CREDIT MANAGEMENT SYSTEM AND PERFORMANCE IN PRIVATE ENTERPRISES

CASE STUDY: TEM GUMI COMPANY LIMITED

BY

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DECLATION

I **ADILE PATRICK** declare that this work is my original work and has not been submitted or published to any institution or university for any award.

STUDENT **ADILE PATRICK**

SIGNATURE ....

DATE 30/05/2014

APPROVAL

I certify that this research work has been submitted for examination under my approval

Supervisor **Ms Turabiirwe Lovence**

Signiture ....

DATE 30/05/2014

DEDICATION

I dedicate this piece of work to my father Mr. Deus Celestino Lem and my mother Mrs. Beatrice Acola, my brothers Bonny, Tonny, Chris, Ambrose, my sisters Betty, Mirriam, and Molly, for their great support towards this research not forgetting great friends like Danniel, Isaac, Linda, Ronald, Susan, Naumi and Santos for being influential and inspiring.

May the Almighty God bless you abundantly

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LIST OF ACRONMY

CMS	Credit Management System.
PE	Private Enterprises
NGO's	Non Governmental Organizations
CMP	Credit Management Policy

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ABSTRACT

Credit Management system is a set of policy measures that are designed by each individual business entity to minimize costs associated with extension of credit while maximizing the benefits from it. The purpose of the study is to establish the effectiveness of credit management system in preventing financial resource loss through bad debts. With effect to increase in trade debtors and bad debts, the researcher sought to study and find out the relationship between credit management system and performance of private enterprises. The objectives of the study were to; establish the relationship between credit management system and performance of private enterprises, evaluate the effectiveness of credit standards and screening process of credit applicants and to find out whether there are other factors affecting the performance of Tem Gumi. These objectives were achieved using purposive sampling together with convenience sampling of 40 respondents of which 30 responded. The research was based on primary data collected using questionnaires and interviews and secondary data from already written documents. The findings of the research were that a company allows a grace period of 30 days indicated by 80%(table6).80% agree that credit period extended to applicants is 30 days and 6.67% for cash discount(table7). In establishing the effectiveness of credit standards and the screening process of credit applicants,80% of the respondents indicated that credibility is used(table 8).100% revealed that there is an independent person responsible for screening credit applicants(table10).The researcher recommended that the company should introduce more cash discounts, seek financial assistance to increase company's scope and scale ofoperation.

CHAPTER ONE

1.0 Background to Study.

Credit management system is a set of policy measures that are designed by each individual enterprise or business entity to minimize costs associated with extension of credit while maximizing the benefits from it (Hakiiza 2002).

Credit refers to the ability of a customer to obtain goods or services before payment based on the trust that payment will be made in the future.

Each business enterprise should have clear defined management system to ensure that;

A good receivable control system controls the level of cash outflow that may rise to unacceptable levels inform of bad debts.

A good receivable control system helps in controlling the opportunity cost involved in extending credit to the credit applicants.

Receivable control system is important because it helps maintain the market share in a declining market by retaining old customers while creating opportunities to new customers and out complete rival firms in the market.

Mc Larey (1994) identified the following as the basic requirements for a good credit management system. These include; assessing the potential customers creditworthiness, establishing an effective administration of debtors, establishing an effective credit policy, establishing a policy on bad debts and consider offering discounts for prompt payment and identifying relevant ratios to use.

Pandey (1993/ 2003) put forward that proper credit management depends on three credit policy variables; credit standards, credit terms and collection policy.

The above decision variables are used as a basis for selection of credit applicants. There are also two proposed credit policy alternatives a business entity may adopt.

These are lenient or stringent credit policies.

An enterprise using a lenient credit policy tends to sell to customers on very liberal terms and standards. Credit may be granted for longer periods even to those customers whose creditworthiness is not fully known.

Unlike a lenient credit policy, astringent credit policy enables a business to sell on credit following highly selective basis by considering only customers with proven creditworthiness.

In practices however, business entities tend to follow a credit policy which is neither stringent nor lenient. They consider an optimum credit policy that maximizes the entity's value, that is to say incremental rate or return on investment is equal to the incremental cost of funds. A proper credit management system leads the firm to attain both liquidity and profitability objectives while an improper credit management system affects both objectives of liquidity and profitability.

In Uganda today micro credit scheme ranges from those provided by individual money lenders to those establish by institutions. In addition there many intermediary agenesis providing support services. According to research conducted by the ministry of planning and economic development in 2000, there are thirty three well established micro financial institutions, comprising one bank, 11 co-operative societies, 16 local NGO's, 5 international NGO's and 2 government credit schemes, with branches at district level. The majority of these located in urban and pri-urban areas.

The study was therefore focused on Tem Gumi Company Limited that is found on plot number 33, Pajule road, Pader Town, Pader District which was formed to deal in Building and Construction materials, Agricultural tools, Fire fighting equipments and spares, Generators and Solar equipment, Motorcycles, bicycles and spare parts.

Table1: Trade debtors and bad debts

Year	Total trade debts (shs)	Bad debts(shs)	Percentage of bad debts to total debtors (%)
2011	65,650,002	2,267,046	3.45
2012	78,483,500	3,674,849	4.68
2013	90,797,820	5,333,200	5.87

Source: Tem Gumi Company Limited Annual Report.

Despite the credit management system put in place, the company still has unhealthy performance which was not expected. Therefore, the researcher was prompted to carryout an investigation on the effectiveness of credit management system that has been put in place.

