RELATIONSHIP BANKING AND ITS ASSOCIATION WITH THE FINANCIAL PERFORMANCE ON MANUFACTURING FIRMS IN RWANDA

A CASE STUDY OF BRALIRWA, RWANDA

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Abstract

The purpose of the study was to establish the effect of banking relationships on organisation financial performance in Rwanda, because some organization has poor banking relationship as a result, it has affected their profitability due to the losses they are making. This study was accomplished by use of three specific objectives namely: to assess the effect of short term credit financing on financial performance of Bralirwa; to determine the effect long term credit financing on financial performance of Bralirwa; to find out the effect of banks financial advisory services on financial performance of Bralirwa. Different theoretical and empirical literature by different scholars was reviewed. The target population of the study was 88 staffs of BRALIRW and a sample of 44 staff were purposively sampled. The research used the descriptive case study design based on both qualitative and quantitative approaches. Both primary and secondary sources of data source were consulted by used of questionnaire and documentary analysis as a recommended data collection tools. Data was processed by use of SPSS program and analyzed by use of frequency, mean and standard deviation, and the results represented in

table. In the findings it was established that the Performance trend of Bralirwa has been positively increasing for the last three years in form of return on investment, profitability, return on equity, loan and liquidity. This implies that relationship banking is very important to the financial performance of manufacturing organization because they need financial assistant for their survival either short, long term or inform of advice.

Keywords: Relationship banking, Firm performance, Financial aspect, Profitability, Rwanda

INTRODUCTION

The previous studies on firm performance show that factors such as debt, growth, size and structure of assets of a firm, and the accessibility to bank loans, have certain influence on the firm performance. On the other hand, the firms' performance is affected by the close relationship between banks and firms. Firm's banking relationship is important role for firm's performance such as to improve business reputation, to increase accessibility to loans, to reduce the negative effect of asymmetric information, and to decrease the interest costs (Kutsuna & Smith, 2003).

The contemporary literature on relationship banking has developed along two main branches corresponding to the lender's and the borrower's side of the issue. In his review of this topic, Boot (2000) characterizes relationship banking and evaluates its associated costs and benefits from the lender's point of view. Ongena and Smith (2000) review the other side of the coin, focusing their analytical review mainly on the effect of bank relationships on customers. This study will take this latter point of view and focuses on the effect of bank relationships on firms 'performance. Empirical results on the effect of bank relationships on firms' performance are mixed. For example, using Norwegian data, Degryse and Ongena (2001) find a negative relationship between the number of bank relationships and firms' performance; using Japanese data, Weinstein and Yafeh (1998) report a positive relationship between the number of bank relationships and firm profitability. Ongena and Smith (2000) summarize various estimates of the average number of bank relationships per firm across a variety of countries and data sets. The main features they highlight are:

(a) Multiple bank relationships are a common feature in nearly all the data sets;

(b) Small firms tend to have fewer bank relationships than large firms; and

(c) Country effects exist, eg firms in the United Kingdom, Norway and Sweden have fewer relationships than firms in Italy, France, Spain, Belgium and Portugal.

This study is based on a rich survey data on the banking relationships of listed Rwanda's manufacturing firms to examine a set of research question: How do bank relationships affect firm performance?

Rwanda's banking industry

Banking service operations in Rwanda date back in early 1960, originating from the oldest banks of BCR (currently named I&M Bank (Rwanda) Ltd and Bank of Kigali respectively. More recently, most commercial banks in Rwanda have centred their operations on trade finance as opposed to long-term debt financing. This change in banking services in Rwanda has triggered off to lack of productive investment activity, though there is urgent need to focus attention on the reform and strengthening of the financial sector in this fast developing nation. This appeal for introduction of more banks, financial products and capital market. Rwanda banking sector has therefore several opportunities for investment into mortgage banks to enhance access to property, agricultural banks to offer much needed agricultural credit to farmers and introduction of new financial products including leasing and venture capital to minimize hardships of opening business as well as its continued successful operations (NBR, 2012).

Rwanda's banking sector differ from that of its neighboring in that the smaller banks are more profitable and earn the highest returns .the larger banks are not as dominant, holding just under 60% of total assets. Typically this number is closer to the 80% mark in other countries. 2013 was a tough year for the sector, with slow growth and declining interest rates impacting profits significantly, with 41%fall in profits for the year.

Asset growth slowed in 2013, but nevertheless remains positive, and in low double digit territory. The post Genocide Rwanda's financial sector has changed drastically, and banks' soundness and performance has considerably improved since 2005. Further liberalization of financial sector has facilitated development of a capital market and non-banking financial institutions with entry of new private and foreign banks.

When conflict closes the banking system as in Rwanda during the 1994 Genocide, its reopening becomes a priority. Otherwise the resumption of normal economic activities, requiring the clearing of domestic and foreign payments and use of deposit accounts will severely be impeded. The government of Rwanda encouraged the reopening of banks to not only mobilize funds for personal finance but also for business development. This was done through several reforms which took place in 1995 onwards. Such reforms have enabled commercial banks to impact their clients positively and to improve their main characteristic of the relationship

between Rwanda banks and firms, which continues to be mainly based on their geographical proximity.

The importance of proximity is the main reason why so many local banks survived the consolidation process and big banks continue to maintain many branches scattered all over the nation. This type of banking structure can have consequences for lending relationships. As Brickley, Linck and Smith (2003) suggest, small locally owned banks can have a comparative advantage over large banks in specific environments. On the same line of reasoning, Hein, Koch and MacDonald (2005) note that banks are not homogeneous financial intermediaries and, in the US, small community banks operate very differently from large banks. While community banks generally emphasize relationship banking, large banks rely on transactional banking in which they provide highly standardized services based on readily available, quantifiable information with little human input. In Rwanda, there are a small number of firms listed on the stock market. The listing helps them have other funding channel. However, funding from banks still plays particularly important role in the maintenance and growth of firms. Building up strong banking relationships helps firms take certain advantages. At the present, Rwanda's long-term development plan, as articulated in Vision 2020, seeks to transform Rwanda into a middle-income country and an economic trade and communications hub by the year 2020. An effectively functioning financial sector is fundamentally important and essential element for achieving this objective. Rwanda seeks to develop a financial sector that is effective, in particular, by: Expanding access to credit and financial services. The government controls many areas of the economy.

Industry received little external assistance from the end of the war through 1995. Beginning in 1996-97, the government has become increasingly active in helping the industrial sector to restore production through technical and financial assistance, including loan guarantees, economic liberalization, and the privatization of state-owned enterprises. In early 1998, the government set up a one-stop investment promotion center and implemented a new investment code that created an enabling environment for foreign and local investors

Data limitations restrict our ability to control for differences in lenders but, as highlighted in the description above, the Rwanda banking system still is mainly focused on relationship banking. Such banking and lending relationships involve the use of soft information, not easily available and quantifiable. Such information requires human input and evaluation and is acquired mainly by working one-on one with the banking customer.

Problem statement

The post Genocide Rwanda's financial sector has changed drastically, and banks' soundness and performance has considerably improved since 2005. Further liberalization of financial sector has facilitated development of a capital market and non-banking financial institutions with entry of new private and foreign banks. Rwanda's banks are getting vibrant. They tend to increase their accounts, to attract more customers and ameliorate their financial indices, thereby maximizing their profits. However, inadequate competition in the banking system has led to high spreads. Banks have unusually high and increasing average interest rate spreads and interest rate margins showing both highly poor competition and inefficiency. Bad debts still exist though declining and therefore banks should continue to improve their lending policies. Due to the above characteristics, opportunities of private firm in accessing bank funding become harder. In recent years, the National Bank has taken control of credit growth to control inflation, this leads to difficulty for firms in accessing loans from banks. In such conditions, any firm being able to access easily bank loans will take more advantages or have growth opportunities than others. A question can be posed in this condition: Do firms having better banking relationship actually operate more effectively than others? This is also one of the interesting reasons for the research paper and this question will be answer in this study.

General objective of the study

The main objective of the study was to assess the effect of Relationship Banking on financial performance of manufacturing organization in Rwanda a case study of BRALIRWA.

Specific Objectives

The current study was conducted by the following specific objectives:

1. To assess the effect of short term credit financing on financial performance of Bralirwa.
2. To determine the effect long term credit financing on financial performance of Bralirwa.
3. To find out the effect banks financial advisory services on financial performance of Bralirwa.

Justification/ Significance of the Study

This study is beneficial to the researcher, Bralirwa and JKUAT: This study equipped the researcher with the knowledge on effect of Relationship Banking on financial performance of manufacturing organization. It will also enable the researcher to obtain a Masters Degree in Business Administration. If the recommendation from the research report is adopted by

organization, it will improve their performance accordingly. The research report will be available in library of JKUAT and will be used by other future researchers who would be interested on establishing effect of Relationship Banking on financial performance of manufacturing organization.

Scope of the study

The scope of this study was sub divided into subject, geographical and time scope: The research examined the effect of Relationship Banking on financial performance of manufacturing organization. It concentrated on different types of relationship banking used by Bralirwa, how it improves on their performance. The geographical scope is Bralirwa Industry which is located in Kicukiro sector of Kicukiro district in Kigali city. Bralirwa Industry was chosen due to its size and it is one of the prosperous of the companies in Rwanda hence it is expected to have good working capital management system. The researcher chose time duration of 3 years (2012 – 2015), the above time scope was chosen as an appropriate length of time so as to examine the effect of Relationship Banking on financial performance of manufacturing organization limited effectively and efficiently.

Limitations of the Study

Like any other research, the researcher encountered some limitations as seen below: Unavailability or inaccessibility of the information due to professional secrecy under its performance but however it was overcome by thorough explanation that the research is meant for academic purposes not any other intention. Time factor was overcome by constant follow up of the appointment. Finance challenges were overcome by acquiring soft loan to facilitate the research process.

LITERATURE REVIEW

There are a lot of theoretical and empirical studies of banking relationships on firm performance in developed countries. However, this, to our knowledge, is not any research of this topic in Rwanda. Hence, the purpose of this study is to analyze how banking relationship affect firm's performance in Rwanda.

Theoretical framework

The researcher has used various theories in order to establish the validity of the independent variable in the study. The theory used ranges relationship-marketing theories which consist of transaction exchange theory, relational exchange theory and combining transactions and

relations: an interimistic approach. Others includes credit theory, bank intermediation theory and savings theories

Relationship-Marketing Theories

The theory used ranges relationship-marketing theories which consist of transaction exchange theory, relational exchange theory and combining transactions and relations: an interimistic approach.

