomenon being studied and the context within which it is being studied are not always apparent.

Secondary data was collected from annual reports of portfolio size, credit recovery rates, credit performance as well as interest income from 2013 to 2015.The close ended questions were used to collect opinion variables as well as test the rating of various attributes. Opinion variables record how respondents feel about something or what they think or believe is true or false.

3.2 Target Population

According to Baxter and Jack (2008) the population for a survey is the entire set of units for which the survey data are to be used to make inferences. The population for the study was made up of all staff of the accounts department. The study was done on respondents who were staff drawn from the credit department and the finance department.

3.2.1 Sampling technique and Sample size determination

The purposive sampling technique was employed for the qualitative; according to Cooper and Schindler (1998), purposive sampling, also known as judgmental, selective or subjective sampling, is a type of non-probability sampling technique where the units that are investigated are based on the judgment of the researcher.

3.2.2 Sampling Procedure & Sample Size

Persons were selected into a sample population by judgmental or purposive sampling from the population of employees due to the specific needs of the topic which required people who were directly involved in the credit administration and procedures of the company and who were also available at the time of carrying out the research work.

3.3 Data Collection

For the purpose of this study both primary data and secondary data was collected and this was done through the administration of well-structured interviews. Qualitative data was collected using interviews which were done purposively. The close ended questions were used to collect opinion variables as well as test the rating of various attribute which helped in obtaining more standardized information. The interview was used to get a more detailed information.

3.4 Data Analysis Method

In order to fully evaluate credit management in the university hospital, qualitative method will be used. Qualitative research is a means for exploring and understanding the meaning individuals or groups ascribe to social or human problem. Data analysis of the interview will be done based on key themes.

4.0 RESULTS AND DISCUSSION

In this chapter, the results from data collected is discussed and presented. The result obtained is further discussed and compared with existing literature on the subject. The study has four main specific

objectives. The first is to explore credit management policies of university of Ghana hospital. The second objective looks at assessing the effectiveness of the credit management practices. The third objective looks at assessing the compliance of the credit management practice to the policy. The final objective looks at assessing the effectiveness of credit management on the financial performance of University of Ghana Hospital.

In order to meet the objectives of the study, both primary and secondary data were used. The primary data involved information collected from the credit management department of the hospital. The secondary data comprised of financial ratios such as Return on Equity (ROE) and return on assets (ROA). A total of ten (10) Credit Officers and accounting officers of the hospital were interviewed. Out of this number, eight (9) representing a response rate of 90.5 percent were successfully interviewed. Out of the ten (10) respondents, 5 (36.8%) were directly responsible for Credit Management, 1 (5.3%) was the Chief Accountant who has oversight responsibility of credit management department, while 4 (57.9) of the respondents were Accounting Officers. The result also indicates that the respondents have varying degree of experience in the health sector in general and credit management in particular. For instance, it can be observed from the res that eleven () of the respondents, representing 57.9 percent of the total sample has served the bank for between one to five years, while the remaining 42.1percent have been working with the bank for over five years. The result from the background characteristics of the respondents gives credence to the fact that the respondents possess valuable information that helped to enhance the validity of the study.

4.1 Target customers

An effective credit management requires hospitals to target customers who are credit worthy and are able to repay their credit. Information obtained from University of Ghana Hospital indicates that the hospital provides credit to corporate institutions (which include, Bank of Ghana, Ghana Water Company, University of Professional Studies, Accra, National Accreditation Board, WAEC, GAA, GLICO Healthcare, ACACIA Health Insurance and Premier Health Insurance) and organizations who agree to finance the cost of medical services provided to their employees.

4.2 Analysis of Interview with Chief Accountant and Credit Officers

To ascertain information that is essential for the understanding of credit management practices of the hospital, an interview with the Chief Accountant and credit Officers was conducted. The researchers personally, organized the interview session using face-to-face approach. The responses were captured based on the questions asked by the researcher.