1.1 Statement of the Problem.

Companies have put in place a credit management system aimed at improving its performance such as increased market share and profitability. However, it is indicated that the companies have been facing performance problems and high bad debts figures in Uganda, example Bayport Financial Services, Primex Supply 2004 Limited with Tem Gumi Company Limited. A fact that has propelled the researcher to undertake this study.

1.2 Purpose of the Study:

The purpose of the study was to establish the relationship between credit management system and performance of private enterprise.

1.3 Study Objectives.

To establish the relationship between credit management and performance of private enterprises.

To evaluate the effectiveness of credit standards and process of credit applicants.

To find out whether there are other factors affecting the performance of private enterprises apart from credit management system.

1.4 Research Questions:

What are the relationship between credit management and performance of private enterprises?

Are the credit standards and screening procedures followed when selecting the credit applicants?

What are other factors that affect the performance of private enterprises apart from credit management system?

1.5 Scope of the Study

Content scope

Regarding the nature or extend of the study, the study was focused on evaluating the credit management system considering the three credit policy variables that is credit standards, credit terms and collection methods.

Geographical scope

The study covered Tem Gumi Company Limited, located in plot number 33, Pajule road, Pader Town, Pader District

Time scope

The study examined the effect of credit management system on the performance of private enterprises from 2010 to 2014.

1.6 Significance of the Study.

The study will be significant to researchers, students and decision makers in the business enterprise because;

It will facilitate the strengthening of the credit management system of Tem Gumi Company Limited and other enterprises so as to make changes in their credit policy systems.

To scholars, it will help them to form part of their reference materials in the same or related research field.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This area reviewed all the relevant literature about credit management policy variables which include, credit terms credit standards and collection procedures (Pandey, 1993).

2.1 Credit management system.

Credit management system is the process for controlling and collecting payments from customers. A good credit management system will help you reduce reduce the amount of capital tied up with depters (people who owe you money) and minimize your exposure to bad debts (Collins, 1991)

Credit Management.

As stated by Keown (1985), all firms by their nature are involved in selling either goods or services. Some of the sales are made for cash mean while a large percentage will involve selling on credit.

When sales are made on credit, the firm's receivables will increase meaning there will be a shortage of cash inflow in the firm in the short run. Therefore the firm may not perform as expected in relation to its operations.

Pischked (1992) put forward that credit management system is important because it saves time by answering some ideas discussed over and again each time a decision is to be made.

He also went a head to emphasize that decisions to be made should be consistent and fair enough to enable people in the same circumstances to be treated under same terms and conditions.

Credit is a marketing tool acting as a bridge for movement of good and services through production and distribution stages and finally to customers (Van Horne 1995, Pandey 1993). Therefore, firms can use credit policy to expand on their sales, increase market share, maintain old customers and create new customers. In situations of high completion, a firm may loosen its credit policy to maintain sales thus generating relatively large inflow of operating revenue hence profits (Pandey, 1993).

Brigham (1995) further noted that pressure from a firm's competitors can force the firm to sell on credit. However, it should be noted that trade credit involves a risk that there is a chance of default by customers. The firm should therefore ensure that it reduces the risk by extending credit to only those customers who are credit worthy (Manasseh, 1990).

Therefore, the primary essential aim of having a well defined and effective credit management system in a firm or organization is to maximize sales and maximize cash inflows from debtors at the same time. Thus carrying receivables is costly to the organization but financial managers should try as much as possible to balance between costs and benefits of selling on credit.

2.2 Guidelines to an effective credit control system.

Manasseh (1990) identified among others procedures to an effective credit control policy as one; gathering credit information. This procedure involves collecting information from various sources to enables a firm assess the creditworthiness of potential customers before extending credit to them.

Information about the client or the customer can be obtained from Bank references and audited financial statements of the customers.

The firm may decide to use an expert to assess the credibility of a client. This basically involves the analysis of all sorts of information about the client such as his employment, salary, bank accounts and other assets.

The following should normally be considered before carrying out investigations on creditworthiness of a client;

The nature of the company. This involves an analysis of an organization's business line and the risks associated with such business line and it's it profitability.

The nature of the company's goods and services. For a firm dealing with seasonal goods, it may be advisable for it to change the credit period and amounts offered to match with seasonal requirements.

A company's credit policy. When an organization follows astringent credit policy, then it will usually contact an extensive credit investigation before extending credit to a client whereas the one that follows lenient credit policy may limit its credit investigations. Regardless of the approach used, the basic requirements put forward by M.C Larey (1994) should be considered.

Customers. For a new client, the firm should undertake an extensive investigation on his/her creditworthiness whereas for an old client, the firm may simply use his/her past creditworthiness to analyze the performance of that client.

2.3 Credit Management Policy.

As started by Kakuru (1998), a credit policy is a set of polices or rules designed to minimize costs associated with credit extension while maximizing profits arising there in .profits will accrue from increased sales of goods or services which result from customers' expansion.

Campsey B.*et al.*, (1994) stated that an optimal credit policy is one at which the marginal benefits of increased sales offsets the marginal costs of granting credit.

Pandey (1993) identified three aspects of a sound credit management policy. These include; Credit standards, Credit terms, and Collection policies.

2.3.1 Credit standards.

These are basically the criterion used or followed to give credits. The standards are reinforced by credit rules and procedures for granting credit. It is an important credit policy variable that calls for intensive and thorough analysis. It is the firm's responsibility to scrutinize the client's creditworthiness. It enables the firm to make choice of customers to extent credit. This provides a normal cut off point.

