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THE CONTRIBUTION OF FINANCIAL RATIOS ANALYSIS ON EFFECTIVE DECISION MAKING IN COMMERCIAL BANKS

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Abstract- Financial ratio analysis is important to the management, owners, customers, suppliers, competitors, regulatory agencies, tax payers and lenders each having their views in applying financial statement analysis in their evaluations and making judgments about the financial health of organization, while some authors found that financial ratios analysis is not an adequate method by which to evaluate the overall performance of an organization; also the balanced scorecard is more efficient than financial ratios analysis. The general objective of this study was to analyze the contribution of financial ratio analysis on decision making in commercial banks in Rwanda. Specific objectives were to analyze the contribution of liquidity ratio analysis in effective decision making in BK; to determine the effect of efficiency ratio analysis on the effective decision making in BK; to measure the extent to which asset quality ratio analysis affects decision making in BK and to assess the role of profitability ratio analysis on the effective decision making in BK. The findings should enable management of banking institutions come out with realistic policies for ratio analysis aimed at improving the quality of their decision. This research was descriptive and correlational design and used both qualitative and quantitative methods. The population under study was comprised of 139 employees of BK and then, the sample size of the study was 104 employees. This study employed the stratified random sampling technique. This research used regression analysis to establish relationship between variables under study. The Statistical Package for Social Sciences (SPSS) version 16 was used in this study. The data was presented in forms of frequency and percentages. The study revealed that if efficiency ratio increased by one per cent, the effective decision making also increased by 0.910. Hence, there is a positive effect of efficiency ratio analysis on effective decision making and if asset quality ratios analysis increased by one per cent, the effective decision making also increased by 16.935. Hence, there is a positive effect of asset quality ratios analysis on effective decision making. The study concluded that ratios analysis is a good way to evaluate the financial results of bank in order to measure its performance. Ratios allow the bank to compare its business against different standards using the figures on its financial statements. This research recommends National Bank of Rwanda to speed up the sensitization campaign of the Rwandan commercial Banks to focus on ratios analysis as among the best tool to the effective decision making in commercial bank.

I. BACKGROUND OF THE STUDY

Stakeholders always seek the existing order and understanding about the phenomena governed by laws governing their relationships and need to predict their behavior. This kind of attitude toward access to integrated data collection was done to make better decisions considering to the high volume of raw data to create and develop the growing market need for investment in human societies use financial info always been led to intellectual challenges to provide useful information and good decision makers were and definitions and specific criteria for this data set. One of these cases, trying to balance between the discoveries of financial information has been using financial ratios decisions nineteenth century was formed, though before that fit theory was developed in the human sciences (Asghar, 2011).

In the United States, as in all other countries that now possess a developed financial ratio analysis, the only important financial instruments in existence were, until in 1840, money, short-term trade credit, long-term farm and urban mortgages, and government securities; the only important financial institutions were banks of issue and commercial banks (Lasher, 2005).In Australia, the current ratio and especially the ratio was studied for the logic and desirability and its proven use as a major component of the scientific method used in financial management. In United Kingdom, school analysis to be made universal and the ratio analysis England management as tools to compare between companies to help managers improve efficiency (Efficiency) and consider the next contract decision making procedures (Horrigan, 2001).

In South Africa commercial banks have undergone immense regulatory and technological changes since the attainment of constitutional democracy in 1994. South African banks were faced with increasing competition and rising costs as result of regulatory requirements, financial and technological innovation, entry of large foreign banks in the retail banking environment and challenges of the recent financial crisis, so financial ratios analysis enable us to identify unique bank strengths and weaknesses, which in itself inform bank profitability, liquidity and credit quality (Robert, 2010).

Profitability of Egyptian firms in 1999 was broadly in line with international experience. The profitability ratios (both operating income and net income) are the same or slightly lower than the average for other countries shown. Leverage in Egypt is lower than in most other countries in the sample. The ratio of total liabilities to total assets has a median of 0.51 for Egypt while the world median is 0.57.The lower leverage ratio in Egypt suggests that Egyptian firms may face some difficulties in raising debt finance because Egypt's success in penetrating international markets for manufactures has been disappointing as has its low growth in total factor productivity (Inessa, 2005).

