CREDIT RISK MANAGEMENT BY PRIVATE HOSPITALS IN KENYA

BY

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DECLARATION

I declare that, this project is my own original work and has not been presented for an award of a degree in any University.

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This research project has been submitted for examination with my approval as the University supervisor.

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DEDICATION

This research is dedicated to my dear wife Rhoda and daughters, Roselyn and Naomi who had to bear with my busy schedule of class, job and family affairs.

May God bless you all.

ACKNOWLEDGEMENT

I first of all thank our good Lord for enabling me complete this research proposal. I would also like to acknowledge my supervisor for advice and tireless efforts in the supervision during my research work and writing of this project.

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ABSTRACT

Credit risk is the risk that a financial institution will incur losses because the financial position of a borrower has deteriorated to the point that the value of an asset (including off-balance-sheet assets) is reduced or extinguished. The broad objective of the study was to determine the effect of credit risk management practices on performance of private hospitals in Kenya.

Descriptive research design was chosen because it will enable the researcher to generalise the findings to a larger population. This study therefore was able to generalise the findings for all the private hospitals in Kenya. The population of this study comprised of all licensed private hospitals in Kenya that operate in Nairobi. The staff of private hospitals is the group from which the sample was drawn. The researcher used both primary and secondary data. Primary data was obtained through self-administered questionnaires with closed and open-ended questions.The collected data was thoroughly examined and checked for completeness and comprehensibility. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency tables.

The study concludes that majority of the hospitals had put in place risk identification, analysis and assessment strategies and risk monitoring procedures as credit risk management practices aimed at improving performance. However, most hospitals had not employed present credit risk management procedures employed by private hospitals in Kenya and could be at risk.

The study recommends that for hospitals to effectively employ credit risk procedures, hospitals need strong and proficient credit risk management practices. Since exposure to credit risk continues to be the leading source of problems in many organizations world-wide, organizations should be able to draw useful lessons from past experiences. Organizations should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

This chapter gives a brief introduction of the research study by looking into credit risk management practices in the Kenyan hospitals. It looks at the nature of hospitals in Kenya and their orientation to easily apply credit risk management practices for profitability. The chapter explores the objectives of this study while stating the research questions which this study hopes to have answers to. The chapter also states the problem at hand and goes ahead to give the scope of the study while at the same time giving the significance of this study.

The process of risk management is a two step process. The first is to identify the source of the risk, which is to identify the leading variables causing the risk. The second is to devise methods to quantify the risk using mathematical models, in order to understand the risk profile of the instrument (Kealhofer, 2003). Once a general framework of risk identification and management is developed, the techniques can be applied to different situations, products, instruments and institutions.

According to Marshall and Siegel, (1996), there are some risks that can be eliminated, or at least substantially reduced through the technique of risk transfer. Markets exist for many of the risks borne by the private hospital. Interest rate risk can be transferred by interest rate products such as swaps or other derivatives. Borrowing terms can be altered to effect a change in their duration. The hospital can also buy or sell financial claims to diversify or concentrate the risks that result in from servicing its client base. To the extent that the financial risks of the assets created by the firm are understood by the market, these assets can be sold at their fair value. Unless the institution has a comparative advantage in managing the attendant risk and/or a desire for the embedded risk they contain, there is no reason for the hospital to absorb such risks, rather than transfer them (Morsman, 1993)

However, there are two classes of assets or activities where the risk inherent in the activity must and should be absorbed at the hospital level. In these cases, good reasons exist for using firm resources to manage private hospital level risk. The first of these includes financial assets or activities where the nature of the embedded risk may be complex and difficult to communicate to

third parties. This is the case when the hospital holds complex and proprietary assets that have thin, if not non-existent, secondary markets. Communication in such cases may be more difficult or expensive than hedging the underlying risk (Saunders, 1996). Moreover, revealing information about the customer may give competitors an undue advantage.

The second case included proprietary positions that are accepted because of their risks, and their expected return. Here, risk positions that are central to the hospital's business purpose are absorbed because they are the raison d'etre of the firm. Credit risk inherent in the lending activity is a clear case in point, as is market risk for the trading desk of hospitals active in certain markets. In all such circumstances, risk is absorbed and needs to be monitored and managed efficiently by the institution. Only then will the firm systematically achieve its financial performance goal (Tchankova 2002).

1.1.1 Credit risk management

Credit risk is the risk that a financial institution will incur losses because the financial position of a borrower has deteriorated to the point that the value of an asset (including off-balance-sheet assets) is reduced or extinguished. Credit risk is most simply defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management is to maximize an organization's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters (Kealhofer, 2003). Organisations need to manage the credit risk inherent in the entire portfolio as well as the risk in individual credits or transactions. The organisations should also consider the relationships between credit risk and other risks. The effective management of credit risk is a critical component of a comprehensive approach to risk management and essential to the long-term success of any organisation (Bofondi and Gobbi, 2003).

The importance of credit risk management is increasing with time because of some reasons like economic crises and stagnation, company insolvencies, infraction of rules in company accounting and audits, growth of off-balance sheet derivatives, declining and volatile values of collateral, borrowing more easily of small firms, and financial globalization.

According to Fuser and Meier, (1997), institutions use various credit risk management methods such as credit limits, taking collateral, diversification, loan selling, syndicated loans, credit insurance, and securitization and credit derivatives. It is important for staff of various institutions to understand the aspect of risk in their operations and the risks that are inherent and exposed in their business operations. Better understanding of risk management is also necessary especially in the financial intermediation activities where managing risk is one of its important activities.

The management of credit risk in health industry follows the process of risk identification, measurement, assessment, monitoring and control. It 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. This process is applied within the strategic and operational framework of the organisation.

1.1.2 Credit risk management in hospitals

A comprehensive framework of risk management is applicable equally to private hospitals (Baldoni 1998). It is crucial for private hospitals to have comprehensive risk management framework as there is growing realization that sustainable growth critically depends on the development of a comprehensive risk management framework (Greuning and Iqbal, 2007).

A robust risk management framework can help private hospitals to reduce their exposure to risks, and enhance their ability to compete in the market (Iqbal and Mirakhor, 2007). A reduction in each institution's exposure will reduce the systemic risk as well. Hence, it is necessary that private hospitals have in place a comprehensive risk management and reporting process to identify, measure, monitor, manage, report and control different categories of risks. In addition, this process should pay attention to compliance with Shariah rules and principles.

Private hospitals are in the risk business. In the process of providing health services, they assume various kinds of risks. Over the last decade the understanding of the place of private hospitals within the health sector has improved substantially.

Common risk avoidance practices include at least three types of actions. The standardization of process, contracts and procedures to prevent inefficient or incorrect financial decisions is the first

of these. The construction of portfolios that benefit from diversification across borrowers and that reduce the effects of any one loss experience is another. The implementation of incentive-compatible contracts with the institution's management to require that employees be held accountable is the third. In each case, the goal is to rid the firm of risks that are not essential to the financial service provided, or to absorb only an optimal quantity of a particular kind of risk (Jorion, 1997).

1.1.3 Organizational performance

David (2000) defines business performance as the total economic results of the activities undertaken by an organization. Primary dimensions of business performance could be grouped into the three categories of effectiveness, efficiency, and adaptability. But there is little agreement as to which measure is best. Thus, any comparison of business performance with only these three dimensions involve substantial trade-offs: good performance on one dimension often means sacrificing performance on another (Deane et al, 1991).

Performance management systems are defined as the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities (Simons, 2000). Studies relating organizational culture to performance tend to differ in terms of the performance measures that are used, across the types of organization that are studied. This is not unexpected, as the performance measures generally relate to the extent to which goals relevant to the specific organization are attained. Hence, the indicators used include indices of service quality at hospitals the amount of money raised for a fund-raising campaign (Davidow and Uttal, 1989), as well as a combination of other economic performance data. Variations were also found in these studies in terms of the use of longitudinal (Fearne and Fowler, 2006) and cross-sectional data of performance, as well as between idiographic (Hambrick, 1983) studies.

Organizational performance is measured using an instrument developed by Gupta and Govindarajan (1984) and Govindarajan (1988), which measures organizational performance along multiple dimensions, rather than on any single dimension. Organizational performance can be achieved through four dimensions of customer satisfaction: competitive pricing, product variety, delivery service, and product quality. Empirical research has indicated that service companies, which satisfy their customers by focusing on the preceding four dimensions of

customer satisfaction, actually enhance their level of overall business performance. These four dimensions have also been identified as important criteria in supplier selection. It is plausible that effectual selection and evaluation of suppliers and promoting their involvement in critical supplier chain activities will result in improved firm performance via enhanced customer satisfaction (Terziovski and Amrik, 2000).

The primary objective of managers of profit seeking organizations is to maximize the performance of the firm over time. Bowman and Helfat (2001) found that corporate strategy is an essential management tool and is important to firm performance, and achieving a performance advantage through strategic initiatives is increasingly important in the financial services industry.

Porter (1985) argues that superior performance can be achieved in a competitive industry through the pursuit of a generic strategy, which he defines as the development of an overall cost leadership, differentiation, or focus approach to industry competition. If a firm does not pursue one of these strategy types, it will be stuck-in-the-middle and will experience lower performance when compared to firms that pursue a generic strategy.

Dess and Davis (1984) argue that competitive methods consist of skills and resources that are available for use by firms in a competitive industry. They define superior skills in terms of staff capability, systems, or marketing savvy not possessed by a competitor. A superior resource is defined in terms of physical resources that are available to help strategic implementation. Examples include operating scale, location, and comprehensiveness of a distribution system, brand equity or manufacturing or processing assets. They conclude that establishing a generic strategy based positional advantage in the marketplace will provide a firm with superior performance.

Business-level strategies are concerned with the position of a firm in its industry relative to that of its competitors (Porter, 1985). In order to gain a favorable industry position and a competitive advantage, the business-level strategy of product differentiation may be adopted for operational aspects of the organization. For service firms, the strategy of supplier selection can be based on product differentiation framework. A technologically intensive product service firm can apply differentiation strategies to its operations and client selection to enhance its performance.

1.1.4 Private hospitals in Kenya

The health sector like any other sector in Kenya has experienced hard times in the last decade or so. This is mainly due to hard economic times facing the country and other forces such as change in technology, liberalization, expectation of patients, rising levels of poverty and poor infrastructure. All these changes have made it hard and very expensive to deliver health care in the country.

Kenya has an extensive network of private hospitals from small local clinics, to large high-class hospitals. Unlike the public hospitals, private hospitals are more expensive, but are extremely efficient due to the low demand and small crowds. Quality healthcare is provided through Kenya's private hospitals and healthcare facilities, which are known to be very expensive. Despite the fact that public hospitals are sometimes better equipped than some of private hospitals, many patients prefer going to a private hospital because of the personal and friendly care offered.