Pandey (1993) observed that there are 5 (five) parameters that determine the creditworthiness of a customer. These include; collateral, capacity, character, capital and condition.

Collateral. This is property promised to the creditor as compensation if the customer/client defaults. It is normally an asset whose worth is evaluated to be equivalent or even more than the value of goods or service provided at a point of time.

Capacity. This assesses the ability of the customer to repay what he/she owes the seller or the firm. This can be ascertained through gathering the necessary information concerning the client's value and ownership of assets.

Character. This is an attempt to evaluate the traits of the applicant that would give an indicator as to the willingness of the applicant to meet his or her credit obligations. Such traits may include; marital status, level of education, contact.

Capital. This mostly looks at the assets and liabilities of the potential applicant. In most cases, more assets imply that the applicant is capable of paying while more liabilities imply a risk of not paying back.

Condition. This refers to the existing economic and other conditions which may in any way affect the customer's ability to pay although he may be having the willingness.

Public and private enterprises lack proper or comprehensive procedures to assess their customers' collateral, capacity, character, capital and condition (Manasseh, 1997). This is because little or no data is collected about customers.

Manasseh (1997) further observed that private enterprises tend to have no systematic credit policy due to the need to out compete rival firms by offering credit terms which are very lenient.

2.3.2 Credit Terms.

These are stipulations under which a company offers credit to its customers (Kakuru, 1998). The terms give the credit period and the credit limit. The period is simply how long the amount of credit that a firm is willing to extent to a customer. The credit limits are set for each customer basing on;-

- Customer payment record that is if the customer is a prompt payee.
- Financial signals that is whether there is any evidence of the customer running up losses or having liquidity problems.

Manasseh (1990) advocated that if credit period is to be used as a competitive tool, then it should not be below the industrial average as it may lead to loss of customers to a firm's rival industry. Hence a good credit period should be one that encourages availability of funds on a timely basis and ensures that profitability is achieved at the same time.

Pandey, (1995) stated that the working capital of a firm is greatly influenced by its credit period. Hence a firm's decision to grant credit always has to be reflected on the level of working capital needs.

Credit period may differ from one firm to another and may range between 30, 60, 90, 180, and 365 days. The days allowed will depend on terms offered by the firms in the same industry and at what level is the demand for the firm's products or services. Alternatively, for firms to reduce on their credit period offered and risks associated with it, cash discounts are offered.

A cash discount is a deduction which is offered to the buyer by the seller to encourage the buyer to make prompt payments (Chandra, 1987).

There are several guidelines used to determine the optimal cash discounts rates which include;-

- Cash discounts must be matched with customers and sensitivity to price changes.
- Credits term must be varied as the firm's opportunity changes since cash discount offered depends on the firm's cost of funds.
- Bad debt losses have an adverse effect on maximum discount rate. Thus if bad debts losses rate is high, discount may be given provided it reduces costs.

2.3.3 Collection Procedures.

These are procedures or steps taken to collect and recover the amount due from customers. (Hakiiza Godwin Mutambazi, credit management on public enterprises, 2002). This collection policy should be convenient to both the buyer and the seller.

Brigham (1995) also defined collection policy as the procedure a firm undertakes to have timely collection of past due accounts from customers.

As stated by Chandra (1998), a good collection program of a firm is aimed at timely collection of debtors and may consist of the following;-

- Monitoring the state of receivables
- Dispatch of letters to customers whose due dates are about to expire
- Telephone advise to customers about the due date threat of legal action against over due accounts.

Therefore, a good credit collection policy is one in which procedures are clearly defined and the customers know the rules (Gitman L.V, 1982). Debtors who are experiencing financial difficulties will always try to delay payments to companies with poor or relaxed collection procedures.

Keown (1985) identified approaches used by management of a firm to monitor accounts receivables. Among others include;-

- Ratio analysis which is concerned with examining the average collection period for example;

$$\text{Average collection period} = \frac{\text{Trade receivables}}{\text{Credit sales}} \times 365 \text{ days}$$

The formula shows how quick or slow the business is at collecting its debts from customers.

An increase in the number of days may be an indication of; Poor debt collection, increased debt collection period, Poor credit control system, and increased bad debts.

$$\text{Receivables turn over} = \frac{\text{credit sales}}{\text{Average trade receivables}}$$

This indicates how fast the business is receiving its money from Debtors. High receivables turnover indicates how efficient a firm's credit policies are compared to firms with a low receivables turnover.

As emphasized by Pandey (1995), there is need for an effective credit collection policy and an aggressive effort which should aim at accelerating collections from slow paying debtors and reduces bad debts.

Therefore, a firm should select collection procedures that will speedup the receipt of cash inflows from Debtors without jeopardizing its relationship with its customers.

Some of the collection procedures include;-

- **Factoring services.** These are debt collectors. Here, a firm sells its debtors to another firm called a factor. The factor may offer a less price of the total debtors for example a firm factoring its receivables may have Shs.90,000,000 worth of debtors so the firm may ask the factor to give it Shs.80,000,000; 10,000,000 of which is consideration paid to the factor. This facilitates debt collection.

- **Insurance.** This reduces the risks in case of defaults. This is done when the firm has huge amounts of debtors thus the firm can be compensated in case the debtor defaults or dies before paying back what he/she owes the firm.
- **Litigation.** Litigation refers to the legal action taken to try to recover the amounts due. It is the last resort approach since it involves court action and proceedings. Of course if the action fails then, the debt is written off completely which causes the business to loose out.
- **Sending reminders.** Customers should be sent reminders of their due dates such that they pay what they owe the company in time for it to effectively carryout its operations.

