CREDIT MANAGEMENT AND PERFORMANCE OF SELECTED CORPORATE FIRMS: A CASE STUDY OF MTN UGANDA LIMITED

BY

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A RESEARCH DISSERTATION SUBMITTED TO THE DEPARTMENT OF BUSINESS AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE BACHACLOR'S DEGREE IN BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY

JUNE, 2015

DECLARATION

I **ALADO BABRA** declare that this research report entitled Credit management and Performance of selected corporate firms MTN Uganda limited" is my own original compilation and has never been presented to any organization or institution of higher learning either as a paper or for any academic award.

I also hold full responsibilities for all the mistakes in this study.

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Signature:..................................... Date: 22-08-2015

APPROVAL

This is to acknowledge that, this research report titled Credit Management and Performance of selected Corporate Firms in MTN Uganda Limited" prepared by Alado Babra, has been carried out under my close supervision and is now ready for submission to the college of Business and Management in partial fulfillment of the requirements for the Bachelor's Degree in Business Administration of Kampala International University with my approval.

MR. BULUNGU JOHN
(SUPERVISOR)

Signature:.. Date: 22-08-2015

DEDICATION

I dedicate this research report to my parents Mr. ELUNGU RICHARD and Mrs. AJIBO MIRIAM for the support they gave me at all times not forgetting their counsel, my colleagues from Accounts and Finance department Kampala International University ,Work mates at Blue Horizon Infosys limited and above all my Baby Ebenezer and Mr. Eyaru Joshua ICT department Kampala International University.

ACKNOWLEDGEMENT

My first gratitude goes to my supervisor Mr. Bulungu John for the academic guidance and having sacrificed his time to correct me all through my research proposal. I would also like to thank all my lecturers for their guidance and advice throughout my course. I also extend my sincere thanks to my course mates and friends who helped me in many ways, your love comfort and encouragement always kept me going. Special thanks to my respondents who sacrificed their time responding to my questions .I grately thank the employee of MTN Uganda Limited .Great appreciation goes to my parents ,brothers and sisters your support throughout my life is incomparable, you laid a foundation for me and I will live to remember. I lastly thank everyone who helped me in whatever way. May God reward you abundantly.

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ABSTRACT

This study of credit management and performance among the selected corporate firms MTN Uganda limited was carried out to examine credit management towards the performance of corporate firms, with the objectives like (1) assessing the effectiveness of credit management policies of corporate firms,(2) to analyze the motives of holding credit on performance by corporate firms and finally (3) to find the important relationship between credit management performance of corporate firms. Cross sectional research design was used to assess the effectiveness of credit management policies of the firms. The sampling strategies that were used are simple random sampling and purposive sampling to select respondents who participated in the study. The sample was 35 respondents, where 5 were Administrators,5 managers,5 supervisors and 20 were other employees. Questionnaires as well as interview was used to collect data from the respondents. Data was then organized according to different themes processed and calculated in percentages then presented on frequencies on different tables.

This study shows that there is a significant relationship between firms performance in terms profitability. Some of the recommendations made in this study are; management need to be cautious in setting up a credit policy that will not negatively affect performance and also they need to know how credit policy affects the operation of their firms to ensure judicious maximization of profits. Improper credit management reduces the firms performance hence low profits which may eventually lead to financial distress. The study further, recommended that MTN (U) Limited Products management should embrace a total credit management philosophy that is , putting credit management at the heart of both business and strategy development and the operational decision making .The company should actively consider ways of shortening the credit operating cycle to make the company more generative. A cost benefit analysis should be performed to determined whether it is worthwhile to employ more resources, additional staff or new plant to speed up the production process and shorten the credit operating cycle. The study recommends that further area of research should be finding out the contribution of working capital towards performance.

CHAPTER ONE

1.0 INTRODUCTION

This chapter presents the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, and scope of the study and significance of the study as per the discussion.

1.1 Background of the Study

This study was about credit management and performance of firms. All over the world, various corporate firms highly recognized the importance of credit management since it helps in increasing performance and revenues. If credit management is properly monitored, these firms achieve the desired motives of holding credit, which include transactional, speculative and precautionary motives (Smith, 2012).In business, all motives for holding credit which include transaction, precautionary and speculative seem to be of little importance. It is very difficult for companies to hold credit to satisfy the transactionary motive. (Smith, 2012).states that, the transactionary motive is the need to hold credit to satisfy the normal disbursement and collection activities associated with the firm's ongoing operation.

Many companies were having negative credit flows which result in difficulties in funding business commitments such as paying suppliers, meeting payroll demands and paying taxes. Holding inadequate amount of credit or credit equivalent interrupts the normal flow of most business activities. There has been failure by most business organizations to satisfy the precautionary motive. Holding credit for precautionary motive, assumes management, need credit for emergency purposes when the credit flows are less than what is projected (Smith, 2012). It will be difficult for firms to cover for any unexpected needs for credit by acting as a preventive balance. Moreoveder, due to inaccurate safety margins by many firms, they will experience by financial difficulties with organizations failing take advantage of unexpected investment opportunities. It will also be difficult for organizations to satisfy the speculative motive. According to Wright (2014) speculative motive is holding credit to take advantage of additional opportunities such as a bargain purchase.

Most firms manage credit through the following processes; determine the appropriate credit balance which is the assessment of trade off between benefit and cost of liquidity, then the optimal amount of liquidity is determined and the surplus credit employed in short marketable securities for profit maximization (Westerfield, 2012).

The MTN Uganda Limited (MTN Group) was pleased to announce a sound performance, with 74. 1 million subscribers across its 21 operations as at 30 June 2008. This is a 53% increase in subscribers compared to the same period last year (June 2012:48,3 million). This is against the background of increased investment in infrastructure and distribution to cater for ever increasing demand. In the six months from 31 December 2012, the West and Central Africa (WECA) region increased its subscribers by 16%, to 32,5 million subscribers. The South and East Africa (SEA) region increased its subscribers by 9% to 21,0 million subscribers, followed by the Middle East and North Africa (MENA) region which recorded 47% increase to 20,6 million subscribers. The growth in the MENA region was mainly driven by MTN Irancell, which recorded a sterling increase of 93% to 11,6 million subscribers from 31 December 2012. The Group's profit after tax (PAT) increased by 11% to R7,0 billion compared to the six-month period ended 30 June 2012. (Copyright 2012 © Mobile Telephone Networks).

According to Ranson (2013), defined credit management as a set of guidelines established by a firm to ensure that it has optimal credit balance at any time. He further clarified that firms should seek to match the credit receipts and disbursements so that there is no redundant credit balance. In this argument the firm should aim at zero credit balance is credit inflows have covered the credit out flows. Credit management; the main ambition of most organizations is today to present good financial results. An organization's financial result is, for example, strongly influenced of the efficiency in an organization's value chain. According to Larsson (2012) the efficiency in the value chain can be improved, if organizations control and perhaps adjust their financial routines. One part of an organization's financial routines with potential, but which often is neglected, are organizations managing their liquid capital, or credit management.

Credit management is, according to Larsson (2012), not a new phenomenon and organizations have always considered how their liquid capital in the best way should be managed. Even though managing liquid capital always has been done, the term credit management has brought new light to managing liquid capital with focus on the time-dimension of credit flow. During the fifties the first credit management – models were presented and the concept credit management was taken in use. Larsson (2012) hold that credit management can be defined as *"theories and methods for handling liquid capital"*. According to credit management report 580, which Larsson discusses, credit management consists of e.g. handling liquid capital and credit flow. Larson holds that many organizations neglect their work with credit management. This neglect arises from the shortcoming of e.g. efficient payment routines and trade receivables. Larsson describes that these routines easily can be obsolete if organizations don't focus enough on follow up and developing existing routines.

Trade receivables are a part of the work with credit management that ties up a considerable part of an organization's working capital (Larsson, 2012). By improving and making their trade receivables routines more efficient, Larsson holds that organizations can free capital from trade receivables and thereby decrease their loss and interest cost. An organization can make their routines more efficient by controlling customers' terms of payment, overdue routines and interest on overdue payment. In making time from sending out invoice to payment as short as possible. Terms of payment, overdue routines and invoice to payment can also be used as a mean of competition.

Pindado (2013) argues that basic credit management refers to that part of the working capital that makes up the optimal level needed by a company treasury. However, if the profit opportunities available in the process of credit flow creation are to be maximized, this scope must be broadened to take in more operational decisions, since optimum credit levels are influenced by other factors outside the restrictive concept of "treasury". Linking these concepts with the concepts of monetary theory reveals that the initial reasons for credit management were transaction and precaution, and those reasons were then joined by speculation, taking it closer to the overall concept of treasury management in the broad sense of the term (Maseda & Iturralde, 2013)

Credit management is identified as the efficient collection and payments of credit both inside the group and lo the third parties which should be a concern of the treasury departments. This treasury department is concerned with detail of receivables and payables, he also added that this treasury department is concerned with revising the policies of credit management in the firm and such policies include what should be the debt collection period, payment period, discount on receivables and how much surplus fund should be invested (JM Samuels, F.M Wiiker and RE Brayshar, 2012).In this study credit management will be characterized by transactional motive speculative and precautionary motive.

Different corporate firms are ensuring appropriate credit management policies so as they achieve the desired levels of profits, as it is said to be their main objective (Torrins, 2012). If appropriate credit management policies are adopted by these corporate firms, there will be increased credit inflows, maintaining a credit flow in these firms and minimizing credit out flows, their profitability levels will easily be achieved (Ransom 2012). These have prompted the present researchers to carry out a study to evaluate the effectiveness of credit management and profitability of corporate firms using a case study of MTN Uganda Limited.

1.2 Statement of the Problem

Despite the fact that credit management in corporate firms involves managing monies to maximize credit availability and performance which involves synchronization of business credit receipts perfectly with credit payments bearing abroad aspect of maximizing profits, corporate firms have failed to attain the desired levels of performance (Van Horne, 2013)

MTN Uganda limited is faced with a problem of delayed payment of workers as result of competition from other telecommunication companies and creditors auditor report (2010) which perhaps is caused by poor management of credit. Many firms are having negative credit flows which result into difficulties in funding firm's commitments such as paying suppliers, meeting payroll demands and paying taxes. Holding inadequate amount of credit or credit equivalent interrupted the normal flow of most firm activities. There is also failure by most business firms to satisfy the precautionary motive. Holding credit for precautionary motive, assumes management, needs credit for emergency purposes when the credit flows are less than what is projected (Tobin, 2013). It may be difficult for firms to cover for any unexpected needs for credit by acting as a preventive balance. Moreover, due to inaccurate safety margins by many firms, they experience financial difficulties with organizations failing to take advantage of unexpected investment opportunities. It is also difficult for firms to satisfy the speculative motive. It's upon this fact that the researcher has been propelled to carry out this research topic to ascertain the effect of credit management and performance of corporate firms. This low profitability in these corporate firms may be attributed to poor performance due to inappropriate credit management policies adopted. If these firms do not adopt appropriate credit management policies, they are likely to collapse.

1.3 Purpose of the Study

The purpose of the study was to investigate the relationship between credit management and performance of MTN Uganda limited.

1.4. Objectives of the study

This study was based on the following objectives;

i) To assess the effectiveness of credit management policies of corporate firms.

ii) To analyze the motives of holding credit on performance by corporate firms

iii) To find out the important relationship between credit management and performance of corporate firms.

1.5 Research Questions

This research was guided the following research questions:

i) What is the effectiveness of credit management policies of corporate firms?

ii) What are motives of holding credit on performance by corporate firms?

iii) What is the important relationship between credit management and profitability of corporate firms?

1.6 Hypothesis of the study

There was significant relationship between credit management and performance of corporate firms.

1.7 Scope of the Study

1.7.1 Geographical Scope

This study was carried out from MTN Uganda Limited Kampala Uganda.

1.7.2 Theoretical Scope

The study focused on; the effectiveness of credit management policies of corporate firm, to analyze the motives of holding credit on performance by corporate firm and to find the important relationship between credit management and profitability of MTN Uganda. This will provide reliable information for the study.

1.7.3 Content scope

The study focused on various credit management policies held by MTN Uganda Limited in Kampala and how they were administered for better performance of corporate firms.

1.7.4 Time Scope

This study covered the period between 2015 for provision of updated information. The area scope was limited to only MTN Uganda Limited to avoid too much complexity in research findings and also having many corporate firms that can enable access to the information needed by the researcher.

1.8 Operational definitions of key terms

1.8.1 Credit management:

This is a broad term that refers to the collection, concentration, and disbursement of credit. The goal is to manage the credit balances of an enterprise in such a way as to maximize the availability of credit not invested in fixed assets or inventories and to do so in such a way as to avoid the credit of insolvency. Factors monitored as a part of credit management include a company's level of liquidity, its management of credit balances and its short-term investment strategies. (Springer,2013)

1.8.2 Performance:

This refers to the accomplishment of a given task measured against preset know standards of accuracy, completeness, cost and speed. In a contract, it also deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract.