Transaction Exchange Theory

In financial services, just as in any other exchange of goods or services, a distinction can be made at a general level between market and nonmarket forms of governance. Market governance will be viewed as synonymous with the concept of discrete exchange (Goldberg 1976; Macneil ,1978). With transactional exchange, the transaction is independent of the historical and social context, or past and future relations between the contracting parties; it constitutes nothing more than the transfer of ownership of a product or service. It is assumed that individuals acting on a market are well informed and therefore will make rational choices/decisions that could lead to transactions. Forms of exchange can either be a discrete exchange (a onetime transaction) or repeated transactions (Webster, 1992). Both are non relational, but with repeated transactions there is a greater opportunity to develop a relationship. Based on the Coase (1937) theory of transaction cost, Williamson (1975) views the governance decision as fundamentally a choice between a "market," based on governance through a price mechanism, and a "hierarchy," implying governance through a unified authority structure. The efficiency implications of adopting alternative governance mechanisms are considered. Actors desire to minimize the direct and opportunity costs of exchange, which are transaction costs (Williamson, 1975).

As there are market failures, in the sense that market mechanisms can become an inefficient means of mediating exchange, certain dimensions of transactions give rise to transaction costs, such as search and information costs, as well as costs of monitoring and enforcing contractual performance. These costs can be characterized as sunk costs in that they are relevant only within the context of the transaction, and not to other transactions or other actors. Similarly, transaction-specific investments involve physical or human assets that are dedicated to a particular relationship and cannot be redeployed easily. There are three main types of transaction costs. First, there are costs associated with carrying out safeguarding to minimize the risk of subsequent opportunistic exploitation (Klein et al., 1978; Williamson, 1985).

Second, there are costs connected with external uncertainty, where too many contingencies to be specified ex ante will cause a need for adaptation as events unfold (Rubin, 1990). Lastly, costs arise when there is a demand for evaluation activities to ascertain whether contractual compliance has taken place (Alchian and Demsetz, 1972). There are direct costs involved with these three areas, and there are also opportunity costs in the form of maladaptation or costs incurred as a result of not making an appropriate investment. These examples of transaction costs show the limitations of the market-based approach of governance.

Transactional exchange theory, therefore, views nonmarket governance as a response to environmental uncertainty and dependence (Heide, 1994). Williamson (1985, 1991) acknowledges the possible existence of bilateral relations. These additions have brought transaction exchange theory closer to theories that are focused on non-market and relational dimensions.

Relational Exchange Theory

In a work that strongly influenced research in relational exchange theory, Macneil (1980) developed a multidimensional typology of business exchange that differentiated the "transactional" or discrete exchange from a new form of exchange, which he named "relational." This accounts explicitly for the historical and social context in which transactions take place and views enforcement of obligations as following from the mutuality of interest that exists between a set of parties (Dwyer et al., 1987; Kaufmann and Stern, 1988). Relational exchange appears to capture the spirit of a bilateral power system (Bonoma, 1976) in which an individual's utility function is subsumed by the global utility of the system, and individual decision makers as a consequence adopt a "unit action" orientation. Individual goals are reached in a bilateral system through joint accomplishments, and concern for the long-run benefit of the system serves as a restraint on individual tendencies to pursue self-interest in an opportunistic fashion (Ouchi, 1979; Heide, 1994).

The development of relationships is not automatic or effortless, since it requires that parties engage in exchange activities that are resource consuming (Eriksson and Sharma, 2007). Relationships include attributes that must exist to ensure functional (or highly effective) relational exchange. These include commitment and trust (Anderson and Wietz, 1992; Morgan and Hunt, 1994); communication, cooperation, and interdependence (Anderson and Narus, 1990); norms (Heide and John, 1992); social bonds (Han et al., 1993);a daptations (Hakansson, 1982; Hallén et al., 1991); performance satisfaction (Dwyer et al., 1987); and a high degree of mutuality (Heide and John, 1992). From a relationship-marketing point of view, the goal of developing relationships between seller and buyer has been defined as the ability to attract and

maintain customers and enhance customer relations (Berry, 1983). A series of transactions is transformed into a relationship in which both parties are committed to some extent (Anderson and Weitz, 1982). Dwyer et al., (1987) and Wilson (1995) note that, although there is initially little trust, it develops through exchange episodes, or relationship interactions. There is some variation to how commitments drive the relationship process. Commitments that are made against an understanding of the customer's context, and are more specifically adapted to the relationship, develop the relationship most (Anderson and Weitz, 1982). Commitments in the relationship development process often are made within cooperative relationships and have been found to take time (Fichman and Levinthal, 1991).

Relationships may be considered a form of contract that serves as a substitute for formal contracts or direct control (Rindfleisch and Heide, 1997). Relational norms may not effect buyer control, but may act as a moderator of the link between dependence and control in exchange relationships. Also, contracts or direct control are needed to serve as a safety net should the relational contract temporarily fail (Ring and van de Ven, 1994). Therefore, as there are limitations to the relational exchange theory, a basis for a transaction exchange theory still is required.

Combining Transactions and Relations: An Interimistic Approach

In transactional exchange, or a discrete form of governance, the individual parties to a transaction remain autonomous and rely to a large extent on economic and legal sanctions to enforce contractual obligations. In contrast, in relational exchange, the parties account explicitly for the historical and social context in which transactions take place. Trust and interdependence, as well as relational norms, are important relational attributes and usually develop over time to varying degrees. It should be remembered, however, that the transactional and relational exchange forms are ideal types of approaches. These ideal types are theoretical inventions and simplifications of more complex phenomena, and are used to identify the most characteristic elements. Both theories have their limitations and are therefore not necessarily independent of each other. There are thus varying degrees of use of transactional and relational exchange in all types of exchange governance. The pure form of transactional exchange is limited in its capacity to explain exchange governance in exchange relationships in which parties are able to develop relationship-based governance over time. On the other hand, contracts or direct control, as noted above, are necessary to serve as a safety net should the relational contract temporarily fail. Therefore, an "interimistic" approach acknowledges the complementary nature of transactional and relational forms of exchange. Lambe et al. (2000) draw on Macneil's

conceptualization of exchange to allow 20 for varying degrees of relational exchange, depending particularly on the time available to develop the relationship in its fullest sense.

The left side represents the transactional exchange, the least relational of all exchanges, while the right side represents the relational exchange, the most relational of all exchanges. The discrete transactional exchange is a onetime exchange (such as withdrawing money from an ATM). Repeated transactions are more relational than a discrete exchange since the parties involved have a greater possibility of developing a relationship. The interimistic relational exchange (IRE) is a close, collaborative, fast-developing, rather short-lived exchange relationship. There is heavy time pressure to develop the relationship, and the expectations of further transactions are reduced. The enduring relational exchange (ERE), on the other hand, is a long-term relationship. There is sufficient time for relational exchange to emerge in an evolutionary fashion (Fichman and Levinthal, 1991). Over the duration of the relationship, the buyer and the seller teach each other about their respective resources, such that the seller can fit its offering to the buyer's context (Eriksson and Sharma, 2007). The contextual understanding is difficult to develop in transactional exchange, since contexts are often unique to a certain extent and, therefore, requires repeated exchange and adaptations (Hallén et al., 1991).

Trust is a critical variable in relational exchange and is visible when one party has confidence in an exchange partner's reliability and integrity (Morgan and Hunt, 1994). When mutual trust exists, unanticipated contingencies will be resolved in a mutually profitable manner (Ganesan, 1994). Mutual commitment, in addition, ensures that partners will make both the effort and the investments necessary to produce mutually desirable outcomes (Dwyer et al., 1987). In an ERE, little or no trust exists at the beginning of the relationship but develops through exchange episodes or relationship interactions overan extended period of time. In contrast, an IRE allows partners less time to build trust.

There may be prior extra-exchange relationship interactions, a reputation for fair dealing, and/or pledges substituting for the trust developed over time (Lambe et al., 2000). With regard to interdependence, there must be a high level existing or emerging early in the life of the relationship in an IRE, as there is not enough time for it to evolve slowly. Similarly, the development time for relational norms is shortened by the existence of industry-wide exchange norms, partners who have a relational exchange competence, and/or prior extra-exchange relationship interactions. However, a relational norm such as loyalty probably needs some time to develop, simply because it is based on experiences and comparisons that the customer makes (Olsen 2002). As a further illustration of the differences between exchange forms, the overarching frame of cooperation in the relationship can be considered (Heide and Miner, 1992). Cooperation represents a mode of solving problems in order to achieve a joint end

(Blankenburg Holm et al., 1996). In transactional exchange, such modes may not develop as fully as in repeated exchange relationships.

Financial Intermediation Theory

The credit creation process is .the process by which, in exchange for paper claims, the savings of specific individuals or firms are made available for the use of other individuals or firms. (Bernanke,1992). The idea that the credit creation process can have real economic effects is not new. The role of bank lending in the propagation of cyclical fluctuations has been examined since at least Wicksells early writings on monetary dynamics and Fisher.s .debt deflation theory of great depressions. Wicksells theory focuses on the tendency for bank lending and the money supply to expand during periods of boom and strong demand for loanable funds. To explain these credit expansions during booms, Wicksell introduces the concept of the natural rate of interest. The natural rate is defined as the rate of interest at which the demand for loan capital and the supply of savings exactly agree (Wicksell,1906). It is determined by the demand for loans, which depends on the expected profitability of investment. Current theories of the economic role of financial intermediaries build on the economics of imperfect information that began to emerge during the 1970s with the seminal contributions of Akerlof (1970), Spence (1973) and Rothschild and Stiglitz (1976). Financial intermediaries exist because they can reduce information and transaction costs that arise from an information asymmetry between borrowers and lenders. Financial intermediaries thus assist the efficient functioning of markets, and any factors that affect the amount of credit channeled through financial intermediaries can have significant macroeconomic effects.

Diamond and Dybvig (1983) analyze the provision of liquidity (the transformation of illiquid assets into liquid liabilities) by banks. In Diamond and Dybvigs model, ex ante identical Investors (depositors) are risk averse and uncertain about the timing of their future consumption needs. Without an intermediary, all investors are locked into illiquid long term investments that yield high payoffs only to those who consume late. Those who must consume early receive low payoffs because early consumption requires premature liquidation of long-term investments. Banks can improve on a competitive market by providing better risk sharing among agents who need to consume at different (random) times. An intermediary promising investors a higher payoff for early consumption and a lower payoff for late consumption relative to the non-intermediated case enhances risk sharing and welfare.