Conclusion

A firm should therefore put in place good and effective credit management system if the firm is to achieve the desired performance in terms of profitability and liquidity at the same time. Also a firm may hire debt collectors who visit the customers and attach some or all of his property in order to recover the debts. More still, an optimal credit policy or system which is neither lenient nor stringent should be used to minimize losses of resources from Debtors through bad debts.

2.4 Performance

Performance of business refers to the ability of business to meet the required standards, increased market share, improve facilities, ensuring returns on profitability, and total reduction and once this is achieved, a business is believed to be performing effectively (Flolick, 2006).

Performance refers to an ongoing process that involves managing the criteria for which an institution, agency or project can be held accountable (Daniel Ticehurst and Catherine Conneron, 2000). Typically, these criteria are represented as component parts of an internal system and cover the institution's ability to; control financial expenses, satisfy staff, deriver timely interventions and respond to target group reactions to interventions.

Zinderman (1999) argues that business enterprises must improve production if they are to effectively compete in this era of rapid economic and technical change. Improved productivity requires both capital investment as well as a work force that has the flexibility to acquire new skills for newly created jobs resulting from structural changes in the economy.

Bernadin et al., (1995) asserts that performance is a result of workers because they provide the strongest linkage to strategic goals of the business enterprise, Customer satisfaction and economic contribution that affects the business, hence it addresses the mode in which an activity is accomplished in particular and the level of standards to which a task is carried out within the working environment.

Performance management

Barutcugil (2002) defined performance management as "the management process which undertakes to perform collection of information for the current and future position of the organization, to compare the same and to commence and continue the required and new activities to provide constant development of the performance so as to direct the business organizations to the objectives". It involves a series of operations which determine at which rate the organizations can reach to the previously determined objectives (Harrington1996)

Stoner (1989) adds that performance entails effectiveness which refers to the firm's ability to produce and serve what the market requires at particular time and efficiency which means meeting the objectives at the lowest possible cost with the highest possible benefit. In order to assess performance, the managers use actions designed to generate sustainable long term improvements.

Small enterprises seem to apply inadequate drivers of success (Brown, 1996). Little attention is there to assess and forecast reward but only competitive performance which accordingly is not strong element of successful performance to drive business as long than 6 years. Performance should be looked at in terms of economy, efficiency and effectiveness. Economy and efficiency are usually measured in terms of data such as cost, volume of sales and productivity. Effectiveness is measured in terms of quality of services, customer satisfaction and achievement of goals (Drucker, 1993).

Mc Devilt (2001) noted that for a firm to perform very well, it should have clear objectives aimed at quality management and be able to compete both in the short run and long run and argued that performance is the ability of the firm to meet both its long term and short term goals efficiently and effectively.

Measuring performance

Performance measurement is the process of regular and systematic data collection, analysis and reporting to be used by a firm to follow up the resources it uses, the results it obtained with the produced goods and services (Tekeli 2003).

According Kaplan and Norton (1992), performance can be assessed by the use of the balanced score card (BSC), it addresses other aspects that do not incorporate financial measurements but rather intangible and intellectual assets such as high quality services or royal customers which are more critical to the success of the business.

According to Pareek and Rao (1992), Measuring performance aims at facilitating employee develop and for the following major purposes: to provide feedback and guidance, to set performance goals, to identify training needs and to provide input for management of pay administration, reward and promotion. The steps involved in effective performance include: identification of key performance areas and setting yearly objectives for each key performance indicator, identification of critical of attributes of effective performance, periodic review of performance, and discussion of performance with employees and identification of training and development needs.

When you run your own business or have a vested interest in one through your investments, you need to know how to evaluate its performance based on facts and numbers. There are several parts in a business to watch. Here are some tips to measure the performance of a business and make appropriate changes to achieve your goals effectively (F. John Reh, 2011) evaluate the assets and liabilities of the business from the balance sheet, review the cash flow to assess operating, financial and investing activities, the effects of these activities can be understood through income and expenses from the statement of income do internal comparison of cost and sales to understand if the amount of stock accumulated is increasing while sales remains stagnant, indicating poor utilization of stock. Compare the debtor and creditor values between past and present balance sheets to measure credit history, understand the customer satisfaction level through complaints and reviews from the end users, having consistency and quality in performance and reliability improves

Neely and Bourne (2000) opine that performance measure initiatives fail because of poor design and difficulties in its implementation. Organizational performance needs to be measured along both organizational level and work unit level requiring complementary dimensions and information for planning, tracking, analysis and improvement.

Brown (1996) argues that performance measures must focus attention on what makes, identifies and communicate the drivers of success, support organizational learning and provide a basis for assessment and reward. Dixon (1990) adds that appropriate performance measures are those which enable the firm to direct their actions towards achieving their strategic objectives. Performance measures used are those which support the business objectives, this is because the firm's performance is central to the future well being and prosperity of an enterprise.

According to Stoner (1996), profitability has been the widely used measure of financial performance. Profitability is the excess of income over expenditure which can be expressed by the ratios like gross profit margin, net profit margin and return on equity. However, profit as a measure of performance has got a lot of limitations. Pandey (1997) argued that profit is argued that profit is ambiguous as it can be looked at differently by different people for example Economists and Accountants. It also involves a lot of estimations like depreciation and stock valuation which end up giving different values according to methods used.

Drucker (1990) points out that the common accounting performance measure of profit and cost rarely support changes in the organizational structure and size, thus non financial measures like management and employee skills and their turnover must be used to fit within the strategic framework.