Since 1980's, many foreign banks have established their branches or subsidiaries in Kenya. On the contrary, the number of domestic banks declined (Hore, 2012).These have attracted the difference challenges (internal and external) for bank performance in relation to these reforms. According to Azam (2012)the internal factors include bank size, capital, management efficiency and risk management capacity and the major external factors that influence bank performance are macroeconomic variables such as interest rate, inflation, economic growth and other factors like ownership. So the use of financial ratios analysis was improved for measuring the profitability and improvement of good decision making.

One of important assumptions in decision making process and improvement economy is existence of quality information. Significant number of this information comes from accounting information systems and from financial statements. Financial statements have to provide realistic and objective picture of realistic business condition of certain company through to the financial ratios analysis. In other words, auditing of financial statements is understandable, by which accuracy is ensured. In context of consideration of financial statements as a function of decision making it is important to emphasize that different users must know how to read those statements. Reading contents of financial statements provide whole number of different instruments and analyses procedures for understanding business (Ehrhardt, 2010)

The overarching vision of the Government of Rwanda is to develop a stable and sound financial sector that is sufficiently deep and broad, capable of efficiently mobilizing and allocating resources to address the development needs of the economy and reduce poverty. It should be recognized that when financial services reach out to the population broadly and efficiently, they accelerate economic growth, efficient allocation of resources and improved wealth distribution, although Rwanda's financial sector highlighted that even though the sector has made remarkable achievement, it still faces major challenges that need addressing to enable the financial sector to contribute meaningfully to the overall performance of the country's economy and another challenge facing Rwanda is the country's inability to mobilize long term stable financing given that Rwanda's capital market is small and underdeveloped to enable public and private sector access long term financing, so use financial ratios analysis play important role for measuring profitability of Rwanda commercial Bank and for improvement of decision making (Ministry of Finance and Economic Planning [MINECOFINE], 2013).

Bank of Kigali (BK), the country's biggest lender, managed to post an impressive balance sheet that saw shareholders pocket Rwf 7.4 billion in dividends. This is half of net income of Rwf14.8 billion that the bank made during the year, increasing by Rwf 3 billion from the previous year. By June 2012, there were already signs that BK shareholders would still reap from their investment despite challenges, when the bank net loans fell by 1.5% during the second quarter of the year compared to the same period the previous year, but the bank went ahead to post net half year profit of Frw7.3 billion(Bank of Kigali , 2013).

In order to achieve research objectives, the researcher looked at the time scope, conceptual scope as well as geographical scope. This study focused on the contribution of ratio analysis on effective decision making in commercial banks. This topic was chosen because, ratio analysis is of great importance as far as the information needs of different users in various institutions are concerned for decision making. This research work emphasized on the ratio analysis on effective decision making. Due to time constraint and financial support, information to be collected ranged from 2012 up to 2014, because it is in this range whereby the researcher got accurate information. The study focused on BK head office branch; one of Rwanda's commercial bank which is located in Kigali city Nyarugenge District. This is premised on the fact that the bank lends to almost all the major sectors of the economy and as such the data needed to accomplish the work would be obtained without any hindrance.

II. PROBLEM STATEMENT

Financial ratio analysis is important to the management, owners, personnel, customers, suppliers, competitors, regulatory agencies, tax payers and lenders each having their views in applying financial statement analysis in their evaluations and making judgments about the financial health of organization. Many financial organizations also compare their own ratio values to those for similar organizations looking for differences that could indicate weaknesses or opportunities for improvement (Vincent , 2013).

However, just because a number is included in a financial statement, financial ratios analysis does not indicate whether that number is important. According to Khalad (2011) financial ratios analysis focus on financial results that reflect the owners' perspective, whereas the Balanced Scorecard focuses on financial and nonfinancial results that reflect not only the owners' perspective, but also the customer perspective, internal process perspective and learning and growth perspective. So they found that financial ratios analysis is not an adequate method by which to evaluate the overall performance of an organization;

also the balanced scorecard is more efficient than financial ratios analysis.

The above statements shows that some studies found that financial ratios analysis is good tool that support decision making while others said that there are other useful tool rather than decision making, therefore, as BK the best commercial Bank performer in 2014, this study needs to analyze whether analysis of profitability ratio, efficiency ratio, liquidity ratio and asset quality ratio facilitate the commercial banks in good decision making. Even if other researchers carried out usefull studyrelated to ratio analysis, they did not use both primary and secondary data through correlational and descriptive statistics to establish the contribution financial ratios analysis for decision making in commercial bank.