Leland and Pyle (1977) formally show that a bank can communicate information to investors about potential borrowers at a lower cost than can individual borrowers. They focus on an ex ante information asymmetry, where entrepreneurs selling shares to the market know the expected returns of their own investment, but other agents find this information costly to observe. This results in a moral hazard problem since firms with low expected returns have an incentive to claim a high expected return so as to increase their market valuation. In Leland and Pyles model intermediaries can solve this moral hazard problem by monitoring the actions of firms.

Diamond (1984) argues that diversification within the financial intermediary is the main reason financial intermediaries exist. He also develops a model in which the outcome from firms. Investment project is not known ex post to external agents, unless information is gathered to assess the outcome, i.e. there is .costly state verification. (Townsend,1979). This leads to a moral hazard problem because it provides an incentive for borrowers to default on a loan even when the project is successful.

Credit Financing Theory

The credit channel literature examines the impact of asymmetric information and other credit market frictions on real spending and economic activity, with resulting implications for monetary policy. The bank lending channel analyses the impact of monetary policy on the supply of loans by depository institutions, and the balance sheet(or financial accelerator) effect focuses on the potential impact of monetary policy on firms. Balance sheets and their ability to borrow, The credit channel also operates when shifts in monetary policy alter either the efficiency of financial markets in matching borrowers and lenders or the extent to which borrowers face rationing in credit markets. With credit rationing, monetary policy may have real effects without changing interest rates in lending markets. Monetary policy can have an impact on the supply of intermediated credit, which in most countries is predominantly provided by banks. A bank is a financial intermediary that participates in the payment system and finances entities in financial deficit, generally the public sector, firms and some households, using the funds of entities in financial surplus, typically households. The reliance on bank credit is probably declining overall as corporations and, in particular, large businesses turn to the securities markets to meet their funding needs. However, an important fraction of firms, mainly small firms, is likely to remain bank-dependent at least in the near future (Trautwein, 2000). Moreover, banks are a critical source of liquidity even for large firms during times of economic stress (Saidenberg and Strahan, 1999).

The allocative role of financial institutions in promoting development was the focus of Rajan and Zingales (1998), who found that industrial sectors with a greater need for external finance develop disproportionately faster in countries with more developed financial markets. This then begs the question of whether firms with high return projects in countries with poorly developed financial institutions are able to take steps to mitigate the effects of deficient (formal) financial intermediaries, and if so, how. One answer, implicit in Rajan and Zingales, is that firms will be forced to rely more on internally generated funds. Recent work by Petersen and Rajan (1997) suggests that implicit borrowing from suppliers may provide an additional possibility. They found that, among small firms in the United States, those with less well-established banking relationships held significantly higher levels of accounts payable. Similarly, firms in MSAs with a relative scarcity of financial institutions carried higher levels of accounts payable. They suggest that their results imply that trade credit is used as a source of "financing of last resort" by very constrained firms.

Nilsen (2002) looks at this issue from another angle, showing that during monetary contractions, small firms, which are likely to be more credit constrained, react by borrowing more from their sup-pliers. Now, even the most constrained of American firms face far less scarcity of funding from formal institutions than companies in many other countries, where stock markets are in their infancy, and formal lenders are rare. A natural extension of Petersen and Rajan's (1997) reasoning is that firms with financing needs in such countries will be more likely to fall back on supplier financing in the form of trade credit as a means of funding growth. Suppose that it is the case that trade credit is a substitute for institutional financing where financial intermediaries are scarce, and further that it is also true that firms in certain industries find it inherently easier to access trade credit, for reasons that will be discussed in the next section. Then, this would imply substitutability between "trade credit suitability" and financial market development. That is, financial market development should matter disproportionately more for firms that cannot make use of trade credit financing, or conversely, firms with access to trade credit financing should face (relatively) fewer difficulties in countries with less developed financial markets.

Hart and Moore (1995) find that the faster the returns to investment are realized, the shorter the optimal payment structure will be. Empirically, this suggests a particular relationship among the maturity of debt, purpose of the loan, and the nature of the firm's assets. Long-term loans are usually used to acquire fixed assets, equipment, and the like. Short-term loans, on the other hand, tend to be used for working capital, such as payroll, inventory, and seasonal imbalances. Collateral usually consists of such things as inventories or accounts receivable. In

other words, firms will tend to match the maturity of their assets and liabilities; only firms with long-term assets will tend to have a longer debt maturity structure. If this tendency is born out in developing country experience, it suggests that the most effective way to deal with the market allocation of credit is to take account of the structure of the firms' assets. A program to extend long-term credit to firms with short-term assets may not be welcomed, as it is inconsistent with the desire to balance the maturity of assets and liabilities.

The size of the firm is another key variable. Indeed, the desire to get more credit particularly long-term credit to small firms is a justification for a number of credit market interventions. In general there tends to be less information about small firms, not only because they are new, but also because such information is costly to obtain. Thus, even in the most developed financial systems, small- and medium-size enterprises tend to get a larger part of their external financing from banks. Banks overcome some information problems by developing long-term relationships with smaller firms. The point is that firms in developing countries may have less long-term debt than firms in developed countries simply because they have different characteristics rather than because of deficiencies in credit markets. Moreover, comparisons of debt maturity structures in different countries are more likely to be informative if researchers control for these parameters.

Diamond (1991) shows that reputation building through bank borrowing can provide certification, which can allow a firm to eventually raise funds on public markets. This benefit of a successful bank relationship raises the cost of default on a bank loan and lowers the equilibrium probability of default. A bank relationship also can reduce agency problems because the risk of a reduction in the amount of bank loans is an incentive for managers to pursue less risky projects (Rajan, 1992).

Figure 1. Conceptual Framework
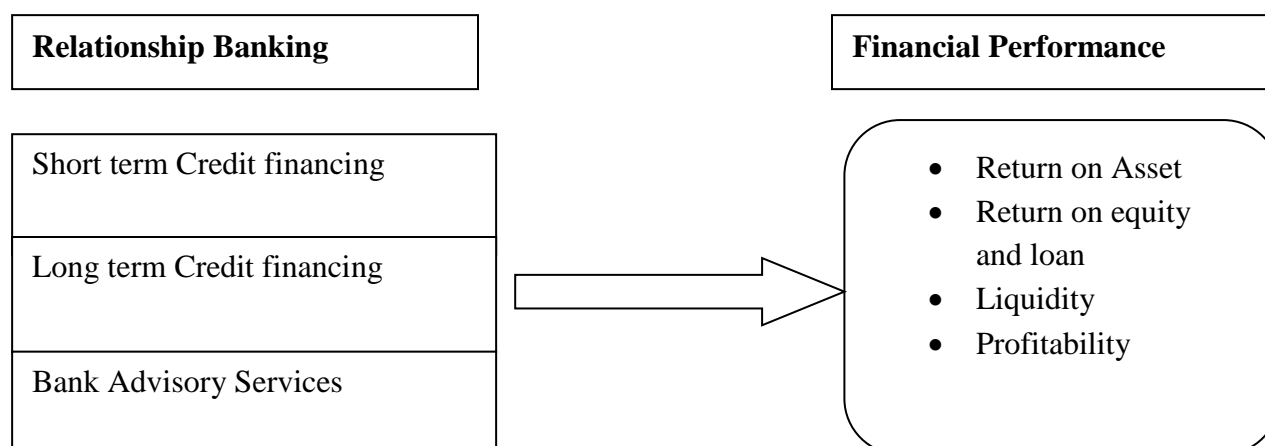
Empirical Review

Effect of Short term Credit financing on financial performance of organization

As is obvious in the name, short term debt financing is a form of financing involving financial obligations that must be fulfilled usually within a year to two at most. It is more often used for working capital requirements, or day-to-day operations of the business (Thadden, 1995). By the same token, businesses with cyclical operating conditions (for e.g. retailers) or those engaged in international trade will usually obtain financing through short-term debt. There are 4 main types of short-term debt financing options: Overdraft; Overdraft is an instant extension of credit from a lending institution.

When a company has an overdraft arrangement with a bank, it can draw down or transmit cash from its account beyond the available balance. It is also revolving in nature; does not have a fixed repayment period. The amount of credit will depend on the overdraft limit negotiated with the bank. (The advantage of an overdraft arrangement is that the company does not have to ensure that sufficient cash is always available for operating activities such as stock turnover or payment to creditors in the short term) (Thadden,1995). Letter of credit; Letter of Credit is a letter from a bank guaranteeing a buyer's payment to a seller, that a seller will receive the amount within the credit period. The advantage of having such an arrangement with a bank is that it enables a company to negotiate better credit terms (E.g. longer credit period) with suppliers. Short term loan; Short-term loan is, as the name suggests, a loan that must be repaid within a year or less, with interest. It is not revolving in nature; has a fixed repayment period. Companies will usually find this form of debt financing useful if liquidity is a concern, in particular short-term working capital requirements (For e.g., to purchase stocks or to pay creditors). Bill of exchange; Bill of Exchange is a document that binds one party to pay a fixed sum of money to another party at a specified future date. It is often used in international trade. An exporter can grant credit to an importer for goods shipped, by drawing a bill of exchange to the same amount and credit period.

Firms create the strong relationship with banks, they take advantage of this relationship to handle short-term business problem through short-term overfunding. This demonstrates that when firms are under-pressure by liquidity of cash flow, or concentrate on overgrowth in short – term, they have to accept the increase in financing cost. Theoretically, when firms establish strong short-term credit financing relationships, they have opportunity to achieve more effectively short-term business activities; thereby this affects firm performance on overall. In fact, there are no previous experimental studies on effects of short-term credit financing relationships to firm performance.

Hiraki et al. (2003), use the ratio total main bank loans to total liabilities to estimate their models, find this variable has negative relationship to firms' performance. This study in Vietnam uses short-term credit financing relationships to estimate the banking relationships in models. This empirical result shows that there is a negative impact of short-term credit financing relationship on firm performance. It is likely that firms having strong short-term credit financing relationships are less effective than the others. On the same line, Thadden (1995) shows that the efficiency of investment is improved by a debt contract with periodic monitoring. Moreover, borrowing from banks allows firms to keep information confidential, not requiring the widespread disclosure typical of others sources of financing.

This line of argument suggests that a closer bank relationship will be associated with better firm performance and that a small firm's optimal strategy is to establish a long-term relationship and to borrow from one or perhaps a limited number of banks. The empirical observation of multiple, time-varying relationships, however, led economists to consider other factors. The duration of a relationship between a firm and a bank also plays a role. Greenbaum et al (1989) present a model that includes search costs for firms looking for new banks and show that the borrowing rate is a non-decreasing function of the duration of the credit relationship and that the probability that a firm will terminate a relationship is positively associated with its duration. Longhofer and Santos (2000) demonstrate how during a recession firms that have ongoing relationships with a bank are better able to obtain additional financing, allowing them to weather the recession with minimal loss.

