CREDIT MANAGEMENT POLICY

A CASE STUDY OF NATION MEDIA GROUP

BY

ABDIKADIR NOOR OSMAN

A Project Submitted to the School of Business in Partial Fulfillment of the Requirement of Masters in Business Administration.

UNITED STATES INTERNATIONAL UNIVERSITY-AFRICA
NAIROBI

SPRING QUARTER 2003
STUDENT’S DECLARATION

I, the undersigned declare that this is my original work and has not been submitted to any other college, Institution or University other than United States International University in Nairobi for academic credit.

Signed: A.N. Osman Date: 1/A/03
Abdikadir Noor Osman

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

Signed: Dr. George O. Achoki Date: 27-5-03

Signed: _______________________ Date: 28-5-03
Dean, School of Business

Signed: _______________________ Date: 2-6-2003
Deputy Vice-Chancellor, Academic Affairs
ACKNOWLEDGEMENTS

The completion of this project could not have been possible without the input of many people. First and foremost I thank God for having enabled me to complete my MBA.

To my lovely wife, Bib’s without whom this study would not have been possible. She was very encouraging and gave timely advice throughout the course. She was particularly helpful in giving advice and editing this work. To her I say thank you lovely Bib’s.

To my project supervisor, Dr. G.O. Achoki, without whom this project would not have been successful. He was very critical, patient and available at all times for timely advice. To him I say thanks again.

To my elder brother, Abdi, who had been instrumental in ensuring that I further my education.

To my sister-in-law Zahara who was taking care of Junior Hamza during my period of study.

To all the respondents who participated in this project, especially the advertisers, distributors, credit control staff and sales executives.

To Prof. Ciuru Getecha, Ms. L. Tauhid, Prof. I. Riak, Prof. Gatangi and other academic staff of the university for their invaluable input throughout my period of study at USIU-Africa.

To my former classmates Joyce, Justina, Juma, Saad and many others who cannot all be mentioned here for their valuable criticisms and stimulating class discussions.

May God bless you all!

Amen.
# TABLE OF CONTENTS

Students' declaration................................................................. iii
Acknowledgement........................................................................ iv
Table of contents........................................................................ v
List of graphs................................................................................ viii
List of Tables................................................................................ ix
Acronyms....................................................................................... x
Abstract......................................................................................... xi

## CHAPTER ONE: INTRODUCTION................................................. 1
  1.1 Background information....................................................... 1
  1.2 Problem statement.............................................................. 2
  1.3 Research objectives............................................................ 3
  1.4 Research questions............................................................ 3
  1.5 Importance of the study....................................................... 3

## CHAPTER TWO: LITERATURE REVIEW................................. 5
  2.1 Strategic Foundations for credit Management......................... 5
  2.2 Types of Risk........................................................................ 8
  2.3 A portfolio Management approach....................................... 9
  2.4 Customer risk assessment................................................... 10
  2.5 Customer risk analysis....................................................... 11
  2.6 Financial information analysis............................................. 12
  2.7 Information about the future.............................................. 13
  2.8 Credit Policy......................................................................... 13
  2.9 Setting the credit standards................................................ 14
  2.10 The five C’s system............................................................ 15
  2.11 Terms of credit................................................................. 16
  2.12 Credit period................................................................. 16
  2.13 Credit collection policy................................................... 16
  2.14 Habits of a highly effective debt collector.......................... 17
CHAPTER THREE: RESEARCH METHODOLOGY

3.1. Introduction..............................................20
3.2. Research Design........................................20
3.2.1 Population...........................................20
3.3 Sampling.................................................21
3.4 Data collection methods................................21
3.5.0 Research procedures.................................22
3.5.1 Pilot study............................................22
3.5.2 Administering of the questionnaires and the interviews...22
3.6.0 Data analysis methods...............................22
3.6.1 Profile of the respondents..........................23
3.7.0 Limitation of the study.............................25

CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

4.1.0 Account receivable turnover..........................28
4.2.0 Number of day’s sales in receivables..................29
4.3.0 Primary data analysis................................29
4.4.0 Structure of credit control department..............29
4.5.0 Credit Management Training..........................29
4.6.0 Enhancing collection capability......................31
4.7.0 Deficiency in the company’s current credit policy....32
4.8.0 Membership of credit reference Bureau................32
4.9.0 Advertising Agency..................................34
4.10.0 Commission structure................................34
4.11.0 Trading period.....................................35
4.12.0 Appointment method................................36
4.13.0 Sales volume.........................................37
4.14.0 Financial documents................................37
4.15.0 Financial Security..................................38
4.16.0 Accountants.........................................38
4.17.0 Credit Facility.......................................39
4.18.0 Credit period........................................39
4.19.0 Outstanding debts..................................40
4.20.0 Number of day’s overdue............................40
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS.

5.1.0 Summary (by chapter) ............................................. 43
5.2.0 Conclusions ........................................................... 51
5.3.0 Recommendations .................................................... 55
5.4.0 Suggestions for further research .......................... 58

REFERENCES ................................................................. 60
APPENDICES ............................................................... 63
LIST OF GRAPH

Graph 1: Nation Media Group Turnover, Debtors & Credit sales from 1996-2000
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1</td>
<td>Response rate of surveyed respondents</td>
<td>23</td>
</tr>
<tr>
<td>Table 2</td>
<td>Academic qualifications of respondents</td>
<td>24</td>
</tr>
<tr>
<td>Table 3</td>
<td>Experience (in years) of Credit Control and Sales Staff</td>
<td>24</td>
</tr>
<tr>
<td>Table 4</td>
<td>NMG turnover, debtors and credit sales figures from 1996-2000</td>
<td>26</td>
</tr>
<tr>
<td>Table 5</td>
<td>Account receivable turnover and number of days’ Sales in receivables</td>
<td>28</td>
</tr>
<tr>
<td>Table 6</td>
<td>Kind of training desired</td>
<td>30</td>
</tr>
<tr>
<td>Table 7</td>
<td>Causes of inverse in Company’s debts</td>
<td>31</td>
</tr>
<tr>
<td>Table 8</td>
<td>Problems in Understanding Financial documents: Sales Staff</td>
<td>32</td>
</tr>
<tr>
<td>Table 9</td>
<td>Problems in Understanding Financial documents: Distributors</td>
<td>33</td>
</tr>
<tr>
<td>Table 10</td>
<td>Problems in Understanding Financial documents: Advertisers</td>
<td>33</td>
</tr>
<tr>
<td>Table 11</td>
<td>Commission Structure</td>
<td>35</td>
</tr>
<tr>
<td>Table 12</td>
<td>Commission rate –vs-debt aging</td>
<td>36</td>
</tr>
<tr>
<td>Table 13</td>
<td>Trading period</td>
<td>36</td>
</tr>
<tr>
<td>Table 14</td>
<td>Financial documents: distributors</td>
<td>37</td>
</tr>
<tr>
<td>Table 15</td>
<td>Financial documents: Advertisers</td>
<td>38</td>
</tr>
<tr>
<td>Table 16</td>
<td>Level of education of the client accountants</td>
<td>39</td>
</tr>
<tr>
<td>Table 17</td>
<td>Reasons for not paying debts</td>
<td>41</td>
</tr>
</tbody>
</table>
ACRONYMS

1. GDP: Gross Domestic Product
2. NMG : Nation Media Group
3. P&L A/C: Profit and Loss account
ABSTRACT

The current business environment is increasingly becoming difficult and only company’s that manage their receivables well are likely to survive. In Kenya many companies have collapsed due to the unmanageable debt portfolio and increasing difficulty of cash flow problems.

Since receivables are the lifeline of a company’s operations, firms must have proper credit management policy in place so that the daily operations and long term survival of the organization is not jeopardized. It is therefore imperative that a firm has an efficient and effective credit management policy.

The debt collection in Kenya has been made even more difficulty by the weak legislation process. For instance issuing of a bouncing cheque is not illegal and many customers have been cheating on this. The slow legal process has also made recovery of receivables more difficulty.

This ever-growing importance of credit management policy has necessitated this research to determine why there is an increasing level of outstanding debtors in Nations Media Group. Thus the basic objectives of this study are to establish whether there is any significant relationship between an organization’s debt level and parameters such as company’s credit policy, educational level of the proprietor incentives available to the sales team and accounting system.

Secondly, the study is aimed at establishing the causes of debt level at Nation Media Group and give the necessary recommendations for management’s action.

The hypothesis of this study is: There is a significant relationship between an organization’s debt level and other parameters (e.g. credit policy, accounting system etc).

The study was carried out by analyzing data from questionnaires answered voluntarily by respondents from a sample of Nation Media Group sales staff, credit control staff, advertisers and distributors. The researcher visited and assisted where necessary by explaining the purpose of the study. The researcher also obtained the secondary data from Nation Media Group annual reports and other academic journals.
This study has revealed that there is a close relationship between an organization's debt level and other parameters. Secondly, the study revealed that with an organization's growth the debt level is likely to increase unless there is a change in credit policy. Thirdly, the study revealed that debt increase is a factor of many parameters namely training, evaluation procedure, economy and credit policy of the organization. From the results of the study it is recommended that organizations must take a keen interest in its receivables so as to survive. Also it can be concluded that an organization's debt level is closely related to many parameters namely, its credit policy, training of personnel, economy and educational of the proprietor. Therefore in reviewing the debt level its imperative that all these factors must be looked at.
CHAPTER ONE: INTRODUCTION.

1.1. Background Information

Many organizations have collapsed due to huge bad debts portfolio. Therefore effective credit policy is essential for management of an organization’s debt and long-term survival. In Kenya for instance outstanding debt portfolio is estimated at Ksh-250 billion. In recent years many financial institutions have collapsed due to poor lending policies e.g. Kenya commercial bank has loans amounting to Ksh-10 billion which have almost brought the bank to its knees.

According to the Financial Standard (2001) non-performing loans, increase in bad debts provisions continued to chew a huge chunk of bank profitability in Kenya in the latest financial statements. The growth in bad debt provisions continues to lead to corresponding decrease in after tax profits (attributable earnings). With the economy now growing at a real GDP rate of negative 0.5%(2001), the bad debts pains are expected to increase in the coming years. This is because many debtors will find themselves unable to repay their debts as they face bankruptcy (for businesses) and layoffs for employees.