4.2.1 The Level of Expertise of Employees in the Credit Department of University of Ghana Hospital

The interview with the chief accountant revealed that most of the employees lack the skills and experience needed for effective credit management. He stressed that, it has become necessary for the hospital to provide training to credit officers to improve on their delivery. He further disclosed that it will take more than two years to train employees to appreciate the risk aspect of their work. This finding confirmed those findings obtained from the credit officers who stated that lack of expertise in the area of credit management is affecting the smooth administration of credit management of the hospital. The result implies that the hospital must recruit more experts in the area of credit management to reduce credit default and improve its profitability.

4.2.2 *Credit Management Framework and Policies of your hospital over the years*

In responding to this question, the interviewee explained that the authority to approve credit is vested in the top management of the hospital on who should be granted credit based on the client's credit appraisal. This, he explained, is a strategy to ensure that managers do not use their discretion to compromise on good credit management practices. The credit policy of the hospital, he explained, is to grant credit to clients with the ability to repay based on credit appraisal. He was however quick to explain that the hospital has a policy to cease all medical services to clients whose outstanding balances are above the past due bracket over a certain period of time.

4.2.3 Compliance of credit management practices

The head of credits of the bank explained that two main strategies have been adopted to manage risk, especially credit risk in the bank. The first is that the bank has a system to verify information received from loan applicants from credit reference systems and bureaus. The reason for this strategy, he disclosed that this strategy was designed to ensure that customers who have bad credit history are barred from receiving credit from the bank.

The response given by the Chief Accountant relates to the general views expressed by the credit officers that the bank has a risk management framework to ensure that the credit appraisal system is followed based on laid down procedure. It is therefore not surprising that the bank has been able to improve its loan recovery rate over the years.

4.2.4 Effectiveness of the implementation of credit management policies.

The interview revealed that the hospital has not been impressive in managing its credit risk. For instance, it was revealed that out of GH¢758,342.15 credit portfolio balance, over GH¢538,253.08 representing 70.98% in 2014 and out of GH¢ 917,259.41 credit portfolio, 613,391.44 representing 66.87% in 2015 are in past due bracket. This shows that the unhealthy portfolio report. As far as credit monitoring is concerned, he stated that the monitoring of credit lies with the credit officers.

The responses provided by the credit officers of the hospital agree with the findings obtained from the interview with the chief accountant that effectiveness of implementation is not so encouraging. This is also evidence from the analysis of the secondary data obtained from the hospital which reveals that the hospital is not managing its credit effectively.

4.2.5 Challenges in Managing Credit in the hospital

Some of the challenges revealed by the interviewee include the following; lack of a well formulated comprehensive credit policy to guide the overall credit administration of the hospital. Secondly, lack of staff competence to perform their duties as credit officers. Thirdly, poor attitude towards credit monitoring and recovery by staff was identified as a major challenge affecting credit management of the hospital. Finally, the credit department is seriously under resourced in terms of personnel and logistics. It was revealed that, the officers will have to book days or weeks ahead for a vehicle in order to go for credit monitoring and recovery from clients. These challenges identified by the chief accountant are similar to those expressed by the credit officers. The interview further revealed that the overall performance of the hospital has been affected negatively as a result of the challenges discussed above.

4.2.6 Management of the Challenges

As part of the comprehensive risk policy being embarked upon by the bank, the credit manager has instituted a proper filing System to manage loan forms for easy reference. Further, the bank has instituted training programs for credit staff to sharpen their skills on credit risk management at their respective Branches.

5.0 CONCLUSIONS

5.1 Introduction

The overall aim of the study was to assess the effectiveness of credit management practices and how it affects the performance of hospitals specifically University of Ghana Hospital. This study, adopted a case study design. The objective of research is to test hypotheses about cause-and-effect relationships. The population of this study comprised of all staff in the accounts department in University of Ghana Hospital.