The entire sum of money that is required in constructing a public hospital comes from the central or local government. The private hospitals are managed by a single person or a group of people. Therefore, a single person or a group manages the entire hospital, the government has nothing to do or say as regards the funding or administration.

Since the private hospitals offer better facilities, they are extremely costly at times. This is perhaps due to a wide number of facilities that are available at the private hospital. It is observed that people who are not so affluent gets admitted in Public hospitals. Although there are abundant qualified doctors in public hospitals, a private hospital offers a better health care treatment. In a private hospital the equipments are of standard quality and generally there is less risk exposed to the patient since a large number of people looks after a single patient. In a public hospital, the case may be entirely different. There may be a single or no person at all looking after an ailing patient. This increases the risk for the patient and therefore the public hospitals are necessarily cheaper than the private hospitals.

1.2 Statement of the Problem

Granting credit to the members is an important activity thus the importance of credit risk management in institutions, coupled with taking necessary measures to reduce loan defaulters while at the same time advancing credit in a fair and undiscriminating manner so as to continue offering service to their members. Weak credit risk management is a primary cause of many business (particularly small business) failures. Parrenas (2005) carried out a study of private hospitals that failed in the mid 1980s in the U.S.A and found out that the consistent element in the failures was the inadequacy of the hospital's management system for controlling loan quality.

A common approach to customer's credit selection and analysis is the use of the "six Cs" of credit as an initial screening and risk assessment device. The six Cs are: the capacity, capital, character, collateral, conditions and control. Generally institutions are expected to manage their credit risk to avoid exposing their organizations to unnecessarily high level of risk and subsequently a decline in returns.

A lot of research has been done in developed countries on credit risk management but very little on the impact of credit risk management practices on performance of private hospitals. Since 1990, a few hospitals have closed down with court bails and deposit money paid to utility firms such as Kenya Power and Lighting Company. There is also Ksh 200 Billion owed to private hospitals as the debtors live in poverty (East African Standard Nairobi 21st August 2006).

Locally, a few studies have been done on credit risk management and among them are credit risk management by coffee cooperatives in Embu district (Njiru, 2003), survey of credit risk management practices by pharmaceutical manufacturing firms in Kenya (Nduku, 2007) and assessment of credit risk management techniques adopted by microfinance institutions in Kenya (Mwirigi, 2006). To the researcher's best knowledge, no study has been done in Kenya on the impact of credit risk management practices on the performance of private hospitals in Kenya.

Based on this evaluation, there is a gap in literature to warrant a research to be conducted in this industry. This study therefore seeks to determine the credit risk management practices adopted by private hospitals in Kenya.

1.3 Objectives of the Study

1.3.1 General objective

The broad objective of the study was to analyse the credit risk management practices adopted by private hospitals in Kenya

1.3.2 Specific objectives

The specific objectives of the study were:

i. To establish the risk identification, analysis, risk monitoring procedures and assessment strategies used by private hospitals in Kenya.

ii. To establish the credit risk management procedures employed by private hospitals in Kenya.

1.4 Research Questions

The research questions for the study were:

i. How do private hospitals in Kenya identify, analyse, monitor and assess risk associated with credit?

ii. Which credit risk management procedures are employed by private hospitals in Kenya?

1.5 Significance of the Study

The study will be beneficial to private hospitals managers as its focus is on credit risk management which is the core source of business for many private hospitals.

The study will present varied practices which can be shared by many private hospitals in the industry.

Finally, the study will contribute to the broader realm of business and academic research. In business, through its recommendations, the study will add value to better credit management practices in businesses and service quality. In academia, the study will add value to academic research in the broader area of credit management. Future researchers will use this study as a form of reference for future studies. The study will also suggest future research activities that can be explored.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review on the credit risk management. The chapter presents theoretical background and defines the process of risk management. The specific areas covered here include credit risk management, credit risk management practices, credit risk management procedures and the impact of credit risk management practices on performance.

2.2 Credit Risk Management

Risk management framework is important for hospitals. The theory of asymmetric information argues that it may be impossible to distinguish good borrowers from bad borrowers (Auronen, 2003), which may result in adverse selection and moral hazards problems. Adverse selection and moral hazards have led to substantial accumulation of non-performing accounts in the hospitals (Bofondi and Gobbi, 2003). Several risk-adjusted performance measures have been proposed (Heffernan, 1996). The measures, however, focus on risk-return trade-off, i.e. measuring the risk inherent in each activity or product and charge it accordingly for the capital required to support it. This does not solve the issue of recovering loanable amount. Effective system that ensures repayment of loans by borrowers is critical in dealing with asymmetric information problems and in reducing the level of loan losses, thus the long-term success of any health organization (Basel, 1999; IAIS, 2003). Effective credit management risk involves establishing an appropriate credit risk environment; operating under a sound credit granting process; maintaining an appropriate credit administration that involves monitoring process as well as adequate controls over credit risk (Greuning and Bratanovic, 2003; IAIS, 2003). It requires top management to ensure that there are proper and clear guidelines in managing credit risk, that is all guidelines are properly communicated throughout the organization; and that everybody involved in credit risk managment understand them.

Considerations that form the basis for sound credit risk management system include: policy and strategies (guidelines) that clearly outline the scope and allocation of a hospital credit facilities and the manner in which a credit portfolio is managed, that is how loans are originated, appraised, supervised and collected (Basel, 1999; Greuning and Bratanovic, 2003; PriceWaterhouse, 1994). Screening borrowers is an activity that has widely been recommended by, among others, Derban *et al.* (2005). The recommendation has been widely put to use in the

health sector in the form of credit assessment. According to the asymmetric information theory, a collection of reliable information from prospective borrowers becomes critical in accomplishing effective screening.

In conjunction with the underlying frameworks, basic risk management process that is generally accepted is the practice of identifying, analyzing, measuring, and defining the desired risk level through risk control and risk transfer. *Blue Cross and Blue Shield* (2001) defines financial risk management as a sequence of four processes; the identification of events into one or more broad categories of market, credit, operational and other risks into specific sub-categories; the assessment of risks using data and risk model; the monitoring and reporting of the risk assessments on a timely basis; and the control of these risks by senior management.

Blue Cross and Blue Shield (2006), hold that risk management processes require supervisors to be satisfied that the banks and their banking groups have in place a comprehensive risk management process. This would include the Board and senior management to identify, evaluate, monitor and control or mitigate all material risks and to assess their overall capital adequacy in relation to their risk profile. In addition, as suggested by Al-Tamimi (2002), in managing risk, hospitals can follow comprehensive risk management process which includes eight steps: exposure identification; data gathering and risk quantification; management objectives; product and control guidelines; risk management evaluation; strategy development; implementation; and performance evaluation (Baldoni, 1998; Harrington and Niehaus, 1999).

There are many conceptual studies that show the important aspects of risk management process that firms need to have in order to practice risk management (Tchankova 2002; Kromschroder and Luck, 1998; Luck 1998; Fuser et al, 1999; Barton et al, 2002). Some empirical findings such as Al-Tamimi and Al-Mazrooei, (2007) show positive relationships between risk management practices and the various aspects of risk management process, and some findings (e.g. Boston Consulting Group, 2001; Al-Tamimi, 2002; Parrenas, 2005; Al-Tamimi and Al-Mazrooei, 2007) show the important aspect of risk management practices by various financial institutions.

According to Boston Consulting Group, (2001), credit risk is the oldest and important risk to which institutions are exposed. The importance of credit risk and credit risk management are increasing with time because of some reasons like economic crises and stagnation, company bankruptcies, infraction of rules in company accounting and audits, growth of off-balance sheet derivatives, declining and volatile values of collateral, borrowing more easily of small firms and financial globalization. Greuning and Iqbal, (2007) define credit risk as the risk of losses caused by the default of borrowers. Default occurs when a borrower can not meet his financial obligations. Credit risk can alternatively be defined as the risk that a borrower deteriorates in credit quality. This definition also includes the default of the borrower as the most extreme deterioration in credit quality. Credit risk is managed at both the transaction and portfolio levels. But, institutions increasingly measure and manage the credit risk on a portfolio basis instead of on a loan-by-loan.

According to Fuser and Meier, (1997), in credit risk management organisations use various methods such as credit limits, taking collateral, diversification, loan selling, syndicated loans, credit insurance, and securitization and credit derivatives. Credit risk has an importance place, but, credit risk measurement and credit risk management are not to be in desired level. It is important for staff of various institutions to understand the aspect of risk in the companys' operations and the risks that are inherent and exposed in their business operations. Better understanding of risk management is also necessary especially in the financial intermediation activities where managing risk is one of its important activities.

Boston Consulting Group (2001) found that the sole determining success factors is not the technical development but the ability to understand risk strategically and also the ability to handle and control risk organizationally. Secondly, in order to realize a risk based management philosophy, the attitude and mindset of the employees need to be changed whereby they must be brought to understand that managing risk is crucial for success. This implies that there must be intensive training, clearly defined structures and responsibilities, as well as commitment to change. In addition, it was identified that organisations concentrate on risk management primarily to enhance their competitive positions.

According to Haron and Hock, (2007), systematic riskis the risk of asset value change associated with systematic factors. It is sometimes referred to as market risk, which is in fact a somewhat imprecise term. By its nature, this risk can be hedged, but cannot be diversified completely away. In fact, systematic risk can be thought of as undiversifiable risk. All investors assume this type of risk, whenever assets owned or claims issued can change in value as a result of broad economic factors. As such, systematic risk comes in many different forms. For the banking sector, however, two are of greatest concern, namely variations in the general level of interest rates and the relative value of currencies. Because of the bank's dependence on these systematic factors, most try to estimate the impact of these particular systematic risks on performance, attempt to hedge against them and thus limit the sensitivity to variations in undiversifiable factors.

Harrington, (1999) posit that most organisations track interest rate riskclosely. They measure and manage the firm's vulnerability to interest rate variation, even though they can not do so perfectly. At the same time, international organisations with large currency positions closely monitor their foreign exchange risk and try to manage, as well as limit, their exposure to it. In a similar fashion, some institutions with significant investments in one commodity such as oil, through their lending activity or geographical franchise, concern themselves with commodity price risk. Others with high single-industry concentrations may monitor specific industry concentration risk as well as the forces that affect the fortunes of the industry involved.

Credit riskarises from non-performance by a borrower. It may arise from either an inability or an unwillingness to perform in the pre-committed contracted manner. This can affect the lender holding the loan contract, as well as other lenders to the creditor. Therefore, the financial condition of the borrower as well as the current value of any underlying collateral is of considerable interest to its bank. The real risk from credit is the deviation of portfolio performance from its expected value. Accordingly, credit risk is diversifiable, but difficult to eliminate completely. This is because a portion of the default risk may, in fact, result from the systematic risk outlined above. In addition, the idiosyncratic nature of some portion of these losses remains a problem for creditors in spite of the beneficial effect of diversification on total uncertainty. This is particularly true for banks that lend in local markets and the ones that take on

highly illiquid assets. In such cases, the credit risk is not easily transferred and accurate estimates of loss are difficult to obtain.