This bad debts problem is not only common to the banking industry but also other sectors of the economy e.g. manufacturing, service and agriculture.

In the case of Nation Media Group it has been severely affected also as its customer base is from all sectors of the economy. Therefore an organization needs to have an effective credit policy so as to reduce its risk exposure and at the same time continue with its business to ensure its long-term survival.
A sale is not a sale until the account receivable is collected. Customers routinely seek the best terms possible, often attempting to postpone payment for as long as possible.

Unfortunately, delinquent payments hurt company's cash flow and eventually results in write offs. According to Ron Wells (2001) write offs decrease company’s profitability by the cost and other direct expenses incurred to make the sale.

The company (NMG) actually incurs other loses other than due to bad debts provisions and eventual write offs. These are through commissions paid to sales executives, debt collectors and even legal fees.

The issue of debt collection has been made even more difficult by our repugnant judicial system. This is due to the inefficiencies and delays in the legal system. The court system takes long period to settle cases. The problem is also compounded by the shortage of judges to hear commercial cases.

1.2 Problem Statement

Many businesses continue offering credit facilities to their customers without proper evaluation process. This has led to cash flow problems due to non-payment from most of these clients. It is against this background that I undertook this project in order to assess why companies continue accumulating receivables.

The project sets to establish the various factors responsible for debt increase of Nation Media Group. A model will be constructed using various parameters and the contribution of each parameter will be analyzed. Finally, recommendations will be made for management action.
1.3. Research Objectives

The study sought to achieve the following objectives:

- Establish whether there is any significant relationship between an organization’s debt level and other parameters such as organization’s credit policy, the educational level of the proprietor, incentives given to sales staff and economic level of the country.
- Study the debt position and causes of debt of Nation Media Group
- To recommend to the management of Nation Media Group measures to control debt.

1.4. Research Questions.

Relevant research questions were formulated for the purpose of achieving the following objectives:

- What is the debt position of Nation Media Group Advertising debtors, circulation debtors?
- What is the debt position trends?
- What are the possible causes of increase in debt?
- How can Nation Media Group manage its debts?

1.5. Importance of the Study

Receivables form an important backbone of an organization's asset. Therefore for long term survival utmost care must be taken to ensure efficient and effective management of receivables. This study is useful in many ways.

First, this study is important in that the results of research may be used by Nation Media Group in enhancing the management of its receivables.
Secondly, the findings of this study may be used by future scholars and researchers as a source of reference.
CHAPTER TWO: LITERATURE REVIEW

2.1. Strategic foundations for credit management

Ron Wells (2001) states that credit management embraces all the activities designed to manage and protect a company’s investment in receivables. Effective credit management is extremely important because too much credit is very costly in terms of the investment in and maintenance of accounts receivables, while it could also result in the loss of profitable sales. Thus to maximize shareholders wealth, a financial manager needs to understand how to effectively manage the firm’s credit activities (Weston, 1981).

Simini and Hingley (1981) state that in any company selling on credit, some effort should be made to establish a system for the collection of accounts receivable. The collection effort should start with a clearly defined policy that is explained to the customer when credit is granted. The customer is reminded of the policy at the time of sale by printing of its major features on the sales invoice, or by a complete explanation of the credit policy on the credit card or monthly statement.

According to Simini and Hingley, one of the ways to increase sales is by extending credit to the customer. This extension of credit however has some drawbacks. One is a delay between the time of sale and the time of collection.

Receivables are amounts of money owed to the company (seller) by its customers (buyers) for goods and services supplied to the customers. It is the role of credit management to support the sales without endangering the survival of the company.

Sales of goods and/or services are the only source of revenue and the main source of funds for future growth for most businesses.
Credit management has an equally important investment role. In many companies the investment in receivables is one of the largest assets appearing on the balance sheet and one, which demands a significant commitment of precious working capital resources. An increase or reduction in the amount invested in receivables will usually have a significant (negative or positive) impact on the company’s cash flow and on the company’s cash cycle.

When a company agrees to deliver goods without receiving immediate payment, it gives "credit" to the buyer. It has been said that "a sale is a gift until it is paid for" - this maxim emphasizes firstly that the seller gives the buyer free use of the goods for a period of time and secondly that often in the sale process a tangible asset (goods) is converted into an intangible asset (receivables).

Competition between sellers is the main motivation behind any offer to provide credit. In a situation of monopoly supply the seller can demand terms such as "cash in advance" but where competition is the rule credit terms can offer a major source of competitive advantage. It is therefore correct to remark that credit management has become an important sales tool.

The important role of credit terms in providing a competitive advantage is growing especially in markets where all relevant information is freely available to buyers and sellers.

Meigs and Meigs (1986) argue that a limited amount of uncollectable accounts is not only expected but it is also an evidence of a sound credit policy. If the credit department is overly cautious, the business may lose many sales opportunities by rejecting customers who should have been considered acceptable credit risks.
Nonetheless the risk of loss of a receivable and the danger that this presents to the survival of the company is still the compelling force behind the need for credit management. The loss of a large amount of working capital this way, would almost inevitably lead to the failure of a company.

Middleton (1991) states that the two main risks in extending trade credit are that the customer will either take too long to pay, or else fail to pay at all (bad debts).

In practice, losses due to debtors taking too long to pay tend to be far more important than losses due to bad debts. The ‘return’ from extending credit to customers consists of the marginal contribution to profit from the extra sales made. Trade credit policy has to balance the possible return against the risk (Business Executive Magazine, vol.15). However this risk should not be eliminated, it must rather be managed. Risk is an essential business ingredient hence the belief that taking risk offers reward. The reverse is a business truism stated thus; no risk equals no reward.

Risk is also neutral in that a change in perceived risk may present an opportunity to do more profitable business” as easily as it may present an increased danger of loss.

It is therefore important to regularly review the risk profile of each customer and potential customer noting new opportunity or new dangers present.

The credit control system should include a regular review of all customers, to ensure that they are not exceeding their maximum credit limits (Middleton, 1991).

Subsequent actions by sales and credit personnel should be guided accordingly. Risk has to be defined relative to both expected rewards and ‘company objectives.’
A company should be seeking to maximize the benefits and minimize the dangers, while at the same time creating the greatest possible return (profit) for acceptable risk taking. The definition of what level of risk is acceptable will vary from company to company and from time to time. Each company will have a unique definition of acceptable risk. This is exactly why it is possible for credit terms to provide a marketing advantage. The company that is prepared to accept the highest degree of risk will generally be the competitor most likely to win the sale (ACCA, 2001, vol. 2).

2.2. Types of Risk

According to Ron Wells (2001), there are many categories of risk associated with doing business but the three which are most observed in respect of credit management are:

(a) Country risk

The risk that something may happen in a foreign country which will negatively influence the willingness or ability of customers in that country to pay their debts on time. In this respect it is usual to think in terms of a state decreed moratorium on foreign payments or a situation where assets are nationalized and old debts are not recognized. However it is also probable that a severe decline in the external value of a country’s currency would cause all importers with payments due in foreign currency to face bankruptcy without warning. Similarly a harsh tax introduced with retrospective application could convert many previously solvent companies’s into bankrupt companies.

(b) Bank risk

The risk that a bank that has added its name to a transaction will fail to honor its commitment due to bankruptcy. In case where a bank has provided security “corporate risk” is converted into bank risk. However should they fail to honor its commitment the seller still has the right to call upon the buyer to pay direct, in terms of the contract. This
is true even if the buyer has already paid the bank and given the bank instructions to
transfer such payment to the seller. The bank acts as an agent for the buyer in such a case
so if the bank goes bankrupt while the payment is in process, the buyer must carry the
loss.

(c) Corporate risk

The risk that a buyer will fail to pay either due to financial constraints (bankruptcy) or
due to dishonesty (indefinite payment delays without good reason).

This is the main element of risk that is under the direct and active control of the
management of the buyer. The management must be honest. The management also is
capable of operating the business effectively on day to day and of dealing with crisis
effectively. Hence a perceptive assessment of the ability of the management of a customer
is as important as commercial information presented for analysis.

2.3. A portfolio management approach

It is important to keep in mind the concept of investment management when considering
the management and protection of receivables.

In terms of this concept receivables should be managed at a macro level using a portfolio
approach as well as at macro level.

The macro management of receivables involves assessing individual banks, assessing
individual customers, controlling individual deliveries.

Macro management is another simultaneous operation whereby the whole receivable
portfolio is assessed and controlled with reference to its proportional composition on a
country-by-country or sector-by-sector basis, where applicable.
The underlying philosophy is to spread risks over various categories and over various layers so that the company cannot be destroyed should one customer or one bank or one sector fail.

Macro receivables management entails the notion of sharing out a portion or multiple of the company’s equity to each sector and country.

This is done on the basis of the perceived risk of failure in each case translated into an overall risk limit for each sector and country.

The total exposure by division or segment is monitored on a day to day, or on going basis. If the company exceeds a segment limit at a particular time the excess exposure has to be shifted to another segment.

2.4. Customer risk assessment

Preamble

Ron Wells (2001) defines customer risk as the risk that a buyer will fail to pay either due to financial constraints (bankruptcy) or due to dishonesty. This is the main element of risk that is under the direct and active control of the management of the buyer. The buyer’s management must be honest. The buyer must also be capable of operating the business effectively on a day to day and of dealing with any crisis effectively. Hence a perceptive assessment of the ability of the management of a customer/buyer is as important as a competent assessment of the final and commercial information presented for analysis.

Simini and Hingley(1981) argues that the extension of a credit to small businesses and to individuals may be on the basis of a report from a credit rating bureau or on the basis of such factors as the potential customer’s earnings, past credit record, ownership of a home or car, or character references. When these factors are studied, each customer is rated as
to his “credibility”, an estimate of the assurance that a customer granted credit will pay
the amount he owes. The lower “credibility” a business is willing to accept, the more
customers it may have, but the greater the possible loss from
non-collection of accounts receivable. So the business must draw the line at some point.
No acceptable “credibility” group who will not pay if they become customers. There will
also be some persons not included in the acceptable “credibility” group who would pay if
they had been permitted to become customers.

