MAKERERE UNIVERSITY

MAKERERE UNIVERSITY BUSINESS SCHOOL

PERCEIVED QUALITY OF LOAN APPRAISAL REPORTS, RELATIONSHIP QUALITY, MUTUAL DISCLOSURE AND LOAN PERFORMANCE: A CASE OF CENTENARY RURAL DEVELOPMENT BANK

BY

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DECEMBER, 2009

DECLARATION

I declare that this dissertation is my own work, and it has never been presented for a degree award to any University.

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APPROVAL

This is to certify that this dissertation has been submitted with our approval as University Supervisors.

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DEDICATION

To the Almighty God who is the stream of my knowledge and wisdom, My Parents, My Husband, My children, My Supervisors and friends.

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Most of all I thank the Almighty God the stream of my inspiration, wisdom and grace to complete this research. I extend my sincere appreciation to my supervisors, Dr. Joseph Ntayi and Dr. Isaac Nkote Nabeta for their professional guidance and devotion through out the preparation of this dissertation. I am very grateful to the Management and the Staff of Centenary Bank for their guidance and support.

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ABSTRACT

The study sought to examine the impact of perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance of Centenary Bank. A sample of 637 respondents was selected using disproportionate stratified random sampling. Data collection was carried out using self administered questionnaires from the respondents. In particular, the study examined relationships between the study variables; perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance and found that all the correlations were significant and positive. The results from the regression analysis revealed that mutual disclosure and perceived quality of loan appraisal reports were strong predictors of loan performance. The absence of mutual disclosure, relationship quality and correct perceptions about the quality of loan appraisal reports at Centenary Bank attributed to the existence of poor loan performance. This is because a satisfied customer will provide a roadmap as regards the loan performance of the organization. Therefore, loan performance strategies should be designed to reflect organizational strategy, to realize the organization's vision and strategic intent through developing the desired performance culture and values, innovation, risk-taking etc. To be comprehensive, any measure of performance evaluation must include not only contributions to organizational performance through measures of business success but must also include behaviors that are aligned with the business strategy.

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LIST OF ACRONYMS

ANOVA:	-	Analysis of Variance
SPSS:	-	Statistical Package for Social Sciences
UGX:	-	Uganda Shillings

CHAPTER ONE

INTRODUCTION

1.0 Background to the Study

According to Anjichi (1994), lending is the process that involves three basic stages of appraisal, documentation (credit analysis), disbursement (execution) and monitoring and control. Naughton and Dietz (1996) assert that the most frequent factor in the failure of banks has been quality of loan approval reports. Quality of loan approval reports according to Under down, (1995) , is defined using relevance, reliability, and completeness as characteristics factors using Under-down's primary characteristics basic to any organization environment irrespective of size, ownership and nature of the business unit. From the customer's perspective relationship quality is achieved through the salesperson's (banker's) ability to reduce perceived uncertainty (Zeithaml, 1981). In a personal context, disclosure involves revealing personal information about oneself to another (Collins and Miller 1994) whereas in a business context, this could be interpreted as sharing information about production schedules, quality initiatives, strategic plans, etc. (Walton 1996). Mutual disclosure is important for establishing trust which is considered as an essential component of relationship quality (Crosby, Evans, and Cowles 1990; Morgan and Hunt 1994) where the information is be either descriptive or evaluative.

Centenary Bank is a commercial micro bank operating with over 28 branches country wide. Jacobson, (1999) and Carlton *et. al.,* (2001) assert that the bank is one of the leading providers of microfinance services in rural Uganda. With respect to Centenary Rural Development Bank, the major problem facing the bank has been identified as failure to manage loan default (Centenary Bank Annual Reports, 2005, 2006, 2007). The management of the bank depends on incentives to repay on time; instant arrears information and delinquency tracking; immediate action to enforce repayment; and rigorous recovery in case of defaulting to achieve loan repayment (Annual Report, 2005). Out of the 28 operational branches of Centenary Bank micro lending performance indicates that the total average portfolio for each branch is UGX. 13.1 billion of which UGX. 3.7 billion is in individual micro loans with a total arrears rate of 3.7% for the year 2007. For the years 2006 and 2005, the bank closed with arrear rates of 3.6% and 5.46% respectively. The above weaknesses may be responsible for the high default rate.

The available literature on the bank's micro lending performance for the last three years indicates that it has continued to record average arrear rates of 4.24% and Non-Performing Assets (NPA) rates of individual micro loans of 1.4% in comparison to the acceptable rate of 1% by Bank of Uganda. Darrow (2001) asserts that failure to effectively apply credit risk policies could be the major cause of high loan default. The performance of commercial banks in credit extension and allocation of resources has been deemed as unsatisfactory, and this being evidenced by unsatisfactory recovery rates (Under down, 1995).

1.1 Statement of the Problem

Although the progress and restructuring of Centenary Bank has been on going for some time, the bank has continued to suffer from non-performing loans and bad debts hence making it vulnerable. It is probable that this poor loan performance is attributed to the poor quality of loan appraisal reports, mutual disclosure and relationship quality.

1.2 Purpose of the Study

The study sought to investigate the relationship between perceived quality of loan appraisal reports, mutual disclosure, and relationship quality and loan performance.

1.3 Objectives of the Study

i) To establish the relationship between perceived quality of loan appraisal reports and mutual disclosure.

ii) To examine the relationship between mutual disclosure and loan performance.

iii) To establish the relationship between perceived quality of loan appraisal reports and relationship quality.

iv) To establish the relationship between relationship quality and loan performance.

v) To establish the relationship between perceived quality of loan appraisal reports and loan performance.

1.4 Research Questions

i) What is the relationship between perceived quality of loan appraisal reports and mutual disclosure?

ii) What is the relationship between mutual disclosure and loan performance?

iii) What is the relationship between perceived quality of loan appraisal reports and relationship quality?

iv) What is the relationship between relationship quality and loan performance?

v) What is the relationship between perceived quality of loan appraisal reports and loan performance?

1.5 Scope of the Study

- **Subject Scope:** The study was limited to the relationship between perceived quality of loan appraisal reports; mutual disclosure; relationship quality as the study variables and loan performance as the dependent variable.
- **Geographical Scope:** The study covered all the 28 branches country wide.

1.6 Significance of the Study

The study will make the following contributions:

i) The study will contribute to the wealth of knowledge on loan performance in financial institutions especially in the Ugandan setting.

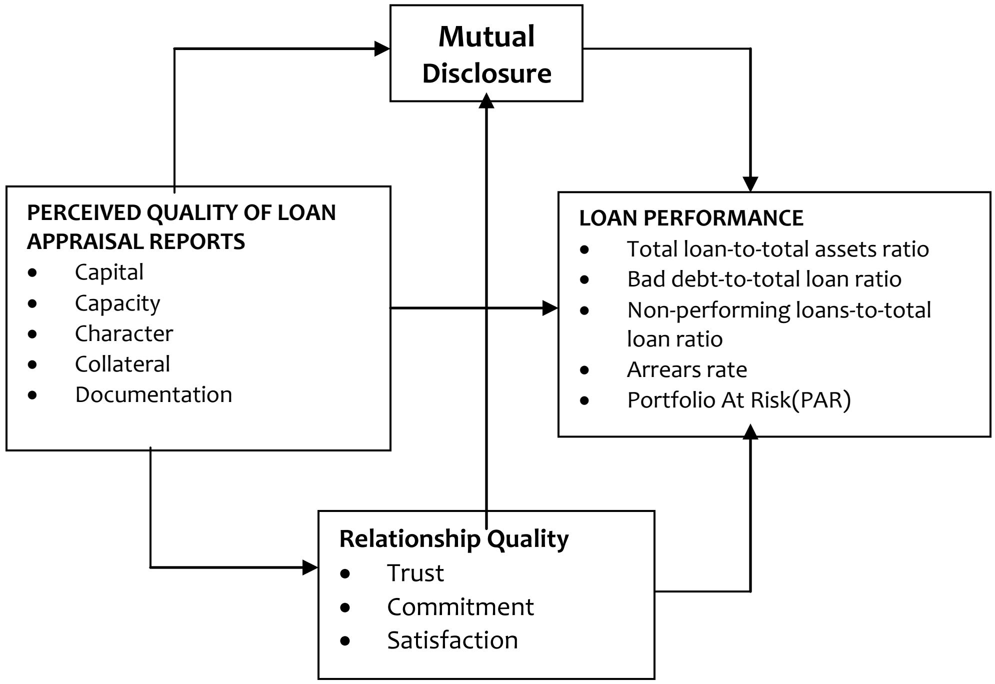
ii) Commercial banks could use the findings to establish the service gaps in their service offering, so as to improve their loan portfolio performance.

iii) Policy makers in the banking sector most especially financial institutions could use the findings to draw up policy in line with different constructs under consideration in this study and the findings to enhance their loan performance.

iv) Scholars interested in carrying out further research in this area will use the results as a foundation.