Counterparty riskcomes from non-performance of a trading partner. The non-performance may arise from counterparty's refusal to perform due to an adverse price movement caused by systematic factors, or from some other political or legal constraint that was not anticipated by the principals. Diversification is the major tool for controlling nonsystematic counterparty risk. Counterparty risk is like credit risk, but it is generally viewed as a more transient financial risk associated with trading than standard creditor default risk. In addition, counterparty's failure to settle a trade can arise from other factors beyond a credit problem. Moore, (2007)

Liquidity risk can best be described as the risk of a funding crisis. While some would include the need to plan for growth and unexpected expansion of credit, the risk here is seen more correctly as the potential for a funding crisis. Such a situation would inevitably be associated with an unexpected event, such as a large charge off, loss of confidence, or a crisis of national proportion such as a currency crisis. In any case, risk management here centers on liquidity facilities and portfolio structure. Recognizing liquidity risk leads the organisation to recognize liquidity itself as an asset, and portfolio design in the face of illiquidity concerns as a challenge (Moore, 2007). Environmental regulations have radically affected real estate values for older properties and imposed serious risks to lending institutions in this area.

A second type of legal risk arises from the activities of an institution's management or employees. Fraud, violations of regulations or laws, and other actions can lead to catastrophic loss, as recent examples in the thrift industry have demonstrated. All financial institutions face all these risks to some extent. Non-principal or agency activity involves operational risk primarily. Since institutions in this case do not own the underlying assets in which they trade, systematic, credit and counterparty risk accrues directly to the asset holder. If the latter experiences a financial loss, however, legal recourse against an agent is often attempted. Therefore, institutions engaged in only agency transactions bear some legal risk, if only indirectly.

2.3 Credit Risk Management Theories

Finance theory (i.e., financial economics) prescribes that a firm should take on a project when it increases shareholder value. Finance theory also shows that firm managers cannot create value for shareholders, also called its investors, by taking on projects that shareholders could do for themselves at the same cost. When applied to financial risk theory, this implies that firm managers should not hedge risks that investors can hedge for themselves at the same cost. This notion was captured by the hedging irrelevance proposition: In a perfect market, the firm cannot create value by hedging a risk when the price of bearing that risk within the firm is the same as the price of bearing it outside of the firm. In practice, financial markets are not likely to be perfect markets. This suggests that firm managers are likely have many opportunities to create value for shareholders using financial risk management. The trick is to determine which risks are cheaper for the firm to manage than the shareholders. A general rule of thumb, however, is that market risks that result in unique risks for the firm are the best candidates for financial risk management.

2.4 Credit Risk Management Practices

Since exposure to credit risk continues to be the leading source of problems in many organisations world-wide, organisations should be able to draw useful lessons from past experiences. Organisations should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred. When a company grants credit to its customers, it incurs the risk of non-payment. Credit management, or more precisely credit risk management, refers to the systems, procedures and controls which a company has in place to ensure the efficient collection of customer payments and minimize the risk of non-payment.

Credit risk management forms a key part of a company's overall risk management strategy. Weak credit risk management is a primary course of many business failures. Many small businesses, for example, have neither the resources nor the expertise to operate a sound credit management system (Mc Menamin, 1999).

2.4.1 Risk identification

The first step in organizing the implementation of the risk management function is to establish the crucial observation areas inside and outside the corporation (Kromschroder and Luck, 1998). Then, the departments and the employees must be assigned with responsibilities to identify specific risks. For instance, interest rate risks or foreign exchange risks are the main domain of the financial department.

It is important to ensure that the risk management function is established throughout the whole corporation; apart from parent company, the subsidiaries too have to identify risks, analyze risks and so on. There are many other approaches for risk identification, for instance, scenario analysis or risk mapping. An organization can identify the frequency and severity of the risks through risk mapping which could assist the organization to stay away from high frequency and low severity risks and instead focus more on the low frequency and high severity risk. Risk identification process includes risk-ranking components where these ranking are usually based on impact, severity or dollar effects (Barton et al. 2002). Accordingly, the analysis helps to sort risk according to their importance and assists the management to develop risk management strategy to allocate resources efficiently.

2.4.2 Risk analysis and assessment

This is an important issue because there is currently no standardized method used by financial institutions for the assessment of credit risk. A critical evaluation of the most popular credit risk assessment methods: the judgmental method, credit-scoring and portfolio models, highlights a number of limitations when used on their own. Kealhofer (2003) confirm that credit risk assessment methods should be combined for effective credit risk assessment. A comprehensive risk measurement and mitigation methods for various risk arising from financing activities and from the nature of profit and loss sharing in the source of funds especially investment account holders are explained by Sundararajan (2007). He concludes that the application of modern approaches to risk measurement, particularly for credit and overall organisational risks is important for the organisations. Also, he suggests that the need to adopt new measurement approaches is particularly critical for health organisations because of the role play, the unique mix of risks in finance contracts.

2.4.3 Risk monitoring

Clear established process for approving new credits and extending the existing credits has been observed to be very important while managing credit risk (Heffernan, 1996). Further, monitoring of borrowers is very important as current and potential exposures change with both the passage of time and the movements in the underlying variables (Donaldson, 1994; Mwisho, 2001), and also very important in dealing with moral hazard problem (Derban *et al.*, 2005). Monitoring involves, among others, frequent contact with borrowers, creating an environment that the organisation can be seen as a solver of problems and trusted adviser; develop the culture of being supportive to borrowers whenever they are recognized to be in difficulties and are striving to deal with the situation; monitoring the flow of borrower's business through the bank's account; regular review of the borrower's reports as well as an on-site visit; updating borrowers credit files and periodically reviewing the borrowers rating assigned at the time the credit was granted (Donaldson, 1994; Treacy and Carey, 1998; Tummala and Burchett, 1999; Basel, 1999; Mwisho, 2001

Effective risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place (IRM, AIRMIC and ALARM; 2002). Risk monitoring can be used to make sure that risk management practices are in line and proper risk monitoring also helps the management to discover mistake at early stage (Al-Tamimi and Al-Mazrooei, 2007). Monitoring is the last step in the corporate risk management process (Pausenberger and Nassauer, 2002).

According to Parrenas, (2005), the shareholders of the corporation can use their rights to demand information in order to judge the efficiency of the risk management system. The director's report enables the shareholders to assess the status of the corporation knowledgeably and thoroughly. Khan and Ahmad (2001) conducted a survey of risk management practices and found that on average the lowest percentage is on the measuring, mitigating and monitoring risk that is 69% score as compared to risk management policies and procedures that is 82.4%, and internal control of organisations that is 76%. Al-Tamimi and Al-Mazrooei (2007) found that there is significant difference between United Arab Emirates national and foreign banks in risk monitoring and controlling. Also, the United Arab Emirates commercial banks have an efficient

risk monitoring and controlling system and it has positive influence on risk management practices.

According to Baldoni, (1998), the area of interest rate risk is the second area of major concern and on-going risk monitoring and management. Here, however, the tradition has been for the health industry to diverge somewhat from other parts of the financial sector in their treatment of interest rate risk. Most organisations make a clear distinction between their trading activity and their balance sheet interest rate exposure. Organisations generally have viewed interest rate risk as a classic part of market risk, and have developed elaborate trading risk management systems to measure and monitor exposure. For large commercial organisations and European-type universal banks that have an active trading business, such systems have become a required part of the infrastructure (Akkizidis and Khandelwal, 2008). But, in fact, these trading risk management systems vary substantially from bank to bank and generally are less real than imagined. In many firms, fancy value-at-risk models, are up and running. But, in many more cases, they are still in the implementation phase. In the interim, simple ad hoc limits and close monitoring substitute for elaborate realtime systems. While this may be completely satisfactory for institutions that have little trading activity and work primarily on behalf of clients, the absence of adequate trading systems elsewhere in the industry is a bit distressing.

2.4.4 Risk management systems

According to Parrenas, (2005), organisations have long viewed the problem of risk management as the need to control risks which make up most, if not all, of their risk exposure, credit, interest rate, foreign exchange and liquidity risk. While they recognize counterparty and legal risks, they view them as less central to their concerns. Where counterparty risk is significant, it is evaluated using standard credit risk procedures, and often within the credit department itself. Likewise, most bankers would view legal risks as arising from their credit decisions or, more likely, proper process not employed in financial contracting.

Accordingly, the study of organisational risk management processes is essentially an investigation of how they manage these four risks. In each case, the procedure outlined above is adapted to the risk considered so as to standardize, measure, constrain and manage each of these

risks. To illustrate how this is achieved, this review of firm-level risk management begins with a discussion of risk management controls in each area. The more difficult issue of summing over these risks and adding still other, more amorphous, ones such as legal, regulatory or reputational risk, will be left to the end (Tchankova, 2002)

2.5 Credit Risk Management Procedures

According to Fallon, (1996), each organisation must apply a consistent evaluation and rating scheme to all its investment opportunities in order for credit decisions to be made in a consistent manner and for the resultant aggregate reporting of credit risk exposure to be meaningful. To facilitate this, a substantial degree of standardization of process and documentation is required. This has led to standardized ratings across borrowers and a credit portfolio report that presents meaningful information on the overall quality of the credit portfolio. In a single rating system, a single value is given to each loan, which relates to the borrower's underlying credit quality.

At some institutions, a dual system is in place where both the borrower and the credit facility are rated. In the latter, attention centers on collateral and covenants, while in the former, the general credit worthiness of the borrower is measured. Some organisations prefer such a dual system, while others argue that it obscures the issue of recovery to separate the facility from the borrower in such a manner. In any case, the reader will note that in the reported system, all loans are rated using a single numerical scale ranging between 1 and 10 for each numerical category, a qualitative definition of the borrower and the loan's quality is offered and an analytic representation of the underlying financials of the borrower is presented. Parrenas, (2005) hold that such an approach, whether it is a single or a dual rating system allows the credit committee some comfort in its knowledge of loan asset quality at any moment of time. It requires only that new loan officers be introduced to the system of loan ratings, through training and apprenticeship to achieve a standardization of ratings throughout the organisation. Given these standards, the organisation can report the quality of its loan portfolio at any time, along the lines of the report presented.

According to Luck, (1998), total receivables, including loans, leases and commitments and derivatives, are reported in a single format. Assuming the adherence to standards, the entirety of the firm's credit quality is reported to senior management monthly via this reporting mechanism.

Changes in this report from one period to another occur for two reasons, loans have entered or exited the system, or the rating of individual loans has changed over the intervening time interval. The first reason is associated with standard loan turnover. Loans are repaid and new loans are made. The second cause for a change in the credit quality report is more substantive.