2.5. Customer risk analysis

Ron Wells et al (2001) opined that customer risk analysis is the subject of numerous
studies, textbooks and courses, however the most important tools used by credit analysts
are:

(a) Financial information as to the condition and achievements of the buyer, usually
financial statements produced by the buyer in the form of a balance sheet, an income
statement or profit and loss account, a cashflow statement and explanatory notes.
(b) Information as to the future plans and strategies of the buyer as evidenced by
executive statements (accompanying financial statements), literature distributed to
shareholders and the public at large and cash flow forecasts.
(c) Performance information gleaned from other suppliers (credit references), bank
references, the seller’s own, credit references agencies and public record such as court
files and newspaper advertisements.
(d) Generally available information regarding the buyer’s industry and market
environment together with information regarding the legal and tax environment in which
the buyer operates.
(d) Personal visits to the buyer’s premises and market.
This is aimed at getting first hand information about the debtor.

2.6 Financial information analysis

Financial information supplied by the buyer must be considered with extreme care even if it is accompanied by a “clean” auditors report.

The first important point to bear in mind is that any such information is a record of the past, which does not necessarily indicate what the buyer’s position may be in the present or future.

The balance sheet is particularly “static” and vulnerable to manipulation. It is static in that it represents the asset and liability position at the close of business on a particular day.

The picture before and after that instant in time will be different. It can be manipulated because generally accepted accounting practices give great deal of flexibility to management and auditors to determine how various transactions, assets and liability should be represented in financial statements. Hence it is vital to read and analyze in depth all the notes that accompany financial statements.

Most credit analysts utilize well-known financial statements based ratios to determine their credit decisions. This approach is well understood throughout commercial and industry circles. However, unscrupulous executives are able to manipulate credit analyst decisions by manipulating balance sheet and income statement figures to produce desired “ratios”.

Customer risk specifically relates to the availability of cash to meet payable commitments on due dates and the willingness of the buyer’s management to pay.

The cash flow statement is the most reliable of those documents, which usually form the buyer’s set of financial statements; it reflects actual cash movements during the review period so it will indicate;
(a) the buyer's ability to generate cash
(b) the buyer's strategy for the utilization of cash generated
(c) sources of cash utilized during the year.
(d) the cash flow cycle of the buyer's business and,
(e) the buyer's defensive interval.

A customer's defensive interval is the time during which the customer can continue to operate its business utilizing only cash resources (liquid assets) actually on hand on the relevant balance sheet date.

2.7 Information about the future

It is true that the future is less and less likely to resemble the past, given the rapid pace of change being experienced. The challenge is to predict the probability that the buyer's management will be able to successfully cope with the future.

In order to make an assessment the credit analyst needs to:

(a) assess the buyer's business environment and its competitors possible strategy

(b) understand the buyer's strategies and

(c) reach a reasoned decision as to the probable efficiency or otherwise of the buyer's plans. The past (the buyer's track record) will be an important resource for the credit analyst as it may provide clues to the buyer's abilities to deal with the future.

2.8 Credit Policy.

This is a set of decisions that includes a firm's credit standards, credit terms, methods used to collect credit accounts, and monitoring procedures. The firm's credit policy consists of four variables (Weston, 1981).
1. The credit standards, which refer to the minimum financial strength of acceptable credit customers and the amount of credit available to different customers.

2. The credit terms, which includes the conditions of the credit sale, such as the length of time buyers are given to pay for their purchases, whether a discount is offered for early payment and so on.

3. The firm's collection policy, which is measured by its toughness or laxity in collecting accounts receivables.

4. The monitoring function, which is periodic evaluation of receivables and customers' payment patterns to ensure the credit policy is being administered correctly, and to determine whether changes in the credit policy are necessary.

The credit manager has the responsibility for administering the firm's credit policy.

2.9 Setting the credit standards

Weston (1981) opines that credit standards refer to the strength and credit worthiness a customer must exhibit in order to qualify for the regular credit terms and how much each customer should receive. The major factors considered when setting credit standards relate to the likelihood that a given customer will pay slowly or perhaps even end up as a bad debt loss. Determining the credit quality, or credit worthiness of a customer probably is the most difficult part of credit management. Setting credit standards implicitly requires a measurement of credit quality, which is defined in terms of the probability estimate for a given customer is for the most part a subjective judgment. Nevertheless, credit evaluation is a well-established practice, and a good credit manager can make reasonably accurate judgments of the probability of default exhibited by different classes of customers.
2.10 The Five C’s System.

These are the factors, which are used to evaluate general credit risk.

1. Characters

Refers to the likelihood that a credit customer will try to repay the debt. This factor is of considerable importance because every credit transaction implies a promise to pay. The principal question is: will the firm (borrower) make an honest effort to pay the debt, or is it likely to try to get away with something? Credit reports are used to provide background information on past performance, both for businesses and for individuals. Credit analysts often determine a firm’s credit reputation by talking with its bankers, its suppliers, its customers, and even its competitors. No matter how character is determined, it is clear that credit history is extremely important in determining whether credit will be granted.

2. Capacity

Is subjective judgement of a customer’s ability to pay. Capacity is a measure of the ability of the credit customer to generate cash sufficient to service the debt. Evaluation of this factor is based primarily on the cash income received by the borrower. It is gauged in part by the customer’s past record and business methods.

3. Capital

Is measured by the general financial condition of a borrower as indicated by an analysis of the financial statements. Special emphasis is given to the risk ratios such as the debt/assets ratio, the current ratio, and the times-interest earned ratio.

4. Collateral is represented by assets the borrower might offer as security in order to obtain credit.

5. Conditions refer both to the general economic trends and to special developments in certain geographic regions or sectors of the economy that might affect the
borrower’s ability to meet its obligations. Some firms perform very poorly during economic downturns, so creditors need to exercise greater caution when lending to such firms during poor economic periods.

2.11 Terms of credit

According to David Weston (1981), terms of credit refer to the conditions of the credit sale with regard to the payment arrangements. Firms need to determine when the credit period begins, how long the customer has to pay for credit purchases before the account is considered delinquent, and whether a cash discount will be offered.

2.12 Credit period

The credit period is the length of time an account receivable can remain outstanding before it is considered delinquent; it is the time the seller permits the buyer to make payment of the full invoice amount (Weston, 1981).

Generally, the credit period starts on the date reported on the invoice, but depending on the industry standards, the payment period might start when the goods are shipped or when the goods are received by the buyer.

2.13.0 Credit collection policy

According to David Weston (1981), collection policy refers to the procedures the firm follows to collect its credit accounts. The firm needs to determine when, and how, notification of the credit sale will be conveyed to the buyer. The quicker a customer receives an invoice, the sooner the bill can be paid. One of the most important collection policy decisions is how the past due accounts should be handled e.g. a letter might be sent to customers when a bill is ten days past due, a more severe letter, followed by a telephone call, might be used if payment is not received within thirty
days and the account might be turned over to a collection agency after ninety days. The collection of past due accounts can be expensive in terms of both out of pocket expenditures and lost goodwill. Changes in collection policy influences sales, the collection period, and the bad debts loss percentage.

2.14 Habits of a highly effective debt collector.

Effective debt collection is a very crucial function in any organization. The liquidity of any organization depends on the effectiveness of its collection team. The following are the habits of a highly effective collector.

1.0 Follow up.

Follow up is very important to highly effective collecting. Effective collectors track promises made to them and made by them, and give everything a time line for follow up. They know that if you do not take advantage the collectors will lose their power.

2.0 Power phone usage

Highly effective collectors always play on their turf. This means they are the ones initiating the conversation, not responding to questions. If you are the one who called you have the power of preparation and information. Highly effective collectors don’t sabotage themselves by calling unprepared. What you need to prepare for a collection call is the name of the proper contact, amount owed, copies of invoice/proof of delivery, and an idea of the goal you want. Your goal can be any number of things: promise of payment, confirming receipt of invoice, payment plan etc.

3.0 Work the credit application

You complained to the sales department that you needed to have it, they grumbled and griped and now the credit application sits in your credit file. Use that information at
collective time. Highly effective collectors recheck references to find out what the word is on their debtors.

4.0 The fax

What is the first delay tactic a debtor will use? “I don’t have the invoice, could you fax it to me?” Highly effective collectors fax the required documents right away because they had them in front of them in preparation for the phone call. They check back within few minutes to make sure the documents were received and to make a demand for payment.

5.0 Partnership approach

People love it when you remember their name. Highly effective collectors use the debtors name many times in phone conversations to develop a partnership. Also they use “we, as in what can we do to get this paid today?”

6.0 Knows their pay date

Your invoice due date may be important to you, but what real meaning does it have for the debtor if they catch cheques on Thursday? Highly effective debt collectors track the payment patterns of their debtors and make contact several days before their pay date. Knowing the debtors payment patterns can help ensure that your cheque will be one of those issued on the pay date.

7.0 Practices people skills

Highly effective collectors are consistently learning new ways to approach debtors for payment. They spend time really listening to the debtor on the phone instead of planning the next thing they have to say. Highly effective collectors can differentiate emotional excuses for non-payment from logical excuses for non-payment.
According to Simini and Hingley (1981) an understandable credit policy, firmly administered, is a valuable source to a business. It helps in reducing losses from bad debts, in creating goodwill, and in keeping the business financially healthy. It is important to note that not all customers are “valued” customers. The so-called valued customers may be a drag on an organization's total profitability. Discarding such a customer may be appropriate. The marketing or sales manager should not only aim at increasing sales since if the costs associated with making the sale are brought into analysis, he has virtually been giving away his firm's products or services. Thus sales maximization does not lead to profit maximization (Business Executives Magazine, vol.15).