1.7 Conceptual Framework

Figure 1: Conceptual Framework



Developed from literature review: *Managiameli & Reothlien, (1999), Reer, and Bednor, (1994), Hunt, 2000 and Turner, 2000), Under down, (1995, Lewis, (1994) and Pizzey (1993)*

The model shown in the figure above examines the relationship between perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance. perceived quality of loan appraisal reports play a big role in connecting the product to the consumer in such a way that loan performance is built.

CHAPTER TWO:

LITERATURE REVIEW

2.0 Introduction

Various scholars and authors provide some literature on quality of loan appraisal reports, loan performance, their relationship, and conclusion. The literature review has been divided into four sections that is quality of loan appraisal reports, loan performance and their relationship and conclusion.

2.1 Loan Performance

Loan performance may briefly be viewed as the collection of the bank loan within the specified period of time (Harrison, 1996). How successful is the bank able to meet its lending objectives. The performance of commercial banks in credit/loan extension and allocation of resources has been deemed as unsatisfactory, this evidenced by recorded unsatisfactory recovery rates (Ssewagude, 2000). According to McKinnon and Shaw, (1973), the Loan crisis affirms that Loan default is pervasive in the developing financial markets, and various argument have been put forward to explain the causes; having the lender based causes (lending practices) perhaps the most serious.

2.2 Quality of Loan Appraisal Reports and Mutual Disclosure

Quality is often a subjective goal that has indefinable characteristics, Managiameli & Reothlien (1999). Quality is defined and measured differently, largely dependable on one’s view point. Reer, and Bednor, (1994), defined quality as excellence, value and conformance to specifications. American Quality foundation and Ernest and Young (1992), assert that, world wide quality practices vary, although quality continually emerges as a tip competitive priority within the firms. The qualitative characteristics identified include; relevance, reliability, timeliness, comparability, understandability, completeness and objectivity which enable communication of decision useful information (Hunt, 2000 and Turner, 2000). In the study, quality is defined using relevance, reliability, and completeness as characteristics factors using Under-down’s primary characteristics basic to any organization environment irrespective of size, ownership and nature of the business unit (Under down, 1995).

Reliability refers to information characteristics that relate to dependability, representational, faithfulness, comprehensiveness and verifiably of information Lewis, (1994) and Pizzey (1993). External decision makers should be able to count on the reliability of all information in the reports Dyckman (1998). For instance doubts about the reliability of corporate financial statements contributed to the breadth and depth of the Asian economic and financial crises, International Chamber of Commerce (2000). Lewis and Pendril (1994), argue that information is relevant if it has the capacity to help the decision makers to a predictive, confirmatory and corrective decision. Business units should churn out information presented after the decision has already been made. Disclosure implies the presentation of a minimum amount of information in corporate reports, sufficient to permit a reasonable evaluation of the relative risks facing an organization. Adequate disclosure in reports is a function of the quality and quality of information discussed therein, the form in which it is presented and how frequent or timely it occurs (Owusu-Anash, 1998). It is crucial that the information disclosed is based on sound measurement principles and that the principles are properly applied. The problem of information disclosure is of considerable relevance to the banking industry (Ross, 1979).

By the very nature of the banking business, the banks actively issue stocks and public debt to investors, and put the proceeds mostly in assets with value uncertain to the outside investors (Noe, 1999). Second, the bank assets are mostly non-tradable loans, for the banks specialize in lending to borrowers of publicly unknown quality by gathering information about the borrowers and using it for their screening and monitoring. The opaque nature of bank assets makes the argument by Diamond (1985) about disclosure as a socially desirable way to economize on costly acquisition of information especially acute and explains why the issue of bank disclosure may be socially important. According to Naughton & Dietz (1996), Appraisal procedures are the cornerstone of a sound credit management process because they are an objective standard that guides lenders to choose only trust worthy (credit worthy) applicants. The foundation of credit is faith – faith of the lender in the borrower's ability and willingness to honor his obligations.

2.3 Quality of Loan Appraisal Reports and Relationship quality

According to Anjichi (1994), lending is the process that involves three basic stages of appraisal, documentation (credit analysis), disbursement (execution) and monitoring and control. A credit decision should be made on rational basis and according to the Banks policies and procedures as far as lending is concerned (Van Greuning, 2003). In some service contexts, buyers face considerable uncertainty stemming from such factors as intangibility, complexity, lack of service familiarity and long-term horizon of delivery (Crosby et al., 1990). Uncertainty of outcomes implies the possibility of service failures and unfavorable consequences. Relationship quality from the customer's perspective is achieved through the salesperson's (banker's) ability to reduce perceived uncertainty (Zeithaml, 1981).

Problems or weaknesses in loan documentation create serious problems for banks particularly in the area of credit protection, as they may leave a bank unprotected if a client runs into difficulties (Day & Taylor, 1996). Therefore, High quality relationship means that the customer is able to trust the banking services provider, and can count on her/his commitment to service and evolving relationship, efficient communication and conflict handling ability. Thus, the more general concept of relationship quality describes the overall depth and climate of a relationship (Johnson, 1999). Besides satisfaction and (relative) overall quality perception, which refer to product or service dimensions, the customer's evaluation of the *relationship* with the company also impacts loan performance and must be considered. However, the literature dealing with the idea of relationship quality is scarce. Moorman, Zaltman, and Deshpandé (1992) are among the few who consider the mere existence of the relationship quality construct. In another empirical investigation, Palmer and Bejou (1994) identified several factors that function as determinants of relationship quality.

One attempt to conceptualize relationship quality in a particular context (life insurance) has been made by Crosby and co-workers (Crosby, 1991; Crosby, Evans, & Cowles, 1990), who view relationship quality as "the salesperson's ability to reduce perceived uncertainty" (Crosby et al., 1990, p. 70). Relationship quality then is "composed of at least two dimensions, (1) trust in the salesperson and (2) satisfaction with the salesperson" (Crosby *et al.,* 1990, p. 70). For a general conceptualization of relationship quality, other important functions of relationships beyond uncertainty reduction by a specific person, such as interaction efficiency and other aspects of transaction cost reduction, social need fulfillment, et cetera, should be considered.

Similar to the conceptualization of service quality, relationship quality can be seen as the degree of appropriateness of a relationship to fulfill the needs of the customer associated with that relationship. Because the exchange of products and/or services is the fundamental feature of any buyer–seller relationship, the (relative) overall quality perception as conceptualized in the preceding sections should be included first as a basic component of relationship quality. A product or service that meets the customer's needs must be considered an absolutely indispensable condition of high relationship quality.

As in Moorman et al., (1992) *trust* is defined here as the "willingness to rely on an exchange partner in whom one has confidence" (p. 315). The semantic content of other commonly discussed definitions overlaps to a relatively high degree, indicating a certain consensus on the understanding of trust among scientists (e.g., Anderson & Narus, 1990; Morgan & Hunt, 1994; Schurr & Oxanne, 1985). *Commitment*, however, can still be found in significantly varying theoretical conceptualizations (see Young & Denize, 1995, for an overview). It is defined here as a customer's long-term ongoing orientation toward a relationship grounded on both an emotional bond to the relationship (affective aspect) and on the conviction that remaining in the relationship will yield higher net benefits than terminating it (cognitive aspect). This definition consciously excludes behavioral aspects like investments in the relationship or different forms of mutual adaptation, which can be found subsumed under commitment by some authors (e.g., Brown, Lusch, & Nicholson, 1995; Gundlach, Achrol, & Mentzer, 1995). It seems more appropriate to consider these overt behaviors as *outcomes* of high levels of commitment to a relationship and not to blend them into one definition with their intrapsychological antecedents. A high level of commitment is given when there exists both a rational bond (net benefits) as well as an affective bond (emotional tie) to the relationship. Because trust and commitment serve multiple relationship functions, they can be considered to be what "distinguishes productive, effective relational exchanges from those that are unproductive and ineffective—that is whatever produces relationship marketing successes instead of failures" (Morgan & Hunt, 1994, p. 22). These crucial functions of trust and commitment can be provided mainly because they "lead directly to cooperative behaviors that are conducive to relationship marketing success" (Morgan & Hunt, 1994, p. 22).

2.4 Mutual Disclosure & Relationship quality

Mutual disclosure is defined as public disclosure of reliable and timely information that enables users of that information to make an accurate assessment of a bank's financial condition and performance, business activities, risk profile and risk management practices (Calomiris and Khan, 1991). This definition recognizes that disclosure alone does not necessarily result in transparency. To achieve transparency, a bank must provide timely, accurate, relevant and sufficient disclosures of qualitative and quantitative information that enables users to make proper assessment of the institution's activities and risk profile (Calomiris and Khan, 1991).