5.2 Summary of Findings

The study had three specific objectives. The findings of these objectives are summarized as follows:

5.2.1 Credit Management Policies of University of Ghana Hospital.

The findings of the study indicated that the hospital has good credit management policies. The result further show that due credit appraisal is done by the hospital before granting credit facilities to clients. Credit appraisal is done in the area of the client's ability to pay, character, business performance and borrower's credit history. This is evidence that the hospital follows all the credit appraisal processes stipulated by Basel (1999). However, the credit officer's efforts in implementing these policies were not effective. For instance, it was revealed that 43.60% in 2014 and 50.23% in 2015 of the total sundry debtors' figures of the hospital are in the past due bracket which is causing liquidity and cash flow problems for the hospital. This shows the poor monitoring and collection practices of the credit department. The result clearly shows that the hospital is not performing well when it comes to credit recovery.

5.2.2 Credit Management Practices of the Hospital.

The second objective of the study was to examine the main causes of credit risk (default) within rural banks using Adansi Rural Bank Limited as a case study. The result indicated that diversion of loan by customers constitute the major cause of credit default by customers (Mean=2.58, s.d=0.607). The low standard deviation value means that majority of the credit officers identified diversion of credit as a major cause of loan default. The second major cause of credit default at the bank was identified as customer business failure (Mean=2.26, s.d=0.653). Poor monitoring of credit customers was also identified as the third major cause of loan default at the bank (Mean=2.21, s.d=0.0.787).

5.2.3 Effect of credit risk Management on Performance of Rural Banks

The descriptive statistics shows that within the period considered, the average return on equity (ROE) was 105.15%. This indicates a very high return on equity to investors. This means that each shareholder's equity invested in the bank generates twice its value. This indicates that over the years, the bank has been doing well in improving profitability. Also, the capital adequacy ratio within the period averages 22.5%, which is relatively high compared to the industry average of 15%. The higher CAR indicates that the bank is more liquid and reliable

The result of the correlation analysis shows a positive relationship between ROE and CAR, Meaning that an increase in CAR leads to an increase in ROE, and vice-versa. However, the negative relationship between NPLR and ROE indicates that an increase in NPLR leads to a decrease in ROE. The regression result (See table 4.8) indicates that credit management has significant impact on the performance of the banks. This means that if rural banks prioritize their credit management practices it will positively improve their profitability.

The study found that the predictive power of the regression model was quite high (i.e. Prob>F = 0.05). Thus, this model can be used in similar studies to predict the relationship between credit risk management and rural banks financial performance. The result means that credit management has significant impact on the performance of rural banks. The R-square value of 0.4445 indicates that 44.5% of the variations in performance (ROE) were explained by credit management. This means that 55.5% of variations in the bank's performance were as a result of other factors such as managerial competence, liquidity management and marketing skills.

5.3 Conclusion

Most rural banks are unable to stay in business because of their inability to manage credit risk effectively. For instance, Asiedu-Mante (2011) reported that most rural banks are unable to compete with commercial banks because of their poor credit management practices. Against this backdrop, the study evaluated the credit management of rural banks using Adansi Rural Bank as a case study. The bank was selected for the study because of its impressive financial performance over the years. Both primary and secondary data were collected for the purpose of meeting the objectives of the study.

The primary data was collected mainly from credit officers of the rural banks whiles the secondary data in the form of Return on Equity, Capital Adequacy Ratio, and Non-performing loan ratio was collected from 2009 to 2014. The credit appraisal, credit disbursement and credit monitoring and collection were analyzed per the questionnaire. The result indicated that the bank's credit management

practice is satisfactory since it follows the key appraisal system. Also, the bank has been able to reduce its loan default rate below the benchmark set for rural banks. The study further established that the main causes of loan default in the bank are loan diversion, customer's business failure and poor monitoring practices of the bank. The study also found that, credit management has significant impact on the performance of rural banks in Ghana