Business Performance dimensions

Business competitiveness, Herciu and Ogrean (2008) and Lopez et al.,(2005) describe competitiveness as comparison between a firm's performance and standard performance in the industry in terms of relative market share and position, sales growth and measure of customer base.

Financial performance in terms of profitability, liquidity, capital structure and market ratio, quality of services in terms of reliability, responsiveness, appearance, cleanliness/tidiness, comfort, friendliness, communication, courtesy, access and availability of security, flexibility in terms of delivery speed and specification, resource utilization in terms of productivity and efficiency, innovation (Fitzgerald et al., 1996).

Methods of measuring performance

Balance score card

According to Kaplan and Norton (1996), the need to integrate financial and non financial measures of performance and identify key performance measures that link measurement to strategy led to emergence of the balance score card and integrated set of performance measures derived from business's strategy that gives management a fast but comprehensive view of the business unit. Balance score card philosophy assumes that an organization's vision and strategy is best achieved the organization is viewed from the following four perspectives, customer perspective, internal business process perspective, learning and growth perspective and financial perspective. To implement the balance score card the major objective for each of the four perspectives should be articulated. Objectives should then be translated into specific performance measures, targets and initiatives.

Decision making methods with multiple criterions.

The reason for preferring these methods are other than the fact that they are methods which are easily applicable, it can work with quantitative and qualitative data and it allows a model consisting of different dimensions and variables to be transformed into a single performance variable. The most frequently used method among the Decision Making Methods with Multiple Criterions is the Analytical Hierarchy Process and Topsis method.

According to Pearn, W (2006), Performance can be measured by the following methods: statistical process control (SPC), Process Efficiency (PE), Non Linear Programming (NLP), Data Enandlope Analysis, (DEA), Structural Equation Model (SEM), Linear Programming (LP), Factor Analysis (FA), Fuzzy Logic (FUZ), Regression,

Key Performance indicators

Key Performance Indicators, also known as Key Success Indicators (KSI), help a business define and measure progress toward business goals. Once a business enterprise has analyzed its mission, identified all its stakeholders, and defined its goals, it needs a way to measure progress toward those goals Key Performance Indicators are those measurements. Key Performance Indicators are quantifiable measurements, agreed to beforehand, that reflect the critical success factors of the business (Likert, R 1958).

2.5 Private enterprises

A private enterprise is a privately owned business enterprise, especially one operating under a system of free enterprise or Laissez-Faire Capitalism (Astley, 1997). Economic activity under taken by private individuals or organizations under private ownership. (Collins, 2000) put it that private enterprises (Economics) is another name for capitalism.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The research methodology describes the research designs that was used, study population, sampling methods and procedures, the sample size, data sources and collection techniques, problems the researcher encountered and possible solutions to the problems. The methods helped the researcher to collect data upon which findings, interpretations and conclusions were based on.

3.2 Research Design

The researcher used descriptive research design and cross sectional research design since the researcher intended to carry out the research over a period of time to answer the research questions. Also both quantitative and qualitative data collection was used since they considered appropriate in achieving the objectives of the organization.

3.3 Study Population

The study population of this research was composed of 60 staff members of Tem Gumi Company Limited in the departments of Accounts, Finance and Sales in the revenue collection centers. These sections are chosen because persons therein are considered to be having relevant information about credit sales and credit management system in detecting default rates.

3.3.1 Sampling Method and Procedure

Purposive sampling was used because persons in Accounts, Finance and Sales departments are directly or indirectly involved in credit management and they conform to certain characteristics that the researcher is interested in.

Convenience sampling was also used where any one found in those departments was interviewed since some of those selected were not be present at the time the interview was conducted.

3.3.1.1 Sample Size

A sample of respondents was computed by a formula for Slovene de. The Slovene's formula states that given a population, the minimum sample size is given by ;

n = N

1+N(e)2

Where n=required sample size

N=the known population size

E=the level of significance which is fixed at 0.05

Basing on the formula, the minimum sample to be study will be

N=44÷1+44(0.05)2

40

Therefore the sample size consist of forty (40) respondents

Table 2: Sample Size

Department	**Number**
Accounts	15
Finance	15
Sales	10
Total	**40**

3.4 Data Sources and Collection Techniques

3.4.1 Data Sources

For the purpose of this study, the following major data sources were used:

3.4.1.1 Primary Data

This necessitated the researcher to go to the field with well constructed questionnaires which was distributed to the selected respondents. In-depth interviews were also conducted to get information from respondents who were busy and did not find time to fill the questionnaires.

3.4.1.2 Secondary Data

Data for literature review was collected from different text books of different authors, research reports of different scholars.

3.4.2 Data Collection Techniques

3.4.2.1 Questionnaires

This is the major technique the researcher was use to obtain information. Questionnaires was designed and delivered to respondents physically by the researcher in order to increase the response rate, questionnaires was simple worded, relatively short but comprehensive. Both closed and open-ended questionnaires were used.

3.4.2.2 Interviews

In-depth face-to-face interviews were conducted to enable the researcher to collect data from the staff of Tem Gumi Company Limited in the departments of Accounts, Finance and Sales. The researcher used interview guide to help him while administering the questions to the respondents at the right time.

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This section provides analysis of data findings and their interpretations. So tables, figures and percentages together with their descriptions have been used to describe and analyze the findings.

The research was presented and analyzed with reference to research questions.

- What is the relationship between credit management system and performance of private enterprises?
- Are the credit standards and screening process followed when selecting the credit applicants?
- What are other factors that affect the performance of private enterprises apart from credit management system?