1.8.3 Corporate firms:

Pertaining to corporations, corpora$tions are the most common form of business organization ad one which is chartered by a state and given many legal rights as an entity separate from its owners, while firms are business organizations such as a corporation, limited liability company or partnership. Firms are typically associated with business organizations that practice law, but the term can be used for a wide variety or business operation units.

1.9 Significance of the Study

The study was very significant to the different stakeholders that include; management, the Researcher, Suppliers, Consumers and Government organizations in the following ways;

- To make the management know which policies of credit management to adopt in order to achieve the desired levels of performance hence fetching good profits in these corporate firms.

- ❖ The study findings were used by future researchers and academicians as they provide information to help them in their study especially in the same significance of the study.
- ❖ The study findings were of great benefits to the corporate firm's management to broaden their knowledge on how profits are measured in these corporate firms.

CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction

This chapter focuses mainly on how other researchers have presented their findings on credit management and performance it also addresses profitability and how this credit management affects the performance of corporate firms.

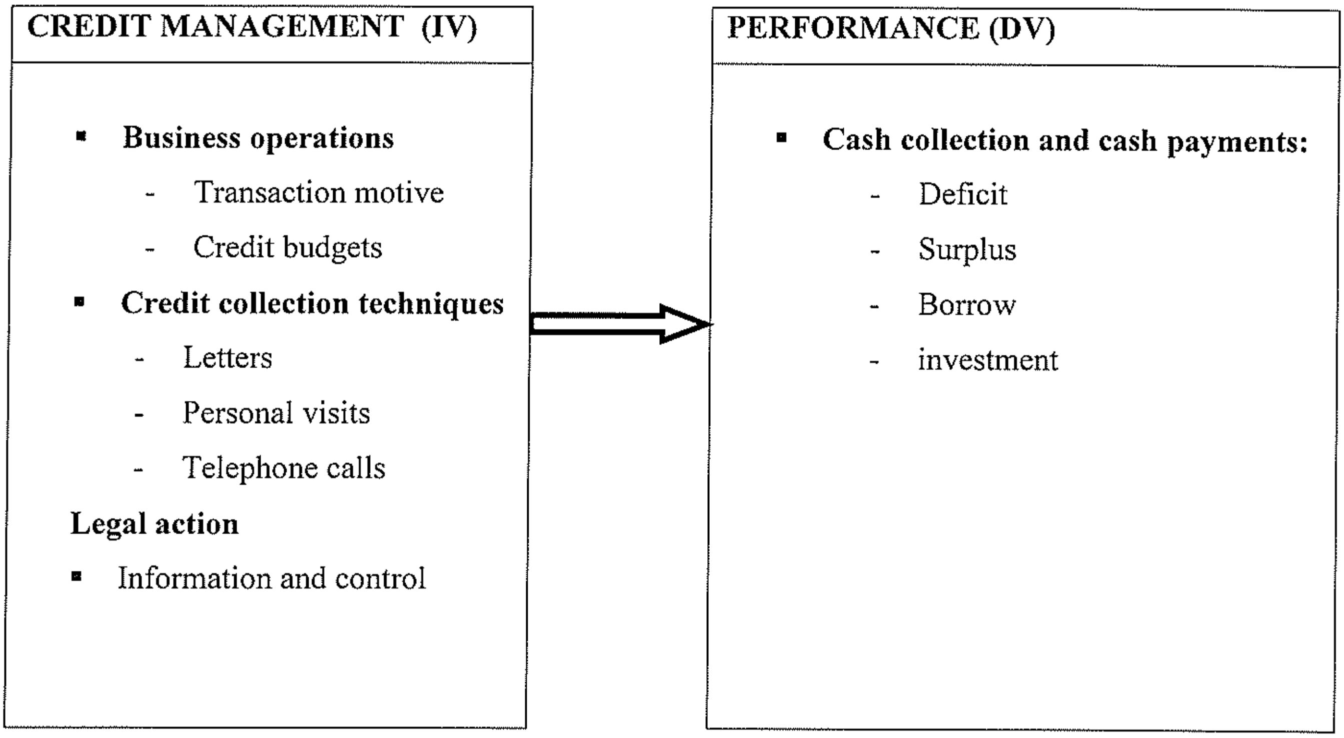
2.1 Theoretical review

The major theoretical and empirical motives were presented and discussed. According to Keynes there are three motives for holding credit: the transactions motive, the precautionary motive, and the speculative motive. The most useful technique of credit management is the credit budget. Credit management is a broad term that refers to the collection, concentration, and disbursement of credit. The goal is to manage the credit balances of an enterprise in such a way as to maximize the availability of credit not invested in fixed assets or inventories and to do so in such a way as to avoid the credit of insolvency. Factors monitored as a part of credit management include a company's level of liquidity, its management of credit balances, and its short-term investment strategies. (Springer, 2013].*Credit management* also encompasses a company's level of liquidity, its management of credit balance, and its short-term investment strategies. In some ways, managing credit flow is the most important job of business managers. If at any time a company fails to pay an obligation when it is due because of the lack of credit, the company is insolvent. Insolvency is the primary reason firms go bankrupt. Obviously, the prospect of such a dire consequence should compel companies to manage their credit with care. Moreover, efficient credit management means more than just preventing bankruptcy. It improves the profitability and reduces the credit to which the firm is exposed (Davidson, 2013).

2.2 Conceptual Review

The conceptual framework is simply a construct of the interrelationships that exist among the variables to be studied. It clearly illustrates the causative variables, the effects including other intervening factors in the relationship. The conceptual framework is useful in research because it provides a vivid illustration of the relationships among the different factors in a given research. It clearly outlines the structure of the research and guides the researcher in the whole research process.

Figure 1: **The conceptual framework**



Source: Pandey (2014)

Pandey (2014), basing on the above table clarified that since it is difficult to predict credit flows accurately incase of surplus funds, management should invest and for deficit, management should borrow. In a world with perfect capital markets the transaction motive would not exist, since holding liquid assets has no opportunity costs. But in reality the buying and selling of assets comes with costs. A firm that is short of liquid assets has several options.

It can raise funds in the capital markets, liquidate existing assets, reduce dividends and investment, renegotiate existing financial contracts, or a combination of these actions (Opler, Pinkowitz, Stulz and Williamson, 1999). Selling assets or using the capital markets to raise funds is costly to the firm. Therefore the firm holds credit and liquid assets as a buffer to avoid these transaction costs. The optimal amount of liquid assets is the amount where the marginal costs of holding liquid assets are equal to the marginal costs of having a liquid assets shortage. The marginal costs of holding liquid assets are their lower expected return.

2.3 Related literature

According Ross (2012) said that, it is only natural that major business expenses are incurred in the production of goods or the provision of services. In most cases, a business incurs such expenses before the corresponding payment is received from customers. In addition, employee salaries and other expenses drain considerable funds from most business. These make effective credit management an essential part of the business financial planning. According to Bort (2014) credit is the lifeblood of the business. The key to successful credit management lies in tabulating realistic projections, monitoring collections and disbursements, establishing effective billing and collection measures, and adhering to budgetary parameters because credit flow can be a problem to the business organization.

Baumol (1952) creates a model in which a decision maker invests his wealth in an interest bearing asset and a non-interest bearing credit balance. Receipts and expenditures are not perfectly synchronized, which creates the need for transaction balances (Tobin, 1956). The transfer of funds between the two assets comes with transaction costs. So the decision maker faces a trade-off. On the one hand he earns interest from investing in the interest bearing asset, but on the other hand he incurs transaction costs from selling the illiquid interest bearing asset when he needs to make certain payments. The demand for money increases with the transaction costs of transferring funds from the interest bearing asset to the credit balance and decreases with the interest rate or the opportunity costs of the credit holdings.

Miller and Orr (1966) adapt the money demand model of Baumol (1952) to include the variability of the credit flows. The model shows the same relation between transaction costs and the demand for money as the model of Baumol (1952). The model of Miller and Orr (1966) also shows that the demand for money is an increasing function of the variability of the credit flows. Mulligan (2011) shows there are economies of scale in the demand for money using a sample of 12,000 firms for the years 1961-2013. The results indicate that large firms hold less credit as a percentage of sales than small firms.

Opler et al. (1999) describe the transaction and precautionary motives. The transaction motive is that firms hold credit simply for daily transactions (Miller and Orr (1966). For Mulligan (2011) firms' credit holdings are based on its activity, technological sophistication, and opportunity costs. In the case of precautionary motive, during periods when external finance is costly, firms hold credit to continue to invest in positive NPV projects. This is particularly important when firms with positive NPV investment opportunities are unable to generate enough internal credit to finance them. Thus, credit holdings have a positive NPV for financially constrained firms.This concept has a relation with monetary theory because transaction and provision is a main reason in managing credit. In addition, this reason also has an assumption which all the concept of treasury management is in the good judgment of their terms. (Maseda & Iturralde, 2013). Credit conversion cycle shows the relation between liquidity and profitability. It is more important to measured profitability compared to if the company is using current ratio (Eljelly, 2014).The higher the ratio the higher the comfort level. All of the credit flow ratios are not uniform but vary by industry characteristics. The analyst would then adjust his assumptions accordingly to assess the liquidity of a firm.

2.4 Effectiveness of the Credit Management Policies by corporate firms.

According to Remenyi (2013), the purpose of literature review was to establish the area of study, establish the idea put forward by Palom (2013) and indicating that it might be possible to encourage debtors to pay more quickly by offering discounts for earlier payment. In order to improve credit management efficiency and enable more availability of credit the company can use this as an alternative solution. The objective of managing accounts receivable is to collect accounts receivable as quickly as possible without losing sales from high pressure collection techniques (Gitman, 2008).

Credit management: Davidson (2013) defined credit management as a term which refers to the collection concentration and disbursement of credit. It encompasses a company's level of liquidity, management of credit balance and short term strategies. Pindado (2014) also defines credit management as part of working capital that makes up the optimal level needed by a company. Bort (2014) noted that, credit management is of importance for both new and growing businesses. Companies may suffer from credit flow problems because of lack of margin of safety in case of anticipated expenses such that they experience problems in finding the funds for innovation or expansion. Weak credit flow makes it difficult to hire and retain good employees (Beranek, 2012).

Credit collections: According to Ross (2012), credit collection is a function of accounts receivable, it is the recovery of credit from a business or individual with which the company is issued an invoice. Gitman (2008) and Vanhorne (2013), offer theoretical positions drawn from their observations and consulting experience on the fact that a firm can improve its credit management efficiency by collecting accounts receivable as soon as possible. The most obvious way of bringing forward credit inflows, would be to press debtors for earlier payment although this policy resulted in goodwill and problems with customers (Palom, 2013). There was very little scope for speeding up payments when the credit period currently allowed to debtors is no more than the norm for the industry. Myers (2014) defend the idea put forward by Palom (2013) and indicating that it might be possible to encourage debtors to pay more quickly by offering discounts for earlier payment. In order to improve credit management efficiency and enable more availability of credit the company can use this as an alternative solution. The objective of managing accounts receivable is to collect accounts receivable as quickly as possible without losing sales from high pressure collection techniques (Gitman, 2008).

Credit collection techniques: According to Gitman (2008), there are four credit collection techniques namely letters, telephone calls, personal visits and legal action. Letters are written communication of expressions, opinions and communication recorder for later reference (Palom, 2013). After a certain number of days, the firm sends a polite letter reminding the customer of the overdue accounts. If the account is not paid within a certain period after this letter has been sent a second more demanding letter is sent. A telephone call is a connection established over a telephone network between two parties (Chastain, 2008). If letters prove unsuccessful, a telephone call may be made to the customer to request immediate payment. If a customer has a reasonable excuse, arrangements may be made to extend the payment period. Personal Visits involves sending the credit controller to confront the customer and this can be very effective. Payment can be made on spot. Legal action is a judicial proceeding brought by one party against the other for a wrong doing (Davidson, 2013). Legal action is the more stringent step, an alternative to the use of a collection agency.

Credit Disbursement: According to Gitman (2008), credit disbursement is a function of accounts payable; it includes all outlays of credit by the firm during a given financial period. The objective of credit disbursement is to control payments and minimize the firm's cost associated with making payment. Vanhorne (2013), defends the idea put forward by Ross (2012), which says that the objective of credit disbursement is to delay payment as long as it is legally and practically possible. In pursuing this objective the firm should not compromise its relationships with suppliers as this may withdraw trade credit.

According to McLaney (2013), negotiating a reduction in credit outflows may be done in order to postpone or reduce payments. This was done by taking longer credit from suppliers. However, if the credit period allowed is already generous, creditors might be very reluctant to extent credit even further and any such extension of credit would have to be negotiated carefully. There would be a serious credit of having further supplies refused. The rationale for such a move is to have complete control of the credit and to provide greater investment opportunities with larger sums of money available as surplus, (Bort, 2014).