These effects of relationships between banks and firms are likely to be more important for relatively small firms, because small firm have a higher cost – often prohibitively higher – of obtaining investment funds from financial markets and rely heavily on banks as primary credit sources. Small firms tend to borrow from banks and to borrow from a few banks with which they have a long-term relationship. These relationships are an important feature of small business lending. As noted by Berger and Udell (1998), perhaps the most important characteristic defining small business finance is informational opacity: small firms usually do not enter into contracts that are publicly visible, do not have audited financial statements and consequently can have difficulty building reputations to signal high quality. Since there may be little public information available on small firms, relationship lending enables banks to collect private information on the credit-worthiness of these firms (Strahan and Weston, 1998). These factors suggest that relationship lending may be particularly beneficial to small firms, including lower cost or greater availability of credit, protection against credit crunches, and the provision of implicit interest rate or credit risk insurance.

On the other side, for a small firm with a single relationship, an interruption of the credit line from the bank can be interpreted as a bad signal about the firm even if the withdrawal of the credit is not linked to financial distress of the small business but others are uncertain about the reason for the credit withdrawal. As a result, small firms can have multiple banking relationships, which have higher transactions costs but also greater benefits than a single relationship (Berger and Udell, 1998).

Effects of Long-term credit financing on financial performance of organization

In contrast to short-term borrowings, long-term debt is used to finance business investments that have longer payback periods. For example, the purchases of machinery, which may help the company, produce goods over a 5-year period. There are 2 main types of long term debt financing options: Term loan and leasing. Basically, term loan is a loan with a repayment period of more than one year. It is usually taken by companies with longer investment or payback horizons, such as building of a new factory or purchase of new production equipment. A bank term loan is usually repaid via periodic installments. Mortgage is basically a long-term loan, secured by collateral of some specified real estate property. The loan is normally amortized and the borrower is obligated to make periodic installments to repay the loan. Failing which, the lender can enforce its rights to possess the mortgaged property. Leasing, in general, allows a company use of an asset without having to pay the full amount upfront. A leasing agreement is drawn up with the lessee agreeing to pay periodic rental payments in exchange for the use of a capital asset. It is in effect a rental agreement, apart from a clause, which allows the lessee to own, or to buy over the machine at a reduced rate, at the end of the lease agreement.

The long-term loans will promote the sustainable long-term investment activities of firms, and create their effective performance. If a bank and a firm have a long-term relationship, the bank can acquire a great deal of unique information about a firm and the bank may be able to exploit this. Various theoretical contributions emphasize the information-capture problems and the presence of fixed costs associated with the search for a new bank. On the one side, sharpe (1990) suggests that long-lasting bank and firm relationships arise because high quality firms are 'informational captured', meaning that the firms are unable to convey information about their quality to other banks. On the other side, Blackwell and Santomero (1982) highlight the inertia linked to search costs borne by a firm looking for a new source of funds. In a repeated game with moral hazard

James (1987) argues that when firms announce publicly on the new loan contracts or the extension of banks credit, their stock price will increase. This finding reinforces Fama's research (1985) when he says the bank's loans provide firms a degree of certainty about future cash flow. James and Weir (1990), and Slovin and Young (1990) conclude that if firms have bank lending relationship, initial public offerings (IPOs) will be less underpriced than IPOs for others. Billett et al. (1995) explore the relationship between lender qualities and loan announcement – day return. They find that if firm borrows from the higher quality lender, loans are associated with positive and statistically significant price reaction. Conversely, loans announcement from the lower quality lender has negative impact on price. These show that the value of shareholder's equity will increase when firms establish good banking relationships.

Banking relationship has different impacts on firm performance and growth. Rajan (1992) finds out that firms can settle hold up problem by setting up multiple bank relationships. Hiraki et al. (2003) reinforce this view that if firms belong to a main bank relationship, their profit will decrease; on the contrary, multiple main bank relationships will reduce the holdup cost and lead to higher profitability. However, multiple bank relationships can be costly (duplicated monitoring, free rider problems, or restructuring of debt claim) and bring about decrease in profitability. Castelliet al. (2006) demonstrates that firms' profitability (ROE and ROA) decreases as the number of bank relationships increases. Fok (2004), using sample of Taiwanese firms around the 1997 Asian financial crisis, points out a negative relation between firm performance and the number of domestic-bank relationships, but a positive relation between firm performance and the number of foreign-bank relationships. Yosha (1995) and Degryse and Ongena (2001) argue that if firms disclose proprietary information to creditors, firms establishing bilateral bank relationship will gain higher sales profitability than those establishing multilateral bank relationship.

Studies in effects of duration bank relationship on firms' performance and growth are given various results. Gambini and Zazzazo (2010) investigates Italian manufacturing firms in the period 1998 – 2003 and shows that small firms maintaining stable credit relationship with a main bank during the three-year survey (long-lasting bank ties) grow less than bank-independent small firms; however, long-lasting bank ties of medium firms have a positive relation with growth. Castelli et al. (2006) find that sales over assets has quadratic function relation with duration bank relationship, the more longer duration firms get, the more firm sales over assets decreases. The study of Hiraki et al. (2003) is the one of the rare studies on bank loans quantity. They show negative relation between total main bank loans to total liabilities and ROA, and conclude that the hold – up costs of main bank relationships damage the profitability of the firm.

De Bodt, Lobez and Statnik (2005), using Belgian data, highlight that there is no unique strategy for a small firm are choice of the optimal number of banking relationships. This choice instead depends on two factors: characteristics of the main bank, namely whether it is small or large and local or national; and the degree of opacity that characterizes the small firm. More recently, Lannotta and Navone (2008) examine the effect of a banking relationship on bond underwriting fees in about 2,200 bond issues completed by European firms from 1993 to 2003.They find that a strong relationship between an issuer and the issuer's main bank reduces underwriting fees, a result consistent with the positive value of information acquired in the banking relationships.

From firm's perspective, establishing good relationships with banks will help firms to enhance business reputation, to reduce the leakage of information to competitors (Campbell, 1979), to decrease the negative impact of asymmetric information (Diamond, 1984 and 1991; Fama 1985; Rajan, 1992, Holmstrom and Tirole,1997, and Bolton and Freixas, 2000), to reduce agency conflicts related to financial intermediation (Deloof and Vermoesen, 2010), to increase accessibility to loans, and to reduce the interest cost (Houston and James, 1996; Pertersen and Rajan, 1995). This leads to less dependence of firms on the liquidity of cash flow within the firms. Hence, firms can easily invest in fixed assets with lower cost of capital, and reserves cash will be further optimized to increase profitability (Fazzari et al., 1988; Hoshi et al., 1990; and Ramirez, 1995). Shen et al. (2004) argue that when a firm has a strong banking relationship, firm's investment is less sensitive to cash flow.

Diamond (1984) finds that a close relationship allows the bank to undertake an active monitoring role which can alleviate problems related to free-riding and information asymmetry. In addition, when firms establish close banking relationship through repeated lending from a bank, they will increase their prestige on the various funding channels. Diamond (1991) also indicates that firms choose bank funding first in order to establish sufficient credibility and then access the capital markets. Kutsuna et al. (2003), researching impact of banking relationships to access the capital markets of Japanese firms, find that when firms build good relationships with commercial banks, they increase accessibility to equity capital markets. Furthermore, building up close relationships with banks helps firms overcome financial or business distress (Hoshi et al., 1990).

Small firms usually tend to switch banks, especially when they have growth opportunities (Farinha and Santos, 2001). In order not to lose power of governing firms, banks tend to restrain their expected growth (Gambini and Zazzazo, 2009). In another aspect, when firms have long-term banking relationship, they will easily be funded to overcome distress. Banks may decide to

extend further loan in order to recover its previous loan (Boot, 2000).Then, the soft-budget constraint problem occurs when firms rely on others and lack of effort to prevent the negative effects since they expected that banks will help them eventually. Many researches have evidences of effects of banking relationship on firm performance. However, firms not only get the benefits from establishing close relationships with banks, but also face certain risks.

Dass and Massa (2006) point out that through the bank lending activity, banks act as "insiders". They play a supervisory role and do not encourage managers to accept investments in high risk projects. This cause firms not to achieve profit breakthrough, and then their stock prices will become more stable. Thus, the stock liquidity will be reduced. In the process of building sustainable relationships, banks hold a lot of information (especially the sensitive and important information) related to the firm's performance, the banks will disclose information to competitors intentionally or unintentionally. This problem will become more serious (Berger and Udell, 1998). The more long term relationships firms build, the more monopoly information banks increasingly require. This may allow banks to ask firms about higher interest rate and more collateral in the future (Suwannaporn, 2003). Greenbaumet al., (1989), Sharpe (1990), Thadden (1995) and Rajan (1992) agree with this view and argue that when banks are capable of observing confidential information from the borrower, it can cause a lock-in problem. It means that firms can not release the information to other financial institutions to set up credit relationship with them, and then they have to face to the hold-up problem. This creates a switching cost, or losses valuable investment opportunities.

Effect of Banks financial advisory services on financial performance of organization

The distribution and regulation of financial advisory services differs across countries. In the US, for example, it is common that sellers of financial services are independent and charge for their advisory services. The Consumer Financial Protection Bureau has been created to supervise and protect consumers' interests, as well as to evaluate existing regulations (Andersson and Korling, 2012). In the EU, the Markets in Financial Instruments Directive (MiFid) were established to harmonize investment services and to increase competition and consumer protection within the EU. There is work ongoing to update and improve these regulations within the EU. In Sweden, financial advisory services are provided sometimes by independent brokers but more often by retail banks, which either charge indirectly when selling their products by increasing their administrative fees, or charge directly for advice, such as in private banking services. Without direct charges, it may be difficult to evaluate the advisory services independently from other services.

In addition, it is difficult to distinguish between advisory services, on the one hand, and marketing and selling, on the other. SwedSec is a subsidiary of the Swedish Securities Dealers Association, and in line with requirements of the Financial Supervisory Authority, issues licenses to personnel who trade securities and are in direct contact with consumers. Over the years, complaints regarding advisory services related to saving have increased, and, in 2004, Sweden became one of the first countries to regulate financial advisory services (the Swedish Financial Advisory Services to Consumers Act, SFS 2003:862).See Söderberg (2013), Andersson and Korling (2012),and Korling (2010) for more background on the development and regulation of financial advisory services.