It is crucial that the information disclosed is based on sound measurement principles and that the principles are properly applied. The problem of information disclosure is of considerable relevance to the banking industry (Ross, 1979). By the very nature of the banking business, the banks actively issue stocks and public debt to investors, and put the proceeds mostly in assets with value uncertain to the outside investors (Noe, 1999). The value of the bank assets is uncertain first because these are financial assets, which allow quick and easy trading and thus enable the banks silently to shift risk to the investors (Noe, 1999). Second, the bank assets are mostly nontradable loans, for the banks specialize in lending to borrowers of publicly unknown quality by gathering information about the borrowers and using it for their screening and monitoring. The opaque nature of bank assets makes the argument by Diamond (1985) about disclosure as a socially desirable way to economize on costly acquisition of information especially acute and explains why the issue of bank disclosure may be socially important. Another likely avenue for welfare gains from bank disclosure is the reduction of the inherent instability of banking institutions. While investing in illiquid loans, the banks use high leverage and finance their activities mostly with short-term debt i.e., deposits. Since it is the depositors' uncertainty about the financial condition of their bank that drives them to run, disclosing information about the bank can prevent the socially undesirable runs. Furthermore, if a bank run is driven not by psychology but by poor financial performance of the bank, it will lead to a socially desirable reallocation of banking capital to more efficient institutions reveals by Jacklin and Bhattacharya, (1988); Chari and Jagannathan, (1988). Finally, disclosure may exert a welfare-improving effect by limiting excessive risk taking by banking institutions.

According to Mikhail Frolov (2004), asset capacity is in the nature of the banking business, and it amplifies the banks' incentive to moral hazard and creates conditions for their profiting at the expense of uninformed creditors. But better bank disclosure can curtail the moral hazard both ex ante and ex post. With the ex ante effect, the funding cost of risky institutions gets higher as potential depositors and other creditors appreciate the banks' (disclosed) financial condition. When ex post, the banks' risk-taking is disciplined by costs inflicted by en mass withdrawals of deposits from the risky institutions or just a threat of a run on them. Since the risk component beyond control is significant even for large and well-diversified banks, to enforce complete bank disclosure would be a socially inferior strategy. The last two arguments suggest that banks with more advanced disclosure may face higher funding costs regardless of their risk-taking behavior.

The market discipline argument, however, asserts that with improved disclosure risky banks will be charged with higher funding costs.

The list of disclosure-related costs and benefits of banking organizations can be extended to include institutional factors, personal costs and benefits of the management and so on. But unlike the non-banking firms, in practice the banks tend more to perceive the cost of disclosure outweighing its benefits, and they are typically cautious to go beyond minimal disclosure requirements or their regular disclosure practices. The lack of incentives to voluntary disclosure in banking brings attention to the issue of mandatory disclosure requirements. Over the past two decades, the banking disclosure regulation has been gradually strengthened in quantitative requirements and widened in scope of disclosed information world wide as well as in Bangladesh. In line with Beaver (1989), the change was driven by the growing complexity of financial environment and by the increased diversity of information needs. First, there was a general shift in the focus of financial disclosure requirements from the disclosure of economic earnings figures and other information about present results to wider disclosure of information that is useful in assessing the amount, timing, and uncertainty of prospective earnings. Second, banking regulators turned to greater reliance on market discipline as a means of limiting excessive risk taking by banking organizations (SGD, 2000).

Many factors may contribute to the quality of a banker- customer relationship. Relationship quality has two dimensions thus, trust and satisfaction, as in prior research on relationship quality (Crosby, Evans, and Cowles, (1990)). Trust is often cited as a critical ingredient for determining relationship success (Dwyer, Schurr, and Oh (1987); Schurr and Ozanne (1985); Morgan and Hunt (1994); Wilson (1995)). Trust is believed to alleviate risk and to increase cooperation in exchange relationships (Schurr and Ozanne, (1985); Swan and Nolan, (1985). Satisfaction refers to the degree to which interactions between the buyer and the seller meet their expectations for performance and can be based on evaluations of the tangible product or non-product related attributes such as delivery, service, or communication (Wilson, 1995). Relationship quality may depend on the nature of the organizations involved, the individuals in the organizations, and the nature of the situation. Interpersonal variables describe the characteristics of individual company representatives, while relationship variables describe the nature of relationships between buyer and seller organizations.

Interpersonal Variables focus on buyer perceptions of how the seller can influence buyer-seller relationship quality. In competitive business situations, there is always a chance that a seller can be replaced by a competitor. Therefore, it is useful to understand the seller characteristics that buyers think influence quality buyer-seller relationships. Handled risk is the "amount of conflict the product class is able to arouse when the buyer chooses a brand from a product class in his usual buying situation" (Bettman, 1973). It can be reduced by providing purchasers with additional information about brands or making the decision process easier (Bettman, 1973).

Essentially, handled risk is the risk associated with choosing a brand or company in a particular product category; for example, the risk of choosing IBM or some unknown brand for a firm's computing needs. Buyers can reduce handled risk dramatically if they feel comfortable with sellers. Relational selling behavior is the nature of the salesperson's behavior during customer interactions. Interactions may be in person, by telephone, or electronically. Relational selling behavior has many components, three of which are tested in this study because they have been significant in previous studies (Crosby, Evans, and Cowles, 1990; Collins and Miller, 1994; Williams and Spiro 1985; Williams, Spiro, and Fine

1990; Saxe and Weitz, 1982). Mutual disclosure is important for establishing trust. Trust is considered as an essential component of relationship quality (Crosby, Evans, and Cowles, 1990; Morgan and Hunt, 1994). In a personal context, disclosure involves revealing personal information about oneself to another (Collins and Miller, 1994). In a business context, this could be interpreted as sharing information about production schedules, quality initiatives, strategic plans, etc. (Walton, 1996).

2.5 Relationship quality and Disclosure

Disclosure plays an important role in market discipline since market participants need to have meaningful information on which to base their judgments of risk and performance. Disclosure is particularly important in the banking industry, since banks are generally viewed as being opaque to outsiders. A major benefit of disclosure is that it enables investors to make a more accurate assessment of the financial condition of the firm. Banks often specialize in the collection and evaluation of private information, and disclosure of proprietary information about their customers, as well as about their own risk management strategies, could be detrimental to their future profitability. The reluctance of bank management to disclose proprietary information about customers makes it quite difficult for outside monitors, without access to individual loan information, to fully assess the health of a bank. This is further complicated insofar as many bank loans are made to small borrowers who are bank dependent (Petersen and Rajan, 1994) and typically do not publicly disclose information about their financial condition. Since high quality relationship can reduce customers' uncertainty or perceived risk, and trust, commitment, disclosure and bank performance can enhance relationship quality (Admati, & Pfleiderer, 2000). With respect to CERUDEB, the banking sector experiences a very high proportion of non-performing assets;

30% of their loan assets are either non-performing or bad debts (Ministry of Finance and Economic Planning, 2002). Meanwhile the recommended non-performing ratio being 10%, commercial banks go up to 50%. The Bank of Uganda (2003), reports that poor performance of commercial banks in Uganda has led to a loss of approximately thirty one billion dollars.

The bank management must decide, too, upon the distribution of funds within the loan portfolio; that is, funds must be assigned to installment loans, commercials loans, real estate loans, and other. The assignment is made on the basis of the relative profitable of and demands for various classes of loans, subject to constraints required by prudence and imposed by regulation (Nsereko, 1995). Interest earned on these loans and investments provides the principles source of earnings out of which the bank meets the operation expenses involved in attracting and servicing deposit accounts and in managing its loans and investments. The World Bank (1993), states that commercial banks would remain in trouble until their loan portfolios and financial stand are improved mainly because of the accumulation over the years of an unmanageable number and amount of non-performing loans, as well as a relatively inadequate amount of loan loss provision (Admati, & Pfleiderer, 2000). the loan performance may be measured using proxies for the credit risk and measure of loan quality such as provision of loan loses, net loses or change-offs, non-performing assets, banks examiner classified asset as sub-standard, doubtful and loss. a high proportion of loans relative to total assets and rapid growth of the loans are potential early warning signals of loan quality problems, which indicate potential failure (Sinkey, 1998).

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Introduction

This depicts how the research was conducted. It describes the research design, study population, sampling procedure and sample size, data sources and collection instruments, measurement of variables and data analysis.

3.2 Research Design

A cross sectional survey was used with the focus on the perceived quality of the loan appraisal reports and loan performance. The survey was descriptive and analytical in nature.

3.3 Target population

The target population included 16,284 respondents comprising of 784 credit officers and 15,500 clients (borrowers) in all the 28 branches of the bank.

3.4 Sample size

The sample size was 637 respondents (260 credit officers and 377 clients) selected basing on a table for determining sample size by (Krejcie & Morgan, 1970, p.608). Disproportionate stratified random sampling was used to select the respondents from each stratum.