Given the context of a company, credit disbursements are controlled through a policy of delaying payments to suppliers. However, failures to meet financial obligations by the company on time, owing to credit shortages mean loss of further supplies from injured suppliers. This is extremely damaging since some products would be vital to continuing business operations Refused. The rationale for such a move is to have complete control of the credit and to provide greater investment opportunities with larger sums of money available as surplus, (Bort, 2014). Given the context of a company, credit disbursements are controlled through a policy of delaying payments to suppliers. However, failure to meet financial obligations by the company on time, owing to credit shortages mean loss of further supplies from injured suppliers. This is extremely damaging since some products would be vital to continuing business operations

Preparations and Implementations of credit budget: - Gitman (2008) states that, a credit budget is a statement of the firm have planned inflows and outflows of credit. It is used by the firm to estimate its short term requirement with particular attention being paid to planning for surplus credit or for credit shortages. Kirkman (2013) arrived at the same idea by highlighting that as a component of implementing an effective credit management program, a credit flow statement called a credit budget may be prepared.

Chastain (2008) asserts that budgets are the financial road map companies' use, when planning business expenses and tracking the credit flow throughout the business year. Vanhorne (2013) says that, a common credit management tool found in companies is a credit budget. Most companies prepare budgets on the departmental level and roll these individual budgets into one master budget. Creating several smaller budgets, can help managers determine which operations use more credit and struggle to stay on the projected budget amounts. This discovery gives managers an idea of when improvements needed to correct the company's credit flow problems. Therefore, credit budgeting is another aid to an effective credit management.

According Sastry (1995) asserts that, in order for a credit budget to be implemented effectively there has to be a budget committee comprising the high level executive officers of the organization and officers representing the minor segments. Gitman (2008) agrees with Lucey (1993) that a budget manual should also be introduced in the preparation of a credit budget. Platt (2013) is of the idea that implementation of the credit budget is a vehicle to good credit management.

Pindado (2014) argued that, credit budgets, whether prepared on an annual, monthly, weekly or daily basis, can only be estimates of credit flows. Even the best estimates will not be exactly correct, so the deviations of the credit budgets are inevitable. This uncertainty about actual credit flows, ought to be considered when the credit budget is being prepared. It is desirable to prepare additional credit budgets based on different assumptions such as sales levels, costs, collection periods and bad debts. A credit budget model could be constructed, using microcomputer and a spreadsheet package, and the sensitivity of credit flow forecasts to changes in estimates of sales, costs and could be analyzed by planning for different eventualities management should be able to prepare contingency measures in advance and also appreciate the key factors in the credit budget. Knowledge of the probability distribution of possible outcomes for the credit position, allowed a more accurate estimate to be made of the minimum. Palom (2013), advocate the use of a probability distribution of possible outcomes for the credit position to allow a more accurate estimate of the credit budgets hence making it possible to turn around the credit management problem

2.5 The motive of holding credit

There are different theories well as scholars / researchers that explain the motives for firms to hold credit balances. First, the transaction motive states that firms hold credit to avoid the transaction costs of selling illiquid assets and using capital markets to raise funds. Firms can also hold credit as a buffer against possible adverse shocks in the future, or to take advantage of profitable investment opportunities in the future. Another motive for firms to hold credit stems from the tax incentives that multinationals face. The agency motive states that asymmetric information and conflicting interests between debt holders, equity holders and management can cause firms to build up credit balances. Finally, according to the pecking order theory, firms have a preference to use internal finance over external finance for investments. The following sections review the literature on the different motives for holding credit

2.5.1 Transaction motive

Firms hold credit balances to minimize transaction costs. This transaction motive was introduced by Keynes (1936) and is defined as the need of credit for the current transaction of personal and business exchanges. Keynes (1936) makes a distinction between the income motive and the business motive. The income motive states that a certain amount of credit is held in order to bridge the interval between receipt and disbursement of income. The business motive states that firms hold credit balances in order to bridge the interval between the time of incurring costs and the time of the receipt of sale proceeds.

According to Kakuru (2013) said that transaction motive is the need to hold credit to facilitate day to day transactions of the firm. A firm needs credit to pay for wages and salaries, purchase raw materials cater for administrative expenses and to pay taxes, dividends among others. The need to hold credit would not arise if there was perfect synchronization between credit receipts and payments. The transaction motive therefore refers to holding credit to meet anticipated payments whose timing is not perfectly matched with credit receipts.

According to Pandey (2014) said that , asserted that corporate firms hold credit for transactional motive; these firms need credit to make payments like purchase, wages and other operating expenses like taxes and dividends. He explained that the need to hold credit would not rise if there was perfect synchronization between credit payments and credit receipts. He further noted that the transactions motive mainly refers to holding credit to meet anticipated payments whose timing is not perfectly matched with credit receipts. According to Hurdon (2013) corporate firms need proper management of credit so that They posses enough money for carrying out transactions. To him, credit transactions sometimes enable the firm to enjoy credit discounts which automatically increases the profitability of the firm during the financial year. Therefore for easy transactions proper credit management should be maintained in these firms. Through having credit for daily use like paying workers on time. The firm can easily get the desired profit.

2.5.2 Precautionary motive;

Keynes' second motive, the 'precautionary-motive', pays regard to a company's need to provide for unsuspected expenses and "unforeseen opportunities of advantageous purchases". the strength of the 'precautionary-motive' is determined by the credit of a sudden contingency and the probability of a profitable acquisition. Thus, if a firm operates in a highly volatile sector of activity, its precautionary credit holding will be higher than that of firms which act in a less credity environment

According to Kakuru (2013), said that the precautionary motive is the need to hold credit to meet contingencies in the future. It provides a cushion to withstand emergencies such as break down in machinery and emergency work force problem. The precautionary amount of credit depends on predictability of credit flows and the firm's ability to borrow short notice. The precautionary balance may be kept in credit or in marketable securities.

These firms sometimes carry out credit management with the main motive of making precaution so these firms need to put some money aside so as to be used in case of emergence for example an accident which may affect a business van and its leaves it destroyed. So much money should be kept in short marketable securities and less in credit forms so that if emergence ccurs credit can easily be attained and solve problems that may occur (Samuels et al, 2012).

Brinker(2012), firms hold credit for solving contingencies in future which helps these firms to overcome some unexpected emergencies, he further narrated the precautionary amount of credit depends on the predictability of credit flows that if credit flows can be predicted with accuracy the credit was maintained. When credit is put a side take care of some emergency that so much can affect the firm's progress, then that credit can be used to solve the problem hence profitability of a firm.

Horne (2013) credit management involves managing the monies of the firm to maximize credit availability and interest of any idle funds. He further clarified that the function starts when a customer writes a Cheque to pay the firm on its accounts receivable. This function ends when suppliers realizes collected funds from the firm's accounts payable. He then concluded that all activities within these two points fall under credit management.

More So Kakuru (2013), identified credit as the most liquid short term asset normally held as credit, where he further stated that during some periods credit out flows exceeded credit inflows, because of payments of taxes, dividends and at times credit inflows was more than credit payment, because of payments of taxes, dividends and at times credit inflows was more than credit payments, because there may be debtors who pay in large sum of prompt. He then concluded by urging firms to put efforts on searching for optional credit balance.

In addition Pandey (2014), identified that credit management is concerned with managing of credit inflows and out of the firm, credit flows within the firm and credit balance held by the firm at appoint of time by financing deficit or investing surplus credit. According to Weslerfield (2014), firms should first determine the appropriate a credit balance which involves the assessment of the tradeoff between the benefit and cost of liquidity and then the surplus credit should be invested in short marketable securities. According to Smith (2012). Identified that credit management is concerned with management of both credit inflows and credit outflows and that inside the firm, the credit balance held by the firm at point of time by financing deficit or investing surplus credit. More so Nickson (2013) stated that credit management is very important in corporate firms. This is because it is through credit inflows in form of revenues that expenses incurred in financial period are settled. So these firms to meet such operating expenses like rent, electricity, salaries and wages should keep some credit at hand.

A second reason for firms to hold credit is to be able to cope with adverse shocks (Pinkowitz and Williamson, 2014). Firms want to be able to invest in positive NPV projects at all times, also when they are unable to generate enough internal credit to finance these projects. When external finance is costly, credit holdings accumulated in the past make sure that firms can still undertake positive NPV projects in the future. Especially when access to capital markets is limited this is an important reason for firms to accumulate credit holdings.
This motive for holding credit originated from Keynes (1936) and is called the precautionary motive for credit holdings. Even when credit is not held as a buffer against future adverse shocks, firms might still hold credit balances in order to be able to take advantage of profitable investment opportunities in the future. This is called the speculative motive for credit holdings.

Almeida, Campello and Weisbach (2014) model the relation between financial constraints and corporate liquidity demand for a large sample of manufacturing firms between 1971 and 2012. The precautionary motive predicts that firms with strong financing constraints maintain large credit balances. The need to hold credit is lower for financially unconstrained firms. Since there are opportunity costs to holding credit, firms face a trade-off between the profitability of current and future investments. The effect of financial constraints is reflected by the firm's propensity to save credit out of credit flows, which is called the credit flow sensitivity of credit.

According to the precautionary motive, the credit holdings of financially constrained firms should increase when credit flows are higher. In other words, financially constrained firms should have a positive credit flow sensitivity of credit. For financially unconstrained firms no such relation should be found. Almeida, Campello and Weisbach (2014) use different approaches to divide the firms into subsamples based on measures of financial constraints. As measures of financial constraints they use payout policy, asset size, bond ratings, commercial paper ratings, and an index that combines different measures. The results show that for firms that are financially constrained the credit holdings are positively related with credit flows.

This credit flow sensitivity of credit holdings is not found for financially unconstrained firms. Han and Qiu (2012) extend the theoretical model of Almeida, Campello and Weisbach (2014) to include the uncertainty of future credit flows. In contrast to the model of Almeida, Campello and Weisbach (2014), it is not possible to fully diversify future credit flow credit in the model of Han and Qiu (2012). The focus of Han and Qiu (2012) is therefore not on the expected value of future credit flows but on the uncertainty of future credit flows. They estimate the relation between credit holdings and credit flow volatility for a dataset of U.S. firms in the period from 2011 to 2014. The results show that financially constrained firms increase their credit holdings in response to an increase in credit flow volatility, while the credit holdings of financially unconstrained firms are not sensitive to credit flow volatility. Both the results of Almeida, Campello and Weisbach (2014) and Han and Qiu (2012) support the precautionary motive of Keynes (1936).

Pinkowitz and Williamson (2014) investigate the market value of credit held by firms in the United States. They estimate the value of a marginal dollar of credit to be around $1.20, which implies that the market values credit at a significant premium to its book value. This finding can be explained by the precautionary motive for credit holdings. Growth options and investment uncertainty increase the market value of credit holdings, while financial distress reduces the market value of credit. Remarkably, Pinkowitz and Williamson (2014) do not find evidence for a relation between capital market access and the value of credit holdings.

2.5.3 Speculative motive

Keynes' third motive refers to the holding of credit for the purpose of speculation. The 'speculative-motive' is based on the assumption that rising interest rates induce decreasing prices of securities and vice versa. Therefore, a firm will invest its idle credit in securities when interest rates are expected to decrease. This generates benefits for the firm because the prices of the acquired securities as a consequence of the anticipated interest rate drop. Van Horne claims that companies do not hold credit for this kind of speculative purpose and it can be assumed that this estimation is valid especially for SMEs which usually do not have their sources to make such complex financial decisions.

According to Kakuru (2013), said that in the speculative the business maintains credit balances to take advantages of profitable ventures. Speculative involves predicting for a profitable venture to come in future and therefore with credit management, these firms can easily keep money with a speculative motive of taking advantage which may occur at anytime. Such advantages that may occur include a reduction in price levels of factors of production. Therefore credit management should be used to endure that a lot of money is kept so as to buy in large quantities when the prices reduce which automatically will lead to profit maximization of these corporate firms.

Pandey (2014), identified that these firms need credit for satisfying speculative motive which involves investing credit in profit making opportunities as they arise. He further stated that, a firm hold credit when expected that interest rate rise and security prices fall, and securities can be purchased when interest rates fall. The firm will benefit by the subsequent fall in interest rates and increase in security prices. Through speculative motive a firm can release profit because any surplus money can be kept to take up any opportunity that can generate more profits. For proper credit management, the cycle was illustrated so that credit flows can easily be analyzed.

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reduction in price levels of factors of production. Therefore credit management should be used to endure that a lot of money is kept so as to buy in large quantities when the prices reduce which automatically will lead to profit maximization of these corporate firms (Home, 2013).