4.1.1 General Findings

Questionnaires were distributed and interviews contacted from a sample of 40 respondents to obtain data in order to answer the research questions. Below is a table showing questionnaires distributed, returned and analyzed.

Table 3: Number of questionnaires returned and analyzed

Department	Distribution	Returned	Analyzed
Accounts	15	12	12
Finance	15	10	10
Sales	10	8	8
Total	**40**	**30**	**30**

Source: Primary Data

4.1.2 Demographic Data

To avoid biased findings, both male and female respondents were considered in the sample as shown in the table below;

Table 4: Gender response

Sex	Frequency	Percentage (%)
Male	20	66.67
Female	10	33.33
Total	**30**	**100**

Source: Primary data

The table shows that the majority of the respondents were male representing 66.67% while 33.33% were female.

4.1.3 Education Level

Further analysis on demographic features considered factors like education to determine whether the level of education of respondents have effect on management of debtors and the responses are shown below:

Table 5: The level of education of the respondents

Category	Frequency	Percentage (%)
Post graduate	2	6.67
Graduates	20	66.67
Diploma	4	13.33
Advanced level	4	13.33
Total	**30**	**100**

Source: Primary data

It is shown in the table that 66.67% are degree holders, 13.33% represent both diploma holders and those having advanced level certificates and 6.67% are post graduates. Thus, indicating that most of the staff members are qualified.

4.2 Relationship between credit management system and performance of Tem Gumi Company limited.

To establish the relationship between credit and performance Tem Gumi Company limited, respondents were asked the following questions.

4.2.1 Findings on the grace period extended to clients

The responses obtained from respondents are summarized below;

Table 6: Grace period extended to clients

Grace period	Frequency	Percentage (%)
14 days	2	6.67
21 days	4	13.33
30 days	24	80
Total	**30**	**100**

Source Primary data

From the above table, 80% of the respondents agree that the grace period extended to clients is 30 days, 13.33% of the respondents say that it is 21 days and 6.67% agree that the grace period is 14 days thus, the longer the grace period extended, the less effective the credit terms become hence affecting the whole system of credit management in the company. Hence there is a relationship between credit management system and performance of Tem Gumi Company Limited.

4.2.2 Credit period and cash discount extended to clients

The investigation on credit period and cash discount revealed the following;

Table 7: Credit period and cash discount allowed to clients

Types of credit terms	Frequency	Response rate (%)
Credit period 30 days	24	80
Credit period 60 days	4	13.33
Cash discount	2	6.67
Total	**30**	**100**

Source: Primary data.

80% of respondents revealed that credit period allowed to clients is 30 days, 13.33 agree that it is 60 days and 6.67% agree that cash discounts are given.

This clearly indicates that there is lack of awareness about the exact credit period extended to clients and by offering small cash discounts shows that debtors are to pay large sums of money and may not pay promptly or in time.

4.3 Effectiveness of credit standards and screening process of credit applicants

In order to answer this, the following questions were asked for credit analysis of credit applicants;

The research findings indicated that the organization relies on few methods for analyzing credit applicants as shown below;

Table 8: Response on credit analysis method used

Credit analysis method	Frequency	Response rate (%)
Credit information	5	16.67%
Credit limit	1	3.33
Others (credibility)	24	80%
Total	**30**	**100**

Source: Primary Data

From the above table, 80% said that credibility is the most common method used, 16.67% said the company considers credit information and 3.33% said it is credit limit that is considered.

This indicates that the company gets insufficient information about the credit applicants which in turn affects the credit standards put in place.

4.3.2 Credit Standards set by the Company

To ascertain the credit worthiness of credit applicants, the company should use character, capacity, capital, condition and collateral (Pandey's 5Cs). The respondents revealed the following;

Table 9: Response on Credit Standards Followed

Credit Standards	Frequency	Response rate (%)
Character	0	0
Capacity	25	83.33
Capital	5	16.67
Collateral	0	0
Condition	0	0
Total	**30**	**100**

Source: Primary source

83.33% of the respondents revealed that capacity is the most considered credit standard, 16.67% of the respondents agreed that its capital and none for character, collateral and condition.

This clearly shows that the company puts much emphasis on capacity to pay while neglecting other vital standards like collateral and trading experience.

4.3.3 Findings on Independent person responsible for screening credit applicants

The findings on whether there is an independent person responsible for screening credit applicants revealed the following;

Table 10: The response on independent person responsible for screening credit applicants

Category	Frequency	Response rate (%)
Yes	30	*100*
No	0	0
Total	**30**	**100**

Source: Primary data

100% of the respondents reveal that there is an independent person responsible for screening credit applicants and none disagreed.

Therefore, this implies that the screening process of credit applicant is effective since it is done by an independent person.

4.3.4 Findings on whether credit can be offered without knowing the client's credit worthiness

Further in an attempt to establish the effectiveness of credit standards and screening process of credit applicants, the respondents were requested to give information on whether credit could be offered without assessing one's credit worthiness, the response got is shown as below;

Table 11: Response on whether credit can be offered to credit applicant without knowing his/her credit worthiness

Category	Frequency	Response rate (%)
Yes	0	0
No	30	100
Total	**30**	**100**

Source: Primary data

As shown in the table above, 100% of the respondents say that No credit can be offered to credit applicant without knowing his/her credit worthiness and none agrees.

This implies that the default rates can be minimized as low as possible thus making the screening and credit standards in the credit management system more effective.