Bleuthgen et al. (2008) argue that investors theoretically could obtain net benefits (i.e.,gains from the advice exceed the cost of advice) from using financial advisory services. The theoretical basis includes reducing 1) cognitive errors, since individuals make mistakes in complex situations (Kotlikoff et al. (2001)) and 2) costly information acquisition, since sub-optimal choices are made due to a lack of better information (McCall, 1970)). The potential benefits are thus that advisors could help individuals avoid mistakes and also use economies of scale to reduce information costs. Shapira and Venezia (2001) analyze whether financial professionals suffer from cognitive errors to the same extent as lay investors, and find that the disposition effect, (such as selling winning stocks earlier than losing stocks) is less pronounced for professionals.

Potentially, financial advisors could reduce different types of behavioral biases of their customers, e.g.,home bias, over-optimism, and self-attribution. For example, Venezia et al. (2011) document that professional investors "herd" less than amateurs. Overconfidence could reduce the propensity to seek advice (Guiso and Japelli, 2006), at the same time, there are signs of a higher degree of overconfidence among the professionals (Shapira and Venezia, 2001; Kaustia and Perttula, 2011). In addition, while retail investors may suffer from misconceptions related to risk and return (De Bondt, 1998; Kramer, 2012), advisors may not do much better. What it is the impact of financial advisors and who are the customers using the advice of these advisors? Womack (1996) examines stock price movements following "buy" and "sell" recommendations by 14 major US brokerage firms. He finds value to the recommendations, viewed as returns-to-information search costs, but "buy" recommendations occurred seven times more often than "sell" recommendations. Perhaps the brokers wanted to avoid harming potential relationships with the companies and, instead, wanted to maintain information flows from the companies' managers.

Metrick (1999) analyzes a database of recommendations of 153 investment newsletters, and finds no evidence that these had superior stock-selection skills. Anderson and Martinez (2008) see only very small abnormal profits around stock recommendations by Swedish brokers, not likely to be sufficient to compensate for the commission costs. Bergstrasser et al. (2009) compare funds directly sold to investors to funds channeled through brokers, and find that funds sold through brokers have inferior returns even before the fee expenses. In addition, they find no superior aggregate market-timing ability. The brokered funds show the same return-chasing behavior as most direct-channel funds, while they also have higher distribution fees. Mullainathan et al. (2012) find that financial advisors reinforce the behavioral biases and misconceptions of their clients. These biases could be return-chasing portfolios, or portfolios with company stock or funds with high fees.

Advisors encourage return-chasing behavior and push for actively managed funds that have higher fees, even if the clients started out with a well-diversified low-fee portfolio. Bleuthgen et al. (2008) find that financial advice enhances portfolio diversification and reduces the portfolio share of equity instruments. At the same time, portfolio turnover is increased and fee expenses are higher. Using data from a German retail bank, they observe that bank advisors promote diversification both when it is profitable and when it is profit neutral to the bank. Advised clients hold on average about 3 percent less equity, perhaps due to clients being more risk-averse, or due to the advisors' influence. The second alternative could include remuneration incentives, or a strategy to reduce the bank's legal and reputational risks. Advised clients instead hold 24 percentage points more equity in the form of mutual funds than do the self-directed clients. Also, Kramer (2012) finds that financial advisors added value to investors' portfolio decisions since the advised investors had portfolios that were better diversified and carried less idiosyncratic risk. He observes no evidence of differences in risk-adjusted performance between the advised and the self-directed portfolios.

Hackethal et al. (2012) followed up on the study carried out by Bleuthgen et al. and used one data set from a large German brokerage and another data set from a major German bank. On average, the advised accounts have lower net returns and inferior risk-return tradeoffs. Both data sets thus show lower Sharpe ratios, but they are even lower with the banks' financial advisors since the range of products offered was smaller. The advised accounts have a higher turnover. Lower amounts of funds are invested in directly held stocks, and higher amounts are channeled to mutual funds, consistent with the advisors' remuneration incentives. Advisors tend to be matched with wealthier, older, more experienced, and female investors rather than with poorer, younger, and inexperienced ones. In this respect, the authors find the advisors similar to

babysitters who are matched with well-to-do parents, as they perform a service that parents could themselves do better.

On the other hand, one of the theoretical arguments for using financial advisory services is, as discussed above, the possibility of reducing costs for information acquisition. Taking this aspect into account, the alternative cost for the wealthier and higher-income investors is likely to be higher than for the poorer investor. Also, banks would prefer investment volumes to be larger rather than smaller. Thus, in my view, there are both demand and supply factors explaining why advisors tend to be matched with the well-to-do investors, even if this may be less effective at the aggregate economic level. Hung and Yoong (2010) look at situations when individuals improve their financial behavior in response to advice and find that unsolicited advice had no effect on investment behavior; however, those who actively solicit advice ultimately improve performance despite negative selection on financial ability. They conclude that an implication for policy-makers is that compulsory programs of financial counseling would be ineffective.

Bhattacharya et al. (2011) find that unbiased advice taking is associated with an improvement in portfolio performance, but that only a fraction of investors are willing to accept and follow the advice. While the average advisee's portfolio efficiency in terms of the Sharpe ratio hardly improves, the average advisee who follows the advice does see an improvement in efficiency. Chalmers and Reuter (2012), using anonymized data from the Oregon University System on the Optional Retirement Plan, find that broker clients' portfolios are significantly riskier than self-directed investors' portfolios. They also underperform by 1.54 percent, corresponding to an annual tax of US $530, including the annual fees of 0.89 percent. In exchange for the fees, broker clients move out of the default fixed annuity into funds with higher-than-average past returns, and higher-than-average exposure to several forms of market risk. On average, brokers do not help investors construct portfolios that are "at least as good" as the portfolios constructed by self-directed investors.

Since the brokers' clients are younger, less educated and lower paid, the authors conclude that financial illiteracy dominates financial advice. To sum up, there is theoretical support for using financial advisory services in terms of net benefits, but not sufficient empirical support since the gains do not seem to exceed the costs. Exceptions that show value added from financial advice, i.e., Kramer (2012), Bhattacharya (2012) and Bleuthgen (2008), are scarce. Rather, most studies show that advised accounts are not "at least as good" as the self-directed accounts. Misselling and strong remuneration incentives could explain why advisory services seldom make up for the lack of financial literacy among many investors or bank customers. Inderst and Ottaviani (2012) observe that banks have limited incentive to educate

naïve customers, and, in an earlier paper (2009), they found a high risk of misselling if the advisor (or agent) both prospect for new customers and provide product advice.

Research gap

Banking relationship has different impacts on firm performance and growth. Rajan (1992) finds out that firms can settle hold up problem by setting up multiple bank relationships. Hiraki et al. (2003) reinforce this view that if firms belong to a main bank relationship, their profit will decrease; on the contrary, multiple main bank relationships will reduce the holdup cost and lead to higher profitability. However, multiple bank relationships can be costly (duplicated monitoring, free rider problems, or restructuring of debt claim) and bring about decrease in profitability. The challenges faced relationship banking is so common especially in developing countries where some organization fail to comply with relationship conditions and the bank end up freezing their assets hence making losses instead of profitability. The research gap here is that there is no academic research conducted on the relationship banking and financial performance of the organization in Rwanda hence the researcher finds it necessary to conduct the research and come up with empirical literature to enrich the country academic forum.

METHODOLOGY

Research Design

The researcher used descriptive research design. The major aim of a descriptive study according to Kumar (2005) is to describe and provide information on what is prevalent regarding a group of people, a community, a phenomenon or a situation. In order to achieve the objective of this study by providing information on Relationship Banking and financial performance of manufacturing organization in Rwanda, this study embarked on the research mission of using quantitative and qualitative methods to investigate a number of diverse variables to describe different types of relationship banking and how they are managed, the effects they have on financial performance as well as the challenges. This study also used renowned theoretical perspectives to derive the hypotheses of the study and to name the research variables. This stance of the study as descriptive research is underscored by Hussey and Hussey's (1997) argument that research constructs in a descriptive study must be supported by established theory.

Correlation Study is the strength of relationships between variables was described and explored from the testing of the specified hypotheses of the study. According to Bryman (2004), in a correlation analysis, the strength of relationships between variables is explored. Similarly, Kumar (2005) emphasized that in correlation studies relationships or associations between two

variables are ascertained. This study showed the relationships between the independent variable which is Relationship Banking and financial performance of Bralirwa which is the dependent variable variables.

Targeted Population

The population of the study comprised of 80 employees from the department of administration, accountants, audit and corporate finance of Bralirwa. Of particular relevance to the study is the fact that the study area, Bralirwa Industry is one of the fast growing manufacturing industries in Rwanda with population of employees growing every year. Another reason for the selection of this region for the study is that the researcher has some friends working there which made it easy for her to collect data.

Sample design

A sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample (Kothari, 2004).

Table 1: Sampling frame

Category	Target population	Sample size	Basis of selection
Top managers	10	5	Convenience sampling
Senior Managers	20	10	Convenience sampling
Accountants	30	15	Convenience sampling
Finance/corporate officers	15	10	Convenience sampling
Auditors	5	4	Convenience sampling
Total	**80**	**44**	

Sample size determination

When it is not possible to study an entire population but the population is known, a smaller sample is taken from strata by Convenience and stratified sampling technique. Slovin's formula allows a researcher to sample the population with a desired degree of accuracy (Stephanie, 2013). Slovin's formular was used to calculate the sample size.

With regard to the level of accuracy, we used a confidence level of 95% as suggested by Kothari (2004), this means that there are 95 chances in 100 (or .95 in 1) that the sample results

represent the true condition of the population within a specified precision range against 5 chances in 100 (or .05 in 1) that it does not. The slovin's formula is calculated as follows:

$$n = \frac{N}{1 + Ne^2}$$

Stephanie (2013)

n= Number of samples or sample size

N= Total population

e= Error tolerance

The population size of this research is 80 employees of Bralirwa. We take a sampling error of 10%, and then the sample size was:

n = 80/1+80(0.10*0.10)

n = 80/ 80*0.01

n = 80/1.8

n = 44

Therefore the sample size was 44 respondents.

Sampling Techniques and procedures

A list of employees was obtained from Bralirwa Human Resource Office and it is this list that was used to group the employee into strata (department). Then the researcher followed by Convenience sampling method in order to reduce the chances of error. The researcher also ask the management on key supervisors, where names was provided to the researcher and screened on the parameter of performance. Some groups was purposively selected in order to explore most of the research questions especially accountants.

Data Collection Method/Instrument

Primary data collection

Primary data was used to provide first hand information relating to the subject under the study. Along this process, the exercise of collecting data involved different techniques in order to get data for the research i.e.Questionnaires; interview guide and documentation.