Finally, it is important to note that customers generate overheads which include marketing and advertising costs, sales force, distribution and financing costs. The supplying firm should set up some form of account analysis to ensure that these expenditures are focused towards their actual customers. This should give a clear idea as to whether a customer is truly, rather than apparently, profitable.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1.0 Introduction

- The objective of this study was to establish whether there is any significant relationship between an organization's debt level and other parameters.
- Study the debt position and causes of the deteriorating debt level of Nation Media Group.
- To recommend to the management of Nation Media Group measures to control debt.

This chapter looks at the methodology used in carrying out this research study.

In undertaking this study both secondary and primary data was gathered. The secondary data included information gathered from Nation Media Group annual reports, company records, business review journals and other management publications.

The primary data was gathered using questionnaires that were administered to different kinds of respondents.

3.2.0 Research Design

3.2.1 Population

Receivables are generally as a result of clients who receive goods and/or services without paying for immediately. Therefore in undertaking this project all the relevant players in the making of account receivables were considered.

The population of interest in this study constitutes Nation Media Group newspaper distributors, advertising agencies, other major advertisers (e.g. corporate clients), credit control staff and sales staff.

Nation Media Group newspaper distributors and advertisers are in the major towns in Kenya namely Nairobi, Mombasa, Kisumu, Nakuru, Embu, Nyeri, Thika and
Dare-salam in Tanzania and Kampala in Uganda. The advertisers in the electronic media are mainly found in the urban centers of Kenya.

The credit control staff are part of the finance department and they are all stationed in Nairobi. The sales staff considered in this study are from the newspaper division, broadcasting and the Nation Marketing and publishers. Primarily the sales staff are responsible for sourcing of businesses and collection of the receivables, therefore they play a key role in the management of debts.

3.3. Sampling

The research used disproportional stratified sampling technique. Stratified sampling technique ensures that different groups of population are adequately represented in the sample to increase the level of accuracy (Ngongo Bahati, 2001).

A sample of 60 respondents was gathered. These include 10(ten) distributors, 20(twenty advertisers), 10(ten) credit control staff and 20(twenty) sales staff. The exercise was done by way of personal visits and questionnaires (a copy attached) sent to the respondents.

3.4. Data Collection Methods

There are two sets of data in this project i.e. the secondary data and the primary data. The Secondary data were obtained from management journals, web sites, management books, Nation Media Group annual reports and various newspaper publications. Respondents outside Kenya were contacted by way of questionnaires sent through the branch offices in Uganda and Tanzania.

The primary data was obtained by use of interviews and administering of questionnaires. There were three sets of questionnaires each for the three classes of the respondents (distributors, advertisers, sales staff and credit control staff) addressing
different aspects of credit management. The first part of the questionnaires addresses the general information about the respondents while the second part focuses on the principles of credit management.

### 3.5.0 Research Procedures

#### 3.5.1 Pilot study

A pilot study was conducted to minimize errors in the questionnaires and the interview guide. The questionnaire was pilot tested with some sales and credit control staff at Nation Media Group. These pilot group gave very constructive remarks which were used in making the necessary adjustments to suit the research objectives. The questionnaire were also reviewed by the project supervisor who provided suggestions for further refinement in accordance with the research questions and objectives.

#### 3.5.2 Administering of the questionnaires and the interviews.

Those participating in the research were notified in advance. The questionnaires were sent to the respective respondents in time to obtain primary data. Most of the questionnaires were collected after three weeks although some took almost four weeks before they were ready. Personal interviews were conducted where necessary.

### 3.6.0 DATA ANALYSIS METHODS

A number of statistical measures were used in analyzing the data that were obtained. Regression analysis was used to test the specific relationships described in the hypothesis. Data analysis tools such as SPSS was used to measure the relationship existing between company’s debt and the various parameters defined earlier.
Financial ratios were calculated to determine the trends of various receivable ratios. This is done by the use of accounting packages such as excel.

3.6.1 Profile of the respondents

Table 1: Response rate of surveyed respondents

<table>
<thead>
<tr>
<th>Respondent type</th>
<th>Questionnaires distributed</th>
<th>Questionnaires completed &amp; returned</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Percentage of total</td>
</tr>
<tr>
<td>Sales staff</td>
<td>20</td>
<td>33.3</td>
</tr>
<tr>
<td>Credit control</td>
<td>10</td>
<td>16.7</td>
</tr>
<tr>
<td>Distributors</td>
<td>10</td>
<td>16.7</td>
</tr>
<tr>
<td>Advertisers</td>
<td>20</td>
<td>33.3</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

From table 1, it shows that out of the sixty (60) questionnaires that were sent out, fifty seven (57) responded. This is a response rate of 95 %, which is considered satisfactory. The response rate for sales staff was 31.7%, credit control staff 17.5%, distributors 17.5% and advertisers 33.3%.
Table 2: Academic qualifications of respondents

<table>
<thead>
<tr>
<th>Qualification</th>
<th>Sales staff</th>
<th>Distributors</th>
<th>Advertisers</th>
<th>Credit control</th>
<th>Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postgraduate</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td>5.3</td>
</tr>
<tr>
<td>Graduate</td>
<td>13</td>
<td>5</td>
<td>13</td>
<td>6</td>
<td>37</td>
<td>66.1</td>
</tr>
<tr>
<td>Diploma</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>10</td>
<td>17.9</td>
</tr>
<tr>
<td>Other (e.g. form 4)</td>
<td>0</td>
<td>2</td>
<td>0</td>
<td>4</td>
<td>6</td>
<td>10.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17</strong></td>
<td><strong>10</strong></td>
<td><strong>19</strong></td>
<td><strong>10</strong></td>
<td><strong>56</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

The academic qualification of the respondents is as shown in table 2. Most of the respondents have a graduate degree (66.1%), showing that they are fairly educated. In the case of the distributors, fifty percent (50%) have a graduate degree.

Table 3: Experience (in years) of Credit control and Sales staff

<table>
<thead>
<tr>
<th>Classes</th>
<th>Credit control staff</th>
<th>Sales staff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of respondents %</td>
<td>Number of respondents %</td>
</tr>
<tr>
<td>Over 3 years</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>2 years</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>1 year</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>Less than 1 year</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

From table 3, it shows that a good number of credit control staff are fairly well experienced as those with over 3 years experience constitute 60% of the total sample, 20% having two years experience while 20% have one year experience. The table also shows that only 5% of the sales executive have over 3 years experience. This is a
worrying situation given that sales force plays a very integral part in receivables collection.

3.7.0 LIMITATIONS OF THE STUDY

In carrying out this study there were some limitations that were experienced. Resource and time were major constraints for this study. Nation Media Group clients are all over the country and even in the East African region e.g. the advertisers. However the study was mainly confined to clients in Nairobi area and two distributors in Tanzania and Uganda. A larger sample covering all the three countries of East Africa would have been preferable.

Secondly, there are no theories on credit management covering the local industries; therefore the literature review was based mainly on foreign-based organizations. The use of local firms would have given a better understanding of the local scene in terms of social, economic and legal aspect of credit management.
CHAPTER FOUR: DATA ANALYSIS AND FINDINGS

The respondents’ views on various aspects of credit management was sought in light of the objectives of the project. The findings obtained were analyzed using descriptive statistics such as percentages and frequency distributions.

Table 4: Nation Media Group turnover and debtors figure from 1996-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover</th>
<th>Debtors</th>
<th>Credit sales</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ksh-million</td>
<td>Ksh-million</td>
<td>Ksh-million</td>
</tr>
<tr>
<td>1996</td>
<td>1895.7</td>
<td>351.2</td>
<td>1516.6</td>
</tr>
<tr>
<td>1997</td>
<td>2182</td>
<td>314.8</td>
<td>1745.6</td>
</tr>
<tr>
<td>1998</td>
<td>2409.6</td>
<td>420.1</td>
<td>1927.7</td>
</tr>
<tr>
<td>1999</td>
<td>2450.5</td>
<td>463</td>
<td>1960.4</td>
</tr>
<tr>
<td>2000</td>
<td>3022.6</td>
<td>603</td>
<td>2418.1</td>
</tr>
</tbody>
</table>

Source: Nation Media Group Annual Reports

Generally the net credit sales are approximately 80% of the turnover for all the divisions.
Graph 1.

NMG Turnover, Debtors and Credit Sales figures from 1996-2000
Table 5: NMG Account receivable turnover and number of days’ sales in receivables.

<table>
<thead>
<tr>
<th>Year</th>
<th>Account receivable turnover (no. of times)</th>
<th>Number of days’ sales in receivables (in days)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>4.3</td>
<td>85</td>
</tr>
<tr>
<td>1997</td>
<td>5.5</td>
<td>66</td>
</tr>
<tr>
<td>1998</td>
<td>4.6</td>
<td>80</td>
</tr>
<tr>
<td>1999</td>
<td>4.0</td>
<td>91</td>
</tr>
<tr>
<td>2000</td>
<td>4.0</td>
<td>91</td>
</tr>
</tbody>
</table>

4.1.0 Account receivable turnover

This ratio is obtained by dividing the annual net credit sales by the average receivables. Account receivable turnover normally indicates the number of times a company can recover its receivables. The higher this number, the better. In the case of Nation Media Group account receivable turnover increased from 4.3 times in 1996 to 5.5 times in 1997 and decreased to 4.6 times in 1998. However, this decreased to 4.0 times in the year 1999 and 2000. The decrease can be explained by the company’s expansion and increase in sales which had eventually led to more outstanding receivables. For instance, the group's entry into the broadcasting have elicited more sales and subsequently led to more outstanding receivables.
4.2.0 Number of days' sales in receivables.

This ratio shows the number of days it takes to recover account receivables.

From table 2, it shows that it takes about 85 days to recover account receivables in 1996. This dropped to 66 days in 1997 but went up in 1998 to 80 days. This worsened in 1999 and 2000, as it stood at 91 days.

4.3.0 Primary data analysis:

The primary was obtained from the questionnaires that were sent to the respondents and was presented using tables and pie charts.

4.4.0 Structure of credit control department

The credit control department is headed by a Revenue Accountant, who is in charge of all the revenue activities of the company. This entails all the divisions of the company. The department has one accountant, two assistant accountants and six accounts assistants who help in the running of the day to day activities of the section.