2.5.4 The tax motive

A totally different explanation for holding credit stems from the tax incentives that multinational firms face (Foley, Hartzell, Titman and Twite, 2012). In the U.S. a firm's foreign income is taxed. However; firms are allowed to defer their taxes if they do not repatriate their foreign income. So the U.S. tax system grants multinationals an incentive to retain earnings abroad, often in the form of credit holdings. Foley, Hartzell, Titman and Twite (2012) investigate whether higher tax costs associated with repatriation lead to larger credit holdings using a sample of U.S. firms for the period from 1982 to 2014. There are four main findings from their study. First, firms that face high repatriation tax costs hold larger amounts of credit than firms with low repatriation tax costs. Second, firms that face a high repatriation tax burden hold a larger share of their credit abroad. This increase in foreign credit holdings is not offset by lower domestic credit holdings.

The third finding distinguishes between incorporated affiliates and branch affiliates. Unlike incorporated affiliates, the earnings of a foreign branch are taxed immediately. So for branches there is no incentive to retain large amounts of credit. In line with expectations, Foley, Hartzell, Titman and Twite (2012) find that incorporated affiliates hold higher levels of credit than branch affiliates. Finally, they find that financially constrained firms are less sensitive to repatriation tax costs. For firms that have a high level of leverage or a low debt rating there is no significant relation between their credit holdings and the repatriation tax costs. Foley, Hartzell, Titman and Twite (2012) show that the tax motive for holding credit is present in the United States. However, most European countries have a different tax system on foreign-source income than the system used in the United States.

2.5.5 The agency motive

Agency costs can be another reason for firms to hold credit balances. Agency costs of debt arise out of differing interests between equity holders and debt holders and raise the costs of outside funds (Jensen and Meckling. 1976). The incentives of equity holders to maximize the value of their shares are not necessarily consistent with the incentive to maximize the total value of the firm's debt and equity (Grinblatt and Titman, 2014). On the contrary, equity holders often have an incentive to take actions that reduce the value to debt holders. Lenders anticipate the self-interested incentives of equity holders and therefore charge higher interest rates on their CREDIT s. So in the end, the equity holders bear the costs of their own future adverse incentives by paying higher interest rates on their borrowings.

The agency cost of debt problem thus creates an incentive for equity holders to convince the debt holders that their goal is to maximize the total value of the firm instead of the value of equity. However, it may be difficult for firms to credibly commit to a policy of firm value maximization instead of equity value maximization. Grinblatt and Titman (2014) distinguish between four categories of problems that arise out of conflicts of interest between equity holders and debt holders.

The first one is the debt overhang problem. When considering an investment opportunity, one can distinguish between the net present value to the firm and the net present value to the firm's shareholders. In some cases it can happen that the net present value to the firm is positive, while the net present value to the shareholders is negative. This can be the case when the firm has a high borrowing rate, so that the created value accrues to the debt holders instead of the equity holders (Grinblatt and Titman, 2014). This debt overhang problem gives firms an incentive to pass up positive net present value projects when most of the project's benefits go to the debt holders. The debt overhang problem is also referred to as the underinvestment problem and can also be a consequence of senior debt obligations. Firms that have a large amount of senior debt outstanding may have difficulties in obtaining new financing, since this new debt was always subordinated to the outstanding debt. This means that in times of default the new debt holders were paid after the senior debt holders are paid. New debt holders might therefore be unwilling to lend to this firm, unless they can earn very high interest rates. The debt overhang problem is also relevant when firms use internally generated funds to finance an investment project. Equity holders might prefer the funds to be paid out as a dividend rather than investing the funds in positive net present value projects when most of the benefits go to the firm's debt holders.

A second problem is that the use of debt financing can lead to shortsightedness. A firm with a large amount of near-term debt obligations needs credit quickly. Therefore it might prefer investment projects that pay off quickly over long-term investment projects with a higher net present value. The shortsighted investment problem is related to the debt overhang problem. Firms with large amounts of senior debt may have great difficulties refinancing this debt with subordinated debt. Lenders were requiring high interest rates, making the refinancing costs for these firms very high. This generates an incentive for firms to select investment projects that pay off quickly.

A third problem arising out of conflicts of interest between equity and debt holders is asset substitution. Firms with large amounts of debt have an incentive to invest in overly credity projects. The payoff to equity holders can be compared to the payoff from a call option on the firm's assets (Black and Scholes, 2010). The upside potential of the investment is unlimited, while the downside credit is limited to zero. Since equity holders have limited liability, they cannot lose more than the amount they invested in the firm. Option pricing theory states that the value of the option increases with the volatility of the underlying stock (Body, Kane and Marcus, 2009). Therefore it is beneficial for the equity holders to select credity investment projects. However, the benefit for the equity holders comes at the expense of the debt holders, since they are only subject to the downside credit and do not benefit from the upside potential of the credity projects. So by selecting creditier projects, firms can transfer wealth from their debt holders to their equity holders. Therefore equity holders may prefer a low net present value project with a high level of credit over a high net present value project with a low level of credit.

If debt holders anticipate such behavior, they may be unwilling to provide debt financing to the firm. Equity holders must convince debt holders that they were committed to a policy of maximizing firm value instead of equity value. It may not be easy for equity holders to credibly commit to such a policy. As a consequence, debt holders will adapt the terms of their CREDIT s to take into account the asset substitution problem. So in the end, it is again the equity holder that bears the costs of its own adverse incentives.

Finally, the amount of debt in a firm can affect the firm's liquidation policy. When a firm's liquidation value is higher than its going concern value, liquidation is the best option for the firm. However, despite the lower going concern value, equity holders may still prefer to continue the firm's operations. The reason for this is that equity holders receive proceeds from the liquidation after all debt holders are paid off. Therefore, if the value of the outstanding debt exceeds the liquidation value of the firm, the equity holders will receive nothing from liquidation of the firm. When the firm continues to operate, there is a chance that the firm will become profitable again, providing value for the equity holders.

Again this situation can be compared with option theory. Equity can be viewed as a call option on the value of the firm. When the value of the debt exceeds the liquidation value of the firm the option is out of the money and worth nothing if exercised. Continuing operations is analogous to higher credit and a longer maturity, which are factors that increase the value of a call option (Body, Kane and Marcus, 2009). Equity holders prefer continuing operations, since there is a chance that in the future the call option on the value of the firm will be in the money.

These agency problems associated with holding large amounts of debt can be quite costly to firms. For a firm with high agency costs of debt it can be difficult to raise funds to invest in profitable projects. Therefore firms with high agency costs have an incentive to reduce their leverage and hold a large amount of liquid assets. For firms with valuable investment opportunities the costs of being short of funds is high. Therefore these firms are expected to hold larger credit balances than firms without valuable investment opportunities.

Agency costs do not only arise out of conflicts of interest between equity holders and debt holders. Another form of agency costs stems from the conflicts of interest between the equity holders and the management of the firm. The management has an incentive to maintain excess credit balances to pursue its own objectives at the expense of the firm's equity holders. Opler, Pinkowitz, Stulz and Williamson (2011) discuss three channels through which management can use credit for its own objectives. First, entrenched management may hold excess credit out of credit aversion reasons. Second, large credit holdings give management more flexibility to pursue its own objectives. It allows the management to invest in projects it was not able to finance using the capital markets. Third, management may accumulate credit because it wants to keep funds in the firm instead of paying out excess credit to shareholders. Jensen (2011) argues that entrenched management may use this excess credit to invest in negative net present value projects, when profitable projects are not available. Dittmar, Mahrt-Smith and Servaes (2013) find empirical evidence for the agency cost motive of credit holdings. They find that firms in countries where shareholder rights are not well protected have significantly larger credit holdings than firms in countries with good shareholder protection.

2.5.6 The pecking order theory

All previously described motives for firms to hold credit assume that firms optimize capital structures period by period by comparing the costs and benefits of leverage and credit holdings (Grinblatt and Titman, 2014). In other words, firms choose their capital structures in a static way. The pecking order theory states that there is no optimal amount of leverage and credit, but capital structures are determined in a dynamic way.

According to Myers (2012) there are two central ideas of the pecking order theory. First, firms have a preference to use internal finance for investments. Second, when external financing is sought, firms have a preference for debt financing over equity financing.

The costs of external finance arise out of information asymmetries. The firm's management has more information than outside investors. Therefore the firm may not be able to sell the securities for their actual value. As a consequence, the firm may choose to pass up a positive net present value investment to prevent issuing underpriced shares. The firm can avoid these information asymmetry costs by retaining enough internally generated credit to fund its future investment opportunities.

If the firm requires external financing, the pecking order theory states that first the safest securities should be issued before more credity securities are used. Safe securities are securities that do not change much in value when the management's inside information becomes public. So according to the pecking order theory a firm issues the safest security first, which is straight debt. Next convertible bonds are used, and only as a last resort the firm issues equity. If the firm has sufficient funds to finance all positive net present value investments, it tends to pay off its debt and build up liquid assets.

2.5.1 Measurement of Performance

Performance is measured in terms of accruing profits to show how the firm is effective. Profit is a difference between revenues and expenses over a period of time. Profit can be measures in various ways and gross profit is between sales and of sales sold (Pandey, 2014).

2.6 Profitability Definition

According to Dwivedi (2013), he defined profitability as an income accruing to the equity holders in the same sense as wages accrue to labour, rent to the owners of rentable assets and interest to the money lenders. Profitability is form profits which is denoted by Greek letter n and it is defined to be the difference between total revenue (TR) and total cost (TC) that is to say profits = total revenue-total cost. When total revenue is the total money received from the sale of goods and service and total costs being the amount of money the firm spent to produce these goods/services (Ian Jacques, 2013).

In support to Drinker. Kakuru (2013) also defined profitability as the difference between the revenue generated by corporate firm and expenses incurred during the operation of the business. He further classified that various costs incurred by these firms some of which are fixed costs like rent while other are variable costs which can easily change for example electricity expenses and the corporate firms can easily achieve increased sales revenue through extensive sales promotions so it is so important to these firms to reduce these costs while maximizing sales revenue.

More So Brinker (2014), defined profitability as the difference between the revenue generated and the costs incurred to produce the same revenue during a given accounting period so to him corporate firms should aim at increasing sales revenue and reduce costs incurred so that they achieve the desired levels of profitability.

In support to Brinker, Pandey (2014) defined profitability as the difference between revenues and expenses over a period of time (usually a year) where profit is the ultimate output of a company so he concluded that affirm no future is it fails to make sufficient profits.

Profitability is defined as a process of investing they would have been idle liquid resources in investment portfolio and the amount invested it brings in return to the firm in form of interests (Home, 2013). Profitability was also identified as the difference between revenues and costs incurred during the accounting periods (Westerfied, 2012).

According to Patel (2014) defines profitability as the difference between the firms revenues realized from the sale of product or service and the expenditure incurred relating to the same accounting period and he further elaborated that the firm should aim at minimize operating expenses while as increasing on the sales revenues which automatically leads to profitability in these firms.As illustrated

$$\textit{Net profit} = \frac{\textit{Profit after tax}}{\textit{Sales}}$$

Through comparison to industry average the higher the ration show profitability and lower ration to the industry is not encouraged.

In support to Pandey (2014), Kakuru (2013) indicated that through profitability ratios the firm's ability to earn a return can easily be measured where he further clarified that this return is normally a margin either by sales, a portion of capital invested or portion of assets used and for net profit he also came up with the following formular.

$$\textit{Net profit} = \frac{\textit{Earning After tax}}{\textit{Total Sales}}$$

In his conclusion he remarked that it shows a return on every unit of sale after taking into account both cost of sale and expenses and the higher the ration in relation to the industry average ratio the higher the profitability of these firm and vice versa.

According to Nkundabanyanga (2014), defined profitability as a return expected by the management in relation to what it invested. To him profitability can be measured by using.

$$\textit{Gross Net profit} = \frac{\textit{Gross profit margin}}{\textit{Total Sales}}$$

Whereas increase in gross margin in relation to the industry average indicates reduction in cost of industry sales which increases the profitability of the firm.

Return on Investment

Gillingham (2013), Investment refer to the net assets employed by the firm and firms can easily measure the profitability of any investment so as to base on the ending result either invest or not and the following method was stated for return on investment analysis

$$\textit{Return on Investment} = \frac{\textit{Earning after tax}}{\textit{Investment}}$$

Gross profit margin

Home (2013) indicated that gross profit is the difference between the revenues of the firm which is the amount realized from the sale of a product/service by an organization with the costs the was incurred to produce that revenue in other wards it's the earnings before subtracting depreciation, interest and taxes (EBIDT) that is

$$\textit{Gross profit Margin} = \frac{\textit{Gross profit}}{\textit{Sales}}$$

Where gross profit = sales - cost of goods sold. A high gross profit margin ration indicates high sales, good management and profitability which higher selling prices, low-costs of goods sold, whereas a low gross profit margin ratio indicates low profitable firm. But he stated that in order to come up with that analysis, the ratio obtained should be compared to the industry average ratio.