III. OBJECTIVES OF THE STUDY

The general objective of this study was to analyze the contribution of financial ratio analysis on decision making in commercial banks in Rwanda

Specific objectives are;

i. To analyze the contribution of liquidity ratio analysis in effective decision making in BK;
ii. To determine the effect of efficiency ratio analysis on the effective decision making in BK;
iii. To measure the extent to which asset quality ratio analys is affects decision making in BK;
iv. To assess the role of profitability ratio analysis on the effective decision making in BK.

IV. RESEARCH QUESTIONS

A number of research questions are raised in order to attain the above objectives

i. Is there any contribution of liquidity ratio analysis in effective decision making in BK?
ii. Is there any effect of efficiency ratios analysis on the effective decision making in BK?
iii. To what extent to which asset quality ratios analysis affects decision making in BK?
iv. Is there any role of profitability ratios on the effective decision making in BK?

V. RELATED STUDIES

Ali and Akram(2011) analyzed the comparison of financial performance for the period 2006–2009 by using financial ratios and measures of investment banks working in Pakistan. Financial ratios are divided into three main categories and measures including two indicators. Seven investment banks out of nine were selected for analysis for comparison purpose. They found that the performance of investment banks on the basis of efficiency ratio is different than on the basis of liquidity ratio, capital or leverage ratio and financial measures. Due to the unavailability of data of other two banks, the results were compiled from the data of seven banks. The findings were consistent with the analysis reported by the central bank of Pakistan in its report for financial sector analysis 2006-09.

Khalad (2011)carried out the comparison between the financial ratios analysis and balanced scorecard method. The main purpose of this study was to compare between the benefits and problems of using financial ratios analysis and Balanced Scorecard method in evaluating the overall control of the company. As a result, they found that the Balanced Scorecard is more efficient than financial ratios analysis because the latter is not comprehensive enough to evaluate overall performance.Nevertheless, both the balanced scorecard and financial ratios analysis are important tools for evaluating performance. So, we cannot ignore either of them.

Abiola (2013) carried out Financial Ratio Analysis of Firms as Tool for Decision Making. The purpose of this study was to present primarily the relationship between financial analysis and accounting, and the fundamental role which accounting holds, through the information it produces, into analysts' work. They said that Financial analysis was a specialty in accounting that aimed at formulating a diagnosis and a prognosis relative to the situation and the financial performance of a company or an organization.. The research method is the bibliographic one, being studied timely books and articles of the domain. Literature did not provide concrete answers to this problem, resolutions being expected especially from practitioners.

Alsamaree(2013) analyzed Financial ratios and the performance of banks case study was Kuwait (2007-2010).The purpose of this study was to make assessment on attention to the financial performance and financial ratios, including analysis contributed to decision-makers to take correct decisions.About the methododlogy this study used a descriptive approach by describing the analytical and diagnostic and analysis of data and information relating to the budgets and income statements had been taking financial analysis approach in monitoring the facts about the reality where application entrance qualitative approach which reflects the most important indicators that measure financial performance.He found that there was No statistically significant differences between the profitability of Kuwait Finance House (KFH) and capital adequacy (2007-2010). Mabwe (2010) analyzed the performance of South Africa’s commercial banking sector for the period 2005- 2009. Financial ratios were employed to measure the profitability, liquidity and credit quality performance of five large South African based commercial banks. They found that overall bank performance increased considerably in the first two years of the analysis.

Mustafa(2014) evaluating the financial performance of banks using financial ratios- a case study of Erbil bank for investment and finance. This study investigated the financial performance of Erbil Bank for Investment and Finance, Kurdistan Region of Iraq during the period of 2009-2013. Several financial performance parameters were used such as financial ratios analysis which was used to measure the financial position for the bank and on broader range statistical tools also have been used for analysis purpose of several variables which would affect the banking system in general in order to know whether these variables are significantly correlated with the financial performance for the bank. The findings of the study showed the positive behaviour of the financial position for Erbil Bank and some of their financial factors variables influence the financial performance for the bank. Then, it was found that the overall financial performance of Erbil Bank is improving in terms of liquidity ratios, assets quality ratios or credit performance, profitability ratios.