4.5.0 Credit management training: Credit control and sales staff

Regarding whether they have undertaken any credit management training, only 20% of credit control staff replied 'Yes' and 80% replied 'No' and in the case of sales staff, 35% replied 'Yes' and 65% replied 'No'. This shows that majority of credit control and sales staff do not have the necessary skills in credit management.

As to whether they require credit management training, 100% of credit control staff and 60% of sales staff replied 'Yes'. This shows that staff of both departments require the necessary credit management training.
The respondents were also asked as to the kind of training they required and the response is shown in table 6.

**Table 6: Kind of training desired**

<table>
<thead>
<tr>
<th>Respondent type</th>
<th>Collection procedures</th>
<th>Credit evaluation methods</th>
<th>Other(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit control staff</td>
<td>0</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Sales staff</td>
<td>5</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5</strong></td>
<td><strong>20</strong></td>
<td><strong>1</strong></td>
</tr>
<tr>
<td><strong>percentage</strong></td>
<td><strong>19</strong></td>
<td><strong>77</strong></td>
<td><strong>4</strong></td>
</tr>
</tbody>
</table>

As shown in table 6, 77% of the credit control and sales staff who responded prefer to be trained on credit evaluation procedures as compared to 19% and 4% who preferred to be trained on collection procedures and other training respectively.
Table 7: Causes of increase in company’s debts

<table>
<thead>
<tr>
<th>Cause</th>
<th>Sales staff</th>
<th>Credit control staff</th>
<th>Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depressed economy</td>
<td>11</td>
<td>5</td>
<td>16</td>
<td>60</td>
</tr>
<tr>
<td>Poor credit evaluation</td>
<td>5</td>
<td>4</td>
<td>9</td>
<td>33</td>
</tr>
<tr>
<td>Poor credit policy</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td>Laxity by sales staff</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other(s)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17</strong></td>
<td><strong>10</strong></td>
<td><strong>27</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

It can be deduced that from the sales and credit control staff who responded to the question which asks the causes of the company’s debts, 60% described the depressed economy as the main cause, followed by poor credit evaluation (33%) and poor credit policy (7%) and laxity and other 0% each. Given that the Kenyan economy has been shrinking (negative 0.5% in the year 2000) over the last ten years it is sighted as the major cause of the company’s debt increase. Thus most of the clients are faced by cash flow problems.

4.6.0 Enhancing collection capability

The question as to what can be done to enhance collection capability was posed to credit control staff and 60% opined that we should reduce the credit limit, 40% said we should limit the credit period and 0% agreed to the encouragement of upfront payments.
4.7.0 Deficiency in the company’s current credit policy

This question was posed to credit control staff. The question was meant to find out whether credit control have noted if there is any deficiency in the company’s current credit policy. 80% of the credit control staff answered “yes” while 20% answered “No.” However, when asked to state the deficiency many could not. What was sighted as a deficiency was the conflict between the sales and credit control in terms of credit management. Also others suggested the need for serious involvement of the debt collectors in the management of debts.

4.8.0 Membership of Credit Reference Bureau

Credit Control staff were asked whether Nation Media Group was a member of a credit reference bureau and 80% answered “Yes” while 20% said “No.” However of the 80% who answered “yes” only 30% were able to state the services provided by the credit reference bureau meaning that the rest do not even use the services that are available.

The services that are available as outlined by the respondents are:

(a) The credit company provides history of the bad debtors
(b) It provides history of clients who bounce cheques
(c) It provides history of referees quoted on the credit application forms.

Table 8: Problems in understanding Financial Documents of NMG: Sales Staff

<table>
<thead>
<tr>
<th>Document</th>
<th>Frequency</th>
<th>%-Yes</th>
<th>Frequency</th>
<th>%-NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invoices</td>
<td>0</td>
<td>0</td>
<td>17</td>
<td>100</td>
</tr>
<tr>
<td>Statements</td>
<td>4</td>
<td>23.5</td>
<td>13</td>
<td>76.5</td>
</tr>
<tr>
<td>Credit notes</td>
<td>4</td>
<td>23.5</td>
<td>13</td>
<td>76.5</td>
</tr>
</tbody>
</table>
Table 9: Problems in understanding Financial Documents of NMG: Distributors

<table>
<thead>
<tr>
<th>Document</th>
<th>Frequency</th>
<th>%-Yes</th>
<th>Frequency</th>
<th>%-NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invoices</td>
<td>4</td>
<td>40</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>Statements</td>
<td>3</td>
<td>30</td>
<td>7</td>
<td>70</td>
</tr>
<tr>
<td>Credit notes</td>
<td>4</td>
<td>40</td>
<td>6</td>
<td>60</td>
</tr>
</tbody>
</table>

Table 10: Problems in understanding Financial Documents of NMG: Advertisers

<table>
<thead>
<tr>
<th>Document</th>
<th>Frequency</th>
<th>%-Yes</th>
<th>Frequency</th>
<th>%-NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Invoices</td>
<td>2</td>
<td>20</td>
<td>8</td>
<td>80</td>
</tr>
<tr>
<td>Statements</td>
<td>2</td>
<td>20</td>
<td>8</td>
<td>70</td>
</tr>
<tr>
<td>Credit notes</td>
<td>3</td>
<td>30</td>
<td>7</td>
<td>70</td>
</tr>
</tbody>
</table>

The question as to whether the respondents have problems in understanding the financial documents of Nation Media Group was posed to sales staff, distributors and advertisers and the results are shown in tables 8, 9 and 10 respectively.

Looking at the results it is evident that a large percentage of the respondents do not have difficulty in understanding the relevant financial documents necessary to facilitate payments.

The respondents stated the following as the main problems they faced in understanding these financial documents:

(a) Difficulty in identifying the differences between invoices and credit notes

(b) The documents are so detailed that one gets confused

33
4.9.0 Advertising Agency

Advertising agency constitute a large percentage of advertising debts for both newspaper and the broadcasting divisions. For instance in the broadcasting division, 75% of the debt is from advertising agencies. Therefore the question as to whether a sale executive handles an advertising agency and whether there is need to ask for security to cover their debt was posed to them. Of the total twenty sales executive who took part in this research only 24% answered “Yes” and 76.% answered “No”.

As to whether they agree to the introduction of security to cover the advertising agency’s debt the response were as follows: 37.5% fully agree, 0% partially agree, 50% do not agree and 12.5% do not know.

4.10.0 Commission structure

Commission is the payment that is made to both the permanent and freelance sales staff. The permanent staff are paid a basic salary as well as commission depending on whether they have achieved their sales and collection targets. The freelance sales staff are paid commission once they made sales and collected. The question as to whether the current commission structure is motivating enough is made to the sales executives and the results are shown in table 11.

| Table 11: Commission structure |
|------------------------|-----------------|-----------------|
| Response   | Frequency | Percentage |
| Yes        | 7          | 38.9          |
| No         | 11         | 61.1          |
From the table it is clear that a higher percentage (61.1%) of the sales team do not agree that the current commission structure is not motivating for one to undertake debt collection. However when the question as to whether the commission rate should be pegged to the debt outstanding days the results were as shown in table 12.

Table 12: Commission rate vs. debt aging

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully agree</td>
<td>4</td>
<td>23.5</td>
</tr>
<tr>
<td>Partially agree</td>
<td>1</td>
<td>5.9</td>
</tr>
<tr>
<td>Do not agree</td>
<td>12</td>
<td>70.6</td>
</tr>
<tr>
<td>Don't know</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

4.11.0 Trading period

Trading period is an integral part of credit management policy; therefore the question for how long one has been trading with Nation Media Group was posed to both advertisers and distributors.

Table 13: Trading period

<table>
<thead>
<tr>
<th>Period</th>
<th>Distributors</th>
<th>Advertisers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 1 yr</td>
<td>Frequency</td>
<td>%</td>
</tr>
<tr>
<td>1 yr</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2 yrs</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Over 3 yrs</td>
<td>5</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>4</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>100</td>
</tr>
</tbody>
</table>
The response of the advertisers was poor compared to the sample size of nineteen. Thus, many did not respond to this question.

4.12.0 Appointment method

The appointment method of a debtor is important so that the necessary procedures are followed. This is to avoid any unethical practices such as corruption, nepotism, favourasim etc.

Only 11 out of 19 advertisers responded to this question. Of this 64% said the position was advertised and they were competitively selected, 36% were interviewed and evaluated and 0% said they were freely appointed.

All distributors responded to the question. 30% said they were appointed through advertisement of the position and competitive selection, 70% said they were interviewed and evaluated while 0% said they were freely appointed.

4.13.0 Sales volume

The amount of credit sales given to a debtor forms an integral part of credit management policy, therefore the need to know how much credit is enjoyed by each customer. The question as to the amount of sales volume was put to both advertisers and distributors. 0% of the distributors responded that their sales is less than ksh 1 million, 50% more than ksh 5 million and less than ksh 6 million, 0% more than ksh 6 million and less than ksh 7 million and 20% said their sales is more than ksh 8 million and less than ksh 10 million. In the case of the advertisers 60% responded that their sales volume is less than ksh 1 million while 10% responded that their sales volume is more than ksh 1 million and less than ksh 3 million. 0% responded that their sales volume is more than ksh 3 million and
less than Ksh 5 million and 0% responded that their sales volume is less than Kshs 5 million.

4.14.0 Financial documents

Many organizations end up having huge bad debts portfolio due to poor evaluation of the prospective clients. Therefore the analysis of the financial documents of prospective clients is a prior means of ensuring an organization does not provide credit facilities to collapsing or firms already having financial difficulties.