Judd (1991) said that a questionnaire is justifiable in data collection mainly because; it enables the researcher to collect large amount of data within a short time period, it also provides opportunity for respondents to give frank, anonymous answers. Questionnaire designed was both open and closed ended set of questions that to be answered. The questionnaire was written in a simple and clear language for the respondent to feel free while answering. In

addition to that the use of questionnaire is considered vital to the research since it provides accurate information regarding the study.

Secondary data collection

Secondary data was also used to view other scholars on relation to the working capital effects on operating cash flow in Rwanda.

This research also reviewed literature obtained from the case study organization. This literature included working capital and its effects on operating cash flow in a Beverages companies. This method was chosen because; it is vital in providing background information and facts about working capital by the case study organization before primary data could be collected. Indeed, before field data is collected, a wide collection of data had been collected and this was used to cross check with the primary data that is to be obtained by the field.

Validity and Reliability

The validity of data was checked before processing the results. This helped to establish the reliability of the tools to be used in data collection. This was done by pre-testing the questionnaires using sample of 10 respondents. This process is aided correction of the mistakes and errors within the tools of data collections to verify how they are reliable to produce significant information from the field. The reliable data was got and this minimizes statistical errors.

Data Analysis procedures

The data collected was processed and analyzed. This involved data coding, editing and tabulation especially quantitative data. The purpose of all these is to make the information clear and understandable for other people. Qualitative analysis technique was also be used. The Qualitative analysis techniques complemented with some statistics that were mainly obtained from the secondary data that was obtained through documentary analysis from the case study organization. A few statistics to be obtained from the primary data and was included in this research.

Data Analysis and Presentations

The data collected was processed and analyzed using SPSS software. This involved data coding, editing and tabulation especially quantitative data. The purpose of all these is to make the information clear and understandable for other people. Qualitative and quantitative approach

was used for analysis. Mean and standard deviation was used to give a clear understanding of the research interpretations for clear and easy understanding of the phenomenon studied. Relationship between the variables was established by use of Pearson correlations.

The Mean ($\overline{X}$)

According to Aggresti (2009), Mean ($\overline{x}$): is the average value calculated by adding up the values of each case for a variable and dividing by the total number of cases.

$$\overline{X} = \frac{1}{n}\sum\nolimits_{i=1}^{n} xi$$

Where, $\overline{X}$ = mean; n = number total of respondents;

xi = scale value of respondent

Table 2: Evaluation of Mean

Mean	Evaluation
1.00 -2.49	Very weak
2.50 -3.49	Weak
3.50 -4.49	Strong
4.50 - 5.00	Very Strong

Source: Aggresti (2009)

Standard deviation (SD)

The standard deviation is a value which indicates the degree of variability of data. It indicates how close the data is to the mean. The formula of standard deviation is: $(S) = \sqrt{S^2}$ Where,

$$S^2 = \frac{1}{n-1}\sum\nolimits_{i=1}^{n}(xi - \overline{X})^2$$

Table 3: Evaluation of standard deviation

Standard Deviation	Level spreading
SD<0.5	Homogeneity
SD>0.5	Heterogeneity

Source: Aggresti (2009)

Pearson Correlation test

The Pearson correlation coefficient is a very useful way to measure the statistical relationship that exists between independent and dependent variables.

Table 4: Evaluation of corrélation

Correlation coefficient (positive or negative)	Label/positive or negative
r=1	Perfect linear correlation
0.9 < r < 1	Positive strong correlation
0.7 <r < 0.9	Positive high correlation
0.5 < r < 0.7	Positive moderate correlation
0< r < 0.5	Weak correlation
r=0	No, relationship
-1 <r = < 0	Negative relationship

Source: (Saunders, 2003)

RESEARCH FINDINGS AND DISCUSSION

Profile of the Respondents

Gender of the respondents

Table 5: Gender of the respondents

Gender	Frequency	Percent
Male	32	72.7
Female	12	27.3
Total	44	100.0

Table 5 show that 72.7% of the respondents were female and 27.3% were males. This implies that responses from the questionnaires filled were free from gender biasness since both male and female interviewed.

Age structure of the respondents

Table 6 below shows age structures of the respondents.

Table 6: Age structure of the respondents

Age group	Frequency	Percent
21 – 30	4	9.1
31 – 40	10	22.7
41 – 50	20	45.5
51 and above	10	22.7
Total	44	100.0

Table 6 shows that, 45.5% of the respondents were between 41 - 50, 22.7% were between 31 – 40 and above 50 years respectively. 9.1% between 21-30. This implies that there was fair representation of the population since all classes were represented and the data provided reflected the views of the entire population and the majority of the respondents are matured which means they can gave a matured view for the purpose of the research.

Educational level of the respondents

Table 7: Educational level of the respondents

Education status	Frequency	Percent
Degree	30	68.2
Masters	14	31.8
Total	44	100.0

Table 7 shows that, 68.2% of the respondents were first degree holders and 31.8% were masters. This implies that the respondents were by and large educated.

Experience level of the Respondents

Table 8: Experience level of the respondents

Experience	Frequency	Percent
2 - 3 Years	10	22.7
3 - 4 Years	20	45.5
5 years and above	14	31.8
Total	44	100.0

Table 8 shows that, 45.5% of the respondents had served in Bralirwa for a period between 3-4 years and above, 31.8% years and above and 22.7% between 2-3 years. This implies that almost all respondents had taken reasonably enough time in service and thus the data they provided was believed to be reliable.

Performance trend of Bralirwa

Assessing the performance trend of Bralirwa

Table 9 shows the perception of the respondents on the performance trend of Bralirwa for the last four years.

Table 9: Performance trend of Bralirwa

Performance trend of Bralirwa	Mean	Std. Deviation	Comments
Bralirwa on return investment have improved in the last three years	4.6364	.48661	Very strong homogeneity
Bralirwa profitability have improved in the last three years	4.6364	.48661	Very strong homogeneity
Bralirwa return on equity and loan have improved in the last three years	4.6364	.48661	Very strong homogeneity
Bralirwa liquidity have improved in the last three years	4.6591	.47949	Very strong homogeneity
Valid N (list wise)	44		

Table 9 shows the perception of the respondents on the performance trend of Bralirwa and their findings were analyzed as below;

Improvement in return on investment in the last three years: This was indicated by a very strong mean of 4.6364 and a homogeneity standard deviation of .48661. This implies that Bralirwa's return on investment improved in the last three years. Improvement in profitability in the last three years: This was indicated by a Very strong mean of 4.6364 and a homogeneity standard deviation of .48661. This implies Bralirwa profitability improved in the last three years. Improvement in return on equity and loan in the last three years: This was indicated by a Very strong mean of 4.6364 and a homogeneity standard deviation of .48661. This implies Bralirwa's return on equity and loan improved in the last three years. Improvement in liquidity in the last three years: This was indicated by a Very strong mean of 4.6591 and a homogeneity standard deviation of .47949. This implies Bralirwa liquidity improved in the last three years

Financial performance of Bralirwa from 2011 - 2014

Findings in table 10 show the financial performance of Bralirwa from 2010 to 2013

Table 10: Financial performance of Bralirwa from 2011 - 2014

The following is a summary of the financial statement from 2011 to 2014

(Frw'000)	2014	2013	2012	2011
Volume	**1,660,000**	**1,587,000**	**1,365,000**	**1,213,000**
Gross Revenue	114,934,000	98,348,246	80,671,894	71,355,000
Revenue	76,979,000	64,958,343	52,798,553	45,478,000
Result from Operating activities	25,266,000	20,177,575	14,529,927	9,738,000
Taxation	5,834,000	(5,346,846)	(4,071,309)	
Profit and total comprehensive income of the year	**19,027,000**	**14,657,709**	**10,330,543**	**6,347,000**
Net Debt	3,000,000	-	23	2%
EBITDA	29,733,000	23,855,000	17,673,000	12,365,000
Free Operating Cash Flow	9,350,000	11,111,000	9,518,000	8,774,000
Earnings per share (EPS)	37.00	28.50	20.09	12.34
Dividend per Share	20.00	24.20	20.09	12.34

Bralirwa Financial Report for 2011, 2012, 2013 and 2014

As per the analysis in the financial statement above it shows that volume sales was increasing respectively from 1,213,000 in 2011, 1,365,000 in 2012, 1,587,000 in 2013 and 1,660,000 2014. Profit increased from 6,347,000 in 2011, 10,330,543 in 2012, 1,587,000 in 2013 and 19,027,000 in 2014. This implies that both sales volume and organization profit was increasing which could be due to relationship banking the organization has with the bank.

Effect of Short Term Credit Financing on Financial Performance of Bralirwa

As is obvious in the name, short term debt financing is a form of financing involving financial obligations that must be fulfilled usually within a year to two at most. It is more often used for working capital requirements, or day-to-day operations of the business. By the same token, businesses with cyclical operating conditions (for e.g. retailers) or those engaged in international

trade will usually obtain financing through short-term debt. There are 4 main types of short-term debt financing options: Overdraft; Overdraft is an instant extension of credit from a lending institution.

Short term credit financing in Bralirwa

Table 11: Short term credit financing in Bralirwa

Short term credit financing in Bralirwa	Mean	Std. Deviation	Comments
Bralirwa has established relationship with the bank based on overdraft	4.6818	.67420	Very strong heterogeneity
Bralirwa has established relationship with the bank based on letter of credit	4.5455	.79107	Very strong heterogeneity
Bralirwa has established relationship with the bank based on bill of exchange	4.5682	.75937	Very strong heterogeneity
Bralirwa has established relationship with the bank based on short term credit payable within a year	4.6818	.67420	Very strong heterogeneity
Valid N (list wise)	44		

Table 11 shows the perception of the respondents on the Short term credit financing in Bralirwa and their findings were analyzed as below;

Overdraft as a base of relationship: This was indicated by a very strong mean of 4.6818 and a heterogeneity standard deviation of .67420. This implies that Bralirwa acquire overdraft from the bank. When a company has an overdraft arrangement with a bank, it can draw down or transmit cash from its account beyond the available balance. It is also revolving in nature; does not have a fixed repayment period. The amount of credit will depend on the overdraft limit negotiated with the bank. (The advantage of an overdraft arrangement is that the company does not have to ensure that sufficient cash is always available for operating activities such as stock turnover or payment to creditors in the short term).

Letter of credit as a base of relationship with the bank: This was indicated by a very strong mean of 4.5455 and a heterogeneity standard deviation of .79107. This implies Bralirwa has established relationship with the bank based on letter of credit. Letter of credit; Letter of

Credit is a letter from a bank guaranteeing a buyer's payment to a seller, that a seller will receive the amount within the credit period. The advantage of having such an arrangement with a bank is that it enables a company to negotiate better credit terms (E.g. longer credit period) with suppliers.