Return on total assets (ROTA)

Return on assets indicates the profitability on the assets of the firm after all expenses and taxes (Van Horne 2013). It is a common measure of managerial profit (Ross, Westerfield, Jaffe 2013). It measures how much the firm is earning after tax for each dollar invested in the assets of the firm. That is, it measures net earnings per unit of a given asset, moreover, how corporate firms can convert its assets into earnings (Samad & Hassan 2012). Generally, a higher ratio means better managerial profit and efficient utilization of the assets of the firm and lower ratio is the indicator of inefficient use of assets. ROA can be increased by firms either by increasing profit margins or asset turnover but they can't do it simultaneously because of competition and trade-off between turnover and margin. ROA is calculated as under:

$$ROA = \frac{\textit{Net Asset after Tax}}{\textit{Total asset}}$$

According to Gillingham (2013) indicated that the return on assests of these corporate firms can be measured to identify whether the total assets are idle or not and he derived the method which can be used to measure the return of total assests which is;

$$\textit{Return on Investment} = \frac{\textit{Earning after tax (EAT)}}{\textit{Total Assets}}$$

Where assets total is a function of current assets plus fixed assets and also in his conclusion he stated that the higher ration in relation to the industry average ration shows that the total assets are having much return to the investors and the lower ratio compared to the industry average shows that assets are idle.

Return on Equity (ROE)

Return on equity indicates the profitability to shareholders of the firm after all expenses and taxes (Van Horne 2013). It measures how much the firm is earning after tax for each dollar invested in the firm. In other words, ROE is net earnings per dollar equity capital. Also an indicator of measuring managerial efficiency [(Ross2012). By and large, higher ROE means better managerial profit; however, a higher return on equity may be due to debt (financial leverage) or higher return on assets. Financial leverage creates an important difference between ROA and ROE in that financial leverage always magnifies ROE. This will always be the case as long as the ROA (gross) is greater the interest rate on debt (Ross, Westerfiled, Jaffe 2013). Usually, there is higher ROE for high growth companies. ROE is calculated as under:

$$ROE = \frac{Net\ Profit\ after\ Tax}{Shareholders\ equity}$$

2.7 Relationship between credit management and performance of firms.

Kakuru (2013), indicates that these firms in any period was both credit receipts and credit disbursement with the net balance cither a surplus or a deficit and to ensure that if credit receipts and disbursement are synchronized the management should aim at a zero balance that is to say in investing the surplus credit for profitability.

He further explained that if in case of a deficit the firm should aim at increasing the credit inflows to the firm that is by motivation customers to settle their debts in time, reducing the period it takes for payment from its clients which increased the availability of credit and these surplus credit finally invested for profit maximization in these firms.

Pandey (2013) in support of above added credit management is very important to these firms this is because a firm needs credit to invent in inventory receivable and fixed assets and to make payments to operating expenses in order to maintain growth in sales and earnings, he further explained that the firm may make adequate profits, but may suffer from shortage of credit because its growing needs may be consuming credit very first so that management should look to ways of increasing credit inflows to the firm and minimizing credit outflows like delaying of operating expenses like rent then the surplus credit may be managed into an investment portfolio thus increasing the good performance of these firms by earning good profits.

Similarly, credit management involves the increasing of credit inflows and reducing of credit inflows this helps these firms to maximize the profitability levels thus making the firm perform better in the competitive market. Particularly when the credit inflows exceed the credit outflows the difference being the profit, of these firms. So these firms should aim at increasing credit inflows through increasing sales, persuading clients to pay their debts earlier, encouraging clients to buy using credit by proving them credit discounts and on the other and delaying payments like electricity (Home, 2013).

According to Saleemi (2014), If effective credit management is not monitored in these firms then there were no firms that attain the desired levels of profits thus performing poorly and these firms fortunately will end up closing because of failing to achieve the said main objective. He further elaborated that if credit management is purely monitored, it becomes easy to implement and plan for the profits to be generated by these firms and therefore it is only through effective implementation of credit management that firms get desired profit set levels that will help the farm expand.

Hurdon (2013), since credit management involves proper management of credit flows, proper credit amounts are kept say for transactional motive the firm buy factors of production on cheaper prices when opportunity comes and in addition, business can enjoy

CHAPTER THREE
METHODOLOGY

3.0 Introduction

This chapter focuses on the research design used in the study, area and population of the study, sampling procedure and research instruments, data collection methods and data analysis.

3.1 Research Design

The research study was an explanatory type of research where the major aim was to examine credit management and performance of corporate firm. Both quantitative and qualitative research design was used to obtain information.

The qualitative research design and quantitative research design was descriptive in nature and this enabled the researcher to meet the objectives of the study. A statement was used to assign variables that may not adequately measure using numbers and statistics, form of mathematical numbers and statistics assigned to variables that may not be easily measured using statements or theme.

The longitudinal research approach was allowed for measurement of behaviour (involving several other research methods) at a number of points in time during a finite time span (Galliers, 2013). Longitudinal research measures prevalence at several points in time, and can provide information on causation, prognosis, stability, and change (Rutter, 1988, cited in Sanson et al., 2014). Longitudinal studies also allowed researchers to differentiate between change over time in aggregate (group) data and changes in individuals or populations at credit. While cross-sectional research can only measure the prevalence of a factor of interest at a certain point in time, allow investigation of differences between individuals; Repeated measures allow for the detection of change in individuals or their environments from one data point to the next (Hunter et al., 2014)

3.2 Research Population

The study population comprised of 50 representatives of MTN Uganda Limited including managers, administrators and employees. These were chosen because these are the people who offer service and manage the services respectively.

3.3 Sample size

The study was conducted from 30 workers from MTN Uganda. These were administrators and employees in the mentioned corporate firm. Of these 10 were administrators involved 5 managers and 5 supervisors and 10 were other employees who included 5 sales agents, 5 marketing agents. The researcher used Slovene's formula to determine the minimum sample size of 30 respondents as indicated below:

$$n = \frac{N}{1+N(e)^2}$$

Where:

n = the required sample size

N = Known population size

e^2 = Margin of error at 0.05 level of significance

$$n = \frac{50}{1+50\,(0.05)^2}$$

$$n = \frac{50}{1+0.68}$$

$$n = \frac{50}{1.68}$$

n = 30 respondents

Table 3.1: Sample size distribution

No	Category	Target (50)	Sample size (30)
1	MTN Administrators (manager/supervisors)	10	5
2	General employees	40	25

3.4 Sampling procedures

The study used purposive sampling methods. Purposive sampling involved selecting a certain number of respondents based on the nature of the office. This method was appropriate because it enabled selection of informed persons who possessed vital data that is comprehensive enough to allow gaining a better insight into problem. In the study respondents was contacted in person, as the researcher wants first hand information from employee's respondents of MTN Uganda Limited and the study keenly inquired respondents' views on the subject under study.

3.5 Research Instruments

The study employed three methods during the process of data collection and these were as follows;

3.5.1 Self-administered questionnaire;

semi -structured or unstructured (open ended) questionnaire will be constructed and this was self-administered where the researcher allowed the study respondents to fill the questionnaire in the study field. The tool collected information from respondents other than those in employee of MTN Uganda Limited

Questionnaires titled "to investigate the relationship between credit management and performance of corporate firms like MTN Uganda limited." was used in the process of collecting data. The researcher administered questionnaires to be selected of MTN employees, manager, and administrators of MTN Uganda Limited. The relevance of this is that the questionnaires will be convenient and less time consuming. With management staff who myth have time for an appointment, an email of the questionnaire was sent to them which was easily filled. The questionnaire will be piloted as recommended by Saunder et al (2013) who writes that, piloting helps ensure validity and reliability and also said that piloting helps to refine the questionnaire so that respondents have no problem in answering the questions and there will be no problems in recording the data.

3.5.2 Interview guide;

an interview guide was also drafted with a set of questions that the researcher asked during an interview and this was structured (close ended) in nature. The researcher personally recorded the provided responses as per the study respondents during the process of carrying out an interview. This tool was used to collect information from respondents selected from MTN Uganda Limited.

3.5.3 Documentation/ secondary data:

Secondary data was also used in this study as; the researcher collected secondary information from different sources like; text books, internet, newspaper, magazines, journals among other sources. This information was reviewed by visiting places like libraries and internet cafes.

3.5.4 Observation:

This method was mostly used to gather information about the non-verbal behavior. This involved using personal intuition of the researcher by seeing and hearing. The advantage of the observation method is that research can be conducted in a natural environment (naturalistic observation) rather than in an artificial setting (analog observation),and can easily be conducted for a long period of time. Observation studies help to comprehend complex issues through direct observation and then if possible, asking questions to seek clarification on ambiguous issues and answers in the questionnaires. The data obtained is rich and uncontaminated by self-report biases.

3.6 Reliability and validity

Validity of an instrument was in this study consistent with the definition provided by Miles and Huberman (2012), as the" extent to which the items in the instrument measure what they are set out to measure." The validity of the instruments was established by the supervisor.
Reliability, according to Miles and Huberman (2012), has to do with the extent to which the items in an instrument generate consistent responses over several trials with different audiences in the same setting or circumstances". The reliability of the instruments and data was established following a pre-test procedure of the instruments before their use with actual research respondents.

3.7 Data Gathering Procedures

The study observed all those procedures followed in research. Using the letter of introduction obtained from the College of Business and Management(Accounts and Finance Option) and Research to conduct the study after which permission from Mtn Uganda Limited was sought. There were actual interviews on appointment and questions collected. Permission to conduct the research was done after the approval of the proposal.

The researcher oriented and briefed the research assistants on the sampling and data gathering procedures.

The questionnaires for actual distribution were prepared and coded accordingly.

The non standardized instruments were tested for validity and reliability.

3.7.1 During data gathering

The respondents were asked to answer the questionnaire as objectively as possible and not to leave any option unanswered.

More emphasis was put on picking of the questionnaires after five days from the date of distribution.

During the picking of questionnaires, all returned questionnaires were checked to see if all are fully answered.

Due to the nature of work and busy schedule of some potential respondents, appointments were drawn for convenience of the respondents or by their work schedule throughout the administrators. Thus, there was need for necessary explanations wherever necessary.

A pilot study was conducted before the actual research in order to check the feasibility of the research study, so that the research design could be improved or adjusted where necessary to avoid wasting time.

3.7.2 After data gathering

After one month, all primary data was collected through questionnaires which respondents returned and it was analyzed. Completed self administered questionnaires were coded, edited categorized and entered into a computer for the statistical package for social scientists (SPSS) for data processing and analysis.

3.7.3 Data presentation;

After, the data was edited and presented inform of frequency tables after which the data was analyzed in form of pie-charts which may be developed using Micro Soft Word and Micro Soft Excel, this was done to only quantitative edited data. Quantitative data was grouped and statistical description such as tables showing frequencies and percentages and pie- charts as well as graphs for better interpretation. However, qualitative data was analyzed in a way of identifying the responses from respondents that are relevant to the research problem. Mainly such data was analyzed by explaining the facts collected from the field under which the researcher was able to quote respondents' responses.

3.8 Data analysis;

Both quantitative and qualitative methods were used during data analysis. Quantitative data involved use of frequencies, tables against their percentages, that is pie chart and this will be showing values that aided in data interpretation. Qualitative data was presented in writing useful information from the respondents as presented in relation to the study variables. After collecting all the necessary data, these data was coded and edited, analyzed and rephrased to eliminate errors and ensure consistency. Both qualitative and quantitative data analysis were used. Qualitative data was analyzed in the field as it is being collected (verbatim reporting) using coding sheets while quantitative was analyzed by using computer programs like Microsoft word and Microsoft excel. Also under qualitative analysis, thematic analysis was used and in quantitative data analysis; graphs, tables and pie charts were used for data analysis and presentations of findings.

3.9 Ethical Consideration

Before commencing the research, an introductory letter from the University was sought and the purpose of the study explained to the authorities to avoid inconveniences and misunderstandings about the purpose. The information collected was kept highly confidential.

3.10 Limitations of the study

The study involved the following constraints;

Time: The time allowed to do this research was not enough to allow exhaustive study and obtain all the essential information for much more suitable conclusions. The problem was minimized by putting much effort on this research so as to meet the deadline.

Financial Constraints: The Researcher was limited by financial resources such as the transport costs and stationery to carry out her research effectively. In an effort to mitigate this shortcoming, the researcher will source for funds from a few sponsors.

Slow or non- response: Since the researcher did not know the kind of respondents to deal with, some of them had failed to respond or delay to do so. The researcher made convenient appointments with the respondents and encouraged them to respond and give true information in time.