5.4 Recommendation

Top management must ensure, in managing credit risk, that all guidelines are properly communicated throughout the organization and that everybody involved in credit risk management understands what is required of him/her. Sound credit risk management system (which include risk identification, measurement, assessment, monitoring and control) should strictly be guided as policies and strategies which clearly outline the purview and allocation of a bank credit facilities and the way in which credit portfolio is managed; that is, how loans were originated, appraised, supervised and collected. Second, the bank must improve its monitoring practices since the major cause of loan default is diversion of funds. This can be done by setting a monitoring and recovery team in place to visit loan customers to ensure that the loans are applied for the intended purpose. If there is a recovery unit already in place, then the team of officers should be adequately resourced to ease and improve the efficiency of their work.

Also, the bank should improve its information technology system to electronically monitor the accounts of loan customers at various branches to be abreast with how they are amortizing their debt. Thirdly, the study recommends that the banks should provide non-financial services in the form of training and business advice to their customers. This will go a long way to improve their business performance and enhance their ability to repay their loans.

Furthermore, the findings revealed that almost a third (44.5%) of the variations in performance (ROE) of the bank is explained by credit management. This means that the bank must prioritize its credit management since it has significant impact on its performance. Finally, since the bank has a very high Capital Adequacy Ratio (CAR) the study recommends that the bank should advance more loans to support the rural economy. This will enable the bank to earn more interest and therefore record better profitability.

The overall aim of the study was to assess the effectiveness of credit management practices and how it affects the performance of hospitals specifically University of Ghana Hospital. This study, adopted a case study design. The objective of research is to test hypotheses about cause-and-effect relationships. The population of this study comprised of all staff in the accounts department in University of Ghana Hospital. The researcher used both primary (obtained through face to face interviews with well-structured questions) and secondary data. The findings of the Study revealed that the hospital considers risk identification as a process in credit management to a very great extent, that in view of risk analysis and assessment as a credit management practice in the hospital the application of modern approaches to risk measurement, particularly for credit and overall risks is important for hospitals, the director's report on risk monitoring enables the shareholders to assess the status of the corporation knowledgeably and thoroughly, that the hospital considers credit risks to ensure profitability and that the hospital considers technology risks to ensure profitability

Private hospitals in Kenya use credit risk appraisal, assessment and evaluation processes when ascertaining the creditworthiness of their customers and capacity is the most significant factor in credit risk assessment, appraisal and evaluation process followed by character, condition, common sense and control in that order. Private hospitals attach a great significance to credit risk, followed by liquidity risk, foreign exchange risk, strategic risk, interest rate risk and operational risk in that order.

Consequently, the study found that the level of credit risk assessment and management was high in the hospitals. All the private hospitals in Kenya follow procedures when assessing and managing credit risk and that credit risk assessment and management affects credit risk in the private hospitals in Kenya. The study found that the organizations have specified credit collection period.

Further, private hospitals inability to enforce covenant of private hospitals was high. Effective management of private hospitals was affected by liquidity and probability and that asymmetric information in loan market affects the effective management of non-performing loans in private hospitals. The study found that inability to enforce covenant causes credit risk among private hospitals in Kenya. In fact, 90%

of private hospitals indicate that the inability to enforce covenant of private hospitals was high. Liquidity and probability affect the effective management of credit risk in private hospitals. Asymmetric information in loan market affects the effective management of non-performing loans in listed private hospitals.

5.2 Conclusions

Based on the above findings, the study concludes that the hospital considers risk identification as a process in credit risk management to a little extent, that the hospital focuses in interest rate risks to a great extent in the risk identification map and that the hospital focuses in foreign exchange risks to a moderate extent.

The study also concludes that in view of risk analysis and assessment as a credit risk management practice in the hospital the application of modern approaches to risk measurement, particularly for credit and overall risks is important for hospitals. In addition, the study concludes that director's report on risk monitoring enables the shareholders to assess the status of the corporation knowledgeably and thoroughly, that risk monitoring helps the hospital management to discover mistake at early stage and that risk monitoring can be used to make sure that risk management practices are in line with proper risk monitoring

Credit risk management procedures affect profitability of the hospital to a great extent, that to facilitate credit risk management as a substantial degree of standardization of process and documentation is required, that credit risk management leads to standardized ratings across borrowers and a credit portfolio report that presents meaningful information on the overall quality of the credit portfolio.