Variations over time indicate changes in loan quality and expected loan losses from the credit portfolio. In fact, credit quality reports should signal changes in expected loan losses, if the rating system is meaningful. Studies by Harrington, (1999) on their rating system have illustrated the relationship between credit rating and ex post default rates. A similar result should be expected from internal bank-rating schemes of this type as well. However, the lack of available industry data to do an appropriate aggregate migration study does not permit the industry the same degree of confidence in their expected loss calculations.

For credit quality report to be meaningful, all credits must be monitored, and reviewed periodically. It is, in fact, standard for all credits above some shilling volume to be reviewed on a quarterly or annual basis to ensure the accuracy of the rating associated with the lending facility. In addition, a material change in the conditions associated either with the borrower or the facility itself, such as a change in the value of collateral, will trigger a re-evaluation. This process, therefore, results in a periodic but timely report card on the quality of the credit portfolio and its change from month to month (Haron and Hock, 2007). Generally accepted accounting principles require this monitoring. The credit portfolio is subject to fair value accounting standards, which have recently been tightened by The Financial Accounting Standards Board (FASB). Organisations are required to have a loan loss reserve account which accurately represents the diminution in market value from known or estimated credit losses.

As an industry, hospitals have generally sought estimates of expected loss using a two-step process, including default probability, and an estimate of loss given default. This approach parallels the work of Harrington, (1999) referred to above. At least quarterly, the level of the reserve account is re-assessed, given the evidence of loss exposure driven directly from the credit quality report, and internal studies of loan migration through various quality ratings. Absent from the discussion thus far is any analysis of systematic risk contained in the portfolio. Traditionally

mutual funds and merchant banks have concerned themselves with such risk exposure, but the health sector has not. This appears to be changing in light of the recent substantial losses in real estate and similar losses in the not-too-distant past in petrochemicals (Grais, and Kulathunga, 2007).

According to Fuser et all, (1998), many organisations are beginning to develop concentration reports, indicating industry composition of the loan portfolio. This process was initially hampered by the lack of a simple industry index. Reports such an industry grouping to illustrate the kind of concentration reports that are emerging as standard in organisations. For the investment management community, concentrations are generally benchmarked against some market indexes, and mutual funds will generally report not only the absolute percentage of their industry concentration, but also their positions relative to the broad market indexes. Unfortunately, there is no comparable benchmark for the loan portfolio. Accordingly, firms must weigh the pros and cons of specialization and concentration by industry group and establish subjective limits on their overall exposure (Fuser et al, 1998).

Drzik, (1995) hold that credit report is not the result of any analytical exercise to evaluate the potential downside loss, but rather a subjective evaluation of management's tolerance, based upon rather imprecise recollections of previous downturns. In addition, there is the emergence of portfolio managers to watch over the loan portfolio's degree of concentration and exposure to both types of risk concentration discussed. Most organizations also will report concentration by individual counterparty. To be meaningful, however, this exposure must be organisation wide and include all related affiliates. Both of these requirements are not easily satisfied. For large institutions, a key relationship manager must be appointed to assure that overall organisation exposure to a particular client is captured and monitored. This level of data accumulation is never easy, particularly across time zones.

Nonetheless, such a relationship report is required to capture the disparate activity from many parts of the organisation. Transaction with affiliated firms needs to be aggregated and maintained in close to real time. Each different lending facility is reported. In addition, the existing lines of credit, both used and open, need to be reported as well. Generally, this type of credit risk

exposure or concentration report has both an upper and lower cut-off value so that only concentrations above a minimum size are recorded, and no one credit exposure exceeds its predetermined limit. The latter, an example of the second technique of risk management is monitored and set by the credit committee for the relationship as a whole (Barton et al, 2002).

For institutions that do have active trading businesses, value-at-risk has become the standard approach. Similar systems are in place at other firms. In that much exists in the public record about these systems, there is little value to reviewing this technique here. Suffice it to say that the daily, weekly, or monthly volatility of the market value of fixed-rate assets are incorporated into a measure of total portfolio risk analysis along with equity's market risk, and that of foreign-denominated assets. For balance sheet exposure to interest rate risk, firms follow a different drummer. Given the generally accepted accounting procedures (GAAP) established for assets, as well as the close correspondence of asset and liability structures, organisations tend not to use market value reports, guidelines or limits. Rather, their approach relies on cash flow and book values, at the expense of market values (Baldoni, 1998)

This system (gap methodology), has been labelled traditionally a gap reporting system as the asymmetry of the repricing of assets and liabilities results in a gap. This has classically been measured in ratio or percentage mismatch terms over a standardized interval such as a 30-day or one-year period. This is sometimes supplemented with a duration analysis of the portfolio. However, many assumptions are necessary to move from cash flows to duration. Asset categories that do not have fixed maturities, such as prime rate loans, must be assigned a duration measure based upon actual repricing flexibility. A similar problem exists for core liabilities, such as retail demand and savings balances. Nonetheless, the industry attempts to measure these estimates accurately, and include both on- and off-balance sheet exposures in this type of reporting procedure (Archer and Haron, 2007).

According to Drzik, (1995), most organisations, however, have attempted to move beyond this gap methodology. They recognize that the gap and duration reports are static, and do not fit well with the dynamic nature of the market, where assets and liabilities change over time and spreads fluctuate. In fact, the variability of spreads is largely responsible for the highly profitable

performance of the industry over the last two years. Accordingly, the industry has added the next level of analysis to their risk management procedures. Currently, many organisations are using balance sheet simulation models to investigate the effect of interest rate variation on reported earnings over one-, three- and five-year horizons. These simulations, of course, are a bit of science and a bit of art. They require relatively informed repricing schedules, as well as estimates of prepayments and cash flows.

In terms of the first issue, such an analysis requires an assumed response function on the part of the organisation to rate movement, in which organisation pricing decisions in both their local and national franchises are simulated for each rate environment. In terms of the second area, the simulations require precise prepayment models for proprietary products, such as middle market loans, as well as standard products such as residential mortgages or traditional consumer debt. In addition, these simulations require yield curve simulation over a presumed relevant range of rate movements and yield curve shifts. Once completed, the simulation reports the resultant deviations in earnings associated with the rate scenarios considered. Whether or not this is acceptable depends upon the limits imposed by management, which are usually couched in terms of deviations of earnings from the expected or most likely outcome (Drzik, 1995)

According to Iqbal and Mirakhor, 2007, every institution has an investment policy in place which defines the set of allowable assets and limits to the organisation's participation in any one area; all institutions restrict the activity of the treasury to some extent by defining the set of activities it can employ to change the organisation's interest rate position in both the cash and forward markets. Some are willing to accept derivative activity, but all restrict their positions in the swap caps and floors market to some degree to prevent unfortunate surprises. As reported losses by some institutions mount in this area, however, investment guidelines are becoming increasingly circumspect concerning allowable investment and hedging alternatives. In this area there is considerable difference in current practice. This can be explained by the different franchises that coexist in the industry. Most institutions view activity in the foreign exchange market beyond their franchise, while others are active participants. The former will take virtually no principal risk, no forward open positions, and have no expectations of trading volume (Iqbal and Mirakhor, 2007).

2.6 Performance Measurement

There are a number of reasons why a hospital decides to adopt a performance measurement system, and choosing the right system should be based on a consideration of all of these (Ball, Elixhauser and Johantgen, 1998). Performance measurement systems vary greatly in costs, both up front and hidden, as well as the sophistication of the product. Small hospitals must be sure about why they are deciding to adopt a performance measurement system. Identifying the reasons why one is measuring performance is crucial in selecting an approach. If one is choosing a performance measurement system to meet regulatory requirements, than one must make sure that the performance measurement system is acceptable to the regulatory organization.

Useful performance indicators are those that help an organization to improve its delivery of health care services or to help it in its efforts toward accountability. Useful indicators possess desirable statistical properties (reliability and validity) and frequently reflect those areas of health care service delivery in which there are evidence-based standards (Davies, 1998). Typically, the events that are measured occur frequently and involve sizeable "at-risk" populations. If rates are reported, they usually have relatively large numerators (events) and denominators (at-risk populations). If continuous measures are reported, such as patient satisfaction, then the performance measure must demonstrate desirable psychometric properties, including internal consistency, content validity, and construct validity.

Since virtually all hospitals report administrative data, selecting performance measures using data elements from an administrative database is a reasonable option for most small hospitals. Data elements from administrative data that are potentially useful in developing performance measures include patient length of stay, source of payment, primary and secondary diagnoses, principal and secondary procedures, major diagnosis category, and patient demographics. Such data elements are included in many performance measurement systems, even a number of those that are not based solely or primarily on administrative data. Moreover, despite some limitations of administrative data in allowing for clinical inferences, rates based on administrative data elements have often been accepted by regulatory, insurer/payer and accreditation organizations in order to meet performance requirements (Eddy, 1998).

Frequently, administrative data are considered inadequate for measuring clinical performance, and medical record data are the preferred alternative. The technologies by which clinical services are offered and recorded, however, may differ substantially between small and large hospitals. In small hospitals, collecting the data elements is largely a manual process; in large hospitals, collection of these data elements may involve some automated processes. Obviously, then, the degree of automation is a factor to take into account in deciding whether or not to use medical records as a data source for performance measures.

In measuring performance in small hospitals, it may occasionally be necessary to strike a compromise between what is most desirable to measure and what can be measured, given the available resources. Many good indicators are available through some of the most widely used performance measurement systems. Perhaps, some examples of useful indicators for small hospitals would be helpful – indicators that do not have prohibitive data collection requirements. One such indicator is *length of stay*. Another useful indicator, available to many small hospitals, is readmission rates. This indicator can point to areas in need of improved patient management based on high rates of readmission, especially for such conditions as congestive heart failure, chronic obstructive pulmonary disease, and diabetes. Readmission rates are a measure of efficiency that can be used in conjunction with *length of stay* information to determine if premature discharge contributes to readmission. Inpatient mortality can be an indicator of the quality of care if it is risk-adjusted or, at the very least, stratified by high volume diagnoses categories involving patients with similar risk profiles (Kazandjian and Lied, 1998).

Acute myocardial infarction mortality can be an outcome indicator for emergency or inpatient critical care units of the hospital. In addition, for acute myocardial infarction patients, average time from arrival at the hospital to administration of treatment (e.g., thrombolytic therapy) can be an important process indicator. Other indicators that may prove valuable as process or outcome measures include patient falls and use of physical restraints. If obstetrical services are provided in the small hospital, cesarean section rates can comprise a useful indicator.

There are a number of potentially useful *ambulatory* indicators that apply to small hospitals with emergency or outpatient departments. Ambulatory indicators related to acute myocardial infarction include prescribing beta blocker and/or aspirin therapy for discharged acute

myocardial infarction patients (patients without contraindications to these therapies) (Roper and Cutler 1998). Many indicators are suitable to both large and small hospitals. These include wait times and returns to a hospital's emergency department for the same or a related condition (within specified time periods such as 72 hours), and leaving an emergency department early (prior to completion of treatment). While this type of ambulatory data may not be available on automated systems, developing and implementing a simple system of non-automated reporting for these indicators need not be resource intensive.