VI. CONCEPTUAL FRAMEWORK

As Eugene (1991) notes, market efficiency is a continuum. The lower the transaction costs in a market, including the costs of obtaining information and trading, the more efficient the market. According to Eugene (1991), The Efficient Markets Theory (EMT) of financial economics states that the price of an asset reflects all relevant information that is available about the intrinsic value of the asset. Although the EMT applies to all types of financial securities, discussions of the theory usually focus on one kind of security, namely, shares of common stock in a company. A financial security represents a claim on future cash flows, and thus the intrinsic value is the present value of the cash flows the owner

The informational efficiency of stock prices matters in two main ways. First, investors care about whether various trading strategies can earn excess returns. Second, if stock prices accurately reflect all information, new investment capital goes to its highest-valued use. This study also examined Kahneman and Tversky's prospect theory in the commercial banking industry. Prospecttheory predicts increased risk-taking behavior in the presence of below-target outcomes. Fishburn redefined risk (commonly measured as dispersion about the mean outcome) as the integral of a function that is based on distance below target outcome.

Decision makers will be risk-seeking if they perceive themselves to be operating below target. Conversely, if they are operating above target, they will be risk-averse. According to prospect theory, an individual can rationally exhibit differing degrees of risk aversion over time, depending on his position relative to target outcome (Laughhunn, John, & Roy, 1980). Segal (1987) suggested that decision makers will not necessarily reduce probabilities (multiply them to arrive at joint probabilities) when confronted with an ambiguous lottery, i.e., one for which the probabilities are uncertain. When probabilities are unknown, individuals may exhibit ambiguity aversion, not entirely unlike risk aversion. However, in the context of the commercial banking industry, this framework seems to offer little potential explanatory power for perceived increases in risk taking.

Independent Variables

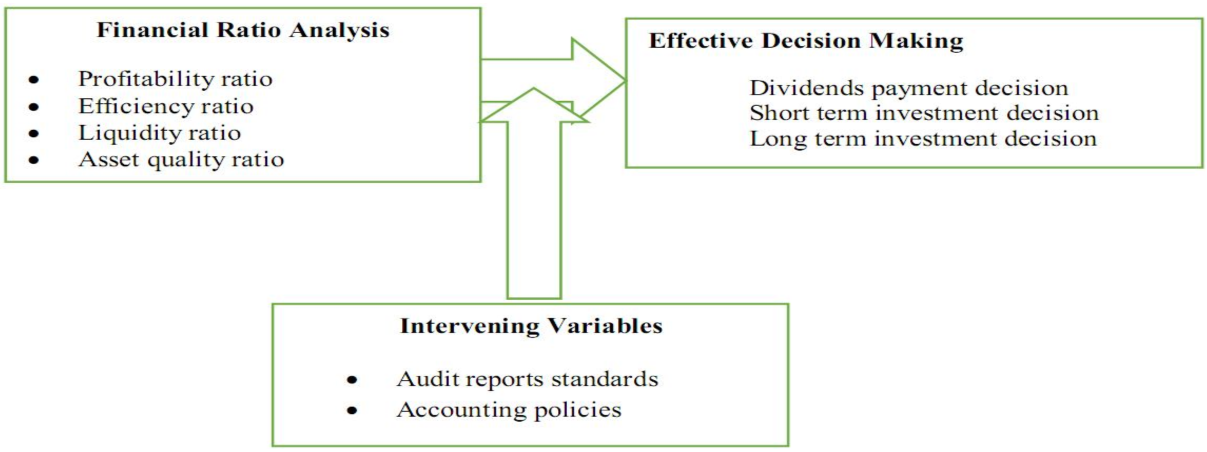

Figure 1: Conceptual Framework

Source: Researcher

A profitability ratio is a measure of profitability, which is a way to measure a company's performance. Profitability is simply the capacity to make a profit, and a profit is what is left over from income earned after you have deducted all costs and expenses related to earning the income. The efficiency ratio is a ratio that typically applies to banks, in simple terms is defined as expenses as a percentage of revenue (expenses / revenue), with a few variations. A lower percentage is better since that means expenses are low and earnings are high.