Table 3.1: Sample size

Staff Category	Population	Sample
Credit Officers	784	260
Clients/Borrowers	15,500	377
Total	**16,284**	**637**

Source: Secondary data

3.5 Sources of Data

Primary data: This was obtained through self-administered questionnaires to the loan officers and clients of CERUDEB. Primary data was collected using a structured questionnaire which was self administered survey. The questionnaires were delivered physically to the respondents participating in the study so as to ensure an acceptable response rate for the study (Kothari *et al.*, 2005). The questionnaire was administered at the workplace setting to diminish the effect of bias among the respondents. Responses to the questions were anchored on a 5 point likert scale ranging from; 5- strongly agree, 4- agree, 3 – not sure, 2 – disagree and 1- strongly disagree.

3.6 Data Collection Instrument

Data from the field was obtained through the use of self-administered questionnaires to respondents following systematic and established academic procedures, as suggested by (Churchill, 1979; Garbing and Anderson, 1988; Nunnally and Bernstein, 1994). The instrument was validated and pre-tested. The questionnaire had five parts i.e. a part for personal data, perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance.

3.7 Measurement of Variables

i) **Quality of Loan Appraisal Reports:** Quality of loan appraisal reports was measured using attributes of reliability, relevance and completeness (LaCour-Little & Malpezzi, 2003) in relation to capital, capacity, character, collateral and documentation. A four-scale measure was used where four and three represent reliable, relevant, complete while 2 and 1 represent unreliable, irrelevant and incomplete.

ii) **Loan Performance:** Loan performance was measured basing on the scales developed by Caves et al., (1984). A 5 point Likert scale ranging from strongly agree to strongly disagree was used.

iii) **Relationship quality:** Relationship quality was measured basing on a three item scale adapted from Anderson and Gerbing, 1988. A five point Likert scale ranging from strongly agree to strongly disagree was used.

iv) **Disclosure:** Disclosure was measured basing on a three item scale adapted from Wheeless and Grotz, (1976). A five point Likert scale ranging from strongly agree to strongly disagree was used.

3.8 Validity and Reliability of research instrument

Validity: Validity of the instrument was obtained by talking to experts both academicians and practitioners in the financial sector. These were required to comment on the relevance of the questions/items in the instrument using the Content Validity Index (CVI).

Reliability: The reliability of the questionnaires was improved through pre-testing of pilot samples both from field staff and the loan clients. This enabled the re-phrasing of some questions. Furthermore, reliability of the scales was done with the application of the

Cronbach Coefficient Alpha for the computations so as to check for the internal consistency of the scales. The Cronbach Coefficient Alpha on internal consistency test was used with the following results.

Table 3.2: Reliability

	Anchor	**Cronbach Alpha**
Perceived Quality of Loan Appraisal Reports	5 point	.9237
Relationship Quality	5 point	.9127
Mutual Disclosure	5 point	.6335
Loan Performance	5 point	.6577

Source: Primary data

The table above displays the reliability indices/coefficients for all constructs used in the study. All alpha reliabilities (α) for all scales were above 0.5, ranging from .6335 to .9237 therefore meeting acceptance standards for research (Nunnally, 1978).

3.9 Data Analysis

Data from the field was compiled, sorted, edited and coded to have the required quality, accuracy and completeness. Then entered into the computer using the Statistical Package for Social Sciences (SPSS v. 16.0) for analysis. The data was analyzed according to the research questions. Cross tabulations was used to describe sample characteristics, Pearson Correlation coefficient was used to establish the relationship between the study variables. The regression analysis was used to establish the combined effect of study variables on the dependent variable.

3.10 Limitations to the study

The following limitations were encountered during the study:

i) Respondents withholding information due to fear of being victimized. This was overcame by assuring the respondents that the information they gave was to remain confidential and where there was need to publish the findings of the study, their permission would be sought.

ii) Unwillingness of respondents to fill questionnaires. Since the researcher is a staff member of the bank, she assured the respondents that the study was going to help to improve the services of the bank which would affect both the staff and the clients.

iii) Limited resources, both financial and time. To solve this, the research sought funding from her employers since the findings of the study were to benefit the bank. Likely, researcher also hired a data collection firm which knew how to cost save during data collection.

CHAPTER FOUR:

PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter comprises of a presentation of results and their interpretation. The presentation in this chapter shows the results as tested according to the objectives of the study. The chapter begins with the demographic characteristics of the respondents such as age, educational level and gender which were all presented using cross tabulations, later in the chapter, more descriptive were used to present the results of the respondents had, together with a combination of factor analysis and chi-square tests.

4.2 Sample Characteristics

To present sample characteristics, cross tabulations and frequency distributions were used to indicate variations of respondents based on sex, marital status, age, education level, employment type, monthly income and work status. The sample characteristics were presented basing on the responses from business customers and personal account customers.

4.3 Sample Characteristics

4.3.1 Respondent Category and Gender Distribution

Cross tabulation was used by the researcher to present the Respondent Category and Gender Distribution categories of the respondents. Table 4.1 below presents the results:

Table 4.1 Respondent Category and Gender Distribution

			Gender		Total
			Male	**Female**	
Respondent Category	Staff	**Row %**	43.1	56.9	100.0
		Column %	96.2	95.7	95.9
	Clients	**Row %**	40.0	60.0	100.0
		Column %	3.8	4.3	4.1
Total		**Row %**	43.0	57.0	100.0
		Column %	100.0	100.0	100.0
			X^2 = .019	df =1	Sig. = .891

Source: Primary data

The results from table 4.1 above show that 95.9% of the respondents were staff and 4.1% of the respondents were bank customers. In addition 43.0% of the respondents were male and 57.0% were female respondents. There was no association between the respondent's category and gender (X^2 = 0.019, Sig. = 0.891).

4.3.2 Monthly Income by Respondent Category Distribution

Cross tabulation was used by the researcher to present the monthly income by respondent category distribution categories of the respondents. Table 4.2 below presents the results:

Table 4.2: Monthly Income by Respondent Category Distribution

			Respondent Category		Total
			Staff	Clients	
Monthly Income	200,000 & Below	Row %	100.0		100.0
		Column %	19.0		18.2
	200,000-500,000	Row %	100.0		100.0
		Column %	15.5		14.9
	500,000-800,000	Row %	88.9	11.1	100.0
		Column %	20.7	60.0	22.3
	Over 800,000	Row %	96.3	3.7	100.0
		Column %	44.8	40.0	44.6
Total		Row %	95.9	4.1	100.0
		Column %	100.0	100.0	100.0
			$X^2 = 5.069$	df = 3	Sig. = .167

Source: Primary data

The results from table 4.2 above show that 18.2% of the respondents earned a monthly salary of UGX. 200,000 and below, 14.9% earned UGX. 200,000 to 500,000, 22.3% earned UGX. 500,000 to 800,000 and 44.6% earned over UGX. 800,000. In addition 95.9% of the respondents were staff and 4.1% were clients. There was no association between one's salary and respondent category and (X^2 = 5.069, Sig. = 0.167).

4.3.3 Tenure by Level of education Distribution

Cross tabulation was used by the researcher to present the tenure by level of education distribution categories of the respondents. Table 4.3 below presents the results:

Table 4.3: Tenure by Level of education Distribution

			Level of education					Total
			No Education	Primary	Secondary	Bachelor's Degree	Masters	
Tenure	0-3 yrs & Below	Row %	14.8		3.7	77.8	3.7	100.0
		Column %	80.0		7.1	26.9	7.1	23.3
	3-6 yrs	Row %	1.9	7.4	18.5	66.7	5.6	100.0
		Column %	20.0	80.0	71.4	46.2	21.4	46.6
	6-9 yrs	Row %			13.0	65.2	21.7	100.0
		Column %			21.4	19.2	35.7	19.8
	Over 9 yrs	Row %		8.3		50.0	41.7	100.0
		Column %		20.0		7.7	35.7	10.3
Total		Row %	4.3	4.3	12.1	67.2	12.1	100.0
		Column %	100.0	100.0	100.0	100.0	100.0	100.0
			X^2 = 32.827		df =12	Sig. = .001		

Source: Primary data

The results from table 4.3 above show that 23.3% of the respondents had served the institution for 3 or less years, 46.6% for 3 to 6 years, 19.8% for 6 to 9 years and over 9 years of service was 10.3%. In addition 4.3% of the respondents had not attained any form of education, 4.3% had attained primary education, 12.1% had attained secondary education, 67.2% had attained a degree and 12.1% were graduate respondents. There was an association between one's years of service level of education (X^2 = **32.827**, Sig. = 0.001).

4.4 Relationships between study variables

In this section, the results that address the research questions are presented and Pearson's correlation test was used to answer the research questions of the study. To investigate the relationship among the constructs a Zero-order correlation table was generated.

Table 4.4: Pearson Correlation Matrix

	1	2	3	4
Perceived Quality of Loan Appraisal Reports (1)	1.000			
Relationship Quality (2)	.571**	1.000		
Mutual Disclosure (3)	.280**	.414**	1.000	
Loan Performance (4)	.427**	.396**	.442**	1.000
** Correlation is significant at the 0.01 level (2-tailed).				