All performance measures require at least some outlay of resources, both human and technological. The indicators listed here, for the most part, do not require extensive resources to implement. Moreover, in addition to quality indicators, there are financial and administrative indicators that can be used to measure other aspects of organizational performance. Such indicators complement clinical measures in forming a general picture of organizationalperformance.

Patient satisfaction, an important piece in the puzzle of performance assessment, merits consideration as a performance measure appropriate for small hospitals. Patient perceptions of quality of care are increasingly central in conceptual and operational models of performance measurement (Lied and Kazandjian, 1999). Finding the resources to implement patient satisfaction reporting in a small hospital can be problematic, especially if a large portion of the total patient population is surveyed. Judicious sampling can be used as an alternative so that there is data available on patient satisfaction (Palmer, 1996).

2.7 Impact of Credit Risk Management Practices on Performance

The justification for studying organizations' activities by focusing on risk management can be traced to Merton (1995) who argued that financial systems should be analyzed in terms of a "functional perspective" rather than an "institutional perspective" since over long periods of time functions have been much more stable than institutions. Research on financial services has followed this functional approach by relating organisations' activities to the functions performed by them. Merton (1989) suggested that, inter alia, the central function of a financial institution is its ability to distribute risk across different participants. According to Saunders and Cornett (2006), modern financial institutions are in the risk management business as they undertake the

functions of beating and managing risks on behalf of their customers through the pooling of risks and the sale of their services as risk specialists.

Given the importance of risk management in aorganisation's functioning, the efficiency of an organisation's risk management is expected to significantly influence its financial performance (Harker and Satvros, 1998). An extensive body of literature (Santomero and Babbel, 1997) argues that risk management matters for financial performance of firms. According to Pagano (2001), risk management is an important function of financial institutions in creating value for shareholders and customers. The corporate finance literature has linked the importance of risk management with the shareholder value maximization hypothesis. This suggests that a firm will engage in risk management policies if it enhances shareholder value (Ali and Luft, 2002). Thus, effective risk management either in non-banking firms or in banking entities is expected to enhance the value of the firm and shareholder wealth.

2.7.1 Profitability of organisations

Linbo Fan (2004) examined efficiency versus risk in large domestic USA banks. He found that profit efficiency is sensitive to credit risk and insolvency risk but not to liquidity risk or to the mix of loan products. Ho Hahm (2004) conducted an empirical study on interest rate and exchange rate exposures of institutions in pre-crisis Korea. Results indicated that Korean commercial banks and merchant banking corporations had been significantly exposed to both interest rate and exchange rate risks, and that the subsequent profitability of commercial banks was significantly associated with the degree of pre-crisis exposure. The results also indicated that the Korean case highlights the importance of upgrading financial supervision and risk management practices as a precondition for successful financial liberalization.

2.7.2 Liquidity of organisations

Risk management dictates that as long as the demand for liquidity from depositors and borrowers is not too highly correlated, the intermediary should pool these two classes of customers together to conserve on its need to hold costly liquid assets the buffer against unexpected deposit withdrawals and loan take downs. Liquidity risk management is entering a new and much more demanding era. The Basel Committee on Banking Supervision and the International Institute of Finance have set high hurdles in terms of principles and recommendations. The UK Financial

Services Authority (FSA), meanwhile, will soon be publishing its proposals for reinvigorating its liquidity risk regulations.

2.7.3 Growth of organisations

Funding growth through core deposits has become largely a thing of the past. The advent of nonbank competition and the rise of third-party funding mean that community banks now operate in a dynamic funding market, which requires the use of more sophisticated liquidity risk management practices.

Industry experts point to many different underlying causes for the demise of growth in deposits, such as the increased financial sophistication of the public, demographic shifts, the rise of nonbank competitors offering a whole wave of alternative investment products, new delivery systems such as the Internet, and competition from credit unions and insurance companies.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research design and methodology that was used to carry out the research. It presents the research design, the population, sample size and sampling procedure, data collection and analysis.

3.2 Research Design

Research design refers to the way the study is designed, that is, the method used to carry out a research. Causal research design was chosen because it will enable the researcher to generalise the findings to a larger population. This study therefore was able to generalise the findings for all the private hospitals in Kenya.

3.3 Target Population

The population of this study comprised of all licensed private hospitals in Kenya that operate in Nairobi. The staff of private hospitals is the group from which the sample was drawn. Currently there were about 50 licensed private hospitals in Nairobi . The researcher undertook a census of the population given the low number of licensed private hospitals in Nairobi. The researcher targeted the credit managers from the various licensed private hospitals in Nairobi.

3.4 Data Collection

The researcher used both primary and secondary data. Primary data was obtained through self-administered questionnaires with closed and open-ended questions. As much as possible, a 5-point likert scale was used to determine the impact of credit management practices on performance of private hospitals in Kenya. The closed ended questions enabled the researcher to collect quantitative data while open-ended questions enabled the researcher to collect qualitative data. The questionnaires were divided into two sections. Section one was concerned with the general information about respondents. Section two dealt with the impact of credit management practices on performance of private hospitals. Secondary data was collected by use of desk search techniques from published reports and other documents. Secondary data included the private hospitals' publications, journals, and periodicals.

3.5 Data Analysis

The collected data was thoroughly examined and checked for completeness and comprehensibility. The data was then summarized, coded and tabulated. Descriptive statistics such as means, standard deviation and frequency distribution were used to analyze the data. Data presentation was done by the use of pie charts, bar charts and graphs, percentages and frequency tables. This ensured that the gathered information is clearly understood. Data was coded and entered into the Statistical Package for Social Sciences (SPSS) for analysis. SPSS was used to perform the analysis as it aided in organizing and summarizing the data by the use of descriptive statistics such as tables.

CHAPTER FOUR: DATA ANALYSIS, INTERPRETATION OF THE RESULTS AND PRESENTATION OF THE FINDINGS

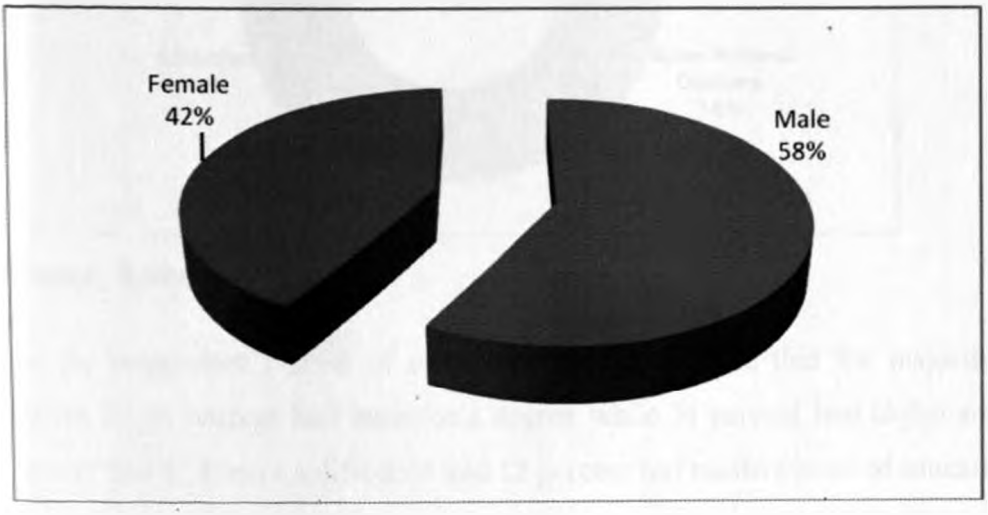
This chapter presents the research data analysis as guided by the study objectives.

4.1 Respondents' Social Demographic Information

4.1.1 Gender

The study established the gender of the respondents as follows.

Figure 4.1: Gender of the respondents



Source: Research Data, 2010

The results in the figure above shows that a majority of the respondents were male comprising 58 percent and females 42 percent

4.1.2 Age bracket

Table 4.1: Age bracket

	Frequency	Percent
25 – 34 years	6	13
35 – 44 years	26	63
45 – 54 years	8	19
55 – 64 years	2	5
65 years and above	0	0
Total	42	100

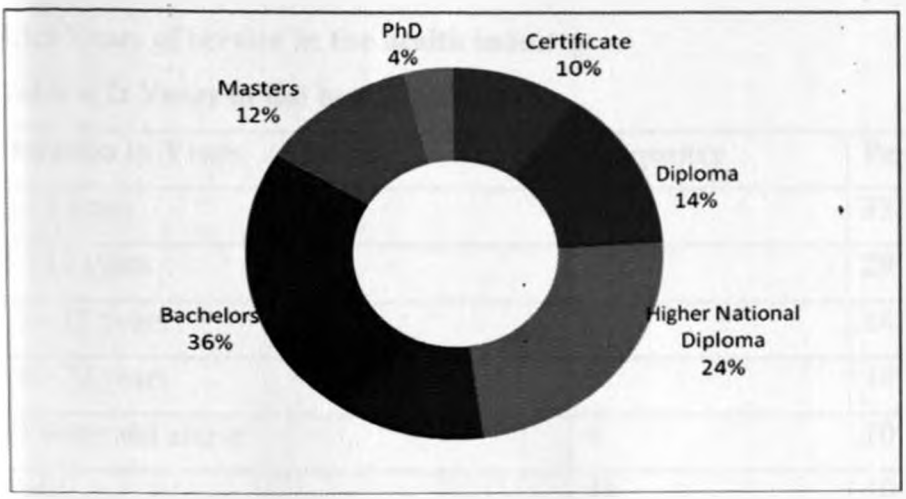
Source: Research Data, 2010

Data presented above shows that a majority of 63 percent were between 35 and 44 years while

19 percent were between 45 and 54 years. Only 15 percent were between 25 and 34 years.