Liquidity ratio: Liquidity ratio is a class of financial metrics that is used to determine a company's ability to pay off its short-terms debts obligations; generally, the higher the value of the ratio, the larger the margin of safety that the company possesses to cover short-term debts. Liquidity ratio is the ratio between the liquid assets and the liabilities of a bank or other institution. Asset quality ratio is a measure of the likelihood of default of a loan combined with a measure of its marketability. Asset quality is a measure of the price at which a bank or other financial institution can sell a loan or lease to a third party, as determined by the borrower or lessee, especially by a bond issuer. Credit ratings agencies determine credit quality in order to provide bond ratings; they may change these from time to time.

VII. RESEARCH METHODOLOGY

This research was descriptive and correlational design and used both qualitative and quantitative methods. Survey is known as descriptive approach, this approach involves collecting data in the form of tests and questionnaires to answer questions.

Population is the study object, which may be individuals, group, organizations human and events, or the conditions to which they are exposed. The population under study was comprised of 139employees of BK including, eight boards of directors, six auditors, seven consultants, four executives' managers, 13senior managers, 24 middle management and 77 lower managers(BK [BK], 2015), the study also targeted four consultants and four auditors of Bank of Kigali according to the period under study. The study preferred to use managers, consultants and auditors, because are the ones who make decisions in commercial banks.

In this section of sampling design the researcher mainly used strategies related to sampling techniques for easy access to right data from respondents.

The level of precision or sampling error is 5% and 95% confidence level, total population(N) is 126, the sample size is selected using the Yamane formula $= \frac{N}{1+N(e)2} = \frac{139}{1+139*(0.05)^2} = 104$, and then, n= 104 employees.

The study also targeted four consultants and four auditors of Bank of Kigali according to the period under study. The study preferred to use managers, consultants and auditors, because are the ones who make decisions in commercial banks.

The study population has been stratified into strata (groups). From these strata, the researcher usedpurposive sampling method as these enabled the researcher to select respondents who could provide him with the information needed for the study.

The researcher used both primary and secondary data as practical means of obtaining information related to the research topic. The primary data was obtained using questionnaire, from BK employees. Secondary data was sourced from annual reports of BK. Qualitative techniques to get primary data for the research was used, where questionnaire and interview was used to obtain data.

A questionnaire was used to get perceptions and development status of respondents. The questionnaire contained closed ended questions which were addressed to the respondents. The advantages of close-ended questions were that the answers were standard, and can be compared from person to person. In collecting secondary data, annual reports were used. Researcher used financial reports of 2010 – 2014 for secondary data.

After carrying out questionnaires with respondents, the questions were edited at the end of the study and after editing, the information was arranged into a meaningful and organized form by coding it. Further data collected was tabulated manually. For the research to be more scientific and meaningful, the large quantities of information gathered was condensed, hence facilitating to easy analysis and processing of data, coding, tabulation and the analysis of the main findings were presented in chapter four. The researcher distributed the questionnaires to the respondents and waited for them for five days.

In dealing with reliability, the researcher wants to ensure the degree of consistency and stability of the instrument; hence the research examined several times by checking for reliability in relevance, clarity and ambiguity of items in the instrument. For achieving this, a pre-test was carried out. A total number of 10 respondents was used for the pretesting. Validity and reliability of this instrument was done by making pre-tested or pilot study to verify the consistence of the research instruments. Cronbach's Alpha coefficiency was used to measure internal consistency of the research tool. Computed Cronbach's alpha Coefficiency was $\alpha = 0.884$, this confirmed the reliability of research instrument. This was generated after pre-tested research instruments where the pilot research was conducted. The validity of research instrument was also tested through supervisors in terms of language and content.

Having conducted editing, coding and tabulation, the researcher continued to analyze the data. Actual statistical tasks were taken and frequency distribution of each major variable was done. For this study, both qualitative and quantitative data analysis techniques were applied using descriptive and inferential statistics (linear regression). This helped in comparing the reports of different years and making a clear conclusion concerning the contribution and consumptions per category, and finally this research used regression analysis to establish relationship between variables under study. It is therefore from reports that the researcher analyzed the quantitative data and made comparisons which helped in the drafting of a conclusion and recommendations. The Statistical Packaging for Social Sciences (SPSS) was used in this study.