Bill of exchange as a base of relationship with the bank: This was indicated by a Very strong mean of 4.5682 and a heterogeneity standard deviation of .75937. This implies Bralirwa has established relationship with the bank based on bill of exchange. Bill of exchange is a document that binds one party to pay a fixed sum of money to another party at a specified future date. It is often used in international trade. An exporter can grant credit to an importer for goods shipped, by drawing a bill of exchange to the same amount and credit period.

Short term credit payable within a year as a base of relationship with the bank: This was indicated by a very strong mean of 4.6818 and a heterogeneity standard deviation of .67420. This implies Bralirwa has established relationship with the bank based on short term credit payable within a year. Short-term loan is, as the name suggests, a loan that must be repaid within a year or less, with interest. It is not revolving in nature; has a fixed repayment period. Companies will usually find this form of debt financing useful if liquidity is a concern, in particular short-term working capital requirements (For e.g., to purchase stocks or to pay creditors).

Effects of Short term credit financing in Bralirwa

Table 12: Effects of Short term credit financing in Bralirwa

Effects of Short term credit financing in Bralirwa	Mean	Std. Deviation	Comment
Short term credit financing has improved of Bralirwa net profit	4.5227	.54936	Very strong heterogeneity
Short term credit financing has improved of Bralirwa return on capital	4.5000	.59062	Very strong heterogeneity
Short term credit financing has improved of Bralirwa return on asset	4.4773	.62835	Very strong heterogeneity
Short term credit financing has improved of Bralirwa return on equity and loan	4.5227	.54936	Very strong heterogeneity
Short term credit financing has improved of Bralirwa liquidity	4.5227	.54936	Very strong heterogeneity
Valid N (list wise)	44		

Table 12 shows the perception of the respondents on the Effects of Short term credit financing in Bralirwa and the findings were analyzed as below;

Short term credit financing has improved of Bralirwa net profit: This was indicated by a Very strong mean of 4.5227 and a heterogeneity standard deviation of .54936. This implies that Short term credit financing has improved of Bralirwa net profit because it is more often used for working capital requirements, or day-to-day operations of the business. Short term credit financing has improved of Bralirwa return on capital: This was indicated by a Very strong mean of 4.5000 and a heterogeneity standard deviation of .59062. This implies Short term credit financing has improved of Bralirwa return on capital. Short term credit financing has improved of Bralirwa return on asset: This was indicated by a Very strong mean of 4.4773 and a heterogeneity standard deviation of .62835. This implies Short term credit financing has improved of Bralirwa return on asset

Short term credit financing has improved of Bralirwa return on equity and loan: This was indicated by a Very strong mean of 4.5227 and a heterogeneity standard deviation of .54936. This implies Short term credit financing has improved of Bralirwa return on equity and loan

Short term credit financing has improved of Bralirwa liquidity: This was indicated by a Very strong mean of 4.5227 and a heterogeneity standard deviation of .54936. This implies Short term credit financing has improved of Bralirwa liquidity

Correlation between long term credit financing and financial performance of Bralirwa

Table 13 indicates the Correlation between short term credit financing and financial performance of Bralirwa.

Table 13: Correlation between short term credit financing and performance of Bralirwa

Correlation		Short term credit financing	Financial performance
Short term credit financing	Pearson Correlation	1	.554**
	Sig. (2-tailed)		.000
	N	44	44
Financial performance	Pearson Correlation	.554**	1
	Sig. (2-tailed)	.000	
	N	44	44

**. Correlation is significant at the 0.01 level (2-tailed).

The table 13 is giving the relationship between short term credit financing and financial performance of Bralirwa whereby the respondents N is 44 and the significant level is 0.01, the results indicate that independent variable has positive moderate correlation to dependent variable equal to .554** and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a moderate relationship between short term credit financing and financial performance of Bralirwa, this can be explain by the fact that most big manufacturing companies don't over rely on short term loan because of their high interest rate and they instead go for capital development.

Effect of Long Term Credit Financing on Financial Performance

In contrast to short-term borrowings, long-term debt is used to finance business investments that have longer payback periods. For example, the purchases of machinery, which may help the company, produce goods over a 5-year period. There are 2 main types of long term debt financing options are term loan and leasing (Mortgage) and leasing.

Assessing the Long term loan in Bralirwa Industry

Table 14: Long term loan in Bralirwa Industry

Long term loan in Bralirwa Industry	Mean	Std. Deviation	Comment
Bralirwa has relationship with the bank based on term loan	4.7727	.42392	Very strong homogeneity
Bralirwa has relationship with the bank based on leasing of equipments	4.8409	.36999	Very strong homogeneity
Valid N (list wise)	44		

Table 14 shows the perception of the respondents on the Long term loans in Bralirwa Industry and the findings were analyzed as below;

Term loan financing: This was indicated by a Very strong mean of 4.7727 and a homogeneity standard deviation of .42392. This implies that Bralirwa has relationship with the bank based on term loan. Term loan is a loan with a repayment period of more than one year. It is usually taken by companies with longer investment or payback horizons, such as building of a new factory or purchase of new production equipment. A bank term loan is usually repaid via periodic installments. Mortgage is basically a long-term loan, secured by collateral of some

specified real estate property. The loan is normally amortized and the borrower is obligated to make periodic installments to repay the loan, failing which, the lender can enforce its rights to possess the mortgaged property. Therefore it is one of the loan acquired as capital investment by big manufacturing organization.

Leasing of equipments: This was indicated by a very strong mean of 4.8409 and a homogeneity standard deviation of .36999. This implies Bralirwa has relationship with the bank based on leasing of equipments because leasing, in general, allows a company use of an asset without having to pay the full amount upfront. A leasing agreement is drawn up with the lessee agreeing to pay periodic rental payments in exchange for the use of a capital asset. It is in effect a rental agreement, apart from a clause, which allows the lessee to own, or to buy over the machine at a reduced rate, at the end of the lease agreement.

Long term credit financing on financial performance

Table 15: Long term credit financing on financial performance

Long term credit financing on financial performance	Mean	Std. Deviation	Comments
Long term credit financing has improved of Bralirwa net profit	4.7273	.45051	Very strong homogeneity
Long term credit financing has improved of Bralirwa return on capital	4.7955	.40803	Very strong homogeneity
Long term credit financing has improved of Bralirwa return on asset	4.7273	.45051	Very strong homogeneity
Long term credit financing has improved of Bralirwa return on equity and loan	4.7500	.43802	Very strong homogeneity
Long term credit financing has improved of Bralirwa liquidity	4.8182	.39015	Very strong homogeneity
Valid N (list wise)	44		

Table 15 shows the perception of the respondents on the Long term credit financing on financial performance and the findings were analyzed as below;

Long term credit financing has improved of Bralirwa net profit: This was indicated by a Very strong mean of 4.7273 and a homogeneity standard deviation of 4.7273. This implies that Long term credit financing has improved of Bralirwa net profit. Long term credit financing has

improved of Bralirwa return on capital: This was indicated by a Very strong mean of 4.7955 and a homogeneity standard deviation of .40803. This implies Long term credit financing has improved of Bralirwa return on capital. Long term credit financing has improved of Bralirwa return on asset: This was indicated by a Very strong mean of 4.7273 and a homogeneity standard deviation of .45051. This implies Long term credit financing has improved of Bralirwa return on asset

Long term credit financing has improved of Bralirwa return on equity and loan: This was indicated by a Very strong mean of 4.7500 and a homogeneity standard deviation of .43802. This implies Long term credit financing has improved of Bralirwa return on equity and loan. Long term credit financing has improved of Bralirwa liquidity: This was indicated by a Very strong mean of 4.8182 and a homogeneity standard deviation of .39015. This implies Long term credit financing has improved of Bralirwa liquidity

Correlation between long term credit financing and performance of Bralirwa

Table below indicates the Correlation between long term credit financing and financial performance of Bralirwa.

Table 16: Correlation between long term credit financing and performance of Bralirwa

Correlation		Long term credit financing	Financial performance of Bralirwa
Long term credit financing	Pearson Correlation	1	.948**
	Sig. (2-tailed)		.000
	N	44	44
Financial performance of Bralirwa	Pearson Correlation	.948**	1
	Sig. (2-tailed)	.000	
	N	44	44

**. Correlation is significant at the 0.01 level (2-tailed).

The table is giving the relationship between long term credit financing and financial performance of Bralirwa whereby the respondents N is 44 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .948** and the p-value is .000 which is less than 0.01. When p-value is less than significant level,

therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a significant relationship between long term credit financing and financial performance of Bralirwa. We can therefore conclude long term credit financing contribute to positive financial performance of Bralirwa and this is a typical results since most big manufacturing organization depends on capital investment for their survival.

Effect of Bank Advisory Services on Financial Performance of Bralirwa
Bank advisory services to Bralirwa

Table 17: Bank advisory services to Bralirwa

Bank advisory services to Bralirwa	Mean	Std. Deviation	Comment
Bralirwa get advice from the bank on capital investment	4.6136	.49254	Very strong homogeneity
Bralirwa get advice from the bank on short term loan investment	4.5682	.50106	Very strong heterogeneity
Bralirwa get advice from the bank on stock exchange investment	4.5909	.49735	Very strong homogeneity
Bralirwa get advice from the bank on capital savings accumulations	4.5682	.50106	Very strong heterogeneity
Valid N (list wise)	44		

Table 17 shows the perception of the respondents on the Bank advisory services to Bralirwa and the findings were analyzed as below;

Bank provides advice on capital investment: This was indicated by a very strong mean of 4.6136 and a homogeneity standard deviation of .49254. This implies that Bralirwa get advice from the bank on capital investment before and after acquiring the loan in order to ascertain how to put the loan into better usage. Bank provides advice on short term loan investment: This was indicated by a Very strong mean of 4.5682 and a homogeneity standard deviation of .50106. This implies Bralirwa get advice from the bank on short term loan investment in order to know the pros and cons of short term financing.

Bank provides advice on stock exchange investment: This was indicated by a Very strong mean of 4.5909 and a homogeneity standard deviation of .49735. This implies Bralirwa

get advice from the bank on stock exchange investment since it is one of the banks functions, they can easily do stock fore casting and advice the company whether to invest highly in the stock or not. Bank provides advice on capital savings accumulations: This was indicated by a Very strong mean of 4.5682 and a homogeneity standard deviation of .50106. This implies Bralirwa get advice from the bank on capital savings accumulations especially on their saving behaviors and asset investments policy.