4.1.3 Highest qualification achieved

Figure 4.2: Highest level of education

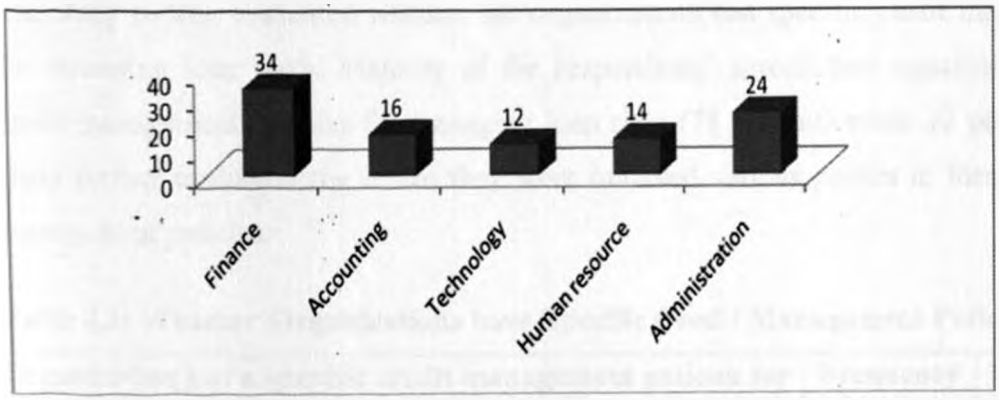


Source: Research Data, 2010

On the respondent's level of education, the study found that the majority of respondents as shown by 36 percent had bachelor's degree while 24 percent had higher national diplomas. 14 percent had diploma qualification and 12 percent had masters level of education.

4.1.4 Current designation within the hospital

Figure 4.3: Current designation within the hospital



Source: Research Data, 2010

Results presented in the figure above shows that a majority of the respondents' were in finance department (34 percent) while 24 percent were in administration, 14 percent were in human resource while 16 percent were in accounting departments.

4.1.5 Years of service in the health industry

Table 4.2: Years in the health industry

Duration in Years	Frequency	Percent
1 – 5 years	14	33
6 – 10 years	12	29
11 – 15 years	6	14
16 – 20 years	6	14
21 years and above	4	10
Total	42	100

Source: Research Data, 2010

On the respondent's years of service in the hospital, the study found that the majority (33%) had worked for a duration of 5 years and below, 29% for 6 to 10 years, 14% for 11 to 15 years, 14% for 16 to 20 years while 10% had worked for over 21 years.

4.2 Credit Risk Management

4.2.1 Loan portfolio

The study further evaluated whether the organizations had specific credit management policies for managing loan risks. Majority of the respondents' agreed that organizations had specific credit management policies for managing loan risks (78 percent) while 22 percent did not. The study further evaluated the extent they were involved various parties in formulating the credit management policies.

Table 4.3: Whether Organizations have Specific Credit Management Policies

Organization has a specific credit management policies for managing loan risks	Frequency	Percent
The institution	33	78
Third parties	9	22
Total	42	100

Source: Research Data, 2010

4.2.2 Parties involved in credit policies

Table 4.4: Parties involved in credit policies

Parties involved in credit policies	Very great extent	Great extent	Moderate extent	Little extent	No extent
The institution	35%	30%	24%	11%	0%
Third parties	14%	21%	30%	32%	3%

Source: Research Data, 2010

Results portrayed above show that a majority of the respondents' cited that they involved the institution to a very great extent in credit policies as was shown by 35 percent and to a great extent shown by 30 percent while 32 percent cited that they involved third parties to a little extent. However 3 percent cited that they involved third parties to no extent. From these results, it can be concluded that majority of the respondents (65%) involve the institution in formulating credit policies from a great to a very great extent.

4.2.3 Use of various indicators in credit risk management in hospitals

Table 4.5: Use of various indicators in credit risk management in hospitals

Credit management approaches	Very great extent	Great extent	Moderate extent	Little extent	No extent
Operating efficiency	58	36	24	0	0
Loan portfolio indicators	38	34	24	4	0

Source: Research Data, 2010

Results depicted in the figure above shows that most respondents agreed that operating efficiency was an indicator used in its credit risk management approaches as was shown by 58 percent while 38 percent also agreed to a very great extent that loan portfolio indicators were being used as indicators used in its credit risk management approaches. However 4 percent cited that loan portfolio indicators were being used to a little extent as indicators used in its credit risk management approaches.

4.2.4 Consideration of various factors in establishing a loan portfolio policy

The study in this section used a likert scale where1 is to a very great extent and 5 is to no extent. Data was presented in mean and standard deviation.

Table 4.6: Extent to which hospitals consider various factors in a portfolio policy

Loan Portfolio Policies	Mean	Std Dev
Existing credit policy	1.1006	1.4050
Overhead cost	1.1176	1.4373
General trend of credit	2.1373	1.2809
State of the economy	2.3725	1.3558

Source: Research Data, 2010

Results depicted above shows that most hospitals considered existing credit Policy and overhead costs as main factors in establishing loan portfolio policies as was shown by low mean scores of 1.1 and 1.11 and standard deviations of 1.405 and 1.4373 respectively. The least cited factor in establishing loan portfolio policies was state of the economy shown by a high mean of 2.37 with a standard deviation of 1.3558.

4.2.5 Participation of various people in formulating loan portfolio policies

Table 4.7: Extent of participation of various people in formulating loan portfolio policies

People participating in formulation of loan portfolio policies	Very great extent	Great extent	Moderate extent	Little extent	No extent
Executive management	50.0	27.5	30.0	27.5	10.0
Employee suggestions	2.5	30.0	32.5	32.5	2.5
Board of directors	30.0	55.0	5.0	5.0	5.0
Credit manager	32.5	30.0	10.0	17.5	10.0
Credit analyst	32.5	7.5	35.0	25.0	0
Credit committee	35.0	20.0	17.5	20.0	7.5

Source: Research Data, 2010

The table above shows that most respondents' agreed to a very great extent that executive management , credit committees, credit analyst's and credit managers were the people participating in formulation of loan portfolio policies as was shown by 50%, 35% and 33

respectively. However 25 percent cited to a little extent that credit analysts were the people participating in formulation of loan portfolio policies

4.2.6 Extent to which the hospital uses various accounting ratios to measure portfolio quality

Data in this section was analyzed using a likert scale of 1 to 5 where 1 is to a great extent and 5 is to no extent. Data was presented in mean and standard deviation.

Table 4.8: Extent the hospital uses of various accounting ratios to measure portfolio quality

Accounting ratios for measuring portfolio quality	Mean	Std Dev
Portfolio at risk (PAR) which measures the portion of the loan portfolio contaminated by arrears as a percentage of the total portfolio where the desired level is less than 10 per cent	2.8540	1.3558
Risk coverage ratio which shows what proportion of the portfolio at risk is covered by actual loan losses where the rate could be as high as 90 per cent	2.4454	1.08610
Loans written off ratio which represents the amount of loans removed from the accounting books because of a substantial loss where a maximum of 4 per cent is envisaged	3.4532	1.1635

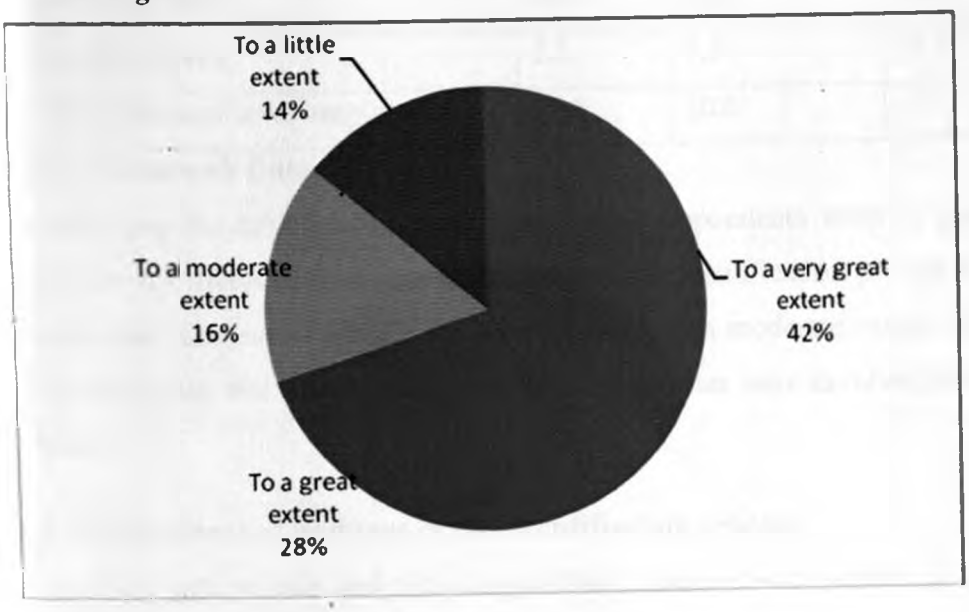
Source: Research Data, 2010

Results from the table above shows that most hospitals used risk coverage ratio which shows what proportion of the portfolio at risk as accounting ratios for measuring portfolio quality as was shown by a low mean of 2.4 followed by portfolio at risk shown by a mean of 2.8. This shows that majority of the responses with regard to portfolio at risk (PAR) which measures the portion of the loan portfolio contaminated by arrears as a percentage of the total portfolio where the desired level is less than 10 per cent were skewed far away from the mean as shown by a standard deviation of 1.3558, with regard to loans written off ratio which represents the amount of loans removed from the accounting books because of a substantial loss where a maximum of 4 per cent is envisaged were skewed to a standard deviation of 1.1635, while risk coverage ratio which shows what proportion of the portfolio at risk is covered by actual loan losses where the rate could be as high as 90 per cent were skewed to 1.08610.

4.3 Risk Identification

The study inquired from the respondents what risk identification involved. The respondents cited that it was the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. The study inquired the extent in which hospitals considered risk identification as a process in credit risk management.

Figure 4.4: Extent to which hospitals considered risk identification as a process in credit risk management.



Source: Research Data, 2010

4.3.1 Focus on types of risks in risk identification

Table 4.9: Extent to which the hospital focused on types of risks in the risk identification

Risk identification	Very great extent	Great extent	Moderate extent	Little extent	No extent
Interest rate risks	52.0	25.5	30.0	27.5	10.0
Foreign exchange risks	2.5	30.0	32.5	32.5	2.5

Source: Research Data, 2010

Results shown above reveal that a majority of the respondents' cited to a very great extent that interest rate risks were used in the risk identification step (52 percent) while 30 percent cited to a

moderate extent. In addition, 33 percent cited to a moderate extent that foreign exchange risks were used as risk identification processes.

4.3.2 Involvement by hospital of various parties in the risk identification process

Table 4.10: Extent of involvement of various parties in the risk identification process

Parties involved in risk identification	Very great extent	Great extent	Moderate extent	Little extent	No extent
Internal auditors	30.0	55.0	5.0	5.0	5.0
External auditors	22.5	20.0	20.0	27.5	10.0
Senior employees	2.5	7.5	35.0	30.0	25.0
Middle and lower level employees	35.0	20.0	17.5	20.0	7.5

Source: Research Data, 2010

Results from the table above, shows that, most respondents were in agreement that internal auditors were involved to a great extent in the risk identification process (55 percent) while 35 percent cited that senior employees were involved to a moderate extent. However an additional 35 percent cited that middle and lower level employees were involved in the risk identification process.

4.3.3 Involvement of auditors in risk identification process

Data in this section was analyzed using a likert scale of 1 to 5 where 1 is to a great extent and 5 are to no extent. Data was presented in mean and standard deviation.