For data collection, University provided a letter of introduction that was used to request permission from the Human Resources Managers in order to have the right to collect data from selected sectors. The permission was presented to the banks, after introduction, arrangement was made with the selected respondents in each Sector. All respondents were informed that their participation is voluntary and written informed consent was given to all respondents prior their participation, so that they recognized the research purpose. Confidentiality of respondents was strictly kept, no personal identification information was shown on the questionnaire.

With regard to this study, the aims and objectives were conveyed to all the relevant authorities during the process of acquiring permission to do research, and to the employees and managers involved during the data collection stage. Respondent's participation was voluntary and they had the right to withdraw from the study at any time if they wished, both confidentiality and community based participation were considered in this research.

VIII. RESULT AND DISCUSSION

In this subsection, the research emphasis on the summary of findings concerning the research objectives like the analysis of the contribution of liquidity ratio analysis in effective decision making in BK; the determination of the effect of efficiency ratio analysis on the effective decision making in BK; the measurement of the extent to which asset quality ratio analysis affects decision making in BK; and the assessment of the role of profitability ratio on the effective decision making in BK.

In relation to the first research objective, the contribution of liquidity ratio on decision making in B K. In relation to liquidity ratios as helpful in determining to overall health of a company, out of 100 respondents 81(81%) of respondents selected strongly agree while 19 (19%) selected agree. In relation to if liquidity ratios help to understand how BK is doing financially, out of 100(100%) respondents 82(82%) selected strongly agree while 18 selected agree. The study also analyzed if liquidity ratios specify clearly how the current assets and liabilities indicating performance of BK, out of 100(100%) respondents 9(9.0%) of respondents chose strongly agree while 91 chose agree.

The findings also indicate perceptions of respondents if liquidity ratios should give potential lenders and investors the information they need to make informed decisions about lending money or other resources, out of 100 respondents 76 of respondents selected strongly agree while 24 selected agree , out of 100 respondent's 54 respondents selected strongly agree while 46 selected disagree. The study continue to present perceptions of respondents if liquidity summaries long-term debt, such as loans, out of 100 respondents 76 respondents selected agree while 15 respondents undecided .

In relation to the second research objective, the determination of the effect of efficiency ratio analysis on the effective decision making in BK. The study analyzed if efficiency ratios provided a pictures of the company's profitability during a specific period, out of 100 respondents 12 of respondents selected strongly agree, 66 selected agree while 22 selected disagree. The study also shows perceptions of respondents if efficient ratios used in making lending and investment decisions, out of 100(100%) respondents 81% of respondents selected strongly agree while 19% selected agree. Moreover, findings indicates perceptions of respondents if efficiency ratios report its earnings and expenses for a given period, out of 100 respondents 17 respondents chose strongly agree, 83chose agree while 22 selected disagree. Furthermore, if income statement is one of the most important documents used outside the company, out of 100 respondents 63 of respondents selected agree while 37 selected disagree. Findings continue to indicate perceptions of respondents if efficiency ratios give information on revenues, out of 100 respondents 34% of respondents ticked strongly agree while 66% ticked agree.

Lastly, findings show perceptions of respondents if efficiency ratio is an important tool for inventors looking to buy stock in a particular company, out of 100 respondents 55% respondents selected agree while 66% selected disagree. The study revealed the effect of efficiency ratio analysis on effective decision making, the study used SPSS and found that the regression analysis equation is effective decision making = 0.373 + 0.910* efficiency ratio, this implies that slope equals to 0.910, and this means if efficiency ratio increased by one per cent , the effective decision making also increased by 0.910. Hence, there is a positive effect of efficiency ratio analysis on effective decision making

In relation to the third research objective, the measurement of the extent to which asset quality ratio analysis affects decision making in B K. The study also revealed that asset quality ratios include information that can reveal positive information about making an investment, out of 100 respondents 20 respondents selected strongly agree while 80 selected agree. The study also said that change in equity shows that the business has more value to its owners, out of 100 respondents 52 respondents ticked agree while 48 selected disagree.

The study also indicates the findings related to if asset quality ratios indicates that a company has a strongly growth potential, out of 100 respondents 69 respondents ticked agree while 31 selected disagree. In relation to if asset quality ratios build inventor confidence, out of 100 respondents 54 respondents chose strongly agree while 46 chose agree. The study also indicates if asset quality ratios lead to better decision making, out of 100 respondents 54 respondents ticked agree while 46 selected disagree. The study also indicated the effect of asset quality ratios analysis on effective decision making, the study used SPSS and found that the regression analysis equation is effective decision making = 13.065 + 16.935* asset quality ratios analysis, this implies that slope equals to 16.935, and this means if asset quality ratios analysis increased by one per cent, the effective decision making also increased by 16.935. Hence, there is a positive effect of asset quality ratios analysis on effective decision making.