Source: Primary data

4.4.1 Perceived Quality of Loan Appraisal Reports and Mutual Disclosure.

The results from table 4.4 revealed a moderate positive significant relationship between perceived quality of loan appraisal reports and mutual disclosure (r= .280**, p-value= 0.01). This implies that if Centenary Bank improved the customers' perceived quality of loan appraisal reports by one unit, mutual disclosure is likely to improve by 28%.

4.4.2 Mutual Disclosure and Loan Performance.

The results from table 4.4 revealed a moderate positive significant relationship between mutual disclosure and loan performance (r= .442**, p-value= 0.01). This implies that if the management of Centenary Bank improved mutual disclosure by one unit, loan performance is likely to improve by 44.2%.

4.4.3 Perceived Quality of Loan Appraisal Reports and Relationship Quality.

The results from table 4.4 revealed a moderate positive significant relationship between perceived quality of loan appraisal reports and relationship quality (r= .571**, p-value= 0.01). This implies that if the management of Centenary Bank improved perceived quality of loan appraisal reports by one unit, relationship quality is likely to improve by 57.1%.

4.4.4 Relationship Quality and Loan Performance.

The results from table 4.4 revealed a moderate positive significant relationship between relationship quality and loan performance (r= .396**, p-value= 0.01). This implies that if the management of Centenary Bank improved relationship quality by one unit, loan performance is likely to improve by 39.6%.

4.4.5 Perceived Quality of Loan Appraisal Reports and Loan Performance.

The results from table 4.4 revealed a moderate positive significant relationship between perceived quality of loan appraisal reports and loan performance (r= .427**, p-value= 0.01). This implies that if the management of Centenary Bank improved perceived quality of loan appraisal reports by one unit, loan performance is likely to improve by 42.7%.

4.5 Regression Analysis

Regression analysis was used to determine the extent to which mutual disclosure, relationship quality, perceived quality of loan appraisal reports predict loan performance in CERUDEB. The results obtained are shown by table 4.5 below:

Table 4.5: Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.525	.307		4.963	.000
Mutual Disclosure	.279	.090	.294	3.091	.003
Perceived Quality of Loan Appraisal Reports	.189	.071	.272	2.644	.009
Relationship Quality	7.433E-02	.078	.108	.955	.342
Dependent Variable: Loan Performance					
R Square = .276					
Adjusted R Square = .255					
F Change = 13.188					
Sig. F Change = .000					

Source: Primary data

Table 4.5 shows that the "adjusted R square" results indicate that the combination of mutual disclosure, relationship quality, and perceived quality of loan appraisal reports predict 25.5% of the variance in loan performance of Centenary Bank. The F= 13.188 value, p-value = .000 indicate that these variables are significant predictors of loan performance. The most significant predictor of loan performance was mutual disclosure (Beta= .294, t= 3.091, Sig. = 0.003), followed by Perceived Quality of Loan Appraisal Reports (Beta= .272, t=2.644, Sig. =0.009) and then Relationship Quality (Beta= .108, t=.955, Sig 0.342). This implies that when the bank increases on the level of transparence and disclosure and at the same time change the customer perceptions towards loan appraisal reports, this will greatly enhance the loan performance of the bank.

4.6 Analysis of Variance (ANOVA)

The study was conducted with the use of a one-way ANOVA to test for the differences perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance among the respondents from CERUDEB. The details of the analysis are presented in Table 4.6.

4.6.1 ANOVA results for Tenure by Variable

Analysis of Variance was used to rank tenure categories against perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance.

Table 4.6: ANOVA results for Tenure by Variable

		Mean	Std. Deviation	Std. Error		Sum of Squares	F	Sig
Perceived Quality of Loan Appraisal Reports	**0-3 yrs & Below**	3.52	0.58	0.11	**Between Groups**	3.894	3.276	.024
	3-6 yrs	3.51	0.70	0.10	**Within Groups**	43.182		
	6-9 yrs	**3.86**	0.54	0.11				
	Over 9 yrs	**4.00**	0.54	0.16				
Relationship Quality	**0-3 yrs & Below**	3.67	0.52	0.10	**Between Groups**	1.119	.925	.431
	3-6 yrs	3.80	0.75	0.11	**Within Groups**	43.975		
	6-9 yrs	3.93	0.52	0.11				
	Over 9 yrs	3.97	0.47	0.14				
Mutual Disclosure	**0-3 yrs & Below**	3.39	0.58	0.11	**Between Groups**	.342	.459	.711
	3-6 yrs	3.39	0.53	0.07	**Within Groups**	27.015		
	6-9 yrs	3.25	0.39	0.08				
	Over 9 yrs	3.36	0.30	0.09				
Loan Performance	**0-3 yrs & Below**	3.33	0.38	0.07	**Between Groups**	.660	1.071	.365
	3-6 yrs	3.44	0.52	0.07	**Within Groups**	22.388		
	6-9 yrs	3.42	0.35	0.07				
	Over 9 yrs	3.62	0.47	0.14				

Source: Primary data

ANOVA results indicated that there are significant differences among the respondents on all the study variables ($p<.05$). According to Perceived Quality of Loan Appraisal Reports, the 6-9 years and over 9 years tenure groups ranked higher with means 3.86 and 4.00 (F= 3.276, Sig. = .024) respectively implying that the tenure groups perceived highly the quality of loan appraisal reports of the bank. For relationship quality the 3-6 years, 6-9 year and over 9 years tenure groups ranked higher with means 3.80, 3.93 and 3.97(F= 0.925, Sig. = 0.431) respectively implying that the tenure groups had quality relationships with the bank staff. Under mutual disclosure the all the tenure groups ranked averagely (F= 0.459, Sig. = 0.711) implying that all the tenure groups mutually disclosed to the bank.

4.6.2 ANOVA results for Education level by Variable

Analysis of Variance was used to rank tenure categories against perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance.

Table 4.7: ANOVA results for Education level by Variable

		Mean	Std. Deviation	Std. Error		Sum of Squares	F	Sig.
Perceived Quality of Loan Appraisal Reports	**No Education**	3.38	0.65	0.29	**Between Groups**	2.341	1.413	.234
	Primary	3.83	0.59	0.30	**Within Groups**	44.734		
	Secondary	**3.93**	0.57	0.15				
	Bachelors	3.57	0.67	0.08				
	Masters	**3.77**	0.60	0.16				
Relationship Quality	**No Education**	3.40	0.71	0.32	**Between Groups**	1.816	1.133	.345
	Primary	3.45	0.48	0.24	**Within Groups**	43.279		
	Secondary	3.97	0.51	0.14				
	Bachelors	3.84	0.61	0.07				
	Masters	3.77	0.86	0.23				
Mutual Disclosure	**No Education**	3.36	0.70	0.31	**Between Groups**	.386	.386	.818
	Primary	3.41	0.57	0.25	**Within Groups**	26.970		
	Secondary	3.25	0.45	0.12				
	Bachelors	3.35	0.47	0.05				
	Masters	3.48	0.59	0.16				
Loan Performance	**No Education**	2.84	0.31	0.16	**Between Groups**	2.109	2.719	.033
	Primary	3.74	0.50	0.22	**Within Groups**	20.939		
	Secondary	3.54	0.38	0.10				
	Bachelors	3.41	0.46	0.05				
	Masters	3.49	0.39	0.10				

Source: Primary data

ANOVA results indicated that there are significant differences among the respondents on all the study variables ($p<.05$). According to Perceived Quality of Loan Appraisal Reports, the secondary and graduate degree holders groups ranked higher with means 3.93 and 3.77 (F= 1.413, Sig. = 0.234) respectively implying that the respondents with secondary and masters levels of education perceived highly the quality of loan appraisal reports of the bank. For relationship quality the respondents with secondary, bachelors and masters levels of education ranked higher with means 3.97, 3.84 and 3.77(F= 1.133, Sig. = 0.345) respectively implying that the more the respondent was educated the more quality relationships they will have with the bank staff. Under mutual disclosure the all the education levels ranked averagely (F= 0.386, Sig. = 0.818) implying that all the levels mutually disclosed to the bank.

4.6.3 ANOVA results for Income by Variable

Analysis of Variance was used to rank tenure categories against perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance.