Table 4.11: Extent to which the hospital involve the auditors in various steps in risk identification process

Involvement of auditors in risk identification	Mean	Std. Dev
The auditor begins the inherent risk evaluation process by generating expectations of accounts balances	2.8540	1.3558
The auditor identifies changes that have occurred in the firm or its environment	2.4454	1.08610
The auditor determines how those changes should interact with historic trends to produce an expected balance in the account	3.4532	1.1635

Source: Research Data, 2010

ata presented above shows that most respondents' agreed that the auditor identified changes at had occurred in the firm or its environment as was shown by a low mean of 2.4454 and a andard deviation of 1.08610, followed by the respondents who cited that the auditor began the herent risk evaluation process by generating expectations of accounts balances as was shown y a low mean of 2.8540 and a standard deviation of 1.3558, while the auditor determines how ıose changes should interact with historic trends to produce an expected balance in the account s was shown by a low mean of 3.4532 and a standard deviation of 1.1635.

.3.4 Importance of risk identification in credit risk management

Table 4.12: Agreement on importance of risk identification in credit risk management

mportance of risk identification in credit risk management	Mean	Std. Dev
It ensures that the risk management function is established throughout the whole corporation	1.1006	1.4050
Risk identification helps to sort risk according to their importance	1.1176	1.4373
Risk identification assists the management to develop risk management strategy to allocate resources efficiently	2.1373	1.2809

Source: Research Data, 2010

As results depict in the table above, most respondents' agreed that the importance of risk identification in credit risk management was that it ensured that the risk management function was established throughout as was shown by a low mean of 1.10 and a standard deviation of 1.405 and that risk identification helped to sort risk according to their importance shown by a mean of 1.11 and a standard deviation of 1.4373, while the respondents agreed that risk identification assists the management to develop risk management strategy to allocate resources efficiently as was shown by a mean of 2.1373 1.2809 and a standard deviation of 1.2809.

4.4 Risk Analysis and Assessment

The study went further to evaluate the extent in which respondents' agreed with various with statements about risk analysis and assessment in credit risk management. This section used a likert scale of 1 to 5 where 1 is strongly agree, 2 is agree, 3 is neutral, 4 is disagree and 5 is strongly disagree. Data was presented in mean and standard deviation.

Table 4.13: Agreement on risk analysis and assessment in credit risk management

Risk analysis and assessment in credit risk management	Mean	Std Dev
Risk analysis and assessment comprises identification of the outcomes	2.3654	1.1050
Risk analysis and assessment comprises estimation the magnitude of the consequences	2.9874	1.1373
Risk analysis and assessment comprises the probability of those outcomes	3.0014	1.0809

Source: Research Data, 2010

Results from the table above shows that most respondents were in agreement that risk analysis and assessment comprises identification of the outcomes as was shown by a low mean of 2.3 and standard deviation of 1.11 followed by the fact that risk analysis and assessment comprises estimation of the magnitude of the consequences shown by a mean of 2.9 and a standard deviation of 1.14.

4.5 Risk Monitoring

The study went further to evaluate the extent in which respondents agreed with various statements about risk monitoring in credit risk management. This section used a likert scale of 1 to 5 where 1 is strongly agree, 2 is agree, 3 is neutral, 4 is disagree and 5 is strongly disagree. Data was presented in mean and standard deviation.

Table 4.14: Agreement on risk monitoring in credit risk management

Risk monitoring in credit risk management	Mean	Std Dev
Risk monitoring can be used to make sure that risk management practices are in line with proper risk monitoring	1.7848	.45449
Risk monitoring helps the hospital management to discover mistake at early stage	1.0025	.15484
The director's report on risk monitoring enables the shareholders to assess the status of the corporation knowledgeably and thoroughly	1.9982	.78448

Source: Research Data, 2010

Data from the table above shows that most respondents strongly agreed that risk monitoring helped the hospital management to discover mistake at early stage as was shown by a low mean of 1.0 followed by respondents who cited that risk monitoring can be used to make sure that risk management practices are in line with proper risk monitoring shown by a mean of 1.7.

Table 4.15: Hospital's consideration of types of risk monitoring to ensure profitability

Risk monitoring and types of risks	Very great extent	Great extent	Moderate extent	Little extent	No extent
Technology risks	30.0	55.0	5.0	5.0	5.0
Market rate risks	22.5	20.0	20.0	27.5	10.0
Credit risks	27.5	35.0	30.0	7.5	0.0

Source: Research Data, 2010

The table above shows that a majority of the respondents' agreed to a very great extent that technology risks was considered as a type of risk to ensure profitability comprising 30 percent while 35 percent agreed to a great extent that credit risks was considered as a type of risk to ensure profitability. However 28 percent agreed to a little extent that market rate risks was considered as a type of risk to ensure profitability.

4.6 Credit Risk Management Procedures

This section used a likert scale of 1 to 5 where 1 is strongly agree, 2 is agree, 3 is neutral, 4 is disagree and 5 is strongly disagree. Data was presented in mean and standard deviation.

Table 4.16: Agreement on credit risk management procedures in hospitals

Credit risk management procedures	Mean	Std. Dev
To facilitate credit risk management, a substantial degree of standardization of process and documentation is required.	1.1006	1.4050
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.	1.1176	1.4373
Through standardized procedures, the hospital can report the quality of its loan portfolio at any time, along the lines of the report presented.	2.1373	1.2809
Credit management procedures ensure that all credits must be monitored, and reviewed periodically.	2.3725	1.3558
Credit management procedures results in a periodic but timely report card on the quality of the credit portfolio and its change from month to month	2.5878	1.25545

Source: Research Data, 2010

Data presented above shows that most respondents strongly agreed that to facilitate credit risk management, a substantial degree of standardization of process and documentation is required as was shown by a low mean of 1.10 with a standard deviation of 1.41 closely followed by respondents' who cited 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 as shown by a mean of 1.11 with a standard deviation of 1.44.

Table 4.17: Measures of Profitability in Assessing Impact of Credit Risk Management

Risk monitoring	Very great extent	Great extent	Moderate extent	Little extent	No extent
Net profit	30.0	55.0	5.0	5.0	5.0
Gross profit	22.5	20.0	20.0	27.5	10.0
Earnings before interest and taxes	2.5	7.5	35.0	30.0	25.0
Reduced defaults	35.0	20.0	17.5	20.0	7.5

Source: Research Data, 2010

The study results in this section shows that most respondents' agreed to a very great extent that reduced defaults and net profit were the main measures of profitability the hospital used in assessing the impact of credit risk management as was shown by 35 percent and 30 percent. However 25 percent agreed to no extent that earnings before interest and taxes were measures of profitability the hospital used in assessing the impact of credit risk management as shown by 25 percent.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSIONS AND RECCOMENDATIONS

5.1 Summary of Findings and Conclusions

5.1.1 Summary of findings

On social demographic information, majority of the respondents were male comprising 58 percent and females 42 percent. In addition, majority of the projects (63 percent) were between 35 and 44 years while 19 percent were between 45 and 54 years. Majority of respondents (36 percent) had bachelor's degree while 24 percent had higher national diplomas. The study also revealed that a majority of the respondents' were in finance department (34 percent) while 24 percent were in administration and 14 percent were in human resource.

On the issue of credit management policies, majority of the respondents' agreed that organization s had specific credit management policies for managing loan risks (78 percent) while 22 percent did not. In addition, majority of the respondents' cited that they involved the institution in credit management policies to a very great extent (35 percent), 30 percent to a great extent while 32 percent cited that they involved third parties to a little extent in credit management policies. The study further found that most respondents agreed that operating efficiency was an indicator used in its credit risk management approaches as was shown by 58 percent while 38 percent also agreed to a very great extent that loan portfolio indicators were being used as indicators used in its credit risk management approaches.

On the area of loan portfolio policies, the study revealed that most hospitals considered existing credit policy and overhead costs as main factors in establishing loan portfolio policies as was shown by low mean scores of 1.10 and 1.11.The study further revealed that most respondents' agreed to a very great extent that executive management , credit committees, credit analyst's and credit managers were the people participating in formulation of loan portfolio policies as was shown by 50%, 35% and 33% respectively. The study further found that most hospitals used risk coverage ratio which shows what proportion of the portfolio at risk as accounting ratios for measuring portfolio quality as was shown by a low mean of 2.4 followed by portfolio at risk shown by a mean of 2.8.

On the issue of interest rate risks, majority of the respondents' cited to a very great extent that interest rate risks were used in the risk identification step (52 percent) while 30 percent cited to a moderate extent. In addition, most respondents were in agreement that internal auditors were involved to a great extent in the risk identification process (55 percent) while 35 percent cited that senior employees were involved to a moderate extent. Further, most respondents' agreed that the auditor identified changes that had occurred in the firm or its environment as was shown by a low mean of 2.4454, followed by the respondents who cited that the auditor began the inherent risk evaluation process by generating expectations of accounts balances. The study further found out that most respondents' agreed that the importance of risk identification in credit risk management was that it ensured that the risk management function was established throughout as was shown by a low mean of 1.10.

The study further revealed that most respondents were in agreement that risk analysis and assessment comprises identification of the outcomes as was shown by a low mean of 2.3 followed by the fact that risk analysis and assessment comprises estimation of the magnitude of the consequences shown by a mean of 2.9. In addition, most respondents strongly agreed that risk monitoring helped the hospital management to discover mistake at early stage as was shown by a low mean of 1.0 followed by respondents who cited that risk monitoring can be used to make sure that risk management practices are in line with proper risk monitoring shown by a mean of 1.7.

On the issue of technology risks, majority of the respondents' agreed to a very great extent that technology risks was considered as a type of risk to ensure profitability comprising 30 percent while 35 percent agreed to a great extent that credit risks was considered as a type of risk to ensure profitability. Most respondents strongly agreed that to facilitate credit risk management, a substantial degree of standardization of the process and documentation is required as was shown by a low mean of 1.10 closely followed by respondents' who cited 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 as shown by a mean of 1.11. Most respondents agreed to a very great extent that reduced defaults and net profit were the main measures of profitability the hospital used in assessing the impact of credit risk management as was shown by 35 percent and 30 percent.

5.1.2 Conclusions

The study concludes that majority of the hospitals had put in risk identification, analysis and assessment strategies and risk monitoring procedures as credit risk management practices aimed at improving performance. However, most hospitals had not employed present credit risk management procedures employed by private hospitals in Kenya and could be at risk.

5.2 Limitations of the Study

The researcher encountered various limitations that tended to hinder access to information sought by the study. These included:

The researcher encountered problems of time as the research was being undertaken in a short period which limited time for doing a wider research. However the researcher countered the limitation by carrying out the research across all private hospitals in Nairobi which enabled generalization of the study findings.

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about the hospitals. The researcher handled the problem by carrying with him an introduction letter from the University and assured them that the information they gave would be treated confidentially and it was to be used purely for academic purposes.