Due to the sensitivity of the study, the respondents refused to give some data to the researcher citing the reasons behind the study. The researcher however overcame this by showing an introductory letter acquired from the faculty fully explaining the purpose of the research. The researcher also assured respondents that their ideas were treated with utmost confidentiality. Bureaucracy delayed the study. From all the procedures, getting data from management take time. However, the researcher will take time and appeal to the bureaucrats for data. The limitation of the research was lack of primary data collection due to difficulty in getting appointment with senior top officials in MTN Uganda Limited.

Time and resources constraints restricted the scope of the research. Despite the researcher effort to expand the scope of the research by getting into more in-depth study of credit management, it did not materialize due to the practical difficulties faced during the work.

CHAPTER FOUR
DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.0 Introduction.

This chapter brings out the research findings in relation to the objectives. It sums up the description of the study population inform of so, marital status, levels of education, the occupation of the respondents and looks at the general assessment Credit Management and Performance of Corporate Firms using MTN Uganda as a case study.

This chapter presents the research findings in relation to the objectives; to assess the effectiveness of credit management policies of corporate firms, to analyze the motives of holding credit on performance by corporate firms and to find out the important relationship between credit management and profitability of corporate firms.

It presents the research findings in response to research questions and Data collected in response to Biographic Data.

4.1 Background characteristics of respondents

Respondents were identified by gender, age, marital status and level of education of respondents was considered owing to the nature of the study and interpreting data from the field regarding the effects of assessment Credit Management and Performance of Corporate Firms.

4.1.1 Gender distribution the respondents

Table 1: Sex of the respondents

Sex	**Male**	**Percentage**
Males	20	67
Females	10	33
Total	**30**	**100**

Source: Field Research 2016

Table 1 above indicates that majority of the respondents 20 (67%) were males while only 10 (33%) were females. This implies that though there is strong agitation for gender equality, companies still employ more males than females.

4.1.2. Age group

In a bid further analyze the relationship between credit management and performance of corporate firms; the Age of the Respondents was also looked into as shown in the table below:

Table 2: Age group of the respondents

Age	Frequency	Percentage. %
Below 24 years	2	7
25- 29 years	6	20
30-34 years	14	47
35 years and above	8	27
Total	**30**	**100**

Source: Field Research (2016)

Table 2 above indicates that majority of the respondents were between 30-34 years of age (47%), while below 24 years (7%), 25-29 years (20%) and above 35 years (27%). This affirms the maturity of all the respondents as people above 18 years of age and makes them capable of giving the most reliable and adequate data.

4.1.3 Education Level of the Respondents.

In a bid further analyze credit management and Performance of Corporate Firms using MTN Uganda as a case study, the education level of the respondents was also looked into as shown in the table below.

Table 3: Education level of the respondents

Education level	Frequency	Percentage
Masters	5	17
Degree	20	67
Diploma	3	10
Certificate	2	7
Total	**30**	**100**

Table 3 above indicates that all the respondents had acquired some education where by 5 (17%) had Masters, 20 (67%) had degrees, 3 (10%) had diplomas and 2 (7%) had certificates. Such findings imply that respondents were literate enough to read, interpret the questionnaires and answer according thus making the data collected from them more reliable.

4.1.4 Duration in organization.

Respondents were asked about their duration of stay/work in the study area that is MTN Uganda Limited. It was hoped that the workers / respondents time of the stay on work influenced their impact in the area. Those who had stayed longer in the study area were further believed to have witnessed several changes, trends and patterns of work / services offered by the companys to its clients

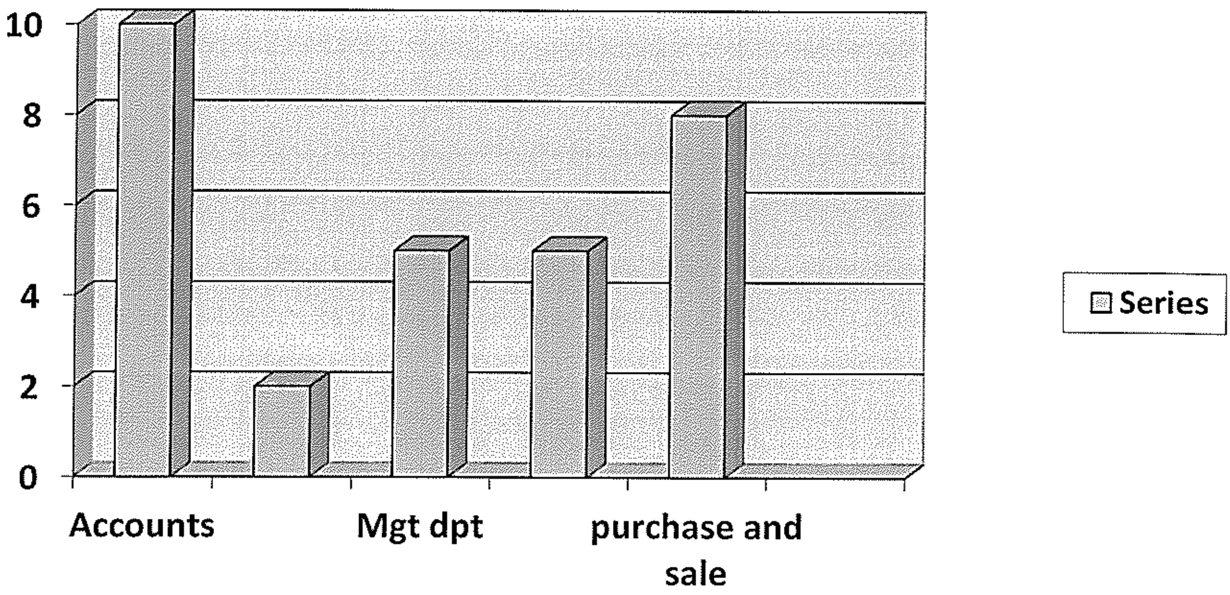
Table 4: Duration in organization MTN – Uganda limited

Duration	**Frequency**	**Percentage**
Between 2 and 4 years	4	13
Above 4 years	21	70
Below two years	5	17
Total	30	100

Table 4 above indicates that respondents had spent different periods in the organization where by 4 (13%) had worked with in a period between 2 and 4 years, 21 (70%) were above 4 years, and 5 (17%) were below 2 years. This makes all the respondents more experienced about the activities of the organization and implies that they gave more reliable data.

4.1.5 Departments of work of respondents

A bar graph showing departments of work of the respondents



From the bar graph above, it is clear that 10 (33%) of the respondents work in the Accounts department, 2 (7%) work in the store department, 5 (17%) work in the management, 5 (17%) work in Audits, and 8 (27%) work in the purchase and sale. Such findings imply that data was collected from employees in all sections of the organization.

4.2 Objectives of the study

The findings on objectives are presented and analyzed as follows;

Data collected in response to research question one: To assess the effectiveness of credit management policies of corporate firms

Company has credit management policies in place

Table 5: whether the company has credit management policies in place

Response	**Frequency**	**Percentage**
Yes	30	100
No	0	0
Total	**30**	**100**

From the table above, it is clear that all the respondents 30 (100%) agreed that the company has credit management policies in place. This makes the data collected from the respondents worthwhile as the study was about credit management and performance of corporate firms.

4.2.1 Credit management policy

Table 6: how the employees (respondents) understood credit management policy.

Response	Frequency	Percentage
Through training/workshop	20	67
Through human resource manual	10	33
Through radio station/television	0	0
Total.	**30**	**100**

Table 6 above indicates that 20 (67%) of the respondents understood credit management policies through training/workshops and 10 (33%) understood it through human resource manuals. This implies that respondents were aware of credit management policies.

4.2.2 Effectiveness of credit management policies

From the research finding from the respondent results showed that 20(67%) of the respondents indicated that the credit management policies at MTN (U) Limited were effective, while 7(23%) showed that there were indifferent and 3(10%) of respondents were of the view that the credit management policies were ineffective. Their views and opinions suggested that suppliers demanded earlier payment, customers delayed making payments, and stakeholders sought an improved credit generation and credit reduction. This view is supported by Stowe (2014) and Palom (2013), who say that suppliers demand earlier payments and failure to meet financial obligations by the corporate firms on time, owing to credit shortages mean loss of further supplies from injured suppliers. This is extremely damaging since some products would be vital to continuing business operations.

From the findings 20(67%) of respondents indicated that the control of credit disbursement at MTN (U) Limited was effective. Their views were that payments to suppliers were delayed as long as practically possible in order to make credit available which is consistent with Gitman (2008) who postulate that that the objective of credit disbursement is to delay payments to suppliers as long as it is practically possible. They eluded that in order to have a total control over credit; payments to suppliers were made once per week. 20 (67% of the respondents indicated that the control of credit disbursement was ineffective at MTN (U) Limited. They indicated that delaying payment to supplier's especially key suppliers of raw materials and utilities resulted in a credit of compromising relationships with suppliers hence chasing them away and finding it difficult to purchase raw materials on credit. This is supported by McLaney (2013), who states that stretching accounts payable may be financially attractive to the corporate firm but it raises an important unethical issue. It may cause the firm to violate the agreement it entered into with the supplier. Myers (2014) states that, clearly a supplier would not look kindly on a customer who regularly and purposely postpones paying for purchases.

The study also sought to find the effectiveness of credit collection at MTN (U) Limited Products as an avenue to effective credit management. From the study 14(30%) of the respondents pointed that the credit collection policy was effective and the results seem to suggest that, credit inflows were brought forward as quickly as possible 20 (67%)of respondents indicated that, the policy was ineffective. They alluded that some debtors were in the 120 days ageing period therefore lengthening the average collection period. This is in agreement with Vanhorne (2013) who says that slow payments may be costly to the corporate firm and lengthen the average collection period. Inefficiency of some of the collection techniques were also highlighted as part of the causes.

Popular collection techniques cited included letters, telephone calls and personal visits. This is supported by Gitman (2008), says that, the most popular techniques used in bringing forward credit flows are letters, telephone calls, personal visits and legal action. Respondents alluded that as part of their collection techniques they made telephone calls to the debtors and if they fail to respond on time the credit controller would make personal visits.

From the findings 10(28.6 %) of respondents indicated that, credit budgets were effective whilst 4(11.4)% indicated that they were satisfactory. The respondents concur that at MTN (U) Limited credit budgets are prepared on a monthly basis and on a departmental level and these departmental budgets are consolidated into one master budget. This is in .agreement with Brealey (2013) who says that budgets should be prepared on a departmental level and these budgets should be rolled into one master budget. Respondents commented that these budgets are prepared basing on sales, costs, debtors ageing and creditors ageing as suggested by Moffet (2014). 20 (67%) of respondents expressed that credit budgets were ineffective as they sighted some deviations from the credit budgets. They indicated that, although budgets are prepared and implemented, they are just estimates and may not be exactly correct as evidenced by deviations of the credit budgets. This is in line with Vanhorne (2013) who said that credit budgets whether prepared on an annual, weekly or monthly basis are just estimates of credit flows.

From the findings, 20 (67%) of the total respondents shows that the credit operating cycle ranges from 120 days and above. Research results, shows that MTN (U) Limited appears to have a lengthy operating cycle which is becoming costly for the company. The major problem they highlighted resulting in lengthy credit operating cycle was a longer lead time in the importation of raw materials (Stock) from South Africa, slow production due to machinery breakdowns lengthening the work in progress conversion time and late credit inflows from debtors which lengthens the debtors' conversion period. This is supported by Stowe (2014) who says that, a lengthy credit operating cycle suggest inefficient credit management and a slow production process may lengthen the credit cycle.

4.2.3 Company always has credit transactions.

Table 7: Whether the company always has credit transactions.

Response	Frequency	Percentage
Yes	30	100
No	0	0
Total	30	100

Table 7 above indicates that all the respondents 30 (100%) agreed that the company has credit transactions. This therefore makes credit management very effective.

4.2.4 Organizations major sources of credit

Table 7: The organizations (MTN) major sources of credit

Response	Frequency	Percentage
Air time	10	33
MTN Sim card	3	10
MTN Mobile money/western union	2	7
MTN Mobile phone.	14	47
MTN Mobile internet service/ Huawei modem	1	3
Total	**30**	**100**

Table 7 above indicates that respondents mentioned different sources of credit for MTN Company. 10 (33%) mentioned that credit is got from Air time sales, 3 (10%) mentioned MTN Sim card sales, 2 (7%) cited that credit is collected from users of MTN Mobile money/western union 14 (47%) believed that credit is got the sale of MTN Mobile phones and 1 (3%) believed that credit is got from Mobile internet services/huwai modem. Such variety sources of credit imply that there is a need for better policies to manage credit.