In relation to the fourth research objective, the assessment of the role of profitability ratio on the effective decision making in BK. According to the profitability of a business with respect to its sales or investments, out of 100 respondents 58 respondents chose agree while 42 selected disagree. Findings continue to indicate perceptions of respondents if profitability measure the efficiency of operations of a business with the help of profits, out of 100 respondents 52 respondents chose agree while 48 chose disagree. The study also presents perceptions of respondents if profitability useful tool to understand the efficiencies and inefficiencies, out of 100 respondents 7 respondents selected strongly agree while 93 selected agree. Moreover, the findings show perceptions of respondents if profitability assist management and owners to take corrective actions, out of 100 respondents 80 respondents chose agree while 20 selected disagree.

The study also presents perceptions of respondents if profitability measure the operating efficiency of a business and returns which the business generates, out of 100 respondents 58 respondents chose agree while 42 selected disagree. Findings also indicates perceptions of respondents if profitability helps analyst to get indication on the sufficiency or adequacy, out of 100 respondents 13 respondents selected strongly agree while 87 selected agree. The study analyzed if profitability ratio is a useful device for analyzing the financial statement, out of 100 respondents 66 respondents selected agree while 34 selected disagree. Findings also shows perceptions of respondents if profitability ratios simplifies, summarize the accounting figures to make it understandable, out of 100 respondents16 respondents chose agree while 84 chose disagree. It is also indicated that profitability ratios help in financial forecasting, out of 100 respondents 66 respondents selected strongly agree while 34 selected agree. Findings also shows perceptions of respondents if ratio analysis is useful in finding the strength and weakness of a business concern, out of 100 respondents 59 respondents selected strongly agree while 41 selected agree.

Moreover, the study analyzed if the profitability ratios measure a company’s short-term profit, out of 100 respondents 82 respondents chose agree while 18 respondents chose disagree.

CONCLUSION AND RECOMMENDATIONS

Concerning research questions related ratio analysis and effective decision making, the study concluded that ratios analysis is a good way to evaluate the financial results of BK in order to measure its performance. Ratios allow the BK to compare its business against different standards using the figures on its financial statements.It is believed that investors and other users of BK’s financial reports by reducing the cost of investments and increasing the quality of the information provided. Therefore, rations are also important to BK’s managers because by publishing them, management can communicate with interested outside parties about its accomplishment.

This research also concluded that the efficiency ratios in commercial banks indicate the usage of costs and expense in relation to the income of the bank, hence in relation to the data above, this study revealed that the usage of cost and expenses in period under study was efficiency or used well because of ratios analysis. From the ratios focused on, this study revealed that the asset quality ratios are among of the indicators of BK good performance during the period under study. The data also indicated the profitability ratios of BK, where profitability ratio is a measure of profitability, which is a way to measure a company's performance. Finally, the researcher concluded that ratio analysis influence positively the effective decision making in commercial bank.

Basing on the findings and interpretations as well as the theoretical aspects presented in the literature review this research recommends National Bank of Rwanda to speed up the sensitization campaign of the Rwandan commercial Banks to focus on ratios analysis as among the best tool to the effective decision making in commercial bank. This research also recommended that, the employees are considered as a very important requirement to the operation and the procedures in every report, so BK have to improve the skills of the employees working in the departments related to ratios analysis. Other commercial bank should publish their annual reports, so that stakeholders could access information regarding their performance.

Even if this study found that BK used financial ratios in terms of effective decision making, it focused only on the comparison of its performance in consecutive period rather than performance with other companies in the same industry. Hence, future researchers should use comparative analysis using comparison with other companies in the industry. Since this study deals with ratios analysis, the following areas are suggested for further research; the role of financial reporting in the development of financial institution, the contribution of financial statements in public institutions and then the contribution of financial statement analysis to shareholders retention in public company, Access to financial information and performance of commercial banks, the role of financial reporting in reducing the collapsing of financial institutions.

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