The researcher also encountered problems in eliciting information from the respondents as the information required was subject to areas of feelings, emotions, attitudes and perceptions, which could not be accurately quantified and/or verified objectively. The researcher encouraged the respondents to participate without holding back the information they had as the research instruments did not bear their names.

Lack of sufficient funds limited the researcher from accessing all the hospitals in Kenya to collect data for study. The researcher however limited himself to the private hospitals in Nairobi due to inadequacy of funds.

5.3 Recommendations

The study recommends that for hospitals to effectively employ credit risk procedures, hospitals need strong and proficient credit risk management practices. Since exposure to credit risk continues to be the leading source of problems in many organizations world-wide, organizations should be able to draw useful lessons from past experiences. Organizations should now have a keen awareness of the need to identify, measure, monitor and control credit risk as well as to determine that they hold adequate capital against these risks and that they are adequately compensated for risks incurred.

5.4 Suggestion for Further Research

The study has analyzed credit risk management practices adopted by private hospitals in Kenya and established that risk identification, risk analysis and assessment, risk monitoring risk management systems and credit risk management processes are the main credit risk management practices applied in the private hospitals in Kenya. The health sector in Kenya however is comprised of various other institutions which differ in their way of management and have different settings all together. This warrants the need for another study which would ensure generalization of the study findings for all the health sector institutions in Kenya and hence pave way for new policies. The study therefore recommends another study be done with an aim to analyze credit risk management practices adopted by hospitals in Kenya

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APPENDICES

Appendix I: Questionnaire

SECTION A: DEMOGRAPHIC INFORMATION

1. Gender:

   Male ( ) Female ( )

2. Age bracket:

   25 – 34 years ( ) 35 – 44 years ( ) 45 – 54 years ( )

   55 – 64 years ( ) 65 years and above ( )

3. What is your highest qualification achieved?

   Diploma ( ) Degree ( )

   Masters ( ) Others (please specify.....) ( )

4. What is your current designation within the hospital?.....

5. How many years have you been in the health industry?

   1 – 5 years ( ) 6 – 10 years ( ) 11 – 15 years ( )

   16 – 20 years ( ) 21 years and above ( )

SECTION B: CREDIT RISK MANAGEMENT

LOAN PORTFOLIO

1.Does the organization have specific credit management policies for managing loan risks?

Yes ( ) No ( )

If yes, to what extent do you involve the following parties in formulating the credit management policies ? Use a scale of 1 to 5 where 1 is to a great extent and 5 is to no extent.

Parties involved in credit policies	**1**	**2**	**3**	**4**	**5**
The institution					
Third parties					
Other, please specify					

2.To what extent does your hospital use the following indicators in its credit risk management approaches? Use a scale of 1 to 5 where 1 is to a great extent and 5 is to no extent.

Credit management approaches	**1**	**2**	**3**	**4**	**5**
Operating efficiency					
Loan portfolio indicators					
Other, please specify					

3.To what extent does your hospital consider the following factors in establishing a loan portfolio policy? Where 1 is to a very great extent and 5 is to no extent.

Loan portfolio policies	**1**	**2**	**3**	**4**	**5**
Existing Credit Policy					
Overhead cost					
General trend of credit					

State of the economy					
Other, please specify					

4. To what extent do the following people participate in formulating your loan portfolio policies? Use a scale of 1 to 5 where 1 is to a great extent and 5 is to no extent.

People participating in formulation of loan portfolio policies	**1**	**2**	**3**	**4**	**5**
Executive management					
Employee suggestions					
Board of directors					
Credit manager					
Credit analyst					
Credit committee					
Other, please specify					

5. To what extent does your hospital use the following accounting ratios to measure portfolio quality? Use a scale of 1 to 5 where 1 is to a great extent and 5 is to no extent.

Accounting ratios for measuring portfolio quality	**1**	**2**	**3**	**4**	**5**
Portfolio at risk (PAR) which measures the portion of the loan portfolio contaminated by arrears as a percentage of the total portfolio where the desired level is less than 10 per cent					
Risk coverage ratio which shows what proportion of the portfolio at risk is covered by actual loan losses where the rate could be as high as 90 per					

cent					
Loans written off ratio which represents the amount of loans removed from the accounting books because of a substantial loss where a maximum of 4 per cent is envisaged					
Other, please specify					

RISK IDENTIFICATION

6. What does risk identification involve?

.....

.....

.....

7. To what extent does your hospital consider risk identification as a process in credit risk management?

To a very great extent ( )

To a great extent ( )

To a moderate extent ( )

To a little extent ( )

To no extent ( )

8. In credit risk management, interest rate risks and foreign exchange risks are the main domain of the financial department. In view of this statement, please rate the extent to which this hospital focuses on the types of risks in the risk identification step. Use a scale of 1 to 5 where 1 is to a great extent and 5 is to no extent.

Risk identification	1	2	3	4	5
Interest rate risks					
Foreign exchange risks					
Other, please specify					

9.To what extent does the hospital involve the following parties in the risk identification process? Use a scale of 1 to 5 where 1 is to a great extent and 5 is to no extent.

Parties involved in risk identification	1	2	3	4	5
Internal auditors					
External auditors					
Senior employees					
Middle and lower level employees					
Other, please specify					

10. To what extent does the hospital involve the auditors in the following steps in risk identification process? Use a scale of 1 to 5 where 1 is to a great extent and 5 is to no extent.

Involvement of auditors in risk identification	1	2	3	4	5
The auditor begins the inherent risk evaluation process by generating expectations of accounts balances					
The auditor identifies changes that have occurred in the firm or its environment					
The auditor determines how those changes should interact with historic trends to produce an expected balance in the account					

Other, please specify					

11. To what extent do you agree with the following statement about the importance of risk identification in credit risk management? Rate using a scale of 1 to 5 where 1 is strongly agree, 2 is Agree, 3 is Neutral, 4 is Disagree and 5 is Strongly disagree.

Importance of risk identification in credit risk management	**1**	**2**	**3**	**4**	**5**
It ensures that the risk management function is established throughout the whole corporation					
Risk identification helps to sort risk according to their importance					
Risk identification assists the management to develop risk management strategy to allocate resources efficiently					
Other, please specify					

RISK ANALYSIS AND ASSESMENT

12. The application of modern approaches to risk measurement, particularly for credit and overall risks is important for hospitals. To what extent do you agree with this statement in view of risk analysis and assessment as a credit risk management practice in your hospital?

Strongly agree ( )

Agree ( )

Neutral ( )

Disagree ( )

Strongly disagree ( )

13. To what extent do you agree with the following statement about risk analysis and assessment in credit risk management? Rate using a scale of 1 to 5 where 1 is strongly agree, 2 is Agree, 3 is Neutral, 4 is Disagree and 5 is Strongly disagree.

Risk analysis and assessment in credit risk management	**1**	**2**	**3**	**4**	**5**
Risk analysis and assessment comprises identification of the outcomes					
Risk analysis and assessment comprises estimation the magnitude of the consequences					
Risk analysis and assessment comprises the probability of those outcomes					
Other, please specify					

14. Which are the main approaches used in risk analysis and assessment in credit risk management in your hospital?

.....

.....

15. Effective credit risk management requires a reporting and review structure to ensure that risks are effectively identified and assessed and that appropriate controls and responses are in place. To what extent do you agree with the statement in view of risk monitoring in the credit risk management in your organization to ensure profitability?

Strongly agree ( )

Agree ( )

Neutral ( )

Disagree ( )

Strongly disagree ( )

RISK MONITORING

16. To what extent do you agree with the following statement about risk monitoring in credit risk management? Rate using a scale of 1 to 5 where 1 is strongly agree, 2 is Agree, 3 is Neutral, 4 is Disagree and 5 is Strongly disagree.

Risk monitoring in credit risk management	**1**	**2**	**3**	**4**	**5**
Risk monitoring can be used to make sure that risk management practices are in line with proper risk monitoring					
Risk monitoring helps the hospital management to discover mistake at early stage					
The director's report on risk monitoring enables the shareholders to assess the status of the corporation knowledgeably and thoroughly					
Other, please specify					

17. I) How does your hospital monitor credit risk?

.....

.....

.....

ii) Which are the main challenges of risk monitoring in your hospital?

.....

.....

.....

.....

.....

.....

18. To what extent does risk monitoring in your hospital consider the following types of risks to ensure profitability? Use a scale of 1 to 5 where 1 is to a great extent and 5 is to no extent.

Risk monitoring and types of risks	**1**	**2**	**3**	**4**	**5**
Technology risks					
Market rate risks					
Credit risks					
Other, please specify					

CREDIT RISK MANAGEMENT PROCEDURES

19. To what extent do you think credit risk management procedures have affected the profitability of the hospital?

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a little extent [ ]

To no extent [ ]

20. To what extent do you agree with the following statements about credit risk management procedures in your hospital? Rate using a scale of 1 to 5 where 1 is strongly agree, 2 is Agree, 3 is Neutral, 4 is Disagree and 5 is Strongly disagree.

Credit risk management procedures	**1**	**2**	**3**	**4**	**5**
To facilitate credit risk management, a substantial degree of standardization of process and documentation is required.					
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.					
Through standardized procedures, the hospital can report the quality of its loan portfolio at any time, along the lines of the report presented.					
Credit management procedures ensure that all credits must be monitored, and reviewed periodically.					
Credit management procedures results in a periodic but timely report card on the quality of the credit portfolio and its change from month to month					
Other, please specify					

Appendix II: Private Hospitals in Nairobi.

1. The Aga Khan Hospital
2. Nairobi Hospital
3. The Karen Hospital
4. The Mater Hospital
5. Avenue Hospital
6. Parkland Hospital
7. Metropolitan Hospital
8. BuruBuru Hospital
9. Clinix Health Care
10. Getrudes Hospital
11. Chiromo Lane Medical Clinic
12. Diamond Hospital
13. Consolata Hospital
14. Healthlinks Limited
15. AIC Mission Hospital
16. Avenue Hospital
17. Kayole Hospital
18. Lenana Hospital
19. Lily Women Hospital
20. Lion Sight First Eye Hospital
21. Woodlands Health Care
22. City Park Hospital
23. Family Health Hospital
24. Pumwani Hospital
25. Nairobi Women Hospital
26. Mp Shah Hospital
27. Valley Hospital
28. Westlands Cottage Hospital
29. Umoja Hospital
30. Nairobi Nursing Home
31. Nairobi West Hospital
32. Nazareth Hospital
33. Kima Mission Hospital
34. Dorjos Healthcare
35. Friends church hospital
36. Karen Healthcare
37. Tropical Medical Centre
38. Kangundo Health Clinic
39. Ack Nairobi Healthcare Centre

40. Heri Medical Clinic
41. Masaba Hospital
42. Equator Hospital