4.4 Findings on Performance of the Company

Findings on the performance of Tem Gumi Company Limited are summarized as below;

Table 12: Showing response on performance

Opinion	Frequency	Response rate (%)
Poor	5	16.67
Fair	8	26.67
Good	15	50
Very good	2	6.67
Excellent	0	0
Total	**30**	**100**

Source: Primary data

As shown in the table above, 50% of the respondents revealed that the company's performance is good, 26.67% said its fair, 16.67% said the performance is poor, and 6.67% said that it is very good.

Therefore, the company should improve weak areas so as to make performance better.

4.5 Other factors affecting the performance of Tem Gumi Company Limited

The research thought to find out other factors affecting Tem Gumi Company Limited. The following factors have been revealed;

- Competition: Competition from other companies dealing in construction materials such as Multi line company lmited.
- Low demand: The Company faces low demand in certain periods for example rainy season, the demand for construction materials are low thus reducing the company's sales.
- Inadequate capital which affects the company's scope and scales of operation.
- Poor customer care: Customers are not cared for in terms of their expectations and this drives away customers to other companies.
- Changes in exchange rates that affect the volume of sales and debt collection thus rendering the company losses. Most especially the depreciation of Ugandan shillings.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The section gives a summary of findings, conclusions, and recommendations based on the research objectives and in reference to the findings as tabulated under data analysis and presentation.

The objectives used in coming up with the research findings under data analysis and presentation are;

1. To establish the relationship between credit management system and performance of Tem Gumi Company Limited.
2. To evaluate the effectiveness of credit standards and screening process of credit applicants.
3. To find out whether there are other factors affecting the performance of Tem Gum Company Limited.

5.2 Summary of Findings

The findings are in reference to the research objectives stated in 5.1 above

5.2.1. To establish the relationship between credit management system and performance of Tem Gumi Company Limited.

The researcher's findings show that although credit terms to be followed are put in place, they prove to be less effective because Tem Gumi staff members in Accounts, Finance and Sales departments can not establish the exact credit period extended to credit applicants as indicated in table 7.

Also not being clear on discount offered to credit applicants can render the credit terms set ineffective as applicants may fail to pay promptly or in time. Hence there a relationship between credit management system and performance of private enterprises as indicate by the effectiveness of the credit terms set by the company.

5.2.2. Investigation on the effectiveness of credit standards and screening process of credit applicants.

The research findings revealed that credit standards for analyzing credit applicants are in place. However, the company largely considers capacity and capital while ignoring other standards like collateral, character and condition as indicated in table 9. Such affects the effectiveness of the whole credit standards and screening process of credit applicants.

5.2.3. Other factors affecting the performance of Tem Gumi Company Limited.

The respondents revealed the following as other factors affecting the performance of the company;

Competition from other firms like Aristoc, low demand in certain seasons such as holidays, limited capital, depreciation in Ugandan Shillings and poor customer care.

5.3. Conclusion

The research study identifies areas where current practices are deficient.

Actions for improvement on major weaknesses which affect the company's profitability through increasing bad debts should be under taken with immediate effect. There's need for setting up a proper and well managed credit system that will improve on the credit policy variables and implement them systematically.

The credit terms and standards are to some extend known by the company and on the analysis of credit applicants; a few of them are followed.

The performance of Tem Gumi is not only affected by credit management system but also due to other factors like competition, limited capital, low demand, depreciation of Ugandan Shillings.

These factors affect the performance of the company both directly and indirectly and act in combination to reduce the company's profitability.

5.4. Recommendations

Basing on the findings, the researcher recommends the following;

On the credit terms set by Tem Gumi Limited, the following should be done

The company should introduce more cash discounts as they will motivate the clients to pay promptly and in time. However, such discounts should be introduced along side strengthening credit analysis as well as considering the cost benefit ratio.

The company should make sure that appropriate credit period is established to various credit applicants depending on their ability to pay. The staff in Accounts, Finance and sales departments should be aware of the credit period they are to extend to credit applicants.

On the credit standards set, the company should;

Ensure that every credit applicant is studied in line with Pandey's 5C's (capital, capacity, collateral, condition and character) than merely relying heavily on capacity.

Adopt certain standards that will help to establish he credit worthiness of the clients to be. It should request for salary scales in case of individual clients, land ownership title, audited accounts for credit applicants before extending credit.

On other factors affecting the performance of the company;

The company should seek financial assistance from financial institutions such as banks and micro finance institutions so as to supplement on its investments and widen its scale and scope of operation. This will enable the company to create new and better distribution channels for better performance.

The company should view competition as a healthy practice for improving performance and as a tool to avoid tendencies of monopoly power. The competitive strategies of other competitors should be properly studied on a regular basis to avoid price wars.

5.5. Areas of further research

1. Effect of credit management system on profitability.

2. Effect of competition on organization's performance.

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APPENDICES

APPENDIX I: QUESTIONNAIRE FOR THE FINANCE, ACCOUNTS AND SALES DEPARTMENTS OF TEM GUMI COMPANY LIMITED

Dear Respondent,

The researcher is a Bachelor of Business Administration student of Kampala International University conducting an academic research study under the topic "credit management system and performance in private enterprises" (Tem Gumi Company Limted).You have been selected to be one of the respondents to this study. You are therefore requested to spend at least a few minutes of your time to answer the questions that are in this questionnaire. All the data provided will be used for academic purpose and treated with utmost confidentiality.

Your cooperation is highly appreciated.

SECTION A

Please tick the alternative that applies to you and fill the blank spaces where necessary.