**Table 14: Financial documents: Distributors**

<table>
<thead>
<tr>
<th>Financial documents</th>
<th>Yes</th>
<th>Percentage</th>
<th>No</th>
<th>Percentage</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet</td>
<td>2</td>
<td>20</td>
<td>8</td>
<td>80</td>
<td>100</td>
</tr>
<tr>
<td>P&amp; L account</td>
<td>1</td>
<td>10</td>
<td>9</td>
<td>90</td>
<td>100</td>
</tr>
<tr>
<td>Cash flow statement</td>
<td>6</td>
<td>60</td>
<td>4</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

**Table 15: Financial documents: Advertisers.**

<table>
<thead>
<tr>
<th>Financial documents</th>
<th>Yes</th>
<th>Percentage</th>
<th>No</th>
<th>Percentage</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance sheet</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>P&amp; L account</td>
<td>1</td>
<td>16.7</td>
<td>5</td>
<td>83.3</td>
<td>100</td>
</tr>
<tr>
<td>Cash flow statement</td>
<td>1</td>
<td>20</td>
<td>4</td>
<td>80</td>
<td>100</td>
</tr>
</tbody>
</table>
The advertiser's response to this question was poor as only five of them answered.

**4.15.0 Financial security**

The provision of financial security can form an important milestone in the management of debts. However this can only be the case only if the security can easily be used to recover the debt. In Kenya many firms have experienced problems in disposing securities especially in the case of buildings and land.

From the responses given 100% of the distributors responded “Yes” while 0% responded “No” and the converse is true for the advertisers.

As to the kind of security provided 90% of the distributors give bank guarantee, 10% give cash deposits, 0% land and buildings. 0% of the advertisers responded that they give land, buildings, cash deposits and bank guarantee.

**4.16.0 Accountants**

The need for a professional accountant cannot be over-emphasized in the management of credit. 90% of the advertisers responded “Yes” to the question whether they employ accountants while 10% responded “No”.

However, 100% of the distributors responded “Yes” to this question.

**Table 16: Level of education of the clients accountants**

<table>
<thead>
<tr>
<th>Education</th>
<th>Distributors</th>
<th>Percentage</th>
<th>Advertisers</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diploma</td>
<td>7</td>
<td>70</td>
<td>5</td>
<td>26</td>
</tr>
<tr>
<td>Graduate</td>
<td>3</td>
<td>30</td>
<td>4</td>
<td>21</td>
</tr>
<tr>
<td>Postgraduate</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>No response</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>53</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>10</strong></td>
<td><strong>100</strong></td>
<td><strong>19</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
Professional qualifications such as ACCA, CPA, CIMA etc are necessary in enhancing once skill in accountancy. Therefore the need to pursue these examinations.

The question was posed to both distributors and advertisers accountants. 80% of the advertisers responded “Yes” while 20% responded “No”. In the case of the distributors 50% responded, “Yes”, 40% responded “No” and 10% did not respond.

4.17.0 Credit facility

Credit facility plays a great role in enhancing sales. Therefore organizations have no option but to provide credit facilities to their clients so as to achieve competitive advantage and to continue surviving in business. This question was put to both distributors and advertisers. 90% of the distributors responded that they have credit facility with Nation Media Group while 10% responded they do not. However only 60% of the advertisers responded “Yes” and 40% responded “No.”

4.18.0 Credit period

Credit period is the period it takes to pay ones debt. Thus it is the period before which an account is considered bad. This varies from debtor to debtor and from organization to organization. The question how long is your credit period was posed to both distributors and advertisers and the response was varied.

All (100%) the advertisers responded that their credit period is 30 days. This means that after thirty days all accounts are due for collection. In the case of the distributors 50% responded that their credit period is 30 days, 30% for 45 days, 20% for 60 days, 0% for both 90 days and 120 days.
4.19.0 Outstanding debts
Since some clients enjoy credit facilities they are likely to have outstanding debts. This question was administered to both advertisers and distributors. 100% of the distributors responded “Yes” to this question while 0% responded “No”.
On the other hand 57% of the advertisers responded “Yes” while 43% responded “No”. However none of the respondents stated the amount.

4.20.0 Number of days’ overdue
This question was administered to both distributors and advertisers and it was aimed at seeing whether the company was exposed to the dangers of bad debts. The problem of bad debts portfolio has been a critical factor in the fall of many company’s therefore maximum care has to be taken if an organization has to survive. This question is also important to see if the organization policy is followed.
80% of the distributors responded that their overdue date is 30 days, while 20% for 60 days and 0% for 90 days and 120 days plus.
The response of the advertiser’s was poor as only 21% responded.

4.21.0 Reasons why the debt is not paid
Clients fail to pay their debt due to many reasons which are internal or external. Therefore organizations have to address this if they have to minimize escalation of their debts. This question was addressed to the distributors and advertisers to find out what could be hindering the payment of their debts. The response is as shown in table 17.
Table 17.0 Reasons for not paying debts.

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Distributors(%)</th>
<th>Advertisers(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within credit period</td>
<td>20</td>
<td>65</td>
</tr>
<tr>
<td>Cash flow problems</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Amounts in dispute</td>
<td>60</td>
<td>10</td>
</tr>
<tr>
<td>Payment not demanded</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

From the table it shows that 60% of the distributors are not paying because they are disputing the amounts being demanded. On the other hand 65% of the advertisers responded that they are not paying because the debt is within the credit period.

4.22.0 Accounting package

A client should have a proper accounting system so that he/she can monitor its account payable. This is likely to minimize conflicts of amounts owing. This question was asked in view of the fact that most clients do not have proper accounting packages thereby accumulating debts. 30% of the distributors responded “Yes” while 70% responded “No”.

As for the advertisers 69% responded “Yes” while 31% responded “No.” The packages that are widely used by most of those who responded “yes” are Excel, Lotus and Sage.

4.23.0 Receiving of financial documents in time

For a debtor to pay his outstanding accounts promptly he/she must receive the financial documents in time. Most of the debtors have the habits of delaying payments with the excuse that they are not receiving their statements, credit notes and invoices in time.

Therefore it is imperative that these financial documents are received promptly. 80% of
the distributors responded “Yes” to this question while 20% responded “No”, the response is the same for the advertisers.

4.24.0 Close working relationship with sales executive

There is need for close working relationship between the sales staff and debtors. This is to ensure that debtor’s queries are attended to in time so that this does not act as the reason for not paying in time. This question was addressed to both distributors and advertisers 80% of the distributors responded “Yes” and 20% responded “No” while 100% of the advertisers responded “Yes” with 0% for “No”.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1.0 Summary (by chapter)

Chapter one: Introduction

This study is divided into various chapters, which are summarized hereunder.

Chapter one is titled "introduction" and it looked at the importance of having an efficient and effective credit management policy in the management of an organization's receivables. The chapter emphasizes that the survival, growth and eventual increase of the market share of an organization depends entirely on its ability to have a promising (collectable) receivables ledger. The chapter also looks at the problem statement, research objectives and sub-research objectives.

The objectives of the study were:

(1) To establish whether there is any significant relationship between an organization's debt level and/or
   (a) Its credit policies.
   (b) Educational level of the client.
   (c) Complexity of company's financial documents.
   
(2) To study the debt position of Nation Media Group under different sub-headings e.g distributors, advertisers

(3) To study debt position trends of Nation Media Group over five year period.

Chapter two: Literature Review

This chapter attempts to present an overview of credit management policy. The chapter looks at the strategic foundations for credit management. Thus the need for credit sales as well as having an efficient and effective credit management policy in place. The chapter looks at the types of risks, customer risk assessment and analysis methods, financial
information analysis and information about the future. The chapter also looks at the various aspects of credit management e.g. credit policy, setting the credit standards, terms of credit, credit period and credit collection policy. Lastly the chapter looks at the habits of a highly effective debt collector. In a nutshell the chapter looks at the various aspects of credit management as presented by different academic and professional authors.

Chapter three: Research Methodology

This chapter highlights the kind of data that is used in this paper. The chapter looks at both the primary and secondary data. The secondary is gathered from annual reports of Nation Media Group and is analyzed systematically. The chapter looks at the primary data as gathered from a sample unit of the distributors, advertisers, sales staff and credit control staff. Thus the chapter looks at the population type, sample size, data collection methods and the data analysis techniques.

Chapter four: Data Analysis and Findings

Under this chapter both the primary and secondary data were analyzed systematically under different sub-headings below:

(a) Analysis of secondary data

As outlined earlier the secondary data was obtained from the company’s annual reports over a five-year period. The group’s turnover grew by 59% from 1996 to year 2000 (table 1). In the same period the credit sales grew by the same percentage.

The account receivable turnover grew from 4.3 times to 5.5 times but dropped to 4.0 times by year 2000. The number of days' sales in receivables increased from 85 days in 1996 to 91 days in year 2000. The decrease in the account receivable and increase in the number of days' sales in receivables is an indication of the deterioration of the debt level.
This could be due to the increasing sales level as a result of expansion into the electronic and courier business.

(b) Academic qualification of the respondents

Generally the respondents are quite qualified as shown in table 4. 66% of the respondents have graduate degree, 17.9% diploma, 10.7% other (secondary education) and 5.3% postgraduate degree.

(c) Structure of credit control department

As the management saying goes structure follows objectives. Thus the right structure must be in place so that organizational objectives can be achieved. In the case of Nation Media Group there are three divisions namely, newspaper division, broadcasting division and nation carriers division. Therefore the current structure is not supportive enough in ensuring proper credit management. Thus there is need for the credit manager in charge of the credit policies of the company, credit control accountant for every division and other support staff. Thus there is need to restructure the credit control department. This is to enhance efficiency in terms of credit sales and collections thereby ensuring higher liquidity position of the company.

(d) Experience in years

For one to perform better in his job there is need for experience.

The experience level of both sales and credit control was sought. The response is that 5% of sales and 60% of credit control staff have over three years, 20% of credit staff and 50% of sales staff had two years experience. This is an indication that the credit control are
fairly experienced unlike the sales staff. The management should think of how to retain the sales team otherwise they will always end up having an inexperienced team.

(e) Training

Employee’s skills have to be updated from time to time so that they are regularly in touch with the market requirements. This can only happen if they are trained regularly. Regarding whether they have had any credit management training, 20% and 35% of credit control and sales staff responded “Yes” respectively. This shows that the organization does not take the issue of staff training seriously and there is need to change this unfortunate situation.