The private hospitals should consider risk identification as a process in credit risk management and focus in interest rate risks and foreign exchange risks to a great extent in the risk identification map. Further, the private hospitals should involve internal auditors, external auditors, middle and lower-level employees as well as senior employees in the process of risk identification. Auditors should be involved by making them begin the inherent risk evaluation process by generating expectations of accounts balances, by letting them determine how changes should interact with historic trends to produce an expected balance in the account to a moderate extent and also by letting them identify changes that have occurred in the firm or its environment to a moderate extent.

In addition, the study also recommends the application of modern approaches to risk measurement, particularly for credit and overall risks for hospitals in view of risk analysis and assessment as a credit risk management practice. Further, director's report on risk monitoring should enable the shareholders to assess the status of the corporation knowledgeably and thoroughly, that risk monitoring helps the hospital management to discover mistake at early stage and risk monitoring be used to make sure that risk management practices are in line with proper risk monitoring

Finally, the research recommends credit risk management procedures can be used to influence profitability of the hospital positively, and also recommends the management of the private hospitals to oversee facilitation of credit risk management as a substantial degree of standardization of process and documentation. Further, since credit risk management leads to standardized ratings across borrowers and a credit portfolio report that presents meaningful information on the overall quality of the credit portfolio it should be used to ensure that all credits are monitored, and reviewed periodically to allow the hospital to report the quality of its loan portfolio at any time.

5.3 Policy Recommendation

Risk is corporally related to competitiveness and profitability of private hospitals. It is important for private hospitals management to understand how they can edge themselves against the eminent dangers of over exposure to credit risk whose importance cannot be understated as can be realized from the findings that can impact negatively on their profitability. This can be achieved through strong adherence to the use of credit appraisal model. Since private hospitals are also bound to provide emergent medical care regardless of the financial abilities of the patient there should be a clear guideline policy to help cushion them against defaulters. The private hospital should ensure that all services are rendered on a cash basis, but credit may be granted based on the financial situation of the patient, and considering their past compliance with the hospital credit and payment policies.

Credit should be extended based on strict guidelines. The settlement of the patient account should be paid in full within 30 days from the date of initial statement of billing unless satisfactory payment arrangements are agreed with the patient accounts department. All payment arrangements should comply with the government guidelines and disclosures, if any. Finally, all payment arrangements should be documented in writing, either as an entry into the patient record, or as a promissory note signed by the patient or guarantor.

With the assistance of the Patient Accounts Department, satisfactory payment arrangements should be tailored to the individual capacity of the patient or guarantor. In cases where the patient does not have insurance or other means to pay the balance at the time of service, a credit application must be filled out, and credit arrangements made with the assistance of the Patient Account. The results of this study are in line with a considered view in the credit risk management literature and provide an important insight for credit risk management process, appropriate culture and credit policy designed taking into consideration the credit risk evaluation, assessment and appraisal procedures.

5.5 Suggestions for Further Studies

This study has investigated the relationship between the credit risk and financial performance of private hospitals in Kenya. To this end therefore a further study should be carried on public hospitals to see whether the same results also hold by testing the variables in this study. The impact of moral hazard on credit risk administration in Kenyan private hospitals. Moral hazard in credit mainly arises from information asymmetry. If information asymmetry is not checked, it will lead to obtaining of improper information that subsequently leads to wrong credit decisions.

Moreover, a study should be carried out to investigate the challenges caused by credit risk on financial performance of private hospitals in Kenya. Finally, a study should also be carried out to investigate the relationship between the credit risk management procedures in influencing profitability of hospitals.

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