Table: 4.8 ANOVA results for Income by Variable

		Mean	Std. Deviation	Std. Error		Sum of Squares	F	Sig.
Perceived Quality of Loan Appraisal Reports	200,000 & Below	3.34	0.51	0.11	Between Groups	5.605	4.911	.003
	200,000-500,000	3.47	0.54	0.13	Within Groups	41.470		
	500,000-800,000	3.53	0.57	0.12				
	Over 800,000	**3.87**	0.70	0.10				
Relationship Quality	200,000 & Below	3.53	0.66	0.14	Between Groups	2.944	2.538	.060
	200,000-500,000	**3.76**	0.59	0.14	Within Groups	42.150		
	500,000-800,000	**4.02**	0.69	0.14				
	Over 800,000	**3.87**	0.59	0.08				
Mutual Disclosure	200,000 & Below	3.30	0.43	0.09	Between Groups	1.991	2.852	.041
	200,000-500,000	3.32	0.54	0.13	Within Groups	25.365		
	500,000-800,000	3.62	0.62	0.13				
	Over 800,000	3.28	0.41	0.06				
Loan Performance	200,000 & Below	3.23	0.31	0.07	Between Groups	1.399	2.348	.077
	200,000-500,000	3.47	0.48	0.11	Within Groups	21.649		
	500,000-800,000	3.58	0.46	0.10				
	Over 800,000	3.43	0.47	0.07				

Source: Primary data

ANOVA results indicated that there are significant differences among the respondents on all the study variables ($p<.05$). According to Perceived Quality of Loan Appraisal Reports, the over 800,000 income groups ranked higher with means 3.87 (F= 4.911, Sig. = 0.003) implying that group perceived highly the quality of loan appraisal reports of the bank. For relationship quality the UGX.200,000-500,000, UGX. 500,000-800,000 and over 800,000 salary groups ranked higher with means 3.76, 4.02 and 3.87(F= 2.538, Sig. = 0.060) respectively implying that the more one earned a bigger salary the more quality relationships they will establish with the bank staff. Under mutual disclosure the UGX. 500,000 – 800,000 ranked higher with item mean 3.62 (F= 2.852, Sig. = 0.041) implying that the group mutually disclosed to the bank.

CHAPTER FIVE:

DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents the discussion, conclusions, and recommendations arising out of the research findings in chapter four and suggests areas for further study. The study has generated several findings most of which are in line with existing literature and previous research findings.

5.1 Perceived Quality of Loan Appraisal Reports and Mutual Disclosure.

There was a strong correlation between perceived quality of loan appraisal reports and mutual disclosure. This implies that if Centenary Bank improved the customers' perceived quality of loan appraisal reports, it would enhance mutual disclosure of the required information. American Quality foundation and Ernest and Young (1992), assert that, world wide quality practices vary, although quality continually emerges as a tip competitive priority within the firms. The qualitative characteristics identified include; relevance, reliability, timeliness, comparability, understandability, completeness and objectivity which enable communication of decision useful information (Hunt, 2000 and Turner, 2000). Lewis and Pendril (1994), argue that information is relevant if it has the capacity to help the decision makers to a predictive, confirmatory and corrective decision. Disclosure implies the presentation of a minimum amount of information in corporate reports, sufficient to permit a reasonable evaluation of the relative risks facing an organization. Adequate disclosure in reports is a function of the quality and quality of information discussed therein, the form in which it is presented and how frequent or timely it occurs (Owusu-Anash, 1998). It is crucial that the information disclosed is based on sound measurement principles and that the principles are properly applied.

The problem of information disclosure is of considerable relevance to the banking industry (Ross, 1979). By the very nature of the banking business, the banks actively issue stocks and public debt to investors, and put the proceeds mostly in assets with value uncertain to the outside investors (Noe, 1999). Second, the bank assets are mostly non-tradable loans, for the banks specialize in lending to borrowers of publicly unknown quality by gathering information about the borrowers and using it for their screening and monitoring. The opaque nature of bank assets makes the argument by Diamond (1985) about disclosure as a socially desirable way to economize on costly acquisition of information especially acute and explains why the issue of bank disclosure may be socially important. According to Naughton & Dietz (1996), Appraisal procedures are the cornerstone of a sound credit management process because they are an objective standard that guides lenders to choose only trust worthy (credit worthy) applicants. The foundation of credit is faith – faith of the lender in the borrower's ability and willingness to honor his obligations.

5.2 Mutual Disclosure and Loan Performance.

The results revealed a positive significant correlation between mutual disclosure and loan performance. This implies that if the management of Centenary Bank improved mutual disclosure by one unit, loan performance will be enhanced. Crosby, Evans, and Cowles, 1990; Morgan and Hunt, 1994) assert that mutual disclosure is important for establishing trust which is considered as an essential component of loan performance. Since disclosure involves revealing personal information about oneself to another (Collins and Miller, 1994).

In a business context, this could be interpreted as sharing information about production schedules, quality initiatives, strategic plans, etc. (Walton, 1996). Loan performance may briefly be viewed as the collection of the bank loan within the specified period of time (Harrison, 1996). How successful is the bank able to meet its lending objectives. The performance of commercial banks in credit/loan extension and allocation of resources has been deemed as unsatisfactory, this evidenced by recorded unsatisfactory recovery rates (Ssewagude, 2000). According to McKinnon and Shaw, (1973), the Loan crisis affirms that Loan default is pervasive in the developing financial markets, and various argument have been put forward to explain the causes; having the lender based causes (lending practices) perhaps the most serious.

5.3 Perceived Quality of Loan Appraisal Reports and Relationship Quality.

The results revealed a moderate positive significant relationship between perceived quality of loan appraisal reports and relationship quality (r= .571**, p-value= 0.01). This implies that if the management of Centenary Bank improved the perceptions of customers about the quality of loan appraisal reports, this would greatly enhance the quality of the relationship between the bank and its customers. Many factors may contribute to the quality of a banker- customer relationship. Relationship quality has two dimensions thus, trust and satisfaction, as in prior research on relationship quality (Crosby, Evans, and Cowles, (1990)). Trust is often cited as a critical ingredient for determining relationship success (Dwyer, Schurr, and Oh (1987); Schurr and Ozanne (1985); Morgan and Hunt (1994); Wilson (1995)). Trust is believed to alleviate risk and to increase cooperation in exchange relationships (Schurr and Ozanne, (1985); Swan and Nolan, (1985). Satisfaction refers to the degree to which interactions between the buyer and the seller meet their expectations for performance and can be based on evaluations of the tangible product or non-product related attributes such as delivery, service, or communication (Wilson, 1995).

5.4 Relationship Quality and Loan Performance.

According to the results from the study revealed a moderate positive significant relationship between relationship quality and loan performance. This implies that if the management of Centenary Bank improved the quality of the relationships between the customers and the bank, this would enhance the performance of loans. Relationship quality may depend on the nature of the organizations involved, the individuals in the organizations, and the nature of the situation. Interpersonal variables describe the characteristics of individual company representatives, while relationship variables describe the nature of relationships between buyer and seller organizations. According to Anjichi (1994), lending is the process that involves three basic stages of appraisal, documentation (credit analysis), disbursement (execution) and monitoring and control. A credit decision should be made on rational basis and according to the Banks policies and procedures as far as lending is concerned (Van Greuning, 2003). In some service contexts, buyers face considerable uncertainty stemming from such factors as intangibility, complexity, lack of service familiarity and long-term horizon of delivery (Crosby et al., 1990). Uncertainty of outcomes implies the possibility of service failures and unfavorable consequences.

5.5 Perceived Quality of Loan Appraisal Reports and Loan Performance.

There was a positive significant correlation between perceived quality of loan appraisal reports and loan performance. This implies that if the management of Centenary Bank improved perceived quality of loan appraisal reports a unit, the loan performance would be enhanced greatly. This is in agreement with Day & Taylor, 1996's work which asserts that problems or weaknesses in loan documentation create serious problems for banks particularly in the area of credit protection, as they may leave a bank unprotected if a client runs into difficulties. Crosby, Evans, and Cowles, (1990) suggests that interpersonal variables focus on buyer perceptions of how the seller can influence buyer-seller relationship quality. In competitive business situations, there is always a chance that a seller can be replaced by a competitor. Therefore, it is useful to understand the seller characteristics that buyers think influence quality buyer-seller relationships. Handled risk is the "amount of conflict the product class is able to arouse when the buyer chooses a brand from a product class in his usual buying situation" (Bettman, 1973).

It can be reduced by providing purchasers with additional information about brands or making the decision process easier (Bettman, 1973). Essentially, handled risk is the risk associated with choosing a brand or company in a particular product category; for example, the risk of choosing IBM or some unknown brand for a firm's computing needs. Buyers can reduce handled risk dramatically if they feel comfortable with sellers. Relational selling behavior is the nature of the salesperson's behavior during customer interactions. Interactions may be in person, by telephone, or electronically. Relational selling behavior has many components, three of which are tested in this study because they have been significant in previous studies (Crosby, Evans, and Cowles, 1990; Collins and Miller, 1994; Williams and Spiro 1985; Williams, Spiro, and Fine 1990; Saxe and Weitz, 1982).

5.6 Conclusion

The study sought to investigate the relationship between perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance. In general, the study looked at effect of perceived quality of loan appraisal reports, mutual disclosure, relationship quality on loan performance in Centenary Bank. In particular, the study examined relationships between the study variables perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance. All the relationships were significantly positive. It also examined the effect of the study variables on the dependent variable and all study variables were found to be significant predictors of loan performance.

The results revealed that there was a significant positive correlation between perceived quality of loan appraisal reports and mutual disclosure which implied that a unit change in the quality of loan appraisal reports would enhance mutual disclosure. Therefore, the management of the bank should ensure that the loan appraisal reports always capture the required valuable information for the assessment of the loan applicants which would consequently establish a bond between the clients and the bank.