On the issue of the kind of training desired, 77% of the respondents said they required training on the credit evaluation methods, 19% on collection procedures and 4% on others. This is an indication that staff prefer the debtors to be properly evaluated before any services are rendered, thus reducing incidences of having bad debtors.

(f) Causes of company’s debts, enhancing collection capability and membership of Credit Reference Bureau.

On the causes of the increase in the company’s debts, 60% of the respondents indicated that it was due to the depressed economy, 33% blamed it on poor credit evaluation, 7% due to poor credit policy and 0% due to laxity by sales staff and others. The Kenyan economy has declined over the years as indicated by statistics released by Central Bank (e.g. negative 0.5% decline in 2000). This is an external factor which the company has no control over it. However the issue of poor credit evaluation (33%) should urgently be addressed if the company is to keep its debt position in place.
A deficiency in a company’s credit policy is likely to affect the debt position. The question sought to know whether this was true and 80% of the credit control staff affirmed to this. Therefore there is need to critically re-evaluate the current credit policy in place. The respondents (80%) affirmed that Nation Media Group is a subscriber of a Credit Reference Bureau although the services that are available not fully utilized despite paying monthly subscriptions.

(g) Problems in understanding financial documents

It is imperative that the financial documents of a company should be simple, clear and easily understood by the clients. Lack of understanding of a company’s financial documents should not be the basis for failing to pay accounts receivables. As shown in tables 8,9 and 10 the sales staff, distributors and advertisers do not generally have problem in understanding the financial documents of the company. However it is important to note and take corrective measures as the distributor response is alarming given that 40% opined that they have problems in understanding invoices, 30% for statements and 40% for credit notes. Corrective measures such as explaining to them these documents is necessary.

(h) Advertising agency and commission structure

Advertising agencies do advertise on behalf of corporate bodies and they handle huge volume of business. Therefore it is important to retain their businesses and at the same time prudent to have their debts under control. When asked to state whether agencies should be paying security to cover their debts the response is as follows: 37.5% fully agreed, 0% partially agreed, 50% do not agree and 12.5% do not know. This shows that despite the increasing debts of the agencies the sales staff are hesitant to introduce debt
security cover an indication that they feared losing sales. However, despite this response, the management should explore what could be done to ensure that the company is not greatly exposed.

Commission forms an important bedrock in containing increase in debts. Therefore, an organization should ensure the commission structure in place is acceptable in terms of costs to the company and being an incentive to the sales team. The question whether the current commission structure is motivating enough is posed to the sales executive and 61.1% responded “No” while 38.9% “Yes”. From this result, it is important that the management should look into the current commission structure to ensure that it does not act as a disincentive.

(I) Trading period, appointment method, sales volume and financial documents.
Trading period is the period for how long a client has been trading with the supplier. 50% and 40% of the distributors opined that they have been trading with Nation Media Group for over three years and two years respectively. While 60% and 20% of the advertisers have been trading with Nation Media Group for the last three and two years respectively. This clearly shows that most of the clients are not new to the company’s credit policies.

Concerning the issue of the appointment as a debtor, 64% of the advertisers and 70% of the distributors responded that they were interviewed and evaluated. This is a clear indication that the policies in place are fair in terms of favourism and nepotism.

Sales volume is the amount of supplies in monetary terms that a client receives in a certain period. The distributors enjoy higher credit facilities as 50% agreed that they have sales volume between five million shillings and six million shillings. In the case of the advertiser’s 60% responded that they have sales volume of less than one million shillings.
This is a lower figure compared to the debt level outstanding from some of the advertisers especially the advertising agencies that have higher debt levels.

From table 14, it can be deduced that majority of the current distributor’s have not had their financial documents clearly scrutinized. For instance 0% of the distributor’s had their balance sheet examined while only 16.7% and 20% provided their profit and loss account and cash flow statement respectively. In the case of the advertiser’s 100%, 83.3% and 80% responded that they did not offer balance sheet, profit and loss account and cash flow statement. As said earlier this is a major lapse in so far as credit management is concerned.

(j) Financial security
The provision of financial security is very important in ensuring that an organization is covered in case a client defaults in payment or is terminated. From the responses given it shows that all the distributors provide some form of security i.e. 90% said they provided bank guarantee while 10% gave cash deposits. This shows that the company is secure so long as the debt level does not exceed the security. However the situation is very bad as far as the advertisers are concerned. They do not provide any form of security despite their huge debt position. This is a very risky situation as the company is completely exposed and stands to lose totally in case a client is placed under receivership.

(k) Accountants and Accounting package
Having the right personnel is the cornerstone of the success of any business.

Therefore where possible the supplier should ensure that his clients have the right
personnel, this is particularly crucial for major clients like distributors. Generally both the distributors (100%) and advertisers (90%) employ accountants. Having the right accounting package will enable a debtor to monitor his/her account payable to know whether it is due for payment and if the amounts billed are correct. From the responses given, 70% of the distributors and 31% of the advertisers opined that they do not have any accounting package. Given the importance of an accounting package the management of Nation Media Group should work closely with the affected distributors to ensure that they acquire the relevant package that is cost effective.

(I.) Credit Facility, credit period, outstanding debts and number of days overdue.

Even though credit facility enhances sales it is important that the policy is reviewed from time to time. In the case of Nation Media Group, 90% of the distributors and 60% of the advertisers agreed that they have credit facility. This is a very high percentage given that with the deteriorating economy the default rate is likely to be high. Therefore it is imperative that the management should strive to put some distributors on an upfront basis. Thus they should pay for their supplies in advance. The longer it takes for receivables to be collected the higher the chances of bad debts. Therefore it is important that the management should put credit period to reasonable days such that the chances of bad debts from occurring is minimized. From the responses given 100% of the advertisers and 50% of the distributors enjoy a credit period of thirty days. This is a reasonable credit days which if enforced can ensure that the outstanding receivables is manageable.
There are a number of reasons as to why clients are not able to honour their financial obligations. From table 17, it shows that 60% of the distributors are not paying their debts because the amounts stated as outstanding is in dispute. This is a significant percentage that should not be ignored by the management. The management should find out what are these disputes and how they arose.

In the case of the advertisers, 65% opined that they are not paying because the debt is within the credit period. While 25% agreed that they have cash flow problem. The latter group should be closely monitored to ensure that their debt does not deteriorate.

(m) Receiving financial documents in time and close working relationship with sales executive.

For clients to pay on time they should receive financial documents like invoices, statements and credit notes in time. From the responses given 80% of the distributors and advertisers are receiving the necessary financial documents on time. This should further be enhanced such that it does not act as the basis for not paying. Both the distributors and advertisers opined that they enjoy close working relationships with the Nation Media Group sales executives.

5.2.0 CONCLUSIONS

This study sought to establish whether there is any significant relationship between an organization’s debt level and its credit policies; educational level of the client and complexity of the organization’s financial statements.

Secondly, the study tends to analyze debt position trends of Nation Media Group over five year period and study the possible causes of increase in the debt level. The results of the study fully shows that there is a close relationship between a company’s debt level;
educational level of the client credit policies of the company and the complexity of the organization’s financial statements.

In achieving its objectives the study was guided by the following research questions:

- What is the debt position of Nation Media Group Advertising debtors and circulation debtors?
- What is the debt position trends?
- What are the possible causes of increase in debt?
- How can Nation Media Group manage it debts?

From the research findings as presented in chapter four of this study, several conclusions can be drawn in support of the adopted framework. These are discussed in light of the objectives of the study.

5.1.1 Growth of the debt level

The study have found that the debt level increased with the company’s growth in terms of turnover (table 1). Thus between 1996 and year 2000, turnover increased by shillings1126.9 million while credit sales increased by shillings 901.5 million, thus leading to the increase in debt level from shillings 351.2 in 1996 to shillings 603 in year 2000. Thus if a company’s credit policy does not change, debt level is likely to change with the turnover level as revealed by the results of the study.

The debt position has been worsening over the years in terms of value and the number of days’ sales in receivables. The management must take the necessary action if the trend is to reverse otherwise the company will soon or later find itself in cash flow difficulties. It is important to note that almost 80% of the company’s sales are in terms of credit sales and unless the collections are done in time a large portion might turn into bad debts.
From the results of the study it can also be concluded that the rise in debt level is as a result of many factors:

- Depressed economy 65%
- Poor credit evaluation 33%
- Poor credit policy 7%
- Laxity by sales staff 0%

5.1.2 Lack of training of credit control and sales staff

The study found that 80% of credit control and 65% of sales staff have never had any credit management training. This is despite the fact that training plays an important role in enhancing employee skills in terms of efficiency and effectiveness. This is an issue that needs to be addressed by the management if a positive result in debt management is to be achieved.

5.1.3 Difficulty in understanding financial documents

The financial documents of the supplier must easily be comprehended by the client for early payment to take place. This study has revealed that some clients notably the distributors have problems in understanding these financial documents. For instance 40% of the distributors have difficulty in comprehending invoices and credit notes of the supplier while 30% have difficulty in understanding Nation Media Group’s credit notes. This should be addressed such that it does not act as the basis for delaying payments.

5.1.4 Appointment of distributors and Advertisers

The study has revealed that the appointment of distributors and advertisers is done by way of clear evaluation and interview procedures. It is imperative that the management
should enhance the current evaluation and interview process to make it more efficient and
effective as a first step towards avoiding debt deterioration.

5.1.5 Provision of financial documents

As shown in tables 14 and 15, a significant percentage of the distributors and the
advertisers do not provide the necessary financial documents for evaluation purposes.
The financial documents like balance sheet, profit and loss account and cash flow
statement over a period of time should be scrutinized and after thorough evaluation
should act as the basis of appointment as a distributor or advertiser.

5.1.6 Lack of financial and/or collateral security

The study have revealed that 90% of the distributors provide bank guarantee while 10%
provide cash deposits as security. However the advertisers do not provide any.
The case of the advertisers have to addressed as quickly as possible if the company
exposure is to be minimized.

5.1.7 Commission structure

From the results of the study it shows that the current commission structure is not
motivating enough (61.1%) to ensure early collection of the receivables. The role of the
sales staff in enhancing collection of receivables cannot be looked at in isolation.