4.2.5 Data collected in response to research question two. To analyze the motives of holding credit on performance by corporate firms

Organisation hold credit resources

Table 8: Table showing whether respondents (employees) hold credit

Response	Frequency	Percentage
Yes	25	83
No	0	0
Not sure	5	17
Total	**35**	**100**

Table 8 above indicates that 25 (83%) believed that they held credit within the organization where as 5 (17%) were not sure. This makes the researcher's study on credit management policy and performance with in corporate firms more relevant.

4.2.6 Reasons why credit resources are held

Table 9: Reasons why credit resources are held

Response	Frequency	Percentage
For working capital needs	5	17
For speculative needs	7	23
For precautionary needs	6	20
For transaction needs	3	10
Tax motive	1	3
Agency motive	8	27
Total	30	100

Table 9 above indicates that credit with in MTN Company is held for different reasons. 5 (17%) believed that credit resources are held for working capital needs as it is a centre of purchase of all requirements of the company, 7 (23%) believed that credit is held for speculative needs which is based on the assumption that rising interest rates induce decreasing prices of securities, 6 (20%) believed that credit resources are held for precautionary needs which involves regard for the company's need to provide for unexpected expenses and unforeseen opportunities of advantageous purchases, 3 (10%) believed that credit is held because of transaction needs that refers to the need of credit for the current transaction of personal and business exchanges, 1 (3%) believed in tax reasons as the company must pay taxes, and 8 (27%) believed in the agency needs that can help to meet costs from equity holders and debt holders. Such findings calls for the need to hold credit as it clear that credit plays very many roles in an organization.

4.2.7 Company experiences higher credit inflows than outflows.

Table 10: Whether the company experiences higher credit inflows than outflows.

Response	Frequency	Percentage
Yes	30	100
No	0	0
Total	30	100

Table 10 above indicates that all the respondents 30 (100%) believed that the company experiences higher credit inflows than outflows. This explains why the company keeps growing and expanding a characteristic of all companies that receive higher credit inflows than outflows.

4.2.8 The management of higher credit inflows.

Table 11: showing the management of higher credit inflows.

Response	Frequency	Percentage
Bank it	9	30
Re invest it	12	40
Design products	4	13
Keep it safes	5	17
Total	30	100

Table 11 above indicates that 9 (30%) of the respondents believed that heavy credit inflows are banked, 12 (40%) believed that it is re-invested in the same business to make more profits, 4 (13%) believed that it is used to design other products, 5 (17%) believed that it is kept in safes. This implies that various ways are in place to reduce on the losses of the company.

4.2.9 Data collected in response to research question three. The important relationship between credit management and performance of corporate firms

Table 12: Whether proper credit management affects performance of the company.

Response	**Frequency**	**Percentage**
Yes	35	100
No	0	0
Not sure	0	0
Total	**30**	**100**

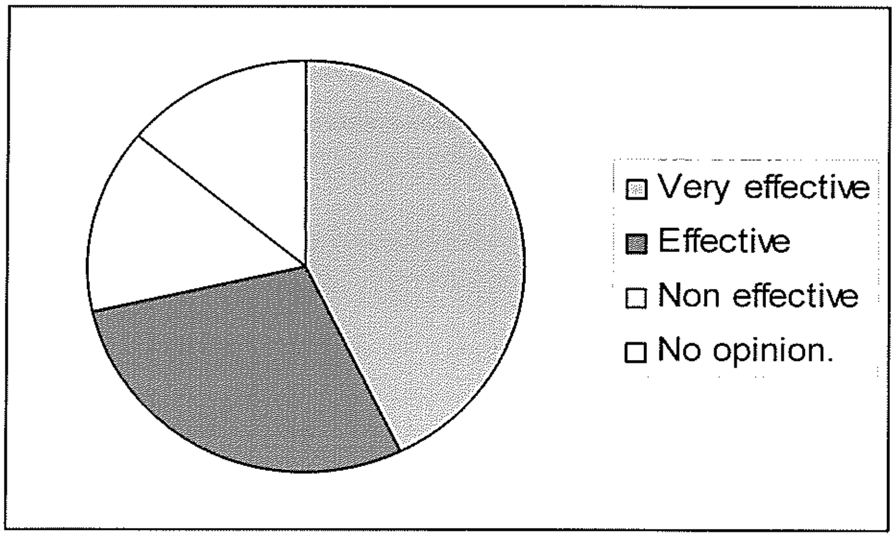
Table 12 above indicates that all the respondents believed that proper credit management affects performance of the organization positively as it enables the company to cover all its activities. This implies that proper credit management is very crucial and companies need to take it serious.

Table 13: Ways in which proper credit management policies affect the performance of the organization

Response	Frequency	Percentage
Helps in designing of new products	9	30
Helps in advertising and sales promotions of the company	14	47
Helps in payment of employees salaries	2	7
Helps in payment of the company taxes	5	16
Total	30	100

From the table above, it is clear that 9 (30%) believed that proper credit management helps the company to design new products, 14 (47%) believed that it helps in advertising and sales promotions of the company, 2 (7%) believed that it helps in payment of employees salaries, and 5 (16%) believed that it helps in payment of the company's taxes. Such findings imply that proper credit management improves the performance of the company hence profitability.

A pie chart showing the effectiveness of the organization (MTN) in terms of performance



From the pie chat above, the respondents had different views on the effectiveness of the performance of the organization. Out of the 30 respondents, 15(50%) believed that it very effective, 8 (27%) believed that it was effective, 5 (14.2%) believed that it was non effective and 2 (7%) had no any opinion. This implies that the company has tried its efforts to manage credit properly.

4.2.10 Findings on the relationship between credit management and performance of corporate firms.

Table 1 Table 14: Showing the relationship that exists between credit management and good performance of corporate firms in MTN (U).

Relationship	Frequency	Percentage
Direct	26	87
Indirect	3	10
Total	30	100

Source: Primary data

Table 14 above shows the responses for what is the relationship that exists between credit management and good performance of corporate firms in MTN (U), the highest percentage was for those who responded that there is a direct relationship with 87% and 10% indicated an indirect relationship. Therefore it was concluded that there is a direct relationship between credit management and profitability of corporate firms. That is when MTN (U) carried out credit management and performance of corporate firms was to increase.

Table 2 Table 15: Showing level of credit management towards performance of corporate firms

Level	Frequency	Percentage
Low	6	20
Moderate	10	33
High	14	47
Total	30	100

Source: Primary data.

Table 15 above indicates the total levels of sale volume where the lowest percentage was 20%, moderate percentage was 33% and the highest percentage was 47%.

Table 16: Showing Correlation between credit management and performance that leads to profitability of corporate firms

		Total credit management	Total profitability
Total credit management	Pearson Correlation	1.000	.872(**)
	Sig. (2-tailed)	.	.005
	N	35	35
Total profitability	Pearson Correlation	.872(**)	1.000
	Sig. (2-tailed)	.005	.
	N	35	35
** Correlation is significant at the 0.05 level (2-tailed).			

Source: Primary data

The table 16 above shows that there is a very strong positive relationship between credit management and performance that leads to profitability of corporate firms at Pearson correlation (r) of 0.872. A change in credit management may affect company's profitability of corporate firms by 87.2% implying that profitability of corporate firms is greatly affected by credit management.

CHAPTER FIVE
DISCUSSION, CONCLUSION AND RECOMMENDATION

5.0 Introduction

The major aim of the study was to assess the credit management and performance of corporate firms. In this study, a case study approach was applied to carryout in depth analysis of credit management policies using a case study of MTN (U) Limited focusing on the period 2012 to 2012. Saunders (2013) defines a case study as the development of intensive knowledge about a single case or small number of related cases. The case study is appropriate for research because of the accessibility to the organization which will provide the researchers with the understanding of the organization needed to make an in depth analysis of the findings used to propose recommendations for further research. The researchers targeted the whole population involved in the handling of credit at MTN (U) Limited. A sample of thirty out of fifty employees was chosen using judgmental sampling by the researchers which included ten managers, ten accounts clerks, and ten employees who include non management staff.

5.1 Discussion

5.1.1 To assess the effectiveness of credit management policies of corporate firms.

The findings of the study indicated that there are various view is supported by20 (67% of the respondents indicated that the control of credit disbursement was ineffective at MTN (U) Limited. Stowe (2014) and Palom (2013), who say that suppliers demand earlier payments and failure to meet financial obligations by the corporate firms on time, owing to credit shortages mean loss of further supplies from injured suppliers.

Their views were that payments to suppliers were delayed as long as practically possible in order to make credit available which is consistent with Gitman (2008) who postulate that that the objective of credit disbursement is to delay payments to suppliers as long as it is practically possible. They eluded that in order to have a total control over credit; payments to suppliers were made once per week. 20(67% of the respondents indicated that the control of credit disbursement was ineffective at MTN (U) Limited.

From the study 14(30%) of the respondents pointed that the credit collection policy was effective and the results seem to suggest that, credit inflows were brought forward as quickly as possible 20(67%)of respondents indicated that, the policy was ineffective.

This is in agreement with Vanhorne (2013) who says that slow payments may be costly to the corporate firm and lengthen the average collection period. 20 (67%) of respondents expressed that credit budgets were ineffective as they sighted some deviations from the credit budgets. They indicated that, although budgets are prepared and implemented, they are just estimates and may not be exactly correct as evidenced by deviations of the credit budgets. This is in line with Vanhorne (2013) who said that credit budgets whether prepared on an annual, weekly or monthly basis are just estimates of credit flows.

Popular collection techniques cited included letters, telephone calls and personal visits. This is supported by Gitman (2008), says that, the most popular techniques used in bringing forward credit flows are letters, telephone calls, personal visits and legal action. Respondents alluded that as part of their collection techniques they made telephone calls to the debtors and if they fail to respond on time the credit controller would make personal visits.

5.1.2 To analyze the motives of holding credit on performance by corporate firms

Research findings from the study revealed that there are various motives of holding credit on performance by corporate firms From the finding study 10% of respondent hold credit for Transaction motive: This refers to a firm holding credit to meet its routine expenses which are incurred in the ordinary course of business. A firm will need finances to meet a plethora of payments like wages, salaries, rent, selling expenses, taxes, interests, etc. The necessity to hold credit will not arise if there were a perfect coordination between the inflows and outflows.

From the finding 20% of respondent believed that credit resources are held for precautionary needs which involve regard for the company's need to provide for unexpected expenses and unforeseen opportunities of advantageous purchases. Precautionary motive: This refers to the need to hold credit to meet some exigencies which cannot be foreseen. Such unexpected needs may arise due to sudden slowdown in collection of accounts receivable, cancellation of an order by a customer, sharp increase in prices of raw materials and skilled labour.

From the study 23% believed that credit is held for speculative needs, Speculative motive: This relates to holding credit to take advantage of unexpected changes in business scenario which are not normal in the usual course of firm's dealings. It may also result in investing in profit backed opportunities as the firm comes across. The firm may hold credit to benefit from a falling price scenario or getting a quantity discount when paid in credit or delay purchases of raw materials in anticipation of decline in prices

17% believed that credit resources are held for working capital needs as it is a centre, Working capital is the difference between an organization's current assets and its current liabilities. Of more importance is its function which is primarily to support the day-to-day financial operations of an organization, including the purchase of stock, the payment of salaries, wages and other business expenses and the financing of credit sales. Working capital can be defined as the capital available for conducting the day to day operations of an organization represented by its net current assets (Adeniji, 2008). The working capital is the life-blood and nerve center of a business firm. It refers to firms' investment in short-term assets. Current assets are the assets which can be converted into each within an accounting year. It could also be regarded as the current assets less liability of the firm. Akinsulire (2008) refers to working capital as the items that are required for the day-to-day production of goods to be sold by a company. It can be defined as the excess of current assets over current liabilities.

5.1.3 To find out the important relationship between credit management and performance of corporate firms

Credit management assumes more importance relationship than other current assets because credit is the most significant asset that a firm holds. Credit is unproductive unlike fixed assets or inventories; it does not produce goods for resale, notwithstanding management's considerable time is devoted to managing it. The importances of managing credit to a manufacturing concern as identified by Alfred (2012) are:

Management of credit aids the achievement of liquidity and control.

It brings about proper planning with regard to credit disbursement and receipts over credit positions to keep the firm sufficiently liquid and to use excess credit in some profitable venture.

The management of credit is also significant since we cannot rightly predict accurately credit flow behavior in the future.

Through credit management appropriate strategies are developed thereby providing innovation for credit receipts and payments.
It also aid maintaining adequate control over credit position to keep the firm sufficiently liquid and to use excess of credit in some profitable ventures.

Finding show that there is good relationship shows that there is a very strong positive relationship between credit management and performance of corporate firms at Pearson correlation (r) of 0.872. A change in credit management may affect company's profitability of corporate firms by 87.2% implying that profitability performance of corporate firms is greatly affected by credit management.