Summarily, the results revealed a positive significant correlation between mutual disclosure and loan performance which implies that if the management of Centenary Bank improved mutual disclosure by one unit, loan performance will be enhanced. Since disclosure involves revealing personal information about oneself to another, mutual disclosure is important for establishing trust which is considered as an essential component of loan performance.

The study revealed that the results revealed a positive significant relationship between perceived quality of loan appraisal reports and relationship quality. This implies that for the bank to establish quality relationships with the clients, the information got from the loan appraisal reports should be perceived to be of quality. Once the clients perceive the loan appraisal reports to be of quality then the their relationships with the bank would be enhanced.

The findings revealed a weak relationship between relationship quality and loan performance which is evidence that relationship quality was a weak predictor of loan performance. However, it may depend on the nature of the organizations involved, the individuals in the organizations, and the nature of the situation. When handled properly relationship quality can be used as a yard stick to enhance loan performance.

Like all the other relationships of the study, there was a positive significant correlation between perceived quality of loan appraisal reports and loan performance. It is clear that when the clients hold the right perceptions about the loan appraisal reports it is most likely that this would enhance the performance of the loan portfolio.

5.7 Recommendations

Basing on the results of this study, recommendations are suggested that should help to improve loan performance. These recommendations do not solely apply to CERUDEB but to all institutions that are committed to competitiveness through perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance. In light of the research findings, the following recommendations are made:

a) The management of the bank should invest in the enhancement of mutual disclosure between the bank and its customers so as to create trust of the bank's brand, products and services. Here the bank should ensure non stop contact with its customers through the provision of the required information about the bank's products and services. Also, the management should also ensure that bank policies, terms of reference and regulations are clear to both staff and the customers.

b) Management should ensure that the quality of the customer relationships are thrive well and that customers are getting the best quality services and products in order to build a loyal base of customers. The management of the bank should ensure that the staff are offering exemplary services to the customers thus, having empathy and dependability.

c) The Management of Centenary Bank should endeavor to offer value for money products and services to their customers so as to improve on their loan performance. The customers should associate the services and products of the bank to be of value compared to the competitor banks.

d) The Management should always ensure that the customers hold the correct perceptions about the loan appraisal reports as this would enhance the performance of the bank's loan scheme.

e) Management should ensure that the customers of the bank receive quality and value added products and services as this will confirm customers' expectations when perceptions exactly meet expectations hence building a loyal customer base. Here the main purpose is to have satisfied customers through quick and efficient delivery systems, treating customers equally, and allowing feedback from customers as a means of causing improvement and give audience to customers whenever they have problems.

5.8 Areas for further study

The results of the study point to a number of opportunities for further research into perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance.

a) Future research should attempt to collect data from other industries such as academic institutions, government ministries to see whether other services are the same and could therefore benefit from this study.

b) The study concentrated on perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance in regards to Centenary Bank However, a similar research can be carried out in other banks.

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APPENDIX I

QUESTIONNAIRE FOR THE CUSTOMERS

Dear Respondent,
This questionnaire seeks to establish the relationship between perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance. Being a customer of Centenary Rural Development Bank, you have been selected to participate in this study.

Thank you for your time and cooperation

SECTION I: GENERAL INFORMATION

Please tick the appropriate box for the questionnaire that follow below:

Demographic Characteristics

1. Gender: Male ☐ Female ☐

2. For how long have you been a customer of CERUDEB

Code	**1**	**2**	**3**
Years old	5years and below	6-10 years	Above 10 years
Tick			

3. Level of Education

Code	**1**	**2**	**3**	**4**	**5**
Years old	No Education	Primary	Secondary	Bachelors degree	Masters
Tick					

4. Type of Employment

Code	**1**	**2**	**3**	**4**
Years old	Government	Private Firm	Self -Employed	Un-Employed
Tick				

5. Monthly Income

Code	**1**	**2**	**3**	**4**	**5**	**6**
Earning	200,000 & below	200,000-500,000	500,000-800,000	80,000-1,200,000	1,200,000-1,500,000	Over 1,500,000
Tick						

Please indicate by ticking in the appropriate box to what extent you agree/disagree to the following statements below.

SECTION II: PERCEIVED QUALITY OF LOAN APPRAISAL REPORTS

		Strongly Disagree(1)	Disagree(2)	Not Sure (3)	Agree(4)	Strongly Agree(5)
1	The loan appraisal reports include information on assets in respect to existence.	1	2	3	4	5
2	The loan appraisal reports include information on assets in respect to value.	1	2	3	4	5
3	Information on the status of the applicant's credit accounts is reflected in the appraisal reports	1	2	3	4	5
4	The loan appraisal reports give information on the loan applicant concerning the ability to pay on time.	1	2	3	4	5
5	The loan appraisal reports give information on the loan applicant concerning the cash flow status.	1	2	3	4	5
6	The loan appraisal reports give information on the loan applicant concerning the other sources of income.	1	2	3	4	5
7	The loan appraisal reports have information about the loan applicants in relation to willingness to pay.	1	2	3	4	5
8	The loan appraisal reports have information about the loan applicants in relation to honesty.	1	2	3	4	5
9	The loan appraisal reports have information about the loan applicants in relation to credit history.	1	2	3	4	5
10	The loan appraisal reports have information about the loan applicants in relation to behavioral assessment by third parties.	1	2	3	4	5
11	Information about applicants' declared collaterals in the appraisal reports includes the existence.	1	2	3	4	5
12	Information about applicants' declared collaterals in the appraisal reports includes true ownership.	1	2	3	4	5
13	Information about applicants' declared collaterals in the appraisal reports not mortgaged elsewhere.	1	2	3	4	5
14	The loan appraisal report depicts information concerning the applicants about the validity.	1	2	3	4	5
15	The loan appraisal report depicts information concerning the applicants about the legality.	1	2	3	4	5

SECTION III: Relationship Quality

		Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
1	I have confidence in Centenary Rural Development Bank(CREUDEB)	1	2	3	4	5
2	The bank gives me a feeling of confidence.	1	2	3	4	5
3	I have the feeling that the bank is trustworthy.	1	2	3	4	5
4	I trust the bank.	1	2	3	4	5
5	I trust the loan appraisal process of the bank.	1	2	3	4	5
6	I am willing to go the extra mile to access the products and services of the bank.	1	2	3	4	5
7	I have a clear commitment towards the bank.	1	2	3	4	5
8	The staff of the bank are committed to doing their jobs	1	2	3	4	5
9	The bank is committed to the timely processing of my loan appraisals.	1	2	3	4	5
10	I would recommend the bank to a family member, friend or acquaintance.	1	2	3	4	5
11	I certainly like the bank.	1	2	3	4	5
12	I am very satisfied with the bank.	1	2	3	4	5
13	The bank is committed to satisfying my expectations.	1	2	3	4	5
14	The bank meets my expectations.	1	2	3	4	5
15	I have a favorable opinion about the bank.	1	2	3	4	5

SECTION IV: Mutual Disclosure

		Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
1	When I feel upset with the bank, I usually confide in my friends.	1	2	3	4	5
2	I prefer to talk about my problems with the staff of the bank.	1	2	3	4	5
3	I discuss things that upset me about the bank processes.	1	2	3	4	5
4	When I feel depressed or sad about the bank's services, I tend to keep those feelings to me.	1	2	3	4	5
5	I try to talk to the staff of the bank about my problems.	1	2	3	4	5
6	If I have a bad day at the bank, the last thing I want to do is talk about it.	1	2	3	4	5
7	I disclose my feelings about the bank to the manager of the bank					
8	When I am distressed with the service of the bank, I tell the management.	1	2	3	4	5
9	I usually seek out a staff of the bank to talk to when I am in a bad mood.	1	2	3	4	5
10	I am willing to tell the bank my distressing thoughts about the bank.	1	2	3	4	5
11	The bank apologizes to me for the mistakes made to me.	1	2	3	4	5
12	The Bank answers questions from me.	1	2	3	4	5
13	The bank attends to my queries promptly					
14	The bank explains to me why my suggestions were not implemented.	1	2	3	4	5
15	The bank provides to me my regular loan repayment progress reports.	1	2	3	4	5
16	The bank welcomes constructive feedback from me.	1	2	3	4	5

SECTION V: Loan performance

		Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
1	I promptly settle my monthly loan obligations.	1	2	3	4	5
2	I have defaulted over my loan obligations before.	1	2	3	4	5
3	I have ever been charged loan default surcharge by the bank	1	2	3	4	5
4	The interest of the acquired loan is favorable for the repayment of the loan.	1	2	3	4	5
5	The bank gives a grace period before commencement for the loan repayment.	1	2	3	4	5
6	Given the interest rate of the loan, I have no intentions to borrow from the bank again.	1	2	3	4	5
7	My loan account is over due for payment.	1	2	3	4	5
8	The bank offers favorable loan repayment terms.	1	2	3	4	5
9	Profitability on credit given is adequate for the future of the bank's development.	1	2	3	4	5
10	My monthly loan repayments are strenuous for me.	1	2	3	4	5

QUESTIONNAIRE FOR LOAN OFFICERS

Dear Respondent,
This questionnaire seeks to establish the relationship between perceived quality of loan appraisal reports, mutual disclosure, relationship quality and loan performance. Being an internal customer of Centenary Rural Development Bank, you have been selected to participate in this study.