5.1.8 Advertising Agency

Advertising agencies form a very crucial role in attracting sales. However, despite this
important role they have a lot of outstanding debts. Despite this huge debts the study has
revealed that fifty percent (50%) of the sales executives do not agree agencies to pay security to cover their debts while 37.5% want them to provide security.

5.1.9 Credit Reference Bureau membership

The study has revealed that Nation Media Group is a member of a Credit Reference Bureau. However it does not make use of the available services.

5.1.10 Accountants and accounting package

From the results of the study most of the distributors and advertisers employ accountants to handle their daily accounting issues. However 70% of the distributors and over 30% of the advertisers do not have any accounting package.

5.1.11 Processing of financial documents

The study has also revealed that financial documents like invoices, credit notes and statements are promptly processed by Nation Media Group to facilitate payments as quickly as possible. Thus 80% of the distributors and advertisers opined that they receive the necessary financial documents on time.

5.3.0 RECOMMENDATIONS

Based on the results and objectives of the study the following recommendations have become necessary in view of the important role played by receivables in the long term survival of an organization.

First the management should give debt control a lot of priority and involve all the necessary stakeholders in reviewing it from time to time. For instance the regional supervisors should be answerable for any debt increase of their clients. Thus receivables management should be decentralized to enhance collections.
The management should closely scrutinize any new credit sales to avoid increase in debt level. Thus the increase in turnover should not necessarily be translated to the huge increase in debt level. The management should analyze the overheads (e.g., marketing and advertising costs, sales force and distribution and financing costs) generated by customers to establish who are their truly, rather than apparently profitable customers. Thus the so-called valued customers may be a drag on an organization's total profitability.

The management should closely monitor the causes of debt increase and handle that which is within its control. For instance as has been revealed from the results of the study that depressed economy, poor credit evaluation and poor credit policy are the main causes of debt increase. Depressed economy is an external factor which is beyond the control of the management. However, the management should be proactive and be able to forecast the changes in economic conditions much in advance. The internal factors such as poor credit evaluation, poor credit policy which are within the control of the management should be correctly handled. For instance, there should be clear terms specifying when and how the credit accounts should be collected. The company should put in place a firm collection policy which forms an integral part of annual performance assessment of the sales team.

The management should put in place an effective and efficient monitoring function to ensure the credit policy in place is being administered correctly and to determine whether changes in the credit policy are necessary.

The current economic situation is getting worse and worse, therefore the management should ensure that all receivables are adequately covered by having clients to provide
securities that can easily be recalled. For instance the advertising agencies should provide security to cover their debts otherwise the company will be seriously exposed in case the client is having financial difficulties.

The management should address training of credit control and sales staff if tangible results are to be achieved. The current business environment is undergoing drastic unexpected changes and staff have to be trained regularly to keep abreast with these changes. For instance customers are becoming more sophisticated and only fully trained credit staff can easily handle them.

Many companies do present good financial documents like balance sheet, profit and loss account and cash flow statements which may not portray the true picture. Therefore it is important that prospective clients are critically interviewed and evaluated in addition with scrutinizing financial documents provided by them. Also it is important to have in mind that these financial documents show information at only a particular point in time.

Employees have to adequately motivated to enhance their productivity and efficiency. In the case of sales staff addressing the commission issue can greatly improve their morale. Therefore the management should review the commission structure from time to time without necessarily jeopardizing the interest of the company.

The financial documents of the vendor should easily be understood by the client to facilitate prompt payments. In this case documents such as statements, invoices and credit notes should be made simple and clear. For instance from the results of the study 40% of
the distributors opined that they have difficulty in understanding invoices and credit notes while 30% have similar problem in comprehending statements.

It is imperative that the company should pursue forward and backward integration with its debtors to enhance credit management. For instance 70% of the distributors and 31% of the advertisers do not have any accounting package and this is likely to hamper prompt payments. The company should strive to ensure that major clients like distributors have the necessary infrastructure in place before going into any contractual agreements with them.

Structure is an important factor in enhancing efficiency and effectiveness of an organization in achieving its goals. From the results of the study there is need to restructure the credit control section such that we have credit accountants who are in charge of every divisions. These respective accountants should be responsible for revenue and receivables in their divisions. These decentralization of credit control functions will remove the current situation whereby the revenue accountant is responsible for group revenue and account receivables.

5.4.0 Suggestions for further Research

This study is much more useful and meaningful if a larger sample size was used. Secondly, there was need to cover more firms from different sectors of the economy so that a wider perspective of credit management policy can be covered and a possible solution to the deteriorating receivables situation to many firms can be found. For instance a proper credit management policy could be a solution to reverse the collapse of many banking institutions in Kenya.
However, despite the few limitations, this study forms an important framework in setting up an effective and efficient credit management department not only at Nation Media Group but also other firms.
APPENDIX TWO

QUESTIONNAIRE: Distributors and Advertisers

Personal data.

Q1. (a) Name (of the interviewer):

(b) Academic qualification e.g. masters, degree, diploma.

Q2. (a) Name of business

(b) Contact of the business

2.0 BUSINESS DATA.

1.0 What is the nature of your business?
   (a) Distributor   (b) Advertiser

2.0 For how long have you been trading with Nation Media Group?
   (i) 1 year   (ii) 2 year   (iii) 3 years   (iv) over 4 years

3.0 If a distributor, how were you appointed?
   (i) Position advertised and competitively selected   (ii) interviewed and evaluated
   (iii) Freely appointed

4.0 (a) If a distributor, what is your sales volume per month?
   (i) More than ksh 1 million
   (ii) More than ksh5 and less than 6 million
   (iii) More than ksh 6 million and less than 7 million
   (iv) More than ksh 7 million and less than 8 million
   (v) More than ksh 8 million and less than 10 million
(b) If an advertiser, what is the volume of advertisement you give to NMG?

(i) Less than ksh 1 million
(ii) Between ksh 1 million and less than ksh 3 million
(iii) More than ksh 3 million and less than ksh 5 million
(iv) More than ksh 5 million

5.0 Did you provide any security to NMG during or after your appointment?

(i) Yes (ii) No

6.0 What kind of security did you provide?

(i) Land (ii) Building (iii) Bank guarantee (iv) Cash deposits

7.0 Do you employ any accountants?

(i) Yes (ii) No

8.0 What is the level of his/her education?

(i) Diploma (ii) Degree (iii) Masters

9.0 Does he/she have any professional skills?

(i) CPA (ii) ACCA (iii) CIMA

10.0 Do you have credit facility with NMG?

(i) Yes (ii) No

11.0 How long is your credit period?

(i) 30 days (ii) 45 days (iii) 60 days (iv) 90 days (v) 120 days and above

12.0 Do you have any outstanding debts?

(i) Yes (ii) No
Please state the amount in Ksh.

13.0. How long overdue is this debt?
   (i) 30 days (ii) 60 days (iii) 90 days (iv) 120 days and above

14.0. Why are you not able to settle this debt?
   (i) Because it is within the credit period
   (ii) Because of cash flow problems
   (iii) Because the amount is disputed
   (iv) Because no body has demanded the payment

15.0 (a) Do you use an accounting package?
   (a) Yes  (b) NO

   (b) If yes, please state________________________

16.0  (a) Do you have any problem in understanding the company’s financial
documents? e.g. invoices, statements etc
   (i) Yes  (ii) No

   (b) If yes, please state the problem

   __________________________

   __________________________

   __________________________

17.0 Did you provide any financial statements (e.g. balance sheet, profit and loss?
   account) during your evaluation of appointment?

   (i) Yes  (ii) No
APPENDIX THREE

QUESTIONNAIRE: Credit control staff

Personal data.

1.0 (a) Name (of the interviewer): ____________________________

   (b) Academic qualification e.g. masters, degree, diploma  ____________________________

2.0 What is your designation?

   (i) Revenue Accountant  (ii) Accountant  (iii) Assistant Accountant

   (ii)  (iv) Accounts Assistant

3.0 What are your responsibilities in credit control department?

   ____________________________________________________________

   ____________________________________________________________

4.0 For how long have you been in the section?

   (i) 1 year  (ii) 2 years  (iii) 3 years  (iv) over 4 years

5.0 Did you undertake any credit management training?

   (i) Yes  (ii) No

6.0 Do you require any credit management training?

   (i) Yes  (ii) No

7.0 What kind of training do you require?

   (i) Collection procedures  (ii) credit evaluation methods  (iii) others (specify)  __________

8.0 What are the causes of increase in the company’s debts?

   (i) Depressed economy  (ii) Poor credit evaluation of clients
(iii) Poor credit policy  (iv) laxity by the sales staff

9.0 What do you think can be done to enhance collection capability?

(i) Limit the credit period  (ii) Reduce the credit limit

(iii) Encourage upfront payments

10.0 Do you find any deficiency in the company's current credit policy?

(i) Yes  (ii) No

If any please state

____________________________________________________________________

____________________________________________________________________

____________________________________________________________________

68
APPENDIX FOUR

QUESTIONNAIRE: Sales department staff

Personal data.

1.0 (a) Name (of the interviewer):

(b) Academic qualification e.g. masters, degree, diploma

2.0 What is your designation?

3.0 For how long have you been with the department?
   (i) 1 year (ii) 2 years (iii) 3 years (iv) over 4 years

4.0 Is debt collection part of your duties as a sales staff?
   (i) Yes    (ii) No

5.0 Do you require any credit management training?
   (i) Yes    (ii) No

6.0 What kind of training do you require?
   (i) Collection procedures (ii) credit evaluation methods (iii) others (specify)

7.0 Do your clients have outstanding debts?
   (i) Yes    (ii) No

8.0 What is the aging of these debts?
   (i) 30 days (ii) 60 days (iii) 90 days (iv) 120 days and above

9.0 What are the causes of increase in your client's debts?
   (i) Depressed economy (ii) Poor credit evaluation of clients
   (iii) Poor credit policy (iv) laxity in collection (v) others (specify)

10.0 Do you have any problem with the company's accounting documents?
    (e.g. invoices, statements)    (i) Yes    (ii) No
11.0 If yes, please state