5.2 Conclusions

In summation, the study shows that there is a significant relationship between firm performance (in terms of profitability). The study concludes that, the key to successful credit management lies in tabulating realistic projections, monitoring collections and disbursements, establishing effective billing and collection measures, and adhering to budgetary parameters because credit flow can be a problem to the business organization.
The study also concludes that, credit management is a culture that forms part of strategy of companies and it depends more on managers themselves than on the characteristics of the companies.
Internal controls over credit management are needed at all levels of the organization that handle credit and/or credit equivalents, i.e., coupons, credit card slips, etc. Both program managers and financial managers are accountable for credit under their control. However, the organization unit finance officers must provide guidance to all employees who have credit management responsibilities; the researcher also bears ultimate responsibility for internal controls over credit collections, disbursements, and holdings which are accounted for by his/her operations. Therefore, responsibilities of credit management officers, creditiers, certifying officers, and other accountable officers to establish and maintain controls should be formally delegated by organization unit finance officers.
The need for holding credit arises due to a variety of motives – transaction motive, speculation motive, precautionary motive and compensating motive. The objective of credit management is to make short-term forecasts of credit inflows and outflows, investing surplus credit and finding means to arrange for credit deficits. Credit budgets help Finance Manager to forecast the credit requirements.

5.3 Recommendations

In light of the above findings, the researcher proposed the following recommendations; that first, the management need to be cautious in setting up a credit policy that will not negatively affects performance and also they need to know how credit policy affects the operation of their firms to ensure judicious maximization of profit. Improper credit credit management reduces the firm performance (profitability) which may eventually lead to financial distress.

Secondly, MTN (U) Limited Products management should embrace a 'total credit management' philosophy that is putting credit management at the heart of both business and Strategy development and the operational decision making.

Thirdly, administrators should calculate the credit amount best suited for the level of activity, plan timing of relevant payments and collections and draw up a policy of investments in assets with high liquidity that can be converted in to credit allow transaction costs to serve as support for their funds maintained by the company.

Fourthly, credit collections should be closely monitored with the aim of accelerating credit inflows to speed up the collecting of accounts receivables.

Fifthly, credit disbursements should be also closely monitored with the aim of negotiating a reduction in credit outflows so as to reduce payments.

Sixthly, financial projections should be accurate in order to project and forecast the amount of credit earned through business operations. Accurate forecasting should be based on a range of scenarios and credits so that the organization would be having an understanding of the key drivers of the credit position.

Furthermore, instilling a credit conscious culture is integral to maintaining a steady focus on credit. The company should employ a credit focus at the top communicating it throughout the organization.

In addition, the company should actively consider ways of shortening the credit operating cycle to make the company more generative. A cost benefit analysis should be performed to determine whether it is worthwhile to employ more resources, additional staff or new plant to speed up the production process and shorten the credit operating cycle.

Lastly, clear policies for credit management including the investments of surplus funds needs to be established.

5.4 Areas for further study

The researcher recommends that further area of research should be finding out the contribution of working capital towards profitability.

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APPENDIX I

QUESTIONAIRES FOR MTN-UGANDA LIMITED EMPLOYEES

Dear respondent,

I am **ALADO BABRA** a student of Kampala international University. I am carrying out a research on ***Credit Management and Performance of Corporate Firms*** in MTN Uganda limited in a fulfillment of the requirements for the award of a Bachelor's Degree in business administration.

This is purely an academic research and therefore the information provided in this questionnaire will be used for academic purposes only and shall be accorded utmost confidentiality. Your contribution towards filling in this questionnaire will be of a great contribution to this academic endeavor.

Thank you.

SECTION A: Background Information

Instructions:

Please Fill in or tick as appropriate.

1 a) Sex of the Respondent

i) Male ☐

ii) Female ☐

d) Age brackets of Respondents

i) 18- 20 years ☐ ii) 21- 42 years ☐ii) 43 years and above ☐

c) Marital Status of Respondents

i) Single ☐ ii) Married ☐ iii) Divorced ☐ iv) Widowed ☐

b) Education Level of Respondents.

(i) Below degree ☐

(ii) Degree ☐

(iii) Diploma ☐

(iv) Below Diploma ☐

Other (Please specify)......................

c) **Duration in organization MTN – Uganda limited**

(i) Below two years ☐

(ii) Between 2 & 4 years ☐

(iii) Above 4 years ☐

d) In which department do you work?

i. Accounts ☐

ii. Management ☐

iii. Purchasing & Sale ☐

iv. Internal audit ☐

v. Stores ☐

vi. Any other (please specify)...............................

SECTION B: Effectiveness of credit management policies of corporate firms

Does your company have credit management policies in place? (i) If yes, ☐ (ii) No ☐

If yes, what is a credit management policy?

....

....

How do you understand credit management policy?

(i) Through Education / Research ☐

(ii) Through Training / Workshop ☐

(iii) Through Human Resources Manual ☐

(iv) Through Radio station / television ☐

Do you have effective credit management policies?

i) Yes ☐ ii) No ☐

How effective are your credit management policies

....

Do you always have credit transactions?

i) Yes ☐ ii) No ☐

If yes, what are your (organization's) major sources of credit?

a) Air time ☐

b) MTN Mobile Money/ western union ☐

c) MTN Sim card ☐

d) MTN Mobile Internet Service/ Huawei Modem ☐

e) MTN mobile Phone ☐

In case of credit receipts from customers, what mechanisms have you adopted for smooth collection and management of such credit?..

....

Which credit management policy do you think your organization (MTN-Uganda) follows?

i. Lenient ☐
ii. Stringent ☐
iii. Not Sure ☐

SECTION C: Motive of holding credit on Performance

Do you usually hold credit or near credit resources?

(i) Yes (ii) No (iii) Not sure

If yes, why do you think such credit resources are held?

(i) For working capital needs ☐
(ii) For speculative needs ☐
(iii) For precautionary needs ☐
(iv) Any other (specify)..

Are there instances where you experience higher credit inflows than outflows?

i) Yes ☐ ii) No ☐ iii) we experience the reverse ☐

In case of higher credit inflows how do you manage such inflows?

i. Bank it ☐
ii. Invest it ☐
iii. Keep it in Safes ☐
iv. Any other (specify)..

In case it is (ii) in what investments do you invest in your excess credit?

....

....

SECTION D: Relationship between credit management and performance

Do you think proper credit management affects profitability of this organization?

i) Yes ☐ ii) No ☐ iii) Not sure ☐

If yes, how?

....

....

If No, why?

....

....

How effective is the organization's operations in terms of profitability?

i. Very effective ☐

ii. Effective ☐

iii. Not effective ☐

iv. No opinion ☐

SECTION I: APPRAISAL

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices.

		5	4	3	2	1
		Strongly agree	**Agree**	**Uncertain**	**Disagree**	**Strongly disagree**
	SECTION I. APPRAISAL					
1	We demand for a business plan from all clients/ borrowers					
2	We analyze the business plan to identify credit exposure					
3	We consider professionalism in the respective business					
4	We look at relevant experience of the credit applicants					
5	We consider cash flow projections of a given project before we finance it					
7	We consider capacity of the credit applicants					
8	We look at the long term planning horizon of every credit applicant					
9	We look at the conditions ie economic, political before we finance a project					

10	We look at collateral as secondary source of repayment					
11	We consider accounts receivables and inventory as security					
12	We look at capitalization of the business					
13	We consider the net worth of the business					
15	We consider the past track record of repayment					
14	We look at the character of credit applicants					
15	We look at the credit trustworthiness of credit applicants					
16	We consider the leadership quality or capacity of managers.					
17	We periodically monitor projects financed					

SECTION II: FINANCIAL VIABILITY AND ANALYSIS

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices

		5	4	3	2	1
		Strongly agree	**Agree**	**Uncertain**	**Disagree**	**Strongly disagree**
	SECTION II. FINANCIAL VIABILITY AND ANALYSIS.					
1	We request for past financial reports from all clients					
2	We look the quality of financial report presented					
3	We demand for audited financial reports					
4	We analyze financial reports					
5	We calculate ratio analysis for profitability, efficiency, leverage					
6	We analyze growth in sales of our clients/ borrowers					
7	Interest coverage ratio is important before we finance					
8	We look for sound financial management policies of our borrowers					
9	We only finance projects with sound financial management policies					
10	Financial analysis determines credit strength of a client					

SECTION III: TECHNICAL FEASIBILITY

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices

		5	4	3	2	1
		Strongly agree	**Agree**	**Uncertain**	**Disagree**	**Strongly disagree**
	SECTION III. TECHNICAL FEASIBILITY					
1	We finance projects with potential market/ trade					
2	We look at consumption behaviors of the market					
3	We look at the marketing strategy of credit applicants					
4	We finance projects that use appropriate technology					
5	We have qualified staff to assess the level of technology.					
6	We look at access to infrastructure					
7	We consider availability of raw material before we finance a project					
8	We look at the implementation plan of all projects					
9	We consider if the project has specialized manpower					

SECTION IV: CREDIT RATING

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices

		5	4	3	2	1
		Strongly agree	**Agree**	**Uncertain**	**Disagree**	**Strongly disagree**
	SECTION IV. CREDIT RATING					
1	The bank has an internal credit rating system.					
2	We do credit rating on all projects					

3	I participate in the design of the credit rating system					
4	The bank quantifies credit through credit rating					
5	We base our rating on financial reports					
6	We rate the management capacity of credit applicants					
7	Our rating system predicts debt serving capacity of credit applicants					
8	The rating used can determine deteriorating / non performing credit					
9	We use public and private information in rating					
10	I know how to use rating system					
11	The bank monitors all problem credit s					

SECTION V: CREDIT TRANSFER

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices

		5	4	3	2	1
		Strongly agree	**Agree**	**Uncertain**	**Disagree**	**Strongly disagree**
	SECTION V. CREDIT TRANSFER					
1	Our credit portfolio is fully insured					
2	Clients are requested to provide financial guarantees					
4	Our Credit s are guaranteed with fixed deposits					
5	We also consider debentures as credit s guarantee					
6	We participate in Credit portfolio hedging against credit					
7	The bank uses credit derivatives to hedge credit					
8	The bank has used interest rate swaps in the market					
9	The bank uses forward exchange rate contract to hedge credit					
10	Credit transfer improves Credit recovery					

SECTION VI: CREDIT DIVERSIFICATION

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices

	5	4	3	2	1
	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
SECTION VI. CREDIT DIVERSIFICATION					
The Credit portfolio is invested in different sectors of the economy					
We do not concentrate our Credit portfolio in particular sectors of the economy					
Decision to diversify is taken only by management					
Diversification has reduced credit exposure in this company					
We invest in different Credits					
Default level have reduced due to diversification					

SECTION VII: CREDIT RETENTION

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices

	5	4	3	2	1
	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
SECTION VII: CREDIT RETENTION					
Retention is only used to cover a small proportion of loss					
Loss that is covered by retention is about 5% of credit portfolio					
We prefer covering loss from bank resources					
We have widely used credit retention to know how much that exist in our Credit portfolio					
We constantly carry our credit retention reviews					

SECTION VIII: CREDIT MANAGEMENT

Please respond to the following statements by indicating the extent to which you agree or disagree as per the given choices.

		5	4	3	2	1
		Strongly agree	**Agree**	**Uncertai**	**Disagree**	**Strongly disagree**
	SECTION VIII: CREDIT MANAGEMENT					
1	The bank has a credit management policy					
2	The bank has pre-set concentration limits in every sector					
3	The bank has pre set portfolio limits					
4	All staff members are evaluated					
5	The bank quickly responds to market changes					
6	We use credit based pricing in our credit portfolio					
7	We periodically assess credit quality of our credit portfolio					

Thanks for your time and cooperation

APPENDIX II

INTERVIEW GUIDE FOR ADMINISTRATORS OF MTN (U) LIMITED

Dear Respondent,

I am a student of Kampala International University currently undertaking a research on **Credit Management and Performance of Corporate Firm** in Telecom industry case study MTN (U) LIMITED.

The study is in partial fulfillment of the Academic requirements for the Award of Degree of Bachelor of Business Administration of Kampala International University Uganda.

The interview guide below is purely for Academic purposes and the information provided shall be treated with utmost confidentiality.

Kindly spare some of your valuable time and give your views and observations there in as genuinely as possible.

Thank you.

Yours Faithfully,

ALADO BABRA

RESEARCHER.

APPENDIX III

INTERVIEW GUIDE FOR MTN (U) LIMITED ADMINISTRATORS

1. Does your company have credit management policies in place?
2. Do you have effective credit management policies?
3. Do you always have credit transactions?
4. In case of credit receipts from customers, what mechanisms have you adopted for smooth collection and management of such credit?
5. Which credit management policy do you think your organization (MTN-Uganda) follows?
6. Do you usually hold credit or near credit resources?
7. Are there instances where you experience higher credit inflows than outflows?
8. Do you think proper credit management affects performance of this organization?
9. How effective is the organization's operations in terms of performance?