Thank you for your time and cooperation

SECTION I: GENERAL INFORMATION

Please tick the appropriate box for the questionnaire that follow below:

Demographic Characteristics

1. Gender: Male ☐ Female ☐

2. For how long have you worked with CERUDEB

Code	**1**	**2**	**3**	**4**
Years old	0-30yrs	3-6 yrs	6-9 yrs	Over 9 yrs
Tick				

3. Level of Education

Code	**1**	**2**	**3**	**4**	**5**
Years old	No Education	Primary	Secondary	Bachelors degree	Masters
Tick					

4. Type of Employment

Code	**1**	**2**	**3**	**4**
Years old	Government	Private Firm	Self -Employed	Un-Employed
Tick				

5. Monthly Income

Code	**1**	**2**	**3**	**4**	**5**	**6**
Earning	200,000 & below	200,000-500,000	500,000-800,000	80,000-1,200,000	1,200,000-1,500,000	Over 1,500,000
Tick						

Please
indicate by ticking in the appropriate box to what extent you agree/disagree to the following statements below.

SECTION II: PERCEIVED QUALITY OF LOAN APPRAISAL REPORTS

		Strongly Disagree(1)	**Disagree(2)**	**Not Sure (3)**	**Agree(4)**	**Strongly Agree(5)**
1	The loan appraisal reports include information on assets in respect to existence.	1	2	3	4	5
2	The loan appraisal reports include information on assets in respect to value.	1	2	3	4	5
3	Information on status of all the applicant's credit accounts is reflected in the appraisal reports	1	2	3	4	5
4	The loan appraisal reports are processed in a timely manner	1	2	3	4	5
5	The loan appraisal reports are handled in a timely manner	1	2	3	4	5

6	Bank loan appraisers provided timely reports to the loan evaluation committee.	1	2	3	4	5
7	In case there are delays in the loan appraisal process, the customer is contacted.	1	2	3	4	5
8	The loan appraisal reports give information on the loan applicant concerning the ability to pay on time.	1	2	3	4	5
9	The loan appraisal reports give information on the loan applicant concerning the cash flow status.	1	2	3	4	5
10	The loan appraisal reports give information on the loan applicant concerning the other sources of income.	1	2	3	4	5
11	The loan appraisal reports have information about the loan applicants in relation to willingness to pay.	1	2	3	4	5
12	The loan appraisal reports have information about the loan applicants in relation to honesty.	1	2	3	4	5
13	The loan appraisal reports have information about the loan applicants in relation to credit history.	1	2	3	4	5
14	The loan appraisal reports have information about the loan applicants in relation to behavioral assessment by third parties.	1	2	3	4	5
15	Information about applicants' declared collaterals in the appraisal reports includes the existence.	1	2	3	4	5
16	Information about applicants' declared collaterals in the appraisal reports includes true ownership.	1	2	3	4	5
17	Information about applicants' declared collaterals in the appraisal reports not mortgaged elsewhere.	1	2	3	4	5
18	The loan appraisal report depicts information concerning the applicants about the legality.	1	2	3	4	5
19	The loan appraisal report depicts information concerning the applicants about the applicant's file.	1	2	3	4	5
20	Management emphasizes loan using appraisal officers with intimate knowledge of the local population	1	2	3	4	5
21	In our loan appraisal we work hand in hand with public and religious leaders/community leaders in assessing credit worthiness of the borrower	1	2	3	4	5
22	Our institution's loan appraisal is of the required standard and provides proper assessment of loan success.	1	2	3	4	5

SECTION III: Relationship Quality

		Strongly Disagree	**Disagree**	**Not sure**	**Agree**	**Strongly Agree**
1	I have confidence in Centenary Rural Development Bank(CREUDEB)	1	2	3	4	5
2	The bank gives me a feeling of confidence.	1	2	3	4	5
3	I have the feeling that the bank is trustworthy.	1	2	3	4	5
4	I trust the bank.					
5	I trust the loan appraisal process used by the bank.					
6	I am willing to go the extra mile to buy/access the products and services of the bank.	1	2	3	4	5
7	I have clear commitment towards my job.	1	2	3	4	5
8	I am committed to doing my job					
9	I am committed to the timely processing of customer loan appraisals.					
10	I would recommend the bank to a family member, friend or acquaintance.	1	2	3	4	5
11	I certainly like the bank.	1	2	3	4	5
12	I am very satisfied with the bank.	1	2	3	4	5
13	The management of the bank is committed to satisfying my expectations.					
14	The management of the bank meets my expectations					
15	I have a favorable opinion about the bank.	1	2	3	4	5

SECTION IV: Mutual Disclosure

		Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
1	When a staff feels upset he/she usually confides in the immediate supervisor.	1	2	3	4	5
2	Staff prefer not to talk about their problems.	1	2	3	4	5
3	When something unpleasant happens to a staff, the supervisor find a solution it.	1	2	3	4	5
4	Customers don't discuss things that upset them.	1	2	3	4	5
5	When I feel depressed or sad during the course of my work, I tend to keep those feelings to myself.	1	2	3	4	5
6	I try to find people to talk with about my problems.	1	2	3	4	5
7	When I am in a bad mood, I talk about it to my fellow staff.	1	2	3	4	5
8	If I have a bad day, the last thing I want to do is talk about it.	1	2	3	4	5
9	Staff rarely look for fellow staff to talk to when they are having problems.	1	2	3	4	5
10	When a staff is distressed he/she does not tell anyone.	1	2	3	4	5
11	Staff usually seek out fellow staff to talk to when they are in bad moods.	1	2	3	4	5
12	staff are willing to tell the management of the bank their distressing thoughts.	1	2	3	4	5
13	The management of the bank apologizes to staff for the mistakes made.	1	2	3	4	5
14	The management of the bank attends to queries from staff.	1	2	3	4	5
15	The bank explains to staff why suggested actions were not taken.	1	2	3	4	5
16	The bank provides regular progress reports about its customer related activities.	1	2	3	4	5
17	The bank welcomes constructive feedback from staff.	1	2	3	4	5

SECTION V: Loan performance

		Strongly Disagree	Disagree	Not sure	Agree	Strongly Agree
1	Many credit lines/accounts are opened in a week.	1	2	3	4	5
2	A number of loan customers' accounts are over due for payment.	1	2	3	4	5
3	Provision of bad loan debtors has been increasing over the last three years.	1	2	3	4	5
4	Profitability on credit given is adequate for the future of the bank's development.	1	2	3	4	5
5	Financial performance goals set are attained by management.	1	2	3	4	5
6	Management is not forced to attain good financial performance on its loan portfolio.	1	2	3	4	5
7	The staff are rewarded for attaining good financial performance measures.	1	2	3	4	5
8	The profits of the bank fall within the budget range.	1	2	3	4	5

APPENDIX II

Required Sample Size, Given A Finite Population, Where N = Population Size and n = Sample Size

N - n	N - n	N - n	N - n	N - n
10 - 10	100 - 80	280 - 162	800 - 260	2800 - 338
15 - 14	110 - 86	290 - 165	850 - 265	3000 - 341
20 - 19	120 - 92	300 - 169	900 - 269	3500 - 346
25 - 24	130 - 97	320 - 175	950 - 274	4000 - 351
30 - 28	140 - 103	340 - 181	1000 - 278	4500 - 354
35 - 32	150 - 108	360 - 186	1100 - 285	5000 - 357
40 - 36	160 - 113	380 - 191	1200 - 291	6000 - 361
45 - 40	170 - 118	400 - 196	1300 - 297	7000 - 364
50 - 44	180 - 123	420 - 201	1400 - 302	8000 - 367
55 - 48	190 - 127	440 - 205	1500 - 306	9000 - 368
60 - 52	200 - 132	460 - 210	1600 - 310	10000 - 370
65 - 56	210 - 136	480 - 241	1700 - 313	15000 - 375
70 - 59	220 - 140	500 - 217	1800 - 317	20000 - 377
75 - 63	230 - 144	550 - 226	1900 - 320	30000 - 379
80 - 66	240 - 148	600 - 234	2000 - 322	40000 - 380
85 - 70	250 - 152	650 - 242	2200 - 327	50000 - 381
90 - 73	260 - 155	700 - 248	2400 - 331	75000 - 382
95 - 76	270 - 159	750 - 254	2600 - 335	100000 - 384

(Adapted from **Krejcie** & **Morgan**, **1970**, p.608)