1. What title do you hold?...
2. What department are you based?..
3. What is your marital status?

Single ☐ (ii) Married ☐

4. Are you

Male ☐ Female ☐

5. What is your highest level of education attained?

Advanced level ☐ Undergraduate ☐

Post graduate ☐ Others (specify).........................

6. Your age: 25 years and below ☐ 26-30 years ☐

31-40 years ☐ 41-50 years ☐

Above 51 years ☐

7. Years worked with Tem Gumi Company Limited

Less than 1year ☐ 1-2 years ☐

2-3 years ☐ above 3years ☐

8. What grace period is given before a customer makes payment?

....

9. Are there credit terms put in place by the company?

Yes ☐ No ☐

If yes, what are they?

Credit period for example "Net 40" ☐

Cash discount e.g.1% ☐

Other (specify) ....

10. What problems are faced in the process of trying to recover the due debts from the defaulting clients?..

....

....

11. In your own view, do you consider the company's credit management system to be effective?

Yes ☐ No ☐

If yes give reasons..

....

If no also give reasons...

....

12. What factors does the company consider when analyzing credit applicants?

Credit information ☐ credit limits ☐

Credit investigation ☐ (Other (specify) ....

13. Is the company having well established standards for analyzing credit applicants?

Yes ☐ No ☐

If yes, what are they?

Character ☐ Capacity ☐

Collateral ☐ Economic condition ☐

Capital ☐ Others (specify)…………………

14. Are there independent persons responsible for screening credit applicants?

Yes ☐ No ☐ I don't know ☐

If yes, who carries out the screening process of credit applicants?

Chief accountant ☐

Finance officer ☐

Sales manager ☐

Credit officer ☐

Others (specify)………………………………………………………………………..

15. Can credit be offered to credit applicant without knowing his or her credit worthiness?

Yes ☐ No ☐

If yes, reasons……………………………………………………………………………

……………………………………………………………………………………………

16. Do you consider the credit standard or screening process of the applicants to be effective?

Yes ☐ No ☐

If Yes, give reasons……………………………………………………………......

……………………………………………………………………………………………

If No, give reasons…………………………………………………………………………

……………………………………………………………………………………………

SECTION D

17. What other factors could be affecting the performance of Tem Gumi Company? Mention them……………………………………………………………………………

……………………………………………………………………………………………

18. Are those factors affecting the company positively?

Yes ☐ No ☐

If yes, reasons ……………………………………………………………………………

……………………………………………………………………………………………

If no, give reasons…………………………………………………………………………

……………………………………………………………………………………………

19. Are there steps management is taking to handle those factors?

Yes ☐ No ☐ I don't know ☐

20. In your own view, what do you recommend to your management to improve the company's performance?

……………………………………………………………………………………………

……………………………………………………………………………………………

Thank your very much.

APPENDIX II: INTERVIEW GUIDE FOR THE MANAGEMENT OF PRIMEX SUPPLY LTD.

Dear respondent,

The information required is purely for academic purposes and will be treated with strict confidentiality. Your positive response will be highly appreciated.

Name..

Position..

1. What do you think about the following?

(i) Tem Gumi Company Limited's criteria for analyzing and screening credit applicants

Very good ☐ Good ☐ Fair ☐ Poor ☐

(ii) The company's general credit terms

Very good ☐ Good Fair ☐ Poor ☐

(iii)The credit standard (s) considered

Character ☐ Collateral ☐ Capital ☐

Capacity ☐ Condition ☐

2. What is the company's current level of performance?

Poor ☐ Fair ☐ Good ☐

Very Good ☐ Excellent ☐

3. Suggest any recommendations to make the credit scheme more efficient under the following;

(i) The company's general credit terms

Credit period...

....

Cash discount..

....

(ii) The company's credit terms

Credit period...

....

Cash discount…………………………………………………………………………

…………………………………………………………………………………………

(iii) Tem Gumi collection procedure used currently……………………………………..

…………………………………………………………………………………………

(iv) The company's credit standards

Character………………………………………………………………………..

…………………………………………………………………………………………

Capacity…………………………………………………………………………

…………………………………………………………………………………………

Collateral………………………………………………………………………..

…………………………………………………………………………………………

Capital……………………………………………………………………………

Condition…………………………………………………………………………

4. Are there other factors that affect the performance of Tem Gumi Company Limited?

Yes ☐ No ☐

If yes, what are some of those sectors?………………………………………………………

…………………………………………………………………………………………

5. Are you aware of any steps taken by management to handle those factors?

Yes ☐ No ☐

If yes, what are those steps?……………………………………………………………………

…………………………………………………………………………………………

6. In your own view, what do you recommend to the management of Tem Gumi Company Limited to improve on the company's performance?

…………………………………………………………………………………………

…………………………………………………………………………………………

Thank you and God Bless You.

APPENDIX III: PROPOSED BUDGET

Item	**Quantity**	**Unit cost (shs)**	**Sub-total cost (shs)**
Typing	80pages	500/page	40,000
Printing/photocopying	80pages	300/page	67,000
Binding	4 copies	10,000/copy	40,000
Transport		100,000	100,000
Communication	100 units	400	40,000
Stationery	1 book	3,000@	3,000
	1 pen	300@	300
Others			40,000
	Total Amount		**330,300**

APPENDIX IV: TIME FRAME

	FEB,2014	**MARCH, 2014**	**APRIL,2014**	**MAY,2014**
PROPOSAL WRITING				
PROPOSAL SUBMISSION				
DATA COLLECTION				
DATA ANALYSIS				
REPORT WRITING & SUBMISSION				