Effect of banks financial advisory services on financial performance of Bralirwa

Table 18: Effect of banks financial advisory services on financial performance

Effect of banks financial advisory services on financial performance	Mean	Std. Deviation	Comments
Bank advisory services has improved of Bralirwa net profit	4.4318	.87332	Strong heterogeneity
Advisory services has improved of Bralirwa return on capital	4.4091	.87120	Strong heterogeneity
Bank advisory services has improved of Bralirwa return on asset	4.4091	.87120	Strong heterogeneity
Bank advisory services has improved of Bralirwa return on equity and loan	4.4773	.87574	Strong heterogeneity
Bank advisory services has improved of Bralirwa return on liquidity	4.4318	.87332	Strong heterogeneity
Valid N (listwise)	44		

Table 18 shows the perception of the respondents on the Effect of banks financial advisory services on financial performance of Bralirwa and the findings were analyzed as below;

Bank advisory services have improved of Bralirwa net profit: This was indicated by a strong mean of 4.4318 and a heterogeneity standard deviation of .87332. This implies that Bralirwa get advice from the bank on capital investment. Bank advisory services have improved of Bralirwa return on capital: This was indicated by a strong mean of 4.4091 and a heterogeneity standard deviation of .87120. This implies Bank advisory services have improved of Bralirwa return on capital. Bank advisory services have improved of Bralirwa return on asset: This was indicated by a strong mean of 4.4091 and a heterogeneity standard deviation of .87120. This implies that Bank advisory services have improved of Bralirwa return on asset.

Bank advisory services have improved of Bralirwa return on liquidity: This was indicated by a strong mean of 4.4318 and a homogeneity standard deviation of .87332. This implies Bralirwa get advice from the bank on capital savings accumulations

Correlation between advisory services and financial performance of Bralirwa

Table 19: Correlation between advisory services and financial performance of Bralirwa

Correlation		Advisory services	Financial performance
Advisory services	Pearson Correlation	1	.632**
	Sig. (2-tailed)		.000
	N	44	44
Financial performance	Pearson Correlation	.632**	1
	Sig. (2-tailed)	.000	
	N	44	44

**. Correlation is significant at the 0.01 level (2-tailed).

The table 19 is giving the relationship between advisory services and financial performance of Bralirwa whereby the respondents N is 44 and the significant level is 0.01, the results indicate that independent variable has positive moderate correlation to dependent variable equal to .632** and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a   positive moderate correlation between bank advisory services and financial performance of Bralirwa, his may be due to the fact the bank have their own advisors.

Relationship Banking and financial performance of Bralirwa

The table 20 indicates the relationship between relationship banking and financial performance of Bralirwa.

Table 20: Relationship banking and financial performance of Bralirwa

		Net profit	Return on Capital	Return on Asset	Return on Equity & Loan	Liquidity
Short term credit financing	Pearson Correlation	.543**	.557**	.566**	.506**	.691**
	Sig. (2-tailed)	.000	.000	.000	.000	.000
	N	44	44	44	44	44
Long term credit financing	Pearson Correlation	.924**	.916**	.918**	.929**	.983**
	Sig. (2-tailed)	.000	.000	.000	.000	.000
	N	44	44	44	44	44
Banks financial advisory services	Pearson Correlation	.615**	.616**	.684**	.686**	.660**
	Sig. (2-tailed)	.000	.000	.000	.000	.000
	N	44	44	44	44	44

**. Correlation is significant at the 1% (2-tailed).

The table 20 gives the statistical evidences concerning the relationship between relationship banking and financial performance of Bralirwa industry. According to the results, sample size N is 44 and the significant level is 0.01, the results indicate that short term credit has positive moderate correlation on net profit equal to .543**and the sig is .000 which is less than 0.01. When sig. is less than significant level, researchers conclude that variables are correlated. It is therefore concluded by the researcher that there is a statistically moderate correlation between short term credit and net profit since profit determines the health of any organization. The evidences also indicated that existing short term credit has a moderate correlation to return on capital equal to .557**. Again the results give a relationship between relationship banking and return on asset equal to .566** which is has positive moderate correlation and it is significant that short term credit has a relationship with return on asset equal. The results gave the positive moderate correlation between short term credit and return on loan and equity to .506* which means that short term credit has a significant effect on return on loan and equity. The relationship between short term credit and liquidity is equal to .691** and this means that it is positive moderate correlation.

There is a significant relationship between long term credit financing and net profit is equal to .924**and this shows that variables are positive high correlated which means that working capital analysis plays a vital role in increasing profitability. Pearson correlation indicated

that there is a relationship between long credit financing and return on capital equivalent to .816** and this means that long term credit analysis influences return on capital of an organization. The relationship between Equity and loans analysis and accounts receivable as .798** which is positive strong correlation and this means that working capital analysis influences return on asset of an organization. The relationship between long credit financing analysis and return on asset is .918** and this means that long credit financing analysis has a great role on the organization's return on asset, from the findings of Pearson correlation, the relationship between long credit financing and return on loan and equity of Bralirwa corresponding to .929**. This means that long term credit financing analysis has a great role on the organization's return on loan and equity. The statistical evidences further state that there is a significant relationship between long term credit financing and liquidity at .815** which is positive strong correlation and subsequently researcher concludes that variables are correlated and when working Capital is well maintained their return on investment improves accordingly.

Additionally, there is a relationship between Banks financial advisory services and net profit equal to .615** which is positive high correlation and this means that when Banks financial advisory services is well taken the organization profitability will increase automatically. Relationship between Banks financial advisory services and return on capital to .616** which is positive high correlation and this means that advices affects working capital of the organization. Additionally, Banks financial advisory services and return on asset have high correlation of 684** which means that when Banks financial advisory services have effect on the organization return on asset. Relationship between Banks financial advisory services and return on equity and loan has positive high correlation to dependent variable equal to .686** which implies that Banks financial advisory services affects return on equity and loan positively and lastly. Relationship between Banks financial advisory services and liquidity was equal to .660** which is positive high correlation.

Relationship between relationship banking and financial performance of Bralirwa

Table 21: Relationship between relationship banking and financial performance

Correlation		Advisory services	Financial performance
Advisory services	Pearson Correlation	1	.716**
	Sig. (2-tailed)		.000
	N	44	44
Financial performance	Pearson Correlation	.716**	1

| Sig. (2-tailed) | .000 | |
| N | 44 | 44 |

**. Correlation is significant at the 0.01 level (2-tailed).

The table 21 is giving the relationship between relationship banking and financial performance of Bralirwa whereby the respondents N is 44 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .716[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a   positive high correlation between relationship banking and financial performance of Bralirwa. This implies that relationship banking is important to the financial performance of manufacturing organization because they need financial assistant for their survival either short, long term or inform of advice.

SUMMARY OF FINDINGS
This section provides summery about the effect of Relationship Banking on financial performance of Bralirwa.

Performance trend of Bralirwa
Performance trend of Bralirwa has been positively increasing for the last three years in that Bralirwa's return on investment, profitability, returns on equity and loan and liquidity improved in the last three years hence this exhibits good company performance.

Short term credit financing in Bralirwa
The company has established relationship with the bank by acquiring different short term credit financing like overdraft, letter of credit, bill of exchange and short term credit payable within a year. The short term credit financing greatly influence the financial performance of Bralirwa for instance Short term credit financing has improved of Bralirwa because it has improved on net profit, return on capital, return on asset, return on equity and loan as well as liquidity. The table 4.9 gave the relationship between short term credit financing and financial performance of Bralirwa whereby the respondents N is 44 and the significant level is 0.01, the results indicate that independent variable has positive moderate correlation to dependent variable equal to .554[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a moderate relationship between

short term credit financing and financial performance of Bralirwa, this can be explain by the fact that most big manufacturing companies don't over rely on short term loan because of their high interest rate and they instead go for capital development.

Long term loan in Bralirwa Industry

The findings established that Bralirwa has long term relationship with the bank based on term loan and leasing. The findings further showed that these long term credit financing greatly influence the financial performance of Bralirwa whereby it has improved of Bralirwa net profit, return on capital, return on asset, return on equity and loan as well as liquidity. The table 4.12 gave the relationship between long term credit financing and financial performance of Bralirwa whereby the respondents N is 44 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .948[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a significant relationship between long term credit financing and financial performance of Bralirwa. We can therefore conclude long term credit financing contribute to positive financial performance of Bralirwa and this is a typical reliable results since most big manufacturing organization depends on capital investment for their survival.

Bank advisory services in Bralirwa

The findings showed that Bralirwa get advice from the bank on capital investment, short term loan investment, and stock exchange investment and capital savings accumulations. The bank financial advisory services greatly influences the financial performance of Bralirwa in that it has improved on the company net profit, return on capital, return on asset, return on equity and loan as well as liquidity. Table 4.12 gave the relationship between long term credit financing and financial performance of Bralirwa whereby the respondents N is 44 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to .948[**] and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a high relationship between long term credit financing and financial performance of Bralirwa. We can therefore conclude long term credit financing contribute to positive financial performance of

Bralirwa and this is a reliable results since most big manufacturing organization depends on capital investment financial advice for their survival.

CONCLUSION

In the findings it was established that the Performance trend of Bralirwa has been positively increasing for the last three years in form of return on investment, profitability, return on equity and loan, liquidity and liquidity. The company has short term and long term relationship based on short term credit, long capital investment credit and advice on investment provided by the bank. This relationship has contributed significantly to the financial performance of the company. The table 4.16 gave the relationship between relationship banking and financial performance of Bralirwa whereby the respondents N is 44 and the significant level is 0.01, the results indicate that independent variable has positive high correlation to dependent variable equal to $.716^{**}$ and the p-value is .000 which is less than 0.01. When p-value is less than significant level, therefore researchers conclude that variables are correlated and null hypothesis is rejected and remains with alternative hypothesis. This means that there is a positive high correlation between relationship banking and financial performance of Bralirwa. This implies that relationship banking is important to the financial performance of manufacturing organization because they need financial assistant for their survival either short, long term or inform of advice.

RECOMMENDATIONS

The organization management should improve on financial advisory services because it is very instrumental for the organization performance. The result shows that the financial advisory services are at 63%, which is not enough for effective performance of the organization. The organization needs to identify potential financial institutions with qualified financial advisors to give them well informed decisions.

The organizations should utilize the capital development obtained from the bank efficiently and effectively so that they are able to enjoy their long relationship with the bank.

There is need for the bank to utilize the short term credit according to the rules and procedures of the organization. This is simply because if not well utilized short term credit can mean to be disastrous to company performance since the interest rate of obtaining the credit is high.

AREAS OF FURTHER RESEARCH

Researcher has observed the following areas for further research;

- Effect of relationship banking on financial performance of banking institutions since this was done on the side of the firm
- Effect of capital formation as a bank relation on financial performance of firm as well as the financial institutions

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